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OPPORTUNITY MAPPING / PRE-FEASIBILITY ASSESSMENT OF SPECIAL ECONOMIC ZONES (SEZS) IN SOMALIA

EXECUTIVE REPORT
SEPTEMBER 2022

TRIPLELINE



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List of abbreviations

ADR	Alternative Dispute Resolution
AfDB	African Development Bank
AMISOM	African Union Mission in Somalia
BRA	Banadir Regional Administration
CAS	Customs Automated System
CSET	Centre for Social & Economic Transformation
CWS	Cash for Work Schemes
DDG	Danish Demining Group
DRC	Danish Refugee Council
EDU	Enterprise Development Unit
FGS	Federal Government of Somalia
FMS	Federal Member States
GEEL	Growth, Enterprise, Employment and Livelihoods
Global GAP	Global Good Agricultural Practices
IDPs	internally displaced people
ILO	International Labor Organization
IOM RDS	International Organization for Migration's Recovery and Durable Solutions Unit
IQF	Individual Quick Freeze
MEB	Minimum Expenditure Basket
MoCI	Ministry of Commerce and Industry
MT	Metric tonnes
NAEB	National Agriculture Export Board
NTFC	Somalia National Trade Facilitation Committee
OSS	one-stop shops
PCS	Provisional Constitution of Somalia
PSDP	Productive Sector Development Programme
SoBS	Somali Bureau of Standards
SDZ	Sustainable Development Zone
SEZs	Special Economic Zones
SMIIC	Standards and Metrology Institute for Islamic Countries
SSF	Somalia Stability Fund
SURP	Somalia Urban Investment Planning Project
TEU	Twenty-Foot Equivalent
Tkm	Ton-Kilometer
UAE	United Arab Emirates
UCT	Unconditional Cash Transfer
UNIDO	United Nations Industrial Development Organization
UNDP	United National Development Program
UNOPS	United Nations Office for Project Services
WFP	World Food Programme

1. Introduction

1.1. Objectives of this report

As part of its activities implemented within the framework of the Productive Sector Development Programme (PSDP) for Somalia, the United Nations Industrial Development Organization (UNIDO) is working with the Ministry of Commerce and Industry (MoCI) of the Federal Government of Somalia (FGS) to evaluate the role of Special Economic Zones (SEZs) in the country. In this process, UNIDO commissioned Triple Line Consulting to undertake an opportunity mapping and pre-feasibility assessment of SEZs in Somalia. Accordingly, the objectives of this report are two-fold:

- Mapping of opportunities and conducting pre-feasibility assessment of SEZs in Somalia; and
- Design of a strategy for developing SEZs in Somalia, including a legal, regulatory, and institutional framework.

1.2. Research approach and methodology

The assignment's approach and methodology covers¹:

Pre-feasibility assessment of three potential SEZs in Somalia, including fish and food processing industry in Mogadishu, agro-commodity processing in Baidoa and fish processing industry in Bossaso. The value chains were selected based on: (a) maximum economic impact in terms of market opportunity, trade balance and job creation, (b) competitive advantage in extent of local value addition and price, and (c) increased private sector participation through support from development partners and existing registered companies that have investment capacity. The locations were selected based on: (a) ease of transportation from one economic hub to the nearest one along the corridor, as measured by speed, checkpoints

per kilometer, transportation costs, and upcoming road rehabilitation programs along the corridor, (b) support or interest from the local government and collaborations/existing partnerships between state government and UNIDO; (c) private sector development in the economic hub measured by partnerships between UNIDO and local chamber of commerce (this indicator provides an assessment of a platform available for investment attraction), number of registered firms, donor programs and population (to estimate workforce availability).

The team carried out extensive consultations with:

- Private sector players in these three economic hubs and respective value chains;
- FGS stakeholders, including MoCI, Ministry of Agriculture, and Ministry of Fisheries & Marine Resources;
- Federal Member States of Puntland and Southwest and Banadir Regional Administration;
- Real estate and logistics companies in Mogadishu with an annual turnover ranging from \$10 million to \$100 million that could be potential SEZ developer-operators.

Findings from these consultations have been analyzed and the report provides an assessment of market demand, type of infrastructure, commercial viability, implementation modality and potential sites for each of the three SEZ opportunities.

Recommendations on legal, regulatory, and institutional framework required to develop, finance, operate and regulate SEZs in Somalia. Here, we conducted consultations with relevant FGS bodies and FMS to understand current system and provide recommendations.

¹The approach and methodology for the final phase of the study was provided in the Phase 2 Report (dated 21 December 2021).

2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

2.1. Opportunities for SEZs in Mogadishu

2.1.1. Mogadishu: location advantages, economic opportunities, and key challenges

Location advantages and economic opportunities

Mogadishu is Somalia's capital city, the largest city, and an economic and financial hub. With a population of at least 2.5 million, Mogadishu has been growing rapidly. The city is bustling with real estate boom, large volumes of imports of consumer goods, construction works, proliferation of small and medium sized processing and assembly units, telecommunications and road infrastructure, banking, and hospitality services.

The Port of Mogadishu is the largest in Somalia handling on average 4,000 to 10,000 Twenty Foot Equivalent (TEU) containers per month. In 2020, the port authorities handled 164,175 TEUs increasing at an average rate of 114% since 2015.¹ Located along the coast of Indian Ocean, the Port of Mogadishu offers direct trade routes to the Middle East and South Asia. Garments, furniture, machinery, construction materials, pharmaceuticals, soaps and plastics, food commodities such as sugar, rice, vegetable oil, cereal flour are imported from China, India, Turkey, Malaysia through the Port of Mogadishu. On the other hand, fish (mainly), sesame seeds, bananas, livestock, and frankincense are exported through the Port to Saudi Arabia, UAE, Japan, China, Oman, India and Turkey.²

The trading activity has transformed Mogadishu into a logistics hub. Goods imported are consolidated and distributed

through the two key markets of Bakaara and Suuq Bacaad, located in the center of Mogadishu.

This has given opportunities to private sector that has invested in transport companies and co-operatives, third party logistics services such as customs clearance and warehousing, and distribution and trading companies.

On the other hand, exports of fish and sesame seeds have supported development of fish co-operatives, fish processing companies and sesame exporting companies. Additionally, Mogadishu has also attracted investments from local entrepreneurs and their diaspora families in light manufacturing industries such as mattresses, interlocking (to produce household items such as furniture, electrical and plumbing works), soaps and detergents, construction materials such as bricks, food items such as yoghurt, maize flour, fruit juices and among others.

