

# Somalia

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### New trends in 2024

After more than a decade of dedicated financial governance reforms, in 2023, Somalia reached the completion point of the Highly Indebted Poor Countries (HIPC) initiative which unblocks opportunities for debt waiver, as well as future funding concessions to access additional financing for its development needs. This offers the country the opportunity to expand its strategic focus including provision of basic services. The same reforms are having a positive impact on the financial and banking sector:

Improved security in the country has catalysed housing sector growth, making it more vibrant than before with a lot of private sector driven construction going on especially in Mogadishu.<sup>1</sup> In Mogadishu, the construction sector has been extremely active with a lot of older buildings being replaced by high rise buildings with sophisticated architecture. The construction boom in the major urban areas presents unprecedented opportunities for the country's economic growth and urban development.

In 2023, the UN agencies together with the government of Somalia developed a recovery strategy to support owner driven reconstruction processes and restoration of the infrastructure facilities that were affected by floods.<sup>2</sup> Further, the country embarked on development of vision 2060 which will foster its future development path guiding all development frameworks and building of essential institutions for recovery and reconstruction. This presents an opportunity for the government to define a more coherent housing sector development strategy.

### Macroeconomic overview

Somalia has a population of approximately 18 143 378, and an annual growth rate of 3.1%.<sup>3</sup> Somalia has one of the highest urbanisation rates in the region with 47.92% of the country's population living in cities.<sup>4</sup> The two main urban areas are Mogadishu and Hargeisa with a population of 2.610 million people and 1.127 million respectively.<sup>5</sup> Currently the country is urbanising at a rate of 4.31% annually.<sup>6</sup> This translates to a growing demand for urban housing and other basic services; an issue that poses a considerable challenge for public policymaking in the context of weak institutions and limited economic means. Demand for housing in urban Somalia has further been exacerbated by the prolonged humanitarian crisis in the country including drought, floods, conflict and other related shocks that have resulted in an increase in internally displaced people (IDPs), poor shelter conditions, overcrowding, insecurity of tenure and poverty.<sup>7</sup>

Demand for housing in Somalia remains high while supply is not commensurate. It is estimated that 4.8 million people are in need of shelter in the country.<sup>8</sup> More than 50% of the country's population live in slums.<sup>9</sup> The susceptibility of the country to recurring environmental shocks has worsened this situation and in 2024 the number of new displacements so far is 194 000, adding to the 1.420 million persons displaced in 2023.<sup>10</sup> Additionally, the estimated disaster impact of the 2023 floods on the housing sector was SOS\$4 billion (US\$9.4 million).<sup>11</sup> Nonetheless, observations of

