ISTANBUL COMMERCE UNIVERSITY

GRADUATE SCHOOL OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

ECONOMICS M.A. PROGRAM

THE MACROECONOMIC FACTORS EFFECTING EXTERNAL DEBT IN SOMALIA

M.A. THESIS

HASSAN ISSE JIMALE

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Advisor : Prof. Dr. Yusuf BALCI

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ÖZET

Somali'de devlet borcu konusu giderek daha önemli bir konu haline gelmektedir. Bu tezin temel amacı, 1970-2010 döneminde Somali'deki dış borcun temel belirleyicilerini analiz etmektir. Bunun için tezde Sıradan En Küçük Kareler (OLS) yöntemini uygulanarak ülkenin dış borcunu etkileyen makroekonomik değişkenleri belirlenmeye çalışılmıştır. Bu değişkenler, esas olarak döviz kurları, ticaret hadleri ve milli gelir kazançlarından oluşmaktadır.

Tezin bulgularına göre, ticaret hadleri ve döviz kurları dış borç üzerinde istatistiksel olarak anlamlı bir pozitif etkiye sahiptir. Ticaret hadleri ve döviz kuru dış borç üzerinde olumlu olan bir takım özellikler ortaya koymaktadır. Sonuç olarak, dış borç, çoğunlukla ulusal para biriminin devalüasyonu ve aslında ticaret hadlerindeki bozulma tarafından tetiklenmiştir. Ayrıca analiz, Somali'nin kamu dış borcu ile milli geliri arasında ters bir ilişki bulmuştur. Çalışmanın sonuç ve önerilerine göre etkin mali yönetim, döviz kuru belirlemeye odaklanarak ve döviz rezervleri yerine iç ticaret kaynaklarını ön plana çıkaran ek ticaret politikaları oluşturarak devlet borcunu en aza indirmek için kullanılabilir. Ayrıca, Somali'nin borç ertelemesi hızlandırılmalıdır. Dış borçlardaki hızlı iyileşme, iç barışıın muhafazası, ulusal güvenlik ve iyi yönetişim konularında da olumlu gelişmeleri gerektirir. Somali'nin politikacıları, iş dünyası liderleri, çok uluslu şirketler ve devlet kurumları, dış borçların azaltılması çabalarını teşvik etmeli ve bu konularda öncülük etmelidir.

Anahtar Kelimeler: Dış Borç, Döviz Kuru, Ticaret Hadleri, Milli Gelir, En Küçük Kareler (OLS) Somali.

ABSTRACT

In Somalia, the issue of government debt has turned out to be an increasingly important subject matter. The fundamental purpose of this thesis is to identify the macroeconomic variables effecting the country's external debt in Somalia by applying the ordinary least squares (OLS) method to analyze the essential determinants of foreign debt in Somalia from 1970 to 2010. We mainly focus on these explanatory variables, including the exchange rate, terms of trade and national income earnings.

According to the findings of the thesis, terms of trade and exchange rates have a statistically significant positive impact on foreign debt. The terms of trade and exchange rate reveal a number of characteristics that are positive for external debt. As an outcome, foreign debt was mostly triggered by the devaluation of the national currency and, indeed, the deterioration in terms of trade. In addition, the analysis found an adverse relationship between Somalia's public foreign debt and national income. According to the study's conclusions and recommendations, effective fiscal management can be used to minimize government debt by concentrating on exchange rate determination and establishing additional trade policies that emphasize domestic trading resources instead of foreign currency reserves. Somalia's debt relief must be accelerated. Rapid debt relief requires advances in peacekeeping, national security, and good governance. Somalia's politicians, business leaders, multinationals and government agencies should encourage and lead debt collection efforts.

Keywords: External Debt, Exchange Rate, Terms of Trade, National Income, Ordinary Least Squares (OLS) Somalia.

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LIST OF ABBREVIATIONS

WDI : World Development Indicators

WB : World Bank

DMB : Debt Management Bureau

HIPC : Heavily Indebted Poor Countries

IMF : International Monetary Fund

SSA : Sub-Saharan Africa

USD : US Dollar

OLS : Ordinary Least Square

TOT : Terms of Trade

NI : National Income

EXR : Exchange Rate

EX : External Debt

ADBI : Asian Development Bank Institute

1. INTRODUCTION

National governments' total debt is called institutional or government debt (Nelson, R. M., & Ave, I. (2013). And it is categorised into local debt and international debt. All domestic loans are categorized as household debt, while all loans to governments, foreigners, or multinational development partners are classified as foreign debt. Countries regardless of their status, cannot be self-sufficient, until now settlement of sovereign obligation remains a critical component of financial services in developing countries confronting famine, conflict, and financial collapse (Olumide, 2016).

On the other hand, Adegbite and Ayadi (2008) discussed financial transfers from the domestic market to the rest of the world. External debt, no longer adds to the efficiency of monetary policy and has a detrimental impact on capital mobility, as witnessed in many Sub-Saharan African and smaller nations.

Many African governments transitioned from a strategy of consumption expenditure to capital accumulation in the post-colonial era by privatizing and commercializing national companies. The majority of these countries implemented a structural adjustment program that shifted the emphasis toward private sector participation, allowing the government to manage less economic activity (Bakare, 2011).

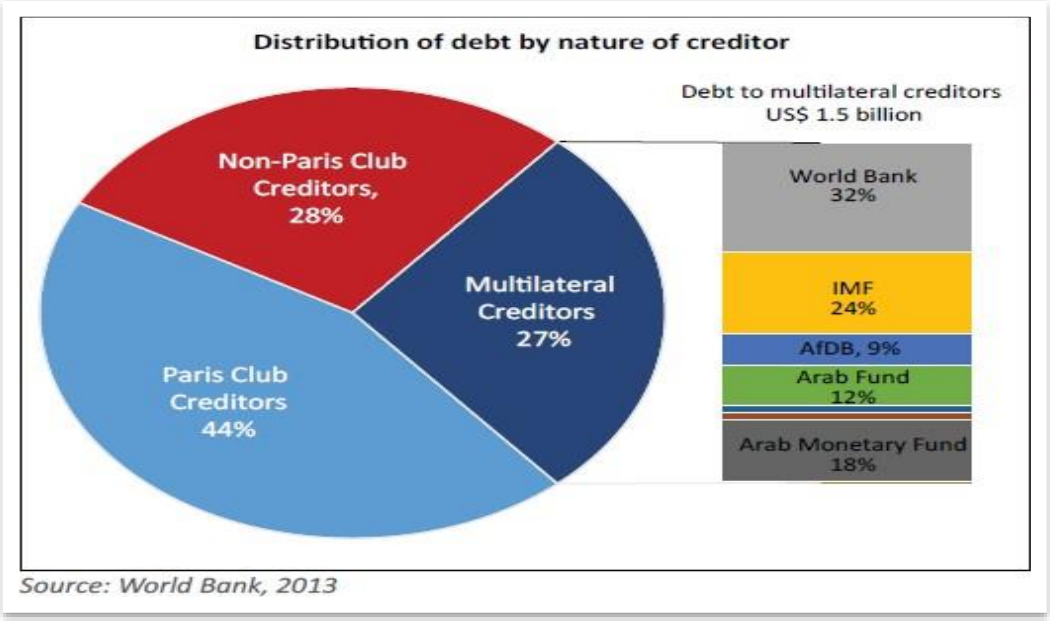
1.1 Background of the Study

If the cost of borrowing exceeds the benefits, and the gap places a strain on debt repayment, debtor countries' and governments may impose limits on additional borrowing. debt term, and borrowing cost all play a role in determining the appropriate amount of borrowing for long-term growth. Countries should borrow to boost their real output at this moment, based on their economy's absorbing capacity (Kozali, 2007).

Since about the commencement of the European nations' foreign debt crisis in 2009, external liability has always been the subject of controversy among legislators, researchers, and the wider international community. There is still a continuing debate on the elements of outdoor commitment in impoverished nations, and the issue of external debt is perceived as one of

the biggest challenges in most developing countries, in this regard. Accumulated external debt are believed to help poorly capitalized countries to accelerate economic growth, but if this financial gap becomes unmanageable, accumulated debt can lead to more foreign borrowing. This creates another vicious circle (Tiruneh, 2004; Awan et al, 2015).

Figure 1: Somalia owes multilateral and bilateral creditors around over $ 5.1 billion



Somalia has no longer engaged any new loans after in 1991. And later in 2013, Somalia had a complete of 27 recognized lenders who fall into 3 categories: Paris Club, Non-Paris Club, multilateral lenders with 44%, 28%, 27 % respectively as proven in Figure 1. The smallest is the debt owed to multilateral and beaten lenders of $ 5.1 billion.

Ilya (2017) Somalia has received $5.1 billion from global monetary organizations, including the International Monetary Fund (IMF), and is expected to begin repaying its debt by that time. Normalizing relations with international financial organizations. Somalia's economy is heavily dependent on imported goods, which provides for even more over two-thirds of GDP, while transfers account for only 14% of trade volume, resulting in a large trade imbalance.

1.2 Problem Statement

The expansion of public debt is an international phenomenon and is now a function of the financial sector of the largest economy. Improper management of debt by the government and continued growth within the debt-to-GDP ratio have led to investment swarms, economic instability, inflation rates, fluctuations in alternative interest rates and, most importantly, with undesired consequences of money, we move forward, which can lead to dire macroeconomic conditions.

Somalia's public financial institutions were vulnerable due to the absence of a significant private sector. Following that, Somalia agreed to borrow substantial sums of money from international moneylenders in order to conciliate the Somali civil war. Foreign loans serve crucial functions that can result in macroeconomic changes.

Excessive external debt and mismanagement could negatively impact investment and the economic wellbeing of the country. Unfortunately, research on the variables of Somalia's public debt is limited, despite the country's poor academic institutions. As a result, examining the root causes of Somalia's foreign debt is critical to mitigate the negative impact of the macroeconomic fundamentals that are relevant to the debt of the country.

Somalia's national debt has historically been a major obstacle to Somalia's development. Approximately $5.1 billion, which is primarily used for military weapons, training, and highway infrastructure, is unlikely to be repaid in the long run. It is one of the last three countries in the world to focus on meeting the World Bank and International Monetary Fund's (IMF) Debt Settlement Provisions.

Somalia's external debt remains a problem. Overall, this thesis tries to investigate and comprehend the macroeconomic features that affect Somalia's external debt. Therefore, in order to carry out large-scale projects without being driven by external funds to bridge the financial gap between the proposed expenditure and the expected income, it is essential to investigate numerous features in addition to variables. To achieve national self-sufficiency, revitalizing and strengthening fiscal institutions will conceivably modernize national infrastructure and improve national productivity.

1.3 Objectives of the Study

1.3.1 General objective

The thesis' primary goal is to thoroughly examine the macroeconomic factors affecting external debt in Somalia.

1.3.2 Specific objectives

The following specific objectives are the thesis' precise goals:

- To investigate macroeconomic factors influencing the country's external debt in Somalia.
- Examine the effects of variables such as the terms of trade, national income, nominal exchange rate on foreign debt in Somalia.
- To investigate the phenomenon and nature of Somalia's public debt.
- To analyze the level of the country's external debt in Somalia.
- To develop a fundamental basis for public regulation based upon a successful strategic approach to debt management that makes a significant contribution to the country's long-term economic growth.

1.4 Scope, significance, and limitations of the study

The study's scope is limited at the national level (in Somalia). In addition, the study employs time series data analysis from 1970 to 2010.

For the government: The study will be used to assess how effectively the Somali economy is operating specifically how well the government is meeting its income targets in order to accomplish its development goals.

For the finance ministry: The thesis conclusion and outcome will be used to develop monetary policy recommendations that are advantageous for the ministry of finance and

policymakers in developing regulatory measures and giving guidelines for foreign borrowing.

For academics: First, getting familiar with scientific evidence on the topic of the research and related macroeconomic topics would strengthen the study researcher's practical skills and abilities. Secondly, a popular knowledge of the variables' relationships with sovereign debt would be given. Consequently, it's going to, in the end, provide insights, knowledge, and evidence for recommendations, policy implications, and studies on the links between macroeconomic factors and external debt for future studies.

In doing so, during the thesis writing, we encountered several problems that are often due to a shortage of information on basic variables, such as scattered data and inadequate information from numerous sources. Consequently, users of research findings should take these limitations into account.

1.5 Hypothesis

In light of past related literature and studies conducted, we have developed the following hypotheses: It is worth mentioning the directions of the relationships between the variables.

H-1. Variables such as exchange rates, terms of trade, and national income have substantial and persistent support, predominantly that terms of trade and exchange rates have a positive effect on foreign debt. The foreign debt burden in Somalia is largely due to the depreciation of the indigenous currency and worsening terms of trade.

H-2. The relationship between foreign debt and national income is negative. However, it is contingent on the management of external debt. When external debt is utilized to finance hostilities and wars, it has a negative economic impact and vice versa. No relevant conclusions can be drawn.

