

# POLICY BRIEFING PAPER: SOMALIA DEBT RELIEF AND BEYOND

## Background: Somalia debt relief processes and milestones

[Friends of the horn foundation](#) (Fohof) was/is Somalia debt relief [lead](#) campaign organisation based in London United Kingdom and East Africa.

Fohof writes this briefing paper to the Somalia Federal Government (SFG), International Financial Institutions (IFIs), Somalia supporting countries, Somalia Federal Member States (FMS) and all other stakeholders.

Prior writing this briefing paper Fohof used several unscientific opinion collection methods including online survey, took part by 1211 members of the Somali public both in Somalia and in the Diaspora, likewise Fohof engaged with through phone calls over 120 Somali civil organisations (CSOs) based in Somalia and Diaspora. The bottom line of these consultations was to collate consensus as to what Somali public and civil societies think about Somalia acquiring any future loans. 96.8% (see appendix for results) of public respondents supported the process this paper suggests and 90% of CSOs also endorsed.

Until March 2020 Somalia sovereign debt stood [\\$5.2 billion](#). Creditors of this debt consisted of International Financial Institutions (IFIs), [Paris Club](#) and other bilateral creditors. Somalia debt was burden to Somalia as a country and obstacle to Somali public's opportunity to develop sustainable livelihoods coupled with lack of proper economic growth and investment.

Somalia debt relief process went through steady but tough phases for the past several years. FGS thoroughly engaged with creditors to assure creditors Somalia's readiness to come back to international scenes. This process was led Somali Ministry of Finance ([MoF](#)) supported by IFIs, surely there were milestones and challenges including four successive Staff Monitoring programs (SMPs) and political upheavals/discourses between FGS and its Federal Member States (FMS). During these processes Somalia endured scrutiny of economic and institutional reforms imposed by facilitators of debt relief namely International Monetary Fund (IMF) and World Bank Group (WBG) among the others. The main reason for this scrutiny was to account for country's income and expenditure for Somalia to take necessary steps to qualify debt relief.



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These processes were designed to bring Somalia to Heavily Indebted Poor Country HPIC initiative qualification point. To the surprise of many Somalia reached this point March 2020. The effort of bringing Somalia up to this level was immense due to prevailing challenges facing Somalia such as security, political and economic reform.

Officially Somalia reached enhanced HPIC decision point on March 2020 a milestone that made majority of Somali public happy and pointed to an encouraging future for their country. However there were terms attached to HPIC completion point which we will highlight in this policy brief.

Paris Club on March 2020 agreed to relief \$1.4 billion non-Official development Assistance (ODA) of its debt to Somalia under "[Cologne terms](#)".

To clear its African Development Bank (AfDB) arrears Somalia was also thankful to the European Union (EU) and the United Kingdom (UK) for facilitating bridging loans. There are schools of thoughts that say these bridging loans are promised to be grants should Somalia smoothly reach its HPIC completion point. Other countries that were instrumental in terms of providing financial assistance to Somalia to reach these debt relief milestones include Italy, Qatar and Norway. The role Turkey played in general Somalia economic stabilisation is also undeniable in part as Turkey implemented and provided vital projects and aid to Somalia's recovery.

To date Somalia's debt is reduced to [\\$557](#) million where the rest of \$5.2 billion will irrevocably be cancelled at the HPIC completion point which Somalia is expected to meet in 2023. 31<sup>st</sup> of March 2020 was another milestone for Somalia by becoming 182<sup>nd</sup> country to join The Multilateral Investment Guarantee Agency ([MIGA](#)).

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## Opportunities

*"I applaud the Federal Government of Somalia on successfully meeting its membership requirements with MIGA," MIGA Executive Vice President Hiroshi Matano said. "In the face of the coronavirus outbreak and uncertainty about the capacity in Sub-Saharan Africa to respond, Somalia's membership with MIGA marks an important milestone toward realizing the country's long-term goals of economic growth and prosperity. We look forward to working with Somalia and the investment community to deliver real results on the ground."*

Surely by Somalia joining MIGA will encourage multilateral investors to consider investing Somalia.

