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Debt Relief and the Political Marketplace in Somalia

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Overview

This memo provides an analysis of the implications of prospective debt relief for the dynamics of the political marketplace in Somalia. While there is clearly great moral value in writing off Somalia's debt and opening the possibility for new development funding, which is in line with recent global trends and emphasised more so given the Covid-19 pandemic, this memo questions the dominance of short-term political calculus over ensuring systems of accountability and transparency.

The contradictions of international demands, benchmarks and statements with the reality of those achievements is highlighted below and suggests that international political drivers are problematic and instrumentalised domestically. The memo further suggests that there are high risks in countries such as Somalia that key financial institutions become drawn into the political marketplace making short-term transactional decisions at the expense of long-term institution-building.

The study findings were based on 34 interviews conducted between March and August 2020, out of which 26 were carried out remotely and 8 in Mogadishu. The key informants included long-term Somalia analysts and observers, Government and ex-Government officials, Mogadishu-based academics, civil society and businesspeople, ex-World Bank staff, donor and former donor staff members. In addition, the study carried out an extensive literature and media survey, including open sources such as the IMF and World Bank documents available online, as well as other grey literature.

Status of the HIPC Debt Relief for Somalia

1. Somalia reached the Highly Indebted Poor Countries Initiative's (HIPC) "Decision Point" for debt relief on March 25, 2020.¹ Somalia carries a US\$5.2 billion debt burden and reaching "decision point" not only confirms Somalia's potentially eligibility for debt relief, but also fully normalizes its relations with international financial institutions.² It will also qualify for certain types of grants to meet its public finance and development needs and to access private-sector financing instruments. The second and final step after decision point, known as the completion point, will open the way for a full and irrevocable reduction in debt under the HIPC Initiative. The ensuing process could reduce Somalia's debt to US\$557 million once it reaches completion point in about three years' time, in 2023.
2. At the same time, the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) for Somalia to the amount of US\$395.5 million.³ These facilities will support the FGS reform agenda and catalyse concessional donor financing. The IMF asserts that this will help the country implement its National Development Plan. In addition, the African Development Bank granted the FGS US\$7.7 million in May 2020 for improving their revenue collection through enhanced tax revenue and a more efficient collection system.⁴
3. The World Bank (WB) highlighted that the decision point now enabled them to provide a US \$50 million grant for the Covid-19 pandemic response.⁵ The WB claims that the shift to the regular, biometric based payments of soldiers is one of the important outcomes of the debt relief process over the past 8 years. The WB also claimed that revenue collection has become more streamlined, organized, and centralised, where politically connected cartels previously controlled and benefitted from port and airport revenues.
4. The Somali debt relief process had been progressing slowly since it began in 2016. However, considering that the IMF Executive Board Conclusions on 22 July 2019 did not indicate that any decision point would be so close given the modest progress on reaching benchmarks, the sudden change that occurred thereafter culminating in the March 2020 announcement that the conditions of the Decision Point had been met raises questions as to what suddenly changed and why?⁶
5. Although the first review under the Staff Monitoring Programme (SMP) IV (fourth stage of the Article IV consultations for Somalia) claimed that the FGS were progressing on the HIPC Decision Point benchmarks,⁷ the comments to this observation by three international experts, interviewed for this memo, claimed that that the IFIs had moved away from the technical benchmarks for political reasons. Three other experts claimed that the IMF SMP uncritically accepted the data provided to them by the FGS and took them at face value in their final assessment, a highly problematic position to take given data integrity in Somalia.

