



# THE ECONOMIC IMPACTS OF COVID-19 ON SOMALIA



A SPECIAL FOCUS ON **BUSINESS IMPACT**

November 2020



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## Acknowledgements

The Heritage Institute for Policy Studies (HIPS) and City University of Mogadishu commissioned this report. It was written by Dr. Mohamed Samantar (lead research consultant) and Uweis Abdulahi (senior researcher, HIPS). The team gratefully acknowledges Dr. Mohamud Garre (City University of Mogadishu) for his methodological input and Abdullahi Mohamed Said (researcher, HIPS) and Mohamed Abdullahi Ali (SIDRA Institute) for providing valuable data analysis.

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## Acronyms

CAPI	Computer assisted personal interview
COVID-19	Coronavirus disease 2019
CPI	Consumer price index
CSD	Central Statistics Department
FGS	Federal Government of Somalia
FMS	Federal member state
GDP	Gross domestic product
HIPC	Highly indebted poor countries
IMF	International Monetary Fund
MoF	Ministry of Finance
MoH	Ministry of Health
PSD	Puntland Statistics Department
PL	Puntland
QTR	Quarter
WHO	World Health Organization

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## Executive summary

The COVID-19 pandemic disrupted Somalia's economy though the country is expected to narrowly escape a recession owing to the limited number of infections and modest mitigation measures taken by the government. However, the country's economic recovery is still at risk. Gross domestic product (GDP) growth is estimated to contract to 2.5% in 2020, down from 2.9% in the previous year, due to the pandemic and a number of associated issues such as declining remittances, reduced aggregate demand, disrupted supply chains and reductions in labor supply. The pandemic has also had an especially negative impact on the aviation sector, trade and fiscal revenue and moderately increased inflation in the first half of 2020.

The effects of the pandemic have not been evenly distributed across Somalia's economy. Travel industry, especially air flights, as well as imports, exports and education have been the most disrupted sectors. However, the financial and telecommunications sectors have been more resilient. COVID-19 impacts on imports and exports have widened Somalia's international trade deficit. The sudden drop in livestock exports to the Gulf States, especially Saudi Arabia, due to the suspension of the Hajj severely affected exports. As the result of the worldwide lockdown restrictions, inflow remittances have fallen by almost 15% and outflow remittances have fallen by around 25%. Estimated remittances of US\$56 million have been blocked. Job losses and disruptions in cash flow due to travel restrictions are the fundamental factors contributing to the drastic decline in remittances.

Suppressed economic activity and disrupted supply chains caused inflationary pressure and Somalia's overall inflation rate rose from 3.1% in February 2020 to 5.2% in March. The disruption of food supplies caused by global travel and transport restrictions as well as panic buying among Somalis led to sharp rises in food prices. The food inflation rate surged from 2.6% to 4.8% in Mogadishu and from 0.5% to 2.0% in Puntland. Food prices vary considerably across Somali regions - prices in Puntland and Somaliland are twice as high as those in Jubaland and South West State.

Weakened economic activity has reduced fiscal revenue and fed expectations that the budget deficit will widen during the current fiscal year. Overall, federal revenue collection declined by 3% from January to June, resulting in negative implications for government expenditure. The halt in Khat and the reduction in livestock exports weakened international trade revenues have driven the decline in domestic revenue.<sup>1</sup> In Puntland, the government reported that it lost half of its revenue due to the pandemic.

The Heritage Institute for Policy Studies (HIPS) and City University of Mogadishu commissioned a business-level survey to provide quantitative evidence of the impacts of the pandemic. A survey of 335 micro, small and medium enterprises from a wide range of sectors in Mogadishu and all federal member states (FMS) revealed that two-thirds had experienced a decline in profits between March and June 2020 and 50% had laid off employees. Qualitative data also indicated that the aviation, hospitality and education sectors were the hardest hit and had the largest numbers of layoffs. Fifty-one percent of respondents reported significant changes in the prices of food, materials and services.

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1. Khat leaves produce a stimulant effect when chewed. It is widely used within Somalia and largely imported from Ethiopia and Kenya.

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The Federal Government of Somalia (FGS) and international partners such as the World Bank and the European Union launched economic policy responses, including an extensive array of mitigation and recovery measures to offer relief and initiate recovery. These measures include tax relief, credits for businesses, food support, household cash transfers and policies to facilitate trade and investment.

The study proposes the following recommendations to curb the economic impact of COVID-19:

- The FGS and member states should work with international partners to prioritize support for businesses that are severely impacted by COVID-19.
- The FGS and member states should continue the tax waiver on essential food items.
- As Somalia does not have enough fiscal space to mitigate the economic downturn, international partners should expand and introduce additional economic stimulus packages. Expanded economic measures should be considered for the hardest-hit businesses such as travel agencies and hotels.
- The FGS and member states should continue reopening schools with special operating procedures to allow the continuation of this vital service for young people.

## 1.0 Introduction

COVID-19 has wrought considerable human suffering and major economic disruptions around the world. The novel virus, which first emerged in the Chinese city of Wuhan, has now spread to almost all countries in the world including Somalia. On 30 January 2020, the World Health Organization (WHO) declared the disease to be a pandemic and a global emergency. The number of infected people around the world is still increasing, with total cases surpassing 46 million as of 1 November 2020.<sup>2</sup> Cases are also increasing in Somalia; as of this writing, there have been 4,229 confirmed cases with 107 fatalities.<sup>3</sup> In mid to late March 2020, the FGS imposed a partial lockdown, grounding both international and domestic flights, suspending all in-person educational activities and instructing government employees to work from home.<sup>4</sup> FMS governments like Puntland have also taken measures to contain the virus by controlling movement at night and closing borders with other member states.<sup>5</sup>

These partial measures to slow the spread of the disease have severely impacted Somalia's economy.<sup>6</sup> This study seeks to provide an evidence-based assessment of the economic impact of COVID-19 on Somalia from both the micro and macro-economic angles, and to explore potential short, medium and long-term policy measures to mitigate the impact.

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2. "Coronavirus disease (COVID-19) Weekly Epidemiological Update and Weekly Operational Update," World Health Organization. <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports/>

3. Ministry of Health - Federal Republic of Somalia September 20, 2020: COVID-19 DASHBOARD, Somalia. <https://moh.gov.so/en/covid19/>

4. "Somalia Braces for COVID-19," UN Website, <https://www.un.org/en/coronavirus/somalia-braces-covid-19>

5. Nisar Majid, Salman Hassan et al., "Puntland and COVID-19: Local Responses and Economic Impact," London School of Economics website, <https://blogs.lse.ac.uk/crp/2020/05/05/puntland-and-covid-19-local-responses-and-economic-impact/>

6. Ministry of Finance - Federal Republic of Somalia.

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## 2.0 Overview of Somalia's recent economic performance

Over the past few years, Somalia has shown signs of recovery after decades of conflict, instability and the collapse of viable governance institutions. The country still faces a range of challenges including extreme poverty, rapid population growth, weak institutions, an active insurgency and recurrent political tensions.<sup>7</sup> However, due to its recent reforms of financial institutions, Somalia has showed moderate signs of overall economic improvement. GDP growth increased from 2.9 % in 2019 to 3.2% in pre-Covid-19 projections for 2020.<sup>8</sup> Key drivers of economic growth included substantial increases in livestock and agricultural productivity despite severe droughts, remittance inflows and private sector investment in the financial, telecommunications and social services sectors. The production of cereals and other crops was reported to have increased by 60% or more compared to the previous five years.<sup>9</sup>

Non-agricultural sectors of Somalia's economy have so far been dominated by a proliferation of medium and small-scale businesses and informal or semi-informal activities. They have stimulated entrepreneurship and wage employment as major sources of income opportunity, significantly impacting structural patterns of economic strength.

