



**PUNTLAND STATE
SOMALIA**

TRENDS, CHALLENGES, OPPORTUNITIES AND STRATEGIC DEVELOPMENT PATHWAYS



**Ministry of Planning, Economic
Development & International Cooperation**



PUNTLAND STATE OF SOMALIA

**MINISTRY OF PLANNING, ECONOMIC DEVELOPEMNT
AND INTERNATIONAL COOPERATIONS**

PUNTLAND ECONOMIC OUTLOOK

TABLE OF CONTENTS

01

GLOBAL ECONOMICS AT GLANCE

Overview Global Economic Growth Outlook
African Economics Outlook
Somalia Economic Outlook

MACROECONOMIC INDICATORS

GDP and Growth Compositions
Sectoral Performance
Trade Performance and Investment Opportunities
Inflation and Food Paasche Index
Unemployment

02

03

HOUSEHOLD WELFARE & ECONOMIC DISPARITIES

Food Security
Household Shocks
Poverty Measurements
Multidimensional Poverty

PUBLIC FINANCE AND FISCAL POLICY

Puntland Taxation Structure
Analysis on Government Revenue Streams and Public Expenditure
Fiscal Balance & Sustainability of Current Fiscal Policy
Trends In Revenue And Expenditure As % Of GDP
Fiscal Policy & Macroeconomic Stability
Economic Outlook & Future Fiscal Strategy
Fiscal Policy Review & Recommendations For Addressing Budget Deficit

04

05

ECONOMIC GOVERNANCE

Puntland Public-Private Institutions Reform to Accelerate Economic Growth and Poverty Reduction
Enhancing Institutional Capacity and Performance
Strengthening Public Financial Management
Technology Adaptation and Innovation
Public-Private Engagement, Investment Climate
Legal Frameworks and Rule of Law

ACRONYMS

ADB – African Development Bank

CPI – Consumer Price Index

DEC – Dietary Energy Consumption

EMDEs – Emerging Market Development Economies

FDI – Foreign Direct Investment

GCC – Gulf Cooperation Council

GDP – Gross Domestic Product

GFCF – Gross Fixed Capital Formation

HACCP – Hazard Analysis Critical Control Point

HIPC – Heavily Indebted Poor Countries

IUU – Illegal, Unregulated, Unreported

ISI – Imported Substitution Industrialization

LICs – Low Income Countries

MPI – Multidimensional Poverty Index

MOFMR – Ministry of Fishery and Marine Resources

ODA – Official Development Assistance

OPHI – Oxford Poverty and Human Development Initiative

PEDA – Puntland Energy Development Agency

PHA – Puntland Highway Authority

PIHBS – Puntland Integrated Household Budget Survey

PPP – Public Private Partnership

SEZs – Special Economic Zones

ACRONYMS

SMEs – Small and Medium Enterprises

SPS – Sanitary and Phytosanitary standardization

SSA – Sub-Saharan Africa

TAC – Total Allowable Catches

TANF – temporary Assistance for Needy Families

TVET – Technical and Vocational Education and Training

WHO – World Health Organization



The Ministry of Planning, Economic Development and International Cooperation is responsible for planning and translating the social- economic vision of Puntland State of Somalia into tangible social, economic, political and institutional results for its citizens through international cooperation with development partners. It is therefore my great pleasure and honor to present the Puntland Economic Outlook.

The Puntland Economic Outlook serves as an important resource in understanding the economic landscape, challenges, and opportunities shaping our state. As Puntland continues its journey toward economic growth and resilience, it is imperative to have a well-researched foundation to guide policy decisions, investments, and strategic planning. This report provides valuable insights into key economic indicators, sectoral performance, and governance frameworks that will shape Puntland's future.

Our economy, like many others, is influenced by global and regional trends, including inflation, supply chain disruptions, climate change, and shifting trade dynamics. While we have demonstrated resilience, achieving sustainable growth requires strengthened economic governance, enhanced public financial management, and increased investments in infrastructure, trade, and human capital development. Through this report, we aim to highlight these critical areas and offer strategic recommendations to foster inclusive and sustainable economic growth.

The Puntland Ministry of Planning and Economic Development remains committed to working with all stakeholders, including government institutions, private sector actors, and development partners, to implement forward-looking economic policies that promote stability and prosperity. I extend my sincere appreciation to the dedicated teams and researchers who contributed to the development of this report. Their efforts are instrumental in shaping Puntland's economic trajectory, and I look forward to continued collaboration in our pursuit of sustainable development.

H.E Da'ud Mohamed Omar

Minister Of Planning, Economic Development And International Cooperation
Puntland State Of Somalia

Acknowledgement



02

The development of the Puntland Economic Outlook would not have been possible without the contributions and efforts of department of Planning and Economic development and the department of Statistics. We extend our sincere gratitude to the researchers, economists, and policy experts who provided valuable insights and analysis to ensure the comprehensiveness of this report.

We appreciate the collaboration and support of key government institutions, including the MDAs and other relevant agencies. Their contributions in providing essential data, reports, and sectoral assessments were crucial in shaping this document.

A special thank you goes to the key stakeholders for their valuable perspectives and input. Their engagement ensures that our economic policies reflect the realities on the ground and remain aligned with the aspirations of our people.

Finally, we applaud the devoted team at the Ministry of Planning and Economic Development for their efforts in compiling and reviewing this report, especially Zakaria Abdullahi Mohamed, who led the invention of obtaining this document and its completion, along with his advisors, Prof. Mohamed Said Samatar and Prof. Jama Hajji Warsame. We also recognize the supporting team, particularly Mr. Hersi Abdullahi Hashi, Mr. Awil Mohamud Ahmed, Farhia Jama Nur, Director Osman Ali Abdurrahman, and finally, Director Abdelfattah Mohamed Abdullahi. Their dedication to enhancing Puntland's economic knowledge and promoting evidence-based policymaking is truly admirable.

Eng. Abdulkadir Abdidahir Farah

Director General, Ministry of Planning, Economic Development and International Cooperation

Executive Summary

03

The Puntland Economic Outlook provides an in-depth analysis of the region's economic performance, governance structures, and future prospects. Despite global economic instability, Puntland's economy demonstrates resilience, driven by key sectors such as livestock, trade, and infrastructure development. However, economic governance remains a critical factor in ensuring sustainable growth and fiscal stability.

Puntland's economic key sectors, including livestock, fisheries, agriculture, and frankincense production, remain the backbone of Puntland's economy. The economic trajectory is influenced by global economic trends, including inflation, supply chain disruptions, and geopolitical tensions. While GDP growth is recovering post-pandemic, external shocks, climate-related challenges, and limited diversification remain key obstacles. Effective governance is essential for economic stability and development. Puntland has made progress in strengthening public financial management, revenue collection, and regulatory frameworks. However, challenges such as limited institutional capacity, weak policy enforcement, and dependency on external aid persist. Strengthening governance in areas such as public financial management, regulatory frameworks, budget discipline, spending rationalization, and institutional efficiency is crucial to ensuring long-term economic stability.

While livestock continues to be the primary foreign exchange earner, the sector faces challenges such as climate variability, disease outbreaks, and inadequate veterinary services. The fisheries sector, despite Puntland's extensive coastline and competitiveness in this sector, remains largely untapped due to illegal, unregulated fishing and limited processing infrastructure. Agriculture is hindered by poor irrigation systems, environmental degradation and climate-related shocks, though there is potential for value addition and food security improvements



Executive Summary

04

Frankincense, a globally valuable commodity, remains underdeveloped due to unsustainable harvesting practices and the lack of processing facilities. Meanwhile, industries and services, including trade, telecommunications, and transportation, are expanding, though high energy costs and infrastructure deficiencies continue to constrain industrial growth.

Infrastructure and energy remain major barriers to economic expansion. While road networks and port development projects are improving connectivity and facilitating trade, the region still requires substantial investment in transport and logistics. The energy sector is among the most expensive in the region, limiting industrial growth and increasing operational costs. Transitioning to renewable energy sources such as solar and wind could provide long-term solutions for affordable and sustainable energy access.

Puntland faces a persistent trade deficit due to high import dependency and limited export diversification. The imbalance between exports and imports underscores the need for increased local production, enhanced trade policies, and value-added processing.

Fiscal constraints, reliance on external aid, and weak domestic revenue mobilization present additional challenges that require comprehensive economic reforms. Addressing these issues will be essential in fostering long-term stability and sustainable economic growth.

The path forward requires a strategic focus on economic governance, diversification, and sustainable investments. Strengthening public financial management, implementing business-friendly policies, and enhancing trade competitiveness are crucial steps toward fostering a more resilient economy. Investments in infrastructure, human capital development, and climate adaptation strategies will be essential in addressing economic vulnerabilities and unlocking Puntland's growth potential. By embracing strategic reforms and fostering institutional capacity, Puntland can achieve long-term economic stability, inclusive development, and regional economic integration.



Key Messages



Glance Statement

"Puntland's economic future hinges on strengthening governance, diversifying its economic base, and investing in sustainable development. By improving structural challenges and embracing strategic reforms, the Government can achieve long-term resilience, economic stability, and inclusive growth."

Resilience Amid Global Challenges

Despite economic shocks, the economy remains resilient, with key sectors such as livestock, fisheries, and trade playing a pivotal role.

Need for Economic Diversification

Heavy reliance on livestock exports and external aid underscores the urgency of diversifying the economy through industrialization, value-added agriculture, and fisheries.

Strengthening Economic Governance

Improved fiscal policies, enhanced revenue mobilization, and stronger institutions are essential for our sustainable development.

Trade Deficit & Market Access

The economy faces a growing trade imbalance due to high import dependency and limited export diversification, requiring trade policy reforms and regional integration.

Climate Change & Food Security

Droughts, water scarcity, and agricultural instability pose significant risks, demanding climate adaptation strategies and investment in sustainable farming.

Public-Private Sector Collaboration

Encouraging private sector participation and fostering investment-friendly policies will drive job creation and economic growth.

Youth Employment & Human Capital Development

Investing in education, vocational training, and digital innovation is key to addressing unemployment and boosting productivity.

Regional & Global Economic Linkages

Our strategic position in the Horn of Africa presents opportunities for enhanced trade, logistics, and economic cooperation.

Infrastructure & Energy Constraints

Investment in road networks, and renewable energy is critical to unlocking economic potential and reducing high operational costs.

Global Economy at Glance

CHAPTER 1



MINISTRY OF PLANNING

Puntland Economic Outlook 2024



GLOBAL ECONOMICS AT GLANCE

Overview of Global Economic Growth Outlook

► Introduction

The global economy is stabilizing, following several years of negative shocks. Global growth was projected to hold steady at 2.6 percent in 2024, despite flaring geopolitical tensions and high interest rates, before edging up to 2.7 percent in 2025-26 alongside modest expansions of trade and investment. Global inflation is expected to moderate at a slower clip than previously assumed, averaging 3.5 percent in 2024. Central banks in both advanced economies and emerging market and developing economies (EMDEs) are likely to remain cautious in easing policy. As such, markedly higher interest rates than prior to the pandemic are set to sustain for an extended period. Despite some improvement, the outlook remains subdued. Global growth over the forecast horizon is expected to be nearly half a percentage point below its 2010-19 average, with a slower pace of expansion in economies comprising over 80 percent of the global population. EMDE growth is projected to moderate from 4.2 percent in 2023 to 4 percent in 2024. Amid heightened conflict and violence, prospects remain especially lackluster in many vulnerable economies over half of fragile and conflict-affected economies still getting poorer in 2024-25 than on the eve of the pandemic. Risks have become more balanced but remain tilted to the downside. Escalating geopolitical tensions could lead to volatile commodity prices. In a context of elevated trade policy uncertainty, further trade fragmentation risks additional disruptions to trade networks.

More persistent inflation could lead to higher-for-longer interest rates. Other risks include weaker-than anticipated activity in key economies and disasters related to climate change. Against this backdrop, policy makers face daunting challenges. Global efforts are needed to safeguard trade, support green and digital transitions, deliver debt relief, and improve food security. Still-pronounced inflation risks underscore the need for EMDE monetary policies to remain focused on price stability. High debt and elevated debt-servicing costs will require EMDE policy makers to balance sizable investment needs with fiscal sustainability. To meet development goals, policies are needed to raise productivity growth, improve the efficiency of public investment, build human capital, and close gender gaps in the labor market.

► Key Challenges

- Trade fragmentation could lead to volatile commodity prices and disrupted supply chains.
- Climate-related disasters and their impact on agriculture will particularly affect vulnerable economies.
- Persistent inflation and slower-than-expected global disinflation could lead to prolonged high interest rates, exacerbating financial challenges.

Global Economic Landscape

Domestic demand in Emerging Market and Developing Economies (EMDEs) is projected to improve this year, supported by moderate cyclical recovery from the pressures of high inflation, tight financial conditions, and anemic industrial activity. This recovery is driven by easing inflationary pressures, improved financial conditions, and a resurgence in industrial output. However, aggregate growth across EMDEs is expected to decelerate slightly, primarily due to idiosyncratic challenges in some large economies. Vulnerable economies, including low-income countries (LICs) and those affected by conflict and violence, face significant challenges, with growth prospects deteriorating markedly since earlier projections in January. The dynamics underscore the uneven recovery within EMDEs, where structural weaknesses and conflict-related disruptions weigh heavily on economic performance in the most fragile regions.

These idiosyncratic challenges in large economies have significantly impacted Somalia's fragile and import-reliant economy. The Russia-Ukraine conflicts, middle east conflicts and regional political instability disrupted imports for food items, driving up prices which worsened food insecurity, while higher fuel costs amplified transportation expenses. U.S. monetary tightening strengthened the dollar, increasing import costs and inflation. China's economic slowdown reduced demand for Somali exports and delayed infrastructure projects. Climate-related shocks, including droughts, further strained food security, leaving significant portion of the population in acute need. Additionally, rising global debt distress and regional instability disrupted trade routes, isolating Somalia's economy and limiting its recovery prospects.

Secondly, global trade growth is showing signs of recovery, primarily driven by a rebound in goods trade supported by improved supply chains, stronger demand, and a moderate economic recovery. However, growth in services trade, particularly tourism, has slowed as it approaches pre-pandemic levels, offering less room for rapid expansion. Despite these improvements, the overall trade outlook remains subdued compared to previous decades due to the proliferation of trade-restrictive measures, such as tariffs and export controls, alongside heightened policy uncertainty caused by geopolitical tensions like U.S.-China relations and Brexit. For Emerging Markets and Developing Economies (EMDEs), these challenges could limit integration into global value chains and constrain export and tourism-related growth opportunities.

Commodity prices reflect a mixed trajectory, with oil prices expected to rise slightly in 2024 due to tight demand-supply dynamics, while prices for natural gas and coal are projected to decline but remain above pre-pandemic levels. Agricultural commodities may experience modest price declines due to well-supplied markets, while metals prices are expected to remain stable, supported by clean energy investments and industrial recovery. Inflation continues to ease globally, albeit at a slower pace, as core inflation remains sticky due to rising services prices. Monetary policy divergence persists, with the European Central Bank moving toward easing while the U.S. Federal Reserve maintains high interest rates, contributing to global financial stability and improved risk sentiment. By 2026, inflation is projected to settle at 2.8%, aligning with central bank targets, but near-term uncertainty in trade and monetary policy may continue to weigh on economic recovery.

Global inflation is declining, albeit at a slower pace, with core inflation driven by rising services prices remaining high. While inflation moderates in advanced economies, Somalia continues to experience persistent inflation due to local factors such as drought, currency depreciation, and political instability, combined with global commodity price increases like oil. By 2026, global inflation is projected to stabilize around 2.8%, potentially easing imported inflationary pressures on Somalia, particularly for essential goods like food and fuel. However, monetary policy divergence between advanced economies poses challenges; the U.S. Federal Reserve's prolonged tightening strengthens the dollar, raising import costs and exacerbating Somalia's external debt servicing burden, while easing financial conditions in global markets may present limited financing opportunities for Somalia's development projects. Somalia's heavy reliance on imported goods, external aid, and remittances leaves it vulnerable to inflation, rising interest rates, and currency depreciation, straining household incomes and increasing fiscal pressures.

Africa Economic Outlook

1. Growth Trends and Divergences of Africa's Economic Performance

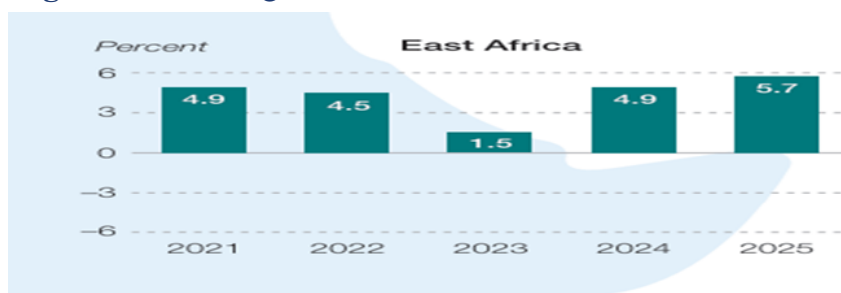
According to ADB outlook in 2024, African economies have shown resilience, despite facing significant global and domestic challenges, in 2023, real GDP growth slowed to 3.1%, down from 4.2% in 2022. This decline was driven by high food and energy prices due to the ongoing impacts of Russia's invasion of Ukraine, weak global demand affecting exports, climate change disrupting agriculture and power generation, and instances of political instability and conflict in some countries. However, even in a challenging year, 15 African countries achieved growth rates of at least 5%, with six nations (Burkina Faso, Djibouti, Eswatini, Libya, Republic of Congo, and South Sudan) experiencing growth exceeding 2 percentage points. Moreover, over half of African countries (31) reported stronger growth in 2023 than in 2022.

Looking ahead, Africa's economies are expected to recover, with projected GDP growth rising to 3.7% in 2024 and 4.3% in 2025. This growth will outpace the projected global average of 2.6% for 2024 and position Africa as the second-fastest-growing region globally, after Asia. The recovery will be led by East Africa, which is expected to see the largest increase in growth, along with notable improvements in Southern and West Africa. By 2024, 40 African countries are anticipated to achieve higher growth compared to 2023, with 17 of them growing by more than 5%. This number could increase to 24 economies by 2025, demonstrating the continent's strengthening economic resilience. Despite ongoing challenges, Africa's ability to rebound underscores its potential to maintain a strong growth trajectory in the years to come.

Growth in Sub-Saharan Africa (SSA) is projected to recover modestly to 3.6% in 2024, but this remains below the global average for emerging markets. Whereas resource-intensive economies, such as Nigeria and Angola, continue to struggle with structural inefficiencies, while more diversified economies show resilience.

East Africa is set to lead as Africa's fastest-growing region, with GDP growth expected to rise from 1.5% in 2023 to 4.9% in 2024 and 5.7% in 2025, driven by improved agriculture and resilient demand. However, ongoing conflicts, particularly in Sudan, have slightly dampened projections. Somalia, as part of East Africa, faces unique challenges with heavy reliance on agriculture which is significant portion of GDP, which is vulnerable to climate shocks like droughts and floods. Unlike the regional recovery, Somalia's growth is constrained by structural limitations, climate risks, and dependency on remittances and aid, highlighting the need for economic diversification and resilience-building efforts.

Fig.1: Economic growth in East Africa



2. Inflation Pressures

Inflation in Africa averaged 17% in 2023, a significant rise from 14% in 2022. The primary drivers include drought-induced food supply shortages, high global energy prices, currency depreciation, and lingering effects of fiscal and monetary policies implemented during the COVID-19 pandemic. East Africa recorded the highest inflation rate among regions, at 26.5%, exacerbated by extreme cases like Sudan's 245.3% inflation due to ongoing conflict.

In comparison, Somalia inflation over the twelve months to the month of November 2024 remained relatively moderate at 5.2%, reflecting its reliance on imports, international aid and remittances, which provide some cushion against external economic shocks. However, Somalia is still vulnerable to global food price volatility and climate-related disruptions affecting its agricultural sector. However, Puntland's inflation looks more stable than Somalia with a rate -0.04% due to the dominance of the U.S. dollar as a primary currency which protected Puntland against extreme currency devaluation and exchange rate fluctuations.

While inflation is expected to ease due to tighter monetary policies, double-digit inflation persists in countries like Ethiopia and Nigeria. Rising food prices, driven by climate events, remain a key inflationary pressure, particularly for agriculture-dependent economies.

3. External Vulnerabilities and Financing Constraints

Limited access to global financial markets due to high borrowing costs is constraining external funding options for many African countries. Many nations have insufficient foreign reserves, leaving them vulnerable to currency shocks.

African countries face significant external vulnerabilities and financing constraints due to several factors. Tightened global financial conditions, high uncertainty from geopolitical tensions, and trade disruptions have reduced external financial flows. Foreign direct investment (FDI), official development assistance (ODA), and portfolio investments fell by 19.4% in 2022, reversing the post-pandemic recovery. Currency depreciation, driven by strong US dollar performance and global interest rate hikes, has further strained African economies. For instance, Nigeria's naira depreciated by 95.6% in 2023.

Public debt remains high, with the median debt-to-GDP ratio stabilizing at around 63.5%, significantly above pre-pandemic levels. Rising debt servicing costs, fueled by increased borrowing rates and currency weaknesses, have constrained governments' fiscal space, limiting investments in growth-promoting sectors. The average fiscal deficit increased to 5% of GDP in 2023, and current account deficits are expected to widen to 2% in 2024–25 due to elevated oil prices and weaker global demand. These challenges underscore the need for reforms in the global financial architecture to ensure affordable, timely access to development financing and debt restructuring to support Africa's recovery and structural transformation.

According to the report, Somalia faces external vulnerabilities stemming from its dependence on remittances, international aid, and limited export diversification. Climate shocks, political instability, and weak institutional frameworks further exacerbate these challenges. Despite these vulnerabilities, Somalia has made progress in addressing its debt burden under the Heavily Indebted Poor Countries (HIPC) Initiative.

Somalia's debt relief efforts have helped reduce its external debt burden, creating space for increased investments in critical development areas. However, financing constraints persist due to limited access to international capital markets and high reliance on concessional financing. The country's economic recovery remains highly susceptible to global commodity price volatility, exchange rate fluctuations, and the ongoing impacts of climate change on its agricultural sector, which is a cornerstone of its economy.

4. Social and Political Pressures in Africa, East Africa, and Somalia

Africa faces mounting social and political pressures driven by high unemployment, food insecurity, and persistent inequality. Political instability and regional conflicts exacerbate these issues, leading to social unrest and large-scale displacement. Climate shocks, including droughts and floods, add to these challenges by disrupting livelihoods and deepening poverty. Governance weaknesses and limited institutional capacity further hinder efforts to address these pressures effectively.

East Africa grapples with significant political instability and conflict, notably in Sudan and South Sudan, which have resulted in economic disruptions, displacement, and humanitarian crises. Climate shocks, such as prolonged droughts, continue to devastate livelihoods, particularly in agriculture-dependent communities, exacerbating food insecurity. Despite these challenges, countries like Kenya and Rwanda maintain relative political stability, offering hope for regional resilience.

Somalia remains one of the most fragile states in East Africa, with ongoing security concerns due to persistent conflict and the presence of extremist groups. Social pressures are heightened by widespread poverty, food insecurity, and displacement caused by recurrent droughts and floods. Weak governance and limited institutional capacity impede Somalia's ability to address these issues, making external support critical for stability and recovery. Widespread inequality, youth unemployment, and governance issues are fueling social unrest across the region, particularly in countries experiencing political fragility.

5. Climate Change and Natural Disasters in Africa

Africa faces severe and escalating challenges from climate change and natural disasters, which disproportionately impact its vulnerable populations and economies. For example, climate change has caused recurrent droughts and floods that disrupt agricultural productivity and livelihoods, threatening food security for millions. For instance, drought-induced food supply shortages are a major contributor to Africa's average inflation of 17% in 2023. Additionally, climate-related shocks cost African economies between 5% to 15% of GDP per capita annually, particularly in fragile states like those in the Sahel and Horn of Africa.

East Africa faces some of the harshest impacts, with prolonged droughts decimating crops and livestock, pushing millions into food insecurity, and exacerbating poverty. In Sudan and South Sudan, ongoing conflict compounds these climate pressures, deepening humanitarian crises. Thus, the frequency and intensity of natural disasters are increasing, requiring African governments to divert limited resources to disaster response. This further strain already overstretched public finances, with fiscal deficits averaging 5% of GDP in 2023 across the continent.

With the existence of global contributions and adaptation financing gap in Africa, the continent contributes less than 4% of global greenhouse gas emissions, it suffers disproportionately from climate change impacts. The continent faces a substantial financing gap to build resilience, with climate adaptation requiring billions in investments annually. Africa's ability to address these challenges depends on enhancing climate resilience, securing international climate finance, and implementing strategies to reduce vulnerabilities, particularly in agriculture and water resource management.

Sub-Saharan Africa is highly vulnerable to climate-related disasters, such as droughts and floods, which have devastating impacts on agriculture, infrastructure, and energy supplies. Investments in climate resilience are crucial but remain underfunded due to limited fiscal capacity.

Somali Economic Outlook

The Somali Economic Outlook report provides the analysis of the country economic performance from 2015 to 2022, addressing challenges, developments, and future projections. It emphasizes the country's resilience in the face of recurrent shocks, including drought, floods, political tensions, and global crises like COVID-19 and the Russia-Ukraine war. The report highlights improvements in GDP growth, projected to rise to 3.9% by 2025, and the role of livestock exports and remittances in sustaining the economy.

Inflation rates have remained relatively stable despite global price shocks, with the IMF predicting a gradual reduction to 3.5% by 2025. The exchange rate of the Somali Shilling has shown consistent depreciation due to limited control mechanisms. The current account deficit persists, driven by an over-reliance on imports and limited export diversification, though remittances and livestock exports provide critical financial support.

Fiscal reforms, supported by the IMF, have bolstered revenue collection, though the tax base remains narrow. Debt relief through the Heavily Indebted Poor Countries (HIPC) initiative has reduced Somalia's external debt-to-GDP ratio, enabling further economic reform. Monetary policy advancements include the Central Bank's licensing of commercial banks and mobile money operators and steps toward currency reform.

Somali Economic outlook stresses the need for public-private partnerships, agricultural investment, and industrial development to diversify exports, enhance revenue, and promote sustainable growth. The private sector's role is underscored, with calls for increased collaboration and policy reforms to attract investment. Looking forward, Somalia aims to strengthen its economic governance and implement strategic policies to achieve long-term stability and inclusive growth.

The economy has displayed notable resilience despite facing multiple challenges, including recurring droughts, floods, locust invasions, political instability, and the global effects of COVID-19 and other idiosyncratic factors. The economic growth rate, which contracted in 2020 due to the pandemic, rebounded to 2.9% in 2021 and is projected to rise steadily, reaching 3.9% by 2025. Livestock exports and remittances have been the backbone of economic activity, supporting household incomes and cushioning the economy against shocks.

Inflation has remained relatively stable, with annual rates fluctuating around 4% to 6% in recent years. However, global food and oil price increases have occasionally pushed inflation higher, such as during 2022 when it reached 8.3%. Projections indicate a gradual reduction to 3.5% by 2025, contingent on favorable climatic conditions, improved security, and political stability. Despite this, inflation remains vulnerable to local and global shocks.

The Somali Shilling has experienced consistent depreciation, attributed to limited regulatory control and widespread dollarization. The current account deficit has widened significantly, driven by high import levels and limited export diversification. While remittances and livestock exports play a crucial role in financing this deficit, there is an urgent need to reduce reliance on primary exports and invest in domestic value-added industries. This would not only enhance export earnings but also create jobs and alleviate poverty.

Fiscal reforms have shown progress, particularly in revenue mobilization, though the tax base remains narrow and constrained by institutional weaknesses. External grants have played a key role in budget financing, while spending has increased, with a significant share allocated to employee compensation. Efforts to improve fiscal management include adopting modern systems like the Somalia Financial Management Information System and enhancing expenditure controls.

Debt reduction efforts under the Heavily Indebted Poor Countries (HIPC) initiative have successfully lowered Somalia's external debt-to-GDP ratio, from 94% in 2015 to 73% in 2021. This progress, supported by international financial institutions, has provided Somalia with opportunities for further economic reform and development financing.

The Central Bank has strengthened its institutional capacity, licensed commercial and international banks, and introduced systems to modernize financial operations. Steps toward currency reform aim to stabilize the economy and provide a secure medium of exchange for those without access to dollar-based transactions.

Agriculture, a key sector for livelihoods, faces significant challenges from climatic shocks, displacement, and insecurity, leading to declines in crop production and food security. Livestock exports have seen growth despite periodic setbacks, while fisheries remain underutilized despite Somalia's extensive coastline and rich marine resources.

Looking ahead, the government seeks to diversify its economy, enhance public-private partnerships, and promote industrial and agricultural development, which are effective efforts aiming to address persistent challenges, strengthen economic governance, and achieve inclusive growth and sustainable development.

Macroeconomic Indicators

CHAPTER 2

MINISTRY OF PLANNING

Puntland Economic Outlook 2024



GDP AND GROWTH COMPOSITINS

Introduction

Our macroeconomic performance has been shaped by both regional and global economic dynamics, reflecting periods of growth, contraction, and recovery. Despite challenges such as political instability, climate shocks, and external trade fluctuations, we have demonstrated resilience, particularly through our key economic sectors, including livestock and infrastructure development. GDP growth in Puntland has been volatile, influenced by factors such as global economic conditions, external grants, and internal challenges. The region's economic structure is heavily consumer-driven, with household consumption playing a dominant role in GDP composition, while investment and government spending remain relatively constrained. If improved the structural challenges, through diversifying economic activities, and enhancing investment in productive sectors will be critical for ensuring sustainable and inclusive growth. By analyzing macroeconomic indicators such as GDP trends, sectoral performance, and investment dynamics, the section provides an overview of Puntland's economic landscape, offering insights into both its strengths and areas requiring policy intervention.

