



Support to Policy Dialogue for
Investment Climate in Somalia

Mapping Report: **Formalisation of Cooperatives and Private Sector Organisations**

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Minister of Commerce and Industry
Federal Government of Somalia



Shaping a more livable world.

List of abbreviations/acronyms

CIPE	Center for International Private Enterprise	PPD	Public-private dialogue
ECCSA	Ethiopian Chamber of Commerce & Sectoral Associations		Private Sector Organisations = membership organisations including cooperatives, business associations, and chambers of commerce.
EUD	Delegation of the European Union to Somalia	PSOs	
HR	Human resources	SACCO	Savings and Credit Cooperative Organisation
ICA	International Cooperative Alliance	SMEs	Small and medium enterprises
ILO	International Labour Organization	SPDI	European Union Support to Policy Dialogue on Investment Climate in Somalia
MOCI	Ministry of Commerce and Industry of the Federal Republic of Somalia		

Foreword



**H.E. Hon. Jabril
Abdirashid Haji Abdi,
Minister of Commerce
and Industry**

The Ministry of Commerce and Industry (MOCI) of the Federal Government of Somalia (FGS) recognizes the important role that the Private Sector Organizations (PSO) play in the economic development of the country. The private sector is a key driver of economic growth, job creation, and innovation, and it is through the efforts of these organizations that Somalia can improve the business conduct, formalization, and professionalization of the private sector and markets contributing to greater sustainable economic growth.

The contribution of the private sector to the country's economic and sustainable development is widely acknowledged as they are active in all segments of the economy and present opportunities for the promotion of broad-based equitable development. They enable the active participation of marginalized groups in Somalia's economic development including providing more opportunities for women and youth and supporting the growth of disadvantaged regions of the country.

Somalia's private sector organizations are diverse and dynamic, ranging from micro to large corporations, but largely remains informal, thus the opportunity and need to formalize, hence the need for this study and recommendations. The ministry recognizes the challenges Somalia's Private Sector Organizations face, including limited access to information, limited knowledge and gov-

ernance capacity, challenges to access and communication with their members due to security, inadequate infrastructure (transport, energy, communications, etc.) and a challenging business environment. As a result, the Ministry of Commerce and Industry (MoCI) is committed to promote and support the growth and development of the private sector organisations through providing leadership and developing a range of policies and initiatives, e.g. SMEs Policy and Cooperatives law.

The Ministry is committed to work closely with government agencies, PSOs and other development partners in taking forward the recommendations made in this study to support the capacity development, professionalization and greater outreach of business associations, cooperatives and other business membership organisations.

We would like to express our deepest gratitude and appreciation for the valuable contributions made by the EU, DAI and CIPE on the mapping and study on Somalia's Private Sector Organizations. Their expertise, insights, and inputs have been instrumental in the development of this study, and we could not have gained the insights and understanding without their unwavering commitment and support. And the Ministry is also committed to continue the Public and Private Dialogue (PPD) initiated through the EU support and strongly believes that a PPD approach is the way to achieve a common goal of promoting economic growth in the country and is committed to work in close partnership with private sector organizations to achieve this.

Finally, the Ministry of Commerce and Industry (MoCI) is dedicated to creating an enabling environment for both the public and private sectors' growth and development, and we look forward to working with them to achieve our shared vision of a prosperous Somalia.

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Executive Summary

As part of a non-key expert assignment under the SPDI project, the Center for International Private Enterprise (CIPE) undertook a field-based mapping exercise to assess the capacity, roles, and needs of membership organisations, including cooperatives, business associations, and chambers of commerce. Specifically, CIPE sought to assess the extent of formalisation and relative presence of good governance practice within private sector organisations (PSOs). Further, based on input from organisational leadership, members, experts, and public officials, CIPE sought to paint a picture of an emerging model of PSO governance in Somalia that can be reinforced by policy action, knowledge exchange, and practical incentives.

The study finds that PSOs in Somalia perform useful services and have important roles to play as institutional supports to production and commerce. They have the potential to serve members on a larger scale if they were to apply more formal methods of organisational governance and management. While sound governance does not guarantee a PSO's success, it creates pathways for legitimacy, accountable stewardship, and participation as well as a foundation for strategy and higher performance.

The mapping study concludes with recommendations in the following areas:



Create an enabling policy framework for PSOs.



Create a roadmap for PSO development.



Establish the basis for relations between government and PSOs.



Purpose of the Mapping

The SPDI project supports the Ministry of Commerce and Industry (MOCI) in formalising co-operatives and private sector organisations (PSOs), positioning them to provide professional services to members, strengthen their operations, and advocate for reforms and compliance with key standards.

As part of a non-key expert assignment under the SPDI project, the Center for International Private Enterprise (CIPE) undertook a field-based mapping exercise to assess the capacity, roles, and needs of membership organisations, including cooperatives, business associations, and chambers of commerce. Specifically, CIPE sought to assess the extent of formalisation

and relative presence of good governance practice within PSOs. Further, based on input from organisational leadership, members, experts, and public officials, CIPE sought to paint a picture of an emerging model of PSO governance in Somalia that can be reinforced by policy, new knowledge, and practical incentives.

In order to inform actions by MOCI, Somali PSOs, EUD and other development partners, this assignment was designed to assess the capabilities and needs of PSOs collectively. The assessment sets the stage for policy reforms, the adoption of professional practices, and areas of potential capacity support to PSOs.





Introduction

Somalia is remarkable for being an “economy without a state.”¹ This simple phrase understates the role of government, but it captures several features of the country’s development. First, the private sector has been an important source of growth and livelihoods outside the direction of the state. Second, a self-organised private sector, solving shared problems and connecting to markets, has taken on added significance when public infrastructure and services are limited. Third, the lines for public-private cooperation have yet to be drawn.

In most countries, private sector membership organisations serve as vehicles for service delivery and collective action, benefiting for-profit enterprises and the overall development of the private sector. These organisations, which include trade associations, chambers of commerce, employers’ associations, and cooperatives, represent the interests of diverse sectors of the economy. Through service provision, joint problem solving, standard setting, and participation in policy dialogue, such membership organisations contribute to private sector development and national competitiveness. Cooperatives further serve to provide mutual support and economies of scale. Together, these entities are described as private sector organisations (PSOs) in this report.

Somalia has a small number of formal PSOs plus many more that are largely informal. Because they have not been studied extensively, and tend to be informal, little is known about their structure, membership, or performance. The overall impression of observers is that PSOs are not fully functional and are quite nascent in their development.²

Still, the fact that PSOs are self-organised, and have received renewed interest from the Ministry of Commerce and Industry, indicates real aspirations for their further development.

The form and purpose of Somali PSOs are products of a blend of influences. Before the war, the chamber of commerce followed a semi-public, French-Italian model, although that structure did not persist. Cooperatives had a British model before military rule and also resembled Tanzania’s model of a social movement with social planning. Later, cooperatives were reorganised privately, shifting from the socialist orientation envisioned in the 1973 Law on Cooperative Development. On top of these influences, it has been argued that cooperative values are embedded in the culture.³ While these multiple influences persist, today no formal model governs the status and functioning of PSOs.

¹ Peter D. Little, *Somalia: Economy Without State*. International African Institute, 2003.

² Victor Odundo Owuor, *Building a Business Ecosystem in Somalia: The Case for Business Associations*. One Earth Future, 2015.

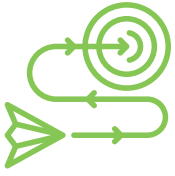
³ Interview with Mohamed M. Maie.

