

SOMALIA Investment Value Proposition

Information and Communications Technology sector

April 2021

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SOMALIA

ICT Sector Value Proposition Outline

- 6 Reasons to Invest in Somalia
- Somalia's **Political** Economy
- National Capabilities
- ICT Sector Spotlight
- ICT Sector in Figures
- Key Market Trends and Opportunities
- ICT Regulatory Framework
- Government Provisions and Support
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6 Reasons to Invest in Somalia's ICT Sector



Priority sector: The country's 9th National Development Plan considers ICT as a national priority, stating its importance as a key enabler for sustainable economic growth, the flourishing of other industries, and productivity gains.



Regulatory Framework: The government has created an enabling environment for investors in the ICT sector. This includes ICT regulations that promote innovation and certainty and increase competition in the sector.



Somalia's ICT sector does not have a government monopoly or a government provider. Unlike some of its neighboring countries, such as Ethiopia.



Expansion of financial services: There is a growing number of commercial banks and branches operating throughout the country, each looking to provide debt and other financial instruments to potentially profitable business opportunities.



Competitive ICT market: Somalia has 5 licensed telecommunications operators, who provide voice, data and value-added services. This has helped build a competitive market, where Somalia has the lowest internet rates in Africa and is number 7 in the world.



Turnover potential: A 2020 IFC survey revealed that the majority (57%) of ICT firms in Somalia registered more than 1.5 million USD in annual turnover in 2017/18.



One of the most active mobile money markets in the world, outpacing most other countries in Africa.

Investment Momentum

Investment Climate



A recent World Bank Group foreign investor survey highlighted that the majority (56%) of the private sector indicated that it was less difficult to invest in Somalia with the **current legal framework for investment**.



Investor confidence has improved from 2016, when the majority (84%) of investors rated the environment to be 'poor', to 2020, when they rated the environment to be average (50%) or good (50%).



Nearly 70% of foreign investors surveyed indicated that the **ease of doing business** is a critical factor for their decision to invest in Somalia, and 66% have seen a **general improvement** in the investment climate since then.



Over 60% of investors have seen a general improvement in all of the **main factors for their investment decision**.

Source: Roadmap to private sector investment in energy and ICT sectors, PRC Consulting, 2020

Somalia's Political Economy

Improved Security

Significant efforts have been made by the Federal Government of Somalia, in cooperation with international partners, to **strengthen security in Somalia**.

Both the **frequency** and **impact** of insecurity incidents are on the decline, thereby increasing public security. More businesses and manufacturing facilities are now operating beyond Mogadishu for the first time. Major cities and towns remain in the government's control.

“The biggest misconception is that Somalia is a war-torn country, continuously in a state of conflict and operating in the country is impossible.

Hormuud and other telecommunications firms in Somalia are some of the most innovative companies in Africa, contributing to the rapidly growing and vibrant economy.”

Ahmed Mohamed Yusuf, CEO,
Hormuud Telecom*

*Hormuud Telecom, founded in 2002, is a Somali telecommunications firm leading the drive towards a cashless economy in Somalia.

Somalia's Political Economy

Macro Economic & Security Context

- **The economy is growing consistently** (from 2.8% in 2018 to 2.9% in 2019), due to a recovery in agriculture and strong domestic consumer demand. Inflation decreased (from 5.1% in 2018 to 4.4% in 2019) leading to a decrease in food prices.
- An improvement in the current account deficit (from 9% in 2018 to 8.3% in 2019) has been reported due to an increase in exports and a decrease in imports.
- **Foreign Direct Investment** has increased steadily in past years due to diaspora remittances and foreign investments in the telecommunications, financial and construction sectors.
- The **Somalia High Frequency Survey 2019 (HFS)** indicates that 70% of the population are youth.
- **GDP is forecasted to grow** at 2.9% in 2021 and 3.2% in 2022 (Source: AfDB).
- Security improvements, the normalization of relations with international financial institutions and prospects for debt relief under the Heavily Indebted Poor Countries Initiative, together with development partners, Somalia is using targeted interventions to help meet its debt relief obligations.
- Current revenue collection does not provide fiscal space to spend on investment in both productive and enabling sectors of the economy.