2. LITERATURE REVIEW

2.1 Theoretical Literature

According to literature and previous studies conducted, there is a relationship between external debt and macroeconomic performance. To include a further practical analysis and theoretical foundation. This study analyzes the effectiveness of foreign debt on Somalia's macroeconomic indicators.

According to Shabbir (2009), debt has been classified as either reproductive or inertial debt in previous studies. When a debt has assets to offset it, it's known as "productive debt." The term "inertial debt" refers to debt incurred to fund the conflict and ongoing expenses. External debt, by definition, is the cash debt provided by the loan, as well as the money borrowed by the state or government from an external lender to repay the debt. Countries that have borrowed cash may need to trade their assets or commodities with the lending country or the global market in order to receive and repay the borrowed money.

According to Evgin (1996), the need for external debt could be evaluated by weighing two factors: social usefulness and economic consequences for the country. The authorities, like such a client, attempt to optimize their efficiency by accepting foreign loans until the marginal benefits of debt equal the costs to society. Debt creates an unsustainable liability for countries once the charges outweigh the benefits. These advantages and expenses are determined by the creditor government's capability to progress in welfare programs. Besides nominal interest rates and credit interest rates, the charge idea employed here includes various non-cash aspects.

According to Panizza (2008), foreign indebtedness is regarded as a major problem for all early developing countries, which are often limited by a lack of national development capital. As a consequence, they have been able to borrow from developed countries and bank institutions to compensate for a lack of locally available resources. Regardless of the actual earnings on borrowed funds, an external loan always contains flat charges, including interest. If a country overspends this loan inefficiently or if an impending hurdle exists, negotiated contract fees may not even be viable to achieve due to the fact that most poor states' annual

budgets are frequently underfunded. Governments in emerging economies typically borrow to cover the budget deficit between projected income and budgeted expenditures. As a result, countries in emerging economies have accumulated enormous foreign debt over several years while having a low standard of living, inadequate reserves, poor tax structures, and a poor revenue collection system.

According to Evegin (2000), it is broadly accepted that there may be an absolute limit to the beneficial use of foreign funds granted to underdeveloped countries. According to this viewpoint, foreign debt could be continued as long as financial performance improves. Nevertheless, the sharp increase in development that is backed by external finance might be vulnerable to the "Law of Diminishing Returns." As a result, the more investment provided, the smaller the addition to output volume, so that beyond a given level, this rise may drop under the whole level of capital combined interest required in repayment. Despite this, debt results in a significant deficit for a government. In those other terms, debt in excess of the nation's "uptake capacity" implies a shift of the nation's own resources to foreign nations.

According to Kaminsky (1999), during the Asian Recession, increased emphasis on emergency categorisation and even the construction of a detection mechanism meant that foreign debt percentages began to acquire prominence over the period. According to Kaminsky, the Asian crisis was notably dissimilar to the previous crises in that capital mobility, as well as a greater standard of short-term external debt, played a key role. Because countries with significant sovereign debt were experiencing increasingly serious balance of payment problems, they were also experiencing increasing vulnerability. As a result, as the years progressed, the volume of a country's foreign debt, particularly short-term external reserves, became an increasingly significant guiding signal.

According to Sar (2004), sovereign debt can indeed be categorized in a number of key ways, but even the maturity-based segmentation depends on the parties to the contract and is the most preferred. This categorization is consistent with the conventional classification used by the World Bank. The maturity of external borrowing is the period of duration between the commencement of the loan contract and, indeed, the payback of the debt's principal. When this time is equivalent to or even smaller than one year, it is considered a short borrowing.

When the duration is between one and five years, it is considered midterm debt; whenever the time frame exceeds five years, it is considered a long-term loan. Credits can always be categorized as particular loans lacking security, public term loans, or credit with government assurance, according to their debtors. Particularly in the third instance, where a public entity is in the status of creditor and Treasury is in the role of guarantee, Treasury assumes a concealed debt. This loan is known as "Contingent Liability," and therefore, it must be determined correctly and completely in favor to achieve a successful debt monitoring platform.

According to Candemir (January 1994), As soon as debt service concerns appeared, international banks stopped extending loans, further exacerbating the debt crisis. Debtor nations that have never acquired new foreign financing will be unable to discharge their obligations adequately. In global financial institutions, uncertainties reign supreme. Ultimately, the loan issue became public with the proclamation of an embargo, for instance, by Mexican authorities in August 1982. The majority of debtor countries collaborated with their institutions. Some of them were able to reschedule a little of their servicing of the debt, but the majority were unable to do the same. while Some of them achieved a form of next optimum choice, such as Peru, which tried to connect debt repayment to export revenues.

In contemporary law, indebtedness does not even have a well-defined concept, although it can be broadly characterized as what one citizen lawfully belongs to another or is forced to pay money through legal actions. According to Soludo (2003), states receive money for two reasons: relatively high spending and capital investment, such as healthcare and education; or to help finance the long transition balance of payments deficit, for lower nominal interest rates foreign without long-term household debts; or to avoid budgetary constraints by hand. According to financial literature, all external liabilities can be classified as public debt that is intended to be repaid over a period of more than a year, is not paid at a single point in time, and is likely to be paid with national currency or by products and services. Multilateral borrowing, on the other hand, provides both benefits and drawbacks for financial organizations. Notwithstanding this, the credit crisis continues to surpass the multilateral debt budgets of several developing countries. The fundamental advantage of foreign debt could

be that it offers debtor governments tools for economic and financial development while preserving the price in accordance with debt servicing responsibilities. The ongoing charge of the hobby expenses is based totally on the unique collected interest, additionally called depreciation, at some point of the life of the loan, is known as indebtedness advantages. The amount of debt due and the hobby fee affect the debt-service burden. As loan volume or interest quotes develop, so does the debt-provider load.

According to the majority of academics, foreign debt is one of the biggest issues preventing macroeconomic progress in developing countries. According to Sachs' (1989) public debt hypothesis, the most convincing explanation for a negative link between economic growth and external debt is the following: According to the public debt theory, lenders expect higher tax rates to help multinational loan providers make payments when governments collect foreign debt. Funding and expansion will suffer as a result. However, if the money is put to good use, a small amount of debt can help the fund grow. To put it another way, if foreign debt finance is used to fund funding, the economies of borrowing countries will grow more quickly. This occurs when the gross investment performance equals or exceeds the complete interest and principal repayment charges. Despite the fact that carrying foreign debt is critical, public debt charges shift resources away from local purposes. The substantial international debt servicing decreases reserves and exchange gains for local investment and community programs for the growing population.

According to Kar and Cartwright-Smith (2006), several nations around the world are borrowing to refinance multiple areas of the economy, including massive industries; electricity; infrastructure and telecommunications; excellent education; and intensive agriculture, amongst others, which may necessitate incurring foreign debt and providing global assistance. Somalia is no different. For a variety of sound reasons, Somalia borrowed and has continued to borrow money to finance certain activities due to the fiscal deficit as well as the low trend of financing in the economy, given to repayment of the debt within a specific time frame. While Somalia has numerous funding sources for economic and social development, its reliance on external debt and foreign valuable resources has grown over time. This could imply that domestic financial resources are no longer sufficient to fund

development programs and foster monetary growth. Nonetheless, practically all foreign debt is a yearly collection of deposits between states, creditor countries, and lending agencies.

Most governments borrow at a certain point; this is probably due to the difficulty and rapidly increasing need for improved products and facilities in the middle of shifting administrative operations and insufficient tax revenues relative to projected budgetary allocations. As a consequence, although it is regarded as the best option for countries to depend fully on internally earned revenue like taxes, national debt is sometimes used to balance the income gap in tax receipts as well as expenses (African Development Bank 2018).

2.1.1 External Debt of Somalia

The records of Somalia's current governmental debt crisis have been historically based. Previous Somali administrations signed loan agreements with bilateral and multilateral creditors in order to steer many political, financial and social goals in the aftermath of independence. NGO Consortium of Somalia (2018) The great bulk of global debt has been utilized to pay for the previous government's massive public spending program and to maintain price stability. From the 1960s through the late 1980s, a significant percentage of the debt was also utilized to fund military public spending, particularly during years of civil conflict. In the 1980s, Somalia experienced economic troubles and put two settlement agreements in place with the Paris Club, a casual creditor group of rich industrialized countries that promised to fully cooperate with governments on external debt issues. Somalia's exceptional foreign debt had climbed to 277 percent of GDP by 1990. When the Central Government disintegrated in 1991, the country began to accumulate arrears on its international debt repayments. 26 years ago, the global public debt was estimated to be $4.6 billion at the end of 2017. In Somalia, there are 27 accredited creditors classified into three parts: multilateral, Paris Club, and non-Paris Club, with debts of 32.8 percent, 53.8 percent, and 13.4 percent, respectively. Almost all external creditors are aware of the Federal Government of Somalia's troubles and therefore do not anticipate past and present debt commitments to be fulfilled until the Somalia foreign debt reduction operation is finished. The creation of the Somalia Technical Committee on Foreign Debt by Somalia's multinational bilateral creditors demonstrates this notion. The Somalia Expert Committee,

co-chaired by the Federal Government of Somalia, the IMF, and the World Bank, welcomes multilateral and bilateral participation on a voluntary basis. The expert committee group on the foreign debt of Somalia is an informal platform for Somalia and its lenders to change records on their country's foreign debt, tackle problems associated with Somalia's debt restructuring progress, decide the country's reform test record, and describe functionality gaps that can be addressed to enhance pro-Somalia assistance.

Most Somalis, 67 percent, were born after the 1980s and have minimal benefit from Somalia's 4.6 billion dollar foreign debt, including construction activities that have limited long-term impact on the outcome of the devastating violence. The burden of these loans on the current generation is unjust, and it is made even more difficult if it prevents access to critical assistance and concessional facilities. Somalia is in debt trouble depending on both foreign and governmental debt indicators. At the end of 2018, the total government borrowing was 4.8 billion dollars, approximately 101% of GDP. Loan pressure in Somalia is characterized by large foreign debt arrears relative to GDP, which presently account for 96 percent of the debt total. Even though Somalia now fails to secure invulnerable funding, its debt burden will begin to grow as late actual interest rate on arrears accumulates. Somalia takes the crucial measures to commence getting debt relief. Additionally, in accordance with the IMF and the World Bank, this is an essential step that will assist the Horn of Africa to limit its foreign debt from $5.2 billion to a round $557 million.

The World Bank, international development associations, and the International Monetary Fund advise that this preference will effectively normalize Somalia's ties with the rest of the world after 30 years outside the international monetary system. It is expected that Somalia's creditors, consisting of the United States, Russia, Italy, and France, should choose a debt remedy for Somalia. The decision by the IMF and the World Bank will send an effective message to the Paris and non-Paris membership lenders regarding the future of Somalia and its giant reform efforts in the final eight years. With a population of 15 million people, Somalia is the thirty-seventh nation to get hold of this critical juncture as part of the HIPC initiative. The statement comes as Somalia battles a coronavirus outbreak, a current desert crab invasion, and election preparations, which are expected to take place later this

year in 2020. According to the IMF and the World Bank, the debt forgiveness could help Somalia improve the lives of its people by allowing the country's debt to be irreversibly reduced by nearly three years following its highly indebted finalization, from 5.2 billion USD at the end of 2018 to 557 million USD in cumulative current arrangements. The World Bank has also campaigned for a number of new initiatives aimed at assisting Somali populations afflicted by floods, harsh invasions, and the risk of the coronavirus. Establishing global linkages to the community may also help reopen Somalia's access to the crucial extra monetary belongings required to drive economic progress, raise social standards, lift millions of people out of poverty, and produce long-term jobs for Somalis. Due to the country's existence and the funding of long-term monetary initiatives that contribute to GDP, Somalia owes around $5 billion in foreign debt, and statistics show that the rate of foreign debt increased dramatically between 2000 and 2019, owing to the country's existence and the funding of long-term monetary initiatives that contribute to GDP.

Furthermore, external borrowing is only harmful to the economy when it occurs throughout the lifecycle, and when used incorrectly and wisely, it can provide more monetary benefits than borrowing prices (Mohsin et al., 2019). Farooq and Yasmin (2017) stated that foreign money has the practical ability to lengthen both manufacturing and capabilities, enabling debt to be innovative and dependable. Debt, on the other hand, would possibly result in fiscal imbalances and increased external funding and monetary constraints.

Similarly, Akram (2011) explored the impact of government debt on Pakistan's financial development. Using the ARDL model, this research looked into the influence of government debt on Pakistani macroeconomic expansion investment. In addition, the study examined a variety of potential future economic growth variables. Both short-term and long-term public foreign debt in Pakistan appear to have a statistically significant negative to GDP and investment correlation per capital. As a result, the scientific data seems to support the idea that debt overhang has an impact. Furthermore, debt servicing has a significantly negative relationship with GDP per capital in the short to medium term. However, since debt servicing does not appear to have a significant impact on investments, this research did not indicate the duration of the "crowding impact." Non-public sector funding looks to be overwhelming

since debt has such a bad and strong relationship with investment. Household debt, on the other hand, has a significant impact on the per capital GDP relationship, and this investment also has a significant per capital GDP relationship. By and large, making the results visible and primary implies a reduction in external reliance. Politicians must also avoid using debt to lower the deficit, preferring instead to increase revenue or reduce current spending.

