World Bank Group and International Monetary Fund

Debt Management Reform Plan

Somalia
February 2021
## Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>AG</td>
<td>Accountant General</td>
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<tr>
<td>CBS</td>
<td>Central Bank of Somalia</td>
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<tr>
<td>CG</td>
<td>Central Government</td>
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<tr>
<td>DM</td>
<td>Debt Management</td>
</tr>
<tr>
<td>DFI</td>
<td>Development Finance International</td>
</tr>
<tr>
<td>DMO/U</td>
<td>Debt Management Office/Unit</td>
</tr>
<tr>
<td>DMRIS</td>
<td>Debt Management Information Recording System</td>
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<tr>
<td>ECF</td>
<td>Extended Credit Facility</td>
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<tr>
<td>FGS</td>
<td>Federal Government of Somalia</td>
</tr>
<tr>
<td>FMS</td>
<td>Federal Member States</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>HIPC</td>
<td>Highly Indebted Poor Countries</td>
</tr>
<tr>
<td>IFI</td>
<td>International Financial Institution</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>NDP9</td>
<td>National Development Plan 2020-24</td>
</tr>
<tr>
<td>PDMC</td>
<td>Public Debt Management Committee</td>
</tr>
<tr>
<td>PFMA</td>
<td>Public Financial Management Act</td>
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<tr>
<td>PFMR</td>
<td>Public Financing Management Regulations</td>
</tr>
<tr>
<td>PPP</td>
<td>Subnational Government</td>
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<tr>
<td>SFMIS</td>
<td>Somalia Financial Management Information System</td>
</tr>
<tr>
<td>SNG</td>
<td>State-Owner Enterprise</td>
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<tr>
<td>SOE</td>
<td>Public Private Partnership</td>
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<tr>
<td>TA</td>
<td>Technical Assistance</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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Acknowledgments

A joint World Bank – International Monetary Fund (IMF) mission comprising Léa Hakim (World Bank, Task Team Leader), Andre Proite (World Bank), and Trevor Lessard (IMF) conducted a virtual mission during January 25 – February 4, 2021, to assist the authorities in developing a sequenced medium-term debt management reform plan. Natasha Sharma, John Randa, Luca Bandiera, Catherine Mwende Ngumbau (World Bank); and Issouf Samake (IMF) joined some of the meetings. Kristina Svensson, World Bank Country Manager joined the concluding meeting with the Minister of Finance and authorities. The team thanks the World Bank Program Lead for guidance and support and peer reviewers for their valuable feedback.

The team wishes to express appreciation to all the counterparts at the Debt Management Unit, Ministry of Finance, and Central Bank of Somalia (CBS) for their engagement during the technical meetings and workshop sessions.
Executive Summary

It is critical for Somalia to strengthen debt management capacity and improve debt transparency at this juncture of new opportunity for the country. Somalia reached the Decision Point of the Heavily Indebted Poor Countries (HIPC) initiative in March 2020, supporting its state-building journey and opportunity for full reengagement with the international community after years of conflict and fragility. Somalia is seizing this opportunity to embark on broad economic and institutional reforms. As part of this effort, it is timely for Somalia to set up a sound legal and institutional framework for debt management and to enhance debt transparency. Improvements in debt reporting are a trigger for Somalia to reach its HIPC completion point, which could occur as early as 2023.

The Federal Government of Somalia (FGS) has taken important steps to strengthen its debt management capacity. Somalia is establishing the legal framework for debt management. The Public Financial Management Act (PFMA, 2000) defines the authority to borrow, issue guarantees, and recording, reporting and auditing requirements, and the PFM regulations issued in December 2020 operationalize the Act. The Debt Management Unit (DMU) was established in December 2015 with funding from the African Development Bank (AfDB). The debt management information recording system (CS-DRMS) was installed, and staff trained, primarily to support the reconstruction of loan records lost during the conflict era.

The Somali authorities requested technical assistance to support the development of a debt reform plan. Against this background, the mission focused on three key areas for a debt management reform plan. Based on consultations with the authorities and considering reforms and technical assistance underway, the reform plan focuses on three debt management core areas: (i) the legal framework for debt management; (ii) the institutional framework for debt management, and (iii) debt recording, reporting and monitoring. Assessment of these areas for possible domestic debt market issuances are outside the scope of this mission and would require a dedicated TA. Findings are relevant to the mission TA dates (January 25 – February 4, 2021). Any developments since will be taken up in any follow up assessment or technical assistance.

Given the continued state of fragility in Somalia and capacity constraints, and that Somalia is not expected to resume borrowing externally until after the HIPC Completion Point, the recommendations focus on key priority reforms areas at the federal level over the next three years. The suggested measures seek to (i) reduce key risks such as those related to the sustainability of the DMU and operational risk; (ii) support the achievement of the HIPC debt reporting Completion Point trigger on debt reporting; and (iii) strengthen the legal and institutional framework and capacity for debt management in the lead up to post-HIPC Completion Point. The reform plan lays out a sequencing of reform actions, many of which would require capacity building support to the authorities. It is recommended that the reform plan is shared with the development partner community once finalized by the Ministry of Finance.

The Debt Reform Plan outlines 19 actions which are presented in Annex I of this report. Actions that would need to be continued or initiated within the next 6 months are highlighted in the below summary table.

A follow-up reform plan technical assistance mission is expected 12-18 months since this TA to take stock of important progress undertaken in the areas of legal, institutional framework and debt reporting and monitoring. This would also review the debt reform plan actions and timeline.
Summary of high-priority reform areas¹:

<table>
<thead>
<tr>
<th>Legal Framework</th>
<th>Timing ¹/</th>
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<tbody>
<tr>
<td>Include the purpose of borrowing and the use of guarantees and on-lending in the primary legislation.</td>
<td>Short term</td>
</tr>
<tr>
<td>Clarify the requirement for the Federal Parliament to approve domestic and external borrowing and the issuance of guarantees.</td>
<td>Short term</td>
</tr>
<tr>
<td>Include in the legislation (primary or secondary): Debt Management objectives, the requirement to publish a Debt Management Strategy and a guarantees/on-lending framework.</td>
<td>Short term</td>
</tr>
<tr>
<td>Improve the regulation related to guarantees and on-lending management in respect to limits, processing and monitoring risks, following-up the transactions.</td>
<td>Medium term</td>
</tr>
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<table>
<thead>
<tr>
<th>Institutional Framework</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Institutionalize the DMU as a core function within the MoF and include in the MoF’s official organizational structure during the MoF restructuring reform.</td>
<td>Short term</td>
</tr>
<tr>
<td>Ensure sustainability of the DMU by incorporating the DMU in the civil service (i.e. securing annual budget financing).</td>
<td>Short term</td>
</tr>
<tr>
<td>Clarify roles and responsibilities of and within the DMU through a Procedures Manual.</td>
<td>Short term</td>
</tr>
<tr>
<td>Hire legal support to the DMU to build critical support function.</td>
<td>Short term</td>
</tr>
<tr>
<td>Secure sequenced training of DMU staff (on the job and external training) as debt management functions are highly specialized.</td>
<td>Medium term</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debt Recording, Reporting and Monitoring</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Record the renegotiated debt in the debt management system as of end-2020 and continuously update to ensure comprehensive and consolidated debt information in the system.</td>
<td>Short term</td>
</tr>
<tr>
<td>Prepare and publish quarterly debt bulletins with information on the outstanding stock and composition of its debt liabilities and financial assets, and, where they exist, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure (in line with HIPC Completion Point trigger).</td>
<td>Short term</td>
</tr>
<tr>
<td>Establish dedicated debt section on the MoF website and update MoF website with debt bulletins and other pertinent debt management information.</td>
<td>Short term</td>
</tr>
<tr>
<td>Produce and ensure adherence to a procedure manual in line with the internal regulation covering of loans, guarantees/on-lending and securities in respect to (i) borrowing, (ii) recording, and (iii) payments.</td>
<td>Short term</td>
</tr>
<tr>
<td>Prepare annual debt reports that feature information on the context in which debt management operates (macroeconomic and market conditions), debt stock, amortization profile, cost-risk indicators.</td>
<td>Medium term</td>
</tr>
</tbody>
</table>

¹/ Short term refers to reforms to be initiated or completed within 12 months (except for the legal framework regulation to improve the regulation related to guarantees and on-lending which could be concurrently adopted with other legislative changes). Medium-term refers to 1-3 years.

¹ Full Reform Plan available in Annex I.
I. Introduction

1. **The Debt Reform Plan presented in this report was jointly developed with the authorities.** It was based on a request for technical assistance from the Ministry of Finance given the achievement of HIPC decision point and the new opportunities for Somalia that are subsequently emerging. The Plan focuses on three core areas of debt management: the legal and institutional frameworks for debt management and debt reporting. The Debt Reform Plan is part of a broader set of institutional reforms on which Somalia is embarking and links to the broader PFM reform agenda.

2. **The reform activities are discussed in more detail in the report which is structured as follows:** Section II provides background on the macro-fiscal situation in Somalia. The report then delves into the three key areas reviewed in the TA providing sound practice, an overview of the current situation, and description of recommended action in each section. Section III covers the Legal Framework; Section IV Institutional Framework and Section V Debt Recording, Reporting and Monitoring. A log-frame (Annex I) outlines the specific actions, sequencing, and expected outcomes for the overall proposed reform plan. The reform plan mission team is ready to provide input and feedback throughout the reform plan implementation phase.

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II. Macro-Fiscal Background

3. Following decades of civil war and protracted conflict, efforts are ongoing to promote stability and advance the reform agenda. In 2012, Somalia agreed on the Provisional Constitution, paving the way for discussions on power and resource sharing, as the foundation of the nascent federal structure. Following steady progress in reform implementation, Somalia officially reengaged with the international community in March 2020 through reaching the Heavily Indebted Poor Countries (HIPC) Initiative Decision Point milestone. Somalia has also formally submitted its application to join the East African Community and the World Trade Organization. Somalia’s ambitious medium-term reform program is detailed in its ninth National Development Plan 2020–24 (NDP9). Nevertheless, Somalia remains affected by fragility, conflict, and violence. The process of institution building is underway and is in many respects at a nascent stage of development.

4. However, growth has been persistently low, and in 2020 Somalia was subject to the triple crisis of COVID-19, the locust’s infestation and floods, which have affected the economy, livelihoods and the health of the population. Between 2012 and 2020, Somalia has only reached average growth levels of around 2 percent. Growth is mostly driven by consumption, in large part supported by remittances from Somalia’s diaspora community as well as grants from the international community, together estimated at around 75 percent of GDP (Table 1).3 In 2016-17, the economy was affected by a prolonged drought and import bans imposed by trading partners.4 A projected economic recovery in 2020 with growth rates of around 3.2 percent was interrupted by a triple crisis of floods, locust infestation and COVID-19. Instead, the economy is estimated to have contracted by 0.7 percent in 2020.

5. Poverty remains pervasive, with almost 70 percent of Somalis living on less than US$1.90 a day in purchasing power parity terms; and this is expected to worsen as a result of the triple crisis.5 Poverty is high throughout the country, with rates elevated amongst internally displaced people (IDPs) living in settlements, people living in rural communities, and nomads; groups which also have lower access to services. Almost 90 percent of Somali households are deprived in at least one dimension of poverty—monetary, electricity, education, or water and sanitation—and nearly 70 percent suffer in two or more dimensions. Across the board, women have lower rates of literacy and educational attainment. The triple crisis continues to push more people into poverty and is adding to the challenges the country faces in emerging from conflict and fragility.6

6. Over the medium-term, Somalia’s growth is expected to 3.5 percent per year, supported by institution building, political stabilization and increased investments. The economy is projected to grow by 2 percent in 2021, compared to a pre-COVID-19 forecast of 3.2 percent. The outlook depends on the success of ongoing efforts to develop institutions, promote peace and security, the steady flow of remittances and continuation of donor flows. Given the global uncertainties related to the COVID-19 pandemic, a downside scenario considers potential delays in the rollout of a vaccine as well as the possibility of the locust’s infestation continuing, which could result in growth forecasts being downgraded to below 2 percent in 2021.