1 <https://news.un.org/en/story/2020/03/1060292> ; <https://www.imf.org/en/News/Articles/2020/03/25/pr20104-somalia-somalia-to-receive-debt-relief-under-the-enhanced-hipc-initiative>

2 The decision point was finally reached in March 2020 with the Paris Clubs' (composed of 23 countries) cancellation of US \$1.4 billion debt owed by Somalia to Paris Club creditors. The remaining \$1.3 billion of debt to Paris Club members were deferred to 2023 when Somalia is expected to reach the Completion Point under the Heavily Indebted Poor Countries (HIPC) initiative. https://www.hiiraan.com/news4/2020/Apr/167624/major_leap_for_somalia_as_paris_club_creditors_cancel_1_4b_debt.aspx?utm_source=hiiraan&utm_medium=SomaliNewsUpdateFront

3 <https://www.imf.org/en/News/Articles/2020/03/25/pr20105-somalia-imf-executive-board-approves-3-year-ecf-and-eff-arrangements?cid=em-COM-123-41312>

4 <https://www.afdb.org/en/news-and-events/somalias-internal-revenue-mobilization-galvanised-ua-55-million-grant-african-development-bank-35591>

5 <https://af.reuters.com/article/somaliaNews/idAFL8N2BI8IW>

6 <https://www.imf.org/en/News/Articles/2019/08/01/pr19309-somalia-imf-executive-board-concludes-2019-article-iv-consultation-with-somalia> See also 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM, AND REQUEST FOR NEW STAFF-MONITORED PROGRAM—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA, IMF Country Report No. 19/256, August 2019, <https://www.imf.org/en/Publications/CR/Issues/2019/07/30/Somalia-2019-Article-IV-Consultation-Second-Review-Under-the-Staff-Monitored-Program-and-48543>

7 <https://www.imf.org/en/Publications/CR/Issues/2019/11/15/Somalia-First-Review-Under-the-Staff-Monitored-Program-Press-Release-and-Staff-Report-48818>

6. The Forum for National Parties, which assembles 6 opposition parties and two former Presidents, welcomed the debt relief in a statement issued on March 30.⁸ However they also noted their concern that the incumbent government would “*weaponise*” the debt relief achievement and “*reorient the modest financial gains through the IDA facility into pursuing political objectives*”. This fear was also prompted by the WB decision to grant US\$50 million for the Covid-19 response, an understandable response given the pandemic but unfortunate timing with upcoming elections and given the high risk of diversion.⁹ Development projects such as road corridors and classic infrastructure style projects are typically apt for sub-contracting based corruption.¹⁰
7. This acceleration and politicization of the debt relief process raises serious concerns as to the lack of transparency of those involved, namely the government, the IMF and the World Bank, with several well-informed respondents suggesting that the political success for career officials amongst key donors is part of this issue.¹¹ These dynamics are discussed further below and point to how short-term national and international incentives feed the political marketplace in contexts such as Somalia, and which may detract from assumptions about the long-term benefits of debt relief.

Background

8. In 2014 developments in the oil sector, notably the controversy around Soma Oil became prominent, and included a strong connection to the UK. In response, the UK pledged to assist Somalia in re-engaging with international financial institutions (IFI). Debt relief was an aspiration, but not firmly on the agenda at this time. The government of Hassan Sheikh Mohamud was pushing for infrastructural investments because people wanted to see visible results from aid, referencing the popularity of highly visible Turkish projects. However, within UK Aid there was reasonable doubt that Somalia was stable enough to make major investments, and that such investments could not be sustained if there was no revenue base. At that point, domestic revenue was practically zero.
9. An initial line of thinking among the donor community was that if Somalia moved towards increasing its revenue, with technical assistance from the IFIs, the government could build some kind of social contract to underpin the political settlements, and build institutions. The assumption was that with increased revenue, the prospect of debt relief could be used as leverage to achieve transparency and accountability. Thus, from 2015, together with the WB the UK began to push the FGS to focus on setting up an organizational framework for collecting revenue. The IMF was also brought into discussions in Nairobi between the UK, US, EU, WB and IMF which led to the suggestion that the IMF could prepare a Staff Monitored Program (SMP) to start a debt relief process for Somalia.¹² During the last year of President Hassan Sheikh Mohamud’s (HSM) government in 2016, there was more political stability and credibility around the Minister of Finance, hence the IFIs with the UK, US and EU agreed it was time to start the process.
10. In 2016, debt relief was brought up on the agenda of major donor meetings for the first time. Some donors argued that Somalia needed to gain access to development finance, which could only come from the IFIs such as the WB, IMF and the AfDB, and which first required addressing Somalia’s outstanding debt. Some within the donor community