Establishment of these small and medium scale companies in logistics, trading, and light manufacturing has further attracted large scale investments from diaspora groups in service sector – telecommunications, banking and financial services, energy and water supply, real estate, and hospitality. Some of these companies have grown to be large conglomerates over the last two to three decades, operating in more than one service sector and having presence in foreign markets such as UAE, Saudi Arabia, Turkey, Qatar, UK, USA, Kenya and Egypt.

All these developments have created significant employment and entrepreneurial opportunities for residents of Mogadishu and other towns and villages in Somalia that support these industries.

¹ Consultations with Ministry of Ports and Maritime Transport, Federal Government of Somalia

² International Trade Center Statistics for Exports from Imports to Somalia for HS Code 6 digits (2011 to 2019) (mirror data)

2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

Constraints to inclusive and resilient economic development in Mogadishu

There are many constraints that are limiting Mogadishu's inclusive and resilient economic development. The legacy of civil war has left the city dealing with ongoing insecurity, hybrid forms of governance, and land conflicts rooted in clan competition. Access to livelihoods, housing and services is mediated through clan networks, often leaving minority groups, women, and displaced people at a significant disadvantage. The city has large number of Internally Displaced Persons (IDPs) living in IDP camps and informal settlements and with no stable jobs and income opportunities. There are continuous disputes on land which lead to large-scale evictions of the urban poor, creating further poverty and extreme inequality.

Most of the basic services such as education, health, water, transportation, electricity, banking, and telecommunications are provided by the private sector through diaspora investments. Clan elders, business leaders, militia, civic groups, and religious authorities may provide basic security and rudimentary social safety nets. The privatization of basic services and security does not necessarily translate into increased choice, as single providers either dominate or have aligned their prices. Commodification of services generates acute problems of access for households unable to pay, and for those without networks of clan support. Inequalities are compounded by the concentration of diaspora investments and clan-linked service provision in particular neighborhoods, and exclusion of non-clan members from provision.⁴

On the other hand, while water supply services have expanded, it is beset by shortages and substandard quality. Urban poor households do not have access to piped water and rely on direct water intake from shallow wells. The government is not actively involved in water supply delivery and therefore the services are entirely privatized. While there is no shortage of water in the city, there are indications that ground water is polluted. A similar situation exists in electricity supply – the services are provided by private companies to households and businesses that can afford. There are issues around reliability of electricity and the need for a diesel-or-petrol-powered generator as a backup during power outages.⁵ As a result, several companies, particularly light manufacturing businesses are unable to operate to the full capacity. More on this along with specific evidence has been discussed in upcoming sections of the report.

In short, the economic opportunities bound by constraints continue to characterize Mogadishu as a rapidly growing yet a fragile city. However, this also provides opportunities for the city to develop an SEZ that can leverage on the growing fisheries and food processing industry and address several of the business environment constraints.

⁴ Earle Lucy (2021) *Mogadishu: City Scoping Study*, African Cities Research Consortium

⁵ *Ibid.*

2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

2.1.2. Opportunities for SEZs in Mogadishu

SEZ for informal fish processors serving the domestic market

To address infrastructure and spoilage related challenges that informal traders and processors face, it would be imperative to rehabilitate existing market infrastructure and provide an integrated infrastructure through a user-fee model.

The SEZ for informal fish processor-traders would include a demarcated zone with fish-processing, logistics and market infrastructure, combined with services such weighing machines, quality inspection, training, and capacity building, forming of trader-co-operatives, provision of equipment such as wooden crates, tarpaulin mats, and among others. Traders and processors (both men and women) would use the infrastructure daily and pay a daily or a weekly user fee. In this section, we have defined the type of infrastructure and services to be provided, approximate costs for providing the infrastructure and a highlevel assessment of its commercial viability.

SEZ for formal fish and food processing companies

The SEZ for formal fish and food processing companies in Mogadishu would include a demarcated zone which offers a transparent, regulated, and secure business environment, such that companies are not levied differentiated tariffs on utilities and other aspects of doing business. Basically, all firms will be treated equally and will be charged same fees starting from registering the business to operating the business, such that

there would be no bias or favoritism or any form of illegal payments. Additionally, the SEZ would offer reliable infrastructure and services such as water supply and electricity, combined with complementary services such as inspection and quality control, warehousing, waste management, logistics and among others, that would help companies to (a) reduce cost of production per unit and (b) scale and expand business by increasing profits and re-investing the profits into the company. The end objective of the proposed SEZ in Mogadishu would be to increase value-addition and production of locally made food-items to improve Somalia's trade balance and to serve as an example where business environment (with all the existing regulations in place) is better and secure than elsewhere in the country. In simple words, the zone must be 'special' and provide infrastructure and services that are not available in the rest of the country and thereby, contribute to the country's economic development agenda. Similar to the previous section, we describe the type of infrastructure required for the proposed SEZ, analyze key challenges and assess the commercial viability.

*Source: Triple Line analysis based on consultations with a grains processing plant in Mogadishu.

2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

2.2. Opportunities for SEZs in Baidoa

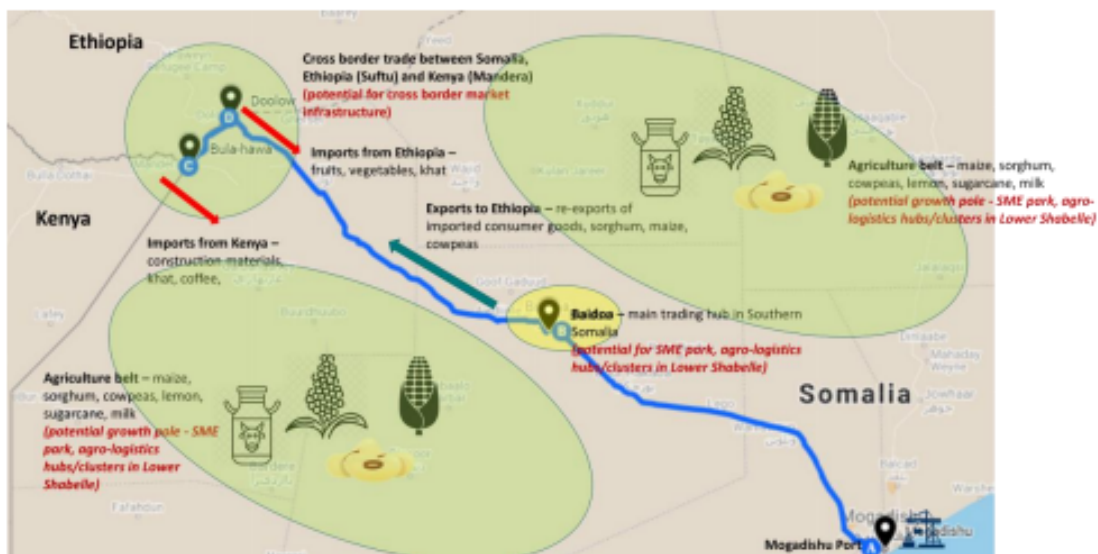
2.2.1. Baidoa: location advantages, economic opportunities, and key challenges