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3 WB and IMF staff estimates
4 Saudi Arabia, the main market for Somali livestock, reimposed a ban on imports of Somali livestock due to an outbreak of Rift Valley Fever. A quarantine arrangement allows Somali livestock to be imported during the Haj pilgrimage period.
5 Somali Poverty and Vulnerability Assessment: Findings from WAVE 2 of the Somali High Frequency Survey, World Bank, 2019
6 Somalia Economic Update 6, World Bank, forthcoming
7. Despite a challenging environment related to the triple crisis, steady progress is being realized toward reaching the HIPC Completion Point, when irrevocable debt relief will be realized. The Federal Government of Somalia (FGS) revised its 2020 budget in August to support a coordinated national response to the triple crisis. Spending priorities in the revised 2020 budget and the 2021 budget also reflected increased alignment of NDP9 with the annual budget process. In November 2020, the IMF Executive Board completed its first review of the program supported by the Extended Credit Facility (ECF), determining that Somalia’s performance had been broadly satisfactory.7

<table>
<thead>
<tr>
<th>Table 1. Selected Economic Indicators</th>
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<tbody>
<tr>
<td>(percent of GDP unless otherwise indicated)</td>
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<tr>
<td>Estimates as of June 2021 (Population: 14.6 million, 2019 estimate)</td>
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<table>
<thead>
<tr>
<th></th>
<th>Est. 2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tbody>
<tr>
<td>National income and prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal GDP in millions of U.S. dollars</td>
<td>5,060</td>
<td>4,990</td>
<td>5,478</td>
<td>5,902</td>
</tr>
<tr>
<td>Real GDP in millions of U.S. dollars</td>
<td>4,548</td>
<td>4,517</td>
<td>4,607</td>
<td>4,759</td>
</tr>
<tr>
<td>Real GDP, annual percentage change</td>
<td>2.9</td>
<td>-0.7</td>
<td>2.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Real GDP per capita in U.S. dollars</td>
<td>311</td>
<td>300</td>
<td>299</td>
<td>301</td>
</tr>
<tr>
<td>CPI (period average, percent change)</td>
<td>4.5</td>
<td>4.3</td>
<td>4.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Central government finances 1/</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue and grants</td>
<td>6.7</td>
<td>10.0</td>
<td>9.8</td>
<td>11.1</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>2.1</td>
<td>5.7</td>
<td>5.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Expenditure (FGS)</td>
<td>6.2</td>
<td>9.6</td>
<td>9.5</td>
<td>10.7</td>
</tr>
<tr>
<td>Compensation of employees 2/</td>
<td>3.2</td>
<td>4.5</td>
<td>4.7</td>
<td>5.1</td>
</tr>
<tr>
<td>Overall balance</td>
<td>0.5</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Net change in the stock of cash</td>
<td>0.5</td>
<td>0.3</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Public debt 3/</td>
<td>106.3</td>
<td>40.2</td>
<td>37.1</td>
<td>35.0</td>
</tr>
<tr>
<td>(Percent of GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance of payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account balance</td>
<td>-10.4</td>
<td>-14.4</td>
<td>-13.3</td>
<td>-14.2</td>
</tr>
<tr>
<td>Trade balance</td>
<td>-81.3</td>
<td>-91.1</td>
<td>-86.4</td>
<td>-86.9</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>22.1</td>
<td>16.5</td>
<td>21.5</td>
<td>21.6</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>103.4</td>
<td>107.6</td>
<td>108.0</td>
<td>108.5</td>
</tr>
<tr>
<td>Remittances</td>
<td>31.2</td>
<td>32.4</td>
<td>31.6</td>
<td>31.2</td>
</tr>
<tr>
<td>Grants</td>
<td>40.4</td>
<td>45.0</td>
<td>42.3</td>
<td>42.3</td>
</tr>
<tr>
<td>Foreign Direct Investment</td>
<td>8.8</td>
<td>10.7</td>
<td>10.2</td>
<td>10.6</td>
</tr>
<tr>
<td>External debt 3/</td>
<td>105.0</td>
<td>38.8</td>
<td>35.9</td>
<td>33.9</td>
</tr>
</tbody>
</table>

Sources: Somali authorities; and Fund staff estimates and projections.

1/ Budget data for the Federal Government of Somalia. Fiscal operations are recorded on a cash basis. GDP data cover the entire territory of Somalia.

2/ The increase in in compensation of employees in 2020 reflects a reallocation of allowances from G&S to compensation in the context of Somali National Army reform.

3/ Assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDRI and “beyond-HIPC” relief at Completion Point.

8. Prior to reaching the HIPC Decision Point, Somalia’s debt was owed mainly to Paris Club creditors and IFIs and was almost entirely in arrears. Somalia’s debt accumulated unsustainably starting during the Siad Barre regime. The stock of debt climbed to US$1.8 billion by 1989 (equivalent to about 143 percent of GDP or 19 times export earnings). An estimated 75 percent of this debt was to multilateral creditors, most notably to the IMF, leaving Somalia with a serious arrears problem. The government obtained new credits from the international financial institutions (IFIs), and a major external debt restructuring with Paris Club creditors. However, financial policies slipped out of control and official development assistance from the IFIs was halted. Following the collapse of the state in 1991 and a prolonged civil war, arrears have continued to accumulate as well as late interest payments. Prior to reaching the HIPC Decision Point, Somalia’s total stock of outstanding debt was estimated at US$5.3 billion, of which US$5.0 billion was arrears, all with official creditors.

9. Somalia has significantly reduced its external debt through the HIPC process. In March 2020, when Somalia reached the HIPC Decision Point, it reduced its external debt by around 40 percent by clearing arrears to IFIs totaling US$806 million and through the agreement by the Paris Club of official creditors to cancel US$1.36 billion of Somalia’s bilateral debt. By March 2021, the government signed debt restructuring agreements with all Paris Club creditors except two. The government also reached out to other multilateral development banks including, such as the Islamic Development Bank, the Arab Monetary Fund and the Arab Fund for Economic and Social Development (AFESD) and official non-Paris Club creditors at a meeting of the League of Arab States in early September 2020. Negotiations with the Kuwait Fund for Development and AFESD are advancing. Talks were also ongoing with the International Fund for Agricultural Development around the modalities of a debt reprofiling. The November 2020 update DSA estimates that public sector debt reduced to 57 percent of GDP in 2020, with public and publicly guaranteed debt falling from US$5.2 billion to US$2.9 billion. The estimated reduction of debt-to-GDP in Table 1 assumes the application of HIPC debt relief and interim HIPC assistance from the Decision Point, as well as MDRI and “beyond-HIPC” relief at Completion Point. The data on the stock of public debt is being updated as the DMU’s capacity to report on public debt is being strengthened.

10. Even with the delivery of full HIPC debt relief, and additional debt relief under the MDRI and beyond HIPC debt relief, Somalia will encounter a challenging fiscal situation, which

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8 Somalia Crisis in Public Expenditure Management, Volume II Main Report, World Bank, 1991
11 On a net basis, Somalia’s debt to the IMF increased. After the clearance of US$ 335.1 million of arrears to the IMF, the IMF Board approved about US$395.5 million under the Extended Credit Facility and the Extended Fund Facility for Somalia. The press release “The Paris Club Creditors Provide Debt Relief to Somalia” (March 31, 2020) is available here: https://clubdeparis.org/en/communications/press-release/debt-relief-to-somalia-31-03-2020. The clearing of arrears to IFIs was supported by bridge loan financing to International Financial Institutions from the governments of the UK, Norway, and Italy.
13 Table 1 assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDRI and “beyond HIPC” relief at Completion Point. In contrast, the public and publicly guaranteed figures prepared by the Somali authorities only includes debt relief where agreements have been finalized and signed. This stood at 90.8 percent debt to GDP as of end-2020 (based on an estimated GDP of USD 4,990 million).
informsthe financing opportunities available. The latest (November 2020) IMF-World Bank Low-Income Country Debt Sustainability Analysis (LIC-DSA) confirms that Somalia is in debt distress, with arrears remaining to a number of multilateral creditors. The baseline scenario assumes limited interim HIPC debt relief, as most HIPC debt relief has been provided through concessional clearance of arrears, that there will be no new external commercial borrowing over the interim period, and the application of Cologne terms by all bilateral creditors. Debt is only likely to be sustainable at the Completion Point only if Somalia receives debt relief under the Multilateral Debt Relief Initiative (MDRI) and the beyond-HIPC debt relief. Even with debt relief, the government will still face significant liquidity and solvency risks due to the country’s vulnerability to natural disasters and political shocks, the government’s low revenue mobilization, and the economy’s weak export base. The government’s future borrowing decisions will need to be mindful of debt sustainability concerns and cost-risk trade-offs to the debt portfolio. The government is implementing several actions to improve the situation and mitigate such risks.

11. To address economic and fiscal challenges, the country’s authorities have committed to an extensive reform program. The Reengagement and Reform DPF, approved in February 2020, supports the publication of quarterly bulletins and improved tax administration. The IMF’s Extended Credit Facility (ECF) arrangement sets quantitative targets such as a floor on federal domestic revenue, and zero ceilings on domestic debt and new non-concessional external borrowing. The World Bank’s Sustainable Development Financing Policy further supports zero ceilings on contracting public and publicly guaranteed debt as well as improving debt transparency. The World Bank and the IMF are also supporting the government’s implementation of the HIPC Completion Point Triggers, which are expected to deliver important structural reforms to the economy. The Somali authorities have continued to advance technical reforms supported by a multi-faceted reform program which in the medium to long term can help to address the drivers of debt vulnerabilities.

12. Given potential interest in pursuing public private partnerships (PPPs), concession agreements, and power purchase agreements - which may be a source of contingent liabilities - the capacity of the MoF should be strengthened to fully assess costs and risks. Utilities are provided for by the private sector. A financial institution, the ‘Gargaara Facility’ has been established to facilitate access to finance for small and medium enterprises, with the government holding all shares. The institutional framework for public-private-partnerships is in the process of being discussed. However, concession agreements have been signed for the Port of Mogadishu and Mogadishu International Airport. In the event of the concession being terminated early, compensation may have to be paid by the government. In addition, an arbitration is ongoing in the Netherlands with a firm that signed a contract in 2013 to supply navy patrol boats. The legality of the case is currently being considered by UNUM Arbitration Tribunal. However, the likelihood of these contingent liabilities being realized is currently unknown. The Port of Mogadishu and Mogadishu International Airport are both running successful operations.

14 i.e., a 90 percent NPV reduction on pre-cut off non-Official Development Assistance (ODA) debt and a 100 percent rescheduling on highly concessional terms on pre-cut off ODA debt). The arrears of pre-cut off non-ODA debt would receive a stock of debt reduction under Naples terms (i.e. 67 percent), with the remainder rescheduled over 23 years, with a 6-year grace period. Arrears of pre-cut off ODA debt would be rescheduled over 40 years with a 16-year grace period. ODA debt is anticipated to be rescheduled at the lower of the original interest rate on the loan or on current market reference rate, while non-ODA debt will be rescheduled at current market reference rate.

15 The potential for Somalia to reach sustainable levels of debt depend on the prevailing macroeconomic conditions. The MDRI provides 100 percent relief on eligible debts to the African Development Fund (ADF) and the International Development Association of the World Bank. Somalia’s debt to the IMF is only eligible for debt relief under Beyond-HIPC relief.

