



National Economic Council (NEC) of Somalia

THE HEALTH, ECONOMIC AND SOCIAL IMPACT OF COVID-19 IN SOMALIA

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Acronyms

AfDB	African Development Bank
AERC	African Economic Research Consortium
CBS	Central Bank of Somalia
COVID-19	Corona Virus Disease -2019
CPR	Country Preparedness and Response
EU	European Union
FAO	Food and Agriculture Organization (of UN)
FDI	Foreign Direct Investment
FGS	Federal Government of Somalia
GDP	Gross Domestic Product
HRH	Human Resources for Health
ICU	Intensive Care Unit
IDPs	Internally Displaced People
IGAD	Intergovernmental Authority on Development
ILO	International Labor Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
MTBs	Money Transfer Businesses
NEC	National Economic Council
NGOs	Non-governmental organizations
OCU	Oral Cholera Vaccination
PDRC	Puntland Development & Research Center
PPE	Personal Protective Equipment
SDGs	Sustainable Development Goals
SHDS	Somalia Health and Demographic Survey
SHF	Somalia Health and Demographic Survey
UN	United Nations
UNDP	United Nations Development Program
UNHCR	The United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
USA	United States of America
WB	World Bank
WHO	World Health Organization

Foreword and Acknowledgement

Somalia is bracing for the impact of the COVID-19 pandemic, as one of the world's most fragile states. The impact could be severe, as already indicated by the number of cases, and if this trend continues Somalia's weak healthcare system will be set back severely. The country's health infrastructure has been undermined by decades of insecurity and state fragility; manifested in poor infrastructure, inadequate equipment and medicines, and limited qualified personnel. The healthcare system's weak institutions and facilities to address the spread of COVID-19 are compounded by the prevalence of food insecurity, lack of social safety nets, and ineffective disaster preparedness and prevention.

The above concerns are magnified by the classification of Somalia as among the countries most at risk from the pandemic by the Global Risk Index¹. Such countries are found to have three times higher exposure to epidemics and six times higher risk in terms of lack of access to healthcare compared to the world's lowest risk countries. Furthermore, Johns Hopkins Health Security Index for 2019 ranked Somalia 194th out of 195 countries, scoring zero in emergency preparedness and response, infection control practices, and health care access.

The Federal Government of Somalia (FGS) in partnership with the Federal Member States (FMS) should manage the COVID-19 public health challenges through improved governance and strong leadership. In the short run, this would require implementation of well-coordinated measures and national efforts. In particular, the FGS should develop policy reforms in the health sector to contain and mitigate the impact of the pandemic. The reforms should rebuild emergency health services and rehabilitate and reconstruct critical health facilities.

The report comprises the following chapters: an introduction chapter; an assessment of the health and social impact of COVID-19 pandemic in the country; an examination of the economic impact of the pandemic; and a final chapter on the effects of Covid -19 on remittances inflows into Somalia.

Since the onset of COVID-19 in early 2020, the Federal Government of Somalia (FGS) has put in place containment measures to control and limit the spread of the virus. The measures included suspension of international and domestic flights, travel bans, closure of learning institutions, ban of large public gatherings, and lockdowns. The impact of COVID-19 and measures imposed to mitigate its effects are complex and affected every facet of society, including reduced economic activity, employment and incomes.

The economy of Somalia has been sustained for many years by diaspora remittances amounting to \$1.5-2.0 billion annually. The impact of global recession on migrants' employment, led to decline in earnings by Somalis in the diaspora, and has been compounded by remittances transmission channels of Money Transfer Operators unable to utilize normal bank accounts, (owing to challenges of Anti-Money Laundering regulations). Accordingly, the authorities need to urgently find ways to address the challenges facing remittances inflows.

This report is based on a rapid assessment by the Somali National Economic Council of the impact of COVID-19 on the health system and economy of the nation. The contributors are: Messrs. Ali

¹ CARE international (2020), Global Risk Index, March 2020

Issa, Aues Scek and Edward Sambili, Nehemiah Ngeno, and Hussein Siad. Excellent research support was provided by Nimo A. Mohamoud, Abdisalan Y. Artan, and Seham Mohamoud.

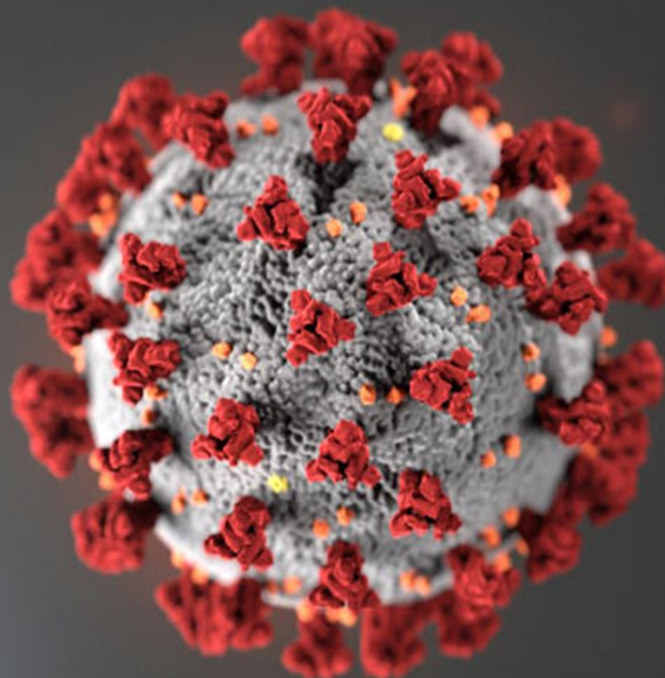
The process of undertaking the assessment involved extensive interactions with and much appreciated valuable cooperation from a cross section of government officials. We commend this Report to the leadership of the relevant institutions and policy makers and practitioners engaged in the management of the health and socio-economic wellbeing of Somalis.

We trust the findings and the recommendations in the report will contribute to ways of addressing the short- and longer-term impact of the COVID-19 pandemic; and in meeting especially the severe challenges confronting the most vulnerable communities. The nation has faced considerable institutional and governance challenges that have militated against effective responses to the current pandemic, and it is imperative that national leaders address the limitations of institutional capacity and other binding constraints.

Ali Issa, Executive Director, NEC

Chapter I

Background and Introduction



1.1 Background

Somalia is facing a severe threat from the impact of the COVID-19 pandemic on account of its fragile economy and health institutions. As already indicated by the increasing cases and deaths related to COVID-19, if this trend continues Somalia's weak healthcare system, which is far below most developing countries' standards, will be set back severely. Somalia's capacity to manage the COVID-19 pandemic as a public health threat is a cause for a serious concern. The Country's health infrastructure has been severely undermined by decades of conflict and fragility of the state. In particular, the health sector suffers from lack of resources, infrastructure, and equipment, medicines, and qualified health personnel.

The healthcare system institutions and facilities to address the spread of COVID-19 are lacking. This is compounded by a huge numbers of Internally Displaced People (IDPs), prevalent food insecurity and lack of social safety nets; including access to income support, unemployment insurance, and disaster preparedness and prevention.

It is estimated that there are about 2.6 million IDPs in the country, who live in overcrowded camps. These people are at high risk as they live in confined environments and unsanitary conditions with little access to water; and many suffer from communicable diseases. Many of those living in camps have underlying medical conditions, and many children are malnourished and more susceptible to disease.

The above concerns are magnified by the classification of Somalia as among the countries most at risk from pandemic by the Global Risk Index². Such countries are found to have three times higher exposure to epidemics and six times higher risk in terms of lack of access to healthcare. In a recent assessment, the WHO concluded that Somalia is among a list of 15 countries in the world that are at peril and require support in their preparedness to tackle the virus pandemic. According to the Johns Hopkins Health Security Index for 2019, Somalia ranked 194th out of 195 countries and scored zero in several areas, including emergency preparedness and response, infection control practices, and health care access

Since the onset of COVID-19 in early 2020, the Federal government of Somalia (FGS) has put in place containment measures to control and limit the spread of the virus. The measures included suspension of international and domestic flights, travel bans, closure of schools, ban of large public gatherings, and lockdowns. The impact of COVID-19 and measures imposed to mitigate its effects are complex and affected every facet of society. The economic effects of these measures have limited economic activity, reduced employment, and incomes; and the resulting decline in demand has been contributing to further reduction in output and incomes.

The Somali economy has been sustained for many years by the operations of money transfer companies that transferred diaspora remittances amounting to \$1.5-2.0 billion annually to dependents at home. A sharp reduction in diaspora remittances in 2020 is projected, owing to the global recession on migrants' employment that is estimated to sharply reduce earnings. The decline in earnings will be compounded by the closing of major transmission channels of remittances as money transfer operators are unable to operate bank accounts at the source countries, owing to lack of capacity to perform due diligence and observing Anti-money-laundering regulations.

The COVID-19 worldwide mitigation measures are expected to severely damage an already precarious Somali economy. Based on the early signs, domestic economic activity has sharply contracted, inflation has risen, and the government's financial operations have been marked by lower revenue and higher pandemic associated expenditures. The spread of virus pandemic has already negatively affected the agriculture and services sectors (the main contributors to GDP) and has further increased unemployment in the country, leading daily wage workers and IDPs to face acute food shortages and livelihoods insecurity. Their living conditions are expected to further worsen unless effective social protection measures are put in place.

1.2 Study objectives

First, the study focuses on identifying the perceived risks and the impact of COVID-19 on the weak health system and way and means to address the ongoing pandemic on the health sector. Second, the study makes an assessment of the economic impact of the pandemic, and measures to mitigate the global recession on the economic activity, employment, and incomes. Third the study details the country's dependence on diaspora remittances and the impact of the COVID-19 on such flows on the vital access to foreign exchange and trade finance.

²CARE international (2020), Global Risk Index, March 2020.

The main objective of the study is to generate data and evidence that would inform the design of evidence-based policies, strategies, and interventions in Somalia's health sector, the economic developments, and the importance of remittances in the socioeconomic development the country. The findings are to inform policymakers and practitioners at the national level, Federal Member States and local authorities, as well as development partners and other stakeholders, on the policy measures and responses required to mitigate the impact of the pandemic.

The study will assess the socio-economic impact of COVID-19 in Somalia and delineate appropriate policies and measures to address negative effects in the short, medium, and longer - term recovery phase. In this context, the study will identify pertinent areas of immediate concern and the actions required to contain and mitigate the economic impact of the pandemic; and recommend policies for building resilience, particularly for the most vulnerable affected communities.

The report covers the health and socio-economic status of the nation at the onset of the pandemic, highlights key response strategies and actions taken by the authorities to address COVID-19 emergencies. It defines priority actions and resources that are necessary for the national response, so as to contain the socio-economic impact of the pandemic, build the resilience of the most vulnerable populace, and enhance the longer term post-pandemic recovery phase of the country.

The study also addresses the main issues with regard the impact of the pandemic on remittances, including a brief account and understanding of how the Money Transfer Businesses (MTBs) system functions as the primary driver and channel of remittances. In addition, the severe and variable nature of the effects of the pandemic along the remittances supply chain are investigated; and recommendations provided on the possible policy interventions to be put in place to address the damage caused by the COVID-19 shocks on the country's remittances lifeline.

The study relies on quantitative and qualitative data compiled through surveys and consultative interviews with senior government officials at the federal and state levels, the Central Bank and other financial institutions, association of MTBS, Non-Governmental Organizations (NGOs), and International agencies, such as the WHO, UNICEF and UNFPA among others. The data collected were appropriately sampled to ensure participation of those actively engaged in the healthcare sector, economic institutions including private sector and business communities and people living in IDP camps around the country.

This diagnostic exercise has been conducted in the following stages: the first stage was consultations with key stakeholders on the objectives and design of the study, based on an inception report, which provided a plan for data collection, documentation, and analysis. Available, information, and data were obtained from local and international institutions, and from Non-Government Organizations. The Second stage covered the collection, collation, and analysis of data and information at interview with key stakeholders. The third and final stage entails the presentation of and discussions on the report at a national policy forum to conduct a thorough peer review of the study.

The study has undertaken a review of to enhance understanding of the health structure, capacity, and readiness to face pandemic challenges and the impact on socioeconomic situation. Also, specific efforts were made to understand the MTBs system as a money remittance method. Research limitations for this paper include the lack of current and credible information on the

COVID-19 pandemic's effect on Somalia since the start of the pandemic in early 2020. The study utilizes incomplete data obtained from public institutions, such the Finance and Economic Ministries, and the Central Bank of Somalia (CBS). Additionally, a small sample survey was carried out in various US cities concerning the personal experiences of the impact of COVID-19 on Diaspora remittance transfers to Somalia.

1.3 Structure of the report

The report is divided into four major chapters. Following this first chapter, which includes background information and outline of the research objectives and methodology, Chapter II covers the health system and its capability to address the spread of COVID-19. Chapter III details the analysis of the economic situation and the measures introduced to mitigate the impact of the pandemic on social and economic developments. Chapter IV assesses how the MTBs have been impacted by the COVID-19; as the consequential impact on the flows of remittances in Somalia, and how diaspora communities have been affected by the pandemic. The respective chapters provide some policy recommendations towards appropriate mitigation of the threats of the COVID-19 and outline policy measures and recommendations to address the health, economic and social wellbeing of the population.

Chapter II

Health and Social Impact of COVID-19 in Somalia



2.1. Challenges faced by the health care system before the Pandemic

Somalia's healthcare system was severely damaged by decades of conflict and state fragility. The country's health sector thus suffers from shortage of infrastructure, equipment, ICU and ventilator capacity, medicine, and qualified health personnel. Consequently, the capacity of FGS to manage COVID-19 pandemic as public health threat is a cause for serious concern

Another legacy of the protracted conflict is the displacement of many people across the country. There are an estimated 2.6 million IDPs around the country, who live in overcrowded and poorly served camps. IDPs are at high risk of contracting coronavirus as they live in confined environments, under unhygienic and unsanitary conditions with little access to water. As it is, people in the camps are already exposed to communicable diseases, live with underlying conditions, and face endemic child malnutrition.

What makes matters even worse is the spread of misinformation on the COVID-19 pandemic. There is a false narrative in the society that COVID-19 is a hoax engineered by the political elite to mismanage aid money. Others claim that the disease does not kill practicing Muslims.

Al Shabaab combatants are not allowing sound information on coronavirus to be disseminated in the areas they control; but only their narrative that the virus is spread by "crusader forces" who have invaded the country. Religious leaders in the country have stepped up to counter such propaganda.

Continued insecurity is contributing to more displacements of communities affected by the conflict, hindering efforts to contain the COVID-19 pandemic. Communal living, a standard Somali practice, in which extended family members live together in dense, overcrowded quarters, and the cultural practice of visiting sick friends and relatives facilitate the quick spread of the virus.

Most households that rely on work in the informal sector survive on daily wages; and face challenges that many countries are struggling to counter. Other developments including the current outbreak of locusts which is undermining the country's food security, and the heavy floods and localized displacement in the early months of 2020 are of major concern. But it is the outbreak of COVID-19 that is pushing the country into the brink of an unprecedented crisis.

The Somali health care system is a product of various administrations, which have adopted different policies, priorities, and health care services approaches; commonly influenced by international models, norms, and resolutions. Starting from independence in the early 1960s and the subsequent military regimes in the 1970s to the 1990s, successive governments share common deficiencies in the healthcare policies and strategies. The various administrations failed to sustain their core healthcare operations and even the few existing infrastructure. It has been difficult to expand, modernize or improve the quality of health infrastructure and services in remote areas for the benefit of the vulnerable groups, such as IDPs. Healthcare facilities all over the country have collapsed and are unable to provide even the basic healthcare services.

2.2. Assessment of the country's health status

Somalia's healthcare system was severely damaged by decades of conflict and state fragility. The country's health sector thus suffers from shortage of infrastructure, equipment, ICU and ventilator capacity, medicine, and qualified health personnel. Another legacy of the protracted conflict is the displacement of millions who live in overcrowded and poorly served camps. Continued insecurities are contributing to more displacements and hindering efforts to contain the COVID-19 pandemic.

Somalia's healthcare system has been destroyed by the breakdown in the country's governance and extreme state fragility. As a result,³ there has been limited infrastructure development, accountability, and technical capacity building required for effective management of the health system. The flight of skilled human resources has left an enormous capacity gap to provide health services, develop effective health policies and regulate delivery of health services throughout the country. This is especially challenging in the management of financial resources and processes.

Most of the existing health institutions were developed during the past one and half decades; by Non-Governmental Organizations (NGOs), UN agencies and the domestic private sector, but without clear strategy and comprehensive mandates. Many of these institutions remain partially established with poor physical infrastructure, inadequate human and financial resources, and are totally dependent on donor support for basic services delivery.

Recently, the government has been assuming limited control of health services by working with partners and leading the reform process. A good example is that the FGS has been working with the WHO and UNICEF in designing and implementing health policies and strategy. Also, decentralization of health function to the FMS was undertaken to improve the efficiency and oversight of the sector. It is recommended that ownership and leadership in the health sector should be strengthened through a review of the Somali national health policy and strategy.

³ [Conference-declaration-national-health-conference-forsomalia-transforming-somalis-health-sector, December 2014](#)

The current health services delivery is biased towards urban areas, and coverage in rural areas and nomadic populations, and in IDPs camps is extremely limited. It is estimated that less than 15% of the rural population has access to any health provider. There are few initiatives by the authorities to remedy the situation, through introduction and training of the community-based health worker program and piloting of essential package of health services, which has been applied in other fragile states to redress health imbalances.

One of the major obstacles hindering development of health sector policies design and strategy is lack of comprehensive information. The link between quality health information and improvements in delivery efficiency and effectiveness is crucial. It is therefore essential that health related data are compiled and analyzed to facilitate effective decision-making processes for improvement. In the short run, consideration should be given to a dual approach of building capacity for information management, as well as mounting an advocacy campaign to raise awareness on the importance of health information systems among the health workers. In the long term, establishment of a database compiled from civil registration and population health-based surveys would be necessary.

The country needs a strong health information system to monitor progress, improve decision-making and increase accountability. Limited resources dedicated to compilation of statistics at FGS level, together with limited capacity at FMS, has resulted in the inadequacy of basic health statistics and poorly informed health workforce in the country. This weakness is accentuated by the widely accepted view by all agencies that available information should be used with caution.

Also, a weak legal and regulatory framework in the health sector has led to a considerable growth in private health care system⁴. A dominant system of health services delivery for-profit has left most of the population without access to such services. Lack of health regulations create an opportunity to exploit health seekers in the private health market and has contributed to widening social inequality.

2.3. The current state of health indicators ⁵

It is widely acknowledged that decentralization of federal health policy has been largely supported by all the key stakeholders, but it is poorly implemented and continues to encounter considerable challenges. Loss of human resources due to poor working conditions is one of the main causes of weak institutional capacity in the sector. In addition, lack of accountability and transparency is among the main challenges facing the health sector. Regulation of health professionals and facilities and enforcement of health regulations are non-existent. Public health laws are outdated and have not been reviewed or updated for more than three decades.