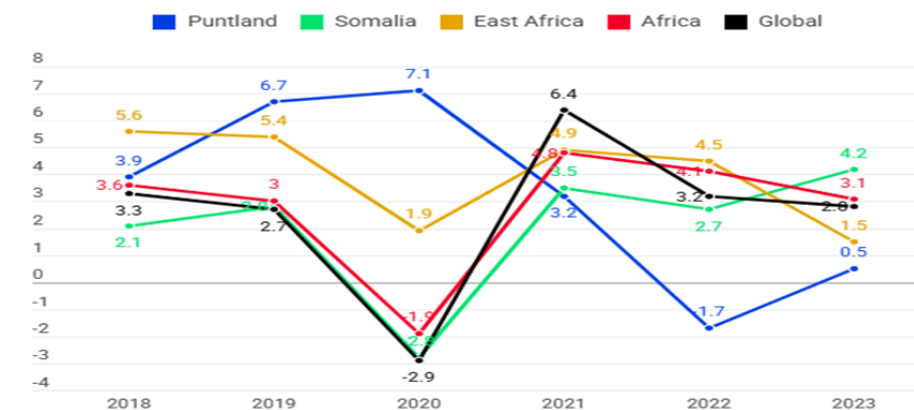
Puntland Real GDP Growth Rate Analysis & Comparison across the World (2018-2023)

Globally, economic growth remained stable in 2018 and 2019, with rates hovering around 3.3% and 2.7%, driven by steady trade and industrial activity. However, the COVID-19 pandemic in 2020 caused a sharp contraction of -2.9%, as lockdowns, reduced demand, and supply chain disruptions impacted economies worldwide. A robust recovery followed in 2021, with global GDP surging to 6.4% due to large-scale stimulus measures, the reopening of economies, and vaccination campaigns. Nonetheless, growth slowed in 2022 and 2023 to 3.2% and 2.8%, reflecting rising inflation, higher interest rates, and geopolitical tensions.

Africa's growth trajectory mirrored global trends, with moderate growth rates of around 3.6%-3% in 2018 and 2019, underpinned by resource-driven economies and steady regional demand. The pandemic caused a contraction of -1.9% in 2020 as commodity prices fell, tourism stalled, and remittances declined. In 2021, African economies rebounded with a growth rate of 4.9%, supported by improving commodity prices and a return to economic activities. However, growth decelerated to 4.1% in 2022 and 3.1% in 2023 due to persistent challenges such as internal conflicts, and external market shocks.

Fig. 2: Real GDP Growth rate, 2018-2023

Comparison among Global, Regional, National and State Growth rates (2018-2023)



SOURCE: WB, AFDB Outlook 2024, EAC Economic Outlook 2023, Som and PL GDP Reports 2023

East Africa demonstrated robust growth in 2018 and 2019, achieving rates of 5.6% and 5.4%, largely driven by strong agricultural output, infrastructure investments, and political stability in key countries. In 2020, the region experienced a sharp decline to 1.9%, driven by the pandemic's impact on regional trade and the services sector. A strong recovery followed in 2021, with growth reaching 4.9%, fueled by infrastructure development and the reopening of trade routes. However, growth slowed significantly in 2022 and 2023 to 4.5% and 1.5%, primarily due to rising inflation, prolonged drought conditions, and declining foreign investment.

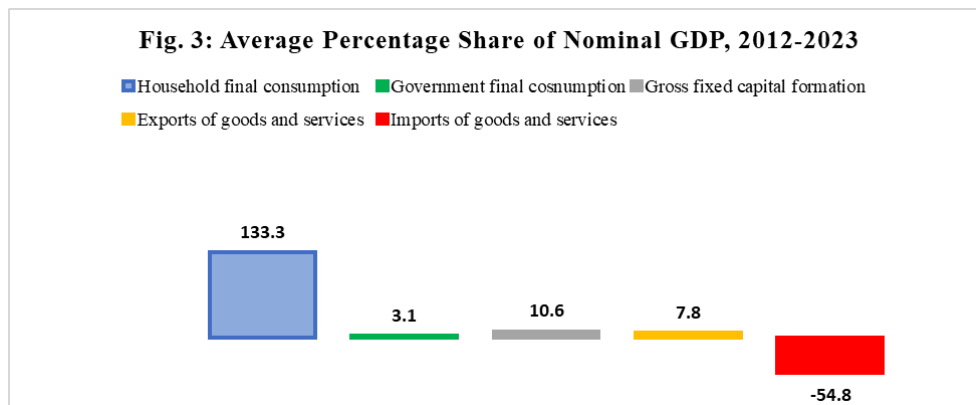
Somalia's economy exhibited modest growth during 2018 and 2019, with rates of 2.1% and 2.8%, reflecting the country's ongoing efforts to rebuild after decades of conflict. In 2020, the GDP contracted slightly to -2.9% as a result of the pandemic, locust invasions, and reduced remittance inflows. The economy rebounded in 2021, achieving 3.5% growth due to international aid and the resumption of economic activities. However, growth slowed to 2.7% in 2022 and quick recovery happened in 2023 with a growth rate of 4.2%, main constraints in Somalia's economy are political instability, security concerns, and climate-related challenges like drought and floods.

Puntland experienced notable growth in 2018 and 2019, with GDP rates rising from 3.9% to an impressive 6.7%, driven by infrastructure development, increased trade, and public sector reforms. Puntland saw a strong GDP growth in 2020 peaking at 7.1%, supported by livestock exports to Saudi Arabia during Pandemic, and import decrease due to supply shortage in the Pandemic time as well as infrastructural investment at Gara'ad Port. However, the region's economy contracted to -1.7% in 2022 due to lower external grants, significant trade deficit from world's raising post pandemic supply chain reforms and regional droughts. In 2023, Puntland saw a slight recovery with GDP growth rates rebounding to 0.5%, due to export increases, while fiscal constraints, security challenges, and climate shocks persisted.

Overall, the chart underscores the interplay of global and regional factors shaping economic growth. The COVID-19 pandemic created a common disruption across all entities, with varying degrees of impact based on dependence on trade, remittances, and commodities. Climate shocks such as droughts and locust invasions further exacerbated challenges in East Africa and Somalia, reducing agricultural productivity and livelihoods. Political instability and governance issues, particularly in Somalia and our state of Puntland, continued to constrain economic performance. Meanwhile, global disinflation and rising interest rates contributed to slower growth in the post-pandemic period.

GDP Share per Component at the current price

In 2023, the shares of the GDP components by expenditure approach in nominal terms were as follows: This breakdown indicates that Puntland's economy in 2023 heavily relied on household consumption, with gross fixed capital formation and government spending playing a minor role. Exports also contributed positively, but Puntland faced a significant trade deficit due to a high level of imports relative to exports, which impacted the overall GDP growth



• Household consumption (2012-2023)

The household final consumption expenditure reached 4,404 million US Dollars in 2023 at current prices compared to 4,182 Million US dollars in 2022. Food and beverages were about 58 percent of the total household consumption. Housing accounted for about 12 percent, while all other goods and services represented 30 percent of the total household final consumption. Expenditures on food and beverages and housing are estimated to increase, while all other goods and services declined during the year

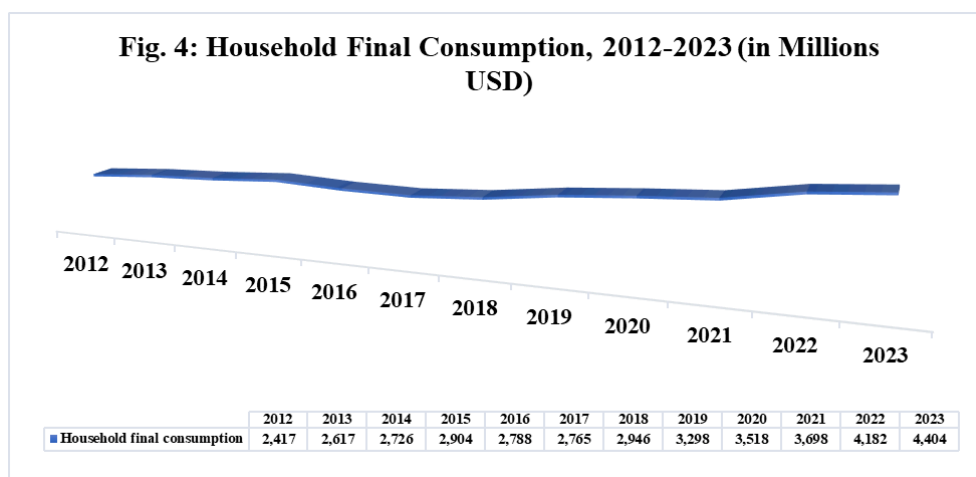


Fig. 4 shows a general upward trend in household final consumption from 2012 to 2023. This suggests that households are spending more over time. In current prices, household final consumption increased by almost 55% from 2012 to 2023. There are periods of faster growth (e.g., 2018-2023) and periods of slower growth or even slight dips (e.g., 2015-2017).

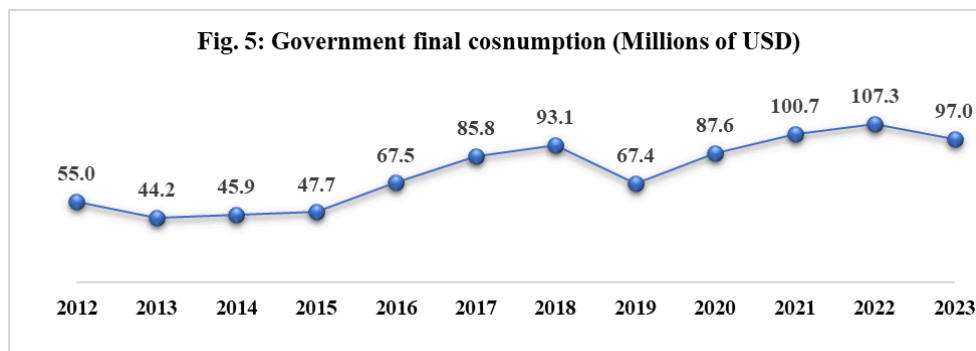
The reliance on household consumption as the primary driver of GDP growth in Puntland indicates a consumer-driven economy, where the spending patterns of individuals and families significantly influence economic performance. This structure often reflects the dominance of private consumption in aggregate demand, supported by factors like remittance inflows, which are a critical source of income for many households in the region.

In the short term, a consumer-driven economy can be advantageous as it fosters immediate economic activity, stimulates demand for goods and services, and supports sectors like retail, agriculture, and local production. However, this dependency also introduces vulnerabilities. The economy becomes more exposed to fluctuations in consumer confidence, which can be influenced by external shocks such as changes in remittance flows, inflationary pressures, or political instability. If households anticipate economic uncertainty, they may reduce spending, leading to a slowdown in economic growth.

Moreover, an over-reliance on consumption may divert attention from investing in productive sectors like industry, infrastructure, or export-driven activities that generate long-term economic resilience and sustainability. Without diversification into these areas, the economy remains susceptible to cyclical downturns, constrained by the finite nature of consumer spending.

The challenge requires strategic interventions, including enhancing savings and investment mechanisms, fostering industrialization, and strengthening economic diversification to reduce the economy's reliance on household consumption. This approach can help mitigate the risks associated with consumer-driven growth while creating a more robust and sustainable economic foundation for Puntland.

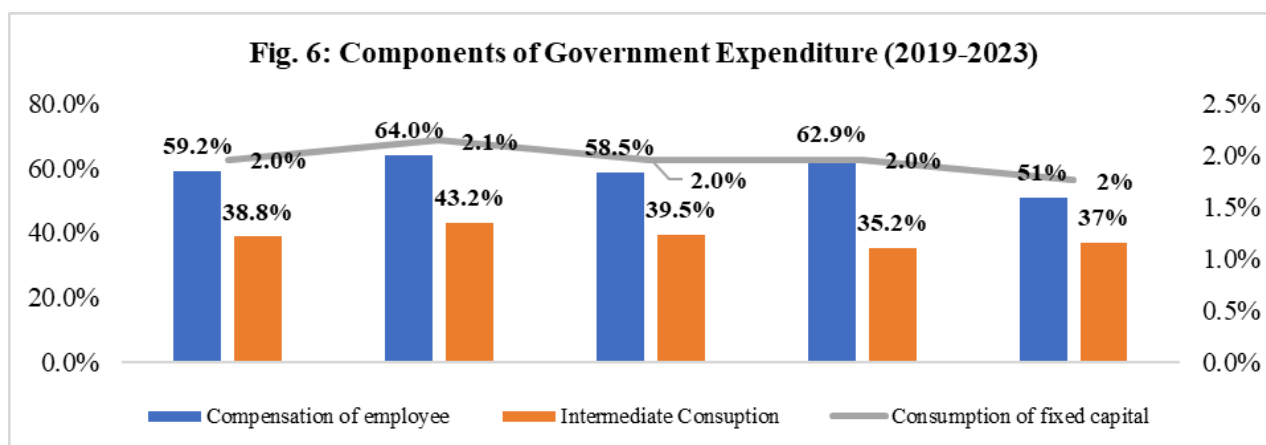
• Government Final expenditure



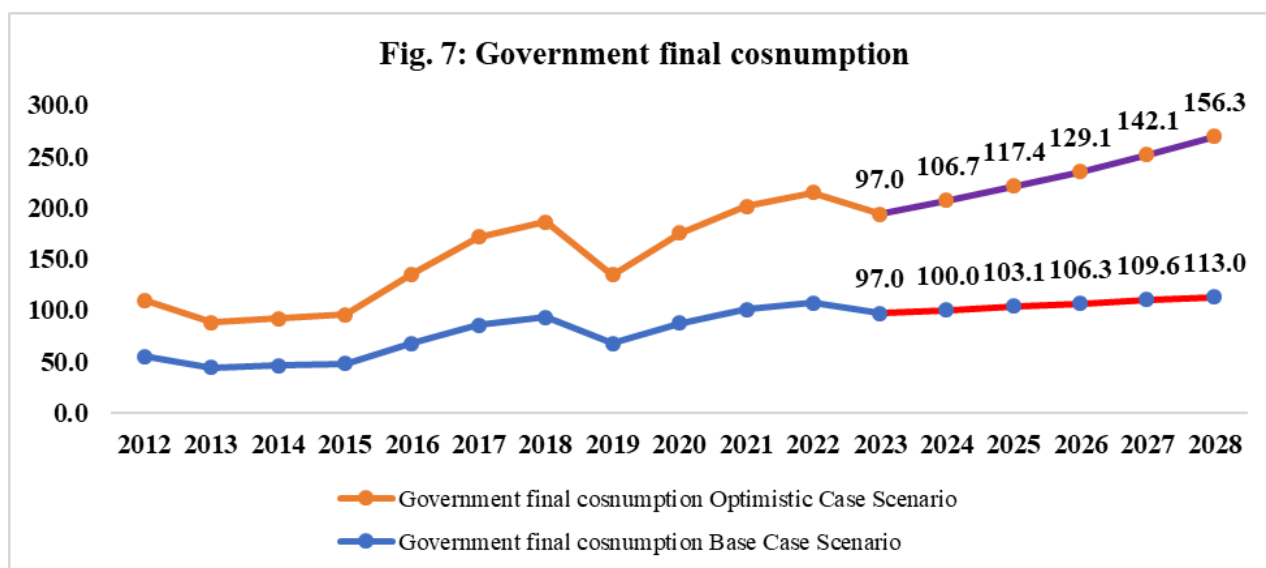
The government final consumption from 2012 to 2023 shows an overall increasing trend, reflecting the government's gradual expansion in public service provision and infrastructure development. However, the growth is not consistent, with periods of sharp increases followed by slower growth or declines. A significant rise occurred between 2015 and 2018, possibly driven by increased investment in infrastructure, social services, and security. This period may have seen a focus on capital projects and improved fiscal revenue collection, allowing the government to expand its consumption expenditures. Conversely, a notable decline in 2019 and again in 2023 indicates potential budgetary constraints, possibly due to reduced donor support, economic shocks, or austerity measures. These fluctuations suggest that while government spending has generally increased, its sustainability and alignment with GDP growth are limited by fiscal constraints and dependency on external funding.

Government Expenditure Components

Government expenditure comprises various components, including salaries and wages, operational costs, development budgets, and transfers. In Puntland, a significant portion of government expenditure is directed toward public sector wages and security, with smaller allocations for health, education, and infrastructure development. Development spending, although present, remains limited and inconsistent, as reflected in the fluctuations in government final consumption over the years. The limited budget for capital investment restricts long-term economic growth, as the focus remains on recurrent expenses rather than growth-oriented spending.



Scenario Analysis for Government Final Expenditure



- In a base case scenario, government final consumption grows moderately, limited by existing fiscal challenges and external dependencies. The observed declines in 2019 and 2023 reflect these constraints, highlighting the government's struggle to sustain development expenditures during periods of economic stagnation or reduced donor support. In this scenario, government expenditure remains heavily skewed toward recurrent costs, such as salaries and security, with minimal impact on long-term economic growth.
- In an optimistic scenario, government final consumption expands significantly due to improved revenue collection, increased donor engagement, and better fiscal management. Higher investments in infrastructure, education, and health enhance productivity, directly contributing to GDP growth. For instance, greater allocations to road infrastructure reduce transportation costs, enabling economic sectors such as agriculture, livestock, and fisheries to operate more efficiently. Investments in digital systems for tax collection and public expenditure tracking improve accountability and increase available funds for development.

• Private Investment and Gross fixed Capital formation

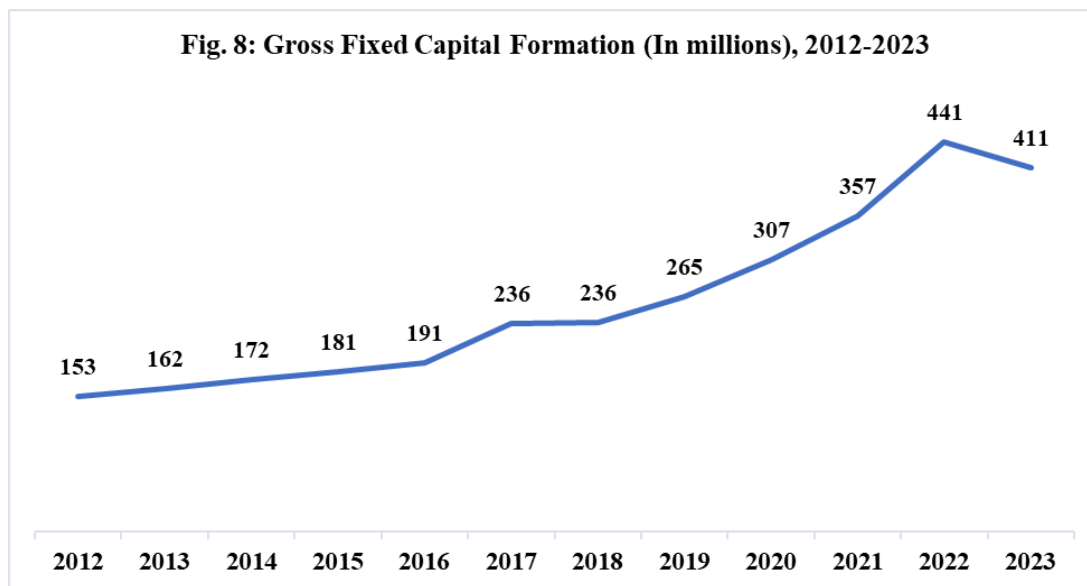
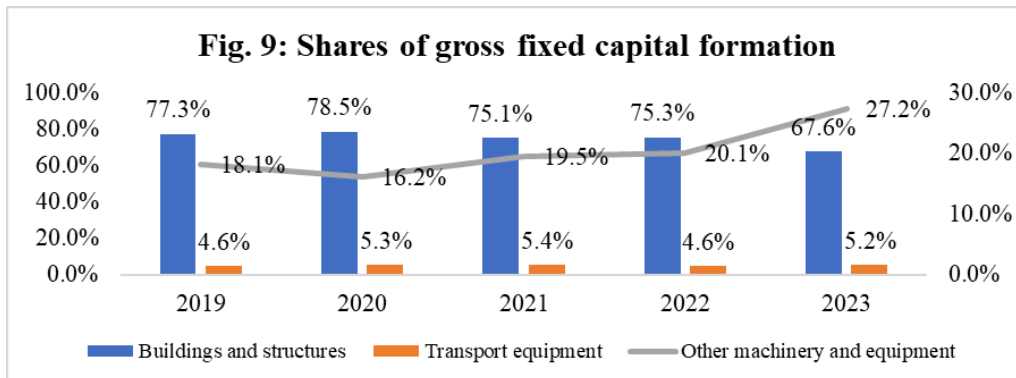


Fig. 7 shows a clear upward trend in the Gross Fixed Capital Formation of Puntland from 2012 to 2022. However, there are periods of faster growth (e.g., 2018-2022) and periods of slower growth (e.g., 2017-2018). This indicates that the investment sector of Puntland has generally seen huge development from 2019 to 2022, largely due to significant investments in the Gara'ad port and in-town infrastructures. However, this upward trend has seen a decline in 2023 due to reduced investments in Gara'ad port.

Components of Gross Capital formation



Here in **Fig. 8**, illustrates the shares of gross fixed capital formation (GFCF) which highlight the critical role of private sector activity in driving Puntland's economic growth. Private investment reflects the expenditure on assets such as infrastructure, equipment, and technology that contribute to production capacity. Its share of GFCF reveals the degree to which private entities are contributing to long-term economic development relative to government spending. The data shows that private investment forms a significant, but not dominant, portion of GFCF in Puntland. This indicates that while private sector activity exists, it is constrained by systemic challenges such as limited access to financing, high operational costs due to expensive energy, and inadequate infrastructure. The predominance of informal economic activities, particularly in agriculture, livestock, and small-scale manufacturing, limits the capacity of private investment to drive large-scale economic transformation. However, the potential for growth is evident, as investment in value-added industries and infrastructure would significantly boost productivity and economic diversification.

Improvements in private sector's contribution to GDP

To improve the private sector's contribution to GDP, the government can adopt targeted strategies informed by economic models and phenomena:

A key approach is the application of the **Solow Growth Model**, which emphasizes the role of capital accumulation, technological advancement, and labor in economic growth. Private investment in Puntland can focus on capital deepening expanding infrastructure and industrial assets to enhance production capabilities. Investments in renewable energy, such as solar and wind, can address the high cost of power, which is a critical bottleneck for industrial and service sector development. **The Multiplier Effect** from increased private investment is another relevant phenomenon. For instance, investments in fisheries processing plants or livestock product manufacturing not only generate direct economic activity but also stimulate secondary economic benefits through job creation, increased household income, and expanded demand for goods and services. This positive feedback loop would inject vitality into Puntland's economy, accelerating GDP growth.

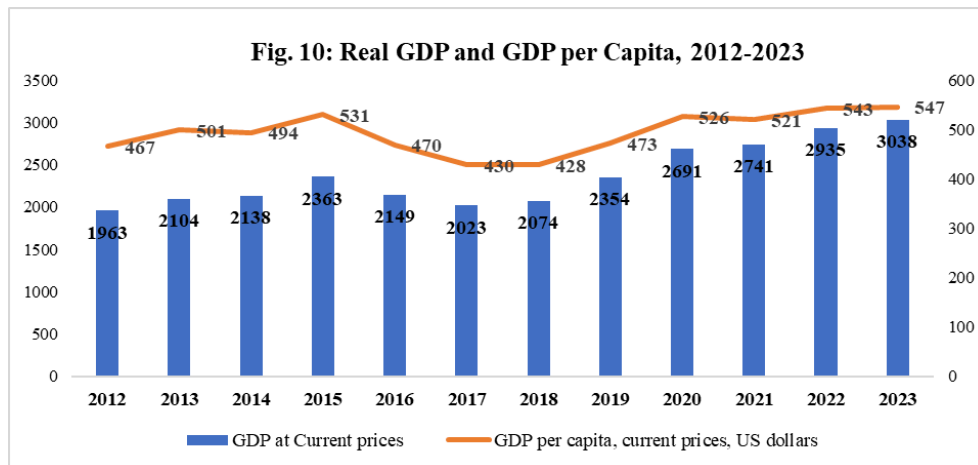
To achieve these outcomes, the government must overcome existing structural barriers. Improved access to credit and financing is vital to enable small and medium-sized enterprises (SMEs) to expand their operations thus government efforts to support financial institutions credit access is mandatory. Establishing public-private partnerships (PPPs) can attract investments in critical sectors such as fisheries, infrastructure, and manufacturing by leveraging private capital and expertise while mitigating risks through government support. An example would be private investments in constructing cold storage facilities for fisheries, supported by government subsidies to ensure affordability and accessibility for smaller producers.

The Endogenous Growth Theory also draw attention to the importance of human capital development alongside physical capital. The government and private sector should collaborate to provide training programs for entrepreneurs and workers, focusing on modern production techniques, business management, and technology adoption. This would not only improve productivity but also foster innovation, creating a more dynamic and competitive private sector.

In terms of policy, clear regulatory frameworks are essential to reduce uncertainty and encourage investment. Puntland could adopt investment-friendly policies such as tax incentives for companies investing in priority sectors like renewable energy, agro-processing, and logistics. Transparent governance and the enforcement of property rights would also build investor confidence, attracting both domestic and foreign investment.

The application of the **Export-Led Growth Model** is particularly relevant for our state, given its reliance on key export sectors such as livestock. Private investment should be directed toward enhancing the competitiveness of the production sectors through value addition and improved market access. For example, developing processing plants for fish and livestock products would enable Puntland to export higher-value goods rather than raw materials, increasing export revenues and boosting GDP.

GDP per Capita and GDP Trends

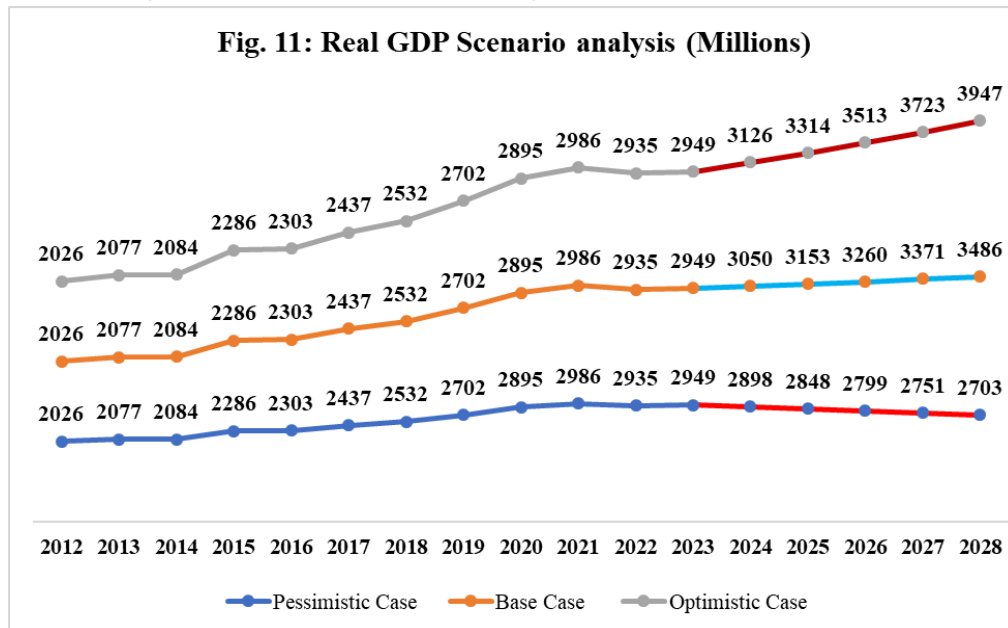


The upward trend of the GDP suggests that Puntland's economy has been improving over time. This is a positive sign, indicating economic activity and potential for further growth. However, the relative GDP per capita line indicates that the benefits of this growth have not been evenly distributed across the population. The average income per person has not increased significantly, which is a concern given the 2.8% population growth rate. This implies that the economy might not be expanding fast enough to keep up with the growing population, potentially leading to a decline in living standards for some.

Based on the chart and considering the economic context of Puntland, the outlook appears to be mixed. While the economy has shown potential for growth, the stagnant GDP per capita raises concerns about the sustainability and inclusivity of this growth.

The 2.8% population growth rate puts pressure on the economy to create enough jobs and income opportunities to maintain living standards. Puntland's economy is heavily reliant on livestock production and remittances from the diaspora, which are vulnerable to shocks like droughts, disease outbreaks, and global economic fluctuations. Inadequate infrastructure, such as poor roads and limited access to electricity, can hinder economic development by increasing transportation costs and limiting business productivity. Security challenges, including piracy and clan conflicts, can disrupt economic activities, deter investment, and displace populations. Climate change poses a significant threat to Puntland's economy, particularly the livestock sector, which is highly sensitive to droughts and extreme weather events and all these factors constitute the concerns about the sustainability and inclusivity of this growth

GDP Projections and Scenario Analysis



• The Base Case GDP projection

The outlook presented a projection of Real GDP growth over a 5-year period, spanning from 2024 to 2028. The orange line represents the historical GDP growth from 2012 to 2023, exhibiting a generally upward trend with some fluctuations. This historical data serves as the foundation for the projected GDP growth, depicted by the blue-sky line, which extends from 2024 to 2028. The projected line continues the upward trend observed in the historical data, albeit with a slightly steeper slope, indicating a continuation of economic expansion at a comparable pace.

This base case projection assumes that the historical growth trend will persist into the future. The moderate case assumption hinges on the continuation of positive economic drivers such as increasing productivity, investment, and consumption. A favorable policy environment, characterized by supportive government policies like infrastructure development, tax incentives, and trade improvement, is also crucial for maintaining the projected growth trajectory. Additionally, a favorable global economic environment, characterized by strong global demand and stable financial markets, can bolster domestic economic growth and support the projected trend.

It is important to note that this base case scenario represents a simplified projection. Economic forecasts are inherently uncertain, and the actual outcomes may deviate significantly from the projected path. Unforeseen events such as natural disasters, pandemics, or geopolitical crises can disrupt economic activity and derail the projected growth. Similarly, changes in government policies, such as increased taxation or tighter monetary policy, can negatively impact economic growth and deviate from the projected trajectory. Furthermore, a global economic downturn can negatively impact exports, investment, and overall economic activity, leading to lower-than-projected growth.

- **The Optimistic Case GDP Projection**

In the optimistic scenario, the projected line diverges sharply from the historical trend, showing a significantly steeper upward trajectory. This suggests a robust and accelerated economic expansion of 6% compared to the 3.4% base case scenario within the next five years.

This optimistic projection assumes a confluence of favorable factors as it probably assumes a continuation of positive economic drivers such as increasing productivity, investment, and consumption, but at a higher rate than observed historically. A highly favorable policy environment, characterized by strong government support, significant infrastructure development, substantial tax incentives, and extensive trade liberalization, is also important for achieving this accelerated growth. Furthermore, the optimistic scenario likely assumes a highly favorable global economic environment, characterized by strong global demand, stable financial markets, and minimal geopolitical risks, all of which would contribute to a robust and sustained economic expansion.

The imperative we consider is to note that this optimistic scenario represents a best-case scenario and may involve a higher degree of uncertainty compared to the base case. While it presents a positive outlook for economic growth, it is vital to acknowledge that achieving this level of growth would require a combination of favorable economic conditions, strong policy support, and minimal disruptions.

