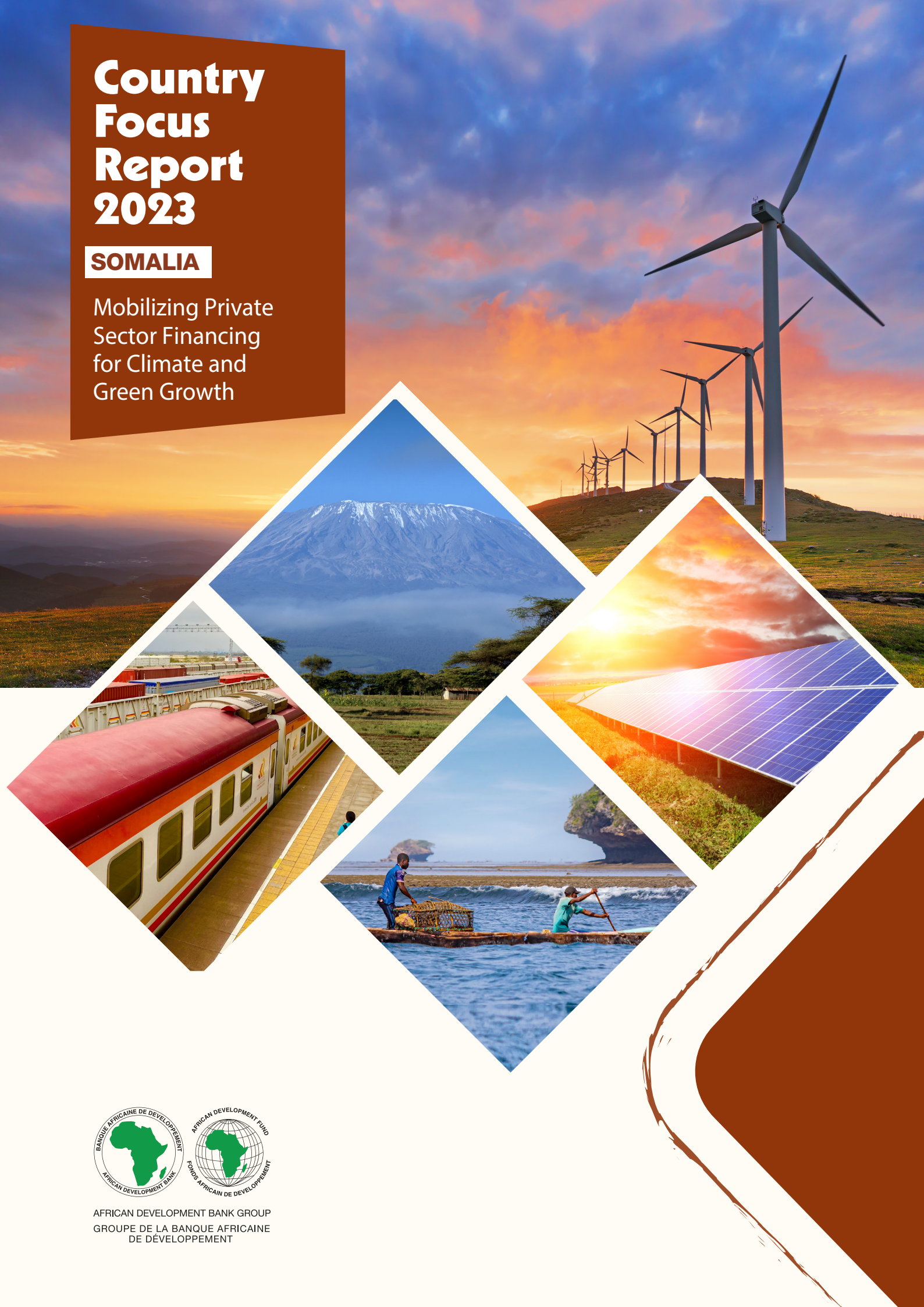


Country Focus Report 2023

SOMALIA

Mobilizing Private Sector Financing for Climate and Green Growth

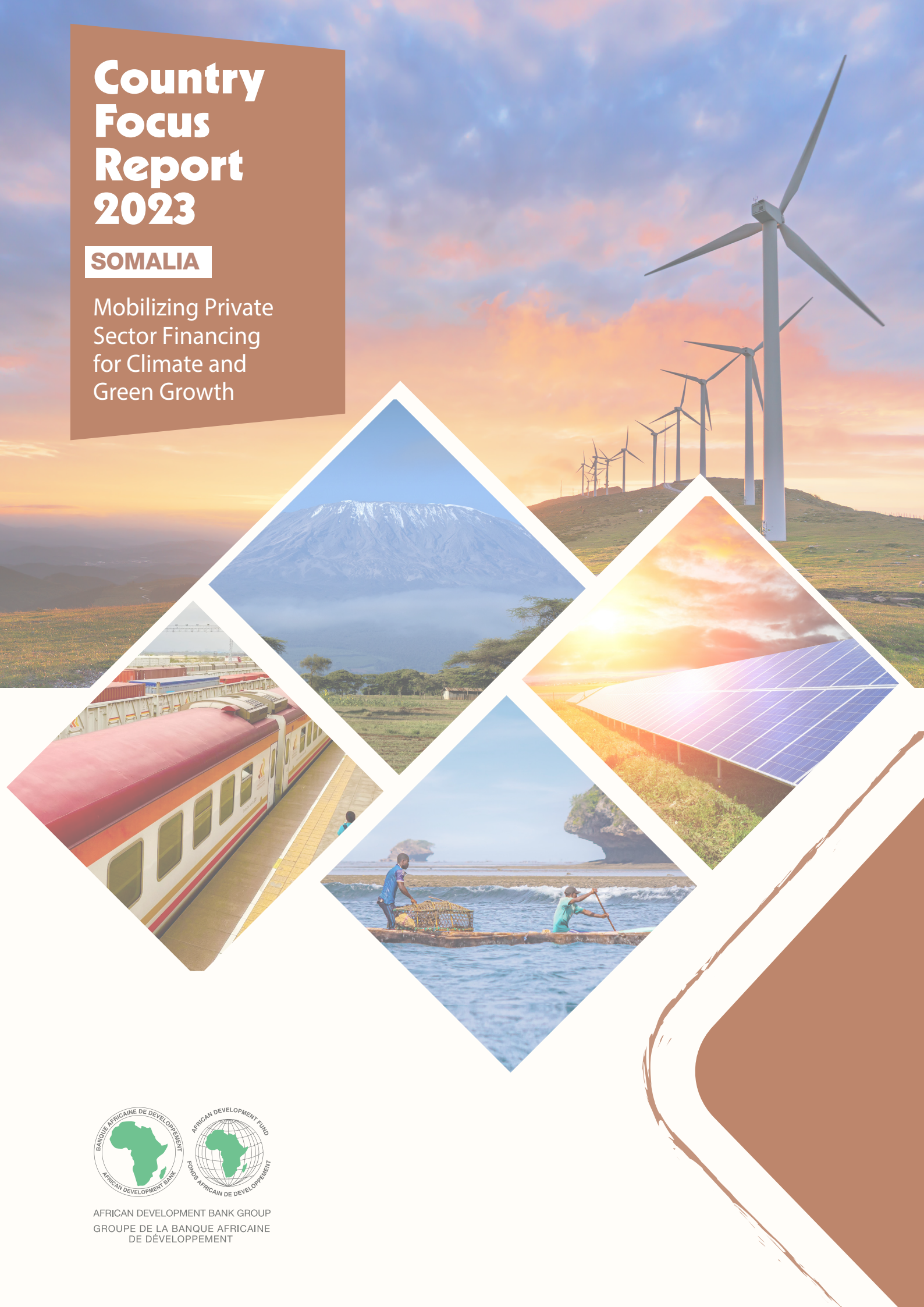


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Country Focus Report 2023

SOMALIA

Mobilizing Private Sector Financing for Climate and Green Growth



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GROUPE DE LA BANQUE AFRICAINE
DE DEVELOPPEMENT

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African Development Bank Group
Avenue Joseph Anoma
01 BP 1387 Abidjan 01
Côte d'Ivoire
www.afdb.org

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The preparation of the report was led and coordinated by Ferdinand Bakoup, Acting Director, Country Economics Department, with a core team consisting of Edward Sennoga, Lead Economist for East Africa and Herve Lohoues, Acting Division Manager, Country Economics Division 2 (East Africa, Nigeria, and Southern Africa), Vera Oling, Senior Country Economist for Somalia, and Tricia Effe Baidoo, Staff Assistant, Country Economics Department.

Peer review comments were received from Duncan Ouma, Senior Country Economist for Sudan; Eline Okudzeto, Principal Governance Officer, Economic Governance and Knowledge Management; and Charles Nyirahuku, Chief Gas Policy Officer, Africa Natural Resources Management & Investment Centre. The country team members who provided comments from the East Africa Team led by Nnenna Nwabufo, Director General, Eastern Africa region included Bubacarr Sankareh, Lead Operations Advisor, East Africa, Chi Lawrence Tawah, Consultant of the East Africa country Team; Margaret Kamau, Principal Climate Change and Green Growth Officer; Robert Tayimlong, Senior Fragility & Resilience Officer, Transition States Coordination Office; Bernard Onzima, Principal Climate Finance Specialist, Agriculture Finance and Rural Development; and Yousif Eltahir Bashir, Country Economist Sudan. Hammed Amusa, Chief Research Economist of the Macroeconomics Policy, Forecasting and Research Department led by Abdoulaye Coulibaly, Director, Officer-in-Charge; Anthony Simpasa and Jaoui Fadel, Division Managers of the Macroeconomics Policy and Debt Sustainability Division and Microeconomic and Institutional Impact Assessment Division respectively; Leontine Kanziemo, Advisor of the Africa Natural Resources Management and Investment Centre led by Vanessa Ushie, Acting Director, and Fred Kabanda, Division Manager, Renewables; and Margaret Kamau, Principal Climate Change and Green Growth Department, led by Anthony Nyong, Director, Climate Change and Green Growth also provided comments.

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LIST OF ABBREVIATIONS

AEO	African Economic Outlook
ADF	African Development Fund
ADRiFi	Africa Disaster Risk Financing programme
AfDB	African Development Bank
CFR	Country Focus Report
CRI	Climate Resilience Index
DSA	Debt Sustainability Analysis
DFI	Development Finance Institutions
DINA	Drought and Impact Needs Assessment
FGM/C	Female Genital Mutilation/Cutting
FGS	Federal Government of Somalia
FMS	Federal Member States
FDI	Foreign Direct Investment
GCF	Green Climate Fund
GEF	Global Environment Facility
GGI	Green Growth Index
GHG	Green House Gases
HIPC	Heavily Indebted Poor Countries
ICPAC	IGAD Climate Prediction and Application Centre
IPC	Integrated Food Security (IPC) report
IUU	Illegal, Unreported, and Unregulated
IUCN	Integrated Union for Conservation of Nature
MDB	Multilateral Development Bank
M&E	Monitoring and Evaluation
MOEWR	Ministry of Energy and Water Resources
MoECC	Ministry of Environment and Climate Change
MOLFR	Ministry of Livestock Forestry and Range
MOLSA	Ministry of Labour and Social Affairs
NDC	Nationally Determined Contribution
NDP	National Development Plan
NDGAIN	Notre Dame Global Adaptation Initiative
NSS	National Statistical System
NREAP	National Renewable Energy Action Plan
NPL	Non-Performing Loans
PFM	Public Financial Management
RLACC	Rural Livelihoods Adaptation to Climate Change
SHDS	Somalia Health and Demographic Survey

SNBS	Somalia National Bureau of Statistics
TSF	Transition Support Facility
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development
\$	United States Dollar
UNFCCC	United Nations Framework Convention to Climate Change

Somalia

KEY MESSAGES

Macroeconomic Performance and Outlook

During 2022, Somalia faced multiple crises which affected its economic performance. These include a prolonged drought of five failed rainy seasons, continued security risks, and food and fuel inflation triggered by the impact of Russia's invasion of Ukraine. As a result, real GDP growth slowed to 1.7% in 2022 from 2.9% in 2021.

The economic outlook is positive. GDP growth is projected to recover to 2.8% and 3.5% in 2023 and 2024, respectively, driven by private consumption and recovery in livestock exports. Realisation of the HIPC completion point, which is expected to be reached by the end of 2023, could spur foreign investment inflows and other development financing.

However, key downside risks persist. These relate to vulnerabilities from climate change, notably poor rainfall, insecurity, weaker remittance inflows, and a continuation in the protracted Russia-Ukraine war, which could further aggravate global energy and food prices.

Private Sector Financing for Climate and Green Growth

The country has made good progress in developing its national green growth frameworks and roadmaps, for instance, Somalia's updated 2021 Nationally Determined Contribution (NDC) re-affirms the country's financial commitment of \$55.5 billion towards meeting its climate change adaptation needs (\$48.5 billion) and mitigation-financed needs (\$6.96 billion) during 2021-2030. However, to mobilise private sector financing needed to meet the NDC goals, Somalia should translate their political commitment towards green growth and climate change into action through building resilience and addressing vital institutional capacity gaps to implement the NDC.