Somalia health system has in recent times dealt with several health emergencies arising from localized displacements, heavy floods, and droughts. But the arrival of coronavirus could push the country into a severe crisis. The Federal Ministry of Health reported the number of tested positive cases of COVID-19 at 4,754 and the number of deaths at 130 as of 26th January, 2021. These numbers are believed to be understated owing to deficiencies in testing and gaps in reporting by the country's health system. The Federal Government set up COVID-19 diagnosis center initially in

⁴ Warsame A 2014: . Opportunity for health systems strengthening in Somalia. Lancet Glob Health 2014.

⁵ Based on various UNICEF and WHO country reports. www.who.int/countries/som/en

Mogadishu and few other places around the country, and has been working with WHO and others to procure more kits, medical supplies and equipment to boost the capacity of laboratories and technicians. The pandemic poses a catastrophic threat to the health services system and would worsen the prevailing inadequate humanitarian situation.

Somalia’s health indicators are extremely poor: average life expectancy at birth is estimated to be around 56 years, less than a quarter of the population has safe drinking water, and under half of the population have sanitary hygiene facilities. Maternal and child mortality rates are extremely high; with data in 2019 indicating that 7 in 1,000 mothers die from childbirth. It has been observed that tuberculosis and cholera have become endemic. For many years, Vibrio Cholera has become an annual event, with peaks just before and after the rainy season. The risk of diseases like dysentery, cholera, diarrhea, and typhoid fever are increasingly high, because of poor living conditions and lack of access to sanitation, clean water and healthcare.

Somalia has 7-10 persons per square mile and is one of the most sparsely populated countries in the world. Even with a relatively small population, insecurity and adverse climate change have led to a large and expanding population of IDPs. This “push” factor has led to rapid unplanned urbanization, with most cities and towns having a huge increase of IDP settlements and other households moving from rural and nomadic communities to urban centers. With high levels of unemployment and underemployment women and, in some cases, children enter the workforce as daily laborers in the informal labor market.

Table 1: Somalia’s social indicators

Total Population	14.5 million ¹
Life Expectancy at Birth	56.0 years
Birth rate	41.4 per 1,000
Population at risk of hunger	6.3 million
Population in need of assistance	3.1 million

Sources. Somali authorities, UNFPA 2014 and other international partners estimates

2.3.1. Health Sector Financing

There are no current and credible data on health sector financing in Somalia, since many decades the health sector has been financed through out-of-pocket expenditures by households and funding from NGOs, and development partners. It is also difficult to determine the total national health expenditure since the bulk of financing is channeled through humanitarian organizations, and international NGOs, mainly by United Nations agencies, prominently UNICEF, WHO and UNFPA.

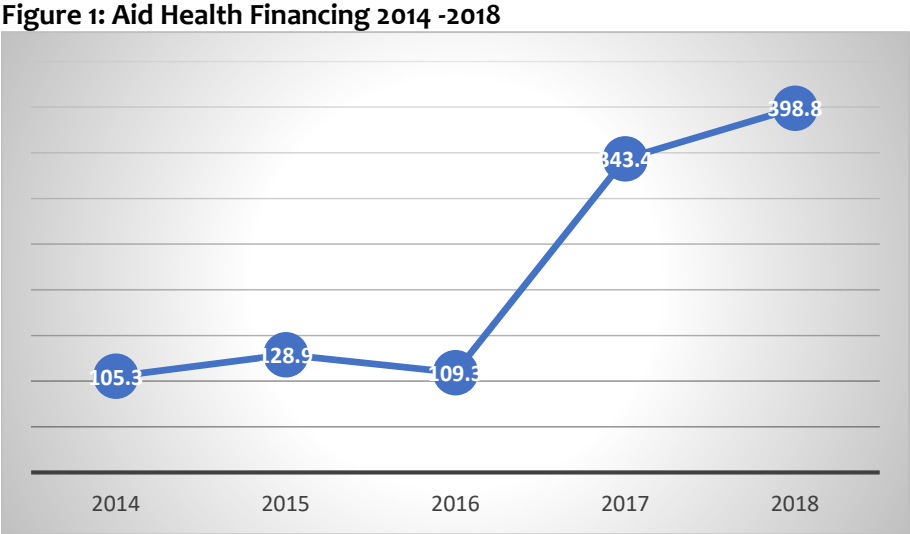
Table 2. Federal Government Health Sector Financing 2018-2020

Year	Health Budget (In million US\$)	Total Budget (In million US\$)	Health % of Total budget
2018	1.4	274	0.5
2019	3.8	344	1.1
2020	9.4	476	1.9

Source: FGS (2020), Appropriation Act for 2020 Budget

However, there has been a significant increase in funding for health sector in Somalia in the recent past. According to the World Bank⁶ financing from conventional donors increased substantially in the period 2010-20, and this financing significantly exceeds the government contributions. Comparatively, some FMSs are doing better than FGS in this area. For example, Somaliland’s budget allocation for health ranges between 3 to 4.5 percent of the total budget, followed by Puntland with allocations ranging from 2 to 2.5 percent. On the other hand, the Federal Government lags these states, with allocations ranging from 0.5 to 1.9 percent during the period 2018 to 2020 as shown in Table 2 below.

Financial aid flows at national level: In Somalia aid to the health sector flows through an intricate network, characterized by three groups of financiers and many intermediaries. The traditional donors (bilateral, multilateral and others) provide direct and indirect funding to several agencies and institutions operating in country. Funding is directly channeled to international NGOs and more frequently to the UN agencies. The UN plays a crucial



Sources: UNDP (2018), Aid Flows in Somalia

role in further channeling funds to a series of implementers that include local NGOs/institutions, international NGOs, ministries of health, and the Red Cross/Red Crescent Movement. Total financial aid flows to Somalia grew substantially from US\$105.3 million in 2014 to US\$398.8 in 2018. (Figure 1).

Although public health expenditure in Somalia has been increasing steadily since the 2014, it is estimated that it remains low at less US\$8 per head. While private spending has not been quantified, it is substantial. The unreliability and fragmented health information in Somalia is pervasive and a major concern on the part of policy makers for it makes difficult to formulate policy for the sector.

Low per capita health expenditure by the government increases financial burden of households, especially the poor, who must allocate high out-of-pocket expenditure on health care services. This conclusion is borne by the evidence from the recently published Somalia Health and Demographic Survey (SHDS), 2020 which found that on average annual expenditure by the surveyed households on treatment and health care services were as follows: 43% of households spend US\$49; 24% spend US\$50-99; 18% spend US\$100-199; and 13% spend over US\$300. It further established that the

⁶ World Bank (2010), A decade of AID to health sector in Somalia

sources of financing for the health services were savings (4%), sale of assets (10.7%), borrowing (13.9%), relatives/friends (25.3%) and own income (47.8%).

Health financing at federal member states: As shown in Table 3 below, the health sector in Somalia is financed at the FMS level through the state’s own resources, transfers from the FGS and external funding. Out of its 2018 budget of US\$52 million, Puntland allocated one million to health sector, which correspond to 1.9 percent of the overall budget. This allocation is mostly intended to finance, staff salaries and recurrent costs, operation, and administration. The same trend is observed in 2019, where the total budget for that year was US\$67 million, only one million was allocated to the health sector, which correspond to 1.5 percent of the total budget, which barely cover for the salary and other recurrent cost. In addition, Puntland health sector received US\$58.4 million from the development partners in 2018 to finance health sector activities and programs.

Out of its total budget of just US\$15million in 2018 Jubaland allocated US\$0.4 million which correspond to 2.6 percent of its total budget to health sector. In 2019 it allocated 1.1 percent of its total budget of US\$38 million to health sector. The little amount of the budget allocated to health sector are intended to cover basic recurrent costs, including salary and other administrative costs. External financing to the health sector was US\$ 40.1.

Table 3: FMS Budgets and Allocation to Health Sector in million USS\$

Year	Puntland	Jubaland	South West	Hir-Shabelle	Gal Mudug
2018--Budget	52.0	15.0	-	-	-
Health share	(1.0)	(0.4)			
2019 Budget	67.0	38.0	-	-	-
Health share	(1.0)	(0.7)			
2018 External Financing	58.4	40.1	32.8	38.3	32.2

Sources: NEC (2020), Health Survey Not available

There has been no budget allocation for the health sector in the member states of South West, HirShabelle and Gal Mudug through 2019. However, external financing, amounted to between US\$32.2 -38.3 million in 2018.

Private health care financing: It has been observed that in recent years the private sector led the growth of health care delivery throughout Somalia because of low barriers to entry and large variations in service quality. Although the sector is poorly regulated, it provides most of the healthcare services and has experienced high level of growth even. The private health sector is estimated⁷ to deliver over 60% of health care. This contrasts sharply with the finding that less than 15% of the rural population can access the public health system. As pointed by Pavignani⁸ (2012).

In the absence of comprehensive data on the provision of health care services by the private sector, it is impossible to quantify the value of private sector to patients and/or consumers. However, it is without doubt that the private sector is providing essential services that are often the first point of

⁷ Affara, F. (2011), Operationalizing the Somaliland National Health Professions Council

⁸ Pavignani, E. (2012), The Somali healthcare arena: A (still incomplete) mosaic

contact for consumers and patients seeking health services. A detailed study is necessary to get a good understanding of the contribution of the private sector in Somalia’s healthcare.

NGOs health financing: Development partners often provide direct and indirect funding to international and local institutions, including UN agencies and NGOs operating in the country. In many instances, UN agencies further channel the funds to several implementers including NGOs, local institutions, and humanitarian agencies, such as Red Crescent Movement. The size of NGOs financing is not known; most are contracted by donors as implementing agencies.

2.3.2. Health infrastructure

The Somali health infrastructure is small, poorly equipped and concentrated mainly in secure urban areas, as constrained by insecurity and lack of maintenance. A rough estimate of the facilities by WHO⁹ are shown in Table 4. The information is based on estimates provided by various institutions in the country. Most of these facilities are supported by NGOs and donors, such as, WHO and UNICEF which also provide technical support to the existing facilities.

Table 4: Existing Health Facilities

Facility	Number
Mother Child Health (MCH)	196
Health Post (preventive outpatient services)	520
Hospital	74
Hospital Beds	3,405
Clinical laboratories	114 ¹
X-ray	
TB Centers	26
Malaria Microscope centers	43

Sources: WHO (2019), Health Profile System, Somalia

It is also important to note that most of the health facilities are based in urban centers like Mogadishu and at the FMS regional capitals. Few such facilities in rural areas offer limited services, although there are variations in their capacities. Diagnostic facilities for patient care are limited or nonexistent. Statistics concerning X-ray and other essential machines are not available, as most of the existing machines are non-operational owing to lack of repairs and maintenance.

Table 5: Regional Distribution of Health Facilities

Facilities	Puntland	Jubaland	South West	Galmudug
General Hospital	7	2	14	2
Referral Hospital	15	1		4
Health Center	132	62	26	21
Health Post	192	1		23
TB Centers	15	1	13	
VCT Centers	7			
Other Health Institutions	13			
Regional Hospital		1	14	

Source: NEC (2020), Health Survey

The regional distribution of health facilities (Table 5) shows that Puntland is the most endowed. Furthermore, it was established that most of the listed facilities in Puntland are operational. In the South West and Galmudug states most of the facilities are not operational. Jubaland also has several facilities that

⁹ WHO (2019), Health Profile System, Somalia

are not operational; and the operational ones are operated by NGOs and financed by relief organizations.

2.3.3 Human resources

Shortage of qualified health professionals has restricted progress in reducing mortality and morbidity in the Somali population. Many medical doctors, qualified nurses, midwives, and skilled health technicians migrated overseas, depleting the qualified health workforce. This problem is compounded by the clustering of most of the limited available health professionals in major urban areas. Based on the current health situation, the country was not able to meet the health Millennium Development Goals (MDGs) by a large margin, and faces a challenging road ahead to embark on the Sustainable Development Goals targets, unless the existing health workforce gaps are effectively addressed. Table 6 below presents the latest available data on the distribution of health professionals by category in the country.

Table 6: Doctors and Qualified Health Workers¹

Categories	Males	Females	Total
Doctors	609	139	748
Qualified Nurses	1,430	1,307	2,737
Qualified Midwives	0	690	690
Skilled Technicians	1,130	259	1,389
Total	3,169	2,395	5,564

Sources: FGS (2016) Ministry of Health

The workforce available for the health sector is far below any acceptable international standard. The availability of the health workforce based on the current level of available doctors, and nurses is currently estimated at 4 persons for 10,000 people. This level of medical workers is extremely low when compared with the minimum threshold of 23 doctors, nurses, and midwives per 10,000 people considered by WHO as required minimum density ratio for such health professionals.

Disaggregating the composite measure for the three categories, the desired ratio between doctors to nurses and midwives is at 1:4; while the ratio between the nurses and midwives is expected at two nurses for every midwife. In this case, the desired number of doctors was much lower, while the projected ratio between nurses and midwives was within the indicated 2:1 ratio.

Considering the projected yearly production of the national training institutions, and the minimum WHO required coverage, the current shortage in the three health workforce categories would approximately take about seven years for physicians and nurses and 22 years for the qualified midwives, unless a higher pace of accelerated program for training and retention of human resources for health (HRH) is put into action. However, it is important also to note that the Somali population is growing at a rate of about 3%, implying that it will double in only 23 years, reflecting the magnitude of additional health workforce required in the not too distant future.

The health workforce at the FMS level is in critical short supply, and staff in most hospitals and health centers have inadequate facilities to enable them to provide adequate services. Table 7 presents the number of health workers in each

Table 7: Health Professionals at Federal Member State Levels

Category	Puntland	Jubaland	South West	Galmudug
Doctors	237	...	45	...
Midwife	1,089	...	230	174
Others	2,431	...	776	...
Total workforce	...	1,266	...	728

FMS. Only Puntland and Southwest provided disaggregated data on the number of their health workers; and evidently more work is needed to assess the adequacy of the workforce at the FMS level.

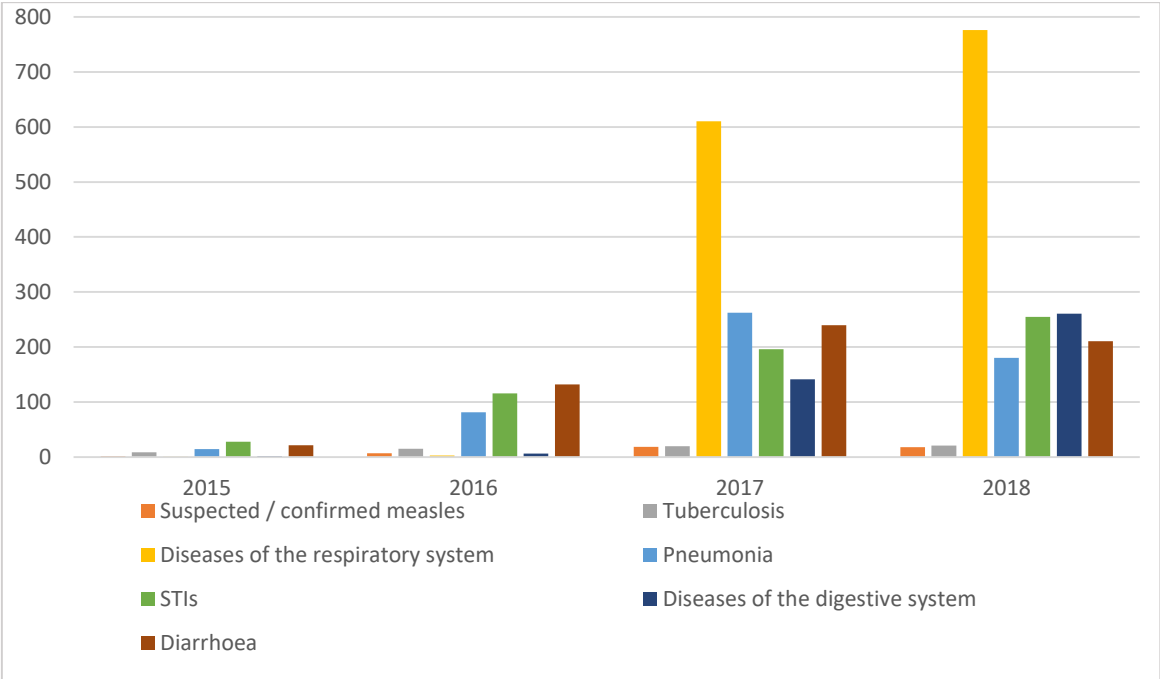
2.3.4. Incident of diseases

The prevalence of poverty, conflicts and high incidence of diseases has led to a low average life expectancy at birth of about 56 years in Somalia. Lack of data does not allow for meaningful analysis of incidence of diseases in Somalia. In this study, data on hospital visits by patients supplied by the Ministry of Health is used to infer the magnitude of morbidity faced by the population. Data from Somalia Health Demographic Survey (SHDS) in 2020 is also used to get morbidity and mortality rates of some diseases and their likely causes.

As shown in Figure 2, the main causes of morbidity associated with communicable diseases are diseases of the respiratory system, which rose sharply in 2017 and 2018. Most of these diseases result from poor living conditions, where people for example consume food prepared with contaminated water or live under unhygienic environment. Moreover, high prevalence of diarrhea, a major cause of morbidity and mortality, among young children can be easily treated.

Other diseases such as typhoid fever, Hepatitis A and cholera, which if left untreated could lead to high mortality rates, are of recurring frequency. Tuberculosis is an airborne disease and is of common occurrence. This disease like COVID-19 is spread when infected people propel the germs into the air making others in proximity infected. Sexually Transmitted Infections (STIs) and diseases of the digestive system have also been increasing in recent years, as reflections of poor health care system in the country.

Figure 2: Incidence of Communicable Diseases 2015-2018 ('000)



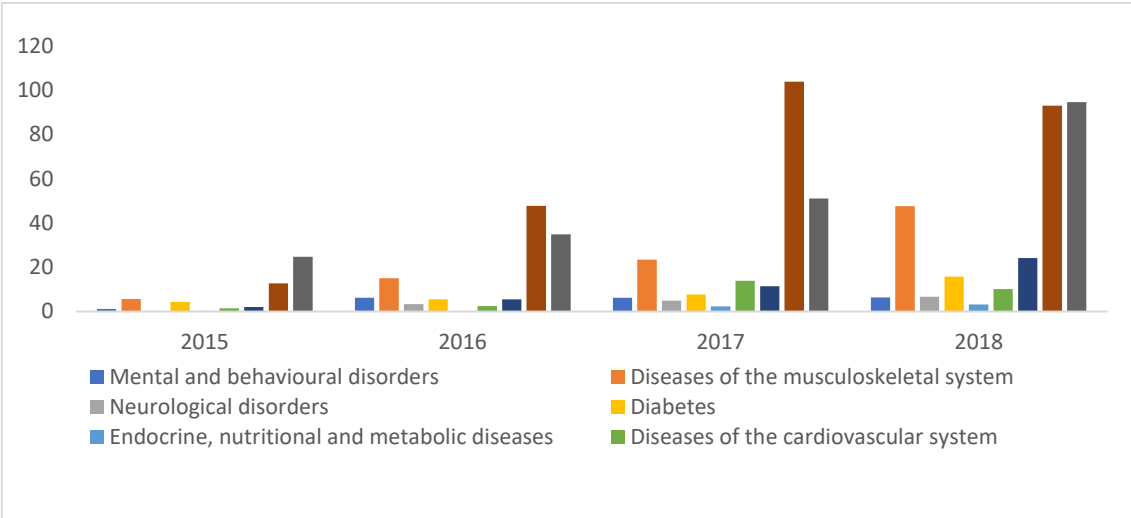
Source: FGS (2018), Ministry of Health

The country faced a series of cholera epidemics, in May 2019 in several southern regions, but was contained in the affected zones following implementation of Oral Cholera Vaccination (OCV) and

other control interventions. However, active transmission of the disease was more protracted in the Banadir region because of limited access to safe water and sanitation in IDPs camps.