- **The Pessimistic Case GDP Projection**

In this pessimistic scenario, the projected line diverges from the historical trend, showing a downward trajectory. This suggests a slowdown or even contraction of economic activity at a rate of -1.7% compared to the base case scenario of 3.4% growth rate.

This pessimistic projection assumes a confluence of unfavorable factors as it likely assumes a slowdown in economic drivers such as productivity, investment, and consumption. An unfavorable policy environment, characterized by restrictive government policies, inadequate infrastructure development, increased taxation, and trade protectionism, could contribute to this slowdown. Furthermore, the pessimistic scenario likely assumes an unfavorable global economic environment, characterized by weak global demand, financial instability, and heightened geopolitical risks, all of which could negatively impact domestic economic activity and lead to lower-than-projected growth. We must consider that this pessimistic scenario represents a worst-case scenario and may involve a higher degree of uncertainty compared to the base case. While it presents a less favorable outlook for economic growth, it is crucial to acknowledge that the actual economic performance may fall somewhere between the optimistic and pessimistic scenarios, depending on the interplay of various economic and political factors.



SECTORAL PERFORMANCE

Livelihood Sector

The Livelihood sector plays a critical role in sustaining the growing population of Puntland, where rural and nomadic lifestyles dominate a significant portion of the society. Approximately 48.7 percent of Somalia's population resides in rural and nomadic areas, with 53.2 percent identified as nomads and 46.8 percent relying on crop cultivation and fishing for their livelihoods. This subsector is vital in responding to the economic and food security needs of Puntland, where poverty remains a pervasive challenge. Somalia is ranked among the lowest globally in human development indicators, with 67 percent of its population experiencing multidimensional poverty (Headcount of the poor people with multiple deprivations).

Puntland's economy is anchored in four primary livelihood systems: pastoralism, agropastoral, fishing and coastal activities, and urban livelihoods. Among these, livestock, agriculture, and fisheries form the backbone of the economy. Livestock remains the largest source of foreign exchange and employment, followed closely by fisheries. Puntland has played a key role in this growth, particularly through livestock exports, which have risen, peaking at \$225 million in 2023. While droughts and international trade restrictions have posed challenges to livestock exports in recent years, they remain a cornerstone of Puntland's economy.

Despite its potential, Puntland's productive sector faces significant obstacles. Small-scale farmers often lack the resources and capacity to modernize their practices, trapping them in cycles of poverty. Meanwhile, coastal communities, though benefiting from Somalia's status as the African nation with the longest coastline, remain marginalized.

The unique economic landscape of Puntland, with its rich natural resources and diverse livelihoods, underscores the importance of strengthening the productive subsector. Investments in modernizing agriculture, enhancing livestock productivity, and expanding sustainable fisheries are critical for economic growth and poverty reduction in Puntland.

• **Livestock**

The livestock sector is the largest of Puntland's economy, serving as the main employer in rural areas, the primary driver of export earnings, and a major source of livelihood for the population. With its deep-rooted cultural and economic significance, livestock represents a critical asset for Somalia economic and social stability. Historically, the agriculture sector, which encompasses livestock, has contributed a significant portion of the country's GDP in recent years, with livestock alone accounting 2/3 of the agriculture.

Livestock production in Puntland operates within three primary systems: nomadic pastoralism, transhumant pastoralism, and peri-urban livestock rearing. Nomadic pastoralism, the dominant system, is characterized by high mobility of both people and animals in search of grazing and water resources. This production system aligns with Puntland's natural resource endowment and the pastoralist way of life, making it well-suited for the region's arid and semi-arid environment. Transhumant pastoralism, on the other hand, is based on seasonal migrations and provides a degree of stability with its connection to permanent settlements. These systems underpin the livelihoods of the majority of rural households, ensuring food security and offering income opportunities. Livestock production not only sustains local consumption through the supply of meat, milk, and other products but also contributes significantly to export earnings, making it a main component of Puntland's economic fabric.

Despite its importance, the livestock sector faces a range of challenges that hinder its ability to achieve its full potential. Issues such as water scarcity, overgrazing, limited access to quality veterinary services, and poor market infrastructure constrain the productivity and sustainability of the sector. The recurrent droughts in the region have further compounded these challenges, reducing the availability of pastures and water resources, while climate change exacerbates the unpredictability of these conditions, the limitations not only affect the volume and quality of livestock production but also weaken Puntland's ability to compete in the regional and global markets, where stringent quality standards and certifications are often required.

The livestock sector holds immense potential for value addition, which could transform its economic contribution and enhance the livelihoods of pastoralist communities. A strategic approach to value addition would focus on processing livestock products to increase their market value like Beyra Meat processing plant, for the aim of reducing dependency on the export of live animals. Investing in modern slaughterhouses, meat processing facilities, and milk production plants would enable Puntland to diversify its export portfolio. Processed goods such as packaged meat and dairy products could fetch higher prices in international markets while meeting the growing demand in Gulf Cooperation Council (GCC) countries and other regional markets. Additionally, such investments would create job opportunities across the value chain, from production and processing to distribution and marketing, thereby addressing unemployment and fostering economic growth.

To support these value addition efforts, the government should enhance its livestock health and disease management systems. Investments in veterinary services, including mobile clinics and vaccination programs, would improve the quality and marketability of livestock products. Strengthening livestock certification systems like Halal Certification, Animal Welfare Certification, Sanitary and Phytosanitary (SPS) Certification would also be essential to meet international export standards, ensuring that Puntland's products are competitive in the global marketplace. Simultaneously, capacity-building programs for pastoralists should focus on modern livestock management practices, sustainable grazing methods, and climate resilience strategies like Rangeland Management, Sustainable Water Management, and other Drought-Resistant Livelihood Practices. By equipping pastoralists with the necessary knowledge and tools, we can boost the productivity while preserving our fragile ecosystems.

The success of value addition strategies also hinges on improving market access and infrastructure. Efficient transportation systems, including better road networks and cold storage facilities, would streamline the supply chain and reduce post-production losses. Enhanced connectivity with major ports would facilitate the export of processed goods, strengthening Puntland's position in international trade. Public-private partnerships (PPPs) could play a pivotal role in mobilizing resources for these infrastructure projects, ensuring that investments are both sustainable and impactful.

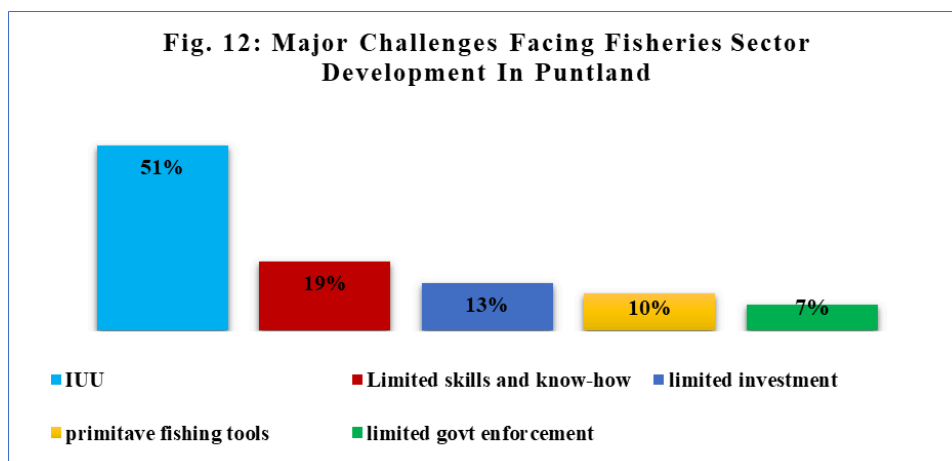
Environmental sustainability is another critical factor in the long-term success of the livestock sector. Sustainable grazing practices, coupled with reforestation and soil conservation efforts, would mitigate the risks of overgrazing and land degradation. Renewable energy solutions, such as solar-powered water pumps, could provide pastoralists with reliable access to water resources while reducing reliance on traditional energy sources. These measures would not only enhance the resilience of the livestock sector to climate change but also contribute to broader environmental conservation goals.

• Fisheries

The fisheries sector in Puntland represents a significant yet underutilized opportunity for economic growth, livelihoods, and export development. Stretching along 1,640 kilometers of coastline, nearly half of Somalia's total coastal expanse, we enjoy access to some of the richest fishing grounds in Africa. This geographical advantage positions the fisheries sector as a potential cornerstone of Puntland's economy. However, the sector remains largely artisanal, operating with limited infrastructure, outdated technology, and insufficient regulatory enforcement. As a result, it has not yet reached its potential to contribute to economic development and poverty alleviation.

Currently, most fishing activities in Puntland are carried out close to the shore using small boats and basic tools. Artisanal fishers primarily target high-value species such as yellowfin tuna, skipjack, Spanish mackerel, and groupers, as well as marine products like edible crabs, shrimps, and sea cucumbers. Shark fishing, in particular, dominates the artisanal industry, with shark fins generating over \$1 million annually from exports to markets in Dubai, Hong Kong, and Singapore. However, these activities rely on low-technology systems and lack access to modern cold storage and transportation facilities, which results in substantial post-harvest losses and limits the sector's profitability.

Puntland's marine resources remain significantly untapped, and the fisheries sector faces challenges that hinder its growth. Illegal, unregulated, and unreported (IUU) fishing by foreign vessels costs \$300 Million in Somalia and \$150 Million in Puntland annually in lost revenue, depriving local communities of economic benefits (MOFMR). Additionally, there is insufficient investment in aquaculture, a subsector with the potential to diversify production, create rural jobs, and enhance food security. Cultural barriers also play a role; Somalis are traditionally not fish consumers, which limits domestic demand for fisheries products where the per capita consumption of fish is 3.1 Kg yearly in Somalia which is the lowest amongst African nations (UNIDO, 2009). Nevertheless, the export market holds immense potential, particularly if investments are made in modernizing the sector and improving value addition.



Source: Ministry of fisheries and marine resources conducted needs assessment for fisheries communities, 2024

Despite these challenges, the economic potential of the fisheries sector in Puntland is vast. Marine resources, including pelagic and demersal fish, edible crabs, and sea cucumbers, offer opportunities for both domestic and international markets. The abundance of marine life in Puntland's waters could support higher production levels if strategic investments are made to enhance infrastructure and efficiency. For example, Puntland's fish storage currently has a capacity of 1,045 tons, the development of cold storage facilities and modern processing plants would enable the export of value-added products like filleted and packaged fish, canned seafood, and fishmeal for animal feed. These products have higher market values and can significantly increase export revenues while providing employment opportunities throughout the supply chain.

The fisheries sector can also contribute to food security and nutrition, particularly in coastal communities. While the importance of fisheries for national food security is currently minor, increasing local fish consumption could reduce dependency on other protein sources, such as livestock, which are more vulnerable to drought and climate change. To achieve this, efforts should focus on awareness campaigns to promote the nutritional benefits of fish and expand fresh fish markets by improving storage, transportation, and processing infrastructure.

The development of sustainable aquaculture is another critical component of unlocking the potential of the fisheries sector. By investing in fish farming systems and providing training to local communities, Puntland can reduce pressure on wild fish stocks and create a stable, year-round source of income and food. This would diversify the region's economy while addressing environmental challenges, such as overfishing and habitat degradation.

To support the growth of the fisheries sector, enforcement of regulatory frameworks is essential. The Puntland Fisheries Regulations of 2004, which outline principles for fisheries management, need to be effectively implemented. This includes limiting access to Puntland's waters for foreign fishing vessels, ensuring that total allowable catches (TAC) are not exceeded, and protecting endangered marine species. Strengthening the capacity of the Puntland Coast Guard is critical to achieving these goals. By preventing IUU fishing and safeguarding marine resources, Puntland can reclaim significant revenue currently lost to illegal activities.

Strategic investments in fisheries infrastructure, such as modern ports, storage facilities, and transportation systems, are also necessary to enhance efficiency and market access. Improved logistics would enable fishers to reach both local and international markets while reducing post-harvest losses. Additionally, capacity-building programs for fishers should focus on sustainable practices, modern techniques, and value addition to increase productivity and product quality.

Modernizing Puntland's fisheries sector through value addition would transform it from a subsistence-level activity into a thriving contributor to the region's economy. Value-added products, such as processed and packaged fish, have higher market demand and are more profitable than raw exports. Establishing and improving fish-processing plants in key areas, such as Xaabo, Laasqoray and others, could create jobs, boost exports, and attract investment. At the same time, initiatives to develop certification systems, such as Hazard Analysis Critical Control Point (HACCP) standards, ISO 22000 Certification, Halal Certification and EU Approval for Third-Country Exports, would improve the competitiveness of Puntland's seafood products in international markets.

The fisheries sector holds significant promise for Puntland, offering a pathway to economic diversification, poverty reduction, and sustainable growth. Investment and improvement of the current challenges of infrastructure, regulation, and capacity, the government would unlock the full potential of its marine resources. Investments in aquaculture, processing facilities, and sustainable fishing practices will not only enhance export revenues but also improve food security and create new opportunities for coastal communities. With its strategic location and abundant marine wealth, Puntland's fisheries sector has the potential to become a driving force for regional development and prosperity.

- **Crop production**

Agriculture in Puntland forms an essential backbone of the region's economy, deeply intertwined with livelihoods, food security, and economic development. While historically overshadowed by livestock production, the potential of the agriculture sector has become increasingly significant in addressing rising food security concerns and economic diversification. The sector is dominated by small-scale farming, with over 90 percent of agricultural production coming from farms averaging one to three hectares. Despite this, the sector faces numerous challenges that hinder its full development and economic contribution.

Crop production in Puntland operates in two distinct systems: rainfed and irrigated agriculture. Rainfed agriculture relies on limited and unpredictable bimodal rainfall, with Gu rains contributing between 250 to 300 mm from April to June, and Dayr rains providing 100 to 200 mm between October and December. This variability leaves crop production vulnerable to recurring droughts, further exacerbated by climate change. Irrigation agriculture, although more stable, is constrained by insufficient infrastructure, outdated water management systems, and high costs of water lifting and distribution. Most farmers depend on shallow wells, boreholes, and traditional earthen canals, leading to significant water losses through seepage and evaporation. Limited access to modern irrigation techniques, such as drip irrigation, compounds these challenges and restricts farmers' ability to expand their cultivated land or diversify crops.

A significant portion of Puntland's agricultural production is focused on essential food crops such as sorghum, maize, and legumes, which play a vital role in local food security. Fruits like dates, citrus, mangoes, and guava, along with vegetables such as tomatoes, onions, and peppers, are also important, providing both nutritional value and opportunities for income generation. Date palm production is particularly noteworthy, with Puntland leading the country in date cultivation. The adaptability of date palms to arid environments, combined with their economic and nutritional value, makes them a strategic crop. Approximately 7,000 date palm farms operate in Puntland, producing 4 main date palm varieties (Khalas, bahri, majuul and badri), which are integral to both domestic consumption and trade.

Challenges such as poor transportation infrastructure and inadequate market access severely limit the profitability of agricultural activities. In production zones like the Al-Madow Mountains, road conditions are particularly poor, making it difficult for farmers to transport crops to urban markets. These logistical challenges increase costs and reduce competitiveness, particularly for high-value crops like frankincense and coffee, which have significant export potential. Similarly, the absence of cold storage and modern preservation facilities leads to substantial post-harvest losses, reducing the availability and quality of produce.

Environmental degradation further undermines agricultural productivity. Over-reliance on traditional farming methods, deforestation, and poor soil management have contributed to declining fertility and increased vulnerability to pests and diseases. Emerging threats such as fall armyworms and desert locusts have devastated crops, while limited availability of high-quality pesticides and resistant seed varieties has left farmers ill-equipped to mitigate these impacts.

Despite these challenges, Puntland's agricultural sector has notable opportunities for growth. The region's strategic location and fertile soils provide a strong foundation for agricultural investment, while its youthful population represents a significant labor force for the sector. Introducing modern farming techniques, such as the use of drought-resistant seeds and improved water management practices, could significantly enhance productivity. Additionally, investing in agro-processing facilities to add value to crops like sorghum, maize, and dates would create jobs and increase farmers' income. Developing a local capacity for seed production and fertilizer distribution could reduce dependency on costly imports, improving access to critical inputs.

Improving irrigation systems is central to unlocking the sector's potential. The establishment of supplementary irrigation projects for cereal, legume, and fodder crops would reduce vulnerability to rainfall variability and stabilize production. Expanding water storage infrastructure, such as reservoirs and catchment systems, alongside efficient irrigation technologies like drip systems, would maximize water use efficiency and enable year-round farming.

Access to credit remains a critical barrier for farmers, as decades of limited financial services have restricted their ability to invest in better equipment and inputs. Establishing microfinance systems tailored to the needs of smallholder farmers would enable them to expand their operations and adopt modern practices. Additionally, fostering partnerships between local producers and regional or international markets would increase competitiveness and open new opportunities.

- **Frankincense**

Frankincense is one of Puntland's most valuable natural resources, serving as a vital export commodity and a primary source of livelihoods for many communities. As one of the world's leading producers and exporters, Puntland's frankincense production is concentrated in mountainous areas such as Sanaag, Gardafuu and Bari, where favorable climatic and soil conditions support the growth of *Boswellia* trees. Two key commercial types of frankincense are harvested in Puntland, Maydi (*Boswellia Frereana*), exclusive to Somalia and sourced from Yagcar trees, and Beeyo (*Boswellia Sacra*), also produced in countries like Ethiopia, Sudan, Oman, and India. These resins often referred to as "white gold", are traditionally tapped during specific seasons, with Maydi being harvested over nine months and Beeyo tapped twice a year.

Puntland's annual frankincense production is estimated at approximately 500 metric tons, contributing significantly to both local and regional revenues. However, the sector faces challenges that threaten its sustainability and growth. Overexploitation through excessive tapping weakens trees, reducing resin yields and long-term productivity. On average, trees produce only 1–3 kg of resin per season, depending on their age and health. Theft of resin, driven by high market values, and poor harvesting practices by newer generations of tree owners further exacerbate the problem. These challenges are compounded by environmental degradation due to deforestation, overgrazing, and land disputes, as well as limited knowledge of modern harvesting techniques, which impacts both the quality and quantity of production.

The economic potential of the frankincense sector remains underutilized due to limited value addition. Most frankincense is exported as raw resin with minimal processing, branding, or packaging, which diminishes its market value. Poor infrastructure and market access hinder producers from reaching global markets, while the absence of sustainable practices risks the depletion of *Boswellia* tree populations. Despite these challenges, Puntland's traditional knowledge of *Boswellia* tree management provides a strong foundation for revitalizing the sector through modern capacity building and sustainable practices.

The frankincense sector is crucial to Puntland's economy, providing income for thousands of rural households and generating significant export revenues. As global demand for frankincense grows in the pharmaceutical, cosmetic, and religious sectors, Puntland is uniquely positioned to capitalize on this trend due to its reputation as a leading producer. The resin's high market value presents opportunities to expand the sector's contribution to Puntland's economy by creating jobs, stimulating investment, and boosting trade revenues.

Sustainably managing *Boswellia* tree populations is essential to ensure consistent yields and long-term profitability. Beyond its economic benefits, frankincense also holds cultural significance, as traditional knowledge of tree management has been passed down through generations. This knowledge, combined with modern harvesting techniques, can improve yields while preserving tree health. However, without investments in infrastructure, market linkages, and value addition, the sector's full potential remains untapped.

To enhance the frankincense sector's contribution to Puntland's economy, a comprehensive value addition strategy is required. The establishment of a Frankincense Industry Development Board could play a central role in regulating the sector, ensuring sustainable harvesting practices, and promoting exports. This board would focus on conserving *Boswellia* tree populations through reforestation programs, enforcing responsible tapping practices, and providing certification for sustainably harvested products. Certifications such as organic or fair-trade labels would increase the global market value of Puntland's frankincense by appealing to environmentally conscious consumers.

Developing local processing facilities is a critical step in the value addition process. These facilities could produce essential oils, powders, and other derivatives of frankincense for pharmaceutical, cosmetic, and religious uses. Packaging and branding these products would enable Puntland to access premium international markets, where processed frankincense commands significantly higher prices than raw resin. Infrastructure development, particularly roads and energy systems, is also essential to improving market access and reducing transportation costs. Digital platforms could be introduced to connect producers with global buyers, streamlining trade and ensuring competitive pricing.

Ultimately, training programs and capacity-building initiatives should be implemented to equip tree owners and resin collectors with modern techniques for harvesting and managing *Boswellia* trees. This would enhance resin quality and tree health, ensuring sustainable production. Community-based conservation efforts, supported by government and private sector investments, would address environmental challenges such as deforestation and land disputes.

Industries and Services

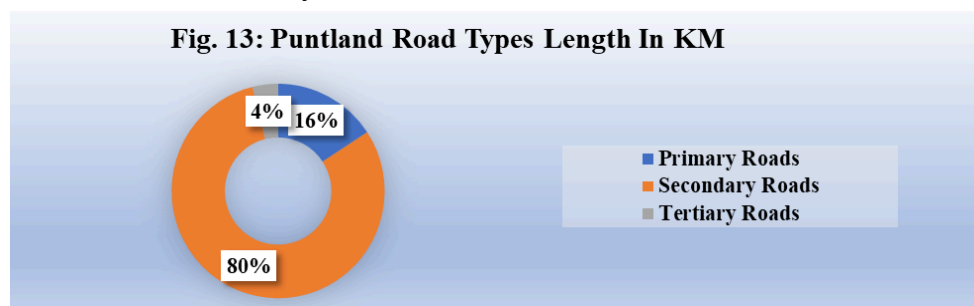
The industries and services sector in Puntland are growing, contributing to job creation, income generation, and overall economic diversification. Key industries include small-scale manufacturing, such as fabrics and textiles, construction and furniture production, cosmetic industries, processing of livestock products, fish, and frankincense, which are vital for both domestic markets and exports. Services, including trade, tourism, transportation, telecommunications, and financial services, form the backbone of urban economic activities and are increasingly integrating modern technologies to enhance efficiency and reach.

The expansion of these sectors supports urbanization and provides opportunities for entrepreneurship, particularly in logistics, tourism and value-added production. However, challenges such as limited infrastructure, energy shortages, and inadequate access to financing constrain the growth of industries and services, highlighting developing strategic investments in infrastructure, skills development, and innovation to unlock their full potential.

Infrastructure Development Sector

• Roads Infrastructure and Puntland Highway Authority

The Puntland Highway Authority (PHA) plays key role in the development and management of the region's road infrastructure, which is critical to Puntland's socio-economic growth. The road network spans over 5,651 kilometers, consisting of primary, secondary, and tertiary roads that connect key economic zones, rural areas, and urban centers.



Source: PHA Annual Report, 2023

In 2023, PHA made significant progress in rehabilitating essential routes, such as the Garowe-Birta-dheer road and other key roads like Qayadsame, Midigaar, and Garowe-Falayryaale which are vital to improving accessibility and mobility. Ongoing projects, including the construction of roads like Xingalool, Xaarxaar-Burtinle, Ceeldahir-Cerigabo, and Sherbi-Dhahar-Xingalool and repair and maintenance of critical routes, such as the 54-kilometer main road connecting Puntland and the Galkacyo-Bosaso and Garowe-Laascaanood corridors, are vital to sustaining economic activity across the region. Roads connecting rural and urban areas, such as Ufeyn-Calmisked fields and Bursalax-Galkacyo, are particularly important for integrating agricultural production zones, enhancing trade, and fostering rural development. However, despite the achievements, Puntland's road infrastructure still faces considerable challenges

One of the main challenges is the lack of resources needed to maintain and expand the road network efficiently. Many roads remain in poor condition, particularly in rural areas where access to markets, schools, healthcare, and other essential services is severely limited. Additionally, harsh environmental conditions, such as extreme weather and the region's rugged terrain, further complicate maintenance efforts. The infrastructure deficit contributes to economic inefficiencies, restricts trade flows, and limits the potential for growth, particularly in agriculture, livestock, and fisheries, which rely on reliable transport networks.

Roads are central to Puntland's economic development, particularly in connecting production areas to markets and export hubs like the Bosaso port. A well-functioning road system reduces transportation costs and increases the efficiency of moving goods, which enhances the competitiveness of Puntland's key exports, including livestock, fish, and agricultural products. These exports are vital for foreign exchange earnings and for integrating Puntland into regional and international trade systems. Improved roads not only benefit trade but also boost agricultural productivity by providing farmers with better access to inputs and markets, thus reducing post-harvest losses. Socially, improved road infrastructure contributes to poverty reduction by enhancing access to basic services, creating jobs, and improving the overall quality of life, especially in rural communities. It enables faster access to healthcare, education, and emergency services, which are critical for improving social outcomes in the region.

The strategy to enhance value addition in Puntland's road infrastructure requires a multi-faceted approach. It is crucial to prioritize road projects that offer the greatest economic and social benefits. This means focusing on roads that connect rural production zones to urban centers and export corridors, thus supporting the movement of goods and services more efficiently. Investing in roads that link agricultural regions with major towns would significantly enhance food security by reducing post-harvest losses and facilitating quicker market access. Such investments are key to stimulating economic activity in underdeveloped regions.

Public-private partnerships (PPPs) should be considered as a viable option for financing and managing road projects. Engaging the private sector in road development can bring in additional financial resources and expertise, reducing the strain on public budgets. For instance, toll roads or user fees could be introduced as a way of generating revenue that can be reinvested into road maintenance and further infrastructure improvements. This approach would ensure sustainability by securing long-term funding for road upkeep.

Another critical element is the adoption of advanced technology in road construction and management. Smart infrastructure technologies, such as GPS-enabled monitoring systems, can optimize road management by tracking traffic flows, identifying areas that require maintenance, and ensuring efficient use of resources. Additionally, using climate-resilient materials in road construction is vital for protecting infrastructure from harsh environmental conditions. In regions prone to floods or extreme heat, it is essential to design roads that can withstand such challenges, thereby extending their lifespan and reducing maintenance costs.

Capacity building within the PHA is another essential component of this strategy. Strengthening the skills and expertise of PHA staff in areas such as project management, quality control, and modern construction techniques will improve the efficiency and quality of road development projects. Training programs can also focus on enhancing knowledge about sustainable practices and the use of durable materials to ensure that infrastructure investments yield long-term benefits.

Enhancing regional integration through improved road connectivity is crucial for unlocking Puntland's trade potential. By improving road links between Puntland and other regions of Somalia, as well as neighboring countries, the region can position itself as a major player in regional trade networks. Strengthening trade corridors with other East African nations could attract foreign investment, increase trade volumes, and boost Puntland's economic competitiveness.

Sustainability must also be a key consideration in any road development strategy. Environmental safeguards should be implemented to minimize the impact of road construction on the natural environment. This can include reforestation efforts along road corridors and the use of sustainable construction materials. Ensuring that road projects are both economically and environmentally sustainable will support long-term development while protecting Puntland's natural resources.

- **Energy Infrastructure and Puntland Energy Development Agency**

The energy sector in Puntland is significantly underdeveloped, limiting access to affordable and reliable electricity for the majority of its population. With power costs averaging \$0.8 per kilowatt-hour, energy in Puntland is among the most expensive in the region, far higher than in neighboring Ethiopia and Kenya. Approximately 75% of Puntland's population, particularly those in rural and underserved districts, continues to rely on traditional biomass fuels such as charcoal and firewood for cooking. This reliance on inefficient and environmentally damaging fuels contributes to deforestation, environmental degradation, and health hazards. Coastal areas, which could serve as hubs for economic activity, suffer from energy scarcity, leading to post-harvest losses in the fishing industry and undermining employment opportunities.

Company Name	Installed Capacity	Peak Load	Power Type	Number of Customers
PEPCO - Bosaso & Gardo	21 MW	7 MW	Grid-Connected	40,925
NECSOM - Garowe & EYL	13 MW	5 MW	Grid-Connected	22,115
NEPCO - Mudug & Buurtinle	10.5 MW	2.2 MW	Grid-Connected	31,386
BEC - Badhan	2.5 MW	1 MW	Grid-Connected	6,500
Gobaad Rural (29)	9 MW	N/A	Off-grid	14,500
Total	56 MW			115,426

► **Table. 1: Puntland Energy Development Agency**

Currently, Puntland has an installed energy capacity of 56 MW, primarily operated by private electric companies such as PEPCO, NECSOM, BEC and NEPCO. These companies utilize a mix of hybrid systems and diesel generators. While hybrid systems, which integrate renewable energy, represent progress, the sector remains constrained by limited capacity, inadequate infrastructure, and high costs. For example, the peak load capacity across major cities like Bosaso, Garowe, and Mudug is well below demand, with most production still relying on costly and environmentally harmful diesel generators. Efforts to modernize the sector are underway, led by the Puntland Energy Development Agency (PEDA), which focuses on transitioning from fossil fuels to renewable energy solutions such as solar and wind.

The sector's challenges are further compounded by limited investment in expanding the national grid and a lack of access to energy-efficient technologies. Insufficient energy access inhibits the development of production and manufacturing industries, reduces job opportunities, and drives youth migration. Despite these obstacles, Puntland has abundant renewable energy resources, including high solar insolation levels and consistent wind patterns along its extensive coastline, offering immense potential for clean energy development.

When Economic Value of the Energy Sector, it is the black diamond for Puntland's socio-economic development, with the potential to drive industrialization, create jobs, and improve living standards. Access to affordable and reliable electricity is critical for unlocking the productivity of key sectors, including agriculture, livestock, and fisheries, which form the backbone of Puntland's economy. For instance, improved energy access could prevent the spoilage of fish in coastal areas, enhancing the profitability of the fishing industry and creating employment opportunities.

Energy infrastructure supports industrial and manufacturing activities, enabling value addition to Puntland's primary exports such as livestock products, fish, and frankincense. Without reliable electricity, production facilities cannot operate efficiently, limiting the economic value derived from these resources. Affordable energy is also essential for attracting foreign investment and facilitating regional trade, as it reduces the cost of doing business and enhances competitiveness.

Socially, expanding energy access can transform rural communities by improving healthcare, education, and communication services. Reliable power enables hospitals to operate critical equipment, schools to utilize modern teaching tools, and communities to access information technology, bridging the gap between urban and rural areas. The sector also has the potential to reduce environmental degradation by replacing traditional biomass fuels with clean energy alternatives, promoting sustainable development.

Value Addition Investment in the Energy Sector is needed to unlock the potential of the energy sector, Puntland requires a strategic and integrated approach to value addition. The transition from fossil fuels to renewable energy presents an opportunity to expand capacity, reduce costs, and address environmental challenges. A focus on solar and wind energy, given Puntland's natural advantages, would provide a sustainable and scalable solution to the region's energy needs.

