



## NEC Policy Brief

### ESTABLISHING A BLUE ECONOMY INVESTMENT FRAMEWORK FOR SOMALIA<sup>1</sup>

#### 1. Background and Context

Somalia has made rapid progress toward peace, stability, and economic development following decades of civil war. In terms of politics, security, and overall development, the country still faces many challenges, and much of its recent history has been marked by recurring violence, poverty, and famine. While there has been some progress on the political and economic front over the past few years, most Somali people still face many challenges, including poverty, insecurity, and vulnerability to disasters. It is important to maximize investment return rates for revenue, jobs, and growth to move the country away from fragility.

The investment opportunities available in Somalia vary in size, scope, sector, purpose, and structure. Profiting from the opportunity requires rebuilding stronger government institutions that provide services, which is of key importance for the Somali people and the government. This includes building more resilient economic activities that are not susceptible to economic shocks. Therefore, it is imperative that Somalia's Blue Economy Framework (BEF) is structured in such a way to reflect on implementable and achievable development objectives that focus on poverty eradication and economic growth in line with Sustainable Development Goals (SDGs). Somalia's policy leaders must focus on the development of

BE puts more emphasis and importance on helping Somalia rebuild a stronger economy, generate much-needed revenue for development, job creation, and promoting value

chains. To make these happen, there has to be an alignment of other national existing policies and the national development plan.

This policy brief is based on a background study conducted by the National Economic Council (NEC) advisors. It is entitled "Establishing a Blue Economy Framework for Somalia", and will be presented at the National Economic Policy Forum on Growth and Economic Transformation Strategy for Somalia (GETS) on 20- 21 June 2022 in Mogadishu, Somalia.

The study is guided by the country's urgent need for development and reduction in poverty, as well as the need for a multi-dimensional approach to transitioning the country from aid dependence to sustainable social and economic development in order to attain improvements in security and the rule of law.

#### 2. Challenges and the Need for Investment Framework

The establishment of Somalia's Blue Economy Investment framework faces many challenges. A key challenge is mobilizing adequate and sustainable financial resources to enable the transition into viable economic growth. Somalia's blue ocean economy is believed to hold boundless potential for investment and development for ocean-based sectors like fisheries, wind energy, port and marine transportation, and offshore oil and gas. Its vast coastline of over 3,300km makes the country the largest in mainland Africa and gives it considerable marine resources. Its maritime

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zone possesses one of the most important large marine ecosystems.

However, many of the country's blue economy sectors, such as fishing and ports, have suffered the consequences of the long years of civil war. The challenges of low human and institutional capacity that exist in the public sector have resulted in an additional constraint in ocean-based sectors. Combined with a lack of reliable and consistent information, these challenges have contributed to a sluggish recovery of the overall economy. In the interim, development and poverty reduction are urgently needed for Somalia.

One of the key areas is to revitalize, invest, and finance the country's blue economy sectors urgently. This will undoubtedly contribute to moving the country forward for sustainable development, especially for revenue generation and economic transformation, which will move the country from a traditional economy into a knowledge-based economy. It is expected that robust blue economy sectors will create employment for youth, open up entrepreneurial opportunities, attract international investment, and bring new technologies into the sectors (Somali NDP 9).

**Table 1: Somalia's Selected Blue Economy Sectors for Investment**

| Traditional established           | or | Emerging or Non-traditional |
|-----------------------------------|----|-----------------------------|
| Fisheries                         |    | Renewable Energy Wind       |
| Port or Shipping Marine Transport |    | Offshore Oil & Gas          |
|                                   |    | Salt & Mineral Extraction   |

Taking advantage of these sectoral ocean resources and protecting them for future generations is an urgent need that requires investment. Protecting and utilizing these ocean resources for current revenue generation and future generations is imperative. For these to happen, it is vital to have a concrete set of strategies and plans to ensure the development of Somalia's blue economy. Turning a vision,

strategy, and plans into actions with measurable outcomes requires investment capital. A blue economy investment strategy aimed at driving financing efforts to create economic growth is the call of this policy brief.

Based on information available in key sectors, this brief proposes a framework for considering investments in Somalia's blue economy. Somali policymakers and the federal government are urged especially to develop a strategy that will guide future actions and investments that will empower Somalia's ocean economy.

Political will and active investment promotion are necessary to exploit Somalia's long ocean. Long-term engagement efforts are needed instead of short-term commitment. The geographic position of Somalia at the crossroads of major trade routes into Africa provides an unquestionable advantage that can improve the Somali economy and livelihoods.

