UNDP Poverty Reduction and Environmental Protection Programme

Project Concept Note - August 2013

Local Economic Development in the Newly Recovered Areas

of Central and South Somalia

## Project Summary

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| Project Name | **Local Economic Development in the Newly Recovered Areas (NRAs) of Central and South Somalia** |
| Executing Agency | UNDP Somalia, Poverty Reduction and Environment Protection Programme |
| Local Partners | The Federal Government of Somalia, municipalities, communities, private sector representative organisations and civil society organizations |
| Targeted Area | The Newly Recovered Areas (NRAs) of Central and South Somalia: Baidoa, Beletwein, Dolow, Afgoye, Jowhar and Mogadishu |
| Overall Objective | To support rapid economic stabilization, recovery and employment growth in the Newly Recovered Areas of Central and South Somalia |
| Target Beneficiaries | Long-term unemployed (especially youth and women) and local development stakeholders, including municipalities, the small business sector and civil society organisations |
| Project Duration | 36 months from the date of receiving funds  |
| Indicative Budget  | USD 20,000,000 |

## Background

Despite their status as ‘newly recovered’ or ‘liberated’ areas, most parts of Central and South Somalia continue to experience low levels of economic recovery, a lack of authoritative government structures, sporadic armed conflict and endemic humanitarian needs. In addition the Newly Recovered Areas were among the five regions declared under famine during 2011, and hence affected by damaged livelihood assets, soaring unemployment rates (above 50 percent) and high levels of household displacement. The population of the newly liberated areas is currently estimated at over 2.6 million: representing approximately 50 percent of Central and South Somalia population, located predominantly in the urban centres of Baidoa, Beletwein, Dolow, Afgoye and Jowhar.

In recent years, the Newly Recovered Areas have failed to benefit significantly from the revitalization of Mogadishu and their economic outlook, in part due to continuing security issues and the threat of recurrent flooding, remains highly uncertain. Nevertheless it is widely agreed that significant economic potential exists in the region. Three of the sub-regions within Central and South Somalia (Hiran, Midle and Lower Shabelle) form the agricultural food basket of Somalia with the most fertile land for both subsistence and commercial farming. Similarly, Bay and Gedo sub-regions host large stocks of livestock in addition to mainly rain-fed farms. Beletwein and Dolow districts are extremely active in trade activities given their border relations with Ethiopia and Kenya respectively. Both animal and agricultural commodities are traded, generating significant employment and income. The region also harbors natural resource assets, including hydrocarbons deposits.

Emerging Development Frameworks

Considerable efforts are now underway to create development frameworks that will assist in capitalizing on economic opportunities in Central and South Somalia. In 2012, the newly formed FGS launched its six-pillar policy entitled ‘Foundations for a New Beginning.’ Pillar two of the policy refers to the need to promote economic stabilization and recovery through a range of measures including the rehabilitation of basic economic infrastructure, employment creation and vocational training, the development of market structures and institutions and support for enhanced agricultural production.

Many of these commitments are currently being taken forward through the FGS’s New Deal initiative with the support of the international community. Pillar 4 of the New Deal highlights the need to build strong ‘economic foundations’ giving priority to productive infrastructure, youth employment and legal and regulatory frameworks for enhanced natural resource management. It is anticipated that these priorities will be further underlined in the Somalia Economic Recovery Plan that is being prepared, with World Bank support, for tabling at the Brussels Conference in mid-September 2013.

Concurrently work is being undertaken on the development of the FGS’s Stabilisation Plan for the Newly Recovered Areas. The Stabilization Plan is intended to take forward the priorities of the New Deal initiative in the Newly Recovered areas, recognizing the fundamental importance of economic development and employment creation for securing peace and stability and preventing a resurgence of conflict. The current draft of the plan similarly emphasizes the need *inter alia* to rehabilitate economic infrastructure, generate employment opportunities and vocational development, and enhance agricultural productivity.

Project Aims and Objectives

*Overall Aim*

In keeping with the FGS’s priorities as outlined above, the overall aim of the project is to support rapid economic stabilization and recovery in the Newly Recovered Areas of Central and South Somalia, through measures to address local infrastructure deficits, expand employment opportunities (particularly for youth) and improve the management of natural resources.