The first step in this strategy involves the development of renewable energy projects. Utility-scale solar farms and wind farms could be established in high-potential areas, such as along the coastline where wind patterns are strong and consistent. These projects would not only provide clean and affordable electricity but also reduce reliance on imported diesel, cutting costs and emissions. Mini-grid systems, which combine solar and wind technologies, should be prioritized for rural and coastal areas, ensuring equitable access to energy for underserved communities.

Infrastructure development is another critical component of this strategy. Expanding the national grid to reach remote areas and connecting production zones with urban centers would enable the energy sector to support economic growth more effectively. Investments in energy storage, such as battery systems, would enhance reliability by addressing the intermittent nature of renewable sources. Public-private partnerships (PPPs) could be a game changer in mobilizing resources for these infrastructure projects, with private investors bringing in capital and expertise.

Energy efficiency and conservation initiatives are also essential for maximizing the value of existing resources. Promoting the use of energy-efficient appliances and industrial equipment could reduce overall energy demand, easing pressure on the grid. Additionally, policies to encourage energy conservation, such as subsidies for renewable energy adoption and penalties for inefficient practices, would support sustainable development.

Capacity building and technology transfer are integral to the success of this strategy. Training programs for engineers, technicians, and policymakers would ensure the sector has the expertise required to manage modern energy systems. Partnerships with international organizations could facilitate the transfer of advanced technologies, such as smart grid systems and high-efficiency turbines, enhancing Puntland's technical capacity.

The promotion of investment-friendly policies is crucial for attracting private sector participation in the energy sector. Tax incentives, subsidies, and guarantees for renewable energy projects would provide a secure environment for investors, while streamlined regulations would expedite project approvals. PEDDA's proactive role in facilitating these investments, as outlined in its policy framework, is key to building confidence among stakeholders.

Finally, developing environmental sustainability must be a core element of the strategy. Transitioning to renewable energy would significantly reduce greenhouse gas emissions, aligning Puntland with global climate goals. Replacing traditional biomass fuels with clean energy alternatives would mitigate deforestation and improve public health, creating a foundation for long-term development.



TRADE PERFORMANCE

Balance of Trade Deficit Overview

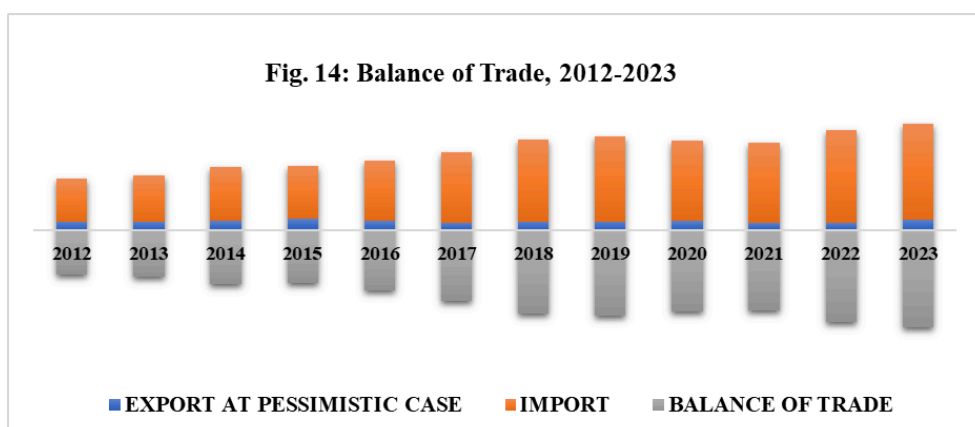
The gap between imports and exports has consistently been large, resulting in a persistent trade deficit. Imports have far exceeded exports each year, highlighting a major imbalance in the economy. This trade deficit has been particularly pronounced in recent years, with the gap widening from 2017 onward.

In 2023, Puntland's trade deficit reached 1,839,691, reflecting a growing dependency on foreign goods. The trade balance remained negative throughout the period, with imports consistently outpacing exports. This persistent deficit puts significant pressure on Puntland's foreign exchange reserves and underscores the need for strategies to boost exports and reduce their reliance on imports.

 **Table 2: Trade Flows and Trends**

	Exports of Goods & Services (000)	Imports of Goods & Services (000)	Trade Deficit (000)
2012	179,771	934,909	755,138
2013	184,358	989,264	804,906
2014	212,250	1,150,523	938,273
2015	246,838	1,128,645	881,807
2016	199,991	1,289,709	1,089,718
2017	163,956	1,504,709	1,340,753
2018	177,267	1,773,532	1,596,265
2019	186,837	1,827,628	1,640,791
2020	203,009	1,731,133	1,528,124
2021	174,547	1,708,875	1,534,328
2022	171,166	1,967,282	1,796,116
2023	224,638	2,064,330	1,839,691

Tracing back to the earlier years of the figure above, around 2012–2014, the trade deficit was already notable, but the gap began to widen significantly from 2017 onward. This widening deficit suggests that despite some economic activity, the region has struggled to capitalize on exportable commodities or diversify its trade base. The modest growth in exports, in contrast with the sharper increase in imports, implies that while the demand for foreign products and services has risen (due to population growth or expanded consumption), Puntland’s export sector has been unable to evolve at the same pace.



Source: Department of Statistics, MOPEDIC

This trade imbalance creates several economic effects that are particularly relevant to Puntland’s context. The increasing reliance on imports drains foreign currency reserves, creating pressure on the region's currency and exchange rates. It also exposes the economy to external shocks, such as global price volatility or supply chain disruptions, which could exacerbate inflation or disrupt access to critical goods. The persistent trade deficit results in a lack of value-added production capacity, meaning that the region depends on primary, low-value exports while importing higher-value goods, further entrenching the imbalance.

The structural challenges reflected in this data are compounded by Puntland's unique economic and geographic characteristics. The region has a strong reliance on sectors like livestock (94%), fisheries, frankincense, and others (6% of the total export), which, while essential, are highly vulnerable to environmental factors, global demand fluctuations, and limited infrastructure. For instance, livestock exports are vulnerable to droughts and bans from importing countries, while fisheries remain underdeveloped despite access to the Indian Ocean's abundant resources. Frankincense, while a globally sought-after commodity, is a niche product and lacks the scale to offset deficits driven by large import demands.

Investments in Puntland have historically been concentrated in low-productivity areas, with limited efforts to expand industrial or manufacturing capabilities. The lack of infrastructure, such as ports, roads, and energy systems, further hampers export growth by increasing transportation costs and limiting access to international markets. Additionally, there is a lack of robust institutions and policies to support trade development, industrial diversification, or investment in value-added production. The growing import dependency is exacerbated by limited domestic industries capable of producing consumer or capital goods, forcing reliance on external suppliers.

The economic effects of such a trade imbalance are severe. A widening deficit increases the likelihood of debt accumulation as the government and businesses seek financing to cover import needs. This further limits the fiscal space for investment in public services, infrastructure, or economic diversification. Moreover, a negative trade balance often weakens the purchasing power of local currency, which can fuel inflation and reduce household consumption capacity. Over time, the deficit erodes economic resilience and makes long-term development more difficult to sustain.

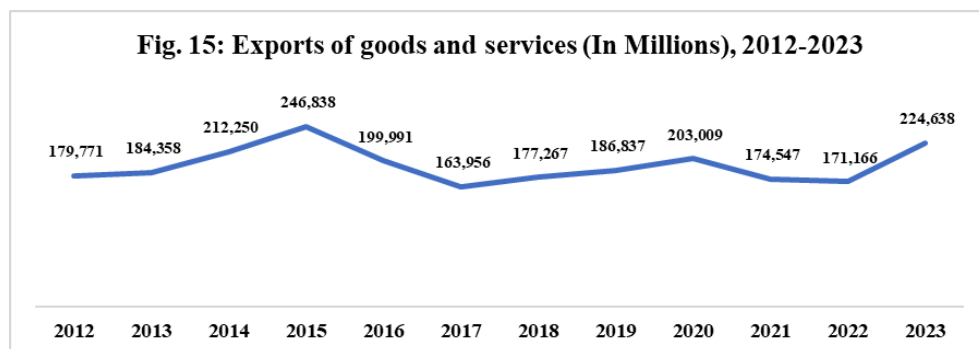
Development efforts to overcome these obstacles require an economic outlook grounded in realism and Puntland's unique strengths. We must prioritize sectors where it has a competitive advantage. For example, livestock and fisheries have historically been major contributors to exports. However, these sectors must be developed through investments in quality standards, processing facilities, and infrastructure to access broader markets. Similarly, Puntland's untapped blue economy, including fisheries and maritime trade, presents an opportunity for diversification and increased export revenue if supported by targeted investments in port development and value chain integration. Additionally, frankincense and other natural resources must be leveraged more effectively by scaling production and exploring new markets.

However, such structural changes require careful budgeting and targeted efforts. Without significant investment in infrastructure, particularly transportation and energy, the costs of trade will remain prohibitively high. The education and skill levels of the workforce also need attention to support the growth of industrial and service sectors that could reduce import dependency. Building competitive industries and scaling up local production will take time and significant financial resources, but the focus should remain on achievable goals tied to the region's existing capabilities. For instance, improving cold storage for fisheries or developing small-scale manufacturing for agricultural products can begin to shift the balance incrementally.

The government policymakers are in need for addressing Puntland's structural trade deficit, but the solutions must be rooted in our region's realities. Investments in sectors with immediate export potential, such as livestock and fisheries, coupled with gradual efforts to develop infrastructure, manufacturing, and human capital, will be essential. The growing trade imbalance underscores not just a need for economic reform, but a strategic rethinking of how Puntland engages with both its domestic economy and global markets.

Export

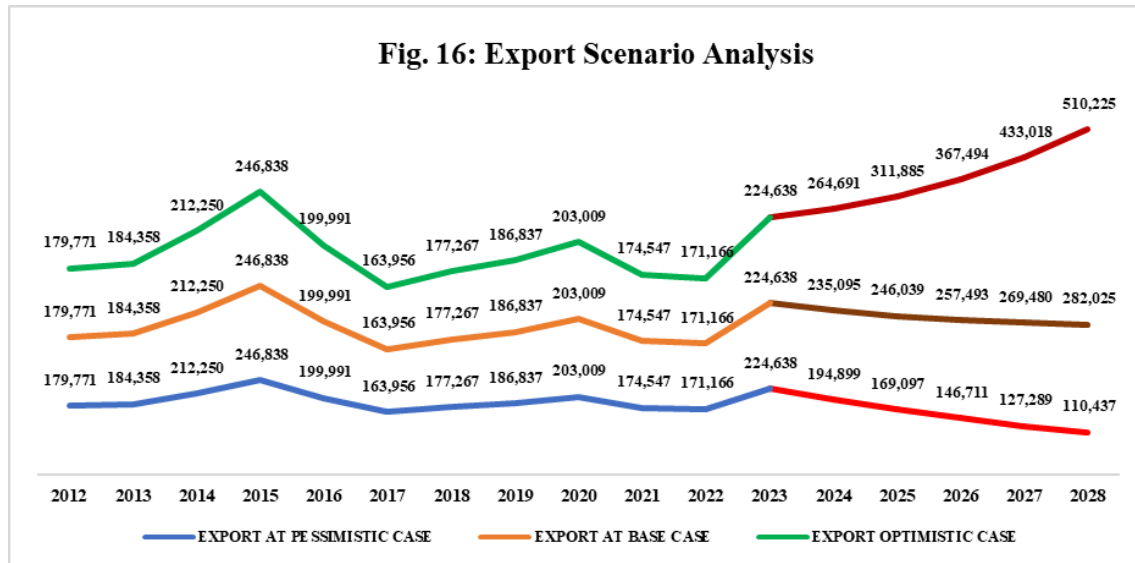
Puntland's export sector has experienced growth and fluctuation over the past decade. Exports began at 179 million in 2012, but rose significantly in recent years, reaching a peak of 225 million in 2023. However, exports have not been without challenges, as the sector faced a noticeable dip in 2017 when exports plummeted to 164 million. This drop was followed by a recovery starting in 2018, showing resilience and gradual improvement.



The overall trend shows growth, particularly in the latter part of the periods. Puntland's exports are primarily dominated by livestock and livestock products, with other sectors contributing only a minor share.

Scenario Analysis for Puntland's Export Sector

The scenario analysis for Puntland's trade imbalance highlights three potential outcomes for export analytics (optimistic, baseline, and pessimistic) and one potential outcome to reduce imports.



In the optimistic scenario, Puntland addresses structural challenges, invests in its key sectors like fisheries and livestock, and attracts foreign direct investment to drive export growth. This approach reduces import dependency and strengthens economic stability, resulting in a more diversified and resilient economy.

The baseline scenario envisions gradual improvements with limited reforms. Exports grow moderately, and imports continue to rise, maintaining a persistent trade deficit. While economic growth remains steady, vulnerabilities to external shocks persist due to incomplete structural changes.

The pessimistic scenario paints a troubling picture where Puntland fails to tackle the root causes of its trade imbalance. Export stagnation, reliance on low-value commodities, and rising import dependency lead to an unsustainable deficit. This results in inflation, currency depreciation, and increased reliance on aid, undermining economic stability and social well-being.

The scenarios collectively present the need for initiative-taking planning, targeted investments, and policy alignment. The economic future depends on the ability to leverage its competitive advantages, such as its blue economy and natural resources, while reducing structural trade imbalances to ensure long-term growth and stability.

Export promotion strategies

Export promotion strategies are the pathways for Puntland to achieve sustainable economic growth and reduce trade imbalances by expanding its market reach, increasing foreign exchange earnings, and fostering industrial development. Unlike import substitution, which focuses on reducing dependence on foreign goods, export promotion aims to capitalize on Puntland's comparative advantages and natural endowments to generate higher revenues through international trade.

A well-executed export promotion strategy can significantly enhance economic resilience, diversify revenue streams, and stimulate local industries. Export promotion begins with identifying key sectors where we have a competitive edge in international markets. The region's rich natural resources, such as fisheries, livestock, and frankincense, provide a solid foundation for export growth where fisheries hold immense potential due to Puntland's extensive coastline along the Indian Ocean and Red sea.

Infrastructure development plays a significant role in export promotion. Efficient ports, roads, and transportation networks are essential for reducing the cost of moving goods to international markets. Efforts in current expanding and modernizing port facilities in places like Bosaso and Gara'ad can improve export capacity and enhance the competitiveness of Puntland's products. In addition, reliable energy and communication infrastructure are important for supporting industries and enabling access to global markets.

Another important aspect of export promotion is building institutional capacity and establishing trade support mechanisms. This involves improving in export development agencies like Chamber of commerce, trade promotion team in MOCII and others to provide technical assistance, market intelligence, and support services to exporters. For example, providing small and medium enterprises (SMEs) with training on export procedures, documentation, and compliance with international trade standards can help them access foreign markets more effectively. Establishing export financing mechanisms, such as credit guarantees or subsidized loans, can also alleviate financial constraints faced by exporters.

Diversifying export products and markets is a cornerstone of an effective export promotion strategy. Puntland's dependence on a few primary commodities exposes it to risks associated with price volatility and fluctuating global demand. Expanding into value-added industries, such as food processing, leather goods, and frankincense-based products, can mitigate these risks. For instance, transforming raw agricultural products into packaged or processed goods adds value and increases their appeal in international markets. Diversification of export destinations, particularly by exploring emerging markets in Africa and Asia, can also reduce reliance on traditional trading partners.

Human capital development is critical to achieving export promotion goals. Equipping workers with technical and managerial skills ensures higher productivity and product quality, making Puntland's exports more competitive globally. Training programs in key sectors, such as agriculture, fisheries, and manufacturing, can build the expertise needed to meet international standards and customer expectations.

Trade policies and international cooperation are equally important in export promotion. Puntland must adopt policies that incentivize exports while maintaining compliance with regional and global trade agreements. These policies could include tax exemptions for exporters, reduced tariffs on imported production inputs, and streamlined customs procedures to facilitate the export process. Establishing partnerships with international organizations, regional economic blocks, and development agencies can also open doors to new markets and provide access to technical and financial assistance.

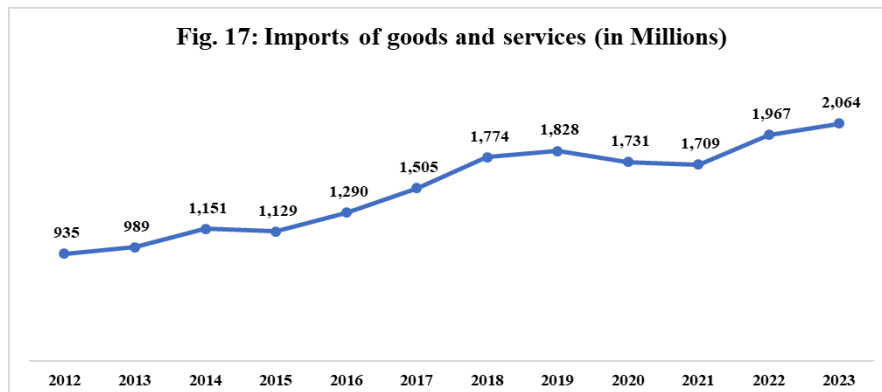
Marketing and branding play a vital role in enhancing the visibility of Puntland's exports. Developing a strong brand identity for its unique products, such as frankincense or high-quality livestock, can differentiate them in competitive global markets. Participation in international trade fairs, exhibitions, and business forums offers opportunities to highlight Puntland's products and establish trade relationships.

Aligning export promotion strategies with GDP growth is essential for long-term economic stability. Increased exports contribute directly to higher GDP by generating income and creating employment opportunities. As foreign exchange earnings rise, they can be reinvested into critical sectors, such as education, healthcare, and infrastructure, fostering inclusive development. Export revenues also strengthen fiscal capacity, allowing the government to finance public services and reduce reliance on foreign aid.

Export promotion strategies are underpinned by key economic theories, such as the comparative advantage model, which suggests that regions should focus on producing goods and services where they have the lowest opportunity cost. By specializing in sectors like fisheries and livestock, Puntland can allocate resources efficiently and maximize returns from international trade. Additionally, the endogenous growth theory highlights the role of innovation, technology, and human capital in driving export performance. Investments in research and development, as well as capacity-building initiatives, can enhance productivity and competitiveness.

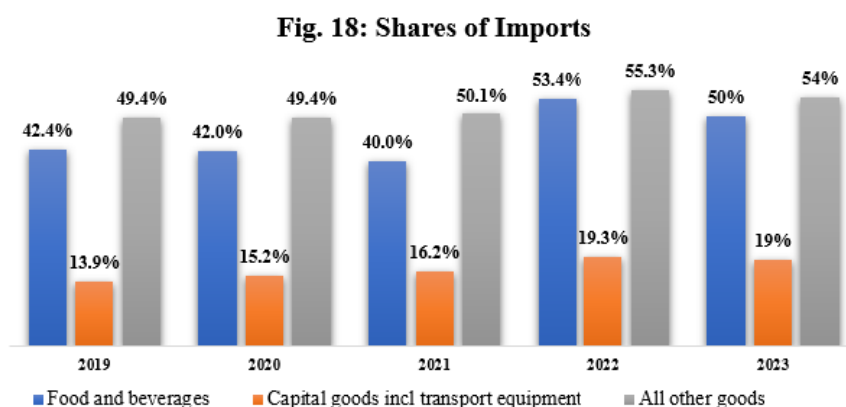
Import

Imports into Puntland have experienced a steady and significant increase over the past decade, rising from 935 million in 2012 to 2 billion by 2023. This growth reflects the growing domestic demand for goods such as food, fuel, machinery, electronics, and consumer products, driven by infrastructure development, population growth, and urbanization.



The highest import value recorded was 2,064 million in 2023, while the lowest was 934 million in 2012. Imports have consistently risen, particularly after 2017, driven by increasing consumption and investment needs. This trend indicates that Puntland is becoming increasingly reliant on imported goods to sustain its growing economy, highlighting the need for a more competitive export sector to address the trade deficit.

The chart below also highlights the breakdown of imports into three main categories: food and beverages, capital goods (including transport equipment), and all other goods, as percentages of total imports from 2019 to 2023. To assess the implications of this structure on trade balance deficits and their role in the development process, we must analyze the proportions of capital goods relative to consumer goods.



Capital goods are critical to economic development because they contribute to productive capacity and long-term growth. These goods include machinery, equipment, and transport systems that drive industrialization, infrastructure development, and increased productivity. In contrast, excessive reliance on consumer goods imports, such as food and beverages, limits economic progress, as these goods are often consumed directly without contributing to future productive capacity.

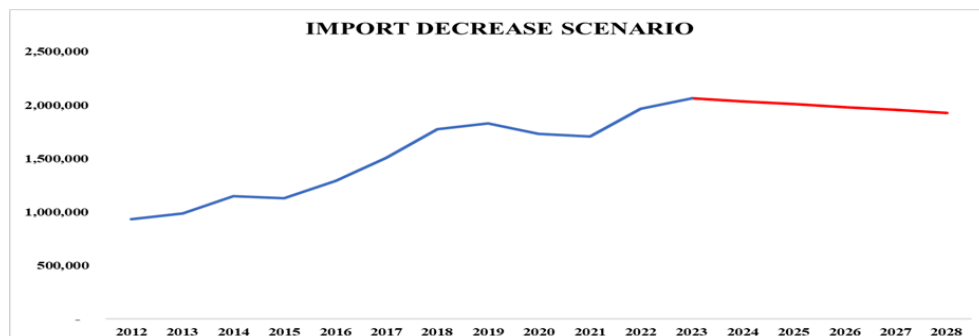
From the chart, the share of capital goods appears relatively modest compared to other categories, especially food and beverages. For instance, the blue bars representing food and beverages maintain a steady or increasing proportion over the years, which suggests a significant share of imports is directed toward meeting consumption needs rather than enhancing productive capacity. The orange bars, indicating capital goods and transport equipment, show a smaller and relatively stable share over the period, reflecting limited emphasis on capital goods imports.

This composition suggests that Puntland's trade structure leans more toward consumer goods, which may hinder long-term economic development. Increasing the proportion of capital goods imports relative to consumer goods can help offset trade balance deficits through economic growth. For instance, investing in imported machinery for manufacturing or transport equipment for logistics could enable local industries to scale up production, create jobs, and diversify exports, ultimately reducing reliance on imports over time.

To optimize the development impact of imports, policymakers should implement strategies that encourage a shift in the import composition toward capital goods. This include providing incentives for importing equipment and technology critical to productive sectors like agriculture, manufacturing, and construction. Similarly, reducing reliance on food imports could involve boosting domestic agricultural production through investments in irrigation, fertilizers, and modern farming techniques. Such measures would not only improve the trade balance but also enhance economic resilience and self-sufficiency.

Applying import substitution to **Piero Sraffa's input-output model** involves production of commodities by means of commodities by restructuring the economy to reduce dependency on imported goods by enhancing domestic production capacities for essential inputs and outputs. Sraffa's model emphasizes the interdependence of industries through their input-output relationships, where the production of one sector relies on inputs from others. By substituting imports with locally produced goods, particularly capital goods and intermediate inputs, Puntland can alter the production matrix to create a self-reliant system that sustains local industries. For instance, prioritizing investments in sectors such as agriculture, manufacturing, and transport equipment would enable these industries to supply the necessary inputs domestically, reducing leakages of foreign exchange and enhancing the multiplier effect within the economy. This approach not only strengthens the circular flow of income and production but also stabilizes the trade balance by fostering a more integrated and resilient economic structure.

Scenario Analysis for Puntland's Import reduction



This chart represents a scenario in which Puntland implements strategies to reduce imports, creating a declining trend from 2024 to 2028. The reduction reflects an attempt to narrow the trade deficit and improve the overall balance of trade. Import substitution strategies, such as promoting local production and minimizing reliance on foreign goods, play a game changing role in addressing the import challenge. The focus on strategic areas of comparative advantage, such as agriculture, livestock, fisheries, and manufacturing, we can reduce its dependency on imports for essential goods and services.

Economic phenomena highlighted in this scenario include the following effects:

- 1. Trade Balance Improvement:** Reducing imports decreases the trade deficit, leading to a more balanced trade structure. A lower import bill helps conserve foreign exchange reserves and reduces external vulnerabilities which impacts capital flight.
- 2. Stimulation of Local Industries:** Import substitution strategies foster domestic production, creating job opportunities, enhancing skill development, and encouraging investment in key sectors.
- 3. Economic Diversification:** Reducing imports facilitates diversification of the economy by focusing on sectors where Puntland has a competitive advantage, such as fisheries and agriculture. Investments in these sectors reduce dependence on a narrow range of commodities.
- 4. Potential Inflationary Pressure:** While reducing imports is beneficial, it can lead to higher prices for certain goods if domestic production cannot immediately meet demand, thus requiring proper planning to ensure supply-demand equilibrium.

Reduction of the import effect on the trade balance effectively, several strategies need to be implemented. Key areas include Boosting local production, enhancing infrastructure and energy, strengthening trade policies, encouraging private sector participation, developing human capital and leveraging natural resources

This scenario also highlights the importance of aligning import reduction strategies with GDP growth. As GDP increases through enhanced domestic production and reduced import dependency, Puntland's economic resilience will improve. Moreover, targeted budget allocations toward infrastructure, agriculture, and industrial development will ensure sustainable progress in narrowing the trade deficit. However, achieving these goals requires a comprehensive and coordinated approach between the government, private sector, and international development partners.

Import Substitution Strategy

The application of an import substitution strategy to reduce imports over time focuses on Puntland's trade dynamics and its structural economic vulnerabilities. This approach aligns with the theoretical foundation of the **Import Substitution Industrialization (ISI)** model, which emphasizes domestic production of goods that would otherwise be imported. By fostering self-sufficiency and reducing dependency on external markets, Puntland can gradually restructure its trade balance while addressing key economic weaknesses.

The ISI model is grounded in the idea that reducing reliance on imports not only improves the trade balance but also stimulates industrialization, encourages employment, and fosters economic independence. In the case of Puntland, the theoretical underpinning ties directly to structuralist development economics, which highlights the need for developing economies to build internal capacity for long-term growth. This involves a focus on comparative advantage in sectors such as agriculture, fisheries, and light manufacturing, which can generate immediate impact and sustainable development outcomes.

Using the Keynesian framework, reducing imports has a direct multiplier effect on the economy. A decrease in the outflow of foreign exchange ensures that more resources remain within the domestic economy, thereby increasing aggregate demand and promoting economic growth. Furthermore, increasing local production to replace imports stimulates investment in critical sectors, expanding output and employment while creating linkages across the economy. The **Harrod-Domar growth model** could also be applied here, where import reduction strategies lead to an increase in savings and investment, enabling higher growth rates through the accumulation of capital in key industries.

Puntland's reliance on imports presents challenges such as external vulnerabilities, trade imbalances, and economic leakages. However, addressing these issues requires applying realistic models of policy intervention. For instance, **Porter's Competitive Advantage Theory** suggests that Puntland should focus on areas where it has a unique or emerging comparative advantage. The region's abundant livestock, agricultural potential, and fisheries are critical sectors that can be scaled up to meet domestic demand while reducing reliance on imports of food and raw materials.

Addressing this issue also involves incorporating **Structural Change Theory**, which focuses on shifting resources from low-productivity sectors, such as subsistence farming, to high-productivity industries capable of substituting imports. For example, investments in small-scale processing plants for agriculture and fisheries can create local value chains, reducing the need for imported processed goods while adding value domestically.

Key economic phenomena emerge when applying these models to Puntland's trade scenario. First, reducing imports strengthens domestic industries by increasing the demand for locally produced goods. This creates employment, fosters skill development, and expands the tax base, leading to more fiscal space for targeted public investment. Second, focusing on industries with strong backward and forward linkages, such as agriculture and fisheries, generates spillover effects, stimulating demand for related services like transport, organization, and packaging. Third, reducing imports while boosting domestic output lessens trade deficit pressures and enhances macroeconomic stability, as fewer foreign exchange resources are required to finance imports.

From a macroeconomic perspective, relying on the **Balance of Payments Model**, reducing imports shifts the current account closer to equilibrium, improving Puntland's external stability. By aligning trade policies with GDP growth targets, Puntland can effectively monitor how import reduction translates into improved economic performance. Import reduction also addresses supply-side challenges within the economy, such as improving the competitiveness of domestic industries. Using the **Solow Growth Model**, productivity enhancements in key sectors through technological adoption and human capital development become critical to achieving sustained growth and reducing dependency on foreign markets.

The key effects of this strategy are the need to balance economic goals with the practical realities of Puntland's current industrial base and capacity. Domestic production must match the quality and scale of imports to ensure that consumers and businesses can effectively transition away from foreign goods. This requires addressing the capital and technological constraints in local industries, as well as overcoming logistical bottlenecks such as poor infrastructure and inadequate energy supply.

Realistically, this strategy must focus on integrating short-term gains with long-term structural reforms. Budgetary allocations must prioritize investments in sectors with immediate capacity for import substitution, such as agriculture, fisheries, and livestock. At the same time, targeted programs to improve infrastructure especially water and energy, workforce training, and private sector participation ensure that these sectors evolve into competitive industries. By applying these theoretical models and practical solutions, the government can systematically reduce imports while fostering a sustainable and diversified economy.

Trade Partners

Puntland's trade relations play a vital role in shaping its economic landscape, with key trade partners including the Emirates, China, India, Oman, Ethiopia, and Kenya. These relationships reflect the interconnectedness of Puntland's economy with global and regional markets, underpinned by the exchange of goods and services that are critical to both imports and exports. The Emirates serves as a major destination for Puntland's livestock exports and a source of essential goods, while China and India are prominent suppliers of manufactured products and consumer goods. Oman maintains strong ties with Puntland through trade in agricultural and processed goods, while Ethiopia and Kenya, as neighboring countries, facilitate regional trade and cross-border commerce in livestock, foodstuffs, and everyday commodities. Puntland's strategic location along the Gulf of Aden, a vital international shipping route, enhances its significance as a trade hub within the Horn of Africa. This position provides unique opportunities to connect with international markets and leverage its geographical advantage to facilitate maritime trade and foster economic development.

Trade Regulation

Trade regulation in Puntland is governed by tariffs, customs duties, and export restrictions, which collectively aim to manage the flow of goods and generate revenue for the government. However, enforcement challenges and the inefficiencies in the customs system hinder the realization of the full potential of these regulations. Weak enforcement creates loopholes that can lead to revenue losses, while outdated customs infrastructure and procedures slow down the movement of goods, increasing costs for traders and reducing competitiveness. Despite being a federal member state of Somalia, Puntland has taken an active role in shaping its trade policy, particularly through fostering regional partnerships. These partnerships with neighboring countries, such as Ethiopia and Kenya, support cross-border trade and enhance economic ties that are essential for regional integration and development. However, the need for modernizing the customs system, adopting efficient trade facilitation measures, and strengthening enforcement mechanisms remains a pressing priority to ensure that trade regulation effectively supports Puntland's economic ambitions.