Location advantages and economic opportunities

Baidoa, the capital of the Bay Region in South West State of Somalia, is a strategic town and an economic hub situated along the Mogadishu – Doolow (Ethiopia) – Mandera (Kenya) corridor. The town is nearly equidistant from Mogadishu (244 kilometers away) and Doolow (227 kilometers). It lies between the two key rivers in Somalia – Jubba and Shabelle, making the area around Baidoa within Bay Region the most fertile in the country for agriculture production. These characteristics make Baidoa a natural agro-logistics cluster for production and

distribution of food items (grains, nuts, fruits and vegetables) and a habitat for agro-pastoralists to feed livestock. Sorghum is the key crop produced in Bay Region (around 145,000 MT per year), followed by maize, cassava and sesame seeds.⁴⁰ These crops are consolidated at Baidoa and traded by middlemen (wholesalers) to neighboring rural and urban centers, including Mogadishu’s Bakaara Market, Merka, Qoriyoley (in Lower Shabelle Region), Bardera and Beled Hawa (Gedo Region), Hudur and Wajid (Bakool Region) and even to Beledweyne, capital of Hiran Region in Hirshabelle State and to cross-border towns of Kenya and Ethiopia. The town also serves as a transit point for livestock (camel, cattle, sheep, and goat) being transported and traded to Garissa – Kenya’s key livestock market in the north.⁴¹

Figure 1: Baidoa as an agro-logistics cluster along the Mogadishu – Baidoa – Doolow (ETH) & Mandera (KE) Economic Corridor



Source: Triple Line Inception Report (dated 05 October 2021).

⁴⁰ Average Crop Production in Somalia 2010-2019 in MT, FAO Statistics; Triple Line Inception Report (dated 05 October 2021). ⁴¹ AMISOM (2013) Sector III Profile: Baidoa.

2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

Additionally, Baidoa also serves as a trading center for household items (processed food such as flour, rice, sugar and oil, furniture, home electric fittings, household appliances) which are imported from foreign markets through Mogadishu Port and distributed to other towns in Southern and Central Somalia. These economic opportunities have created employment for people in Baidoa and neighboring towns. Most of these people work as farmers, traders, distributors of agriculture inputs, agro-pastoralists, transporters, and informal retailers. Moreover, the ongoing movement of traders and transporters and other types of middlemen have created opportunities for service sector such as small-scale hotels and lodges, restaurants, bajaj (three-wheeler vehicles) transport services, financial services (mobile payment agents), hair-dressing/beauty salons and among others.

Further progress made in Baidoa through efforts from Baidoa Municipality in collaboration with international aid agencies

These opportunities were also accelerated by continuous efforts by the Baidoa Municipality to improve the business environment and provide basic infrastructure. Since the deployment African Union Mission in Somalia (AMISOM) forces in 2013, security has improved in the town. Baidoa Municipality has made remarkable reforms and progress in service delivery and in decentralization of governance to the subdistricts of Baidoa. The administration has continued engagement with development agencies to bring stability and support to the sub-districts in the rural areas in the hinterland of Baidoa.

Banks such as Dahabshiil, IBS and Salaam have opened branches. This has helped traders and SMEs to access small loans of US\$ 5,000 to 20,000. Some of the SMEs, co-operatives and farmers have received support from aid agencies in the form of training, receipt of fertilizers, seeds and other agriculture inputs and grants to expand their business/production activities.⁴² While firewood and charcoal continue to remain important sources of energy (especially for cooking), several residents in Baidoa also enjoy 24 hours electricity provided by Baidoa Electric Company and BECO. Most residents also have access to mobile phones and landline. The town is fully covered by 4G portable internet from service providers such as Hormuud and Somtel. With the growth of telecommunication service providers, several internet or cyber cafes have proliferated in the city.⁴³ Lastly, between 2015 and 2019, more than 20 kilometers of feeder roads were rehabilitated through funding from Somalia Stability Fund (SSF), Danish Refugee Council (DRC), International Labor Organization (ILO) and International Organization for Migration's Recovery and Durable Solutions Unit (IOMRDS). Five community roads were rehabilitated with cobble stone, approximating a total of 2.9 kilometers, and funded by Norwegian Ministry of Foreign Affairs and United National Development Program (UNDP) Somalia. The Baidoa Municipality also built a bridge on the road known as '30-ka Road' with support from SSF and Danish Demining Group (DDG). The aim was to improve accessibility for trucks coming from Mogadishu to Gedo Region (which hosts the cross borders of Doolow and Mandera with Ethiopia and Kenya respectively) while passing through Baidoa.⁴⁴

⁴² Research and Evidence Facility (REF) (July 2020) *Baidoa Municipality Initiatives on Population Displacement and Urbanization: Key Lessons Learned and Way Forward*; funded by the EU Trust Fund for Africa (horn of Africa Window)

⁴³ Ibid.

⁴⁴ Ibid

2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

Challenges deterring economic development and solutions being explored

Despite these achievements and economic progress, Baidoa remains vulnerable to several climate-related, security and infrastructure-related challenges which prohibit consistent development in the city:

- During the dry seasons (particularly between February and April), Baidoa faces a water crisis – the Isha Spring located at the center of the town dries up completely and further leaving the borewells and shallow wells to also dry up. This causes several residents (specifically agro-pastoralists) to migrate north or southwards to feed water to livestock. This crisis has been further exacerbated due to changing climatic conditions. Frequent droughts in Southern and Central Somalia have impacted agriculture production and the capacity of livestock to survive and therefore significantly impacting livelihoods of people in the Bay Region. Market activity in Baidoa is also closely correlated with seasonality and climatic conditions. Low production levels lead to increased dependence of food items from foreign markets. Prices of imported commodities increase during the dry season. This also serves as the opportunity for increased insecurity along the Mogadishu – Baidoa corridor – high toll fees are imposed, and goods are looted from trucks – as a result, such deteriorated business environment only favors the largest traders and businessmen who have the capacity to incur high marginal costs.⁴⁵

- The combined effects of drought and ongoing crisis in Baidoa have had a harmful impact on economic stability and livelihoods, leading to a chronic humanitarian situation and major displacements of population. According to UN-Habitat, in 2014, the Bay Region had a total population of 792,182 persons, of which approximately 30% were nomads and Internally Displaced Persons (IDPs) and many of these resided in Western part of the Baidoa town near the airport and in the Northern part (Horsehead quarter).⁴⁶ Some of the IDPs are temporarily employed through Cash for Work Schemes (CWS) to do construction works such as laying of roads and maintenance of machinery. They are not employed in more stable income generating opportunities such as painting of houses and buildings, agriculture production, tailoring and hairdressing.

