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DEBT CANCELLATION FOR SOMALIA

Item proposed by the Federal Republic of Somalia

High-Level Side Event on Somalia's External Debt Situation

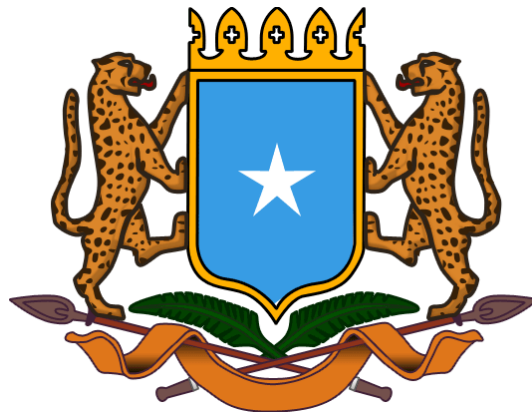
***Debt Cancellation as a Means Towards Enhancing Peace, Security, Stability, Development
and Durable Solutions for Displaced Somalis***

Concept Note

9th February 2019

An Initiative of

The Federal Government of Somalia



Supported by

The Somalia NGO Consortium's Debt Cancellation Advocacy Working Group



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Service Committee**



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Background and Context:

1. As a result of protracted armed conflict, Somalia remains as one of Sub-Saharan Africa's most underdeveloped country. Following the collapse of the central government in 1991, the country has been plagued with violent conflict and insurgency, extreme and widespread poverty, acute food shortage, and political instability, economic underdevelopment, and recurring natural disasters such as droughts and floods. Somalis to date lack: essential healthcare, education, food security, safe drinking water, hygiene and adequate sanitation, and have very limited employment and livelihood opportunities. The Federal Government of Somalia (FGS) and subnational tiers of government have meagre resources to meet the country's pressing needs.

2. The parliamentary and presidential elections in 2012 led to the renewed international recognition of the FGS and its structured and constructive re-engagement with the international community. This, however, led to the inheritance of external debts accumulated by Somalia's former governments, leaving the country with the status of being a heavily indebted poor country with an external debt of US\$ 4.6 billion (as of end 2017), including sizeable arrears to bilateral and multilateral creditors. Consequently, the country's external debt overhang and its large stock of arrears restrict it from accessing critically needed financial resources from the international community, which are essential for the reconstruction and development of Somalia.

3. At the London Somalia Conference on May 11, 2017, following the New Deal for Somalia Brussels Conference in 2013, the international community renewed its political and financial commitments to Somalia under the New Partnership for Somalia (NPS). The NPS seeks to promote peace and stability, foster economic development, engender political reform, improve governance and scale-up humanitarian assistance. The NPS is informed by Somalia's National Development Plan (NDP) 2017-2019. During the conference, Somalia and its security partners, including the African Union Mission in Somalia (AMISOM), had reached an agreement on a new security pact - the Comprehensive Approach to Security (CAS) – that outlines a multi-pronged approach that will among other interventions, increase the effectiveness of AMISOM and strengthen the capabilities of Somali security sector institutions (military, police and justice system) such that there can be a successful transition of security responsibility for Somalia from AMISOM to Somali security sector institutions. Following the CAS, the federal government had approved a new security transition plan, which had been subsequently endorsed by the African Union (AU) Peace and Security Council. The transition plan lays out steps to be taken to facilitate the full transfer of security responsibility from AMISOM to Somali security institutions.

4. Achieving the NPS and NDP objectives along with the objective of reinforcing stability and security in Somalia, requires Somalia and its development partners to address pressing development challenges facing the country, such as stimulating economic recovery, improving governance, reducing poverty (including the protection and assistance to Somali refugees and IDPs) and engendering the conditions of peace and stability in the country. The achievement of these objectives is made even more difficult by the fragile fiscal positions of the FGS and subnational tiers of government with an

extremely narrow domestic revenue base (chiefly relying on customs duties collected at airports and seaports) and minimal access to budget and project grants¹. This severely constrains the country's ability to address development challenges. Donor assistance is primarily humanitarian focused for relieving immediate needs, with minimal longer-term investment, such as for economic infrastructure and broader social development assistance.