National Capabilities

Physical Assets

"We are confident that improved connectivity will help our growing digital economy and enhance internet-based services. As a government, we are determined to promote competition and innovation in the ICT sector through creating a conducive environment for investors."

H.E. Abdi Sheikh Ahmed
- Minister of Telecommunications and
Technology , Somalia

Connectivity: Recent infrastructure provides opportunities for development. In 2014, Mogadishu was connected to the West Indian Ocean Cable Consortium's (WIOCC) **East Africa Submarine Cable System (EASSy)**, a high-capacity (10 Tb/s) fiber-optic cable that links Africa's east coast to the global fiber-optic network. This connection represents an important impact investment in the ICT sector in Somalia and has generated millions of dollars of internet commerce in Mogadishu already and provides greater opportunities in the sector.

Somalia also has the **DARE1 subsea cable**, a 100G based cable system will provide an alternative low-latency route to East Africa and the Horn of Africa with high-capacity transmission delivering up to 30 Tbps of capacity. DARE1 is configured as a Three fiber pair trunk and each trunk fiber pair has cross-sectional capacity of 150 channels at 100 Gbps. DARE1 will also provide top connectivity to the global fiber network having interconnection to telecom markets in Europe, the Middle East and Asia through multiple cable systems SMW3, EIG, SMW5, AAE-1.

What's more, the **2Africa subsea cable** will reach Somalia's shores in **XXX**. It is one of the world's largest subsea cable projects that will connect Europe, the Middle East, and 21 landings in 16 countries in Africa.

Sources: FGS, NCA, IFC

<https://www.submarinenetworks.com/en/systems/asia-europe-africa/dare1/dare1-cables-land-in-mogadishu-and-bossaso-somalia>



Photo: Projection of the new port of Berbera

National Capabilities

Physical Assets

Somalia has the **longest coastline in Africa** and has a growing ports and logistical infrastructure.

The Somaliland port of Berbera is **set to become the most modern port** in the Horn of Africa in early 2021 when its first phase is completed.

Port Berbera is now the **closest sea route to Ethiopia**, a journey of 11 hours by road. It has opened a route needed for huge growth in the import and export of livestock and agricultural produce.

National Capabilities

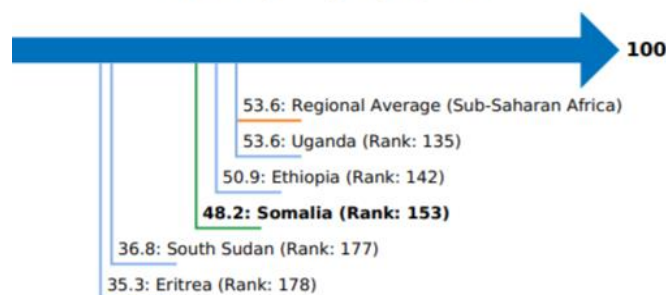
Improved Business Processes



Lower cost to registering property than the average for Sub-Saharan Africa and OECD countries, and lower number of procedures than in SSA.

Doing Business 2020		Somalia	
Registering Property - Somalia			
Indicator	Somalia	Sub-Saharan Africa	OECD high income
Procedures (number)	5	6.1	4.7
Cost (% of property value)	1.4	7.3	4.2

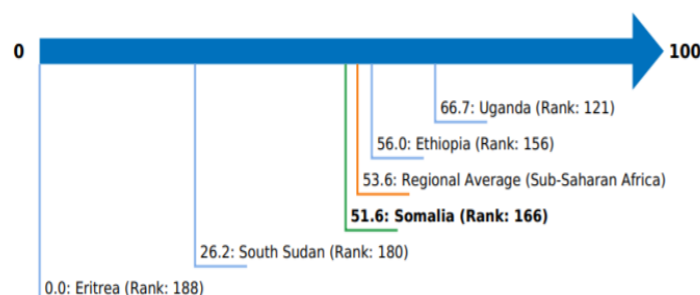
DB 2020 Registering Property Score



Somalia has better **trading across borders** indicators than competing countries

