

**FACTORS INFLUENCING ECONOMIC DEVELOPMENT IN MOGADISHU,  
SOMALIA**

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**ABSTRACT**

Despite the numerous strategies implemented to increase economic development in somalia, no break through yet. The study aimed at investigating the factors influencing economic development of Somalia. The study was guided by the following objectives; to find out the effect of government spending on economic development of Mogadishu, Somalia, to find out the effect of saving on economic development of Mogadishu, Somalia, to find out the effect of investment on economic development of Mogadishu, Somalia. Descriptive research design was used with a target population of 134 and a sample size of 100 respondents from. Data was collected and analyzed using Statistical Package for the Social Sciences (SPSS) version 21. From the analysis it was found out that there is a significant effect of government spending, investment and savings on economic development. The study recommended that the government of Somalia should increase government spending, increase investment in health, education, infrastructure and encourage bank and house hold savings.

Key words: community, consumption, development, economic, investment, savings

**1.1 Background of Study**

Somalia is bounded by the Gulf of Aden to the north, by the Indian Ocean to the east, by Kenya and Ethiopia to the west, and by Djibouti to the northwest. Somalia's western border was arbitrarily determined by colonial powers and divides the lands traditionally occupied by

the Somali people. As a result, Somali communities are also found in Djibouti, Ethiopia, and Kenya. Somali economy depends mainly on agriculture, livestock and fishing. Unemployment escalated in Somalia since the collapse of the centralized military government in 1991 of General Mohamed Siyad Barre. Due to massive unemployment in Somalia Majority of the young people relocated to neighboring countries in search of better opportunities leading massive brain drain in Somalia [ CITATION UND12 \l 1033 ]. According to the human development report 2012, about three-fifths of Somalia's economy is based on agriculture; however, the main economic activity is not cropping farming but also livestock rearing. Between 1969 and the early 1980s, military government imposed a system of "Scientific Socialism," which was characterized by the nationalization of banks, insurance firms, oil companies, and large industrial firms; the establishment of state-owned enterprises, farms, and trading companies; and the organizing of state-controlled cooperatives [ CITATION UND121 \l 1033 ]. This trial weakened the Somalia economy considerably, and, since the collapse of the military regime, the economy has suffered even more as a result of civil war. In the early 21st century, the country remained one of the poorest in the world, and its main sources of income came from foreign aid, and remittances sector [ CITATION UND12 \l 1033 ]. Somalia's economy has been shaped and sustained by conflict. Livestock is the mainstay of the economy: 60% of the population derives a livelihood from pastoralist-based livestock production. The export of livestock and meat generates 80% of foreign currency. Most Somalis live in rural areas where traditional coping

mechanisms, clan affiliations and pastoral mobility have been undermined by conflict. Only 7% of the rural population enjoys access to improved water sources, compared to 66% of people living in urban areas. Domestic revenue sources lack diversity, which makes the government highly vulnerable to shocks; 76% of domestic revenue in 2014 was derived from taxes on international trade. Domestic revenue only accounts for half of the government budget[ CITATION UND141 \l 1033 ].

According the human development report, 2012, the above challenges facing the Somali economy has damaged its capacity to create employment opportunities. Due to the massive unemployment in Somalia Majority of the young people relocated to neighboring countries in search of better opportunities leading to massive brain drain in Somalia. According to UNDP, the unemployment rate in Somalia is 67 percent of the work force from the total population. The Unemployment in Somalia has contributed to the massive suffering caused by the involvement of the unemployed youth in violent activities which has facilitated the persistence of poverty in the country[ CITATION UND12 \l 1033 ]. Due to the persistent poverty caused by the massive unemployment in Somalia, Several institutions have carried various strategies to reduce the unemployment rate including, providing vocational trainings and Micro finance. Despite the numerous strategies implemented to reduce unemployment, unemployment still exists causing massive suffering in the country, it is because of this persistence of unemployment in Somalia that the study aims at investigating the factors influencing economic development of Somalia.