5. Somalia's long and protracted armed conflict has destroyed socio-cultural, physical, human, and institutional capital, meaning efforts geared towards peace and stability, recovery, development and poverty alleviation are immense and cannot be addressed solely through grants, but must be augmented with additional substantive resources. For Somalia, one cannot begin to meaningfully discuss issues such as economic recovery, development, poverty alleviation, peace and security, without acknowledging the detrimental impact that the country's unsettled financial relations with external creditors and its large external debt overhang has had in constraining the amount of financial resources that the country could access since state collapse in 1991. It is evident that peace, security and development efforts cannot be addressed only through grants but must be augmented with additional resources that the country is currently barred from accessing. Somalia's unresolved financial relations with external creditors remains a roadblock to new resources that could be utilized for reconstruction, stabilization, peacebuilding, development and poverty alleviation.

6. In pursuit of normalized financial relations with external creditors and full debt cancellation, the Federal Government of Somalia, supported by the Debt Cancellation Advocacy Working Group of the Somalia NGO Consortium (SNC),² is proposing to organize a high-level side event on Somalia's external debt. The meeting's theme will be *Debt Cancellation as a Means Towards Enhancing Peace, Security, Stability, Development and Durable Solutions for Displaced Somalis*. This high-level side event will take place on the margins of the African Union (AU) Heads of State Summit on 9th February 2019.

Rationale:

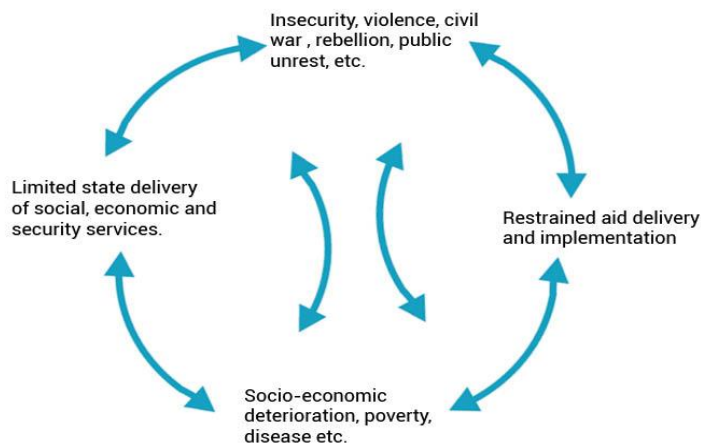
7. In examining the causes of Somalia's civil war, it is often stated that fractious clan divisions fueled and sustained the country's protracted civil war. While divisions along clan lines was a significant cause of Somalia's civil war, one must also acknowledge the fact that underdevelopment and uneven development in Somalia contributed to fueling

¹ In 2017, the federal government received on-budget official development assistance (ODA) was equivalent to 1.5% of GDP, palling in comparison to off-budget ODA which was equivalent to 24.1% of GDP (see IMF Country Report No. 18/212).

² The SNC was established in 1999 and has since grown to become an effective network of non-governmental organisations (NGOs) working together to improve international aid coordination and raise the presence and profile of NGO representation within the aid coordination structure for Somalia. The NGO Consortium maintains its presence through its offices in Hargeisa, Garowe, Mogadishu and Nairobi. The Debt Cancellation Advocacy Working Group is a sub-working group of the SNC's Advocacy Working Group comprised of a number of NGOs that have come together to offer support to the people of Somalia and its government in their bid for expeditious and full debt cancellation

grievances between communities and prompted clan-based competition over scarce resources. In this respect, there is an inextricable link between peace and security and development (known as the security-development nexus³). As echoed by former United Nation Secretary General Kofi Annan, “there will be no development without security and no security without development.”⁴ It was also stated in a European Union report of 2008 that “there cannot be sustainable development without peace and security, and without development and poverty eradication there will be no sustainable peace.”⁵ Figure 1 below illustrates the nexus between security and development. Given the inextricable link between security and development, one can see that development interventions are inherently peace-building⁶ activities. If development actors apply a conflict-sensitive⁷, participatory, inclusive and spatially balanced approach to development, it can help to ease intra-societal tensions and competition over scarce resources, leading to peaceful outcomes. This may include: the disarmament, demobilization and reintegration of combatants; trauma healing; the reconciliation of communities for social cohesion; the provision of security and basic public services; and equal economic opportunities for all member of society (including returnees and IDPs), among others.