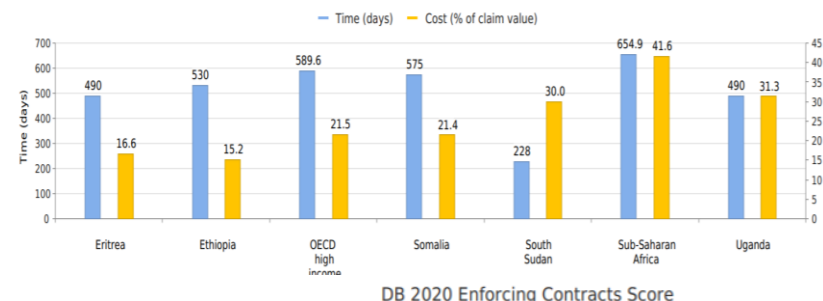
Indicator	Somalia	Sub-Saharan Africa
Time to export: Border compliance (hours)	44	97.1
Cost to export: Border compliance (USD)	495	603.1
Time to export: Documentary compliance (hours)	73	71.9
Cost to export: Documentary compliance (USD)	350	172.5
Time to import: Border compliance (hours)	85	126.2
Cost to import: Border compliance (USD)	952	690.6
Time to import: Documentary compliance (hours)	76	96.1
Cost to import: Documentary compliance (USD)	300	287.2

DB 2020 Trading Across Borders Score

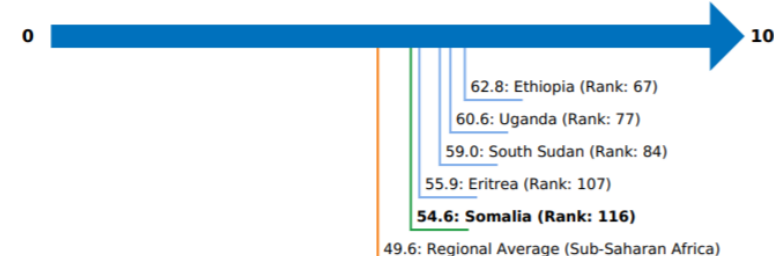


Highest ease of hiring and redundancy ratings among low-income countries (100) and better **enforcement of contracts** than the regional average in SSA region

Figure - Enforcing Contracts in Somalia - Time and Cost



DB 2020 Enforcing Contracts Score



Sector Spotlight: ICT



Somalia's telecommunication sector boasts cutting-edge technologies, a mushrooming of wireless solutions and the lowest calling rates in the region.



One of the fastest **growing sectors** in the economy. Private operators have emerged to meet the high demand for critical communications services. The sector now accounts for up to 11% of GDP (or around USD1M). The sector plays a significant role in rebuilding the Somali economy.



Costs are generally lower than in other East African countries such as Djibouti and Ethiopia, and mobile penetration is greater than in Djibouti. Somalia's large international diaspora has contributed to the growth of the ICT sector, since Somalis abroad seek ways to stay in contact with their families.

Fixed services and broadband connections (3G/5G) represent 42.5% of the total mobile connections in 2021.

About 90% of the population is within a 2G coverage area whilst 76% and 67% are within **3G and 4G coverage areas**, respectively. Internet through satellite, ADSL, fiber, WiMAX and 4G and LTE is limited to the main towns and cities, and the service costs are significant.

About little under half of the population has access to **mobile connections in 2021 (45.3%)**. This is lower than in Ethiopia, with 41% of subscriptions per the total population in 2020, and Djibouti, which had 42.5%.

Sources: FGS, International Telecommunications Union, The World Bank (Firestone, Kelly, & Rifon, 2015), GSMA intelligence 2021

Sector Spotlight: ICT

Mobile and Internet

Many Somalis own more than one cell phone. Each phone has a sim card from a specific Somali network to enable reaching out to loved ones or make business transactions. Calling or transacting across networks, a feature that is taken for granted in many other countries, is not currently possible in Somalia.

This limits interactions and raises costs, creating an investment entry and growth barrier. The government is committed to reforming this status quo and is working at two levels: (1) to develop rules to regulate interconnection, and (2) with the private sector to develop awareness of the need for the reform and support its implementation. This work is being supported by the IFC (WBG).

Source: The World Bank, GSMA intelligence 2021

Unleashed potential for new players

Internet uptake in Somalia is rapidly increasing: There were 1.95 million internet users in Somalia in January 2021 (12.1% of the population, an increase of 20% since 2020). Despite the lack of stable energy sources and limited infrastructure, the ICT and mobile is one of the fastest growing sectors, generating profits and is the third largest industry by employment in Somalia.