### KEY FIGURES

|                                             |                                                                                                                |                                                      |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------|------------------------------------------------------|
|                                             | Exchange rate (1 July 2024): 1 USD = [a]                                                                       | 570.00 Somali Shilling                               |
| Demographic                                 | Total population [b]   Total households                                                                        | 18 143 378   n/a                                     |
|                                             | Population growth rate [b]                                                                                     | 3.05%                                                |
|                                             | Urban households   Urbanisation rate [b]                                                                       | n/a   4.3%                                           |
|                                             | Three largest cities [c]                                                                                       | Mogadishu, Borama, Hargeysa                          |
|                                             | Percentage of urban population living in slums                                                                 | n/a                                                  |
| Economic                                    | GDP per capita (Current US\$) [b]                                                                              | US\$644                                              |
|                                             | GDP (Current US\$) [b]                                                                                         | US\$11 680 million                                   |
|                                             | GDP growth rate [b]                                                                                            | 3.10%                                                |
|                                             | Inflation rate [d]                                                                                             | 4.80%                                                |
|                                             | Gini coefficient   HDI country score (2022) [e]                                                                | n/a   0.38                                           |
| Employment                                  | Unemployment rate (excluding discouraged job seekers) (2022) [p]                                               | 19.1%                                                |
|                                             | Percentage of women participating in formal labour market [f]                                                  | 21.20%                                               |
|                                             | Employment (% of total labor force) – Informally employed (2019) [f]                                           | 82.50%                                               |
|                                             | Median range of annual pay of public servants before tax [g]                                                   | SOS2 124 400 – SOS6 420 700 (US\$3 727 – US\$11 275) |
| Housing finance                             | Proportion of adult population that borrowed formally (2021) [h]                                               | 57%                                                  |
|                                             | Number of residential mortgages outstanding                                                                    | n/a                                                  |
|                                             | Value of residential mortgages outstanding                                                                     | n/a                                                  |
|                                             | Ratio of mortgages to GDP                                                                                      | n/a                                                  |
|                                             | Average lending rate                                                                                           | n/a                                                  |
|                                             | Typical non-subsidised interest rate of residential mortgages                                                  | n/a                                                  |
|                                             | Number of residential mortgage providers (2023) [i]                                                            | 3                                                    |
| Number of microfinance providers (2023) [j] | 12                                                                                                             |                                                      |
|                                             | Number of microfinance loans outstanding (2023) [k]                                                            | 3 880                                                |
| Property market                             | Total number of residential properties (formal and informal)                                                   | n/a                                                  |
|                                             | Total number of residential properties with a title deed                                                       | n/a                                                  |
|                                             | Percentage of women who own a house alone and/or jointly                                                       | n/a                                                  |
|                                             | Number of formal dwellings completed annually                                                                  | n/a                                                  |
|                                             | Median national house price                                                                                    | n/a                                                  |
|                                             | Price of the cheapest, newly-built house by a formal developer or contractor in an urban area [l]              | SOS23 024 349 (US\$40 379)                           |
|                                             | Size of the cheapest, newly-built house [m]                                                                    | 45m <sup>2</sup>                                     |
|                                             | Typical monthly rental for the cheapest, newly-built house                                                     | n/a                                                  |
|                                             | National average construction cost per square meter                                                            | n/a                                                  |
|                                             | Cost of standard 50kg bag of cement (2023) [q]                                                                 | SOS4 264 (US\$7.48)                                  |
|                                             | Building materials annual cost inflation rate                                                                  | n/a                                                  |
| Green                                       | ND-GAIN Index measuring the ability of housing & infrastructure to withstand climate-related events (2021) [n] | 33.8                                                 |
|                                             | Percentage of total population living in areas where elevation is 5 meters or less (2015) [b]                  | 3.50%                                                |
|                                             | Are green residential construction certification standards used? [i]                                           | Yes                                                  |
|                                             | Percentage of total households using renewable energy sources for electricity and heating (2021) [b]           | 95.40%                                               |
|                                             | Number of EDGE-certified homes [o]                                                                             | n/a                                                  |
|                                             | Price of low flow taps                                                                                         | n/a                                                  |

NB: Figures are for 2024 unless stated otherwise.

|                                                              |                                             |
|--------------------------------------------------------------|---------------------------------------------|
| [a] Xe.com                                                   | [i] Office of the President                 |
| [b] World Bank World Development Indicators (as at end 2023) | [j] National Economic Council of Somalia    |
| [c] World Population Review                                  | [k] Africa Enterprise Challenge Fund (AECF) |
| [d] International Monetary Fund (IMF)                        | [l] Physical Planning Somaliland            |
| [e] United Nations Development Programme (UNDP)              | [m] Expatriation                            |
| [f] International Labour Organization (ILO)                  | [n] Notre Dame Global Adaptation Initiative |
| [g] World Salaries                                           | [o] EDGE Buildings                          |
| [h] World Bank Global Findex Database 2017                   | [p] Somalia National Bureau of Statistics   |
|                                                              | [q] Central Bank of Somalia                 |

\*The 2023 Yearbook profile for Somalia has been updated for 2024.

## CASE STUDY: Darussalam Housing Project

Darussalam Estate is located 7km from Mogadishu City Center. It is the first large scale housing project in Mogadishu with over 6 000 proposed housing units and categorised as high-end by the developer. The first phase of the project which entailed construction of 500 units, was launched in 2015. The project is financed by Salaam Bank Somalia. Its approximated investment value was SOS11.4 billion (US\$20 million). It contains a mix of housing typologies distributed under different estates. This includes bungalows, villas, and apartments. The units are both for sale and rental with a 3-bedroom apartment renting out for SOS199 573 (US\$350) per month. The project targets mainly households who are settling back into the country and wish to live in a secure place away from the city. The project is a gated community with all support facilities ranging from an amusement park, schools and mosque.<sup>85</sup> “High end and exclusive” was noted to be a common selling point for houses in Mogadishu, possibly because exclusive and gated is seen to be synonymous with safety from the insecure nature of the city.<sup>86</sup>



The bungalows (left), apartments (middle) and villas (right) at Darussalam Estate.