The prospects for Somalia to move forward in terms of economic development is enormous considering country's geographical location, huge blue economy potentiality, agribusiness and also huge oil and gas reserves. The investment Somalia yearns includes infrastructure, electrification of Somalia, competent health care systems and quality education for younger generations and adults alike. MIGA membership will contribute positively to this end as many international business community and commercial banks alike seem to trust more to those countries that are members of this WBG institution. Somalia must now take steps and provide an action plan that will market Somalia as a country that is open for business and can attract foreign investment.

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## Priorities

Main hurdles include keeping the momentum ie adhering to commitment to maintain set of pre-requisite terms for Somalia to reach HPIC completion point. These terms include Macroeconomic stability, poverty reduction strategy, fiscal stability reforms, good governance and to support inclusive growth. These goals are set forth by IFIs who are helping Somalia to achieve HPIC completion point. Political scenes in Somalia must also be different including FGS and FMS to cooperate fully for the country to reach HPIC completion point as whole.

## Challenges

Banking systems including Central Bank of Somalia ([CBS](#)) reforms is vital for any future financial and economic management. Fighting corruption and political stability are is also another stumbling block Somalia must overcome to be able to successfully reach HPIC completion point in three years. Political stability is another factor that needs significant attention, as without coherent political structure financial institutions will not be able to address the issue of revenue mobilization etc.

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## Beyond debt relief

While IMF and WBG's Debt Sustainability Framework ([DSF](#)) for Low-Income-Countries (LICs) is reviewed and well-structured instrument that uses debt sustainability stress testing to hinder LICs to incur more debt, yet there are other methods poor countries are lured into more debt by cruel lenders.

Nowadays secret and dubious loans/lenders widely exist, where some lenders are employing unforeseen tactics with painful consequences. These international loan sharks lenders observe countries that recently or in the process of getting debt relief through international debt cancellation process with the intention to lend as soon as the country passes HPIC completion point. Somalia's government and the International community that has invested so many efforts in this process that helped Somalia to reach debt cancellation must be mindful of this.

Take the case of [Mozambique](#) where [two individual bankers](#) from [VTP bank](#) and [Credit Suisse](#) used unconventional methods to indebt that poor country. Somalia must avoid such unscrupulous future loans at any cost.

In the spirit of transparency, accountability and inclusivity Somalia needs genuine future loan management strategy/framework. Where all stakeholders are inclusive herewith any sitting government, FMS, Legislature etc. A framework that is simple but one that has rigorous checks and balances as to when, how and for what Somalia could incur future debt for.

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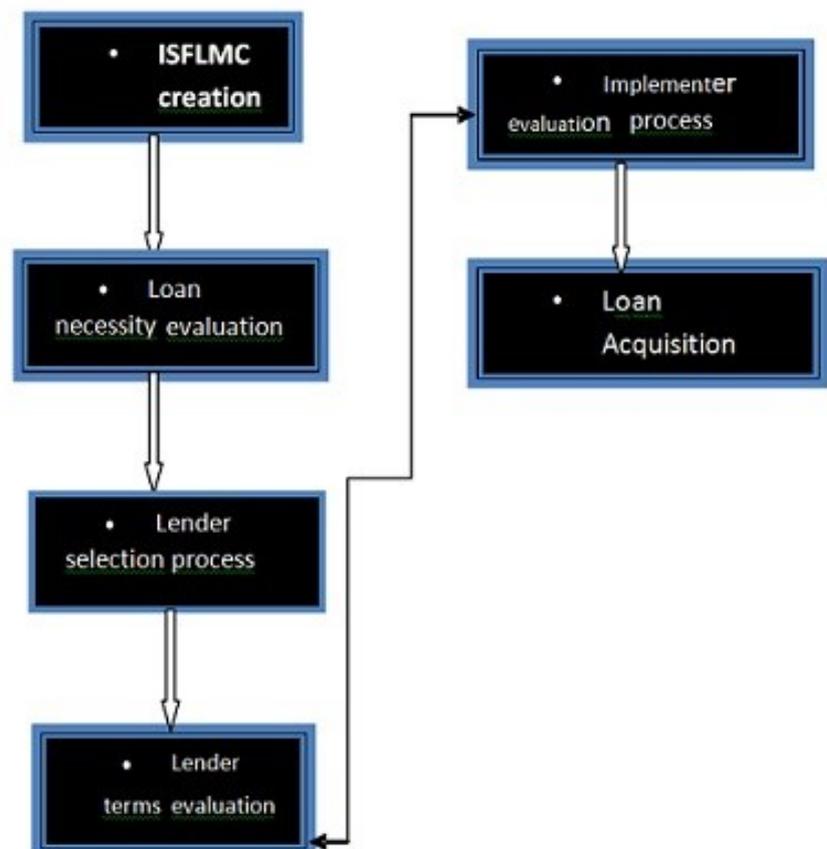
Presented below is a comprehensive, transparent and inclusive Future loan management framework which Somalia's government must consider. This proposal prevents misuse of power in the prospect of Somalia acquiring future loans. Fohof is confident that by SFG implementing below proposal and/or similar one Somalia will avoid future loan mismanagement this will be welcomed and supported by the Somali public, International Community, IFIs and all other stakeholders.