Evaluating Policy Impact

Evaluating the impact of trade policies in Puntland requires a nuanced understanding of their effects on the domestic economy and trade flows. The region's dependence on imports makes it particularly sensitive to changes in tariffs, export taxes, and subsidies, each of which carries distinct economic implications. High tariffs on imports, while potentially effective in curbing the volume of goods brought into the country, can lead to unintended consequences such as inflation and shortages of essential goods. These challenges could disrupt household consumption patterns, raise production costs for local businesses reliant on imported inputs, and slow economic growth. Policymakers must carefully balance the need to reduce imports with the imperative of maintaining price stability and ensuring the availability of critical goods.

On the export side, heavy taxation can have a detrimental effect on local industries, discouraging production for international markets and reducing the volume of exports. This can exacerbate the trade deficit by limiting the inflow of foreign currency and weakening the competitiveness of Puntland's goods on the global stage. For example, excessive export taxes on high-potential sectors like livestock or fisheries could undermine their contribution to economic growth and their ability to drive trade balance improvements.

Conversely, targeted subsidies represent a promising approach to strengthening Puntland's economic position. Subsidies directed toward sectors such as agriculture and manufacturing can help reduce production costs, enhance productivity, and encourage investment in industries that have the potential to substitute imports or generate export revenues. By bolstering domestic production, these measures could mitigate reliance on foreign goods while creating surplus output for exports. Additionally, subsidies can foster innovation, promote value addition in key sectors, and improve the competitiveness of Puntland's goods in international markets.

These policies must be strategically designed and periodically reviewed to ensure they align with Puntland's broader trade and development objectives. For instance, a well-calibrated mix of tariffs and subsidies could reduce the trade deficit by enhancing local production while simultaneously making exports more competitive. Equally important is the need to adopt complementary policies such as improving infrastructure, streamlining trade facilitation processes, and investing in human capital development to maximize the impact of trade policy adjustments. Strategic implementation of these measures could help Puntland achieve a sustainable balance between reducing its reliance on imports and boosting exports, contributing to long-term economic stability and growth.

Finally, Puntland's trade sector has experienced notable growth in exports and imports over the past decade, with exports reaching a peak in 2023, primarily driven by livestock products, while imports have steadily increased, reflecting rising domestic demand. Despite this growth, the region has faced a persistent and widening trade deficit, with imports consistently outpacing exports, placing pressure on foreign exchange reserves. Puntland's strategic location and trade relations with key partners like the Emirates, China, India, Ethiopia, and Kenya enhance its role as a trade hub, but to address the growing trade imbalance, there is a pressing need for effective trade policies and strategies to boost local production, improve export competitiveness, and reduce reliance on imports.



Puntland Investment Opportunities

Unlocking Economic Potential

Our region has demonstrated significant economic resilience since gaining autonomy in 1998. Despite the challenges of the Somali civil war, Puntland has remained relatively stable, fostering a business-friendly environment that has attracted both local and foreign investment. Cities such as Bosaso have emerged as dynamic economic hubs, driving regional growth through trade, industry, and infrastructure development.

Historically, Puntland was a center for industrial and business growth, hosting flourishing sectors such as livestock, fisheries, dairy farming, salt production, and others. The region also had a thriving small and medium enterprise (SME) sector, contributing to employment opportunities, rising incomes, and a robust domestic market. International trade, particularly with Middle Eastern countries such as Yemen, Saudi Arabia, and Oman, further boosted Puntland's economic potential. However, years of instability disrupted these economic activities, reducing trade volumes and weakening production output.

Today, Puntland is reclaiming its status as an economic powerhouse, supported by its strategic location, vast natural resources, and improving infrastructure. With 1,600+ kilometers of coastline, Puntland offers some of Africa's richest marine habitats, ideal for commercial fishing and marine resource exploitation. The region's economic performance has also been encouraging, with an average growth rate exceeding 4% before the COVID-19 pandemic but briefly slowed progress during post-pandemic. The export sector remains dominated by livestock, leaving a small room in frankincense and fisheries, with Bosaso and Gara'ad playing a crucial role in trade and logistics.

Why Invest in Puntland?

Puntland offers a range of investment advantages, making it an attractive destination for local and international investors. These include political stability and governance, ensuring a safe and secure investment environment. Abundant natural resources, including livestock, fisheries, agriculture, minerals, and energy. Strategic trade location, with direct access to the Indian Ocean, Gulf of Aden, the Bab el-Mandeb Strait, and the Suez Canal. Expanding infrastructure, including the Bosaso and Gara'ad international ports, road networks, and air transport facilities. Growing digital and telecommunications sector, providing high-speed internet through fiber optic cables. Low labor costs and a young workforce, with over 50% of the population under the age of 30. Wide market access, serving Somalia, Ethiopian border regions, and the broader Horn of Africa. A dynamic and growing private sector, supported by the Puntland Chamber of Commerce.

Key Sectors for Investment

- **Livestock Sector**

Livestock is the backbone of Puntland's economy, providing 60% of employment, an average of 89% of the total export earnings in the last 12 years, and 7% in GDP. Indigenous breeds of goats, sheep, camels, and cattle are well adapted to the arid environment, ensuring sustainable production. However, limited processing infrastructure has hindered the full potential of the sector. Investment opportunities include establishing fodder production and processing plants to enhance livestock feed quality, setting up modern slaughterhouses that meet international export standards for fresh meat, developing dairy processing industries for milk and cheese production, expanding leather and tanning industries to maximize value from hides and skins, and investing in poultry farming for egg and meat production.

- **Fisheries Sector**

Puntland's 1,600+ kilometer coastline hosts some of the richest fishing waters in Africa, with abundant stocks of tuna, mackerel, lobster, and other commercial species. The fisheries sector remains largely underdeveloped, offering vast investment opportunities such as establishing fish processing plants and canning factories to increase export capacity, providing modern fishing gear, refrigeration, and cold storage facilities for sustainable fishing, improving fish handling and processing techniques to ensure high-quality exports, and implementing quality control systems to meet global seafood trade standards.

- **Agriculture and Cash Crops**

Puntland's agricultural sector has expanded significantly since the 1990s, with displaced populations introducing new farming techniques. The region grows vegetables, fruits, sorghum, maize, sesame, and frankincense, offering investors opportunities in developing modern irrigation systems and greenhouse farming technology, expanding date palm and frankincense production for export markets, establishing agro-processing industries to add value to local produce, and investing in coffee and garlic farming, which have proven viable in Puntland's climate.

- **Construction and Real Estate**

Puntland's real estate sector is experiencing rapid growth, driven by a rising urban population, increased diaspora investments, and government infrastructure projects. The demand for housing, roads, ports, airports, and industrial zones is rising, creating investment opportunities in constructing affordable residential and commercial properties, developing industrial parks, special economic zones, and logistics hubs, and investing in cement plants and local production of construction materials.

- **Manufacturing Sector**

Puntland is currently import-dependent, with most consumer goods sourced externally. Expanding local manufacturing will boost employment, reduce trade deficits, and diversify the economy. Investment opportunities include establishing water purification and milk processing industries, setting up plastic recycling plants and leather processing factories, developing cement and construction material production facilities, and investing in special economic zones for industrial-scale production.

- **Banking and Financial Services**

The number of licensed banks in Puntland has grown significantly, with 13 banks operating in 2023 compared to just 5 in 2018. Investment opportunities in the financial sector include establishing independent ATM networks, expanding rural credit and microfinance institutions for small businesses, investing in pension fund management and insurance services, and developing digital payment systems and online banking solutions.

- **Mining and Energy**

Puntland is rich in gemstones, gold, oil, and natural gas, with significant potential for extraction and processing. The region also has one of the highest potentials for solar and wind power generation in Africa, making renewable energy a key investment area. Opportunities include exploration of hydrocarbons and mineral resources, establishing solar and wind energy plants to provide affordable electricity, and investing in electric cabling, transformers, and renewable energy infrastructure.

- **Telecommunications and ICT**

Puntland's ICT sector has expanded rapidly, offering some of the most affordable mobile and internet services in Africa. With a young, tech-savvy population, investment opportunities include expanding broadband and fiber optic infrastructure, investing in software development and AI technologies, and developing e-government platforms and digital payment systems.

- **Health and Education**

Puntland's healthcare and education sectors are underdeveloped, with significant demand for private-sector investment. Key opportunities include establishing new hospitals, diagnostic centers, and emergency care facilities, developing private universities, vocational training centers, and boarding schools, and investing in school feeding programs and educational infrastructure.



INFLATION & UNEMPLOYEMENT

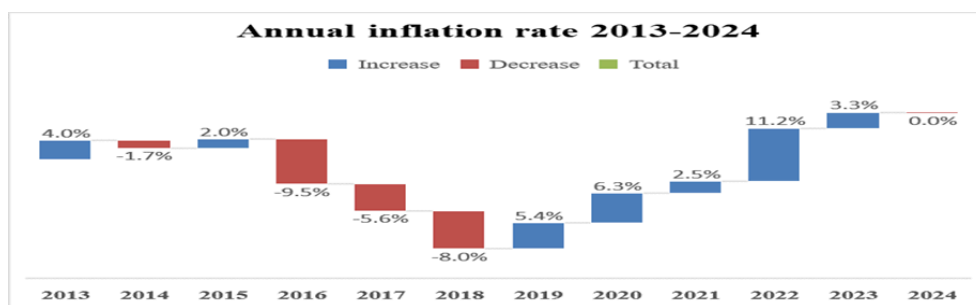
Introduction

Inflation is a critical economic indicator that reflects the cost of living and purchasing power within an economy. In Puntland, inflation dynamics are shaped by a unique combination of factors, including heavy reliance on imports, a dollarized economy, and emerging digital financial systems. Over the years, the region has experienced significant fluctuations in inflation rates, driven largely by global economic conditions, supply chain disruptions, and the volatile prices of essential goods such as food and fuel. Understanding the trends and drivers of inflation in Puntland is essential for formulating effective policies to promote economic stability, enhance local production, and reduce external vulnerabilities. This section examines the historical trends in Puntland's inflation rates, the implications of imported inflation and dollarization, and the role of digitalization in recent economic stabilization, while proposing strategies for sustainable economic growth and price stability.

Inflation

Annual inflation

Fig. 20 illustrates Puntland's annual inflation rate trends between 2013 and 2024, showing the fluctuations in increases, decreases, and total inflation. From 2013 to 2016, there was notable volatility, with inflation peaking in 2015 before dropping sharply in 2016, 2017 and 2018. This period of deflation likely reflected external economic factors impacting the region. From 2019 onward, inflation trends show a steady upward trajectory, culminating in a sharp spike in 2022 at 11.2%, possibly due to global post-pandemic supply chain disruptions, droughts and increased import costs. By 2023 and 2024, inflation appears to rebound to stabilization at 3.3% and -0.04% respectively, suggesting the impact of digitalization or external price stabilizations.



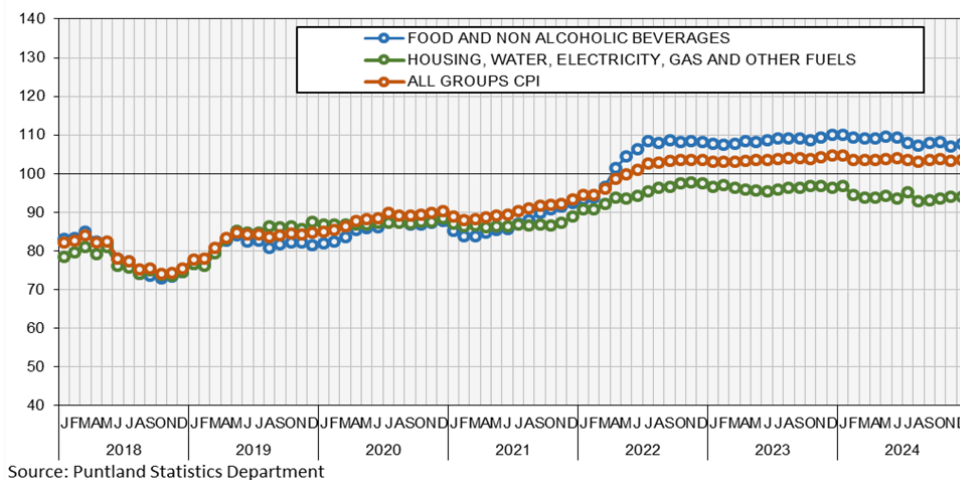
Puntland's reliance on imports means the region experiences "imported inflation," where global price shifts, especially for food, fuel, and essential goods, directly affect local inflation rates. The 2022 spike, for example, may have been exacerbated by rising global fuel prices and shipping costs. In recent years, digitalization efforts, particularly the adoption of mobile money and digital payment systems, have likely contributed to inflation stabilization by improving transaction efficiency, reducing cash-related inefficiencies, and enhancing the central bank's ability to monitor and manage monetary policies. Similarly, the use of the U.S. dollar as a primary currency protects against extreme currency devaluation and exchange rate fluctuations.

To stabilize inflation in the coming years, the government must prioritize on fostering local investment and reducing reliance on imports. Strengthening local agricultural production can significantly lower dependency on imported food, reducing exposure to global price volatility. Similarly, developing small-scale manufacturing industries to produce commonly imported goods locally can mitigate import-driven inflation. Investments in renewable energy, such as solar and wind projects, can also decrease dependence on imported fuel, addressing a significant inflationary pressure point.

Efforts to reduce imports must be paired with strong fiscal and monetary policies. Although Puntland no longer use Somali shilling, if we reintroduce the Somali shilling for use, building foreign exchange reserves will help stabilize the Somali shilling and protect against exchange rate volatility.

Monthly inflation trends (2018-2024)

Food & Beverages and Housing, Water, Electricity, Gas, and Other Fuels are currently the most significant items in the consumer basket regarding household expenditure and therefore have the largest weighted influence on the All-Groups CPI. Fig. 19 highlights trends in the Consumer Price Index (CPI) components in Puntland, focusing on "Food and Non-Alcoholic Beverages," "Housing, Water, Electricity, Gas, and Other Fuels," and the "All Groups CPI" from 2018 to 2024. The analysis below explores these trends and their broader implications for the region's economy.



Source: Puntland Statistics Department

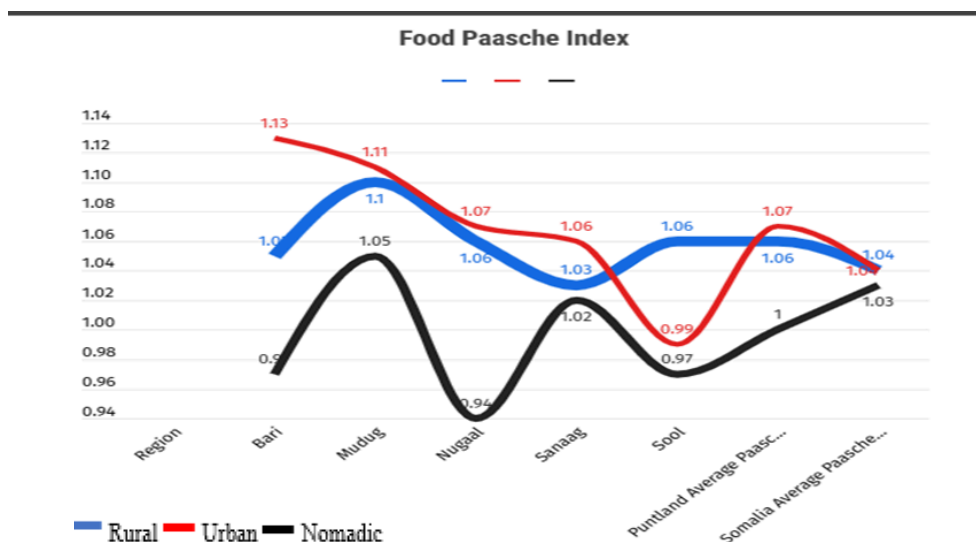
From 2018 to early 2020, all three components showed relative stability with slight fluctuations, suggesting a steady economic environment. Food and non-alcoholic beverages, being a critical component of household expenditure, maintained parity with the overall CPI during this period. However, the sharp increase across all indices starting in late 2020, particularly for food prices, signals external economic shocks. These could be attributed to global supply chain disruptions during the COVID-19 pandemic, increased import costs, and heightened demand for essential goods. The steep rise in 2022 reflects the global inflationary wave fueled by soaring commodity prices and supply chain bottlenecks.

Housing, water, electricity, gas, and other fuels saw a comparatively muted increase, indicating greater resilience in this sector that helped stabilize these costs. The overall CPI closely mirrors the food and non-alcoholic beverages trend, emphasizing the significant weight of food prices in the overall inflation basket. This pattern highlights Puntland's reliance on imported food and the vulnerability of households to global market changes.

The stabilization observed post-2022 reflects possible economic interventions, such as global market recovery, or improved import conditions. Digitalization and dollarization may have also played roles in smoothing transaction processes and controlling inflation. However, the persistence of elevated prices compared to pre-2020 levels suggests that structural challenges remain, particularly in reducing dependency on imports and ensuring food security.

The Food Paasche Index

The Food Paasche Index provides a measure of food price changes in Puntland's regions (Bari, Mudug, Nugaal, Sanaag, and Sool) and their residence types (rural, urban, and nomadic).



Source: Somali Poverty Measurement Report, 2023, SNBS

Regional disparities in food prices, as highlighted by the Food Paasche Index, reveal significant differences across Puntland's regions and residence types. In Bari, urban areas exhibit the highest cost changes (1.13), while nomadic areas have a lower index (0.97), indicating urban inflation pressures likely tied to import dependence and population density. Mudug shows more balanced indices, with rural (1.10) and urban (1.11) areas closely aligned, though nomadic areas remain slightly lower (1.05), reflecting moderate price uniformity. Nugaal presents notable disparities, with urban areas having the highest index (1.07) and nomadic areas the lowest (0.94), underscoring the urban-rural divide in price dynamics. In Sanaag, rural (1.03) and urban (1.06) indices are relatively similar, while nomadic areas (1.02) show marginally lower values, reflecting relative price stability across residences. Sool, on the other hand, sees rural areas leading in food cost changes (1.06), while urban (0.99) and nomadic areas (0.97) experience more stable pricing. These trends highlight diverse economic conditions, driven by factors like market access, infrastructure, and local production capacities in Puntland.

Urban areas, such as Garowe and Bosaso, consistently show higher indices, signaling rising food costs. This trend reflects the pressures of urbanization, where growing populations increase demand for food amidst limited local production. The reliance on imported food, coupled with infrastructure constraints, exacerbates these price surges, potentially straining urban household budgets and increasing vulnerability to food insecurity. Additionally, higher urban costs may widen the economic gap between cities and rural areas, requiring targeted policy interventions to stabilize food prices in urban centers.

Nomadic areas exhibit greater index stability, primarily due to their reliance on livestock production, a cornerstone of Puntland's economy. This sector demonstrates resilience, offering a buffer against food price volatility. However, the stability may also reflect limited access to diverse food markets, which can restrict dietary variety and nutritional outcomes. Ensuring market connectivity for nomadic populations could enhance their economic integration while preserving the sector's strengths.

The Food Paasche Index reveals critical insights into food price dynamics in Puntland compared to Somalia as a whole. In Puntland, rural areas (1.06) align with the region's general trend, reflecting moderate price increases, while urban areas (1.07) show slightly higher food cost inflation, indicative of greater economic pressures in cities. Conversely, nomadic areas (1.00) exhibit stability, closely aligned with the base index, likely due to reliance on subsistence resources and limited exposure to market-driven food price fluctuations. When compared to Somalia's averages, which show smaller variations, rural (1.04), urban (1.04), and nomadic (1.03), it becomes evident that Puntland experiences slightly higher food price dynamics, particularly in rural and urban areas. This disparity may stem from Puntland's unique economic structure, including its highly reliance on imports, localized supply chain challenges, and regional market disparities.

The Food Paasche Index reveals that Puntland's rural and urban areas experience slightly higher inflation pressures compared to Somalia's national averages. Puntland's rural and urban indices (1.06 and 1.07) surpass Somalia's averages (1.04 for both), highlighting unique regional challenges. This is likely influenced by Puntland's semi-autonomous governance, which shapes economic policies and trade dynamics differently from the rest of Somalia. The region's reliance on the Bosasoport as a major trade hub amplifies exposure to global price fluctuations and logistical inefficiencies, driving higher food costs in both urban and rural areas.

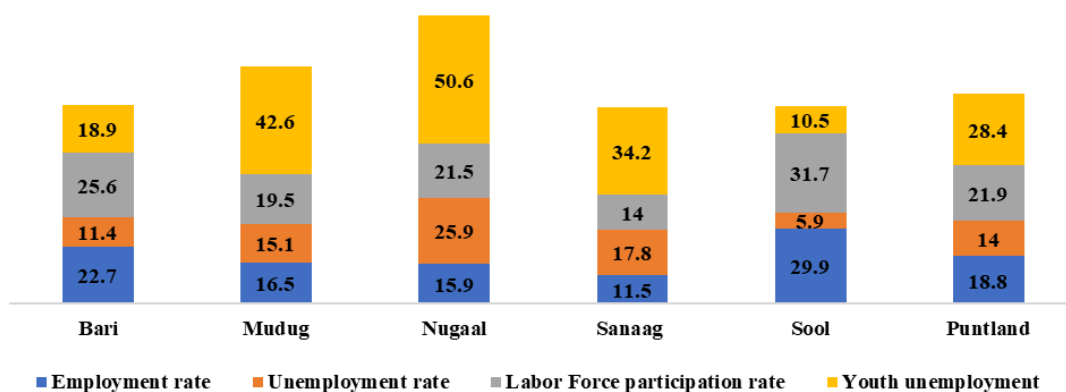
In contrast, Puntland's nomadic index (1.00) closely aligns with Somalia's national average (1.03), reflecting stability due to the resilience of livestock-based economies. While this stability supports food security, limited economic diversification and market integration remain concerns for nomadic communities.

To lower the economic challenges in Puntland, particularly food security and inflation, a multifaceted policy approach is essential. Investing in agricultural productivity through improved irrigation, advanced farming technologies, and sustainable livestock practices can stabilize food prices and support rural and nomadic communities. Strengthening supply chains by developing transportation infrastructure and enhancing port efficiency in Bosaso as well as Gara'ad port would reduce food transportation and import costs, benefiting urban consumers. Diversifying nomadic economies with supplementary income sources like artisanal production or eco-tourism can reduce economic vulnerabilities and build resilience. Targeted subsidies for food and agricultural inputs can alleviate the financial burden on low-income households and rural producers, ensuring equitable access to essential resources. Regular monitoring of inflation trends, coupled with early warning systems, would enable timely responses to price spikes, particularly in climate-vulnerable areas. Together, these measures can create a more inclusive and resilient economy, addressing both immediate challenges and long-term structural issues.

Unemployment Statistics in Puntland

This is the employment statistics across the regions of Puntland, shedding light on labor market dynamics and disparities in employment, unemployment, labor force participation, and youth unemployment rates. Nugaal stands out with the highest labor force participation rate, indicating a more actively engaged workforce compared to other regions. This suggests that Nugaal may have more accessible opportunities or infrastructure supporting workforce entry. However, the region also experiences one of the highest unemployment rates, reflecting potential challenges in job availability despite high participation levels.

Fig. 23: Employment statistics of working age population by region



In contrast, Sool has the lowest youth unemployment rate among all regions. However, this does not necessarily signify economic prosperity, as Sool also demonstrates one of the highest overall labor force participation rates, this indicates that culturally barriers to entry into the workforce are lower for the general population or reliance on non-market-based livelihoods.

Mudug and Sanaag like Nugaal exhibit significant challenges with youth unemployment, which exceeds 30 percent. This trend highlights structural barriers that disproportionately affect young people, including limited entry-level job availability and the mismatch between skills and labor market demands. Such figures emphasize the need for targeted interventions to improve youth employment opportunities, particularly in urban areas where the problem is more pronounced.

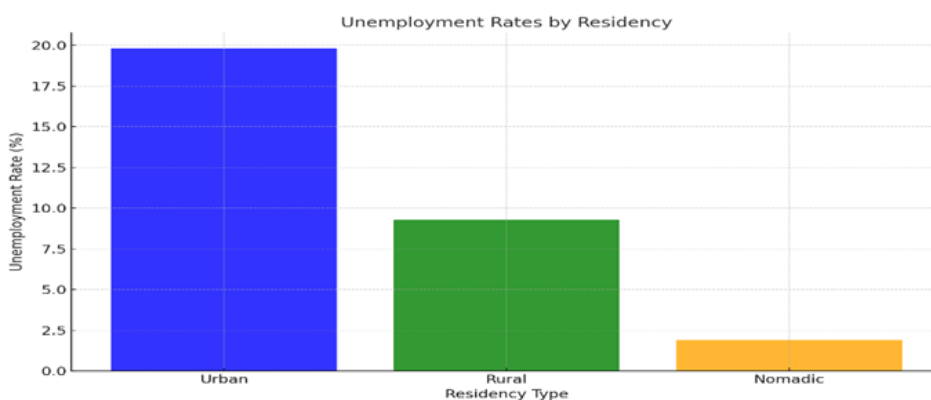
Regions like Nugaal and Sanaag show lower employment rates, likely due to limited economic diversification and opportunities. Sanaag, for example, has a labor force participation rate that falls below the total average for Puntland. Similarly, while Nugaal has an equal but less than active labor force, it struggles with significant unemployment challenges, reflecting inadequate job creation or economic instability.

The overall picture provided by the chart shows a multifaceted nature of employment issues in Puntland, where certain regions show higher labor market engagement but face challenges in job availability, while others suffer from low participation and high unemployment. Youth unemployment emerges as a pervasive issue across all regions.

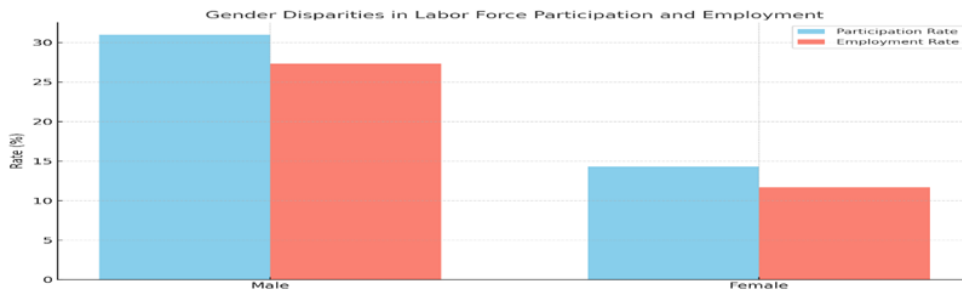
Unemployment in Puntland represents a complex challenge tied to structural economic issues, demographic pressures, and regional disparities. According to the PIHBS, the labor market is marked by a low labor force participation rate of 21.9%. This indicates that only about one-fifth of the working-age population is either employed or actively seeking work. Even within this small labor force, only 18.8% are employed, underscoring significant underutilization of human capital. The unemployment rate of 14% further highlights the gap between those willing to work and the availability of jobs.

Youth unemployment emerges as one of the most pressing issues, with an alarming rate of 28.4%. This statistic underscores systemic barriers to labor market entry for younger individuals, such as skill mismatches, lack of job opportunities, and limited access to vocational training. Youth in urban areas face particularly acute challenges, with unemployment rates soaring to 40.9%, compared to 18.3% in rural areas and just 2.6% among nomadic populations. These figures reveal stark disparities based on residency, driven largely by the concentration of job seekers in urban centers, where economic opportunities have not kept pace with rapid population growth.

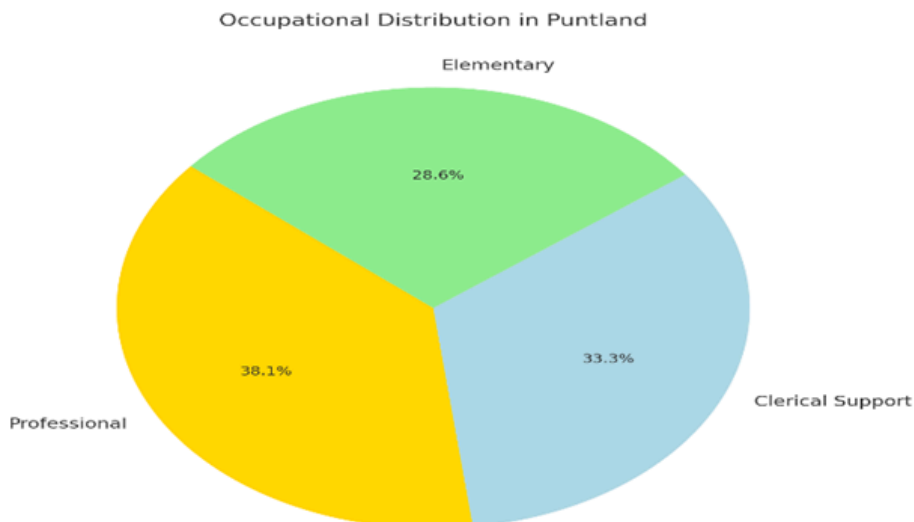
The distribution of unemployment by residency in Fig. 22 further illustrates these challenges. Urban areas report an unemployment rate of 19.8%, nearly double that of rural areas at 9.3%. Nomadic populations experience the lowest unemployment rate, at just 1.9%, reflecting their reliance on traditional livelihoods like herding, which are less directly affected by formal labor market dynamics.



The labor market also suffers from pronounced gender disparities. Female labor force participation stands at a mere 14.3%, compared to 31% for males. Similarly, female employment is just 11.7%, significantly lower than the male employment rate of 27.3%. These gaps point to entrenched socio-economic and cultural barriers, including limited access to education and training for women, as well as societal norms that restrict their engagement in formal economic activities.