The most prevalent non-communicable diseases, as shown in Figure 3, are those affecting the eyes, ears, and musculoskeletal systems. Diabetes and cardiovascular diseases have also been on the rise. Some of these diseases are categorized as chronic; those lasting one year or more of medical attention, have no medical cure or require regular attention. Such disease; including diabetes, heart and kidney diseases, arthritis, and asthma, impose a huge burden on the affected individuals and the economy.

Figure 3: Incidence of Non-Communicable Diseases 2015-2018 ('000)



Source: FGS (2018) Ministry of Health, Health Statistics

The SHDS established blood pressure/hypertension and diabetes as the leading chronic diseases, affecting 33% and 20% of households’ members, respectively. Overall, 6% of household members suffered from at least one chronic disease, and those affected the most were members between ages 40 - 70 years. Furthermore, the diseases were more prevalent among urban than rural and nomadic households, among women than men, and among the poor than the wealthy. On treatment, the survey found that more women were diagnosed by a doctor and treated than men were, and this applied more to urban residents compared to rural residents and nomads.

Finally, assessment of common diseases in Somalia leads to the conclusion that the country’s health sector requires drastic improvement to alleviate the deadly effects of illness. The most vulnerable people to diseases are those internally displaced by years of conflict. Access to health services is limited by high levels of insecurity in central and southern Somalia, and the existing facilities in the country are unable to provide the required treatment.

2.3.5. Access to hygiene facilities

According to UNICEF 52 percent of the Somali population have access to a basic water supply. Limited regulation of private water suppliers often leads to high cost of water, forcing families to fetch the commodity from far and unsafe open wells. Disaggregated data indicate that only 28 percent of rural inhabitants have access to water compared to 83 percent in urban areas. A Joint monitoring program report by WHO and UNICEF in 2019 suggests that 40 percent of existing water sources are not functional; because of weak management of water supply systems, high

operational and maintenance costs, lack of supply of spare parts, and technical limitation of service providers. Groundwater provides 80 per cent of the domestic supply, but the groundwater table is deep, 100 to 300 meters, and high salinity in most parts of the country makes water quality poor. The only regular surface water resources in the country are the Shebelle and Juba Rivers.

The 2019 WHO and UNICEF report also notes that access to sanitation facilities is extremely low in Somalia, with only 38 per cent of people having access to basic sanitation facilities, 20 per cent rural and 61 per cent urban. Without access to clean water and good hygiene practices, the risk of contracting easily preventable diseases, such as acute diarrhea, cholera, and respiratory infections is high.

2.4. Responses and measures at local and international levels

Notwithstanding some progress in Somalia's health sector and larger financing through the international organizations to tackle epidemic diseases, the country's capacity to manage the public threat posed by COVID-19 is a cause of serious concern. Health infrastructure was severely damaged by the serious state of fragility, and the health sector is short of financial resources, equipment, ICU facilities and medicines, and qualified health personnel.

Assessment of Somalia's healthcare system clearly points to weak and in some cases non-existence of public institutions and emergency health facilities, required to stop the spread of COVID-19. This confirms the alarming prognosis that Somalia could be among the African countries most likely to be severely hit by COVID-19. The presence of many internally displaced persons and refugees around Mogadishu and other major cities could be a major contributing factor to the spread of the pandemic. The IDPs face food insecurity, insufficient social safety nets, and inadequate access to public health, and poor support for disaster preparedness and prevention.

As the Coronavirus gains a foothold, fears are growing that Somalia's fragile healthcare system may provide little protection from the pandemic. At the same time, there is lack of public trust in government institutions, one of the most critical factors needed to mount effective social responses to pandemics.

Some of the measures introduced by the FGS to deal with the pandemic include suspension of all international flights and restricted entry for all travelers from worst-hit countries through June. All schools were closed, and public meetings were banned in a bid to curb the spread of the virus. The FGS has dedicated limited budget support to cushion against the effects of the pandemic, and has received substantial international assistance so far including US\$100million from the World Bank and US\$25million from AfDB in budget support targeted for the health sector.

Furthermore, the crisis can potentially exacerbate underlying mistrust and sense of injustice over lack of access to health services and decent jobs; and therefore fuel conflict that could undermine efforts to deal with COVID-19 pandemic. There is thus a need to tackle underlying fragility factors while addressing immediate needs arising from pandemic.

The Current epidemic and economic crisis arising from it are expected to have disproportionate impact on the most vulnerable groups of the population, which could trigger worsening inequality. In these contexts, efforts must be made to maintain and reinforce social cohesion and peaceful

coexistence to prevent social tensions between individuals and communities experiencing a sense of inequality and injustice. These groups would include IDPs and the host communities; and women, youths, persons belonging to minorities, and workers in the informal economy. Urgent action must be taken to address potential grievances, discrimination, and stigmatization over access to resources, livelihoods, and health services.

It must be stressed that it is important also to tackle the devastating social and economic effects of the crisis, focusing on the most vulnerable groups. This can be done by designing policies which support provision of health, unemployment benefits and social protection, while bolstering businesses to prevent bankruptcies and job losses. Provision of decent work and inclusive livelihoods will not only contribute to employment, but will also contribute to social justice, social cohesion, peace, and resilience.

2.5. Current situation and highlights

As noted, the number of recorded and reported COVID-19 cases in Somalia totaled 4,754 cases and 130 deaths from the corona virus as of 26 January 2021. Based on limited testing, Benadir region and Mogadishu, the biggest city in the country, accounts for the highest numbers. Across the country, available data confirm that there are cases in every FMS, but reliable and current statistics are unavailable because of lack of limited testing capacity.

Substantial progress is being made on in-country testing capacity, with support from WHO and the participation of bilateral organizations and multilateral institutions. Besides direct support to the health sector, there are substantial efforts from international partners to support the broad country preparedness and response efforts. Somalia recently cleared its debt arrears with the African development Bank, the International Monetary Fund and International Development Association (IDA)¹⁰ and will benefit from those international financial institutions global package of fast-track financing to assist countries in their efforts to prevent, detect and respond to COVID-19. However, additional resources will be required to meet current and future humanitarian challenges brought by possible further spread of the pandemic.

2.6. The framework for COVID-19 health strategy

Building on global risk assumptions, the FGS has developed a national risk assessment and plan to guide public, private, and civil society organizations to take appropriate and effective measures in addressing the COVID-19 pandemic. These efforts were built on the country's public health emergency, preparedness, and response plans.

A key first step was the activation of a national emergency response committee, (led by the Prime Minister), to take the lead in coordination of these functions; and to provide a forum for partners to coordinate the response operations. In coordination with WHO and other UN agencies, and the Ministry of Health, the committee has taken measures to contain the spread of the pandemic and to strengthen health systems. The measures included restricting large meetings and gathering; closing schools and universities, closing the country's entry points except for trade movement, suspending international and domestic flights. The government intensified communication and

¹⁰ World Bank Statement on the HIPC decision point for Somalia, 5 March 2020

pertinent information dissemination through various official channels and the social media; and imposed a dusk to dawn curfew in the capital city.

Travel suspensions, movement restrictions, and border controls, together with social-distancing and limits on social gatherings have had severe impacts on humanitarian services delivery and economic activities. The authorities and international health experts however recognize that, given the country's very weak health infrastructure and large vulnerable population, the country is ill-prepared to cope with any significant outbreak of the virus.

Somalia's Ministry of Health and its partners have launched a Country Preparedness and Response Plan to address the immediate humanitarian and socio-economic consequences of the pandemic. The joint efforts will focus on averting large-scale community spread through risks awareness communication, testing, contact tracing, and isolation of the infected. Distribution of personal protective equipment to health workers has also been expanded.

2.7. Concluding remarks on health assessment

The prolonged insecurity over the last three decades in the country has shattered the institutional foundations, especially the human capital, and physical and social infrastructure. Consequently, Somalia's health sector also faces governance challenges, particularly, transparency and accountability.

This study provides a broad-based review of Somalia's health sector human resources, financing, and services delivery infrastructure. The analysis covers capacities and capabilities, governance structures, and transparency and accountability frameworks in the health sector. Despite the national challenges of insecurity, lack of data and access to information, and COVID-19 restrictions some incomplete data was collected for the study.

The assessment concludes that Somalia's health care system is weak and operates with an inadequate legal framework. The healthcare system's weakness arises from poor institutional structures, inadequate capacity, lack of financial resources, and poor coordination of service delivery. The sector is dominated by the private sector, NGOs and international development partners operating independently and competing without any government coordination mechanism, leading to huge gaps in the management and delivery of health services.

Efforts have been made by the government and WHO to strengthen the coordination and management of pandemic disasters and other humanitarian challenges, including COVID-19 by involving major stakeholders at all levels. Somalia has experience in managing disasters in a collaboration with WHO and UN-OCHA and other stakeholders. However, the nation is facing a difficult task in addressing the triple problems of adverse climate conditions, locust infestation and the COVID-19 pandemic, at one go.

In the face of unprecedented threat posed by the COVID-19 pandemic, Somalia has an opportunity to emerge with stronger healthcare systems and improved global collaboration by strengthening its pandemic preparedness. As the country focuses on addressing COVID-19 crisis, it must also learn from the experiences of other countries and cooperate with regional governments to ensure responses to the pandemic leave the country safer in the future.

Similarly, building resilience is the key to enabling successful and sustained coordinated response to COVID-19 and future emergencies. This requires the ability to build capacity to absorb the adverse impact of pandemics and adapt to unexpected changes in a crisis. In this spirit Somalia should strengthen institutional frameworks to address its socio-economic challenges, including the pandemic, and the long-standing problems of insecurity, state fragility and endemic poverty.

2.8. Findings and recommendations

Short Term Responses: the government response to the spread of COVID-19 pandemics in Somalia at the early stages has focused on prevention and has been limited by adequate institutional capacities and available resources. Also, lacking have been effective coordination of FGS in partnership with the FMS to manage the public health challenges through improved good governance and strong, democratic leadership. Specific areas of recommendations for possible responses and collaboration between FGS and FMs should include the following¹¹:

- Addressing the immediate measures required for the COVID-19 pandemic should catalyze steps towards policy reforms in the healthcare sector. However, additional public measures should encompass enhanced humanitarian relief efforts in Somalia's healthcare sector including basic emergency health services
- Prioritization of cooperation and coordination among the key stakeholders (FGS, FMS, the private sector, and donors) in responding to the pandemic to ensure timely responses.
- Development of an effective strategy on the pandemic to be disseminated to the public through all media and in public places/markets, religious locations (masjids, madrasa, etc.) and public transport.
- Leveraging and unleashing the power of the communities to deal with COVID-19 pandemic by empowering them to carry out community-based surveillance, monitoring, and care.
- Engagement of neighboring countries and regional and international organizations to prevent the spread of the pandemic; this might involve developing an African strategy to coordinate cross border responses and surveillance, and information sharing.

Longer-term health strategy: As noted in this assessment, the medium and long-term efforts should constitute key elements of reforming the Somali health system. But, the rehabilitation and reconstruction of the Somali health sector should encompass a spectrum of activities consisting of three stages, namely: (i) Initial response to immediate health needs, such COVID-19 readiness; (ii) Then thorough assessment of essential health care needs in a longer-term framework; and (iii) finally policy formulation and implementation, including reconstruction and rehabilitation of the entire healthcare system in the future.

- The critical factor in this process is that the stages are not to be operated in isolation, but rather to be sequenced properly. The way in which the immediate humanitarian needs are

¹¹ Abdinor April 2020: Community empowerment
<https://www.trtworld.com/author/Abdinor.Hassan.Dahir>

met can have profound implications for fostering sustainability. Where possible the three stages should operate in synergy and as part of a continuum.

- At the initial stage, the focus should be on preparedness and setting the pace to implement immediate measures to assist communities facing this epidemic and future crisis to meet their health needs. In addressing the impact of COVID-19, the immediate focus should be on investing in facilities, equipment, and training technicians to operate laboratories and testing instruments. This should be followed by development of sustainable health care and mobilization of additional resources.
- At the second stage, health sector efforts must focus on restoring the systemic delivery of health services. This second stage will have to play a central role in the reconstruction of health services that have not been available beforehand. The reforms should take a comprehensive approach where essential health services are restored, and resources are directed towards long-term needs in the areas of human and financial resources. In this context, the World Bank¹² is responding to the longer-term health sector challenges of Somalia through the existing Recurrent Cost and Reform Financing (RCRF) project.
- The third and final component of the strategy is the reconstruction and rehabilitation of the entire health care system and implementation of sound and sustained reforms in both policies and administration. In this context, substantial financial resources are required to rebuild Somalia's healthcare systems; this is because the health sector was chronically under-funded before and during the transition from conflict. In the current circumstances, expenditures on infrastructure, equipment, and other capital investments will initially absorb much of the financial resources. In addition, recurrent expenditures will be necessary to sustain the delivery of health services. The ability of the FGS to finance recurrent costs from domestic resources alone could be limited initially, all efforts should be made to assume much of the recurrent costs to ensure sustainability and ownership.
- The health sector policy framework should assign significant importance to the rehabilitation and reconstruction of the country healthcare system. In this regard, emphasis should be on political commitment, coordination among donors, partnerships with civil societies (including NGOs, private sector), prioritization and integration of health services, and sustainability of the rehabilitation effort.

¹² World Bank 2020: Improving Healthcare-Services-in-Somalia-Damal-Caafimad-Project.

Chapter III

Economic and Social Impact of COVID-19 in Somalia



Mogadishu's Bakara Market lies deserted owing to a 5 pm to 8 am curfew imposed under COVID-19

3.1 Introduction and background

The impact of the Corona virus (COVID-19) pandemic has devastated many countries in the globe¹³ and practically set back both developed and developing economies. It is difficult to predict the ultimate impact of the pandemic (globally, on a regional basis or individual countries) because much depends on its spread and duration, and more importantly on the efficacy of measures taken to contain and mitigate it, which have been more successful in some countries than others. The social distancing, self-isolation, and mobility restrictions imposed in most countries to contain and mitigate virus effects have led to severe contraction in economic activities and unprecedented unemployment rates.

The likely impacts of COVID-19 pandemic on low-income countries have been aggravated in many instances by certain unique conditions prevailing in these countries. The common weaknesses that make the pandemic more lethal include inadequate public healthcare systems, high incidence of poverty and the poor resilience of large segments of the populations. In many of these countries,

¹³ The impact of the pandemic on the health systems of these countries is unprecedented, and the economic impact mirrors that of the great depression of the 1930s.

many citizens face food insecurity, unavailable or limited social safety nets, and lack of health and unemployment insurance.

These challenges are magnified in the case of Somalia, as it is one of the most fragile and pandemic risk states in the world. Somalia is ranked among ‘highest risk’ countries¹⁴ in the Global Risk Index assessment by CARE international; and by the WHO among 15 countries in the world that are at peril and require support in their preparedness for tackling the virus pandemic. According to the Johns Hopkins Health Security Index¹⁵ for 2019, Somalia ranked 194 out of 195 countries and scored zero in several areas, including emergency preparedness and response, infection control practices, and healthcare access.

Based on these international assessments Somalia is extremely vulnerable to COVID-19. Basic vulnerability of the Somali population to the pandemic are manifested by the fact that half of the population of 15 million are at risk of hunger, over 3 million need health assistance, 2.7 million need water and sanitation support and 2.6 million are internally displaced and lack shelter because of instability and insecurity.

The main objective of this chapter of the study is to assess the direct and indirect socio-economic impacts of COVID-19 in Somalia and to delineate the appropriate policies and measures to address these effects in the near term and the longer-term recovery phase. The assessment identifies pertinent areas of immediate concern and the actions required to contain and mitigate the economic impact of the COVID-19 pandemic in Somalia. It will also review and recommend policies for building resilience, particularly for the most vulnerable affected communities.

The specific objectives are (i) to set the socio-economic status of the nation at the onset of the pandemic, identify the urgent responses required in regard to social protection support; (ii) delineate the impact of COVID-19 pandemic on the national economy, as reflected in the main macroeconomic and social indicators; (iii) provide in detail the measures required to address the specific requirement of the most vulnerable groups of the population, the IDPs, the poor and unemployed; and (iv) define priority actions and resources that are necessary for the national response, so as to contain the socio-economic impact of the pandemic, build the resilience and coping capacity of the most vulnerable populace, and enhance the longer term post-pandemic recovery phase.

The National Economic Council aims to generate evidence that would inform the design of policies, strategies and interventions. The findings are expected to inform policymakers at the national, regional, and local government levels as well as development partners and other stakeholders on policy measures and responses required to mitigate the pandemic.

The research and analysis of this chapter is based on data and information collected from primary sources, at the FGS and regional levels. The data collection relied on a questionnaire and Key Informant Interviews, as well as submissions from government ministries, including Ministry of Finance and the Ministry of Planning, Investment and Economic Development. The secondary data sources included reports by Federal Government of Somalia, and pertinent documentation issued

¹⁴ CARE International rated Somalia among the 15 ‘highest risk’ countries in the world, March 2020

¹⁵ Johns Hopkins, *Global Health Security Index*, Bloomberg School of Public Health. October 2019.

by national, regional and international organizations working in country, and bilateral country partners assisting with national recovery.

The structure of this chapter is as follows: Section two after the introduction provides the critical pre-pandemic economic challenges and vulnerability of Somalia. Section three contains an assessment of the near-term economic and social impact and consequences of COVID-19 in the country; section four covers measures taken to address the pandemic. Section five details the medium and long-term recovery policies and transformation strategy that ought to be pursued. The final and sixth section provides concluding findings and policy recommendations.

3.2 Pre-pandemic Economic Challenges and Vulnerabilities

Somalia has been on the path to recovery from the devastating effects of the civil war, which led to the collapse of the central Government in 1991. Although the achievements have been remarkable, the nation continues to face serious underlying political and socio-economic challenges. It was only after the establishment the FGS in 2012 that progress towards attainment of economic recovery and macroeconomic stability began. The progress on the economic front since then is manifested in the rebuilding of financial institutions (the Ministry of Finance and the Central Bank of Somalia in particular), and the recent debt relief granted to Somalia under the enhanced HIPC debt Initiative. While modest progress has been made in transitioning from three decades of insecurity and instability, the country's economic and social structure and its institutional capacity remain weak and deficient, thus marking the country as one of the most vulnerable and at risk nations to the pandemic.

