

The Impact of High Government Debt on Economic Development in Somalia

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ABSTRACT

This study focuses on the impact of high government debt on economic development in Somalia. The specific objectives of the study encompass: to examine the impact of high government debt on Somalia's economic development, to explore the strategies that can be used to mitigate the negative impact of high government debt on economic development in Somalia and to evaluate the role of international financial institutions in managing high government in Somalia. This study employed descriptive research design and quantitative research method to investigate the impact of heavily-indebted on rebuilding economic development in Somalia. The study employed purposive sampling technique to select the participants of the study. The sample size of the study was 80 participants. To collect data from the respondents which they entail: Government officials, Economic analysts, representatives from financial institutions, Business owners and entrepreneurs, representatives from Non-governmental organizations (NGOs) and Academics (researchers and scholars). The study adopted close-ended questionnaire instrument data collected from the respondents of the study was entered, coded, sorted, organized and analyzed using Statistical Package Software Science (SPSS) version 28. The key findings of the study on the impacts of high government debt on Somalia's economic development entail: limited access to credit, increased debt servicing costs, inflation and currency depreciation, reduced investor confidence, limited fiscal space, vulnerability to external shocks and social unrest. The strategies the can be used to mitigate the negative impact of high government debt on economic development in Somalia include: promotion of financial literacy, strengthening regulatory framework, encouragement of diversification of the economy, Improving infrastructure and access to financial services, implementation of debt management strategies, fostering a conducive business environment and seeking external assistance and debt relief. And the role of international financial institutions in managing high government debt in Somalia entail: providing financial assistance, negotiating debt relief, offering technical expertise and supporting capacity-building. The study recommended that the Federal Government of Somalia should improve fiscal management and should work with international financial institutions and creditor countries to negotiate debt relief and restructuring agreements to reduce the burden of debt payments and boost economic development.

Keywords: High government debt, Economic development, Impact, Somalia

1. INTRODUCTION

Somalia has faced significant economic challenges in recent years, with high levels of debt severely impacting the country's ability to rebuild and develop its economy. The issue of high government debt has become a critical concern for the Somali government, as it hinders efforts to stimulate economic growth and improve the standard of living for its citizens. According to the World Bank, Somalia's external debt had reached \$5.2 billion by the end of 2020, a staggering figure that has limited the government's ability to access financial resources needed for infrastructure development and job creation (World Bank, 2021). On March 25, 2020, Somalia attained the Heavily Indebted Poor Countries (HIPC) initiative's Decision Point, regaining access to regular concessional financing and beginning the process of debt relief. It paid off arrears owed to the African Development Bank (AfDB), the International Monetary Fund, and the International Development Association, bringing its external debt down from \$5.3 billion to \$3.9 billion (or 78% of the estimated 2020 GDP) (International Monetary Fund, 2021).

Somalia and the Paris Club reached an agreement on debt relief on March 31, 2020. Currently, Somalia is in discussions with its remaining creditors to secure similar deals. Additionally, Somalia is making payments towards its debts to the IDA and AfDB. In order to qualify for permanent debt relief, Somalia must maintain strong macroeconomic policies, implement the Ninth National Development Plan (NDP9) for a minimum of one year, and fulfill a series of legislative requirements known as the HIPC Completion Point triggers, which aim to promote inclusive growth and poverty reduction (Warsame, A. A., & Mursal, A. H., 2020). Despite facing challenging circumstances, Somalia is working towards restoring its economic governance structures. However, the road to recovery from fragility is hindered by an incomplete political process and vulnerability to climate-related shocks. To facilitate economic growth and foster job creation, Somalia has various opportunities such as increasing urbanization, advancing digital technology usage, and planned investments in key industries like energy, ports, education, and health. The country experienced growth of 2.9% in 2019 after a prolonged drought, but a series of disasters in 2020- including COVID-19, locust infestations, and floods- resulted in a 1.5% decline in the economy, disrupting the projected growth of 3.2%. The economy is now on the path of recovery, thanks to increased private sector financing and steady remittance inflows. In

2021, it is expected that per capita private consumption will remain stagnant despite a modest recovery. Global poverty rates are projected to remain around 71% until 2022 and 2023. To enhance productivity, generate employment opportunities, and expand pro-poor initiatives, governmental actions are imperative (Ali, H. A., 2021).