Given these starting conditions, the current study aims to shed light on the following questions:

- To what extent are PSOs in Somalia able to serve their members, sustain their organisations, and engage their stakeholders?
- Is the current policy and regulatory framework in Somalia adequate to promote PSO development?
- What are the aspirations of private and public stakeholders for the governance and development of PSOs?
- What model of governance is suited to the development of PSOs in Somalia?

PSOs' role in the business community and in public is largely directed by their internal governance and the regulatory environment. This study focuses on PSO's internal governance features and their policy environment, while assessing other dimensions of professional PSO management. A sound governance structure lies at the core of a successful organisation that seeks performance excellence. Governance defines decision making processes, aligns resources to the mission, proactively manages risk, and assures value to members. Meanwhile, a country's policy framework establishes PSOs' legal forms and purposes, relationships to members, community, and government, and pathways for development.





Methodology

As a way to answer the questions above, the mapping assignment collected and analyzed information on PSOs and their context, taken from a variety of sources. Inputs to this assignment included: interview-based assessments of PSOs; self-identified priorities of PSO leaders; stakeholder perspectives from three public-private dialogue sessions; focus groups, and key informant interviews. Limited desk research was also conducted.

The following criteria guided the selection of organisations to be assessed:

- ⇒ Incorporation of each major type of PSO: associations, cooperatives, and chambers of commerce
- ⇒ Incorporation of formal associations to understand what works formally in Somalia, yet greater weighting to PSOs that serve local and small business networks
- ⇒ Inclusion of women entrepreneurs' associations and the informal sector
- ⇒ Representation of major sectors of the economy, recognizing the preeminent role of agriculture, livestock and fisheries
- ⇒ Incorporation of PSOs working at different levels of Somalia's federal structure

No regular lists of registered PSOs were available to the researchers. The researchers' requests to MOCI and chambers of commerce did not yield comprehensive lists. In the absence of a national cooperatives register to use as a sampling frame, purposive sampling technique, aligned with the criteria above, was used to select respondents who led or managed PSOs. Trusted national PSOs, known to the federal government and development partners, served as the starting point for assessments and recommendations of regional organisations and contacts. Some organisations were known through their past engagement in public-private dialogue and development partner projects. The researchers attempted to include only active, viable organisations in the assessment, noting that many cooperatives have been reported to last no more than 6 months to a year.⁴

A questionnaire for this study was customised based on CIPE's proprietary Business Association Assessment Tool. Through semi-structured interviews of association executives or board leaders, the tool enables scoring of practices and performance across seven domains of associational excellence. The seven domains are: governance, strategic planning, financial management, membership & services, communications, advocacy, and management & human resources. Ordinarily used to prepare in-depth capacity building, in this case the tool was shortened for mapping purposes. Greater emphasis was given to indicators in the governance domain and to "tier 1" indicators across other domains—tier 1 representing the most basic elements of a three-tier system of indicators. In addition, respondents were asked about internal organisational challenges, priorities for capacity building, and recommended actions to improve governance and professionalism.

⁴ Interview with Ygor Scarcia and Najib Abdi.

Data were collected by two researchers through face-to-face interviews between February and April 2022. Respondents were offered confidentiality before completing the assessment interviews.

The face-to-face assessment interviews with PSO leadership were supplemented by two focus group discussions with PSO members in Baidoa and Kismaayo. These focus groups covered members' reasons for belonging to a PSO, their most valued services, level of satisfaction, and experiences with the organisation. (A couple of participants in the focus groups were founding members.)

An initial public-private dialogue (PPD) workshop in Mogadishu was organized by MOCI to raise awareness of the project with PSO representatives and experts. Then two regional PPD workshop discussions – one

in Baidoa on June 22, and one in Kismayo on July 2 – were organized by MOCI together with the Ministry of Commerce and Industry of Southwest State and the Ministry of Commerce and Industry of Juba-Land State. The workshops in these states had around 60 participants from government, cooperatives, and business associations. Participants validated findings from the mapping study and probed areas of consensus with respect to strengthening PSO governance.



Workshop in Mogadishu



Workshop in Baidoa

Workshop in Kismayo

Participants concurred that the presentation of summary findings reflected the state of organisations in their respective zones.

Finally, 13 key informants with experience in relevant sectors were interviewed in order to obtain a more holistic and contextual view of the condition of PSOs. (One key informant was from the Somali Chamber of Commerce and Industry, which also participated in the field assessment interviews.)

Documentation is scarce on the organisations assessed, even though it was requested in field interviews. A number of organisations did provide a certificate of registration/incorporation or an organisational profile.



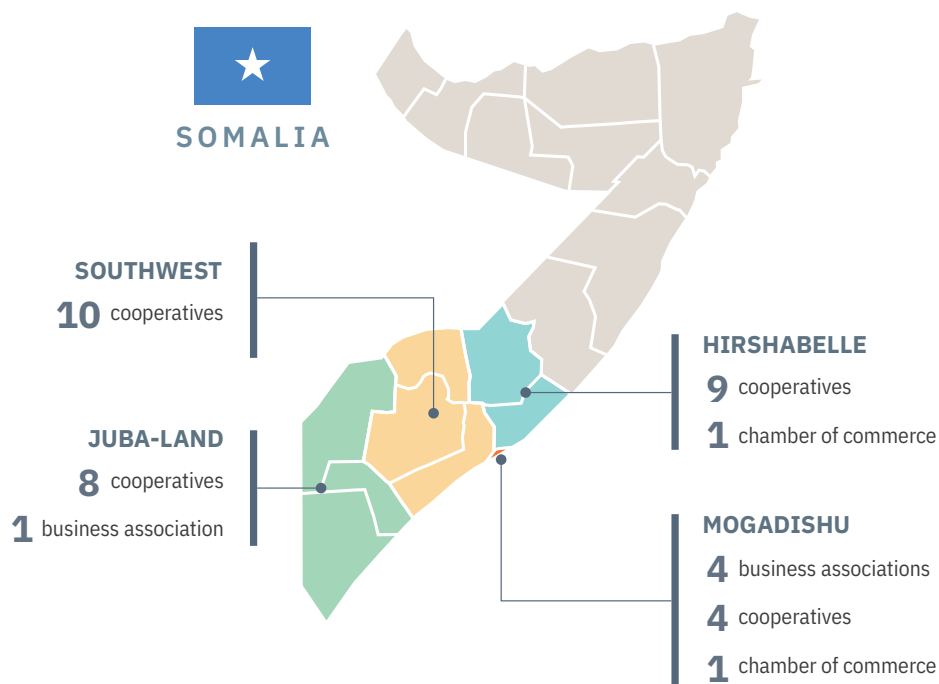


Overview of Private Sector Organisations

The field assessment confirmed the presence of active PSOs across Mogadishu and the three regions surveyed. While the initial expectation of smaller, informal groups reasonably characterized much of the sample, the study found many indications of a level of formality and structure throughout. By most accounts, *the PSOs are serving a purpose if not reaching a higher potential.*

In all, the mapping study assessed 38 PSOs that met the criteria above. Of the assessed organisations, 10 were national and 28 regional or local in scope. Altogether, they were based in: Mogadishu (9), Southwest region (10), Juba-Land (9), and Hirshabelle (10).

The breakdown by type of organisations consisted of: 31 cooperatives, 5 business associations, and 2 chambers of commerce. The associations were located in Mogadishu except for one in Juba-Land. One women’s association was included in the study and four cooperatives had a majority of women members.



