

# Foreign-Exchange Leakage, Offshore Consumption, And Capital Flight In Somalia

An Integrated Research And Policy Framework For Strengthening Domestic Value Retention, External Resilience, And Public-Sector Credibility

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**Key message.** Somalia does not face a simple import problem; it faces a domestic value-retention problem. Demand generated inside the economy is repeatedly converted into demand for foreign goods, foreign services, and offshore assets. A credible response should start from measured leakages - customs trade gaps, services payments, and audited fiscal accounts - while building the data and governance systems needed to detect capital flight and reduce avoidable offshore spending. The objective is not autarky. It is a sequenced reform agenda that protects essentials, raises productive capacity, and keeps more Somali earnings circulating at home.

# Abstract

This paper develops an integrated accounting and policy framework for foreign-exchange leakage in Somalia. It reconciles customs-based merchandise trade statistics with balance-of-payments data and audited federal accounts, then distinguishes directly measured leakage from wider offshore consumption and capital-flight risk. Using Somali National Bureau of Statistics quarterly trade bulletins for 2024, IMF balance-of-payments estimates, and the Office of the Auditor General audited accounts, the paper reports five findings. First, customs-based merchandise imports reached about US\$9.18 billion in 2024, while exports were about US\$1.56 billion, leaving a merchandise deficit of about US\$7.62 billion. Second, IMF balance-of-payments data, using a different valuation basis, report a 2024 goods deficit of US\$6.47 billion and a net services deficit of about US\$0.98 billion. Third, declared khat imports were about US\$0.40 billion, equal to 4.4 percent of customs imports and more than fourteen times audited federal capital payments. Fourth, the federal wage bill absorbed 92.5 percent of domestic revenue, leaving limited fiscal space for productive investment. Fifth, capital flight cannot be credibly estimated from public data alone, but the mechanisms highlighted in the Sub-Saharan African literature - trade misinvoicing, offshore asset accumulation, weak customs controls, and debt-fueled leakage - are policy-relevant for Somalia. The paper proposes a sequenced domestic value-retention strategy combining tariff and excise reform, customs modernization, export acceleration, services substitution, disciplined public spending, asset-declaration and beneficial-ownership rules, and a quarterly foreign-exchange leakage dashboard.

**Keywords:** Somalia; foreign-exchange leakage; capital flight; balance of payments; import dependence; khat; customs; public finance; offshore consumption; external constraint

JEL classification: F14; F32; F41; E62; H50; O11; O24; O55

## Highlights

- Corrects and reconciles the two drafts by separating SNBS customs trade totals from IMF balance-of-payments valuations.
- Uses a transparent leakage indicator: the customs merchandise deficit plus the net services deficit, while avoiding unsupported claims about hidden capital flight.
- Shows that khat imports of about US\$0.40 billion exceed audited federal capital payments by a factor of about 14.0.
- Links external leakage to the fiscal wage trap: compensation of employees equals 92.5 percent of domestic revenue.
- Provides a concrete policy package and monitoring dashboard compatible with EAC integration, WTO accession disciplines, and IMF-supported program commitments.

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# Executive summary

Somalia is a highly open, highly dollarized, import-dependent economy in which a large share of domestic demand leaks into foreign output. This leakage is not limited to merchandise imports. It also includes payments for services abroad, offshore education and medical care, foreign property purchases, and unrecorded asset movements. The two source drafts correctly identify this macroeconomic concern, but they require integration, data reconciliation, and a sharper distinction between what is measured and what remains a governance risk.

The measured core of the problem is large. On a customs basis, Somalia recorded merchandise imports of about US\$9.18 billion and exports of about US\$1.56 billion in 2024, leaving a customs trade deficit of about US\$7.62 billion. The export coverage ratio was only 17.0 percent, meaning that recorded exports financed less than one-fifth of recorded imports. IMF balance-of-payments data show the same structural pattern on a different valuation basis: a goods deficit of about US\$6.47 billion and a net services deficit of about US\$0.98 billion in 2024.

Khat illustrates the policy challenge. Declared khat imports reached about US\$0.40 billion in 2024. This was only 4.4 percent of total imports, but it was a recurrent discretionary outflow larger than federal domestic capital payments by a factor of about 14.0. A blunt ban would risk smuggling and revenue losses. A better approach is a specific excise plus an ad valorem component, stronger customs valuation, public-health measures, and a gradual demand-reduction strategy.

The fiscal channel amplifies the external constraint. Audited federal accounts report domestic revenue of US\$369.4 million and compensation of employees of US\$341.6 million in 2024. The wage bill therefore absorbed 92.5 percent of domestic revenue, while capital payments represented only 3.2 percent of total payments. This creates a domestic-revenue wage trap: domestic revenue is almost fully consumed by compensation before public investment can scale up domestic production, services, or export capacity.

The policy conclusion is not to suppress essential imports or legitimate international payments. Somalia needs food, medicines, fuel, machinery, regional integration, remittances, and outward payments for education and health. The central policy objective is to reduce avoidable leakage and increase domestic value retention. This requires protecting essentials, taxing discretion, enforcing fairly, building export capacity, substituting domestic services where quality is feasible, controlling public-sector offshore spending, and publishing routine indicators so citizens and markets can see that reforms are real.

## Priority actions for the first 12 months

**1.** Adopt a three-tier tariff and excise reform that protects food staples, medicines, humanitarian goods, and productive inputs while raising transparent taxes on luxury and discretionary imports, including khat.

