

# THE ISIR DIGEST

*Politics and Security Analysis*

## THE IMPACT OF LAS ANOD CONFLICT ON SOMALILAND'S ECONOMY

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## Overview

The ISIR Digest for the month September examines the economic impacts of the ongoing conflict in Las Anod on the country of Somaliland. It provides background on Somaliland's recent economic challenges and the pre-conflict economy. The analysis then explores the overall economic impacts, covering effects on budget allocations, human capital, institutions, debt and financing, social cohesion, and investor confidence. Specific impacts on the Las Anod locality are discussed, including mass displacement and humanitarian crisis. Sectoral impacts on healthcare and education are analyzed regarding consequences for human capital development. Economic policy and humanitarian recommendations are proposed focused on reducing defense spending, securing reconstruction support, investing in education, facilitating conflict resolution and providing urgent relief. The conclusion summarizes the multifaceted crisis and need for coordinated efforts between Somaliland and international partners to address the economic damage and work towards lasting peace and prosperity.

## Introduction

Somaliland, a low-income economy with a GDP per capita income of approximately \$775, has been grappling with a complex web of economic challenges due to a confluence of internal and external factors. These challenges include a severe drought in 2017, a subsequent ban on livestock trade, the devastating Waheen Market fire, the global COVID-19 pandemic, and the Russia-Ukraine war. Collectively, these factors have not only dampened economic activity but also hindered financial growth, pushing Somaliland into uncharted territory.

Somaliland had enjoyed relative stability for two decades, a stark contrast to the tumultuous history of the Horn of Africa. This stability allowed for significant economic growth, marked by the development of essential economic infrastructure, capital expansion, and investments in human resources. However, the economic landscape has witnessed a series of abrupt shocks over the past few years, significantly altering its trajectory.

The initial blow came in the form of the 2017 severe drought, which devastated livestock herds, a lifeline for many Somalilanders. Subsequently, the ban on livestock exports compounded the economic strain, leading to a notable contraction in economic activity and constrained financial growth. The adverse economic impacts of these factors gradually subsided in 2018 and 2019, characterized by an upward trajectory in economic indicators.

Unfortunately, this revival was short-lived, with the onset of the COVID-19 pandemic towards the end of 2019. The pandemic, coupled with elevated inflation rates and disruptions in the global supply chain, further exacerbated the economic situation, creating headwinds for recovery.

Following the receding impact of the pandemic, the economy struggled to regain its momentum. The devastating Waaheen Market fire, which was the largest business market in Somaliland, compounded the challenges faced by the already struggling economy. Moreover, the eruption of the Russia-Ukraine war, with far-reaching repercussions, triggered a pronounced downturn, further exacerbating the overall health of businesses.

These challenges notwithstanding, the continuing political stalemate over the delayed November 2022 presidential elections continues to create an uncondusive business environment. This political uncertainty, further compounded by the ongoing conflict in Las Anod, exacerbates the already precarious economic circumstances.

The Ministry of National Planning and Development has projected that the country's Gross Domestic Product (GDP) will experience a growth rate of less than 3% for the fiscal year 2023. This rate stands in stark contrast to the higher levels witnessed in previous years, which were hovering around 9%. When discounting the tragic Waaheen market fire incident and the conflict in Las Anod, coupled with the global factors such as inflation and the Ukraine war, there is a looming risk of further worsening the already unfavorable economic circumstances. Consequently, there is a considerable likelihood that the economy of Somaliland will undergo a contraction over the course of this year.