16 The disputed claim is in the region of EUR 66 million plus interest.
13. **Somalia’s Provisional Constitution lays the basis for a federal structure.** The Provisional Constitution defines the boundaries of Somalia based on the pre-1991 frontiers, which includes the federal government and five Federal Member States (FMS) which include Galmudug, Hirshabelle, Jubbaland, Puntland (the longest established and also has its own constitution), and South-West State, as well as the self-declared Republic of Somaliland. Since the onset of the civil war, the member states and Somaliland have largely been autonomous, although there are some efforts ongoing to improve state unity and cohesion. Prior to the collapse of the Siad Barre regime, Somalia had a centrist government model with all debt contracted by the central government. Therefore, the FMS do not have external debt, and there is no legislative basis for subnational external borrowing.

14. **The Debt Reform Plan considers priority debt management reforms given Somalia’s fragility, constrained borrowing capacity, and the HIPC context.** Somalia has limited revenue raising capabilities. As Somalia is in debt distress, there are currently limited opportunities to borrow or incur new arrears. Somalia is only likely to be in a position to borrow following the achievement of the HIPC Completion Point, and only at highly concessional terms. The size and composition of Somalia’s debt in the short-term will be determined by the pace of concluding debt restructuring agreements, and while progress is ongoing with PC creditors, further attention will need to be given to non-PC creditors. One of the requirements of the HIPC process is for Somalia to service its debt in the interim period between Decision and Completion points to the International Financial Institutions, which is currently only the case for IDA and the International Fund for Agricultural Development (IFAD), since the African Development Bank debt is covered by other sources and debt restructuring agreements are ongoing with other creditors.

15. **As such, the TA focuses on a debt reform plan in priority areas that are the backbone of debt management.** Key pillars for debt management include the legal and institutional framework for debt management, and debt recording, reporting and monitoring functions. It is key that Somalia lay a sound and sustainable framework in these areas in preparation for when it can resume borrowing. The legal framework is key to ensure there is clear and defined authorizations to borrow. The institutional framework is key to ensure a capacity exists to carry out core debt management functions with an appropriate division of functions. Debt reporting and monitoring is key to ensuring debt transparency and that all debt obligations are captured and met.

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17 Under the IMF ECF arrangement, quantitative performance criteria include a floor on net foreign assets at the Central Bank of Somalia, zero-ceiling on contracting new domestic debt, a zero ceiling on contracting or guaranteeing any new external, non-concessional debt and a zero ceiling on the accumulation of new external arrears. There are indicative targets that place a zero ceiling on the accumulation of new domestic expenditure arrears and a zero ceiling on contracting or guaranteeing any new external, concessional debt.
III.  Legal Framework

Sound Practice

16. **Sound practice requires a clear and transparent legal framework to govern public debt management operations, including government guarantees.** A sound legal framework sets out a clear mandate and responsibilities for those delegated to carry out debt and debt-related functions on behalf of government. In turn, a clear mandate facilitates the formulation of debt management policies that ensure effective management of borrowed funds and the formulation of a public debt management strategy. In so far as the legal framework sets clear delegations it also promotes transparency, discipline and accountability through reporting and auditing requirements.

17. **Although parliament usually has the ultimate power to borrow, it should not be involved in individual debt management operations.** The first level of delegation of the borrowing power therefore comes from parliament to the executive branch. Further delegation (possibly) within the executive branch of government to a debt management entity should be provided for in secondary legislation. These powers should be exclusive: there should be a single borrowing authority instead of multiple authorizing units.

18. **Another common constraint to borrowing by the executive is the retention by the parliament or congress of the power to ratify certain loan agreements, particularly loans borrowed from abroad.** This ratification procedure should be limited preferably to loan agreements that are classified as treaties (for example, international agreements concluded between sovereign governments i.e. bilateral debt, or agreements between a sovereign government and another subject of international law, such as the World Bank i.e. multilateral debt).

19. **Primary legislation should include the specific purpose for which the executive can borrow.** To safeguard against borrowing for speculative investments, or, to finance expenditures that have not been included in the budget, parliament’s authorization should specify the purposes of the borrowing for example, for budget financing and liquidity.

20. **The legal framework should state objectives for debt management.** Clear debt management objectives elucidate parliament’s mandate and allow the debt manager to formulate a policy in line with those objectives. The legislation should also require the entity authorized to manage the government debt to develop a debt management strategy and to report back with an evaluation of outcomes against the stated objectives. Such policies reveal the government's expectations with respect to the selection of debt instruments, the preferred share of domestic and external debt, maturity and instrument tenors and expected costs.

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18 The coverage of the legislation differs across countries. In Anglophone countries the legal system flows from a common law tradition, where decisions by courts are explicitly acknowledged to be legal sources whereas in other countries based on civil law, the sources recognized as authoritative are primarily those in the legislation. Country practice also varies on the boundary between primary and secondary legislation and the extent to which the roles and responsibilities of officials are specified in legislation.

19 The parliament “has, as a rule, the ultimate power to borrow on behalf of the central government” which stems from its constitutional power to approve central government tax and spending measures. World Bank, Debt Management Performance Assessment Methodology, 2015.
21. **In addition to providing for borrowing by the central government, the legal framework should clarify the borrowing mandates for public sector bodies.** It should define how borrowing authority is distributed among central and general government and the broader public sector, including subnational governments (SNGs) and state-owned enterprises (SOEs). Some countries create limits and controls on government related entities to borrow domestically or externally. Good practice shows that subnationals and SOEs are required to report on borrowing activities to the central government, which consolidates and publishes debt statistics on different government levels.

22. **The primary legislation should clearly define which entity has the authority to issue guarantees and to on-lend funds.** Ideally the issuance of guarantees and on-lending operations should follow policy guidelines based on three steps: (i) Control-setting limits and centralizing the issuance; (ii) Decision Process – setting the purpose, eligibility criteria; conditions, evaluation of costs and risks, charging fees, process and procedures; (iii) Monitoring – recording and reporting on the risks, ensuring payment and planning for recovery. Sound practice requires a risk assessment (including credit risk) before issuing loan guarantees or on-lending. An understanding of the risks could assist the authorities mitigate against the potential defaults by using partial guarantees, requesting counter guarantees or collateral, and using budget provisions or reserves. Based on the risk assessment a risk premium could be levied upon the beneficiary of the loan guarantee or the on-lending.

23. **Countries may use different hierarchies for their laws.** Primary legislation is often found either as part of the Public Finance Act, or, in a stand-alone public debt or debt management law. Where multiple laws governing public debt management exist, it is important to ensure that there are neither inconsistencies between the laws, nor any gaps in their coverage. Primary legislation should be complemented, at a secondary level, by clear decrees that would allow for an effective implementation of the required legal provisions. A third level of the legal and regulatory framework comprise a complete and thorough set of procedures at the department or unit level that would detail the various tasks and controls to be carried out by the staff to better manage debt and government guarantees. Annex II provides more detail on the coverage of the legislation and discusses the boundary between primary and secondary legislation.

24. **Some countries use specific regulation to establish a statutory Public Debt Management Committee (PDMC) with decision-making powers, or, to provide advice for decision makers.** Somalia should consider if it is appropriate to provide for such a committee in a regulation/decree to ensure cooperation and coordination of all concerned government entities. Although the high-level purposes of the PDMC might be in the primary legislation, detailed terms of reference would be for secondary legislation or administrative decision. The Public Debt Management (PDM) or Public Financial Management (PFM) law could also include powers for the ministry of finance to set up internal policy committees or external advisory committees; but should allow for terms of reference and membership to be promulgated separately.

25. **A federal setup implies a stand-alone administration structure for regional governments.** Regional government should establish the debt management capacity, at least for recording, monitoring and payment functions. The federal DMU’s role would be to assess the credit risk of beneficiaries of credit enhancing schemes and control such borrowing. The limits and policy framework are typically defined in accordance with the overall fiscal objectives which are beyond the DMU’s role.
26. The Public Finance Management Act (PFMA) is the main piece of Somali legislation governing Public financial management and public debt management. The Act has several provisions in line with sound legal framework and lack other important components. The legislation establishes general principles for intergovernmental coordination, setting debt definitions and accounting standards, reporting requirements for public bodies within the central government (CG), subnational governments (SNG) and state-owned enterprises (SOE).

27. The PFM Regulations (PFMR) set out detailed guidance towards implementation of the PFMA. The PFMR publication, itself a HIPC Completion Point trigger, provides definitions, delegates roles, responsibilities and powers to officials in various capacities, covering the budget preparation and execution, specifying government payments and the use of the Somalia Financial Management Information System (SFMIS), guiding cash management functions, among other provisions. The regulation requires for the MoF to prepare an annual borrowing program and guides how guarantees and on-lending should be managed.

28. Authorization to borrow is clearly defined. The Minister of Finance has the sole power to borrow and no public body, except the Minister, may borrow or obtain overdraft from any creditor or source. The legislature sets and annual ceiling and needs to approve the general terms and conditions of the borrowing except for securities.

29. The Minister has the sole power to issue guarantees and to on-lend credit. On-lending to SNG and SOE is authorized under Article 36 (2) and the operations need to be approved by the legislature and shall be made on account of the federal government. According to Article 37 (1-3) the Minister can issue guarantees according to the limits, terms and conditions approved by the Parliament.

30. The legislation specifically constrains SNG borrowing. Article 36 (4) prevents SNG to borrow externally and requires prior approval from the minister for borrowing domestically. Article 37 (4) allows SNG to issue guarantees internally, subject to the federal law governing SNG finance.

31. The PFM and CBS Acts are sufficiently clear on conditions under which the FGS can borrow from the central bank but could clarify repayment terms. The PFMA clearly states that the Minister of Finance has the sole power to borrow and issue guarantees. IMF lending to support the balance of payments also needs to go through this track. The law is silent about external borrowing by the Central Bank. PFMA Article 36 (3) clearly says that no public body except the MoF may borrow or obtain an overdraft from any source. The CBS Article 29 states that the CBS may make direct advances to the FGS for offsetting fluctuations between receipts from budget revenues and payments of the Government, specific to certain conditions, including a limit of 15 percent of gross recurrent revenues from the previous year. CBS lending must be secured with negotiable instruments issued by the government which mature no later than 12 months. The CBS could be clearer by adding in the same paragraph, a provision to stipulate that the FGS must repay the CBS within a year from the original lending.

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20 Managerial structure and regulations related to institutional organization is treated in a separate section.
21 The PFM Act was signed into law on December 25, 2019 and became effective on January 7, 2020.
22 Articles 35 (1-3) and 36 (1, 3).
23 The terms and conditions for securities are defined by the Ministry of Finance / CBS in its capacity as fiscal agent.
24 Article 37 specifies that only the minister of finance may issue a guarantee on behalf of a SNG and SOE.
32. **The purpose of borrowing is not defined in the PFMA.** Primary legislation typically describes the uses of borrowing to allow the government to (i) undertake debt management operations (e.g. debt refinancing); (ii) finance the state’s budget; (iii) implement programs and projects included in the budget; (iv) enable the central bank to implement monetary policy; (v) finance so-called guarantees; (vi) deal with the impact of natural disasters, public calamities, pandemics etc.\(^{25}\)

33. **Debt management (DM) objectives are not stated in the PFMA.** In general, DM objectives are presented in specific pieces of legislation along the following lines: “...the objectives of public debt management are to ensure that Government’s financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, with a prudent degree of risk, and to promote development of the domestic debt market.”

34. **There is no explicit reference for the government to design and publish a DM strategy or a guarantee/on-lending framework.** Article 13 (d) of the PFMA states that “…the Medium-Term Fiscal Policy Framework paper shall include, at least, (...) (d) identification of financing gaps and financing strategies of the National Budget for the next three years...". The PFMR (Article 78) states that the DMU, in conjunction with related units, shall prepare and submit to the Minister an annual borrowing program. Articles 81 and 82 of the regulation details the procedures necessary to issue and manage guarantees and on-lending. It is understood that federal guarantees can be applied to loans, PPPs, concessions and projects.\(^{26}\)

35. **Reporting requirements are provided in different articles.** Article 2 (f) defines the roles of those entrusted with PFM functions needed to provide public information on the national budget, which includes SNGs and SOEs. The Accountant General (AG) is required to publish a report with outstanding debt, guarantees and arrears (Article 44 (3)). Other types of contingent liabilities are to be reported according to Article 8 (3). In addition, a set of articles require public bodies to submit monthly reports on revenues, expenditures, assets and liabilities to the Accountant General (AG) together with the timeliness. These provisions require each public body to produce and report debt figures and point the AG as the unit ultimately responsible for accounting and reporting on debt for the federal and subnational governments and SOEs.\(^{27}\) The AG is also responsible to set the accounting standards to be used in the public sector. The content of the reports is not specified.