Figure 1: Illustration of the Security-Development Nexus



Source: Adapted from Merket, H. 2016. *The EU and the Security-Development Nexus: Bridging the Legal Divide*. Boston, Brill Nijhoff, pp. 6.

³ Hans Merket (2016) states that “there is no generally accepted definition [of the security-development nexus], rather, it is a catch-all phrase for the whole of connections between development and security challenges as well as the policies and concepts designed to address them.” (see Merket, H. 2016. *The EU and the Security-Development Nexus: Bridging the Legal Divide*. Boston, Brill Nijhoff, pp. 8).

⁴ See UN General Assembly, In Larger Freedom: Towards Development, Security and Human Rights for All – Report of the Secretary-General, A/59/2005, Mar. 21, 2005.

⁵ See Report on the Implementation of the European Security Strategy – Providing Security in a Changing World (S407/08). Brussels, 11 December 2008.

⁶ We use the UN’s definition for *post-conflict peacebuilding* as ‘action to identify and support structures which will tend to strengthen and solidify peace in order to avoid a relapse into conflict’ (see Report of the Secretary-General, A/47/277-S/24111, *An Agenda for Peace: Preventative Diplomacy, Peacemaking and Peacekeeping*, 17 June 1992).

⁷ For more information on how aid can be used to support peace, please see M.B. Anderson. 1999. *Do No Harm: How Aid Can Support Peace – Or War*. Boulder, Lynne Rienner Publication.

8. If development and peace and security are mutually reinforcing, it is clear that normalizing financial relations with external creditors and finding a resolution to Somalia's external debt problem can lead to a greater number of and more sizeable development interventions that could have a transformational impact on the country. This can include enhancing peace and security, which could help move the country forward and help it escape the conflict trap⁸. Thus, it is reasonable to assume that greater resources geared toward development will have a positive impact in improving peace and security in Somalia. Yet, the country can only meaningfully embark on development once arrears owed to International Financial Institutions (IFIs) are cleared, and there is a resolution of Somalia's unsettled claims with external creditors and the country's external debt overhang. The process by which the country can resolve the aforementioned problems is through the IFI-administered debt relief process⁹.

9. The debt relief process is both a technical and political exercise. Technical in the sense that a group of senior officials at the Ministry of Finance, Ministry of Planning and Central Bank, in consultation with the International Monetary Fund (IMF) and World Bank, devise a number of policy and reform measures that will need to be implemented to progress through the debt relief process (often through an IMF programme such as the Staff Monitored Programme). It is a political exercise in that the speed of progression of a country through the debt relief process is often political in nature as the decision-making bodies of the IMF and World Bank - the Executive Boards - are political bodies that are a collective of member states that are shareholders of the Bank. Shareholders such as the United States, European member states and Japan have sizeable shares in these institutions, and hence their political good-will towards Somalia will have a direct influence on the speed in which Somalia will progress through the debt relief process. The African continent has seats on the Executive Boards of the IMF and World Bank, and as such could be instrumental in pushing Somalia's debt cancellation agenda forward.

10. Somalia will need to make inroads in garnering international political support for an accelerated debt relief process that can provide peace dividends that will contribute to the entrenchment of lasting peace in Somalia. The conference intends to assist the country in obtaining such international support by starting with the principle support to come from the "low-hanging fruit" of fellow African nations. Obtaining the AU's political support for an accelerated debt relief process can serve as a springboard to gain the political good-will of Somalia's development partners and external creditors, which can then be leveraged to advance the debt relief process for the country. In view of the AU's peacekeeping role in Somalia through AMISOM, it is critical that the AU establishes a position on Somalia's external indebtedness, as empowering Somali public authorities to deliver tangible and demonstrable development results will help re-establish the state's

⁸ For further details on the conflict trap, please see Collier, P. Elliot, V.L., Hegre, H., Hoeffler, A., Reynal-Querol, M. and Sambanis, N. 2003. *Breaking the Conflict Trap: Civil War and Development*. Washington, DC: World Bank.

