Overview

The Federal Republic of Somalia was set up in 2012, the first permanent government structure since 1991. It is in East Africa, forming part of what is referred to as the Horn of Africa, and is approximately 640,000km². It is bordered by Kenya to the southwest, Ethiopia to the west and Djibouti to the northwest, and has the longest coastline in Africa. Somalia's capital city is Mogadishu. The population is approximately 15 million people, of which 45 percent are urban with an annual urbanisation rate of 4.13 percent.

According to the African Economic Outlook 2019, real gross domestic product (GDP) growth was estimated at 2.9 percent in 2018, driven by expansion of the livestock, agriculture, financial and telecommunications sectors. Somalia’s GDP is US$7.48 billion, about US$498.7 per capita and most of the GDP (83 percent) is made up of government and private consumption. Slow economic growth of 2.9 percent in 2018, although an increase on 2017 growth, was a result of the high current account deficit, driven by imports due to persistent drought (imports increased by 21 percent from 2013 to 2016), high oil prices, Saudi Arabia’s ban on Somali livestock imports and the Rift Valley fever outbreak, as indicated by the African Economic Outlook.

The Consumer Price Index (CPI), as reported by the Somalia Directorate of National Statistics, indicated that overall CPI from July 2018 to July 2019 increased by 6.81 percent. Housing, water, electricity and gas decreased year-on-year by 1.4 percent indicating an increase in affordability. All other sectors increased significantly.

Somalia suffered severe drought in 2017, as well as terrorist attacks, which continue to plague the country in 2019. Rural Somalis have been the most affected by the drought and terrorist attacks, resulting in an increasing influx of Internally Displaced Persons (IDP) to larger cities such as Mogadishu, adding to the strain on public services.

The 2018 National Budget Speech highlights four priority sectors: health, education, roads and agriculture. This reflects key challenges in Somalia which include weak infrastructure damaged from conflict, high international debt, weak yet emerging institutional capacity and high unemployment, at 24.8 percent in 2014. Importantly, remittances into Somalia increased by 28 percent between 2013 to 2017, at a total of US$1.67 billion. Remittances are a major source of income for households and businesses.

Access to finance

The Central Bank of Somalia, under provisions of the Banking Regulations Act of 2012 is responsible for licensing, supervising and regulating Somali commercial banking and non-banking financial institutions including microfinance, mobile money transfer, insurance and credit associations. Six banks are licensed and operating in Somalia: Dahabshiil Bank International, Salaam Somali Bank, Amal Bank, Premier Bank, International Bank of Somalia, and Amana Bank. Three of these banks offer housing/real estate/land and construction financing. Four additional banks are also licensed but not yet operational. There are 11 licensed money remittance providers – Hawalas – and seven microfinance providers, including Dahabshiil Bank, Kaash International Microfinance, Silatech and Kaash Express.

As indicated in Making Finance Work for Africa, 2019, prior to financial institution regulatory reforms in 2012, the informal market supported the basic financial needs of Somalis including trust-based loans and Hawalas (or money transfer services), which assisted in the international transfer of money as well as domestic transactions. According to the International Monetary Fund (IMF), mobile

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**KEY FIGURES**

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<td>Main urban centres</td>
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<td>Exchange rate</td>
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**Source:** Coinmill, Numbeo, UN Habitat, Fortitude of Africa, BDH Bank, Islamic Development Bank, African Development Bank, World Bank World Development Indicators, Ethiopia National Bank, IMF World Economic Outlook Database, UN Data, UNDP: Human Development Reports, Somali Homes, UNHabitat, World Bank World Development Indicators, UN African Economic Outlook.
money and money transfer businesses play a significant role in providing financial services in Somalia, and provided trade finance of approximately US$2.1 billion in 2017. Mobile money services have a 73 percent penetration rate in Somalia and remittances are approximately 20 percent of GDP.

In 2017, 7.9 percent of adults held accounts at formal financial institutions, showing low levels of financial inclusion. However this is expected given the nascent nature of the financial sector in Somalia. Financial sector assets are equivalent to 4.3 percent of GDP and credit to the private sector is 1.3 percent of GDP.11 Commercial banking facilities are concentrated in urban areas. According to Making Finance Work for Africa, 2018,12 key challenges for the financial sector in Somalia include trust and information deficits, lack of capacity and financial infrastructure, unfavourable terms and conditions, as well as insufficient collateral for the majority of the public. Some strides have been taken with the support of the World Bank, for example through the Somali Core Economic Institutions and Opportunities Program (SCORE), which aims to strengthen central bank supervision and regulations by building legal, regulatory and policy frameworks.12 SCORE is funded by the Multi Partner Fund.13 There are no credit bureaus in Somalia. The Somali banking sector is highly liquid with a loan to deposits ratio of 47 percent and is, "financially sound and well capitalised with a total assets ratio above 15 percent."19 While the insurance sector is still in its infancy, two companies are operating in Somalia.