### **1.1.1 Background of organization**

Mogadishu, the capital city of Somalia, is located in the horn of Africa and bordering the Red Sea. The major religion is Sunni Muslim and the official language is Somali although Arabic,

Italian, and English are all spoken there. Mogadishu's 2009 population estimate was 1.3 million people. Mogadishu founded by the Arabs in the 10th century, and became the capital and chief port of Somalia. Initially after their arrival, families of Arab and Persian descent ruled Somalia and fueled the widespread conversion to Islam. By the thirteenth century, Mogadishu became prosperous by trading gold, livestock, and leather [ CITATION Kwa03 \l 1033 ].

Although Mogadishu was once a powerful and commercially important port city, more than two decades of violence and government instability have caused what many experts fear may be irreparable damage to its inhabitants, its economy, and its infrastructure. Earlier this year, global security expert Robert Muggah released a report that outlined the most "fragile" cities in the world basically, cities that were suffering with economic or physical collapse. The story behind Mogadishu's fragility is really the story of Somalia's fragility as a whole. Out of the 20 most fragile cities in Muggah's analysis, which took into account environmental risks, (e.g. flooding), terrorism rates, and economic insecurity, the 3 most fragile cities are all in Somalia — Mogadishu, Kismayo, and Merca. Like other fragile countries, Somalia is overwhelmed by a constant threat of violence, high population growth, and extensive unemployment [ CITATION Rob16 \l 1033 ].

## **1.2 Statement of the Problem**

According to the International Labor Organization, Unemployment occurs when a person who is actively searching for employment is unable to find work. Unemployment is often used as a measure of the health of the economy. The most frequently cited measure of unemployment is the unemployment rate. This is the number of unemployed persons divided by the number of people in the labor force. Unemployment escalated in Somalia since the collapse of the

centralized military government in 1991 of General Mohamed Siyad Barre. Due to the massive unemployment in Somalia Majority of the young people relocated to neighboring countries in search of better opportunities leading to massive brain drain in Somalia. According to UNDP, the unemployment rate in Somalia is 67 percent of the work force from the total population. Unemployment in Somalia has contributed to the massive suffering caused by the involvement of the unemployed youth in violent activities which has facilitated the persistence of poverty in the country[ CITATION UND121 \l 1033 ]. Poverty in Somalia has become a prominent and continuing issue. People in Somalia, have acclimatized to the consequences of poverty. Approximately, 43 percent of Somalia's population lives below the poverty line. Due to the persistent poverty caused by the massive unemployment in Somalia, Several institutions have carried out various strategies to reduce the unemployment rate including, finding ways to increase economic development[ CITATION UND141 \l 1033 ]. Despite the numerous strategies implemented to increase economic development, poverty still exists causing massive suffering in the country, it is because of this persistence of poverty in Somalia that the study aims at investigating the factors influencing economic development of Somalia.

### **1.3 Research Objectives**

#### **1.3.1 General objectives**

The general objective of the study was to examine the factors influencing economic development of Mogadishu, Somalia.

#### **1.3.2 Specific objectives**

The specific objectives of the study included;

- I. To find out the effect of government spending on economic development in Mogadishu, Somalia.
- II. To find out the effect of investment on economic development of Mogadishu, Somalia.
- III. To find out the effect of savings on economic development of Mogadishu, Somalia.

## **2.1 Theoretical review**

This explains the meaning of some of the theories about the determinants of unemployment and its effects on economic Development.

### **2.1.1 Economic development Theory**

Economic development is the process by which a nation improves the economic, political, and social well-being of its people. The term has been used frequently by economists, politicians, and others in the 20th and 21st centuries. The concept, however, has been in existence in the West for centuries. Modernization, Westernization, and especially Industrialization are other terms people have used while discussing economic development. Whereas economic development is a policy intervention effort with aims of economic and social well-being of people, economic growth is a phenomenon of market productivity and rise in GDP. Consequently, as economist Amartya Sen points out, "economic growth is one aspect of the process of economic development". The scope of economic development includes the process and policies by which a nation improves the economic, political, and social well-being of its people[ CITATION Gre13 \l 1033 ].

