



East African Journal of Business and Economics

eajbe.eanso.org

Volume 7, Issue 1, 2024

Print ISSN: 2707-4250 | Online ISSN: 2707-4269

Title DOI: <https://doi.org/10.37284/2707-4269>

EANSO
EAST AFRICAN
NATURE &
SCIENCE
ORGANIZATION

Original Article

From Reform to Resurgence on Somalia's Journey to Economic Stability and Global Confidence

Dr. Mohamed Hassan Mohamed, PhD¹*

¹ International Islamic University Malaysia, P. O. Box 10, 50728 Kuala Lumpur, Malaysia.

* Author for Correspondence Email: 4042465@gmail.com

Article DOI: <https://doi.org/10.37284/eajbe.7.1.1854>

Date Published: ABSTRACT

05 April 2024

Keywords:

Resilience,
Economic Stability,
Resurgence,
Global
Confidence

Examining Somalia's journey from political instability to economic recovery, this analysis focuses on the significant impact of recent efforts to relieve the country's debt burden. A major achievement was Somalia's successful inclusion in the Heavily Indebted Poor Countries (HIPC) initiative, which granted the nation relief from repaying its debts. This article aims to explore the complex landscape, thoroughly examining the essential role of debt relief. It dissects the factors contributing to economic stability, evaluates the newfound global confidence, analyses elements enhancing investor appeal, and navigates the challenges and opportunities defining the nation's economic resurgence. The challenges arising from the debt write-off include the effective implementation of economic reforms, managing heightened expectations, and addressing the persistent historical political instability that requires ongoing attention. Despite these challenges, opportunities emerge, providing Somalia with the chance to strategically reallocate resources to vital sectors, enhance its attractiveness to investors, and engage in potential global collaborations. This exploration concludes by outlining policy implications for Somalia's policymakers. It emphasizes the importance of sustainable economic reforms, initiatives promoting political stability, prudent resource allocation, the implementation of investor-friendly policies, active participation in international collaborations, and targeted efforts to promote investment. Addressing these policy implications could empower Somalia to transform challenges into catalysts for sustained economic growth and development, charting a course toward a prosperous and resilient future.

APA CITATION

Mohamed, M. H. (2024). From Reform to Resurgence on Somalia's Journey to Economic Stability and Global Confidence *East African Journal of Business and Economics*, 7(1), 99-106. <https://doi.org/10.37284/eajbe.7.1.1854>

CHICAGO CITATION

Mohamed, Mohamed Hassan. 2024. "From Reform to Resurgence on Somalia's Journey to Economic Stability and Global Confidence". *East African Journal of Business and Economics* 7 (1), 99-106. <https://doi.org/10.37284/eajbe.7.1.1854>.

HARVARD CITATION

Mohamed, M. H. (2024). From Reform to Resurgence on Somalia's Journey to Economic Stability and Global Confidence", *East African Journal of Business and Economics*, 7(1), pp. 99-106. doi: 10.37284/eajbe.7.1.1854.

IEEE CITATION

M. H. Mohamed "From Reform to Resurgence on Somalia's Journey to Economic Stability and Global Confidence", *EAJBE*, vol. 7, no. 1, pp. 99-106, Apr. 2024.

MLA CITATION

Mohamed, Mohamed Hassan. "From Reform to Resurgence on Somalia's Journey to Economic Stability and Global Confidence". *East African Journal of Business and Economics*, Vol. 7, no. 1, Apr. 2024, pp. 99-106, doi:10.37284/eajbe.7.1.1854.

INTRODUCTION

In a remarkable journey towards economic stability, Somalia, having recently joined the East African Community (EAC)¹, has achieved a significant milestone by securing exemption from debt repayment under the enhanced Heavily Indebted Poor Countries (HIPC) initiative. Becoming the 37th country to reach the HIPC completion point, Somalia's success, despite political challenges, reflects a substantial reduction in debt from \$5.2 billion to \$600 million, endorsed by the International Monetary Fund (IMF).

Collaborative efforts from multilateral and bilateral lenders, including the World Bank, played a crucial role in this achievement. With external debt now standing at less than six percent of GDP, down from 64 percent in 2018, Somalia's economic landscape is undergoing positive transformations. The recent debt relief initiatives, coupled with a 2022 GDP of \$8.96² billion, signal a promising future, enabling the redirection of resources towards economic stimulation, infrastructure projects, and key sectors.