Source: <https://www.youtube.com/watch?v=l7SwtW88k1U>

the level of building activities in the main cities suggests a booming construction sector.<sup>12</sup> Driven by the housing demand from rapid urbanisation, as well as diaspora investments, there is a visible construction spree, predominantly in the capital of Mogadishu but also in regional capitals and major towns with rehabilitation and reconstruction of many old areas taking place.<sup>13</sup>

Somalia has a gross domestic product (GDP) of SOS6.66 trillion (US\$11.68 billion) with a GDP per capita of SOS366 644 (US\$643.8), reflecting an annual GDP growth rate of 3.1%<sup>14</sup> that is projected to rise to 3.7% in 2024.<sup>15</sup> The rise in GDP growth can be attributed to the increase in agricultural production after the prolonged 2021-2022 draught, moderate growth rate in remittances and credit to the private sector. Inflation was reduced to 6.1% in 2023 and further to 4.8% in 2024.<sup>16</sup> Somalia maintains a largely informal economy that is highly reliant on commodities whose demand suffers seasonal effects and unpredictability,<sup>17</sup> such as livestock farming and remittances. In the last quarter of 2023, 78% of the country's total exports were livestock which contributed SOS76 trillion (US\$133.4 million) to the economy.<sup>18</sup>

In the last quarter of 2023, construction materials accounted for the second highest imports into the country at 14%, second only to food at 28% of total imports.<sup>19</sup> Over-reliance on imports for construction materials has had a direct implication on the overall cost of housing.<sup>20</sup> As per the country's approved budget in 2023, 96% of the country's spending was recurrent while only 6% of the budget was meant for capital expenditure.<sup>21</sup> This indicates very low government investments in capital projects such as public housing and infrastructure, resulting in an over-reliance on the private sector and other donors as the main player in housing provision. Other challenges facing the housing sector in Somalia include land acquisition challenges, lack of proper regulation of the sector, access to financing and unregulated pricing schemes.<sup>22</sup>

### Access to finance

In the past decade, Somalia has worked hard to strengthen its financial governance and infrastructure with the support of the IMF. In 2023 the country achieved HIPC status which enables it to access concessional funding. The Central Bank of Somalia (CBS) has tremendously improved its role of licensing and supervision of the financial sector.<sup>23</sup> In 2023, the country attracted its first international bank branch. Currently, the formal financial sector consists of 13 licensed domestic commercial banks, 15 licensed money transfer firms, four licensed mobile money operators and two foreign bank branches.<sup>24,25</sup> Nine of the 13 registered banks in the country provide housing finance.

Somalia's finance system is dominated by money transfer operators. Three-quarters of the population use mobile money transfer compared to only 15% of the population who have bank accounts with formal banks. Of these, only 5% are active.<sup>26</sup> Seven percent of those who have bank accounts are women.<sup>27</sup> Public confidence in formal banking is increasing as demonstrated by growing deposits. Bank deposits grew by 23% to SOS815 million (US\$1.43 million) in the fourth quarter of 2023, up from SOS661 million (US\$1.16 million) in the corresponding

period of 2022. Commercial banks have recorded remarkable asset growth with total assets at the end of Q4 of 2023 increasing by 23% to SOS1 billion (US\$1.8 million), up from SOS833 million (US\$1.46 million) in the corresponding quarter of 2022.<sup>28</sup>

Private investment remained resilient despite a drop in foreign direct investment from 8% in 2021 to 7.8% in 2022.<sup>29</sup> The banking sector also remained stable with the non-performing loans dropping slightly to 2.6% of the gross loans from 2.7% in 2022.<sup>30</sup> Bank credit to the private sector in the last quarter of 2023 stood at 23% of the total banks assets. Trade financing accounted for the largest share of banks' financing assets at 29%, while real estate loans accounted for 19% of total credit to the private sector. Real estate financing by banks was approximately SOS4.36 billion (US\$76.4 million) which was a record 77% increase compared to the corresponding period in 2022.<sup>31</sup> The ratio credit to private sector to GDP is less than 3% which is an indication of underdevelopment of the financial sector and how difficult it is for businesses and firms to access credit.<sup>32</sup>

