

# Trade and Private Sector Development



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## PROJECT SUMMARY

Somalia's private sector faces serious obstacles to competing in business and trade markets. This translates into a weak export sector and high rates of unemployment particularly amongst youth. In fact, the main cause of youth unemployment in Somalia appears to be a result of “demand side” factors, i.e. low demand for jobs by companies. Reasons for this include low levels of investment, lack of sound macroeconomic policies, lack of a well-functioning financial sector, fragmented labour markets, inadequate infrastructure and, finally, overall low labour productivity. In addition a narrow export base— both in terms of sectors and markets— provides little foreign exchange for investment.

As a result, in order to create employment opportunities for young Somalis, Somalia needs to diversify and upgrade the economy and broaden the export base towards high growth and/or high value sectors. Any intervention that intends to have a lasting effect necessarily needs to tackle these structural obstacles—in particular at the industry level—and better engage with the private sector. The Trade and Private Sector Development project explicitly intends to further expand the role of the private sector for trade development, economic growth, employment generation and poverty reduction.

**Main outcome 1:** UNDP supported the Somali Producers Conference and Exhibition (SOPEC 2014) in Dubai, 17-18 February 2014.

SOPEC 2014 was the first to showcase livestock, agriculture and fisheries produce outside Somalia in 22 years, and was an occasion to rekindle traditional links between Somalia and the UAE. Producers, experts, policymakers, and potential investors were able to gain an overview on strategically important sectors in Somalia, and meet and network with key players and stakeholders. This was already the second UN-sponsored industry conference in a year, following the successful first Somali Reconstruction and Investment Conference, which was held in Nairobi in May 2013 and which resulted in approximately \$1.5 billion in new investment deals.

**Main outcome 2:** UNDP supported Somalia to become a beneficiary country of the Enhanced Integrated Framework (EIF), which provides an excellent opportunity to mainstream trade into Somalia's New Deal Compact, as well as into its future National Development Plan and Poverty Reduction Strategy Paper.

In early 2014, UNDP had a number of meetings, both at Federal levels (Min. of Commerce and Industry, Min. of Planning and International Cooperation) and in Somaliland (Min. of Commerce; Planning), to discuss the importance of mainstreaming trade in the national development agenda. All ministries expressed strong political appetite for a (renewed) request to the Enhanced Integrated Framework (EIF). During Spring/Summer 2014, UNDP discussed with EIF Secretariat and UNDP Geneva on lessons to be learned from Somalia's previous, unsuccessful request in 2009. In August 2014, UNDP wrote the EIF Technical Review that recommended that Somalia be accepted as a beneficiary country. In September 2014, Somalia got accepted as the 50th beneficiary country of the EIF, which will allow Somalia to access international trade-related technical assistance through “Aid for Trade” programmes.

A Diagnostic Trade Integration Study (DTIS)— a competitiveness report, to be undertaken in 2015— will identify sectors with potential for future growth and exports, and could thus support sector-specific activities under PSG4. Key recommendations— both sector-specific and cross-cutting— could also be considered for the future National Development Plan and Poverty Reduction Paper.

**Main outcome 3:** Developed a draft project proposal for a Joint FSG-UN Programme on Youth Employment

A project proposal for a Joint FSG-UN Programme on Youth Employment has been developed, together with FAO, ILO and UN-Habitat. A draft version was endorsed by the PSG4 sub-working group on “Youth employment” and the SDRF Steering Committee. The project will shift from a traditional “livelihood perspective” towards a “competitiveness perspective”, which means that it will focus less on individuals— though they will be the ultimate beneficiaries— and more on removing the binding constraints for companies, sectors, and value chains that have the potential for future growth and employment. The project has three main components: Value chain development; Skills development; and Short-term job creation.