### **2.1.2 Neoclassical Theory of Development**

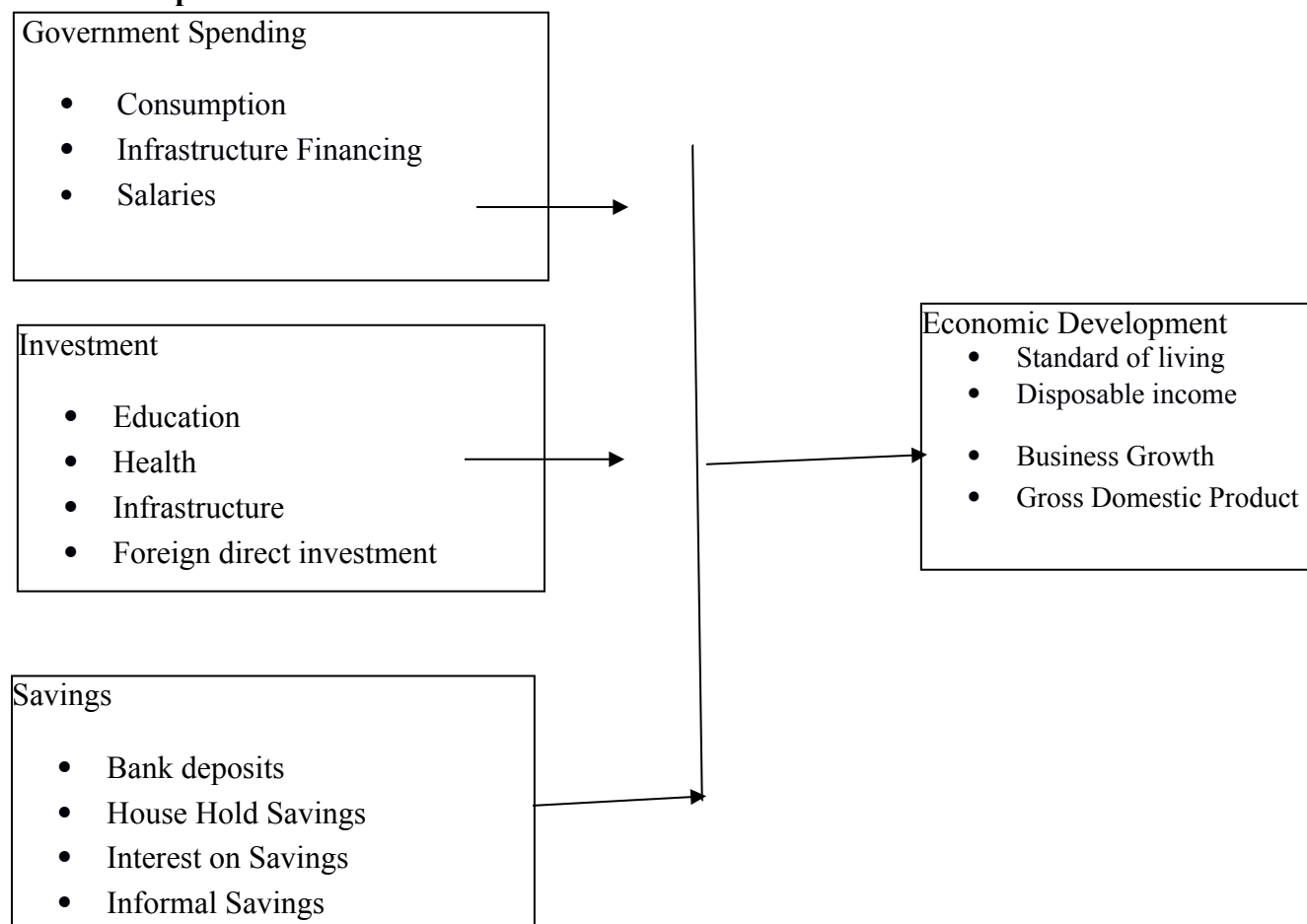
Neoclassical theories argue that governments should not intervene in the economy; in other words, these theories are claiming that an unobstructed free market is the best means of inducing rapid and successful development. Competitive free markets unrestrained by excessive government regulation are seen as being able to naturally ensure that the allocation of resources

occurs with the greatest efficiency possible and the economic growth is raised and stabilized. The market-friendly approach, unlike the other two, is a more recent development and is often associated with the World Bank[ CITATION FAM15 \l 1033 ].