### 3. Establishment of innovative Blue Economy Strategy: Assessment & Analysis

#### Creating Right Environment and Opportunities for Investing in Somalia's Blue Economy

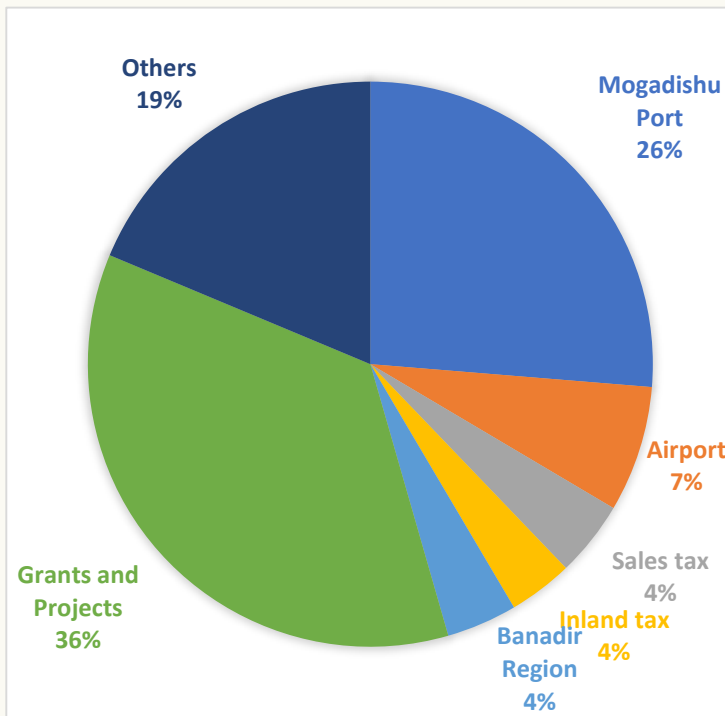
Somalia's blue economy has no doubt real potential for growing the economy and providing immediate funding to close the budget deficit. The Somali blue economy also offers an opportunity to "build back better" as the country's already established ocean sectors, such as small-scale fisheries and ports, work to recover from the COVID-19 pandemic. An overall blue economy investment strategy and an enabling investment environment are needed to support the country's economic and social well-being as it rebuilds itself after years of civil strife. Especially important is the rebuilding of economic and financial institutions.

Almost all of the five selected sectors assessed for the blue economy investment study offer revenue generation opportunities. Some are currently contributing significantly to the government revenue structures. For example,



the Mogadishu port alone contributes the most important domestic revenue. Annually, an average of \$98.6 million USD are collected for revenue, according to data from the Ministry of Finance (Figure 1).

**Figure 1: Total Revenues Collected by Source in 2020 and 2021.**



Source: Somali Federal Ministry of Finance.

An ideal business environment, regulatory framework, skills development, and quality infrastructure are necessary to accelerate investments in the blue economy. Many experts interviewed indicate the existing potential for revenue increase.

On the other hand, a total of \$1.1 million is raised from the sale of foreign vessels licensed to fish for tuna and tuna-like species in Somalia's EEZ annually. This indicates a small glimpse of the future revenue opportunities that can be realized if the right investment environment is created.

Literature and data indicate Somalia's existing blue economy sectors are thriving. Like fisheries, Somalia's shipping and port facilities have long been seen as an area of opportunity for economic growth and a key source of government revenue.

About 55% of Somalia's population lives near the coast. Among many other sectors, these communities rely on small-scale fishing, shipping, and port facilities for their livelihoods. Because of the large number of local residents living in the coastal areas, any investment in these sectors will impact a greater number of recipients and offer more blue job opportunities in these coastal communities.

## Innovative Blue Economy Investment Framework

Implementing the Growth and Economic Transformation Strategy (GETS) along with overall Somalia's National Development Goals and shepherding the complex transformation called for here entails investment in innovative, multiple yet robust planning processes over Somalia's blue ocean space (e.g., van Tatenhove 2011).

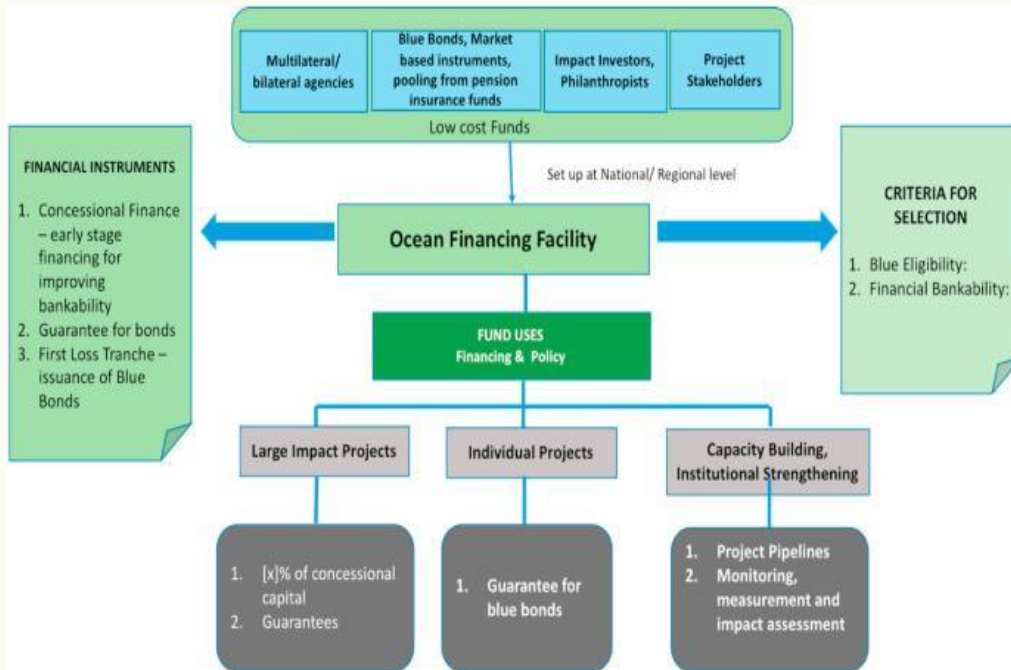
Creating an innovative blue economy investment strategy requires the initial buy-in of multi-ministerial agencies. Multi-stakeholder policy processes are needed to bring together all key actors and stakeholders in an effort to invest creatively in Somalia's blue economy. It is imperative that all key government sectors endorse an investment strategy, solution, and methods of implementation that will be in the best long-term interests of the country as well as their respective interests.