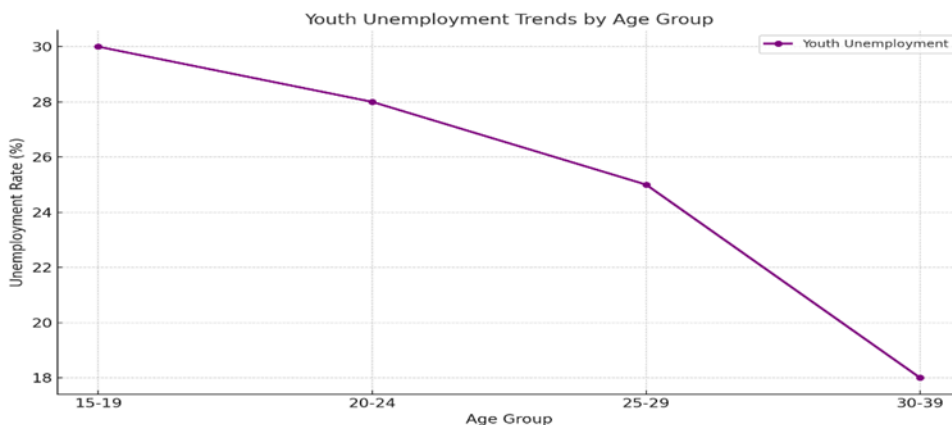


Another critical aspect of the labor market in Puntland is the distribution of occupations. Professional roles account for 25.5% of employment, followed by clerical support at 22.3%, and elementary occupations at 19.1%. While these figures suggest a relatively diversified labor market, the low labor force participation rate indicates that opportunities in these sectors remain insufficient to meet the needs of the growing working-age population.



Key Challenges exacerbating Unemployment in Puntland

Food insecurity and economic instability compound the unemployment challenge. With high dependency ratios and limited economic diversification, households face significant economic vulnerabilities. Youth, in particular, bear the brunt of these challenges, with unemployment rates exceeding 30% for those aged 15–19. Although the rates decline slightly for older youth and young adults, they remain high at 28% for ages 20–24 and 25% for ages 25–29. The statistics declare interventions supporting young people during their transition from education to employment. Looking to the future, several factors are likely to shape the trajectory of unemployment in Puntland. Demographic pressures will play a central role, as a large share of the population is under the age of 35. This youth bulge represents both a challenge and an opportunity: without adequate job creation, unemployment rates will likely rise, exacerbating economic and social tensions.



opportunities, the strain on already limited job markets will intensify. This could further widen the gap between urban and rural unemployment rates, unless concerted efforts are made to develop sustainable urban economies.

The data also highlights the importance of sectoral strategies in curbing unemployment where agriculture, trade, and services hold significant potential for job creation, particularly in rural areas where traditional livelihoods dominate. However, realizing this potential will require targeted investments in infrastructure, market access, and capacity-building programs. Similarly, expanding opportunities in professional and clerical roles will depend on aligning education systems with labor market needs and fostering a culture of lifelong learning. Efforts to reduce unemployment must also lower the gender gap by empowering women through improved access to education, training, and employment opportunities can have far-reaching economic benefits as well as initiatives such as microfinance programs helping overcome some of the barriers women face.

Globally, Puntland's unemployment challenges must be understood in the broader context of Somalia's economic landscape. While Puntland exhibits lower MPI scores and unemployment rates compared to some southern regional states, it still faces significant hurdles. Somalia's national MPI of 0.363 is notably higher than the Sub-Saharan African average of 0.273, indicating the depth of poverty and economic vulnerability across the country. Within this context, Puntland's relatively better performance offers an opportunity to pilot innovative policies that could later be scaled nationally

Household Welfare & Economic Disparities

CHAPTER 3



MINISTRY OF PLANNING

Puntland Economic Outlook 2024



HOUSEHOLD VULNERABILITIES

HOUSEHOLD WELFARE AND ECONOMIC DISPARITIES

Puntland, as a semi-autonomous regional state of Somalia, faces significant economic and social disparities that shape household welfare. With a poverty rate of 52%, slightly below Somalia's national average of 54.4%, we continue to experience economic challenges, particularly in rural and nomadic communities if no intervention is implemented. Extreme poverty remains a pressing issue, affecting 21.7% of the population, signaling deep-rooted inequalities and limited access to essential resources.

Economic disparities manifest through variations in household consumption, food security, and income distribution. The average daily consumption per person in Puntland stands at \$2.50, marginally above the national average of \$2.40 as well as above the global poverty line of \$2.15. However, significant disparities exist among country's urban (\$2.66), rural (\$1.97), and nomadic (\$1.77) populations, highlighting the economic vulnerability of the latter groups. Food insecurity is widespread, with over 60% of households in rural and nomadic areas in Somalia struggling to meet daily nutritional needs. High dependence on food imports, limited agricultural productivity, and climate-induced shocks, such as droughts and water shortages, further exacerbate these challenges.

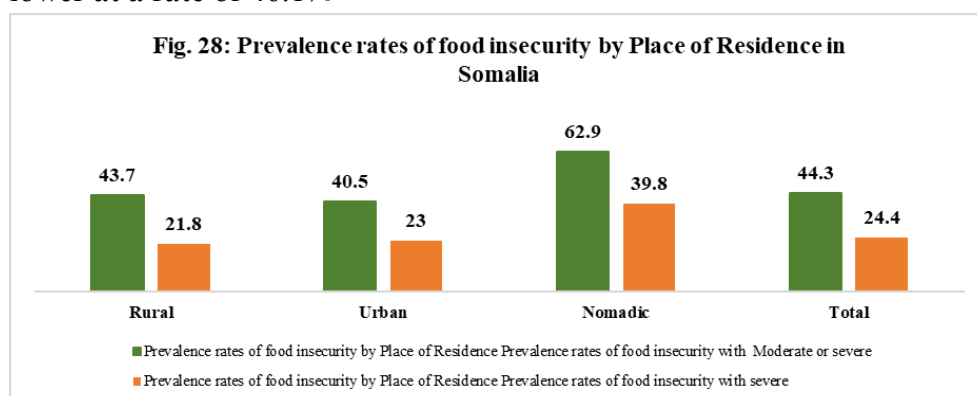
The multidimensional nature of poverty in Puntland is reflected in the Multidimensional Poverty Index (MPI), which incorporates deprivations in education, healthcare, living standards, and economic opportunities. Regions such as Mudug and Sanaag exhibit the highest levels of deprivation, with over 73% of their populations experiencing multidimensional poverty. Education remains a critical barrier, with school attendance and years of schooling significantly lower in nomadic and rural areas. Similarly, access to healthcare is extremely limited, particularly in regions with high food insecurity and poor service provision and infrastructure.

Moreover, the region's economic disparities are underscored by the Gini coefficient of 0.32, indicating moderate inequality in income and resource distribution. Structural barriers, including low economic diversification, inadequate infrastructure, and a heavy reliance on informal economic activities, perpetuate the main inequalities in our region. A significant portion of household income is allocated to food expenditure with over 50% in most regions, leaving little room for investment in education, healthcare, and other non-food essentials.

The outlook aims to analyze the key factors influencing household welfare and economic disparities in Puntland, offering data-driven insights into poverty reduction strategies and sustainable development policies. Understanding the intersection of economic, social, and environmental challenges, we (policymakers) can design more effective interventions that improve living standards and promote long-term economic stability in Puntland.

Food Security in Somalia and Puntland

Food security remains a critical issue in Somalia, where approximately 33% of the population experiences undernourishment (Prevalence of Undernourishment). The nation faces substantial disparities in food consumption, with 54.4% of the population living below the poverty line, consuming less than \$2.06 per day. Access to a balanced diet is limited, with only 26% of Somali households meeting this standard. Rural areas and nomadic populations exhibit significantly higher levels of food insecurity, with 78.4% of nomads and 65.5% of rural residents classified as food insecure whereas the food security in the urban areas is lower at a rate of 46.1%

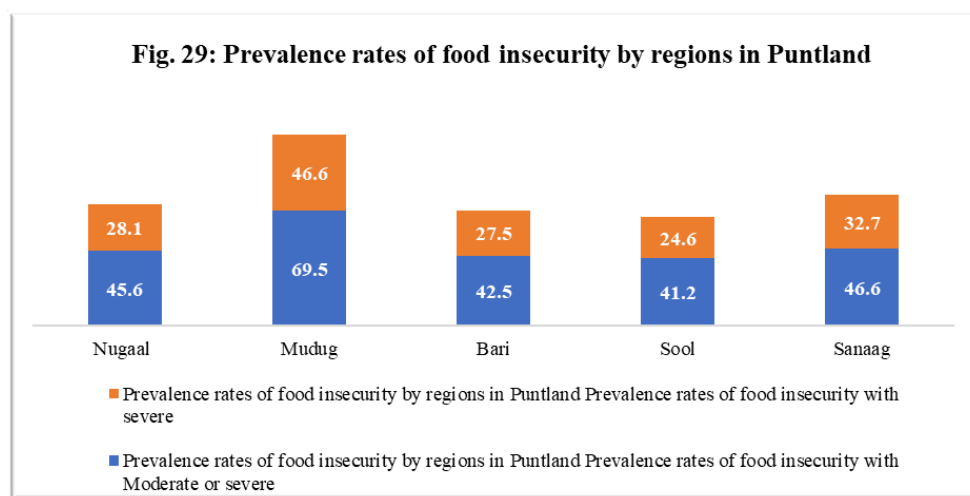


Source: Food Security Profile, 2024, SNBS

Food insecurity is widespread in Somalia, with the majority of households unable to access healthy and nutritious food, often skipping meals, consuming less than needed, and worrying about shortages. Nomadic households are the most severely affected, with a significantly higher prevalence of extreme food insecurity, such as going an entire day without eating, compared to rural and urban households. Urban households experience the least severe forms of food insecurity, highlighting notable disparities across different population groups.

Consumption patterns reveal a dietary energy consumption (DEC) imbalance, with rural residents consuming an average of 1,698 calories daily, compared to 2,195 calories in urban areas. Protein intake is consistently low, while carbohydrate and fat consumption remain high, leading to nutritional deficiencies. These deficiencies are particularly acute among children, with 27.8% of children stunted, 11.6% wasted, and 22.7% underweight.

Puntland, as part of Somalia, faces distinct challenges. It is characterized by high levels of food insecurity, particularly in regions with significant nomadic populations. Key drivers of food insecurity include limited agricultural productivity, dependency on imports, and frequent droughts that disrupt food supply chains. According to regions, Food insecurity is almost prevalent across all regions even though the food insecurity experience for inhabitants in the Mudug region is extremely high compared to other regions. The percentage of households facing food shortages, experiencing hunger, and going to bed without eating in whole was lowest in Sool compared to other regions.



Source: Food Security Profile, 2024, SNBS

In terms of dietary diversity, Puntland mirrors national trends with inadequate access to balanced diets and low consumption of fruits and vegetables. Only 241 grams of fruits and vegetables per capita per day are consumed in Somalia, far below the 400 grams recommended by the World Health Organization (WHO). In Puntland, the reliance on imported food items, coupled with high food costs, further exacerbates the situation, making a balanced diet unaffordable for many.

Food insecurity has a profound impact on Somalia's and Puntland's total consumption. The Engel ratio, which measures the proportion of household income spent on food, is high, particularly among low-income households. This indicates that a significant portion of resources is diverted toward meeting basic food needs, leaving little for other consumption or investment. The cost per 1,000 calories is disproportionately high for low-income households, further straining their financial resources.

In Puntland, food insecurity limits labor productivity and economic growth. Malnutrition and undernourishment lead to reduced physical and cognitive abilities, negatively affecting workforce capabilities. This creates a vicious cycle, where economic stagnation further hinders food security improvements.

Challenges to food security in Somalia and Puntland are multifaceted and deeply interconnected. One significant issue is climate vulnerability, where recurrent droughts and erratic rainfall patterns disrupt agricultural production and water availability. This instability makes it difficult to sustain local food systems, particularly in regions reliant on rain-fed agriculture. Economic barriers further exacerbate the situation, as high poverty levels and limited income diversification restrict households' ability to access adequate food. The heavy dependence on imports exposes the economy to global price fluctuations and trade disruptions, compounding the challenges faced by food-insecure populations.

Infrastructure deficiencies also play a critical role in hindering food distribution, especially in rural and nomadic areas. Poor road networks and inadequate storage facilities limit the reach of food supplies, leaving many communities isolated and underserved. Weak institutional frameworks and poor coordination between federal and regional authorities impede the implementation of effective food security programs, highlighting the need for stronger governance and policy interventions. Nutritional deficiencies are another pressing concern, with low consumption of protein and essential nutrients contributing to widespread malnutrition. This issue disproportionately affects vulnerable populations, including children and pregnant women, underscoring the importance of addressing the root causes of Somalia's food security challenges.

Household Shocks in Puntland

Households in Puntland have encountered a range of shocks over the past two years, impacting their well-being and livelihoods. These shocks are multifaceted, encompassing environmental, economic, health, and security challenges. Understanding the different types of shocks and how they affect various household groups is essential for crafting effective interventions that support those most in need. This report brings together key findings on the shocks faced by households in Puntland, with a particular focus on the disparities between nomadic, rural, and urban populations.

One of the most significant types of shocks that households in Puntland have experienced is environmental. Drought and severe water shortages have been particularly devastating, especially for nomadic households. These households, which are highly dependent on livestock, have faced a substantial blow due to the scarcity of water, leading to livestock deaths. The loss of livestock, which represents both income and food sources, has been particularly severe, with over half of the nomadic households reporting such losses. The environmental shocks also affect rural areas, where although drought may not be as widespread as among nomadic populations, water shortages and food insecurity still present significant challenges. Rising food prices have compounded these difficulties, with both rural and urban households facing inflated food costs, affecting their purchasing power and food security.

Economic shocks have also played a central role in the hardships experienced by households in Puntland. The rise in food prices has been felt across both rural and urban households, with inflation making it increasingly difficult to afford essential goods. Rural households, which depend heavily on subsistence farming and local markets, are particularly vulnerable to price increases. In urban areas, the impact of economic shocks extends beyond food prices, as households also face the loss of salaried employment or non-payment of wages. For many urban households, the loss of regular income has made it more difficult to meet basic needs, exacerbating their economic challenges.

Urban households also face a broader array of security-related shocks compared to rural and nomadic households. Issues such as conflict, robbery, assault, and theft have become increasingly prevalent in urban areas. While rural and nomadic populations are more exposed to environmental shocks, urban populations are more vulnerable to violence and social instability, which threaten their security and livelihoods.

Regional Disparities in Household Shocks

The impact of these shocks varies across the different regions of Puntland, with each region experiencing unique challenges shaped by geographic, economic, and social factors. Nomadic households in regions like Mudug, Sool and Sanaag have been the hardest hit by environmental shocks, particularly drought and water shortages. These communities are heavily reliant on livestock for their livelihood, making them particularly vulnerable to the loss of water and grazing land where the scarcity of water has made it difficult to sustain their herds, leading to significant livestock losses.

In contrast, rural households, while also affected by drought and water shortages, experience fewer challenges related to livestock. However, they face the rising food prices that are common throughout Puntland. These households are often more dependent on local markets and agricultural production, both of which are significantly affected by price inflation. The struggles faced by rural households highlight the vulnerabilities of populations reliant on agriculture and local food production.

Urban households, while less exposed to environmental shocks like drought, experience other challenges that stem from their urban setting. The loss of employment income is a significant concern, with many urban households reporting job losses or delays in salary payments. Security shocks, including theft, assault, and conflict, also disproportionately affect urban areas, adding to the complex challenges faced by these households.

The combined effects of these shocks have had a profound impact on the well-being of households across Puntland. Many households have reported significant losses in income, with nearly half of the affected households experiencing a reduction in earnings. This loss of income has been particularly damaging for nomadic households, who rely on livestock and agricultural activities to generate income. These losses have been compounded by asset losses, with some households losing both income and assets. The vulnerability of nomadic households is particularly evident, with a large proportion of them reporting both income and asset losses.

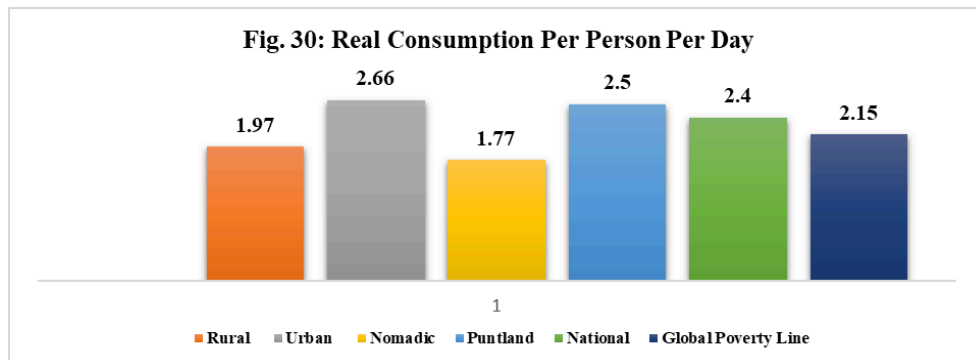
Rural households have similarly been impacted, though their losses are generally less severe than those experienced by nomadic populations. While rural households have been affected by rising food prices, they have not experienced the same level of livestock losses as nomadic households. However, the combined impact of income loss and rising prices has placed significant pressure on rural households' ability to meet their basic needs.

Poverty and Social Indicators in Puntland

Consumption Patterns in Somalia

The consumption patterns across Somalia reveal a pronounced disparity in living standards between regions and population groups, highlighting significant economic inequality. On a national level, the average daily consumption per person is \$2.40, marginally above the global poverty line of \$2.15.

Puntland, a semi-autonomous region, fares slightly better with an average consumption of \$2.50 per day, reflecting its relatively stronger economic conditions compared to the rest of Somalia. However, this marginal improvement does not mask the harsh realities faced by rural and nomadic populations. Rural areas, nationally report a consumption level of \$1.97 per person per day, while nomadic populations, representing some of the most vulnerable groups record an alarmingly low \$1.77 per person per day. These figures are far below the global poverty line, indicating widespread deprivation.

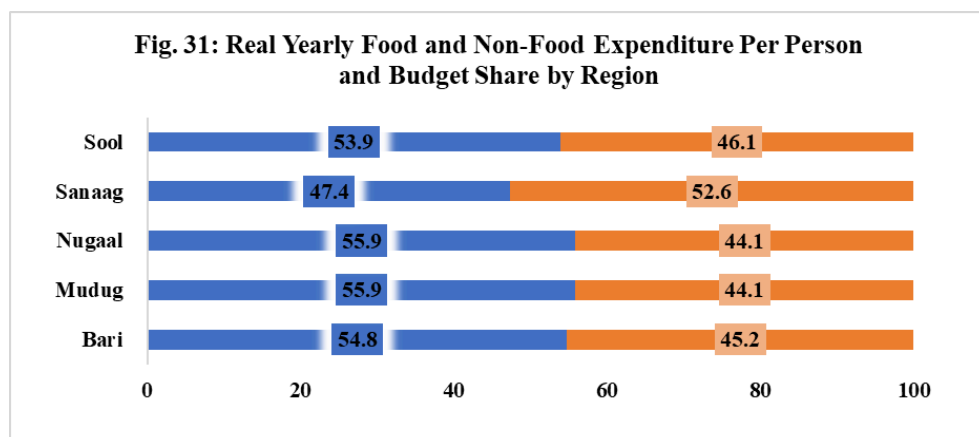


Source: Somalia Poverty Report 2023

The disparity in consumption levels reflects structural and systemic inequalities in access to essential resources and economic opportunities. Urban areas, with higher levels of consumption, benefit from better access to jobs, infrastructure, and services such as education and healthcare. In contrast, rural and nomadic communities face significant barriers, including limited access to markets, poor infrastructure, and inadequate healthcare and education systems. Nomadic populations, in particular, are constrained by their mobility, which limits their integration into formal markets and access to consistent public services.

The gap among Somalia's consumption per capita (\$2.4), GDP per capita (\$1.9), and high poverty rate (54%) is mainly due to lower production capacity, weak local economy (Informal economy), heavy reliance on external funding (remittances and aid), dissaving and depleting assets, high trade deficit, inflation and cost of living adjustments and unequal income distribution. While some people receive financial support from abroad, many others struggle with low incomes and lack of stable jobs, thus creating a situation where overall spending appears higher than what the country actually produces, but a large part of the population still lives in poverty indicating a fragile economic situation where the depth of poverty may increase if a small shock could happen (such as price inflation or a reduction in external financial inflows). Although, the current consumption masks the underlying poverty and inequality due to smaller, wealthier segment of population consuming far more are raising the average, it is still narrow, meaning that even though the average consumption is above the poverty line where a significant portion of the population could still be living in poverty or at risk of falling below the threshold.

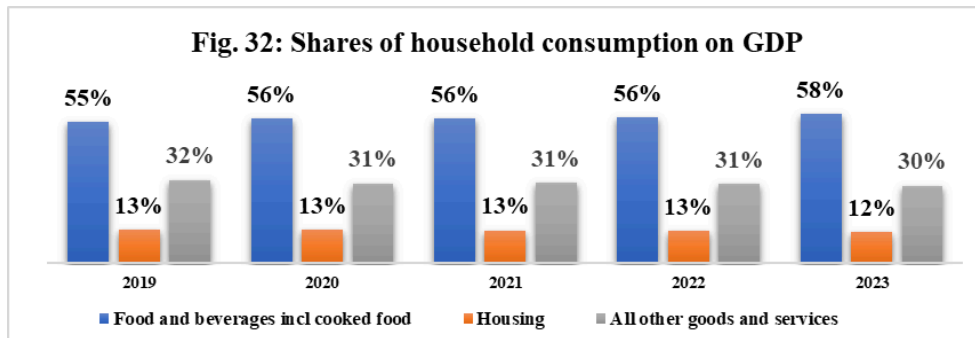
Regional Comparison: Food vs. Non-Food Expenditures



The Figure shows the significant regional and population-based differences in food and non-food expenditure patterns across northeastern Somalia, highlighting the high dependence on food consumption, particularly among nomadic, rural, and urban populations. Nationally, nomadic populations allocate the highest share of their budget to food at 59.9%, followed by rural populations at 57.5%, and urban areas at 53.1%. This heavy reliance on food consumption demonstrates the vulnerability of these groups to food insecurity, particularly among nomadic and rural populations with lower overall consumption levels.

Regionally, Nugaal and Mudug show the highest proportion of food expenditure per person at 55.9%, while Sanaag records the lowest at 47.4%. Sool and Bari regions reflect similar patterns, with food expenditures accounting for 53.9% and 54.8% of the total consumption, respectively. The lower share of food expenditure in Sanaag may reflect slightly higher non-food expenditures, potentially indicating better housing and utilities or transport. However, the high food expenditure shares in other regions underline the challenges faced by households in meeting basic non-food needs, such as education, healthcare, and housing.

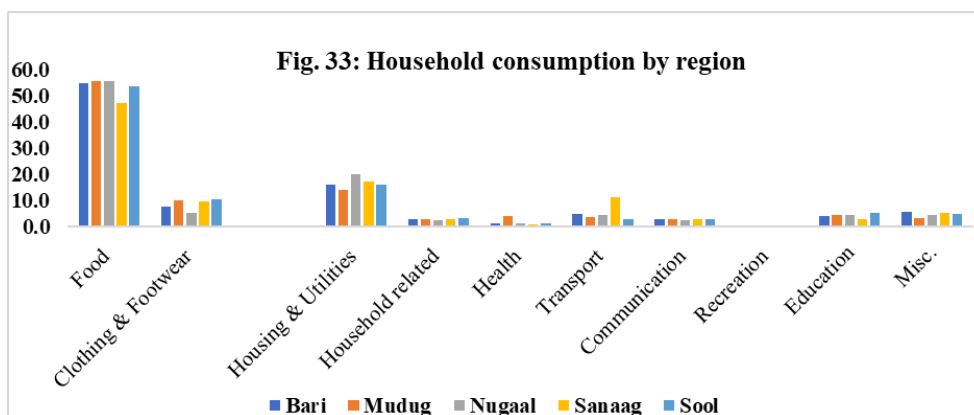
Food and beverages consistently accounted for the largest share of household consumption on GDP as shown below in **Figure 32**, gradually rising from 55% in 2019 to 58% in 2023, reflecting the dominant role of food expenditure in household consumption. Housing maintained a stable share of around 12-13% throughout the period, with a slight decrease to 12% in 2023. In contrast, the share of all other goods and services steadily declined from 32% in 2019 to 30% in 2023. The trend points up a continued prioritization of essential food spending, with relatively stable housing expenses and a modest reduction in spending on other goods and services. There is a significant dominance of food expenditures in household budgets across various regions in Puntland, including Bari, Mudug, Nugaal, and Sool. Food constitutes over 50% of total household spending in all regions except Sanaag, where it accounts for 47.4%, suggesting that households have limited disposable income for non-food needs.



Source: Puntland GDP Reports 2019-2023

For non-food expenditures, housing and utilities stand out as significant budget components, particularly in Nugaal (20.2%) and Sanaag (17.4%). This suggests that, aside from food, housing and utility costs are major financial burdens for households in these regions. Conversely, other categories such as education and healthcare receive a much smaller share of household spending. Education expenditures are generally low across all regions, indicating potential barriers to access, such as high costs, socio-cultural factors or insufficient infrastructure. Health-related expenditures are even lower, generally below 2%, highlighting limited investment in healthcare services. This may be due to either poor access to healthcare facilities or a lack of resources dedicated to health services.

The high proportion of expenditure on essential needs like food and housing leaves little room for spending on other important services such as education, healthcare, and transport. This points to the need for policy interventions that can improve income generation, reduce the cost of living, and enhance access to essential services like education and healthcare, especially in rural and nomadic areas as well as interventions targeting sustainable livelihoods, food security. The overall picture reveals the financial vulnerability of households, which limits their ability to invest in long-term development and well-being.

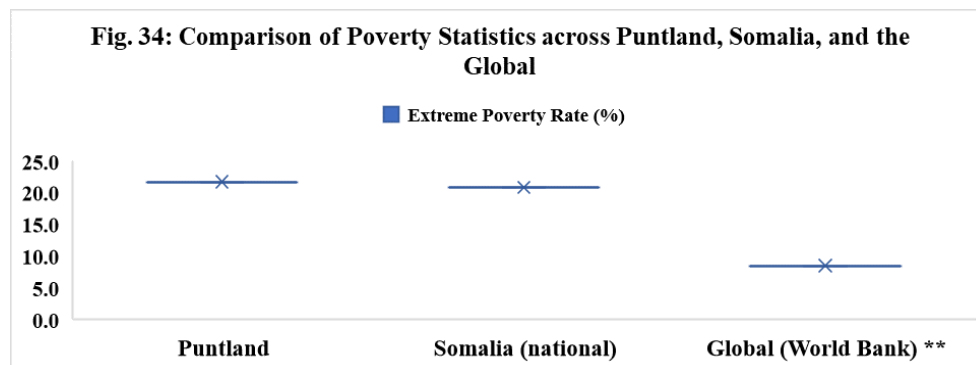


Source: Puntland Integrated Household Budget Survey (PIHBS), MOPEDIC

MONETARY POVERTY IN PUNTLAND

Analysis and Comparison: Puntland, Somalia, and Global Poverty

Puntland, with an estimated poverty rate of 52%, is slightly better than the national average of 54.4%, but still reflects high levels of deprivation. A deeper analysis reveals that the extreme poverty rate in Puntland (21.7%) is noticeably higher than Somalia's national average (20.9%), suggesting that while there has been some regional improvement, critical poverty issues persist.

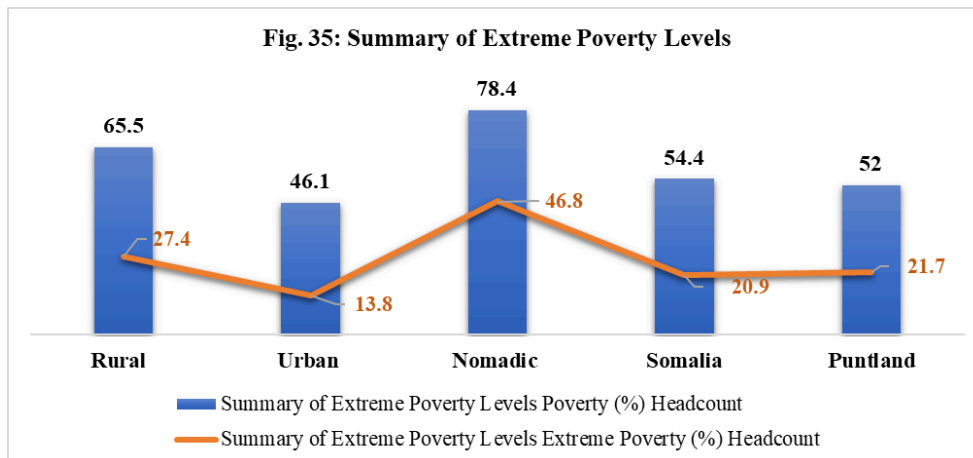


Source: Somalia Poverty Report 2023

The critical issue at hand for both Somalia and Puntland is the disproportionately high poverty rates when compared to the global average. The country's national poverty rate of 54.4% is over six times higher than the global rate of 8.5%, pointing to a fundamental challenge in reducing poverty in Somalia. This reflects systemic issues such as inadequate infrastructure, limited economic development, constrained access to basic services and environmental issues such as, the vulnerability of recurrent climate events like droughts and floods affecting country's reliance of livelihood as a main source of income, are the major contributing factors for the high levels of poverty. Even though Puntland's poverty rate is slightly lower than the national figure, the region's extreme poverty is even more alarming and a disturbing sign of deep poverty and inequity, affecting 21.7% of the population. These individuals live on less than \$1.90 per day, placing them in conditions of severe deprivation. Many lacking food security suffer from malnutrition, and have little to no access to proper healthcare. Extreme poverty is particularly concentrated in rural and nomadic communities, where people rely on fragile agricultural and livestock-based livelihoods that are highly vulnerable to climate shocks and market fluctuations making them endure hardships far beyond basic poverty

Poverty and Extreme Poverty Levels in Puntland and Somalia

The analysis of poverty and extreme poverty levels in Puntland and Somalia provides significant insights into the socioeconomic conditions of the population across different regions and residential categories. The data reveals considerable disparities in poverty distribution, emphasizing the vulnerability of specific groups such as nomadic communities and rural residents.