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**PROJECT:**  
Trade and Private Sector Development

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**PROGRAMME:**  
Poverty Reduction & Environment  
Protection

**REPORT PERIOD:**  
1 January to 31 December 2014

**DATE SUBMITTED:**  
1/15/2015 3:01:01 PM

**STATUS:**  
Final

**DONORS:**  
UNDP TRAC  
Sweden

## CONTEXTUAL ANALYSIS

### FEDERAL LEVEL

There is strong, renewed political appetite in Somalia to mainstream trade into Somalia's national development agenda. The FGS firmly believes that its engagement in the Enhanced Integrated Framework (EIF) will contribute building capacity of the Government as well as the private sector, accelerate economic recovery, expand employment opportunities and support peace building and reconciliation efforts in Somalia. In September 2014, Somalia got accepted as the 50th beneficiary country of the EIF.

The PSG4 working group decided to create four sub-working groups on: Natural resources; Productive sectors; Infrastructure; and Youth employment, which are all supported by UNDP/PREP. One of the flagship projects of PSG4 is the "Joint Programme on Youth employment" which will cover short-term job creation, medium and longer-term skills development, and value chain analyses.

### PUNTLAND

The government of Puntland expressed its strong interest and support of the PSG4 process of the New Deal Compact. The government of Puntland participated at a 3-day retreat in Nairobi, and invited the full PSG4 working group to hold the next meeting in Garowe. This was initially planned for December 2014, but has been postponed to early 2015.

### SOMALILAND

In Somaliland, the Somaliland Development Fund covers private sector development as one of the key priority areas. Similarly, under the Somaliland arrangements in the New Deal, PSG4 on economic foundations include private sector development as the key driver for economic development.

Concerning EIF activities, it was made clear by the EIF Secretariat that the key counterpart has to be the Federal Ministry of Commerce and Trade. Once the EIF process is officially launched in Somalia in early 2015, it will be necessary to hold further talks with the relevant Somaliland counterparts about best ways to incorporate Somaliland into the EIF process.

## RESULTS

FL	Indicator	3.2.1.1 Number of policies, legal and institutional frameworks revised, updated and/or formulated for inclusive growth	G
	Result	In September 2014, Somalia got accepted as the 50th beneficiary of the Enhanced Integrated Framework (EIF).	
	Comment	Somalia can avail a range of opportunities under this framework to strengthen its trade and private sector, including identification of sectors with export potential, and technical support to strengthen institutional capacities.	
FL	Indicator	Design of programme to support business enabling environment reform in Somalia.	Y
	Result	UNDP is an active member of the PSG sub-WG on Productive sectors and on Youth employment and is engaging with partners on development of a programme for the same.	
	Comment	UNDP is coordinating its proposed plans for enabling business environment with pipeline World Bank and IFC initiatives.	
ALL	Indicator	Trade-related technical assistance to the Federal government so that Somalia becomes an Enhanced Integrated Framework (EIF) Country.	G
	Result	UNDP supported FGS for a renewed request for Somalia to be accepted into the EIF (after a first, unsuccessful attempt in 2009). UNDP also undertook a Technical Review which recommended that Somalia be accepted. In September 2014, Somalia got accepted into the EIF as the 50th beneficiary country.	
	Comment	A delegation of the FGS will be invited to Geneva to visit key organizations on international trade (e.g. EIF, WTO, UNCTAD, ITC). A subsequent workshop will raise awareness of EIF among stakeholders. Most EIF activities incl a Diagnostic Trade Integration Study (DTIS) will take place in 2015.	
ALL	Indicator	Support for trade and investment B2B promotion events.	G
	Result	The Somali Producers Conference and Exhibition (SOPEC 2014) was held in Dubai on 17 and 18 March with support from UNDP. SOPEC 2014 was the first to showcase livestock, agriculture and fisheries produce outside Somalia in more than two decades.	
	Comment	This was the second UN-led and sponsored industry conference in a year, following the successful Somali Reconstruction and Investment Conference (Nairobi, 2013), which resulted in approximately USD1.5 billion in new private sector investment.	
ALL	Indicator	Undertake a scoping exercise to assess the potential of extractive industries in Somalia.	Y
	Result	The UNDP Global Programme on Extractive Industries approved to fund the scoping study in early 2015.	
	Comment	Held preliminary discussions on possible Somalia participation in UNDP's Global Initiative on Extractive Industries for Sustainable Development. Supported the participation of a Senior representative from the Ministry of Petroleum and Natural Resources to	
ALL	Indicator	Scoping study on Youth employment in Somalia.	Y
	Result	Given that the PSG4 created a sub-working group on Youth Employment, it was decided together with the donor (Sweden) that the study is not necessary at this point.	
	Comment	At the donor's request, the budget will rather be used in 2015 for supporting activities of the PSG4 working group as a whole. ToRs for an adviser are currently being drafted.	
ALL	Indicator	Project proposal for a Joint FSG-UN Programme on Youth Employment.	G
	Result	Developed a draft project proposal for a Joint FSG-UN Programme on Youth Employment, together with FAO, ILO and UN-Habitat.	
	Comment	The project has three main components: Value chain development; Skills development; and Short-term job creation.	