For the past few years, the country's fiscal performance improved due to increased mobilization of domestic revenue and reforms in tax administration, which helped raise the revenue-to-GDP ratio to 3.9% in 2018 from 3.2% in 2017, while the expenditure-to-GDP ratio remained steady from 0.1% in 2017 to 0.2% in 2018.<sup>10</sup> According to the World Bank, tax on international trade accounted for an average of 69% of Somalia's domestic revenue while non-tax revenue and taxes on goods and services averaged 20% and 6% respectively between 2013 and 2018.

As a result of large, prolonged fiscal imbalances, Somalia's public debt indicators have long been deteriorating, which has impeded external reengagement and official development assistance. The ratio of external public debt to GDP was 99.5% in 2018. Paris Club members are owed more than 50% of Somalia's external public debt; multilateral donors are owed 31%; and non-Paris Club creditors the balance. After taking necessary economic reforms under IMF staff-monitored programs, Somalia reached the decision point of the Highly Indebted Poor Countries (HIPC) initiative, enabling its debt to be reduced from \$5.2 billion at the end of 2018 to \$3.7 billion in 2020.<sup>11</sup> As a result of successful negotiations between the Paris Club and Somalia, the country's debt to Paris Club members was reduced by \$1.4 billion out of over \$3 billion in 2018.<sup>12</sup>

Extreme poverty remains widespread in Somalia – about 69% of the population lives on less than US\$1.90 a day, meaning seven out of 10 Somalis live in poverty.<sup>13</sup> Social services remain minimal, reflecting the persistent effects of poor socio-economic conditions. Access to and quality of education is a persistent problem, with severe regional, gender and socioeconomic disparities. Access to education in Somalia is among the lowest in the world, with more than two-thirds of school-age children out of school.<sup>14</sup>

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7. Ibid.

8. World Bank. 2020. Somalia Economic Update, Fifth Edition: Impact of Covid-19: Policies to Manage the Crisis and Strengthen Economic Recovery.

9. Somalia Country Economic Memorandum, World Bank and FAO, 2018: Rebuilding Resilient and Sustainable Agriculture in Somalia.

10. World Bank. 2019. Somalia Economic Update, Fourth Edition: Building Education to Boost Human Capital.

11. IMF Press Release, March 2020: Somalia to Receive Debt Relief under the Enhanced HIPC Initiative. <https://www.imf.org/en/News/Articles/2020/03/25/pr20104-somalia-somalia-to-receive-debt-relief-under-the-enhanced-hipc-initiative>

12. Paris Club Creditors agree to cancel \$1.4 Billion of Somali Debt. <https://uk.reuters.com/article/us-somalia-debt-paris-club/paris-club-creditors-agree-to-cancel-1-4-billion-of-somali-debt-idUSKBN21I3MO>

13. World Bank Group. 2019. Somali Poverty and Vulnerability Assessment: Findings from Wave 2 of the Somali High Frequency Survey. file:///C:/Users/Envyr14/Downloads/Findings-from-Wave-2-of-the-Somali-High-Frequency-Survey%20(1).pdf

14. Heritage Institute for Policy Studies and City University of Mogadishu 2020: Somalia's Education Sector. <http://www.heritageinstitute.org/wp-content/uploads/2020/08/Education-HCDM-REPORT-.pdf>

There has also been extremely limited progress in improving the healthcare system. Child mortality rates are among the highest in the world, with one in seven children dying before the age of five.<sup>15</sup> There are severe shortcomings in the distribution and technical capacities of health professionals. The number of doctors, nurses and midwives at lower-level primary care facilities are extremely limited and typically do not have sufficient training to provide viable healthcare services to the Somali population.

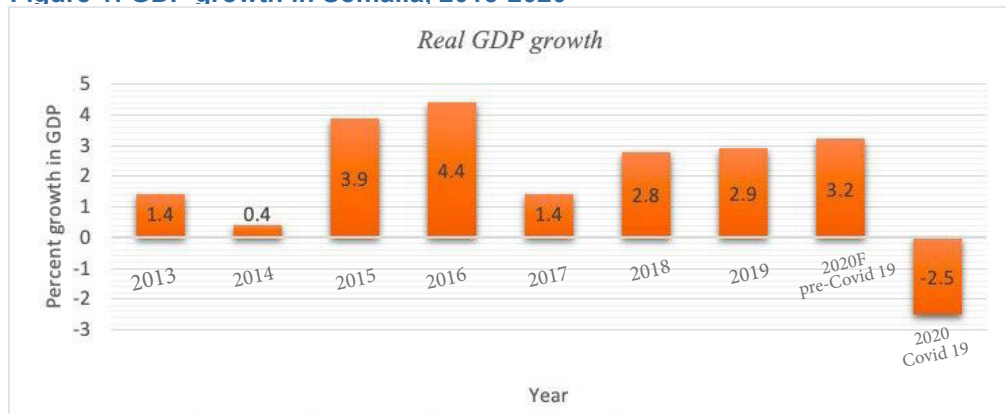
### 3.0 Macroeconomic impacts

Globally, the coronavirus pandemic has had a damaging economic and business impact, affecting everything from the hospitality industry to the supply of parts to automotive and technology industries. Stock markets have been volatile and China's economy – which makes up one-sixth of the global economy – is expected to slow. Early in January, the IMF forecasted that global GDP would grow by 3.3%<sup>16</sup> but now says it will shrink by at least 3% because of the pandemic.<sup>17</sup>

#### 3.1 GDP growth

The World Bank prediction of the economic impact of COVID-19 in Somalia shows that GDP will likely contract by 2.5% in 2020, after achieving a 2.9% growth rate in 2019 (Figure 1). Before the pandemic, the economy was forecast to grow by 3.2%. This growth was associated with improved agriculture productivity due to a strong rainy season, the operationalization of reforms in the financial and telecommunication sectors and small-scale private sector investment. However, the COVID-19 pandemic halted this positive trajectory, which was further weighed down by supply and demand shocks, originating both from domestic and global supply chain disruption, as a result of shutdowns in source countries and transport disruptions. Puntland's economy was predicted to grow by 4.6% before the outbreak, but now preliminary estimates show that GDP declined by 17.8% during the first half of 2020.<sup>18</sup> Household consumption expenditures are also estimated to have declined by 9.6% during this period due to a 2% price increase in market commodities.