8 <https://mobile.twitter.com/FieldCables/status/1245006469520654336/photo/1>

9 See for instance Jaspars, Susanne, Adan, Guhad, M. and Majid, Nisar (2019) Food and power in Somalia: business as usual? A scoping study on the political economy of food following shifts in food assistance and in governance. Conflict Research Programme, London School of Economics and Political Science, London, UK.

10 Somalia’s contracting economy is discussed briefly here: <https://blogs.lse.ac.uk/africaatlse/2020/04/30/humanitarian-response-covid-19-somalia-capital-flight-debt-relief-violence/>

11 Being associated with reaching a successful debt relief position would be a clear career achievement. Many aid and commercial actors will similarly benefit from enlarging their organisational funding and portfolio (e.g. as a result of new funding due to debt relief in this case). In the case of the World Bank benefits are associated with the size of the Country financial portfolio.

12 A Staff Monitored Program (SMP) is an agreement between country authorities and Fund staff to monitor the implementation of the authorities’ economic program. SMPs do not entail endorsement by the IMF Executive Board. The SMP is supported by quantitative performance measures, indicative targets and structural measures. <https://www.imf.org/en/News/Articles/2019/11/15/pr19420-somalia-imf-management-com-plete-the-1st-review-under-the-staffmonitored-program>

were skeptical about pursuing debt relief, however the process was ultimately pursued. Although forgiving US \$5 billion of debt appears to carry considerable weight, the figure itself is far less consequential than the amount of new funds that could be released following attainment of relief (Somalia would not be expected to pay back its debt). The thinking at the time was that pursuing the debt relief process and benchmarks could be used as leverage to push Somalia to do undertake PFM reforms and improve transparency and accountability.

11. At the outset, there were different opinions within the IMF, as the more conventional senior management group declined the SMP process, while a more liberal group thought it should be given a try. At the same time, the incumbent government was panicking because they thought they would lose the elections, which prompted a political intervention by the UK and US who then convinced the IMF to support the debt relief process. Hence the first SMP was launched in 2016. However, the Hassan Sheikh government still went on to lose the elections in 2017, with Mohamed Abdullahi Farmaajo elected as the new President, Hassan Ali Khaire as Prime Minister, and Abdirahman Dualeh Beileh appointed as Minister of Finance.
12. The debt relief process progressed slowly after the change of government, in 2017. IMF kept their requirements simple, to 4 or 5 basic benchmarks only. While there was the political temptation to use the debt relief process as a policy lever, some actors including the UK and WB were not keen to do so pointing out that other aid flows provided leverage. The most important benchmarks were: 1) Increased revenue targets, through year on year increase of tax income; 2) Spending within budget / budget execution; 3) Accountability; 4) Poverty Reduction Strategy (PRS) – the National Development Plan was completely re-written to address WB requirements on PRS.¹³
13. In addition, reaching a natural resource revenue sharing agreement– including for oil/ gas extraction - was an important benchmark for the debt relief process in 2016/17. This criterium was very politically sensitive as natural resources wealth is a key area for political contestation. A Resource Sharing Agreement was eventually reached at a meeting between the Federal Government of Somalia (FGS) and the Federal Member States (FMS) in Baidoa 2018.¹⁴ However, between 2017 and 2019 the technical benchmarks for the debt relief process has been repeatedly downgraded.
14. In order to boost Somalia's ability to demonstrate an increased revenue collection capability, as it was not progressing well at the time, Norway contributed US \$54.3 million in 2018 to the World Bank's Multi Partner Fund (MPF) which channels the funds through FGS systems – essentially as a kind of budget support.¹⁵ This was announced on October 12, 2018 and came in response to Somalia's first Country Partnership Framework (FY 2019-2022) and the first International Development Association (IDA) financing for government in more than 30 years. Norway's Minister of Development said that the grant was in "*recognition of the considerable progress the Somali authorities have made in bringing the country together*" and "*confidence in the country's institutions*" (sic!).¹⁶ Norway claimed that the FGS had succeeded in increasing domestic revenue and access to services in Somalia. In retrospect, this perspective is dubious, as seen in the regional elections in 2018 and 2019.¹⁷

