
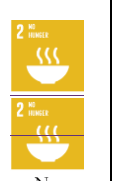
















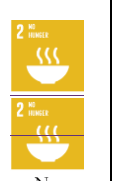
















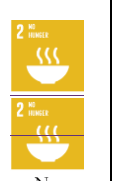

















# HIPC-process for Somalia: Danish contribution to IMF arrears clearance

<p><b>Key results:</b></p> <ul style="list-style-type: none"> <li>- Somalia's regains access to concessional finance and technical assistance from the IFIs (IMF, World Bank and African Development Bank) as well as to debt relief under the highly Indebted Poor Countries Initiative – HIPC – and invests more intensely in development for the benefit of its population.</li> </ul> <p><b>Justification for support:</b></p> <ul style="list-style-type: none"> <li>- Clearance of Somalia's arrears to the IFIs will give it access to the ordinary assistance from these institutions. This also paves the way for Somalia's entry to the HIPC process, providing relief and ultimately cancellation of its 5,3 billion US \$ of external debt. This is conditional on the country implementing political and economic reforms and its national Poverty Reduction Strategy.</li> <li>- The economic reforms undertaken as the Somali authorities move through the HIPC process will play an important role in stabilising the economy, laying the foundations for growth and poverty reduction. At the same time Somalia will gain access to much needed finance that can be invested in public services and infrastructure to enable people to exit from poverty. The international community therefore supports Somalia's HIPC treatment.</li> <li>- Denmark is comprehensively engaged in Somalia with a bilateral country programme (2019-23), the regional peace and stabilisation programme, migration funds and humanitarian aid. Moreover, Denmark is engaged in neighbouring countries Ethiopia and Kenya.</li> <li>- The HIPC process can provide a considerable lift for Somalia in line with the vision for Denmark's engagement: To support the development of a stable, peaceful and resilient Somalia undergoing inclusive economic development, which can offer its citizens a positive future and where the government is able to exercise authority with the additional aim that Somalia no longer constitutes a threat to regional or international peace, security and welfare.</li> </ul> <p><b>Major risks and challenges:</b></p> <ul style="list-style-type: none"> <li>- Economic reforms undertaken do not provide the intended long-term development effects.</li> <li>- Instability and conflict in Somalia undermines progress.</li> <li>- Mitigation: DK and EU member states assist IMF and the World Bank in monitoring progress on reforms and investment in its people and engage in consistent messaging, pressuring the Somali authorities to continue reform and increase investments in development. DK and EU member states continue their comprehensive and integrated approaches to development and stabilization in Somalia.</li> </ul>	<p><b>File No.</b></p> <p>2019 - 40826</p>																					
	<p><b>Country</b></p> <p>Somalia</p>																					
	<p><b>Responsible Unit</b></p> <p>MUS/APD</p>																					
	<p><b>Sector</b></p> <p>Multilateral debt relief</p>																					
	<p><b>Partner</b></p> <p>IMF</p>																					
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	<p><b>Previous grants</b></p> <p>-</p>																					
	<p><b>Finance Act code</b></p> <p>06.37.03.14 (multilateral debt relief)</p>																					
	<p><b>Head of unit</b></p> <p>Henriette Ellermann-Kingombe / Lotte Machon</p>																					
	<p><b>Desk officer</b></p> <p>Niels Richter / Lasse Leipziger</p>																					
<p><b>Reviewed by CFO</b></p> <p>NO</p>																						
<p><b>Relevant SDGs</b></p> <table border="1"> <tbody> <tr> <td> No Poverty</td> <td> No</td> <td> Good Health</td> <td> Quality</td> <td> Gender</td> <td> Clean Water</td> </tr> <tr> <td> Affordable</td> <td> Decent Jobs,</td> <td> Industry,</td> <td> Reduced</td> <td> Sustainable</td> <td> Responsible</td> </tr> <tr> <td> Climate Action</td> <td> Life below Water</td> <td> Life on Land</td> <td> Peace &amp; Justice, strong Inst.</td> <td> Partnerships for Goals</td> <td></td> </tr> </tbody> </table>		 No Poverty	 No	 Good Health	 Quality	 Gender	 Clean Water	 Affordable	 Decent Jobs,	 Industry,	 Reduced	 Sustainable	 Responsible	 Climate Action	 Life below Water	 Life on Land	 Peace & Justice, strong Inst.	 Partnerships for Goals				
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<p><b>Justification for choice of partner:</b></p> <p>Under HIPC, Somalia will eventually see its external debt of 5,3 billion US \$ cancelled and gain access to regular assistance from IMF and the multilateral development banks, providing a considerable lift for the countries development and stabilization efforts. Due to the institutions' preferred creditor status, Somalia must clear its arrears to the IFIs (IMF, World Bank and African Development Bank) to enable it to reach the HIPC Decision Point. Somalia's arrears clearance with the World Bank and AfDB is funded. Its 242 million SDR in arrears to the IMF is not.</p>																						
<p><b>Summary:</b></p> <p>International donors', including Denmark's, contribution to clearing Somalia's arrears to the IMF is necessary for Somalia to reach the HIPC Decision Point and - based on further performance on key reforms and investment in its people -the Completion Point, when its debt relief I irrevocably cancelled. Denmark will contribute to clearing Somalia's arrears to IMF through a) Denmark's share of so-called "membership contributions" in IMF and b) a bilateral grant to cover the financing gap resulting from the fact that many developing countries are not able to contribute with their "membership contributions". A series of economic and governance reforms have to be undertaken by the Somali authorities as the country moves through the HIPC process. After clearing its arrears to the IMF, the World Bank and the African Development Bank, Somalia will regain access to their concessional financing and technical advice in support of its development agenda.</p>																						
<p><b>Budget:</b></p> <table border="1"> <tbody> <tr> <td>Denmark's share of internal IMF sources (SCA-1) and Deferred Charges (DC): 1.2 SDR mill</td> <td>11.17 DKK mill.</td> </tr> <tr> <td>Bilateral grant contribution</td> <td>27,83 DKK mill.]</td> </tr> <tr> <td><b>Total</b></td> <td><b>39 DKK mill.</b></td> </tr> </tbody> </table>		Denmark's share of internal IMF sources (SCA-1) and Deferred Charges (DC): 1.2 SDR mill	11.17 DKK mill.	Bilateral grant contribution	27,83 DKK mill.]	<b>Total</b>	<b>39 DKK mill.</b>															
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# **Danish contribution to Somalia's clearance of its arrears to the International Monetary Fund as part of the upcoming treatment of the country under the Highly Indebted Poor Country Initiative. (29.01.20, F2 2019 – 40826)**