⁹ The debt relief process includes the separate but interlinked processes of arrears clearance, HIPC Initiative, MDRI and beyond-HIPC debt relief.

credibility and legitimacy with its citizens, which would have a significant impact on improving domestic resource mobilization required for Somalia to assume greater responsibility in a gradual and sustainable manner. The resource flows arising from the debt relief process will help bolster the Somali state's legitimacy and effectiveness to provide basic public services (including ensuring peace and security) to its citizens, contributing to the implementation of the security transition plan and the smooth exit of AMISOM.

Objectives of the High Level Side Event:

11. The Side Event seeks to bring high-level political attention and urgency to the issue of Somalia's external indebtedness, with a particular focus on the impact the country's external debt problem has on the ability of Somali public authorities to provide peace, security, stability, development and durable solutions for prospective returnees and IDPs. The specific objectives of the conference are to:

- Raise awareness and draw high-level political attention to Somalia's external indebtedness and the constraining effect it has on the realization of durable peace and security, development and poverty alleviation (including the provision of durable solutions for refugees and IDPs);
- Advocate for the acceleration of the process of normalizing relations with external creditors and full debt cancellation as an effective mechanism to advance Somalia's humanitarian, reconstruction and development efforts through the mobilization of resources needed to launch development interventions, including for displacement-related projects and programmes;
- Serve as an opportunity for the Somali government to demonstrate the progress it has made in implementing economic and financial reforms as well as progress made on the security, political and social fronts;
- Show pan-African and international solidarity towards Somalia and its people, including vulnerable groups such as refugees and IDPs;

Expected Outcomes:

12. The expected outcomes of the Side Event are as follows:

- Somalia intends to introduce a draft Executive Council Decision on Somalia's Socio-economic Situation to be presented to the Permanent Representative Committee and subsequently to the Executive Council to be adopted at the 34th Ordinary Session of the Executive Council, leading to a resolution or statement from the Assembly of Heads of State and Government.
- For the FGS: To gain the support of AU member states and other members of the international community taking part in the AU Heads of State Summit by presenting progress on the economic, security, political and social fronts and reaffirming its strong commitment towards peace and security, socio-

economic development and the attainment of durable solutions for Somali refugees and IDPs.

- For the AU: As part of its remit in ensuring peace and security of the African continent through the AU-led peacekeeping mission in Somalia and in line with the AU's 2019 theme– “Year of Refugees, Returnees and Internally Displaced Persons in Africa: Towards Durable Solutions to Forced Displacement”, the AU will re-affirm its strong commitment towards peace, stability, development and durable solutions in Somalia
- For the AU member states and the international community: The conference will serve to showcase their solidarity towards Somalia and its people in their quest for normalization of financial relations with external creditors and full debt cancellation.

Venue, Time and Date

13. The event will be held on the sidelines of the AU Heads of State Summit in Addis Ababa, Ethiopia from 3 – 4pm on 9th February 2019. Venue, which is within the AU premises, to be announced at a later stage.

Co-Organizers and Participants

14. Under the leadership of H.E. Ahmed Isse Awad (Minister of Foreign Affairs of Somalia) and supported by H.E. Dr. Abdirahman Duale Beileh (Minister of Finance of Somalia) and H.E. Jamal Hassan (Minister of Planning, Investment and Economic Development of Somalia), it is proposed that the members of the AU's Executive Council (Ministers of Foreign Affairs of AU Member States) take part in the high-level meeting.

15. The proposed participants of the high-level conference are high-level officials from:

- AU
 - Executive Council of Ministers;
 - Permanent Representatives Committee;
 - Peace and Security Council (PSC);
 - Pan-African Parliament;
 - Commission of the AU;
- Non-African Member States and Organisations accredited to the AU (that are external creditors/development partners of Somalia):
 - United States of America;
 - European Union;
 - Denmark;
 - Netherlands;
 - Spain;
 - Japan;
 - United Kingdom;
 - France;
 - China;

- Germany;
 - Sweden;
 - Italy;
 - Serbia;
 - Norway;
 - India;
 - Romania;
 - Turkey;
 - Pakistan;
 - Russian Federation;
 - League of Arab States;
 - Bulgaria;
 - UN Office for the Coordination of Humanitarian Affairs (OHOCHA);
 - UN High Commissioner for Refugees (UNHCR);
 - United Arab Emirates;
 - Kuwait;
 - Saudi Arabia; and
 - Qatar;
-
- World Bank
 - International Monetary Fund
 - African Development Bank
 - UN Economic Commission for Africa (UNECA);
 - United Nations Assistance Mission in Somalia (UNSOM);
 - United Nations Development Programme (UNDP);
 - Intergovernmental Authority on Development (IGAD);
 - Members of the SNC and its Debt Cancellation Advocacy Working Group;
 - Regional Durable Solutions Secretariat (ReDSS);

