How does the private sector operate in a conflict environment: the case of Somalia

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Summary

• Despite the lack of state government and continuing conflict over 15 years and high costs of doing business, the private sector in Somalia has remained resilient.
• Traditional forms of governance provide the framework, supported by substantial remittance flows from diaspora and judicious interventions from UN agencies.
• The private sector has operated at three levels: sustaining traditional activities, introducing new economic activities and moving into areas more conventionally delivered by the public sector.
• Challenges - how to build on vitality, while building a regulatory framework and delivering public services in the future?
The country
The context

• Since 1991, no central government and near constant conflict
• Three entities – Somaliland, Puntland, South Central – different governances
• Central public sector non existent or weak
• Some local and municipal authorities
• Little law, regulation
• Yet the private sector has survived and grown
The economy

• Mix of traditional – livestock – and new activities
• The diaspora and remittances both very important - $1bn per year
• Two statistics to indicate resilience:
  – livestock exports in 1990 $32.8 million, now $35.7 million
  – Total exports between $130 – 160mn in 1990, estimated at between $84 – 150mn in 2006
Achievements of the private sector

• Sustained some core activities – eg livestock
• Investments - money transfer and transport and communications, water supply and sanitation, power generation and supply;
• Some basic services eg education and health - delivery actually better than 1990
• Complex relationships with warlords and large barons
• ‘Bads’ are arms smuggling etc, charcoal
Three examples tell the story

- Telecoms, public water supply and livestock trading
- Issues:
  - How have they developed?
  - What is the role of donors?
  - Can lessons be learned?
  - The future?
• **Telecoms**

• In 1990, 17,000 telephones, by 2005, 131,000 fixed lines and 98,000 mobile subscribers

• Key factors:
  – Diaspora and returning migrants – contacts and demand
  – Low barriers to entry – previous state monopoly collapsed

• System refined over time – set up Somalia Telecoms Assn - membership of ITU, better connectivity, UNDP support

• Lessons: role of donors, ITU takes place of government regulatory body.
• Water supply

• Public service delivery very weak under Siad Barre –

• PPPs established with support of UNICEF and donor financial support initially – eg USAID in Borama

• Local and regional authorities – lack of central government not an issue
Example:

- Jowhar: UNICEF rehabilitated
- Donors involved in initial rehabilitation – but operation and management?
- Interclan approach to management – set up company to maintain operate and collect tariffs
- Peace building element
Cattle and camels

• Long established – a constant in Somali life
• Live exports (1990) at $33 million, and $36 million (2003) – but masks major changes
• Saudi Trade collapsed (Bossasso and Kismayo),
• Cattle sales to Kenya increased from 33,400 (1991) to 77,600 (2000)
• Enabling factors – rise of mobile phones, traditional security
Coping mechanisms – what supported private sector?

- Societal order maintained through clans – but also source of conflict
- Zero based public sector in 1990
- Excessive regulation in 1990, collapse facilitated trade etc
- Remittances and access to finance – very important
- Social networks important for contract enforcement and validity (dilaal)
Lessons

- Underlying social structures provide security etc.
- Cash resources through remittances.
- Limits to improvement in trade because no public support.
- Role of donors, UN.
- But security imposes heavy costs – 25%.
The way forward?

- Role of public goods recognised – security
- Support eg livestock health to increase value
- How to build on achievements – eg social services?
- Formalise money transfers
- RISK – new regulations squash achievements
- BUT – LIFE GOES ON!