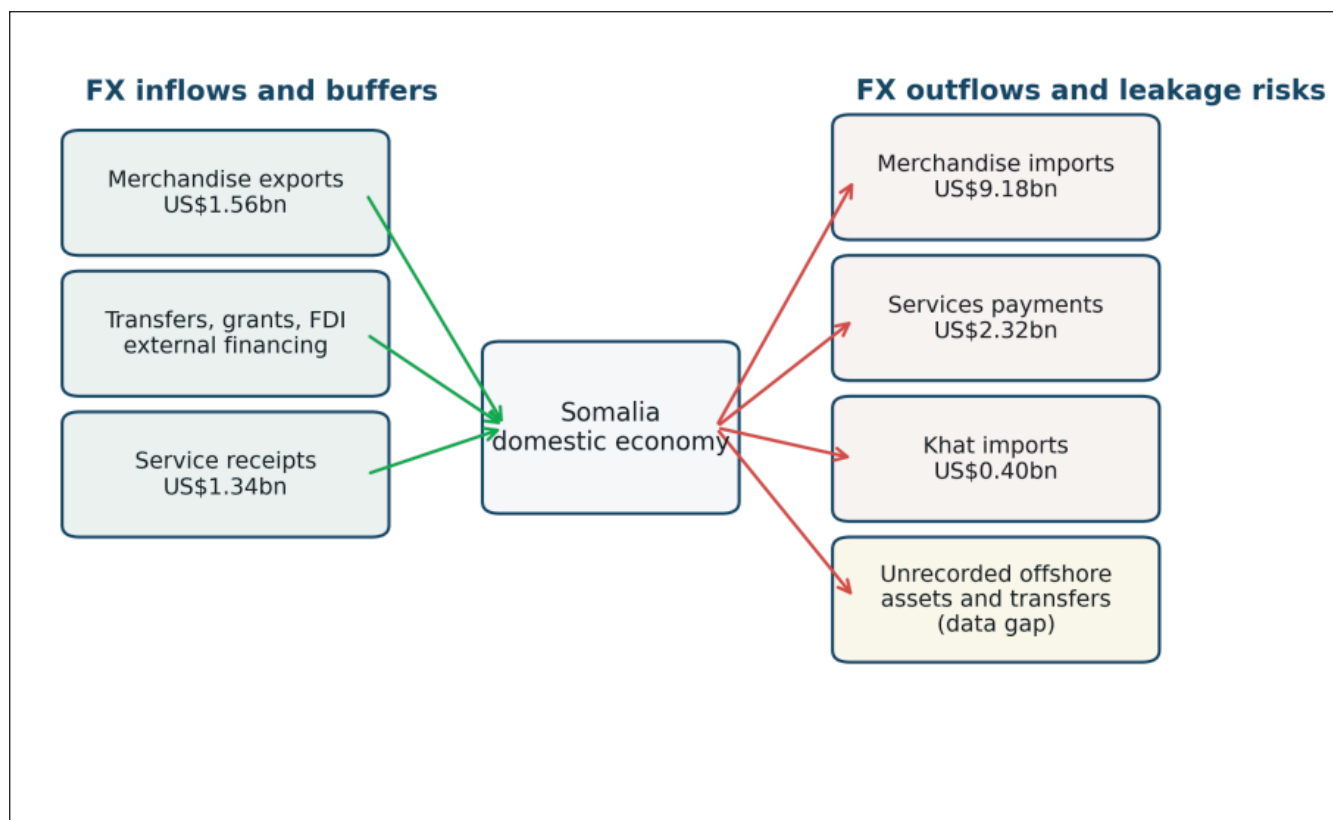
**2.** Create an FX Leakage Reduction Taskforce chaired by the Ministry of Finance and including Customs, the Central Bank, SNBS, ports, immigration, the OAG, anti-corruption bodies, and Federal Member State revenue agencies.

**3.** Publish a quarterly FX leakage dashboard with customs imports and exports, khat import values and volumes, services-payment proxies, outward personal transfers by category, official travel spending, wage bill shares, and capital spending execution.

**4.** Implement customs modernization: electronic declarations and payments, risk-based inspections, valuation databases, post-clearance audits, port scanners with audit trails, and targeted anti-smuggling enforcement.

**5.** Introduce public-sector travel, per-diem, procurement, asset-declaration, and beneficial-ownership controls to reduce official offshore spending and build credibility.

**6.** Launch export acceleration in livestock certification, sesame and crop aggregation, and fisheries cold chains; link these programs to EAC market access and Gulf livestock protocols.



**Figure 1.** Somalia foreign-exchange inflows, outflows, and leakage-risk channels.

# 1. Introduction and research contribution

Somalia is often discussed through fiscal, humanitarian, security, or state-building lenses. Those lenses are essential, but they can understate the external-balance mechanism that connects production, consumption, public finance, and macroeconomic resilience. When domestic production is narrow and domestic services are weak, increases in income translate quickly into imports of goods and services. In a dollarized economy, this conversion from local income to foreign output creates a hard-currency constraint that can transmit into prices, liquidity, and public-sector stress.

This paper uses the term foreign-exchange leakage in a precise analytical sense. It refers to recorded and persistent net outflows of foreign exchange through the merchandise trade deficit and the net services deficit, together with wider offshore consumption and asset-acquisition risks that are only partly visible in public statistics. The definition deliberately separates directly measured leakages from capital flight. Merchandise and services gaps can be measured from customs and balance-of-payments data. Hidden asset accumulation, foreign property purchases, trade misinvoicing, and informal outward transfers require better data before they can be quantified credibly.

This distinction matters for policy quality. Public debate often moves quickly from visible examples - households paying tuition abroad, businesses holding savings outside the country, or officials travelling frequently - to broad claims about capital flight. A top-tier policy paper should not build a residual estimate on weak data. It should begin with what can be measured, identify how those measured leakages constrain the economy, and then build a governance and statistical agenda to reduce the space for unrecorded outflows.

The paper integrates two prior drafts: a research-style manuscript grounded in balance-of-payments-constrained growth theory and capital-flight literature, and an IPF policy note that provides concrete figures, charts, and a sequenced reform package. The integrated version keeps the strongest parts of both: theoretical depth, transparent accounting, policy realism, and implementation detail. It also corrects internal inconsistencies by using SNBS customs data for merchandise trade, IMF balance-of-payments data for external-account concepts, and audited OAG figures for federal fiscal indicators.

## Research questions

7. How large are Somalia's directly observed foreign-exchange leakages through recorded merchandise trade and services accounts?

8. Which data definitions explain differences between customs-based trade statistics and balance-of-payments figures?

9. How do khat imports and federal fiscal composition illuminate the link between foreign-exchange leakage and domestic productive capacity?

10. How should Somalia address offshore consumption and capital-flight risk without confusing measured leakage with unmeasured illicit flows?

11. Which policy package can reduce avoidable leakage while protecting food security, productive imports, remittances, EAC integration, WTO accession, and IMF-supported program commitments?

## Contribution

The paper makes four contributions. First, it provides a reconciled accounting framework for foreign-exchange leakage in Somalia using customs, balance-of-payments, and audited fiscal data. Second, it situates Somalia's external constraint within the balance-of-payments-constrained growth literature, where narrow export capacity and high import dependence limit sustainable growth. Third, it uses the capital-flight literature as a risk framework rather than as a basis for unsupported estimates. Fourth, it converts diagnosis into an implementation-ready domestic value-retention strategy with monitoring indicators, institutional responsibilities, and sequencing.

## 2. Conceptual framework and literature

### 2.1 Balance-of-payments-constrained growth

Thirlwall's balance-of-payments-constrained growth model provides the core theoretical lens. In the long run, an open economy cannot grow faster than the rate at which it can finance imports through exports and sustainable external inflows. A simple version of the model states that the balance-of-payments-consistent growth rate depends on export growth divided by the income elasticity of import demand. If import demand rises strongly as income grows, while exports remain narrow, growth becomes externally constrained (Thirlwall, 1979; Moreno-Brid, 1998).

Somalia fits the profile of an economy where this constraint is likely to bind. Exports remain concentrated in livestock, crops, and fisheries, while imports cover food, fuel, construction materials, consumer goods, medical products, machinery, and services. The policy implication is not to reduce all imports. Some imports are essential for welfare and productive transformation. The challenge is to reduce avoidable and discretionary leakage while raising exports and domestic supply in sectors where local substitution is feasible.