## OVERALL IMPACT ON SOMALILAND ECONOMY

**Economic Contraction and Strained Resources:** Somaliland has allocated over a third of its annual budget to the security sector, specifically 35%, representing a substantial portion of its national budget. However, amidst the ongoing conflict in Las Anod, this allocation has seen a remarkable escalation. This escalation has necessitated the difficult decision to reduce funding for developmental projects, which has already resulted in the trimming of non-critical developmental initiatives. This economic maneuver carries the potential for significant repercussions on the service delivery and broader developmental trajectory. From an economic perspective, the allocation of such a substantial proportion of the budget to the security sector reflects an increasing opportunity cost. The resources channeled into security expenditure could otherwise have been directed towards vital developmental projects, such as infrastructure development, education, healthcare, and social services. These projects, considered essential for long-term economic growth and human capital development, now face the risk of being marginalized in favor of security financing. This reallocation of resources to prioritize security measures can be seen as a form of resource misallocation, a well-recognized concept in economics. In an ideal allocation scenario, resources are distributed where they can generate the highest return on investment. However, the diversion of funds away from developmental projects in favor of bolstering security efforts could lead to suboptimal economic outcomes, particularly in the long run. Scarce funds that could have been directed towards investments in infrastructure, education, and healthcare are channeled into military expenditures.

**Crippling Debt and Financial Instability:** Somaliland's fiscal dynamics are marked by a relatively low allocation of 3% of its budget towards servicing its public debt, a reflection of the challenges stemming from its limited international recognition. This limited recognition constrains Somaliland's capacity to engage with international financial institutions and foreign countries for borrowing, leading to a constrained borrowing capability. The ongoing conflict in Lasanod poses a looming threat to the country's fiscal stability, as it could exacerbate the need for debt servicing. The government's ability to generate sufficient revenue is contingent upon the unimpeded movement of goods, with inland revenue and customs serving as the primary revenue sources. The disruption of these revenue streams due to the hostilities in Lasanod can potentially lead to an inflation of the debt-servicing burden, straining Somaliland's economic resilience further. Further, financing of wars through borrowing plunges low-income countries into a cycle of debt. High debt levels limit fiscal space, diverting resources from critical public goods to servicing debt obligations. Financial instability and reduced access to credit impede the nation's ability to invest in development projects, thereby stifling economic growth.

**Erosion of Social Fabric and Quality of Life:** The diversion of resources into conflict disrupts social cohesion and community structures, eroding the social fabric. Prolonged violence engenders fear, migration, and displacement, fracturing communities and undermining the social trust necessary for collective progress. Basic needs such as healthcare, sanitation, and clean water become scarce, eroding the quality of life for vulnerable populations.

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**Stifled Foreign Investment and Trade:** DP World, a prominent player in the realm of integrated logistics solutions, has made a substantial investment of \$442 million in the Berbera port. This strategic investment is poised to have a profound impact on the region's economic landscape, with predictions indicating that by 2035, it could contribute as much as 27% to Somaliland's Gross Domestic Product (GDP). Additionally, Somaliland has attracted other significant foreign direct investments, such as Trafigura's expansion in the oil storage sector. However, the Las Anod conflict casts a shadow of uncertainty over the prospects of new investments and the expansion of existing ones. The ongoing conflict underscores the delicate balance between economic development and security challenges in the region, making it essential for stakeholders to work collaboratively towards a stable and prosperous future for Somaliland. Consequently, resource diversion into war creates an unfavorable business environment, deterring foreign investment and hindering trade. The risk and uncertainty associated with conflict reduce investor confidence, limiting opportunities for economic diversification and technological advancement.

## ECONOMIC PERSPECTIVE OF A COMPLEX SET OF CHALLENGES

The consequence of the Las Anod conflict, with the destruction of productive assets and infrastructure, has significant economic implications for the region. Analyzing the situation from an economic perspective reveals a complex set of challenges:

**Loss of Productive Assets:** The destruction of the water plant, energy production infrastructure, and small-scale industries and businesses has precipitated a reduction in the town's economic output.

This loss directly impacts the livelihoods of the local population, as it diminishes their ability to generate income and support their families. The town's economic base, which might have contributed to regional or national GDP, is eroded, potentially leading to a decline in overall economic activity.

**Infrastructure Damage:** The deterioration of infrastructure, including roads, bridges, and utilities, disrupts the flow of goods and services. This can hinder trade, increase transportation costs, and deter potential investors from entering the region. Moreover, infrastructure is a fundamental enabler of economic growth and development, as it facilitates the movement of resources, people, and capital.