The specific economic and social characteristics that expose the nation and make it more vulnerable to the COVID-19 pandemic and other major shocks are the following:

- Continued endemic insecurity and instability, attributable to robust insurgency that is active in many regions of the country.
- Recurrent climate shocks that contribute to chronic food insecurity and large numbers of IDPs and high prevalence of abject poverty.
- Inadequate recovery of productive economic activities and low economic infrastructure.
- Considerable weaknesses in human and institutional capacity that has yet to recover from the collapse of central governance authority.
- Limited access to adequate financial resources at all levels of Government and the consequent low delivery of basic social services.
- Generalized weaknesses in public resources management and administration.

Prevalent insecurity and terrorist insurgency

The nation continues to face a ***potent terrorist insurgency that limits the reach of the government*** in many regions of the country and that constrains its effectiveness to intervene in the pandemic

and other crises. Such instability and insecurity generated by the “Al-Shabaab” insurgents constrains the provision of government services in many regions. The limited interventions were demonstrated in the past by poor responses to common disease outbreaks such as malaria and measles, and the ineffectual responses to frequent droughts.

The insurgent forces have also contributed to massive displacement of people from their homes and agricultural lands, thus contributing to large numbers of IDPs and other vulnerable communities that face acute food shortages, widespread hunger, and occasional widespread famine. The many years of insecurity has contributed to 2.6 million IDPs and out migration of millions more.

Adverse climate and food insecurity

Somalia has for decades **suffered chronic food insecurity attributable to extreme climate change**, and poor resilience of the nomadic and agro-nomadic communities to frequent droughts. The decades of civil strife and instability compounded by droughts led to severe famine in 2011 and loss of hundreds of thousands of lives, as well as displacement of many more from their affected regions and traditional subsistence farming. The decline in agricultural productivity owing to insecurity, adverse climate conditions, poor economic infrastructure, and lack of investments in the sector has contributed to massive national dependence on food imports. In the 1980s Somalia was a net exporter of basic food grains, but since then imports of food stuffs increased, by eighteen - fold through 2018.¹⁶

According to the UN FAO assessment, Somalia's population is currently experiencing multiple shocks: Desert Locusts upsurge that started in late 2019 and continues to threaten the food security and livelihoods of pastoralists and farmers in many parts of the country; and the extended impact of previous shocks (drought, displacement, etc.) on livelihoods.

In February 2020, before the onset of the virus pandemic, about 4.1 million people were assessed to be food insecure in the country¹⁷. The Food Security and Nutrition Analysis Unit (FSNAU) declared that 2.7 million people across the country face crisis without sustained humanitarian assistance, and that an additional 2.9 million will be stressed, in 2020, bring the total number of people facing acute food insecurity to 5.6 million.

Low productive capacity and severe poverty

A key and current economic characteristic of the country is the marked **low productive capacity of the economy that has led to severe incidence of absolute poverty**. The relatively improved growth performance of the economy, in recent years, has not been yet translated to significant per-capita income increase or inclusive growth, and the prevailing levels of poverty and inequality in the country remain extremely high. According to the World Bank Somali High Frequency Survey (SHFS) 70 percent of the population of the country is estimated to fall below the poverty line. Other signs of widening inequality include widening gender and regional disparities in terms of poverty levels and access to social services and economic opportunities. Even more distressing is that the

¹⁶ World Bank –Somalia –Country economic memorandum (CEM), Agricultural main report, July 2018.

¹⁷ FAO: Food Security and Nutrition Analysis Unit (FSNAU) and Famine Early Warning System Network (FEWS NET) , in Somalia, May 2020.

devolution of authority to FMS, which was premised on poverty reduction across the country and enhanced improvements in delivery of key services has not materialized.

The country has millions of IDPs that depend on humanitarian international relief for sustenance and emergency shelter, and have limited or no access to other basic services, such as education, water and hygiene facilities. The COVID-19 affects all segments of the society, but certain sub-groups are particularly more vulnerable and require special protection and intervention measures. Those at extreme risk of the pandemic include the very poor, the IDPs, and the unemployed.

Inadequate delivery of social services

The challenges facing Somalia in the fight against the virus is the **absence of basic social services and the complete lack of institutional capacities** to formulate and execute effective policies to contain and mitigate the pandemic and its’ effects on the economy and wellbeing of the nation. The struggle against the virus is considerably handicapped by inability to undertake effective measures to implement authoritative and credible testing, ensure scientific analysis to obtain data on the incidence of the virus in the country, undertake effective isolation, and trace the contacts of the infected. As noted in the preceding chapter and other assessments of the impact of COVID-19 on the health and social aspects, the country is rated among the least equipped to the tackle the consequences of the pandemic.

The manifestation of the low levels of delivery of social services is indicated by the total resources available to government and mounts allocated to social services; in particular health and education. As shown in Table 1 budgetary resources allocated to health sector in 2019 and 2020 fiscal years were 1% and 2% of the total budget, respectively. The share of budget allocation to the sector has been increased to 5% of total expenditures in the revised 2020 budget as a result of pandemic related expenditures and remains modest as a share of the total as compared to allocations for public administration and security sectors. The share of education in FGS expenditure also remained limited in 2019-20 at 4% of total allocations.

Table 8: FGS expenditures by sector, 2019 and 2020 (US\$ million)

By Economic sector	2019 Actual	2020 Budget	2020 Revised	Share (% total exp. 2019)	Share (% budget exp. 2020)	Share (% rev.l exp.2020)
Public Adm.	163.2	222.9	333.5	52%	47%	52%
Public security	107.3	146.8	150.9	34%	31%	23%
Economic affairs	26.0	41.9	66.0	8%	9%	10%
Health sector	2.6	9.4	30.9	1%	2%	5%
Education	13.5	2 1.0	23.4	4%	4%	4%
Other Expenditures	3.1	34.2	43.1	1%	7%	7%
Total	315.7	476.2	646.9	100%	100%	100%

Source: Ministry of Finance of Somalia estimates, (2020 budget).

The FGS has made limited or no progress in increasing access to essential public services, including the provision of public health, public education, safe drinking water and basic sanitation. The proportions of the populations with access to the most basic water and hygiene services were

estimated in 2013 at 32 percent for clean drinking water and about 24 percent for improved sanitation; some of the lowest indicators in the world¹⁸.

The country's public education system has totally disintegrated following the collapse of the central government authority three plus decades ago (in 1991) and has not been revived in any significant fashion. Almost all levels of education-- primary and secondary and tertiary-- that currently takes place in the country is provided by private entities or civil society in conjunction with humanitarian agencies. Higher education is also predominantly in the hands non-governmental entities, and with no public regulations and accreditation.

Binding financial resources constraint.

Another considerable challenge facing Somali authorities **is the binding financial resources constraints at all levels of governments in the country.** Limited data available for the fiscal operations of the FGS show that the entire domestic revenue base of the country averaged 3.3 percent of GDP, in 2016-18; and is estimated to have risen to 4.6 percent in 2019 (see table 10). This level of revenue mobilization, equivalent on annual average, to US\$ 261 million over the four years is without parallel and possibly the lowest effective tax effort for any nation in the world. The revenue picture exhibits the severe state of economic fragility, the overwhelming lack of legal and administrative capacity to enforce tax obligations, and above all poor application and acceptance of the rule of law under endemic culture of tax avoidance and evasion. Even with sizable budget grants, averaging about 2% of GDP over the four years, the aggregate resources available for the FGS were extremely limited even at their highest level in 2020 at an estimated \$647 million.

Reflecting the low level of available resources, total FGS expenditures were insufficient to meet the multiple demands for security and administration salaries and wages, let alone to provide for the basic social services including for primary health and education. In 2019 the entire direct allocations for economic services amounted to 8 % of the budget, while social service accounted to 5% of the total.

Weaknesses in financial management

The poor economic and financial governance structures in Somalia, at every level of government, and the debilitating disputes between the FGS and FMS have constrained public sector performance. The country has been perennially rated with the lowest scores in transparency and accountability of public resources management. According to Transparency International Corruption Perceptions Index, Somalia was rated the most corrupt country among 180 countries in 2019. The endemic misuse and mismanagement of public resources have contributed to a culture of impunity that is difficult to treat.

Thus, despite modest economic and financial progress in the last few years, *economic transformation and its inclusivity in the country remain very low.* Such inherent fragility extends beyond the economic sphere to social and political instability, and leads to poor accountability and leadership. The extreme economic fragility and poor management magnify the societal impact of natural disasters like the pandemic, and man-made crisis alike. The rapid assessment of the

¹⁸ UNICEF/WHO Joint health and nutrition assessment in 2013, quoted by AfDB study on improving access to water and sanitation rural Somalia, September 2016.

economic impact of the COVID-19 accordingly takes into account the inherent fragility and vulnerabilities of the nation in order to properly focus on the policies and measures needed to address the near- and longer-term effects of the pandemic.

The onset of COVID-19 has further aggravated existing vulnerabilities in the socio-economic situation of Somalia. The country was already suffering from multiple challenges, including endemic insecurity and prolonged struggle against a potent terror organization that generates massive insecurity and has constrained economic production; prevalent adverse climate that contributed to food insecurity, prevalence of acute hunger among segments of the society and frequent recurrence of famine. These social ills have been accompanied by limited institutional and human capacities to formulate and implement effective salutary measures and by binding financial constraint and questionable integrity in the management of the limited resources.

3.3. The short-term economic impact of the COVID-19

The global onset of COVID-19 and its containment measures have resulted in severe impact on every country's economic developments. The initial rapid assessments of the macroeconomic implications of the early stages of the pandemic demonstrate that Somalia confronts a harsh situation owing to the global shock and its impact on the domestic economy, particularly if the pandemic lasts a long time. The COVID-19 pandemic has directly and indirectly affected the economy through the unprecedented decline of economic activity worldwide, and from measures adopted to control the spread and impact of the pandemic.

The sharp drop in economic activity owing to closures and lockdowns in partner countries led to sharp reduction in trade and more importantly in migrant's remittances, foreign direct investment, and international financial assistance flows. The impact of the COVID-19 pandemic on the global economy is expected to be severe and long lasting. It is estimated that real growth of the world economy will decline from 2.9 percent in 2019 to minus 4.9 percent in 2020¹⁹; and the Sub-Saharan Africa growth is projected to decline from 2.4 percent in 2019 to minus 3.3 Percent in 2020²⁰.

Despite the dearth of evidence on economic impact of COVID-19 in Somalia due to the lack of timely and credible data, it is already clear that there has been a remarkable decline in economic activity and deterioration in aggregate economic performance since the emergence of virus outbreak in early 2020. In this section, we assess the short-term impact of COVID-19 on macroeconomic developments and productive sectors' performance; the government's fiscal operations and financial markets; private sector economic activity and labor markets; foreign money transfers and financial assistance; and social safety nets of the vulnerable communities.

The Federal Government of Somalia established a COVID-19 Response Coordination Committee (chaired by the Prime Minister), and the Federal Member States (FMS) set up Task Force Committees under their respective health ministries to "prepare contingency plans to prevent, rapidly detect and effectively respond to the pandemic, and to reduce morbidity and mortality rates

¹⁹ IMF (June, 2020), *World Economic Outlook*.

²⁰ World Bank (October, 2020) "COVID-19 (Coronavirus) Drives Africa towards first recession in 25 years".

in the country”²¹ Consequently, the authorities introduced measures to control the spread of COVID-19 and mitigate the health effects which led to economic activity disruptions caused by travel restrictions and disruption of supply chains. The lockdowns and curfews had devastating effects on the informal sector workforce and underemployed, who had to work to live from hand-to-mouth.

3.3.1. The COVID-19 impact on macroeconomic aggregates

While it is too early to assess the full economic impact of the COVID-19 and the containment measures, the country has evidently witnessed a sharp decline in economic activity in the early stages of the pandemic. According to official government estimates, the real GDP was projected to decline by significantly, as the spread of the virus pandemic has negatively affected the real economic sectors, particularly agriculture and services, which employ the largest share of labor force and contribute most to GDP and food security. The agricultural sector challenges included higher cost of production inputs that impacted production incentives and value chains; and will reduce the contribution of this essential sector to GDP, labor markets, exports, and food security.

Available estimates indicate that Somalia’s formal economy could decline substantially as livestock, which account for over 50 percent of the country’s export earnings, and remittances from the diaspora are impacted adversely. Another adverse economic impact of the pandemic is a sharp decline in travel and transport sector (domestic and international) related economic activities arising from travel bans and lockdowns. Owing to the ban on international travel, the resulting limited mobility could have a major negative impact on the economy and more specifically on the fiscal side as revenues from entry points and customs decline.

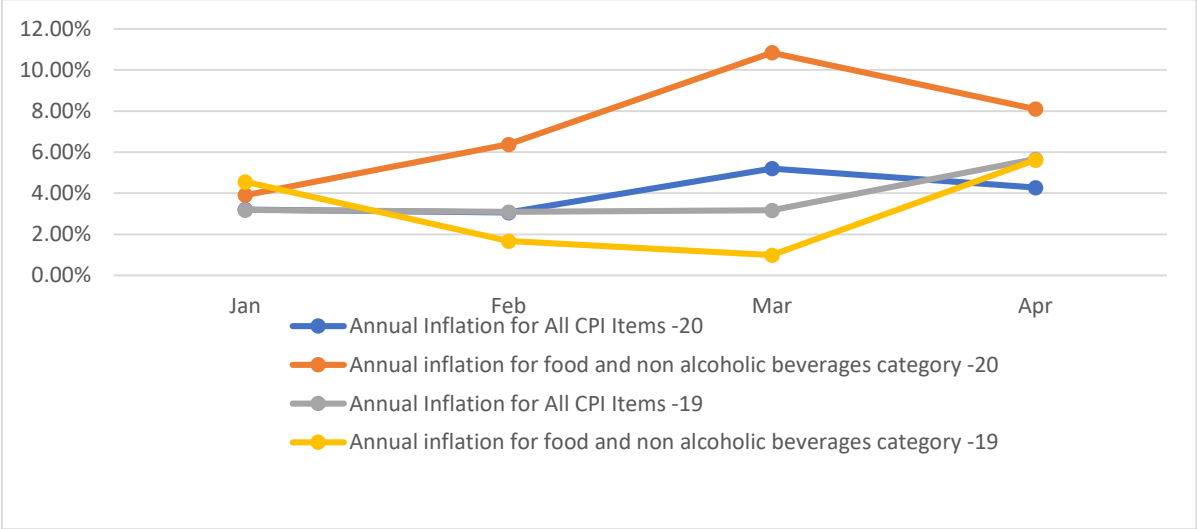
The services sector, also a main contributor to GDP, is estimated to register a considerable decline largely attributable to the virus impact. In this assessment, feedback from key informants in the sector indicated that the demand for some services, such as hotels and transportation, declined sharply and increased the risk of insolvency in some small and medium sized enterprises (SMEs). A sizable segment of the SMEs could shut down permanently, as these sectors have no recourse to liquidity support over the duration of the pandemic, and with many such enterprises being unable to meet their legal and financial obligations. In addition, large numbers of people who rely on these sectors for employment or irregular income would lose their livelihoods; and would be expected to fall into poverty during the pandemic, including small size enterprises and those with irregular jobs.

As shown in Fig. 4, the end-year annual inflation rate of the first four months (Jan-April) for 2019 and 2020, for both All CPI and Food category is higher in 2020 than 2019, except for April, when the rate in 2019 for all CPI expenditure is higher. Accordingly, the higher inflation has been recorded as a result of the COVID-19 effect on overall consumer price increase and particularly in food prices, including some essential food stuff such as fruits and vegetables and some imported food items. The evolution of inflation rate in January-April 2020, based on the urban price indices available through April, resulted from higher food prices – and consequently the rise in inflation hit hard the vulnerable groups such as, informal workers and IDPs who lost their daily income due to the lockdown and curfews. The inflation rates for all CPI subsequently stabilized through the third

²¹ FGS (28 March, 2020), “Socio-Economic Impact and Required Response for Covid-19 in Somalia”.

quarter at the annual rate of 4%; while food prices trended down after the rise in the second quarter of 2020.

Figure 4: Annual Inflation rate indices chart for years ending Jan-April, 2019-2020



Sources: National statistical office, Somalia

3.3.2. Impact on trade access to markets

While the financial crisis of 2008-09 had limited impact on the Somali economy and on most African countries, the current crisis induced by the pandemic is considered to have much larger adverse effects in all primary producing and low-income countries. This is because the transmission mechanism of the current economic crisis is demand driven and affects both commodity and labor market. As shown in Table 9, Somalia’s export earnings are expected to face sharp decline as economic activities and income in the major trading partners decline. This applies particularly to the Gulf States, which have witnessed recent sharp decline in oil prices and the cancellation of the 2020 Hajj in Saudi Arabia that adversely impacted receipts from livestock exports to the region.

Table 9: Real GDP at constant prices % changes

Expenditure	2015	2016	2017	2018	2019	2020
Household final consumption	4.9	4.6	5.3	4.7	3.3	-10.0
Government final consumption	3.4	20.2	27.3	1.0	12.3	0.0
Gross fixed capital formation	8.8	5.6	8.9	8.3	2.7	-15.0
Exports of goods and services	2.1	7.8	-3.6	5.8	2.6	-35.0
Minus: Imports of goods and services	5.1	7.1	9.8	4.8	3.7	-20.0
GDP at constant prices	4.6	4.4	2.2	5.1	3.5	-0.5

Further economic slowdown and the rising unemployment in the Western nations and Middle East countries will seriously reduce inflows of remittances from Somalis in the diaspora which have been a major source of funding for private consumption and investments in the country in recent years. The world recession, already predicted to be the worst since the 1930s, will reduce Foreign Direct Investment inflows and official development assistance resulting in foreign exchange scarcity.

The domestic lockdown in Somalia and international markets, designed to limit the spread of the virus, has been disrupting value chains resulting in shortages of essential inputs for production and basic necessities; thus worsening the already poor economic performance. As Table 9 shows, GDP growth is projected to decline from 3.5% in 2019 to minus 6.0% in 2020. The severity of the effects

of the pandemic will depend on the outcome of measures taken to manage the pandemic both locally and internationally in the major trading and development partners.

3.3.3. Impact on public Finances

The financial impact of the pandemic in Somalia is assessed to be extremely severe. The country has a very narrow revenue base and relies on taxes on international trade for over 80% of domestic tax receipts. This will be greatly reduced by import reductions. Similarly, decline in private consumption and the growth of the economy in general will lead to reduced revenue from other sources. The decline in domestic revenue mobilization combined with increased government expenditures to meet rising healthcare expenses could aggravate the already constrained fiscal position.

In many jurisdictions’ governments are using fiscal measures and direct incomes support to those affected by the COVID-19 virus. The types of support have included income and credit subsidies and tax breaks for individuals and companies, especially to SMEs; price support for consumers; and material support in the form of food and other necessities to the most vulnerable members of the society.

The FGS with limited budgetary resources and fiscal instruments will not be able to adequately support the business community or the most vulnerable groups in the society. It is hoped that the recent pledges of financial support by international financial and development institutions will assist the country to meet some of the basic financial needs emerging as a result of the pandemic.