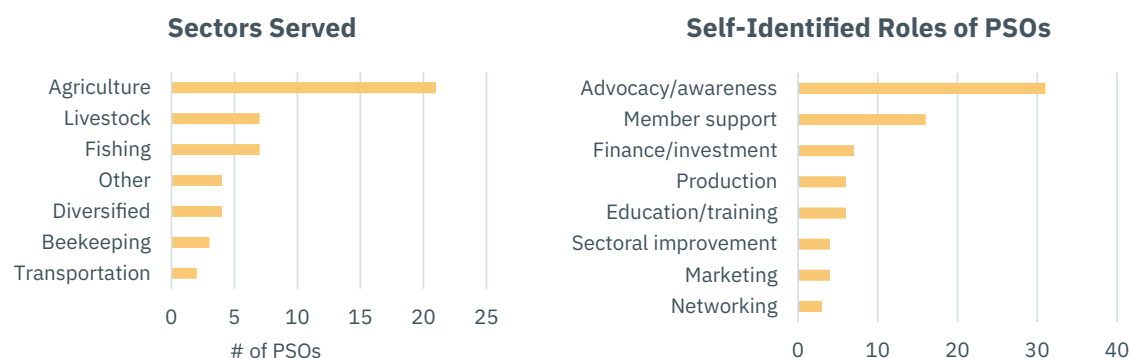
In the three regions outside Mogadishu, PSOs have a mean reported membership of 110 dues-paying members, including a mean of 34 women-owned member firms, and a median of 65 members, including a median of 20 women-owned members.⁵ Eight organisations reported

that dues are not regularly collected, so active membership may be overstated. Membership structures vary, such that the members’ operations are significant or cut across state lines in a couple of cases where the number of members is low.

⁵ According to the ILO, “over 95 percent of the female entrepreneurs surveyed in Mogadishu and Hargeisa were not affiliated to any business membership and/or women’s organizations.” Najma Ismail and Amina Ahmed, “Strengthening Women’s Business Associations in Somalia,” ILO and UN Women Briefing Paper 2/2016.

By region, the mean reported membership in Southwest is 204 members, in Hirshabelle 92 members, and in Juba-Land 23 members. Among national organisations, the median membership is lower though the members may be larger organisations and two of the national organisations reported more than 2,000 members each.

The mapping concentrated on agriculture, livestock, and fisheries sectors. Agriculture ended up by far the most prominent sector in the sample, with more than half of the PSOs serving agriculture. Four diversified organisations in the sample included the two chambers of commerce. In addition to “diversified” organisations, 8 organisations served 2 or 3 of the sectors represented here.



Asked how they saw the main role and contribution of their organisation, PSO leaders offered eight recognisable functional and service areas. Four out of five PSO leaders said they contributed to advocacy and awareness raising.

☞ The chamber is an example of a successful PSO. We have broad base presence, registered members and representation across all the states in Somalia. We work for and advocate on behalf of our members. Among some of the main achievements include the establishment of business enterprise development units at states, as well as an excellent case of public service – the chamber financed 54 km of road repair and rehabilitation.

PROF. IISE MAHAMUD (XALANE), SOMALI CHAMBER OF COMMERCE

Cooperative members in the focus groups said their reasons for joining a cooperative were for self-help (mutual support) and to increase productive input through collaboration. One mentioned being asked about cooperative membership when seeking access to bank funding, a capacity building program, or a state business license.

☞ If PSOs are improved, the larger sector will benefit because we anticipate the sector to improve in terms of expertise, infrastructure, productivity, and service supply... It is expected that their voices will be heard and that the role they may play in the governance system, as well as democracy and decision-making involvement, would improve.

FOUNDING MEMBER, DANWADAAG FARMERS' COOPERATIVE



Capacity assessment

The adapted CIPE assessment tool enables the identification of relative strengths and weaknesses among seven core functional areas, with an emphasis on the most basic, “tier 1” practices. The unweighted percentage scores for all 38 PSOs combined below express the percentage of total possible points for each function, with each indicator rated from 1 to 5. (See annex for the full list of indicators.)

Governance (10 indicators)	80%
Membership & Services (5 indicators)	74%
Communications (4 indicators)	72%
Advocacy (4 indicators)	71%
Financial Management (7 indicators)	62%
Management & HR (3 indicators)	58%
Strategic Planning (5 indicators)	58%

Across the full set of PSOs, governance comes through as the strongest function even though it was assigned the most indicators for this particular study. The weakest functions are strategic planning and management & human resources.

Asked about Somali PSO strengths in an open-ended question, key informants collectively summed up current strengths as marketing and trading, their commitment and resilience in a challenging environment, networking, trustworthiness/creditworthiness, and advocating for their members.

Although there is no strictly comparable dataset from other countries for this adapted tool, a rough comparison with Kenya is possible thanks to a 2021 CIPE proprietary assessment of eight Kenyan county chambers. If one matches the indicators for each function in the SPDI questionnaire against the first tier (most basic) indicators for each function in the Kenyan county assessment, the Somali PSO results are very similar overall on five out of seven functions. Somali PSOs, however, are noticeably weaker than their Kenyan county counterparts when it comes to strategic planning and management & human resources. Regarding the fundamentals then, Somali PSOs may need more attention to professionalization than to governance structures.

A rough comparison with Ethiopia can be made using a 2014 survey of 87 chambers of commerce and sectoral associations, which was conducted by the Ethiopian Chamber of Commerce & Sectoral Associations.

In that survey,

- **41%** of Ethiopian chambers and associations had both a strategic plan and written mission statement, **compared to 53%** of Somali PSOs claiming the same
- **75%** of Ethiopian chambers and associations had conducted advocacy, **compared to 53%** of Somali PSOs⁶



⁶ Ethiopian Chamber of Commerce and Sectoral Associations, HwK Partnership survey, cited in Precise Consult International, *Demand Study for BMO Services of ECCSA & its Member Organizations, submitted to the ECCSA Private Sector Development Hub, 2017. Final Consolidated Study Report*

Registration status



When speaking of formalisation, registration is the first criterion to consider. 35 of 38 organisations said they had registered and of these, 30 said they had written proof of registration. In this sense, they may not be “flying under the radar.” A few organisations provided a copy of their registration certificate to the researchers, but this was the exception.

Among the organisations assessed, 12 reported that they were registered with MOCI, 14 with the federal or respective regional Ministry of Agriculture, 6 with the federal or regional Ministry of Fisheries, 2 with the Ministry of Livestock, 1 with the regional Ministry of Transport, 1 with the Ministry of Education, and 1 with the Ministry of Energy and Water Resources. Depending on their areas of operations, some PSOs are registered with multiple jurisdictions.

Governance



Association governance creates a framework for leadership roles, decision making, and accountability for results. It provides a foundation for performance excellence, adherence to mission, and value for members.

Association governance provides a foundation for performance excellence, adherence to mission, and value for members.

Because of the importance of governance to formalisation and to other functions, governance was assigned 10 indicators in the assessment tool, the most of any function.

Organisations scored the highest overall on this function (80% of the total possible score), indicating that most basic governance structures are in place. Thus, 37 of 38 PSOs have a board of directors, 34 have a written constitution or bylaws, and 35 have a general assembly (the assembly is assumed and not scored in the global CIPE tool). Most organisations scored well on establishing ethical standards, holding regular board meetings, and electing board members. On 14 boards, the percentage of women members is 40% or higher; on another 14 boards the percentage is 20-39%; and on 9 more boards the percentage is less than 20%.

Board weaknesses include a lack of evidence for independence vis-à-vis management and the absence of term limits in 17 organisations. These weaknesses are expected to reduce the dynamism and responsiveness of the board. Documentation of rules (such as bylaws) and decisions (such as minutes) has not been confirmed by this study and may not be as high as claimed. In all, governance is undoubtedly an area where organisations can improve in relation to best practice, but key concepts and structures are present.