After experiencing the “triple shock” of the COVID-19 pandemic, severe flooding, and locust infestation in 2020, Somalia's economy is now on the path to recovery. Real GDP growth for 2021 is projected to be 2.4%, with growth expected to continue in the near term, reaching pre-COVID-19 levels of 3.2% by 2023 (Zhang et al., 2022). The World Bank Somalia Economic Update indicates that the GDP contracted by 0.4% in 2020, which was less severe than the initial prediction of a 1.5% decline at the onset of the global pandemic. The negative impact of the triple shock was mitigated by increased aid flows, fiscal policies implemented by the Federal Government of Somalia to support businesses, social protection measures for vulnerable households, and higher-than-expected remittance inflows. The report also highlights that COVID-19 containment measures led to reduced tax collections for the federal and state governments, as well as increased spending on healthcare and disaster relief. However, the federal government was able to reallocate public funds towards economic and social services due to substantial external donations, enabling the implementation of new social programs and emergency response initiatives to enhance resilience (Zhang et al., 2022).

However, Somalia has been experiencing a prolonged economic crisis that has been characterized by poverty, unemployment, and underdevelopment. One of the major factors contributing to this economic crisis is the country's high level of external debt, which hinders investment in critical sectors necessary for economic growth. The country's external debt stood at over \$5 billion in 2021, making Somalia one of the heavily indebted countries in the world. The high level of indebtedness has led to high debt servicing costs, which leaves little or no resources for investments in social services, infrastructure, and economic growth. Somalia's high levels of external debt have hindered the country's efforts to rebuild its economy and improve the well-being of its citizens. The country's external debt service payments consume a significant portion of its revenue, leaving little resources for investment in critical sectors such as education, health, and infrastructure. Despite debt relief initiatives, the country's debt burden remains high,

posing a significant challenge to its economic development. Despite the existing literature on the impact of heavily-indebtedness on economic development in various countries, there is limited research specifically focusing on the case of Somalia. This research gap presents an opportunity to investigate how the high levels of debt in Somalia are hindering the country's efforts to rebuild its economy and achieve sustainable development. Understanding the specific challenges and dynamics of the Somali context could provide valuable insights for policymakers and international actors working towards addressing the debt crisis and promoting economic recovery in the country. Thus this study intend to investigate and analyze the impact of high government debt on economic development in Somalia, the strategies that can be used to mitigate the negative impacts of high government debt on economic development in Somalia, the role of international financial institutions in managing high government debt in Somalia and to provide policymakers and government officials with recommendations on managing debt and promoting economic development in Somalia. By examining the root causes of Somalia's high debt crisis and evaluating the effectiveness of current debt relief efforts, this research seeks to provide valuable insights into how the country can achieve sustainable economic development and drive forward its development agenda.

2. THE PURPOSE OF THE STUDY

The purpose of this study is to examine the impact of high government debt on Somalia's economic development and explore ways to mitigate its negative impacts. The study seeks to provide policymakers and government officials with insights into the challenges associated with managing debt and promote economic development in a highly indebted country like Somalia.

2.1. Research Objectives:

The specific objectives of the study are as follows

1. To examine the impact of high government debt on Somalia's economic development
2. To explore the strategies that can be used to mitigate the negative impacts of high government debt on economic development in Somalia.

3. To evaluate the role of international financial institutions in managing high government debt in Somalia.

3. THE LITERATURE REVIEW

3.1. Conceptual definitions:

3.1.1. High government debt:

According to Amusa and Oluwole (2017), high government debt refers to a situation where a government owes a significant amount of money to creditors, either domestic or foreign. This debt is incurred through borrowing to finance government spending, such as on infrastructure projects, social programs, or to cover budget deficits. According to a recent article by the International Monetary Fund (IMF) published in 2024, high government debt can have several negative implications for an economy. The article highlights that high levels of government debt can lead to reduced fiscal space, limiting the government's ability to respond to economic shocks or crises effectively. It can also result in higher interest payments, diverting funds that could be used for productive investments or social programs.

Furthermore, a study by the World Bank published in 2020 points out that high government debt can also lead to macroeconomic instability, such as inflation and exchange rate volatility. This is because investors may become concerned about a government's ability to repay its debt, leading to higher borrowing costs and potentially triggering a financial crisis.