## **2.2 Capital flight and illicit financial flows**

The capital-flight literature for Sub-Saharan Africa shows that outward asset accumulation can be large and persistent, especially in countries with weak governance, limited transparency, resource rents, political instability, and exposure to trade misinvoicing. Trade misinvoicing - export underinvoicing and import overinvoicing - can shift capital abroad while reducing tax collections. External borrowing can also be associated with capital flight if borrowed foreign exchange is diverted into private offshore assets rather than productive investment (Ndikumana and Boyce, 2011; Ndikumana, Boyce, and Ndiaye, 2014; UNECA, 2015; Cobham and Jansky, 2020).

For Somalia, the literature is best used as a mechanism map, not as an estimate. Public data do not yet permit a credible residual capital-flight calculation. However, the mechanisms are relevant: customs under-valuation, misclassification, informal transfers, foreign property purchases, public procurement leakages, and official travel spending may all reduce domestic value retention. A responsible policy framework should therefore improve measurement, strengthen customs and financial-integrity systems, and reduce incentives for offshore asset accumulation.

## **2.3 Dollarization and fiscal dominance**

Somalia's extensive dollarization limits the stabilizing role of conventional monetary policy. When households, firms, and the state transact largely in dollars, fiscal policy, customs policy, financial integrity, and external inflows become central macroeconomic instruments.

A foreign-exchange leakage agenda is therefore also a fiscal credibility agenda: the state must show that public money is spent in ways that raise domestic capacity, not merely

## **2.4 Operational framework**

The paper uses three layers of leakage. Layer 1 is measured goods leakage: the customs merchandise trade deficit, with data from SNBS quarterly trade bulletins. Layer 2 is measured services leakage: the net services deficit from IMF balance-of-payments tables. Layer 3 is unmeasured offshore consumption and capital-flight risk: outward payments and asset acquisition not comprehensively visible in public data. Policy should treat Layer 3 as a governance and measurement risk, not as a figure to be invented.

## 3. Data, definitions, and measurement strategy

### 3.1 Data sources

- SNBS Quarterly Statistical Bulletins Q1-Q4 2024 for customs-based merchandise exports, imports, trade deficit, and khat imports.
- IMF Country Report No. 25/335 for balance-of-payments goods and services, current-account balance, financing gaps, and reform context.
- Office of the Auditor General audited annual financial statements for the Federal Government of Somalia, year ended 31 December 2024, for domestic revenue, total payments, compensation of employees, and capital payments.
- Ministry of Finance 2024 budget-performance reporting for fiscal context, grants, domestic revenue performance, and macroeconomic narrative.
- EAC, WTO, Afreximbank, World Bank, and peer-reviewed literature for institutional context, trade partners, and policy benchmarks.

### 3.2 Reconciliation of customs and balance-of-payments data

A major improvement in this integrated version is the explicit reconciliation of data definitions. SNBS customs trade figures and IMF balance-of-payments goods figures measure related but not identical concepts. Customs imports are generally reported on a customs/CIF or administrative basis and can include valuation, coverage, timing, and classification features that differ from balance-of-payments imports, which are typically adjusted to a free-on-board concept and aligned to residency principles. The paper therefore uses SNBS data for customs-facing policy and the IMF data for external-account comparability. The two series should not be treated as errors merely because their levels differ.

**Table 1. Reconciled measurement framework.**

Indicator	Source	US\$ million	Interpretation
Customs merchandise exports	SNBS Q1-Q4 2024	1,556.1	Customs/administrative basis; used for trade dashboard.
Customs merchandise imports	SNBS Q1-Q4 2024	9,179.7	Customs/administrative basis; includes declared imports.
Customs merchandise deficit	SNBS Q1-Q4 2024	7,623.6	Imports minus exports; primary customs leakage indicator.
Goods exports, f.o.b.	IMF BoP 2024	1,153	Balance-of-payments valuation; not directly comparable to customs totals.
Goods imports, f.o.b.	IMF BoP 2024	7,627	Balance-of-payments valuation; used for BoP ratios.
Net services balance	IMF BoP 2024	-984	Services credits minus services debits.
Current account balance	IMF BoP 2024	-1,117	Net balance after services, income, transfers, and other items.

**Sources:** SNBS Quarterly Statistical Bulletins Q1-Q4 2024; IMF Country Report No. 25/335, Table 6a; author calculations.

### 3.3 Indicator definitions

- **Customs merchandise deficit** = customs imports minus customs exports.
- **Export coverage ratio** = customs exports divided by customs imports.
- **Net services deficit** = services debits minus services credits, reported as a positive leakage amount when debits exceed credits.
- **Recorded trade-and-services leakage** = customs merchandise deficit plus net services deficit. This is an analytical leakage indicator, not the current-account deficit.
- **Khat import share** = declared khat imports divided by customs merchandise imports.
- **Domestic revenue wage absorption** = compensation of employees divided by domestic revenue.
- **Capital-payments ratio** = acquisition of nonfinancial assets divided by total payments.

### 3.4 Limitations

The analysis is constrained by public data quality, coverage, and timeliness. Customs data may miss smuggling and informal cross-border trade. Services data are not fully disaggregated in public datasets. Capital flight and foreign property purchases cannot be estimated precisely without transaction-level payment data, beneficial-ownership information, partner-country asset registries, and financial-intelligence reporting. The paper therefore uses conservative language: it quantifies measured leakages and identifies capital-flight risk channels, but it does not claim to measure hidden capital flight.