Who really owns cooperatives? The ownership picture is varied according to expert interviews. On the one hand, the cooperatives exhibit collective, democratic decision making.⁷ This democratic spirit is apparent in one cooperative in which all 26 members are board members. On the other hand, large landowners coordinate their interests through cooperatives and have power advantages over smaller actors.⁸ Since the collapse of the 1990s cooperative movement, there are cases of cooperative structures being maintained for the benefit of individuals who do not want to release the cooperative property, as well as cases of cooperative funds being used to influence members' decisions.⁹

⁷ Interview with Mohamed M. Maie.

⁸ Interviews with Scarcia & Abdi and Paul Crook.

⁹ Interviews with Maie and Dominic Karanja.

Strategic Planning



Strategic planning is important to setting organisational direction, prioritizing tasks, deploying resources, and getting results. In contrast to the comparatively good performance of the governance function, the strategic planning function of PSOs tied for the lowest scores overall in the assessment. Hirshabelle performed particularly poorly on this function. Among all leaders responding, a little more than half reported having a written strategic plan, which was created with input from members and summarized for members. Cooperative members in focus groups all said there was no written strategic plan. Those leaders who said they had a mission statement, but could not articulate or provide it, did not receive full scores since a mission statement should be memorable and regularly referenced. Only 7 organisations use performance measures, an indicator which brought the strategic planning scores down.

Financial Management



The financial management indicators reflect an organisation's ability to sustain its functions, manage its financial resources, and build confidence in its dealings. The financial management function received a middling score overall. This score masks wide variation, with Southwest performing well and Mogadishu performing poorly. The weakest components of the financial management score overall are the absence of an annual operating budget and financial reports, as well as reliance on a single source of income. The organisations do better at collecting dues, managing property, running a surplus, and maintaining internal controls. The basis for the claimed positive performance on the latter two items, however, could be questionable in cases where financial reports are absent. While a number of respondents expressed challenges with a lack of funds and a desire for more investment and funding opportunities, it is clear that a number of these organisations are not prepared with systems in place to manage funds and reassure funders.



Membership & Services



The membership and member services function is about recruiting and retaining members, providing value to members, and in turn capturing value for the membership organisation. This is an area of relative strength overall in this assessment and gives hope that PSOs can create development strategies based on the value they provide.

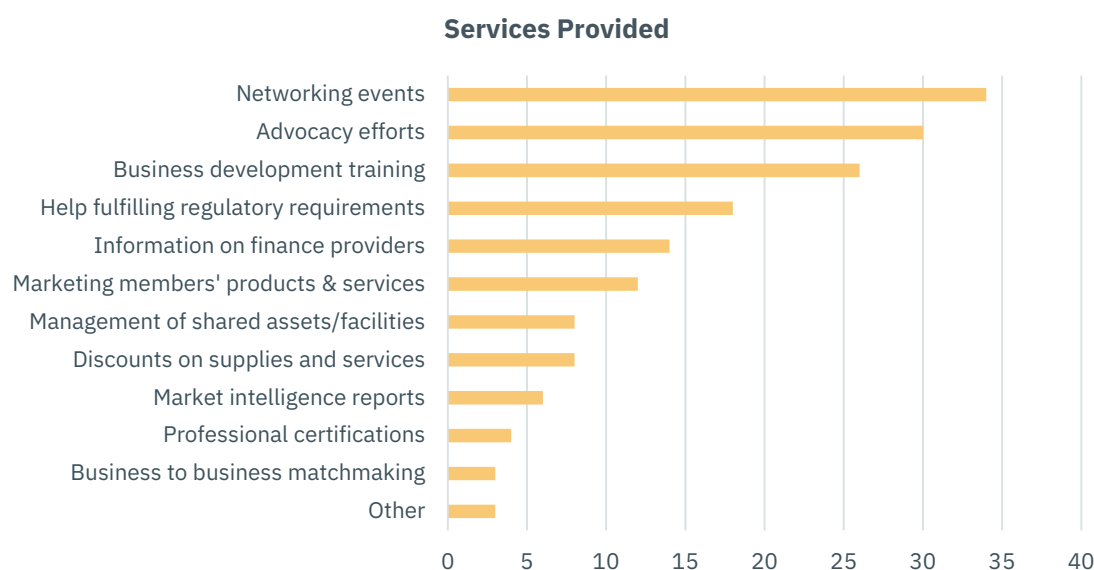


Membership and member services are areas of relative strength and give hope that PSOs can create development strategies based on the value they provide.

Their strong points include assessing member needs, maintaining a roster of members, and knowing the market for their services. Members in the focus groups said that members are consulted on their needs and satisfaction either weekly, monthly, or annually. It is not clear that the rosters are up to date or that inactive

members are removed from the rosters. Areas for improvement include better defining membership criteria and explaining member benefits in a brochure. Some organisations are quite small, suggesting that they are more self-help groups or clubs than service-oriented membership organisations.

Members receive valued services from PSOs:

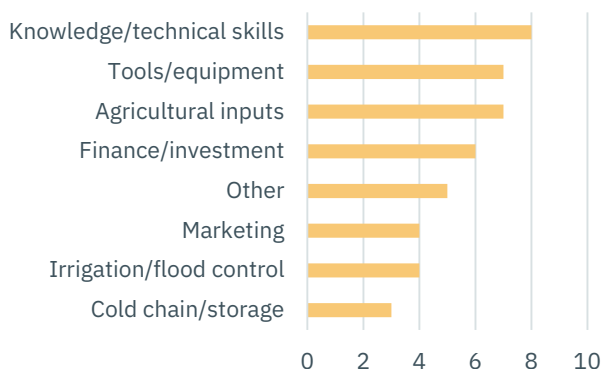


The most commonly provided services—networking events, advocacy efforts, and business development training—could easily be staples of mature associations in another country. Members' satisfaction with the services does track closely with the services actually provided, at least according to the leaders. In focus groups, members most highly valued business development training and

help with regulatory requirements. The least valued services, according to the focus groups, were management of shared facilities/tools, advocacy, and marketing services. The two who expressed disappointment with advocacy efforts did acknowledge that their "voice was heard." Overall, focus group participants expressed their satisfaction with cooperative membership without reservation.

Additional services that leaders would like to provide, but currently cannot, are as follows:

Services Unable to Provide



Communication



The communications function is essential to marketing, developing brand recognition, informing stakeholders, and winning support for the organisation. This assessment revealed relative strength in the communications section. The only weak indicator was the absence of organisational websites (only four in the dataset), but this is an understandable result of the context. 35 of 38 PSOs communicate regularly with members, which is very positive since associations are not always oriented toward their members. Organisational logos are common; reports on activities less so. Telephone calls and in-person meetings comprise the most common forms of communication. WhatsApp is used by 13 organisations and regular newsletters are non-existent. Illiteracy impedes communication with cooperative members, but for organisations at a smaller scale this does not seem to be an insurmountable obstacle.

Advocacy



Advocacy gives voice and influence to a membership organisation for the benefit of its members, industry, or wider economy by addressing their challenges and improving the operating environment.


This assessment looked at the strategic approach to advocacy and level of advocacy activity. While Southwest PSOs excelled in this area (87%), Juba-Land PSOs underperformed (48%). What stood out again is the member orientation. Organisations are best at obtaining member input on the issues, which is a democratic approach and well suited to leveraging strength in numbers. About half had conducted an advocacy effort in the past year and about half have regular contact with policymakers. Just over half have adopted position statements on major issues. 29 organisations expressed confidence that they can influence government policy, and 26 said that the government does invite them to dialogue. As noted above, advocacy & awareness raising is the top self-identified role for PSOs and the second-most common service function.