This viewpoint article will comprehensively explore six key dimensions that define Somalia's economic resurgence. Firstly, the paper will analyse the impact of international debt relief initiatives on Somalia's fiscal health and economic prospects. Secondly, we will delve into how enhanced economic stability serves as a catalyst for growth, examining its role in fostering economic development and attracting both domestic and foreign investments. The article will also assess the newfound global confidence in

Somalia's economic policies, exploring its implications for international collaborations and partnerships. Additionally, we will explore the factors contributing to Somalia's appeal to investors and the potential influx of foreign capital. Addressing the challenges faced by Somalia in its economic reform journey, we will discuss the hurdles and, crucially, the opportunities that emerge from overcoming these challenges. Finally, we will evaluate the broader policy implications for Somalia's government and the international community in sustaining and supporting the country's economic resurgence. Together, these dimensions aim to provide a nuanced understanding of Somalia's evolving economic landscape and the potential implications for its citizens, investors, and the international community at large.

DEBT RELIEF

Despite facing political headwinds along the way, Somalia, which recently joined the (EAC), has now also been exempted from debt repayment under the enhanced HIPC initiative. This milestone marks Somalia as the 37th country to reach the HIPC completion point, following the setbacks faced by Sudan and Zimbabwe³.

The concerted efforts of multilateral and bilateral lenders, including the World Bank and the International Monetary Fund (IMF), have led to a noteworthy reduction in Somalia's debt. The IMF reports a decrease from a peak of \$5.2 billion to \$600 million. The World Bank underscores Somalia's achievement in reducing external debt

¹ Mohamed, M. H. (2024). Somalia's New Horizon: Joining the East African Community (EAC). *International Journal of Geopolitics and Governance*, 3(1), 9-25.

² World Bank national accounts data, and OECD National Accounts data files.

³ See <https://www.imf.org/en/News/Articles/2023/12/13/pr23438-imf-and-world-bank-announce-us-4-5-billion-in-debt-relief-for-somalia#>

to less than six percent of GDP, a remarkable decline from the 64 percent recorded in 2018.

Attaining the HIPC completion point required Somalia to meet three crucial conditions: maintaining macroeconomic stability, demonstrating a commendable reform track record, and fulfilling triggers essential for reaching the HIPC completion point, while also renegotiating debts with both multilateral and bilateral creditors. Despite its fragile state, Somalia earned praise from the World Bank for its commendable performance across these pivotal benchmarks.

Somalia's commitment to the reform process is evident in its consistent adherence to the IMF program over the past three and a half years, culminating in the successful completion of six reviews under the fund's Extended Credit Facility (ECF) Programme. While making substantial progress toward HIPC completion, authorities accomplished 13 out of the 14 triggers, falling short only on the customs harmonization trigger among Kismayu, Mogadishu, and Bosaso. This particular challenge arose from the failure of warring factions to reach a political settlement, underscoring the complexities faced in achieving comprehensive economic reforms.

The debt write-off stands as a historic opportunity for Somalia to introduce a new era, marking a crucial moment after three decades of conflict, fragility, and state fragmentation. This significant development opens the door for Somalia to begin a transformative journey toward economic reconstruction, poverty reduction, and inclusive growth. The anticipated outcomes include the unlocking of concessional and climate financing, the revival of investor confidence in the economy, and the restoration of correspondent banking. These measures are positioned to strengthen cross-border transactions and facilitate the integration of Somalia into the global financial system.

The effects of the debt write-off extend beyond simple financial relief. It is expected to have a spreading effect on Somalia's economic

landscape, fostering an environment supportive of sustained development. Particularly noteworthy is the potential revival of correspondent banking relationships, crucial for facilitating cross-border transactions and reinforcing the nation's integration into the global financial system. Somalia's central bank, in an effort to address previous concerns regarding money laundering and terrorism financing, initiated financial sector reforms. One such reform, implemented in March of this year, mandates the use of international bank account numbers (Iban) by commercial lenders. This forward-thinking step emphasizes the city's commitment to align with global financial standards and marks a significant step towards restoring international confidence in Somalia's financial institutions.