## 4. Empirical evidence: goods, services, khat, and fiscal absorption

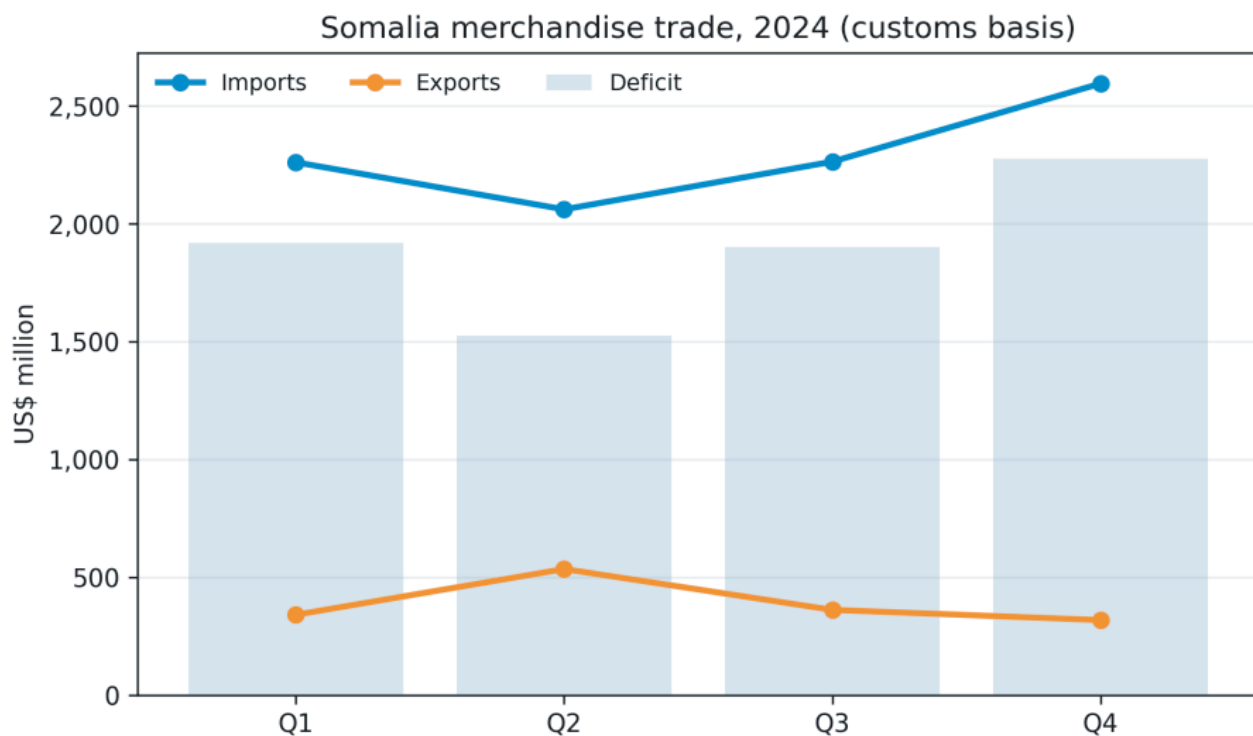
### 4.1 Merchandise trade deficit

Customs data show a severe external imbalance in 2024. Merchandise imports totaled about US\$9.18 billion and exports about US\$1.56 billion, yielding a customs trade deficit of about US\$7.62 billion. The export coverage ratio was 17.0 percent. This means that, on the customs series, exports financed less than one-fifth of imports. The deficit widened across the year, with Q4 alone recording a deficit of about US\$2.28 billion.

**Table 2.** Somalia merchandise trade and khat imports, 2024 (US\$ million).

Quarter	Exports	Imports	Trade deficit	Khat imports
Q1	341.0	2,260.6	1,919.6	93.6
Q2	535.0	2,060.8	1,525.8	67.7
Q3	361.7	2,263.4	1,901.7	118.2
Q4	318.4	2,594.9	2,276.5	120.7
Total	1,556.1	9,179.7	7,623.6	400.2

**Source:** SNBS Quarterly Statistical Bulletins Q1-Q4 2024; author calculations. Q4 values are reported to one decimal place in the table for consistency.

**Figure.** Quarterly merchandise imports, exports, and deficit, 2024.

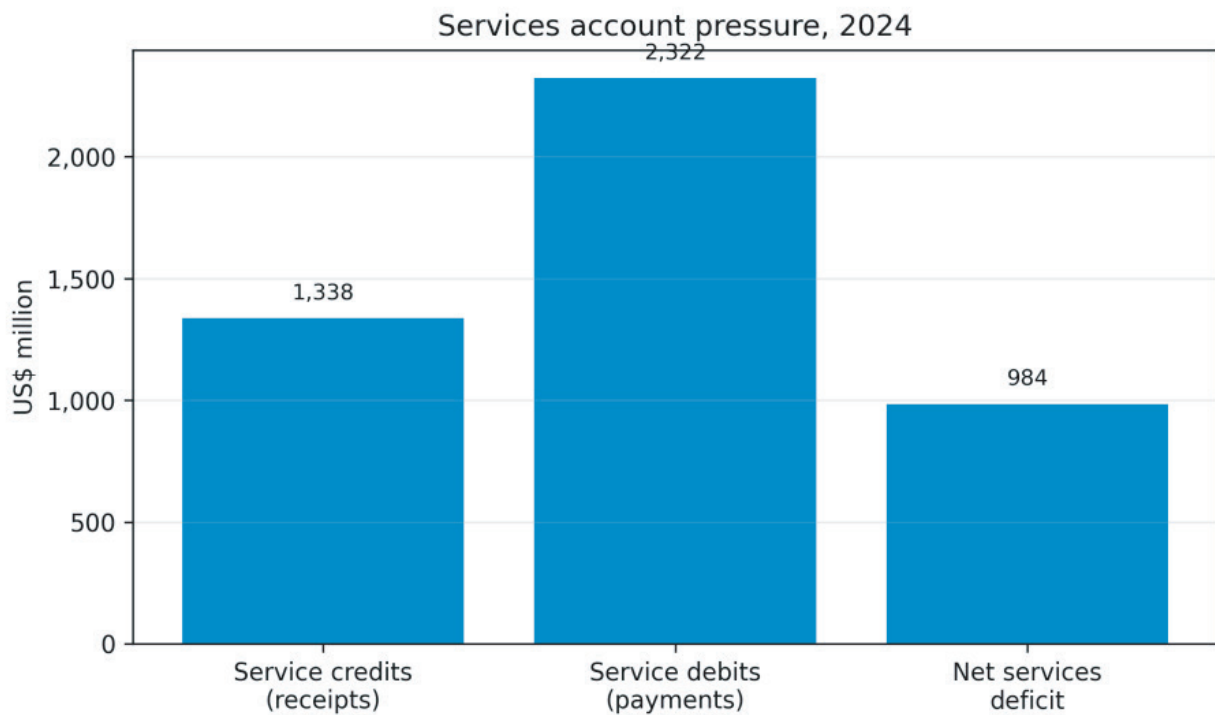
**Source:** Author calculations from SNBS Quarterly Statistical Bulletins Q1-Q4 2024.

## 4.2 Khat imports as recurrent discretionary leakage

Khat imports are not the largest import category, but they are a high-salience recurrent leakage channel. Declared khat imports totaled about US\$0.40 billion in 2024, equal to 4.4 percent of customs imports and 25.7 percent of customs exports. Khat is a consumption import with social, health, and productivity implications. The correct policy response is not a sudden prohibition that drives trade underground. Somalia should use a sequenced excise, tighter customs valuation, public-health programming, and demand-reduction measures while protecting legitimate trade administration and revenue collection.