## **1. Introduction**

To re-establish Somalia's access to the regular assistance of the IMF and advance the treatment of the country under the Heavily Indebted Poor Countries Initiative, Denmark will provide 39 million DKK as part of an international effort to help Somalia clear its arrears of 242 million SDR to the International Monetary Fund.

## **2. Brief summary of issues to be addressed and institutional context**

Somalia is headed for treatment under the HIPC – Highly Indebted Poor Countries Initiative – starting in March 2020. The International Monetary Fund (IMF) and World Bank (WB) launched HIPC in 1996 with the objective to bring down public debt in 39 low-income countries, which IMF and the World Bank had identified as having accumulated public debt to unsustainable levels that stifled investment in health, education, water supply, sanitation and other areas enabling poor people to exit poverty. Today, 36 countries have been successfully treated under HIPC and have had their debt brought down by an estimated 120 million USD by bilateral creditors and multilateral development finance institutions.

Because of their status as preferred creditors IMF, WB and the African Development Bank (AfDB) conditioned their contribution to HIPC on full compensation of the cost to them. In 2006, the international donor community agreed to the Multilateral Debt Reduction Initiative – MDRI – whereby the three institutions are compensated for the lack of reflows from their cancelled loans to this group of countries up to 2054, when the last payment of any loan extended at the time of MDRI agreement falls due. However, the original calculations of the costs to the Fund of MDRI specifically excluded Liberia, Somalia and Sudan that were conflict-affected and had large arrears to IMF at the time. This was based on an understanding with the donor community that a specific solution would be found once these countries were ready for HIPC.