### Issues and Recommendations

36. **The Parliament’s mandate to approve domestic and external borrowing needs further clarification.** According to Article 35 an "Appropriation Act" approved by the Federal Parliament of Somalia imposes an annual ceiling on new internal and external borrowing of the FGS and government guarantees and requires the approval of the general terms and conditions of these borrowings, except securities. It is unclear how the approval process would unfold or to which extent the legislature would

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\(^{25}\) With respect to special reporting by FMS governments on their use of borrowed funds: FMS and SOEs would most likely be guaranteed by the FGS and linked to project financing. The legislation requires SOEs and government related entities to report their balances sheets on a regular basis to the Accountant General (Articles 1(2) and 9(3) of the PFMA). Inserting a requirement on the borrowing by FMS governments on the use of their borrowed funds could be elaborated if not done so.

\(^{26}\) This is referenced in PFMA Article 37 (6): “A guarantee under this section encompasses a loan guarantee and any other contingent liabilities as defined by the Minister in accordance with internationally accepted standards;” and in the PFMR Article 81 on the Management of Guarantees which requires "an explanation of the project or public private partnership to which the guarantee or on-lending is being provided” as one of the documents required.

\(^{27}\) Article 43 (1, 2), 45 (2) and 49 (1, 2).
examine the loans’ terms and conditions before approval. From the DM perspective it is desirable to obtain guidance and oversight by the legislature on strategic issues and borrowing plans. Contrasting to that, case-by-case approvals should be avoided while undertaking debt operations. Although the legislation waives that requirement for the issuance of securities, such requirement for loans may cause delays in debt operations depending on the legislature’s agenda. Parliament typically ratifies loan agreements classified as treaties such as bilateral and multilateral debt, which are negotiated by the MoF. It is recommended to clarify what are the conditions and the timeliness of the Parliamentary approvals.\(^{28}\)

37. **The purpose of borrowing should be integrated in primary legislation.** The purpose of borrowing typically belongs to pieces of legislation that last for longer periods rather than in annual budgetary laws or internal regulations.\(^{29}\) The main reason to include borrowing purposes in the primary legislation is to safeguard against borrowing for speculative investments or to finance expenditures that have neither been included in the annual budget nor approved by the Parliament or congress in some other fashion. If the latter were allowed, the budget process would lose its meaning and could eventually force the Parliament or congress to raise taxes or cut expenditures to service the debt contracted to finance such expenditures. The authorities should introduce the provisions on the purpose of borrowing by amending the PFMA or other primary legislation related to PFM or debt management.

38. **Debt management objectives should be included in the legislation.** Alongside with the purpose of borrowing, DM objectives are important to demonstrate the commitment of the government to follow borrowing guidelines over the medium term. This is important to provide transparency, to avoid opportunistic behaviour in borrowing activities limiting the government to bear unnecessary costs over time.

39. **Once debt management objectives are set, they ought to be translated into an operational strategy that sets out the medium-term framework detailing how the objectives would be achieved.** Although the PFMR (Article 78) requires the DMU to prepare an annual borrowing plan, this output would be closer to the budget preparation rather than medium term debt strategy. A debt management strategy (DMS) should extend the horizon to at least three years and present the preferred borrowing strategy and target cost-risk indicators for the debt portfolio. The PFMR should include a requirement to produce and to publish an annual medium-term DMS.\(^{30}\) The DMS should be approved by the Minister of Finance (or Cabinet).

40. **Similarly, there is no guidance on the guarantees/on-lending in terms of targeted modalities, sectors or beneficiaries.** Articles 81–84 detail the procedures to issue, monitor and call guarantees. A sound regulatory framework should include the purpose of the guarantees/on-lending, the list of sectors, projects and institutions that are supported by these credit-enhancing schemes. The regulatory framework could further benefit from adding guidance on the procedures to assess credit risk from the beneficiaries and how to charge respective fees. This could be done by secondary legislation such as ministerial decrees or ordinances that would be aligned with the development strategy in place.

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\(^{28}\) Some countries with a strong parliamentary tradition require parliamentary approval when the country is signing loan agreements with IFIs. However, other arrangements are effective. Once the legislative delegates borrowing the Executive (MoF), the ratification by Parliament is no longer necessary.

\(^{29}\) The authorities have mentioned that the budget law includes the purpose of borrowing for that year.

\(^{30}\) By virtue of being public, this would also be available to the Parliament. In addition, it is sound practice for an annual borrowing plan (in line with the debt management strategy) to be published although this may not need to be embedded in legislation.
41. In addition to guarantees, the government should assess the credit risk of its on-lending activities and be allowed to collect fees or charges (spreads) on those operations. Besides guarantees, on-lending operations are exposed to credit risk from beneficiaries and should be subject to charges. Spreads charged over the original interest rates or other penalties are typical recovery mechanisms that help mitigating default risk. In that respect, Articles 81 (d), (f) and 82 (2) should be reviewed to include on-lending. The methods to assess and charge credit risk for different types of guarantees/on-lending could be addressed in the DMU’s internal procedures. As in the case of guarantees, on-lending operations should also be guided by secondary legislation to define the scope of beneficiaries and sectors in line with policy goals.

42. Recovery schemes against called guarantees are too strict regarding the proceeds’ usage. Article 83 (2) of the PFMR says “The moneys in the account referred to in sub regulation (1), shall be used only for the repayment of a government guarantee that is called.” Because of timing (pre-defined maturities) and operational issues, the DMU may be required to fulfil the guarantees with ordinary resources that are not originally linked to the obligations. Moreover, the reserve account for guarantee fees may not be enough to cover all the obligations assumed by the federal government. A few recommendations follow which would also help improve the recovery mechanism in case of default for guarantees/on-lending: (i) the authorities should be allowed to service any other federal debt by the moneys in the reserve account in addition to the called guarantees (modifying Article 83 (2)); (ii) the Ministry of Finance should be able to block federal transfers that may transit through the federal system to the beneficiaries, until the defaulted payments and charges are recovered. The applicability of such recovery mechanisms would have to be set in formal contracts and would have to negotiated case by case. This could be introduced in Articles 84 or 93 and would reinforce the recovery mechanisms in case the collected fees are not sufficient; (iii) the government should estimate the guarantees expected to be called in the budget.

43. The delegation of borrowing powers from the Minister is not specified in the legislation. Although Article 36 stipulates that the Minister of Finance has the sole power to borrow, there are advantages to delegating the borrowing powers on the operative level to streamline operations once they become frequent. The PFMA allows the delegation of powers through ministerial decree (Article 26 (1, 2)). In the future, the authorities may wish to issue secondary legislation or a Ministerial Decree delegating borrowing powers to a subordinate authorizing officer (e.g. Director General of Budget). Such a regulation would not exclude the Minister from carrying on with the authorizations but creates flexibility in the future once borrowing activities become more frequent.

31 “The Minister shall issue and publish a Ministerial Decree that specifies the delegations of his powers and duties contemplated in this Act and regulations made thereunder.”

32 This is in accordance with PFM Regulations – Article 3.
Summary of Recommendations

Short term measures:

1. Include the purpose of borrowing and the use of guarantees and on-lending in the primary legislation as there is no reference to those in the PFMA.
2. Clarify the requirement for the Somali Parliament to approve domestic and external borrowing and the issuance of guarantees.33
3. Include in the legislation (primary or secondary): Debt Management objectives, the requirement to publish a Debt Management Strategy and a guarantees/on-lending framework.

Medium term measures:
Regarding guarantees and on-lending management (secondary legislation):

a. Introduce a provision allowing charges to be applied over on-lent credit.34
b. Provide guidance on how to assess credit risk and to charge fees on the beneficiaries.35

c. Extend the use of the proceeds from called guarantees to service other debt under the DMU's responsibility.36

d. Introduce provisions to allow the MoF to block federal transfers to the beneficiaries until the defaulted payments are recovered (fully or partially).37 The terms of the recovery mechanism would have to be negotiated case by case.

e. Require the DMU to estimate the amount expected be called in the annual budget.38

33 This is related to Article 35 of the PFMA.
34 This affects PFMR's Articles 81 (d), (f) and 82 (2)).
35 This could be introduced in the DMU’s internal procedures or technical notes.
36 This affects PFMR Article 83 (2).
37 This may affect PFMR Articles 84 or 93.
38 This could be introduced in PFMR Articles 81-82.
IV. Institutional Framework

Sound Practice

44. The institutional setup of a country’s debt management should be clearly articulated in its legal framework and specify the various roles and responsibilities of sovereign debt management. Strong governance entails a clear division of responsibility between stakeholders, with the sovereign authority (e.g. Parliament, Cabinet) setting overall long-term debt management objectives, approving the strategy, and outlining the executing function. Execution requires the creation of a debt management unit, which is then delegated the responsibility of implementing the strategy and reporting on outcomes. A strong institutional framework should also cover issues such as the formulation and implementation of the debt management strategy, operational procedures, quality assurance practices, data reporting and verification responsibilities, and general oversight of debt management operations.

45. There should also be clarity of roles and responsibility among government institutions responsible for debt management, namely among the ministry of finance, central bank or separate debt management agency. Information on the roles, responsibility and objectives should be publicly disclosed including related to the undertaking of primary debt issues, secondary market arrangements, and clearing and settlement arrangements for government securities. For example, in countries where the central bank may be mandated to conduct some debt management activities (ex. auctions of government securities on behalf of the principal debt management entity), roles and responsibilities should be formalized in an agency agreement and/or secondary legislation. Further, information sharing between the debt management entity and the central bank is critical including as part of the debt management strategy consultative process.

46. A strong framework also requires the preparation, publication and implementation of an annual debt management strategy by the DMU. The debt management strategy operationalizes the government’s debt management objective and is set within the country’s fiscal-, monetary-, and macro-framework. A robust debt management strategy is founded on high quality consultation, most notably with central bank and fiscal counterparts, and is ultimately approved at a high level: in practice, Cabinet, a council of Ministers, or a high-level Public Debt Management Committee should be entrusted with approving the debt management strategy.

47. International sound practice for the debt management institutional setup is based on a functional organization of the debt management office according to front, middle and back-office type functions. The front office is typically responsible for negotiating loans and executing transactions in financial markets, including the management of syndicated issues, auctions and other forms of borrowing, and all other funding operations. The middle office is usually mandated with the tasks of setting the overall debt management strategy, monitoring risks and ensuring that the front and back-office operations comply with the imposed limits and controls. The back office handles the settlement of transactions and maintenance of the financial records. This ensures the separation of duties between those negotiating loans and/or executing transactions and those confirming and settling the transactions to reduce operational risks, specifically the risk of fraud. External processing agents (such as the fiscal or paying agent) can manage some of the back-office functions, but the back office needs to prepare the payment orders or advices and debt general ledger entries in the accounting system.
48. A successful DMO requires adequate staffing – including legal expertise - with secure funding and a plan for staff training, turnover, and promotion. Debt managers require appropriate legal advice to ensure that the transactions they undertake incorporate sound legal features and that transactions are backed by sound legal documentation. The involvement of legal advisers before signing of a loan contract or security is sound practice. Turnover in a DMO is inevitable, but it is important to manage the transition so that critical human capital is not lost when a member leaves the debt office. Moreover, debt management is a complex task requiring specialized skills, training, and abilities.