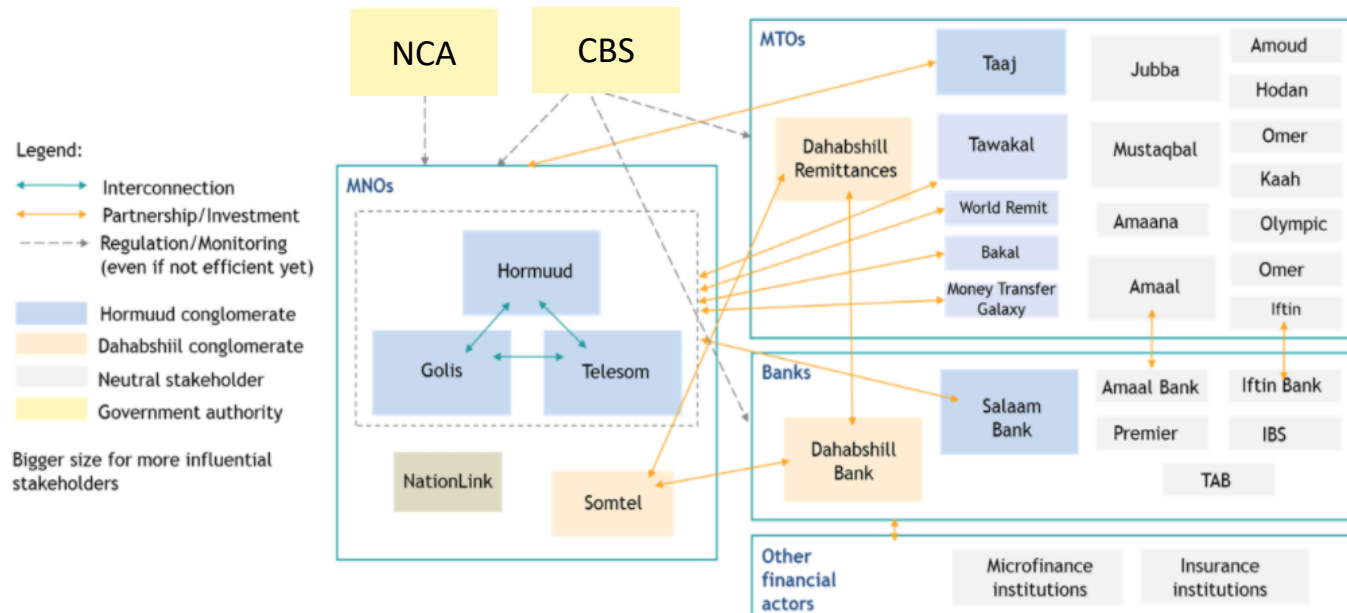
Somalia has a large and growing youth population who use the internet and will be very open to careers and education in ICT, as there are limited opportunities to gain professional expertise.

According to the Mobile Data Pricing 2020 Report by Cable.co.uk, Somalia comes as the **7th country in the world and first country in Africa** where the average cost of 1GB of internet is the cheapest.

Sector Spotlight: ICT

Mobile Money

Somalia Mobile Money Ecosystem Mapping



Investment in telecommunications has been almost exclusively led by Somalis, both from the diaspora and within the country.

As a result, the ICT sector has leveraged Somali social and business networks and has created products uniquely suited to the Somali context.

The sector is regulated, and in 2020, the Central Bank of Somalia updated the regulations for mobile money (from 2012). Mobile money licenses were issued to operators providing mobile money services. The full list of operators can be found on the Central Bank of Somalia's website. <https://centralbank.gov.so>