13 The National Development Plan does not have any costing and appears to be a document that only serves to justify the decision point of the debt relief.

14 Federal Republic of Somalia, Agreement on Ownership, Management and Sharing of Revenues from the Natural Resources of the Country (Oil & Minerals) Baidoa Agreement, English Translation, June 5 2018.

15 <https://www.worldbank.org/en/news/press-release/2018/10/12/norway-contributes-nok-450-million-to-multi-partner-fund-in-somalia>.

16 <https://www.worldbank.org/en/news/press-release/2018/10/12/norway-contributes-nok-450-million-to-multi-partner-fund-in-somalia>.

17 See: <https://www.somtribune.com/2018/12/27/icg-blames-villa-somalia-on-muscling-in-on-southwest-election-inflaming-crisis/>; <https://www.crisisgroup.org/africa/horn-africa/somalia/b158-ending-dangerous-standoff-southern-somalia>

15. When Somalia entered a controversial fisheries licensing deal with vessels tied to the China Overseas Fisheries Association in December 2018,¹⁸ the IFIs and donors speeded up the debt relief process and began to slacken further on the technical benchmarks. The World Bank was however involved in developing the fisheries licensing procedures and contracting mechanisms. In a statement in March 2019 the WB emphasized that the deal represented progress in Somalia's issuance of natural resources exploitation licenses.¹⁹ More importantly, for the debt relief process, was that the fees would be an important contribution to demonstrating Somalia's revenue collection capability.
16. The acceleration of the debt relief process began with the SMP IV team's meeting with Ministry of Finance in Addis Ababa, September 2019, for their first review.²⁰ Since the SMP team only met the FGS in Addis Ababa, Ethiopia and not in Mogadishu, Somalia, there is arguably less possibility to assess the claims of the FGS and the documents provided by them than if they were in country with greater access to alternative sources of information. The only substantial element that was agreed upon at the meeting was the establishment of interoperability of IT systems. There was no substantial discussion or agreement on the benchmarks, however, surprisingly, the debt relief decision point was suddenly announced as being imminent in October 2019.
17. While the IFI's and donors were busy praising the FGS's alleged progress with PFM and revenue collection, a rather spectacular event occurred in October 2019, to which it appears the International Community turned a blind eye.²¹ On October 9, the Auditor General of Somalia issued a very critical report, showing that the FGS had been keeping donor funds offshore, and that none of the ministries had completed the accounts for 2018. The critical audit came out just as the World Bank announced the consideration of relieving Somalia's debt burden, and the day after Norway announced that they would provide Somalia with a bridging loan of about US \$350 million, referencing Somalia's progress in PFM without any mention of the audit.²² A Somali academic and former government advisor wondered about the Norwegian bridging asking if it is a loan, how is it debt relief, and what does Norway expect in return?
18. Although the IFIs, donors and the Paris Club members reached the decision point, the initial benchmarks were either diluted or removed, with the FGS not having achieved the expected institutionalization nor the mechanisms needed to sustain the debt relief. The most important targets were the year on year increased revenue, the proper execution of budgets, and low public expenditure. In addition, there were conditions related to strengthening accountability institutions such as the auditor general and parliament. The, WB and donors were also pushing for more pro-poor conditionality around the PRSP and National Development Plan (NDP). The Poverty Reduction Strategy (PRS) and the accountability elements became more and more prominent in the last year or two of the process, which was important to convince donors to provide the bridging loans, the transition through the IMF board, and the Paris Club. It was never clear whether these conditions were really being fully incorporated into the process and the process itself was always in danger of collapse due to the inherent questions and uncertainties. But the process could have collapsed any time.
19. The question remains, why the sudden rush from July 2019 to March 2020 prior to the end of the 4th SMP? One possible reason for the sudden rush was that the donors observed that a political crisis around the elections were looming and could derail the process. Interviews conducted for this study suggest that donors decided to jump to the decision point to save the debt relief process – although the benchmarks were not met – because they feared that the political tensions might slow or reverse progress on debt relief.