The specific objectives of the project are:

1. To rehabilitate and reconstruct essential local infrastructure that will impact directly on economic development including energy supply, roads and irrigation systems
2. To significantly reduce unemployment and underemployment, through a combination of short-term ‘cash for work’ and economic reintegration initiatives, and medium-term measures to promote employment demand in the private sector and ensure the supply of appropriate market-based skills
3. To foster the sustainable management of natural assets, including agricultural land, livestock, fisheries and mineral deposits

Project Approach

The project will take an area-based development approach, focusing on the six key urban districts of Afgoye, Baidoa, Beletwein, Dolow, Jowhar and Mogadishu.

Implementation of the project will be based on the following principles:

*Additionality -* strenuous efforts will be made throughout the detailed design and implementation phases of the project to minimise management overheads, ensure a ‘no greater than necessary’ flow of resources into analytical tasks (e.g. economic opportunity mapping and value chain studies), and maximise synergies with other planned or pipeline activities undertaken with the support of FGS, municipalities, other international organisations. Wherever feasible and appropriate, the project will work with existing local institutions with a view to promoting their long-term sustainability.

*Local ownership -* Consistent with the need to increase the visibility of legitimate government and other development stakeholder institutions in the target areas, the project will ensure full local participation in decision-making processes throughout the project cycle, including the initial selection, assessment and design phases. Key project outputs will be delivered through and attributed to appropriate Federal and Local Government institutions. Project assets will be transferred to local institutions as appropriate on completion of the project.

Synergy will be sought with other local initiatives such as the UNDP led Joint Programme for Local Government (JPLG), to ensure that actions on the ground are endorsed through, and captured in, the local district development planning apparatus where appropriate (see also *Local Economic Development Strategies* below). This will ensure local buy-in and in the longer run will provide room for monitoring, reviews, sharing of best practices and possible replication of successful pilots and models in other districts.

*Capacity Building -* Concurrently with the above, the project will mainstream measures to strengthen the capacity and effectiveness of local partner institutions, including where necessary through formal training initiatives, technical twinning arrangements and exchanges of experience with counterpart institutions elsewhere within Somalia and the East Africa region.

*Multi-tracking -* The technical approach to the project will be driven by recognized international best practices and the (joint) United Nations Policy for Post Conflict Employment Creation, Income Regeneration and Reintegration. Accordingly, project activities (below) will be designed to:

* Stabilize income generation and emergency employment with the aim of consolidating

security and stability, targeting conflict‐affected individuals and groups (track A)

* Promote local economic recovery for employment and reintegration (track B)
* Support corresponding policies and institutional capacity building at the national level, including a framework for social dialogue (track C)

Tracks A-C will be implemented simultaneously following the initial assessment and design phases.

Project Components

Key project components are described briefly below. These are for the most part indicative and should be interpreted as ‘menu items’, to be drawn down in response the findings of the economic assessment process in individual Newly Recovered Areas (below).

*Economic Assessments*

Most Newly Recovered Areas reflect at least two decades of unregulated economic activity superimposed over the communist central planning structures of the Siad Barre era. As a consequence the task of economic recovery is not simply one of rehabilitating existing infrastructure and productive facilities. In many areas it will involve a more fundamental reorientation of economic activity with a view to capitalizing on future employment growth potential within the context of emerging local, national and regional markets. For this reason initial economic assessments, aimed at identifying ‘quick wins’ and mapping existing economic activities and sources of future growth potential, will be essential to identify project priorities and appropriate interventions.

Economic Assessments will be undertaken through local consultations and focus group meetings with economic stakeholders in each area. They will cover *inter alia* the availability of land and property suitable for productive uses; productive assets including land suitable for cultivation, pasture, ‘exploitable’ natural resources, processing and production facilities; basic labour market indicators; access to energy; access to markets, local financial sources and growth potential sectors / value chains.

*Local Economic Development Strategies*

As acknowledged in the JPLG, there is an important need for functioning local authorities in the Newly Recovered Areas to develop the capacity for economic development planning, and in the longer run to formulate medium term local economic development strategies that can be used to guide investment and public policy decisions aimed at local growth and employment creation.

In areas with functioning local authorities, economic assessments will be undertaken in close cooperation with relevant regional and local government officials. SWOT analyses produced as part of the assessment process will be used as a basis for workshops with participating local authorities on the development of public-private partnerships and the formulation of local economic development plans.