Management & Human Resources



Professional management has not been introduced in the majority of organisations. This is evident by the limited adoption of formal management and staffing practices. 26 organisations have a copy of an organisation chart. Only 14 organisations have written job descriptions and 13 hire on the basis of professional qualifications. Although there are gaps in reporting on staffing, half the PSOs reported having paid staff, with a median of 11 staff members (including median 1 female staff member) among those that are employers. There are also gaps in reporting on volunteers, but almost half the PSOs reported having volunteers, and within this group a median of 5 volunteers, not counting board members (including median 3 female volunteers). When asked in an open-ended question about levels of authority, only a handful of respondents described a relationship of executive staff to governing bodies and officers. There is most likely a need to study staff roles within a governance context.


Capacity Score by Region



	Hirshabelle	Juba-Land	Southwest	Mogadishu
Governance	81%	71%	86%	82%
Strategic Planning	47%	56%	64%	64%
Financial Management	61%	61%	80%	43%
Membership & Services	69%	70%	85%	71%
Communications	74%	62%	76%	73%
Advocacy	71%	48%	87%	78%
Management & HR	51%	61%	57%	64%

This heatmap simplifies the presentation of PSOs' average performance according to region on each of the seven functional areas. The heatmap shows the Southwest region as having the best capabilities out of the four regions. While on average the weaker functions across regions are strategic planning and management & HR, region-specific pain points can be isolated. The Mogadishu-based organisations are especially weak on financial management, those in Hishabelle are weak on strategic planning, and those in Juba-Land are weak on advocacy.

Capacity Score by PSO Type



	Associations	Chambers	Cooperatives
Governance	78%	92%	80%
Strategic Planning	65%	84%	55%
Financial Management	56%	63%	63%
Membership & Services	70%	76%	74%
Communications	72%	90%	70%
Advocacy	68%	90%	71%
Management & HR	63%	100%	55%

The capabilities heatmap for the three types of PSOs reveals fewer contrasts. Chambers of commerce have the highest capabilities on all functions except financial management, but there are only 2 chambers in the study. Otherwise, the association and cooperative types are fairly evenly matched in their capabilities. The 5 associations in the study are far outnumbered by the 31 cooperatives. Based on these results, one cannot generalise that any one category of PSO has superior performance or potential to the other categories.

Capacity Score by Sector



	Agriculture	Livestock	Fisheries	Diversified
Governance	80%	81%	73%	86%
Strategic Planning	52%	62%	54%	72%
Financial Management	67%	73%	49%	47%
Membership & Services	76%	71%	71%	76%
Communications	72%	71%	69%	75%
Advocacy	76%	67%	59%	80%
Management & HR	50%	52%	62%	87%

The heatmap for capacity across sectors rounds out the comparisons. Agricultural capabilities track closely with overall capabilities for the 38 PSOs assessed. This is not surprising, since PSOs active in agriculture represent more than half the sample (and the smallest sectors are excluded from the heatmap). Diversified PSOs, defined here as active in four or more sectors, appear to lead the way, with the anomaly of weak financial management. The diversified category includes two chambers and two non-chamber organisations. The fisheries sector lags behind the average for all PSOs.





Challenges and Priorities

Turning now from the comparative assessment of functions to perceived challenges and priorities, the study collected views from PSO leaders, members, and experts on internal and external challenges and priorities for policy and non-policy actions. These locally grounded views will inform the way forward for PSO development in Somalia.

Internal Challenges

Looking beyond the individual functional assessments, the PSOs generally lack systems and knowledge of how to institute them. Key informants further stressed the challenge of limited knowledge within PSOs, in areas such as governance and management, agricultural and business practices. Two even said there is no clear understanding of the meaning of “cooperative.”

When asked about internal challenges, 11 leaders cited lack of funds, 10 cited lack of knowledge or skills, and 3 cited a lack of qualified staff. Only two expert informants highlighted a shortage of capital or equipment, in contrast to organisation leaders’ relative focus on lack of funds. A couple of informants noted the lack of technical ability on staff. As for governance, one PSO leader explained that board members had overstayed their term limits. 14 leaders did not offer any internal challenges at all, which is understandable if they were concerned to make a positive impression externally.

Traditional methods of farming and organisational management are seen as hindrances. Two informants indicated that cooperatives serving fisheries are more advanced or more enduring,¹⁰ but the six fisheries cooperatives in the study sample did not bear this out in the scoring.

Finally, an expert on financial cooperatives (none of which were selected for this study) noted the need for financial cooperatives to scale up and build confidence in their management of entrusted funds.¹¹ Yet SACCOs are often self-help groups which are not positioned to scale up.

External Challenges

Key informants offered the following major external challenges confronting PSOs: limited market access, insecurity, poor transportation infrastructure, lack of legal and policy frameworks, and limited investment. Less-cited challenges were environmental factors (climate change and drought) and lack of government support. Although the PSO leaders were not asked directly about external challenges, two of them cited government relations challenges anyway.

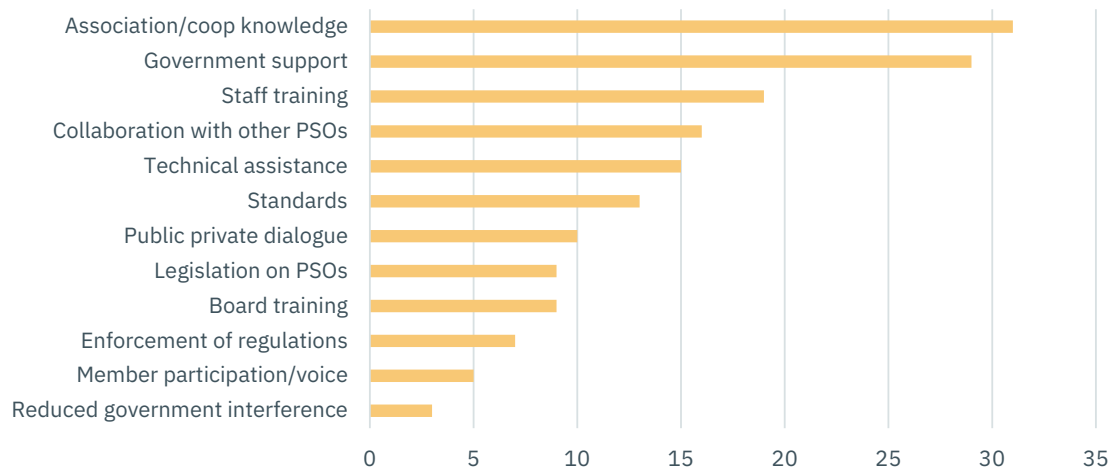
With respect to government, Professor Maie pointed to three types of challenges. First, an absence of clear legal status, policies, and procedures inhibits the ability of cooperatives to make international agreements, obtain loans from a local bank, or export without an intermediary. Second, government institutions have limited capacity and are not allocating funding to support the cooperative sector. Third, the government has limited understanding of cooperatives’ priorities and functions.

¹⁰ Interviews with Maie and Crook.

¹¹ Interview with Karanja.