18 <https://www.rfi.fr/en/africa/20190207-Somalia-Chinese-deal-angers-fishing-communities-sparks-concerns-over-sovereignty-and>

19 <https://www.worldbank.org/en/news/factsheet/2019/03/07/somalia-issues-fishing-licenses-fees-will-help-develop-fisheries-sector>

20 <https://www.imf.org/en/News/Articles/2019/09/18/pr19339-somalia-imf-staff-completes-first-review-under-staff-monitored-program>

21 <https://mobile.reuters.com/article/amp/af/idUSKBN1WQ285>

22 https://www.regjeringen.no/en/aktuelt/somalia_loan/id2673476/ Technically, this is a loan to Somalia, but the funds will be transferred to a World Bank account. The World Bank will then grant Somalia a new loan, which will be used immediately to repay the bridging loan from Norway.

Domestic Revenue Increase or the Emperor's New Clothes?

20. The critical factor justifying the debt relief decision point was that the FGS had significantly improved its domestic revenue. However, this point can be considered doubtful as those with access to internal records claim that increases in revenue were largely fabricated, and that the IMF and WB had no means to actually verify the figures. Other key informants consulted also raised doubts as to the legitimacy of revenue increases. Methods used to manipulate data include changing the time frame for reporting data including requesting companies to delay payments until it is needed and including unregistered cash support from Qatar to bolster figures.²³ An experienced observer added that most of the revenue increase from 2017 to 2019 was from sales and telecom tax while customs had actually gone down, arguing that it was not clear that there had been a substantial increase in revenue capacity, raising the question how the IMF and World Bank had so readily ignored the critical questions about tax revenue.
21. According to a political marketplace logic, key political actors are not interested in improving expenditure accounting because they need money to flow informally, outside and around official budgets, in order to fund political budgets. The lack of detailed and properly audited accounts makes many informed observers question the motivations of the IFIs and donors and the implications of this lack of scrutiny and accountability for future increases in development funds resulting from the attainment of debt relief.

On the lack of financial accountability

22. The HIPC report of 13 February 2020 states that *"The sustained political, economic and institutional reforms undertaken since 2016 have succeeded in rebuilding core state capabilities."*²⁴ This statement, stands in stark contrast with the views of many of the experts and observers interviewed for this study. The failure of the international community to acknowledge the work of important Somali oversight institutions was - and still is - conspicuous and alarming. The auditor general's reports mentioned that US \$18 million from the European Union, Saudi Arabia and the United Nations did not pass through the treasury's account at the central bank, and that some of the money was kept in offshore accounts.²⁵ It also mentioned US \$20 million in cash from Turkey, which had no independent audit trail. It pointed out that the security forces still have no system to account for vehicles, weapons, and uniforms.²⁶ Amongst several other issues, it also flagged problems with a biometric database used for the payment of soldiers, which the IMF and WB use as an example of the Somali progress.²⁷
23. A former World Bank official who worked on Somalia, said the audit showed that Somali financial systems remained weak despite pressure on donors to funnel more money through the government budget. *"On-budget support by itself as a means to improve accountability doesn't work,"* he said. *"Just because you put money through systems*

