



DP WORLD



Counter Piracy and Somalia Capacity Building Program

1st Expert Panel on

“The Business Environment, Regulatory Reform and Key Economic Sectors for Investment in Somalia”



Post Meeting Report

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I. Background

Under the leadership of global marine terminal operator DP World, the Institute for Near East and Gulf Military Analysis (INEGMA), in its capacity as Knowledge Partner, organized an expert panel on **“The Business Environment, Regulatory Reform and Key Economic Sectors for Investment in Somalia”** on April 8, 2014 at the Movenpick Ibn Battuta Gate Hotel in Dubai, United Arab Emirates. This activity falls within DP World’s ongoing commitment to thought leadership on issues impacting the industry. This includes working with the UAE Ministry of Foreign Affairs for the past three years to co-convene an annual public-private international counter piracy conference in Dubai. The meeting in April was one of a series of meetings that will be held in preparation for the 2014 Counter-Piracy Conference with a focus on economic capacity building in Somalia, foreign investment, community engagement, public-private partnership, and other related areas.

The meeting in April focused on how to support Somalia in building its economy, attract international investment and create jobs for its youth as an alternative to taking to sea as pirates. Furthermore, investment opportunities related to Somalia’s vital economic sectors were also explored to put forward long-term plans and solutions to the country’s problems.

This expert panel was held under Chatham House Rules to encourage open discussion amongst the audience without attribution, in order to reach effective recommendations and results on which both the public and private sector can build on when establishing businesses in Somalia. The meeting was opened by Mr. Mohammed Sharaf, Group CEO, DP World, followed by keynote speeches from H.E. Yusuf Moallim Amin, Minister of Ports, Federal Republic of Somalia, H.E. Prof. Ali Mohamed Gedi, Former Prime Minister, Federal Republic of Somalia, and H.E. Ambassador Mahash Saeed Alhameli, Director of International Security Cooperation Department, UAE Ministry of Foreign Affairs.

The panel was composed of three sessions on: (A) The Evolving Business Environment in Somalia (B) Overview and Necessary Regulatory Reform in Somalia and (C) Emerging Key Economic Sector Investment in Somalia. There were a total of 38 participants, including UAE governmental representatives, international and Somali academics, private sector representatives as well as entrepreneurs and businessmen from Somalia and beyond. With 16 speakers from various backgrounds, the combination of expertise was unique and led to fruitful and intense discussions.

II. Introduction

The last six months have been extraordinary for Somalia and its re-integration into the regional and international community. First, built on the Busan 2012 New Deal discussions and statement, the Somalia Compact signed in Brussels in September 2013 established a robust foundation to mobilize resources for the then-one-year-old Federal Government of Somalia and assist in the country's reconstruction.

Specifically, the Somalia Compact established a broad set of policy recommendations across the country's security, legal, and financial institutions with a focus on their impact on economic recovery. The New Deal, in theory, would take Somalia from "emergency to recovery" over the next three years, covering the period of the founding of a new Somali Federal Constitution in 2015 and Somali elections in 2016. At the same time as the signing of the Somali Compact, the Federal Government of Somalia published its Economic Recovery Plan (ERP). The ERP seeks to provide a common vision and framework for coordination with the New Deal. In the short-term, the ERP focuses on providing stability and critical infrastructure in support of productive sectors, specifically agriculture, pastoralism, farming, and fisheries, in turn expanding opportunities for engagement of the population in productive activities. The long term vision is for sustained economic development and poverty eradication, founded on responsible macroeconomic management, infrastructure rehabilitation and equitable access to services. Overall, the ERP sets out a principled approach to guide the transition from emergency relief to early recovery and development.

In this context, discussions at the expert panel mainly revolved around a better Somalia with a focus on increasing stability, providing safe infrastructure, and promoting development through the country's productive and vital sectors.

III. Roundtable Structure

The roundtable comprised three sessions, with the first focusing on business opportunities in Somalia at a sectorial level. With the political situation appearing to be reaching a new level of normalcy, Somalia represents an emerging market that is appealing to many different investors. With growing investor confidence, both internationally and regionally, improvements in security and promising signs of political progress, new business openings are emerging across South Central Somalia, Puntland and Somaliland. The Somali diaspora was a key component of this session due to their intricate knowledge of local needs and necessities and because they are at the forefront of rejuvenating Somalia's economic environment. Participants discussed areas of potential investment and how best to approach the country's new found opportunities in supporting recovery, reconstruction and development for the Somali people.