The implications of this debt relief are diverse. With a significantly reduced debt load, Somalia gains increased fiscal space and financial flexibility. This newfound flexibility allows the government to redirect funds toward critical areas like healthcare, education, and infrastructure. Strategic resource allocation fosters sustainable economic development, addressing key social and developmental needs crucial for Somalia as it emerges from a history of conflict and fragility. Moreover, reduced debt enhances Somalia's creditworthiness in the eyes of international financial markets and potential investors. A more favourable debt profile improves the nation's ability to access external financing on better terms, including lower interest rates. This, in turn, supports the government's efforts to implement development projects and stimulate economic growth.

Economic Stability: A Catalyst for Growth

In the wake of Somalia's recent debt relief initiatives, the positive impact on economic stability has become increasingly evident, contributing to a more favourable environment for attracting investments, fostering growth, and

creating a conducive atmosphere for businesses⁴. Recognizing the importance of alleviating the burden of external debt, Somalia engaged in focused negotiations and reform initiatives with the IMF. The successful attainment of the HIPC completion point, as highlighted by the World Bank, not only reflects Somalia's commitment to addressing its economic challenges but also underscores the pivotal role of targeted debt relief in unlocking opportunities for sustainable development. The debt write-off, facilitated through collaborative efforts and adherence to reform programs, has become a cornerstone in paving the way for Somalia's economic resurgence and positive transformations across various sectors.

The recent debt relief measures, coupled with Somalia's current economic indicators, paint a promising picture for the country's economic future. With a GDP of \$8.3 billion⁵ in 2022 (World Bank, 2023), the reduction in debt resulting from reaching the HIPC completion point is poised to positively influence Somalia's overall economic outlook. The government, unburdened by hefty debt repayment obligations, can now redirect resources toward stimulating economic activities, investing in crucial infrastructure projects, and supporting key sectors.

At a per capita GDP of \$461.8⁶ in 2022 (World Bank, 2023), the impact of debt relief is not just macroeconomic but also stands to improve the living standards of individual citizens. With a focus on poverty reduction and inclusive growth, the freed-up resources can be directed towards social programs, education, and healthcare, contributing to an overall enhancement of the well-being of the population.

Somalia's GDP growth, currently standing at 4.8% annually in 2022 (World Bank, 2023), is expected

to experience a positive trajectory following the debt relief initiatives and associated economic reforms. The reduced debt burden creates a more favourable environment for economic growth, attracting foreign investments, promoting business activities, and facilitating the implementation of development projects. This acceleration in GDP growth has the potential to surpass the current rate, signalling a newfound economic momentum.

Addressing the issue of unemployment, which stands at 20% of the total labour force in 2022 (World Bank, 2023), the indirect but significant impact of debt relief becomes evident. The government now has the means to invest in job creation programs, skill development, and entrepreneurship initiatives. As economic growth gains momentum, employment opportunities are likely to expand, contributing to a reduction in the overall unemployment rate.

In essence, the alleviation of challenges posed by high levels of debt marks a transformative period for Somalia's economic landscape. By mitigating these challenges, the country gains a more favourable position to direct resources towards sustainable development, poverty reduction, and inclusive economic growth. The realization of these positive outcomes, however, relies on the effective implementation of economic reforms and the government's adept utilization of the newfound fiscal space to address key socio-economic challenges⁷.

Somalia's journey toward economic stability after debt relief is making a significant impact on attracting investments, fostering growth, and creating a supportive business environment. These positive changes are evident in key economic indicators, and as the nation continues on this trajectory, the potential for sustained

4 Oxford Analytica. (2022). Reform progress will buoy Somalia's economic outlook. Emerald Expert Briefings, (oxan-db).

⁵ World Bank national accounts data, and OECD National Accounts data files.

⁶ World Bank national accounts data, and OECD National Accounts data files.

⁷ Kranke, M. (2022). Tomorrow's Debt, Today's Duty: Debt Sustainability as Anticipatory Global Governance. *Global Society*, 36(2), 223-239.

development and improved livelihoods for its citizens becomes increasingly promising.