In an effort to find long-term solutions, the FGS and South West State's Ministry of Water approached the AfDB to support development of water infrastructure for Baidoa town. The municipality recommended the construction of dams to harvest rainwater from Isha River (a dry river with flash floods during the monsoons). The dam could positively affect the ground water-table and support development of boreholes. So far, a feasibility study has been carried out. The overall proposition includes construction of a dam with more boreholes in areas with adequate underground water. A hydrogeological survey will be carried out to determine areas with adequate ground water.⁴⁷

45 REACH (2018) Comprehensive Site Assessment – Baidoa District

46 UNHABITAT & IOM (2017) Spatial Analysis for Urban Planning Consultations and Durable Solutions for Displacement Crisis – Working Paper

47 REACH (2018) Comprehensive Site Assessment – Baidoa District

2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

2.2.2. Opportunities for SEZs in Baidoa

The objective of the SEZ in Baidoa would be to reduce post-harvest losses and effectively manage storage and distribution of agriculture inputs such as seeds. We recommend an Agro-Logistics SEZ in Baidoa which would include three facilities – (1) grains processing and logistics facility, (2) horticulture cold storage and pack-house and (3) warehouses for agriculture input companies/distributors.

Implementation Modality and Commercial Viability

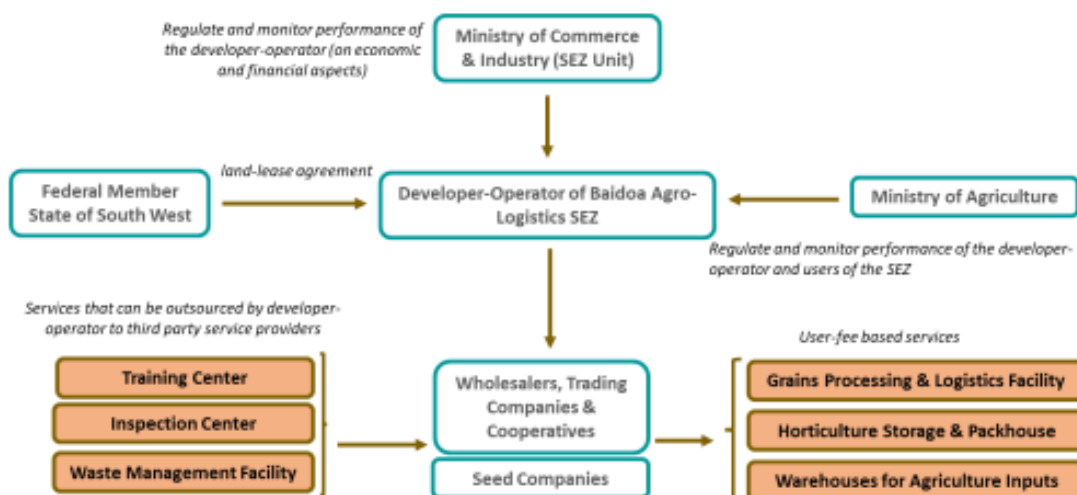
The Baidoa Agro-Logistics SEZ, can be implemented through a private developer-operator model.

The private developer-operator can develop, finance and operate the facility comprising of all the infrastructure mentioned above, and can levy a fee on processor-traders. The South West Member State can provide land and enter into a land-lease arrangement with the developer-operator, while the Ministry of Commerce and Industry and Ministry of Agriculture can regulate and monitor the performance of the SEZ. The exhibit below provides an illustration of the implementation modality

Potential Sites

The private sector and South West government have not indicated any specific locations for the development of the SEZ within Baidoa

Figure 2: Implementation Modality of Baidoa Agro-Commodities SEZ



2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

2.3 Opportunities for SEZs in Bossaso

2.3.1 Bossaso: location advantages, economic opportunities, and key challenges

Location advantages and dependence on livestock for livelihood

Bossaso, situated on the Gulf of Aden, is the third largest city in Somalia (not including Somaliland), the capital of Bari Region and the most important center on the Puntland coast. The city has an estimated population of 250,000 excluding the number of internally displaced people which are estimated to be 45,000 and growing further.

The population has been increasing because IDPs and nomadic population are leaving the south due to drought and other climatic conditions impacting livelihoods. The municipality estimates that since 2009, on average, 2,000 people migrate into Bossaso every year.⁵⁸

The climate of Bossaso is very hot and humid; the temperatures in the summer can approach 50 degrees Celsius. As a result, agriculture production is nearly absent, making Bossaso dependent on south-central Somalia and foreign markets for food. Residents of Bossaso are mainly traders, pastoralists, and fishermen – they export livestock, frankincense, myrrh, gums, fish, and animal products (hides, butter, etc.) to Middle Eastern markets and import food products, clothes, medicine, and other commodities in return.

Livestock is the main product exported; the Government of Puntland claims to earn 40 percent of its revenue from livestock sector.⁵⁹

Between 2005 and 2015, an average of 100,000 cattle, 20,000 camels and 1.5 million goats travelled through the port of Bossaso annually to foreign markets such as Yemen, Oman, the UAE, Saudi Arabia, Kuwait, Bahrain, Egypt, Qatar and Libya. 52% of the livestock originated in the interior regions of Puntland, with the rest from Southern Somalia (30 percent) and Ethiopia (18 percent). This livestock trade peaks during the Hajj season, when large livestock carriers are moored in the port and ready to transport livestock across the Red Sea to the Port of Jeddah in Saudi Arabia.⁶⁰

Foreign exchange earned from livestock exports is then used by Puntland traders to source foods from a number of international markets: India is the major source for sugar and rice; flour comes from Oman, Egypt, UAE and Turkey; spaghetti is sourced from Turkey, Oman and the UAE; and cooking oil comes from Malaysia.⁶¹

Declining livestock trade and fisheries sector as the alternative source of income

However, four consecutive years of drought have resulted in limited water supplies for livestock and people who trek long distances searching for water. Additionally, due to Covid-19 lockdowns, the food importers in Bossaso hoarded stocks and often spread rumors of impending shortages, such as rice imports from India. Prices of sugar, rice, and cooking oil increased in 2020 by nearly 20% within two-week period. Food importers also remained concerned about sourcing food commodities. Import of cooking oil from Malaysia took more than the average 30-40 days to arrive in Puntland markets. Disruptions in global supply chains and many countries dependent on Malaysia and Indonesia for palm oil were other contributing factors.⁶²

58 UN-HABITAT (2009) Bossaso – First Steps Towards Strategic Urban Planning

59 Humanitarian Information Unit, US Department of State (2009) Puntland: Instability Masking Economic Viability

2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

In Puntland, banks such as Amal, Dahabshiil, and Salaama all provide loans, and many small businesses take out loans of US\$ 10,000 to US\$ 20,000. Livestock traders are amongst the users of this facility. Due to Covid-19, access to these loans dried up as the banks were not sure whether people will be able to make the monthly repayments. Lastly, remittances also reduced and visits from diaspora to Somalia decreased in the last two years.⁶³

Drought, locusts, and other climatic factors have increasingly made fisheries and potential oil reserves as the alternative economic opportunities to the people of Puntland. The Covid-19 pandemic has also contributed to reduced dependence on livestock trade and increase in exports of fish products to earn foreign exchange and import food items.