Session Two focused on regulatory reform in Somalia. Carrying over the points discussed in the first session, the discussion focused on economic reconstruction in the context of the planning and introduction of legal requirements surrounding regulatory reform. Somali regulatory reform is in its infancy and is a necessary component of helping establish the rule of law in Somalia. Specifically, an emphasis on regulation in Somalia and the need for concrete laws and regulations was made in the following areas:

- starting a business;
- labor and HR issues;
- registering property;
- obtaining credit;
- protecting investors;
- enforcing contracts;
- closing a business.

These indicators have important implications for capital flows and the country's inclusion into the regional and international community.

Session Three emphasized the key economic sectors required to “jump-start” the Somali economy. Participants discussed ways to support the main productive sectors in Somalia in mining, farming, livestock, telecommunications and money transfer as well as the oil and gas sectors. These key areas form the very core of current and necessary Somali economic activity today to make Somalia a key emerging market in the short term. These “arenas” have important implications for capital and labor productivities, unemployment, poverty, attraction of domestic and foreign private investments, and curbing corruption. Experts from each of these key sectors provided their insights on successes and failures and shared recommendations.

IV. A Note from the UAE Ministry of Foreign Affairs

The UAE Ministry of Foreign Affairs (MoFA) stated its appreciation of the work DP World has undertaken in assisting UAE government efforts, especially in Somalia, and underlined the UAE's support of Somalia over many years. “Building Somali security is important not only for the safety of Somali citizens but also for businesses that would like to invest there. We believe those born in the diaspora have a mission to promote greater participation in rebuilding Somalia. We also encourage the government of Somalia to continue supporting international efforts in security.”

V. Government Reform

The New Deal signed in Brussels has rejuvenated debate over the best approaches to building Somalia's economic future. The Somali Economic Recovery Plan is also part of the plan for opening up Somalia to investors. These efforts must be carried out thoughtfully and through a sustainable process, however, many see that robust economic progress must be made before the passing of a federal constitution in 2015 and elections in 2016.

It was noted that there is a large diaspora of proud Somalis who want to make Somalia a better place for their children. Piracy will only disappear when Somalia's young people have the opportunity to have a bright future that allows them to not just survive but thrive. The efforts of the diaspora will play a large role in capacity building which is one of the most important goals in Somalia. However, there is a large education gap within the government staff as well as in the structure and capabilities of many government institutions.

Investor trust was seen as an important indicator of successful government reform. As of now, institution building is seen as a key mission in boosting investor confidence. A system is needed to drive investment. It was stressed that "There is no shortage of cash that people are willing to put forward for assistance and investment; we simply need a model that works for governments, international groups and the private sector."

It was noted that the African Development Bank (ADB) has been very active in supporting the Central Bank of Somalia and its Ministry of Finance. However, there have been some setbacks, particularly in the central bank where there have been four governors to date and a permanent governor awaiting to assume his role now. "Despite the fact that there has been meaningful progress, we still need an economy centralized around a robust central bank. It is true that we have overcome some recent obstacles, but the government has taken bold measures and reinforced trust both domestically and internationally." As a result, greater transparency around financial flows in the country is yielding great results in bolstering investor trust. A Public Financial Management Self-Assessment was conducted by the ADB in Somalia in 2008 to see the areas where the country needed more support. This aided in laying out an agenda for regulatory reform and institutional capacity building. "We now have a clear idea of what the strengths and weaknesses are; the ADB and IMF are supporting changes in those areas outlined."