The country needs to implement climate frameworks and ensure strong horizontal and vertical integration. Currently, Somalia has limited vertical integration amongst different national sectoral institutions that are responsible for the implementation of green growth and climate change actions and actions to mobilise private sector finance.

To ease the key barriers preventing the scaling-up of the mobilisation of private sector finance for the country's green growth and climate action goals, Somalia should fast-track efforts aimed at improving the public debt sustainability levels, from 'debt distress' to 'moderate risk' of debt distress. Once the sovereign debt levels improve, this could crowd in private climate financiers. Somalia should also reduce the cost of doing business and reduce the cost of capital.

To ensure climate project readiness and bankability, Somalia must build upon the low levels of green skills and institutional capacities amongst institutions that will enable them to develop and implement commercially viable green growth and climate action projects. For the private sector investments, especially for non-energy related sectors, political insecurity which encourages illicit charcoal production and discourages green climate investments should be curbed.

Somalia mobilised \$392.97 million in climate finance flows during 1995-2018. Of this, 96% of the financing flows were channelled through public finance. For the additional mobilisation of climate finance from the domestic and international private sector finance for green growth and climate action, the integration of various finance instruments including blending, green bonds, diaspora bonds, carbon markets, climate insurance finance, and the development of innovative platforms that can link domestic private sector with other international actors such as multilateral development banks (MDBs), development finance institutions (DFIs) and international private sector will be critical.

There are several pathways that Somalia could use to unlock private sector financing opportunities for green growth and climate change. These opportunities include implementing reforms targeted at restoring public debt sustainability levels for a better credit rating, ensuring fiscal incentives are provided to attract climate finance related initiatives, thereby improving the sovereign credit rating to crowd in more private climate capital from external investors. Strengthening the institutional capacity to provide adequate strategic and regulatory oversight on climate finance issues.

Natural Capital Finance for Climate and Green Growth

Somalia is endowed with significant natural capital including land-based capital, soils, forest, water resources with nine water basins and two permanent rivers which flow into the Indian Ocean. The blue ocean economy resources from the long coastal shoreline of 3,333 kilometres provides fisheries and marine resources including mangroves, coral reefs, and fishing. Given Somalia's sunny weather, it will be important for the country to harness renewable energy generation from wind, wave energy, and solar energy, and to leverage forest and land resources in support of the transitions towards green growth.

Somalia's renewable natural assets declined during 1995-2018 by 4% from \$18,565 million to \$17,792 million owing to various factors including prolonged climatic shocks, drought, floods, and deforestation due to illegal charcoal production for export. There has been a severe degradation of natural capital owing to the deforestation caused by tree felling for commercial charcoal burning. In this regard, Somalia should implement measures aimed at reversing the land degradation trend.

Somalia's fisheries sector declined from \$69 million to \$60 million during 1995-2018, owing to the same factors. Illegal unreported and unregulated (IUU) fishing remains a challenge. To reverse this, the government should provide sufficient investment frameworks to restore degraded fish stocks and tackle IUU fishing, maritime security and avert deep ocean piracy. In addition, they should restore water catchment areas.

Strengthen economic and financial governance as Somalia prepares to manage more revenue from natural resource rents, notably from the fisheries, forestry, and minerals sector which had declined from 24.9% of GDP in 2015 to 13.4% in 2016, but recovered to 14.8% of GDP in 2018.

Enhance measures to address security and safety concerns nationwide for political stability, and for the realisation of the renewable natural assets including reforestation and tourism. Insecurity encourages the illicit charcoal production for export, while deterring the inflow of green growth investments into all regions which are still under Al-Shabaab control.

The channels for increasing the returns from natural capital in Somalia include domestically driven as well as internationally driven actions. It will be important to identify the governance and the management of returns from this extractive natural capital and link the human capital requirement to add value to exports. At international level, making more use of international agreements on climate change and biodiversity to finance higher-value returns from the natural asset endowments will benefit Somalia. Accessing international mechanisms to carbon market credits at higher prices could increase unit rents for the country.

1 INTRODUCTION

This Country Focus Report (CFR) for Somalia provides an assessment of Somalia's private sector financing landscape and green growth. It mirrors the continental and regional level analysis in the African Development Bank's African Economic Outlook (AEO) and East Africa Economic Outlook reports, respectively. It explores the role of the private sector in financing this area and examines the scope for harnessing natural capital to finance adaptation and mitigation of climate change to promote green growth. It aims to analyse the national climate financing activities carried out in Somalia.

This CFR is structured as follows. Section 1 is the introduction. Section 2 discusses Somalia's recent macroeconomic performance and outlook. Section 3 discusses private sector financing for climate and green growth in Somalia. Section 4 discusses the role of natural capital for climate finance and green growth in Somalia. Section 5 provides concluding remarks and draws on some key policy recommendations for the government, the 'donor' community, the domestic and international private sector, and developed country governments.

2 SOMALIA'S ECONOMIC PERFORMANCE AND OUTLOOK

2.1 Recent Macroeconomic and Financial Developments

Economic growth: Somalia faced multiple crises during 2022, including a prolonged drought of five failed rainy seasons that has displaced half of the population, continued security risks, and a food and fuel inflation triggered by the impact of Russia's invasion of Ukraine. As a result, real GDP growth slowed to 1.7% in 2022 from a recovery of 2.9% in 2021 compared to a 0.3% contraction in 2020. The economic recovery in 2021 was driven by a recovery in livestock exports, increases in private consumption and a decline in the prevalence of COVID-19. On a positive note, a new Government under President Hassan Sheikh Mohamud took power following successful elections held in May 2022. The democratic elections paved way for the development partners to re-instate the suspended budget support that had been cancelled owing to the delays in elections since 2020.

Monetary policy and inflation: Monetary policy is absent due to widespread dollarization and currency counterfeiting. The implementation of the remedial currency reform program stalled in 2021 due to the political uncertainty. However, the Central Bank of Somalia is enhancing its supervisory and regulatory capacity in preparation for the introduction of a monetary policy and exchange rate regime. Inflation increased to 6.8% in 2022 from 4.6% in 2021, largely driven by the high energy and food import prices attributed to the Russian invasion of Ukraine.

Fiscal and current account balances:

Somalia achieved a balanced budget in 2022 consistent with its Heavily Indebted Poor Countries Initiative (HIPC) completion point commitments, compared to a deficit of 1.1% of GDP in 2021, which was financed by the 2021 special drawing rights (SDR) allocation (\$203 million or 4.1% of GDP). Somalia remains in debt distress but is expected to reach the HIPC completion point by the end of 2023, thereby improving the risk of debt distress to moderate. However, the HIPC completion process has ensured that Somalia reached out to creditors and negotiated repayment terms. It has also ensured that no new external debt was contracted since 2020. As such, the IMF article IV report 2022 projects that with the gradual improvement in domestic revenues, fiscal consolidation, budget support and higher grants, the public debt as a percentage of GDP are projected to reduce from 81.9% of GDP in 2019 to 41.2% of GDP in December 2022, and further down to 6.4% of GDP by end 2023.

In 2022, the drought that began in 2021 affected the export of over 16 million livestock. Diaspora remittances declined during the same period. This was attributed to the Ukraine-Russian conflict, which affected migrant employment. As a result, the current account deficit widened to 17.1% of GDP in 2022 from 10.1% in 2021, also driven by the growth of food imports bill and the suspension of budget support by some development partners prior to the conclusion of the May 2022 elections. The current account deficit was financed by aid, remittances, and foreign direct investment

(FDI). The government is implementing various public financial management (PFM) reforms to enhance domestic revenue mobilization, strengthen expenditure controls, and increase transparency and accountability in public finance. Harmonization of taxes across the federal government and member states should improve tax administration. Somalia's undiversified exports are a key source of external vulnerability.

Financial sector: Somalia's financial sector

remains underdeveloped due to risks related to money laundering, and legal and regulatory weaknesses. The financial sector is largely stable, with a non-performing loans (NPLs) ratio at less than 3% in 2020. Whereas NPLs' ratio grew from 1% of total credit in 2021 to 5% in June 2022, the capital adequacy and liquidity ratios remain satisfactory. Private sector credit growth has averaged about 45% annually since 2016, but banking sector credit caters for about 7% of demand, reflecting the sector's limited intermediation role.

Table 1: Macroeconomic Indicators

Macroeconomic Indicators	2018	2019	2020	2021	2022(e)	2023(p)	2024(p)
Real GDP Growth	3.7	2.7	-0.3	2.9	1.7	2.8	3.5
Real GDP Growth per Capita	0.0	-1.0	-3.8	-0.3	-1.4	-0.3	0.4
Inflation	4.3	4.5	4.3	4.6	6.8	4.2	4.0
Overall Fiscal Balance, including Grants (% GDP)	0.0	0.4	0.4	-1.1	0.0	-0.3	-1.9
Current Account (% GDP)	-7.7	-6.2	-10.4	-10.8	-17.1	-15.8	-14.1

Source: Data from domestic authorities; estimates (e) and prediction (p) based on authors' calculations. AfDB Statistics Department, April 2023

In 2022, majority of the Somali population lost their livelihood owing to the prolonged drought and climatic shocks which affected about 16million livestock and displaced nearly half of the population.

Poverty and social indicators: About 69% of Somalia's total population of 16 million people live below the poverty line. Between 60-70% of the population are pastoralists, herding livestock – cattle, camels, goats, and sheep compared to 15% in agriculture. It is projected that most Somali pastoralists lost their livelihood in 2022 owing to the prolonged drought, which displaced about half of the population. During 2022, millions of Somalis were exposed to famine, extreme poverty, and violent conflict owing to climatic shocks, severe drought, and famine. Similarly, during 2020/21 the World Bank estimated that 21% of the population lost their jobs due to COVID-19. According to the Somalia Integrated Budget Household survey

of 2022, about 53.7% of the population are literate, while 65.5% of the population have not had formal education. In addition, about 4% of the population have attained higher education, while only 25% of all primary-aged children attend primary school. According to the Somalia Health and Demographic Survey (SHDS) 2020, the maternal mortality ratio decreased to 692 per 100,000 births in 2020 compared to 865/100,000 in 2016. However, the female genital mutilation rate stood at a high of 99.2% of girls and women (15-49 years). According to the 2022 Somalia Integrated Household Budget Survey, the national unemployment rate stood at 16.3%.

Box 1: Impacts of Russia's invasion of Ukraine on Somalia

Russia's invasion of Ukraine resulted in a disruption of the supply chain for wheat and fuel which has resulted in a sharp rise in the price of imported wheat, fertilizer, and fuel. It should be noted that before the Ukraine war in 2021, Somalia sourced more than 90% of its grain from Ukraine and Russia. Given the persistent disruption in the food supply chain, even one year into the Ukraine conflict, thousands of Somali people remain on the verge of famine. It is against this backdrop that the government launched the 2023 Humanitarian Response Plan appealing for \$2.6 billion to assist 7.6 million people.

The impact of the food price shocks, compounded by the internal conflict, and exacerbated by the worsening drought of 2021-2023 led to a massive displacement of approximately 7.8 million people or half of the population by March 2023. According to the Integrated Food Security Phase Classification (IPC) report for the period of October-December 2022, about 5.6 million people were classified as 'facing high levels of acute food insecurity', while over 8.3 million people are expected to face a food crisis by June 2023 if rains of April to June fell below the average. This is higher in comparison to the March 2022 situation when about 4.8 million people (31% of the population) faced high levels of food insecurity. Inflationary pressure on food prices rose further during October – December 2022 owing to continued low average rainfall on top of the higher international prices due to the war in Ukraine. The Russian invasion of Ukraine also triggered a disruption in the economic recovery from the COVID-19 shock. Consequently, Somalia's GDP contracted in 2022 to 1.7% from 2.9% in 2021. The GDP growth achieved in 2022 has remained noticeably lower than earlier estimates. According to the IMF, the impact of food price shocks compounded with the climate shocks necessitated a humanitarian relief using a combination of cash transfer and food rations supported by partners such as the World Bank and World Food Program (WFP). After multiple failed rainy seasons, the picture for 2023 is not yet clear.

2.2 Outlook and Risks

Economic growth: GDP growth is projected at 2.8% and 3.5% in 2023 and 2024, respectively, driven by private consumption and recovery in livestock exports as demand in the Gulf countries, Somalia's key export market, improves. GDP per capita growth is only expected to become positive in 2024 after years of decline. Inflation is projected at 4.2% in 2023 and 2024 as supply chains stabilize. The anticipated HIPC completion point is expected to be reached by the end of 2023, which should spur foreign investment inflows, and aid in sustaining growth. The enactment of the Extractive Sector Income Tax law, the Fisheries and Electricity laws in 2023, coupled with the implementation of ongoing structural reforms should boost domestic revenue collection.