**Figure 1: GDP growth in Somalia, 2013-2020**



Sources: IMF and World Bank staff estimates and World Bank, Global Economic Prospects

15. Heritage Institute for Policy Studies and City University of Mogadishu 2020: Somalia's Healthcare System. <http://www.heritageinstitute.org/wp-content/uploads/2020/05/Somalia-Healthcare-System-A-Baseline-Study-and-Human-Capital-Development-Strategy.pdf>

16. World Economic Outlook, January 2020: Tentative Stabilization, Sluggish Recovery? <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020>

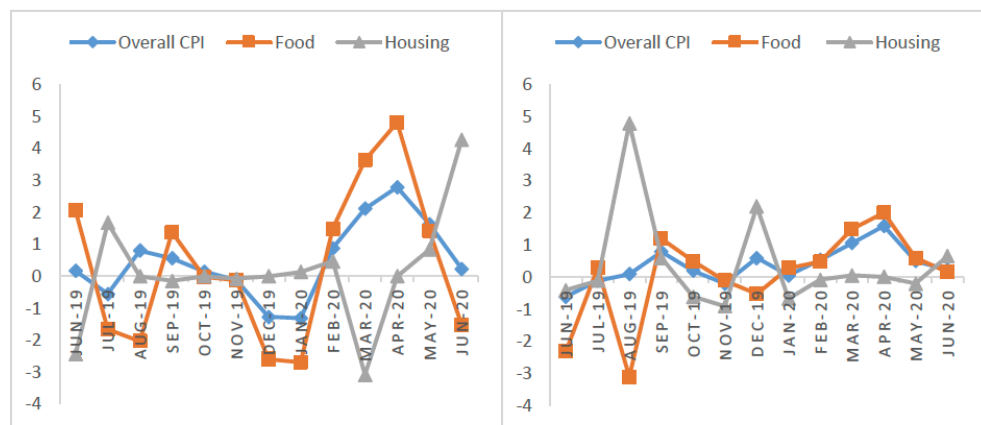
17. World Economic Outlook, April 2020: The Great Lockdown. <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

18. Puntland Impact Assessment Report, 2020: Puntland Ministry of Finance.

## 3.2 Inflation

Somalia's inflation rate was moderate before the pandemic, but COVID-19 pushed the rate higher during March and April 2020. The consumer price index (CPI) for food steadily declined after December 2019 but increased after the COVID-19 outbreak, driven by increasing food and non-food prices. The nationwide food inflation rate surged from 3.1% in February 2020 to 5.2% in March.<sup>19</sup> This indicates that containment measures such as lockdowns and the closure of borders caused panic buying and increased food prices. At a regional level, the overall inflation rate in Mogadishu rose from 1.3% in December 2019 to 2.7% in April 2020 (see Figure 2). Food-price inflation in Mogadishu surged from 2.6% to 4.8% over the same period. Puntland's overall inflation rate increased from 0.6% in December 2019 to 1.6% in April 2020 (see Figure 3). This rate remained moderate in Puntland after the outbreak of the pandemic, increasing by only 0.5%.<sup>20</sup>

**Figure 2 Mogadishu Consumer Price Index**      **Figure 3: Puntland Consumer Price Index**



Source: Adapted from Directorate of National Statistics Somalia      Source: Adapted from Puntland Statistics Department

According to a 2020 World Bank report, food price inflation across member states varied, illustrating that prices of essential commodities in Puntland and Somaliland are higher than in south-central Somalia. For instance, the price of cowpeas is almost twice as high as in South West and Jubaland.<sup>21</sup> COVID-19-induced disruptions to supply chains, especially for food, have been the main drivers of increased inflation. However, inflation in the price of food and non-essential goods is arguably no more of an issue now than it was before the pandemic.

19. World Bank. 2020. Somalia Economic Update, Fifth Edition: Impact of Covid-19: Policies to Manage the Crisis and Strengthen Economic Recovery.

20. 2020 Puntland Statistical Department, Puntland Ministry of Planning, Economic Development & International Cooperation. <https://pl.statistics.so/consumer-price-index/>

21. World Bank. 2020. Somalia Economic Update, Fifth Edition: Impact of Covid-19: Policies to Manage the Crisis and Strengthen Economic Recovery.

### 3.3 The revenue impact

As COVID-19 came to Somalia, the FGS and some member states closed their borders, banning both international and domestic flights to contain the spread of the pandemic. These containment measures placed additional pressures on an already poor fiscal situation by dramatically impacting revenue mobilization. According to a preliminary report by the Ministry of Finance, domestic tax revenue has fallen from \$107 million in 2019 to \$104 million in 2020.<sup>22</sup> Income tax revenue in the first half of fiscal year 2020 grew 32% compared to the \$4,083,281 collected in the previous year. Revenues from taxes on payroll and workforce, goods and services and international trade and transactions saw declines of 34%, 3% and 12% respectively compared to 2019.

Although some tax revenues surged with the onset of the pandemic, others plummeted. Declines in international trade revenue, travel and domestic consumption have suppressed revenue from the customs taxes upon which Somalia relies heavily (see Table 1). Global supply disruptions and the ban on khat imports are main contributing factors to the decline of tax revenue in the past four months. Khat imports provide a significant portion of both FGS and FMS revenue, and so banning them has resulted in a 21% (\$1,284,233 million) loss of tax revenue. Governments at all levels have taken measures to curb the revenue implications of COVID-19 by increasing informal taxes to make up for the loss of khat revenues. The export of important revenue sources such as livestock, bananas, fish and charcoal declined 14% compared to the 2019 fiscal year. In contrast, property taxes and non-tax revenues have shown upward trends, increasing by 12% and 8% respectively.<sup>23</sup>

**Table 1: Changes in domestic revenue collection (January to June 2020/2019)**

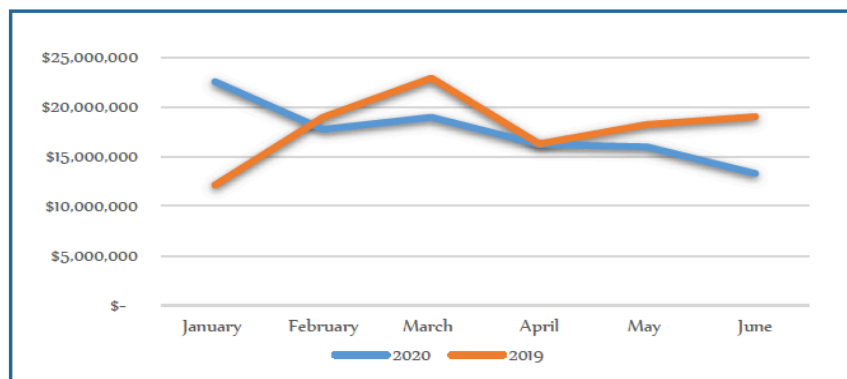
Domestic revenue	Actual (\$)		Variance	
	Jan- June 2020	Jan- June 2019	Variance (\$)	% Δ
Taxes on income, profits and capital gains	5,379,383	4,083,281	1,296,102	32% ▲
Taxes on payroll and workforce	959,253	1,458,724	(499,471)	-34% ▼
Taxes on property	271,623	241,474	3,697	12% ▲
Taxes on goods and services	16,016,432	16,437,663	(421,231)	-3% ▼
Taxes on international trade and transactions	45,612,361	51,683,813	(6,071,452)	-12% ▼
Non-tax revenue	36,511,872	33,711,840	2,800,032	8% ▲
<b>Total domestic revenue</b>	<b>104,750,924</b>	<b>107,616,795</b>	<b>(2,865,871)</b>	<b>-3% ▼</b>

22. Revenue performance report 2020: Ministry of Finance.

23. Ibid.

Somalia's domestic revenue has changed significantly over the last six months (see Figure 4) due to the COVID-19-induced economic turndown and related movement restrictions on people, goods and services. Domestic revenue jumped to \$22,542,793 in January 2020 from \$12,141,416 in January 2019. However, by June 2020, revenue had declined to \$13,303,693. The reduction of tax revenue worsened from April to June in line with domestic and international movement restrictions during this period. This alarming situation of revenue loss is being exacerbated by global trade disruptions; the closure of businesses and travel restrictions imposed by the FGS and member states.