- I. FGS ought to establish Independent Somalia Future Loan Management commission (ISFLMC) consisting of economists, technocrats such as project management professionals, 2 members of each FMS, members from sitting executive, Legal experts etc.
- II. ISFLMC mandated by the parliament to oversee any Somalia future loan.
- III. ISFLMC will answer the 1<sup>st</sup> question does the country need to take loan? If yes for what propose, ISFLMC will then assess the lender that offers most favourable terms.
- IV. When loan necessity is agreed and the cheapest lender identified, ISFLMC must then focus on open tendering process for the selection of the project implementing agency/entity. To avoid any kick back processes ISFLMC will assess implementer's credibility, whether the implementing agency/entity will offer knowledge transfer, after sale services and maintenance where necessary, this will ensure value for money for Somalia.

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Finally a threshold figure must be specified as to what loan any sitting government can acquire either from Somali business community or foreign lenders. Our preliminary consultation found that public are happy with for any sitting government to acquire maximum loan of \$10 million. Any loan above \$10 million MUST go through aforementioned ISFLMC process. This is to avoid complaints from for example FMS and Somali public in claiming they were not included the debt acquisition process and the country is been indebted without consultation as previous debt fall into this latter category.

Figure 1.0 Showing Somalia future loan acquisition process



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## Recommendation

### International Financial Institutions

- Continue support building the capacity of Somalia financial institutions
- Help Somalia to develop future debt management frameworks
- Draw parallel to what happened to countries like Mozambique where country is been indebted by unkind financial predators who lured the country to take another \$2billion loan for dubious projects.

### Federal Government of Somalia

- Fohof argues FGS to maintain and create an environment that allow political differences to settle
- Maintain and adhere to HPIC completion point terms
- Design and enact future loan management committee as specified above or similar method that prevent future loan mismanagement
- Promote good governance which is prerequisite in reaching HPIC completion point
- Fight corruption to bring back trust of the public and international community
- Improve transparency and accountability in all administration levels
- Improve the capacity of Somalia financial institutions
- Continue to work towards fiscal federalism to enhance revenue mobilization.
- Thorough public financial management laws are to be enacted
- Wise use of IMF's 3 year [External Credit Facility \(ECF\) and External Fund Facility \(EFF\)](#)

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## Federal Member States

- Work with FGS to ensure these achievable goals are secured
- Appoint professional individuals to the ISFLMC commission
- Create conducive environment where country revenue mobilization is realised

## International community and other stake holders

- Increase your moral and material support to Somalia to ensure Somalia a) not to fail to succeed HPIC completion point b) Somalia to progress into economic well-being and sustainable livelihood c) Somalia to avoid future debt mismanagement.
- Increase aid as the country is still in fragility mode
- Assist Somalia to enhance its human and institutional capacities
- Closely monitor commercial banks in your jurisdictions so that these banks do not lure Somalia to acquire unmanageable debt levels.
- Promote Somalia to incorporate all its policies to good governance and environmental friendly initiatives.
- Continue to support Somalia to develop gender equality policies, democratisation, inclusion and human rights initiatives.
- Increase your generous support/aid to ensure democratic institutions are built from district level and public are aware of their rights and responsibilities.
- Above all stable, prosperous and secure Somalia will enhance the overall stability of the region and beyond.