A recovery in livestock exports is expected to drive growth over the medium term.

Monetary policy and inflation: Monetary policy remains stalled due to the delayed implementation of the currency reform program. Inflation is projected to recede to 4.2% in 2023 before easing to 4% in 2024 as supply chains steady themselves and global food and energy prices stabilize. Housing prices in urban areas are expected to continue to drive inflation and may require urgent policy interventions to increase the supply of affordable housing.

Fiscal and current account balances: A balanced cash budget will remain the fiscal policy target over the medium term in line with Somalia's HIPC program. The recovery in livestock exports and the projected uptick in

financial inflows will be offset by higher import demand. The fiscal deficit will widen somewhat to 0.3% and 1.9% of GDP in 2023 and 2024, respectively, as a recovery takes place. Corresponding new measures to strengthen public revenue mobilization will be needed. The current account deficit is projected to remain high at 15.8% and 14.1% of GDP, in 2023 and 2024, respectively, reflecting the high import bill due to elevated energy and food prices. The current account deficit will be financed by remittances projected at 27.6% in 2023 and 28.4% in 2024 of GDP, development assistance projected at 31.5% in 2023 and 29.8% of GDP in 2024, and FDI projected at 7.7% in 2023 and 7.8% of GDP in 2024.

Risks: The downside risks relate to vulnerabilities from climate change, notably poor rainfall, a deterioration of security if political instability worsens, weaker remittance inflows, slippages in reaching HIPC completion due by the end of 2023, and a continuation in the protracted Russia-Ukraine war, which could further aggravate global energy and food prices considering Somalia's heavy reliance on imported food and oil for energy generation. Higher oil prices could also affect Somalia's energy generation, which relies on heavy fuels. However, the easing of COVID-19 restrictions, improvements in public finance management, recovery in livestock exports, and the anticipated successful conclusion of the elections are expected to improve the growth outlook.

3.PRIVATE SECTOR FINANCING FOR CLIMATE AND GREEN GROWTH IN SOMALIA

3.1 The imperative for green growth and the role of private sector financing

Green growth and climate action are important if Somalia is to achieve its goals as set out in the ninth National Development Plan 2020-2024.

Somalia is ranked as the second most vulnerable country according to the Notre Dame Global Adaptation Initiative (ND-GAIN). Like other African countries, Somalia experiences recurrent climate-induced shocks, including droughts, floods, cyclones, and tsunamis. Since 2007, Somalia experienced nine severe drought conditions with the 2021/2022 drought affecting over 7.8 million people and 16 million livestock surpassing the previous droughts in terms of duration and severity. The economic cost of climate change is projected to reduce GDP per capita growth by 16-64% by 2023 for African economies including Somalia, given the increasing disasters.

According to Somalia's NDCs in 2021, the current GHG emissions are relatively low and estimated at 53.70 MtCO₂eq, representing less than 0.03% of total global emissions. The African Economic Outlook (AEO) 2022, which estimated the Climate Resilience Index (CRI) for the period 2010-19, indicates that Somalia is the second least climate-resilient country in Africa with a CRI score of 0.4. The country is also among the

most climate-vulnerable countries globally, with low readiness. Further still, Somalia's NDC updated in 2021 acknowledges that Somalia is susceptible to climate change and the resulting shocks due to geographical factors which render more than 80% of the country semi-arid. The brunt of the climate change shocks is largely felt in the livestock and agriculture sector, which accounts for more than 70% of the livelihoods and employment of rural people.

Somalia is yet to fully address internal conflicts, which together with persistent natural and climate change events such as locusts' invasions, droughts, and floods have contributed to high levels of environmental degradation and internally displaced about a half of the country's population. More recently, during 2022/2023, Somalia experienced the latest of five consecutive failed rainy seasons, resulting in a prolonged drought that put the country on the verge of a catastrophic famine. Given the decades of conflict and absence of a central authority until 2004 when the Transitional Federal Government was established, Somalia's institutional capacity was weak and depended on donor grants to respond to climatic crises. Owing to the drought, as of 2022, 60.1% and 60.7% of Somalis had access to safely managed drinking water and improved toilet facilities respectively, leaving an estimated 28% of the population to open defecation. Moreover, a large proportion of the Somali population remains unvaccinated against

The economic cost of climate change is projected to reduce GDP per capita growth by 16-64% by 2023 in African economies including Somalia.

the vaccine-preventable killer diseases such as influenza, tetanus, measles, chickenpox, yellow fever, and polio, thus resulting into a high under-five mortality rate of 61.4 per 1,000 live births. Regarding COVID-19 vaccination, as of September 2022, the COVID-19 vaccine coverage stood at 15.0% of the population, increasing to 41.7% in December 2022. However, the overall immunization coverage in Somalia is estimated at a low level of around 40.0% for all diseases.

Somalia has demonstrated strong political commitment to tackling climate change and green growth and made considerable progress in enhancing its national policy and institutional framework towards achieving green growth and climate action priorities.

Economic growth is a priority outcome for Somalia's medium term development strategy. The ninth National Development Plan (NDP-9) 2020 – 2024, outlines Somalia's development priorities which aim at accelerating growth, reducing poverty, and improving security. NDP-9 seeks to consolidate achievements made under NDP-8 (2017-2019) and rests on four pillars: (i) economic development, (ii) social development, (iii) inclusive politics and security, and (iv) rule of law. Through these pillars, Somali authorities aim to achieve peace, security, higher and equitable growth, and reduced poverty.

The Federal Government of Somalia (FGS) recognizes the adverse effects of climate change on the country and has made progress to identify climate actions and domesticate them in the NDP-9 to strengthen the country's resilience. Through the National Development Plan (NDP-9), the FGS seeks to promote climate-smart agriculture, invest in renewable energy, and prioritize water management interventions. The primary challenge has been to establish an adequate regulatory framework to guide climate interventions. To this end, the government

has adopted various policies, strategies and plans including the National Climate Change Policy (2020), the National Water Resource Strategy, the National Environment Policy (2019), the National Environmental Strategic Action Plan, the Power Master Plan for Somalia (2019), the recently enacted Management of Underground Resources Act (2023), the Somali Fisheries Development and Management Law and Anti-Terrorism Act (2023); the National Renewable Energy Action Plan (NREAP), the National Adaptation Program Actions (2013), the National Adaptation Plan, the National Voluntary Land Degradation Neutrality Targets (2020), the National Biodiversity Strategy and Action Plan (2015); and the updated Nationally Determined Contributions (NDC 2021). In 2022, the Ministry of Environment and Climate Change was established to lead the country's efforts in implementing climate-related adaptation and mitigation measures.

Development partners are complementing the government's efforts by supporting programs that seek to build the country's resilience towards climate change-related shocks, and programs to unlock global environment finance. Tackling the drivers and effects of climatic shocks which have consistently damaged GDP since 2007 remains the priority of the federal government. To this end, emphasis has been placed on ensuring the sustainable use of environmental resources and addressing inequalities as a pre-requisite for sustainable economic growth. Greater emphasis has also been put on greening the environment through tree-planting drives, which forms the basis for green growth in Somalia. For instance, through the NDC, Somalia committed to reducing its greenhouse gases by 30% during 2021-2030 at an estimated cost of \$55.5 billion. The government has established a comprehensive institutional approach to addressing climate change. By instituting the Ministry of Environment and Climate Change (MoECC), it has mandated the responsibility to formulate and coordinate the investments inflows for climate change actions.

The MoECC is also responsible for addressing the losses and damages from climate change, and attracting investments in natural resource management, which the country had set up to tackle the threats of climate change.

The opportunities for Somalia to transition to green growth while making progress on climate-resilient economy are enormous.

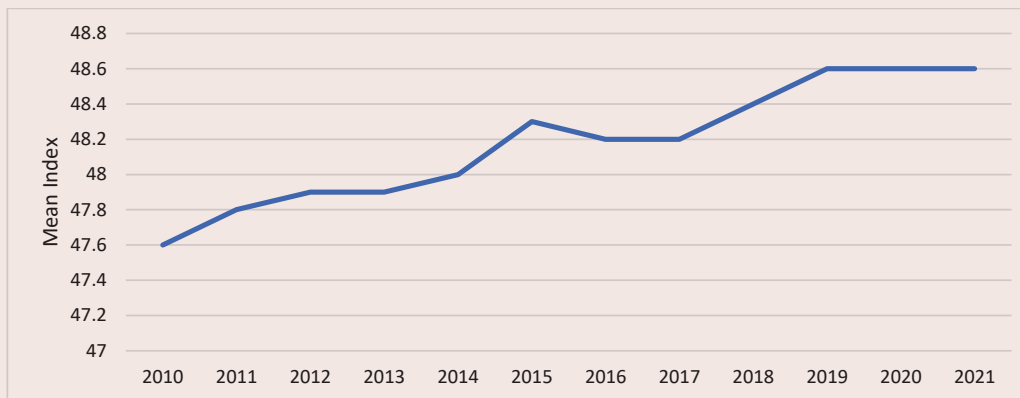
Specifically, there are opportunities for investments in renewable clean energy such as wind and solar. Other opportunities also exist around natural capital and biodiversity protection. As a Least Developed Country (LDC), Somalia's emissions remain low, for example in 2020, the total greenhouse gas emissions were equivalent to 41, 131 Gg of CO₂eq as of 2020, which is low, representing 0.03% of global emissions. To this end, agriculture, forestry, and land use contribute

almost 92% of total emissions, while the energy sector and waste contribute about 8%.

Somalia's green growth index (GGI) has registered a moderate performance in the mean GGI index for green growth and climate change.

Somalia has no scores on the GGI over the last 10 years. However, the computation based on the mean GGI shows a fluctuation in the range of 47.6 to 48.8 during 2010-2021 (Fig. 1a) implying that the country is moderately performing well relative to the other countries, largely driven by the low greenhouse reduction target of 30%. Despite this, Somalia is one of the lowest performing countries on green growth since between 2018 and 2021, with a natural capital protection aspect of the green growth index of 53.3.

Fig 1a: Somalia's Mean Green Growth Index (GGI) 2010-2021



Source: ECMR staff computation based on the Global Green Growth Institute Database

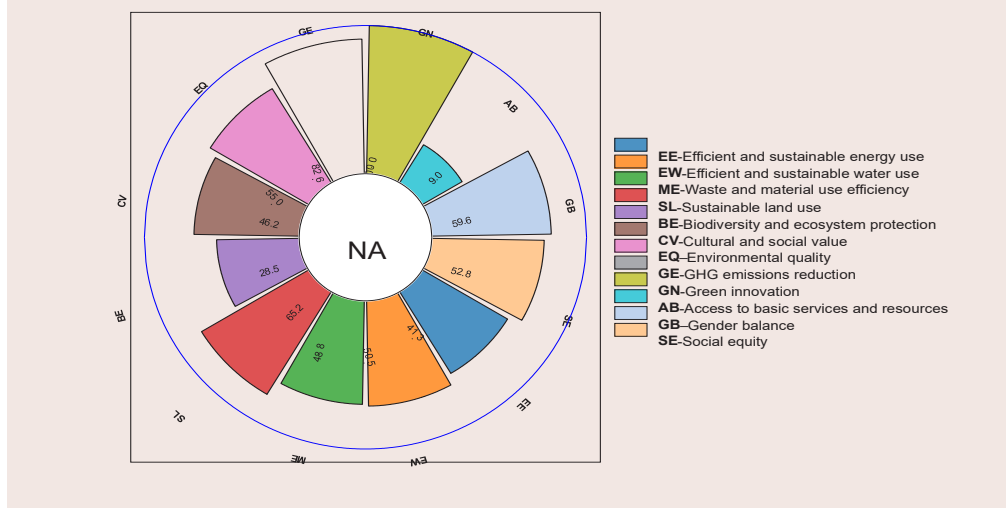
Despite the absence of Green Growth Index (GGI) scores, Somalia has some limited data on the GGI components (Figure 1b). Whereas Somalia lags behind the Africa average GGI scores on several dimensions (Table 2), the country recorded a good performance on

some indicators, including environment quality, efficient and sustainable use of water, gender balance, GHG emission reduction, green innovation, social equity, and sustainable land use.

Table 2- Performance of Somalia on the components of green growth compared to Africa 2010-2021

	AB	BE	CV	EE	EQ	EW	GB	GE	GJ	GN	GT	GV	ME	SE	SL	SP
Somalia	0.0	28.5	48.2	41.3	55.0	50.5	59.5	82.5		100			48.8	52.8	55.2	
Africa	38.9	48.4	62	56	66.3	42.1	61.2	82.3	20.3	44.1	6.2	50.1	76	62.8	72.9	36.4

Figure 1b - Somalia's green growth performance dimension



Source: AfDB database and World Bank 2021

For Somalia to achieve its green growth and climate action ambitions, the private sector will need to be mobilised at scale.