**Figure 4: Domestic revenue collection**



Source: Ministry of Finance, Federal Government of Somalia

Domestic revenue generation has also dramatically declined at the FMS level. The impact has varied across regions, with Somaliland losing an estimated revenue of \$36.6 million while Puntland lost \$51.5 million, over 80% of domestic revenue.<sup>24</sup> In south-central states such as Galmudug, Hirshabelle and South West, revenue is driven by the FGS and external grants support. International grants cover over 70% of the overall budget in South West state, while budgets in Hirshabelle and Galmudug are covered by grants of 13% and 9% respectively.<sup>25</sup> Declining port operations in Jubaland, Mogadishu, Puntland and Somaliland and the ban on khat imports across member states have been identified as the reasons for the customs revenue shortfall.

### 3.4 Remittances

Remittances to Somalia have been severely affected by COVID-19. According to the World Bank, remittances are estimated to have declined globally by about 20%, with a 23% decline observed in sub-Saharan Africa. Before the emergence of COVID-19, Somalia received an estimated \$2 billion per year in remittances from Somali expatriates around the world, exceeding official aid. Remittances provide a lifeline for most Somali households, as they mitigate vulnerability and sustain livelihoods among the population through timely cash payments.

24. World Bank. 2020. Somalia Economic Update, Fifth Edition: Impact of Covid-19: Policies to Manage the Crisis and Strengthen Economic Recovery.

25. Ibid.

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However, as many countries initiated containment measures due to COVID-19, the resulting economic slowdowns in the United States and Europe led to a dramatic decline in remittance inflows to Somalia, caused by a drop in senders' wages and rising unemployment.<sup>26</sup> In Dubai, a clearance center for Somalia remittances, reported that physical cash flows to money transfer businesses<sup>27</sup> were disrupted by international movement restrictions, especially flight restrictions from major Somali remittance sources such as the United States and Europe.<sup>28</sup>

Somalia received only \$203 million in remittances in March 2020, less than the total remittances received in February (\$216 million). In April, the country experienced a significant further decline in remittances to \$176 million. But a slow recovery was registered in May and June with \$219 million and \$227 million respectively. Remittances have fallen almost 15% for inflows and 25% for outflows due to lockdown restrictions. From March to May, the registered blocked of remittances funds was US\$56 million, representing 15% of the total inflow to Somalia.<sup>29</sup>

At the household level, many Somali families are reliant on remittances and use this external source of financing to purchase basic goods such as food, pay rent, education and health services. It is estimated that nearly 40% of households in Somalia receive foreign remittances.<sup>30</sup> About 48% of remittance recipients in Somalia reported a significant drop in the amounts they received during the last four months.<sup>31</sup> This decline places immediate pressure on food security and overall livelihoods in Somali communities and poses challenges on hard-won human capital development gains in education and health.

## 4.0 Impact on businesses

The private sector in Somalia is dominated by micro, small and medium enterprises. Over the past two decades, Somalia has developed a remarkably strong and vibrant private sector, particularly in the financial and banking, telecommunications, agriculture and livestock sectors. The COVID-19 pandemic has impacted many of these businesses through disruptions to global supply chains, the nationwide ban on local and international flights, curfews and restrictions placed on businesses. As a result, business has decreased and many financial and retail outlets have closed. This section describes the situation for businesses in Somalia, analyzes the impacts of COVID-19 on their performance and summarizes coping strategies, while also providing recommendations for mitigating the pandemic's negative economic impacts.

### 4.1 Methodology

This study employed both a quantitative survey and key informant interviews in six urban locations where diverse economic activities are taking place: Mogadishu (Banadir Regional Administration), Kismayo (Jubaland), Beledweyne (Hirshabelle), Baidoa (South West State), Bosasso (Puntland) and Dhusamareb (Galmudug). These areas are predominantly urbanized economic hubs that attract large numbers of businesses in the services, trade (imports and exports), livestock, fisheries, small-scale enterprise and agriculture sectors.

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26. Nexus, April 2020. 'Somali communities face dropping remittances and wider economic impact amid Covid-19 crisis'.

27. World Bank. 2020. Somalia Economic Update, Fifth Edition: Impact of Covid-19: Policies to Manage the Crisis and Strengthen Economic Recovery.

28. Due to absence of Anti Money Laundering/Combating the Financing of Terrorism (AML/CFT), Know Your Customer (KYC) and lack of corresponding banking relationships, US dollars (Somalia's most-used hard currency) are normally transferred physically in and out of the country. Most money transfer operators, or hawala companies, aggregate their deposits and instruct their agents or branches to transfer money physically to a central clearing or settlement center, which are generally located in the UAE.

29. Central Bank of Somalia report 2020: Covid-19 Technical Committee report.

30. Rift Valley Institute Report 2013. Remittance transfers to Somalia Keeping the lifeline open. <https://riftvalley.net/sites/default/files/publication-documents/RVI%20-%20Nairobi%20Forum%20-%20Remittance%20Transfers%20to%20Somalia%20-%201%20October%202013.pdf>

31. Nexus, April 2020. 'Somali communities face dropping remittances and wider economic impact amid Covid-19 crisis'.

This study surveyed 350 business and enterprise managers using a structured, close-ended questionnaire. Major themes included the nature of the business, its location and financial or operational activities; whether it had undergone customer demand disruptions, employee layoffs or supply chain disruptions; what government and international support it had received; and what measures the business suggested to mitigate the impacts of Covid-19 pandemic. Data was collected by professional enumerators conducting computer-assisted personal interviews (CAPI).

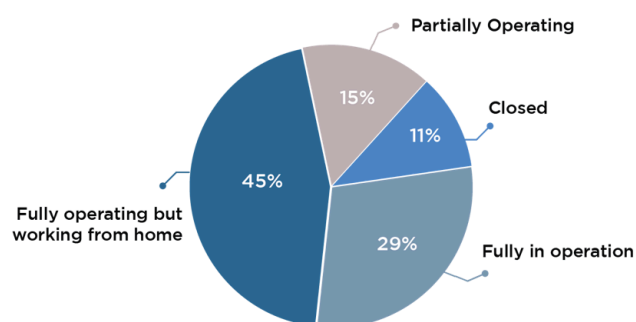
**Table 2: Sample size of the survey in each FMS and the Banadir Region**

Surveyed Cities	Frequency	Percentage
<b>Mogadishu</b>	96	28.7
<b>Dhusamareeb</b>	48	14.3
<b>Beledweyne</b>	50	14.9
<b>Kismayo</b>	51	15.2
<b>Bosaso</b>	50	14.9
<b>Baidoa</b>	40	11.9
<b>Total</b>	335	100.0

## 4.2 Key research findings

Survey results showed that as of 30 July 2020, 45% of business activities were fully operating but had employees working from home, 29% were fully operating, 15% were partially operating and 11% were closed.

**Figure 5: Is your business currently in operation?**



Source: HIPS survey

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Although most businesses have been affected by COVID-19, the depth and nature of this impact varied across sectors. The survey indicated that the travel and hospitality sectors have been most affected by the crisis. The effect on air travel has been especially severe, as operations were completely halted and large numbers of employees were laid off due to the ban on local and international flights and the closure of airports.<sup>32</sup>

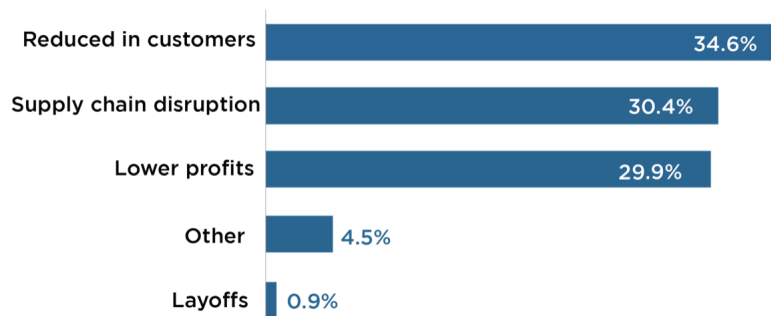
*“Our business solely depends on ticketing for both international and domestic flights....and for the past three months, our business operations were shut down due to the global movement restrictions induced by the coronavirus. We have laid off three of our staff because we couldn’t pay their wages and now we are struggling to pay for rent and other utilities. Our company is badly affected by COVID-19.”*

**Mogadishu-based travel agency manager**

Measures to contain the virus have disrupted existing local and international value chains. Most of the surveyed businesses reported that their sales had significantly decreased and that accessing inputs had become increasingly difficult.