23 Key informant #31 (2020). Interview with MP & former government official. 15 April 2020. Mogadishu via WhatsApp. *"I do have my network of information, I know this is true, but I cannot get a paper trail to prove it... but this is what is happening... I am talking about a plane that comes every month from Qatar with Cash. Every Month. Every Somali knows this."*

24 <https://www.imf.org/en/Publications/CR/Issues/2020/02/13/Somalia-Enhanced-Heavily-Indebted-Poor-Countries-HIPC-Initiative-Preliminary-Documents-49053>

25 Audit of the Financial Statements of the Federal Government of Somalia for Financial Year ended 31 December 2018, The Federal Government of Somalia, Office of the Auditor General, Mogadishu, October 8 2019; Consolidated Compliance Audit Report on Non-Security Sector Entities - For the Year End 31 December 2018, The Federal Government of Somalia, Office of the Auditor General, Mogadishu, June 30 2019; Consolidated Compliance Audit Report on Security Sector Entities - For the Year End 31 December 2018, The Federal Government of Somalia, Office of the Auditor General, Mogadishu, June 30 2019;

26 See Paul Williams on the problems with accountability and corruption in the Somali National Army (SNA), <https://warontherocks.com/2019/05/what-went-wrong-with-the-somali-national-army/>

27 <https://www.caasimada.net/hanti-dhowrka-qaranka-18-milyan-oo-dollar-ayaa-ka-maqan-qasnadda-dowladda/>

doesn't mean you improve those systems."²⁸ He also found that the debt relief process had been politicised and Somalia had not met the same criteria as other countries, saying that although "there are some greater financial controls it is not enough to bring down the level of corruption".²⁹ Other long-term observers argued that the initial and essential benchmarks were ultimately not followed and were watered down or out, as it became paramount that this process became a political success for the career officials amongst the key donors.

24. While the Auditor General reports can be improved in quality, their existence and findings deserve to be taken seriously. However, not only did the IFI's and donors completely ignore the report,³⁰ they did not respond to the blunt threat by the FGS to prosecute anyone accusing the government of corruption. This threat was made by the Minister of Finance and reported in the Somali media immediately after the report was published.³¹
25. The analysts and observers interviewed for this study were critical of the lack of progress with accountability, oversight and control institutions in Somalia, and pointed out that this had largely been ignored by the IFIs during the last phases of the debt relief process after July 2019. This perspective appears justified as there still is a gross lack of capacity around accountability mechanisms, such as the Parliamentary Financial Committee and the Auditor General's Office. The concern for many is that the executive branch of government stands unchallenged, and hence has no incentive in supporting the institutions of accountability, and that progress made is largely "superficial" if it stands without "checks and balance" institutions with power to control it. As indicated above, donors do not appear to be helping in this regard, as the PFM assistance has been concentrated in the executive branches of government, resulting in Somalia still lacking vital institutions to benefit from debt relief, and is therefore not yet ready to manage large scale IDA grants and development finance.
26. A quick review of the progress made with the Central Bank of Somalia (CBS) by the end of the 2018 gave the impression that although some internal accounting, control and audit systems had been implemented, training provided, and that the accounting of the flows in and out of the CBS had improved (although the publication of audited accounts remain consistently delayed), this does not solve the major issue with PFM, which is not the ability to account for what formally flows through the CBS, but capturing what does NOT flow through the formal system, and what may informally flow through the system but which is not registered - where deliberate or not.³² The IMF report also stated that the "CBS is functioning without a credible accounting framework" and that the "mission recommends that the CBS issue an accounting policy."³³
27. If the debt relief process had functioned as an effective leverage mechanism, it could have been extremely valuable in terms of building institutions of accountability and establishing rule-based governance, because there was a set of benchmarks that the FGS had to comply with in order for the IMF to sign off on the debt relief. Furthermore, the attempts to pass the PFM Act through the two parliamentary houses, in August 2020, has already run into controversy, and triggered a power struggle between the two houses in which the Lower House attempted to strip the Upper House of its oversight role over the Executive.³⁴ This seem to be part of an ongoing political game driven by the President's Office to centralize power and sideline the institutions that stands in his way, such as the critical FMSs, the Upper House, and until recently, the (now ex-)Prime Minister. Lately this has been illustrated by the cases of the unconstitutional