The green growth and climate action needs will require significant investments towards adaptation effects of floods and droughts. Somalia has one of the highest climate finance needs as a percentage of GDP, which is estimated above 80% by Guzmán, Balm et al (2022), implying the need for more private resources to sustain climate needs. In this regard, the MoECC was established in 2022 to provide services to citizens and investors to green Somalia by means of protecting, conserving, and restoring the environment. However, given the high frequency of severe droughts and intermittent floods, and the semi-arid nature of the country, meeting the green growth and climate change action will require massive investments from both the private sector and public sector to address the impact of climate change. For example, the total effect of drought on Somalia in 2018 is estimated to

cost about \$3.25 billion, and \$1.77 billion for economic recovery.

The country's commitment to leveraging these significant climate needs in part through private sector finance is anchored in the Somalia NDC updated in 2021. Similarly, the government's commitment to climatic actions is anchored in national frameworks including NDP-9, which also recognises the role that the private sector can play in climate financing. In addition, the National Adaptation Action Plan (NAPA) re-affirms the government's commitment to mobilize resources from various sources including private sector, international public finance sources to implement the identified adaptation and climate priority actions. Furthermore, Somalia's Climate Change Policy 2020, as well as other critical reports such as the Somali drought and impact needs assessment 2018, illustrate the importance of private sector finance in green growth and climate action adaptation.

3.2 Private sector finance flows, gaps and needs for green growth and climate action

3.2.1 Current flows of finance

According to the World Bank data 2021, Somalia currently receives 96% of its climate finance flows through public finance mainly supported by donors. Private finance flows received are limited. Of the total climate finance flows received in Somalia, 22.5% are unspecified by sector. The total climate finance received by the Federal Government of Somalia came to \$392.97 million between 1985-2018. Of this, \$377.63 million¹ representing 96% was from the public sector. The remainder, representing about 4%, is financing coming directly from other international sources or the private sector.

3.2.2 Private sector finance needs for the future.

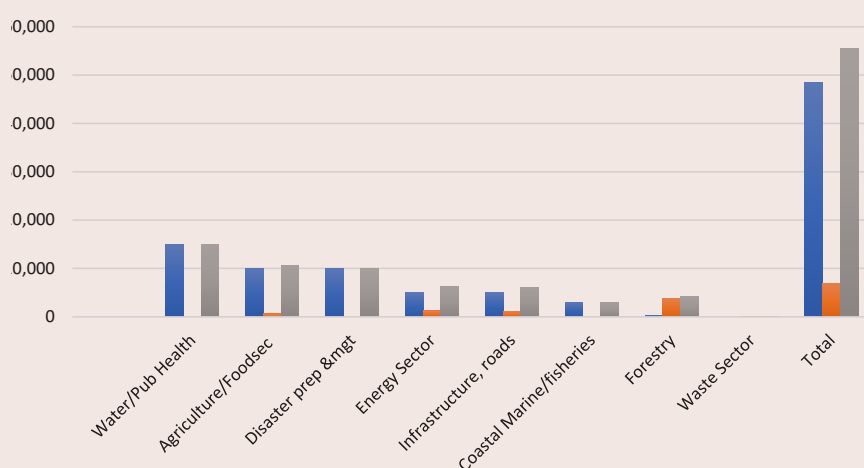
Somalia will need about \$5.5 billion annually up to 2030, equivalent to \$55.5 billion during 2021-2030 to meet its climate change needs as illustrated in its updated NDC 2021.

The Somali government's commitment and support towards realising Somalia's climate finance needs as illustrated in the NDC 2021 is costed at \$55.5 billion during 2021-2030. Of this, \$6.960 billion is allocated towards mitigation activities, while adaptation is costed at \$48.5 billion during the same period. On an annual basis, about \$5.5 billion will be needed per year to finance climate change and green growth (Figure 2a).

Although the actual amount of private sector contribution is not defined, the NDC 2021 identifies the investment opportunities for private sector finance to include: water resources management and public health, whereby the NDC 2021 allocates \$15 billion or 27% of future NDC finance needs to 2023. The need to develop solar-powered boreholes, mega-dams, and water conservation have also been prioritised. This is followed by agriculture and food security (\$10 billion or 18% of NDC cost). It is projected that a public-private partnership (PPP)² approach will be used for activities such as the provision of improved seeds and seedlings, the development of irrigation infrastructure, building marketing facilities, and the promotion of value addition.

In nominal terms, the country will require \$55.5 billion or \$5.5 billion annually up to 2030 to meet its climatic financing needs as illustrated in its NDC 2021.

Figure 2a. Average Climate Finance Gap by Sector - Adaptation and Mitigation (2021-2030)



Source: Staff computations based on the Somalia NDCs, updated in 2021

¹World Bank data 2021

²The Federal Government of Somalia: Public Procurement, Concessions and Disposal Act, 2015 (PPCDA) provides the legal and regulatory framework for PPP. Article 69, - 88 111 of PPCDA provides for tendering and choice of the private partnership.

For Somalia to achieve its green growth and climate actions, it will need to mobilise financing to scale to that can meet the financing gap of 54.5% of its GDP estimated in the AEO 2023.

In addition, investments in veterinary services, improved animal productivity and breeds resilient to climate change and proofing livestock infrastructure and feeder will be covered. The private sector investment opportunity also exists in disaster preparedness and climate proofing infrastructure (roads, energy, ports, rails), and building capacity for early warning systems and disaster risk, including through risk insurance at micro, meso, and macro levels. The NDC also allocated \$10 billion, representing 18% of NDC cost for this activity. There is an opportunity to establish a fisheries value chain using cooling systems, appropriate equipment for transportation and promotion of smart fisheries development. The NDC projected cost is \$3 billion for fisheries. Lastly, the private sector could help to diversify adaptive clean energy (NDC allocated \$5 billion), forestry and environment (\$300 million allocated in NDC).

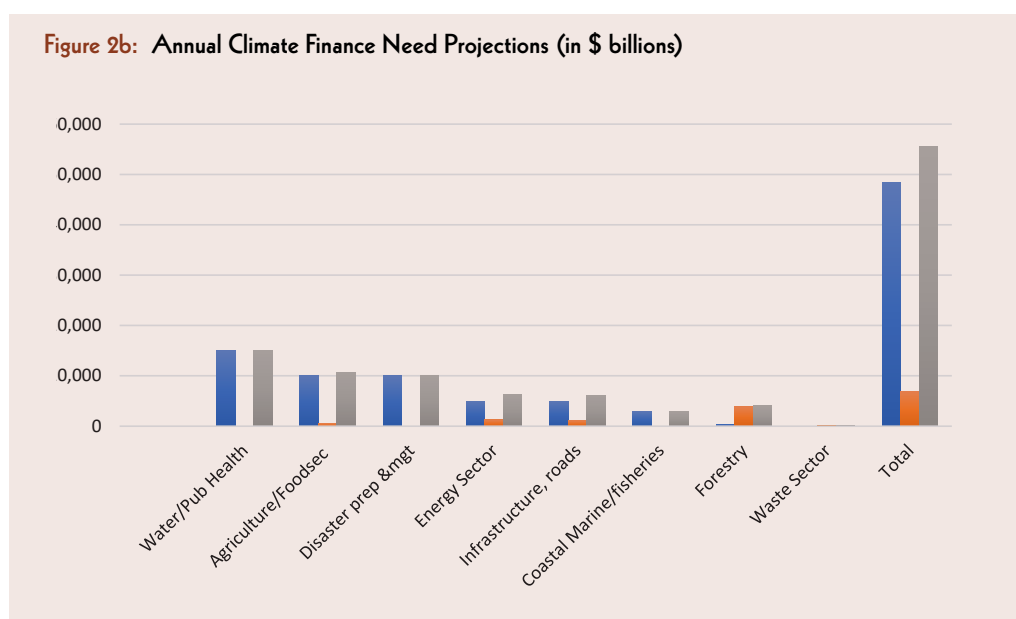
The AEO projections for 2023 for Somalia show that for a 25% contribution to climate financing needs, the private sector would need to increase its finance contribution by \$1.186 billion annually, equivalent to 13.57% of GDP. For a 50% contribution to climate finance gap, which is a moderate scenario, private sector financing would need to grow by \$2.4 billion annually representing 27.3% of GDP. For a 75% contribution to the climate financing gap,

which is an ambitious scenario, private sector finance should grow by \$3.59 billion annually, also equivalent to 41% of GDP (see Figure 2b). The AEO 2023 indicates that the overall climate financing gap as a percentage of GDP is 54.8%.

3.2.3 Innovative private sector financing mechanisms for green growth and climate action are emerging.

New and innovative instruments for mobilising private sector finance towards green growth and climate action in Somalia are emerging, however the country is yet to tap into their use.

Somalia has worked on carving out a climate resilient path to attract financial flows to the country. Financial innovations such as green finance/green bonds and sustainable finance loans/bonds and social bonds, blended finance, climate disaster risk insurance, carbon market, climate-debt, and equity from the private sector could provide the critical bridge for the climate finance gap. They also provide an entry point for the private sector financing inflows. These innovative financing mechanisms will be useful in generating finance for green growth and climate action in Somalia as summarised in Table 3 below.



Source: Staff computations based on World Bank data 2021

Table 3: Innovative instruments used to mobilise private sector finance in Somalia

Type of instruments	Green and sustainable finance e.g., sustainable bonds, sustainability-linked loans/bonds, social bonds	Blended financing instruments e.g., guarantees, first loss	Private equity and venture capital	Carbon markets
Current performance	Non-existent, but possible to consider the use of different sustainable finance mechanisms for mobilising private sector finance after the country reaches HIPC completion.	As of 2020, Somalia received blended finance from various multinational financial institutions within the fragility framework, including Africa Enterprise challenge fund and transition support facility.	Somalia was one of the countries receiving investment inflows in 2022. It received \$456 million in investment inflows in 2021 and \$464 million in 2020. Most of these investments went to the clean energy services sector.	Somalia's NDC updated in 2021 makes provision for carbon off-sets to meet its 2030 climate finance goals. Investments to be funded under this credit transfer/ international credit assets include in low carbon, climate resilient infrastructure
Contextual challenges to scaling up in Somalia	Capital Market/ Financial markets conditions undeveloped, Somali stock exchange has only three companies listed Insufficient working of regulation and governance Limited opportunities due to unsustainable debt levels. Limited climate insurance Limited technical capacity	Inadequate frameworks supporting blended finance instruments across some sectors The limited technical capacity for blending of finance, particularly at the federal member states level in Somalia AfDB has ADRiFI climate insurance programs. World Bank jointly with AfDB have Horn of Africa Climate insurance.	No well-established Somalia national financial markets that support international investors.	Regulatory framework needs to be strengthened to allow project carbon off-sets to be managed. The demand for carbon credits is derived internationally, with very limited consumption locally that could further expand the market.
Key factors enabling successful use of instrument	HIPC completion and debt levels. When Somalia reaches the point by end 2023, its sovereign credit rating will improve to attract private investors to mobilise private finance. Presence of legislation and policy reforms that support further expansion for green, blue, or social bond finance.	Government's commitment to financing climate action using public sector domestic finance Availability of public finance climate tracking systems e.g., fiscal allocation tracker for climate finance allocation and spending	Presence of regulatory frameworks that encourage innovation Presence of a deep consumer market for products	Somalia's capacity to fulfil to create and fulfil the necessary regulatory framework for the uptake of carbon finance especially for renewable energy Geopolitical factors and reduction in insecurity in the Al-Shabaab extremist controlled territories in southern Somalia Prevailing high carbon offset prices provide the enthusiasm to invest in carbon reduction. Improving competitiveness of the country will attract investors to invest in emissions reducing projects. The establishment of the African Carbon Markets Initiatives means that Somalia can leverage for CDM projects to be implemented in Somalia

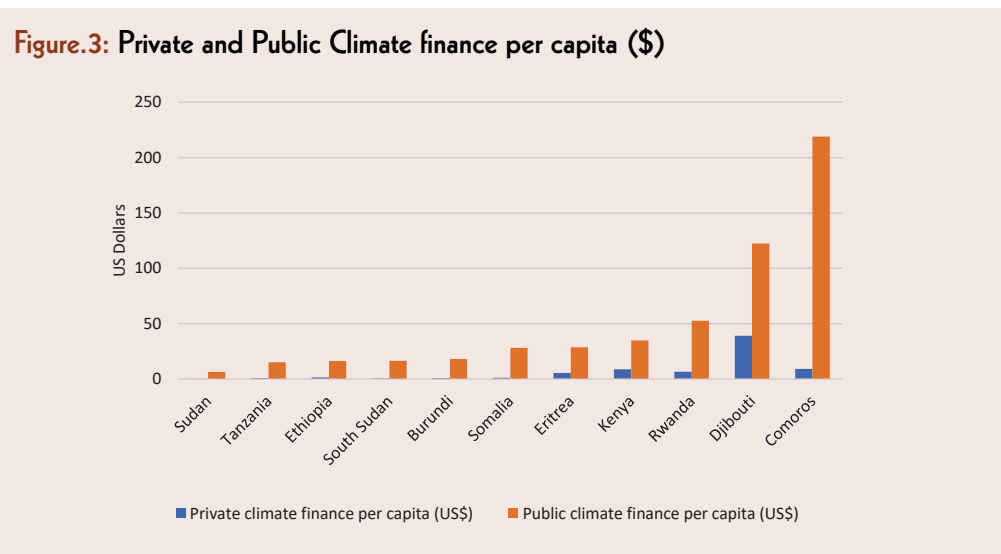
3.3 Opportunities and barriers for mobilising private sector finance for green growth and climate action

3.3.1 Opportunities for private sector investments

Somalia mobilises more private sector climate finance compared to some of its peers including Burundi, Ethiopia, South Sudan, Tanzania, but less than Djibouti, Rwanda, and Seychelles.