Furthermore, anti-money laundering and terrorism financing are now vital to the Central Bank. Remittances are being tracked diligently to ensure they are not being routed to support terrorism. To support the Central Bank and its governor, the Financial Governance Committee (FGC) was established; it is composed of the Somali government, the ADB, the World Bank and

the International Monetary Fund (IMF) who work closely in an advisory capacity with the governor of the Central Bank. Accordingly, a report is issued every 30 days on the shape of the Central Bank. Recent high value and complex contracts are being shared with the FGC to ensure they were awarded transparently. National budgets are now being prepared annually and submitted to parliament. Important legislation, namely the Central Bank Act, Public Financial Management and the Foreign Investment Bill, are also being reviewed in order to give a legal basis and mitigate risks for investment. With all this, there still remains a lot to do, particularly in the supervisory and regulatory arenas.

These developments will lay the groundwork for more transparent accountability and regulation. It is essential that banking and transactional functions become regulated through the Central Bank, as it holds a single currency account for the country and must create formal channels for the flow of funds. The challenge that arises however is finding international partners willing to engage with the Central Bank and Somali banks. “We are working with Turkish and British banks to get them to participate. At the end of the day, the backbone of any country is its payment system.” In this regard, Somalia needs a national payment system to allow the flow of funds within and in/out of Somalia. Monetary policy and currency reform are also vital. No one knows the size of the Somali economy, and there is now an effort to build the statistical capacity to accurately gauge the economy. Work is also being done on foreign exchange data and currency reform.

How can Somalis trust the new Central Bank leadership? When the former governor resigned and made allegations against the IMF, ADB and the World Bank, a frank discussion took place addressing these allegations. The government said they were prepared to do whatever it takes to build the confidence of the Somali people and later the international community. They accepted recommendations for greater transparency and were prepared to take action. “To date, they have fully lived up to what they said they would do. There are very bright Somalis who have come back from the diaspora to work in very difficult conditions because they felt it was the right thing to do. These are the kind of people that would not turn a blind eye to something wrong. They are here to rebuild their country. They left comfortable jobs to endure these challenges to make Somalia a better place.”

On a note about the projects supported and implemented by the ADB in Somalia, the following was stated: “Our work has been more in capacity building, which is not as visible as other projects. Furthermore, a ten year infrastructure plan for Somalia is about to be handed over to the government - a master plan for energy, roads, and other areas over the next decade.” The representative added “There has not really been any support for small and medium enterprises (SMEs) because we feel we are still rebuilding the foundations of a solid economy and smaller projects are not economically viable for the ADB. There are several other programs that handle

this level of investments. Nonprofits have entered this market with charitable funds that issue loans with no interest or fees, but we are trying to attract larger investors.”

Looking beyond international investors, many of the existing laws do not address the issues facing Somalis today. Property rights are one of the biggest domestic challenges as many fled their homes and others moved in, sold, or purchased homes that were not rightfully owned by the parties involved. Reform in property rights will not only set the government in support of its own people, but also allow them to thrive and leverage their hard-earned assets.

VI. Transitioning from Aid to Investment

A statement often repeated during discussions was that Somalia no longer needs aid, but rather, the country needs investors willing to leverage capital and expertise to reconstruct the Somali economy. As seen in the example of the United Arab Emirate’s relationship with Somalia, this transition can be gradual.

Rather than disbursing into international funds, the UAE has always given aid directly through the federal government. Much of this aid pays for fresh water access, hospitals, schools and police stations across Somalia. An extra AED10 million has also been allocated to the government for construction which will be used at the Somali government’s discretion. Radar stations in Yemen paid for by the UAE will also be providing coverage for Somali security. In the UAE experience, projects must be taken by companies that have the support of their government in order to ensure the successful completion of the project. If a UAE-based organization takes on a project in Somalia then it is certain that the government will fully support them and, in the case of failure, the government will pull them back and ensure a capable party completes the task. Today, the UAE is directly supporting UAE businesses operating in Somalia. The government subsidizes the risk they undertake in operating in Somalia so that they can continue operating, providing Somalis with goods and services. On a state-to-state level, the UAE is working closely with the federal government to establish infrastructure and institutions necessary for an embassy to carry out its tasks, a goal which will have a tremendous impact on commercial activities.

As of today, the Somali government is trying to pass an investment law that will protect investors, but it is still in its initial drafts. However it was noted that those who take the risks associated with entering the market in the early stages will likely benefit far more. The sectors highlighted as key areas of focus in Somalia included ports, airports and the information and communication technology (ICT) sector. Agriculture and fishing were also considered sectors with the greatest short-term impact potential.