## 4.3 Services payments and offshore consumption

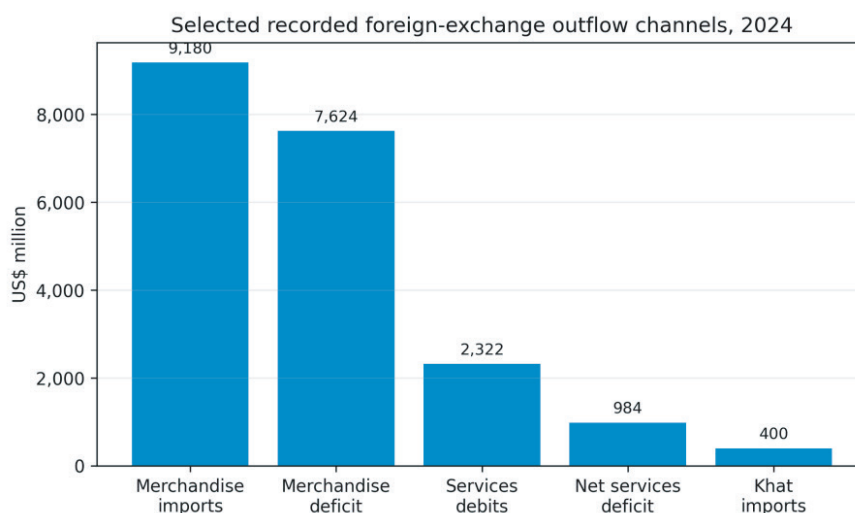
Merchandise trade is only one part of the leakage picture. IMF balance-of-payments data estimate service credits of about US\$1.34 billion and service debits of about US\$2.32 billion in 2024, producing a net services deficit of about US\$0.98 billion. Services debits include travel, transport, education, health, logistics, and business services. These categories are closely related to offshore household and business consumption. Improving domestic health, education, logistics, finance, and business services is therefore a macroeconomic strategy, not only a social-sector agenda.

**Figure 3.** Services receipts, payments, and net services deficit, 2024.

**Source:** IMF Country Report No. 25/335, Table 6a; author calculations. Service debits are derived as credits minus net services balance.

#### 4.4 Recorded trade-and-services leakage

The customs trade deficit plus the IMF net services deficit gives an analytical recorded trade-and-services leakage indicator of about US\$8.61 billion in 2024. This is not the current-account deficit. The current account is much smaller in absolute value because remittances, grants, and other transfers partly offset goods and services gaps. The leakage indicator instead captures the gross structural demand for foreign output that must be financed by external inflows. It is useful for policy because it shows how domestic demand converts into foreign currency outflows before transfers and financing are considered.

**Figure 4.** Selected recorded foreign-exchange outflow channels, 2024.

**Source:** SNBS customs trade totals, IMF balance-of-payments data, and author calculations.

## 4.5 Fiscal wage trap and low capital payments

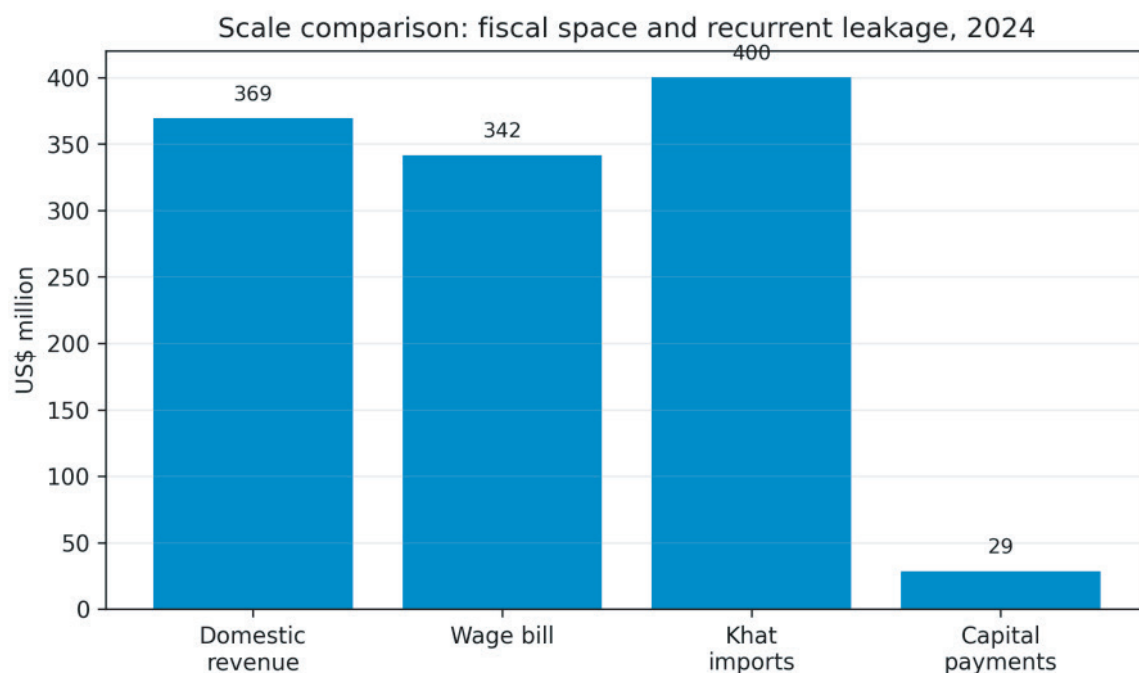
Audited federal accounts show domestic revenue of US\$369.4 million, total payments of US\$905.2 million, compensation of employees of US\$341.6 million, and capital payments of US\$28.5 million in 2024. Compensation absorbed 92.5 percent of domestic revenue. Capital payments represented only 3.2 percent of total payments. This is a domestic-revenue wage trap: the federal government can keep basic operations functioning, but it has little domestically financed room to invest in infrastructure, production, services, and export capacity that would reduce leakage over time.

**Table 3.** Federal fiscal indicators, 2024.

Indicator	US\$ million	% domestic revenue	% total payments
Domestic revenue	369.4	100.0	40.8
Total payments	905.2	-	100.0
Compensation of employees	341.6	92.5	37.7
Use of goods and services	204.5	55.4	22.6
Transfers	160.3	43.4	17.7
Social benefits	153.8	41.6	17.0
Capital payments	28.5	7.7	3.2

**Source:** OAG audited annual financial statements for the Federal Government of Somalia, year ended 31 December 2024; author calculations.

**Figure 5.** Scale comparison: domestic revenue, wage bill, khat imports, and capital payments, 2024.



**Sources.** SNBS trade bulletins and OAG audited annual financial statements; author calculations.

## 5. Offshore consumption and capital-flight risk

### 5.1 Why measurement discipline matters

Capital flight is not the same as a trade deficit or a services deficit. A resident paying a hospital bill abroad is a services import; a firm retaining export proceeds offshore through underinvoicing is a capital-flight risk; an official using public procurement to move wealth abroad is a corruption and capital-flight concern. These phenomena overlap in practice, but they require different evidence and different policy instruments. The paper therefore uses a taxonomy that separates recorded flows, observable proxies, and unobserved risks.