Banks in Somalia operate under strict Sharia law.<sup>33</sup> Housing and other property loans are accessed under the Murabaha contract system.<sup>34</sup> The buyer is required to pay the cost of the property plus a profit margin that ranges from 12-20% depending on the payment duration.<sup>35</sup> The repayment period ranges from two to five years. For bigger commercial projects, some banks can offer a repayment period of up to 10 years.<sup>36</sup> The borrower is required to raise 10-20% of the property cost upfront<sup>37</sup> which varies from bank to bank. In addition, the borrower is also required to issue collateral and a guarantee.<sup>38</sup>

The microfinance industry is growing but lacks a firm regulatory framework to guide its operations. There is a revised finance institution bill going through parliament to enable oversight of the sector by CBS.<sup>39</sup> Similar to banks, microfinance lenders also charge a commission, ranging between 10-20% of the amount borrowed, and their loans are usually payable within six months.<sup>40</sup> In 2022 the country recorded SOS1.6 billion (US\$2.9 million) in microfinance loans.<sup>41</sup> Some of the major microfinance players in Somalia are Gargaara, Microdhab, Kobciye, Kaah International Microfinance Services (KIMS), Kaaba Microfinance Institution (K-MFI), Halalma microfinance institution, RAAS microfinance and Bushra microfinance.<sup>42</sup> The country also has financial cooperatives, especially in rural areas and IDP camps that help drive financial inclusion in the country.<sup>43</sup> These are still in the nascent stage and include self-help groups. Traditional saving mechanisms known as *ayoto* or *Hagbad* have played a pivotal role in pooling resources together to acquire land and other resources.<sup>44</sup>

### Demand & affordability

In 2023, Somalia recorded an unemployment rate of 19.1%<sup>45</sup> down from 21.4% recorded in 2022.<sup>46</sup> In urban areas, the IDPs experience a higher prevalence of poverty. Although urban residents have lower poverty levels, they account for over half (54.6%) of the total poor population in the country. Female-headed households in urban areas have a higher prevalence of poverty at 48.2% as compared to male-headed households at 43.5%.<sup>47</sup> The high poverty levels are

driven by conflict, natural disaster, insecurity and weak rule of law and poor governance.<sup>48</sup> Approximately 70% of the total population live below the poverty line, living on less than US\$1.90 per day.<sup>49</sup>

The average income is higher in the urban areas than the rural areas and so is expenditure on housing.<sup>50</sup> The majority of the employed population live in urban areas<sup>51</sup> with 82.5% of the total labour force being informally employed.<sup>52</sup> According to Somalia National Bureau of Statistics (SNBS) data, households spend 72% of their budget on housing and food. Expenditure on housing for urban households takes the second largest share coupled with electricity, water and gas, accounting for an average of 16.5% of their total expenditure. Over half (55.5%) of the household expenditure is spent on food.<sup>53</sup> In 2022, remittances to the country were estimated at 26% of the total GDP<sup>54</sup> with 37% of household private consumption mainly supported by remittances.<sup>55</sup> A study by the International Organisation for Migration (IOM) that explored youth employment and migration in Baidoa, Kismayo and Mogadishu found that although the capital offers opportunities for higher income, the cost of living is also very high<sup>56</sup> and a skilled worker would earn approximately SOS285 105 (US\$500) per month<sup>57</sup> with living expenses estimated at SOS309 623 (US\$543) for a single person, excluding rent.<sup>58</sup>