Infrastructure and energy are considered as basic needs for a viable business environment. One participant emphasized: “Ports, airports, ICT infrastructure are our gateways to the world and are strategically important. There is a need for public private partnerships (PPPs) in the infrastructure and energy sectors.”

As for the banking sector, some real progress is being made. The International Bank of Somalia will be spread across all major cities in Somalia by 2015 and in Nairobi, Tanzania, Dubai in the next 2-3 years. “We are trying to fill the gap to facilitate a national payment system. We are also trying to attract FDI (foreign direct investment) through a partnership model across 25 sectors; the bank will carry out the work inside Somalia for its international partners and absorb most of the risk.”

It was noted that many locals have cash ready to be invested, however they fear investing due to the absence of related regulation on the ground; the biggest danger identified is no guarantees behind the banks such as those granted by bodies like the Federal Deposit Insurance Corporation (FDIC). “Micro-credit institutions that collect funds have different regulations than those that only disburse, but we hope that these regulations will be put in place shortly.” Despite these obstacles the One Earth Foundation, the parent organization of Oceans Beyond Piracy (OBP), whose membership is made up of private sector businesses, recognized the need for developing a business model that competes with piracy. Accordingly, Shuraako was created with the objective to do just that by identifying entities that could add value to Somalia and match capital, manage the investment and post-investment execution for third-party investors. “We have a presence on the ground and it is a little over a year old. It organizes diaspora to see what their investment appetite is.”

Activating the local population to invest in themselves has also been proven effective by a community initiated and Norwegian-backed effort to increase security and simultaneously stimulate economic growth. The Norwegian Ship Owners Association have around 100 vessels in the high risk area off the coast of Somalia each day, and thus has a significant interest in the security of this area. Norway supported a Puntland project where ex-pirates were given vocational training and where potential pirates were discouraged through radio transmitted messages to participate in acts of piracy. This project was initiated by local communities in 2009 and financed by the Norwegian government and private entities. “There is clearly the need for top-down projects, but local initiatives are what will really drive the economic development in Somalia. The key challenge is ensuring the two approaches meet in the middle.”

VII. Key Sectors for Growth

The government must be capable of building trust and confidence in both its leadership as well as in the system of governance itself. With that missing, any investment will be very difficult. With the recent conclusion of the Somali Investment Summit 2014 held in Dubai, ports, airports, and ICT infrastructure were identified as Somalia's gateways to the world and their strategic importance was highlighted. Agribusiness and livestock development were also seen as having the biggest impact on employment, along with the development of fisheries and boosting the fish consumption market domestically.

Ports: "There are some key challenges in Somali port operations that we must overcome. We need to remember that Somalia has suffered a stroke and will need time to recuperate." Implementing a system of governance that is transparent and minimizes the opportunities for corruption is key in establishing trust that the government is ready to implement changes in the port industry, and indeed in regulation across all sectors. "It is not a matter of trusting the leadership; it is a matter of putting a system in place that works independently of the leaders. People must be able to trust the system first. It is easy for leaders to corrupt the system currently in place."

ICT Sector: This sector in Somalia presents key opportunities as it currently constitutes the largest employers in the country. However, this sector has been operating without any policy framework in place or any regulatory guidelines. One simple area for regulation would be the placement of interconnection policies that would allow carriers to share the infrastructure burden, increase the quality of service to end users and ultimately free capital for investment in areas that would increase the sectors employment capacity.

Fishing and Agriculture: "These are two areas of fast-response investment. What is required is a functioning Central Bank of Somalia which allows the introduction of private banking and creates the proper environment for international cooperation and investment." 70% of Somali land is arable, meaning that two families can share 70 hectares of arable land, which provides huge potential. In the agricultural sector alone, the Somali people are very wealthy. Agriculture generates 65% of Somali GDP. If a robust agriculture structure is put in place, there should never be the risk of widespread famine in Somalia. Many panelists agreed that foreign investment would do best to invest in agriculture as a top priority. Somalia needs a lot of assistance to create a solid and viable fishing culture and industry. There should be two tracks: one driven by domestic consumption and local businesses and another driven by international investors and fishing companies. Fish is a good example of Somali products that could be better marketed, though illegal fishing still remains a big concern.