Moreover, in 2017, Dubai-based DP World, one of the largest port operators in the world and backed by the Dubai government, won a 30-year concession worth US\$ 336 million to rehabilitate and manage the Bossaso Port. The Government of Qatar has revealed plans to build a port in Hobyo, on the eastern coastline of Puntland that would rival Bossaso for maritime trade in the region. Similarly, Dubai has established concessions with the Somaliland government to run the Berbera Port, leading to further port rivalries in the region.⁶⁴

Irrespective of the port rivalries to import food items for Somalia and hinterland of Horn of Africa, the Port of Bossaso serves to be a strategic infrastructure to export fisheries, livestock and frankincense.

2.3.2 Opportunities for SEZs in Bossaso

Type of Infrastructure

There is an opportunity to support the emerging fish industry in Bossaso by developing an SEZ that strengthens both the types of value chains described above. The SEZ in Bossaso can be known as the 'Fish Processing Zone' including two types of facilities: Fish processing and logistics facility for informal traders and Fish processing facility for formal investors/exporters

Implementation Modality and Commercial Viability

Bossaso Fish Processing Zone would be implemented through private sector participation – an SEZ developer-operator can develop base infrastructure on a demarcated zone and develop two separate facilities that would run in parallel – (1) the fish processing and logistics facility for informal processor-traders and (2) fish processing zone for formal investors/exporters.

The users of facility 1 will pay daily or weekly user-fee whereas the formal investors will pay a monthly fee including rent for serviced land and other fees depending on additional services used within the zone. We estimate that the zone would occupy 100-150 informal processor-traders and at least 3-5 fish exporting companies.

We cannot fully estimate the commercial viability of the zone because we do not have an estimate of the cost of land development in Bossaso.

2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

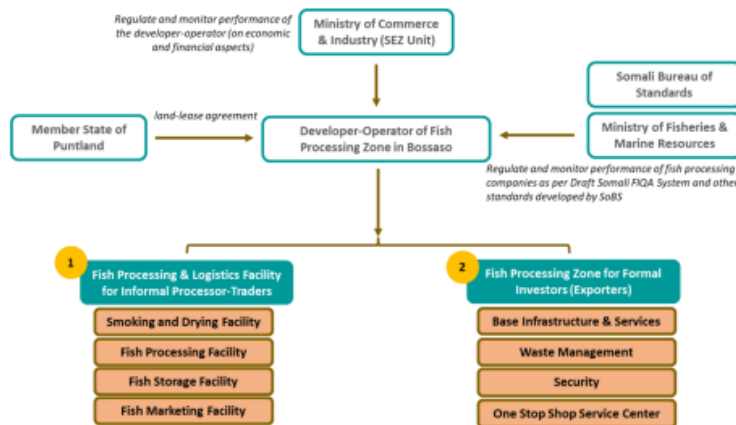
However, we can ascertain that a portion of the additional income generated by reduced spoilage / increased sales by informal processor-traders would be used as the 'userfee' for the services offered.

Potential Sites

The Government of Puntland is in discussions with DP World to develop and operate an SEZ in Puntland.

1. Garacad Sea Port (mainly to serve fisheries sector)
2. Bossaso Port and SEZ (to serve livestock, fisheries and frankincense and also imports of food items)
3. Goldogob (bordering Ethiopia, close to Galkayo) (to serve cross border trade between Ethiopia and Puntland)

Figure 3: Implementation Modality of Bossaso Fish Processing Zone



A feasibility study is being currently carried out and as per our consultations with the Ministry of Commerce & Industry within the State Government of Puntland, three sites have been identified for the SEZ.

Further details on type of infrastructure and implementation plan have not been disclosed to us. The figure on following page shows (a) a map of the three locations, (b) an ariel view of Goldogob, indicating the amount of economic activity and presence of urban clusters, and (c) Bossaso Port. In Table 1, a map of opportunity for SEZs in Somalia Based on Constraints Analysis and Demand Assesment is presented.

Figure 4: Potential Sites for SEZs in Puntland



2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

Table 1: Opportunity Mapping for SEZs in Somalia Based on Constraints Analysis and Demand Assessment