28 <https://mobile.reuters.com/article/amp/af/idUSKBN1W0285>

29 <https://af.reuters.com/article/somaliaNews/idAFL8N2B18IW>

30 <https://www.washingtonexaminer.com/opinion/somalia-must-explain-missing-cash-before-receiving-more-foreign-aid>

31 <https://www.caasimada-net.cdn.ampproject.org/c/s/www.caasimada.net/df-oo-ku-hanjabtay-tallaabo-ka-dhan-ah-ciddii-musuq-maasuqeeda-sheegta/amp/>

32 Technical Assistance Report—Internal Audit and Accounting Training for the Central Bank of Somalia, IMF Country Report No. 19/22, January 2019.

33 Technical Assistance Report—Internal Audit and Accounting Training for the Central Bank of Somalia, IMF Country Report No. 19/22, January 2019.

34 <https://goobjoog.com/english/67644-2/>

appointments of the Justice service Commission, the Somalia Petroleum Authority and the Anti-corruption commission.³⁵

After the decision point - then what?

28. Until Some donor officials interviewed for this study do not agree with the decision point having been reached for debt relief, because the essential benchmarks or initial objectives set out from the beginning of the process were not fully achieved. However, while the decision point has been reached, the completion point has not. The implication of this is that while old debt has been forgiven there remain risks concerning new funds and credit given all the issues raised above, in terms of data integrity as well as accountability mechanisms. Some Somali observers suggest that although it will take a few years before the country is allowed to borrow more money from international institutions, practices from the Siyad Barre era, where borrowed money was used for personal purposes could be repeated. It is essential therefore to have a strong independent judiciary, but this is not yet established.³⁶ Today the attorney general and the auditor general for example are appointed by the President. It is an open secret that MPs are on the payroll of the executive, to the tune of US \$5,000 per month.
29. Future foreign direct investment is likely to go where there are good profit margins, and oil and gas will certainly receive the earliest attention, which is why the IFI's link the debt relief process with the promising Somali oil and gas prospects; it is from future oil revenue that Somalia would be able to repay new development loans. Certainly, debt relief opens the possibility for IDA grants or development finance loans from the IFIs to build the infrastructure that can enable oil exploration. However, if the institutions are not being developed in the meantime, the advantages of prospective oil resources will not flow in the long run, which require that accountability is established around oil revenue.
30. Furthermore, there is a risk that IDA grants may cancel out the leverage effects of the HIPS process towards the completion point, because if provided too early before there has been substantial institutional development, such grants may instead bolster the political elites in power to the detriment of accountability and wider development and benefit for poorer populations. In this context it is worth noting that public taxation is less useful for political payments in the political marketplace, while oil revenue is much easier to siphon off (especially in weaker institutional contexts) because it is more diffuse than taxes. This may explain why the FGS is pushing so hard to initiate the first oil licensing rounds.
31. The signaling effect of the debt relief decision point is important because it provides the incumbent government with tremendous propaganda advantage for its aspirations of re-election. Thus, the debt relief process has tremendous political symbolism for the incumbent government, which can be used as an asset in the transactional politics that characterizes the Somalia political marketplace. Similarly, this symbolism carries great weight for international partners, who are desperate to show some success for their support of the country and the enormous resources they have invested.