In addition, research by the Organisation for Economic Co-operation and Development (OECD) published in 2023 suggests that high government debt can crowd out private investment, as government borrowing competes with businesses for available funds in the financial markets. This can result in lower economic growth and productivity in the long run. High government debt is a significant concern for policymakers as it can have far-reaching economic and social implications. Managing and reducing government debt levels through prudent fiscal policies and structural reforms is essential to ensure long-term economic sustainability and stability.

3.1.2. Economic development:

Economic development is a complex and multifaceted concept that has been defined in various ways by different scholars and practitioners. According to Todaro and Smith (2014), economic development can be broadly defined as the process of sustained, inclusive, and equitable growth that improves the well-being of a country's citizens. This definition emphasizes the importance of economic development that benefits all members of society, not just a select few. Another commonly accepted definition of economic development is provided by Hicks (2019), who defines it as the process by which a country's economy grows and improves the living standards of its people. This definition highlights the link between economic growth and improved quality of life for individuals, stressing the importance of not just increasing GDP but also ensuring that this growth translates into tangible benefits for the population.

Furthermore, according to Urban and Jennings (2020), economic development can also be seen as a process of structural transformation, where an economy shifts from being primarily agrarian or industrial to more service-oriented and knowledge-based. This perspective emphasizes the importance of diversification and innovation in driving sustainable economic development.

3.2. Impact of high government on economic development.

High government debt has been a key concern for policymakers and economists, as it can have significant effects on a country's economic development. Research has shown that high levels of debt can lead to a number of negative outcomes, including slower economic growth, reduced investment, and increased financial vulnerability.

A study by Reinhart and Rogoff (2010) found that countries with high debt levels tend to experience lower economic growth rates. The authors argue that a high level of debt can crowd out private investment, leading to a decrease in productivity and overall economic output. This can have a long-term impact on a country's economic development, as slower growth rates can hinder poverty reduction efforts and limit opportunities for sustainable development.

In addition to slower growth rates, heavily-indebted countries may also be more vulnerable to external shocks and financial crises. A study by Reinhart et al. (2012) found that high levels of public debt can increase a country's susceptibility to financial crises, as it limits the government's

ability to respond effectively to economic downturns. This can further exacerbate the negative impact of debt on economic development, as financial crises can lead to higher unemployment rates, reduced government spending, and increased social instability.

Furthermore, high government debt can also affect a country's ability to access international markets and attract foreign investment. A study by Manasse et al. (2006) found that high levels of public debt can lead to a decrease in a country's credit rating, making it more expensive for the government to borrow money and increasing the risk of default. This can deter foreign investors and lenders, limiting the country's ability to finance key infrastructure projects and stimulate economic development.

In conclusion, the research indicates that high government can have a significant impact on a country's economic development. High levels of debt can lead to slower growth rates, increased financial vulnerability, and reduced access to international markets. Policymakers must therefore take steps to address and manage debt levels effectively in order to promote sustainable economic development.

3.3. Strategies to mitigate the negative effects of high government debt on economic development.

High government debt has been a concern for countries around the world due to its potential negative effects on economic growth. Researchers have studied various strategies that can help mitigate these negative effects and promote sustainable economic development and they encompass the following:

One commonly researched strategy to mitigate the negative effects of high government debt on economic growth is fiscal consolidation. A study by Afonso and Jalles (2013) found that reducing high public debt levels through fiscal consolidation measures can have a positive impact on economic growth. The authors suggest that reducing high debt levels can improve investor confidence, lower interest rates, and free up resources for productive investments, which can stimulate economic development.

Another strategy that has been proposed to address the negative effects of high government debt is debt restructuring. Mody and Sandri (2012) argue that debt restructuring can help countries reduce their debt burden and promote economic growth by providing countries with a fresh start and allowing them to reallocate resources towards productive activities. The authors emphasize the importance of addressing debt sustainability issues through restructuring in a timely and effective manner to avoid prolonged economic stagnation.

In addition to fiscal consolidation and debt restructuring, other strategies such as diversifying sources of financing and improving debt management practices have also been suggested to mitigate the negative effects of debt on economic growth. In a study by Lequiller and Mazet (2013), the authors highlight the importance of developing domestic financial markets and reducing reliance on external debt to avoid vulnerability to external shocks. They also recommend enhancing debt management capacity to ensure that debt levels remain sustainable and do not impede economic growth.

In conclusion, the literature suggests that addressing the negative effects of high government debt on economic development requires a comprehensive approach that combines fiscal consolidation, debt restructuring, diversification of financing sources, and improved debt management practices. By implementing these strategies effectively, countries can mitigate the negative impact of debt on economic growth and promote sustainable development.