49. Given their strong interdependencies, debt managers, fiscal authorities, and central bank staff should coordinate regularly to ensure their understandings align with respect to baseline macro-forecast and associated monetary and fiscal policies, financial market conditions and funding costs, as well as analysis on the costs and risks associated with government financing requirements and debt levels. Regular meetings should be instituted, codified in agreed terms of reference that establishes the roles and responsibilities of each member, and timed to coincide with key updates (budget, monetary policy, debt bulletin releases).

50. It is good practice in sovereign debt management to establish a high-level body that is responsible for the oversight of the country’s debt. While its location, membership, and structure may change to suit country specific circumstances, what is important is that the PDMC is responsible for key institutional functions such as: approving the quarterly and annual reports of debt management; approving the debt strategy and monitoring implementation; and recommending changes to the conduct of debt management. Moreover, the High-Level PDMC can provide an opportunity for coordination across key stakeholders within the government and critical buy-in to the debt strategy, which may prove useful when there are pressures to engage in irresponsible borrowing.

51. A modern DMO also needs to be able to manage and coordinate all aspects of domestic debt issuance, playing a key role. Domestic resources can play an important role in the DMO debt management strategy and brings some important advantages compared to external borrowing. Nevertheless, the development and maintenance of a domestic debt marketplaces additional requirements on the DMO in terms of capacity and coordination. Coordination is needed with the central bank as fiscal agent, financial institutions as likely investors of sovereign securities, and the fiscal authorities for cash management planning. Moreover, the analytical and administrative infrastructure needs to be in place to manage an active domestic securities portfolio, including providing securities that are legally and socially acceptable to the investment community.

Current Situation

52. A Debt Management Unit (DMU) was established in the federal Ministry of Finance in 2015 and is externally funded. The DMU is composed of four externally financed staff comprising one director and three staff. While the AfDB has a long history of supporting the DMU, both with staffing and the acquisition of debt recording software, future funding remains uncertain. While funding is likely for 2021, the outlook for 2022 and beyond is less certain and points to the fundamental need to place the DMU on a more permanently sustainable footing through integration in the civil service. Should funding for 2022 not be forthcoming, this would risk jeopardizing the implementation of reforms and timing proposed in this Reform Plan.

53. While PFMA mentions a role for the head of the DMU, there is no mention of the establishment of a DMU, nor does it feature in the proposed MoF organigram (Figure 1). Solidifying the position of the DMU within the Ministry of Finance is essential towards cementing the
crucial functions of a DMU, establishing for business continuity and a clear delineation of accountabilities and responsibilities.

54. As important as the DMU’s place in the MoF is clarity on the institutional structure within Somalia’s DMU. Currently, roles are clearly defined between the four DMU staff, but the work is largely shared given the current asymmetric demands on the office. Going forward it will be important to further divide responsibilities, especially the front and back-office function, providing a clear delineation to avoid miscommunications and facilitate audit/review functions.

Figure 1: Proposed Ministry of Finance Organigram

Source: Proposed MoF Organigram as of end-January 2021.

55. Presently, the DMU’s activities are limited to the debt management activities following the achievement of the HIPC Decision Point, monitoring the debt-related performance criteria under the IMF program, and constraints in new borrowing. It is primarily occupied with: the reconciliation of the debt database with newly signed debt restructuring agreements, especially recent agreements reached with Paris Club creditors; monitoring the accumulation of external and domestic arrears; feeding debt service estimates into the budget process, publishing the Standard Debt Report; and originating the processing of debt payments. Moreover, progress is being made, with the support of the AfDB, to upgrade the debt reporting system (i.e., to the Commonwealth Meridian system, the successor of the CS-DRMS), and to train staff on it. Given the political and economic context, domestic public debt is comprised solely of accumulated arrears, mostly unpaid salaries, which are being validated by the Domestic Arrears Management Committee, which the DMU acts as secretariat for. The external debt database is comprehensive, and with some rare exceptions, fully reconciled as the
56. **Somalia is currently in a situation where there is no foreseeable domestic or external borrowing (excluding IMF support and CBS advances) until after it reaches the HIPC Completion Point.** As a result, the DMU does not devote resources to typical middle or front office functions, such as developing a debt management strategy or borrowing plan; nor does it have in place the resources for more operational functions associated with the issuance, pricing, rollover and payment of government debt.

57. **Current DMU capacity has thus far been sufficient for Somalia, but demands are going to increase in the run up to, and especially after, Somalia reaches its HIPC Completion Point.** This will require capacity building for new skills of the DMU in preparation for this new phase – such as in cost-risk analysis, debt management strategy design - as Somalia’s borrowing options open up thanks to the provision of debt relief. Moreover, as the number of tasks the DMU is expected to undertake, including negotiation of loans, consideration will need to be given about what is the optimal staffing size of the DMU.

58. **Some coordination across debt stakeholders within government is underway.** Coordination on debt management between the MOF and CBS is nascent but progressing. No agreement or MOU exists. A Cash Management Committee is established with members of the Ministry of Finance (DMU, budget, Director General), CBS, and key MDAs. Fiscal coverage is not complete. There is a need to improve the coordination of debt management to support more efficient cash management and facilitate external payments. Consequently, and especially with the transition to Meridian where read-only rights can be provided to stakeholders and the system can be integrated into other financial management software, there is an opportunity and need to improve coordination between the CBS, AG, and DMU.

**Issues and Recommendations**

59. **The DMU needs to be integrated and institutionalized in the Ministry of Finance.** At the moment the DMU is not explicitly part of the MoF structure. DMU is a critical and core function of a MoF as it manages the largest financial portfolio. A DMU that is well positioned within the MoF and is institutionally sustainable is crucial. A suggested proposal for the positioning of the DMU in reporting directly to the Director General of Finance is in Figure 2. The proposed organizational structure, and roles and responsibilities aim to: (i) recognize the importance of sound debt management by establishing an entity focused on core debt management functions; (ii) underscore the setup of a sustainable structure for debt management; (iii) reflect current needs and planning for post-HIPC Completion Point when government borrowing will resume; and (iv) support coordination between the DMU and other stakeholders. The MoF’s ongoing review of its structure presents an ideal opportunity to formalize the position and role of the DMU in the MoF.

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39 The CBS law allows for the temporary advances as long as the total amount outstanding at any time of advance does not exceed 15 percent of the gross recurrent revenues of the government as shows in the government’s accounts for the latest year for which those accounts have been audited by the Controller and Auditor General. At the same time, the IMF program includes an adjustor to the NFA floor to allow some limited amount of exceptional financing need in the event that fiscal revenues underperform the program baseline due to prolonged impact of COVID-19. Following the mission, the authorities executed the first of three expected tranches in June 2021 within the limit ceilings.

40 Based on the team’s meeting with the AG’s office, the coverage of the forecast is about 60 percent of budget revenues.
60. **It is recommended that the DMU is in the civil service cadre and thus sustainably financed.** The current staffing (e.g. consultants) and funding structure (e.g. external IFI support) are a risk to the long-term continuity of the DMU. A durable solution to DMU staffing, which ensures capacity is maintained and knowledge is transferred as turnover inevitably occurs, will be essential to the long-term success of Somalia’s debt management and capacity development efforts. Somalia has benefitted from a stable DMU workforce, thanks in large part to external financial support to cover the remuneration of DMU staff. While funding from AfDB is secure for 2021, and a potential extension is possible, there is a need to find a long-term solution to the staffing of the DMU that provides sufficient compensation to staff from a stable funding source. The current organizational review of the MoF may provide an opportunity for Somalia to address this issue and develop a timeline for transiting DMU staff from externally paid consultants to government funded civil servants. Consideration could be given for a special grade ladder for debt management specialists, given the specific skills required.

61. **DMU support functions need to be established for key roles, with high priority given to legal support.** A legal advisor, previously based in the Minister of Finance’s office, has left leaving the DMU with no legal support. This poses real risks to debt management in the context of multiple debt restructurings. This is especially true as some external claims remain to be under assessment. This function will also be crucial in the post-HIPC context when new borrowing may be incurred. Other support functions to be scaled up include IT support. There will also be a need to scale up payment processing, debt recording (and additional training on Meridian), and paving the way for streamlined procedures for standard debt payments.

62. **The roles and responsibility of the DMU and functions within the DMU need to be established.** It is recommended that a procedures manual be developed to elaborate the overall responsibilities of the DMU, deliverables and processes. The manual would also outline the different functions and responsibilities of functions within the DMU. At the time of the mission, the DMU had started working on a preliminary version of such a manual.

63. **The capacity of the DMU needs to be enhanced so that it is prepared to meet HIPC Completion Point obligations and operate effectively in the post-HIPC era, which could begin as early as 2023.** A DMU requires specialized skills, and a training program needs to be established to
continue building the capacity of DMU staff in line with DMU functions that are expected to develop. While staff at present is rightly focused on the HIPC process, the MoF should begin now to enhance staff capacity in middle and back-office functions in order to possess the ability to develop key debt management products (e.g. debt strategy, borrowing plan, risk analysis, debt reports). Coordinated capacity development from external partners would be welcome.

64. **A phased approach is suggested towards building DMU capacity in line with expected evolution of DMU scope of work.** The first phase of building capacity of the DMU should focus on enhancing the institutional DMU setup, clarifying roles and responsibilities within the DMU, and consolidated and comprehensive recording of debt data and debt reporting. Following the implementation of the reforms proposed under this reform plan, the second phase should build capacity to design a debt management strategy, undertake domestic and external borrowing, and develop a loan guarantee framework.

65. **Improved coordination, analysis, and buy-in for debt management will be needed to prepare Somalia for the quickly approaching post-HIPC era.** Enhanced communication, including coordination with the CBS, and improving the coverage of the Cash Management committee, will be a first step towards improved coordination among key government agencies responsible for debt management. Political buy-in, either at Cabinet or some other high-level structure, is essential for debt management and, further down the line, the credibility of the debt management strategy.

66. **The establishment of a High-Level PDMC would enhance policy and technical level coordination on debt management.** Such a committee should include the main government players involved in public debt management such as the MoF and CBS. The Committee would provide a coordination role and undertake technical discussion of the DMU’s proposals, especially of the debt management strategy. The DMU could serve as the Secretariat of this committee, with the DMU Director as head of the Secretariat.

**Summary of recommendations:**

**Short term measures**

1. Institutionalize the DMU as a core function within the MoF, reporting to the Director General, and included in the MoF’s official organizational structure
2. Ensure sustainability of the DMU by incorporating the DMF in the civil service (and thus securing annual budget financing)
3. Clarify roles and responsibilities of and within the DMU through a Procedures Manual
4. Build support capacity for the DMU, giving priority to the hiring of legal advisory as the most time-sensitive

**Medium term measures**

1. Secure sequenced training of DMU staff (on the job and external training) as debt management functions are highly specialized
2. Consider establishment of a PDMC to enhance coordination between the DMU and other key government players involved in public debt management. If deemed appropriate, establish the PDMC (i) through legislative or regulatory changes; and (ii) assigning a Secretariat.
V. Debt Recording, Reporting and Monitoring

Sound Practice

67. **Debt reporting by the DMU and/or government on the debt stock and contingent liabilities is key towards transparency and accountability.** According to the World Bank – IMF Public Debt Management Guidelines (2014), “the debt manager/government should regularly (monthly or quarterly) publish information on the outstanding stock and composition of its debt liabilities and financial assets, and, where they exist, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure.” Where contingent liabilities exist, the public accounts should also disclose information on their cost and risk. The responsibility of publication of information of contingent liabilities depends on the authority responsible for their management.