35 See CRP oil/gas memo: <https://www.lse.ac.uk/ideas/projects/conflict-research-programme/publications/memos>

36 This point is made in the reports *Alternative Dispute Resolution Initiatives in Somalia*, authored by Joakim Gundel with Robin Mydlak and Tanja Chopra, published by The Expanding Access to Justice Program in Somalia (EAJ), Nairobi, Kenya: Pact and the American Bar Association Rule of Law Initiative, June 2020, and Joakim Gundel, 2020, *Pathways and Institutions for Resolving Land Disputes in Mogadishu*, Expanding Access to Justice Program, Nairobi, Kenya: Pact and the American Bar Association Rule of Law Initiative, January 2020.

Conclusion - Debt Relief and the Political Marketplace

32. There is clearly great moral value in writing off Somalia's debt and opening the possibility for new development funding (however it is important to note that evidence for the impact of debt relief - and associated conditionality - on longer-term debt levels and economic development is unclear.³⁷) The question is, at what cost is this being done? Amongst the Somali population as well as within donor countries and international financial institutions relief from debt is immediately connoted with the potential for development. The underlying assumption behind such thinking, in policy terms as well as in the public imagination, is that Somalia is on the right path; that state-building is taking place. Unfortunately, a political marketplace perspective suggests that this is not necessarily the case.³⁸ Furthermore, the desire by some international actors to accelerate the debt relief process while there is momentum, has an appealing logic. However, the argument of this memo is that accelerating the process may have reduced leverage power, weakened accountability conditions, and been driven by the short-term interests of incumbent politicians and bureaucrats in the Somali Government, IFIs and donors. This in turn weakens the chances of Somalia escaping from the political marketplace.
33. The debt relief completion point will take several years to take effect. However, just as with the oil and gas sector, political positioning and competition is already taking place with the possibilities of future development funding flows in mind. In a political system where power is based on political budgets generated from control over informal flows of money, that are circumventing formal accounts, there will be a major effort by key political actors to maintaining such flows, and gaining access to sub-contracts which can generate further informal flows (such as infrastructure contracts).
34. An important point with regard to achieving PFM accountability is that implementation of Financial Management Information Systems and provision of training in their use are insufficient measures to achieve accountability in political marketplaces. This is because if the oversight and controlling institutions are not equally equipped and developed, there are no means to capture the important resources flowing to key political actors as political budgets, and they will remain out of control in spite of all the computer systems that may be set up; they are simply not entered into the system.³⁹
35. In terms of the political marketplace, a key argument of this memo and the accompanying analysis on the hydrocarbon sector is that the political game now is to place individuals from your network in positions of control in emerging agencies and 'institutions'; those that will have the authority to manage the flows of resources and the contracting, rather than focusing on actual institution building itself. In this context it is unfortunate that the IMF and World Bank primarily focused on the executive side of public financial management and particularly on the revenue collection side as justification for pursuing debt relief, while appearing to ignore and/or side-line institutions of accountability and transparency. Therefore, although Somalia may have been at a much higher risk of financial abuses if it had not been through the debt relief process, major risks still lie ahead.
36. The actual political marketplace in Somalia can be described as a highly competitive and fragmented political market which works at different levels. There are several individual players without any major fixed blocks and alliances are well-known to shift according to opportunities. At one level there is political game being played out according to the external actors' language and space, while at the same time there is

37 See, for example: <https://www.theguardian.com/world/2020/aug/16/debt-in-developing-countries-has-doubled-in-less-than-a-decade>; https://link.springer.com/chapter/10.1057%2F9780230522329_12

38 This perspective is also evident from other analyses, such as Hagmann, 2016, produced for the UK Aid Political Settlements Research Programme: (<http://riftvalley.net/publication/stabilization-extraversion-and-political-settlements-somalia>)

39 This point is made in Gundel, J. and Allen, S. (2017) Genealogy of Accountability in Somalia, Briefing Paper, Katuni Consult & IAAAP, March 2017.

a “backstage” level of politics which is much more fragmented and competitive. Although debt relief can release millions of dollars in development funds, the debt relief completion point still needs several years to take effect, but the political elite may already be engaging in a deep rivalry about who will be in position to benefit from the potential future the future opportunities which debt relief may generate.



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