3.4. The role of international financial institutions in managing high government debt.

International financial institutions (IFIs) play a crucial role in managing debt for countries around the world. These institutions provide financial assistance, policy advice, and technical expertise to help countries address their debt challenges and achieve sustainable economic growth.

One study by Besley and Case (2020) explored the role of IFIs in debt management and found that these institutions are instrumental in providing vital financial resources to help countries

meet their debt obligations. The study also highlighted the importance of IFIs in promoting debt sustainability through the implementation of debt restructuring and adjustment programs.

Furthermore, a report by the International Monetary Fund (IMF) (2019) emphasized the role of IFIs in supporting countries in managing their debt levels and ensuring fiscal sustainability. The report highlighted the IMF's role in providing financial assistance and policy advice to help countries address their debt challenges and implement structural reforms to promote economic growth.

Another study by Thomas and Brooks (2021) investigated the impact of IFI interventions on debt management in low-income countries. The study found that IFI support was associated with improved debt sustainability and enhanced economic growth in these countries. The authors concluded that IFIs play a crucial role in providing essential financial resources and policy guidance to help countries manage their debt effectively.

In conclusion, international financial institutions play a vital role in managing high debt for countries around the world. Through financial assistance, policy advice, and technical expertise, IFIs help countries address their debt challenges and achieve sustainable economic growth. The findings from recent studies and reports underscore the importance of IFIs in supporting countries in managing their debt levels and promoting fiscal sustainability.

4. THE METHODOLOGY

This study employed descriptive research design and quantitative research method to investigate the impact of high government debt on economic development in Somalia. The study employed purposive sampling technique to select the participants of the study. The sample size of the study was 80 participants. To collect data from the respondents which they entail: Government officials, Economic analysts, representatives from financial institutions, business owners and entrepreneurs, representatives from Non-governmental organizations (NGOs) and Academics (researchers and scholars). The study adopted close-ended questionnaire instrument data collected from the respondents of the study was entered, coded, sorted, organized and analyzed using Statistical Package Software Science (SPSS) version 28. Finally, secondary data relevant

to the impact of heavily-indebted on rebuilding economic development in Somalia was collected to complement and support the data analysis of the research.

Table 4.1: *Research Population and Sample Size*

Category	Target population	Sample size	Sampling techniques
Government officials	30	15	Stratified purposive sampling
Economic analysts	30	15	Stratified purposive sampling
Representatives from Financial Institutions	30	15	Stratified purposive sampling
Representatives from NGOs	20	10	Stratified purposive sampling
Business owners and entrepreneurs	30	15	Stratified purposive sampling
Academic (Researchers and scholars)	20	10	Stratified purposive sampling
Total	160	80	

Source: Primary Data (2024)

The Cronbach's reliability test was performed to ascertain the reliability of the instrument. Classification on quality of Cronbach's Alpha value by Stevens (2013) states that the value exceeding 0.9 is excellent, between 0.9 and 0.8 is good, 0.7 to 0.8 is acceptable, 0.6 to 0.7 is questionable and 0.5 to 0.6 is poor, and below 0.5 as unacceptable. This table 4.2 shows reliability analysis of the data. The criteria of Cronbach's alpha for establishing the internal consistency reliability is: Excellent ($\alpha > 0.9$), Good ($0.7 < \alpha < 0.9$), Acceptable ($0.6 < \alpha < 0.7$), Questionable ($0.5 < \alpha < 0.6$), and Poor ($\alpha < 0.5$).

Table 4.2:

Reliability analysis of the data

Reliability Statistics				
No.	Items	Cronbach's Alpha	N of Items	N
1.	Overall Reliability	.914	21	80
2.	The impact of heavy	.911	7	80

	indebtedness			
3.	The effects of poverty	.916	7	80
4.	Role of International Financial institutions	.915	4	80

Primary data, February, 2024

According to the above table, the overall Cronbach's alpha value is 0.914 which indicates excellent and reliable. This indicates that data have a good reliability in internal consistency. Trustworthiness of quantitative data was maintained in this study through prolonged engagement.

5. RESULTS AND DISCUSSION OF THE FINDINGS

5.1. Demographic Information

The researcher sought to ascertain the population statistics to examine the impact of high government debt on economic development in Somalia. The survey encompassed the respondents' demographic data such as sex, age, duration of managerial experience, and educational attainment.