Source: Mobile Money in Somalia: Household Survey and Market Analysis, WBG 2017

ICT Sector in Figures

Top 15%

Somalis are in the **top 15%** for GNI expenditures on power globally

155 million

mobile money transactions are worth about USD2.7 billion a month

88%

of Somalis above the age of 16 own at least one SIM card in 2020

83%

of Somali SIM card owners use mobile money technology in 2020

Cheapest

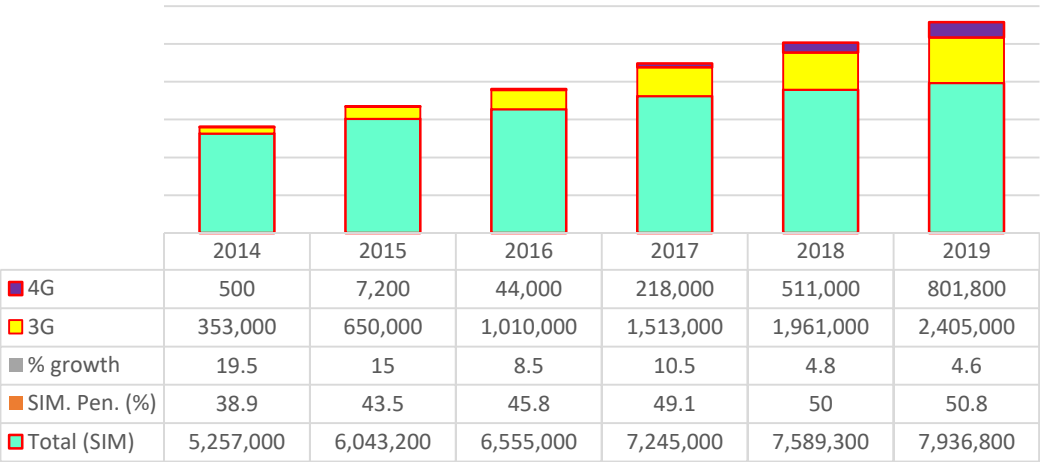
Internet rates in Africa and 7th globally (1GB of internet)