Figure 6 shows that the main challenges businesses have faced during the first four months of the pandemic include the reduction of customers (34.6%), the disruption of supply chains (30.4%) and lower profits (29.9%). The two major economic implications of the pandemic on businesses surveyed were reduced customers and the disruption of supply chains. More than half of the surveyed businesses reported these implications to be the most serious. Given the reduced customers (34.6%) and supply chains disruption (30.4%), respondents reported the loss of revenue (29.9%) was not as severe as expected. However, the reduction in sales and supply chains disruptions impacted on the ability of businesses to make profits and manage their revenues.

**Figure 6: Main challenges to businesses**



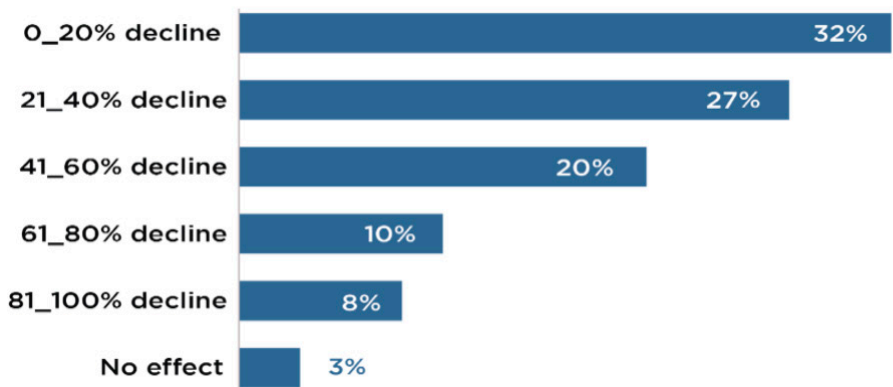
Source: HIPS survey

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32. HIPS interview, Mogadishu, 27 June 2020.

Ninety-seven percent of surveyed businesses indicated that the COVID-19 pandemic had impacted on their revenues, some more severely than others. Nearly two-thirds of surveyed businesses reported a decline in revenue of over 20%, while nearly one-third reported a mild decline of 20% or less and only 3% reported no impact at all on their businesses. For many businesses, the decline was the result of only being able to conduct partial operations during lockdown. Customers' fears of pandemic-related health consequences also reduced visits to businesses.

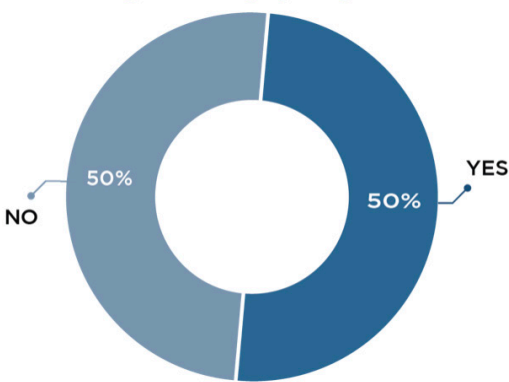
**Figure 7: Level of COVID-19 related financial impact on businesses**



Source: HIPS survey

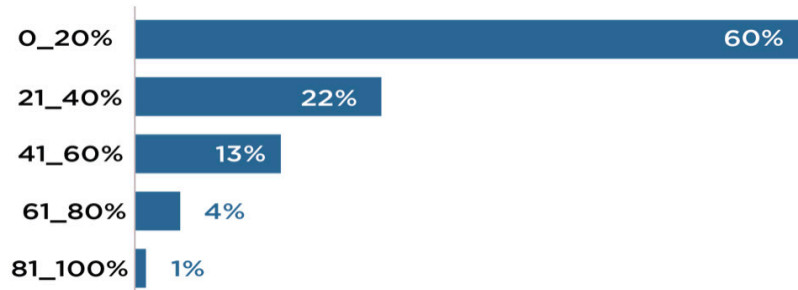
Figure 8 illustrates that 50% of the surveyed businesses had to dismiss workers due to the pandemic.

**Figure 8: Employee layoffs**



Source: HIPS survey

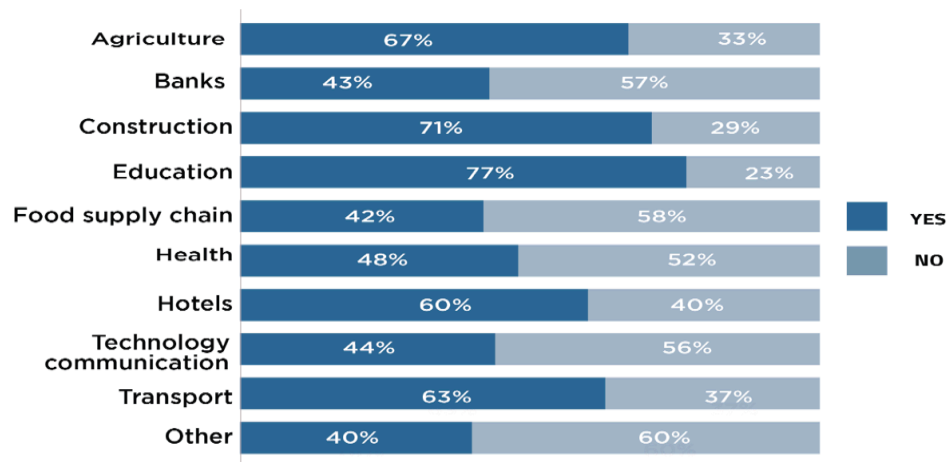
**Figure 9: Percentage of staff laid off**



Source: HIPS survey

Survey results indicate that businesses in the education, travel and hotel sectors undertook the largest restructuring of their workforces due largely to an inability to pay salaries.<sup>33</sup> Figure 10 shows that businesses in the education sector laid off 77% of their workers between march and june due to the pandemic.