68. **Timely, accurate and comprehensive debt data that are easy to access are a cornerstone of sound borrowing and lending practices, support accountability and reduce corruption opportunities.** Policymakers in debtor countries require this information to make informed and appropriate borrowing decisions, to safeguard debt sustainability and macroeconomic stability. As such, governments should report borrowing activities for the CG, SNG and SOEs. Creditors, donors, analysts, and rating agencies need that information to make accurate assessments of sovereign financing needs and creditworthiness, and to appropriately price debt instruments. The scope of debt coverage and accessibility of debt reports, statistics, and other information are a key pillar in the evaluation of debt capacity, which play a key role in determining credit worthiness and debt sustainability. Finally, the public requires this information to hold the government accountable for its fiscal management, and to enable citizens to participate more actively in governance, potentially reducing corruption.

69. **Sound debt management practice calls for processes that facilitate recording, monitoring, settlement, and accounting of all central government debt and debt-related transactions.** Such processes should provide a timely, accurate, consistent, and complete database of all direct debt, both external and domestic, and guaranteed debt.

70. **A typical debt recording system covers all the financial instruments in the government debt portfolio.** This facilitates a comprehensive recording of all debt-related transactions with minimum manual data processing. The system should assist debt managers in storing, securing, processing, validating, and disseminating debt statistics (on total debt and specific sub-portfolios) in a timely and accurate manner. It should ensure data integrity and, ideally, permit interfacing with other financial management systems within Government. The debt recording system should be protected through carefully assigned access authorities to data entry, authorization and editing of records, and include audit trails. In addition, business continuity should be safeguarded by documented procedures for debt and transaction data recording and validation, safe data storage and backup procedures.

71. **When borrowing through domestic securities, settlement risk is reduced by the creation of a central securities depository (CSD).** A CSD facilitates the immobilization or dematerialization

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42 See Annex IV for details. Broader institutional arrangements regarding domestic borrowing are treated earlier in the report.
of securities and their transfer by book entries in securities accounts maintained at the depositary. A CSD can reduce settlement and custodial costs as a result of economies of scale, greater automation, reduction of errors, and avoidance of the risks of theft and destruction.

72. **Operational procedure manuals are important.** They contribute to define roles, attributions, steps to be taken related to debt issuance, recording, payments. Manuals help to identify possible sources of risks, reduce the frequency of occurrence of such risks and mitigate the effects whenever they might occur.

73. **As to debt reporting, important aspects of debt management should be disclosed and periodical publications can fulfil critical legal and transparency requirements.** For example,
   - *DMOs often publish quarterly/monthly reports* that provide key information about the country’s debt stock and key cost-risk indicators. These debt bulletins are usually freely available online (via the DMO or Ministry of Finance Website), along easily accessible source data.
   - *Debt managers often also prepare an annual debt management report,* ideally submitted to Parliament, which reviews the previous year's activities and provides a broad overview of borrowing plans for the current (and future years) based on fiscal and macroeconomic projections. The reports evaluate the performance of debt management operations against a previously approved debt management strategy, often cover the debt management strategy for the following year, outline any adjustments to the strategy, and discuss market conditions and the likely availability of financing sources.
   - *Debt management best practice also encourages managers to make available documents important to the administration of public debt.* These documents would include key legislation, regulations, and other material related to the operation of the DMO (e.g. business structure, delegation of responsibilities, business continuity plan, etc.).

74. **The regular production and publication of a debt bulletin and annual report are critical aspects of informing stakeholders.** Moreover, the process of evaluating outcomes against stated objectives promote transparency in debt management operations and promotes good governance through greater accountability. Reporting to Parliament is particularly important given the fact that it has delegated its borrowing power to the executive; thus, there is a legitimate interest in knowing how the executive is using this power. Debt reporting is also critical towards promoting direct accountability by the public. Regular, frequent, transparent reporting is also important for fiscal coordination in a federal system.

75. **Key metrics for debt reporting cover several dimensions.** One is whether the data is easily accessible and publicly available through centralized rather than multiple sources. Another one is the completeness of the debt data reported in terms of the coverage instruments (external, domestic, guarantees…) and sectors (central government, general government or total public sector) and information on recently signed external loan contracts (including name of lenders, amount and terms and conditions of the loan). Furthermore, the published debt data has to be timely both in terms of the periodicity of publications and the time lag between the publication data and the period reflected in the data.

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43 This section focuses on a subset of debt reporting requirements, namely monthly/quarterly statistical bulletins and debt annual reports, and the completeness and timeliness of debt records and registry; in line with Debt Management Performance Assessment (DeMPA, 2015) requirements on debt reporting and recording.

44 Evaluation criteria across these areas is available in a methodological note available on the World Bank's Debt Reporting Heatmap available here: https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report
Current Situation

76. Since losing debt records during the civil war, the Somali authorities have worked diligently to reconstruct the country’s debt database. The Debt Management Information System (DMIS) has been installed and DMU trained on the system. Significant progress has been achieved in recollecting external debt records. The authorities have been publishing an annual table on debt (the Standard Debt Reporting Table).

Debt Recording

77. The DMU undertakes debt recording, having received training to operate the Debt Management Information System (DMIS). Debt coverage is limited to the central government, but risks of contingent liabilities are currently assessed as minimal given that SOEs (if they exist) are not allowed to borrow. Because Somalia is not contracting new external borrowings, recording activities are limited to updates of the debt outstanding in the database. A comprehensive dataset was compiled after the authorities reached out to creditors to recollect the debt records lost during the civil war. The DMU has received assistance from the WB and the IMF to reconcile the external debt, with significant progress. The authorities mentioned that the current external outstanding debt is recorded in the debt management information system and that support had been received from external consultants funded by the AfDB.

78. However, debt data are not centralized in the debt management information system (DMIS). The outcomes of the recently restructured debt are kept in separate spreadsheet files outside the DMIS system. While the authorities plan to consolidate, there is a time lag. Although there are still ongoing discussions with some creditors, most of the renegotiated external debt has been identified. Domestic debt arrears are now captured in spreadsheets and in the SFMIS.

79. The DMU’s mandate is to manage central government debt and loan guarantees and on-lending. Although borrowing activities are halted until the HIPC Completion Point (except for CBS temporary advances), the PFMR requires the DMU to record all debt and related transactions to be inserted in the debt management system. Article 82 of the PFMR requires the DMU to abide by the AG’s instructions to record a set of data and complementary information in the debt system for each guarantee and on-lent credit. Currently there are no outstanding guaranteed debt (or on-lent credit) and such operations are not being undertaken. Several legal provisions require the AG to record and report on public bodies, subnational governments, and SOEs. With respect to PPPs, proper analysis of the risks would need to be undertaken by the government to evaluate whether or not to enter into a potential PPP for which three kinds of obligations need to be considered: (i) explicit direct obligations such as those created by agreements to purchase the PPP’s outputs; (ii) explicit contingent liabilities created by guarantees of debt, revenue, or cost overruns; and (iii) possible implicit contingent liabilities. The DMU would need to assess (ii). The other risks are to be assessed by fiscal authorities as per the PPP framework to be adopted by Somalia.

80. There is a separation of duties for doing the debt recording, but the team members undertake interchangeable roles with equal access levels in the system. One staff initiates the

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45 The reconciliation process on external debt was completed for the HIPC Decision Point. However, during the mission, a couple of new credits emerged that were being looked into.
46 For example, from Development Finance International (DFI).
47 Refer to footnote 38.
48 For example: PFMA Article 2(f), PFMR Article 46 (3).
recording process by inserting the event into the system while another staff verifies the information against the documentation before the record is validated. The head of the DMU must clear the operation for a debt instrument to be active in the system, thus affecting the stock and maturity of the portfolio.

81. The infrastructure to process and record domestic securities should be developed before the government starts issuing securities. Although this is unlikely to happen in the near future, eventually the government may wish to borrow domestically in the future to meet cash needs. Because the government is currently not undertaking new borrowings, there is no clearing and settlement arrangements or custodians to house the securities. An efficient custody and settlement system is critical for government securities markets because transactions are large and settlement failures can lead to systemic risks. Custody and settlement systems are typically undertaken by a CSD and, when efficient, can lower both costs and risks associated to the primary market.

Payments

82. Several articles of the PFMR explain how official liabilities should be served through the government’s PFM systems. Articles 16 (1 b) and 32 require that all debt service (and arrears) payments be made through the SFMIS and follow international accounting standards. Article 36-38 requires that all invoices be recorded in the system before submission to the AG for execution. Articles 79-81 regulates the budgetary allotments for debt service, defining a timeline to execute the payments and to conciliate the records in the SFMIS and debt management system based on the settlement (notification of receipt).

83. Currently the DMU shares the debt service estimates with the cash management committee every month to coordinate the payments. The estimates are prepared based on creditor’s invoices which are cross checked against the official records. After clearing inconsistencies, the head of the DMU sends a letter to the director general of budget attaching the required documentation (invoice or claims) and requesting the payment release on the due dates. The payment is recorded in the SFMIS upon the Director General’s clearance and it is forwarded to the AG for execution. Finally, the central bank settles with the creditors and sends the confirmation back to the AG for reconciliation.

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49 For example, the SFMIS and the DMIS (CS-DRMS).
50 On the IT side, articles 39 and 69 require the use of electronic payments and recommends the adoption of straight-through processing linking the TSA (SFMIS) to the payment system managed by the central bank.
51 The mission assessed the quarterly budget execution report lumps interest and principal which makes it difficult to accurately determine the interest burden on loans.
Debt Reporting

84. **As part of reaching the HIPC Decision Point, the authorities have made significant efforts in reconciling and re-confirming Somalia’s external debt.** Somalia has reached a deal with the Paris Club and has signed restructuring agreements with all PC creditors, except two. An agreement is expected to be reached with these by end-June 2021. Further, Somalia has hired debt advisors to assist in concluding the restructuring agreements with non-Paris-Club creditors. The authorities are committed to comparability of treatment in these restructurings and have begun good faith negotiations that they expect to conclude within 2021.

85. **However, the reconciliation and restructuring of some claims are pending.** While most external debt was reconciled in 2019 as part of the HIPC Decision Point process, there remain large claims (in excess of US$1 billion), to bilateral and plurilateral creditors that have recently been uncovered and for which a plan needs to be developed. While these claims should be restructured on terms similar to the Paris Club, consistent with Somalia’s commitment to ‘comparability of treatment’ pledge, achieving this objective will require time and resources (human and financial). There also exists a longstanding stock of domestic arrears, some of which are still in the process of being validated.

86. **All considered, Somalia external debt stock can be usefully grouped in different segments:** debt covered under restructuring agreements reached since HIPC Decision Point; debt that has not yet been restructured, but is expected to be in terms comparable with the Paris Club; debt that will be forgiven upon reaching HIPC Completion Point; and outstanding debts of creditors that have not committed to provide debt relief under the HIPC Initiative. Yet-to-be-concluded restructuring agreements along with expected future debt relief complicate debt reporting and will need additional explanations to assist in the understanding of Somalia underlying debt picture.

87. **Somalia has debt reporting requirements in domestic legislation, as well as external commitments, which require the DMU or AG to prepare certain documents.** Specifically, there are requirements in PFM legislation and a HIPC Completion Point trigger that requires the production of four consecutive quarterly debt bulletins before the Completion Point. These are to be led by the DMU. The issue of the debt bulletin is discussed in Annex III and relevant training in Annex V. Debt reporting thus far has focused entirely on the debt stock, and progress on debt restructuring, given that it is not
an active portfolio at present, but the preparation of a debt bulletin and other key documents will
require a more forward-looking analysis. As to the coverage of the public debt, the AG is required to
publish a report with outstanding debt, guarantees and arrears (PFMA Article 44 (3)). Other types
of contingent liabilities are to be reported according to Article 8 (3). At this juncture, it would seem that
the AG’s office would have the purview to monitor and report contingent liabilities other than
guarantees, should they arise.

88. **Debt reporting by Somalia has progressed, but further improvements are needed.** Since
2016, the Ministry of Finance has annually published a table of debt outstanding and disbursed
excluding arrears, principal and interest arrears, penalties by creditor as of end-December
2019. However, the sectoral and instrument information is not available, and the timeliness of the
information is patchy. Further, the quarterly version of the debt report needs to be further developed
to meet the HIPC Completion Point requirements.