The IMF supports Somalia through the Heavily Indebted Poor Countries initiative to help relieve debt. Current support includes the IMF, World Bank, African Development Bank (AfDB), European Union, and United Nations.20 Somalia’s currency collapsed in 1991 due to the civil war. Ever since, the country has been using foreign currency (US dollar) and all local currency in circulation is counterfeit. The introduction of new bank notes will replace this counterfeit currency.

Plans are underway to re-establish Somalia’s monetary policy and introduce a new Somali currency, which seeks to assist in rebuilding the credibility of Somalia’s financial sector and overall economy against counterfeiting.21 Currently, limited information exists on the implementation of the strategy, progress and timelines of introduction.

Importantly, the Somalia banking sector is mainly governed by Islamic banking. This refers to interest free banking governed by principles of Islamic Sharia. What this means in the context of Somalia is that the lending terms differ. There is no mortgage interest rate as lending is interest free. Instead, there is a down payment requirement by banks; banks also require a Murabaha payment (or profit mark-up) upfront on the net cost of the property.

Affordability

The World Bank supported Somalia by undertaking a study in 2016 to profile poverty in the country. This aims to aid stakeholders by providing crucial data to inform policies and programmes targeted at socio-economic reform and restructuring in the country.20 The report indicates that the percentage of the Somali population living below the international poverty line of US$1.90 in 2011 PPP (purchasing power parity) ranges between 26 percent (for example, 27 percent in North East Somalia) and 70 percent (for example, 61 percent in North West Somalia) depending on the region. Overall one in every two Somalis were living in poverty in 2016 with one in every three facing the possibility of extreme poverty. Somalia has a GINI index of 37 percent, well below the African average of 42 percent. The total daily per capita expenditure is US$1.25 2011 PPP and poverty is worst among IDP settlements.

There are also disparities in the extent of poverty in rural, urban and IDP areas. According to the Poverty Profile23 ongoing drought and insufficient rain affects the purchasing power and food security of large parts of the population.

The Poverty Profile24 shows that poverty in Somalia is multidimensional, with 71 percent of Somalia’s population not having access to information, 41 percent lacking access to an improved source of water, and 36 percent without access to education. Literacy rates are low in Somalia with only 16 percent having completed primary school education, seven percent secondary education, and only 55 percent can read and write. The labour force participation rate is 32 percent for males and 18 percent for females.

A presentation by Jama (2016)25 indicates that, on the demand side, key challenges include short repayment periods due to risk of liquidity, down payment value requirements, Murabaha rates, limited real estate developers, and the high cost of residential property. There are short repayment periods of three years, or 60 months (Amlal Bank Home Finance) in some cases, which adds to the affordability challenge. An example presented by Jama (2016) indicates that a house that costs US$75 000 would need a monthly payment of US$2 012, which includes a 30 percent down payment and 15 percent Murabaha rate, over a period of 30 months. This is unaffordable to majority of the population, given that only 7.9 percent of people have accounts at formal financial institutions. This highlights a dire need for affordable finance that services the affordable market in Somalia. The down payment value that financial institutions require is between 20 percent and 30 percent of the price inclusive of the Murabaha. The Murabaha rate, according to Jama (2016) is charged by banks at between 12 percent and 30 percent on the net cost of the house. This is in addition to the down payment.

The GNI per capita (2018) is US$20 431 a year equating to US$1 702 a month. While there are few properties on the market for sale, the cheapest house found on property websites, such as My Property,26 was Sh.Sh. 27 953 264 (US$48 000) and average rental for listed apartments was Sh.Sh. 203 826 (US$350).

Availability of data on housing finance

Given Somalia’s history of conflict and the destruction of systems, the government and other administrations have been left in a position of reconstruction. Data relevant to housing, housing finance and associated sectors is extremely difficult to find online. This could be for a variety of reasons, including the use of paper as an administrative mechanism. There is a need to digitise and sort information. The research to write this profile included identified that historic records, such as title deeds, were either destroyed or moved overseas, making it difficult and costly to access historical records. It is also extremely difficult to undertake on-the-ground research because of vulnerable conditions and security risks throughout the country.

Access to data and the general availability of data have been identified as a key gap by the government. To this end, strides have been made towards providing reliable data that reflects the status quo. This is evident in the effort the government has put into placing available information, when possible, on ministry websites. However, this information is often outdated, not comprehensive and contact information links may need updating. Hard data is lacking for evidence-based planning.