The analysis carried out for the AEO 2023 found that public sector finance investments (proxied by public finance investment per capita) were a significant determinant of private sector investment. A closer look at the data reveals

that Somalia mobilizes significantly and utilises more climate finance per capita compared to some of the countries within the East Africa region (Figure 3). Other than Comoros, Rwanda and Kenya, whose public climate finance per capita stood at \$218.4, \$52.5, and \$34.8 respectively, Djibouti at \$122.3, and Eritrea at \$28.6, Somalia mobilised \$28 public climate finance per capita, higher compared to Ethiopia (\$16.2), Tanzania (\$15), South Sudan (\$16.49), Sudan (\$15), and Burundi (\$18) (Figure 3). This means that Somalia has been able to mobilize and utilise public climate finance most probably in response to the frequent climatic shocks it faces, relative to the other African countries with the same level of public finance investments.



Source: Staff computations based on World Bank data 2021

Opportunities for private sector investments in green growth and climate action in Somalia cut across the economy.

Somalia holds opportunities for private investments in green growth in different sectors, including infrastructure (transport, energy, ports), agriculture (livestock, crop production, forests and other coastal marine resources and fisheries), health, education, water, and sanitation. Most of these private sector investment opportunities are driven by several factors. Firstly, there is a projected population increase over time. The population projection suggests Somalia's population will rise to 18 million in 2023, from 16.9

million in 2021 before further rising and doubling to 35 million people by 2050. The bulk of the population in 2021 comprised the young (0-14 years are 47% of the total population) and middle-aged (15-64 years was 50% of total population). The majority of the population resided in urban areas in 2021-2022 owing to displacement arising from drought. This opens investment opportunities for the private sector in the provision of affordable green urban housing and transport, food and water and sanitation. With the internet coverage standing at 27.7%; of which urban internet coverage is higher at about 35%, and with the mobile telephone coverage standing at 85% of

Opportunities for private investment in green growth present in infrastructure (transport, energy, ports), agriculture, forests, coastal marine and fisheries, health, education, water and sanitation.

the population, this provides an opportunity for the private sector to leverage digital technology for expanding climate investments. The digitalisation of a Somalia green transport sector is possible with a stable internet coverage, while further investments in this sector could essentially meet the projected demand.

Somalia's Economic Council endorsed Somalia's Vision 2060 during May 2023. The long-term Vision is expected to anchor the country's development plans. The population growth prospects implies that there will be an increase in the demand for clean energy such as LPG for cooking, energy for lighting, water, and other infrastructure. There will be an opportunity for private sector investments to engage in the provision of alternative clean fuels such as those derived from renewable energy to enable Somalia to capitalise on this increasing demand while also making progress on its green growth objectives.

3.3.2 Barriers to private sector investments

The private sector in Somalia has for several decades proven to be extremely resilient and able to withstand the shocks of conflict and natural disasters, as it contributes to job creation. Despite this, the business-enabling environment remains challenged with inadequate regulatory framework, ineffective oversight, and a volatile insecurity. The state of the private sector is characterised by lack of access to credit to MSMEs, as the economy remains highly dollarized. The dollarization impacts on the financial institutions and increases systemic exposure to liquidity shocks as the minimum regulatory requirements of banks are defined in Somali local shillings. What is more, dollarisation inhibits the Central Bank's use of monetary policy. The financial sector remains shallow, dominated by 13 commercial banks and three mobile money providers that are only about six years old. Somalia lacks global banking intermediaries, due to the tighter regulation of financial flows over security concerns. The key barriers to

private investment in the country are listed below.

(a) Accumulation of arrears leading to unsustainable debt

Somalia's public debt level is rated by the IMF/World Bank Debt Sustainability Analysis (DSA) as in debt distress; thus, constraining the country to borrow externally from international lenders including MDBs and DFIs as well as other private sector lenders.

Although Somalia is at high risk of debt distress, some significant progress has been registered between 2020-2023. In 2020, the country reached a HIPC decision point and agreed on measures that needed to be met under an IMF-supported program that aimed to restore the debt sustainability levels to moderate risk by end of 2023. Some of the measures included structural reforms targeting domestic resource mobilization, and reforms aimed at broadening the tax base. In addition, the other reforms implemented aimed at helping the country to achieve economic diversification by harnessing agriculture, blue economy, fisheries, marine resources, and the petroleum extractive sector. The IMF estimates that external debts will reduce to 6.4% of GDP by end December 2023, hence paving the way for moderate concessional financing and foreign direct investments to flow in. In preparation for the HIPC completion point, the government has retooled the Debt Management Unit of the Ministry of Finance. The Federal government has also issued new directives in May 2023 to enhance public financial management to ensure adherence to procurement rules and reviewed concessional borrowing proposals to be vetted by the inter-ministerial committee. This will ensure that the external debt unsustainability that in the past was driven by the expensive cost of lending are minimised. This debt had been contracted through borrowing on commercial terms at a relatively high interest rates with short repayment periods.

The debt distress has constrained external borrowing given Somalia's poor sovereign credit rating.

(b) Low level of capital market and financial sector development.

The low level of capital market development and low financial sector development, given the lack of a monetary policy, creates a barrier for the mobilization of private climate finance through green bonds and Eurobonds from the global capital markets. The Central Bank of Somalia has made considerable progress in developing the country's financial sector through improved regulatory interventions. However, due to the weak correspondent banking availability to link commercial banks to the international financial landscape, this has limited the commercial banks' ability to provide an efficient financial service. In addition, the country has underdeveloped capital markets and its stock exchange had only three listed companies as of May 2023, presenting a bottleneck for private investment inflows to Somalia.

(c) Weak institutional capacity and low levels of skills within the country to meet green growth and climate action needs

Somalia lacks adequate institutional capacity and green skills across sectors, to implement climate action needs.

During the 30-year conflict which lasted from 1991 to 2012, the capacity of Somalia's institutions weakened significantly, meaning that the technical capacity of the staff needs upgrading in order to protect, preserve and prevent natural resources from degradation if Somalia is to transition to green growth. Before 2022, when the Ministry of Environment and Climate change was established, there was a lack of consistency and inadequate follow-up of environmental regulation, policy, and oversight. Transitioning countries towards green growth requires that green skills and capacities are

developed within key sectors of agriculture, water, fisheries, energy infrastructure and transport infrastructure where private financing is directed. According to the AfDB's green growth framework, transitioning involves incorporating green growth into the different spheres of development policies, projects, and programs. For Somalia, the entry point for private sector is largely in the provision of LPG gas, improved stoves, and solar lights. The absence of adequate skills and capacities increases the risks that private sector investors and lenders attach to lending, as this means that projects may not be sufficiently designed or implemented on time to completion. The skills gaps can be either acquired through knowledge transfer by attaching nationals to work with expatriates before the expatriates leave countries or can be included under tertiary school institutions' curricula for accreditation. Both approaches have been used in Somalia to expand the required skills and capacities across sectors, promoting innovation to attract private sector investors.

(d) Conflict and illicit charcoal production linkages: The presence of conflict undermines Somalia's capacity to enforce illicit export of charcoal which is the major cause of deforestation and desertification. It also affects all green growth investments.

Civil strife and the collapse of the state institutions in 1992 paved the way for conflict mainly in the southern parts of the country. The continuation of conflict puts pressure on natural resources. According to the November 2017 UN monitoring report on Somalia and Eritrea , there is a linkage between charcoal production, political violence, and extremist groups such as Al-Shabaab. Most trees felled for 'industrial scale charcoal production' provide the income tax collection in the conflict-affected areas of Jubbaland and Southwest states, while 'subsistence charcoal production' is in Puntaland and Somaliland federal member states.

Charcoal production dates to pre-colonial days

and has generally provided livelihoods given that charcoal is the second largest export for Somalia after livestock. The World Bank estimates that 100,000-250,000 tons of charcoal are produced in Somalia annually using 4.4 million trees that are felled from 73,000 hectares of land. Furthermore, the United Nations puts the value of the illicit charcoal trade at about \$10 million per annum. This trade violates a charcoal ban by the Federal Member States who lack the capacity to enforce the ban. In addition, the cost of deforestation and land degradation associated with charcoal production has been estimated at \$216 million by the Somalia Drought and Impact Needs Assessment (DINA) report, 2017.

(e) Lack of proper coordination amongst sectors and government ministries to enable meaningful coordination on green growth and climate action.

Despite the establishment of the necessary climate change laws, policy framework, and institutions, coordination challenges remain, particularly across different tiers of governance which fail to ensure an integrated approach to the mobilisation and use of private sector finance. According to the World Bank environmental country analysis 2020, Somalia registered a weak institutional capacity across the three tiers of leadership for environmental management including: the State (both at Federal government level and Federal member state level, the traditional citizen-led group known as the Xeer (elders' council), and the extractive export market. Despite establishing the MoECC as an oversight Ministry for climate change, the M & E system needs to be strengthened to manage the existing challenges of vertical and horizontal coordination mechanisms.

(f) The lack of sectoral integration on green growth and climate action has

led to a higher allocation of private sector finance towards the energy sector while the other sectors that are important for progress on green growth and climate action are left behind.

Somalia identified the potential sector investment areas for the private sector in the NDC to include energy, water (including solar-powered boreholes, dams), agriculture (livestock and crop production), transport, ports infrastructure, and fisheries value chains. However, most of the immediate energy access for the private sector climate finance has been in renewable energy.

3.3.3 Pathways to mobilize private sector finance for green growth and climate action.

There are several pathways that Somalia can follow to unlock private sector finance for green growth and climate action. These are discussed below.

(a) Restructure public debt to provide the fiscal space to mobilise resources through green bonds for climate resilience.

Somalia's domestic and financial markets remain underdeveloped with no monetary policy in place. If the weak correspondent banking relationship is strengthened, this could be used to mobilise private sector finance for targeted green growth and climate action projects. For instance, once Somalia's capital markets become fully operational, the country could raise resources from various sources such as pension and insurance funds or other funds that could be used directly for investing in green growth priority sectors identified in the NDC.

Box 2: Diaspora Bonds: Successful lesson case study from Ethiopia

Diaspora bonds are a critical fundraising vehicle significant for the success of both soft and hard factors. In Africa, diaspora bonds can be used to entice migrant investors to tap into the funds they remit to their destination countries for addressing critical developmental issues. However, the success of these bonds depends on intensive marketing and advisory services mostly derived from development finance institutions. According to the AfDB Economic Brief (Volume 3, Issue 13, 2013), about 140 million Africans that live in diaspora save up to \$53 billion in the destination countries each year. Remittances therefore remain the largest source of net foreign inflows after foreign direct investment (FDI) in Africa. Between 1990-2010, remittance inflows doubled to Africa, reaching \$40 billion (2.6% of GDP). For example, Ethiopia is one of the countries that issued successful diaspora bonds. In 2008, Ethiopia issued the Millennium Corporate Bond with a maturity of 5, 7 and 10 years; at a fixed interest rate of 4%, 4.5% and 5% respectively. This bond was limited to Ethiopians with access to foreign exchange. Again in 2011 Ethiopia issued another bond, the Grand Renaissance Dam bond amounting to \$4.8 billion with a maturity of 5-10 years for building the 5250MW dam on the Nile River. Both bonds were successfully subscribed as they captured diaspora finance. The lesson learnt from the Ethiopia diaspora bond is that diaspora bonds are a trustworthy source of finance for countries undergoing difficulties for borrowing externally. In the case of Ethiopia, it issued the bond to address critical electricity needs. With Somalia facing similar electricity challenges and given the estimated two million Somali living in diaspora, the potential for a diaspora bond is huge.

In addition, the country is not contracting external loans because of being in debt distress. The government is negotiating new repayment terms with the creditors. Once the country reaches the HIPC completion level programmed for the end of 2023, its debt distress level will improve to 'moderate', implying that the government could mobilise private finance through the issuance of green bonds and infrastructure bonds using the US dollar currency as Somalia shillings usage awaits the completion of an exchange rate regime.

