



High Electricity Costs in Bosaso: Socioeconomic Impact, Challenges, and Solutions

by Hinda Abdi Mohamoud

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Summary

- » Bosaso's electricity price of USD 0.79 per kilowatt has severely impacted household affordability, business viability, and local government revenue. The extreme costs, especially during the hot season, trigger seasonal migration, reduce tax collection, and hinder urban economic activity.
- » The merger of Bosaso's two electricity providers into PEPCO, a public-private partnership, has resulted in monopolistic control, removing competitive pricing and limiting service improvements.
- » While solar power is seen as a viable solution to reduce electricity costs, its adoption is limited due to high installation costs, lack of skilled labor, and poor product quality. Existing providers have shown resistance to decentralization and alternative energy sources.
- » The paper recommends establishing a fixed affordable electricity rate, breaking the monopoly by reopening the market to new entrants, and promoting solar energy through subsidies, regulatory

About Somali Public Agenda

Somali Public Agenda is a nonprofit public policy and administration research organization based in Mogadishu. Its aim is to advance understanding and improvement of public administration and public services in Somalia through evidence-based research and analysis.

About the Author

Hinda Abdi Mohamoud is a researcher, journalist, and blogger.

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Introduction

Bosaso is a key commercial hub for Puntland State, but extremely high electricity costs are a big problem in the city, and it's one of the main challenges that the city is facing. According to Climate Data, every year, starting in May and continuing to August, the average temperature in the city rises above 35°C, which causes a large number of people who live in Bosaso to gradually begin to leave the city due to the sweltering hot season.

This seasonal outflow leads to a significant decline in the population density. People go to nearby cities for cooler weather. Residents then start returning gradually in September as the temperatures begin to ease. During this period businesses generate less profit, and some even close. Furthermore, because the cost of electricity is expensive, it's hard for the local community to afford this during this period of high demand.

The excessively high cost of electricity has significantly hampered the local council's tax collection efforts. Many businesses are forced to close due to high operating costs, reducing the tax base and limiting revenue. In addition, the high electricity prices negatively impact overall business activity, further weakening the local government's revenue system. Seasonal migration, driven by extreme heat and rising power demands, also contributes to the decline in tax collection. In contrast, districts such as Garowe, where electricity costs around USD 0.59 per kilowatt, do not face the same pressure, and power prices are not a major concern for either residents or the local administration.

Revenue mobilisation is critical for effective local governance. It covers the funds essential to pay for the basic public services like trash collection, road maintenance, health services, education, and water and power. These services form the basis of a social contract between citizens and the local government, even if this is often challenged by limited tax compliance.

This governance brief investigates how high electricity prices impact tax collection, investments, the development of the city and, in general, the local community's life. The brief is based on interviews with local council officials, local business owners, academics, and households. It also presents policy recommendations and suggests mechanisms to relieve the financial burden upon taxpayers while at the same time generating adequate revenue for the local government.

The brief draws on nine key interview informants with the stakeholders in Bosaso. These include Bosaso local council members, an academic, the business community, an electricity company representative, and household representatives. Of the nine key informants, three were women. The interviews were conducted from April 1st to 21st and conducted via phone and WhatsApp calls. Given the geographical

dispersion of some respondents and their busy schedules, these mediums were selected for their convenience for the target interviewees.

Socioeconomic Impact of High Electricity Costs

The high cost of electricity has an effect on taxation, particularly during the hot season, which begins in May and lasts through August.¹ The cost of electricity significantly affects the community, who cannot afford power. On the other hand, there is a noticeable drop in tax collection when people leave the city for about five months during the hot season.

Some of the businesspeople interviewed indicated that high electricity costs strongly affect their profitability. Restaurants and small shops depend on electricity for refrigeration and cooling, especially during the hot months. The high operating costs, including taxes, make it difficult to keep businesses afloat. Some business owners said their businesses merely break even in good months, paying the rent, electricity, and tax costs without generating profit.

A recurrent theme is the annual migration of families and business owners from Bosaso during the hot season between the May–August months, which is mostly caused by the unbearable heat and the high price of electricity required for air conditioning and cooling by the households and businesses.

Due to this outflux, the city's revenue plummets significantly each month, business activities decline, and constructions and land registration are put on hold; the city experiences a sharp drop in investment, and during the season, no new businesses open, no buildings are constructed, and land transactions cease.

Impact on Local Government Revenue

The local government officials emphasised that they struggle with tax collection during the hot season. The companies providing the electricity charge the public a high price of USD 0.79 per kilowatt, which they say poses a challenge to the tax collection efforts of the local government. Nevertheless, they charge businesses a lower price per kilowatt depending on the capacity of the firm. Yet, the businesses scale down operating hours or close the businesses entirely in the summertime because of the annual migration. There is no precise data available to quantify the seasonal decline, as local government representatives did not share exact figures. Nonetheless, they indicated that tax collection in the city drops noticeably in this season.