Global Confidence: A Game-Changer for Somalia

Somalia's recent debt relief initiatives will not only reshape the nation's economic landscape but will also garner increased global confidence in its prospects for stability and sustainable development. The positive steps taken by Somalia, including reaching the HIPC completion point and reducing its debt burden, have sent a reassuring signal to the international community, fostering a renewed sense of confidence in the country's economic future⁸.

One of the immediate impacts on global confidence is the recognition of Somalia's commitment to implementing comprehensive economic reforms. The successful negotiation and adherence to conditions set by multilateral institutions such as the IMF and the World Bank demonstrate a proactive approach to addressing economic challenges. This commitment has resonated globally, instilling confidence among international partners, investors, and financial institutions.

The debt relief has positioned Somalia as a more attractive destination for foreign investments. The reduced debt burden not only frees up resources for domestic initiatives but also signals to the global community that Somalia is actively working towards creating an environment conducive to business and investment. As a result, foreign investors are more likely to view Somalia as a viable and stable market for potential ventures.

Furthermore, the restoration of correspondent banking relationships, a direct outcome of the debt relief, has bolstered global confidence in Somalia's financial system. The initiatives taken by the central bank to address concerns related to money laundering and terrorism financing, including the implementation of international

banking standards such as the use of international bank account numbers (Iban), underscore Somalia's commitment to aligning with global financial norms. This, in turn, enhances trust and confidence in the integrity of Somalia's financial institutions on the international stage.

The positive developments have not gone unnoticed by the global community, diplomatic partners, and international organizations. Increased global confidence in Somalia's economic trajectory is not only a testament to the nation's resilience in overcoming challenges but also a recognition of the potential for sustained development and growth.

Somalia's successful debt relief initiatives will significantly bolster global confidence in the nation's economic prospects. The commitment to reforms, improvements in financial transparency, and the overall positive trajectory will position Somalia as a country with newfound stability and potential for sustainable development, attracting support and confidence from the international

Investor Appeal and Foreign Capital Inflow

One of the key factors driving investor appeal is the improved macroeconomic environment resulting from the debt relief measures. With a reduced debt load and a commitment to economic reforms, Somalia has created a more stable and predictable economic landscape. Investors, both domestic and foreign, are more inclined to explore opportunities in a country where the risk of fiscal instability has been significantly mitigated (Smith, 2023)⁹.

The reduction in external debt has freed up financial resources within the country, providing the government with the capacity to invest in critical sectors and infrastructure projects. This newfound fiscal space is particularly appealing to investors, as it indicates a government that is better positioned to support business activities and

⁸ See <https://www.worldbank.org/en/country/somalia/overview>

⁹ Smith, J. (2023). *Economic analysis of Somalia's debt relief measures*. *Journal of Economic Development*, 15(3), 102-115.

create an environment conducive to long term economic sustainability.

The positive trajectory of Somalia's economic reforms and debt relief has been recognized by the international investment community. Increased investor appeal is not only reflected in the interest from multinational corporations but also the growing attention from regional and global financial institutions. Foreign direct investment and capital inflow are crucial for driving economic development, creating job opportunities, and fostering sustainable growth¹⁰.

In conclusion, Somalia's debt relief initiatives have significantly enhanced the country's appeal to investors, leading to increased foreign capital inflow. The improved economic stability, fiscal space for investment, and commitment to international financial standards have collectively positioned Somalia as a promising destination for those seeking investment opportunities in a nation on the path to sustainable development.

Challenges and Opportunities

As Somalia emerges from the shadows of significant debt reduction, it faces a unique set of challenges and opportunities that will shape the trajectory of its economic resurgence. One of the foremost challenges lies in the effective implementation of economic reforms to ensure the lasting impact of debt relief. The need for streamlined governance and institutional capacity building becomes crucial to navigate through the intricacies of these reforms and sustain the positive momentum achieved. Historical political instability, though on the decline, presents an ongoing challenge that demands a comprehensive and sustained effort to establish a stable political environment conducive to economic growth.

The transformational process also brings about the challenge of managing heightened expectations. As the country moves forward, there is a need to balance optimism with realistic assessments, addressing the gap between expectations and actual outcomes. Managing public perceptions

and maintaining confidence in the face of potential setbacks will be essential to foster resilience and perseverance during this transitional period.