The COVID-19 crisis hit severely the government budget on both the revenue and expenditure sides. Table 10 shows that own total revenues are projected to decline from 4.6% to 4.5% of GDP, largely as a result of loss of taxes associated with the decline in economic activity. Port fees and taxes on imports represent a significant portion of income for the FGS and FMS, and the reduced level of imports and port activities will lead to significant loss of revenue. The closures of land borders for a long period presents significant loss in customs receipts as well. In addition, the restrictions in air travel will contribute to the reduction of landing fees, entry visa and other related taxes. The reduction in business activities and closure of markets, hotels and restaurants will adversely impact on the modest collection of inland receipts from taxes and fees. Overall, the indications are that customs and direct income taxes would be significantly lower in 2020 than the past several years, and that this would have considerable negative effect on available government resources to be allocated to key priority areas.

Table 10. Somalia: Selected Economic and fiscal indicators, 2016-20

Est.

	2016	2017	2018	2019	2020
National income and prices					
Nominal GDP in millions of U.S. dollars	4,198	4,415	4,721	4,942	4,917
Real GDP, annual % change	2.9	1.4	2.8	2.9	- 0.5
Consumer prices (e.o.p.) % change	1.2	6.1	3.2	3.1	3.0
Central Government finances (in % of GDP)					
Revenue and grants	4.1	6.0	5.7	6.8	12.6
<i>O/W revenue</i>	2.7	3.2	3.9	4.6	4.0
Grants	1.4	2.8	1.8	2.2	8.6
Expenditure (FGS)	3.3	5.3	5.7	6.4	12.8
Compensation of employees ^{2/}	1.3	2.8	3.0	3.3	4.7
Purchase of non-financial assets	0.3	0.1	0.2	0.3	0.9
Overall balance	0.8	0.7	0.1	0.5	-0.2

Source: Government of Somalia and IMF staff estimates and projections.

The FGS on emergency base allocated \$5 million to facilitate the expansion De Martino hospital to hospitalize patients affected by COVID-19 and procure needed equipment for testing and ventilations. The authorities are seeking donor support to respond to the crisis and offset the impact of revenue losses. In April 15, they introduced a three-month tax holiday on some specific basic commodities (including rice), reduced consumption tax on some additional basic goods by 50 percent and lifted restrictions on imports of rice. The authorities have also made additional transfers to federal member states and the Benadir region to help them respond to the impact of the pandemic.

While revenues are projected to decline over the next few fiscal years, expenditures are expected to rise, buoyed by the projected increase in grants from 2.2% to 5.0% of GDP between 2019 and 2020; leading to increase in expenditure from 6.3% of GDP in 2019 to 9.1% of GDP in 2020 (Table 10). However, public expenditures will continue to face unexpected pressure to confront the unplanned spending associated with the urgent health crisis as well as supporting the poor population with their basic needs and in particular cash relief to assist the IDPs and most vulnerable poor communities during the pandemic. Moreover, any substantial reduction in the budget due COVID-19 pandemic re-prioritization may affect the achievement of the much-needed recovery and the targeted development agendas, including the Sustainable Development Goals (SDGs).

3.3.4. The impact on financial sector

The financial sector is among the hardest hit sectors in the economy by COVID-19 pandemic and related containment measures. The economy of Somalia has been sustained for many years by the operations of money transfer companies foremost, and the \$1.5 -2.0 billion they transfer annually from the Somali Diaspora. The indicative estimates are that severe disruptions in the services of these money transfer companies. As they already relied on irregular and un-conventional means of cash transfers, mobility restrictions and lockdowns have contributed to further challenges to remittances transfers.

The nascent commercial banking sector also suffered losses during the first months of the pandemic, adding more pressure to the ongoing economic crisis. The disruption of money transfer

channels also impacted adversely on investment activities, and led to a severe shortage of liquidity on a dollarized economy and constrained access to foreign currencies.

The remittances flow challenges also led to constraints on other international transfers, including humanitarian assistance and some official flows channeled through the money transfer companies, and hence intensified the shortage of foreign exchange availability. A more detailed analysis of the remittances flows, including assessment of the remittance flows, the effects of the pandemic at the source countries at the channels of transmission, (both direct to transfer companies and /or indirect means such as imports finance) are provided in the next chapter.

The central bank has no monetary policy tools to effectively support and underpin the deteriorating economic activity, such as lending to government to meet its financing needs, or to increase the commercial banks access to liquidity. Thus far, the Central Bank released a nominal funding of US\$ 2.9 million for-lending support to micro enterprises through commercial banks. It also encouraged commercial banks to use their excess liquidity to support lending. To better monitor financial and liquidity conditions, the Central Bank has increased the frequency of data collection, including employing one-off surveys. In coordination with international partners, it has been exploring measures to ease the inflow of current donor transfers and remittances.

3.3.5. The Impact on Labor Markets, Poverty, and IDPs Livelihoods

The drop-in economic activities associated with COVID-19 has resulted in remarkable increase in unemployment rates in the first half of this year. Classifying employment into several main categories: formal wage and salaries employment has stabilized according to anecdotal information and the most affected by COVID-19 are the under-employed and informal sector workers without any form of social protection and security. Such informal workers (e.g., craftspeople, street vendors, and day laborers) have been exposed to the risk of unemployment and poverty, because of imposed movement restrictions and decline in business activity.

The deteriorating economic environment coupled with lockdown measures had drastic impact on the most vulnerable groups such as the unemployed and IDPs. Considering scarce public financial resources owing to current financial constraints, and the expected lower levels of international humanitarian assistance to the most vulnerable communities, large numbers will be exposed to acute hunger and extreme poverty. For many people who survive on daily irregular work, the ramifications of the envisaged downturn in economic activities, and the restrictions to control and mitigate the pandemic have thus endangered their livelihoods.

The preventive measures associated with the rapid spread of COVID-19 complicate the flow of humanitarian assistances, many organizations are unable to provide timely human assistance. Consequently, manifestations of the humanitarian impact of the COVID-19 pandemic will be in the form of acute hunger and decreased deprivation among the very poor and the internally displaced. Those in IDPs camps will become more food insecure if adequate financial support is not redirected to them, in the face of the broad economic downturn and the logistics problems facing timely humanitarian assistance.

3.4. Measures to address the COVID-19 Consequences

COVID-19 Mitigation measures undertaken by the Somali Authorities

Fiscal and financial measures.

- Import duty exemptions provided to basic food items: rice and date at 100%; cooking oil and wheat flour were exempted at 50%. Revised budget expenditure allocations increased by 35% to respond to pandemic impact on health and the economy, including job losses.
- Recurrent cost appropriations such as employee allowances, contingencies and other administrative expenditures were reallocated to priority COVID-19 related expenditures.
- Some regional governments (Southwest State) introduced tax exemption for basic foods.
- Central bank released US\$2.9 mn to fund microfinance facilities through commercial banks; and government set up a new facility of USD 20 mn to provide loans to SMEs through “Gargaara” fund.

Measures to mitigate impact on food production and security

- Federal Ministry of Agriculture (MoA) established National Action Plan for Emergency and Recovery Response in the Agriculture Sector (funded by foreign aid & private sector).
- MoA provided inputs to 9,000 farmers to assist basic food production, and will support 15,000 targeted households through cash transfers.
- To avoid food shortages, MOA repairs river embankment, addresses locust infestation, controls livestock diseases, stocks veterinary supplies, and strengthens local preparedness.

Measures to provide social safety nets for vulnerable communities

- Government has put together a socio-economic response plan to COVID-19 repercussions on the economy, domestic revenue loss, and employment impact.
- Ministry of Labor provided social safety net programs for urban poor especially those who lost employment due to confinement through “Baxnaano” support.
- Ministry of Labor provided a plan targeting international companies and contractors to keep on payroll their staff impacted by movement restrictions and lockdown.

Measures to address weaknesses in institutional public services

- Government led Human Resources audit was conducted for employees working at the public sector; and Government systems and procedures were updated.
- Ministry of Justice is tasked to ensure integrity, and has taken steps to implement the accountability, transparency, and to avoid corruption in use of COVID-19 funding.

- Under anticorruption law, Government established a National Integrity Coordination Unit mandated to promote values.

Specific programs to mitigate the Pandemic impact on IDPs

- Communication and community awareness and mobilization; sanitation and hygiene stations, distribution of kits.
- Initiation of cash transfers and food distribution programs initiated at IDP camps.
- A National Strategy and Policies Framework to guide solutions for IDPs and refugee/returnees, for the five years National Development plan (9), has been developed to seek permanent solutions.

3.5. Strategy for Post Pandemic Recovery

This section of the study focuses on the much-needed strategy for recovery to address the adverse consequences in the post pandemic and the prolonged national economic fragility. It delineates the required essential policies for a new national strategy for sustainable and inclusive growth; investment in human resources endowed with technological skills to drive longer-term growth address the structure and trajectory of poverty country wide; enhanced social protection and human resilience; and ensure the needed resources mobilization from domestic and international sources.

3.5.1. Developing a Diversified Productive Base

The policies for recovery and growth strategy of the government of Somalia should aim to unlock private investment by removing selected barriers to doing business and support the private sector to create a conducive investment climate regime in the country. More specifically the required new policies should aim to improve the business environment by reducing the time and cost of starting and operating a formal business. Government should seek to improve services for small and medium enterprises (SMEs) that are the basis of economic activity and employment in the country.

Although the country faces multiple challenges, it is endowed with considerable natural resources, which are yet to be exploited or are underexploited. According to most observers, it has a significant oil and gas reserves attracting the attention of multinational companies. It has also significant solar energy potential and abundant marine resources, and livestock which is the country's largest exports. Somalia offers unrivaled opportunities for investment in these marine resources, transport, livestock, agriculture, and tourism, once the preconditions of security, political stability and good governance are ensured. It has also a young and dynamic populations that could be trained to support investors to develop the nation's natural resources that include untapped mineral deposits (uranium, iron ore, tin, gypsum, bauxite, and copper).

Despite progress achieved in several economic aspects in recent years, the country is marked by fragility and economic growth remains anemic. The major reasons why the country remains in a cycle of limited economic productivity and low growth is that it currently lacks sound and institutionalized policy frameworks, and the skilled human resources and effective government

institutions to manage well its substantial resources. This has led to low investment levels and low level of economic diversification.

The institutional capacity deficit is marked by the World Bank's "Doing Business" review in 2017, which rated Somalia's performance the last/worst in the world out of 190 countries evaluated. The poor performance is found across all categories of indicators of institutional effectiveness essential for ease of doing business. The main challenges are more than investment policy related, and include: (i) a low literacy rate of only 38 percent and hence lack of skilled manpower both in public and private sectors, (ii) dominance of informal economy, (iii) weak legal system and institutions, (iv) lack of peace and security, (v) poor economic infrastructure, and (vi) endemic corruption.

The low level of domestic economic activity and reliance on imports for most of the basic consumables of the population are unsustainable. A growth strategy that is led by the country's agricultural (farming, fishing, and livestock) potential should be formulated and urgently put in place. The current reliance on food imports and humanitarian assistance for nearly a third of the population is a major departure from than 1980s when the country was a net exporter of grains and did not depend on food handouts or face threats of hunger for large part of its citizens.

Somalia's development policies have failed target agriculture as the main engine of economic growth. This can be achieved through the production of high value crops and modern livestock management. A recent FAO/WB study²² suggests that the country needs to follow bold and forward-looking approach to support this sector's recovery and calls for public and private investment to withstand increasingly frequent and severe weather shocks. The new growth strategy should be centered on revival of production of agriculture, which accounts for over 80% of the country's employment and exports on the promotion of investments in the abundant fisheries opportunities; and on transitioning to commercial pastoralism instead of the current subsistence model of past generations. Stronger institutions, extension services and infrastructure are needed to support private investment and marketing of agricultural produce. In addition, it is imperative to rebuild the country's manufacturing base and incentivize agro-industrial outputs, and expand the services sector with the right incentives.

3.5.2. Investing in Human and Economic Infrastructure

The COVID-19 crisis has highlighted the damage done to societies that have not invested well in skills development and institutional capacities. The recovery strategy should aim at developing the skills of the active workforce, and effective institutional structures to formulate and execute sound policies and reforms. The focus should be to ensure effectiveness of institutions in the provision of essential services. It requires longer term commitment and transfer of resources education institutions and structures, including vocational training and skill development programs.

Somalia is currently without a well-trained workforce to effectively generate growth or compete with the skill base within the region or internationally. Moreover, there are no comprehensive and well-prepared programs of skills development or institutional building. Investing in human capital

²² FAO/WB 2018: Rebuilding Resilient and Sustainable Agriculture in Somalia

to generate the capacity that will drive economic growth is critical to the attainment of the recovery strategy, and the current efforts in institutional capacity building in the country are insufficient to make a difference in the near term. In addition the role of the large diaspora, and reliance on imported manpower from the sub-region should be explored as ways of meeting obvious skill gaps, and as drivers of knowledge transfer, innovation, and infusion of high technology skills.

Rebuilding the country's physical infrastructure is also of the highest priority, particularly to rebuild the transport, energy and other economic infrastructure that was destroyed or lack necessary maintenance. There is paucity of transport and communication facilities and particularly of renewable energy sources at affordable prices, which are critical in promoting and sustaining private sector productive activities and inclusive growth. Accordingly, large investments in physical infrastructure is imperative to ease the critical deficit of roads and rail networks; energy generation and distribution; access to water; efficient telecommunication; and other public utilities that contribute to addressing the high cost of doing business.

Building economic infrastructure has long gestation periods as the sourcing of adequate funds for complex infrastructure projects, contracting services, and completing them takes time. Improvements in economic infrastructure would remove bottlenecks for cross-border trade and open access for international trade to the underutilized ports of Somalia and outside markets for the landlocked countries in the region. Considering the long lead time of capital projects, government should start at an early stage to prepare a set of ready to implement projects to scale up investments in the high priority areas.

An area that requires massive engagement and a process of catching up is the digital divide between Somalia and developed regions. While the penetration of access to mobile communications and digital money usage in the country is some of the highest in Africa and ahead of many middle-income countries, transforming the national economy into a knowledge-based economy is still an arduous task ahead. To achieve a knowledge-based economy much more will be needed, including infrastructural investment in the areas of telecommunication infrastructure, reliable and affordable energy to reduce costs, while increasing quality and reliability of such services. Major reforms and increased investments are required in the digital economy, such as access to e-Governance, education, and commerce to take advantage of changing global dynamics and to promote economic diversification, and connectivity at home and abroad.

3.5.3. Enhancing Social Protection Measures and Human Resilience

As the nation responds to the current COVID-19 emergency, the authorities should be mindful that measures to tackle the immediate health and economic impact of the pandemic. However, as necessary as these are, they would not be sufficient to deal with the deep-rooted challenges the Somali society has long faced. Consequently, the structural drivers of poverty and income inequality should be tackled forcefully on a longer-term basis. Providing opportunities for women and the youth, improving the livelihoods of IDPs and other vulnerable communities, and broadly investing in the delivery of basic social services (health and education) are essential elements to build human resilience. To rebuild the economy and society after the pandemic, the focus of policies and reforms should importantly be on attaining sustainable growth and transformation.

As indicated in the preceding assessment, a large share of the people of the country are surviving a marginal existence, and the pandemic has shown the extreme vulnerability of these communities. In the current environment of limited resources, the capacity of the authorities is limited by the binding financial constraints. But, without affordable social safety net programs that are targeted at the most vulnerable, and mechanisms in place to prepare for future climate crisis and pandemics, the cohesion and stability of the society is at risk.

The limited capacity to attend to the plight of the extremely poor during pandemic has demonstrated the fact that less costly programs could be considered for the IDPs and returning migrants in the sub region. Repatriation, with one-off financial support, to their farms and villages could have been attempted instead of maintaining their current marginal existence in semi-permanent urban camps. Temporary measures, such as food or in-kind provision of goods and services during the pandemic cannot be sustained for long, and should be replaced with properly considered and costed programs of restocking or providing essential inputs for production to the IDPs. Innovative measures are required to promote and facilitate their return to productive existence, before second and third generations of IDPs emerge in these nominal shelters that breed dependence.

3.5.4. Obtaining sufficient financing is critical to recovery

The country requires massive financing for economic and social needs, and for broad recovery from the travails of a fragile state. There is clear need for increasing domestic financial resources mobilization to meet the current savings deficits and social safety net requirements. Other sources of funding, from diaspora remittances, foreign direct investment, and official development assistance, should also be mobilized to promote productive economic activities. The Horn of Africa sub-region is one of very few Regional Economic Communities (RECs) that does not have a regional development bank to finance cross border trade and investments and the country should champion the creation of such a bank for national recovery and regional cooperation and development.

The county’s realization of the HIPC debt relief recently has opened new avenues for access to regional and International Financial Institutions (IFIs) financing, after being excluded for three decades. In addition, new collaborative arrangements and partnerships will need to be formed for resource mobilization from both traditional and non-traditional financing sources. Although, commercial and non-concessional loans would not be available to the country until stability is realized and economic performance improves, it will still be important to develop new partnership with bilateral and multilateral agencies. In particular, it will be highly desirable to seek sources of blended finance that could make financing affordable for infrastructure projects: e.g. ports, airports, power, transportation, communication, sanitation and housing projects.

The overall external financial flows to Somalia is shown in table 11. Official Development Assistance (ODA) in 2018 and 2019 was US\$ 2 billion and US\$ 1.9 billion, respectively; of

Table 11: External Financial Flows in Somalia, 2018-2020 (in mns of US\$)

Sources	2018	2019	2020
FDI	406.0	446.0	456.0
Remittances	1,482.4	1,576.5	1,617.5
ODA	2,168.0	1,862.0	--
o/w humanitarian	(1,140.0)	(934.0)	--

Source: FGS Ministries of Finance, Planning, and Central bank

which US\$ 1.14 billion and US\$ 934 million was humanitarian assistance, respectively. Major sources of funding in these years were diaspora remittances and Official Development assistance; and modest amounts of FDI flows as well.

In addition to official development assistance and concessional lending by IFIs, which will be required in the near term, non-debt creating access to funds, such Foreign Direct Investment (FDI) should be sought, and the right incentives should be put in place to cover the massive gap between the domestic savings and much headed gross investment in the country. The authorities have been making efforts to incentivize FDI flows especially in the hydro-carbon sector, and there are no major restrictions on foreign investments although detailed guidelines for foreign investments are not fully in place.

More innovative approaches and ways to fund major capital projects would still need to be developed. It will be important to find ways to encourage investment in the economy's productive sectors, from domestic sources such as equity markets and creation of functional national development bank. The nascent domestic commercial banks should also be encouraged to facilitate and more aggressively promote investments finance matching their deposit maturities. Diaspora remittances that have been the basic sustenance of many household consumption could also be partially redirected for investment in SMEs. This source could raise large sums of funds for investment in viable economic projects, if and adequate risk and rates of return are assured.

3.6. Conclusions and Recommendations

Conclusions

The assessment has revealed that the impact of COVID-19 and its worldwide control and mitigation measures have severely damaged economic developments in the country, as in most other countries. Limited available data indicate that real GDP growth is expected to decline by about 6%, inflation has risen sharply in the first half of 2020, export earnings have declined and adversely affected domestic economic activity, and the government's financial operations have been marked by lower revenue and higher pandemic associated expenditures. The spread of the Covid-19 has negatively affected particularly the agricultural and services sectors (the main contributors to GDP) and further increased unemployment and led daily wage workers and IDPs to face acute food shortages and livelihoods insecurity.