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### ACTIVITY HIGHLIGHTS

#### FEDERAL LEVEL

**Building Trade Capacity:** UNDP commenced work of a series of initiatives to strengthen the development of the Somali private sector and assist the government of Somalia to better incorporate the trade dimension into its development agenda. UNDP's first priority activity has been to support Somalia to become a beneficiary country of the Enhanced Integrated Framework (EIF) program. Somalia got accepted into the EIF in September 2014, and can now access international trade-related technical assistance through "Aid for Trade" programs.

UNDP continued to play a prominent role in the PSG4 (Economic foundations). The UN Joint proposal on Youth employment was accepted by the SDRF Steering Committee as a flagship project, and the project document is currently being developed.

#### PUNTLAND

UNDP met with the Chairman of the Puntland Chamber of Commerce to discuss mainstreaming trade (EIF) and how to improve participation of the Puntland private sector at PSG4 meetings. UNDP had also a number of discussions with Ministry of Commerce about the EIF process and possible cooperation in 2015.

#### SOMALILAND

UNDP had a number of meetings in Somaliland (Min. of Commerce; Min. of Planning), to brief them on the importance of mainstreaming trade in the national development agenda. All ministries expressed strong political appetite for a (renewed) request to the Enhanced Integrated Framework (EIF). The EIF process however has to be led by the Federal government, and further talks are needed to see how to best integrate Somaliland into the EIF process.

### PARTNERSHIPS

The Trade and Private Sector Development project has established good relationships with the Federal Government Institutions and relevant ministries.

This concerns in particular the Ministry of Commerce and Industry, the Ministry of Planning and International Cooperation, and the Stabilization Support Unit (SSU) of the Prime Minister's Office.

The project also works closely with relevant line ministries that participate in PSG4 sub-working groups on Productive Sectors (Ministry of Agriculture; Ministry of Fisheries and Marine Resources; Ministry of Livestock, Forestry and Range) and on Youth employment (Ministry of Youth and Sports; Ministry of Labour).

The project has also started working with the Somaliland Ministries of Commerce and Industry and of Planning.

There have also been several meetings with Chambers of Commerce in Somalia, Puntland and Somaliland, in view of having the private sector better represented in the PSG4 process.

Work under PSG4 involves joint programming with other UN agencies, including ILO, FAO and UN-Habitat.



# Trade and Private Sector Development

## PEACE AND CONFLICT

The private sector in Somalia brings together people from different regions and groups. Well established and successful companies in Somalia work all over Somalia, across local divisions and tribal affiliations. Bringing the private sector as a vehicle of change in the Somalia New Deal Compact contributes to peace-building and state-building.

In fact, the New Deal Compact (2014-2016) is perhaps the most prominent and promising example where government and the international community tackle simultaneously several inter-related and mutually reinforcing pillars that are essential for the future of Somalia: Inclusive Politics; Security; Justice; Economic foundations; and Revenues and Services. A large number of projects will be undertaken over the next two years, and improvements in one pillar typically will have beneficial effects on other pillars, potentially leading to a virtuous circle on economic growth, private sector development and trade.

