

Shabaab continues to control significant parts of the country and carries out regular attacks against civilians as well as Somali and AMISOM forces. Despite the commitment in the Somalia Transition Plan (STP) to take over the country's security responsibility by 2023, Somali security forces remain heavily dependent on international support and cannot ensure the protection of the population.

On the **economic front**, Somalia achieved an important milestone in March 2020 by reaching **HIPC Decision Point**, which in turn resulted in the **normalisation of the relationship with international financial institutions and the unlocking of significant financial resources** most notably from the World Bank and the IMF. This notwithstanding, the political developments during 2020 to mid-2022 led to the de facto suspension of direct budget support. In 2021, the Government of Somalia benefited from the IMF's global new SDR creation exercise, which created fiscal space that allowed the financing of priority spending until the resumption in international budget support from mid-2022.

Somalia is now at the cusp of reaching HIPC Completion Point. The HIPC process has been extremely helpful to focus policy efforts and provide an **anchor for an ambitious economic reform programme**. A new strategic framework needed to sustain the reform momentum post HIPC Completion Point still needs to be formulated.

2.2 Problem Analysis

Though the election of the President marked the end of the most recent drawn-out political crisis, the **root causes of instability remain acute**. In the absence of a finalized constitution and structures to ensure the Government abides by it, the country remains at risk of being exploited by a political elite that has limited incentive to change the status quo. While there has been incremental progress in implementing financial and fiscal management related reforms in recent years, Somalia's fiscal institutions remain weak as DRM and PFM practices are still developing (from a very low/non-existent basis).

Both horizontal and vertical **accountability mechanisms are weak**, which facilitates the capture of institutions by political elites. This is fuelling distrust and reinforces patterns of fragility, as the country remains trapped in a "low-trust non-cooperative social equilibrium" (World Bank) with a constant risk of relapse into conflict and reversal of the state building gains achieved to date.

The emerging federal governance structures are still contested politically, and struggling to perform core state functions. Continued international pressure is required to **strengthen nascent governance structures and ensure that the state meets its obligations vis-à-vis its population**. Notwithstanding positive steps by the new administration to convene and reconcile FGS and FMS leadership and a degree of political will on all sides to advance the ambitious state-building agenda, the capacity at both FGS and FMS levels to deliver on these objectives is weak and in need of support and **state legitimacy vis-à-vis Somalia's citizens remains low**.

Government capacity remains extremely weak at managerial and technical levels, collection of domestic resources very limited (around 5 per cent of GDP), emerging federal institutions are still being defined, and political instability - and associated security concerns - continue to hamper reform efforts. Hence the role of the state remains very limited, and as a result it is not surprising that Somalia ranks dismally in key human development indicators, despite heavy inflows of donor aid.

The EU is considered a key partner that supported Somalia's economic reform programme from the outset, as a result of which Somalia may reach **HIPC Completion Point** in the course of 2023. As an immediate result of the first SRBC, IFIs reengaged with Somalia, with in particular the World Bank now disbursing hundreds of millions of dollars worth of IDA each year. However, Somalia is yet to invest any own public resources into service delivery, with current spending largely limited to wages of security personnel and staff in administrative structures at central and state levels. At present, service delivery is either funded by external aid resources or provided by private sector operators.

By providing un-earmarked fiscal space, this SRBC will **enable greater public spending on social service delivery** in the interest of building public trust in nascent public institutions at FGS and FMS levels. It is expected that this operation will contribute to a gradual **improvement in citizens-state relations and help address core drivers of conflict and political instability**: increasing the state's effectiveness and responsiveness in delivering public goods to Somali citizens will in the long term, facilitate a gradual move away from a traditional (and largely exclusionary) clan-based social contract to a more inclusive and sustainable one.