**Human Capital Depletion:** The conflict has also left many educational infrastructures destroyed and interrupted educational programs, thereby robbing the youth of valuable learning opportunities but also impairing the development of a skilled workforce with the potential to stifle economic growth and innovation.

**Healthcare and Labor Productivity:** The targeting of Las Anod General Hospital, with the destruction of hospital facilities and personnel casualties and withdrawal, has left health provision in dire consequence. The damage to hospitals and healthcare facilities affects the overall well-being of the population. Poor health can lead to reduced labor productivity and increased absenteeism, which can further hinder economic recovery. Additionally, a weakened healthcare system may lead to higher mortality rates, potentially reducing the available workforce.

**Reconstruction Costs:** After conflict resolution, there follows a reconstruction phase that is capital-intensive. The substantial cost of reconstructing the town and its infrastructure can strain public finances. Allocating funds for reconstruction may divert resources away from other essential government functions, such as education, healthcare, and social welfare. The financial burden can be daunting with limited budgets, as highlighted by the mention that the reconstruction costs could surpass the yearly budget of Somaliland.

**Investor Confidence and Economic Growth:** Given the extent of the damage and potential spiraling reconstruction costs, it can create uncertainty for potential investors. Without a clear understanding of the economic environment and prospects for recovery, investors may hesitate to commit resources to the region. Restoring investor confidence is crucial for attracting private investment, creating jobs, and fostering economic growth.

**Long-Term Economic Impact:** The effects of destruction and disruption can have long-lasting consequences. A prolonged halt in education, coupled with the loss of infrastructure and productive assets, can lead to a cycle of poverty and underdevelopment. This, in turn, may contribute to social unrest, migration, and further strain on economic and social systems.

## DEVASTATING ECONOMIC IMPACT OF CONFLICT ON LAS ANOD LOCALITY

Admittedly, the ongoing conflict in Las Anod stands as a poignant embodiment of these dire economic consequences. The conflict, pitting Somaliland forces against revolting local militia agitating for self-determination, is potentially bound to have far-reaching impacts on the region's economic landscapes.

Primarily, the conflict has precipitated a massive displacement, estimated at over 200,000 individuals from their homes, triggering an immense humanitarian crisis.

Already, the economic repercussions stemming from the mass displacement caused by the conflict are profound, as highlighted by aid organizations. With a staggering count of over 200,000 individuals forced to flee their homes, the economic fabric of the region has been severely disrupted. The demographic composition of this displaced population, where a significant 89% comprises women and children, accentuates the vulnerability of these groups, who often bear the brunt of economic instability.

The situation is further exacerbated by a relentless and severe drought, intensifying the challenges faced by those who have been displaced due to the conflict. The combination of conflict-driven displacement and the compounding effects of a climate-induced drought has led to an acute humanitarian crisis. These individuals are not only grappling with the immediate challenges of food and water scarcity but are also facing longer-term economic and social consequences, including lost income opportunities and limited access to education and healthcare services.

From a broader perspective, the conflict in Las Anod and its subsequent economic ramifications underscore the complex interplay between conflict, displacement, and economic vulnerability. Displaced populations often find themselves in precarious economic situations, with limited livelihood opportunities and increased dependency on humanitarian aid. This, in turn, places additional strain on already stretched humanitarian resources, further challenging the capacity to respond effectively to the crisis.

Moreover, the conflict has disrupted trade routes and economic activities in the region, impacting not only those directly affected by the conflict but also neighboring communities that rely on economic linkages with Las Anod. The closure of markets, roads, and other critical infrastructure disrupts supply chains, limiting access to essential goods and services.

## HEALTH SECTOR IMPACT

The ongoing warfare has led to the extensive destruction of healthcare facilities in the Sool region. Over the course of the past eight months, persistent shelling and continuous combat have taken a toll on the local infrastructure, with the general hospital being one of the prime targets. According to reports from Médecins Sans Frontières (Doctors Without Borders), the hospital has been left in a state of partial devastation, and the organization has been compelled to withdraw its medical personnel due to security concerns.