The size of foreign debt is often determined in significant part by a range of factors, the most likely of which is the country's financial conditions. According to Genç and Tandoğan (2015), developing nations can choose how foreign debt affects their economies and continued development fails to achieve efficient use of foreign debt. They can also choose when and how to repay the loans. On the other hand, foreign debt may have a negative effect on economic growth. The impact of foreign borrowing on economic progress in Turkey was examined using annual data from 1971 to 2011. According to long-term investigations, external debt is considerably negative and insignificant for economic advancement. On the other hand, the results of the error correction model show that foreign debt has a statistically significant negative effect on output growth. The significance of this research is that, while foreign debt has no effect on long-term economic growth, external debt that is not even used in ideal sectors has a negative impact on short-term economic growth.

According to Zhou (2012), the term "external debt" refers to the credit a government obtains from sources outside the country. This credit line is available to all governments, which means that the government has accepted the funds. When the government provides credit, the debt becomes public. debt is actually a public good because residents of debtor countries pay for it. By providing funds and receiving public debt, states can finance public social programs without jeopardizing the true welfare of their people. When the government borrows resources from its outside borders, it assumes external debt. Debt research is a popular topic in the literature because it has a significant impact on a country's financial health. Examining nations' debt, in particular debt servicing capacity, will allow international credit institutions to better understand country risk, allowing them to exercise caution when tying up capital in specific countries. Borrowers will benefit from the same virtue as policy evaluation becomes more strategic.

Furthermore, decreased foreign exchange receipts and rising lending rates, according to Nair and Frazier (1988), contributed to the least developed countries' debt dilemma. According to them, the debt burden might be decreased by ensuring that indebted countries' foreign exchange income grows faster than the payment of foreign interest on loans and that fresh capital inflows are channeled primarily towards productive debt service investments.

According to Telegram (1992), foreign debt is required to bridge two categories of gaps in the development cycle. The primary is the foreign currency gap, which is the payment of a country's deficiency when its international reserves have been kept to the limit relative to forecasted import demands. Second, the investment–savings gap refers to the amount of international investment required to complement household savings in order to finance huge investment dimensions. It is clear that foreign financial assistance, when implemented effectively, speeds up the economy.

According to Adamu and Rasiah (2016), conducted fundamentals that drive Nigeria's foreign debt. In this experiment, the Autoregressive Distributed Delay (ARDL) approach was significantly used to explore both the short and long runs simultaneously without distorting data in the mid-to-long run. Nigeria wants to be more accessible to green areas, including businesses and agriculture, which will enhance exports and income. It can improve the exchange balance and lower the borrowing requirement by broadening the best income base and decreasing reliance on borrowing to maintain the exchange balance. Most African countries have a high and rising median amount of long-term foreign debt. Long-term borrowing is significant and increasing in all African governments' debt. The super-realization of commodities, the cycle's export income and susceptible productivity increases are all contributing to the rising trend in foreign debt rations. African countries appear to be grappling with a slew of bad inclinations that could jeopardize their ability to expand and succeed economically. High contemporary account deficits, as well as an increase in foreign debt, are two more key challenges, while foreign debt is the most significant source of foreign capital.

Greene's (1989) external debt suggests that legally binding agreements should be founded entirely on the value and benefit assessment of financial transactions. According to a clear

guiding concept. It necessitates that a country borrow from foreign sources if the rate of return exceeds the cost of borrowing. If foreign borrowing increases the country financial system's debt advantage capacity more than it increases the debt weight, such this financing will become appealing. Strict adherence to this law will assist nations in extending their era with the help of the external reserve price range. In evaluating the country's capacity to pay debt repayment charges, vital components relating to the phrases and conditions mentioned in legally binding documents are used. Responsibility, supportability and obligation are critical criteria for determining foreign debt.

Similarly, Cohen (1993) added rejection risk to his research and discovered that minimal debt rates are correlated with greater economic performance. The relationship between foreign resource inflows and macroeconomic performance implies that a more practical concept is that governments may not even be capable of borrowing easily due to the fear of rejection and moral hazard. Likewise, Cohen and Sachs (1986) argued that with the prospect of debt rejection and a rational expectations limit, the research model predicts that there will be two phases of economic progress. The development rate of foreign capital input will be greater than the increased value of production in the first phase. In the second phase, however, both resource influx and output will slow. The country's borrowing must be matched by an increase in its earnings.

According to Arellano and Bover (1995), GDP reflects modern asset difficulty, commerce indicates correspondence difficulty and revenue reflects the country's failure to produce sufficient revenue to satisfy foreign necessities. It is significantly more wise to assess GDP and distribute it. However, the government's commercial transactions and GDP should be calculated in terms of overall public debt burden while monitoring external debt supportability. According to Fosu (1996) and Suma (2007), high-intensity debtor countries developed debt maintainability ranges to assess borrowing from foreign destinations. If the borrowing country is unable to raise sufficient property to repay the loan, it may become a burden. The difficulty in restructuring debts may be a mirror image of the debt weight and it could be measured in terms of modern national pay committed to financing credit that has already shrunk in size. While the debt advantage grows excessively and a considerable

amount of the country's revenues are spent to refurbish it, the debt benefit to such a country will be substantial.

According to Christensen and Abbas (2007), when measuring the potential to benefit from foreign sovereign debt and the optimum level of international debt to avoid potential prospective debt burden, an optimization mechanism can be used to offer intellectual insight into this condition. They claim that in an ideal world, moderate improvement and minimal foreign borrowing can be acceptable to break even.

Adam and Bevan (2005) demonstrated interrelations between deficits and foreign debt stocks, as heavy debt stocks increase the negative repercussions of deficits. In a basic theoretical approach that incorporates government financial limitations and debt financing, researchers demonstrate that an expansion in productivity government spending financed by a tax rate increase would be development just when the quantity of internal public debt is sufficiently low. Protracted interest rates are a significant mechanism whereby government debt collection can have an impact on development. Higher relative long-term bond yields, as a result of increased debt financed and public budget deficits, can crowd out private sector investment, reducing prospective macroeconomic performance. However, if rising public financing requirements boost public loan yields, it may also result in a greater net flow of capital from the private industry into the government sector.

2.1.2 External Debt and Macroeconomic Risks

Strong public debt, according to experts, can lead to fiscal and monetary crises and debt responsibilty (Okosodo & Isedu, 2011). Similarly, Bivens & Irons (2010) suggest that lenders may lose faith in a country's ability to deal with new responsibilities if it faces an expanding pattern of civil obligations. The utilization of government tax income is the subject of tax expenditure choices.

According to Presbitero (2005), reducing the debt stock might accelerate economic expansion because lowering the net present value of liabilities to exports ratio increases per capita GDP growth by 0.9–1.8%. However, if the objective is an increased investment ratio or not, a stronger emphasis on debt service lowering is needed because crowding out occurs.

The amount of quantitative research on the factors that impact investment in emerging economies is growing. In recent years, more attention has been paid to the impact of external borrowing on private sector investment. So far, two opposing conclusions have arisen. First, external sovereign debt crises have played a significant role in the economic downturn, as debt has negative consequences for investment; second, the decrease in funding in highly indebted developing countries is not due to a complete lack of capital.

In addition, according to Ali and Mustafa (2012), the amount to which local taxes contribute to growth is determined by the tax structures in place. The researcher recommended upgrading local revenue rather than concentrating on foreign resources. Aggregate levels of supply and demand are particularly significant since they have an impact on all corporation taxes. Disposable income and wage rates are also important factors in tax spending in most countries that utilize income tax as a fiscal tool. Subsidies, infrastructure expenditures and social protection for the elderly are the primary ways.

According to (ECB, 2012), a significant amount of non-financial business debt remains a major source of risk, especially to the concerns correlated with heightened debt borrowing rates. Together with the subject of restricting public liabilities at the government stage, the worldwide discourse on loan sustainability should prioritize reaching an agreement on the condition of sovereign bonds in an attempt to prevent payment defaults at the government stage or to take universally approved legal measures to tackle circumstances such as the sovereign liquidity crisis. The discussion should begin by surely (re) defining basic principles linked to public debt, such as jurisdiction, transparency, enforceability and alert stages for government bonds issued under foreign and national laws; national deficit sovereign credit rank; sovereign debt crisis; contagion consequences so on; as well as the relevant single unified techniques for compliance.

2.1.3 The Debt Laffer Curve

Ghosh, Kim, Mendoza, Ostry and Qureshi (2011) The Laffer curve was utilized to improve the collection of taxes in an attempt to eliminate or reduce the fiscal deficit and foreign debt. Given the enormous rise in government debt in recent times, economists have investigated

the indebtedness. Laffer curve as a mechanism that creditors can use to analyze an indebted country's creditworthiness. Following the economic crisis, public debt became a global issue, motivating many economists to focus on the subject in recent decades. The researchers proposed that during the first-rate recession, fiscal stimulus and lower taxes resulted in a large number of the highest government borrowing ratios and the main gaps in developed economies over the previous four decades. They believe that the majority of these countries will have massive investment needs in the next few years, increasing concerns in the financial markets about their ability to repay their loans. For instance, Greece, Ireland, Portugal and Spain.

According to Reinhart and Rogoff (2011), industrialized nations have the greatest amount of public indebtedness since the conclusion of World War II. They contended that the amount of large and growing government debt owed, combined with the lengthy approval process of private sector deleveraging, makes the period between 2008 and 2017 likely to be classified as multiple decades of debt.

Sachs (1989) was the first to study the indebtedness Laffer curve in the historical context of public debt. He demonstrated that debt relief in this instance not only maintains the actual market amount of property, but also increases the parameter approximations of currency flows associated with debtor countries' payback commitments. When a government borrows money excessively, its funding resources dwindle and the risk of bankruptcy rises. Creditors determine the estimated value of repayments based on the likelihood of collapse. If the estimation is much less than the debt interest face value, lowering the government's debt nominal face value lessens the risk of failure and raises the anticipated present value of the future repayments.

Krugman (1989) demonstrated that a government's capability to service the loan is linked to its existing amount of debt. He demonstrated that when a nation generates quite so much indebtedness, or when repayments surpass its capacity to pay, repayment obligations function like a marginal income tax rate. If the government achieves better performance than projected, rewards go to creditors rather than the country. The authorities may be inhibited from boosting economic efficiency since the gains flow to lenders instead of the government.

Beginning with the assumption that current debt can be compensated within the next time frame and future investment returns will be equity outlays to debt holders, Cohen (1989) demonstrated that the potential advantages to the borrower are minimal, leading to even more loans to pay back previous debt payments and fund capital spending.

As Claessens (1990) asserts, two writers have demonstrated that the governments that have heavy debt rates and their projections show that if borrowing levels are rising, these governments will confront rising public borrowing costs in the long term. Five of the governments they examined were on the right side of the Laffer curve, but were extremely close to crossing over to the wrong end. The debt Laffer curve had the Maldives and Bhutan on the wrong end. Both nations and their lenders benefit if the actual value of borrowing is reduced. Multilateral bodies had reviewed the foreign loan supervision framework of developing nations during the 1990s and ideas for transitioning from quiet to dynamic debt monitoring had been regularly promoted.