The purpose of this engagement is to enable Denmark to contribute 39 million DKK to Somalia's clearance of its arrears to the IMF – a precondition for the HIPC treatment of Somalia to get underway.

## **3. Strategic considerations and justification**

### Context for the development engagement.

After the state collapse in 1991 and decades of conflict, there is cause for moderate optimism as Somalia over the past years has moved slowly, albeit erratically, towards more political stability. While the Federal Government of Somalia is increasingly taking responsibility for the country's development, it cannot, without support, resolve the extensive challenges that contribute to instability in the region, and hence also directly affect Europe and Denmark. Somalia is still characterised by internal tension, violent extremism, extensive displacements and weak governance.

The Somali authorities have demonstrated a record of implementing political and economic reforms as well as a commitment to continue. This warrants taking the next step in the country's reengagement with the international community and normalising its relations with the IMF, the World Bank and the African Development Bank as well as with its bilateral creditors. After successful treatment under HIPC, Somalia will be able to regain access to concessional financing and technical support from the international financial institutions, allowing the country to invest more intensely in development.

### Results and learnings from previous cooperation

The HIPC and the MDRI initiatives were launched in 1996/99 and 2005 respectively to provide debt relief to heavily indebted low-income countries. To date, 39 countries were considered under the initiative and 36 countries have received debt relief. Public debt in these countries had reached a point where they were unable to invest in the basic services and infrastructure required for people to lift themselves out of absolute poverty. Moreover, many were unable to service their debt to the international financial institutions and bilateral creditors. They fell into arrears and were barred from receiving further assistance from the international financial institutions.

Denmark and other bilateral creditors and donors provided debt relief to this group of countries both on their bilateral loans and by agreeing to compensate the African Development Bank, the World Bank and the IMF for the cost of cancelling the loans to these institutions. So far, under the HIPC and the MDRI initiatives 76.9 billion US\$ has been provided in bilateral debt relief and 42.4 billion USD have been provided as multilateral debt relief (costs will continue to accrue until 2054). This contributed decisively to bring down the debt of this group of countries from close to 100 per cent of their GDP in the early 2000 to just over 30 per cent in 2013.

In the decade after the HIPC debt relief, growth rebounded, investment and social spending rose and almost half of the low-income countries graduated to middle-income status. Poverty related expenditure in HIPC countries rose by 1.5 per cent of GDP cumulatively between 2010 and 2015. This undoubtedly contributed to the relatively strong progress on many of the Millennium Development Goals that guided international development up to 2015, when they were superseded by the SDGs.

### Brief summary of context and the specific opportunities, challenges and risks.

Denmark's strategic interests in Somalia are focused on improving the living standards of the Somali population as well as global challenges such as refugee and irregular migration flows, regional stability, countering of violent extremism and terrorism as well as maritime security in the central maritime transport corridor between Europe and Asia. It is in Denmark's clear interest that Somalia continues the present course towards stability, peace and state-building. Over a number of years, Somalia has been a priority country for Danish development policy, and the broad spectrum of Danish engagements include a bilateral development programme (2019-2023), a regional peace and stabilisation programme focused on Somalia (2018-2022), humanitarian assistance, as well as returns and readmissions.

The economic reforms undertaken as the Somali authorities move through the HIPC process will play an important role in stabilizing the economy, laying the foundations for growth and poverty reduction. Debt relief will give Somalia access to much needed finance that can be invested in public services and infrastructure. This will ultimately benefit the Somali population and help stabilize the country. The international community therefore supports Somalia's aim to achieve HIPC relief.

Somalia's external debt was estimated end-2018 at US\$ 5.3 billion, of which 96 percent were in arrears. Bilateral creditors, including Denmark, organized in the Paris Club held 58 percent of this debt, the International Financial Institutions held 29 percent and the non-Paris Club bilateral creditors held 13 percent. Somalia has not been servicing this debt for more than two decades. The net present value of the external debt is estimated at 329 percent of Somalia's export of goods and services – well about the threshold for HIPC eligibility of 150 percent.