**Operational Risk**

89. **There is significant operational risk in Somalia relative to debt data storage, and contingency plans.** Currently there are no secure backups as the data base is stored in two devices:
(i) a computer placed in the DMU’s office and (ii) another computer placed in a staff’s residence.

90. **There are no business continuity plan (BC) or disaster recovery plan (DR).** These are to
ensure debt operations will continue to be undertaken under contingent states of the nature.

**Issues and Recommendations**

91. **It is recommended that all debt records are consolidated in one database.** Currently the
renegotiated (external) debt resulting from ongoing discussions is kept in separate Excel files. DMU
staff should register the new terms and conditions in the debt management system, which should
facilitate reporting and be part of the HIPC process. In addition, staff would need to start familiarizing
themselves with domestic debt recording in the debt management system in preparation for future
borrowings.

92. **In preparation for the post-HIPC era, and to meet sound practices in debt management,**
**Somalia should strive to maintain a comprehensive database at the general government level.**
As part of improving debt data coverage and coordination and division of labour between the DMU,
central bank, and AG, the DMU should begin building capacity to track and report debt at a general
government level, including any potential on-lending and guarantees to SNGs or SOEs (if they exist or
once created). Contingent liabilities falling outside the purview of the DMU’s mandate should be
monitored by the fiscal authority.

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52 The legislative is clear. Thus, reports that the Office Auditor General annual auditor’s report states that the FGS fails to meet
its legal obligation to include information on public debt in its annual financial statement reflects lack of implementation of
this legislative provision.

was concluded the Ministry of Finance published quarterly reports for the periods ending December 2020 and March 2021.

54 Although domestic debt resulted from fiscal arrears should be reported, it does not necessarily have to be recorded in the
Debt Management Information System (DMIS) unless they are associated to a specific debt instrument, such as bonds or
bills.
93. It is recommended that Somalia adopts a phased approach to enhancing debt reporting. To not overwhelm the capacity of the DMU, and to focus efforts on the HIPC process, it is recommended that the DMU begin by publishing quarterly debt bulletins, in line with HIPC Completion Point requirements. Second, the DMU should furnish key material on the MoF website, including institutional and organizational material (e.g. relevant laws, manuals, regulations), and build up its debt transparency through the development of a repository of debt reports (e.g. annual reports to parliament, quarterly bulletins, presentation to creditors/donors, debt statistics in electronic format). A sample outline for an annual debt report is available in Annex IV. Third, following the HIPC Completion Point, the DMU should aim at complying with the standard reporting requirements of a modern DMU such as the publication of a debt management strategy.

94. A procedures manual should describe the staff activities related to borrowing, recording and payment. Covering loans, guarantees/on-lending and securities the manual should be aligned with existing regulations and detail at least borrowing, recording and payment functions. Written procedures support implementation by defining practical roles according to the official requirements and by providing guidance for incoming staff that are new to operational activities.

95. The infrastructure necessary to secure debt data backups should be provided. Debt recording and management system backups should be made frequently, and backups stored in a separate and secure (off-site) location or by using cloud computing. Storage location of the backups should be protected from incidents such as theft, fire, flood, or other incidents that may damage or destroy them. Debt data backups should be tested regularly (at least quarterly) to make sure that they can effectively be used if needed. The MoF should include the DMU in the ongoing efforts to strengthen PFM functions in the government. The DMU expects to transition from CS-DRMS to Meridian, which includes Cloud-based data backup. However, should the transition be delayed, building the backup is an important consideration for the DMU.

96. Business continuity (BC) and disaster recovery (DR) planning should be in place. These allow an organization to prepare for future incidents that could jeopardize the performance of its duties, the ability to meet business objectives, and its long-term health. Such incidents include conflicts, building fires, regional incidents such as earthquakes, or national incidents such as pandemics. Disaster recovery is the process of regaining access to the data, hardware, and software and having the minimum number of staff necessary to resume critical business operations after a disaster. The authorities should design BC and DR plans together with the IT unit.

Summary of Recommendations

Short term measures:
1. Record the renegotiated debt in the debt management system and continuously update to ensure comprehensive and consolidated debt information in the system
2. Prepare and publish quarterly debt bulletins (in line with HIPC Completion Point requirements)
3. Update the MoF website with debt bulletins and other pertinent debt management information
4. Produce and ensure adherence to a procedure manual in line with the internal regulation related to loans, guarantees/on-lending and securities in respect to (i) borrowing, (ii) recording, and (iii) payments.

Medium-term measures:
1. Prepare annual debt reports

55 This should include the structure necessary to eventual upgrades of the debt management system.
2. Setup and test the necessary IT infrastructure to enable secure debt data backups

*The development of business continuity and disaster recovery plans are critical. However, due to limited capacity and prioritization needs, they are not listed as immediate future reforms.*
### Annex I: Proposed Draft Debt Management Reform Action Plan

<table>
<thead>
<tr>
<th>Issues/Project Components</th>
<th>Actions</th>
<th>Initiate</th>
<th>Deadline</th>
<th>Lead entity (and other units involved)</th>
<th>Expected Outputs of the Actions</th>
<th>Budget (for External Assistance)</th>
<th>Expected Outcome of the Project Components</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Legal framework</strong></td>
<td></td>
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<td></td>
<td>Better governance and restrict the use of debt instruments to fulfil government’s objectives.</td>
</tr>
<tr>
<td>Purpose of borrowing</td>
<td><strong>Action 1.</strong> Include the purpose of borrowing and the use of guarantees and on-lending in the primary legislation.*</td>
<td>Sep-21</td>
<td>Sep-22</td>
<td>DMU / Cabinet / Legal Department</td>
<td>Provision in a primary piece of legislation</td>
<td>Internal</td>
<td></td>
</tr>
<tr>
<td>MoF debt management mandate</td>
<td><strong>Action 2.</strong> Clarify the requirement for the Federal Parliament to approve domestic and external borrowing and the issuance of guarantees.*</td>
<td>Sep-21</td>
<td>Sep-22</td>
<td>DMU / Cabinet / Legal Department</td>
<td>Relevant legislation/article.</td>
<td>Internal</td>
<td>Improved clarity on the role of the legislature to approve government borrowing.</td>
</tr>
<tr>
<td>Debt Management objectives and policies</td>
<td><strong>Action 3.</strong> Include in the legislation (primary or secondary): Debt Management objectives, the requirement to publish a DM strategy and a guarantees/on-lending framework.*</td>
<td>Sep-21</td>
<td>Sep-22</td>
<td>DMU / Cabinet / Legal Department</td>
<td>Relevant legislation/article.</td>
<td>Internal</td>
<td>Improved debt transparency.</td>
</tr>
<tr>
<td>Guarantees / On-lending management</td>
<td><strong>Action 4.</strong> Improve the regulation related to guarantees and on-lending management (suggested reviews discussed on page 19).*</td>
<td>Sep-21</td>
<td>Sep-22</td>
<td>AG / DMU / Cabinet / Legal Department</td>
<td>Relevant legislation/article.</td>
<td>Internal</td>
<td>Improved guarantees / on-lending management.</td>
</tr>
</tbody>
</table>

*Estimated implementation time for each action.
### B. Institutional Framework

<table>
<thead>
<tr>
<th>Institutionalize the DMU’s location in the Ministry of Finance</th>
<th>Action 5. As part of the reorganization of the Ministry of Finance (MoF), formally establish the DMU within the MoF under the supervision of the Director General with associated regulations published.*</th>
<th>Ongoing</th>
<th>Apr-21</th>
<th>DMU / MoF</th>
<th>Explicit inclusion of the DMU in the organizational structure of the MoF.</th>
<th>Internal (This is feeding into WBT A on MOF organizational structure)</th>
<th>Clarify and enshrine the role and importance of the DMU within MoF. Minimized operational risk by establishing minimum criteria for DMU staff.</th>
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<tbody>
<tr>
<td>Incorporate the DMU in the civil service</td>
<td>Action 6. Incorporate the DMU in the civil service and thus the bringing on budget of debt management costs to remove the dependency on external funding.*</td>
<td>Mar-22</td>
<td>Dec-22</td>
<td>MoF/DMU</td>
<td>Financing plan for DMU staff and associated support functions</td>
<td>Internal</td>
<td>Facilitated transition from donor-financed to internally funded and sustainable DMU</td>
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<tr>
<td>Clarify the roles of the DMU staff</td>
<td>Action 7. Establish clear lead and backup responsibilities for DMU staff in relation to debt management functions, and a clear separation of front- and back-office functions for transactions.*</td>
<td>Ongoing</td>
<td>21-Apr</td>
<td>DMU/MoF</td>
<td>Establish key roles, responsibilities, and organizational setup of the DMU in the debt management manual.</td>
<td>Internal (WB/IMF can review the draft responsibilities)</td>
<td>Increased scope for specialization and capacity development Mitigated risk of staff turnover. Reduced operational risk.</td>
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<tr>
<td>Hire legal support to the DMU (or to the MoF that could)</td>
<td>Action 8. Recruit a legal advisor to support the DMU.*</td>
<td>Ongoing</td>
<td>21-May</td>
<td>DMU/MoF</td>
<td>Resident lawyer available at MoF</td>
<td>Preferably internal for sustainability</td>
<td>Strengthened capacity to review loan terms, restructuring</td>
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<tr>
<td><strong>Support the DMU)</strong></td>
<td><strong>Action 9.</strong> Based on new tasks and functions, hire new staff as needed (particularly to support middle office functions).</td>
<td>Ongoing</td>
<td>22-Jun</td>
<td>MoF/DMU/H R</td>
<td>Internal</td>
<td>Strengthened capacity of the DMU.</td>
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<tr>
<td><strong>Strengthen DMU capacity</strong></td>
<td><strong>Article 10.</strong> Implement a training program to enhance capacity of staff, including on cost-risk indicators and future design and implementation of a debt management strategy.*</td>
<td>Ongoing</td>
<td>Continuous</td>
<td>DMU</td>
<td>Training program designed</td>
<td>Internal and external donor support</td>
<td>Enhanced debt management analysis and activity implementation. Basis for further debt reporting.</td>
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<tr>
<td><strong>Consider / Establish a formal High-Level Public Debt Management Committee (PDMC)</strong></td>
<td><strong>Action 11a.</strong> Consider establishment of a formal PDMC. If authorities deem this appropriate for the existing structure, proceed to actions 11b and action 12.</td>
<td>Jan-22</td>
<td>Dec-22</td>
<td>DMU / Cabinet/ Legal Department</td>
<td>Relevant legislation/regulation.</td>
<td>Improved debt management transparency, accountability, and coordination. Approved debt management strategy, evaluate implementation, and approve debt management reports. Prepared for the post-HIPC debt management era.</td>
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</table>
responsibilities, and members.

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<tr>
<th>Action 12. As part of the legislative (or regulatory) changes above, establish a PDMC Secretariat, headed by the DMU Director, to support the Committee in the performance of its activities.</th>
<th>Jan-22</th>
<th>Dec-22</th>
<th>DMU/ MoF/ CBS with support from others, as necessary.</th>
<th>Relevant legislation/regulation.</th>
<th>Internal</th>
<th>Analytical support to the Debt Committee in achieving its tasks.</th>
</tr>
</thead>
</table>

**C. Debt reporting and monitoring**

**Complete debt records**

**Action 13.** Finalize the end-2020 external debt data and compile data on the state of HIPC-related debt restructuring by:

1. merging data in CS-DMRS and other repositories to have a single debt database with end-2020 debt stock information similar to the “Standard debt Report’ published for 2019.
2. compiling data on the state of HIPC-related debt restructurings.*

| Ongoing | Dec-21 and continuous to keep debt records up to date | DMU | Consolidate CG debt records

**Publish a quarterly debt bulletin**

**Action 14.** Building from the Standard Debt Reporting Table, produce the first published debt bulletin

| Ongoing | Sep. 21 (and quarterly thereafter) | MoF/DMU/AG | Publish first bulletin, with an end-March, 2021, cut-off, on IMF/WB CD/TA to support | Improved debt transparency. HIPC Completion Point trigger | --- | --- |
that outlines key debt indicators (stock, flow, cost, risk, etc.), as well as an update on the state of HIPC debt restructuring negotiations.