Figure 2: Debt Laffer curve

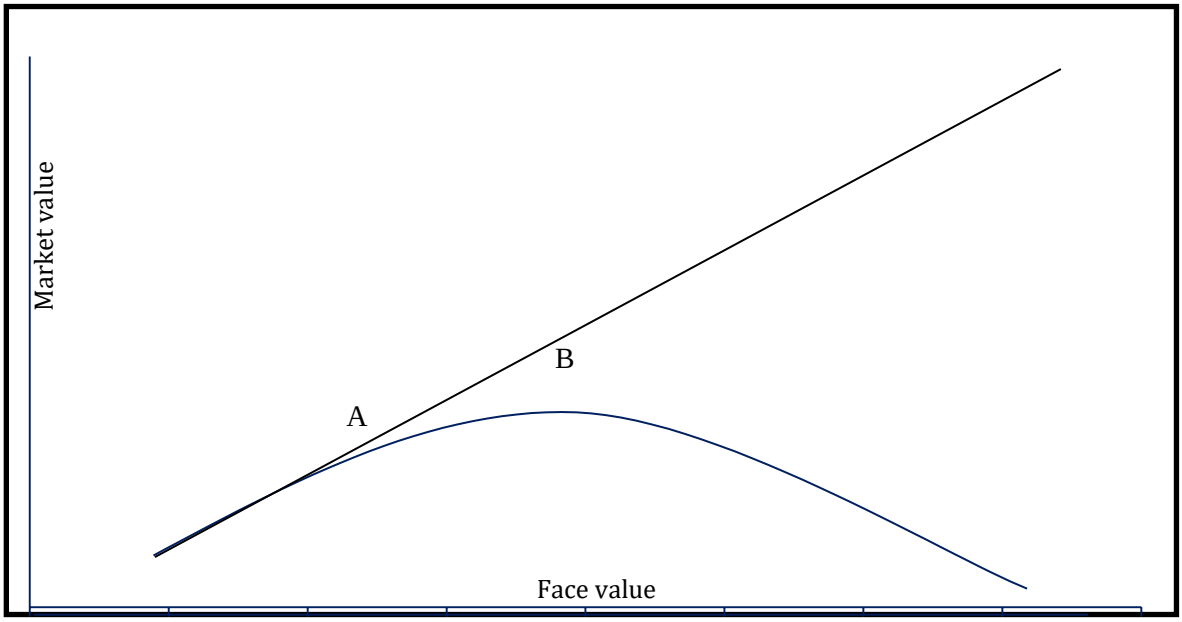


Figure 2: Demonstrates the concept of market value and the face value of sovereign debt are one-to-one up to the point (point A), since indebtedness is relatively low, lenders anticipate being repaid in full. According to Agénor and Aizenman (2005), whenever point A is reached

due to a change in the nominal value of the debt, the default threat rises, implying that the likelihood of paying the debt would be less than one. When the nominal value exceeds (Point A), the market price goes up more gradually. This is driven by the fact that the more a country acquires debt, the more difficult it is to fund since the danger of default grows. As a result, increasing debt reduces the market price and the relative efficiency of a loan usually begins to diminish right up to (point A), while the market price of the loan continues to rise. If somehow the level of debt exceeds a specific threshold (Point B), raising the market price will not compensate for the drop in market price and thus the country will experience a severe debt burden. When a government's nominal indebtedness is smaller than its market price, there seem to be two possibilities: either the government is towards the left of Point B (the highest market price of state debt that a government can possibly attain) or even to the right. If the nominal price of the debt falls within lines (A and B), the country is said to be just on the right hand side of the Laffer curve and debt relief will not result in a greater market price. If the nominal value of the debt is to the right of line (B), then the country seems to be on the negative side of the curve. Therefore, lenders may definitely be disappointed by the country's expectations, which could also result in a massive slowdown in economic growth.

In this context, lowering the nominal size of the debt causes a rise in its market price. This seems to be beneficial to both debtors and creditors. For the lender, the benefit refers to the growing ability of the debtor to meet its payment commitments, whereas the debtor profits from the reduction in overall debt and enhanced trustworthiness, which also adds to the mutual attraction of lenders as well as stock market gains. since only a few scholars have studied the debt Laffer curve, the number of publications on the subject is limited and the solution to the problem is also limited.

Pattillo, Poirson and Ricci (2004) state that based on this theory, nations with higher levels of external and home debt are more likely to default or repay. The Laffer curve explains the insolvency assumption because it assumes that it represents the highest debt level for each country. If an institution goes over the limit a country can repay, its ability to pay off debt is greatly reduced. In fact, the highest point on the Laffer curve shows that foreign funds tax the country's wealth and impede its economic plan.

According to Arnone, Bandiera and Presbitero (2016), debt model interpreting is one of the most popular techniques for reducing the likelihood of surviving a massive debt. The debt burden model ignores the ultimate consequences of growth and focuses instead on the quantitative components of debt. External public debt forces economic systems to pay direct and ancillary costs. While credit levels go up, so does one's ability to execute changes that improve processes and efficiency in the economy. The debt dynamics model can be seen in the debt dynamics consequences.

2.1.4 Debt Risk Management Benchmarks

According to Bal (2001), in comparison to the previous scheme, external financial data management was easier, more inclusive and much more adaptable, as well as able to meet the needs of metrics and financial documents. World Bank has adopted the technique with numerous governments and indeed, the IMF has acknowledged this with praise due to the trustworthiness and characteristics of the statistics provided. As with the ancient approach, meanwhile, the world bank monitors the public as well as private industries' middle and protracted public debt. The relatively short-term foreign borrowing monitoring is held by the World Bank. The range of international indebtedness has also been expanded by the External Finance Data System to encompass all types of governmental and privately market external borrowing.

The advantages of having a practical debt control program and the disadvantages of having poor macroeconomic stability and unsustainable debt burdens are frequently overlooked by lawmakers, resulting in government debt control challenges. In this first situation, governments can place a stronger emphasis on the advantages of maintaining a accountable debt strategic plan, structure and programs that are aligned with a good macroeconomic regulatory structure. In the second, ineffective budgetary, economic, as well as monetary value measures create uncertainties in the securities industry about future earnings on home currency transactions, leading to increased risk assessments being demanded by participants. Lenders and debtors alike may be hesitant to enter into protracted engagements, which can also constrain the advancement of the local capital markets and thwart debt senior executives' efforts to prevent the administration from having too much side impact and foreign exchange

threat, especially in improving and evolving market economies. A strong track record of enacting appropriate macroeconomic measures can assist in reducing unpredictability (IMF and World Bank, 2001, Parameters for Public Credit Supervisors, Washington, D.C.).

During the first moment, escalating external loan stocks prompted some arguments on the roadmap for external indebtedness monitoring and accompanying recommendations toward the completion of the time frame. Even in earlier periods, the World Bank advised authorities to observe the simultaneous flow of debts and income and then this issue must be considered when governments seek additional loans. This type of suggestion can be used in conjunction with typical international debt control approaches. Nonetheless, at each of those times, the World Bank emphasized sophisticated government debt handling approaches such as swap agreements (The World Bank, 1990).

Several issues stemming from the supervision of a foreign debt collection activity as well as accounting management by a third party still remain. Because of the discrepancies in statistics, accusations such as the Treasury being unaware of its debt have been made. The Treasury's reporting procedure is the source of this issue. After recognizing the system's flaws, various efforts were made and in July 1997, the Program on Robotics and Improvement of the Treasury Accounting Information System was established. The concerns are expected to be alleviated once the program is completed in its entirety (Sar, 2004).

According to Presbitero & Arnone (2010), it is recommended to address the proportion of debt acquired at the variable interest rate, as well as its resilience to interest rate increases. Foreign debt, along with internal debt, is among the two basic forms of financing for countries, enterprises and government bodies. Governments borrow money from international creditors primarily to fund their domestic surplus consumption, to create extra infrastructure, to fund natural catastrophe rehabilitation and sometimes to repay earlier foreign debt. Governments as well as entrepreneurs often dislike foreign debt because it imposes restrictions mostly on the borrowing state and gives the lender government some control over them. Nevertheless, certain other conditions force governments to take funds coming from external sources.

Debt management capacity refers to the ability to recognize, qualify and manage a debt portfolio as well as its consequences. According to Stanescu (2013), debt service charges vary jointly in a universe of 31 changeable exchange rates and interest rates due to shifting costs in the corporate sector. When a variable rate loan agreement is entered into, such as LIBOR loans (the rate offered by the Interbank in London), the negative effects intensify. Due to the possibility of a sharp drop in corporate interest rates, there is a possibility that fixed-rate debt may occur. Similarly, debt control policies, according to Carracedo and Dattels (1997), can be categorized as strategic or tactical. Strategic procedures are involved with the overall structure and execution of the credit control program, along with the categories of debt mechanisms to be approved, the particular selling schemes utilised for principal issuance and the structure of the institutional structure to facilitate supplementary market functions. On the other hand, tactical measures criteria for the control as well as investment structure of the current stock of public debt, such as the mix of diverse forms, maturity character and, in some cases, targeted terms. The assessment process, which is the primary emphasis of this study, can also be viewed as an important component of tactical credit control measures.

Despite having more stringent debt risk assessment methodologies, according to Cecetti (2009), the rapidly changing financial environment has harmed the applicability and conditions under which these quantitative tools and techniques can be effectively used. The core roles of debt assessment include setting long-term guidelines for ideal debt structure; establishing and periodically reviewing risk signals to measure various forms of risk and constructing, evaluating and assessing hesitation across alternative refinancing options.

2.1.5 Terms of Trade, Fiscal Deficit and Exchange Rate

Research conducted by Abdurahman (2005) concluded in his analysis of Somalia's monetary policy and currency prices that the SOS exchange rate is influenced by several main factors, including supply of currency, cattle trade, remittances and khat. This research found that money availability has a considerable impact on Somali uncontrolled exchange rates. The outcome of this research supports the belief that reveals that the supply of money has a considerable consequence on the currency rate of Somalia in the domestic financial market

when the conversion rate loses its value. This is basically what transpired in Somalia in the 1990s and early 2000s, when militias and money-lords robbed and selfish merchants printed a massive amount of unnecessary currency. The proprietors of the companies declined to adopt SOS because it was rapidly devaluing. This caused mayhem among customers, especially the poor families, who were struggling to purchase essential requirements for both themselves and their families' survival.

Similarly, the findings of Zahangir Alam and Rahman (2012), who revealed that previous currency depreciation had a strong impact on current turbulence, The study discovered that macroeconomic indicators such as local prices, supply of money and imports have a substantial impact on Somalia's uncontrolled exchange rate fluctuation. Furthermore, the research demonstrated that imports can have a considerable impact on Somalia's deregulated currency rates. Somalia imports sugar, coffee, wheat flour and gas, despite the fact that Somalia's exports expanded dramatically during the 1970s as a result of the Gulf oil boom. Somalia's shipments to the Gulf Nations are periodic and insignificant in comparison to imports. Imports are important in Somalia's uncontrolled foreign exchange rate since dealers either export or import money abroad in the form of USD to buy imported goods. This adds to the study's usefulness because it is one of the few systematic investigations currently being undertaken in Somalia.

According to Shortland (2011), camels, rice prices and unintentional piracy payouts are all factors in Somalia's mutual rates of exchange. (SOS/USD) Shortland's analysis has a number of flaws because it focuses on piracy. The elements that cause volatility have not been thoroughly investigated. Due to inadequate controls, speculative trading in Somalia may possibly be massive. The foreign exchange market in Somalia is unregulated, unsupervised and unprotected, allowing currency merchants to influence currency markets by depreciating or overvaluing currencies.

According to Kiyotaki and Wright's random matching models (1989, 1991, 1993), their research adds little to our understanding of Somalia's deregulated exchange rates. The researchers raised a number of relevant problems because the Somali Monetary Authority has not yet completely controlled the SOS exchange rate. These are the questions: Is the

unfettered trade charge unstable? (b) Is the unlicensed exchange rate stable? (a) What are the macroeconomic elements that affect the Somali exchange rate's fluctuation? For politicians and experts, the outcome of a substantial reply to these and additional associated concerns is critical. Based on the current literature, there hasn't been much systematic research on the instability of Somalia's free currency rate.

Comments from the preceding literature mentioned the hyperlink between alternate prices and foreign debt. Some researchers have concluded that there's a positive relationship between foreign debt and alternate prices (Saheed, 2015). In addition, the same old smallest squares have been implemented with secondary information from the Central Bank of Nigeria (CBN) and the Office of Consolidation of Debt (COD), in addition to many different sources. His studies indicate that the majority of the elements taken into account, specifically foreign debt, debt provider bills and reserves, are statistically enormous in explaining exchange prices. For instance, the Nigerian alternate price has been modified at some point during the discovered period. Debt service has the largest impact. He proposed that the authorities make certain that each public loan, in which and while needed, is made successfully capable of generating income from sports and paying off the loans when due.

According to Awan, Asghar and Rehman (2011), the exchange rate, budget deficit and trade balance all have an impact on Pakistan's external debt. The purpose of this exploration is to look into the link between foreign obligations and currency value, as well as the budget deficit and worsening trading circumstances. current account deficits and financing arrangements.

Stein and Lim (1995) presented a model that is suitable for a micro-emerging economy. They claim that actual exchange rates have two negative consequences. The impact on the foreseeable future exchange rates and output, as well as the effects in the long term on capitalistic intensity and external debts, has a undesirable effect on debt.

Awan et al. (2011) have studied the effect of the relationship between the rate of exchange, the fiscal shortage and commercial reasons on Pakistan's outside debt. They applied the Johansen approach to analyze the association between outside liability and the currency

value, the budget deficit, and the degradation of the terms of trade. According to their findings, the budget deficit had no substantial impact on foreign debt. In this quick run, none of the elements were related to external debt, which is why a long-term causality was detected, as well as three channels of the directional unit.

Patrawimolporn (2007) uses an unpretentious distinction method to assess the impact of exchange rates on Thailand's duty, debt repayment and government debt. As a result, it was found that the volatility of the exchange rate touches the repayment of the obligation because the volatility of the exchange rate saves an extensive amount on the repayment of the obligation. Some other studies have looked into the relationships between external debt levels, exchange rates, fiscal deficits, trade terms and budget deficits. According to Cassel (1918), Whenever currency rates fluctuate dramatically, the long-term price of transactions between different currencies is determined by the relative bargaining capacities of the different countries. Once currency markets are factored into the equation, the idea is that a basket of commodities in one nation should be valued at its equivalent in the other. The foreign currency market is said to be in equilibration when reserve rates across all coins match the required rate of profit.