This situation bears significant economic implications for the region. In economic terms, the destruction of healthcare facilities hampers the development of human capital, which is a critical driver of economic growth. A healthy population is essential for a productive workforce, and access to proper medical care is a cornerstone of maintaining human capital. With the general hospital in a state of disrepair and the withdrawal of medical staff, the local population faces reduced access to essential healthcare services. This not only jeopardizes their well-being but also hinders their potential contribution to economic activities.

The absence of functional healthcare facilities forces local residents to undertake long and arduous journeys in search of medical treatment for even simple curable diseases. This not only incurs direct economic costs in terms of transportation expenses but also leads to indirect costs by causing individuals to miss out on work and income-generating opportunities. The reduced accessibility to healthcare services due to the damaged hospital impedes overall labor productivity, which can have a cascading effect on the local economy.

Furthermore, the degradation of healthcare facilities contributes to the deterioration of developmental indicators, particularly those related to maternal and infant health. The absence of proper medical facilities and skilled healthcare providers can result in higher maternal mortality rates and infant mortality rates. These indicators are not only tragic from a humanitarian standpoint but also have economic consequences. High infant and maternal mortality rates can inhibit demographic transitions and impact the future labor force, potentially resulting in a smaller and less productive workforce in the long run.

## EDUCATION SECTOR IMPACT

In addition to the economic concerns, the impact of these events reverberates through the social fabric of the region. One of the particularly distressing consequences is the considerable disruption to the education sector. A substantial majority of the 78 primary and 11 secondary schools, and a greater number of private ones in the Sool region, have been forced to close their doors. As a result, a staggering number of approximately 50,000 students across all levels of education are being deprived of their right to education.

The closure of schools holds a host of adverse economic and social consequences. From an economic perspective, the disruption of education leads to a reduction in the potential human capital that could contribute to the future workforce. A generation of young minds being unable to access quality education translates to a dearth of skilled and educated individuals who could drive innovation, entrepreneurship, and productivity in the economy. This setback in human capital development hampers the region's ability to generate sustainable economic growth in the long term.

On the social front, the closure of schools poses immediate challenges and exacerbates existing ones. Education is not only a means to impart knowledge and skills but also a safeguard against various social issues. Schools provide a structured environment that offers children and youth a sense of purpose, community, and the opportunity to acquire life skills. The absence of schools disrupts this vital support system, leaving many young individuals vulnerable to various negative influences, including child labor, recruitment by armed groups, and early marriage.

Restarting schools in such a disrupted environment presents a formidable challenge. Physical damage to school buildings, lack of educational resources, and the displacement of students and teachers due to conflict and insecurity all contribute to the complexity of reopening schools. Rebuilding the education system requires concerted efforts in terms of funding, logistical support, and security measures. Moreover, the psychological and emotional toll that conflict and disruption take on students and educators cannot be underestimated; efforts must be made to provide the necessary psychosocial support for a successful return to learning.



The closure of a significant number of schools in the Sool region, resulting in the loss of education for thousands of students, not only hampers human capital development and economic growth but also has profound social implications. Restarting the education system in this context is a complex challenge that demands careful planning, resources, and a focus on both academic and psychosocial well-being.

## CONCLUSION

In conclusion, the conflict in Las Anod and its economic impact on Somaliland is a multifaceted crisis that has far-reaching consequences. The conflict has disrupted economic activities, displaced populations, damaged critical infrastructure, and strained essential services like healthcare and education. It has created a humanitarian crisis and exacerbated existing vulnerabilities in the region.

Addressing the economic impact of the conflict requires immediate action on multiple fronts. Humanitarian assistance must be provided to meet the urgent needs of displaced populations, including food, water, shelter, and healthcare. Efforts to rebuild critical infrastructure, including healthcare facilities, schools, and transportation networks, are essential for long-term recovery.

Furthermore, a concerted effort to resolve the underlying conflict and promote peace and stability in the region is paramount. Conflict resolution will pave the way for economic recovery and development, attract foreign investment, and create opportunities for job creation and economic diversification.