### Summary of the strategic framework and overall strategic objectives.

In addition to meeting the HIPC criteria for the sustainability of their external debt, countries need to comply with the following preconditions for getting to the so-called HIPC decision point: (1) To follow

programs aimed at achieving macro-economic and fiscal stability over time and (2) to develop an interim national poverty reduction strategy (PRS) based on the SDG's. The PRS sets out how the government will use the fiscal relief provided by HIPC, additional donor funding and domestic revenue for investment in essential health, education, water and sanitation, rural infrastructure and other areas critical to improving the living conditions of the poor; and (3) clear their arrears to the IMF and the multilateral development banks. Arrears are usually cleared with assistance from the international community. After the Decision Point, HIPC countries gain access to assistance from the IMF and the development banks and interim debt relief is granted by bilateral donors organised in the Paris Club. To get to the so-called HIPC completion point – at which stage the debt cancellation becomes irrevocable – a country needs to continue to demonstrated sound macro-economic and fiscal performance through programmes with the IMF as well as strong implementation of their PRS. Both of these preconditions are monitored regularly by the IMF and the World Bank and in close consultation with other development partners and – for the PRS – with national stakeholders.

Somalia has successfully completed 3 Staff Monitored Programs with the IMF and is making steady progress on the fourth program – launched in June 2019 – which is expected to provide the macro-economic, fiscal and financial sector track record for Somalia to reach the HIPC Decision Point in March 2020. At the time of the first review of the program late September – and despite continued tensions between the federal government (FGS) and the federal member states (FMS) – there were positive signs of cooperation in areas such as investment promotion and the preparation of the 9<sup>th</sup> National Development Plan.

Moreover, FGS and FMS finance ministers had met and agreed to support the economic and financial reforms required for the HIPC process, irrespective of political differences, and technical work on customs reform and fiscal reporting was progressing. Efforts were underway to strengthen fiscal federalism. Real economic growth was 2.9 per cent and fiscal performance remained strong, with revenue collection of 126 million US \$, and further advances expected in the coming years. Expenditure restraint and a fiscal buffer helped by improved forecasting had maintained expenditure within the funds available. Draft expenditure assignment guidelines had been prepared with input from the FMS. And the Budget and Finance Committee had undertaken a detailed review of the Expenditure Bill before its submission to the Lower House. The authorities were preparing the 2020 Finance Bill based on the Medium Term Fiscal Framework. Growth of deposits in the banking sector and credit to the private sector was 30 per cent and 12 percent compared to last year, and the Central Bank of Somalia's supervisory capacity continued to strengthen. Mobile money regulations were issued and the reform of customs is progressing as expected, with automation of customs verification and goods inspection. Progress also continued on the reform of public financial management (PFM) reforms, with a PFM Act in the Upper House and a procurement bill in the Lower House, while the Somalia financial management information system was undergoing a quality assurance review.

Reforms to improve governance and combat corruption continued. The anti-corruption bill was signed into law in September, paving the way for setting up the anti-corruption commission. An anti-corruption strategic plan was also being developed to support the implementation of the bill.

The Somali authorities have submitted their 9<sup>th</sup> National Development Plan as their interim Poverty Reduction Strategy. The IMF and the World Bank are now preparing an assessment of the interim PRS which will be shared with the boards of the Fund and the Bank in early 2020. Continuous successful implementation of the fourth IMF programme should pave the way for Somalia's clearance of its arrears to the Fund – and thus for the country to reach the HIPC decision point.

Key stakeholders.

The key stakeholders are the people as well as the Federal Government of Somalia and the Federal Member States.

#### Adherence to the aid effectiveness agenda.

Debt relief is a top priority for the Somali Government, and has been discussed at both multilateral and bilateral meetings. Moreover, the international financial institutions, the EU and UK have made a strong push for treating Somalia under HIPC. The poverty Reduction Strategies and attendant reform programs produced in other low income countries as part of the HIPC process have proven very powerful platforms for coordination and concertation of external aid to meet the countries' development needs.

