

Somalia's External Debt of 2.8 bn Doubled in 2018 Without New Loan

From 2009, during the TFG, to 2017, the external debt of Somalia was averaging \$2,867,496,844.36 with an average annual change of 37,492129.25 (1.3107%) when it was almost doubled to \$5,558,434,813 in 2018, an annual % change of 96.16. In this article we will look into what possibly happened from 2017 to 2018 that might have resulted this figure that is highly exceeding the average annual percent changes of the previous nine years.

In 2017, World Bank published Somalia's External Debt as \$2,833,531,570 in International Debt Statistics, Country Tables, Somalia. This data is also published in www.macrotrends.net.

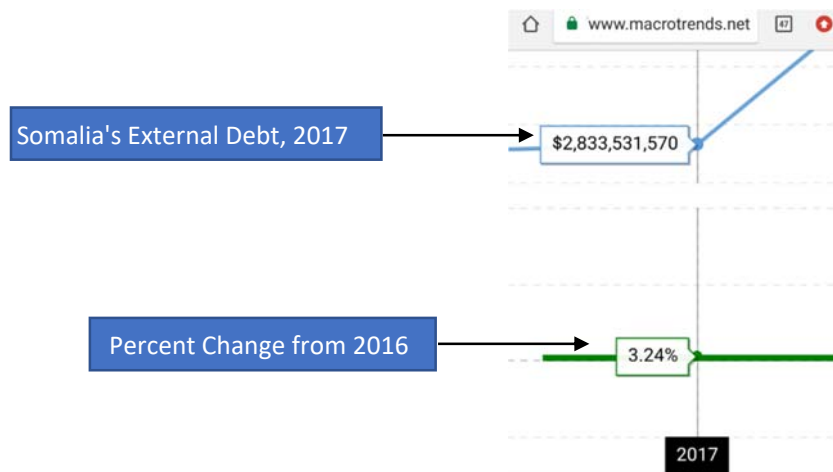


Figure 1: Somalia's External Debt, 2017

Article 2.7 of The Appropriation Act of 2017 Budget states that the Federal Government of Somalia is not authorized to borrow externally and internally with the exception of limited liquidity advances from the Central Bank of Somalia which should be repaid at the end of that same year. This makes it clear that **Somalia did not borrow any funds externally in 2017**.

Yet, in December 2017, Debt Management Unit, DMU, of the Ministry of Finance published a document that was called "Somalia's External Debt **Position**". In page 4 of that document, it is mentioned **Preliminary** External Debt **Estimate** as of End-2017 of **4.68 Billion**. In page 5, DMU states that Somalia's External Debt Database was completely destroyed during the civil war.

The word "**Position**" in the document title indicates that Somalia was making its position clear about on-going negotiations related to Somalia's External Debt. Even though the report was the last report of 2017, the word "**Preliminary**" is used to make room for future change because of the uncertainty of the figures being reported. External Debt is based on Agreement between a Creditor and a Debtor and does not depend on Debtor's position as mentioned in the title of the document.

Also, External Debt cannot be based on either Debtor's or Creditor's **estimate** because the records of Somalia's External Debt are available at World Bank's Debt Management Team Database. The team follows the steps outlined in Debtor Reporting System.

In early 1950's, World Bank started Debtor Reporting System, DRS, where borrowing countries are required to report **a detailed information on their external loan**.

Debtor Reporting System, DRS, is maintained by World Bank's Debt Management Team. After the Team collects loan-level data from countries, they move to validation and quality check step which involves in

checking the accuracy of the debtor report by comparing it against the creditor report. After the validation of the report, the data is published.

In 2017, World Bank Report shows that the External Debt of Somalia is \$2,833,531,570 while Somalia’s Ministry of finance report indicates that Somalia’s External Debt is \$4,680,000,000, **\$1,846,468,460 more than reported by the World Bank.**

In **December 2018**, the World Bank reported that the External Debt of Somalia is **\$5,558,434,813**, **2.8 billion more** than 2017 World Bank Report. **DMU has released** December 2018 report “FGS PPG, Public & Publicly Guaranteed Debt, As of End-December 2018” on **August 8, 2019**. The FGS report shows **\$5,234,560,000** as the total External Debt of Somalia. DMU’s December 2018 report was released in August, 2019.

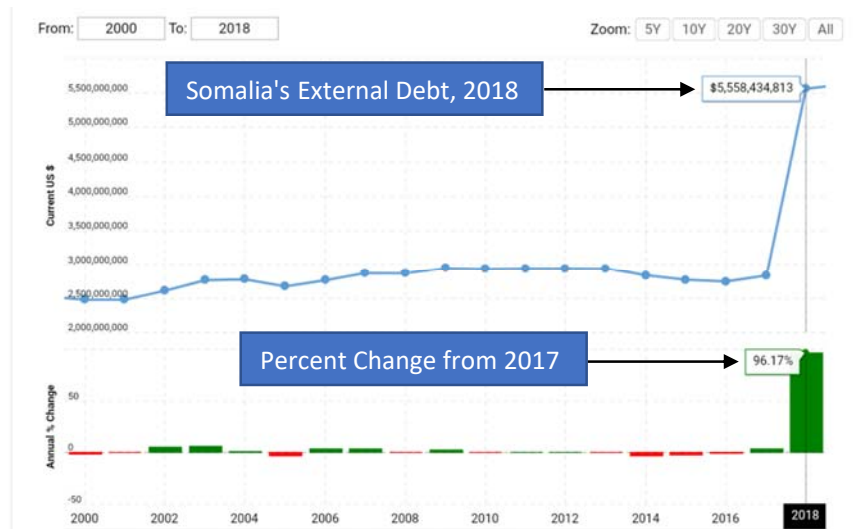


Figure 2: Somalia’s External Debt, 2000 - 2018

According to the World Bank, **Somalia’s External Debt increased \$2,724,93,243 in one year** without any new loan.

To show how massive this increase is, the number of years it would take Somalia’s External debt to reach \$5,558,434,813, without payment, is calculated using rearranged compound interest formula.

$$t = \ln(A/P) / n[\ln(1 + \frac{r}{n})]$$

where A = \$5,558,434,813, P = \$2,833,531,507, n = 52 (compounded weekly), r = 3.75%.

$$t = 18$$

It would take **18 years**, from 2017, for the External Debt of Somalia to reach \$5,558,434,813 without any payment.

Now, let’s calculate the interest rate that would make Somalia’s External Debt reach \$5,558,434,813 in one year.

$$r = n[(A/P)^{1/nt} - 1]$$

where A = \$5,558,434,813, P = \$2,833,531,507, n = 52 (compounded weekly), t = 1.

$$r = 68$$

An **interest rate of 68%** could also make Somalia's external debt reach \$5,558,434,813 in 2018.

Answers of the following questions may shed light to what happened:

1. Did the DMU report give a detailed information of Somalia's External debt?
2. Was the DMU able to give a detailed information of Somalia's External Debt when it claimed that Somalia's External Debt Database was completely destroyed during the civil war?
3. Was the DMU report based on new External Loan?

Finally, Since the External Debt of a country is owed by the residents of that country and not the Government, it is the responsibility of all Somalis to find out what happened to Somalia's External Debt in 2018 and remember that Somalia's ongoing application is called Debt Relief which translates into "Deyn-Dhimid/s" and not Debt Write-off "Deyn-Cafin". Somalia's Debt will be reduced to between 0.5 to 1 billion. It will never be written off.

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