**Table 4.** Taxonomy of offshore consumption and capital-flight risk.

Channel	Examples	Measurement status	Policy response
Household offshore consumption	Education, medical care, travel, family spending abroad	Partly in services debits and outward transfers	Domestic health and education investment; reporting by payment category; diaspora savings products
Business offshore spending	Logistics, business services, foreign accounts, foreign property	Partly in services debits, banking, MTBs, customs discrepancies	Service-sector development; beneficial ownership; risk-based outward-transfer monitoring
Trade misinvoicing	Export underinvoicing; import overinvoicing; misclassification	Partner-country mirror data; customs valuation anomalies	Post-clearance audits; valuation databases; HS-code risk profiles; partner data sharing
Official offshore spending	Travel, per-diems, conferences, overseas procurement, asset accumulation	Budget lines, OAG audit, procurement data, asset declarations	Travel controls; centralized booking; digital per-diems; asset declarations; open procurement
Debt-fueled leakage	Borrowing used for recurrent consumption or diverted abroad	Debt project data; fiscal execution; procurement records	Project appraisal; debt transparency; public investment management; independent audit

**Source:** Author synthesis drawing on balance-of-payments accounting and the capital-flight literature.

### 5.2 Household offshore consumption

Households spend abroad for reasons that may be rational and welfare-enhancing: tertiary education, specialized healthcare, family travel, and diaspora obligations. The policy goal is not to stop legitimate payments. It is to reduce the necessity of spending abroad by improving domestic

service quality. Public-private partnerships in hospitals, accreditation of universities, vocational training, and regional education and health agreements can reduce forced offshore consumption over time.

### ***5.3 Business offshore spending and trade misinvoicing***

Businesses need foreign services for logistics, finance, insurance, legal support, technology, and procurement. These payments are legitimate when priced and recorded accurately. The risk emerges when trade invoices and service payments are used to move wealth abroad or reduce tax liabilities. Somalia's customs modernization should therefore prioritize high-risk goods, commodity-level price databases, post-clearance audits, mirror-data comparisons with major partners, and transparent appeals procedures so enforcement does not become arbitrary.

### ***5.4 Official offshore spending and public credibility***

Official travel and offshore public spending have a macroeconomic effect beyond their dollar value. They influence tax morale, reform credibility, and the willingness of citizens to comply with taxes and customs rules. If households and businesses believe that public funds leak abroad, compliance weakens. A credible reform package therefore needs public travel caps, centralized booking, digital per-diems, quarterly aggregate publication, asset declarations, beneficial-ownership disclosure, and stronger audit follow-up.

### ***5.5 Debt, grants, and productive use of external financing***

Somalia's post-HIPC position creates opportunities for concessional borrowing and investment, but it also creates a governance challenge. External financing can relax the balance-of-payments constraint if it builds export capacity, import substitution, and high-quality services. It can worsen leakage if it finances recurrent spending, over-invoiced imports, or weakly governed projects. New borrowing should therefore be anchored in public investment management, value-for-money appraisal, published procurement data, and independent audit.

## 6. Policy framework: a domestic value-retention strategy

### 6.1 Policy principles

The policy framework should be understood as domestic value retention, not isolation. Somalia should protect essential imports and legitimate transfers while reducing avoidable leakages and building domestic supply. Policies should be transparent, rules-based, compatible with EAC customs harmonization, attentive to WTO accession disciplines, and consistent with IMF-supported commitments not to introduce ad hoc balance-of-payments restrictions. The most practical instruments are tariffs and excises, customs compliance, export facilitation, public investment, public financial management, and financial-integrity systems.

- Protect essentials: food staples, medicines, humanitarian goods, fuel stability, and verified productive inputs should not be burdened by blunt restrictions.
- Tax discretion: luxury and non-essential imports, including khat, should face transparent excises and rates calibrated to reduce demand and raise revenue.
- Enforce fairly: customs modernization must target valuation, misclassification, and smuggling without creating discretionary harassment of legitimate traders.
- Invest to substitute imports: prioritize sectors where domestic production can realistically replace imports within three to five years.
- Promote exports: raise value and reliability in livestock, crops, fisheries, and services exports through standards, certification, cold chains, aggregation, and logistics.
- Reduce public offshore spending: public travel, overseas procurement, and cash allowances should be justified, digitized, capped, and disclosed in aggregate.
- Measure and publish: data transparency is itself a credibility instrument.

## 6.2 Policy package

**Table 5.** Sequenced domestic value-retention policy package.

Pillar	Core actions	Lead institutions	Timeframe
Tariff and excise reform	Three-tier schedule: protect essentials; reduce rates on productive inputs; raise excises on discretionary and luxury imports; khat-specific excise.	MoF, Customs	0-12 months
Customs modernization	SOMCAS rollout; e-declarations; risk management; valuation database; post-clearance audits; scanners; integrity program.	Customs, Ports, MoF	0-18 months
Khat demand reduction	Specific excise per kg plus ad valorem rate; public-health messaging; enforcement against smuggling; earmark part of revenue for youth and health programs.	MoF, Health, Customs	0-24 months
Export acceleration	Livestock certification, quarantine and traceability; crop aggregation and grading; fisheries landing sites, ice, cold chains, and quality control.	MoCI, MoA, Fisheries, MoF	12-36 months
Services substitution	PPP hospitals; accredited universities and vocational programs; local business services; logistics and digital finance capacity.	Health, Education, CBS, private sector	12-48 months
Fiscal rebalancing	Medium-term capital spending target; public investment management; procurement transparency; maintenance of roads, ports, and productive infrastructure.	MoF, OAG, line ministries	6-36 months
Offshore spending controls	Travel caps; centralized booking; digital per-diem; residency-linked allowances where legally appropriate; asset declarations and beneficial ownership.	MoF, OAG, anti-corruption bodies	0-24 months
Financial-integrity and data	Categorized outward transfers through banks and MTBs; aggregated reporting; AML/CFT risk tools; partner-country cooperation.	CBS, FIU, MoF	0-24 months

**Source:** Author synthesis from the integrated policy framework.

## 6.3 Tariff and excise reform without food-security harm

The tariff and excise system should distinguish essentials from discretion. Basic food staples, essential medicines, humanitarian supplies, and verified productive inputs should face zero or low tariffs and fast-track clearance. Luxury vehicles, premium electronics, cosmetics, tobacco products, sugary drinks, and khat should be subject to higher transparent rates. Khat should have both a specific excise per kilogram and an ad valorem component so collection is not dependent only on declared values. Rate increases should be phased in, published with HS-code mappings, and accompanied by an appeals process to protect legitimate business.

## **6.4 Customs and standards enforcement**

Tariff policy fails without compliance. Somalia should accelerate customs digitization, electronic payments, valuation databases, risk-based inspections, post-clearance audit, scanner governance, and integrity controls. Standards enforcement should target health, safety, labeling, and consumer protection. The goal is to make legal trade easier and smuggling harder. This requires coordination across ports, airports, border points, inland checkpoints, and Federal Member State revenue authorities.