Areas for Action

Top Areas for Action



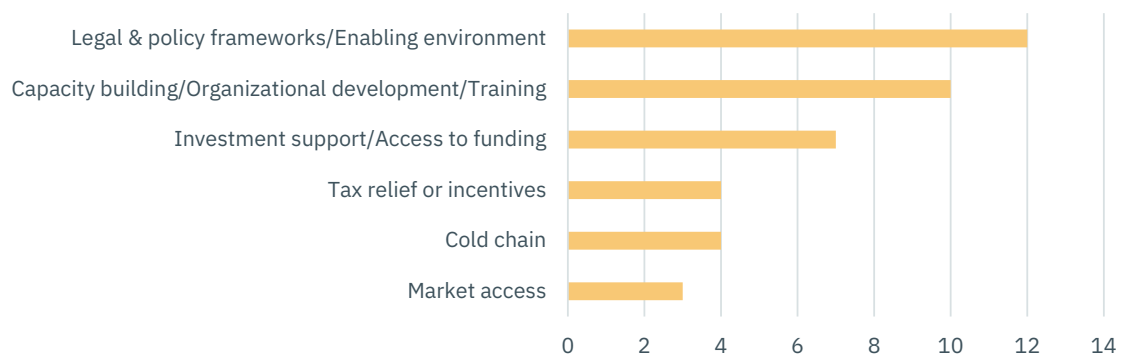
The observed challenges set the stage for prioritisation of actions to upgrade PSOs' functioning and performance. Two standout areas for action emerging from the analysis are first, to increase knowledge and awareness of associations and cooperatives, and second, to engage more government support. Improving knowledge, together with staff training, took first and third place in the leaders' prioritisation, and government support took second place.

Key informants similarly set high priority on improving knowledge and increasing government support, and then creating common standards for PSOs and improving public-private dialogue. Unlike organisation leaders, they did not place staff training, collaboration with other PSOs, or technical assistance in the upper tier of actions.

Members in focus groups put forward a combination of top areas for action, including: training and capacity building programs, policy frameworks, management models, and investment support. They envisioned that action and support can be brought by a broad set of actors, namely: federal and regional governments, NGOs, development partners, the private sector, and the community itself.


Cooperative leaders are eager to learn, said Prof. Maie. Their need and demand for knowledge can be broken down, first, into awareness of PSOs' purpose and roles; second, functional requirements and systems needed to govern and manage PSOs; and third, technical knowledge related to staff requirements and relevant lines of work within agriculture and industry.

Government Roles (PSO Leader View)



Whereas PSO leaders seek government intervention in the areas of legal and policy frameworks, organisational capacity building, and investment or financial support, the one area where key informants agreed with leaders on government intervention was the development of legal and policy frameworks and an enabling environment.

Public-private discourse, according to the workshop discussions, is essential to the development of private sector organisations, the building of investment-friendly business environments, and the creation of legal and policy frameworks that support PSOs. Yet public-private dialogue only placed seventh on leaders' list of areas for action. One interpretation of this discrepancy could be that public-private dialogue is seen as a means toward other actions.

 *Make membership meaningful by setting up/reactivating a democratic framework, built on a clear data-sharing system. Show the benefits of being a co-operative in a very clear way – such as economic and social benefits. Create a sense of belonging and sharing among members.*

PROF. MOHAMED M. MAIE, COOPERATIVE ALLIANCE OF SOMALIA

Policy Priorities

The policy priorities of PSOs vary greatly in the responses received. The limited convergence in policy priorities was around shared concerns such as: marketing (12 responses), finance/investment (6 responses), transportation (5 responses), and production (5 responses). Many policy preferences were differentiated according to specific industries. Others were very general or weakly defined. Interestingly, some respondents expressed an interest in the broader regulatory and business environment, noting for instance the “investment climate,” or “Review all laws since the country has now a federal system.” Related to the representation and regulation of the private sector, there were calls to harmonize laws and policies with the new federal setup; to “rebuild via a grass-roots approach a national body of representative cooperatives”; and to better monitor and control “briefcase cooperatives.”

In the regional workshops, panelists highlighted policy priorities resembling those from the interviews: marketing, financial management

procedures, access to finance, physical infrastructure development, and trade reform. From the open workshop discussion, policies important to the private sector as a whole include:

- Small and medium enterprise policy and strategy
- Standards for testing private sector development
- Strengthening the capacity of private sector institutions
- Promoting women entrepreneurs
- SME development and informal sector promotion

Two non-issues that expert informants brought out bear repeating. First, there are no significant barriers to registering a PSO.¹² Any challenges with registration relate more to maintaining registered status or maintaining a registry. Second, government interference in the governance or internal affairs of PSOs is not a concern.

¹² Interviews with Maie and Crook.



An Emerging PSO Model

Somalia has the opportunity to redefine its model of PSO governance, given that no model is currently well established. The legal framework is neither extensive in scope nor in implementation. Many of the PSOs active today sprung out of post-war initiatives and are not anchored in the previous order. This absence of strong institutional persistence implies considerable latitude for change.

In many respects, Somalia has a mixed model of PSO governance, though this is far from explicit. The Law No. 40 on Cooperative Development (1973) lays out the envisioned relationship of cooperatives to the state in the first chapter:

“The State will guide, promote and protect all Cooperatives formed according to the provisions of this Law. All cooperatives are bound to carry out their activities in close cooperation or in contract with the competent state Organisations.”

The law assigns ministries roles such as assisting in cooperative formation, auditing cooperatives, and providing technical assistance and supports to production. Internally, cooperatives are to be democratic organisations according to the law.

The annex to Law No. 40 further elaborates a mixed model for cooperatives. Membership is voluntary and open to anyone from the area within the profession. Leadership is elected by the membership at a general meeting in which all members have an equal vote. The authority vested in the general meeting of members confirms the internal democratic governance. Once a cooperative has been founded and its bylaws adopted, it must apply for registration to the appropriate ministry. The annex assigns certain functions to the cooperatives related to production, member services, and village development. Cooperatives are expected to cooperate with state organisations through contracts.

Since the 1990s, liberalization of cooperatives in many African countries has seen the advancement of a cooperative model more in line with the Cooperative Principles of the International Cooperative Alliance (ICA) than with statist and monopolist models. The statist models had been inherited from colonial and socialist eras and were common across the continent through the 1980s.¹³ In contrast with statist models, the ICA principles of voluntary and open membership, democratic member control, and autonomy and independence, are consistent with the voluntary aspects of the mixed model described above. Other ICA principles of member economic participation and cooperation among cooperatives are consistent with widely held values in Somalia of mutual support and collaboration.

Chambers and associations in Somalia have a similar story to the cooperatives in terms of a mixed model of PSO governance, with a few



¹³ Fredrick O. Wanyama, Patrick Develtere and Ignace Pollet, “Reinventing the Wheel? African Cooperatives in a Liberalized Economic Environment,” International Labour Organization, Coop Africa Working Paper No. 1, 2009.



differences. The Chamber Law of 1985 draws a line of accountability to the Minister of Trade, designates objectives for the Chamber, and recognizes chamber staff as civil servants. On the other hand, the law calls for an open membership model and leaves the Chamber president to set the bylaws. In practice, the national chamber has demonstrated considerable independence. Chambers in particular stand out for higher professionalism and better scores all around for organisational capacity. The business associations are notably absent from the legislation that governs cooperatives, although associations do get registered. Associations do not have a history of state control or support but are perceived by some to have superior access to government representatives.

What might a mixed model imply for PSOs in Somalia? Current conditions have allowed the space for self-created groups to serve themselves and their sectors. Voluntary membership systems have the virtue of creating incentives for organisations to be responsive to their members. In a voluntary membership model, firms have a choice whether to join and pay for dues and services. An organisation only gains support if it provides value to members, fee-payers, and sponsors. This means of course that there are no guaranteed revenues or supports for a PSO in a voluntary system and it will fail if it cannot compete.¹⁴ To this is added a free rider problem because benefits that a PSO creates for the sector may also accrue to firms that never joined.