*Technical and Financial Support for Small Infrastructure Projects*

Basic social and productive infrastructure in many New Recovered Areas is either non-existent or badly damaged. Central and local government authorities typically lack the revenues to upgrade and expand basic infrastructure services with the result that rehabilitation efforts to date have been fragmented and led by international agencies and donors in partnership with local NGOs. The provision of basic local infrastructure, including electricity supply, roads and irrigation systems will contribute significantly to future economic growth and has the potential to generate significant short-term employment through ‘Cash for Work’ schemes.

Creating an inventory and assessment of the current status of basic infrastructure in the Newly Recovered Areas is a necessary and important entry point for putting in place comprehensive local infrastructure rehabilitation plans. Introducing appropriate rehabilitation techniques relying on local materials and provision technical support will be an integral component of these plans. Whilst focusing primarily on productive infrastructure (e.g. feeder roads, markets, irrigation systems, agricultural land reclamation, slaughter houses, fishery facilities, and water catchments for livestock use), the project will also address other social infrastructure and community facilities (e.g. water networks and waste water treatment plants, health and education facilities) where these are likely to contribute to peace and stability and / or generate significant short-term employment opportunities. Efforts will be made to pilot new and easy replicable ideas (e.g. replacing open water irrigation canals with piping systems) that significantly reduce downstream maintenance costs and offer more sustainable and enduring solutions.

*Business Environment Reforms*

Contrary to the oft-cited view that Somalia has a vibrant and competitive private enterprise sector, the harsh reality is that most local economies are dominated by a small number of large companies (often controlled by ruling elites), with a large residual informal sector consisting for the most part of subsistence micro-enterprises. Whilst some of the achievements of private enterprise are impressive, for example in relation to ‘plugging gaps’ in essential public services, the sector as a whole has manifestly failed to provide employment opportunities and affordable goods and services for the majority of the population. These problems are due in part to the absence of legal and regulatory frameworks in Somalia to reduce the costs of doing business and create certainty and security for investors, including the Somali diaspora.

Working closely with the relevant FGS line ministries, local authorities, local business representative organisations (e.g. Chambers of Commerce) and individual private sector companies, the project will identify and address legal and regulatory bottlenecks to doing business, emphasizing in particular the needs of small and medium sized enterprises that have the potential to generate new employment opportunities. On the basis of work undertaken through the UNDP ABER and EGER projects key business environment reform issues are likely to include land ownership, business registration, licensing and permitting requirements, the establishment intra-enterprise dispute resolution mechanisms and policies to promote and protect fair and open competition.

*Business Development Services (BDS) / One Stop Shops*

Entrepreneurship skills and knowledge of basic business planning and management techniques are understandably limited in South and Central Somalia, with the result that the majority of micro-enterprises continue to operate on a subsistence basis in the informal sector. This is in turn severely restricts their access to formal sources of credit for investment and their potential for sustainable income generation and job creation.

The project will address these problems through measures to increase the provision of business advisory services to start-ups as well as existing micro- small and medium sized enterprises. Based on previous UNDP experience in Somaliland and Puntland, ‘one stop shops’ will be integrated into relevant civil or public institutions, including Chambers of Commerce and Higher Education Institutions with appropriate capacity. One stop shops will offer a range of services including basic entrepreneurship training, business planning and marketing, as well as conducting periodic job fairs to help academic and vocational institution graduates to acquire work placements, internships, apprenticeships and jobs. Following establishment, funding support for ‘embedded’ BDS suppliers will be based on performance / delivery related subsidies and geared down over the project period, to encourage financial self-sustainability.

*Support for Cooperatives and Social Enterprises*

Through the formulation of the ‘Economic Foundations’ component of the new Deal and the Somalia Economic Recovery Plan, the FGS has underlined the importance it places on the development of a thriving cooperative enterprise sector based on modern principles of joint ownership, profit sharing and democratic member control. At the same time there is enormous potential - in the Newly Recovered Areas as elsewhere in Somalia - to develop a social enterprise sector, creating secure employment and livelihoods opportunities to special needs groups including ex-combatants and IDPs.

The project will work closely at national and local levels with key stakeholders including the recently formed National Union of Cooperatives, to identify and address legal, regulatory and policy constraints to the development of cooperatives and social enterprises. Working wherever possible through existing BDS providers (see above), a campaign will be launched to raise awareness of modern International Cooperative Association (ICA) principles and the achievements of international cooperatives, particularly in relation to sectors strongly represented in the economies of the Newly Recovered Areas. Technical and financial signposting support will be provided to cooperatives and social enterprise start-ups.