**Figure 10: Percentage of staff laid off**



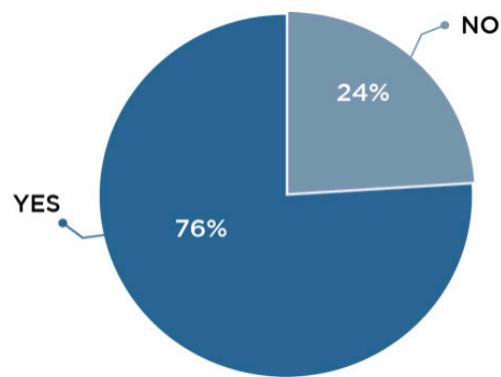
Source: HIPS survey

33. HIPS interview, Mogadishu, 15 June 2020.

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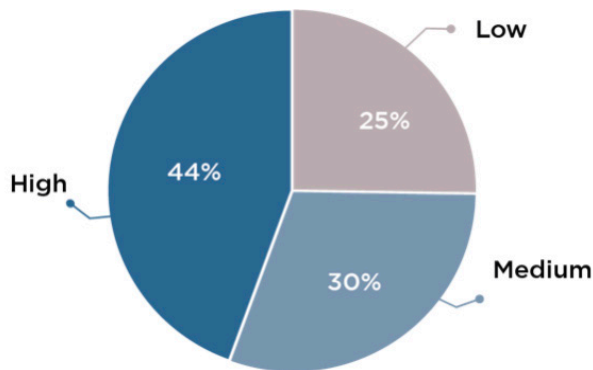
Somalia's main export revenue-earner is livestock shipped to the Gulf countries, which accounts for 26% of the GDP. Meanwhile, imports of industrial goods and food constitute almost 100% of GDP.<sup>34</sup> Figure 11 indicates that 76% of export and import businesses have been affected to some extent by COVID-19. Forty-four percent of respondents indicated that COVID-19 has had a severe impact on exports and imports, followed by 30% who felt it has had a medium impact and 25% who perceived a low impact on exports and imports (Figure 12).

**Figure 11: Effect of COVID-19 on export and import businesses**



Source: HIPS survey

**Figure 12: Level of impact on export and import businesses**



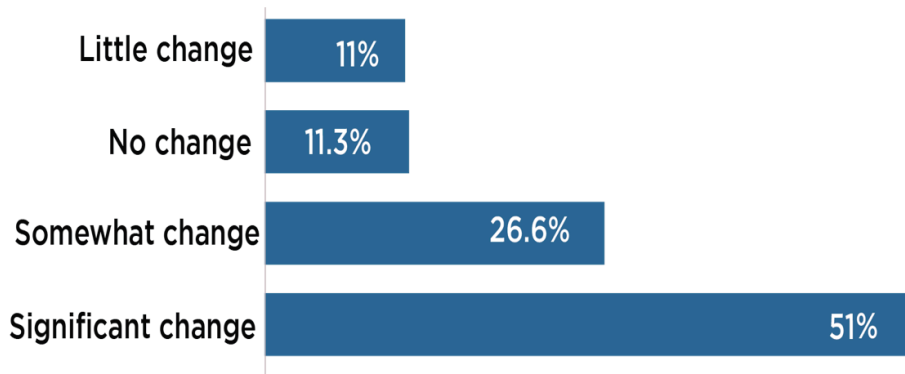
Source: HIPS survey

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34. World Bank. 2019. Somalia Economic Update, Fourth Edition: Building Education to Boost Human Capital.

Global supply chain disruptions have significantly affected the price of goods, materials and services in Somalia. Figure 13 illustrates how respondents perceive these effects, with 51% of respondents reporting significant price changes and 11.3% reporting no change at all.

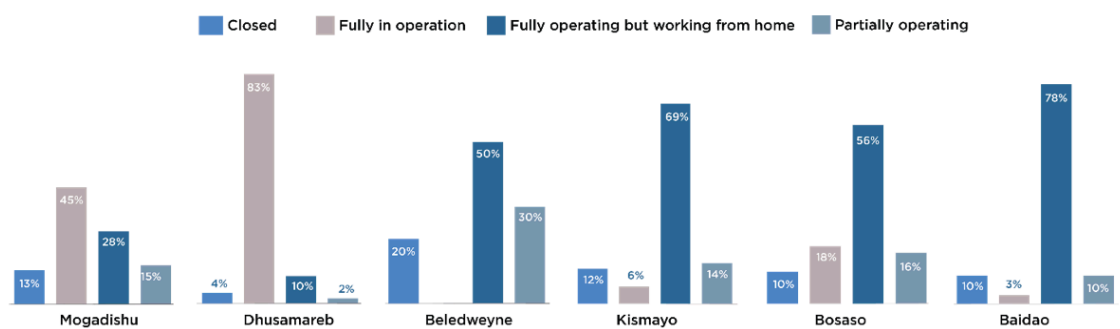
**Figure 13: Price changes of materials, goods and services**



Source: HIPS survey

The impact of the crisis differs across the member states. Businesses operating in Beledweyne were most likely to report severe effects of COVID-19 (see Figure 13), with 20% having suspended operations. Significant effects were also reported in Mogadishu and Kismayo, where 13% and 12% of businesses respectively reported closing down. In Bosaso and Baidoa, 10% of businesses had closed as a result of the partial lockdown. On the other hand, in Dhusamareb, 83% of businesses reported no impact on operations, while in Baidoa, Bosaso and Kismayo, most businesses (78%, 69% and 56% respectively) were fully operating but employees were working from home.

**Figure 14: Business operations by city**

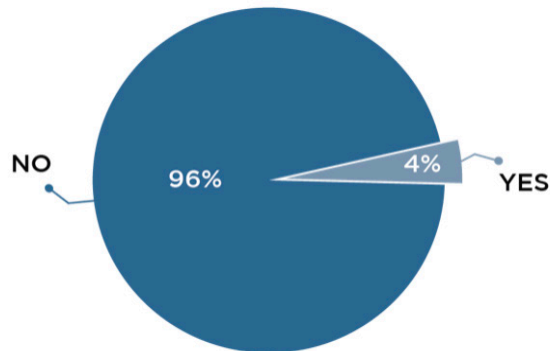


Source: HIPS survey

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More than 95% of surveyed businesses were unaware of any support available from the federal or FMS governments or any other stakeholders (Figure 15). Only a few businesses were aware of the availability of tax or loan payment relief from the government. In an interview, the Director General of the Ministry of Finance revealed that the FGS was offering a 100% tax exemption for rice and dates and a 50% tax exemption for wheat flour and cooking oil.<sup>35</sup>

**Figure 15: Awareness of government relief measures**



Source: HIPS survey

When asked about the type of support they most needed, Somali businesses listed the following:

- Financial support or loans from the government or the international community
- Temporary tax relief on non-essential goods
- Easing of movement restrictions, especially reopening domestic and international flights
- Government support to pay employees' wages in the hardest-hit economic sectors.

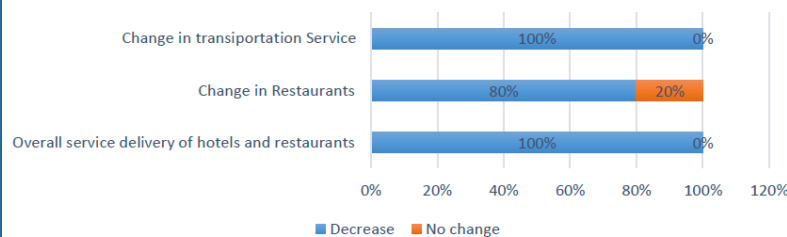
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35. HIPS interview, Mogadishu, 21 Jul 2020.

### Box 1: Business impact of COVID-19 on Somaliland

The Central Statistics Department in Somaliland conducted a business survey to evaluate the impact of COVID-19 in May 2020. It covered 123 businesses across different sectors such as retail/wholesale and services. All surveyed hotels and restaurants reported decreases in overall service while 80% of restaurants reported their service had decreased. Respondents from the transportation sector reported 100% decline (see Figure 16).