Categories	Sub-Categories	SEZs in Mogadishu		SEZ in Baidoa	SEZ in Bossaso
Type of SEZ		Fish-Processing & Logistics Zone for Informal Processor-Traders	Food and Fish Processing SEZ	Agro-Commodities Hub for Co-operatives and Trading Companies	Fish-Processing Zone for Informal and Formal Processors
Target Users / Beneficiaries	Type of Users/Beneficiaries	<u>Users:</u> Informal fish processors and traders (individuals, not registered firms) <u>Investor:</u> Single investor/developer-operator of land and superstructures	<u>Investor-users:</u> Tenants/occupants (registered companies or investors) of serviced plots within the SEZ <u>Other Investors:</u> SEZ developer-operator	<u>Users:</u> Co-operatives, wholesalers, and trading companies <u>Investor:</u> Single investor/developer-operator of land and superstructures	<u>Investor-users:</u> Tenants/occupants (registered companies or investors) of serviced plots within the SEZ <u>Users:</u> Informal fish processors and traders <u>Other Investors:</u> SEZ developer-operator of land and superstructures
	Number of Users/Beneficiaries	<u>Users:</u> 100-500 fish processors and traders <u>Investor:</u> 1 anchor investor	<u>Investor-users:</u> 5-20 companies/tenants <u>Other Investors:</u> 1 SEZ developer-operator (offering integrated services through a consortium)	<u>Users:</u> 5-8 co-operatives, wholesalers, and trading companies <u>Investor:</u> 1 anchor investor	<u>Investor-users:</u> 3-8 companies/tenants <u>Users:</u> 100-150 fish processors and traders <u>Other Investors:</u> 1 SEZ developer-operator (offering integrated services through a consortium)
	Size of Investment	~4.5 million US\$ (land development costs plus construction of superstructures such as cold storage)	<u>Investor-users:</u> 500,000 US\$ - 4,000,000 US\$ (average investment size per tenant - 80,000 US\$ to 200,000 US\$) <u>Other Investors:</u> refer SEZ development cost below	~4-5 million US\$ (land development costs plus construction of superstructures such as cold storage)	<u>Investor-users:</u> 150,000 US\$ - 1,600,000 US\$ (average investment size per tenant - 50,000 US\$ to 200,000 US\$) <u>Other Investors:</u> refer SEZ development cost below
Current Challenges in the System		<ul style="list-style-type: none"> Spillage/sun-drying methods Limited affordability of ice blocks Poor waste management (fish thrown into the sea) No cold storage infrastructure Congested fish marketplaces 	<ul style="list-style-type: none"> Unreliable energy and water supply; dependence on generators Use of reefer containers to store fish which increases energy costs Availability of land for expansion; scattered and disintegrated processing units and storage Security (goods get stolen) Limited technical capacity Limited information on access to markets (particularly for exports) Spillage of products 	<ul style="list-style-type: none"> Spillage of goods due to: <ul style="list-style-type: none"> Dependence on third party logistics services for transportation of goods Limited storage infrastructure in Baidoa; use of underground pits to store grains No cold storage infrastructure for fruits and vegetables Security (payments at checkpoints and hoarding of goods from trucks in transit) Market access Manual or no processing of agro-commodities 	<ul style="list-style-type: none"> Spillage/sun-drying methods Limited affordability of ice blocks Poor waste management (fish thrown into the sea) No cold storage infrastructure and cold trucks for transportation Congested fish marketplaces Availability of land for expansion High costs of imports of raw materials (cans to pack tuna)
/Typology of SEZ	Infrastructure	Cold storage (small in size - up to 500 to 1,000 MT of daily capacity) Sun-drying and fish filleting facilities Market infrastructure (open yet with roofs)	Serviced land (with access to piped water supply, grid-based electricity, telecommunications) Common dry warehouse (1,000-3,000 MT daily capacity; expandable) Common cold storage Bonded warehouse (to store raw materials) Factory sheds (varies across tenants)	<u>Grains processing and storage facility</u> - semi-manual drying, cleaning, fumigation, grading, sorting and storage infrastructure (use of metal silos that can hold up to 5 MT at a time or hermetic bags) <u>Fruits and vegetables storage and management facility</u> - temperature-controlled storage system (not necessarily, high-end cold storage) <u>Market infrastructure</u> (for wholesalers)	<u>For informal traders and processors:</u> Cold storage (small in size - up to 500 to 1,000 MT of daily capacity) Sun-drying and fish filleting facilities Market infrastructure (open yet with roofs) <u>For formal fish processor-exporters:</u> Serviced land Common cold storage Bonded warehouse Factory sheds
	Services	Provision of ice-blocks and packaging material (wooden boxes) Weighing machines Waste management Quality control/inspection services Training on processing methods and managing quality Security	Parking facility One stop shop service (for registration, licensing, import and export documentation and clearance, management of inventories, payments of utilities, etc) Inspection facility Business incubation center Financial services (banking) Exhibition center and office spaces Restaurants and refreshment facilities Security	Parking facility Administration services (payment of user fees, review of inventory accounts, etc) Weighing machines Waste management Quality control/inspection services Training on processing methods and managing quality Security	<u>For informal traders and processors:</u> Provision of ice-blocks and packaging material (wooden boxes) Weighing machines Waste management Quality control/inspection services Training on processing methods and managing quality <u>For formal fish processor-exporters:</u> Parking facility One stop shop service Business incubation center Financial services (banking) Office spaces Security
Potential Sites	Locations	Rehabilitation of existing Somali Fish Market Somewhere along or near Lido Beach	Hodan District, Mogadishu (Carwada Qarwanka) Near Dayniile International Airport, BRA	Baidoa Afgoi	Garacad Sea Port Bossaso Goldogob (bordering Ethiopia, close to Galkayo)
	Area of Land (in Ha)	3 hectares	8-10 hectares (expandable to 20 hectares) Average plot size per tenant - 0.15 ha to 0.6 ha; equivalent to 0.3 to 1.5 acres	3-5 hectares	5 hectares
Institutional Arrangement	Interested Developer-Operators	Moderate Interest (Jubba Group, Shabeel Group)	Significant Interest (Shabeel Group, Mogadishu Stars, Deeqa Construction Company, Jubba Group)	Moderate to Low Interest (SOMGRAIN)	Moderate Interest (Jubba Group, Shabeel Group)

2. Opportunity Mapping and Pre-feasibility Assessment of SEZs in Somalia

Table 1: Opportunity Mapping for SEZs in Somalia Based on Constraints Analysis and Demand Assessment

	Arrangement Between Developer-Operator and Users/Beneficiaries	User-fee based model (daily or weekly account)	Service-fee (monthly or annual, including lease)	User-fee based model (daily or weekly account)	<u>For informal traders and processors:</u> User-fee based model (daily or weekly account) <u>For formal fish processor-exporters:</u> Service-fee (monthly or annual, including lease)
	Arrangement Between Developer-Operator and Government	Government to provide access to land Developer-operator pays taxes on revenue earned to Banadir Regional Administration	Government to provide access to land Developer-operator pays taxes and/or a portion of revenue earned to Banadir Regional Administration and Ministry of Commerce & Industry	Government to provide access to land Developer-operator pays taxes on revenue earned to SouthWest State	Government to provide access to land Developer-operator pays taxes on revenue earned to Puntland State
Commercial Viability	Approximate Land Development Cost	US\$4 million	US\$10-15 million	No information	No information
	Willingness to Pay by Users/Beneficiaries	Moderate (users benefit from reduced spoilage and increase in income; a portion of this can be used as user fee)	High (tenants already pay for utilities; with reduced production cost per unit they would pay for additional better services)	Low (commercial viability to be determined, but the assumption here is that wholesalers and co-operatives are not registered firms - they would be users of the infrastructure and services and need to realize the benefits from reduced spoilage)	Moderate (commercial viability to be determined, but the assumption is reduced spoilage and increase in incomes should encourage willingness to pay)
Potential Impact	Investments Attracted (in US\$)	US\$4-5 million	\$20 million (including from SEZ developer-operator and tenants/occupants)	US\$2-4 million	> US\$1 million
	Value of Production (in US\$)	US\$15-18 million per year (fish capture - 4,500 MT at least)	At least US\$2-10 million (cannot be accurately estimated; the range is wide) - we assume each firm would produce at least US\$150,000 worth of goods each year to begin with and that there would be 15 such tenants	About 10,000 MT of grains processed and traded per annum for first few years from the SEZ; current price is US\$0.5 per kg is the service fee => US\$5 million	About US\$7 million (fish capture 2,000 MT per annum, average sales price US\$3.5 per kilogram)
	Jobs Created	300-400 informal direct jobs	75-90 formal direct jobs; we assume each firm would recruit 5-6 permanent workers and that there would be 15 tenants	50-100 informal direct jobs	100-150 informal direct jobs 15 - 50 formal direct jobs
	Proportion of Exports (in %)	<20%	20-30% (depends on type of tenants whether exporters or catering to local market; we have proposed the latter is the key beneficiary in the SEZ strategy in short to medium term)	<5%	>80%