*Local Financial Services*

The current practice of formal business lending in Central and South Somalia is for the most part limited to practices of NGOs and CBOs providing micro-loans on a small scale either to groups or individuals. There is no institutional structure governing operations relating to local finance, especially in the absence of banking laws, lending policies and regulatory structures. In general, the achievements of NGO micro-lending projects have been modest, in terms of both outreach (beneficiaries covered) and impact. Moreover, the high transaction costs and small portfolio sizes associated with these operations have made it difficult for the NGOs to attain the margins necessary to sustain or expand lending activities.

The project will establish agreements with formal remittance companies allowing them to dispense micro-loans to economically active poor women and men in the five target areas of South and Central Somalia. The Pilot Program will build the capacity of the potential remittance companies (such as Dahbshiil, Amal Bank and Salam Bank) to provide loans to the target groups in some or all of the target areas. The project will also encourage partner institutions to extend other financial services (e.g. savings accounts, remittances, direct payments and mobile transfers) to target beneficiaries, making use of existing branch networks and staff capabilities to reduce overheads and ensure sustainability. It is envisaged that participating institutions will provide matching capital for project funds.

*Value Chain Development Interventions*

Growth potential sectors such as those related to food security (livestock, milk and fisheries) have a high potential for addressing recurrent food shortages as well as stimulating local economies leading to job creation and increased household incomes. Whilst there has been a tendency for a wider shift to the service sector because of low skill and capital requirements, there is a clear need to maintain a focus on these and other sectors that have the potential for significant productivity gains and employment growth.

Starting with sectors where comprehensive value chain analyses (VCAs) have already been conducted, the project will convene discussions with government, private sector and other value chain stakeholders to formulate strategies that address binding constraints. Based on the outcomes of this process, the project will provide targeted support to selected value chains interventions, with a view to unlocking growth potential and increasing the value accruing to primary producers located in the project areas.

*Active Labour Market Policies*

According to the UNDP Human Development Report (2012), unemployment among people aged 15 to 64 is estimated at 54 percent (74 percent women) in Somalia, up from 47 percent in 2002. Moreover 70 percent of Somalia’s population is less than 30 years of age. Since the collapse of the previous central government in 1990, Somalia has lacked passive and active labour market policies and institutions. With limited government ability to create public employment services, unemployment benefits, pension schemes and training schemes present a major challenge to the recovery, stability and security.

With project support, labour market analyses, policies and strategies will be undertaken in the Newly Recovered Areas to support not only public and the private sector demand for labour but also to enhance and standardize the knowledge and skills required in the labour market. This will empower already existing vocational and enterprise centers with the use of common standards for quality control, accreditation, standardization of curriculae with the technical support of specialized government ministries and UN agencies including ILO, UNESCO and other developmental institutions. The project will support initiatives to assist graduate job searches, CV development, job-placement, internships and apprenticeships. In areas with functioning municipalities, the project will engage them to create basic labour market monitoring systems (with appropriate gender disaggregation).

*Natural Resource Management*

Weak management of natural resources is one of the primary constraints on the development of the productive sector in Central and South Somalia. This has many dimensions including deforestation and soil degradation in hinterland areas, and the weak management of fisheries resulting in sale of unauthorised licences benefiting local power elites and their militias in coastal areas. Many of these problems are highlighted in the Charcoal sector, rooted predominantly in Central and South Somalia and parts of Puntland. Charcoal trade, fueled by weakened traditional systems of decision making, unclear land tenure and resource ownership and illegal imports to neighbouring countries in the region, is a major source of funding for Al-Shabaab and is associated with critical levels of environmental degradation.

Building on the experience of the recently launched UN Joint Programme on Charcoal, the project will assist in the development of legal and regulatory frameworks to strengthen environmental governance in South and Central Somalia and will build linkages between communities and relevant national, regional and local government agencies to put in place community based structures for sustainable natural resource management. Advisory services will be supported to raise awareness of the impacts of environmental degradation and to promote the sustainable use and natural resource assets, thus reducing the potential for natural resource based conflict.

Management and Implementation Arrangements

In accordance with standard UNDP project management arrangements three functional levels of accountability and transparency will be implemented; i. a Project Steering Committee function enabling government, development partners and UNDP strategically agree on priorities, review progress and approve plans twice a year at least; ii. a Project Board function to review the progress on a quarterly basis; and iii. a Project Assurance function at program and project management level in relation to day-to-day project activities, using UNDP rules and regulations periodic audits.