2.1.6 Foreign Direct Investment and Public Debt

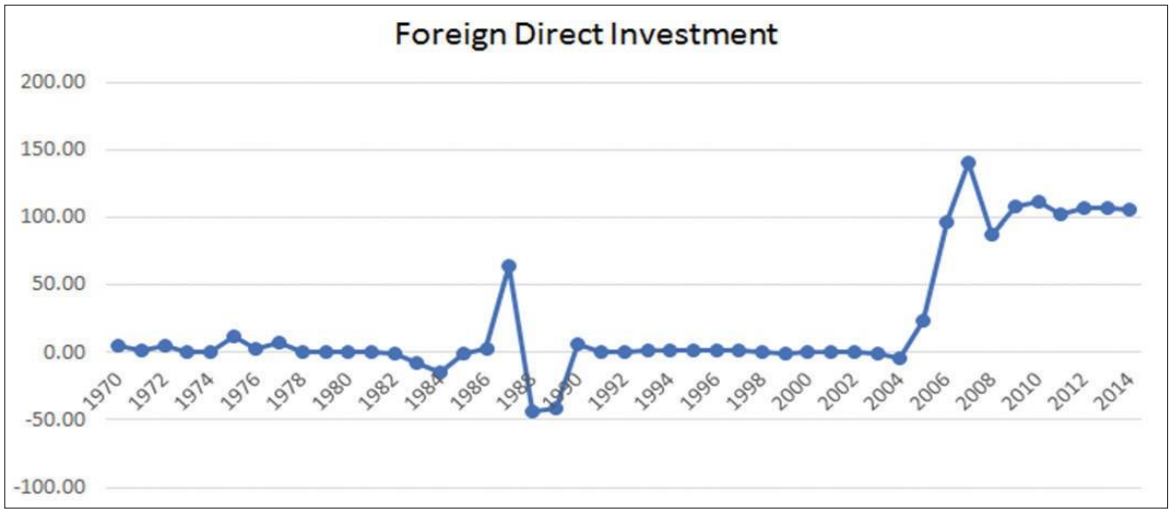
Public debt servicing has a detrimental effect on the commercial advancement of a country by changing the composition of state spending. Increased debt payments expand the budget shortfall, diminishing administration speculation. Foreign investors can be hampered by the cuts in public spending. National infrastructure as well as unskilled labor entrepreneurs, for example, may be hesitant to engage a country with low investment in these sectors (Clements & Nguyen, 2003).

According to neoclassical economists, foreign investment is determined by the projected return rate. For example, if the rate of interest in a poor nation is higher than the global average price of obligation, extraneous stockholders will participate in the emergent nation state because they will show an increased amount of profits. Another driver of extraneous funds, bestowing on this college of commercial experts, Due to the increasing cost of doing

trade, high taxation reduces direct investment inflow. As a result of this argument, there is an unfavorable relationship between foreign servicing of the debt and extraneous straight participation. This is built on the idea that increasing forein liability payments leads to a rise in the government's duty, presuming the taxation base has been depleted (Cockcroft and Riddle 1991).

Similarly, Udo and Obiora (2006) considered features of extraneous trade and commercial development, primarily the financial constraints in West Africa. According to their survey results, foreign investment has been adversely affected by the external debt ratio and political instability. On the contrary, the influx of foreign investment was positively impacted by spending on GDP and public stimulus. The researchers were able to solve the problem of time series disconnection data using only panel data. However, other factors that influence FDI for economic development have not been considered in this study.

Figure 3: FDI Inflows of Somalia in US Dollar



Source: Mundiindex 2013

According to the World Bank's FDI database statistics, Somalia's foreign investment has just climbed from $24 million in 2005 to a bigger export of $409 million in 2018. However, Turkish authorities import into Somalia a variety of goods as well as services, which include using fit-to-eat cereals, packaged milks, wheat flour and several unique varieties of services

consisting of optical carrier remedies, healthcare centers and reasonably priced remedies being furnished within the country by using the Turkish government has indeed made it viable for household humans to have their dealings with in the country as opposed to flying around the sector to a noticeably priced foreign land. Therefore, the Somali government's primary export to Turkey is cattle, animal plumage and fresh fish caught in Somalia's territorial waters. Although some may argue that the quantity of cooperation between the two nations is minor, it is considered that perhaps the government's long-working productive capacity would've been strengthened optimally as a result of the Turkish government's remarkable involvement in Somalia. As a result, there is indeed a Turkish engagement in Somalia, whether that be through FDI or other means. The Turkish administration has implemented technical schools, vocational and education schools and several healthcare centres in addition to enhancing the Somali people's access to advanced goods and services at the cheapest cost. As a result, scholars have considered intellectual resources as the process of gathering knowledge, acquiring experience and generally getting proficient in some specific sectors, followed by the operation of an occupation that may be useful and relevant in an open and market manner. In 2014, trade between Turkey and Somalia was estimated at $64 million. The Turkish government plans to increase trade between the two countries by billions of dollars by 2025 (Kagwanja 2013).

Furthermore, Mubarik (2015) studies suggest that Turkish government investment funds have also brought their businesses to Mogadishu, Somalia's capital, which has also generated several more distinctive dimensions of job opportunities for the younger Somali generation. Turkish government contractors have undoubtedly brought advanced technologies as well as an innovative approach to training the local lower-skilled and maybe even semi-skilled labor force to perform the job in a standardized manner. Nevertheless, FDI is thought to have helped contribute to the country's social and institutional long-term recovery by creating infrastructure projects, employment opportunities, as well as science and technology innovations in the country and also innovative methods of creating product lines even during manufacturing operations. In this case, international investors will use the household workforce to continue to strengthen their continuous improvement. The local labor force will in turn get totally paid. However, it is widely assumed that foreign direct investment has a

positive influence on the advancement as well as transferable skills gains of a country's human resources by putting into consideration how the host country's governmental trade policy will be addressing and leading the FDI international investors to hold on to the headway of developing the country's human resources. It is so understood that social disputes, political instability and indeed the country's economic troubles would lessen as long as people's intellectual capital improves, since chaos and violence are related to pervasive and extensive poverty.

The country was in a condition of turbulence and vulnerability prior to the entrance of the Turkish government. Then, after the Turkish government's remarkable direct engagement in the manner of humanitarian assistance, the circumstances altered fast and on a massive scale. Turkish companies and many more Turkish entrepreneurs joined, seeking to identify a substantial investment possibility in Somalia. They have immediately started investing in enterprises that benefit both of them and the Somali population as a result of their intense passion to aid the community. For that aspect, Turkish government companies declared that they are willing to engage in critical areas of the country such as seaports, aviation, energy industries, infrastructure, telecommunications and electronic devices. Furthermore, it is stated that the number of Turkish enterprises operating in Mogadishu, Somalia's capital, is continuing to rise. While some claim that Turkish private investors have a strong business ethic, Turkish government entrepreneurs have provided capital to various segments of the economy by funding a large, well-planned sum of money into the country's fragile economy, which provides job opportunities for young Somalis. Despite the fact that government has its pros and cons and that the risk assessment is very high, all these costs will be remedied in the long run by the numerous and productive economic prospects (Nor, et al., 2020).

According to Elizabeth Versey (2012), foreign direct investment has been identified as an economic accelerator in developing countries. As a result, it provides an extra channel of massive capital development and foreign assets. Aside from its primary goal of business expansion, FDI would also provide productivity improvements such as job creation, technology transfer and corresponding economic consequences, skills enhancement, competitive spirit and access to international markets. There is a significant relationship

between foreign direct investment and economic progress. These links encompass revenue potential, real GDP, trade openness, output growth, domestic financial stock and foreign investment stock.

A substantial amount of Somalia's political system, financial infrastructure and academic institutions have been harmed by two to three decades of violence, which has been concentrated primarily in southern Somalia. After the overthrow of the Siad Barre government in January 1991, Somalia went through a long period of internal strife that splintered the country, devastated constitutional institutions and exposed the country to extensive instability (World Bank, Economic Development, 2016).

Abulkhaliq and Ilan (2007) examined the influence of international investment on growth in the Indonesian economy using extensive industry statistics for FDI inflows from 1997 to 2006. Their findings seemed to back up the argument that extracting FDI does not necessarily encourage economic performance. And they argue that further consideration should be given to developing guidelines that significantly increase the potential of FDI inflows by ensuring an appropriate sectoral composition as well as generating the conditions for advantageous FDI in industries where there appears to be no more gain within the contemporary institutional structure.

Xuan Vinh VO et al. (2006) have used a panel data analysis approach to investigate the relationship between FDI and macroeconomic growth or how this relationship changes under various institutional, educational, administrative and economic implications. They addressed that FDI has a substantially greater beneficial influence on macroeconomic growth in countries having a strong degree of worldwide trade liberalization, financial sector growth, academic performance and even a lower percentage of population increase risk. They corroborate a variety of previously held beliefs. Firstly, underdeveloped nations benefit from faster economic growth rates. Second, the study discovered that local investment and academic achievement have a considerable favorable effect on economic development. Finally, a larger rate of population increase will probably slow economic development, whereas countries with higher degrees of exposure to global trade, including capital market expansion, as well as relatively low risk factors, typically expand quicker.

Sajid Rahman Khattak et al. (2012) investigated the cointegration and causal link between FDI and macroeconomic production in Pakistan in both the long and short runs from 1972 to 2008. Their findings suggest that there is also a short-term and long-term association between FDI and the pace of GDP growth. Their findings also indicate that FDI and GDP in Pakistan have a one-way relationship. Pakistan's economic performance has been boosted by foreign direct funding. They cautioned the Pakistani government to take critical steps and reform regulations that make it difficult for international investors to invest in Pakistan, claiming that they will do so without hesitation. It may also direct the enterprise from a variety of perspectives, such as training and acceleration based on managerial abilities, capita profits, ability sharing, reduced joblessness and a dynamic ecosystem. The second segment supports a negative correlation between FDI and capital accumulation monetary economic growth, so researchers discovered that a negative that was referenced earlier in this section at the start of this phase.

Alfaro, L., & Charlton, A. (2013), demonstrates that the benefits are undoubtedly all over industries by examining the effect of FDI on expansion within the manufacturing and service industries sectors. According to a study of cross-country statistics from 1981 to 1999, cumulative foreign funding has an equivocal impact on development. According to the findings, FDI flows into various segments of the economy have distinct consequences for macroeconomic progress. While FDI inflows into the primary domain are likely to have a negative impact on economic growth, FDI inflows into the industrial sectors are likely to have a significant impact. According to the research, not all types of foreign capital appear to be advantageous to host countries.

According to Okon J. Umah et al. (2012), they analyzed a causal relationship between FDI and economic overall performance in their study. The findings indicate that, despite the fact that FDI has a positive effect on the increase both foreign buyers and productivity growth. The overall coverage recommendation of the results received is that initiatives that inspire so abundant extra FDI to monetary growth, considerably greater exchange approachability, and elevated private involvement may also be implemented with excessive resistance to make sure that the adjacent industry captures large spillovers from FDI capital flows and achieves

higher monetary economic expansion costs. This growth in real GDP implies an increase in income from a mixture of output and authorities' expenses. Higher traditional incomes, which enabled customers to improve their standard of living and a decent standard of living, are among the monetary benefits of financial development. Given the importance of income-growing sectors of the financial system, numerous experiments have been conducted to ascertain the variables that impact monetary progress in those types of economies, such as population size, infrastructure stage, human capital and nature.

Alfaro et al. (2004) The research examines the importance of FDI on commercial performance. They found that, while the relationship between both FDI and growth is unclear, when the significant interaction of FDI with capital accumulation is taken into account, the foreign direct effect is positive and statistically significant and they conclude that the growth of entrepreneurial money markets is necessary to guarantee that foreign investment has such a positive relationship with economic growth.

Islam (2014) assesses the influence of foreign direct investment on economic growth. The findings of this study show an unfavorable relationship between FDI and macroeconomic growth, which could be a source of anxiety. According to the findings, both countries should emphasize necessary reforms, including policy recommendations, in order to make overseas investment increasingly advantageous.

According to Perkins, D. H. et al. (2001), External debt or foreign investment can be beneficial for a government, particularly if the obtained resources are used to fuel social prosperity. Nevertheless, excessive external borrowing, taking on debt to fund spending, or bad investments might spell disaster. A government's debt portfolio must be handled responsibly, in addition to the importance of simultaneously preventing the threat of a disaster. The scale of emerging economies' foreign debt has led authorities to believe that it poses significant financial barriers to the infrastructure economy. Debt service charges are paid at the sacrifice of a variety of programs and interventions to combat basic needs. Much observational research has concluded that FDI and debt have widespread This inconsistency limits our understanding of what it is necessary to strengthen the commercial enterprise environment and clearly define investment possibilities, as evidenced in the case of Tanzania.

Furthermore, the question of whether or not foreign debt has had an impact on Tanzania's productivity growth has arisen.