The pandemic aggravated the pre-COVID-19 economic and social challenges and multiple crises facing the country. Weaknesses in the Somali economy attributable to corrosive insecurity and terrorism, dislocation of communities on account of civil strife, and adverse climate conditions have been aggravated by the adverse effects of the pandemic. The Somali authorities-imposed measures to control the spread of the virus have also magnified inadequate access to health, prevailing acute food insecurity, and endemic poverty among the vulnerable communities.

The impact of the pandemic on Somalia's public finances has been extremely severe. The country's narrow revenue base that relies heavily on import duties for domestic tax receipts, has shown marked reductions at all government levels. Also, a decline in private consumption and economic activities in general has reduced revenues from other sources. Overall decline in domestic revenues

combined with increased government expenditures to meet rising healthcare expenses has damaged the already constrained fiscal position.

The economy of Somalia has been sustained for many years by diaspora remittances amounting to two billion annually to dependents at home. This year, the authorities expect a substantial reduction in diaspora remittances during this year, owing to the impact of global recession on migrants' employment and the impact of the pandemic mitigation measures on transmission channels. The nascent operations of the commercial banks will also be among the hardest hit sectors by COVID-19 and government measures to contain the pandemic.

The drop-in economic activities and movement restrictions associated with emergence of COVID-19 have led to worsening conditions for informal workers and the unemployed. Moreover, the pandemic effects on large and small enterprises alike will further aggravate the availability and affordability of basic food stuffs and services for the poor. Their living conditions are expected to further worsen unless effective social protection measures are put in place to protect their livelihood. Efforts have been made by relief organizations to sustain daily rations in some communities, but no material social safety net schemes have been put in place.

In order to contain economic effects of the COVID-19 and to mitigate the negative short-term consequences of the pandemic the authorities introduced urgent measures to support the health system by availing equipment and dedicated facilities for the infected individuals. Limited fiscal space could only allow for modest relief on duties and taxes on basic food imports to cushion the higher cost of living. However, the authorities appealed for international financial support and committed to reallocate more resources for health services spending to respond effectively to COVID-19. Other than humanitarian international assistance, the support to vulnerable groups, such as irregular workers and poor households, in the form of broad-based in-kind or cash assistance has not been introduced, as has been the case in many developing countries.

Recommendations

As the nation responds to the COVID-19 emergency, the major focus is how to control the pandemic, save lives and mitigate its immediate and short-term damage to the country's health and economic wellbeing. In this regard and in addition to the on-going health measures, the authorities should consider the following short-term economic measures:

- Introduce an enhanced economic stimulus package that has broader and deeper impact on the economy, through injection of liquidity and offer of credit facilities, as well as hasten the recovery of key sectors (agriculture including livestock and fisheries).
- Formulate and implement a program of support for vulnerable people, particularly those households at risk of acute food shortage and the IDPs.
- Exert maximum efforts to mobilize additional financial resources from the international development partners to create fiscal space for effective social safety net programs and assistance to the productive sectors.

- Ensure coordinated and collaborative efforts of all government levels and the private sector in the implementation of essential measures to avoid inequities in the distribution of available resources.
- Implement effective financial governance mechanism, processes and systems that assure the general public and development partners that utilization of Covid-19 targeted resources are deployed with utmost accountability, transparency and integrity.
- Build collaborative efforts with regional institutions and governments to maximize the concerted efforts to control and mitigate the health and economic impact of the pandemic. An example would be establishing and operationalizing a joint Center for Disease Control (CDC) for IGAD. Such collaboration would emphasize sharing of epidemiological data and health expertise.

The threat of the pandemic has highlighted key weaknesses across the globe in both developed and developing economies, particularly in provision of adequate health care and addressing income inequality. The authorities should understand that critical measures to tackle the immediate health and economic impact of the pandemic, necessary as they, are not sufficient to deal with the deep-rooted challenges the Somali society has long faced and that have been magnified and aggravated by the pandemic. Consequently, the government has a daunting task of formulating and implementing policies and reforms to jump start sustainable economic recovery.

In this context, Somalia should concentrate and target the imperatives of the longer-term socio-economic recovery including the following:

- As a first order of priority to address the socio-economic fragility and attain recovery, the authorities should tackle the endemic insecurity and terrorism; prolonged political instability; and generalized poor economic and financial management that has long constrained the legitimacy and credibility of all levels of government in Somalia.
- Somalia should fully exploit its rich natural resources by diversifying and expanding its production base. It should implement sustainable agriculture-led growth strategy (farming, fishing and livestock) to attain food security, and achieve exportable surpluses to enhance the balance of payments position.
- Quality public investment should be prioritized and adequately funded to rebuild the national economic infrastructure; and strengthen the human resource skills and institutional capacities, based on technological innovation.
- The nation should address inequalities and challenges facing women and the youth and improve the livelihoods of IDPs and the very poor by investing in the delivery of basic social services (health and education) and in the provision of sustainable minimum livelihoods for the vulnerable communities.
- Ambitious and robust resources mobilization, from domestic sources and external financial assistance should be prioritized as a pre-condition for strengthening delivery of economic and social services.

CHAPTER IV

Impact of Covid-19 on Remittances Flows in Somalia



Money exchange at the markets of most towns in Somalia as a reflection of vital importance of remittances

4.1 Introduction

With each passing day, the COVID-19 crisis is forcing governments and citizens to re-evaluate the existing economic and social support systems present in modern society. One of these systems is the transfer of remittances. In the Western World, the dominant institutions of money transfers are commercial banks. However, for many immigrants and people in the Global South, Money Transfer Businesses (MTBs) or previously known as “*Hawala*^{23s}” in the case of Somalia and many other countries are the main method of transferring funds between countries. With the onset of the COVID-19 pandemic the state of MTBs (Hawalas) capacity to transfer money has become a subject of great concern. The purpose of this section is to assess how the MTBs money remittance system has been impacted by the COVID-19 as well as the consequential impact on the flow of remittances to Somalia. The section assesses how diaspora communities have been affected by the pandemic as this in turn affects the remittances. The study provides some policy recommendations towards appropriate mitigation of the threats of the COVID-19 to the Somali economy and livelihoods of citizens who depend on remittances.

The assessment undertaken in this chapter is important because of the significance of remittances to Somalia’s economy and its citizens. An early understanding of the impact of COVID-19 on remittances will lead to timely intervention to mitigate the damage of the pandemic on the flow of remittances to Somalia.

²³ Hawala(s) is the historical name of what is today know as Money Transfer Business. Hawala transactions are based on trust among the person transferring the fund and the agent transmitting the funds.

Research limitations for this assessment include lack of current and credible information on the COVID-19 pandemic's effect on Somalia since its onset in early 2020. Therefore, extrapolations regarding possible economic effects are made using the scholarly resources available pre-COVID. Also, this chapter utilizes aggregated data obtained from the Central Bank of Somalia (CBS). Additionally, a small sample survey of remitters was carried out in various US cities concerning their personal experiences on the impact of COVID-19 on their remittance transfers to Somalia.

This chapter of the study explores the historical background of Hawalas and their role in facilitating remittances to Somalia, and the contemporary and historic iterations. It provides a brief account of Hawalas' Islamic/Arabic origins and how it evolved into a modern-day money remittances system. The main objective of this paper is to carry out a thorough assessment of the potential and current impact of the COVID-19 on remittances to Somalia. The specific objectives are to: (i) provide a reasonable account and an understanding of how the MTBNs system the primary driver and channel of remittances functions; (ii) assess the severity of the effects of the pandemic on the remittances, and the areas that have been impacted the most along the remittances supply chain; and (iii) provide recommendations on the possible policy intervention to be put in place to address the damage caused by the pandemic shocks.

Following the introduction, section two of this chapter discusses Hawalas' contemporary and historic iterations, its origins and how it evolved into a modern-day money remittance system. Section three explores the role of MTBs in promoting the flow of remittances, section four provides a description of the role of remittances in the Somali economy. In section 5, the challenges faced by MTBs before and during COVID-19 pandemic are described. Section six provides in more depth assessment of the effects of COVID-19 on remittances. Based on limited data shared by the Central Bank of Somalia, the study provides in section seven an indicative analysis on the impact of COVID-19 on the flow of remittances in Somalia in the early period of the pandemic's global existence. The final section eight provides concluding remarks and policy recommendations on possible corrective measures to address the COVID 19 impact on Somalia's remittances inflows.

4.2. Money Transfer Businesses (Hawalas) and remittances

Contemporary context

To understand the specifics of MTBs (Hawalas), it's important to understand the concept of remittances and money transfers that often occur between immigrants residing in the source countries and their dependents in their home countries of origin²⁴. The International Monetary Fund describes remittances as the total of "compensation of workers by employers" and their "personal transfers."²⁵ The "compensation of employers" refers to the total income earned by migrants in their country of residence abroad. "Personal transfers" refer to any transfer received by a resident of a country from a resident of another country. Considering that the economies of developed nations are stronger than those of less developed nations, the transfers from migrants in the developed nations are a necessity to those in the less developed nations. Once a person receives their remittance, they use it to fulfill their financial needs, which in turn stimulates the

²⁴ Radcliffe, Brent. *Introduction to Remittances* (Investopedia, June 25, 2019).

<https://www.investopedia.com/articles/economics/10/introduction-remittances.asp>

²⁵ *Remittances*. (Migration Data Portal, May 5, 2020). <https://migrationdataportal.org/themes/remittances>

economy of the less developed nation. Therefore, remittances are not only beneficial to the person receiving the remittance, but also to the economy of their country.

As of 2019, the countries receiving the most remittances were India, China, Mexico, the Philippines, and Egypt. India led with approximately \$79 billion in remittances, and Egypt with \$29 billion. The source countries sending the most remittances were the United States, Saudi Arabia, and the United Arab Emirates.²⁶ Remittances often happen between migrants and their dependents, the high concentration of remittances from Saudi Arabia and the United Arab Emirates is likely due to the large population of South Asian migrants, from the Indian sub-continent.

Hawalas refer to the honor-based system of money transfers.²⁷ Essentially a form of remittance, Hawala involves multiple parties: the person who wishes to transfer funds, their agent, the person who wishes to receive the funds, and their agent. The person who wishes to transfer the funds would approach the agent in their city and tell them the amount of funds they wish to transfer. The agent would give them a code. The remitter would then tell this code to the person they wish to send the funds to. The receiver of the remittance would then tell this code to the agent in their city, who would then pay the receiver with the funds minus commission and other relevant fees.

What makes *Hawala* a unique form of remittance is that in its original form no money crosses borders.²⁸ The transaction is done at previously agreed upon exchange rates (such as US\$ / Indian rupees exchange rates at the date of transaction), and any inequalities is paid for by the agents themselves. The power of *Hawalas* is the reliance upon the belief that the agents will settle any discrepancies between funds transferred and funds received. The *Hawala* system is common in countries where a large number of citizens lack access to formal financial institutions and bank accounts.²⁹ *Hawalas* thus allow these citizens to access remittances without concerns about if their village/city has the infrastructure to support funds transfers.

Historical context

The word “*Hawala*” originated in the Arabic language, meaning “transfer,” and the agents who facilitate *Hawala* exchanges are referred to as “*Hawaladers*.” In Arabic legal context, *Hawala* essentially refers to the exchange of debt. However, when translated into other languages such as Hindi and Urdu, the context of “trust” is added as well.³⁰

Matthias Schramm and Markus Taube utilized a unique method of investigating the origins of *Hawalas*. Rather than investigating it from a cultural standpoint (Arab origins vs South Asian origins), they conducted their research from a religious viewpoint. After analysis of various Islamic

²⁶ *Record High Remittances Sent Globally in 2018*. (The World Bank, April 8, 2019).

<https://www.worldbank.org/en/news/press-release/2019/04/08/record-high-remittances-sent-globally-in-2018>

²⁷ Reynolds, Christopher, *Hawala: The Underground Network that Moves Money “Without a Trace.”* (CTV News, August 4, 2019). <https://www.ctvnews.ca/business/Hawala-the-underground-network-that-moves-money-without-a-trace-1.4536406>

²⁸ Ibid.

²⁹ Pamer, Karen. *A Global Study of Hawala Targeting Regulations*. (Order No. 10153553, Utica College, 2016)

<http://ezproxy.lib.ucalgary.ca/login?url=https://search-proquest-com.ezproxy.lib.ucalgary.ca/docview/1836059837?accountid=9838>. 4.

³⁰ Thompson, Edwina A., *Misplaced Blame: Islam, Terrorism, and the Origins of Hawala*. (Max Planck Yearbook of United Nations Law Online 11, 2007). 279-305. https://www.mpil.de/files/pdf1/mpunyb_08_thompson_11.pdf . 288

sources, the earliest they could trace Hawalas was from a text created in 1327 by the scholar Abu Bakr b. Maseud al-Kasani.³¹ However, further research by other parties revealed an even earlier reference to Hawalas in Islamic history. This was found in a book of *hadith*- recorded statements from the Prophet Muhammad, a pinnacle figure of Islam- from the 7th century A.D. In this book of hadith, known as “Sahih-al Bukhari, kitab, al-Hawalat,” the Prophet Muhammad said to the narrator, Abu Huraira, that “when one of you is transferred [the claim for his debt] ... he should accept the [transfer].” After Prophet Muhammad’s death, the concept of honor-based transfers was included in Islamic law.³²

4.3. Hawalas in the Somali Context

Development of Hawala’s in Somalia

In Somalia, the Hawala system is an essential aspect of the economy. The first trigger of the Hawalas industry boom occurred after the **Somalis migrated in large numbers to Saudi Arabia and Gulf countries following the first Oil boom of 1973-74** and 1979-80; and intensified during the Ogaden War of 1977-1978³³. The war was between Somalia and Ethiopia over control of a territory, which contained a significant number of Somalis despite being within Ethiopia’s control. Following the cessation of hostilities in 1978, many Ogaden Somalis migrated from the contested region in Ethiopia to Somalia and ended up in refugee camps under hard living conditions. This triggered mass migration of Somalis to wealthy Middle Eastern countries. The migrants worked mainly in the service industry and sent funds back to their dependents in Somalia. Consequently, Somalia experienced a boom in the remittance industry.³⁴ Hawalas became necessary institution to facilitate the transfer of funds given that historically Somalia did not have a strong financial infrastructure.

The development of Hawalas into the modern-day sophisticated system occurred during the second trigger occasioned by the Somali Civil conflict which erupted in 1991, and resulted in the collapse of Somali state and its economy and a large migration of Somali refugees to neighboring countries, the Middle East and Western countries. Many of the refugees left behind family members in Somalia who continued to need financial support. However, due to the collapse of the Central government, there were no formal financial institutions through which they could channel their support to their dependents in Somalia. Thus, the Hawala system became a viable substitute to formal financial institutions in the Somali economy.

Framework of Hawalas in Somalia

Before the 1990s, Hawalas operated via informal networks, especially familial lines. There were no specific laws governing or regulating money transfer businesses by the Somali government. Outside of operating within Islamic law, Hawalas were legally invisible. However, after the second

³¹ Ibid., 289.

³² Ibid., 290.

³³ Pamer, Karen. *A Global Study of Hawala Targeting Regulations*. (Order No. 10153553, Utica College, 2016) <http://ezproxy.lib.ucalgary.ca/login?url=https://search-proquest-com.ezproxy.lib.ucalgary.ca/docview/1836059837?accountid=9838>. 15.

³⁴ Ibid., 20.

trigger of the extended civil conflict, the increased operations of money transfers, contributed to the consolidation of Hawalas into extensive and more visible structures.

An example of the informal networks is the case of “franco valuta.”³⁵ Somali professionals working in the Gulf region became middlemen for migrants working abroad who wanted to send funds to their dependents in the home country. To avoid attention from the Somali government, the “funds” were given to the businessmen in the form of cash. These businessmen would then purchase goods for importation into Somalia and pay the cash equivalent to the dependents of the remitter in Somalia after the sale of the goods.”³⁶

Not only did the “franco valuta” system assist those who wished to send remittances, it also facilitated import of much needed goods into the country. These remittances funded imports and stimulated the Somali economy by supplying much needed inputs and consumer imports to the country. However, due to the “illicit nature” of the “franco valuta” system, the exchange rates were different from Somalia’s official exchange rates for the national currency. This left room for exploitation of parties in the transmission chain as the system worked outside the purview of the government taxes and official oversight. These loopholes contributed to its demise.

Without financial infrastructure such as banks and with the demise of the illicit franco valuta, Somalis across the diaspora needed a system of sending remittances to their families, and the Hawala agents became more relevant and indispensable. In the 1990s, the Hawala agents would utilize mail and radio to communicate relevant information to their representatives inside the country to pay off the recipients. Eventually, the once informal Hawala networks began to consolidate into larger networks. These operations gradually grew from multiple brokers who had multiple connections to Hawala companies as understood in the modern context. Hawala businesses could conduct their transactions out of their personal enterprises or agents.³⁷ For example, if an agent ran a clothing shop, they also conducted transactions on top of selling clothing, with the permission of the Hawala Company they were affiliated with.

To prevent disorganization amongst the many agents associated with Hawala companies, there needed to be a center to process all the transactions. Accordingly, Hawala companies grew in popularity because of the lack of controls or supervision within Somalia, a hub had to be set up outside the country. Dubai became the hub for Hawala companies. The centers set up in Dubai process all transactions and reconcile the debts each party owed between the agents after which they would pay the funds to the recipients deducting transfer charges. In summary, a remitter would approach a Hawala company through one of their agents in the source country, who would transmit the transaction information to the global center in Dubai. The global center would verify the transaction and transmit the transfer instructions to the agent in Somalia, for payment (less fees due) to the recipient in Somalia.

As the operations of the Hawala businesses and their agents expanded, formal companies such as Amal Express, Barakat and Dahabshil became global Hawala powerhouses.³⁸ servicing hundreds of

³⁵ Ibid., 23.

³⁶ Ibid., 23.

³⁷ Ibid., 26.

³⁸ Ibid., 27.

agents and representatives and centralizing the settlement of their transactions in Dubai. The vulnerability of post-conflict Somalia laid the ground for the rise of Hawala companies.

The Hawala system within Somalia

Within Somalia, the Hawala system traditionally involved moving funds across the country by Courier services. The funds would be moved from Mogadishu to all Hawala Agents in major urban areas for distribution to the beneficial owners. The beneficiaries would identify themselves and name the individual(s) who sent them the money and from which destination country. As necessary, interviews would be administered with at times witnesses being required to confirm the identity of an unknown beneficiary. Owing to the absence of National identification cards for Somali citizens, the process remained subjective and dependent on the spirit of Hawalas which is trust; values of honesty and integrity being presumed to engender such transactions.

Although this system has worked generally well over time, the Hawala practitioners have innovated their operations in recent years by employing mobile money transfer technology. They have integrated their activities to the use of mobile money transfer operations with funds being moved via mobile phones. The remittances, upon landing in Somalia, are loaded into mobile telephones and send electronically to the Hawala agents in the rural centers who disburse the funds to the beneficiaries. In the majority of cases, with beneficiaries now own mobiles to which their funds are loaded by visiting a mobile money operator or facilitated to withdraw either in Somali shillings or in dollars. They could use the funds in their mobile phones to directly purchase goods and services from shops and other vendors.