By contrast, a mandatory membership system or government-directed model has the ability to designate public functions, ensure continuity of PSOs, and coordinate public-private relations within every sector. There is no guarantee, however, that government-recognised PSOs will be active in pursuit of members' interests and evolving sector needs.

Somalia's governing framework applies a lighter touch by not directing the internal affairs of PSOs but still sets standards for accountability and registration. The law's language about coordinating the economy through PSOs is quite ambitious and the government does not force the matter.

Formalisation will be an important part of any effective and sustainable governance model. A dual picture emerges in Somalia of registration that is common but not fully institutionalised. The vast majority of PSOs claim to be registered and none see barriers to registration as an impediment to operation. Yet, it is not clear that they keep their registration status current. On the government side, regulators cannot easily provide lists of registered PSOs and presumably lack a functional registry. Moreover, multiple jurisdictions are involved in registration and licensing, across sectors and levels of the federal system, with little clarity of the respective registration requirements.

The lack of reliable information on PSOs' registration status creates challenges for the private sector and government alike. Perhaps the greatest challenge is the loss of credibility that arises from an inability to differentiate between active and inactive organisations. There are reported instances of PSOs being set up purely to pursue resource benefits intended for PSOs. There are also reported instances of PSO directors maintaining an organisation to retain control of assets without providing member services. Moreover, government agencies lack consolidated information on active PSOs and therefore cannot engage them systematically in dialogue, support, economic initiatives, or regulatory action.

¹⁴ Well-organized African cooperatives have responded to demand in liberalized markets. Others that are unable to address member interests are being abandoned. Wanyama et al., 2009.

An Emerging Mixed Model of PSO Governance for Somalia

	Continental Model	Anglo-Saxon Model	ICA Principles	Somalia
Legal status	Created by law	No special law	Autonomous & independent	Founded by members under the Law on Cooperative Development
Membership type	Mandatory	Voluntary	Voluntary & open	Voluntary
Tasks	Delegated by government	Not delegated	Member economic participation; Education, training & information; Concern for community	Delegated & non-delegated
Policy role	Formal consultative status	Advocacy for members	Cooperation among cooperatives (collective voice)	Advocacy for members
Government supervision	Supervised by government	Private	Democratic member control	Registered & audited by government; internally democratic

Adapted by the author from Victor I. Fedotov, "Organizational and Legal Models of Chambers," CIPE, 2007; Markus Pilgrim and Ralf Meier, National Chambers of Commerce: A Primer on the Organization and Role of Chamber Systems, 1995; International Cooperative Alliance, Cooperative Principles; author's assessment of Somalia.



Conclusion & Recommendations

Conclusion

As borne out by this study, Somalia's PSOs perform useful services and have important roles to play as institutional supports to production and commerce. They have the potential to serve members on a larger scale if they were to apply more formal methods of organisational governance and management. Still PSOs are surviving, not thriving, without an enabling policy framework.

Government has important roles in the governance and support of PSOs, which can enable their success. These roles include registering and affirming the status of legitimate PSOs, steering policies that position the private sector as an engine of development, and coordinating institutional support. Government can best play these roles not through a top-down model of PSO development but by establishing an orderly framework, encouraging PSOs to take advantage of professional growth opportunities, and engaging with them as an attentive partner.

The high potential for PSO improvement beckons for action. The starting points for action should be clarifying the policy framework, preserving the independent spirit of the more dynamic PSOs, and encouraging the uptake of professional knowledge for PSO governance. The approach should incorporate international best practice without attempting to replicate another country's model for PSOs. In other words, Somalia should adopt

a targeted, flexible approach, one which allocates resources smartly and allows PSOs space to find their own solutions once they receive the necessary knowledge and tools.

This study has identified known problems of high importance, which can be the focus of a targeted program for PSO formalisation. Targeting matters because, as Peter D. Little has pointed out, elements of Somali business have demonstrated remarkable resilience in the absence of formal institutions, whereas adding formal structures has not necessarily reduced risks for business.¹⁵ While most Somali PSOs are low on the scale of formalisation, they have in fact achieved a level of service to their members and sectors through their self-organisation and effort.

Governance and formality exist along continuums and cannot be established overnight by decree. They can evolve step by step through the introduction of best practice and the enhancement of effective local practice. While sound governance does not guarantee a PSO's success, it creates pathways for legitimacy, accountable stewardship, and participation as well as a foundation for strategy and higher performance.

The following recommendations are grounded in the existing characteristics of PSOs, the expressed priorities of stakeholders, and an emerging model of PSO governance.

¹⁵ Little, *Economy Without State*; see also World Bank, *Somaliland's Private Sector at a Crossroads: Political Economy and Policy Choices for Prosperity and Job Creation*, 2016.

Recommendations



1. Create an enabling policy framework for PSOs.



Policy sets the foundation for PSOs' formal status and legitimacy. This foundation can be secured without major new legislation, so long as government brings clarity to the policy and regulatory framework.

- Affirm the voluntary, self-governing status of PSOs. Self-governance relieves pressure from government and enables locally owned solutions. Voluntary membership is the basis for responsive services and active representation.
- Designate the authority to register PSOs at each level of the federal system. Each PSO should only be required to register with a single authority. Multiple registrations create complexity without compensating benefits.
- Establish and maintain a single registry of PSOs. The Ministry of Commerce and Industry should maintain a common registry that confirms PSOs' registration status for all government and private stakeholders. MOCI should coordinate with other ministries to ensure that legal registration requirements are met efficiently.
- Clarify and streamline registration requirements. Consider a one-stop shop, low fees, standardized forms, transparent processes, and simplified renewal requirements.
- Ensure that business associations are included within the regulatory framework. The 1973 Law on Cooperative Development does not cover non-production oriented membership organisations, leaving the legal status of associations unclear. A separate law may not be necessary for associations but the relevant law for incorporation should be clarified.
- Promote standards for democratic PSO governance. Consider establishing a voluntary self-governance code for PSOs. Such a code would explain members' rights, board duties, and features of internally democratic decision making.

2. Create a roadmap for PSO development.



Somalia's PSOs need and want guidance to become more professional organisations. Existing organisational support resources do not meet the demand, nor is there a development plan in place. Elements of a roadmap would include:

- Offer training, mentorship, and advisory services to PSOs on fundamentals of PSO governance and management. Demonstrate to them the value of professionalisation and the growth opportunities available through adoption of best practices.
- Assess and diagnose capabilities of existing PSOs; identify potential to expand services and representation. Each assessment will go deeper into individual organisation needs than this current mapping exercise. PSOs should co-own the assessment process.
- Support in-depth, tailored technical assistance to individual PSOs in combination with self-directed capacity improvements. Provide institutional support for PSOs' own plans for organisational improvement. Ideally services will be tailored at the level of the organisation, but likely will require emphasis on strategic planning and management & HR, on financial management in Mogadishu, and more rigorous governance across the board as a foundation for other functions.
- Ensure incentives for healthy competition. Reward PSOs that are creating value for members, industries, and communities. Allow stronger PSOs to thrive while leaving room for young organisations to grow and compete. The Southwest region has promise to demonstrate what works at greater scale.
- Ensure inclusivity when offering PSO development opportunities. Engage diverse members of the private sector from all backgrounds. Involve women in PSO leadership development initiatives, both on a professional and volunteer basis.