According to Ndullu (1994), a major number of economic investments, particularly in textile and many other factories, transportation, electricity and public infrastructure, were sponsored using foreign debt and their inadequate performance exacerbated debt servicing issues. Debt servicing has been identified as a severe challenge to every country's socioeconomic development, particularly in low-income nations such as Tanzania.

Correspondingly, research on the influence of foreign investment on macroeconomic performance by Saqib et al. (2013) reveals that foreign investment has an adverse influence on economic conditions, whereas local investment has a positive influence. As a result, it might be claimed that local investment would enhance the country's development and that reliance on international investment must be reduced. From this perspective, it appears that the majority of the advantages of international investment are reduced by the restoration of earnings back to the host country. This might also be addressed by the local country's insufficient capacity to disseminate research and innovation for continued progress.

Gana (2002) explains that foreign debt is beneficial and required for increasing the rate of economic progress as long as it is used to boost economic performance. FDI reinforces domestic economic means in order to enable a country to effectively carry out its development programs and raise the quality of life of its people. Foreign debt as well as FDI are economic factors that help the country. This is due to the fact that they generally reflect capital inputs that are expected to raise the rate of investment, which is required to drive macroeconomic growth.

2.1.7 Economic Growrth and Debt Sustainability Targets

According to Burnside (2004), the word "debt sustainability" has several interpretations, but it nearly invariably refers to a country or the public economy's fiscal policy. One definition of sustainability is solvency, or a country's capacity to service its financial commitments in perpetuity without failure. According to the analysis, several macroeconomic factors influence a country's ability to meet its debt repayment obligations. These determinants

encompass government debt, economic progress, rising prices, the fiscal deficit, the balance of payments and good governance.

Following the 2008 financial crisis, emerging economies' indebtedness reached a high record in 2018 as a result of unrestricted access to external funding sources and relatively advantageous borrowing circumstances. According to Gamel and Van (2018), debt reduction enhanced internal investment but had little effect on foreign direct investment. The increase in internal investment is consistent with the loan burden theory, which is encouraging since investment is critical to long-term recovery. The enhanced Heavily Indebted Poor Countries programme and the Multilateral Debt Relief Mission, or foreign debt forgiveness, have had a beneficial impact on human resources investment. Following debt forgiveness, the long-term adjusted net enrolment rate increased by roughly 20%. Debt reduction had little influence on female participation but had a positive effect on male participation, particularly in the long term. Standards of living have risen as a result of stronger GDP per capita increases, costs and rising consumer demand.

According to Lawanson (2011), the occurrence of foreign debt and capital flight might lead to increased capital movements, which could also impede fiscal strategy from accomplishing its objectives. Capital flight reduces revenues potentially available to the business because money invested abroad is not subject to the influence of the local tax administration and thus cannot be taxed. As a result, the government's financial programs in this type of taxation are decreased. Furthermore, a lack of investment in the domestic market limits the government's capacity to construct capital and engage in essential sectors such as agricultural activities, skills training, manufacturers, security, affordable healthcare, infrastructural facilities and other poverty-reduction and job training programs, undermining the administration's expansionary fiscal policies in terms of additional expenditure.

According to Fofack and Ndikumana (2015), a lack of local resources as a consequence of capital flight or foreign debt repayments could potentially damage the proper functioning of state monetary and currency exchange policy. In terms of currency regulation, the reseachers suggested that the persistent outflow of legitimately acquired wealth and capital outflows could convey the incorrect signals to private investment regarding the local economy's

stability or effectiveness. This is particularly true whenever the administrative elite or an international firm sustains the process, as it demonstrates a lack of trust in the market. Furthermore, if the government continues to borrow, prospective entrepreneurs may regard the indebtedness as being paid by distortive methods such as high taxes, government borrowing, or a reduction in profitable public development.

According to EURODAD (2002), a relatively limited measure of debt sustainability for objectives of analysis is whether a government can satisfy its existing and potential debt service commitments in full, excluding recourse to credit forgiveness, postponement, or borrowing. Long-term credit sustainability is a difficult task that involves a mix of macroeconomic, institutional, development and credit management measures. External variables such as trade deals, donor assistance and particularly debt forgiveness, have a big impact on protracted debt sustainability in poor governments. Credit sustainability has been expressed in a number of perspectives. When examining debt sustainability in terms of human and institutional development, the majority of the worst countries, regardless of their debt ratios, have unaffordable debt. The rationale behind this type of debt stability concept is that nations with the most people living in extreme poverty have a greater need to focus their resources on hunger eradication rather than debt repayments.

According to GAO (2000), there are two main phases to the HIPC Program. The first phase lasts three years, during which a HIPC engages with the World Bank and the IMF to develop a track record of sound economic initiatives and long-term poverty alleviation plans. The IMF will decide if a country's debt position is sustainable at the conclusion of this three-year period. A debt reduction program is defined for those governments whose debt load is still unsustainable following full utilization of standard debt reduction tools. The decision point is where you make your choice. While complete HIPC debt clearance will be available at the Completion Point, several creditors may offer transitional debt relief during the time between the Decision Point and the floating Completion Point. The completion point is "floating" under the expanded approach since it is linked to the execution of essential structural reforms and starvation measures. Some question whether tying debt forgiveness to the drafting of a PRSP is an improvement, particularly in circumstances when governments already have

poverty alleviation procedures in place.

All countries are worried about long-term economic growth. Foreign debt provides a particular level of fiscal benefit while also assisting economic growth. Nevertheless, a high foreign debt stock can be determined by a significant budget deficit, wasteful resource usage and re-planning of foreign debt. Furthermore, foreign debt is a possible dilemma for underdeveloped countries as a result of limited exports, rigid imports, or lower capital inflows. Many countries depend on new foreign debt to fund current foreign debt repayments, resulting in not just a larger fiscal imbalance but also more debt from debt. Many governments cut spending in an attempt to preserve fiscal discipline, which stifles economic progress (Shabbir, 2013).

Countries acquire foreign credit for a wide variety of objectives, including subsidizing infrastructure initiatives, fulfilling long and short duties, gaining access to international currencies and purchasing assets. Whatever the reason, increased foreign debt imposes obligations on a segment of the country. These operations are recorded in the country's capital and current reports. There is no agreement on the effect of foreign borrowing on growth. Some academics believe that foreign debt, which has both beneficial and negative characteristics, has a favorable influence on economic development through rising capital inflows. Foreign debt not merely offers finance for economic development; it also contributes the knowledge, technical innovations and access to foreign markets required to engage a country's human and physical resources for macroeconomic progress. Foreign debt, on the other hand, will stifle innovation and slow economic development if it is channeled primarily into specific industries (Zaman & Arslan, 2014).

Current account imbalances became commonplace in the thirty years after the 1950s. Governments set acceptable conditions for international investors in order to sustain and expand economic growth. Despite being an oil supplier, for instance, Mexico was unable to repay its obligations in 1982, causing other governments to be more careful of external debt. After 1982, the issue of foreign debt seemed to be of major importance, sparking discussions on the debt issue (Were, 2001).

As developing nations' debts have risen in recent decades, understanding the influence of foreign debt on economic growth funding has been extremely crucial. Avramovic (1964) demonstrates in his research that foreign debt is a significant funding stream for a country with limited domestic reserves. Local deposits, according to credit cycle projections, should be expanded in order to fund a larger percentage of long-term growth.Several developing countries remain inaccessible in the debt process as their foreign debt stock grows and their internal reserves remain low (Drine & Nabi, 2010).

Developing nations have several institutional, economic and social challenges as a result of a lack of relevant innovation, insufficient money, low deposits, poor development and the resulting slow economic performance. The standard of living in developing nations is frequently unsatisfactory as a consequence of all of these recurring difficulties, as well as a low rate of per capita income. Unpredictable financial crises are proliferating in both growing and developed countries, in addition to major debt difficulties across the world. Several developing nations are sinking into misery as a result of their growing and unmanageable indebtedness to lender nations, as well as the World Bank and the International Monetary Fund (IMF) (Azam et al., 2013).

According to Dauda (2007), Africa's foreign debt problems and financial needs are strictly associated with its limited potential to accumulate investment and progress. However, since the occurrence of the problem in the late 1980s, borrowing governments have been moving billions of dollars to richer governments to service the debt at the expense of providing internal programs in the impoverished countries. For this and many other considerations, debt repayments consume a significant portion of a country's GDP. Despite the impressive improvements produced in the liability conditions of many lower and intermediate income debtor nations since the beginning of the credit crisis in 1982, a group of lower-income nations known as the HIPCs has continued to face drastic complications in maintaining the repayment of their relatively large stock of foreign debt. Sub-Saharan Africa is home to 33 (or 80%) of the 41 HIPC nations, notably Ethiopia.

According to Ayadi and Ayadi (2008), most developing economies, notably African nations, require financial and economic resources to support growth, particularly infrastructure

construction. However, local assets have sometimes remained limited, potentially having severe effects on corporate investment. Debt is regarded as a barrier to Africa's growth and prosperity. The continent's level of debt has been one of the greatest serious impediments to restoration and sustainability. Debt discourages investments in the continent. The researchers argue that decreasing burdens might greatly boost Africa's development. Because the government requires financing for public programs, borrowing money is expected to increase the amount of resources needed. A large proportion of Africa's foreign debt was obtained for political objectives masquerading as economic stagnation. As a consequence, if debts are not managed prudently, they may eventually place a strain on government finances. As more assets are focused on debt repayment, fewer funds are available for maintenance and advancement investments. Mishandling of resources can swiftly escalate to catastrophic levels of indebtedness, stifling the progress of rising economic performance.

Foreign debt is a big obstacle for developing countries, such as those in Sub-Saharan Africa. According to Pattillo et al. (2002), debt repayments or terms of foreign loans pose difficulties for many governments, notably those in Africa. A revamped debt policy that involves coordinated funding, debt relief and extensive macroeconomic readjustment, backed by a World Bank accord and IMF assistance. During the 1980s, several middle-income countries alleviated their debt problems. These nations restored access to global financial channels and multinational banks and financial entities were able to avoid serious interruptions. Notwithstanding the existence of various debt relief and postponement contracts, numerous severely indebted governments continue to face economic challenges and pressures. Increasing credit reserve arrears are one of the biggest visible indicators of the region's outstanding debt problems. Despite positive net imports and rotational relief programs over the last six years, the continent was only capable of achieving one-third of its responsibilities. It is worth noting that the buildup of arrears leads to the region's debt market's increasing development rate, which is the essence of the indebtedness overhang concern (Olusegun, Olufemi, & Olubunmi, 2020).

In line with the indebtedness crowding theory, higher payments can ultimately result in a boom. Government earnings will be reduced if personal cash reserves do not continue to rise

to cover a government's fiscal gap. As a result of a scarcity of finance access for commercial investment, interest rates can rise or economic production can be reduced. If the country borrows extra debt to finance stronger government projects or reduce taxation, greater interest rates will choke off commercial market investment. Interest rates will increase as a consequence of increasing financial demand, or the amount of money that can be borrowed and also because of higher costs when there's more debt. The interest-sensitive business sector is expected to cut investment in reaction to declining profit rates. If a company's fixed formation declines, long-term economic success based on supply possibilities for production expansion will be hampered. Interest in corporate goods rises as countries' expenditure increases the multiplier. As a result, increasing the speed effect through a long-term investment reduces crowding-out (Joy & Panda, 2020).

Perpetual debt will become a key source of funding for growing economies' budget deficits in the foreseeable future. According to Adepoju et al. (2007), Africa's developing nations struggle with inadequate domestic capital formation as a response to a negative feedback loop created by poor output, limited revenue and limited savings. As a consequence, LDCs are forced to demand administrative, expert and economic assistance from Western governments in order to bridge the economic gap created by the endless cycle. Foreign debt is used to help the economy recover and to fund deficits. If the loan is handled properly and intelligently, the economy not only heals but actually improves. Developing nations are distinguished by a shortage of basic equipment and investment. These funds are essential for existence and can be obtained through finance from advanced economies and also the world market.

According to the debt overhang concept, debt accumulation acts as a tax on future performance, hindering government productive investment correction initiatives. When a debtor nation's financial efficiency strengthens, creditors share in the advantages of increased production or trade. This happens when the debtor nation's commercial condition increases and a portion of the revenues from the enhancement is used to pay the loan back. Although the debt overhang economic theories have numerous compelling theoretical grounds, there hasn't been any practical study to back this up. The preponderance of empirical evidence

currently indicates that debtor nations' production has dropped in lockstep with the onset of the financial crisis (Karag & Fak, 1982).