Through this technological progress, the funds now move much faster and more efficiently. With the mobile Money operations, the funds are in certain cases being send directly by the diaspora remitters to their beneficiaries in Somalia, without going through the mobile money transfer operators (Hawalas). In this way, the Hawala system may soon become obsolete in its traditional form and be replaced by the mobile money transfer system.

The emergence of the local mobile money transfer system

The mobile money transfer system is a relatively new but highly efficient technology driven system. In many developed countries and some developing ones like Kenya, it has become quite sophisticated and is seamlessly integrated with the banking system. However, it is also regulated with strict checks and balances. In the case of the MPESA in Kenya³⁹, an individual intending to transact within the system (transfer money to others or pay for goods and services) opens a deposit account with a telecommunication agent (an MPESA agent). The Agent is required to fully register the identifications of the individual, which include the mobile number with owner's name as registered with the mother telecommunication company (Safaricom). The account holder must also produce a national identity card (ID) that should already be registered in the system of the telecommunication company when the individual first applied for the MPESA line. The pair: **mobile number** and **ID** must be immediately recognized and reconciled by the system. With these details, the individual is permitted to deposit the funds into his mobile phone account.

³⁹ M-PESA SERVICES TERMS AND CONDITIONS.

https://www.safaricom.co.ke/images/Downloads/Terms_and_Conditions/M-PESA_Products_Terms_and_Conditions.pdf

There is a regulatory limit as to the amount of funds that an individual can transact in a day in terms of loading into the phone and transferring to beneficiaries. Before moving money from his/her mobile phone to those of beneficiaries, the owner must enter a secret 4-digit personal identification number (PIN). The PIN acts as a security check. The money cannot be moved from the phone without entering the PIN. If a wrong PIN is entered three times the phone is locked. At the other end, the beneficiary must visit an Agent of the same telecommunication company (Safaricom), identify himself by his national identity (ID) card which must match with the phone number in terms of ownership in the system of Safaricom. Only by these credentials and the successful entry of a PIN number could the beneficiary withdraw the funds.

In some cases, the ID can be substituted for a government or foreign government issued passport. This system has successfully been operated in Kenya for over 15 years and moves billions of shillings/dollars daily, without a hitch. The system has also been integrated with the banking system, so that the account holder can move money from the mobile telephony system to banks and vice versa without any other human intervention. In recent years, individuals can save, borrow, and repay loans online. Payment of bills like electricity, water, garbage can be made online, to the pay bill number of the service provider.

Somalia has already similar systems being offered by different communication companies but are yet to be fully integrated or properly regulated for maximum benefit. Once this system is properly deployed with adequate security, Somalia can leapfrog in terms of its financial system development prospects. In the case of Kenya, the money transfer payments system has in built AML regulations issued by the Central Bank of Kenya⁴⁰

The AML regulations issued by Central Bank of Somalia (CBS)

Central Bank of Somalia following a directive of the Ministry of Finance issued Regulations CBS/NBS/REG/04 2016 for Money Transfer Businesses on Customer Registration in 2015. According to the CBS, the registered Money Transfer Businesses (Hawala companies) have generally complied with the Regulations, but many small remittance companies who are not registered have not generally complied with the regulations.⁴¹ The details of the CBS regulations intended to enhance the Know your Customer (KYC) requirements are detailed in Annex I.

The MTBs are required to maintain accurate and up to date registration of their customer records, which will be accessible to competent (CBS) authorities for supervision purposes. The required records include⁴²: The Full name, Gender, Telephone number, Permanent residential address, Mother's full name, Nationality, and Occupation. Also required are a customer registration number, Photograph, Date and place of birth, the number of a government issued identification document, and an E-mail address.

In the case of legal persons, the requirements include:

⁴⁰ Central Bank of Kenya (CBK): AML Guidelines for the Provision of Mobile Payments services (2013). <https://www.centralbank.go.ke/images/docs/NPS/Regulations%20and%20Guidelines/Regulations-Mobile-Money-AML-Regulations.pdf>

⁴¹ Central Bank of Somalia: Regulations for Money Transfer Businesses on Customer Registration, 2016 cbs/nbs/reg/04 <https://centralbank.gov.so/wp-content/uploads/2020/02/Customer-Identification-Regulation.pdf>

⁴² Ibid 2-3

- Full name of legal person, business entity or non-profit organization.
- Full name of beneficial owner and the name of representative.
- Telephone number of legal person, business entity or non-profit organization.
- Business address (not older than 3 months) / identifying location and E-mail address.
- Business registration number, and business activity type.
- Intended use of MTB services (e.g. payment of wages, settlement of trade transactions)
- Year of establishment.
- A unique customer registration number.

A money transfer business is required to take reasonable measures to identify the beneficial owner of the legal person, business entity or non-profit organization and must contain a photograph of the representative; the number of government issued photo identification document of the representative; the corporate tax number; and client reference number of a utility company.

These identification requirements are the domesticated Anti Money Laundering regulations for Somalia's financial sector intended to detect, deter, and disrupt money laundering and terrorist financing to safeguard financial institutions from being abused by financial crime practices, and thus, protect their reputation and help financial institutions to mitigate operational risks.

As already shown, the CBS regulations demand a wide range of identification documents from customers. However, the challenge is the veracity of the information in the documents provided by customers. What seems to be critical is for the FGS to undertake a comprehensive National Identification exercise to provide a single ID for the Somali citizen. This can then be twined with an individual's registered mobile phone number both of which can then be used to transact mobile money transfers. Given the endemic problems of terrorism, the exercise would need to apply the latest identification methods such as Biometric technology for fingerprints and face recognition. There are no shortcuts to accurate and authentically verifiable identification of players in the mobile money transfer system and the financial sector generally.

4.4. Role of remittances in the Somali economy

Disparities in remittance flows to Somali households

As aforementioned, the vulnerability of post-conflict Somalia triggered the dominance of MTBS (Hawala companies) in the Somali economy. However, the direction and volume of remittances flowing into Somalia continued to be determined by several factors, including region and familial connections. In 2016, about \$1.3 billion dollars of remittances were estimated to have been sent with about 40 % of Somali households receiving some remittances.⁴³ Somali households rarely

⁴³ Majid Nisar, *Remittances and Vulnerability in Somalia: Assessing Sources, Uses, and Delivery Mechanisms*. (World Bank Group, November 2017) <http://documents.worldbank.org/curated/en/633401530870281332/pdf/Remittances-and-Vulnerability-in-Somalia-Resubmission.pdf>.

received remittances from more than one person across the diaspora, and these remittances are of limited predictability, as many remitters could not get well-paying jobs in destination countries. This lack of high paying employment led to job insecurities often resulting in drastic change in remittance transfers particularly in times of crises.

As of 2017, a study found that 24% of Somali households received a monthly remittance, 35% of households received occasional remittance (on holidays such as Eid), and 41% received both monthly and occasional remittances.⁴⁴ This highlights the significant inequality across households receiving remittances. The families that received regular remittances were able to utilize credit (take on possible debt) without worrying that their families would not have the money to cover their debts and expenses. For other families, remittances were an occasional benefit that was unreliable, and they had to continue worrying about how to meet their living costs.

A key factor associated with the disparities between families who receive regular remittances and those who receive occasional remittances is location. Rural families, especially farming households, largely receive occasional remittances while urban households generally receive regular remittances.⁴⁵ This is a key factor contributing to disparities. The rural households located in Southern Somalia, home to a multitude of ethnic minorities who have historically been marginalized are especially vulnerable. Their average monthly remittance was estimated at \$191, in comparison to Northern areas such as Somaliland and Puntland that received on average over \$254.⁴⁶

A second factor contributing to disparities in remittances in Somalia is historical migration. Northern Somali regions were the first to experience mass migration out of the country, making their families in diaspora more established. The Southern Somali regions participated mainly in the second wave of migration⁴⁷. The disadvantaged ethnic groups in Southern Somalia were structurally poorer than those of Northern Somalis.⁴⁸ Due to lack of wealth, they were less likely to migrate in the earlier phases of the civil conflict. As the southern region diaspora in the destination countries migrated more recently than the Northern Somali counterparts, this has led to lower average earnings and limited remittances to their dependents in Somalia. The distribution and role of remittances in the Somali economy has thus been significantly influenced by historical factors.

Impact of remittances on recipients and local economy

Remittances are an important stimulus to the Somali economy, as they are largely utilized to purchase essential goods and services; such as foodstuff⁴⁹, educational fees, healthcare, public utilities, and clothing. Socially, recipients of regular remittances are held in high regard by the community because of their better economic well-being and contributions to the needs of others.

⁴⁴ Ibid., 22.

⁴⁵ Ibid., 23.

⁴⁶ Ibid., 21.

⁴⁷ Milstein, Emily Rebecca, *The Growth and Formalization of Somalia's Hawala Economy* (UCLA, 2015). 15-46. Retrieved from <https://escholarship.org/uc/item/9gd0q04q> . 20.

⁴⁸ Milstein, Emily Rebecca, *The Growth and Formalization of Somalia's Hawala Economy* (UCLA, 2015). 15-46. Retrieved from <https://escholarship.org/uc/item/9gd0q04q> . 21.

⁴⁹ Majid, N; Abdirahman K; Hassan S (Sept. 2018): Remittances and Vulnerability in Somalia: Rift Valley Institute Briefing paper.3

Remittances allow for local businesses to profit as this regular income allows for consistent spending. Shops act as deposit takers by keeping the unspent balance for remittance recipients awaiting their future purchases. Owing to the strong communal nature of Somali society recipients share their wealth with the extended family making the community generally better off.

Remittances also play a major role in the financing of imports into Somalia⁵⁰. As the country's agricultural sector remains extremely weak, food imports are critical to the livelihood of rural and urban dwellers alike. Consequently, foreign exchange earnings from exports and the remittance inflows are mostly used to pay for consumable import items. Most of the economic activities in other sectors such as the transport sector thrive by moving imported goods internally and across Somalia to neighboring countries like Kenya, Ethiopia, and Djibouti. The large remittances going to Somalia has in recent years also triggered a boom in Mobile Transfer Services in Somalia and development of digital money in the country. These developments illustrate the dominance and indispensable role of remittances in Somali economy.

4.5. Challenges of MTBs (Hawalas) and onset of COVID-19

The Challenges Posed by Anti-Money Laundering Standards are governed by laws, regulations and procedures that have been established in most jurisdictions globally to prevent criminals from diverting illegally obtained funds as legitimate income⁵¹. Money Laundering includes efforts to conceal the nature, source, location, disposition or movement of funds or the ownership/or any interest by any person or institution.

AML requires that banks and other financial institutions that issue credit or allow customers to open deposit accounts and lend money to customers follow laid down rules and procedures to ensure they are not aiding money laundering. AML seeks to deter criminals by making it harder for them to hide ill-gotten money. AML targets criminal activities including money market manipulations, trading in illegal goods, drug trafficking, corruption and siphoning of public funds, tax evasion, human trafficking, and arms smuggling. It also targets the methods or likely avenues used to conceal such crimes and the money derived from them.

Consequently, in most countries where AML laws have been enacted, financial institutions are required to monitor customers' transactions and report on any suspicious financial activity. A person who knowingly or, at the time ought to reasonably have known, transports, transmits, or receives or attempts to transport, transmit or receive a monetary instrument or in any other way handles suspected proceeds of crime *commits an offence under the Anti-Money Laundering Law* in such jurisdictions.

In the USA, AML has two Money Laundering Criminal Provisions: 18 United States Code, Section 1956 and 1957 (U.S.C §§ 1956 and 1957).⁵² According to these provisions, it is a crime to engage in virtually any type of financial transaction with knowledge or suspicion that the funds were the proceeds of criminal activity or unlawful activity such as drug trafficking, terrorism, fraud, or

⁵⁰ Bashir, M. Hussein (May 2020): existential Threat of COVID-19 in Somali. PDRC Report. 32

⁵¹ Clyde & Co LLP. <https://www.clydeco.com/en/insights/2019/06/the-anti-money-laundering-amendment-regulations-20>

⁵² International Comparative Legal Guides (ICLG). <https://iclg.com/practice-areas/anti-money-laundering-laws-and-regulations/usa>

organized crime. Under Section 1956, any institution (or individual working for the institution) that exercises willful blindness or conscious indifference or fails to inquire when faced with a red flag, will have failed in its obligations under the AML law and is liable for prosecution. The institution must always be alert and monitor customer transactions to ensure they do not involve tax evasion, do not disguise the nature, location, source, ownership, or control of proceeds of unlawful activity.

Section 1957 criminalizes the transportation, transmission of funds or monetary instruments/cash or negotiable instruments such as securities with intent to promote the carrying out of unlawful activity and the transaction or transmission intended to conceal or disguise the nature, location, source, ownership, or control of the proceeds of an unlawful activity, through a US Bank or other Financial Institution or a Foreign bank.

There are strict AML laws and regulations in the context of the Bank Secrecy Act (BSA Act). The US has extra territorial jurisdiction under AML provisions whereby citizens of the USA anywhere in the world are subject to provisions of Section 1956. It also covers non-US citizens who may be involved in Money Laundering activities which occurs wholly or in part within the USA. It is deemed to occur in part when a financial transaction is moving funds to or from a US bank to anywhere else in the world. Under section 1957, AML has jurisdiction over offences that take place outside of the USA by US persons (citizens, residents and legal persons) and by non-US citizens as long as the transaction occurs in whole or in part in the United States.⁵³ These strict AML laws are generally domesticated across most jurisdictions.

The above are the tough AML laws and regulations that the Somali Diaspora and the Somali MTBs in source countries (mostly Western Countries) must contend with in trying to send money to their homeland. The difficulties arise from the fact that they are unable to provide full disclosure or identification of the beneficiaries in Somalia. The protracted instability has so far hindered Somalia from issuing national identification documents to all its adult citizens. As a result, the Diaspora and MTBs are unable to provide assurances to the banks in the source countries that the funds are going to legitimate and peace-loving citizens and not to members of terror groups like Al-Shabaab. In certain cases, the members of the Somali Diaspora who seek to transmit remittances may also be immigrants with compromised legal status. The Banks have therefore refused to open accounts for MTBs owing to the risk of inadvertently breaching the AML laws and regulations.

The MTBs operators are therefore unable to operate bank accounts in countries like the US and UK, as they lack the controls and capacity to carry out due diligence on the legality of the funds their clients are transferring and foolproof identity of recipients of remittances. Therefore, most of them have had to utilize the “physical cash transfer to Dubai” method. The Anti-Money Laundering/Combating Financing Terrorism AML/CFT regulations also make remitting funds expensive for example if they were to take insurance or legally binding liability agreements with banks, Hawalas would be unable to afford. Within Somalia, the Money Transfer Operator (MTO) also lack the financial infrastructure that would make it easier for them to abide by (AML/CFT) regulations.

⁵³ Ibid p2

4.6. Effect of COVID-19 on remittances

Since early 2020, the world has been hit severely by the COVID-19 pandemic forcing many Western countries to implement movement restrictions and self-isolation of citizens within their homes. However, these restrictions and shutdown of businesses deemed to be non-essential services has wreaked havoc on the employment status of millions of people, including Somalis across the diaspora. The World Bank has predicted a 20 % decrease in global remittances to migrants' families³¹ citing that migrant workers have low-paid service jobs, which renders their employment at risk during a global pandemic. At the initial phase of the current pandemic, it was estimated that remittances will fall by 27.5% in Europe and Central Asia, and 23.1% in Sub-Saharan Africa⁵⁴.

Many challenges have been faced by Somali diaspora in remitting funds. Studies, have shown that a large number of Somali diaspora have lost jobs due to enforced lockdowns and other COVID-19 containment measures⁵⁵. These measures that include “stay at home” lockdowns and social distancing policies have forced lay-offs or unpaid leaves. Others have had to compromise their health to survive by taking essential jobs that expose them to COVID-19, such as working at essential businesses including grocery stores.

Other challenges identified include the types of jobs migrant Somalis hold. Many work in “unskilled” or “semi-skilled” jobs in transportation, restaurants, nursing homes/home health care services, and retail shops. These jobs have minimal job protections compared to professional jobs and due to their physical nature, cannot be done remotely or from home base. However, even those in professional jobs are forced to take pay cuts due to the significant decrease in business activities. Even for migrants who were able to keep their jobs during the pandemic, the erratic employment and insufficient hours at struggling businesses have caused instability of incomes.

To enforce “stay at home” policies, many countries have created income support for citizens. However, such support is restricted to citizens or permanent residents, which excludes “undocumented” Somalis. These kinds of financial assistance also have conditions of prior employment pre-pandemic, which excludes some migrants struggling to find employment. Only essential stores have been allowed to operate during the pandemic; but MTB's were not considered essential so were shut down.

According to the USA Centers for Disease Control and Prevention (CDC), Somali migrants are concentrated in three main areas: the Arabian Gulf region, Horn of Africa countries notably Kenya and Ethiopia, and North America and Europe.⁵⁶ In the Gulf region, most recent Somali migrants are often without legal residence status, which leave them unable to earn a living wage. Also, for those located in the Horn of Africa countries, most migrants live in refugee complexes or lack legal residence in urban areas with limited employment opportunities. However, in North America and Europe, Somali refugees have a stronger chance of successful resettlement, as there are more established Somali communities within these countries.⁵⁷

⁵⁴ *Remittances*. (Migration Data Portal, May 5, 2020). <https://migrationdataportal.org/themes/remittances>

⁵⁵ Majid, N.; Hammond, L.; Abdirahman, K.; Adan, G.; Kleist N. (April 30th, 2020):How Will Remittances Affect Somali COVID-19 Response? RVI Blog.

⁵⁶ *Immigrant and Refugee Health*. (CDC, August 9, 2018).

<https://www.cdc.gov/immigrantrefugeehealth/profiles/somali/populationMovements.html>

⁵⁷ Ibid.

Effects on remittances transfer operations

As already indicated, there are two main mechanisms used by Money Transfer Businesses (MTBs). The first mechanism is where a small number of money transfer companies send money via a banking system to headquarter banks in Dubai. The second method involves majority small money transfer companies moving money physically in planes to headquarter banks in Dubai. These methods worked relatively well before the onset of COVID-19 pandemic. However, the pandemic has forced flights to decrease significantly, thus making the second method nearly impossible to function at the same level as pre-pandemic, severely constraining the flow of remittance. A decline in remittances from these sources will contribute negatively to the Somali economy and adversely impact on the wellbeing of the citizens if the MTBs are forced to close in some regions as they are not considered as essential service providers.

A survey conducted in the US for this study revealed that MTB's used to remit approximately \$200 million USD per quarter. The money would be distributed to East African countries, (Somalia, Kenya, Ethiopia, Djibouti, and South Sudan). This physical transfer of money was because of commercial banks in the United States and other Western nations' refusing to provide formal banking services, for fear of getting associated with money laundering activities and possible penalties by regulatory agencies.