### 2.1.3 Keynesian theory of investment

Keynesian economists generally argue that, as aggregate demand is volatile and unstable, a market economy will often experience inefficient macroeconomic outcomes in the form of economic recessions (when demand is low) and inflation (when demand is high). These can be mitigated by economic policy responses, in particular, monetary policy actions by the central bank and fiscal policy actions by the government, which can help stabilize output over the business cycle. Keynesian economists generally advocate a managed market economy – predominantly private sector, but with an active role for government intervention during recessions and depressions[ CITATION Cam15 \l 1033 ].

## 2.2 Conceptual Framework



### 3.0 Research Methodology

The study took a descriptive research design. The target population of this study was the employees of DRP, Non-governmental organization which has hundred thirty four (134) employees including top, middle and low level staff. A sample size of 100 respondents was obtained using Slovin's equation. Data was collected using closed ended questionnaires and were analyzed both quantitatively and qualitatively and was presented in tables. Multiple regression model was used to model the relationship between government consumption, investment and savings on economic development.

### 4.0 Data Presentation

#### 4.1 Model Summary

The coefficient of determination (R squared) from the study indicates that the independent variables can explain the variations in the dependent variable by 75 percent. This indicates that the independent variables can be used to predict the dependent variables if there is a change in the independent variables.

**Table 4. 1 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.867 <sup>a</sup>	.751	.743	.614

a. Predictors: (Constant), Investment, Government spending, Savings

#### 4.2 ANOVA

ANOVA test the study indicated that there is no significant differences in the variables studied indicating that the model was significant in explaining the relationship between the dependent and independent variables as shown by level of significance of 0.001 which is less than 0.05.



This result indicates that the regression model predicts the dependent variable well, that three independent variables predict the dependent variable.

**Table 4. 2: ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	110.947	3	36.982	97.065	.001 <sup>b</sup>
	Residual	36.613	96	0.381		
	Total	147.560	99			

a. Dependent Variable: Economic Development

b. Predictors: (Constant), Investment, Government spending, Savings

### 4.3 Regression Coefficients

**Table 4.3 :Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.871	.810		2.311	.023
	Government Spending	.490	.122	.041	4.016	.027
	Savings	.950	.163	.059	5.828	.046
	Investment	.255	.106	.245	2.399	.018

a. Dependent Variable: Economic Development

From the coefficients government spending, savings and investment influences economic development. Substitution of the regression analysis values into the regression model yielded the;

$$Y = 1.871 + 0.041X_1 + 0.059X_2 + 0.245X_3$$

### 4.4 Correlation Analysis

**Table 4.4 : Correlation Analysis Between Independent Variables and dependent variable**

		GS	S	I	ED
GS	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	100			
S	Pearson Correlation	.052	1		
	Sig. (2-tailed)	.060			

	N	100	100		
	Pearson Correlation	.018	.191	1	
I	Sig. (2-tailed)	.061	.057		
	N	100	100	100	
	Pearson Correlation	.980*	.611*	.522*	1
ED	Sig. (2-tailed)	.000	.029	.024	
	N	100	100	100	100

\*. Correlation is significant at the 0.05 level (2-tailed).

The analysis further showed that there is significant relationship between the independent variables and dependent variable. This proves that the independent variables can be used to predict the behavior of the dependent variable.

## 5.0 CONCLUSION AND RECOMMENDATION

### 5.1 Conclusion

From the analysis it was found out that there is a significant effect of government spending, investment and savings on economic development in Somalia.

### 5.4 Recommendations

This study recommends that government should increase government expenditure, increase investment in education, health, and encourage bank and household savings as they directly lead to economic development.

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