A local council official stated, “We have divided the city into zones, which helps us collect taxes earlier or during the

temperate months from the neighbourhoods that people leave during the hot season in the city. The electricity is expensive; we collect taxes from those businesses earlier than usual. But if electricity were cheaper and people could afford it, the situation would be different.”

The Monopoly of the Electricity Sector

Interviewees highlighted the harmful effects of the recent merger between Bosaso's two main electricity providers, which formed a single company now known as Puntland Electric Power Company (PEPCO). This company has recently entered into a Public-Private Partnership (PPP) with the Ministry of Energy, Minerals, and Water, limiting competition. As a result, electricity prices have sharply increased, leaving residents with no option but to acquiesce to the fixed rates.

A business owner in Bosaso who we interviewed reacted to this new development and its consequences for the local people, including businesspeople, and said:

“Before, the two electricity companies were competing, but since the companies merged, it has become an additional challenge for us, and we don't have an alternative but to accept it. Sometimes, there are power outages due to technical issues, even during extreme heat, and people have no backup option or alternative provider.”

Normally, Public-Private Partnerships (PPPs) are established to increase efficiency while increasing affordability. This indicates that there is a need for an external regulatory body that oversees the PPP operations.

Moreover, the local government's ability to collect taxes is being affected by business closures and reduced activity. Small businesses, a key source of local revenue, are especially vulnerable. Some of the locals mentioned that the taxes collected do not result in visible services from the local government or benefits. This affects the potential for trust in local governance.

The interviews revealed a stark divide in electricity access: wealthier families can afford air conditioning, while others must rely on fans or lack any form of cooling altogether. Those with no financial means cannot even afford to leave the city during the hot season, highlighting deep socioeconomic disparities. One of the households in Bosaso explained that:

“Families with wealth or stable income install air conditioning in their homes. Those in the middle-income bracket typically use fans during the hot seasons. But there are others who can't even afford to install a fan in their home and are also unable to leave the city because they lack the financial means to have a new home or pay the rents elsewhere.”

¹ While Bosaso endures extreme heat during these months, other regions of Somalia—particularly in the south—experience rainy or cooler weather, underscoring the country's diverse climatic zones.

The exodus during the hot season also impacts public safety and urban vibrancy. As neighbourhoods turn empty, crime reportedly increases, and community life stagnates. With fewer people in the city, social services and businesses struggle to operate effectively.

One of the business owners stated that the safety of the city becomes fragile during the hot season:

“During summer in Bosaso, the city shuts down. You won’t see anyone in the streets. Crime increases, and sometimes neighbourhood shops are even robbed. Local shops are hit the hardest since entire neighbourhoods empty out during the season.”

On the other hand, one of the electricity company officials stated that the cost of electricity goes up during the hot season, and this allows the company to retain its usual revenue

“During the hot season, electricity consumption increases by around 50%. Even though many people leave the city for the hot season, usage still goes up,” said the electricity company official. “The company hasn’t suffered any financial loss because consumption has increased among those who remain in the city.”

However, over time, the migration has become permanent for some families, especially as nearby towns like Armo (100 km south of Bosaso) and Qardho (about 250 km southwest of Bosaso) have improved their services.

One of the university teacher interviewees argued that during the summer, the city’s population significantly shrinks and those who opt to go to the nearby towns like Armo and Qardho, ten years ago faced limited to no basic services, and these circumstances forced households to return to Bosaso.

However, he further noted that “those towns now offer education and other services, and families who stay behind can get the same education there. Families are choosing to settle permanently in those cities, which is also gradually decreasing the Bosaso population.”

Long-Term Development Challenges

Among other reasons like security concerns and political tensions, the high cost of electricity in Bosaso significantly hinders the city’s development and discourages both local and external investment. One of the most prominent impacts is the seasonal exodus of residents during the hot months, driven by the inability to afford the electricity needed for cooling. This annual departure reduces the city’s population for several months, leading to a sharp decline in business activity and halting essential urban services such as land registration, construction permits, and new business licensing. As a result, Bosaso experiences a seasonal standstill that disrupts its overall economic rhythm.

Renewable Energy Sector

Several participants expressed interest in using solar energy as an alternative but pointed out high installation costs, a lack of skilled technicians, and resistance from existing electricity providers. Some businesses and households have partially adopted solar energy, but wider use is hindered by affordability issues and poor quality assurance.