(b) Explore options of mobilising private finance through diaspora bonds/remittances.

The government has the option to issue 'diaspora bonds' to help move remittances towards green growth. Remittances remain a significant instrument to mobilize Somalia's resource inflows as it accounts for 30% of GDP. As of June 2022, Somalia had received a total inflow of \$2,241 million, representing an

increase of 7% during the same month from the previous year. Similarly, NGOs' transfers and other telegraphic swift transfers amounted to \$401.4 million and \$227.7 million, respectively, during the first half of 2022.

(c) Use of the Green Climate Fund to mobilize finance for domestic financial institutions

Somalia currently has two projects approved for financing under the 'Green Climate Fund' amounting to \$41.4 million. There are also two readiness projects approved under the Green Climate Fund amounting to \$3.6 million. It would be important for Somalia to put in place a robust business regulatory environment and appropriate incentives to consider positioning their domestic commercial banks to tap into the Green Climate Fund for the mobilisation of green finance in East Africa. This means that Somalia already has a starting point for further mobilisation of private sector finance through domestic financial markets.

(d) Increasing the use of blended finance instruments for financing green growth

Blending of finance across sectors will need frameworks that are informed by the nature of markets in those sectors.

With Somalia's development priorities and flagship projects identified in NDP-9, there is an opportunity to increase the supply of the climate catalytic blended funding, by ensuring that projects availed for the private finance are blended with other development finance. This requires pooled funding or co-financing from the various stakeholders. Increasing the number of investable projects that have a climate blend component will increase climate finance inflows. The private finance flows could be increased by setting up green growth funds for channelling investments into green growth. For this to happen, the fiscal transfer formula could be structured to accommodate the transfer of blended finance from the FGS to FMS. The AfDB Group is already implementing a blended finance approach used for mobilising African Development Fund (ADF) resources to blend with the Transition Support Facility (TSF). This could be scaled up to include a blend of the climate finance component.

(e) Skills and capacity, particularly for the formal sector to increase innovation and engagement with key private sector investors.

The development of green skills and capacities needs to be integrated into existing institutions, including education institutions and innovation centres.

There is need to build mass awareness of the population to embrace green growth and to mobilise the much-needed skills, Somalia should focus on further deepening and expanding green skills across sectors, while promoting innovation in other sectors to attract private sector investors.

The challenges of addressing the skills and capacity gaps that Somalia faces led to the development of the ongoing national capacity development strategy. It is expected that the strategy will include climate-related training centres that will be handled by the Ministry of Environment and Climate Change, working in collaboration with the Ministries of Education and Ministry of Labour and Social Affairs to ensure that beneficiaries acquire the skills accreditation for jobs demanded by investors.

(f) Implementation of fiscal incentives to attract private sector investments, particularly towards other sectors that generate soft infrastructure outcomes.

Policies on appropriate fiscal incentives have already been developed at the national level in Somalia, but there is need for the operational phase to take advantage of the global momentum on green growth and climate action.

Fiscal incentives have already been used in Somalia to support dialogue on peacebuilding, stabilization, and reconstruction. This initiative is funded under the Multi Partner Fund (MPF) that was activated in 2014 by the World Bank. In a bid to build political stability and attract direct investments after the 20-year conflict, the MPF provided incentives for peacebuilding under the Somali Development and Reconstruction facility. The fund equally supported critical fiscal pension reforms, budget execution and improvements in the government's payment system to enhance service delivery. During November 2022, Somalia held its first ever international investment conference in Mogadishu, intended to attract investors in the key sectors of energy, transport, ICT, and hospitality to drive future growth. In addition, in March 2023, several laws were enacted to attract investors including the Electricity Act, Investment and Investor Protection Law, Federal law on Fisheries, and the Extractive Industries Income Tax Act. If these efforts

are accompanied by fiscal incentives and the necessary supporting infrastructure, they will go a long way to attract additional private climate finance flows.

(g) The role of MDBs and DFIs

Somalia needs more affordable capital from MDBs and DFIs

Somalia has been receiving only grants mostly from multilateral development banks (MDB) and development finance institutions (DFIs) to finance its development agenda since it stopped contracting external debts under the HIPC decision point in 2020. For the period 2012-2021, Somalia was one of the largest recipients of inflows from MDBs and DFIs in Africa. Grants and budget support accounted for about 73% of the country's total national budget during 2012-2021. Of this only about 4% was private sector finance, meaning that these institutions have a critical role in mobilising and delivering private sector finance to Somalia.

MDBs and DFIs can play a more significant role in the mobilisation of private sector finance through increasing their risk appetite for investments, providing more concessional low interest loans with longer repayment periods. For Somalia, its climate actions depend largely on the multilateral financing mechanisms of the United Nations Framework Convention on Climate Change financing initiatives and instruments including the Global Environment

Facility (GEF) used by UNDP, and to a lesser extent, the Green Climate Fund (GCF). Some of the key accredited entities for implementing the GCF initiatives in Somalia include the International Union for Conservation of Nature (IUCN), the European Investment Bank (EIB), the World Bank and the United Nations Development Program (UNDP). In addition, MDBs' and DFIs' finance capacity development enables countries to mobilise more private sector finance. For instance, currently Somalia has two Green Climate Fund projects supporting readiness.

(h) Enhancing stakeholder collaboration

Collaborations across different stakeholders, particularly between governments and the domestic and international private sector, to identify and address primary risks to investments in green growth and climate action.

Multistakeholder partnerships are important for strengthening collaborations for the mobilisation and use of private sector finance in enabling green growth in Somalia, including but not limited to the use of the African Green Bank Initiative (Box 3). For Somalia, the government has already recognised the importance of these partnerships and continues to work to build on the new aid dialogue architectures involving the government, development partners, the private sector, civil society organisations and academia.

Box 3: The African Green Bank Initiative

During 2022, the AfDB launched the catalytic initiative for Green Banks on the sidelines of COP 27. The initiative will be backed by the African Green Finance Fund (AG3F). The Green Bank initiative is intended to help the African countries to mobilise domestic and international private sector finance for green growth by providing tailored products for different sets of investors and users. Green Banks have the potential to help countries to access and mobilise the climate finance needed to achieve the NDC targets.

Somalia and the other regional member countries will collaborate with the AfDB Group to identify a potential Green commercial bank in Somalia that can be used to mobilise and direct lending towards initiatives that contribute towards green growth and climate action. The Bank is part of the national Green Fiscal Incentives Framework, which aims to generally use fiscal incentives to accelerate Somalia's progress towards low-carbon climate-resilient development.

4 NATURAL CAPITAL FOR CLIMATE FINANCE AND GREEN GROWTH

4.1 The Evolution of Natural Capital

Somalia's natural capital is significant but remains largely untapped.

Somalia is endowed with considerable natural capital including land-based capital, soils, forest, and water resources with nine water basins and two permanent rivers which flow into the Indian Ocean. In addition, Somalia's mineral resource endowment, representing about 0.3% of GDP, remains unexploited. Some of the mineral deposits include uranium in the Gulguduud region, iron ore, copper, bauxite, salt, and petroleum which remain unexploited. The blue ocean economy resources also provide fisheries and marine resources. Somalia is endowed with the longest coastal shoreline in mainland Africa of 3,333 kilometres. This long coastline provides a multitude of marine resources including mangroves, coral reefs, and fishing. Given Somalia's sunny weather, it provides an opportunity for renewable energy generation through wind, solar and geothermal, as well as forests and land that can support transitions to green growth.

Natural capital is tracked in three groups: (a) renewable capital, consisting of forest timber, forest non-timber, mangroves, fisheries, protected areas, cropland, and pastureland; (b) non-renewable assets, separated into oil,

natural gas, coal, and minerals. In addition, (c) non-measured forms of natural wealth, such as renewable energy potential from solar, wind and hydro-resources, landscapes, and marine assets are also reviewed but only qualitatively³. The data for (a) and (b) are from the World Bank, covering the period 1995-2018. The findings for Somalia is presented in Table 4 below, while Table 5 presents East Africa.

For Somalia, there was a general decline registered in all the three categories of natural capital where data was available including: (a) renewable natural resources that decreased by 4% from \$18,565 million in 1995 to \$17,792 million in 2018; (b) forest non-timber declined by 4% from \$18,496 to 17,731 million, and (c) fisheries declined from \$69 million to \$60 million during the same time due to the prolonged climatic shocks such as drought over the last 40 years, political insecurity, and locust invasion. The overall agricultural land remained unchanged at 44,125 hectares during the same period. Data available for Somalia's cropland, pastureland, mangroves, protected area, oil, and natural gas are not readily available.

Somalia's forest has declined as stated above, but the efficiency of sequestering carbon in terrestrial ecosystems (particularly forests) can be increased. Besides offsetting carbon, forests play a key role in the protection of Somalia's water resources, especially water nourishment, the protection of biodiversity, and

A decline was registered in all the three categories of natural capital including: i) Renewable natural resources including forest, ii) forest non-timber and; iii) fisheries.

³ The World Bank data can be accessed at: [Explore data \(worldbank.org\)](https://data.worldbank.org/). The study covers 146 countries. It excludes those with no data, mainly small island states. In Africa Djibouti is the only country excluded from the list.

Table 4: Evolution of Natural Capital in Somalia: 1995-2018

Somalia	Total \$2018 Mn			Per Capita \$2018		
	1995	2018	% Increase	1995	2018	% Increase
Renewable natural resources	18,565	17,792	-4%	2478	1,185	-52%
Forests, timber	n.a	n.a	n.a	n.a	n.a	n.a
Forests, non-timber	18,496	17,731	-4%	2,469	1,181	-52%
Mangroves	n.a	n.a	n.a %	n.a	n.a	n.a
Fisheries	69	60	-13%	9	4	-56%
Protected areas	n.a	n.a	n.a	n.a	n.a	n.a
Cropland	n.a	n.a	n.a	n.a	n.a	n.a
Pastureland	n.a	n.a	n.a	n.a	386	n.a
Sub-soil assets	n.a	n.a	n.a	n.a	n.a	n.a
Oil	n.a	n.a	n.a	n.a	n.a	n.a
Natural gas	0	n.a	n.a	n.a	n.a	n.a
Coal	0	n.a	n.a	n.a	n.a	n.a
Metals and minerals	n.a	n.a	n.a	n.a	n.a	n.a
Total	37,061	35,583	-21.24%	4,947	2,752	-160%

Source: AfDB Staff computation using data from the World Bank (2021).

the provision of food and shelter. By choosing more selective land use and land management methods to increase GHG storage without compromising the use of forests for productive purposes, the amount that is stored can be increased globally by around 20%. In addition to increasing the storage of carbon, however, it is critical to increase the price received by these countries from the storage.

Somalia is endowed with sunshine, wind and hydro resources that can generate clean energy and contribute to a low carbon pathway. The country's climate, landscape, fauna, and flora form a strong basis for tourism; however, tourism activities remain minimal due to the extremist attacks and insecurity despite the beautiful beaches and long coastal line. It is for the same reason that there are no international tourism statistics for Somalia.

On Somalia's marine wealth and fisheries as captured in Table 4, fisheries declined from \$69 million to \$60 million during 1995-2018. The

USAID⁴ estimated the value of the domestic fisheries sector at \$135 million in 2015/16, while the value of IUU fishing was estimated to contribute \$306 million in Somalia. The key concerns in Somalia remain the over-exploitation of wild stocks, which are decreasing, and illegal, unreported, and unregulated (IUU) fishing activities; poor resource governance; and insufficient knowledge and misperception. In this regard, Somalia scored 2.9 out of 5 in the 2021 IUU composite index, which measures the state of illegal fishing practices and vulnerability in global coastal African countries. The scores range from 1 to 5, where one is the best and five is the worst ranked. This is an improvement from 2.75 in 2019.

Somalia's natural resource rents, primarily from forests, dropped from 24.9% of GDP in 2015 to 13.4% in 2016, before recovering to 14.8% of GDP in 2018 (Annex 1). The reduction in natural resources rents could be attributed to various factors, notably, political instability and insecurity.

In comparison to the other East African

⁴ Source: <https://sominvest.gov.so/key-sectors/fisheries/#:~:text=Domestic%20%28commercial%29%20fishing%20in%20the%20blue%20economy%20has,coastline%20and%20economic%20exclusion%20of%20200%20nautical%20miles>. Accessed June 11, 2023

countries, the value for renewable natural resources was higher in Kenya at \$169,761 million in 1995, growing to \$185,910 million in 2018. For Tanzania, it was \$194,374 million in 1995, but declined to \$175,593 million in 2018; while for Rwanda it was lower compared to Somalia at \$17,507 million in 1995, growing to \$35,498 million by 2018. For forest-ecosystem non-timber, in 2018 Tanzania had \$26,512 million, up from \$26,261 million in 1995. For Kenya it was \$4,556 million (2018) from \$4,743million (1995), and Rwanda \$1,130 million (2018), up from \$501 million (1995). Although there is a lack of data on pastureland and cropland, there is potential for improving the management of these assets to increase their value given that agriculture is the backbone of the Somali economy. In addition, there is an opportunity to improve fisheries by enforcing maritime illegal fishing boats from the Somalia coastal zone.