Source: FGS, NCA, World Bank

ICT Sector in Figures

Market share

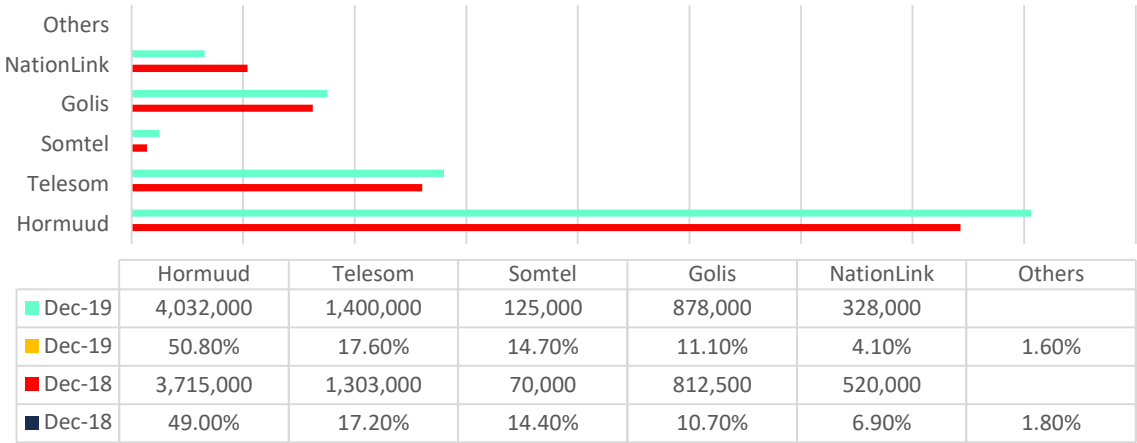
Market size by SIM penetration



Source: ITU, estimates, 2019

Increasing mobile market size and penetration

Mobile Network Operators by SIM penetration



ICT Sector in Figures

Market share

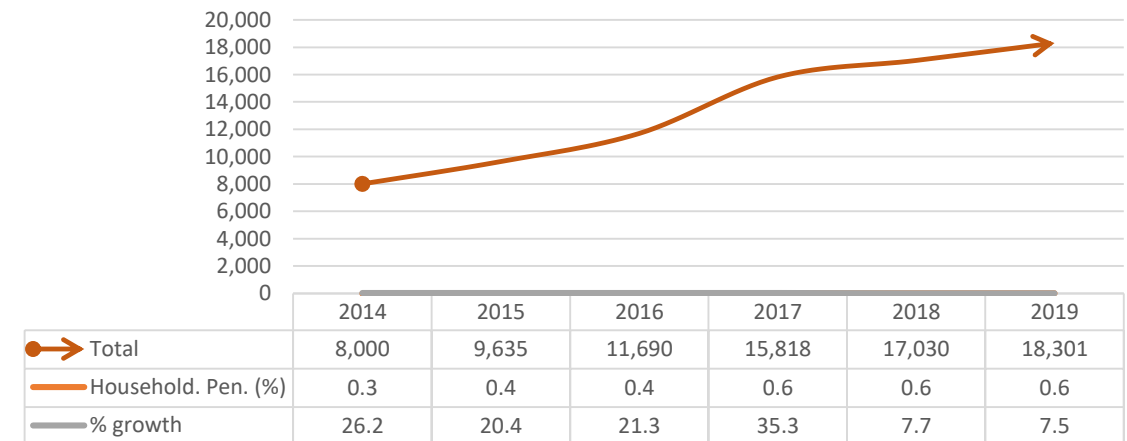
Broadband market size by number of customers, Somalia and peer countries

Rank	Country	Average price of 1GB (USD)
7	Somalia	\$0.50
12	Sudan	\$0.63
39	Kenya	\$1.05
81	Ethiopia	\$2.44
148	Eswatini	\$13.31

Source: Cable.co.uk, 2020

Increasing trend on broadband market size and low cost

Broadband market size by number of customers



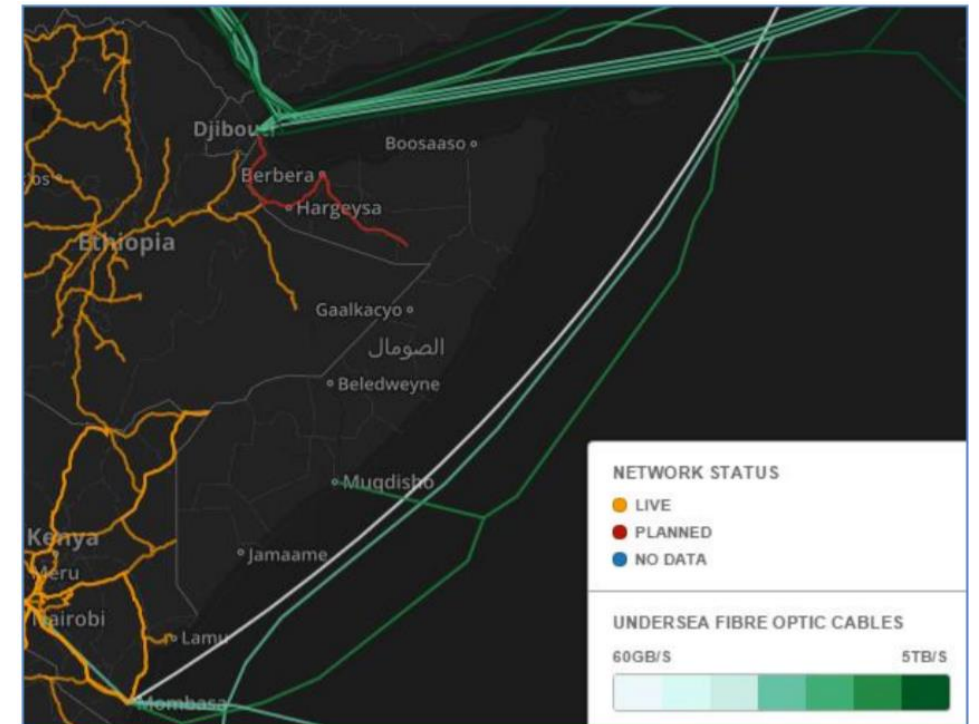
Source: ITU, estimates, 2019

Key Market Trends and Opportunities

Backbone Infrastructure

- Somalia is seeking investors to partner with existing players to integrate the domestic transmission network, especially a national backbone and metropolitan networks. While international connectivity has improved in recent years with the landing of the EASSy submarine fiber optic cable in Mogadishu and terrestrial cables at the borders with Djibouti and Kenya,
- Somalia presents opportunities for developing a **national fiber optic backbone network** to distribute the international bandwidth within the country, now the key inhibitor to broadband market further development.
- Such a network would enable Somalia to establish itself as **a supplier of international bandwidth to landlocked Ethiopia**. This is a highly lucrative market that is currently buying most of its international bandwidth from Djibouti and Kenya (connected to a multitude of subsea cables). Ethiopia's population of 95 million - the second largest in Africa after Nigeria - is projected to grow to over 150 million in the next 20 years.