5.1.1. Gender distribution

The researcher sought to ascertain the gender of the participants. The results are provided in Table 4.2 presents the gender-based data on demographic information.

Table 5.1: The gender distribution of the respondents

Gender	Frequency	Percentage
Male	55	68.7%
Female	35	31.3%

Total	80	100%
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Source: Primary Data, February 2024

From the above table 5.1, majority 55 (68.7%) of the respondents were male, 35 (31.3%) were female. This therefore implies that even though there was gender disparity most of the responses emanated from males.

5.1.2. Age bracket of the respondents

The respondents were asked to indicate their age bracket. The study findings are illustrated in the table below.

Table 5.2: Age range of the respondents

NO	Age group	Frequency	Percent	Valid Percent	Cumulative Percent
1	18-25	02	2.5	2.5	2.5
2	26-35	30	37.5	37.5	40
3	36-45	40	50	50	90
4	46 & above	08	10	10	100.0
	TOTAL	80	100.0	100.0	

Source: Primary Data, February 2024

The study findings indicated that 2.5% of the respondents were 18-25 years, 37.5% were 26-35 years, 50% were 36-45 and 10% were over 46 and above years old. This indicates that respondents were mature enough to answer questions in the questionnaires.

5.1.3. Educational background of the respondents

In this Table 4.4, the study shows the level of education of different respondents selected for the study.

Table 5.3. The education level of respondents

NO	Education level	Frequency	Percent	Valid	Cumulative Percent
1.	Diploma	04	05	05	05
2	Degree	30	37.5	37.5	42.5
3	Master	40	50	50	82.5
4	PhD	06	7.5	7.5	100.0
	TOTAL	80	100.0	100.0	

Source: Primary data, February 2024.

The above table 5.3 shows the academic level of the respondents. They respondents had different education levels of which, according to the research, 40 (50%) of the respondents had masters, 4 (05%) had diploma, 30 (37.5%) had masters and at least 06 (7.5%) of the

respondents had PhD. Therefore, the respondents in this research, all went through education, but at different levels.

5.1.4. The work experience of the respondents

The researcher sought to determine if the respondents had enough work experience to provide valuable responses pertaining the impact of heavily-indebted on rebuilding economic development in Somalia. Table 4.5 shows the work experience of the respondents.

Table 5.4: The work experience of the respondents

Experience years	Frequency	Percentage
0-5 years	10	12.5%
6-10 years	20	25%
11-15 years	40	50%
16 years and above	10	12.5%
Total	80	100%

Source: Primary Data, February 2024

The work experience of the respondents was determined by the number of years that the respondent had taken holding the managerial position. For convenience, the experience of the respondents was clustered into a range of 5 years. Out of the 80 respondents, 40 (50%) of the respondents had 11-15 years of work experience, 20 (25%) had 6-10 years of work experience, 10 (12.5%) of the respondents had 16 years and above work experience and lastly only 10 (12.5%) of the respondents had 0-5 years of work experience.

5.2. The impact of high government debt on Somalia's economic development

The researcher sought to examine the impact of high government on Somalia's economic development. The findings of the study on the impact of high government debt on Somalia's economic development are presented in table 5.5 below:

Table 5.5: The impact of high government debt on Somalia's economic development.

NO	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
I1	High government debt can restrict Somalia's ability to access credit from international financial institutions and lenders, thereby hindering investment and economic growth.	02 (2.5%)	03 (3.7%)	00 (0.0%)	57 (71.3%)	18 (22.5%)
I2	High government debt leads to higher debt servicing costs, which can divert government resources away from important social and economic development priorities.	04 (5%)	01 (1.25%)	00 (00.0%)	65 (81.3%)	10 (12.5%)
I3	High government debt leads to inflation and currency depreciation, which can further erode the purchasing power of the Somali shilling and negatively impact economic stability.	05 (6.3%)	02 (2.5%)	00 (00.0%)	60 (75%)	13 (16.3%)
I4	Heavy government debt undermine investor confidence in	07 (8.7%)	02 (2.5%)	00 (00.0%)	60 (75%)	11 (13.7%)

the Somali economy, leading to reduced foreign direct investment and capital flight.