3. Roadmap and strategy to develop SEZs in Somalia

3.1 Vision and policy agenda for SEZs in Somalia

An earlier phase of this assignment analyzed Somalia's economy, reviewed SEZ practices in African and other Asian economies, discussed in depth the characteristics of the private sector in Somalia, and evaluated the potential for SEZs in Somalia. Based on this analysis, we recommended an approach for the FGS to implement SEZs in the country: Somalia's SEZ program must address wider economic and social challenges in the country and therefore, should act as a catalyst for reforms in:

- Investment climate (systematic and reliable procedures for starting and operating businesses, for both local and foreign investors)
- Catalyzing local formal finance to allow companies to expand and invest further
- Value-addition of locally available raw materials
- Diversifying trade and improving trade balance
- Infrastructure for private sector development (reliable access to utilities)
- Sustaining SMEs and creating formal jobs

A phased approach is recommended, in which the short-to-medium term strategy (usually referred to as 3- 10 years) should focus on developing local value chains for local production and gradually increasing value and quality of products to enter export markets. The long-term strategy (10–20-year horizon) could include more value-addition for exports to regional and foreign markets, attracting foreign investments in the productive sectors, developing new value chains for local consumption and exports (i.e., those value

chains where raw materials are not available locally), diversifying export markets (other than Middle East countries) and positioning Somalia as a logistics hub (i.e., exports of logistics services).

SEZ strategy skewed towards promoting export of abundant natural resources without any value addition (such as livestock and fisheries) will risk the country suffering from Dutch Disease phenomenon.

Value chain development is a pre-requisite towards SEZ development and overall success of the program. This also includes development of backward and forward linkages, i.e., all interventions required to facilitate access to raw materials, reduce time and costs for transportation of goods, implement quality standards and certifications, develop skills and promote use of technology, increase access to finance, and among others, to ensure that SEZs are sustainable.

Using this approach, we provide below the building blocks of Somalia's SEZ development strategy/roadmap for short-to-medium term:

Vision for SEZs in Somalia

To create growth poles of business activity that will stimulate employment, domestic value-addition and catalyze formal credit.

Defining SEZs in Somalia

SEZs in Somalia would be defined as:

3. Roadmap and strategy to develop SEZs in Somalia

demarcated or delimited zones with base infrastructure and super-structures, that offer companies or tenants services and business environment that is safe and differentiated from the rest of the country.

The type of SEZs and nature of activities allowed within it would be driven by target beneficiaries, their value chain of operation and overall needs assessment.

Target beneficiaries

- **Formal private sector:** small and medium enterprises in the productive sectors of agriculture, food processing, livestock, fisheries, light manufacturing, warehousing and logistics, and general trading.
- **Informal private sector:** co-operatives, wholesalers, and processor-traders in the productive sectors of agriculture and fisheries

Needs assessment of the beneficiaries

To implement the short to medium term strategy, focus on basic requirements:

- Reliable road, water, and energy infrastructure within the zone (does not have to be 24/7, but to begin with reliable enough to manage production capacities and volumes)
- Training SMEs with standards and quality control; offer onsite inspection services
- Incubation and business development center for SMEs

- One stop center with various services such as to pay and file taxes, pay utility bills, access formal credit from local banks, clearance of imports and facilitation of exports, manage foreign exchange transactions. The objective here is to offer an improved regulatory environment by having a centralized agency coordinating with other government agencies.
- Security, including both physical security and protection of inventory and other assets from theft.

These requirements are in general across all types of SEZs proposed and implemented in Somalia. These can be customized further based on type of SEZ and as determined through pre-feasibility and feasibility studies.

Outcomes of the short-to-medium term strategy

- Increase in value-addition of local value chains
 - Increase in number of jobs (including, sustainability)
 - Improvement in quality of products
 - Increase in local formal capital mobilization/investments
 - Better environment management at processing units
-

3. Roadmap and strategy to develop SEZs in Somalia

3.2 Phased development of SEZs

As mentioned earlier, an SEZ Strategy for Somalia must consider a phased development of SEZ projects in Somalia. The short to medium term strategy would be to implement an SEZ that focuses on local value chain development, creation of jobs, attraction of local investments and improving business environment.

The Mogadishu Food & Fish Processing SEZ (which appears to be most attractive based on pre-feasibility assessment) must be the first SEZ to be piloted in Somalia.

The SEZ will serve as an example of safe, secure, and transparent business environment in the country. Based on the lessons learnt from the pilot SEZ, the Federal Government of Somalia can implement more SEZs as proposed in this study. However, to implement the pilot SEZ, several interventions/support systems need to be implemented. In the forthcoming sections, we discuss the approach towards developing these systems and getting Somalia ready for SEZs. These include:

- Legal, regulatory, and institutional system for SEZs
- Capacity building of SEZ implementation and regulatory authorities in Somalia
- Identification of financing options for SEZ and promotion of the SEZ program

3.3 Legal, regulatory, and institutional framework for SEZs

In this study we provide our recommendations for implementing SEZ opportunities in Somalia. The recommendations are informed by an understanding of the country's political economy as well as international good practice.

We provide recommendations on the following aspects that would drive the legal, regulatory, and institutional framework for SEZ development in Somalia:

- **Governance of SEZs** – which outlines recent international practices on the extent of freedom provided to privately-run SEZs and need for a regulatory authority to oversee and regulate these SEZs
 - **SEZ Zone Authority** – various options available for establishing the zone authority, advantages, and disadvantages of each of the options and recommendations for Somalia
 - **Developer-Operators of SEZs** – various developer-operator models, advantages and disadvantages, and recommendations for Somalia
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3. Roadmap and strategy to develop SEZs in Somalia

- **One-Stop Shop Services** – which outlines (a) various services to be offered to tenants/occupants of SEZs in Somalia (this is based on needs assessment carried out in the previous section of prefeasibility assessment), and (b) models to implement one-stop shop services
- **Investment and Fiscal Incentives** – required by both the developer-operator and tenants/occupants of the SEZ to encourage private sector participation and more investments
- **Concept of Sustainable Development Zones** – recommendations for FGS to introduce the SDZ idea early on and if possible, incorporate the same in the SEZ legal and regulatory framework

This would require the use of project finance (limited recourse) techniques to raise capital from multiple sources (i.e., private and donors) that is ring-fenced specifically to the SEZ project in question. It is not clear what experience the potential private developers have in using project finance, if any, which could be a constraint on implementing the prospective opportunities. Once established, the SEZ Authority should market prospective opportunities to suitable developers in advance of tendering. The SEZ Authority should also play a role in marketing the SEZ to tenants to ensure contracts or expressions of interest are in place to rent facilities in advance of development. This can form the basis for attracting developers and for developers to secure finance.