International fiber optic cables around Somalia and terrestrial backbone infrastructure



Source: Strategy and PPP Options for Supporting the ICT Sector and Broadband Connectivity in Somalia, WBG

Map: Afterfibre.nsrc.org

Fiber optic backbone connecting Somalia's 10 largest cities



Key Market Trends and Opportunities

Backbone Infrastructure

The map shows in **green**:

- Somcable's existing terrestrial fiber network which connects Berbera, Hargeisa and Borama to Djibouti and is being extended to Burao and Laas Anod
- Golis's fiber optic cable between Berbera and Qardho, which is being extended to Garowe
- Galkayo, Laas Anod, Erigavo, and Galdogob on the Ethiopian border
- Hormuud's fibre from Mogadishu to Afgoye and Balcad.

Shown in **red** is a fibre route that would connect the remainder of Somalia's ten largest cities to the currently existing infrastructure.

Additionally, in 2016, the **Gulf to Africa (G2A)**, a new low-latency cable system – was introduced to bring content closer to end-users in Africa and provide Somalia with much needed Internet capacity and access to global cloud services and applications.

The subsea part runs from Salalah, Oman, to both Bosaso in Somalia and Berbera in Somaliland. From Salalah, a terrestrial route through Oman interconnects with all Omantel's nine submarine cable systems, soon to be twelve, with some of them being the largest in the world connecting the Middle East with the Far East, Europe and North America.

Source: Strategy and PPP Options for Supporting the ICT Sector and Broadband Connectivity in Somalia, WBG

Map: Ezilon

ICT Regulatory Framework

The National ICT Policy and Strategy guides the following:

- Universal access to affordable voice and broadband available
- Critical infrastructure is well protected
- Increase investment in ICT research and development
- Facilitate public private partnerships
- Review policies on taxes on ICT hardware and software needed by start ups.

Progress has been made by the Federal Government of Somalia in creating an enabling regulatory environment for the ICT sector.

The **Communications Law** approved by the Parliament in 2017, paved the way for the establishment of the National Communications Authority (NCA).

The Ministry of Posts, Telecommuniacion and Technology (MPTT) also developed the **National ICT Policy and Strategy (2019 - 2024)** to speed up Somalia's use of ICTs and to open the potential for new business opportunities, thereby achieving socio-economic development goals.

The National ICT Policy and Strategy also increases economic and social activity in banking, financial services, communications, health and education.

Based on the Communications Law and the ICT strategy, the NCA developed several regulations to provide a **more conducive environment for market growth and improvement of socio-economic welfare**.

The NCA developed a **Licensing Framework** and issued licenses to all incumbent MNOs. The Licensing Framework and regulations underway by the NCA are linked to positive and increased investment in the sector. The regulatory mandate contributes towards formalization of the sector, service quality monitoring, spectrum efficiency, infrastructure expansion and promoting a competitive environment.

Government Provisions and Support

“As the Federal Government of Somalia has prioritized the ICT sector reforms and investments through the National ICT Policy and Strategy as well as the National Development Plan together with the increasing both domestic and foreign direct investments in the sector, we are confident that the sector will contribute significantly to the economic growth and development of Somalia.”

H. E. Abdi Sheikh Ahmed, Former Minister for Post, Telecom, and Technology of Somalia

The Ministry of Planning, Investment and Economic Development (MOPIED):

The **Foreign Investment Law (FIL) 2015** is operational. Under the FIL, the **Somalia Investment Promotion Office (SOMINVEST)** at MOPIED is mandated to promote investments in priority sectors, facilitate and support investors, as well as continuously advocate for investment climate reforms. The office provides **priority to foreign investments**, and **offers favourable incentives to foreign investors**, such as tax advantages and guarantees against expropriations and investor after-care support.

SOMINVEST: a new institution that provides **direct assistance** and **information** to foreign investors and **promotes**, among others, **specific opportunities** for ICT projects. Its mandate has been solidified with support from the World Bank Group and other partners.

The Somali ICT Development Association (SICTDA): a non-governmental, non-profit association that aims to promote ICT applications in all aspects of life to accelerate development.