## GENDER

The Projects are intended to contribute to gender mainstreaming. The focus in 2015 will be on ensuring that women represent a significant proportion of beneficiaries, both for PSG4 and Enhanced Integrated Framework (EIF) activities.

## UPCOMING QUARTER

Enhanced Integrated Framework (EIF):

1. The EIF Secretariat will invite a delegation from the Federal government (most probably the Minister of Commerce, the EIF Focal Point, and perhaps a representative from the Ministry of Planning and International Cooperation) for a 3-day visit to Geneva to visit key organizations on international trade (e.g. EIF, WTO, UNCTAD, ITC).. This visit will probably take place in February 2015.
2. After that, a kick-off workshop will be held (perhaps in March 2015), bringing together national stakeholders and the EIF Partnership. Such an event will provide an opportunity to sensitize national stakeholders on the EIF and its objectives and processes.
3. Most EIF activities (under so-called Tier 1 funding) will take place in 2015, in particular the DTIS (Diagnostic Trade Integration Study), which will identify sectors that have the potential for increased production and exports —and thus employment— and propose sector-specific recommendations.



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## REFLECTIONS / LESSONS

There are some general lessons that can be derived from development interventions in Somalia –and elsewhere. Prevailing approaches to employment generation in Somalia typically involve interventions that concern the “supply side” of active labour market policies (ALMP). These include: (1) Short-term job creation, typically aimed at injecting cash into the local economy (e.g. through rehabilitation of basic infrastructure); (2) Community-based livelihoods support (e.g. through access to inputs and grants); and (3) Training to increase individuals’ employability (e.g. vocational training).

There is however little evidence that such interventions have sustainable impact on employment and incomes, as often they are not evaluated rigorously, are of short duration, operate on a small scale, and rarely respond to market needs. As a result, most jobs created are not sustainable because they do not address demand side issues. In addition, vocational training is wasted if there are no jobs that require them. Recent studies show that one of the risks of many skills training programs is that they raise expectations that are not easily met given the lack of economic opportunities. Also, trained youth often report feeling that discrimination or other barriers prevent them from accessing existing economic opportunities. As a result, youth may become frustrated in their inability to leverage employment opportunities.

In fact, the main cause of youth unemployment in Somalia appears to be a result of “demand side” factors. Reasons for low demand by companies for jobs include low levels of investment, lack of sound macroeconomic policies, lack of a well-functioning financial sector, fragmented labour markets, inadequate infrastructure and, finally, overall low labour productivity. Besides issues relating to security and state-building, Somalia has to rise to meeting the challenges of a competitive world and any intervention that intends to have a lasting effect necessarily needs to tackle these structural obstacles.

It is thus important to engage with the private sector, as it has played a key role over the last two decades. The private sector has learned to adapt and work under very difficult circumstances, and has generated most of the jobs. There is thus a real potential for further expanding the role of the private sector for trade development, economic growth and poverty reduction. It should however be kept in mind that whilst critical for building economic foundations, business-enabling environment reforms aimed at increasing growth or firm productivity in Somalia will require a long-term approach to produce a tangible impact.

<b>CUMULATIVE PROJECT FINANCIAL SUMMARY</b>	
APPROVED BUDGET	320,000
TOTAL (DISBURSEMENTS + COMMITMENTS)	225,756
BALANCE OF FUNDS	94,244
% DELIVERY (AGAINST APPROVED BUDGET)	71%

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## LIST OF ACRONYMS USED

- DTIS - Diagnostic Trade Integration Study
- EIF - Enhanced Integrated Framework
- FGS - Federal Government of Somalia
- ITC - International Trade Centre
- MoPIC - Federal Ministry of Planning and International cooperation
- MoCI - Federal Ministry of Commerce and Industry
- PSG - Peace and State-building Goal
- SOPEC - Somali Producers Conference and Exhibition
- SDRF - Somali Reconstruction and Development Facility
- UNCTAD - United Nations Conference on Trade and Development
- WTO - World Trade Organization