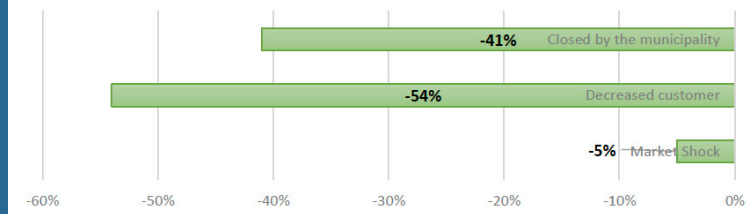
**Figure 16: Reported changes in service delivery**



Source: Central Statistics Department Somaliland

The survey also found that 54% of businesses had closed due to decreased customer, followed by 41% that were ordered by municipality to close only 5% of businesses had closed due to the market shock.

**Figure 17: Reasons for business closures during the covid-19 outbreak**



Source: Central Statistics Department Somaliland

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## 5.0 Economic policy responses to COVID-19

The coronavirus outbreak has had profound consequences for Somalia's economic and financial markets and is expected to erode years of relative economic growth. The sudden enforcement of lockdowns and movement restrictions by the FGS and FMS governments has put various economic sectors in jeopardy.

According to a June 2020 report by the Central Bank, the direct economic impact of the virus can be seen most starkly in the travel industry, remittances and trade, where many workers have been laid off and others have been placed on unpaid leave.<sup>36</sup> The report also showed that the nation's aviation industry has been crippled, with huge revenue losses reported by airlines, travel agencies and the hospitality industry. The forced partial closure of businesses, mainly small and medium-sized enterprises (SMEs), led to permanent shutdowns and many people lost their jobs or went bankrupt in April and May 2020.

### 5.1 Official government policy responses to the COVID-19 crisis

The FGS and member states with the support of the international community have taken various actions to mitigate the pandemic's economic impact that was caused by containment measures including closing the borders, banning domestic and international flights, restricting gatherings, closing all educational institutions, banning congregational prayers in mosques and imposing nightly curfews to slow community transmission.

The FGS pledged a \$5 million healthcare response fund to the member states to help develop new healthcare facilities and rehabilitate existing ones for COVID-19 testing and treatment.

The Office of the Prime Minister also announced the transfer of \$1 million to each FMS to help combat the effects of COVID-19 (of which US\$500,000 was intended as general fiscal support to offset revenue shortfalls and another US\$500,000 was intended to support COVID-19 response efforts). A meeting of the FGS and FMS finance ministers took place on 25 April in which the mitigations of COVID-19 induced economic assistance were discussed. Puntland, South West state and Hirshabelle have already received \$500,000 each. Funds for Jubaland and Galmudug are still in the process of being determined and allocated.

The FGS has also announced a tax exemption strategy on specific goods to mitigate possible food price inflation and ease the financial burden of consuming basic commodities. The FGS granted tax relief amounting to 100% for dates and rice and 50% for flour and cooking oil in April 2020.<sup>37</sup> Moreover, Puntland lifted its ban on khat imports after severe domestic revenue shortfalls and eased restrictions on interregional trading and businesses.

On 5 July, domestic flights were allowed to resume with strict guidelines from the FGS health ministry, easing economic hardship by enabling the movement of people and goods within the country.<sup>38</sup> A month later, Somali authorities also lifted international flight restrictions – resuming international flights after a four-month ban.<sup>39</sup>

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36. CBS, June 2020. The Economic Impact of Covid-19: Technical Committee Briefing.

37. Somali National News Agency. April 2020: Government announces tax relief measures to tackle Coronavirus disruptions. <https://sonna.so/en/government-announces-tax-relief-measures-to-tackle-coronavirus-disruptions/>

38. Somalia to Resume Domestic Flights Next Week. <https://allafrica.com/stories/202007030406.html>

39. Somalia Resumes International Flights. <https://nation.africa/kenya/news/africa/somalia-resumes-international-flights-today--1911370>

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These measures are steps in the right direction for the economy. Currently the FGS and member states are preparing a supplemental budget that is expected to reflect lower revenues, higher grants including budget support and increased transfers to the member states.

## 5.2 International partners policy responses

International partners such as the IMF, the World Bank and the European Union have pledged financial support to Somalia and announced various economic and humanitarian responses. In May 2020, the World Bank approved \$137.5 million in grants to Somalia to help mitigate flooding and drought, locust invasions and the ongoing COVID-19 crisis.<sup>40</sup> \$20.5 million of this was specifically earmarked for COVID-19 response, including the procurement of medical supplies as well as containment measures.

The World Bank has also approved a stimulus package to support micro, small and medium sized enterprises that have been affected by the pandemic, specifically geared towards productive sectors.<sup>41</sup> The stimulus package represents a \$15 million targeted credit facility through the Gargaaro Company and other micro-finance banks. The Gargaaro Company has requested expressions of interest from all micro-finance/commercial banks in Somalia to consider temporary loan terms for businesses most affected by the pandemic, particularly the agriculture, livestock and fisheries sectors.<sup>42</sup>

According to the Director General of the Federal Ministry of Finance, only three commercial banks have so far expressed interest in a credit facility or liquidity support for the economic disruption induced by COVID-19. The initiative takes into consideration the financial constraints of borrowers by providing soft loans to businesses in productive sectors.

On 14 May 2020, the European Union announced a new humanitarian package for Somalia as part of an effort to reduce the effects of COVID-19. This financial support is worth €48 million and has been designed to safeguard basic services, support healthcare facilities and strengthen the economy, including support for farmers to obtain seeds and fodder for their livestock.<sup>43</sup>

## 6.0 Conclusions

The FGS and member states have taken measures to control the coronavirus pandemic. Although containment measures have reduced the spread of COVID-19, they have also damaged an already fragile economy. The government-imposed lockdown and flight ban resulted in a shortage of government revenue.

The pandemic has suppressed Somalia's economic recovery, reversing years of economic growth. GDP growth has declined and various growth sectors have experienced severe impacts. The travel and transportation sector, trade, education and remittances have been highly affected by the pandemic, while telecommunications and finance have been moderately impacted. Government responses to the pandemic, including the aviation lockdown, business closures and curfews, have put pressure on government finances at the federal and member state levels, reducing revenues and changing expenditure patterns.

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40. World Bank. May 2020: World Bank approves \$137.5 million for Somalia's response Covid-19, Floods and Drought. <https://www.worldbank.org/en/news/press-release/2020/05/15/world-bank-approves-137-5-million-for-somalias-response-to-covid-19-floods-and-drought>

41. HIPS interview with Dr. Abdirisak Bire, CEO of Gargaaro Company, 24 June 2020.

42. Ibid.

43. European Commission Press release, May 2020: EU provides support in Horn of Africa region. [https://reliefweb.int/sites/reliefweb.int/files/resources/Coronavirus\\_\\_EU\\_provides\\_support\\_in\\_Horn\\_of\\_Africa\\_region.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/Coronavirus__EU_provides_support_in_Horn_of_Africa_region.pdf)

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While businesses in all sectors have been affected by COVID-19, the nature and severity of the pandemic's impact has differed substantially. Most surveyed businesses were not fully functioning during data collection and many had closed due to a reduction in customers, supply chain disruptions and profit losses. This resulted in half of the businesses' workers losing their jobs.

More than two-thirds of import and export businesses have been impacted by the COVID-19 pandemic. The market prices of goods, services and materials have increased due to disruptions in supply chains. Nearly 80% of education workers have lost their jobs. More than 90% of the surveyed firms were not aware of state or national government support programs, and only a small fraction reported applying for such support, suggesting that the government may need to expand its outreach efforts and adopt a more inclusive package of support programs.