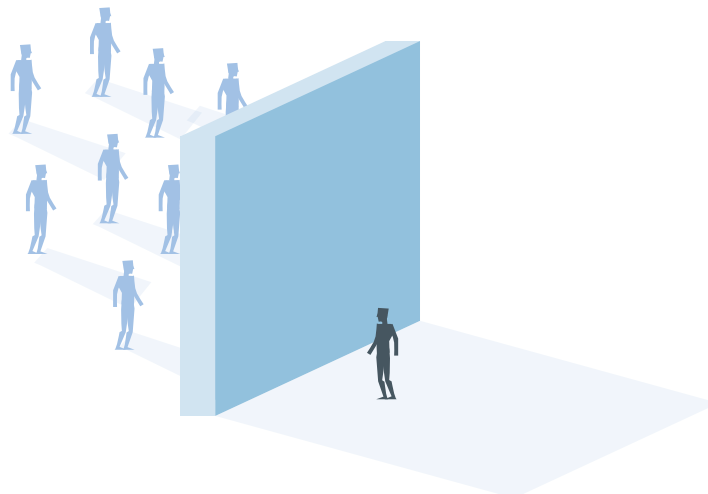


3. Establish the basis for relations between government and PSOs.



Government and PSOs at each level should endeavour to establish healthy relationships based on recognition of their respective roles and mutual interest in the development of the private sector.

- Once government has adopted a renewed and clarified policy framework for PSOs, it is encouraged to seek opportunities to share and explain the framework.
- Each level of government should communicate to the private sector how to access regulatory and support services.
- Government representatives should participate in activities outlined in the PSO development roadmap. Government representatives can help coordinate, add support, and enhance their own knowledge of PSO governance and professionalisation.
- Establish regular forums for public-private dialogue. Forums should be representative, well-coordinated, and inclusive. Themes for dialogue may include the PSO policy framework itself, an enabling environment for business and investment, access to finance and investment opportunities, and SME development strategy.
- The private sector should prepare relevant, well-supported input to PPD forums on sector conditions and priorities. Most PSOs will need to develop their capacity to collect, coordinate, and present input from their membership and respective sectors.
- Allow space for continuing informal activity, such as local mutual support groups. While the goal is to formalise and professionalise PSOs, achieving this goal will take time, so it is best to avoid cutting off informal services.



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Annexes

Organisational Capacity Indicators (excerpted from the adapted questionnaire)

GOVERNANCE

Does the organisation have a written constitution or bylaws (internal regulations of the association/cooperative)?

Does the organisation have a board of directors?

How are board members chosen?

Are there term limits and regular rotation of board members?

If the organisation has a board of directors, does the composition of the board reflect the diversity of the organisation's membership?

If the organisation has a board of directors, which of the following actions does the board take?

The board conducts a regular performance review to evaluate the chief staff executive. Yes/no

The board meets regularly, with a published agenda, and attendance exceeds the quorum. Yes/no

Decisions of the board are recorded in the minutes, which are approved by board members. Yes/no

The board ensures compliance with government regulations and tax obligations. Yes/no

Are ethical standards defined for the organisation leadership, including loyalty to the association/cooperative and avoidance of conflict of interest?

STRATEGIC PLANNING

What is the mission statement?

Does the organisation have a written strategic plan?

Was the strategic plan created with input from members and key stakeholders?

Has a summary of the strategic plan been communicated and made visible to members and key stakeholders?

Have performance measures (key performance indicators) been established to track progress on strategies and goals?

FINANCIAL MANAGEMENT

If the organisation has an annual budget, was the budget approved by the board? Does it accurately reflect the organisation's financial position?

What are the organisation's principal sources of funding?

- Are membership dues regularly collected?
- Does the organisation have a system of internal controls over its finances and assets?
- If the organisation produces regular financial reports, are they reviewed by the board at least quarterly and made available to members?

Does the organisation's income exceed its operating costs?

Is the organization's property (land, building, equipment) properly managed and well maintained?

MEMBERSHIP AND MEMBER SERVICES

How are membership criteria defined?

Has the organisation assessed member needs and satisfaction within the past three years?

Does the organisation maintain a roster of dues-paying members?

Does the organisation know the size of the market for its services?

Does the organisation have a membership brochure, describing valuable benefits and services, to facilitate recruitment of new members?

COMMUNICATIONS

Are there a professional logo and consistent branding that reflect the organisation and are protected against misuse?

Does the organisation have a website that is regularly updated?

Does the organisation issue regular reports on its activities, for members and other stakeholders?

Does the organisation communicate regularly with its members?

ADVOCACY

Has the organisation gathered members' perspectives on the issues affecting business/your sector?

Has the organisation adopted position statements on major issues and shared these statements with the membership?

Has the organisation executed at least one advocacy initiative within the past year?

Does the organisation maintain regular contact and engagement with policymakers and other decisionmakers in government?

MANAGEMENT AND HUMAN RESOURCES

Is there a chart showing the organisation leadership, levels, and relationships?

If the organisation has paid staff, ask the following questions:

Does each staff position have a written description of the responsibilities and skills required?

Are staff positions filled on the basis of professional qualifications?

List of Mapped PSOs

Name of PSO	Type of PSO	Location
Horseed Association	Cooperative	Hirshabelle
Jiiqle Cooperative	Cooperative	Hirshabelle
Jeerray Farmers Cooperative	Cooperative	Hirshabelle
Midnimo	Cooperative	Hirshabelle
Tigaad	Cooperative	Hirshabelle
Hiiraan Chamber of Commerce	Chamber of commerce	Hirshabelle
Al Haramayn Livestock Cooperative	Cooperative	Hirshabelle
Federal Agricultural Association Cooperatives	Cooperative	Hirshabelle
Carro Maal	Cooperative	Hirshabelle
Damalow Farmers Development Association	Cooperative	Hirshabelle
Faxdi Cooperative	Cooperative	Juba-Land
Najma Cooperative	Cooperative	Juba-Land
Hibo Fishing Group	Cooperative	Juba-Land
Kembo-kembo	Cooperative	Juba-Land
Cigaal Cooperative	Cooperative	Juba-Land
Al Qasab	Cooperative	Juba-Land
Shunguwa Cooperative	Cooperative	Juba-Land
Soo-Maal	Cooperative	Juba-Land
Olympic Transportation Cooperative	Business association	Juba-Land
Somali Women in Business	Business association	Mogadishu
Ururka Qaranka Iskaashatooyinka Quudka iyo Adeega, National Organization Cooperative for Consumers and Services	Cooperative	Mogadishu
Cooperative Alliance of Somalia	Cooperative	Mogadishu
Somali Chamber of Commerce and Industry	Chamber of commerce	Mogadishu
Union Industries Somalia Midowga Warshadlayda Soomaaliyeed	Business association	Mogadishu
Association of Somali Universities	Business association	Mogadishu
Ururka Qaranka Iskaashatooyinka Kallumaysiga, National Fisheries Organization	Cooperative	Mogadishu
Somali Green Energy Association	Business association	Mogadishu
Union of Livestock, Forestry, and Incense Cooperative Movement	Cooperative	Mogadishu
Kalkaal Cooperative	Cooperative	Southwest
Buulo Nuuray	Cooperative	Southwest
Mubarak Cooperative	Cooperative	Southwest
Barda Silig	Cooperative	Southwest
Gadh-Oday Cooperative	Cooperative	Southwest
Saaxo Cooperative	Cooperative	Southwest
Haabarre Cooperative	Cooperative	Southwest
Salbuuy Cooperative	Cooperative	Southwest
Abaar Moog	Cooperative	Southwest
Halgan Cooperative	Cooperative	Southwest

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