The IMF indicates that data gaps are caused by institutional weaknesses, weak capacity, and poor data. The authorities have taken steps toward addressing this by establishing the Somali National Bureau of Statistics and have submitted a new statistical law to parliament for consideration. Somalia benefited from technical assistance from the IMF in this process. Statistics South Africa with the support of Statistics Sweden also hosted a statistical quality management study tour which sought to “exchange experience on process management especially in planning and monitoring of work, organise a national statistics system, national accounts, price statistics, communication and quality assurance”.

Housing supply

According to Somalia’s National Development Plan 2017-2019,27 1.47 percent of households in Somalia are IDPs living in informal settlements or camps. Eighty-five percent of the population live in slums or partially destroyed housing. Access to adequate housing is an increasing problem in Somalia given the high urbanisation rate, exacerbated by IDPs seeking refuge in urban areas. Housing is mainly provided informally by individuals and typically lacks access to basic services such as electricity, water and sanitation. In addition most urban dwellers are living in unsatisfactory conditions as most of Somalia’s private and public housing stock has been destroyed by more than 20 years of conflict.28 Against this backdrop, the National Development Plan prioritises housing and states: “Increase access to
adequate and affordable housing in particular for IDPs, returnees, the urban poor and other persons in vulnerable situations.\textsuperscript{29} The National Plan identifies the need for a National Housing Strategy and Land Policy, which includes facilitating access to land for housing development, developing the local economy by using local raw materials and labour, establishing municipal housing programmes to provide rental housing subsidies or owner-driven incremental reconstruction using microcredits for buying building materials, among others.

The International Institute for Economic Development (IIED), identifies four types of housing in Somalia; 1) Buuls which are temporary shelters made of mud, sticks and other materials; 2) corrugated iron sheet housing inhabited by low to middle income earners costing US$140 on average a month typically located on the periphery of the city; 3) villas located in the older city suburbs and peri-urban areas inhabited by middle and upper middle class Somalis with an average cost of US$350-US$500 a month located within the city centre.\textsuperscript{31}


Developments in the cement industry since 2017 include the development of land registries and the reintegration of IDPs. Other challenges identified in the National Development Plan (2017-2019) include the lack of a functional legal system, which makes land administration difficult.

An internet search identified five formal real estate agents operating in Somalia: Somalia Homes, Kaah Properties, Somali Real Estate Investor, My Property, and H2O Property Management and Development. The price of rental property for a one-bedroom apartment in the city centre, according to the Numbeo website, is US$124.36 and US$59.55 outside of the city centre. The rental market is mainly informal, according to IIED, and often involves paying between one and three months of rent upfront. According to Numbeo, the price per square meter to buy an apartment in the city centre is US$27 383.33 and US$21 914.80 outside the city centre.

**Policy and regulation**

Article 43, Chapter 3 of the 2012 Provisional Constitution refers to land; however, according to the IIED, it remains vague on land conflict issues. Land is governed by a mix of formal, customary (Xeer) and Sharia Law. Customary law involves elders and religious leaders and clans. Majority clans, however, are often favoured over minority clans. Sharia law is when religious leaders (Ulema) adjudicate.\textsuperscript{37}

The Somali Civil Law stipulates some of the rental market conditions, including that landlords can only evict tenants who breach a contract or by mutual arrangement. However, this is hardly enforced as there are limited formal rental agreements.

According to the National Development Plan (2017-2019), legislation on managing land and resolving disputes is mainly outdated and there is limited spatial planning or urban management. An inadequate land titling system has been identified as a key challenge by the private sector. In addition, dual claims over land, unresolved land disputes, and informal occupation of public land, hinder public and private access to land and resolving disputes.
investment in infrastructure assets. The National Development Plan identifies the need for a National Urban/Land Policy that also addresses land administration.

Opportunities

The population and potential workforce of Somalia is relatively young with almost 70 percent of inhabitants under the age of 30. This, coupled with a “vibrant private sector; a large diaspora willing to invest in the country; import substitution and export promotion (to target the trade deficit); nascent agricultural, agribusiness and fishing industries” provides an opportunity for growth and development in Somalia.

The 2018 Budget Speech finds continued efforts to improving security in the country to sustain economic development and growth in the country. In addition, Somalia has applied to be a partner state of the East African Community which is still under review. In July 2018, Somalia was admitted as a member of the Common Market for Eastern and Southern Africa. This membership could be highly beneficial for the economy of Somalia, which would in turn increase the quality of life for Somalis given its strategic geographical location for trade.


Author’s own research (2019). Internet search.


Email correspondence with Calmin Henneberry, RA International, 21 August 2019.


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