The monthly rent for a one-bedroom apartment within the city centre ranges between SOS74 127-142 552 (US\$130-250) and SOS28 510-61 582 (US\$50-108) outside the city centre. A three-bedroom apartment within the city centre ranges from SOS199 573-285 105 (US\$350-500) and from SOS85 531-199 573 (US\$150-350) outside the city. To buy an apartment within the city centre costs SOS6.3-37.3 million (US\$11 112-65 440) per m<sup>2</sup> while outside the city centre, the price ranges from SOS20-31.3 million (US\$35 000-55 000) per m<sup>2</sup>.<sup>59</sup> Mogadishu is divided into security zones and districts, namely the green zone, yellow zone, and red zone. Green zone, being the most secure, is the closest to the airport and hosts most governments and development organisation offices and residences. A two bedroom in the green zone such as Waberi attracts rent values of between SOS400 000-570 209 (US\$700-1 000) while a similar unit in other zones attracts SOS142 552-199 573 (US\$250-350).<sup>60</sup>

### Housing supply

According to a real-estate overview report by Amal Real Estate, in 2017, Somalia had a housing supply deficit of 2 million units.<sup>61</sup> Informal settlements are a very common phenomenon in all the urban areas with 74% of the urban population living in informal settlements.<sup>62</sup> Additionally, no building code exists to guide the type of construction materials used in the country. The current building material choices in the sector lead to high levels of imports, while research in developing local solutions for building materials remains limited.<sup>63</sup>

A 2019 analysis of shelter typology in the Mogadishu revealed four main housing typologies in urban areas: the Buuls or temporary shelters made of mud, sticks, cartons, plastic or cloth, the corrugated iron sheet housing, apartments and villas.<sup>64</sup> The 2017/2018 Somalia High Frequency Survey (SHFS) revealed a strong correlation between poverty and the quality of housing in Somalia. Less than half (43%) of Somali households have a floor of mud, wood or other material while the majority have a roof of metal sheets (57%).<sup>65</sup>

The cost of construction depends on the house typology. The cost of construction for a concrete villa is SOS199 573-256 594 (US\$350-US\$450) per m<sup>2</sup>, while one with iron sheet roofing is SOS91 233 (US\$160) per m<sup>2</sup>. The cost of constructing an iron sheet house is SOS6 842 (US\$12) per m<sup>2</sup>. The cost of labour is usually SOS48 468 (US\$85) per m<sup>2</sup>.<sup>66</sup>

The government is not actively involved in the supply of basic services such as water; delivery is entirely private or supplied by humanitarian agencies and Non-Governmental Organisations (NGOs).<sup>67</sup> Urban households fare better in terms of access to electricity, water, and improved sanitation than rural households. With respect to access to improved water sources, 78% of the population have access to improved water sources while 63% have access to improved sanitation facilities.<sup>68</sup> Sixty-two percent of the population have access to electricity with a majority (79%) being those living in urban areas.

### Property markets

The structure of the construction sector is diversifying. Alongside the traditional constructors and humanitarian shelter solutions, in recent years, many medium-scale construction companies such as Amal Real Estate Developers<sup>69</sup> and Horn

Property have emerged.<sup>70</sup> They are capable of constructing with high standards, increasingly specialising in a market niche such as high-end housing, small-scale housing, offices, business units, and the provision of construction-related services like architecture, design, or landscaping. Strikingly, although financing for high-end housing is increasingly becoming available, innovative financing schemes for affordable housing by the private sector is missing.<sup>71</sup> There are also real estate agents who have greatly sustained the market while acting as a link between developers/landlords and buyers/renters. There is however no recognised body for real estate agents.<sup>72</sup>

Urban land in Somalia is governed through a mix of formal, customary and Sharia law.<sup>73</sup> Leasing, rental, purchase, and inheritance currently form the most common ways of accessing land and property. Property leasing is mostly informal as there are no laws for land leasing that exist. Renting property is also largely informal and the intricacies vary with location. In some cases, residents have to produce a personal identification document (ID), a fee of SOS5 685 (US\$10) to the regional administrator, a guarantee and an upfront payment of one to three months of rent.<sup>74</sup> Land purchases can be done privately in the case where the owner has a title deed. The sale can either be formal with a notary, guarantor and witness, or informal where parties' draft sale agreements and effect them in the presence of a witness.<sup>75</sup>

Different legal texts in the country affirm women's rights to own property as part of equitable treatment before the law.<sup>76</sup> However, a combination of chronic poverty, social turmoil, and patriarchal institutions have made such rights difficult to realise.<sup>77</sup> Women face particular challenges in terms of property rights and access to housing not because the law does not recognise these rights but due to the patriarchal nature of Somali society. Women are less able to afford housing given that four out of every five females (79.7%) are outside the labour force.<sup>78</sup>