Table 5 below presents the comparison of Somalia and East Africa; conclusions can be made:

- a. In total natural capital, East Africa is the fourth richest region of the five regions on the continent – after North Africa, West Africa, Southern Africa and ahead of Central Africa.
- b. The renewable assets in East Africa have

increased by 3% in total value over the period 1995-2018, which is less than that for all of Africa (6%). However, Somalia's renewable natural assets declined during 1995-2018 by 4% from \$18,565 million to \$17,792 million owing to various factors, including prolonged climatic shocks such as drought, floods, and deforestation due to illegal charcoal production for export.

- c. East Africa is much less endowed with non-renewable capital than the continent. It had only \$168 of such capital per capita in 2018 compared with \$1,084 for the whole of Africa. There has been a large percentage increase in non-renewable assets (primarily metals and minerals) in the sub-region but that has come from a very low base and very little is recorded for Somalia.
- d. An indicator of sustainable growth proposed in the AEO report is to have an increase in natural capital in per capita terms. In this respect, the region has not met that. It had a decline over the period 1995-2018 of 42%. Hence it has done much worse than the continent which experienced a decline in per capita natural wealth of 21%. The situation is even more dire for Somalia with a reduction of 160%, although with limits to the data available.

Table 5: Evolution of Natural Capital in East Africa: 1995-2018

East Africa	Total US\$2018 Mn.			Per Capita US\$2018		
	1995	2018	% Increase	1995	2018	% Increase
Renewable natural resources	452,150	464,505	3%	20,671	11,746	-43%
Forests, timber	96,886	93,880	-3%	3,745	2,120	-43%
Forests, non-timber	33,997	35,213	4%	1,333	746	-44%
Mangroves	397	770	94%	14	15	3%
Fisheries	631	608	-4%	21	11	-47%
Protected areas	52,603	62,994	20%	1,959	1,338	-32%
Cropland	176,906	159,659	-10%	9,980	5,090	-49%
Pastureland	90,730	111,381	23%	3,619	2,427	-33%
Sub-soil assets	523	7,558	1346%	25	168	564%
Oil	0	17	n.a	0	0	n.a
Natural gas	0	459	n.a.	0	8	n.a.
Coal	33	227	594%	1	4	266%
Metals and minerals	490	6,855	1299%	24	156	542%
Total	452,672	472,063		20,696	11,915	-42%

Source: AfDB Staff computation using data from the World Bank (2021).

4.2 Opportunities for Enhancing the Contribution of Natural Capital in East Africa

The channels for increasing the returns from natural capital without damaging the base that provides these returns include the identification of domestically and internationally driven actions. In the case of Somalia, the country is exploring some new economic diversification plans to harness the blue economy and marine economy. It will be important to identify the governance and the management of the returns from the marine renewable energy natural capital, to ensure that the wind and wave power derived from the strong winds along coastlines provides reliable electricity to coastal communities. This, if captured domestically, can help to reduce the country's dependence on imported fossil fuels. Furthermore, Somalia receives about 3,000 hours of sunlight per year, and windspeed of around 20 miles per hour, giving it Africa's highest potential for wind energy. The electricity generated from sunlight, wind and wave power can also be exported internationally and added to the value of the country's exports. Also, Somalia should make greater use of international agreements on climate change and biological diversity to finance higher returns from the substantial endowments of natural assets.

There has been a severe degradation of natural capital in Somalia due to the deforestation caused by tree felling for commercial charcoal burning. While measures have been established to enforce the export ban of illicit charcoal harvested on open access public lands, it remains weak due to insecurity. It will be important to strengthen transparency and accountability to ensure that the revenues that are received from all-natural capital are captured in the Somalia Federal Government's financial systems to finance the national budget. It will also be important to implement measures that will reverse the land degradation trend which is divided into those

pertaining to non-renewable natural capital and those pertaining to renewable natural capital.

4.2.1 Non-Renewable Resources

For non-renewable natural capital the AEO 2023 report notes that revenues from the extractive sector contribute significantly to the private and public finances of many African countries. At the same time, these countries need to ensure that they receive a fair share of resource rents from these resources and effectively manage the revenues; the negotiated royalty rates, for example, are often too low. However, obtaining a "fair share" of the revenue from non-renewable resources does not guarantee economic development if the revenues are not well spent, as there are issues of corruption and weak institutions in mineral-rich countries so that such countries in Africa and elsewhere in the developing world experience low growth and high poverty rates.

For East Africa, these issues are less important than for other regions on the continent, where the value of the stocks of such assets are much larger. None of the countries in this sub-region could be considered rich in extractive resources, except for South Sudan, which, based on the estimates for 2018, has \$42 billion in oil reserves, making up 47% of all its natural capital. The recommendations from the AEO 2023 report for ensuring a fair share of rents for the state and for ensuring transparency, efficiency, and good governance in managing them are clearly valid for South Sudan. For the other states, with small but nevertheless important amounts of minerals, the same strictures apply to the management of those sectors.

Aside from improving transparency and accountability in the resource rents, the region should align its industrial policies with current trends and opportunities in the energy transition. The region possesses some of the green minerals needed for the energy transition such as copper, iron ore

The decline in renewable natural capital is in part driven by the deforestation due to tree felling for commercial charcoal burning, and illegal, unreported, unregulated fishing.

and rare earth elements. A regional approach to their exploration towards minerals-based industrialization will help in maximizing their contribution to sustainable growth. This way, local content and other industrial linkages can be improved for job creation among other benefits. For Somalia, accelerating the move to join the East Africa regional trading bloc could benefit the country by tapping into the EAC regional pools. Somalia's major source of non-renewable resources are in the form of untapped oil and natural gas. In addition to oil and gas, the country's mineral resource endowment including uranium, iron ore, copper, bauxite, salt, and petroleum representing about 0.3% of GDP, remains unexploited. In 2020, the TGS company estimated that the Somali basin could be holding oil offshore (undersea) of about 30 billion barrels, with additional onshore (beneath land) reserves in the area bordering Ethiopia. During 2022, the federal government of Somalia issued seven oil production sharing agreements (PSAs) to a coastline exploration company. This reserve level places Somalia as the 19th largest oil reserve globally. Despite this, slow progress has been registered largely due to the country's inability to mobilise international investments around the petroleum resource. Coupled with the regulatory gaps and widespread insecurity, very little has been achieved, making non-renewable resources the most viable option. The country is pushing to build this nascent petroleum sector as a means for economic diversification.

4.2.2 Renewable Resources

Renewable resources are at the heart of sustainable development in East Africa. In this regard, various approaches with which they can be exploited sustainably have been touched upon. Regarding cropland and pastureland East Africa has not experienced a large expansion in the areas of such land over the last quarter century (unlike

some other parts of the continent and other developing countries).⁵ Similarly in Somalia, pastureland remains critical as the livestock sector continues to account for nearly 60.7% of GDP and 70% of total exports. Despite being a considerable livestock exporter, pastureland has not expanded as Somalia remains highly susceptible to frequent climatic shocks which have caused a disruption to the livestock sector. Historically, Somalia's main livestock exports comprise the cattle, sheep, goats, and camels which are exported to the market destinations in the Arab peninsula and Saudi Arabia. The frequent drought, near desertification, and semi-arid nature of vegetation means that pasturelands continue to dry up making it difficult to sustain the livestock export. To this end, the government has adopted policies in support of pastureland expansion, including increased investment in water supply, and irrigation infrastructure in support of pastureland expansion to cater for the dry years. There may be potential for making a small increase, if this can be done without deforestation, to add to the stock of pastureland that can generate a long-term income flow. The main effort, however, will have to be to raise unit value from the pastureland, by moving up the value chain for the livestock sector.

For forests, the area has declined in most countries. The forests coverage area has declined in most countries during 1995 to 2018. The greatest decline was in Uganda (28%), Somalia (27%) followed by Tanzania (15%), and Rwanda (9%). Somalia is estimated to have lost about 18.5% of its forest cover between 1990 and 2010. On a positive note, Burundi saw an increase of forest area of 19%.⁶ Countries where there has been a decline will need to reverse it through conservation measures as well as replanting and recovery where appropriate. The AEO 2023 report proposes several measures in this regard. Governments should promote and enforce policies and regulations protecting

⁵ In Rwanda, there was a steep decline in land under agriculture between 1991 and 2002 but land in 2018 is like that in 1992. In Uganda and Tanzania land under agriculture increased 18% while in Burundi and Somalia it changed very little.

⁶ Data are from the World Bank: Forest area (sq. km) - Uganda | Data (worldbank.org)

forests, including protecting reserved areas and preventing illegal logging through increased enforcement and greater penalties for illegal logging. Sustainable forestry practices such as selective logging practices and reforestation should also be promoted by governments using instruments such as performance bonds for forest lessees. Indeed, there is evidence that some countries in the sub-region have begun to reforest in the last few years.

In terms of unit values, per hectare, these rose sharply over the 25 years to 2018 in Rwanda (3.8 times), moderately in Tanzania (by 28%), were steady in Burundi and Somalia, but fell sharply in Uganda (by 31%).

Policies for green growth in countries can raise revenue from a productive forest sector including wood, construction materials, as well as by both increasing the efficiency of carbon capture (as noted earlier) as well as raising the price received for carbon sequestered through accessing international agreements on carbon. The AEO 2023 report noted an important channel for doing this is the creation of a single market for the trade of emissions credits (under Article 6 of the Paris International Agreement). This requires countries to establish MRV procedures and to participate in the market by establishing NDCs with clear mitigation targets. The gains from doing this were estimated in that report for different sub-regions in Africa, with the finding that East Africa stood to benefit from the sale of significant amounts of such credits.

At the same time as taking this route, Somalia can also increase participation in the voluntary markets for carbon, where new opportunities are arising. These credits would expand the voluntary carbon market greatly, so Somalia should prepare to be part of the growth by developing new offsets and ensuring the integrity of certification of voluntary carbon markets. In addition, there is an ambitious new Post-2020 Global Biodiversity Framework, to scale up ecosystem restoration, reduce the extinction risk of species, and protect 30% of land, freshwater and marine areas by 2030. The AEO 2023 report notes that

for Africa to benefit from such arrangements, there may be a need for the establishment of an Africa Biodiversity Fund to attract private capital. To service this demand, many project developers that offer a range of greenhouse gas emission offsets have emerged. Many of these are nature-based solutions (NbS) related to forestry and land use, agriculture and soil sequestration, and blue carbon. Furthermore, there is a possibility to attract other funding from both the UNFCCC and the CBD but it will be essential first to build the human capacity to be successful in achieving this.

About the other forms of natural capital, the roles of fisheries and landscapes (for tourism) have been noted.

For Somalia, there is need to do more to tackle illegal, unreported, unregulated (IUU) fishing. As noted earlier, the country has suffered from IUU estimated to the tune of \$306 million in 2015/16, and maritime piracy crisis as widely publicised in 2011-2012. In this regard, the composite index that measures the state of IUU fishing practices' insusceptibility and vulnerability in global coastal African countries on a score ranging from 1 to 5 scored Somalia at 2.9 out of 5 in 2021 from 2.75 in 2019, reflecting the country's moderate capacity to effectively combat IUU fishing. To strengthen this, a draft Maritime Security Bill (2011) was developed to prohibit maritime offences including illegal fishing, seizing and destroying ships, and combating illicit traffic in narcotic drugs. In addition, the country enacted the 2023 Fisheries law to update its old Fisheries law of 1985, reviewed in 2016. Somalia will now need to ensure that access agreements for distant water fleets do not over-exploit fish stocks, and that the revenues generated from fishing are beneficial to coastal communities in terms of revenue and employment, while promoting sustainable fisheries management practices. The country should also ensure that these frameworks protect marine biodiversity. These agreements should be structured in such a way that their regulations ensure that Somalia receives a fair share of the economic benefits generated from fishing.

To exploit landscapes more effectively for tourism, countries are looking to develop ecotourism further. As the AEO 2023 report notes, the potential for ecotourism in Africa is significant but not fully realized. If properly used, it could yield considerable economic and social benefits for local communities while safeguarding natural resources. While specific data on the revenue generated by ecotourism in Africa is not readily available there is evidence that ecotourism is growing in Africa. The significant ecotourism sites in East Africa include the Maasai Mara National Reserve in Kenya, the Serengeti National Park in Tanzania, the Bwindi Impenetrable Forest in Uganda, and the Volcanoes National Park in Rwanda. Somalia's blue economy policy⁷ as outlined in the National Sectoral Strategy 2023-2027 identified tourism among several to be developed including fisheries, aquaculture, renewable energy, tourism, extractives, and conservation of aquatic environments. The country's tourism sites identified for development include beaches, historical sites,

mountains, national parks, and coastal and marine tourism.