This draws attention to the question of foreign debt in the context of economic change. A country with a fiscal imbalance can borrow from the commercial sector or from international entities to pay off its national debt. Locally, money is sometimes scarce due to the lack of a large private sector and a strong financial institution. Despite this and several other issues, most destitute governments continue to be dependent heavily on multinational lenders as well as other sources of foreign financing. Transportation initiatives targeted at promoting prosperity and growth make up a significant portion of Sub-Saharan Africa's foreign debt. However, debt servicing difficulties exist in most African countries, due in part to the region's inability to satisfy economic and investment goals. Nations are witnessing tremendous development, which is required to minimize debt servicing concerns in a strong and booming world economy. Even so, neither of these features were achieved in the 1980s. Goals for progress were unfulfilled since debt repayment costs ate up much more of the scarce overseas exchange reserves accessible for project financing (Abott, 1993).

2.1.8 Balance of Trade

World trade has been increasingly crucial for every country in the last years. And there are numerous issues that all international corporations must deal with. The government, in particular, must understand how to handle the economy in the proper manner. Global trade development slowed dramatically in 2011. Natural catastrophes, currency fluctuations and civil war all have an impact on the worldwide economy (World Trade Organization report, 2012).

As assessed by the World Bank (1981), the Somalian economy enjoyed a satisfactory balance of trade during the 1970s. Although Somalia's balance of payments problems may be different and appear to be causal, the balance of payments of third world countries is negative. Tariff barriers were raised during the 1980s and early 1990s in response to a sharp drop in local commodity prices, which led to a sharp drop in the production of goods and services. In developed countries, the slowdown affects world trade and the lack of currency regulations

on exchanges, often leading to high currency inflation in countries that are clearly improving.

The agricultural population (pastoral, agricultural and fish stocks), according to Abdi Samatar (1988:89), is the dominant force in the Somali economy, accounting for one-fifth of GNP, four-fifths of the labor force and approximately 98 percent of exports. However, despite the criticism of the Somali authorities, especially in the military rule, striving for food availability, domestic manufacturing in Somalia, especially in the food sector, has frequently struggled to meet rising local consumption. As a consequence, between both the mid-1970s as well as the late 1980s, "Somalia became increasingly reliant on imported food, more so than each and every other country in Sub-Saharan Africa. Somalia ships live animals and bananas to the Gulf countries, as well as bananas to Europe. In addition to the main products mentioned above, meat, hides and fish are also exported, as detailed in the following table. In contrast, Somalia imports food, gasoline, equipment, vehicles and medicine from all over the world.

Table 1: Somalia: Livestock Exports, In Thousand Heads

Year	Sheep	Goats	Cattle	Camel	Total
1970	546	605	45	26	1,222
1971	608	576	56	24	1,264
1972	789	828	77	21	1,715
1973	684	639	70	28	1,421
1974	655	556	27	24	1,262
1975	1550	754	39	33	2,376
1976	374	374	76	37	861
1977	461	442	54	35	992
1978	728	723	74	21	1,546

Source: World Bank

Natural disasters, especially drought, have affected the livestock export trade. Drought has

caused the destruction of many type, reducing their populations and thus the volume of trade. In the years 1960–1991, the Somali government witnessed a chronic trade imbalance, with imports exceeding exports throughout most seasons. In 1985, exports were indeed a fourth of imported goods and the commercial gap to GDP ratio was 21%. As seen in Table 2, the country experienced adverse trade balances and stayed in budget deficits from 1975 to 1985. In 1983, 1984 and 1985, imports became approximately three to four times, six and a half times and four times higher than exports, respectively.

Table 2: Somalia: Exports, Imports and Trade Balance Millions of US$

Year	Exports	Imports	Trade Balance
1975	88.6	162.2	-73.6
1976	81.0	176.1	-95.1
1977	71.3	256.9	-185.6
1978	109.5	275.5	-166.0
1979	106.0	15,616	-288.2
1980	134.2	394.2	-326.8
1981	114.0	461.0	-308.0
1982	136.9	422.0	-347.1
1983	100.7	484.0	-349.3
1984	62.0	450.0	-344.0
1985	92.5	362.0	-269.5

Source: World Bank

It turns out that the country's commodities and revenues couldn't even balance overall imports for a multitude of circumstances. As previously stated, the Somali pastoral sector was reliant on a particular market in Saudi Arabia, making it susceptible to foreign influence from such a market. Saudi Arabia's sanctions on Somali animal supplies had little impact on the Somali market. Furthermore, animal productivity was harmed by natural calamities, most notably

hurricanes, which lowered the cattle population. Public measures were also unfavorable to the industry. Despite the fact that the nominal rate of the Somali Shilling frequently appreciated against all foreign currencies, Somalia had improved trade terms, which increased currency imports, but the business frequently experienced intermittent declines in trade terms. The difference in the value of a country's supply and imports is known as the stability of that country's trade. The term "more stable trade" refers to a situation where a country exports more than it imports. On the other hand, if a country's imports exceed its transfers, it is considered to fall into this category of trade deficit. A stable exchange rate surplus or deficit is an imperative part of any nation's state currency improvement and evolution. The current account includes the equilibrium of commerce, which influences currency exchange rates by influencing foreign exchange supply and demand. If a country's trade balance is not zero, it means that there is relatively high demand or supply of that country's exchange in the world marketplace, affecting the worth of the currency in this globalized market. And also, negative impacts on external reserves can be positive. Finally, At first glance, a trade imbalance is not a negative feature. It increases a country's people's standard of life since they have access to a greater range of commodities and services at more comparative prices. Because commodities are priced cheaper, it can lessen the possibility of inflation. A trade gap might also imply that the citizens of a country are competent and rich enough to purchase more than the nation produces. Clearly, a trade imbalance occurs when a nation cannot provide everything it requires. However, the underlying reasons are a bit more complex. A nation can not have a trade imbalance if other nations are prepared to lend it the funds required to fund import purchases. As a result, a nation with a trade imbalance is apt to have a current account shortfall. According to Friedman and other economists, a significant trade deficit in the importation of products indicates that this nation's currency is strong and attractive. Residents of such a nation can enjoy the capacity to select from a wide range of competitive commodities at cheaper prices than they would otherwise pay if the currency was weaker and the nation was running a trade advantage (Ashraf & Joarder, 2009).

As a result, trade will influence the relative value of a country's currency as decided by demand. When demand is great, the price and value of the dollar rise, according to the rules of supply and demand. In this instance, the value of the currency will rise or fall. As a

consequence of the commercial discrepancy, the national currency may be weakened. Over the long haul, Commercial transformation is required to provide the revenue required to pay the bills. investors from throughout the world (Adams et al., 2015).

According to Uzun et al (2011), trade openness was the beginning of internationalization, which has become the most popular idea in recent years. The term "trade globalization" represents an extension of international markets as well as greater interconnection and resemblance among nations. The internationalization movement has resulted in a dual economic system, but at the same time, it has widened the progress inequality in emerging nations. Kizilgol and Ipek (2013) used the ARDL approach and the extended regression method to empirically analyze the link between open commercial and foreign obligations. The findings indicate that increased free trade has a significant impact on public obligations in both the short- and long-term. a nutshell, borrowing is beneficial to Turkey's economic progress. Furthermore, the Turkish economy has effectively used external debt to attain its economic goals.

According to Mehrara (2011), who conducted the study on the relationship between export growth and GDP growth in developing nations, the study separated governments into special categories: those that rely upon oil and those that don't. The findings show that for non-oil-growing countries, there was a unidirectional short-run connection between exports and economic growth, but for oil-rich countries, there is certainly no such short-run temporal connection between alternate openness and economic growth.

According to Ronit (2014), research was conducted to explore the correlation between exports and economic growth. The analysis shows that a Granger causality check indicates that GDP evolution reasons for transfer income, as well as the frequency response features advanced, additionally advise that export markets react extra strongly to changes in GDP.

Kundu (2013) conducted studies on the output of industrialization in seven SAARC countries. Panel data analysis, as well as unit root and cointegration tests, were used in the analysis. The researchers discovered that there were good enough records to verify the magnitude of open and market growth.

3. THE METHODOLOGY OF THE STUDY

This chapter of the study describes the research methodology, data source and type of data, theoretical structure, model specification and methods, and techniques used to analyze the data. It also outlines how the relevant approach will be developed, analyzed, and interpreted.

3.1 Data Type and Data Source

Annual data from 1970 to 2010 obtained from the World Bank and Global Development Indicators was used for this research. Somalia is the subject matter for this study. The dependent variable is external debt, which is quantified in millions of LCUs. The nominal exchange rate, which is measured as the worth of the Somali shilling in the US dollar; the terms of trade, which are measured as the share of the component worth of transfers to the unit worth of imports; and national income, which is measured as income per capita, are also independent variables.

3.1.1 Methods of Data Analysis

Descriptive statistics, model parameter estimates and modal diagnostics are three fundamental components of studying the relationship between dependent and independent variables with a number of econometric methods.

3.1.2 Model Specification

In this study, the ordinary least squares (OLS) method was used to analyze the essential determinants of foreign debt in Somalia. Therefore, the The functional relationship between external debt and its determinants can be expressed as follows:

$$ED_t = \beta_0 + \beta_1 EXR_t + \beta_2 NI_t + \beta_3 TOT_t + \varepsilon t$$

$$\quad\quad (+) \quad\quad (-) \quad\quad (+)$$

Where:-

- External Debt, Exchange Rate, National Income, and Terms of Trade are denoted by ED, EXR, NI, and TOT, respectively.

- β_0 − is intercept which means if we hold the other independent variables constant, the External debt will remain constant.

- β_1 to β_3 − refers to slope coefficients of the Independent varibles. • t − refers to the time period and ε is error term. The theoretical anticipated signs of the variables are indicated in parentheses, and all variables are plotted as logs.

The nominal exchange rate and the rise of external debt should be positively correlated. This could be attributable to the depreciation of the Somali shilling in recent years. Another rationale could be that the national currency has weakened as a result of depreciation, discouraging foreign investment and spending.

3.1.3 Description of the Variables

- **Dependent Variable**

Dependent variable is external debt, and it is quantified in millions of LCU.

- **Independent Variables**

The independent variables are the nominal exchange rate, which is measured as the worth of the Somali Shilling in US dollars, terms of trade, which is measured as a share of the unit worth of transfers to the worth of imported goods per unit, as well as national income, which is calculated as for each capital income.

3.1.4 Estimation Technique

The relationship between foreign debt and the explanatory factors is established using ordinary least squares (OLS). Consequently, in order for OLS to be applied, the standard linear regression model's assumptions have to be met.

3.2 Diagnostic Tests

The research used diagnostic tests, which are explained more below.

3.2.1 Heteroscedasticity

Heteroscedasticity is characterized as inconsistent dispersion. There is a consistent shift in the dispersion of residuals along the scope of experimental measurements in linear regression. Since ordinary least squares (OLS) analysis implies that almost all of the residuals are obtained from a sample with a fixed variance, heteroscedasticity seems to be a concern. The residuals ought to possess an equal variance in order to meet the regression hypotheses and also be able to verify the findings.

3.2.2 Multicollinearity

Multicollinearity can be examined as the existence of substantial intercorrelations between multiple independent indicators in a multiple regression analysis. If a scientist or analyst seeks to evaluate how accurately every explanatory variable can be employed to forecast or comprehend the explanatory variables in a quantitative approach, multicollinearity often results in skewed and incorrect outcomes. In summary, multicollinearity can also result in broader credibility ranges and lower trustworthy probabilities in respect of the impact of explanatory indicators in a model.

3.2.3 Autocorrelation

Autocorrelation is a statistical feature that reflects the degree of similarities among the values of all quite similar variables over repeated set intervals. The correlation analysis is founded on the regression analysis; when the explanatory factors are perfectly positive, the similarity would be 1.0. If the two independent parameters have a completely negative significant correlation, the negative linkage value means there is no linear correlation between the parameters.

3.2.4 Normality

Consistency seems to be a characteristic of the line predictor that decreases throughout a sampling as even the representative sample increases. However, it reveals anything regarding the sample volume distribution, and a technique of measuring as well as constructing this hypothesis of the research assumptions is required.

Null hypothesis: Data is normally distributed.

Alternative hypothesis: Data is not normally distributed.

Table 3: Main Variables

Variables	Measurements, Source, World Bank . Global Development Indicators
EX	Quantified in millions of LCUs.
EXR	Defined as the worth of the Somali shilling in US currency.
NI	Defined as income per capital.
TOT	Defined as the share of the component worth of transfers to the unit worth of imports.

4. FINDINGS AND DISCUSSIONS

The descriptive section of the empirical research covers three major aspects: descriptive statistics, model parameter estimation, and, in addition, diagnostics to analyze the relationship between the variables, which were employed in our models described in Chapter three.

4.1 Findings

4.1.1 Descriptive Statistics

Descriptive statistics is a form of data analysis that groups together vast volumes of numerical (quantitative) data. The most popular technique to describe the core tendency is to use the average, often known as the mean. To obtain the mean, combine all of the values together and total them. The median looks to be the value at the midpoint of a set of numbers. The average can be derived by reporting all of the numbers numerically and then picking the point in the sample's center. The proportion of a set of tests to the suggested pattern is denoted by standard deviation. The maximum and minimum show the values of the series in the current sample. The relevance of the information in this sequence The mean is the lowest value in a set of facts. The design as a whole is the observation. It is commonly used by academics.