## **6.5 Export acceleration and productive diversification**

The sustainable way to relax Somalia's balance-of-payments constraint is to increase exports and domestic productive capacity. Livestock remains central, but value addition requires animal health systems, quarantine, traceability, certification, and predictable Gulf-market protocols. Sesame and other crops require aggregation, storage, grading, and irrigation. Fisheries require landing sites, ice, cold chains, quality control, and private processing. EAC integration can create market opportunities, but only if Somalia invests in standards, logistics, and reliable supply.

## **6.6 Services substitution and human capital**

Service-sector investment directly reduces foreign-exchange leakage. Every credible domestic hospital, accredited university, vocational program, logistics provider, digital platform, or business-service firm reduces the need to buy services abroad. The policy should not attempt to substitute high-complexity services immediately. It should start with high-volume, feasible services: diagnostics, routine specialized care, vocational training, accounting and legal services, logistics, cold-chain management, and digital financial services.

## **6.7 Public finance and procurement reform**

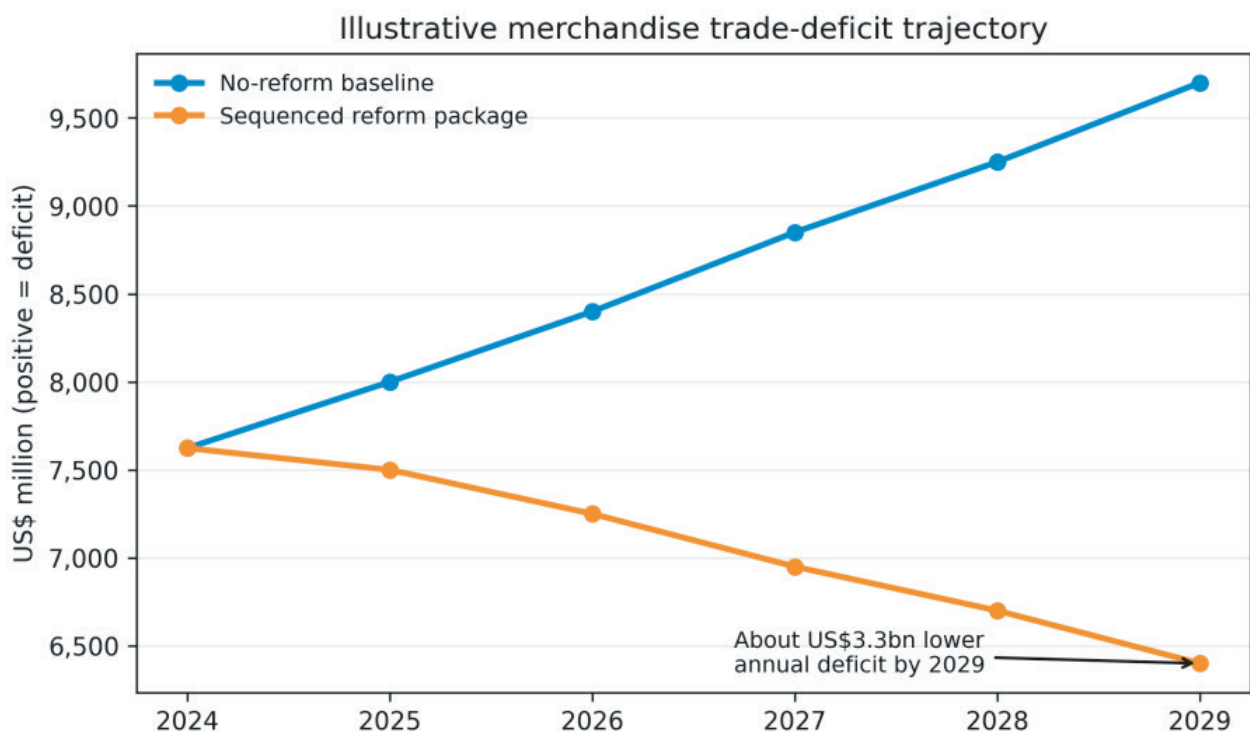
The wage bill cannot be reduced abruptly in a fragile state, but Somalia can improve the composition and productivity of spending. The government should set a medium-term target to raise capital payments as a share of total payments, protect operations and maintenance for productive infrastructure, publish procurement data, and prioritize domestic procurement when quality and price are competitive. Payroll modernization, ghost-worker controls, digital payments, and attendance-linked allowances can reduce leakage without undermining essential public administration.

## 7. Scenario, implementation, and monitoring

### 7.1 Illustrative scenario

The scenario below is not a forecast. It is an order-of-magnitude illustration of how a sequenced package could change the trade-deficit trajectory. The no-reform baseline assumes that imports continue rising faster than exports as domestic income and transfers feed import demand. The reform path assumes better customs compliance, gradual reduction in discretionary imports, khat demand management, export acceleration, and import substitution in feasible sectors. Under these assumptions, the annual merchandise trade deficit in 2029 is about US\$3.3 billion lower than the no-reform baseline.

**Figure 6.** Illustrative merchandise trade-deficit trajectory, baseline versus reform package.



**Source:** Author scenario. The figure is an analytical illustration, not a forecast.

### 7.2 Institutional setup

A reform agenda of this kind requires coordination. The paper recommends an FX Leakage Reduction Taskforce chaired by the Ministry of Finance and including Customs, the Central Bank of Somalia, SNBS, ports authorities, immigration, the Office of the Auditor General, anti-corruption bodies, and Federal Member State revenue agencies. The Taskforce should meet monthly in the first year and publish a quarterly dashboard. A small technical secretariat should maintain the data pipeline, verify indicators, and prepare public notes.

## 7.3 Implementation matrix

**Table 6.** Implementation sequencing.

Phase	Timeframe	Key deliverables	Lead actors
Phase 1: Data and credibility	0-12 months	Taskforce; quarterly dashboard; travel policy; customs risk unit; khat excise design; outward-transfer reporting template.	MoF, CBS, SNBS, Customs, OAG
Phase 2: Enforcement and quick wins	12-24 months	SOMCAS expansion; valuation database; post-clearance audits; khat demand-reduction program; digital per-diems; public procurement data.	Customs, MoF, OAG, line ministries
Phase 3: Productive substitution	24-48 months	SME credit lines; serviced industrial land; machinery duty relief; PPP health and education; logistics and cold-chain investments.	MoF, MoCI, Health, Education, private sector
Phase 4: Export and service transformation	36-60 months	Livestock traceability; fisheries processing; crop aggregation; services exports; EAC market access; debt-financed investment safeguards.	MoCI, MoA, Fisheries, CBS, development partners

**Source:** Author proposal.

## 7.4 Monitoring dashboard

**Table 7.** Minimum viable FX leakage dashboard.

Indicator	2024 baseline	Frequency	Owner	Policy use
Merchandise imports	US\$9.18bn	Quarterly	SNBS/Customs	Track total import pressure and composition.
Merchandise exports	US\$1.56bn	Quarterly	SNBS/Customs	Track export coverage and diversification.
Trade deficit	US\$7.62bn	Quarterly	SNBS/Customs	Primary customs leakage indicator.
Khat imports	US\$0.40bn	Quarterly	SNBS/Customs	Track discretionary leakage and excise base.
Net services deficit	US\$0.98bn	Annual/quarterly proxy	CBS/IMF	Track offshore services pressure.
Outward transfers by category	New series	Quarterly	CBS/MTBs/Banks	Classify education, medical, travel, business, property, other.
Domestic revenue	US\$369.4m	Monthly/quarterly	MoF/OAG	Monitor domestic resource mobilization.
Wage bill/domestic revenue	92.5%	Quarterly	MoF/OAG	Monitor fiscal space.
Capital payments/total payments	3.2%	Quarterly	MoF/OAG	Monitor productive spending.
Official travel and conferences	Publish aggregate	Quarterly	MoF/OAG	Track public-sector offshore spending.