#### Synergies between humanitarian and development assistance and security and fragility situation.

If well implemented, debt relief to Somalia will unlock important resources for the Somali population, which will contribute to the development and stabilisation of the country. Denmark's contribution to debt relief thus contributes to realising the strategic objectives as formulated in the country policy paper 2018-2023.

#### Considerations about Danish strengths, interest and opportunities for engaging Danish public, private and civil society actors.

There are strong synergies between support for debt relief and the Danish integrated approach in Somalia in the short, medium and long term. This includes – but is not limited to – improved governance, provision of basic services, durable solutions for IDPs, as well as the EU's support to build and reform Somali state institutions.

Denmark has a broad and integrated engagement in Somalia within development, peace and stabilisation, migration and humanitarian aid. The new Danish country programme 2019-2023 has a budget of 1030 million DKK and works with good governance, human rights, protection and durable solutions for displaced as well as private sector development. Denmark has programme offices in Hargeisa, Somaliland, and in Mogadishu. The country programme includes support to:

- Human rights and good governance theme: the UN's programme for local government and basic service provision; the constitutional process, including resource sharing and elections; UN programme for human rights; and infrastructure in productive sectors (Somaliland Development Fund).
- Private sector and inclusive growth: World Bank work on economic reform, including fiscal federalism and strengthening the Central Bank, capacity building of the Ministry of Finance; IFC's work with private sector development; IFU's work with, among others, small and medium sized enterprises; EU program for improved living conditions for farmers, pastoralists and fishermen.
- Protection and durable solutions: UNICEF's work in Somalia; Danish Refugee Council's work with IDP's and the WB and WFP's safety net for the most vulnerable.

The country program supports the Somali national Development Plan and the national coordination structure for the development cooperation in Somalia. Progress is monitored through the Mutual Accountability Framework (MAD), which sets the priorities. It is a Danish priority to support and streamline the coordination structure and to support the multilateral institutions' engagement in Somalia as a fragile state. This is why a large share of the Danish program is channeled through the World Bank and the UN.

Moreover, Denmark – through a series of strategic partnerships – supports DRC, International Media Support, Save the Children and Oxfam as well as several other multilateral organizations and partnerships, including UNFPA, Education cannot Wait and Global Partnership for Education. Notable on the commercial front, Mærsk started operations in Somalia in 2019.

The majority of the EU's development projects are financed through the EU Emergency Trust Fund for Africa, which Denmark contributes to. Projects include engagements for IDPs, improved living conditions for the vulnerable, support for the judiciary and budget support. Denmark is also a bilateral creditor to Somalia.

By mid-2019, Somalia owed Denmark some 60 million DKK. The loans stem from four export credits issued to Somalia. The credits were provided to finance imports of goods and services from Denmark such as building equipment, medical supplies, and supplies for the water sector. Since their issue in the mid 1980's, the export credits have not been serviced. The amount due to Denmark includes the original loans along with late interest arrears and penalty arrears. At the HIPC Completion Point these bilateral claims will be subject to cancellation through the Paris Club.

#### Justification of programme design.

This engagement is highly relevant as it will help pave the way for Somalia to benefit from a freezing of the servicing of its external debt at the Decision Point and cancellation of it at the Completion Point. It also enables the country to reengage with the IMF and the multilateral development banks, thus gaining access to considerable assistance as needed to meet the development needs of its population. The HIPC and MDRI are time-tested frameworks for debt reduction and the attraction of external assistance for investment in meeting the development needs some of the world's poorest and most indebted countries. Based on experience from other countries, it may be assumed that the collaboration between Somalia and its external partners around the implementation of reforms and the national Poverty Reduction Strategy will help raise the efficiency and effectiveness with which external assistance is channelled to address the country's development agenda. The sustainability of this large effort depends critically on the extent to which it succeeds in supporting stability in the country. The provision of regular funding to equitably meet peoples' most basic needs in all parts of the territory and the development of viable and widely accepted long-term institutional and regulatory frameworks for the authorities to carry on core government functions, are seen as essential to meeting this overall goal.