At a recent meeting of MTB officials with United States diplomats in Somalia, they were told the solution was for the FGS and the Central Bank of Somalia to implement required international banking standards. Consequently, the CBS would have to build the capacity to establish banking relations with international banks and conduct banking regulations that would ensure MTBs meet AML requirements. Regulations against money laundering, such as provisions for recipient identification ("know your customer" procedures), are currently unavailable in Somalia, and should be quickly implemented. In the absence of such standards, there will be no assurances of controlling illicit money transfers and the anonymity of terrorist entities.

Laws and procedures in Western countries regarding the AML-CFT cause certain difficulties for remittances in Somalia. The US government's commitment to fighting illicit transfers of money is a strong factor in following these procedures. While the US government realizes that some remittances collected in the US can be channeled illicitly, it still does not ban remittances to Somalia on account of humanitarian considerations but demands that commercial banks monitor and control such transfers, which leads banks to cease operations with Somali remittance agents.

Remittance flows to Somalia is in serious jeopardy for several reasons. Firstly, the source of remittances has been experiencing challenges arising from factors such as declining earnings by remitters in Western countries, declining attachment of younger Somalis in the West to relatives in Somalia, and lower incomes (such as public grants) of older Somali immigrants. The difficulties experienced by MTBs are aggravated by other factors' affecting remittances, such as the lack of alternative providers such as Western Union and Money Gram in Somalia. In addition, COVID-19 coincided with multiple other disasters in Somalia, including locusts' infestations, flooding and political instability due to upcoming elections.

The diaspora remittances are extremely important to Somalia's economy and citizens, but all efforts are needed to ensure that MTBs are not used as instruments to finance terrorist

organizations⁵⁸. The informality of the transactions could facilitate terror agents to divert remittance from the intended beneficiaries. There are allegations that several MTBs in the country could be making payments to terrorists to ensure their safety from attacks.⁵⁹

Insecure areas of the country and rural areas will suffer more significantly, in the event of remittances flow interruptions, as consequence of historical disadvantage in terms of later period migration from these regions⁶⁰. These parts of the country are also considered as susceptible to terrorist combatants, which will cause significant harm to affected communities in these areas.

4.7 Analysis of available data

It is difficult to access credible and current data from the diaspora and the remittance companies under the current conditions in most western countries, due to the fact of the MTBs are operating informally as they are not allowed to have bank accounts due to AML laws. Accordingly, the preliminary estimates made available are only indicative and include (a) the amount of private remittance inflows transferred to Somalia by the MTBs; (b) the total number of performed transactions performed for diaspora Somalis who remitted funds from different sources; and (c) the total value of all Outflows in US dollars.

The data indicate that Somali diaspora transfer substantial amounts of money to the country that contributes significantly to the gross domestic output and consumption. Furthermore, the preliminary estimates indicate that on average remittances are assessed to be one third of the Somali GDP in 2018-20; and according to more recent world bank estimates, the GDP is expected to be lower by -0.5% in 2020, and private remittances to decline by 1.7 percentage points of GDP largely as a result of adverse effects of COVID-19 (Table 12). According to Karpestam, R.P.D. (2012), low-income countries, like Somalia, receive higher multiplier effect from remittances of about 2.0⁶¹, this means that, in terms of direct and indirect contributions, remittances account for about \$4.5 billion dollars or 64% of Somalia’s GDP. Any changes to the intensity of this money transfer would therefore have a major impact on the economic performance.

Table 12: Economic Indicators and Remittances for 2018-2020.

Items	2018	2019	2020
GDP (nominal in million US\$	4,721	4,942	4,917
Real annual GDP growth %	2.8	2.9	-0.5
WB: Private Remittances as % of GDP	31.4	31.9	32.9
WB: Private remittance transfers in million US\$	1,482.4	1,576.5	1,617.5

Sources: World Bank, CBS 2020:

Some aggregated data from the Central Bank of Somalia (CBS) were shared with research team that conducted the study. Table 13 presents data on the flow of private remittances on a quarterly

⁵⁸ Pamer, Karen. *A Global Study of Hawala Targeting Regulations*. (Order No. 10153553, Utica College, 2016)
⁵⁹ Kambere, Geoffrey, *Financing al-Shabaab: The Vital Port of Kismayo*. (Global ECCO, CTX Vol. 2, Issue No. 3, 2012), 42-47.
⁶⁰ Milstein, Emily Rebecca, *The Growth and Formalization of Somalia’s Hawala Economy* (UCLA, 2015). 15-46.
⁶¹ Karpestam, R.P.D. (2012), “Dynamic multiplier effects of remittances in developing countries”, *Journal of Economic Studies*, Vol 39 No. 5, pp 512-536. <https://doi.org/101108/01443581211259455>.

basis for 2019 and 2020. Based on the data provided, the private remittances inflows amounted US\$ 338 million and were almost identical to inflows achieved in the first quarter of 2019. The data also indicates that private remittances declined by 4 percent from Q2 of 2019 to the same period in 2020. Thereafter the transfers of remittances are indicated to have increased sharply in Q3 of 2020 as compared to the same period in the preceding year, with an increase 55.8 percent. The remittances data for Q4 of 2020 are also more recently reported to have increased by 47.7 percent, from the private inflows of the fourth quarter of 2019.

Consequently, the CBS reported data show that private remittances were higher in 2020 than in 2019, even though the economic and health impact of the Covid-19 has been severe globally on every nation’s economy, particularly for low income countries that have been less able to stimulate their economies through fiscal space limitations. The data on private remittances (which exclude business inflows through MTBs mostly for humanitarian support in the case of Somalia) show that individual inflows in 2020 were 23.4 percent above the remittances receipts in 2019, and was equivalent to 32.8 percent of GDP.

The explanation offered to support this rise in remittances inflows in the Covid-19 year above the preceding more normal year of 2019 is that the family Somali network relation remained solid and even strengthened during the crises, and that the Somali diaspora redoubled their support for their

Table 13: The inflows of private remittances in 2019-2020 reported by CBS

	Items	Q1	Q2	Q3	Q4	Total
2020	Inflow: private remittances (in millions of US\$)	338.8	340.7	460.1	477.9	1,617.5
	Total number of performed transactions	1,061,093	1,430,675	1,306,340	1,421,873	5,219,981
2019	Inflow: private remittances (in millions of US\$)	339.5	352.9	295.3	323.5	1,311.2

Source: Central Bank of Somalia

Dependents and relatives to mitigate the impact of the health pandemic and the sharp downward slide of the global economy. Another indication of expanded efforts by the diaspora remitters is shown as a substantial rise in the total number of transactions to 5.2 million in the last year.

Remittances transfer channels and challenges

The CBS survey results established that the top 5 sources of remittances to Somalia in 2020 were The United Arab Emirates, Kenya, Djibouti, Turkey, and the Kingdom of Saudi Arabia. The US and Europe were not included. Most of the funds associated with the UAE, Djibouti and Kenya (popular transit points) originated partly from the US and Europe. The transit point countries for funds from other parts of the world reflect the proximity and existence of robust banking systems, Information technology enabled financial services, proximity, and easy access to Somalia.

The survey confirmed literature findings that the transmissions channels for transactions of remittances to Somalia by MTB companies in North America and Europe is through physical cash movement. It is also confirmed that the main remittances settlement is in Dubai, the main

destination of transferred funds. As noted, with the onset of the COVID-19 pandemic, physical cash movement channels were significantly curtailed by flight restrictions.

The CBS further reported that diaspora remitters experienced unprecedented problems with movement of funds due to lockdown, sharp increases in unemployment, lack of access to cash, and *introduction of limits* by MTBs on funds they could transfer to Somalia. This was a consequence of global flight cancellations as a containment measure for the coronavirus.

The restrictions in the operations of the MTBs around the globe attributed to the lockdowns and travel restrictions contributed to a number of the smaller operators running into financial and logistical difficulties that forced some of them to go out of business and many others to curtail their operations. The CBS also indicated that there were ten MTB's licensed by the CBS (Annex II)⁶², and that most of these could have been affected by the pandemic. The consensus view is that if the restrictions imposed on Somali MTBs (by the regulatory agencies), continue and the impact of the pandemic persists, the number of MTBs that will remain to provide national services could decline, unless the transmission challenges are quickly resolved.

⁶² Central Bank of Somalia (2016): Licensed Money Transfer Business. <https://centralbank.gov.so/licensed>.

4.8. Conclusion and recommendations

Conclusions

Remittances have grown into a significant source of foreign exchange in many developing countries that have large diaspora based labor force, around the globe. While the remittance inflows to Somalia are not as large in absolute terms compared to more populous countries in Africa, Asia and Latin America, its national economy is more dependent on migrants' transfers. Annual remittance inflows to Somalia, was over \$2 billion dollars in 2018 and 2019.

In the absence of banking and other formal financial institutions, the Somali diaspora developed innovative ways to send financial support to their dependents in the country. Multiple methods were explored, but the Hawala system emerged as the dominant and most preferred system of transfers. With consistent and credible results, it became a trusted system that ensured many Somalis survival during the country's difficult past three decades. However, the Hawala system has faced many obstacles, including inability to utilize formal financial institutions; and had to adopt innovative approaches, which includes the risky method of physical transfers of cash. However, since the onset of COVID-19, this physical transfer of cash method has been rendered extremely difficult.

According to conventional estimates, 40% of Somali households depend on remittances for basic living needs, and the economy relies on remittances for approximately 70% of imports. The study established that within the first month of COVID-19, there was a drop of 24% in remittances, implying access to foreign exchange was heavily impacted. If that rate of decline were to be sustained in 2020, remittances could drop by about 50% by the end of the year, and have severe adverse effects on the economy.

It is urgent for the FGS to utilize any method to unblock the flow of remittances, which is a lifeline for a large share of the population. The government needs to find ways to support the MTB's to restore the flow of remittances from Western countries, by addressing the challenges of the transfer mechanisms. The principal concern is the continuing refusal of international commercial banks to accept financial transactions from Somali MTBs unless and until the capacity of the Central Bank of Somalia and broad governance of financial institutions is considerably strengthened. In particular, it is important that AML regulations, including a mechanism for proper identification of end users of MTBs in Somalia are improved to world standards.

The sharp drop in remittances also poses a danger to the fragile stability that has been achieved in Somalia. Accordingly, Somali authorities need to urgently find ways of covering the remittance short fall by mobilizing additional resources. International financial support is necessary, particularly for the low income communities threatened by the pandemic. Also, as the FGS has limited capacity to provide financial support, local civil society, and private sector organizations should also provide humanitarian assistance.

Recommendations

The FGS should urgently consider a strategy to unblock inflow of remittances to the country, by engaging financial regulatory agencies in Europe and North America the main sources of

remittances to Somalia to assist MTB's facilitate transfer of money to Somalia through channels regulated by CBS. Other specific recommendations include the following:

- The CBS should engage counterpart financial agencies (such as the US Federal Reserve Bank and Treasury Department; and similar agencies elsewhere) to facilitate banking services to Somali MTBs (opening accounts and transfer money to Somalia through regular channel arrangements Instead of suitcases on planes);
- The FGS should fast-track issuance of National Identity Cards to Somali citizens, to strengthen the “know your customer” (KYC) standards by financial institutions.
- International and domestic financial support should be directed to the regions that have suffered the most from the declining remittances as these also happen to be home to vulnerable communities and IDP camps.
- The FGS and CBS should commit to fast-track implementation of laws on banking and the financial sector, including regulations that meet international AML best practices. Fast-track implementation, enact and operationalize banking and financial sector legislation and regulations that meet international best practices and requirements, including Anti Money Laundering (AML) laws, National ID and registration Bills, and Mobile Money regulations;

Annex I

Anti-Money Laundering (AML) Regulations Issued by the CBS⁶³

Central Bank of Somalia following a directive of the Ministry of Finance issued Regulations CBS/NBS/REG/04 2016 for Money Transfer Businesses on Customer Registration in 2015. The main Hawala companies have tried to comply with the Regulations, but many of the small remittance companies, which are not registered, do not comply.

The CBS regulations intended to enhance the Know your Customer (KYC) requirement and meet the AML global requirements are:

Article 1 – Duty to maintain register of customer records A money transfer business shall establish and maintain a customer record for all customers when establishing a business relationship or before carrying out an occasional transaction (1) For existing business relationships a money transfer business shall establish and maintain a customer record within 6 months of the entry into force of these regulations.

(2) A money transfer business shall keep customer records accurate and current.

(3) A competent authority may access the customer records for supervision purposes.

Article 2 – Record of customer information for natural persons (1) A customer record for customers that are natural persons or beneficial owners shall contain the following information: a. Full name b. Gender c. Telephone number d. Permanent residential address / identifying location e. Full name of mother f. Nationality g. Occupation h. A unique customer registration number (2) A customer record for customers that are natural persons shall further contain the following information where it is possible and/or available: a. Photo b. Date and place of birth c. Number of the government issued identification document d. Voter registration number e. E-mail address f. Nick name.

Article 3 – Record of customer information for legal persons, business entities and non-profit organizations (1) A customer record shall contain the following information for customers that are legal persons, business entities or non-profit organizations: a. Full name of legal person, business entity or non-profit organization b. Full name of beneficial owner c. Full name of representative d. Telephone number of legal person, business entity or non-profit organization e. Business address (not older than 3 months) / identifying location f. E-mail address g. Business registration number h. Business activity type i. Intended use of MTB services (e.g. payment of wages, settlement of trade transactions) j. Year of establishment k. A unique customer registration number (2). A money transfer business shall take reasonable measures to identify the beneficial owner of the legal person, business entity or non-profit organization, where there is a beneficial owner who is not the customer and register the identity information of the beneficial owner as set out in article 2. (3) A customer record for customers that are legal persons, business entities or non-profit organizations shall further contain the following information where it is possible and/or available: a. Photo of the representative; b. Number of the government issued photo identification document of the representative; c. corporate tax number; d. Client reference number of utility company.

⁶³ <https://centralbank.gov.so/wp-content/uploads/2020/02/Customer-Identification-Regulation.pdf>

Article 4 – Verification of customer information of natural persons and beneficial owners

(1) A money transfer business shall verify the identity of customers who are natural persons, including beneficial owners of legal persons, business entities, and non-profit organizations, using documents, data or information obtained from a reliable and independent source before establishing a business relationship or carrying out an occasional transaction. (2) A money transfer business shall verify the identity of a customer using one of the following: a. A government issued photo identification document, including a passport, national identification card and driver's license, b. A vehicle registration document; or c. A documented visit to the customer's residence by the money transfer business. 3) Where the requirements of sub (2) cannot be met, the money transfer business shall verify the identity of the customer using at least two of the following sources: a. Government employee identity card; b. Government issued marriage certificate; c. University/High school diploma certified by Ministry of Foreign Affairs/or Ministry of Education; d. Reference letter from a local government authority; e. Reference letter of village head or customary authority; f. Reference letter of a CBS licensed bank/MTB; or g. Reference letter of a judge or magistrate. (4) Where the requirements of sub (2) or (3) cannot be met, the money transfer business shall verify the identity of the customer using one of the sources in sub (3) with at least two of the following: a. Private sector employee ID card; b. Letter of marriage; c. Reference letter from employer; d. Reference letter of a person with good standing in the community (e.g. businessman, lawyer, notary); e. Reference letter of a hotel; f. Title or deed of ownership of home; or g. Receipt of utility company containing customer reference number.

5) For verification of the address of the customer, one of the sources in sub (4) (d) (e) (f) or (g) may be used. (6) Where a reference letter is used to verify the identity of a customer, a money transfer business shall ensure that such a reference letter meets the following requirements: a. The referee is a person who knows the customer, and on whom a money transfer business can rely to confirm that the customer is who he or she claims to be, and can verify other personal details, such as the residential address and occupation of the customer. b. The reference letter should include the following: i. Customer's name, address and occupation; ii. Referee's name, address, occupation, and contact details (including telephone number); iii. Statement stating how long the referee has known the customer; iv. Statement that the referee knows the customer by the stated name; v. Statement that the referee confirms the customer's stated address and occupation or nature of self-employment to be true; vi. Signature of the customer and the referee; and vii. Date of the letter.

(7) The Central Bank may issue further guidelines or approve the use of any other document, data or information obtained from a reliable and independent source for the verification of the customer's identity. Article 5 - Verification of customer information for legal persons, business entities and non-profit organizations (1) A money transfer business shall verify the identity of legal persons, business entities, and non-profit organizations, using documents, data or information obtained from a reliable and independent source before establishing a business relationship or carrying out an occasional transaction. (2) For customers that are legal persons, business entities or non-profit organizations a money transfer business shall verify the identity of the customer through the following: a. An original business registration letter; b. A business operating license; or c. A documented visit of a money transfer business to the business location of the customer (3) A money transfer business shall take reasonable measures to verify the identity of the beneficial owner of the legal person, business entity or non-profit organization through the measures set out

in article 4, such that the money transfer business is satisfied that it knows who the beneficial owners are and it understands the ownership and control structure of the legal person, business entity or non-profit organization. Article 6 – Enhanced verification measures

Purpose of AML/CFT

The objectives of the AML/CFT regulation is to detect, deter and disrupt the money laundering and terrorist financing. Protecting financial institutions from being abused by financial crime practices, and thus, protecting their reputation and mitigating operational risk. Financial institutions are required to fully cooperate with the requirements of this regulation and perform their duties in the fight against financial crimes, particularly in the provision of information that may lead to investigation and persecution of money launderers and terrorist financiers.

These regulations aim among others the financial institutions requirements:

- To put in place policies, procedures, and controls and identify their customers to deter from financial crimes taking place.
- To develop policies on customer acceptance that clearly identify their information and conduct CCD,
- To keep records of their transactions.
- To designate an anti-money laundering compliance officer responsible for enforcing the policies, procedures, and controls.

To submit reports on large cash transactions (LCT) and suspicious transactions reports (STR) to the FRC. Source: Central Bank of Somalia: Regulations for Money Transfer Businesses on Customer Registration, 2016. (cbs/nbs/reg/04)

Annex II

Somalia: Central Bank Licensed Money Transfer Business Operators

Names of the Hawalas	Address of Representative Office in Mogadishu	Email/Website
1. Amal Monet Transfer Inc.	Bakara Street-Mogadishu, Somalia	Info@amalexpress.com www.Amalexpress
2. Amana Online Money Transfer	Bakara Street, Mogadishu, Somalia	Info@amanaonline.com www.amanaonline.info
3. Dahabshiil Monet Transfer	Makka Al Mukarama Street, Mogadishu, Somalia	Info@Dahabshiil.com WWW.Dahabshiil.com
4. Hodan Global Money Transfer	Mogadishu, Somalia	Info@hodanglobal.net WWW.hodanglobal.net
5. Jubba Money Transfer	Bakara Market, Mogadishu, Somalia	Info@jubaexpress.com WWW.jubaexpress.com
6. Taj money Transfer	Hamar Jadid, Mogadishu, Somalia	Info@taajmoney.com www.Taajmoney.com
7. Tawakal Money Transfer	Bakara Market, Mogadishu	Info@tawakalexpress.net www.tawakelexpress.net
8. Iftin Money Transfer	Mogadishu, Somalia	iftinforex@gmail.com
9. Bakaal Express Money	Bakara Market, Mogadishu, Somalia	Info@abakaal.nets.co
10 Globalex Money Transfer	Mogadishu, Somalia	info@mosman6060@gmail.com

Sources: Central Bank of Somalia

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