**Source:** Author proposal using existing administrative data and recommended new reporting fields.

## 7.5 Governance safeguards

Monitoring should be aggregated and privacy-preserving. The goal is not to block legitimate payments for trade, education, medical care, or family support. Individual transaction data should remain protected and used only under legal AML/CFT and financial-intelligence frameworks. Public reporting should publish aggregate categories, trends, and risk indicators. This balance is essential: arbitrary controls push flows informal, while transparent data allows policy to target avoidable leakages.

## 8. Conclusion

Somalia's external fragility is best understood as a domestic value-retention problem. Customs data show a merchandise trade deficit of about US\$7.62 billion in 2024. IMF data show a net services deficit of about US\$0.98 billion. Khat imports reached about US\$0.40 billion, and audited federal accounts show that the wage bill absorbed 92.5 percent of domestic revenue. These indicators point to a structural constraint: income generated or received inside Somalia is repeatedly converted into demand for foreign goods, foreign services, and offshore assets.

The strongest policy response starts from measured facts and avoids unsupported claims. Somalia should not invent a capital-flight number from weak data. It should measure more, publish more, enforce better, and reduce avoidable incentives for offshore accumulation. A foreign-exchange leakage strategy must therefore combine macroeconomic accounting with customs reform, financial integrity, public financial management, and productive-sector investment.

The proposed reform package is ambitious but sequenced. It protects essentials, taxes discretionary imports, modernizes customs, reduces khat leakage, accelerates livestock, crops, and fisheries exports, substitutes feasible domestic services, rebalances spending toward productive investment, and controls public offshore spending. The agenda is compatible with Somalia's regional and multilateral integration objectives if implemented through transparent rules rather than ad hoc restrictions.

The core message is simple: Somalia should keep more Somali earnings circulating at home. That requires credible data, credible public finance, and credible production. The policy aim is not to close the economy, but to make openness work for domestic value creation rather than chronic leakage.

## Annex A. Core data tables

**Table A1.** Core baseline data, 2024.

Indicator	US\$ million	Source
Exports, customs basis	1,556.1	SNBS Q1–Q4 2024
Imports, customs basis	9,179.7	SNBS Q1–Q4 2024
Trade deficit, customs basis	7,623.6	Author calculation
Khat imports	400.2	SNBS Q1–Q4 2024
Goods exports, f.o.b.	1,153	IMF CR 25/335
Goods imports, f.o.b.	7,627	IMF CR 25/335
Goods balance, BoP	–6,474	IMF CR 25/335
Service credits	1,338	IMF CR 25/335
Service debits	2,322	Author calculation from IMF table
Services balance	–984	IMF CR 25/335
Current account balance	–1,117	IMF CR 25/335
Domestic revenue	369.4	OAG 2024 audited accounts
Compensation of employees	341.6	OAG 2024 audited accounts
Total payments	905.2	OAG 2024 audited accounts
Capital payments	28.5	OAG 2024 audited accounts

**Sources:** SNBS, IMF, OAG; author calculations.-

## Annex B. Monitoring dashboard template

The quarterly dashboard should be published as a short public bulletin and machine-readable spreadsheet. It should include data definitions, source notes, and a revision history. The dashboard should distinguish observed values from proxies, estimates, and scenario targets.

- Trade module: exports, imports, deficit, top categories, top partners, khat value and volume, customs revenue, and valuation adjustments.
- Services module: travel, education, medical, transport, business services, and other service-payment proxies where available.
- Payments module: outward personal transfers by banks and MTBs, categorized into education, medical, family support, business, property, and other.
- Fiscal module: domestic revenue, grants, wage bill, use of goods and services, travel and conferences, procurement, capital payments, and arrears.
- Governance module: asset-declaration compliance, procurement publication rates, post-clearance audits, smuggling seizures, and audit follow-up.

## Annex C. Illustrative tariff and excise schedule

**Table C1.** Illustrative tariff and excise schedule for consultation.

Category	Examples	Illustrative treatment	Policy rationale
Tier A: Essentials	Food staples, medicines, humanitarian goods	0-5% tariff; zero/minimal excise	Protect food security and humanitarian access.
Tier B: Productive inputs	Seeds, fertilizer, fishing gear, machinery, verified industrial inputs	0-5% tariff; exemptions with verification	Support domestic production and export capacity.
Tier B/C: Basic construction inputs	Cement inputs, tools, selected construction materials	5-15% depending on local capacity	Avoid price spikes while supporting feasible local production.
Tier C: Luxury/discretionary	Luxury vehicles, premium electronics, cosmetics, high-end personal care	15-35% tariff plus excise where appropriate	Reduce discretionary leakage and raise revenue.
Tier C: Public-health goods	Tobacco, sugary drinks, khat	Specific excise plus ad valorem component	Internalize social costs; earmark partial revenue for health/youth programs.

**Source:** Author proposal. Rates are illustrative and must be calibrated to EAC CET alignment, welfare impact, revenue goals, and smuggling risk.

## Annex D. Government travel and offshore-spending controls

**Table D1.** Draft controls for public-sector offshore spending.

Policy element	Draft control
Travel authorization	All international travel requires written justification, budget line, and ministerial or authorized approval; emergency travel requires ex-post reporting within seven days.
Centralized booking	Tickets and hotels should be booked through a government travel desk or approved framework contract to compare prices and prevent inflated invoices.
Per-diems	Per-diems should be paid digitally using a standard rate schedule; cash advances should be minimized; accommodation above the cap requires receipts and approval.
Public disclosure	Publish quarterly aggregate travel and conference spending by ministry and purpose category. Individual security-sensitive travel can be aggregated.
Training policy	Prioritize in-country training, regional venues, and remote participation where quality is comparable.
Overseas procurement	Procurement abroad requires a value-for-money waiver and evidence that domestic procurement cannot meet quality, price, or timing requirements.
Asset declarations	Senior officials should submit annual domestic and foreign asset and interest declarations; publish aggregate compliance and selected summaries under law.

**Source:** Author proposal for consultation.

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