SOMALIA'S DEBT RELIEF SUCCESS: PUTTING PARTNERSHIPS IN ACTION

Debt relief as an entry point to promote effective IFI-UN collaboration

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1. Debt Relief Process in Somalia

In March 2020, bilateral donors, the International Monetary Fund (IMF) and the International Development Association (IDA) of the World Bank (WB) confirmed Somalia's eligibility to commence a structured debt relief process through the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The IMF and World Bank worked with the Federal Government of Somalia (FGS) to define specific reform commitments to reach the HIPC Completion Point, which involved various policy measures to promote poverty reduction, sustainable public finance management and inclusive growth in Somalia.

Throughout the HIPC Process, Somalia received support from the IMF, the World Bank, the UN and partners to implement the necessary reforms linked to the triggers of the HIPC Completion Point. Following the successful implementation of a range of reforms by the FGS, the IMF and the World Bank approved the HIPC Completion Point in December 2023, which dramatically reduced the country’s external debt and provided US$4.5 billion in debt service savings. This debt relief should enable Somalia to reset its relationship with the IFIs and free up resources to prioritize its economy, reduce poverty, and create jobs.

The incremental strengthening of core state institutions in Somalia ultimately contributes to the stability and socio-economic recovery of the country. In particular, supporting the implementation of important reforms linked to the HIPC triggers by providing funds through the World Bank Multi-Partner-Fund (MPF) as well as the UN Somalia Joint Fund (SJF). Both the MPF and the SJF are powerful tools for bi- and multilateral as well as private donors to pool resources and enable the WB and the UN to strengthen country systems and engage with Somali authorities to gradually advance reform implementation related to revenue and financial policy, as well as public financial management (PFM).

The experience in Somalia has shown that the HIPC process presents an interesting entry point to facilitate the collaboration between IFIs, the UN and development partners. At a macro level, the IFI-supported HIPC process complements the comprehensive state building efforts of the UN while also providing a clear framework for the UN and the IFI to support the Government in a joint and complementary manner in its implementation of defined reforms to strengthen basic institutions.

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2. IFI-UN Collaboration in Somalia

Over ten years ago, the international community initiated a concerted effort to support the government's state-building efforts. This enabled a strategic partnership between the UN and IFIs aiming to substantially advance Somalia's development. In the long-term, the international partners aim to build a more visible State with strong and transparent institutions and a stable social contract with its citizens.

The HIPC Process is but one, albeit key step, in Somalia's state-building project. As a door-opener for increased IFI financing, the HIPC Process represents a key enabler to successfully continue the state-building journey. Through the reforms set in motion by the HIPC process and the increased international financing consequently flowing into the country, Somalia is advancing on its path out of fragility.

Additionally, the HIPC process has benefitted the collaboration between the UN and IFIs by reinforcing synergies. It has led IFIs, particularly the World Bank, to build strong partnerships at strategic and operational levels, leveraging the UN's capacity to facilitate service delivery, build durable systems and assist nascent government institutions in project management functions.

Alongside HIPC decision point, Somalia gained access to resources from the International Development Association which allowed - the World Bank and the UN to extend its partnership priorities beyond state- and institution-building to include strengthening human capital and enhancing resilience. At the strategic level, both institutions collectively support reforms to strengthen state- and institutions beyond HIPC Completion Point, engaging with Federal Government and Federal Member States and increasingly with lower levels of government. In this context, the UN's Joint Program for Local Governance (JPLG) contributed to the implementation of reforms around Public Financial Management (PFM) at lower levels of government.

The FGS, World Bank and UN collaborate on a growing operational partnership, which enables the government to contract UN agencies to build systems and deliver services across Somalia. In addition, the FGS, UN and World Bank collaborate on knowledge work – including the recent Post-Disaster Needs Assessment in response to the floods and engage in policy dialogue, including on issues of local governance. The UN – World Bank partnership is supported by a joint-liaison function to support close coordination on state- and institution-strengthening.

3. HIPC Process as Entry Point to Facilitate IFI-UN Collaboration

Since the World Bank's re-engagement in Somalia in 2011, the World Bank and UN agencies have continuously grown their strategic and operational engagement, levering comparative advantages and synergies. The HIPC process - as a key element of Somali state-building – has been a critical entry point to facilitate improved collaboration across the FGS, IFIs, the UN and development partners. The debt relief process helped advance good governance structures at local, regional and national levels. It is a critical entry point to further enhance the visibility of the state to foster the social contract between the state and the citizens, based on a wider range of IFI financing.

Currently, 37 low-income countries have relieved debts through the HIPC Initiative. However, substantial debt burdens remain a major issue globally, including in countries that previously received debt relief. Many countries spend a large part of their budget on servicing these debts. The joint engagement in frameworks, such as the HIPC Initiative, has proven critical to not only reduce debt burden and increase availability of financing but to foster strategic coordination and alignment of partners in support of governments. Thus, country level strategic priority setting – including HIPC processes – has proven to be a good practice to strengthen UN-IFI collaboration.

Authored by

Nimo Mohamoud Jirdeh — A social impact expert driven by building relationships of trust, empowerment and supporting locally led solutions. She is a Governance and Policy Expert working across the Horn of Africa and the Middle East.