One of the business owners stated that buying a solar system is costly: *“Buying a solar system is very expensive, and the quality isn’t guaranteed; you may spend a lot of money only to receive a poor system.”*

On 19 June 2020, Puntland, in partnership with the United Arab Emirates (UAE), started the construction of a 7-megawatt peak (MWP) solar power plant project in Bosaso. Smart Gulf Solar, a renewable energy company, developed the project with support from the Abu Dhabi Fund. The project’s objectives were to provide renewable energy and help lower the city’s [electricity costs](#).

During the interview, both officials from the local government and electricity providers mentioned that the government and the energy companies are united in this project, and the plan is to implement a solar-powered electricity system in the city, aiming to bring the price down to USD 0.3 per unit. Speaking on this, one of them said:

“We are expecting a project from the African Development Bank and another one funded by the African Union (AU), which the government is overseeing. The government and the companies will work together on this project to bring down the cost of electricity.”

Conclusion

Bosaso’s high cost of electricity, which is around USD 0.79 per kilowatt, makes it extremely expensive to run businesses or start new ventures, especially in energy-intensive sectors like manufacturing or hospitality. The lack of affordable power discourages potential investors from choosing Bosaso, pushing them instead toward nearby towns with lower operational costs. Even within the city, some existing business owners have either scaled down their operations or permanently relocated to other countries, such as South Africa and other African nations, where conditions are more favorable.

Furthermore, the monopoly in the electricity sector, following the merger of the two major providers, has eliminated competition, leaving consumers with no other options for lower prices or better service. The absence of alternative providers means people are forced to accept high rates, and the lack of price regulation stifles development initiatives that depend on affordable energy.

The ripple effects also touch on long-term urban planning. With families leaving and some never returning, the city faces a shrinking population base, which undermines demand for housing, schools, and other infrastructure. This weakens the city's growth trajectory and limits the potential for sustainable development.

The high cost of electricity in the city is primarily caused by the fact that 95% of power is generated from fuel. The companies merged about a year and a half ago, and that merger resulted in several plans—one of which is to reduce the cost of electricity.

In addition, reasonably priced and dependable energy also affects social services, public safety, and long-term urban growth. Due to its excessive reliance on fuel-based power and monopolistic control over the energy sector, Bosaso has had difficulty establishing an environment that appeals to both residents and investors.

Policy Considerations

These recommendations are primarily directed at the Puntland regional government and relevant government agencies overseeing energy policy and infrastructure. For these proposals to have a meaningful impact, they must be accompanied by implementation strategies that guide responsible institutions and stakeholders.

1. **Establish a fixed and affordable electricity rate:** The government should set a fixed electricity rate that is lower and more affordable than the current rate of USD 0.79.
2. **Reopen the electricity market to end monopolies and encourage competition:** The government should review current licensing policies and create a transparent regulatory framework that enables new private companies to enter the electricity sector by:
 - Setting clear, fair licensing requirements for new energy providers.
 - Ensuring regulatory neutrality through an independent electricity regulatory board.
 - Providing start-up support or tax exemptions for small and medium-sized energy start-ups to foster competition.
3. **Leverage Bosaso's coastal location for renewable energy:** The government, in collaboration with

academic institutions and international energy experts, should:

- Commission feasibility studies for solar power generation and the expansion of solar projects.
 - Establish a renewable energy task force to coordinate research and pilot projects.
4. **Encourage solar infrastructure through incentives and policy frameworks:** The government can accelerate investment in solar energy by:
 - Establishing a national or regional solar energy policy with clear targets.
 - Providing incentives such as import duty exemptions for solar equipment, land grants, or low-interest development loans.
 - Partnering with development banks and international donors for infrastructure financing.
 5. **Make solar energy affordable for households:** To increase household adoption of solar energy, the government could:
 - Introduce subsidy programs targeting low-income households.
 - Partner with microfinance institutions to offer installment-based payment plans for home solar systems.
 - Conduct an awareness campaign to educate the community about the cost-saving benefits of switching to solar.
 6. **Develop a competitive and open electricity market:**
 - The government should establish policies that protect consumers and guarantee access to information and choice.
 - Promote grid agreements that allow independent producers to use the national grid to sell to end users.



Somali Public Agenda

♦ Mogadishu Somalia
 ☎ +252(0)85 8358
 ✉ info@somalipublicagenda.org
 🌐 <<https://www.somalipublicagenda.org>>

This governance brief is the third in a series of District Council-driven research publications under our EU-funded project, Increased Opportunities for Somali Citizens' Scrutiny of Fiscal and Financial Governance, which examines critical issues related to fiscal governance and federalism at the district level. The topics explored in this series are identified through close collaboration with District Council members, and Civil Society Organizations' (CSOs) representatives during workshops held in Bosaso, Adado, and Jowhar on a quarterly basis, ensuring the research remains grounded in local governance realities.