The international community has a role to play in supporting Somaliland and its efforts to address the economic impact of the conflict. This includes providing financial aid, technical assistance, and diplomatic support for conflict resolution initiatives.

In the face of these complex challenges, it is crucial for all stakeholders to work together to mitigate the devastating economic impact of the conflict and build a more stable and prosperous future for Somaliland and its people.

## POLICY RECOMMENDATIONS

This research emphasizes the urgent need for conflict resolution and effective post-conflict reconstruction strategies to mitigate these detrimental impacts and pave the way for a more prosperous and stable future. The following policy recommendations may be considered to forestall the potential deepening of the economy into recession:

**(A) Deliberate Effort to Gradually Reduce Defense Spending:** The government should gradually reduce defense spending as the security situation stabilizes. This reduction should not only address the current escalation but overall spending. This could be implemented through creating a more efficient and cost-effective defense structure, which may involve downsizing the military, improving training, and modernizing equipment. By reallocating resources from defense to critical development sectors, the government can promote economic growth and social development.

**(B) Undertake Economic Reforms to Address Long-standing Economic Weaknesses:** The government should institute economic reforms targeting critical imperatives, including improving the business environment, reducing red tape, and promoting competition.

Economic diversification should be a priority, with a focus on sectors that can drive sustainable growth, such as agriculture, manufacturing, and technology. Encouraging entrepreneurship and supporting small and medium-sized enterprises (SMEs) can also stimulate economic activity.

**(C) Seek International Support for Post-Conflict Reconstruction:** Engage with international organizations, donor countries, and NGOs to secure financial and technical support to undertake post-conflict reconstruction. This support should not only focus on rebuilding infrastructure but also on revitalizing critical services like healthcare and education. International partnerships can provide resources, expertise, and coordination necessary for effective reconstruction.

**(D) Invest in Education for Workforce Development While Providing a Work Culture that Encourages Creativity:** A highly educated workforce will be capable of achieving more. The government should prioritize education, not only by rebuilding damaged schools but also by investing in teacher training, curriculum development, and access to quality education. Additionally, fostering a work culture that encourages innovation and creativity can lead to economic growth and competitiveness. Encouraging lifelong learning and skills development can enhance the workforce's adaptability and productivity.

**(E) Promote Conflict Resolution and Peacebuilding Initiatives:** Collaborate with regional and international partners to facilitate conflict resolution and peacebuilding initiatives in the Sool region. Stability and peace are prerequisites for economic growth. Diplomatic efforts, negotiations, and dialogue should be pursued to address the root causes of the conflict and find sustainable solutions. Engaging with local communities and stakeholders is crucial for lasting peace.

**(F) Develop a Comprehensive Humanitarian Response:** Prioritize humanitarian assistance to meet the immediate needs of displaced populations. This includes providing food, clean water, shelter, and healthcare services. Collaborate with humanitarian organizations and donors to ensure a coordinated and effective response to the crisis. Timely and well-coordinated humanitarian efforts can alleviate suffering and prevent further deterioration of the humanitarian situation.

In conclusion, addressing the economic impact of the conflict in Las Anod on Somaliland requires a multifaceted approach that combines immediate humanitarian relief with long-term development strategies. The government of Somaliland, with the support of the international community, must work together to resolve the conflict, rebuild critical infrastructure, invest in education and human capital, and promote economic diversification. By implementing these policy recommendations, Somaliland can mitigate the devastating economic consequences of the conflict and pave the way for a more stable and inclusive governance system.



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## About the ISIR Digest:

The Institute for Strategic Insights and Research (ISIR) publishes a bi-monthly newsletter that puts into perspective and analyzes the latest political and security news in Somaliland. The newsletter is targeted at stakeholders in the peace and security sector and partners in governance. These include diplomatic missions, development partners, and policy and research institutions. This is the fifth issue of the ISIR Digest.

In this issue, we assess the likelihood of a successful revival of the Somalia-Somaliland talks which are currently defunct, by analyzing the factors that led to the failures of previous efforts and making recommendations for policy considerations.

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