3.4 Financing SEZs and investment promotion

Given the context of Somalia, the recommendation is that the identified SEZ opportunities would be privately financed and implemented, and developers would be responsible for raising their own finance from available sources. At present, most of the capital investment in Somalia is financed via diaspora remittances (80%), due to limited access to commercial loans from local banks. It is possible that the opportunities identified could be financed in the same way, as part of the developer's portfolio. However, as the high-level financial analysis demonstrates, the SEZs may not be commercially attractive. In which case, the standard approach is to use blended finance approaches, whereby low-interest loans and/or grants from donors/IFIs can be blended with commercial loans and equity to reduce the overall cost of capital.

3. Roadmap and strategy to develop SEZs in Somalia

3.5 Action plan to implement SEZs in Somalia

Action	Timing	Responsibility
Presentation and validation of SEZ scoping report findings – discussion with relevant federal agencies responsible for different aspects of SEZ development and potential private sector developer-operators	Q3-4 2022	UNIDO
Establish Apex SEZ Authority	Q1 2023	President of Somalia / relevant Ministry with oversight
Review and draft missing legislation	2023-24	Relevant ministries including Commerce and Industry, Finance, Public Works, Agriculture etc. and Attorney General's Office
Recruitment and capacity building of staff for Authority	2023-24	Recruitment by line ministry with oversight, capacity building by UNIDO
Detailed feasibility studies / business plans for SEZ opportunities	Q1 - Q3 2023	UNIDO or other donor / IFI
Identification of financing and procurement options	Q4 2023	Recommendation as part of feasibility study actioned by SEZ Authority
Marketing of opportunities	Q1-2 2024	SEZ Authority
Tendering and procurement of SEZs under developer-operator model	Q3-4 2024	SEZ Authority with assistance from UNIDO

Annex 1. Key Legal Lessons of SEZ Development from other FCAS

Fragile and Conflict-Affected States (FCAS) face special challenges when launching SEZs. SEZs aim to attract investment in order to stimulate economic growth. However, fear of conflict and political uncertainty in FCAS often deters potential investors. Nevertheless, if the legal and regulatory framework is well designed, an SEZ can hold great promise for FCAS. SEZs of FCAS may aim to: (i) attract private-sector investment; (ii) generate employment; (iii) serve as a stable pilot area for reforms to policies and institutions, especially when it is not possible to make changes nationwide. In doing so, such SEZs may bypass institutional dysfunctionality; and (iv) provide good governance, encourage sustainable growth, apply green growth paradigms, or leapfrog over traditional development pathways to technologically enabled pathways. Annex 2 contains our research memorandum on comparable FCAS and their experience with SEZs. Somalia could learn from the experience of other FCAS and adapt key lessons from the experience of other FCAS to its own context. Mainly, given Somalia's legal and institutional circumstances, our research suggests that Somalia should consider the following main lessons from SEZs in FCAS:

(1) Strong private-sector participation in zone management is important

Encouraging private-sector developers and operators to play a significant role in the administration and management of zones can help compensate for some of the capacity deficiencies in government agencies. Moreover, structured partnerships with these private-sector developers and operators can be designed in a way that transfers skills, knowledge, and technology over to the government agencies regulating the zones, so that the state can play a more effective role over time. There are a number of positive examples of the private sector helping promote stability and growth in FCAS outside the narrow SEZ context. The private sector can deliver critical infrastructure in FCAS. This happened in Liberia through the Liberia Electricity Corporation and in Afghanistan and Sierra Leone through mobile cellular telephone providers. Businesses can even play a direct part in state-building efforts through public-private dialogues, as was the case, for instance, in Liberia, Myanmar, South Africa, and many other countries. Somalia's working with private-sector partners to manage SEZs may produce similar outcomes. Already, Somalia's private sector companies such as those in the real estate, logistics, and construction sectors show some capacity to operate zones. For instance, the Shabelle Group in Somalia is currently operating Somalia's airport zone. Somalia could consider supporting the work of other private sector partners to help run its SEZ operations.

(2) The legal and regulatory framework must envision a delegation of relevant regulatory and administrative functions to dedicated privately managed zone-level institutions

Many successful SEZs enjoy significant autonomy and feature in governments' decentralization strategies. For instance, in Djibouti - an FCAS - the zone authority performs the functions of several different government ministries. From business licensing to immigration visas and drivers' licenses, the zone authority streamlines the provision of facilities for businesses.

Annex 1. Key Legal Lessons of SEZ Development from other FCAS

Especially in FCAS contexts, private-sector developers and operators can carry out delegated responsibilities on behalf of governments. Such developer-operators' incentives are aligned with the zone's performance since rising demand for space within the zone and zones' international reputation helps private sector developers and operators.

(3) Allow room for legal certainty and the rule of law

The fear of conflict, political instability, and broader concerns regarding legal certainty and the rule of law in FCAS often deters potential investors. Businesses and investors value legal certainty and predictability.

They also value limited discretion of those in government, access to clear and consistently applied laws, equal treatment under law, and related good practices. In particular, clear, predictable, and easy to access rules help investors better price their risks and operate their businesses. While legal certainty can often be challenging for conflict-affected states, it is possible to carve out enclaves of certainty and good rule of law practices in the form of SEZs and their institutions. For Somalia specifically, our primary research suggested that private sector companies with the financial capacity to invest in SEZs would be reluctant to do so in the absence of legal certainty and political stability. At minimum, SEZ developer-operators and businesses would require that laws develop in line with prior precedent and that they are not entirely repealed unexpectedly. Relatedly, SEZ stakeholders would also benefit from good title to land, physical safety, safety of their investments through predictable and progressive legal changes, access to clear laws, and limited discretionary or unlawful practices in connection with the collection of taxes and other duties.

(4) SEZ institutions matter

All research on SEZs and economic development suggests that institutions matter for development. Somalia's SEZ legal and regulatory frameworks must prioritize institutions above all else. Technical assistance, existing infrastructure, tax incentives, or financial resources will make SEZs successful if SEZ institutions remain weak. Somalia's government must empower dedicated and highly competent zone-level public and private institutions, delegate regulatory functions to them, and establish new zone-specific rules for doing business. In so doing, its SEZs can become both enclaves for business-enabling reforms and starting places for building better institutions across the country.

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