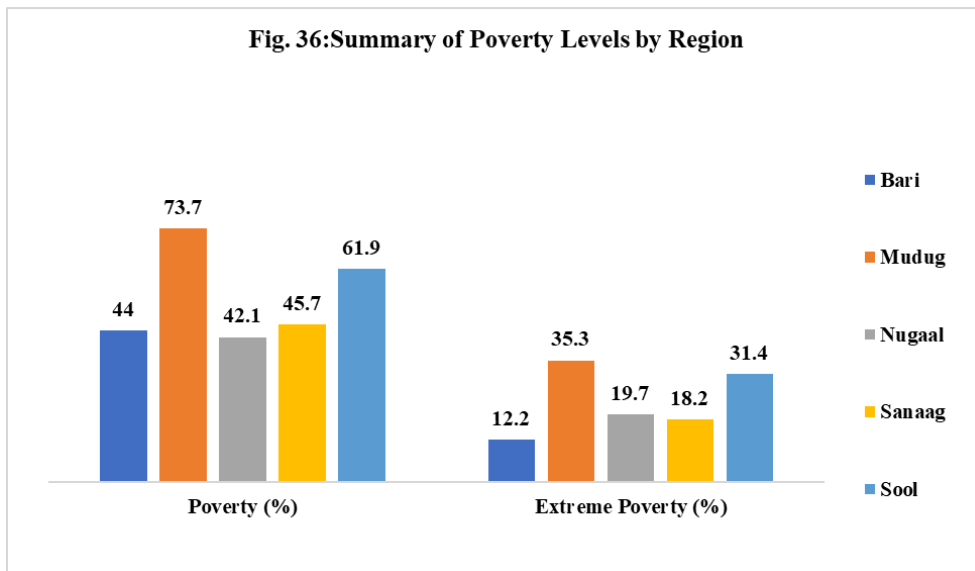


Source: Somalia Poverty Report 2023

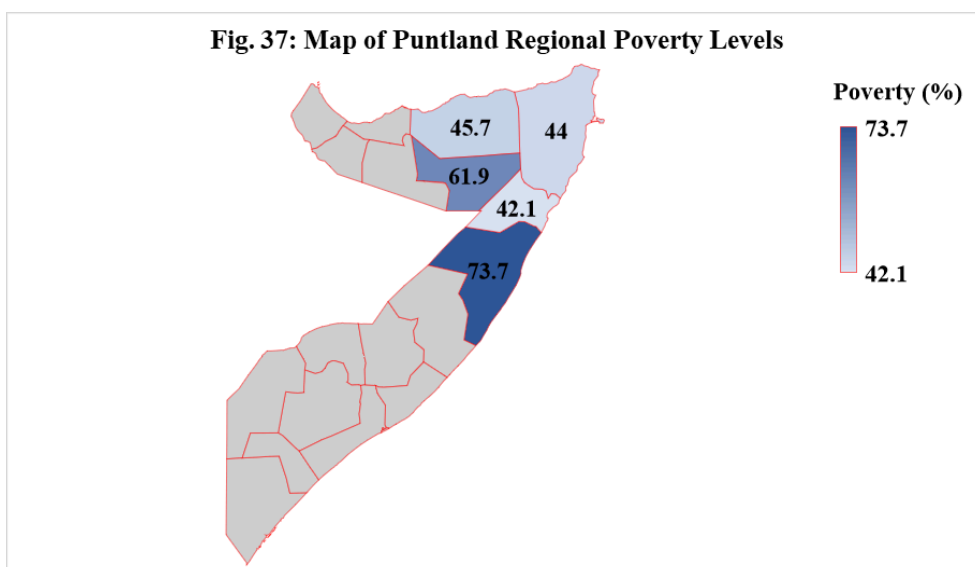
In Puntland, the poverty rate stands at 52%, slightly below the national average of 54.4%, indicating that poverty in Puntland is marginally less severe than in Somalia overall. However, extreme poverty in Puntland is notably higher at 21.7% compared to the national average of 20.9%. This suggests that while general poverty is comparable, a proportion of the population in Puntland experiences conditions of extreme deprivation.

Rural areas, nationally exhibit the highest poverty rates, with 65.5% of the population living below the poverty line. Among them, 27.4% fall under extreme poverty. These figures highlight the significant economic challenges faced by rural communities, where access to essential resources and opportunities is likely constrained. Urban areas have comparatively lower poverty rates at 46.1%, with only 13.8% living in extreme poverty. This disparity reflects the relative economic advantages of urban centers, where better access to infrastructure, services, and economic opportunities likely exists. However, the figures for nomadic populations are alarming, with 78.4% living in poverty and 46.8% in extreme poverty, making them the most disadvantaged group.

The regional analysis of Puntland reveals substantial variation in poverty levels across its five regions. Mudug has the highest poverty rate at 73.7%, with extreme poverty affecting 35.3% of its population. This reflects severe economic hardships in the region and the urgent need for developmental interventions. Sool, another economically strained region, records a poverty rate of 61.9%, with extreme poverty at 31.4%. On the other hand, Nugaal and Bari display lowest poverty levels in Puntland, with a poverty rate of 42.1% and 44% and extreme poverty affecting 19.7% and 12.2%. These figures suggest that Nugaal and Bari benefit from relatively better economic conditions, possibly due to their administrative importance, business opportunities and access to resources.



Source: Somalia Poverty Report 2023



The Depth of the Poverty (Poverty Gap)

The poverty gap is a tool in measuring the depth of poverty, showing how far individuals fall below the poverty line. Unlike headcount ratios, it highlights the intensity of deprivation and the resources needed to close the gap.

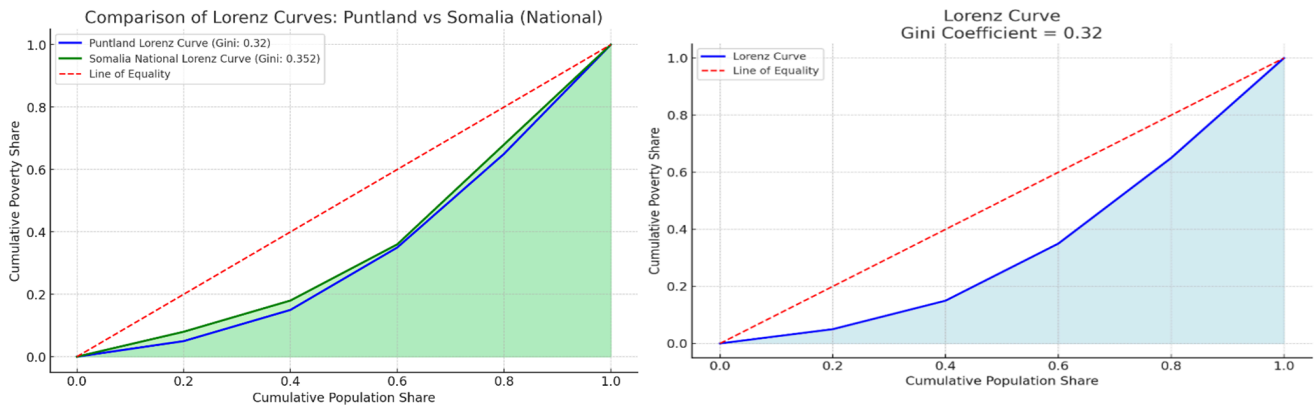
The residential poverty gap index, which measures the intensity of poverty, shows significant disparities across groups. In Somalia, nomadic populations have the highest residential poverty gap at 36.7%, reflecting severe inequality and a high concentration of poverty among these groups. The gap for rural populations stands at 24.6%, while urban areas have a comparatively lower gap of 15%, further emphasizing the relative economic advantages of urban living. The national poverty gap is calculated at 19.8%, indicating the average intensity of poverty across Somalia.

The poverty gap index (PGI), which stands at 8.47% in Puntland, measures how far, on average, poor individuals fall below the poverty line. In practical terms, it means that those classified as poor in Puntland earn 8.47% less than the minimum required to escape poverty (\$2.06 per day). However, this gap is less than that of the country it still highlights the severity of economic deprivation, showing that even if poverty were eradicated, an additional 8.47% of the poverty line per person would still need to be provided to lift them out of poverty.

Analysis of Inequality in Puntland

To further analyze inequality, a Lorenz curve was constructed for Puntland based on the data in Somali poverty Measurement report in 2023. The curve reveals that poverty is not evenly distributed, with a significant concentration of poverty among specific regions and groups, particularly in nomadic and rural populations. The Gini coefficient for Puntland, derived from the Lorenz curve, is approximately 0.32. This value indicates a moderate level of inequality in the distribution of poverty, where 0 represents perfect equality and 1 represents maximum inequality. The moderate Gini coefficient underscores the pressing need for equitable development policies to bridge the disparities across regions and residential categories.

The Lorenz curve, demonstrates how the cumulative share of the population is compared to the cumulative share of poverty. In an ideal situation, the line of equality (the straight diagonal line) represents perfect equality, where every segment of the population has an equal share of resources or income. However, the further the Lorenz curve deviates from this line, the greater the inequality within the population. For Puntland, the Lorenz curve reveals that while the population may not be as impoverished as other parts of Somalia, a significant proportion of the population still experiences substantial deprivation.



In Puntland, a Gini coefficient of 0.32 represents moderate inequality. While the region has made some strides in reducing overall poverty rates, the relatively high Gini coefficient suggests that wealth or resources are concentrated in a smaller, wealthier portion of the population. The inequality measured here reflects how certain areas, often urban centers or those with better access to markets and services, have benefited more than rural or nomadic areas. This discrepancy can lead to a range of challenges, including poor access to education, healthcare, and economic opportunities in the most vulnerable areas, exacerbating poverty for large portions of the population.

When applying this understanding to Puntland's socio-economic landscape, the implications are significant. The current poverty distribution suggests a need for policies that solve both the causes and effects of inequality. For instance, while economic growth may be occurring in urban areas or specific sectors (e.g., agriculture or trade), the benefits are not sufficiently reaching rural or marginalized populations (IDPs). The inequality shown in the Lorenz curve indicates that poverty alleviation programs need to be more inclusive and specifically target these residents. Without such targeted efforts, the gap between the rich and the poor will continue to widen, potentially leading to social unrest and hampering economic development in the long term.

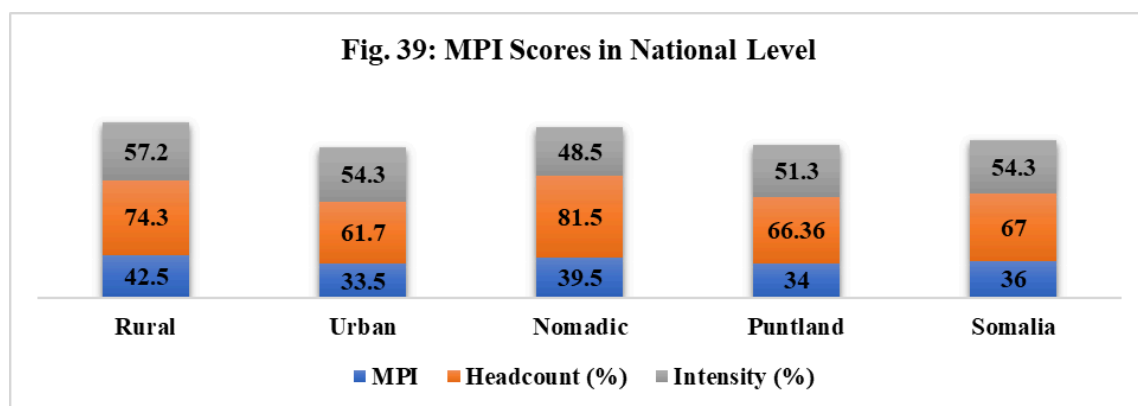
Moreover, the Gini coefficient of 0.32 also indicates that while inequality exists, it is not as severe as in regions with higher coefficients, compared to some Sub-Saharan African countries. However, even moderate inequality in the form of the Gini coefficient still poses a significant challenge to social cohesion and sustainable development.

Lastly, the Gini coefficient and Lorenz curve are not just statistical tools; they are indicators of deeper societal issues. For Puntland, they highlight the necessity of ensuring that poverty alleviation strategies are not only about reducing the poverty rate but also about eliminating the systemic disparities that lead to inequality. This approach would ultimately lead to a more balanced and inclusive economic growth, benefiting a wider range of the population and ensuring that development is sustainable and equitable.

MULTIDIMENSIONAL POVERTY INDEX (MPI) IN SOMALIA AND PUNTLAND REGIONS

MPI is a global measure used to assess poverty beyond income alone. It captures multiple deprivations that individuals face across key areas such as health, education, and living standards. The MPI was developed by the Oxford Poverty and Human Development Initiative (OPHI) and the United Nations Development Programme (UNDP) to provide a more comprehensive understanding of poverty deeply beyond the wealth.

The Multidimensional Poverty Index (MPI) is essential as it provides a holistic measure of poverty beyond income, considering factors like education, health, and living standards. It helps policymakers design effective poverty reduction strategies, track progress on SDGs, and identify the most vulnerable populations. MPI also enables regional and international comparisons, supports data-driven decision-making, and ensures targeted resource allocation to address poverty more efficiently.



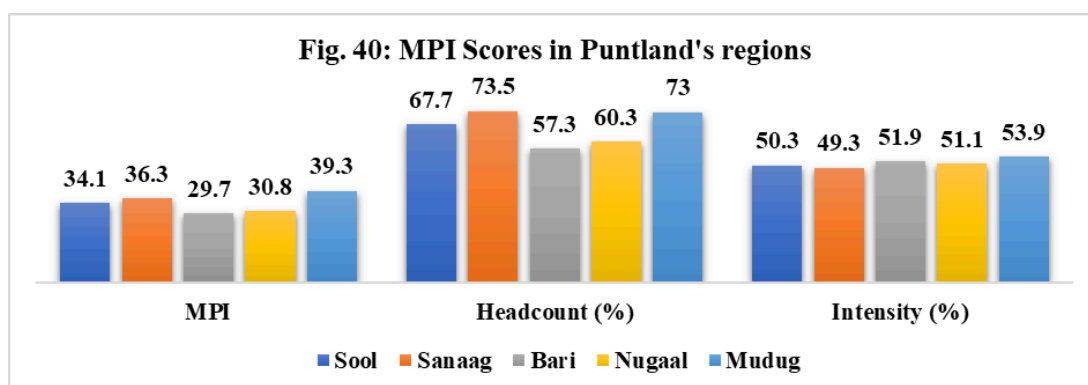
Source: Somalia MPI Report 2023, MOPEID Somalia

Nationally, rural areas exhibit the highest levels of poverty, with a significant proportion of the population affected and experiencing severe deprivation. Urban areas, on the other hand, display lower poverty levels, with fewer people affected and less intensity of deprivation (Total MPI Score), reflecting better access to resources and services. Nomadic populations face the highest proportion of people living in poverty, though their average intensity of deprivation is slightly less severe than rural areas. This indicates widespread poverty among this group, largely due to their lifestyle and limited access to essential services.

The Table below provides a detailed breakdown of the Multidimensional Poverty Index (MPI) and related metrics across five regions of Puntland: Sool, Sanaag, Bari, Nugaal, and Mudug. The MPI represents the intensity and breadth of poverty experienced by individuals, considering multiple deprivations. Each region has an MPI value, with Mudug having the highest at 0.393, indicating the most severe multidimensional poverty among the five regions, while Bari has the lowest at 0.297, providing insights into the regional disparities in multidimensional poverty within Puntland, emphasizing Mudug as the most affected region and Bari as relatively less affected, though still significantly impoverished.

Region	MPI	Headcount (%)	Intensity (%)	Key Deprivations
Sool	0.341	67.7	50.3	Education, Living standard, Food Security and Shocks
Sanaag	0.363	73.5	49.3	Education, Living standard, Food Security, water and Shocks
Bari	0.297	57.3	51.9	Education, Overcrowding, food security and cooking fuel
Nugaal	0.308	60.3	51.1	Education, Living standard, food security
Mudug	0.393	73.0	53.9	Education, Living standard, food security

The Headcount or poverty Incidence reflects the percentage of the population in each region identified as multidimensionally poor. Sanaag and Mudug have the highest headcounts at 73.5% and 73.0% respectively, meaning that nearly three-quarters of their population experience multidimensional poverty. Conversely, Bari has the lowest headcount at 57.3%. The Intensity indicates the average proportion of deprivations experienced by the multidimensionally poor. Intensity values range from 49.3% in Sanaag (indicating less severe deprivation) to 53.9% in Mudug (indicating more severe deprivation).



Source: Somalia MPI Report 2023, MOPEID Somalia

Censored Headcount Ratios is the proportion of people who are deprived in a specific dimension and are classified as multidimensionally poor. This filters out deprivations that do not contribute to overall multidimensional poverty, focusing only on the poor.

The table below shows an analysis of censored headcount ratios across the regions of Nugaal, Sool, Sanaag, Bari, and Mudug in Somalia, measuring deprivation across five critical dimensions: education, health, living standards, services, and inclusion. These dimensions collectively illustrate the multifaceted nature of poverty in the country, highlighting regional disparities in access to essential services and basic human needs.

Table 2: Censored headcount ratios by region

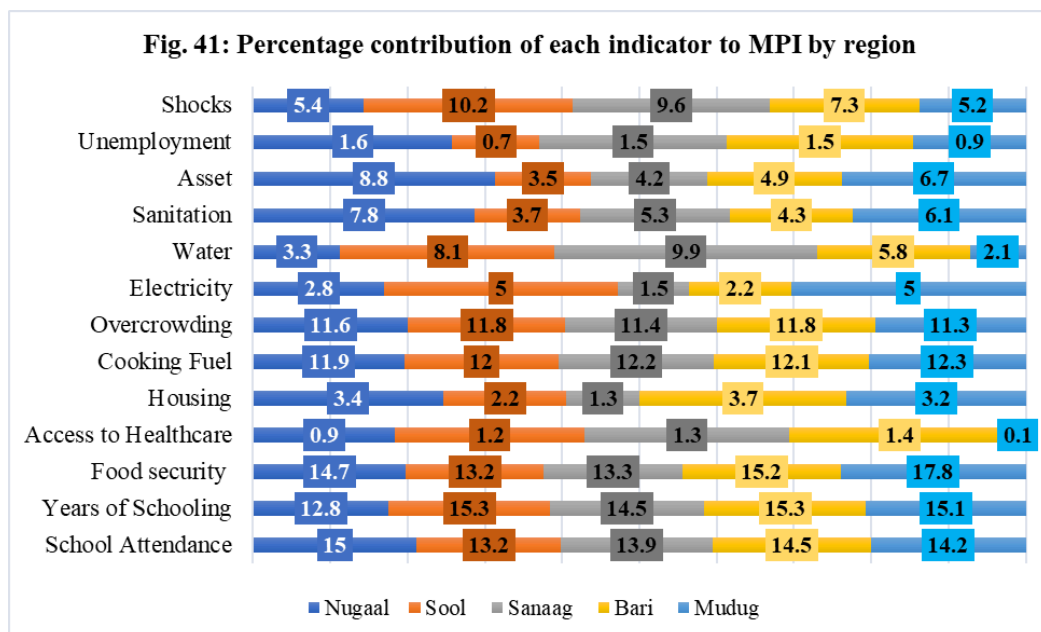
Dimensions	Indicators	Nugaal	Sool	Sanaag	Bari	Mudug
Education	School Attendance	46.2	44.8	50.4	43.1	55.9
	Years of Schooling	39.6	52	52.7	45.6	59.4
Health	Food security	45.4	45.1	48.2	45.1	70.1
	Access to Healthcare	2.6	4.3	4.9	4.1	0.4
Living Standard	Housing	15.8	11.1	7	16.7	18.7
	Cooking Fuel	55.1	61.4	66.3	54	72.7
	Overcrowding	53.5	60.3	62	52.7	66.8
Services	Electricity	13.1	25.4	8.3	9.6	29.4
	Water	15.1	41.2	53.9	25.8	12.6
	Sanitation	35.8	18.7	28.7	19.4	35.7
Inclusion	Asset	40.4	18.1	22.9	21.8	39.3
	Unemployment	7.5	3.3	8.2	6.5	5.3
	Shocks	24.8	52	52.1	32.7	30.9

Within the education dimension, Mudug and Sanaag emerge as the most deprived regions, with the highest levels of children out of school and a lack of years spent in formal education. In contrast, regions like Bari and Nugaal display slightly better educational attainment but still reflect significant gaps in school participation. The health indicators have shown pronounced disparities, for instance, Mudug faces an alarming rate of food insecurity and the least access to healthcare, emphasizing systemic issues in health infrastructure and resource distribution, although access to healthcare remains critically low across all regions, underscoring an overarching national challenge in the provision of basic health services.

In terms of living standards, deprivation varies by region. Mudug experiences the highest rate of deprivation in access to clean cooking fuel, with Sanaag and Sool also reflecting considerable struggles. Overcrowding is a pervasive issue, particularly acute in Mudug, indicating challenges in housing quality. These figures underline the widespread difficulties in achieving adequate living conditions across all regions, with limited differentiation between them.

The services dimension further exposes the stark regional inequities. Electricity access remains minimal, with Sool and Mudug demonstrating a relatively higher rate of deprivation compared to Nugaal, which performs better. Similarly, water access is a critical issue, especially in Sanaag and Sool, which experience some of the highest levels of deprivation. Sanitation services are also severely limited, with wide variability across regions, again reflecting the broader systemic gaps in infrastructure and service delivery.

The inclusion dimension reveals persistent inequalities in economic opportunities and resilience. Asset deprivation is widespread, particularly severe in Nugaal and Mudug, indicating limited ownership of productive or financial resources. Although unemployment rates appear relatively low, they likely mask underemployment or informal economic activities. Shocks, such as financial hardships or environmental disasters, affect a large proportion of households, with Sanaag and Sool experiencing the highest levels, further demonstrating the vulnerability of these regions to unforeseen crises.



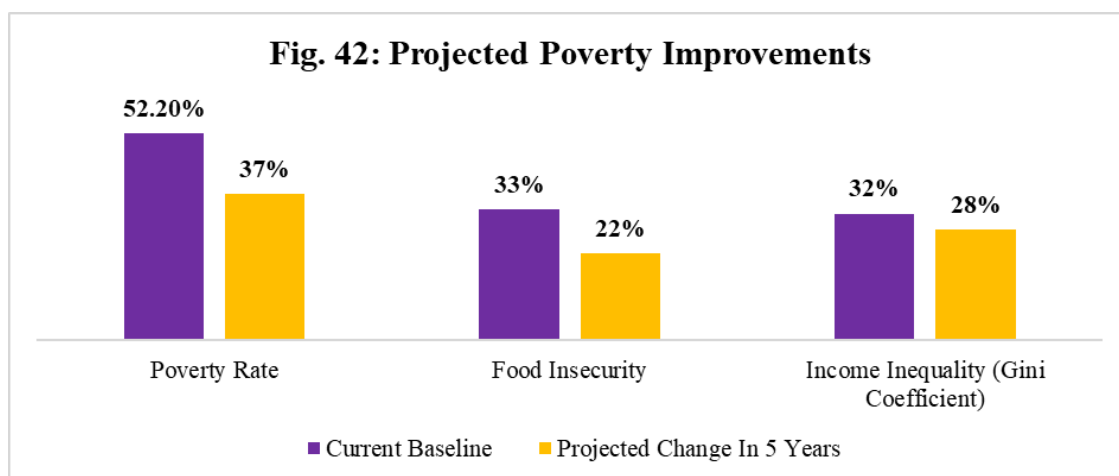
Source: Somalia MPI Report 2023, MOPEID Somalia

Scenario Analysis if well-designed poverty alleviation strategy is Implemented

If a well-designed poverty alleviation strategy is implemented over the next five years, specifically targeting the systemic disparities that perpetuate inequality in Puntland, the socio-economic conditions of the population could see significant improvements. The success of this strategy would depend on several key components that aim to tackle both the immediate needs of the population and the long-term structural issues.

Without intervention, poverty and inequality will remain stagnant or worsen due to ongoing environmental shocks, political instability, and a fragile economy. Food insecurity will likely increase, and key social indicators such as education and healthcare will see minimal progress.

However, with the proposed strategy, significant improvements are anticipated, including reductions in poverty and food insecurity, increased access to education and healthcare, and the creation of sustainable livelihoods. A visual comparison of these two scenarios shown below demonstrates the stark contrast between inaction and intervention.



Over five years, the strategy is expected to reduce poverty rates from 52.2% to 37%, food insecurity from 33% to 22%, and 20,000 jobs will be created, primarily in fisheries, small-scale industries, and service sectors. The Gini coefficient, a measure of income inequality, is projected to improve from 0.32 to 0.28, reflecting a more equitable distribution of resources and opportunities.

In an optimistic scenario, several transformational goals could occur within the next five years:

- **Goal 1: Investing in Agriculture and Access to Food to Improve Food Security**

Initiative 1: Enhancing Agricultural Productivity and Climate Resilience

The government should invest in modern farming techniques, focusing on drought-resistant crops, climate-smart agricultural practices, and irrigation infrastructure. These initiatives will increase food production, improve resilience to climate change, and ensure sustainable agricultural development in drought-prone areas.

Initiative 2: Strengthening Market Access and Distribution Systems

To combat food insecurity, investments should be made in improving road networks, supply chain facilities, and rural market access. This will enable farmers to sell their products at fair prices while ensuring consumers have access to affordable food. Additionally, promoting regional trade will reduce reliance on imports and stabilize local food systems against global market fluctuations.

Initiative 3: Promoting Nutrition and Dietary Diversity

Nutrition education programs should be implemented to encourage the consumption of balanced diets and improve public health. These programs will focus on educating communities about the nutritional value of locally available foods, reducing malnutrition, especially among children and vulnerable groups. Collaboration with local and international NGOs will help integrate these initiatives into broader health and social protection frameworks.

- **Goal 2: Expanding Social Safety Nets and Social Protection Programs**

Initiative 1: Strengthening Cash Transfer and Food Assistance Programs

Expanding direct cash transfer programs and food subsidies is essential to providing immediate relief to vulnerable households affected by drought, conflict, or economic downturns. Programs similar to SNAP (Supplemental Nutrition Assistance Program) should be developed to ensure that families can afford basic food needs. These initiatives should be designed to be flexible and scalable, allowing the government to respond quickly to unforeseen shocks and economic crises.

Initiative 2: Introducing Subsidized Healthcare and Social Security Systems

Health-related expenses remain a significant burden on low-income families, making it crucial to introduce subsidized health insurance for vulnerable populations. Puntland can develop a model inspired by TANF (Temporary Assistance for Needy Families) and social security systems to provide financial assistance to the unemployed, elderly, and disabled individuals. These measures will not only alleviate immediate economic distress but also contribute to long-term poverty reduction and economic stability.

Initiative 3: Leveraging Zakat Funding for Social Protection

The government should create a structured Zakat-based funding system to support social safety nets. By integrating Zakat into official financial frameworks, funds can be used to support low-income households and provide emergency relief. Establishing transparent and accountable mechanisms for collecting and distributing Zakat will help maximize its impact on reducing poverty and promoting financial inclusion.

Initiative 4: Expanding Microfinance and Entrepreneurship Programs

Building economic resilience requires empowering vulnerable groups through microfinance and business training programs. The government should focus on strengthening financial institutions to expand credit access, particularly in rural and nomadic areas. These programs should prioritize providing small loans, mentorship, and skills training to help households diversify their sources of income, reduce reliance on aid, and create sustainable economic opportunities.

- **Goal 3: Improving Education and Healthcare Systems**

Initiative 1: Expanding Access to Quality Education

Ensuring inclusive and quality education is vital for breaking the cycle of poverty in Puntland. The government should prioritize the construction and expansion of schools in underserved regions, with a particular focus on increasing enrollment rates among girls and marginalized groups. Providing incentives for teachers to work in rural areas, such as salary bonuses and housing support, will help address the shortage of qualified educators. Additionally, curriculum reforms should be implemented to align education with the region's economic needs, incorporating digital learning and practical problem-solving skills to enhance student engagement and knowledge retention.

Initiative 2: Promoting Technical and Vocational Education and Training (TVET)

With 78% of Puntland's job market linked to the construction sector, investing in TVET programs is essential for equipping the workforce with relevant skills. Vocational education should focus on fields such as construction, fishing, electricity, mechanics, and renewable energy technologies, ensuring that graduates can meet the demands of the labor market. Partnerships with private industries and international organizations should be established to provide hands-on apprenticeships, ensuring that trainees gain practical experience before entering the workforce.

For economic diversification to be effective, vocational training programs must align with the needs of emerging industries, so the approach will ensure that Puntland's workforce is equipped to meet market demands, reduce unemployment, and foster entrepreneurship.

Initiative 3: Expanding Adult Education and Skills Development

Adult literacy and vocational training programs should be promoted in regions with significant education gaps. By providing literacy programs and targeted vocational training, particularly in production-based sectors, Puntland can empower individuals to participate in the economy more effectively. These programs should be designed to support informal workers, farmers, and artisans, enabling them to improve productivity and income generation.

Initiative 4: Strengthening Healthcare Infrastructure and Services

Investing in healthcare infrastructure is crucial for improving life expectancy and reducing preventable diseases. The government should collaborate with international partners to construct and maintain hospitals, clinics, and mobile health units, particularly in rural and nomadic areas where healthcare access is limited. Expanding maternal and child healthcare services, increasing immunization coverage, and integrating nutrition programs into primary healthcare will significantly improve public health outcomes.

Initiative 5: Enhancing Primary Healthcare Through Mobile Clinics

To bridge the gap in healthcare provision, particularly for nomadic and rural communities, the government should expand the use of mobile clinics. These units will provide essential healthcare services such as maternal care, vaccinations, disease screenings, and emergency medical response, ensuring that healthcare is accessible even in the most remote areas. Mobile healthcare should be integrated with digital health records to improve service efficiency and track patient care over time.

By strategically integrating these initiatives into Puntland's education and healthcare systems, the government can ensure that investments yield long-term socioeconomic benefits, fostering a skilled workforce and a healthier population, both of which are essential for sustained economic development.

- **Goal 4: Economic Diversification and Job Creation**

Initiative 1: Expanding the Fishing Industry for Sustainable Growth

Given Puntland's extensive coastline, investing in the fishing industry is a strategic move to diversify the economy and create jobs. The government should support modernization of fishing techniques, establishment of cold storage facilities, and improved processing plants to enhance the value chain. Strengthening local cooperatives and providing financing options for small-scale fishermen will ensure that coastal communities benefit from this sector. By increasing domestic fish consumption and export potential, Puntland can reduce reliance on food imports and create thousands of sustainable jobs.

Initiative 2: Strengthening Crop Production and Livestock Processing

Although livestock remains a cornerstone of Puntland's economy, processing raw livestock products such as dairy, leather, and meat into higher-value goods will generate additional income and employment opportunities. Simultaneously, investments in climate-resilient crop farming will provide alternative food sources and income for farmers, reducing reliance on imported grains and vegetables. The government should support farmer cooperatives, irrigation projects, and agribusiness development to enhance food security and economic self-sufficiency.

Initiative 3: Developing Small-Scale Industries and Handicrafts

Encouraging small-scale manufacturing and handicrafts can stimulate economic activity in both urban and rural areas. Establishing local production hubs for textiles, furniture, and traditional crafts can create new markets and employment opportunities, particularly for women and youth. Puntland should introduce microfinance programs and technical training centers to empower small business owners and entrepreneurs, helping them scale their operations and compete in local and regional markets.