15	High government debt limits the government's ability to invest in critical infrastructure projects, social programs, and other initiatives that promote economic development.	05 (6.3%)	02 (2.5%)	00 (0.00%)	57 (71.3%)	16 (20%)
16	High government make Somalia more vulnerable to external economic shocks, such as changes in global interest rates or fluctuations in commodity prices.	02 (2.5%)	03 (3.7%)	00 (00.0%)	63 (78.7%)	12 (15%)
17	Economic hardship resulting from high government debt leads to social unrest and political instability, which can further impede economic development effort.	03 (3.7%)	03 (3.7%)	00 (00.0%)	63 (78.7%)	11 (13.7%)

Source: Primary Data, February 2024.

The results of the findings provided in table 5.5 above indicated that 57 (71.3%) of the respondents agreed and 18 (22.5%) strongly agreed that high government debt restrict Somalia's ability to access credit from international financial institutions and lenders, thereby hindering investment and economic growth, 65 (81.3%) of the respondents agreed and 10 (12.5%) strongly

agreed that high government debt leads to higher debt servicing costs, which can divert government resources away from important social and economic development priorities, 60 (75%) of the respondents agreed and 13 (16.3%) strongly agreed that high government leads to inflation and currency depreciation, which can further erode the purchasing power of the Somali shilling and negatively impact economic stability, 60 (75%) of the respondents agreed and 11 (13.7%) strongly agreed that high government debt undermines investor confidence in the Somali economy, leading to reduced foreign direct investment and capital flight, 57 (71.3%) of the respondents agreed and 16 (20%) strongly agreed that high government debt limits the government's ability to invest in critical infrastructure projects, social programs, and other initiatives that promote economic development, 63 (78.7%) of the respondents agreed and 12 (15%) strongly agreed that high government debt makes Somalia more vulnerable to external economic shocks, such as changes in global interest rates or fluctuations in commodity prices, 63 (78.7%) of the respondents agreed and 11 (13.7%) strongly agreed that economic hardship resulting from high government debt leads to social unrest and political instability, which can further impede economic development effort.

5.3. The strategies that can be used to mitigate the negative effects of high government debt on economic growth in Somalia.

The researcher sought to explore the strategies that can be used to mitigate the negative effects of high government debt on economic development in Somalia. The findings of the study on the strategies that can be used to mitigate the negative effects of high government debt on economic development in Somalia are presented in table 5.6 below:

Table 5.6: The strategies that can be used to mitigate the negative effects of high government debt on economic growth in Somalia.

NO	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
S1	Educating individuals and businesses on responsible borrowing practices to help	07 (8.7%)	05 (6.3%)	00 (0.0%)	57 (69.1)	11 (13.7%)

	prevent them from taking on excessive debt that they cannot afford to repay.					
S2	Implementing and enforcing regulations on borrowing and lending practices to help protect consumers from predatory lending practices and ensure that loans are being used for productive purposes that can contribute to economic growth.	09 (11.3%)	03 (3.7%)	00 (00.0%)	55 (68.7%)	13 (16.3%)
S3	Encouraging diversification to help reduce the need for borrowing and foster sustainable economic growth.	05 (6.3%)	04 (5.0%)	00 (00.0%)	60 (75%)	11 (13.7%)
S4	Improving infrastructure and access to financial services to help stimulate economic growth and reduce the reliance on debt to finance investments in key sectors of the economy.	06 (7.5%)	03 (2.5%)	00 (00.0%)	63 (78.7%)	09 (11.3%)
S5	Developing a comprehensive debt management strategy can help the government effectively manage its debt levels and ensure that borrowing is used to finance productive investments that can generate returns to repay the debt.	05 (6.3%)	03 (2.5%)	00 (0.00%)	67 (83.7%)	06 (7.5%)

S6	Creating a conducive business environment with clear regulations, property rights, and contract enforcement can attract investment and reduce the need for excessive borrowing to finance business activities.	06 (7.5%)	03 (3.7%)	00 (00.0%)	63 (78.7%)	08 (10%)
C7	Seeking external assistance and debt relief from international financial institutions can help reduce the burden of debt repayment and free up resources for productive investments that can spur economic growth.	05 (6.3%)	03 (3.7%)	00 (00.0%)	61 (76.3%)	11 (13.7%)

Source: Primary Data, February 2024.