Land prices are estimated to have increased – perhaps as much as tenfold – since 2012.<sup>79</sup> Factors underpinning this rapid price increase are all related to the unregulated land sector which creates a situation where speculation and an individual's ability to pay go a long way in determining who gains ownership of property. While notaries and regional administrators are responsible for keeping records on property and rental housing in the Mogadishu, it is difficult to know exactly how much land is privately owned and by whom, as land transfers have been taking place outside of formal procedures for many years.<sup>80</sup>

### Policy & legislation

The legal frameworks and regulations governing the land and housing sector remain a major weakness, holding back access to affordable housing and housing finance in Somalia. The sector is highly unregulated.<sup>81</sup> This includes aspects such as building codes to support and regulate housing quality in the city, housing policy, land policy, urban planning regulations and finance sector frameworks and laws.<sup>82</sup>

However, the government is implementing a number of strategies that offer promising support structures to the housing sector. These include the National Durable Solutions Strategy (2020-2024)<sup>83</sup> which has put in place means to create acceleration for public private partnerships towards housing and other public services, issuing guidelines on evictions, creating a database for good practices on affordable housing in Somalia and piloting innovative approaches to security of tenure as well as creating a land inventory. The ninth National Development Plan (NDP9) 2020-2024 has drawn the nation's path towards economic growth and poverty reduction.<sup>84</sup>

### Opportunities

Given the growing population and expanding rate of urbanisation in Somalia, the country presents a thriving opportunity for growth of the housing sector. Especially there is a gap to venture into affordable low income housing. With the myriad of stakeholders showing support for the reconstruction of Somalia, an opportunity for stakeholder and sector coordination to focus the efforts on the land and housing sector exists.

The government of Somalia is building its capacity to absorb and scale up access to international climate finance as one of its priorities, post the HIPC era. The highlighted climate finance creates an opportunity for the housing sector to venture into green buildings and research for more climate adaptive and resilient housing. The preparation of the country's vision 2060 also presents room for the housing actors in the country to clearly set out the sector vision and strategy.

Securing tenure and provision of serviced sites coupled with prevailing peace would offer a chance for an incremental owner-driven housing approach which would accelerate access to housing, especially for low income groups.

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Somalia National Bureau of Statistics: <https://nbs.gov.so/#>

Central Bank of Somalia: <https://centralbank.gov.so/>

Somalia Bankers Association: <https://sba.so/>

Financial Reporting Centre: <https://frc.gov.so/>

Federal Government of Somalia: Ministry of Planning Investment and Economic Development: <https://mop.gov.so>

Amal Real Estate Limited Company: <https://www.amalrealestate.so/>

### Availability of data on housing finance

Access to housing data and statistical analysis on the housing sector and its contribution to the national economy in Somalia is a challenge that has been acknowledged even in government reports. A lot of available information is outdated. Some of the data gaps identified include data on outstanding demand and current supply of housing, mortgages in the country, housing stock, number of registered properties, lender risk assessment, finance access and usage and economic impact of the sector:

Some key sources for housing finance data include the CBS which provides data on the banking sector, and financial performance as well as a quarterly economic overview of the country. Annual and quarterly reports are also available, and the website also provides policies governing the banking and finance sector. The Ministry of Planning, Investment and Economic Development provides information on the economic outlook of the country, including the construction sector: The Somalia National Bureau of Statistics provides data on the national census (currently outdated) poverty and inequality, including housing poverty and migration data. Finally, the United Nations and all its affiliated institutions provide various categories of data including overviews on Somalia, migration and displacement, housing and shelter solutions and access to basic services.

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<sup>17</sup> Central Bank of Somalia. (2023). Policy Brief 001/2023. Somalia's External Sector. Pg. 4.  
<sup>18</sup> See footnote 16. Pg 7.  
<sup>19</sup> Ibid. Pg 12.  
<sup>20</sup> Virtual Interview with Mr Aziz Aggrey, Civil Engineer. CTG, 4 August 2024.  
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