Cost:

16. The cost of the meeting will be covered by the Federal Government of Somalia and its co-organizer the SNC's Debt Cancellation Advocacy Working Group, specifically being financed by the American Friends Service Committee (AFCS), a member of the Working Group.

Media:

17. A communication and media plan for the conference will include the following:

- Invitations to the conference one month prior to the AU Heads of State Summit;
- Use of social media campaign tools prior to and during the roundtable;

- Dissemination of policy and advocacy position on debt cancellation for Somalia to media outlets;
- Dissemination of the Executive Council Decision on Somalia's Socio-economic situation, statements/resolutions from the Assembly of Heads of State and Government and statements in the AU's communique on the outcomes of the 32nd Ordinary Session of the AU Summit;
- Media houses will be engaged to secure high level coverage.

DRAFT DECISION ON SOMALIA'S SOCIO-ECONOMIC SITUATION

The Executive Council,

1. **TAKES** note of the report;
2. **MINDFUL** of the critical role and stake that the African Union has, through the African Union Mission in Somalia, in seeing a peaceful, stable, and financially self-sufficient Somalia;
3. **RECOGNISES** that in re-emerging from decades of conflict, the Federal Republic of Somalia must undertake the immense task of reconstruction and development to establish the foundations of lasting peace and stability, thereby establishing favourable conditions for investment and employment creation;
4. **COGNISANT** of the AU's theme of 2019, "Year of Refugees, Returnees and Internally Displaced Persons in Africa: Towards Durable Solutions to Forced Displacement, Somalia is critically in need of the financial and technical assistance from the international community for the provision of durable solutions for displaced Somalis;
5. **COMMENDS** the Federal Government of Somalia for its determined efforts at socio-economic recovery through its eighth National Development Plan (NDP) and the forthcoming ninth NDP;
6. **ACKNOWLEDGES** that the Federal Government of Somalia and subnational tiers of government have meagre resources, both domestic and external, to stimulate economic recovery and reduce poverty that are needed to allow Somalia to transition to a country of lasting peace and development;
7. **NOTES** that years of conflict in Somalia has resulted in the accumulation of arrears owed to external creditors, including bilateral and multilateral creditors, constraining the ability of Somalia to obtain external resources for reconstruction and development;
8. **BEARING IN MIND** that Somalia is among the last remaining eligible countries which are still to benefit from the Heavily Indebted Poor Country (HIPC) Debt Relief Initiative, an internationally agreed upon framework for providing comprehensive debt relief to low-income countries that qualify for the Initiative;
9. **AWARE** of the need for Somalia to normalize its financial relations with external creditors, thus unlocking financial resources for the country's stabilization, reconstruction, development and poverty reduction, including for the provision of durable solutions for displaced Somalis;

10. **NOTES WITH SATISFACTION** the Somali Government's commitment to resolving its external debt problem through establishing good economic and financial governance and through the implementation of much needed reforms, including Somalia's third IMF Staff Monitored Programme ending mid-2019;
11. **EXPRESSES** its full support and continued solidarity with the Somali people and their government in their quest for normalization of financial relations with external creditors and full debt cancellation;
12. **URGES** Somalia's external creditors, especially the International Financial Institutions (IFIs), to step up their good faith efforts and accelerate: the normalization of financial relations with Somalia, the unlocking of development resources for the country, and the full resolution of the external debt overhang;
13. **AWARE** that a number of AU member states are among Somalia's external creditors;
14. **CALLS UPON** them to fully cancel Somalia's debt obligations in the spirit of African solidarity and **REQUESTS** that the Commission facilitate debt cancellation discussions between Somalia and AU member state creditors;
15. **CALLS UPON** Somalia's external creditors to fully cancel Somalia's debt obligations as a means of relieving the country of a future debt servicing burden that may hinder its transition from conflict to peace and sustainable development.

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