In addition, and building on experience gained through the implementation of the UNDP ABER and EGER projects, a technology based real-time project information management system will be established, as well as a tried and tested third party monitoring system for inaccessible areas.

The project will adopt a direct implementation modality (DIM). In consultation with donors and relevant government agencies, implementation will be carried out through pre-qualified local implementing institutions including CSOs / NGOs, with appropriate track records and outreach using stringent selection criteria relating to capacity, previous experience in carrying out similar activities, reputation, financial and project management, networking and accountability.

In select cases implementation will be carried out through local authorities and / or line ministries with the required capacity and required qualifications and track record. Civil works interventions will be implemented though similarly pre-qualified private civil-work companies/ contractors.

In line with standard UNDP reporting guidelines the project will share with donors and other stakeholders substantive narrative and financial reports on quarterly and an annual basis. Ad hoc or periodic reports may nevertheless be produced according to donor requests or other stakeholder interests.

Relevant UNDP Capacity and Experience

UNDP has been actively engaged in local economic development in Somalia since 1993. Our project team has a combined experience of over 30 years working in Somalia as well as ten other African and Arab countries, some of which have equally challenging economic and political environments. UNDP local economic development activities in Somalia for the last five years have ranged from the provision of short term employment through basic infrastructure rehabilitation at times of drought and crisis to the provision of employment skills training and startup capital to youth at risk and vulnerable community members, especially female headed households.

Over the period 2008-2013, UNDP invested US$19.26 Million of donor funds on over 199 projects in all of Somalia. The UNDP managed and implemented ABER and EGER project continues to be the flagship local economic development project in Somalia. A recently finalized independent evaluation of the project commended it for its high rate of success and recommended that the project approach be expanded to other areas of the country.

Indicative Timeline and Budget

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| Items/Activities | Indicative Total budget (US$) | Timeline in years\* | Potential partners / synergies |
| Y1 | Y2 | Y3 |
| A) Indirect project costs | 2,500,000 | 1,250,000  | 750,000  | 500,000  | Security, general management and implementation support services |
| B) Direct project activities estimate costs |
| Personnel estimated costs | 3,150,000 | 1,575,000  | 945,000  | 630,000  | Project management personnel (12 staff) 2 int’l and 10 Nationals two in each location and rotating internationals |
| 2.0 Project Activities indicative costs |
| 2.1 Rapid Economic Assessments  | 300,000 | 150,000  | 90,000  | 60,000  | In collaboration and synergies with Authorities, NGOs, communities and UN agencies ( JPLG, ILO, and other line agencies) |
| 2.2 Led Strategy Development  | 400,000 | 200,000  | 120,000  | 80,000  | JPLG, Municipalities, NGOs, UN agencies |
| 2.3 Financing and technical support for small infrastructure projects  | 7,000,000 | 3,500,000  | 2,100,000  | 1,400,000  | Municipalities, NGOs, UN agencies |
| 2.4 Business Environment Reform  | 500,000 | 250,000  | 150,000  | 100,000  | Government, municipalities, states, NGOs  |
| 2.5 Business Development Services / Support for SME development  | 500,000 | 250,000  | 150,000  | 100,000  | Chambers, academia and research institutions financial institutions |
| 2.6 Support for Cooperative and Social Enterprises  | 500,000 | 250,000  | 150,000  | 100,000  | Line ministries, Chambers, academia and research institutions & financial institutions |
| 2.7 Support for the provision of local financial services  | 2,000,000 | 1,000,000  | 600,000  | 400,000  | Line ministries, Chambers of com., academia and research institutions & financial institutions |
| 2.8 Value chain development initiatives in growth potential sectors | 500,000 | 250,000  | 150,000  | 100,000  | Chambers, academia and research institution & financial institutions |
| 2.9 Active Labour Market Policies  | 500,000 | 250,000  | 150,000  | 100,000  | Chambers, academia and research institution & financial institutions |
| 2.10 Natural resource management  | 3,000,000 | 1,500,000  | 900,000  | 600,000  | Line ministries, Chambers of com., academia and research institutions & financial institutions |
| TOTAL (A+B) | 20,850,000 | 10,425,000  | 6,255,000  | 4,170,000  |  |