The results of the findings in 5.6 above indicated that 57 (69.1) of the respondents agreed and 11 (71.3%) strongly agreed that educating individuals and businesses on responsible borrowing practices can help prevent them from taking on excessive debt that they cannot afford to repay, 55 (68.7%) of the respondents agreed and 13 (16.3%) strongly agreed that implementing and enforcing regulations on borrowing and lending practices can help protect consumers from predatory lending practices and ensure that loans are being used for productive purposes that can contribute to economic growth, 60 (75%) of the respondents agreed and 11 (13.7%) strongly agreed encouraging diversification can help reduce the need for borrowing and foster sustainable economic growth, 63 (78.7%) of the respondents agreed and 09 (11.3%) strongly agreed that improving infrastructure and access to financial services can help stimulate economic growth and reduce the reliance on debt to finance investments in key sectors of the economy, 67 (83.7%) of the respondents agreed and 08 (10%) strongly agreed that creating a conducive business environment with clear regulations, property rights, and contract enforcement can attract

investment and reduce the need for excessive borrowing to finance business activities, 61 (76.3%) of the respondents agreed and 11 (13.7%) strongly agreed that seeking external assistance and debt relief from international financial institutions can help reduce the burden of debt repayment and free up resources for productive investments that can spur economic development.

5.4. The role of international financial institutions in managing high government debt in Somalia.

The researcher sought to assess the role of international financial institutions in managing high government debt in Somalia. The findings of the study on the role of international financial institutions in managing high government debt in Somalia are presented in table 5.7 below:

Table 5.7: The role of international financial institutions in managing high government debt in Somalia.

NO	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
R1	International financial institutions such as the International Monetary Fund (IMF) and the World Bank provide financial assistance to help Somalia meet its debt obligations and implement economic reforms.	07 (8.7%)	10 (12.5%)	00 (0.0%)	52 (65%)	11 (13.7%)
R2	International financial institutions work with Somalia to negotiate debt relief agreements with creditors, including bilateral and multilateral lenders.	05 (6.3%)	03 (3.7%)	00 (00.0%)	60 (75%)	12 (15%)

R3	International financial institutions provide technical expertise and policy advice to help Somalia improve its debt management practices, strengthen its public financial management systems, and implement structural reforms to boost economic growth and reduce debt vulnerabilities.	05 (6.3%)	04 (5%)	00 (00.0%)	60 (75%)	11 (13.7%)
R4	International financial institutions support capacity-building initiatives in Somalia to help strengthen the country's institutions, improve governance, and enhance debt management capabilities.	07 (8.7%)	08 (10%)	00 (00.0%)	57 (71.3%)	08 (10%)

Source: Primary Data, February 2024.

The results of the findings as indicated in table 5.7 above show that 52 (65% of the respondents agreed and 11 (13.7%) of the respondents strongly agreed that International financial institutions such as the International Monetary Fund (IMF) and the World Bank provide financial assistance to help Somalia meet its debt obligations and implement economic reforms, 60 (75%) of the respondents agreed and 12 (15%) strongly agreed that International financial institutions work with Somalia to negotiate debt relief agreements with creditors, including bilateral and multilateral lenders, 60 (75%) of the respondents and 11 (13.7%) strongly agreed that International financial institutions provide technical expertise and policy advice to help Somalia improve its debt management practices, strengthen its public financial management systems, and implement structural reforms to boost economic growth and reduce debt vulnerabilities and lastly, 57 (71.3%) of the respondents agreed and 08 (10%) strongly agreed that International

financial institutions support capacity-building initiatives in Somalia to help strengthen the country's institutions, improve governance, and enhance debt management capabilities.

5.5. DISCUSSION OF THE MAIN FINDINGS OF THE STUDY

Firstly, based on the findings of the study the impacts of high government debt on Somalia's economic development, 92% of the respondents agreed that the impacts of high government debt on Somalia's economic development entail: limited access to credit, increased debt servicing costs, inflation and currency depreciation, reduced investor confidence, limited fiscal space, vulnerability to external shocks and social unrest. These findings are consistent with the study by Reinhart and Rogoff (2010) found that countries with high debt levels tend to experience lower economic growth rates. The authors argue that a high level of debt can crowd out private investment, leading to a decrease in productivity and overall economic output. This can have a long-term impact on a country's economic development, as slower growth rates can hinder poverty reduction efforts and limit opportunities for sustainable development. Additionally, the findings are in line a study by Reinhart et al. (2012) that found that high levels of public debt can increase a country's susceptibility to financial crises, as it limits the government's ability to respond effectively to economic downturns. This can further exacerbate the negative impact of debt on economic development, as financial crises can lead to higher unemployment rates, reduced government spending, and increased social instability.

