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The Role of Partnerships in Economic Reforms of Fragile States: Perspectives from Somalia | Summary

Fragile states are particularly vulnerable to adverse economic shocks and in need of international support. Through constructive collaboration with international partners, however, fragile state governments can successfully pursue ambitious reform agendas for the short and long run. SITE and MISUM (Mistra Center for Sustainable Markets) invited the Minister of Finance of the Federal Republic of Somalia, Dr. Abdirahman Dualeh Beileh, and the Swedish ambassador to Somalia, Staffan Tillander, to discuss the role of international partnership in the recent development of economic reforms in Somalia. This policy brief provides a summary of the key points that were discussed in the webinar.

Introduction

Fragile states, characterized by poverty, weak governance, and conflict, now also have to confront additional challenges from the COVID-19 pandemic. Negative economic shocks arising from climate change, financial crises, conflicts, and pandemics are known to be particularly detrimental for these countries as the countries lack the resources to cushion the negative impact and are vulnerable to anything exacerbating latent socioeconomic challenges and conflicts.

In these situations, international support becomes essential in reducing the immediate impact on human welfare and help sustain economic reforms that are necessary for long run development. Somalia is a good case in point, where the recent consolidation of the country and an ambitious reform agenda together with international partners have set the country on a positive trajectory. This progress is challenged, though, by the pandemic, reinforced by drought and locust swarms.

From Independence to Civil War

Despite Somalia's economically favorable geographical location and abundance of resources, the country has a turbulent history plagued by poverty, conflict, and humanitarian crises. Dr. Beileh provided thoughts on why the country failed to realize these opportunities and what factors led up to the civil war in 1991.

Following Somali independence in 1960, the country was lacking a sufficient level of educated citizens to run a modern government. In addition, tensions with neighboring countries and community demarcations within Somalia led to conflict and a constant struggle over resources. Also, Dr. Beileh argued that the former colonial powers had an interest in keeping the newly independent African states economically reliant in

terms of imports of goods and sourcing of raw materials.

Dr. Beileh suggested that the combination of these factors contributed to the fall of the military regime in 1991 whereby Somalia plunged into civil war. With no recognized government over the following 20 years, this power vacuum became a black spot in Somalia's history, characterized by war and poverty.

Political Consolidation and Debt Relief

After decades of suffering, in 2012 the Provisional Constitution established a federal political structure, with a parliament and the Federal Government of Somalia. Meanwhile, African Union forces liberated the major cities of Somalia from the terror of Al Shabab. In 2013 the government re-engaged with the World Bank and the IMF, and since 2016 the government together with international partners has engaged in numerous structural reforms. The main objective of the reform agenda was to qualify for international debt relief through the Heavily Indebted Poor Country (HIPC) Initiative introduced by the IMF and the World Bank in 1996 to reduce debt levels to sustainable levels in the world's poorest countries. In Somalia's case, this required laws and regulations that strengthened rule of law and sustainable economic management as well as poverty reduction strategies.

In March 2020, Somalia became the 37th country to qualify for the first step of debt relief under the HIPC initiative ("the decision point") which meant that the country's national debt was significantly reduced. This successful result was commended by the international community and Dr. Beileh stressed that it would not have been achieved without both international partnership and the resilience of the Somali people. Now, with continued successful reforms Somalia is projected to receive further debt reduction in 2023 ("the completion point").



Structural reforms

Besides significantly reducing national debt, the HIPC program requirements have led to development in many areas and opened new possibilities for international cooperation.

Laws and regulations that institutionalize the rule of governance and strengthen the federal system are essential HIPC prerequisites. Both Dr. Beileh and Ambassador Tillander stressed that strong governance is not only important for a clear division of tasks and competent and honest conduct within government bodies, but also an important cross-cutting issue that influences the ability of the state to achieve other goals. Dr. Beileh described how far Somalia has come in this regard. When he started at the ministry of finance in 2017, wages, responsibilities, and accountability were up for negotiation. Today, there are rules and regulations in place that guide the responsibilities and accountability of civil servants. For instance, a public procurement authority has been established with the task of scrutinizing all government procurement and disposal of assets. Ambassador Tillander added that the strained regional tensions caused by the civil war and surrounding conflicts have been eased and the improvements in governance have led to a more constructive dialogue between the federal government and the member states.