<p>| Action 15. Produce quarterly debt report that incorporates all HIPC Completion Point requirements* (Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12-months ahead; annual principal payment projections (for at least the next five years); and key portfolio risk indicators (including proportion of debt falling due in the next 12-months; proportion of variable rate debt; and projected debt service-to-revenues and debt service-to-exports for the next five years). | Ongoing | Dec. 21 and quarterly thereafter | MoF/DMU/AG | Quarterly publication thereafter | IMF/WB CD/TA to support | Improved debt transparency. Improve relations with creditors. |</p>
<table>
<thead>
<tr>
<th><strong>Update the debt section of the MoF website</strong></th>
<th><strong>Action 16.</strong> Update the MoF website to include debt reports, operational manuals, legal authorities, organizational structure, etc.; links to other key stakeholders’ websites.*</th>
<th>Ongoing</th>
<th>Jun. 21 and continuously to ensure website up to date</th>
<th>MoF/DMU</th>
<th>Improved debt transparency.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Procedures Manual</strong></td>
<td><strong>Action 17.</strong> Produce and ensure adhere to a procedures manual in line with the internal regulation and sound practice.*</td>
<td>Ongoing</td>
<td>Dec-21</td>
<td>DMU</td>
<td>Budgetary Resources (staff)+ Donors / partners</td>
</tr>
<tr>
<td><strong>Produce Annual Reports on Debt Management</strong></td>
<td><strong>Action 18.</strong> Produce an Annual Report on Debt Management activities that can be reported to stakeholders (incl. Parliament). Annual reports produced after the DMU designs a debt management strategy would also analyze debt management strategy implementation.*</td>
<td>Mar-22</td>
<td>Align with FY2023 FGS budget</td>
<td>DMU/ Debt committee Secretariat</td>
<td>IMF &amp; WB CD/TA could support</td>
</tr>
<tr>
<td><strong>IT infrastructure/backups</strong></td>
<td><strong>Action 19.</strong> Set up the necessary IT infrastructure to enable secure debt data backups (if Meridian rollout and Cloud backup is not in place).</td>
<td>Jan-22</td>
<td>2023 Implementation</td>
<td>DMU / MOF</td>
<td>Provide the necessary conditions for secure data back-up and recording and reporting</td>
</tr>
<tr>
<td>Domestic debt borrowing – contingent on authorities’ desire to proceed</td>
<td></td>
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<tr>
<td>---------------------------------------------------------------</td>
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<tr>
<td><strong>Develop a roadmap for the issuance, payment, and oversight of domestic sovereign debt</strong></td>
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<tr>
<td><strong>Extra action 1.</strong> Establish a roadmap for the development of a domestic sovereign debt market. Roadmap should entail solutions to staffing, coordination, IT and support functions.</td>
<td>Jun-22</td>
<td>Dec-22</td>
<td>MoF/AG/DMU/CBS/Legal</td>
<td>Publication of the roadmap after approval by the Debt Committee</td>
<td>WB/IMF CD/TA to support</td>
</tr>
<tr>
<td><strong>Central Securities Depository</strong></td>
<td><strong>Extra action 2.</strong> Establish a CSD to record federal securities.</td>
<td>Jun-22</td>
<td>23-Dec</td>
<td>DMU / CBS</td>
<td>Enable registering and servicing public debt securities</td>
</tr>
</tbody>
</table>

* Delineate priority reforms listen in the Executive Summary Table.
Annex II: Debt Management Legal Framework

This Annex lists some detail the contents of the primary legislation, examples of purpose of borrowing and the contents of secondary legislation. The Commonwealth Secretariat has prepared a guidance note, which includes a number of country examples.56

Content of primary legislation

1. Set out the authority to borrow (in both domestic and foreign markets), undertake liability management operations or other debt-related transactions (such as debt restructuring and potentially also swaps), and issue loan guarantees.

2. Specify borrowing purposes: to guard against the risk of abuse, the delegation of the borrowing power is often restricted by a statement of the purposes for which the executive can borrow or by a limit on the annual net borrowing or the outstanding debt (or both).

3. Set clear debt management objectives: it is important to ensure accountability that there is a formal objective against which the government’s performance can be assessed.

4. Require the preparation of a debt management strategy, as the practical expression of the high-level objectives.

5. Specify mandatory (at least annual) reporting to the parliament on debt management activities, including an evaluation of outcomes against stated objectives and the determined strategy.

6. Determine audit requirements; external audit will usually be the responsibility of the country’s supreme audit institution.

7. Other provisions will be needed, e.g. on the scope of the GDMA, controls (if any) on other public sector borrowing, establishing a permanent authorization for debt servicing payments and equal treatment for all investors, and necessary powers to obtain information.

Purposes of borrowing

1. Finance the budget deficit.

2. Refinance, prepay, or buyback outstanding debt.

3. Finance the investment program.

4. Support the foreign currency reserves.


5. Foster the development of the financial markets.
6. Support the operationalization of monetary policy with government securities.
7. Pre-finance the deficit, or, provide temporary finance for liquidity purposes
8. Payment of sovereign guarantees that have materialized
10. To finance on-lending [subject to agreed limits or purposes], which is not otherwise included in the budget.

**Content of secondary legislation**

1. The terms of reference and procedures of a Public Debt Management Committee or equivalent.
2. Arrangements for the conduct of auctions.
3. The scope and arrangements for any secondary market operations, such as repos, securities lending transactions, outright sales, bond conversions or switch auctions. (A value for money requirement or cost saving constraint may be imposed.)
4. Arrangements, if they exist, to control (or “queue”) the timing of bond issuance by non-government borrowers.
5. The “contracts” with market makers.
6. Arrangements for the conduct of (or constraints on) cash management operations.
7. Procedures for handling project-related loans and credits, procedures for the granting of guarantees; and procedures for extending on-lending.
8. Procedures for debt servicing and redemptions.
9. Procedures relating to settlement, registration, and the use of a local depository (although these may be covered by other legislation that applies to all securities).
10. The roles, tasks, and accountabilities of the DMO and/or the Ministry with debt management responsibilities.
11. The roles, tasks and accountabilities of senior officials and the procedures for their appointment.
12. The organizational structure of the DMO.
Annex III: Debt Bulletin

A debt bulletin is a regular product of a strong DMU, and in the case of Somalia, a requirement for completing the HIPC process. Specifically, the HIPC trigger requires:

"Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12-months ahead; annual principal payment projections (for at least the next five years); and key portfolio risk indicators (including proportion of debt falling due in the next 12 months; proportion of variable rate debt; and projected debt service-to-revenue and debt service-to-exports for the next five years)."

The recently conducted reconciliation of debt data, and publication of a 2019 debt table, along with a DMU staffed by experienced individuals presents an opportunity to start building debt reporting capacity in the short-term (e.g. > 6 months). Producing a streamlined debt bulletin in 2021 is achievable provided debt database obstacles discussed above in the report can be overcome, which is likely. Select data issues that would need to be resolved, and when, are detailed in table A1.

<table>
<thead>
<tr>
<th>Debt Data Issues in Preparation for a Quarterly Debt Bulletin</th>
<th>Potential Completion date</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Finalize the end-2020 debt stock, including new debt profiles for restructuring agreements signed by end-2020. An outline of external debt claims that are still being negotiated and what their pre-restructured USD nominal amounts are, as well as their percentage of total claims, and other key metrics. An estimate for verified and unverified domestic arrears for end-2020.</td>
<td>• End-March 2021</td>
</tr>
<tr>
<td>• Prepare a consolidated database that integrates the debt restructuring agreements signed since end-2020 to the cutoff date of the first bulletin (e.g. end-March)</td>
<td>• End-May 2021</td>
</tr>
<tr>
<td>• Prepare data on debt payments, by principal and interest, etc., consistent with the requirements under HIPC. In coordination with the CBS and MoF, gather key macro-fiscal information.</td>
<td>• End-May 2021</td>
</tr>
</tbody>
</table>

Producing streamlined quarterly debt bulletins in 2021 would allow the authorities to develop needed risk indicators and debt reporting capacity. Experience in 2021 with publishing bulletins would also provide a chance to receive feedback during this pilot phase, allowing for further customization and improvements, so that the template can be finalized and ready for meeting the HIPC trigger in 2022.

Given Somalia’s unique debt situation and the complexities of ongoing debt restructurings, the contents of a debt bulletin would have to be carefully displayed with suitable caveats, footnotes, and descriptions. For example, it would be worth coordinating closely with external partners to establish consensus on how to present disputed claims, unrestructured debts, expected future debt relief.

Once the debt database has been updated and end-2020 debt stocks are available, the authorities could begin drafting a debt bulletin in mid-2021, with IMF and WB technical assistance to support their efforts.
Annex IV. Model Template for an Annual Report

An annual report on public debt provides accountability that debt has been managed in accordance with the agreed objectives, strategy, and borrowing plan. It also provides transparency to the public and investors about the composition of public debt and borrowing activities. Compared to the quarterly bulletins, the annual report would have more explanatory text and analytical content.

The annual report outline would need to be customized for Somalia’s special case. The below is an illustration of an annual report for a country that is engaged in new borrowing to provide visibility of how the annual report could develop over time.57

Executive Summary and Highlights

Section 1: Context

- Macroeconomic developments in the local and relevant international economies;
- Financial market performance in relevant markets: summary information on yields in the local sukuk market and international markets (as reported in quarterly reports);
- Fiscal outcomes for the year and description of any changes to the borrowing requirement and government reserves levels;
- Credit rating developments, if any.

Section 2: Operations: Implementation of the ABP and the DMS

- Summary of domestic market issuance for the year (e.g. charts or tables of yields, auction cover ratios, etc), with commentary;
- Summary of international issuance with commentary;
- Development of the main risk indicators of debt portfolio during the year;
- Evaluation of operations against the objectives, strategy, and ABP for the year (including achievement of any market development initiatives).

Section 3: Level and composition of central government debt

- Summary of the composition of debt, as provided in quarterly reports (i.e. by currency, interest-rate type (fixed versus floating), average time to maturity, average time to rate refixing, by investor);
- Analysis of debt composition compared to earlier years.

Section 4: Initiatives, innovations, and performance of the debt management office

- Description of the initiatives and innovations in public debt management (in the early days of a new DMO, there can be much to discuss);
- Information on the performance of the debt management office.

Annex: Lists of all outstanding domestic and international bonds and loans.

57 There are many examples of public debt reports that are produced by Somalia’s peers, such as the Maldives or Gambia, that Somalia could leverage when finalizing its debt reporting templates.
# Annex V: Training Requirements for Debt reporting and Monitoring

<table>
<thead>
<tr>
<th>Training requirements</th>
<th>Target group</th>
<th>Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt reports: Contents, drafting, and streamlined analysis to calculate cost-risk</td>
<td>DMU</td>
<td>IMF (/WB), Q2-Q3/2021</td>
</tr>
<tr>
<td>indicators</td>
<td></td>
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<tr>
<td>Debt management fundamentals based on principals for debt management</td>
<td>DMU</td>
<td>IMF/WB</td>
</tr>
<tr>
<td>Translating debt management fundamental and metrics into debt reports: quarterly debt</td>
<td>DMU</td>
<td>IMF/WB</td>
</tr>
<tr>
<td>bulletin and annual borrowing</td>
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<tr>
<td>Meridian</td>
<td>DMU</td>
<td>AfDB</td>
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