## 6.1 Recommendations

- The Somali government along with its international partners should prioritize economic stimulus packages, which could be targeted at sectors hit hardest by the pandemic. These packages should aim at replacing lost incomes and business revenues.
- The government's tax exemptions have proven to be effective in reducing food price inflation. The government should therefore continue tax waivers on essential food items.
- Domestic revenue has decreased because of COVID-19 mitigation measures. Without budget support it will be difficult for the government to provide services. International donors should continue their funding and support.
- Somali's fiscal space is extremely limited, and the COVID-19 pandemic has put extraordinary pressure on the FGS and FMS budget. The pandemic is slowing growth and diminishing fiscal revenue while demanding an immediate increase in health spending and economic assistance to preserve lives and livelihoods. A short-term fiscal policy response must focus on meeting the crisis-related funding needs of the health sector, protecting critical public expenditures as fiscal revenues decline, and providing emergency relief to vulnerable households and affected businesses.
- It is imperative to simplify administrative processes to facilitate and expedite access by those in need to financial services and funds provided by international partners. The government should create a public-private dialogue on targeting support, using the most appropriate platforms. This should include raising awareness of available assistance packages, reducing fragmentation of support programs and institutional responsibilities to facilitate access and streamline procedures.
- The negative impact of the crisis on air travel and hospitality businesses has been particularly significant. Many businesses lack cash reserves, financial resources and assets as well as access to finance to adequately respond to the crisis. Targeted financial stimulus should be considered for travel businesses such as travel agencies and hotels.
- The education sector, more than 95% of which is in the hands of the private sector, has suffered significantly from the COVID-19 closures. Considering the second wave spike of the pandemic, developing and strengthening online education capabilities is crucial to allow the continuation of these vital services for the young people of the country.

## Annex 1: Estimated FGS revenue loss due to COVID-19

**Table 3: Taxes on international trade**

No.	Taxes on international trade and transactions	Actual (\$)		Variance	
		Revenue 2020	Revenue 2019	Variance (\$)	% Δ
1	Customs taxes on petroleum	7,411,281	4,914,465	2,496,816	51% ▲
2	Customs taxes on export goods	323,198	375,130	(51,932)	-14% ▼
3	Road vehicles (saloon cars)	3,097,321	4,031,863	(934,542)	-23% ▼
4	Import tax on sugar	3,678,133	4,849,942	(1,171,809)	-24% ▼
5	Crude vegetable materials	3,405	2,184	1,221	56% ▲
6	Import tax on tobacco and matches	371,454	476,723	(105,269)	-22% ▼
7	Flour	1,501,045	1,925,098	(424,053)	-22% ▼
8	Construction of electronic materials	2,269,064	2,978,216	(709,152)	-24% ▼
9	Cereal products, spaghetti, etc.	509	936	(427)	-46% ▼
10	Vegetable oils	1,633,105	1,964,798	(331,693)	-17% ▼
11	Soap and cleaning products	917,598	1,271,538	(353,940)	-28% ▼
12	Apparel, clothing, textiles, yarn	2,170,764	2,315,842	(145,078)	-6% ▼
13	Footwear	282	1,239	(957)	-77% ▼
14	Tea	91,462	119,663	(28,201)	-24% ▼
15	Vegetables and fruits	54,328	19,156	35,172	184% ▲
16	Plastic materials	136,707	176,842	(40,135)	-23% ▼

17	Rubber tires	70,934	95,715	(24,781)	▼ -26%
18	Poultry and edible offal	206,922	172,204	34,718	20% ▲
19	Building materials	1,641,183	1,937,033	(295,850)	▼ -15%
20	Electronic materials	2,308,463	2,498,185	(189,722)	▼ -8%
21	Food items /rice, spaghetti, etc.	3,210,544	4,050,672	(840,128)	▼ -21%
22	Household materials	1,638,612	1,770,554	(131,942)	▼ -7%
23	Cosmetics and perfume	159,298	155,985	3,313	2% ▲
24	Others	5,691,929	6,834,521	(1,142,592)	▼ -17%
25	Shoes	629,877	738,308	(108,431)	▼ -15%
26	Beverages	1,574,661	1,902,486	(327,825)	▼ -17%
27	Import tax on khat	4,820,282	6,104,515	(1,284,233)	▼ -21%
	<b>Total taxes on international trade and khat</b>	<b>45,612,361</b>	<b>51,683,813</b>	<b>(6,071,452)</b>	<b>▼ -12%</b>

**Table 4: Non-tax revenue of the FGS**

<i>No</i>	<i>Sales of public goods and services</i>	<i>Actual (\$)</i>		<i>Variance</i>	
		<i>Revenue 2020</i>	<i>Revenue 2019</i>	<i>Variance (\$)</i>	<i>% Δ</i>
1	Administrative charges	909,159	1,204,337	(295,178)	-25% ▼
2	Visa charges	3,036,680	2,190,868	845,812	39% ▲
3	Passport fees	0	3,111,018	(3,111,018)	-100% ▼
4	License fees - commerce and industry	609,413	453,664	155,749	34% ▲
5	Work permits and other fees	392,856	623,400	(230,544)	-37% ▼
6	Harbor fees – Albayrak	13,950,230	13,048,453	901,777	7% ▲
7	Airport fees – Favori	1,423,340	1,101,264	322,076	29% ▲
8	Fisheries license fees	1,687,310	1,044,972	642,338	61% ▲
9	Telecommunications spectrum fees	504,700	8,678,577	(8,173,877)	-94% ▼
10	Overflight fees	11,873,635	0	11,873,635	-100% ▼
11	Overflight back payment (ICAO)	0	0	0	0%
12	Customs harbor fees	2,124,549	2,255,287	(130,738)	-6% ▼
<b>Total non-tax revenue</b>		<b>36,511,872</b>	<b>33,711,840</b>	<b>2,800,032</b>	<b>8% ▲</b>

## Annex 2: Estimated revenue loss due to COVID-19 in Puntland

**Table 5: Ministry of Finance Puntland - Estimated impact of COVID-19 on revenue collection in 2020**

<b>Taxes</b>	<b>Revenue loss QTR1</b>	<b>Revenue loss QTR2</b>	<b>Revenue loss QTR3</b>	<b>Revenue loss QTR4</b>	<b>Estimated revenue lost for the year</b>
Aviation	\$213,050.00	\$493,980.00	\$493,980.00	\$493,980.00	(\$1,694,990.00)
Khat	\$1,332,704.00	\$2,367,000.00	\$2,367,000.00	\$2,367,000.00	(\$8,433,704.00)
Sales	\$629,766.00	\$836,862.00	\$1,016,189.57	\$1,075,965.42	(\$3,558,782.99)
Stamps	\$262,790.00	\$507,000.00	\$1,014,000.00	\$1,231,285.71	(\$3,015,075.71)
Exports	\$468,913.00	\$926,931.00	\$1,483,089.60	\$1,668,475.80	(\$4,547,409.40)
Imports		\$2,710,179.00	\$5,081,585.62	\$5,759,130.97	(\$13,550,895.59 )
2QFishery license fees	\$84,412.00	\$600,000.00	\$600,000.00	\$ 600,000.00	(\$1,884,412.00)
Taxes on payroll					
Civil service	\$24,787.00	\$49,945.50	\$99,890.00	\$33,297.00	(207,919.50)
Armed forces	\$52,359.00	\$67,600.80	\$135,201.60	\$45,067.20	(300,228.60)
<b>Revenue lost in 2020</b>	<b>\$3,068,781.00</b>	<b>\$8,559,498.30</b>	<b>\$12,290,936.39</b>	<b>\$13,274,202.10</b>	<b>(37,193,417.79)</b>

