SOMALIA

Somalia is not graded in the 2019 Index of Economic Freedom because of the continuing unavailability of relevant comparable statistics on some facets of the economy. Although Somalia lacks effective national governance because of ongoing violence and political unrest, its largely informal economy is able to function through remittance/money transfer companies and telecommunications. The central government controls only part of the country, and formal economic activity is largely restricted to urban areas such as Mogadishu and a few regional capitals.

Stability in Somalia is extremely fragile because of fierce clan-based rivalries within the political elite and the continuing influence of Islamist insurgents. The lack of central authority makes the rule of law inconsistent and fragmented, with different militias, authorities, and tribes applying varying legal frameworks. Traditional Islamic jurisprudence (Sharia law) has become entrenched. Levels of corruption remain high, and the lack of transparency and formal bookkeeping makes government revenues vulnerable to embezzlement.

BACKGROUND: British and Italian Somalilands merged to form Somalia in 1960. A coup led by Mohamed Siad Barre in 1969 ushered in two decades of brutal socialist rule. Since the collapse of Barre’s regime in 1991, multinational military peacekeeping missions—currently the African Union Mission to Somalia (AMISOM)—have protected a succession of weak and short-lived governments against the Islamist terrorist group al-Shabaab. In 2017, Mohamed Abdullahi Mohamed won the presidency in a delayed and corruption-ridden electoral process. In 2018, competing military forces occupied the parliament building during a dispute between the executive and legislative branches. Somalia’s GDP and living standards are among the world’s lowest; many people depend on remittances from abroad. Livestock, agriculture, and fishing are economic mainstays.
Somali authorities are incapable of protecting property rights. Disputes over real property are at the core of ongoing civil unrest, marked by conflicts over land, land-grabs by warlords, and huge displacements of local populations. Civil courts are largely nonfunctional. Penalties for corruption exist, but implementation is nonexistent. Transparency International’s 2017 Corruption Perceptions Index ranks Somalia as the world’s most corrupt country.

There is no effective national government that can provide basic services. Other than the collection of very limited duties and taxes, little formal fiscal policy is in place. The country’s economic recovery continues to be protracted, and dependence on aid persists. A new income tax law has been submitted to parliament for approval, but the lack of pro- ductive economic activity severely constrains the government’s ability to generate revenues.

Violence and political unrest have prevented Somalia from developing a coherent and coordinated domestic marketplace and functioning business environment. The labor market is dominated by informal hiring practices. The government has no control over monetary policy, but Somalia’s informal agricultural, construction, and telecommunications sectors have experienced modest growth without subsidies.

The combined value of exports and imports is equal to 77.7 percent of GDP. Much of the population remains outside of the formal trade and banking sectors, and private investment remains extremely limited. Foreign firms have shown some interest in investing in the hydrocarbons sector and ports infrastructure, but investments have been held up by political disputes between central and state-level agencies over how to manage these projects.