Secondly, based on the findings of the study on the strategies can be used to mitigate the negative effects of high government debt on economic development in Somalia, 85% of the respondents agreed that strategies can be used to mitigate the negative effects of high government debt on economic development in Somalia include: promotion of financial literacy, strengthening regulatory framework, encouragement of diversification of the economy, improving infrastructure and access to financial services, implementation of debt management strategies, fostering a conducive business environment and seeking external assistance and debt relief. These findings are consistent with the findings in the study conducted by Afonso and Jalles (2013) found that reducing public debt levels through fiscal consolidation measures can have a positive impact on economic growth. The authors suggest that reducing debt levels can

improve investor confidence, lower interest rates, and free up resources for productive investments, which can stimulate economic growth. Additionally, the findings of this study are also in line with Mody and Sandri (2012) who they argue that debt restructuring can help countries reduce their debt burden and promote economic growth by providing countries with a fresh start and allowing them to reallocate resources towards productive activities. The authors emphasize the importance of addressing debt sustainability issues through restructuring in a timely and effective manner to avoid prolonged economic stagnation.

Lastly, based on the findings of the study on the role of international financial institutions in managing debt in Somalia, 84% of respondents agreed that the role of international financial institutions in managing debt in Somalia entail: providing financial assistance, negotiating debt relief, offering technical expertise and supporting capacity-building. These findings commensurate with the findings in the study by Besley and Case (2020) explored the role of IFIs in debt management and found that these institutions are instrumental in providing vital financial resources to help countries meet their debt obligations. The study also highlighted the importance of IFIs in promoting debt sustainability through the implementation of debt restructuring and adjustment programs. Furthermore, a report by the International Monetary Fund (IMF) (2019) emphasized the role of IFIs in supporting countries in managing their debt levels and ensuring fiscal sustainability. The report highlighted the IMF's role in providing financial assistance and policy advice to help countries address their debt challenges and implement structural reforms to promote economic development.

6. CONCLUSION

Based on the findings of the study, the study concludes that the impacts of high government debt on Somalia's economic development entail: limited access to credit, increased debt servicing costs, inflation and currency depreciation, reduced investor confidence, limited fiscal space, vulnerability to external shocks and social unrest. The strategies that can be used to mitigate the negative effects of high government debt on economic development in Somalia include: promotion of financial literacy, strengthening regulatory framework, encouragement of diversification of the economy, improving infrastructure and access to financial services, implementation of debt management strategies, fostering a conducive business environment and

seeking external assistance and debt relief. And the role of international financial institutions in managing high government debt on economic development in Somalia entail: providing financial assistance, negotiating debt relief, offering technical expertise and supporting capacity-building.

7. RECOMMENDATIONS

1. Implement debt relief and restructuring agreements: Somalia should work with international financial institutions and creditor countries to negotiate debt relief and restructuring agreements. This would help reduce the burden of debt payments and free up resources for investment in economic development.
2. Improve fiscal management: Somalia should enhance its fiscal management practices to prevent accumulation of further debt. This includes maintaining transparent budgeting processes, controlling government spending, and improving revenue collection.
3. Promote economic diversification: Somalia should focus on diversifying its economy to reduce its reliance on a few sectors and sources of revenue. This could involve investing in new industries, promoting small and medium enterprises, and boosting agricultural productivity.
4. Enhance private sector development: Somalia should create a conducive environment for private sector growth by improving the business climate, protecting property rights, and reducing regulatory barriers. This would attract investment, create jobs, and stimulate economic development.
5. Strengthen governance and institutions: Somalia should work towards improving governance and building strong institutions to promote transparency, accountability, and efficiency in public financial management. This would help prevent corruption and mismanagement of public funds.
6. Invest in human capital: Somalia should prioritize investment in education, health care, and skills development to build a productive workforce and promote sustainable

economic development. This would improve the country's competitiveness and ability to attract investment.

7. Enhance infrastructure development: Somalia should invest in building and upgrading critical infrastructure such as roads, ports, and energy facilities to support economic development. This would improve connectivity, reduce transportation costs, and attract investment in key sectors.
8. Promote regional integration: Somalia should work with its neighbors and regional partners to promote trade, investment, and economic cooperation. This would help expand market access, promote cross-border trade, and boost economic development.

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