

# Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Somalia

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## Key messages

- Somalia has reported 12 COVID-19 cases, including 1 death and 1 recovery as of April 8<sup>th</sup>.
- Remittances, livestock exports and retail imports account for the bulk of economic activity, and are all set to contract due to the COVID-19 pandemic. The authorities are forecasting a contraction of 35–45% of GDP.
- Somalia is ill prepared to cope with the current pandemic given the government's limited fiscal space, the insecurity, concurrent climate shocks, a weak health system and a population predominantly living at subsistence levels.
- Donors are responding to Somalia's call for international assistance and various aid mechanisms have already been put in place. However, there are concerns that humanitarian aid will not reach many in need due to Al-Shabaab' control of some parts of Somalia, and the associated risks.

## Introduction

The first case of COVID-19 in Somalia was reported on March 16<sup>th</sup> and as of April 8<sup>th</sup>, there have been 12 confirmed cases, 1 reported death and 1 recovery. In response to the pandemic, a COVID-19 response coordination committee, led by the Prime Minister and in collaboration with the WHO, UN and the Ministry of Health, [introduced several preventive measures](#). These include: suspending international flights, closing schools, restricting large public gatherings and setting up a quarantine facility in Mogadishu.

Prior to the pandemic, the African Development Bank (AfDB) estimated that [Somalia's economy grew by 2.9% in 2019](#)—a slight increase from the 2.8% in 2018. This was mainly attributed to a recovery in agriculture and on strong consumer demand. Thanks to some improvements in security and the anticipated clearance of the country's debt arrears, this growth was projected to continue in 2020 and 2021 at 3.2% and 3.5% respectively. These projections precede both the COVID-19 crisis and the declaration of a national emergency on February 2<sup>nd</sup> by the Ministry of Agriculture due to the [ongoing locust invasion](#).

Somalia is marred by violence, by climate related shocks ([with floods expected in the next two months](#)) and has high levels of poverty. Furthermore, the economy is predominantly informal which significantly limits tax collection ([the tax-to-GDP ratio was just 1.6% of GDP in 2017](#)).

[Government spending by the Ministry of Health](#) is set to be 9.35 million USD or 1.96% of the government's 2020 Budget. While this is a significant 49% increase from 2019, Somalia's weak health facilities mean that humanitarian and other donor support will need to increase to allow the country to respond to the new COVID-19 threat while also addressing its many other challenges.

## Economic and social impacts

Somalia's economy is predominantly informal and heavily dependent on remittances for private consumption, on imports of intermediate and consumer goods and on the agriculture sector. Livestock is estimated to contribute [over 40% of GDP and over 50% of export earnings](#). The destination of these is to the Gulf countries with most of the export occurring around the Hajj period. The uncertainty around the Hajj this year as a result of the COVID-19 pandemic could significantly reduce livestock exports. According to the country's Ministry of Finance, a blanket ban on livestock export could lead to a 15-25% reduction in GDP.

Moreover, it is estimated that Somali women make up [over 60% of business owners](#) and mostly import clothes, cosmetics, furniture and perfumes. [Khat imports from Kenya](#) also makes up a large share of the country's imports. Current trade restrictions around the world on all-but essential goods are likely to result in less imports and subsequently in less income for Somali households. A significant fall in business incomes is also likely to

lead to higher unemployment levels—[with current youth unemployment estimated at 70% by the Ministry of Finance](#).

[Inflation](#) peaked at 5.1% in 2018 and declined to 4.4% in 2019 as food price inflation slowed. A reduction in imports could lead to a significant increase in average price levels in 2020 and put further strain on household incomes and government finances. The Ministry of Finance is currently forecasting a [GDP contraction ranging between 35–45%](#).

## Fiscal impacts

[Somalia's expected government expenditure for the 2020 fiscal year is \\$476 million](#) or 5.2% of forecasted GDP. This is higher than the 3.9% recorded in 2019 but significantly lower than [the 15% target recommended by the IMF](#) for low income countries. Half of the expected revenue is domestically raised, while the remaining 50% is sourced from donors.

The composition of the budget will also be affected by the government's efforts to cope with the COVID-19 crisis. On March 18 the government [earmarked \\$5 million to fight the virus](#), and on March 26 it launched the [national preparedness plan](#), which has an estimated cost of \$7 million. These funds will be internally sourced while also seeking support from donors. Revenues are likely to fall in the short term due to the reduction in trade flows and the [suspension of khat imports](#). Taxes on traded goods were expected to raise 22% of total funds and are the largest single source of revenue.

A key milestone was achieved in March, when Somalia became [eligible for debt relief](#) under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative. This is expected to result in a dramatic reduction of Somalia's current debt over a three-year time period, from \$5.2 billion to \$557 million. Somalia's debt relief not only gives the country's government more room for manoeuvre but also ensures it has better access to international financial markets in a time of great need.

## Monetary and financial policy

[The economy is semi-dollarised and with a de-facto free-floating exchange rate](#). Monetary policy is not autonomous and therefore limited. In addition, in 2019 foreign reserves stood at less than a month of import cover. [Somalia's Central Bank](#) is in the process of taking full control of monetary and financial policy.

## Fiscal policy

The two most notable fiscal policies are the \$5 million earmarked and the \$7 million sought under the national preparedness plan. Further to these, the [Garowe administration \(Puntland State of Somalia\) has](#)

[allocated \\$100.000](#) to fight the virus. According to the information disclosed so far, the aforementioned funds will be spent on health measures. This is, on enhancing the health system's capacity to test and treat COVID-19 patients. The government has allegedly not announced the implementation of other fiscal policies yet.

## Other policy

The Ministry of Labour and Social Affairs has issued a set of [guidelines aimed at mitigating the short-term impacts of the crisis on workers](#), including the retention of public sector workers while urging private companies to do the same, and training workers on COVID-19 related safety measures, amongst others. In addition to these policies, courts have suspended civil trials and the president has announced the release of 148 prisoners.

## Donor support

Donor assistance is manifold. [The UN has announced it will continue and scale up its operations](#) through the training of health workers, equipment provision for isolation centres, and enhancing detection capabilities. This includes the continued assistance provided by the [World Health Organisation](#) on health-related issues and the World Food Programme's plans, which include the distribution of food rations.

The [United Arab Emirates](#) and the [Jack Ma and Alibaba Foundations](#) have also made independent donations. These were in-kind donations consisting of medical supplies. Furthermore, donations not directly related to the COVID-19 such as the recent \$1.7 million [grant provided by Japan to UNHCR-Somalia](#) continue to be made, and can indirectly help mitigate the impacts of the virus on the most vulnerable.

Somalia should also have access to the funds made available by international organisations such as [the World Bank, IMF and UN, not least given that the country has recently become eligible for debt relief](#). Regionally, the [African Development Bank](#) has announced the provision of financial aid mechanisms.

Finally, a note of caution. There are concerns that humanitarian aid will not reach many in need due to Al-Shabaab' control of some parts of Somalia, which could [obstruct access to and the distribution of humanitarian assistance](#). This would certainly curtail the outreach of humanitarian organisations such as the ICRC.

Information in this note is correct as of 9 April 2020. The authors are ODI Fellows with Somaliland's Ministry of Finance Development, and Ministry of Trade, Industries and Tourism; this note is written in a personal capacity. Comments welcome to [m.sadiodiallo.fs@odi.org.uk](mailto:m.sadiodiallo.fs@odi.org.uk).