Drawing on his experience as minister of finance, Dr. Beileh gave insight into the path of economic reform brought about by the HIPC process. The reforms focused on raising domestic revenue to achieve fiscal sustainability, keeping public expenditures at a sustainable level, and promoting various financial sector reforms. Dr. Beileh discussed the challenges related to gaining popular support for some of these reforms implemented in recent years. It is well known that economic reforms that are beneficial in the long-run often entail short-run costs which make them politically difficult to implement. To regain trust of taxpayers is of particular importance for Somalia given the need to increase domestic fiscal

revenues. Efforts have been made to actively inform the public about government activity and spending in order to increase transparency and convince Somalis that they will benefit from the system.

Ambassador Tillander provided examples of how countries like Sweden can help promote democracy and human rights in Somalia. For instance, Sweden has been working closely with the Somali government to help organize elections and increase voting participation, particularly for politically marginalized groups such as women and young adults.

Looking forward

Despite Somalia's recent success with debt forgiveness, both speakers acknowledged that much remains to be done.

The value of high-quality educational institutions and long-term investments in human capital is crucial in Dr. Beileh's view. Having an educated population gives a country not only the skills and knowledge required to run a government but also helps a diverse society to move in the same direction. Although the need for infrastructure and investments in other areas is crucial for economic development, he insisted that it is educated people who in the end bring wealth, build infrastructure, and run governments.

Ambassador Tillander advocated for further promoting inclusion and merit-based selection in politics and business. He argued that progress is not possible if half of the population are excluded based on gender or age. Also, Somalia needs to move away from the clan as a basis for political power and position. As part of the solution, Ambassador Tillander suggested that Somalia should replace its provisional constitution with a new one that more strongly enshrines democratic elections, human rights, media freedom, and freedom of expression.

Although both speakers recognized that the reforms have been necessary, they mentioned that



some reforms have also led to unintended negative consequences. For example, regulations to curb money-laundering and anti-terrorism financing have restricted the ability to transfer money to and from Somalia. As a result, many organizations and NGOs have found it hard to access financing, and it has made it hard for the diaspora to send remittances. To solve this issue, Dr. Beileh suggested policies that would improve the transparency of money flows, focusing on creating a personal id system and on strengthening the domestic financial institutions.

Another central topic at the webinar related to how Somalia and its partners should encourage and facilitate investments beyond foreign aid. Ambassador Tillander explained how there is an international misperception of Somalia and that his visit to the Mogadishu tech forum in 2019 was an eye-opener for him in this regard. These types of high-profile events, organized to attract foreign investments and display the opportunities that exist within Somalia, have attracted numerous young entrepreneurs who interact with their foreign counterparts, and showcase a dynamic and growing Somali business sector which is generally ignored in media-depictions of the country. In the context of the Swedish-Somali partnership, Ambassador Tillander suggested that there are enormous unexplored cross-border business opportunities between the countries, where the Somali diaspora in Sweden could play an important role.

Both speakers suggested that the foundations for communication and exchange are already in place. At this stage, the key to increase private investment is to reduce uncertainty for entrepreneurs and improve the predictability of the Somali financial system. People need to have better access to credit and financing, the banking system needs to become more formal, and the rule of law needs to apply more widely than it does today. Thanks to the HIPC process and the Somali government, steps in this direction are already underway but they must continue in order to build faith in the system, so that entrepreneurs,

investors, and innovators are willing to take on the risks that new investments typically entail.

Reflecting on the start of the HIPC process, Ambassador Tillander argued that few people had anticipated the extent of progress that Somalia has achieved in only 4 years. Concluding the event, Ambassador Tillander and Dr. Beileh agreed that the cooperation between Somalia and the international community has been instrumental in encouraging and driving a reform process that would have been extremely difficult otherwise.

Speakers at the Event

Dr. Abdirahman Dualeh Beileh, Minister of Finance of the Federal Republic of Somalia.

Dr. Staffan Tillander, Swedish ambassador to Somalia.

Dr. Anders Olofsgård, Deputy Director SITE (moderator)





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