In order to transform Somalia from a rural land-based economy to a growing blue economy, long-term investment financing mechanisms must be made available to support targeted priority activities, including boosting regulatory and ocean enforcement, conservation, and sustainable management. Many innovative blue economy financing options are available (including Blended Finance, Blue Bonds, Development Impact Bonds, Debt swaps, Crowdsourcing-Diaspora financing, and contingently recoverable grants). Several of these BE financing sources are used in developing and neighboring countries. The funding sources mentioned above could be applied to various initiatives such as fishery



improvement projects, port expansion, and performance improvement projects, rebuilding and restoration of marine systems, human capacity development, and climate change adaptation projects.

**Figure 1: Blue Economy Investment Framework and Related Funds**



Source: <https://greenfiscalfpolicy.org/blog/innovative-financing-mechanism-for-blue-economy-projects/>

## 4. Recommendation and Policy Pointers

A blue economy investment strategy presents a guiding opportunity to potentially leverage additional resources for investments in economic growth areas in the Somali ocean and develop coastal communities while protecting the ecosystem and utilizing a wide variety of new and innovative financing models, for which both the public and private sector can partner to pool finances and share skills, expertise and methods. For this to happen and to take advantage of the available funding sources as well as match those funds with high value and return projects, policymakers must take seriously investment strategic actions such as:

1. Establish Multi-Agency Task Force to study the range of possible sources of sustainable

finance that could be deployed to support Somalia's blue economy. Given the gaps and involvement of several government entities, it is imperative that a unified and coordinated effort is directed at these issues. This is crucial since government capacities are limited, and some agencies are better advanced or resourced than others. This will make it easier to replicate successes and working practices across agencies.

2. Reform the governance framework and operational structures (if needed) to facilitate the development of a blue economy financing fund. As of now, some FGS entities collect fees and limited taxes from marine-related activities, and there is the possibility of royalties, bonuses, and other fees from offshore oil & gas. Most of these funds are channeled into the consolidated federal single treasury account to be distributed nationally, and

some are shared with other federal member states. To support initiatives aimed at developing the blue economy in Somalia, a dedicated 'Blue Economy Development Fund' should be considered. Institutional and operational reforms are required to achieve this.

Similarly, blue economy transformation in Somalia requires financing and investment on a much broader scale, in a wide range of sectors, and in many of the new and emerging blue economy industries that have the potential to transform its long-term growth prospects. A number of policy recommendations will be needed for this transformation. The following are transformative blue economy investment policy pointers:

1. **Creating an enabling environment for investment across sectors is number one.** Public and private sector investment enabling environment is critical to promoting the Blue Economy. It is worthless if there are



no business and investment enabling policies. Investment in the blue economy will only increase and become more reliable with an enabling environment.

2. **Next, mobilizing domestic resources and attracting women and diasporic entrepreneurs with blue ideas and capital from overseas.** To harness Somalia's oceans would require initial financial investment, capital, and inventive ideas. Blue economy investment in Somalia depends on a range of workforce, skills, and talent, which is a huge gap.
3. **Balancing investment options for competing development needs.** Institutionally, investing in BE sectors requires balancing immediate and long-term objectives like security and post-conflict reconstruction. The country needs to prioritize investment goals and develop alternative funding mechanisms to significantly impact investment in high-yield key sectors.
4. **Consider creating a task force to study possible options for investments or sources of sustainable finance in support of the blue economy in Somalia.** Policymakers should consider exploring commonly used blue economy-related investment and financing options such as diaspora crowdsourcing, blended finance, debt swaps, and Multi-Donor Trust Funds to channel post-conflict development aid.
5. **Improve data collection, valuation, and measurement.** Globally, the investment industry places a great deal of emphasis on measuring both economic and social impacts and returns. Data collection and measurement are vital for taking action, making decisions and investing in the blue economy.

Finally, Somalia made steady progress toward debt relief and has attracted limited investment and financing; however, financial investments in the blue economy have been piecemeal and limited to port projects, so this is not enough to realize its transformative potential. Somali policy makers and international development partners can accelerate blue finance with increased policy efforts.