#### **4. Theory of change and key assumptions**

The HIPC treatment of Somalia aligns all its major multilateral and bilateral partners together with the Government and other national stakeholders around a common framework designed to boost the government's ability to meet the needs of the population for basic services and other core government functions. It does so by allowing the country to clear its arrears with the international financial institutions, bring down its external debt and providing significant external assistance to fund the governments development effort and provision of other sovereign obligations. The operation is conditioned on the continuous monitoring of the country's performance in responding to the development needs of the population against targets in its Poverty Reduction Strategy and in pursuing improvements in its macro-economic, fiscal, legal and general governance frameworks in line with agreed goals in its programs with the IMF, the World Bank, the African Development Bank and bilateral partners. It is the assumption that the situation in Somalia has developed to a stage where central government and federal states need to develop a viable fiscal framework covering both the central and decentral level, as well as other prerequisites for securing stability and development in different parts of the territory.

#### **5. Project Objective and summary of results frame**

- The development objective is to support stabilization and development in Somalia through reinforcement of the financial underpinnings of the exercise of core government functions at the central and decentral level.

- The actual support will be based on progress achieved by Somalia in meeting the preconditions for treatment under the HIPC initiative as described above. This will be measured through the reporting of the International Monetary Fund and the World Bank and by the Danish Embassy in Nairobi.
- For Danida's reporting purposes the following key outcome and output indicators have been selected to document progress: 1. A credible and sufficiently realistic Poverty Reduction Strategy, as assessed by the IMF and the World Bank. 2. Satisfactory performance on the IMF's 4<sup>th</sup> Staff Monitored Program. 3. Agreements in the boards of the IMF and the World Bank that Somalia has met the conditions for the HIPC Decision and Completion Point.

## 6. Budget

Somalia's arrears to IMF have been calculated at 242 million SDR (app. DKK 2,257 billion, exchange rate 24.01.20). Based on a proposal from the Fund's management the Board of IMF agreed that the clearance of its arrear could be financed by asking all the IMF's members to contribute proportionally through specific holdings by the Fund of member contributions (SCA-1 and deferred charges contributions). However, it was recognized that while this might be acceptable to the developed and some emerging economy members of the Fund, developing members might find this less appealing. Therefore, it was not expected that the full cost could be met in this way and that an estimated gap of around 100 million SDR would need to be covered by additional grants from Somalia's donors and allies.

As of mid-January 2020, sixty-five member countries had agreed to use their share of member contributions amounting to a total value of 145 million SDR. In addition and to fund the gap, Qatar had indicated a contribution of 20 million US\$, Canada of up to 8,1 million US \$, UK of 40 million US\$ and Finland 3 million Euro (Total 51,7 million SDR). Other potential contributors – including Denmark - had not yet decided. Though various figures had been mentioned suggesting perhaps another 16 million SDR, with no amounts mentioned by France and Germany. Sweden had tentatively indicated 1.6 million SDR.

For Denmark, its portion of the membership contributions amounts to 1.2 million SDR. As these funds belong to the Danish central bank, the cost would have to be borne by the development budget. In addition to this, Denmark will contribute a grant of up to 3 million the SDR, depending of the SDR rate at the time of the contribution. The combined amounts will not exceed DKK 39 million. This is considered an appropriate level of contribution, given Somalia's importance to Denmark, the financial efforts of other partners and the short time available for the Fund to secure the finance. There are no direct provisions in the 2020 Finance Bill for this operation. It will be financed through an adjustment of the financial frame transferring the 39 million DKK from 06.37.03.10 ADF to 06.37.03.14 Multilateral Debt Reduction, budget line for arrears clearance.