Initiative 4: Promoting Business-Friendly Policies and Investment Incentives

To attract investors and encourage entrepreneurship, the government should implement policies that support small and medium enterprises (SMEs), provide tax incentives for startups, and streamline business registration processes. Special economic zones (SEZs) could be established to attract investment in fisheries, manufacturing, and logistics, making Puntland a regional hub for trade and industry.

- **Goal 5: Infrastructure Development for Regional Development**

Initiative 1: Expanding and Upgrading Road Networks

A well-developed road network is essential for enhancing trade, market access, and service delivery in Puntland. The government should prioritize the construction and rehabilitation of rural roads, connecting agricultural regions, fisheries hubs, and industrial zones to urban centers. Improved road infrastructure will reduce transportation costs, increase trade efficiency, and facilitate economic growth.

Initiative 2: Strengthening Water Supply and Sanitation Systems

Access to clean water and proper sanitation remains a significant challenge in regions like Bari and Nugaal. The government should invest in boreholes, desalination plants, and water distribution systems to ensure reliable water access for both households and agricultural activities. Expanding sanitation infrastructure, including waste management systems and public sanitation facilities, will improve public health outcomes and reduce the spread of waterborne diseases.

Initiative 3: Enhancing Digital and Communication Infrastructure

Expanding internet and mobile network coverage across Puntland will boost access to education, healthcare, and economic opportunities. Reliable digital infrastructure will also support e-governance, digital banking, and online learning platforms in urban areas, creating new economic avenues for businesses and entrepreneurs. Investment in fiber-optic networks and telecommunication towers made Puntland's digitalization improved and ensured that even remote areas benefit from digital inclusion.

Initiative 4: Developing Market and Trade Infrastructure

To enhance regional trade and food security, Puntland should focus on building modern marketplaces, storage facilities, and logistics centers. These investments will reduce post-harvest losses, stabilize food prices, and improve supply chain efficiency. Developing cold storage units for fisheries and livestock processing plants will also increase exports and boost economic diversification.

Initiative 5: Promoting Renewable Energy for Sustainable Development

Puntland has significant potential for solar and wind energy, which can be leveraged to reduce energy costs, support businesses, and improve household access to electricity. Investing in off-grid solar solutions and mini-grid systems will ensure that rural and underserved communities benefit from reliable electricity, reducing reliance on expensive and polluting diesel generators.



In this optimistic case, the socio-economic outlook for Puntland in the next five years would be markedly more positive. The poverty rate could decrease significantly, potentially bringing the region closer to the national average. While poverty would not be eradicated entirely, the reduction in inequality, better access to basic services, and an expanding economy would lead to tangible improvements in the living standards of the population. Employment opportunities would rise, especially in previously marginalized sectors, and the region would experience a boost in overall productivity and quality of life.

From a governance perspective, the strategic focus on addressing the systemic disparities would also lead to stronger institutions and improved policy frameworks. This would foster greater trust in public services and institutions, which is essential for long-term stability and peace.

Furthermore, as Puntland's economic and social conditions improve, the region could become more attractive to investors and development partners, leading to a virtuous cycle of growth and development. The combination of improved infrastructure, better human capital, and more equitable growth would create a solid foundation for continued progress beyond the five-year horizon.

Public Finance & Fiscal Policy

CHAPTER 4



MINISTRY OF PLANNING

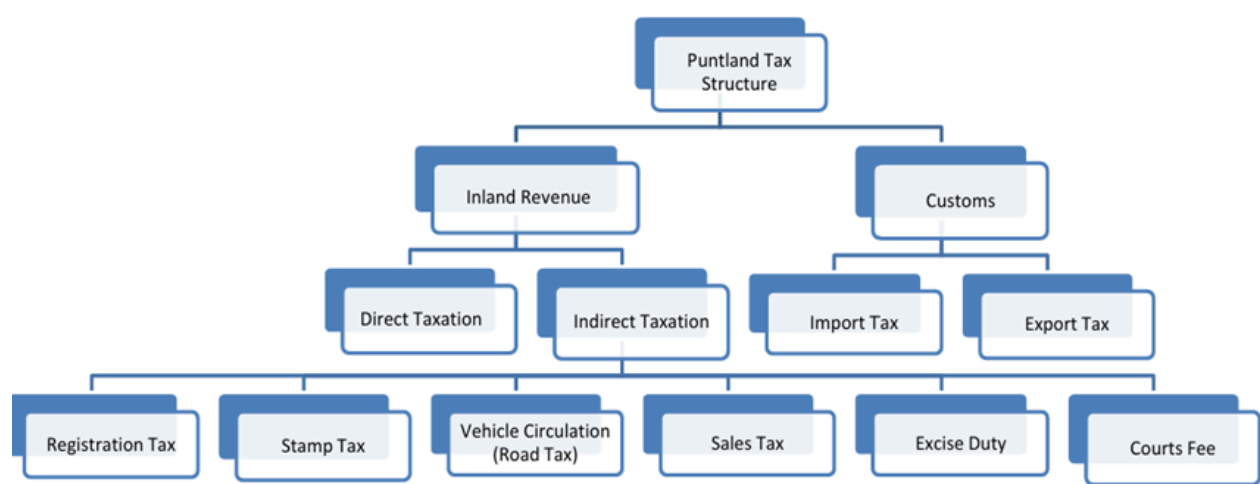
Puntland Economic Outlook 2024



PUBLIC FINANCE AND FISCAL POLICY IN PUNTLAND

Puntland Tax Structure

The Puntland Tax Structure is organized into two main categories: Inland Revenue and Customs. Inland Revenue covers Direct Taxation (such as Registration Tax and Stamp Tax) and Indirect Taxation (including Vehicle Circulation/Road Tax and Sales Tax). Customs focuses on trade-related taxes, such as Import Tax, Export Tax, Excise Duty, and additional levies like Courts Fee. This structure ensures diverse revenue streams to support Puntland's public services and economic development.



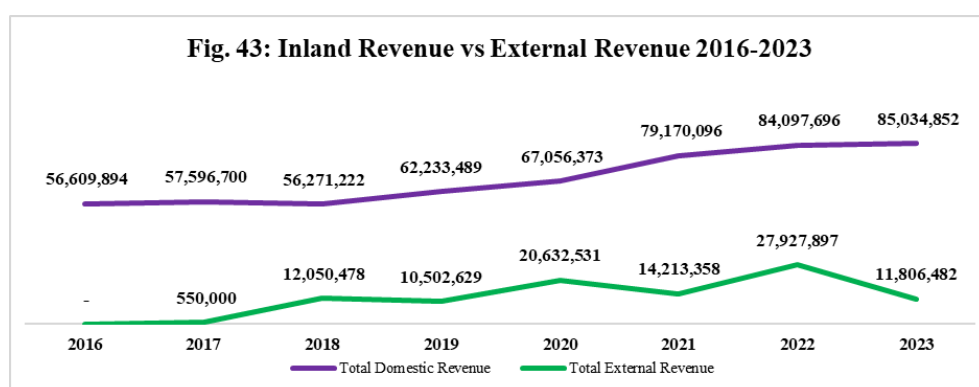
Source: Puntland Taxation Framework, MoF, Puntland

Analysis of Government Revenue Streams and Public Expenditure Trends

Revenue Streams

Revenue generation is the backbone of governance, ensuring the government can deliver public services, infrastructure, and economic development. In Puntland, revenue collection operates under consideration of digitalization mechanisms through several key systems to improve efficiency and reduce tax evasion, including the Financial Management Information System (FMIS), which enhances transparency and efficiency in managing public funds. Additionally, the Corporate Payroll Tax contributes to government revenue by taxing salaried employees, while the Puntland Customs Automation System (PUNTCAS) streamlines import and export taxation. Another significant component is the Goods and Services Tax (GST), which broadens the tax base by levying indirect taxes on goods and services.

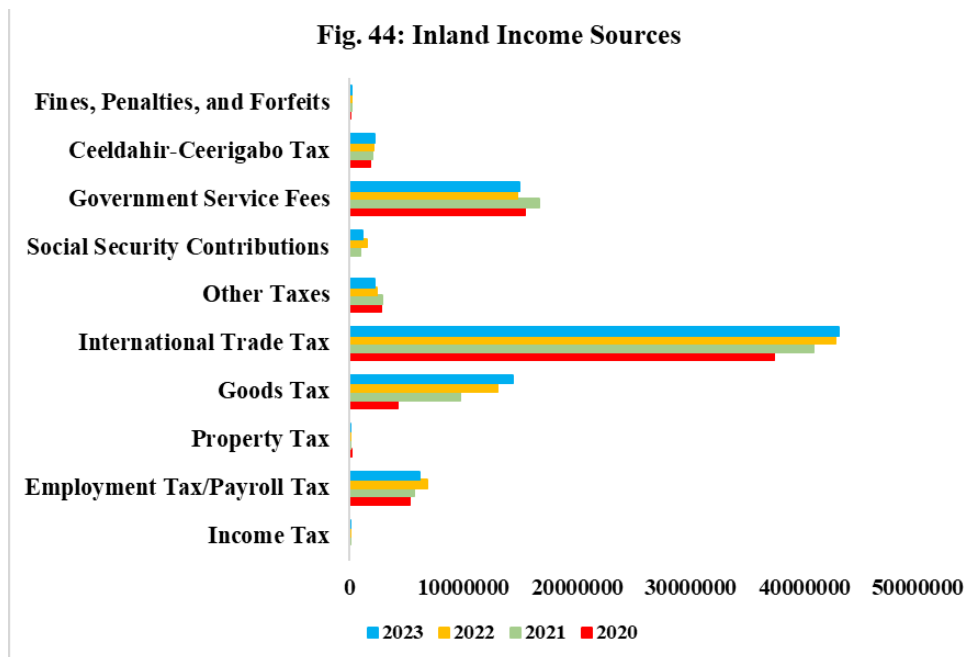
Fig. 43 provides a snapshot of Puntland's revenue streams from 2016 to 2023, constituting into domestic and external sources. Domestic revenue shows a steady upward trajectory, increasing from approximately 56 million in 2016 to about 85 million in 2023. In contrast, external revenue demonstrates a more volatile pattern, peaking at nearly 28 million in 2022 and then declining sharply to around 11 million in 2023, suggesting that domestic revenue has become increasingly important to Puntland's overall financial picture.



Source: Financial Reports (2016-2023), MoF, Puntland

Puntland's government revenue is drawn primarily from domestic taxation, customs duties, and fees about estimated share of 78%, Social Security Contribution and el-dahir-Erigavo contributions about 3.3%, 0.12% from Fines, Penalties and counterfeits, and lastly 19.25% from external grants in the periods 2020-2023. Customs duties are the dominant revenue source due to Puntland's strategic position as a trading hub, reflecting its dependence on imports and regional trade. Taxation, including direct taxes and indirect taxes, has seen gradual reforms aimed at enhancing collection efficiency. However, the limited formal sector constrains the tax base, with informal economic activities remaining largely untaxed.

This limits the government's ability to generate sufficient tax revenues domestically, making it reliant on customs duties and external grants. The limited diversification of revenue sources poses a risk to fiscal sustainability, as customs revenues are susceptible to fluctuations in trade and external economic conditions.

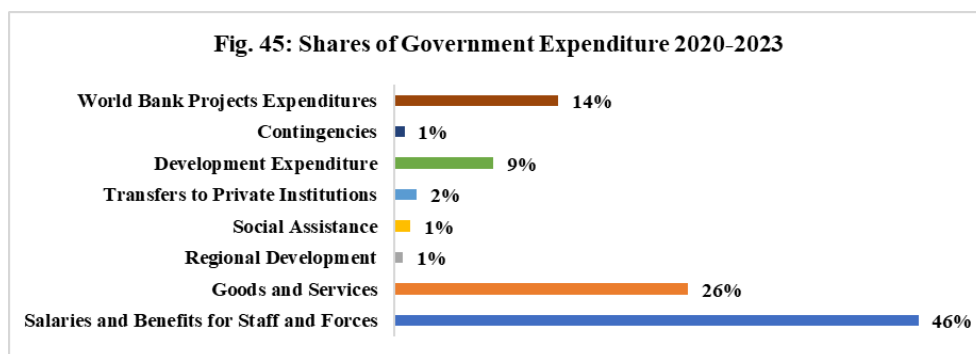


Source: Financial Reports (2020-2023), MoF, Puntland

Public Expenditure

Public expenditure in Puntland reveals a significant allocation to recurrent costs, particularly employee compensation, which often accounts for over 46% of total spending. In contrast, the 9% of the capital or development expenditure remains low, limiting the government's ability to invest in infrastructure or long-term growth projects. Social services such as education and health receive modest funding, while administrative and operational expenses consume a substantial share of the budget. The reliance on external grants to meet spending needs underscores the fiscal vulnerabilities of the current framework.

If we consider government expenditure and sectoral priorities, the distribution of government expenditure reveals a structural imbalance. Education and health sectors, despite their importance to social welfare and human capital development, receive modest allocations. The key challenges constraining the infrastructure spending are about fiscal limitations, preventing necessary improvements in roads, energy, and public services that would support economic growth. Meanwhile, administrative and operational expenses continue to absorb a significant share of the budget.

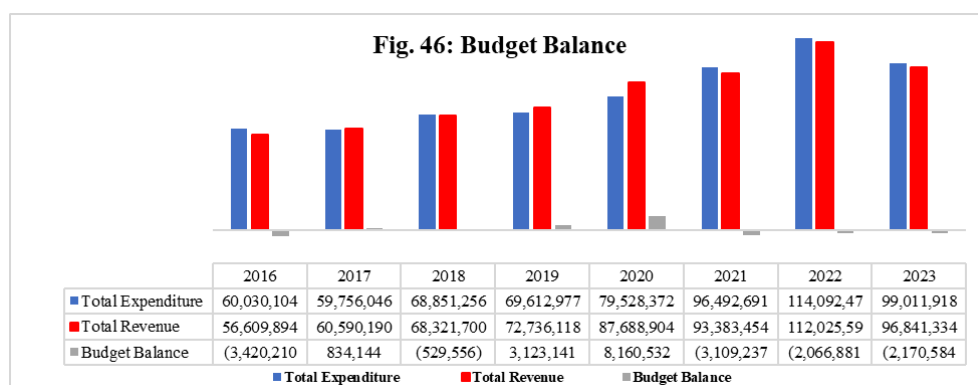


Source: Financial Reports (2020-2023), MoF, Puntland

Fiscal Balance and Sustainability of Current Fiscal Policy

The budget balance is the difference between total revenue and total expenditure. A positive budget balance indicates a surplus, meaning revenue exceeded expenditure, while a negative budget balance indicates a deficit, meaning expenditure exceeded revenue.

Fig. 46 presents the budget balance of the Puntland State from 2016 to 2023 revealing a fluctuating budget balance across the years. In 2016 and 2018, there were significant deficits, with expenditure considerably higher than revenue. In contrast, 2017, 2019 and 2020 witnessed surpluses, where revenue outpaced expenditure. The years 2021, 2022 and 2023 saw a return to deficits, although less pronounced compared to 2016. Several factors could contribute to these fluctuations, including economic conditions, external factors such as reduced international aid, informal economy or government policies.



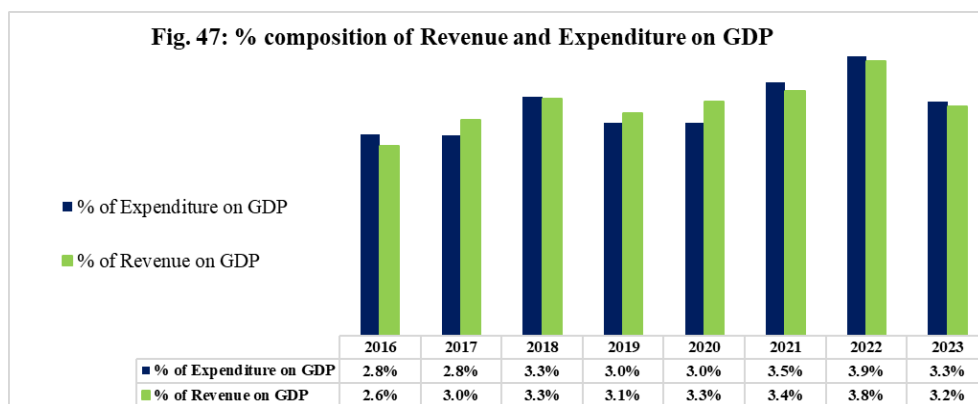
Source: Financial Reports (2016-2023), MoF, Puntland

Puntland's fiscal balance remains under pressure for the last 3 years, with expenditure often outpacing revenue. This imbalance leads to persistent fiscal deficits, financed sometimes through external aid and grants. Despite ongoing reforms, the volatility of external assistance and the challenges in scaling domestic revenue generation pose sustainability risks. Fiscal sustainability requires a shift from dependency on customs and external grants toward a more diversified revenue portfolio.

Trends in Revenue and Expenditure as a Percentage of GDP

The composition of revenue and expenditure as a percentage of GDP in Puntland presents an important perspective on fiscal sustainability. The data illustrates that throughout the period from 2016 to 2023, there has been a consistent trend where government expenditure has slightly exceeded revenue, indicating a structural fiscal deficit.

Between 2016 and 2019, both revenue and expenditure remained relatively stable, with revenue increasing slightly from 2.6% to 3.1% of GDP, while expenditure hovered between 2.8% and 3.0%. The gap between revenue and expenditure remained marginal, signaling a relatively controlled fiscal balance. However, from 2020 onward, expenditure began rising more significantly, peaking at 3.9% of GDP in 2022, while revenue also increased but at a slightly lower rate, reaching 3.8% in the same year. This suggests that despite efforts to improve revenue collection, expenditures have outpaced revenue growth, leading to a widening deficit.



Source: Financial Reports (2016-2023), MoF, Puntland

In 2023, both revenue and expenditure saw a slight decline, with revenue at 3.2% and expenditure at 3.3% of GDP. This decline may indicate an adjustment in government spending in response to revenue shortfalls or a broader economic slowdown affecting revenue collection. The persistence of a small but consistent gap between expenditure and revenue suggests ascending approach needing for enhanced fiscal discipline.

Fiscal Policy and Macroeconomic Stability

Fiscal policies have a significant role in maintaining macroeconomic stability in Puntland. Inflationary pressures can be mitigated by addressing supply-side constraints, particularly in critical sectors such as food and fuel. Government spending should focus on increasing productivity in agriculture and infrastructure to stabilize prices in the long term.

Unemployment remains a pressing challenge, and fiscal policies should prioritize labor-intensive projects to generate jobs and support household incomes. Investing in education and vocational training will enhance workforce skills, aligning them with market needs.

Fiscal discipline is the foundation of macroeconomic stability. Strengthening public financial management, ensuring transparent budget processes, and adopting fiscal rules to cap excessive deficits are crucial measures. The targets will enable Puntland to balance growth objectives with debt sustainability, ensuring a stable economic environment.

Economic Outlook and Future Fiscal Strategies

The fiscal trajectory for Puntland suggests the need for a recalibrated approach to revenue generation and expenditure management. Achieving long-term fiscal stability will require a gradual increase in development expenditure, rising from the current 9 percent to at least 15 percent over the next five years. This will be critical for infrastructure development, economic diversification, and improved public service delivery.

Government expenditure must also be aligned with GDP growth objectives. Extending public investment to drive economic expansion should be a priority, with targeted increases in spending on infrastructure, education, and healthcare. A projected increase in government expenditure from the current 3.1 percent growth rate in over 12 years to an average growth rate of 5 percent over next 5 years, is necessary to double GDP growth to 6 percent and achieve meaningful poverty reduction.

However, several risks must be carefully managed. Revenue risks remain a significant concern due to the heavy reliance on customs duties and external grants. Expenditure risks, particularly in managing recurrent costs, could limit fiscal space for development projects. Macroeconomic risks, including external shocks such as fluctuations in inflation, international aid and commodity prices, could also impact Puntland's economic outlook.

Fiscal Policy Review and Recommendations for Addressing Budget Deficit

The government faces significant constraints in establishing a stable fiscal policy, primarily due to a limited tax base that heavily relies on the formal sector. The predominance of informal economic activities, which remain largely untaxed, further restricts domestic revenue generation. Institutional inefficiencies in tax collection, weak enforcement mechanisms, and administrative challenges exacerbate these limitations, making it difficult to generate sufficient revenue to meet budgetary needs.

A major challenge contributing to fiscal instability is the widespread leakage of revenue due to tax evasion and fraudulent practices. Smuggling and underreporting, particularly in high-value sectors such as electronics, lead to significant revenue losses. These persistent gaps in taxation hinder the government's ability to finance essential public services and long-term economic development. Additionally, inland tax collection remains underdeveloped, creating an overreliance on external trade taxes, which are highly volatile. Seasonal factors, such as closed sea periods during summer months, further disrupt revenue inflows, amplifying fiscal vulnerabilities, so strengthening inland tax collection could provide a major boost to government revenue, reducing dependence on these volatile external trade taxes. As a result, inland taxation should be prioritized to stabilize government income and reduce fiscal vulnerabilities.

Given these ongoing revenue shortfalls and the unpredictability of external grants, the government struggles to maintain fiscal stability. The reliance on international aid creates budgetary uncertainties, as delays or reductions in grants often lead to expenditure constraints. As a result, annual fiscal deficits exceed projections, undermining the government's ability to achieve effective financial consolidation. Despite ongoing efforts in tax system digitalization and administrative reforms, the gap between projected and actual revenue collection remains substantial. This recurring shortfall gives us implementing for a more robust revenue mobilization strategy and improved public financial management.

When improving these fiscal challenges, the government must enhance the mechanisms to expand its revenue base and improving expenditure efficiency. Strengthening compliance measures, integrating informal businesses into the tax system, and enhancing digitalized tax collection mechanisms such as FMIS, PUNTCAS, and payroll taxation systems are important steps toward improving domestic revenue generation. Moreover, fiscal discipline must be enforced to ensure that expenditures align with available resources, with a focus on prioritizing high-impact investments in infrastructure, education, and healthcare.

One of the most immediate strategies for reducing fiscal deficits is the rationalization of public expenditures. Eliminating non-priority spending and reallocating resources to essential development sectors will enhance economic productivity while ensuring sustainable fiscal management. Improving tax administration, increasing institutional capacity, and enforcing stricter compliance measures will further strengthen Puntland's financial resilience. Without such reforms, the fiscal imbalance will persist, making it increasingly difficult to implement stable economic policies and achieve long-term development objectives.

In the long run, Puntland must focus on developing domestic production and fostering public-private partnerships to reduce its reliance on imports and strengthen its export capacity. A diversified economic base will not only support fiscal balance but also create employment opportunities and mitigate economic vulnerabilities. Furthermore, any future budget surpluses should be strategically allocated to infrastructure projects and sovereign funds, ensuring long-term fiscal resilience and sustainable economic growth.

Economic Governance

CHAPTER 5

MINISTRY OF PLANNING

Puntland Economic Outlook 2024



Puntland Public-Private Institutions Reform to Accelerate Economic Growth and Poverty Reduction

Enhancing Institutional Capacity and Performance

To drive sustainable economic growth and poverty reduction, Puntland must prioritize building robust, efficient, and effective institutions. Central to this effort is strengthening the Puntland Institute for Civil Servant Training and Capacity Development. By expanding its programs, modernizing its curriculum, and aligning it with development priorities, the Institute can transform the civil service into a competent and professional workforce. Complementing this, Puntland can engage private consultancy firms to enhance talent management and strategic HR development. These firms bring specialized expertise, innovative tools, and best practices to improve recruitment, training, and performance evaluation processes. This dual approach empowering the Institute while leveraging private expertise will create a sustainable framework for capacity building. Additionally, establishing clear performance metrics will foster accountability and transparency, enabling regular evaluations of service delivery and resource utilization. Coupled with merit-based recruitment and promotion systems, these measures will attract and retain qualified professionals, ensuring leadership roles are filled by individuals with the expertise and integrity needed to drive progress. Together, these reforms will build stronger institutions capable of supporting Puntland's economic growth and development goals.

Strengthening Public Financial Management

Strengthening Public Financial Management is another critical dimension for the comprehensive institutional reform aimed to achieve economic growth and sustainable development. Effective public financial management is critical for efficient resource allocation, poverty reduction, and sustainable development in Puntland. To achieve this, comprehensive reforms must be implemented to enhance revenue generation, transparency, accountability, and efficiency in financial systems. A key measure is the introduction of participatory budgeting processes, which will ensure that budget allocations align with development priorities and reflect the needs of citizens. By involving stakeholders in decision-making, Puntland can foster greater trust and inclusivity in financial planning. One of strategic participatory measures is that Puntland Ministry of Planning and economic should have clear role in budget planning to ensure effectiveness and efficiency of decision for allocating resource and prioritization of competing development needs and programs.

Effective public financial management is critical for efficient resource allocation, poverty reduction, and sustainable development in Puntland. Comprehensive reforms must be implemented to enhance revenue generation, transparency, accountability, and efficiency in financial systems. A key measure is the introduction of participatory budgeting processes, ensuring budget allocations align with development priorities and reflect the needs of citizens. By involving stakeholders in decision-making, Puntland can foster greater trust and inclusivity in financial planning. The Ministry of Planning and Economic Development should play a central role in budget planning to ensure effective resource allocation and prioritization of competing development needs.

Additionally, digitalization efforts must be intensified to modernize revenue generation, tax administration, and expenditure management. Implementing digital systems will streamline processes, reduce inefficiencies, and curb tax evasion and misuse of public resources. This will not only increase revenue collection but also ensure that funds are utilized effectively for development projects. To combat corruption and strengthen oversight, Puntland should establish independent public financial intelligence units and empower key institutions such as the Office of the Auditor General, the General Accountant, and the judiciary. These measures will enhance the capacity to prevent, investigate, and prosecute financial misconduct, ensuring that public resources are managed with integrity. By strengthening these institutions, Puntland can build a robust financial management system that supports economic growth and reduces poverty.

Technology Adaptation and Innovation

Embracing technology is essential to revolutionize service delivery, enhance economic productivity, and drive sustainable development in Puntland. A key initiative in this transformation is the implementation of digital governance platforms to streamline public services, reduce bureaucracy, and improve accessibility for citizens.

By digitizing government operations, Puntland can enhance transparency, efficiency, and responsiveness in service delivery. Equally important is the need to catalyze the role of technology infrastructure in the private sector. Expanding access to digital tools and platforms will reduce transaction costs, promote business digitalization, and foster creativity and efficiency-based competition. This will enable businesses to innovate, scale, and contribute more effectively to economic growth.

To further drive innovation, Puntland should establish innovation hubs and support tech startups. These hubs will serve as centers for economic diversification, technology spillovers, and AI-based thinking, creating an ecosystem that nurtures creativity and entrepreneurship. By fostering collaboration between startups, researchers, and investors, Puntland can position itself as a regional leader in technological innovation.

Finally, reforming the education sector is critical to building a future-ready workforce. Educational policies should prioritize critical thinking, creativity, and skills in science, mathematics, information technology, and vocational training. By aligning education with the demands of a technology-driven economy, Puntland can equip its youth with the tools needed to thrive in an increasingly digital world. Together, these initiatives will harness the power of technology to transform Puntland's economy and improve the quality of life for its citizens.

Public-Private Engagement, Investment Climate

A thriving private sector is essential for job creation, economic growth, and poverty reduction in Puntland. To achieve this, the government must foster an enabling environment that encourages collaboration, simplifies regulations, and ensures access to finance. At the same time, a strong legal system and rule of law are critical to building investor confidence and sustaining economic development.

Puntland must prioritize fostering partnerships between public institutions and private enterprises to deliver critical infrastructure and services. Collaborative projects can leverage the strengths of both sectors, driving innovation and efficiency.

Puntland must prioritize fostering partnerships between public institutions and private enterprises to deliver critical infrastructure and services. A key step is the initiation of public-private partnership (PPP) model-based investments, which can mobilize resources, share risks, and leverage expertise from both sectors. These partnerships should focus on strategic wealth and job creation projects in high-potential sectors such as the productive sector (livestock, fishing, farming, and extractive industries), energy, infrastructure, and small and medium-scale plants. By targeting these sectors, Puntland can unlock economic potential, create employment opportunities, and drive sustainable growth.

Additionally, the business environment must be improved by simplifying regulations, reducing red tape, and providing investment incentive schemes such as tax breaks, grants, and streamlined licensing processes. These incentives will attract both local and foreign investors, stimulate entrepreneurship, and create job opportunities. To support small and medium-sized enterprises (SMEs), which are the backbone of the economy, Puntland government should establish credit facilities and guarantee schemes. Improved access to finance will enable SMEs to expand, innovate, and contribute to economic diversification.

Legal Frameworks and Rule of Law

A robust legal system is the foundation of economic development. Puntland must undertake legal reforms to update and harmonize laws, particularly in trade, investment, and property rights, aligning them with international best practices. Clear and enforceable property rights are essential to attract investment, encourage land development, and provide security for businesses and individuals. This will create a predictable and transparent legal environment that fosters economic growth. Strengthening judicial independence is equally important to ensure the fair and timely resolution of disputes. An impartial judiciary will enhance trust in the legal system and provide a reliable mechanism for enforcing contracts and protecting rights. Finally, anti-corruption laws must be rigorously enforced, with stringent penalties for financial misconduct. By deterring malpractice and promoting accountability, Puntland can restore public confidence and ensure that resources are used effectively for development.

Together, these measures enhancing institutional capacity and performance, strengthening public financial management systems, expanding technology adaptation and mainstreaming creativity and innovations, promoting public-private engagement, improving the investment climate through incentive schemes, strengthening property rights, and reinforcing legal frameworks will create a conducive environment for economic growth, job creation, and poverty reduction in Puntland. By focusing on high-potential sectors and ensuring investor confidence through property rights and incentives, Puntland can unlock its economic potential and build a prosperous future for its citizens.

KEY REFERENCE DOCUMENTS FOR ECONOMIC ANALYSIS



- **Somalia Poverty Report 2023**
- **Multidimensional Poverty Index (MPI) For Somalia Report**
- **Somali Economic Outlook 2023**
- **Global Economic Prospects, June 2024**
- **EAC Economic Outlook**
- **African Economic Outlook 2024**
- **Puntland Integrated Household Budget Survey**
- **Food Security Facts Sheet**
- **Consumer Price Index (CPI) Reports in Somalia And Puntland**
- **GDP Reports in Somalia And Puntland**
- **Household Shocks Report**
- **Puntland Financial Statement Reports**
- **Puntland Facts and Figures 2023**
- **PHA Annual Highway Report 2023**



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