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## Conclusion

As number poor countries are close or veered to default because of unsustainable debt and alliances between richer and poor countries fraying, Somalia as fresh starter after 2023 HPIC completion point ought to establish well-structured, cohesive, transparent, accountable and inclusive future debt management commission that will oversee all future loans.

Somalia must equate itself with those countries that went through HPIC process but quickly indebted by foreign governments, private banks and hedge funds.

The epitome of a fresh system always correlates with the emphasis one puts on its solid foundation. In order to acquire future loans Somalia MUST establish ISFLMC that will serve as catalyst for transparency and accountability.

Enhancement of Fiscal federalism and policy level cooperation ought to be priority for SFG and FMS.

Somalia must convince International community/partners/investors that Somalia is ready for investment and trade partnerships rather than a country seeking hand-outs.

The role of IFIs, international community and Somalia partners is also vital in the context of refurbishing and building the capacity of Somalia financial institutions and provide the support necessary for Somalia to recover. In nutshell Somalia has huge opportunities to develop an instrument that will allow the country to acquire future loans but in responsible manner. Loans are essential for development, investment and infrastructure building for each country. The management and methods to acquire any future loan must rest with an independent commission that is inclusive so that Somali public and FMS will feel that curtail inclusivity.

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## End Notes

Somalia to Receive Debt Relief under the Enhanced HIPC Initiative

<https://www.imf.org/en/News/Articles/2020/03/25/pr20104-somalia-somalia-to-receive-debt-relief-under-the-enhanced-hipc-initiative>

IMF's Debt Sustainability Analysis

<https://www.imf.org/external/pubs/ft/dsa/>

Debt Sustainability Framework (DSF)

[https://www.worldbank.org/en/programs/debt-toolkit/dsf#:~:text=The%20Debt%20Sustainability%20Framework%20\(DSF,%20Income%20Countries%20\(LICs\).](https://www.worldbank.org/en/programs/debt-toolkit/dsf#:~:text=The%20Debt%20Sustainability%20Framework%20(DSF,%20Income%20Countries%20(LICs).)

<https://www.imf.org/en/News/Articles/2020/03/25/pr20105-somalia-imf-executive-board-approves-3-year-ecf-and-eff-arrangements>

IMF Executive Board Approves 3-Year ECF and EFF Arrangements for Somalia

<https://www.imf.org/en/News/Articles/2020/03/25/pr20105-somalia-imf-executive-board-approves-3-year-ecf-and-eff-arrangements>

Somalia Becomes 182nd Member of Multilateral Investment Guarantee Agency

<https://www.miga.org/press-release/somalia-becomes-182nd-member-multilateral-investment-guarantee-agency>

Ministry of Finance Somalia

<http://mof.gov.so/>

Newcastle University takes a strong stand against secret loans

<https://jubileedebt.org.uk/wp/wp-content/uploads/2019/01/Newcastle-University-letter.pdf>

Mozambique Indicts 20 People Over \$2 Billion Hidden-Debt Scandal

<https://www.bloomberg.com/news/articles/2019-08-09/mozambique-indicts-20-people-over-2-billion-hidden-debt-scandal>

Jubilee Debt Relief Campaign group archive documents about the lending and later conviction of the two individuals from VTP bank and Credit Suisse

<https://jubileedebt.org.uk/tag/mozambique>

Debt Cancellation for Somalia 2018

<https://eurodad.org/files/pdf/5c52b8cfb0d78.pdf>

Central bank of Somalia

<https://centralbank.gov.so/>

Somalia Debt Relief – Opportunities and Challenges Ahead

[https://hiiraan.com/op4/2020/mar/167588/somalia\\_debt\\_relief\\_%E2%80%93\\_opportunities\\_and\\_challenges\\_ahead.aspx](https://hiiraan.com/op4/2020/mar/167588/somalia_debt_relief_%E2%80%93_opportunities_and_challenges_ahead.aspx)

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