## 7. Institutional and Management arrangement

The IMF will initiate the process of arrears clearance once it has ascertained that Somalia has met the obligations for getting to the HIPC Decision Point and that members have provided financial contribution equal to the 242 million SDR in arrears. These contributions will be held in designated accounts and only released when Somalia reaches the HIPC Completion Point, when debt relief becomes irrevocable. The clearance of arrears will happen in one day as follows. A bilateral member provides a 24 hour bridge loan to cover the cost of arrears clearance and of Somalia's purchase of additional quota in the Fund. Following the clearance of arrears, the Board is expected to restore Somalia's eligibility to use the general resources of the Fund. On the same day, Somalia would agree to increase its quota in the Fund (as agreed under the 14<sup>th</sup>

General Review) by 119,2 million SDR and pay the reserve asset portion of 29,8 million SDR from the proceeds of the bridge loan. Somalia would then immediately request for a reserve tranche purchase to repay the reserve asset portion of the bridge loan. Following the quota payment the Fund is expected to approve financing of a multiyear Fund programme for Somalia of around 292 million SDR, heavily frontloaded to allow Somalia to repay the remainder of the bridge loan. The balance will be disbursed to Somalia in seven tranches to fund balance of payment needs and catalyse additional donor support. The bridge loan is expected to be provided by Italy. Similar bridge loans are provided by Norway and UK to clear Somalia's arrears to the World Bank and the AfDB. The bridge loans are required to protect the preferred creditor status of the institutions which amongst other means that they cannot be seen (by the capital market and the credit rating agencies) to use internal resources to clear a member's arrears.

## **8. Financial Management, planning and reporting**

The grant is expected to be paid in February/March by the ministry of Foreign Affairs directly into the SDR account set up by the IMF for the purpose. The arrears clearance operation will be managed entirely by the IMF according to well established rules. Denmark will monitor progress through the regular reporting in the boards of the IMF and the World Bank about Somalia's performance under the programmes with these institutions as well as through its participation joint donor monitoring of bilateral and multilateral programmes and Somalia's performance on the implementation of the PRS. The 242 million SDR collected to clear Somalia's arrears to the Fund before the HIPC Decision Point will be transferred to the Fund's general resources at the Completion Point, effectively cancelling Somalia's corresponding debt to the Fund. These operations will be monitored through the financial reports of the Fund.

## **9. Risk Management**

The main risks is that the reform program, including the poverty reduction strategy, is not implemented by the Somali authorities in a manner consistent with a strong commitment to both pressing and long-term development objectives and, subsequently, that the newly unlocked financial resources are not channelled to the basic needs of the Somali population. This risk profile is similar to the one adopted by the EU in its budget support programme from 2018.

The IMF – and the WB and AfDB – are experienced in supporting demanding and long-term reform efforts. Like other major donors, Denmark will be able to track the IMF reform program closely, both through reports from Danish representatives at the IMF and, locally, through the Danish embassy in Nairobi and the two program offices in Somalia.

Moreover, consistent and coordinated pressure through the EU and in bilateral as well as in joint development partner with the Somali authorities before and after the "Completion Point" will be necessary. This could include raising the issue in the COAFR working group and ensure that the issue is raised in bilateral messaging with Somalia officials.

## **Annex 1: Signed Quality Assurance Checklist.**



## Annex 1 - Quality Assurance checklist for appraisal of programmes and projects<sup>1</sup>

File number/F2 reference: F2 2019 – 40826

Project name: A Danish contribution Somalia's clearance of its arrears to the IMF as part of the country's HIPC treatment

Project period: 15.02. – 31.12.20

Budget: DKK 39 million

Presentation of quality assurance process:

*The proposal has been developed by APD and MUS with input from the Embassy in Nairobi and, on bilateral debt, from GJL and in consultation with colleagues in the Ministry of Finance, Danmarks Nationalbank and the constituency office in IMF as well as with a representative of IMF.*

The design of the programme/project has been appraised by someone independent who has not been involved in the development of the programme/project.