Government Provision and Support

Investment Climate Reforms

Enactment of Companies Law

A landmark achievement for Somalia's business registration reform agenda.

Last year, supported by IFC, Somalia transitioned the regime from simply undertaking annual business licensing to a one time and unified business registration for any of the country's member states, which is aligned with international good practice.

Source: FGS

Foreign Investment Law

Foreign investment in Somalia is governed by the Foreign Investment Act 2015 (FIL) which defines the institutional framework for investment registration, approval, promotion and facilitation.

In June 2020, the Office of the Prime Minister of Somalia (OPM) issued an executive decree clarifying the provisions of the FIL, policy and promotion mandates, and roles for the Foreign Investment Board and SOMINVEST.

Reforms Pipeline

Enhanced legal protections through the Investment and Investors Protect Act at parliament - 2021

Strengthening investor support through the transformation of SOMINVEST to an independent through the Investment Promotion Agency (IPA) Act, at parliament - 2021

Streamlining business registration further to an electronic business registry - 2021

Government Provision and Support

ICT International Exhibitions

Somalia ICT Expo:

- Key event and an essential part the country's ICT sector with technical support from the NCA and MPTT and sponsored by the Benadir Regional Administration.
- More than **60 exhibitors** from telecoms, technology, education and government sectors gathered at the Expo to demonstrate new products and services in their respective fields.
- **Panel discussions by the experts** in the sector were held to discuss the potential of the sector.

Mogadishu Tech Summit:

- The Mogadishu Tech Summit (MTS) is an annual gathering that connects Somali techies, entrepreneurs, investors, policy-makers and digital-doers with the rest of the world.
- In 2019, the three-day event attracted **over 5,000 participants**, including Somalis involved in the tech industry, representatives from the government, international partners, investors and financial institutions – some of whom generously pledged millions of dollars in support technology initiatives and tech advancement in the country.
- Over 40 young innovators exhibited their technology inventions.

Somali STEM Summit:

- The first Somali Science, Technology, Engineering and Mathematics Summit took place in Mogadishu in 2018. The three-day event brought together hundreds of secondary and university students, STEM practitioners, professionals, academics and Somali science enthusiasts from around the country and the diaspora to enhance the national conversation on STEM education.



Photos: Somalia's International ICT Exhibition, 2018

Investment Success Stories

Mobile Network Operators (MNOs)



Hormuud Telecom, one of the country's major mobile operators, employs more than 20,000 full-time and part-time staff with different specialties. Among these employees are telecommunication engineers, customer service, sales and marketing, and finance specialists.

Hormuud Telecom offers a variety of services including SIMCARDS, internet devices and airtime. Its mobile networks cover more than 80% of the land area in South and Central Somalia. The company provides the **cheapest 4G mobile internet in Africa** and in the Arab world.

Source: Hormuud Telcom, cable.co.uk



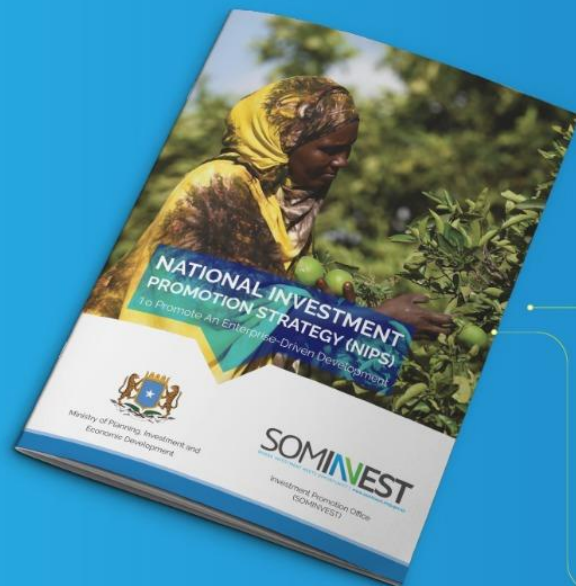
Ministry of Planning, Investment and
Economic Development

INVESTMENT PROMOTION OFFICE

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The endorsed NIPS strategy outlines
KEY SECTORS ready for Foreign Direct Investment



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Mogadishu, Somalia

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