Energy: The availability of energy supply has always been abundant in Somalia and is cheaper than other states in the region. However, the challenge has been the quality of product, which is often not at a standard that can be sold easily on the international market. “Consumption of fuel is relatively low domestically, but significant growth has occurred. The vehicle market has a lot of room to grow as the economy rebounds; as more people buy newer cars, the demand for higher quality fuel will increase.”

VIII. Conclusions and Recommendations

The meeting concluded with final comments from the moderator who stated that the setting and timing of the Expert Panel on *“The Business Environment, Regulatory Reform and Key Economic Sectors for Investment in Somalia”* occurred at the appropriate time but, more importantly, delved down into key areas of the Somali economy that needs to be explored more fully. The moderator asserted that understanding cultural awareness of the Somali peoples in terms of clan federations and structures is important in understanding current and future requirements. He also stressed that the Somalis themselves must help regional powers and international players in understanding their point of view in adopting economic reforms while retaining local attributes.

In light of the above, the following recommendations were drawn:

- Emphasis on the positive role of the diaspora in leveraging investments, expertise and building economic capacity in Somalia;
- Importance of security and stability in Somalia, especially for potential investors and businesspeople;
- Need for a robust Central Bank and increased transparency around financial flows to promote investor trust;
- Need for the Central Bank to regulate all banking and transactional functions;
- Need for revised legislation in the government’s financial domain to ensure accountability and regulation;
- Necessity of collective efforts to measure the Somali economy for the better development of monetary policies and currency reform;
- Need for robust and transparent regulation and governance across all sectors, including ports, to avoid corruption;
- Need for increased institutional trust between the Somali leadership and their people;
- Development of simultaneous approaches and programs (top down and bottom up) in order to tackle maritime piracy;

- Positive impact of agribusiness, fisheries and livestock development on employment;
- Need for interconnection policies within the ICT sector to increase employment opportunities;
- Emphasis on the need for developing comprehensive property laws for the local communities as well as investor laws for business people coming from abroad;
- Consensus on the need to improve the national infrastructure: ports, hospitals, airports, ICT, energy supply, and others;
- Continuous communication and active participation in decision making between all parties in Somalia mainly politicians, entrepreneurs, and scholars;
- Need to involve Somali youth across the Somali political and economic spectrum, as they represent the future generation of leaders.

IX. Next Steps

“Piracy at sea has reached its lowest levels in six years, with 264 attacks recorded worldwide in 2013, a 40% drop since Somali piracy peaked in 2011. Off the coast of Somalia precisely, 15 incidents have been reported in 2013, down from 75 in 2012 and 237 in 2011.” (*Source: International Chamber of Commerce (ICC) - International Maritime Bureau (IMB)*). This is certainly good news. It demonstrates that regional/international efforts and contributions provided over the past years - of which the UAE has actively partaken - through aid, ocean patrolling, prosecution and advocacy have been effective. The current and future emphasis should therefore transition to tackling the roots of piracy by preventing the phenomenon through supporting peace and development (social and economic) on land. Furthermore, the approach to addressing Somalia’s challenges and effectively leading the country to a path of recovery, economic development and durable peace must include: focused and committed leadership, transparent legislation, solid government structures, robust partnerships with the private sector, community engagement, civic dialogue, and trust. DP World’s next expert panel scheduled to take place on August 26, 2014 will continue from the recommendations and lessons learned in the first expert panel. The panel will highlight public-private partnership opportunities, community engagement and soft diplomacy. At this next event, the parties will reconvene to discuss further needs in Somalia, measure progress, and present new invitees with an emphasis on Somali youth empowerment and leadership skills. The significance and success of such meetings lies in their open and informal setting and their strong emphasis on dialogue and debate which provide the opportunity to derive accurate feedback. Most importantly, the conclusions and findings of these expert panels will be addressed in the upcoming UAE Counter Piracy Conference in the fall, which will gather many decision-makers from Somalia and abroad, government and industry representatives and the international community - people capable of facilitating a change.