Amidst these challenges, Somalia finds itself presented with a myriad of opportunities. The significant reduction of external debt, from a staggering \$5.2 billion to a more manageable \$600 million (IMF,2023), unleashes the potential for the redirection of resources towards critical sectors. Infrastructure development, education, and healthcare can now be prioritized, fostering an environment that stimulates economic activities and improves the overall quality of life for citizens. The financial flexibility gained post-debt write-off serves as a catalyst for attracting both domestic and foreign investments, propelling Somalia towards sustained economic growth.

Investors, witnessing a more favourable economic climate, may be enticed by the prospects of a revitalized Somalia, potentially leading to an influx of foreign capital. The nation's improved fiscal health not only enhances its attractiveness to investors but also strengthens its negotiating position in international collaborations. Building strategic partnerships and fostering relationships with global stakeholders offer opportunities for knowledge exchange, technology transfer, and increased market access, contributing to the country's long-term economic prosperity.

In navigating the post-debt write-off landscape, Somalia's policymakers must be vigilant in addressing these challenges while leveraging the opportunities at hand. The effective implementation of reforms, political stability, and strategic engagement with the global community is pivotal in transforming the challenges into stepping stones for sustainable economic growth and development. The nation stands at a critical juncture, where wise and visionary decisions can pave the way for a prosperous future and a more resilient economy.

10 Mayow, M. A. (2021). *The effect of foreign direct investment inflows on the economic performance in Somalia* (Master's thesis).

CONCLUSION

In conclusion, Somalia's journey from political turbulence to economic resurgence marks a pivotal chapter in its history. The nation's recent success in securing exemption from debt repayment under the enhanced Heavily Indebted Poor Countries (HIPC) initiative reflects not only its commitment to addressing economic challenges but also the collaborative efforts of multilateral and bilateral lenders.

As outlined in this viewpoint article, the objectives were to provide a comprehensive understanding of Somalia's path to economic resurgence, shedding light on the critical role of debt relief, catalysts for economic stability, newfound global confidence, factors driving investor appeal, challenges to overcome, and the opportunities that emerge from these developments.

The challenges post-debt write-off underscore the complexity of sustaining positive momentum. Effective implementation of economic reforms, managing heightened expectations, and addressing historical political instability are pressing challenges that require strategic and sustained efforts. However, amidst these challenges lie significant opportunities. The substantial reduction of external debt allows for resource reallocation towards critical sectors, stimulating economic activities and improving citizens' quality of life. Somalia's enhanced fiscal health and newfound attractiveness to investors provide opportunities for foreign capital influx and strategic international collaborations, setting the stage for long-term economic prosperity.

In navigating this intricate landscape, Somalia stands at a critical juncture. The nation's policymakers must leverage the opportunities at hand while addressing the challenges with resilience and foresight. By doing so, Somalia has the potential to transform obstacles into catalysts for sustained economic growth and development, offering its citizens, investors, and the international community a vision of prosperity and resilience.

Policy Implications

Sustainable Economic Reforms: The article highlights the need for Somalia to focus on the effective and sustained implementation of economic reforms. Policymakers should prioritize initiatives that enhance governance, streamline institutions, and ensure the long-term success of the positive economic momentum generated by debt relief.

Political Stability Initiatives: Addressing historical political instability remains a critical policy imperative. Efforts should be directed towards fostering a stable political environment, which is essential for the successful execution of economic reforms and attracting both domestic and foreign investments.

Strategic Resource Allocation: With the newfound fiscal flexibility resulting from debt reduction, policymakers should strategically allocate resources to key sectors such as infrastructure, education, and healthcare. This targeted investment can stimulate economic activities and contribute to an improved quality of life for the citizens.

International Collaborations: The article underscores the importance of Somalia's enhanced global confidence, opening avenues for international collaborations and partnerships. Policymakers should actively engage with the global community, fostering relationships that contribute to knowledge exchange, technology transfer, and increased market access.

Investment Promotion Policies: In light of the opportunities arising from reduced external debt and increased investor appeal, policymakers should formulate and implement robust investment promotion policies. These policies may include creating investment-friendly regulations, offering incentives for strategic sectors, and establishing clear frameworks for foreign and domestic investors. By actively promoting investment, Somalia can attract capital, stimulate economic growth, and diversify its economic base for long-term sustainability.