Other means for making natural capital more productive in East Africa could focus on capturing more value for the goods and services generated by natural capital.

While attempts to do this by enforcing local content requirements in products have not been so successful, there are opportunities for increasing value added through strategic partnerships with state-owned enterprises and foreign investors, for fostering innovation, and creating a conducive environment for African-owned firms to emerge and thrive. Apart from local content, AEO 2023 also recommends that countries explore franchising agreements with foreign firms to complement existing local content policies and requirements, especially where capacity (both technical and financial) is lacking. Recent studies show the potential for franchising to be huge. Yet many countries have overlooked it on the African continent.

⁷ Source: Somalia Ministry of Fisheries and Blue Economy. 2023. *National Blue Economy Strategy and Implementation Plan for five years (2023-2027)*.

5 CONCLUSION AND POLICY RECOMMENDATIONS

5.1 Conclusion

Mobilising finance for green growth and climate action in Somalia for NDC financing needs will require that the private sector plays a major role. Actions should be taken to leverage the opportunities for private sector investments in adaptation and mitigation of climate change, while reducing barriers to private sector investments. This will involve tapping into the emerging innovative private sector financing mechanisms for green growth and climate action.

Natural capital also plays a major role in climate finance.

Renewable natural capital plays a major role in Somalia. For forests, there are several incentives that can be introduced to reduce loss or damage to the forests and to increase the efficiency with which carbon can be captured. For fisheries, Somalia, with its ocean coasts, needs to do more to stop IUU fishing, and to sign access agreements for distant water fleets that prevent over-exploitation of wild stocks while generating fair revenues for local communities. For tourism, the need is to eliminate the insecurity before seeking to attract international tourism. For renewable energy sources such as sunshine, wind and hydro, Somalia should consider generating electricity for international exports, and restore landscapes and biodiversity.

Natural capital has not grown over the last quarter century to keep pace with the population growth. Likewise, the per capita level of such natural capital wealth has declined. Action

will have to be taken to prevent loss of forest ecosystems and marine biodiversity as well as harnessing the returns from these systems in a sustainable manner. More can also be done to exploit clean energy resources.

The role of non-renewable assets is much smaller in Somalia, but it is important to take care in managing them for the benefit of Somalia at large along the lines mentioned will be important.

Below is a set of recommendations for different sets of stakeholders with indications of whether these should be implemented in the short term [S], medium term [M] or long term [L].

5.2 Policy recommendations regarding economic performance and outlook

[S] Somalia reached “Decision Point” under the HIPC in March 2020, and progress towards “HIPC Completion Point” is expected to be reached by end of 2023. The federal government should accelerate the implementation of HIPC structural reforms to reach completion point and bolster economic growth.

[S, M] Somalia should collaborate with creditors to finalise the debt relief agreements under HIPC, and fast-track efforts aimed at restoring public debt sustainability levels, from ‘high risk’ to ‘moderate risk’ of debt distress.

[M, L] The federal government should

implement prudent macroeconomic policies to strengthen economic and financial governance as Somalia prepares to manage revenue inflows expected from natural resource rents, notably from fisheries, forestry, and minerals sector.

5.3 Policy recommendations for private sector financing for climate change and green growth

5.3.1 For the Federal Government of Somalia

[S] The FGS should ensure vertical coordination by national level institutions for cross-sectoral implementation of green growth and climate action frameworks including the UNFCCC.

[S, M] Mobilize private climate finance and increase the use of blended finance instruments with the MDBs and DFIs for financing green growth. Ensure funds with domestic financial markets. Channel diaspora remittances into green bonds and carbon credits. Implement reforms targeted at restoring public debt sustainability to improve Somalia's credit rating, ensure fiscal incentives are provided to attract climate finance-related initiatives.

[S, M] Strengthen institutional capacity, build green skills of public officials to develop climate strategies, regulatory framework for environment and climate change, mobilize climate-resilient low-emission investments tapping from global climate funds.

[S, M] Pursue measures aimed at promoting peace nationwide for improved political stability, improve the business regulatory environment to attract private climate investments.

[M] Develop multistakeholder platforms that link domestic private sector with international actors such as MDBs, DFIs and the international private sector which are sources of private finance.

[M, L] Use innovative financing instruments that de-risk private sector investments, particularly

in non-energy sectors such as water and health infrastructure development.

5.3.2 DFIs and MDBs

[S, M] Give support to the national authorities to design suitable instruments for mobilizing development finance for countries with insecurity such as security-indexed financing.

[S] Design holistic capacity development interventions via a whole-of-government approach to maximize synergies and avoid piecemeal interventions, with an emphasis on the design and implementation of bankable green operations to crowd in international climate funds and private investment and finance.

5.3.3 Domestic and international private sector

[M, L] Collaborate with the FGS, FMS, MDBs, and DFIs and other private sector actors to identify key investments risks and propose ways of addressing these investment risks.

5.3.4 Developed country governments.

[S] As shareholders of MDBs and DFIs, developed country governments can instruct these institutions to ease their risk averseness when financing green growth in Somalia and providing additional capital to these institutions.

[S] Provide more concessional financing upon Somalia reaching the HIPC completion point and further engage with the Somalia government to identify innovative ways to provide affordable capital for green growth and climate change investments.

5.4 Policy Recommendations for increasing the contribution of natural capital to climate finance and green growth.

[S, M] The FGS should increase investment and efficiency on rents for cropland and

pastureland, taking account of climate change impacts in the short, and medium-to-long term.

[S] The FGS should accelerate the implementation of the national stabilization strategy to enforce stricter charcoal ban policies and regulations to curb the illegal charcoal production which is associated with forest degradation. Sustainable forestry practices such as selective logging practices and reforestation should also be promoted through instruments such as performance bonds for forest lessees.

[S, M] For fisheries, marine resources, tourism and petroleum extractive sector, the FGS and FMS should provide sufficient investment frameworks to restore degraded fish stocks and tackle IUU fishing, maritime security and avert deep ocean piracy.

[M, L] Carbon markets. Development partners and the FGS should work together to exploit international agreements in several areas.

These include the creation of a single market for the trade of emissions credits (under Article 6 of the Paris International Agreement), which will raise the price of carbon credits in the forests, and increased participation in the voluntary market, where new opportunities are arising through the Post-2020 Global Biodiversity Framework.

[S, M] In the area of renewable energy, the FGS should work with development partners and financial markets to explore the potential for wind, solar, and hydro energy to develop such energy generation at a much faster rate. This will be sequenced in the medium-term goal.

[M, L] The FGS, development partners and developed countries should explore the possibility of making natural capital more productive in the region through strategic partnerships with state-owned enterprises and foreign investors.

ANNEX I – SOCIOECONOMIC INDICATORS FOR SOMALIA

Indicators	Unit	2010	2015	2018	2019	2020	2021	2022 (e)	2023 (p)	2024 (p)
National Accounts										
GNI at Current Prices	Million US \$	...	5,506	6,010	6,552	6,780	7,338	...	...	...
GNI per Capita	US\$	...	400	390	410	410	430	...	...	...
GDP at Current Prices	Million US \$	1,093	5,335	5,856	6,485	6,883	7,628	8,158	8,738	9,429
GDP at 2010 Constant prices	Million US \$	1,093	1,289	1,432	1,471	1,467	1,510	1,536	1,579	1,634
Real GDP Growth Rate	%	2.6	4.4	3.7	2.7	-0.3	2.9	1.7	2.8	3.5
Real per Capita GDP Growth Rate	%	0.1	1.0	0.0	-1.0	-3.6	-0.3	-1.4	-0.3	0.4
Value Added: Mining and quarrying	Million US \$	17	32	35	38	41	45	49	...	...
Value Added: Mining and quarrying	% GDP	0.6	0.6	0.6	0.6	0.6	0.6	0.6	...	...
Value Added: Fishing	Million US \$	...	...	...	...	...	...	...	...	...
Value Added: Fishing	% GDP	...	...	...	...	...	...	...	...	...
Prices and Money										
Inflation (CPI)	%	...	0.9	4.3	4.5	4.3	4.6	6.8	4.2	4.0
Exchange Rate (Annual Average)	local currency/US\$	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Government Finance										
Total Revenue and Grants	% GDP	...	2.6	4.6	5.2	7.2	4.9	7.2	6.5	4.2
Total Expenditure and Net Lending	% GDP	...	2.3	4.6	4.8	6.9	6.0	7.3	6.8	6.1
Overall Deficit (-) / Surplus (+)	% GDP	...	0.3	0.0	0.4	0.4	-1.1	0.0	-0.3	-1.9
External Sector										
Terms of Trade Growth	%	...	...	...	...	...	...	...	...	...
Current Account Balance	Million US \$	...	-336	-362	-671	-746	-1,306	-1,291	-1,235	-1,414
Current Account Balance	% GDP	...	-6.3	-6.2	-10.4	-10.8	-17.1	-15.8	-14.1	-15.0
Debt and Financial Flows										
Debt Service	% exports	...	...	...	...	...	...	...	...	...
External Debt	% GDP	...	94.4	89.7	81.9	57.8	45.9	43.7	7.5	10.1
Net Total Financial Flows	Million US \$	490	1,265	1,581	1,719	2,579	2,233	...	...	...
Net Official Development Assistance	Million US \$	506	1,261	1,575	1,720	3,042	2,395	...	...	...
Net Foreign Direct Investment	Million US \$	112	303	408	447	464	456	...	...	...
Demography										
Total Population	Millions	12.0	13.8	15.4	16.0	16.5	17.1	17.6	18.1	18.7
Population Growth Rate	%	2.5	3.4	3.7	3.7	3.5	3.2	3.1	3.1	3.1
Urban population	% of total	39.4	43.7	44.3	44.6	44.9	45.4	46.0	46.5	47.0
Life Expectancy at Birth	Years	50.6	54.9	56.4	57.1	56.0	55.3	56.1	57.4	58.1
Fertility Rate	births per woman	7.3	7.0	6.6	6.5	6.4	6.3	6.2	6.1	6.0
Poverty and Income Distribution										
Pop. living below national poverty line	% of total population	...	...	...	...	...	...	...	...	...
Population living below \$2.15 a day	% of total population	...	...	...	...	...	...	...	...	...
Gini Index	%	...	...	...	...	...	...	...	...	...
Labor Indicators										
Labor Force participation (total)	%	34.6	34.3	34.1	34.0	33.7	33.9	34.0	33.9	...
Labour Force participation (youth)	%	17.6	16.7	16.1	16.0	15.8	15.9	16.0	16.0	...
Unemployment rate (total)	%	19.2	18.9	18.9	18.8	19.6	19.9	20.0	20.4	20.5
Unemployment rate (youth)	%	33.2	33.4	33.8	33.9	35.8	35.4	35.6	36.2	36.4
Natural Resources rents										
Total natural resources rents	% GDP	...	24.9	13.4	14.1	14.8	...	...	...	...
Oil rents	% GDP	...	...	...	...	...	...	...	...	...
Natural gas rents	% GDP	...	...	...	...	...	...	...	...	...
Mineral rents	% GDP	...	...	...	...	...	...	...	...	...
Forest rents	% GDP	...	24.9	13.4	14.1	14.8	...	...	...	...
Coal rents	% GDP	...	...	...	...	...	...	...	...	...
Natural Capital Renewable Resources										
Arable land	1000 hectare	1,100.0	1,100.0	1,100.0	1,100.0	1,100.0	...	...	...	...
Agricultural land	1000 hectare	44,128.0	44,125.0	44,125.0	44,125.0	44,125.0	...	...	...	...
Other land	1000 hectare	11,858.5	12,245.3	12,475.5	12,552.3	12,629.0	...	...	...	...
Forest land	1000 hectare	6,747.5	6,363.8	6,133.5	6,056.8	5,980.0	...	...	...	...
Planted Forest	1000 hectare	3.0	3.0	3.0	3.0	3.0	...	...	...	...
Annual freshwater withdrawals, total	% of internal resources	55.0	55.0	55.0	55.0	...	...	...	...	...
Total Fisheries Production	metric tons	30,000.0	30,000.0	30,000.0	30,000.0	30,000.0	...	...	...	...
Climate Finance and Green Growth										
Total Climate Finance*	Million US \$	...	...	...	...	393.0	...	...	...	...
Green Growth Index**	%	...	...	...	...	...	...	...	...	...

Source : AfDB Statistics Department: African; IMF: World Economic Outlook, April 2023 and International Financial Statistics, April 2023; AfDB Statistics Department: Development Data Portal Database, April 2023. United Nations: OECD, Reporting System Division. Notes: ... Data Not Available (e) Estimations (p) Projections Last Update: June 2023* Source: Climate Policy Initiative (www.climatepolicyinitiative.org)**Source: Global Green Growth Institute (GGGI). The scores for the Green Growth Index range from 1 to 100, with 1 having the lowest or very low performance and 100 having the highest or very high performance Selected

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