*Comments: The project covers a one off payment to the IMF as Denmark's contribution to Somalia's clearance of its arrears to the IMF. The arrears clearance is a precondition for Somalia to regain access to the ordinary assistance from the Fund and for the country to reach Decision Point under the HIPC/MDRI debt reduction initiative. The arrears clearance and the HIPC/MDRI follow established and time tested procedures and a model for cooperation with the Somali authorities and its external partners that generate the necessary consultation mechanisms, results and monitoring frameworks as well reporting that will enable Denmark to ascertain that its contribution is used as intended. For these reasons, it was decided that the quality assurance could have been carried out by APD and MUS.*

The recommendations of the appraisal has been reflected upon in the final design of the programme/project.

*Comments: NA*

The project complies with Danida policies and Aid Management Guidelines.

*Comments: Yes. Because of the short-term and simple nature of the operation, other standard Annexes are not attached. However, the project document has been drafted to respond to issues that could reasonably have been expected to have been dealt with in relevant annexes.*

The project addresses relevant challenges and provides adequate responses.

*Comments: The project addresses the challenge of collecting adequate resources from the IMF members and Somalia's donors to enable Somalia to clear its arrears to the IMF. The size of the Danish contribution is suggested based on the importance that Denmark attaches to development in Somalia, the financial response of other countries and the urgency of the operation. Whether this will be enough to reach the total amount of*

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<sup>1</sup> This Quality Assurance Checklist should be used by the responsible MFA unit to document the quality assurance process of appropriations where TQS is not involved. The checklist does not replace an appraisal, but aims to help the responsible MFA unit ensure that key questions regarding the quality of the programme/project are asked and that the answers to these questions are properly documented and communicated to the approving authority.

*SDR 242 million required cannot be determined beforehand. However, in the event of a shortfall, the EC has promised to cover that.*

- ❑ Issues related to HRBA/Gender, Green Growth and Environment have been addressed sufficiently.

*Comments: All these concerns have suffered tremendously during the long civil war in Somalia. However, the reform programs with the IFI and the national Poverty Reduction Strategy to be agreed and followed as part of the HIPC process will address gender and environmental issues directly to some extent, and also create platforms that could be used for raising HRBA issues.*

- ❑ Comments from the Danida Programme Committee have been addressed (if applicable).

*Comments: The project has not been submitted to the Program Committee for same reasons given above for not undertaking an independent appraisal.*

- ❑ The project outcome(s) are found to be sustainable and is in line with the partner's development policies and strategies. Implementation modalities are well described and justified.

*Comments: The project is well aligned with Somalia's development aspiration. Through the PRS and the reform track, the project is expected to help Somalia strengthen its planning and executive capacity to steer its own development. The modalities of implementation are well described and considered solid.*

- ❑ The results framework, indicators and monitoring framework of the programme/project provide an adequate basis for monitoring results and outcome.

*Comments: The results framework for the project is simple, ambitious and adequate.*

- ❑ The project is found sound budget-wise.

*Comments: The budget and the financial management arrangements suggested by the partner is considered sound.*

- ❑ The project is found realistic in its time-schedule.

*Comments: The arrears clearance operation and the HIPC Decision Point in March 2010 are found reasonably realistic. However, failure to meet critical benchmarks of the IMF programme or*

- ❑ Other donors involved in the same project have been consulted, and possible harmonised common procedures for funding and monitoring have been explored.

*Comments: The UK has been consulted. The arrears clearance operation and the HIPC process in themselves provide orderly and harmonized processes for funding and monitoring.*

- ❑ Key programme/project stakeholders have been identified, the choice of partner has been justified and criteria for selection have been documented.

*Comments: Yes, the stakeholders are the people of Somalia, their central and decentral government and their private sector and civil society.*



The executing partner(s) is/are found to have the capacity to properly manage, implement and report on the funds for the programme/project and lines of management responsibility are clear.

*Comments: Yes.*

Risks involved have been considered and risk management integrated in the programme/project document.

*Comments: Yes.*

In conclusion, the programme/project can be recommended for approval: yes

Date and signature of desk officers: 30.01.20   Niels Richter and Lasse Egendal Leipziger

Date and signature of management: \_\_\_\_\_