Table 4: Descriptive Statistics

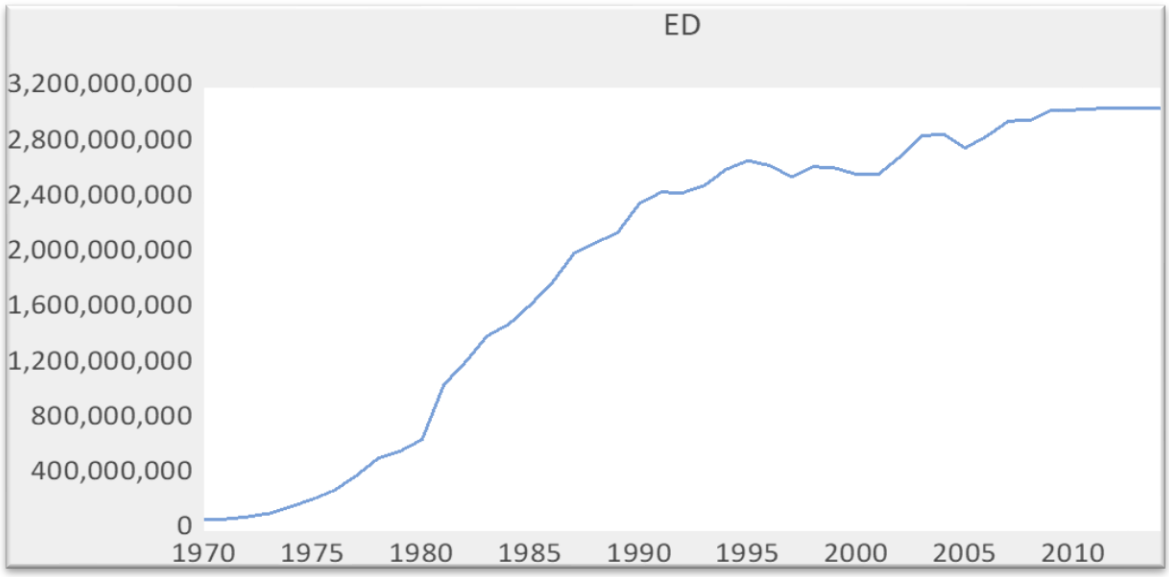
Variables	Mean	Median	Maximum	Minimum	Std.Dev.
ED	1.83E+09	2.37E+09	3.05E+09	77085000	1.06E+09
TOT	458.6741	500	675.2955	130.563	163.0876
EXR	5954.998	1749.167	31900	6.2815	7814.197
NI	2.20E+09	2.25E+09	2.67E+09	1.67E+09	3.06E+08

Source: Author's estimation analysis

Table 4: ED represents external debt, TOT represents terms of trade, EXR represents the exchange rate and NI represents national income. The dependent as well as independent variables are depicted in the descriptive results. Between 1970 and 2010, the average mean value of the dependent variable of external debt is 1.83E+09 and maximum value of 3.05E+09 with a standard deviation of 1.06E+09. This standard deviation shows how data variables deviate from the mean. The average mean of terms of trade is 458.6741 and has a maximum value of 675.2955 with a standard deviation of 163.0876. The average exchange rate is 5954.998 and the unit with the maximum value is 31900, with a standard deviation of 7814.197. Somalia's currency has depreciated against the US dollar. The national average income is $2.20E+09 and has a maximum value of 2.67E+09. It has a standard deviation of 3.06E+08.

National income has the maximum average number (2.20E+09), whilst terms of trade have the lowest average number (458.6741). The variable with the maximum standard deviation is national income (3.06E+08), whereas the variable with the lowest standard deviation is terms of trade (163.0876).

Figure 4: Trends in External Debt of Somalia

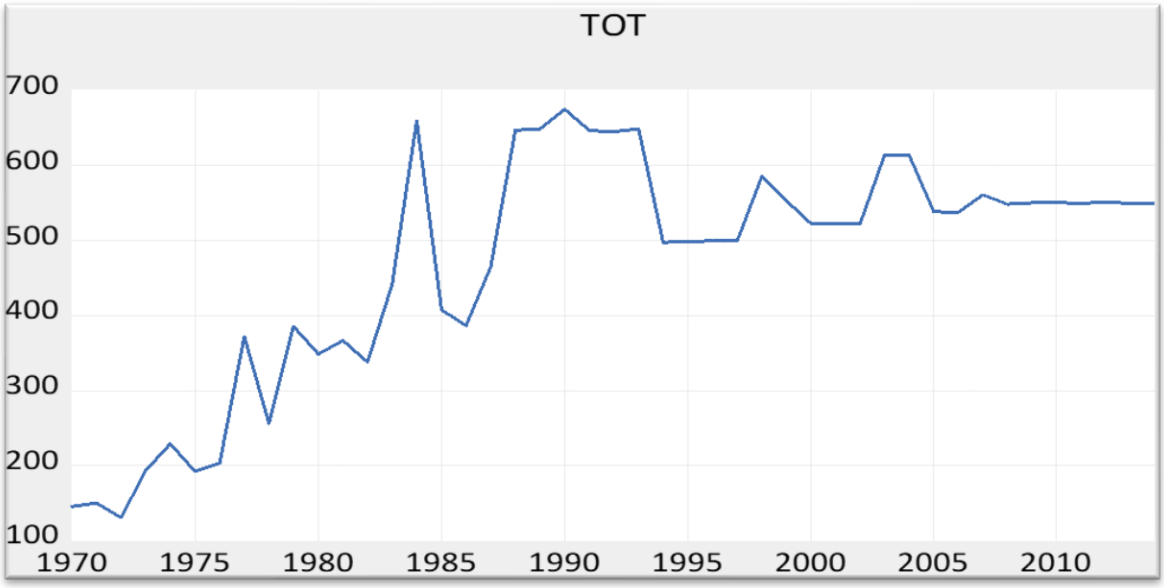


Source: Author's estimation analysis

Figure 4: It illustrates the trends of external debt for millions of Somalis, revealing that Somalia's external debt has increased over time, but the majority of the debt is linked to the forced to step down military dictator. Between 1970 and 1990, it resulted in a flurry of public-sector defense and infrastructure projects being purchased and borrowed from foreign creditors. The Somali Republic, led by General Mohamed Siyad Bare, did not sign an external debt contract after 1990. Since then, the country has collapsed and the country has faced an era of statelessness.

As a result of the country's statelessness, the International Monetary Fund (IMF), the World Bank and the African Development Bank have had no relations with Somalia's financial institutions or the central bank of Somalia.

Figure 5: Terms of Trade of Somalia



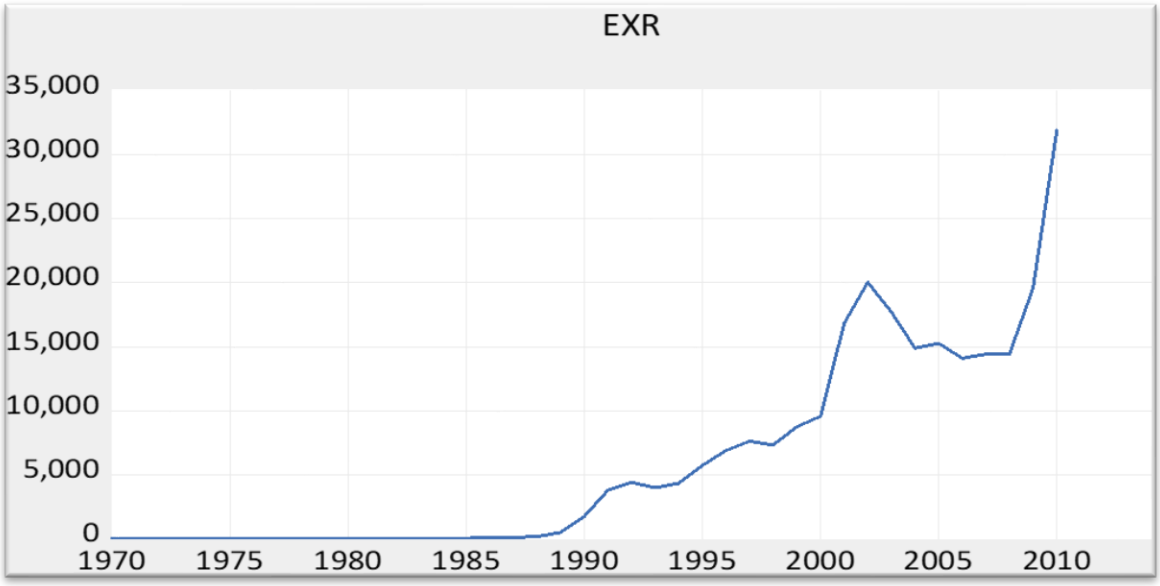
Source: Author's estimation analysis

Figure 5: depicts the trends in Somalia's terms of trade; in the first period, 1970-1980, there is a short-term slowdown and intensification in terms of trade due to elasticity demand; additionally, the trend exhibits the maximum increase in terms of trade from 1985-1995 due to Shilling depreciation and in the second period, 1995-2010, the trend goes up and down

over time. the outbreak of the Somali civil war, exports decreased significantly as a result of the country's reduced gross domestic product and households became increasingly reliant on imported goods. Recently, a number of small businesses in Somalia have taken control of the economy's productivity. Unfortunately, Somalia's balances of payments were negative and external debt has negatively impacted the country's ability to attract foreign direct investment and has destroyed local prowess. The majority of Somalia's capital and skilled labor moved to neighboring nations, where they invested.

Now, Somalia's economy is strongly reliant on trade, which is mostly determined by consumer demand for imported commodities. Imports account for over 40% of overall GDP, primarily funded by remittances, whereas exports account for 10% of overall GDP.

Figure 6: Exchange Rate of Somalia



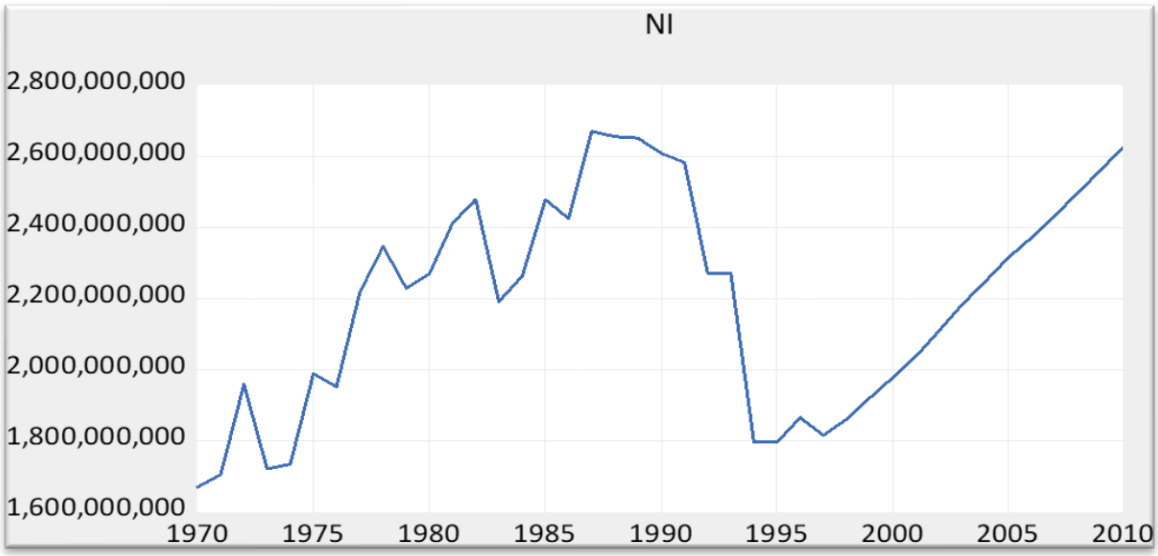
Source: Author's estimation analysis

Figure 6: This figure demonstrates the trend of Somalia's exchange rate from 1970 to 2010. The exchange rate in Somalia was constant until 1991, when it began to significantly increase. Somalia's exchange rate has shifted numerous times. In 1991, the Somali shilling was 4,500, then increased to 13,500 in 2006 and finally to 31,000 in 2010. The Somali

domestic currency's utility depreciation resulted in an intensification of the country's international indebtedness ratio as the interest rate rose, reducing investment.

As shown in the graph, the Somali domestic currency began to depreciate against the US dollar in 1990 and has continued to depreciate rapidly since then. This depreciation has resulted in higher prices for goods and services in Somalia, while US products and services have become cheaper as the US dollar exchange rate has appreciated.

Figure 7: National Income of Somalia



Source: Author's estimation analysis

Figure 7: It shows that Somalia's gross domestic product fluctuates until 1990, then begins to decline in 1991, with the worst year of decline being 1995, due to civil war largely caused by drought and destroyed by Sub-Saharan territory, but then rapidly increases in 1997, indicating that statelessness has considerably enhanced the Somali economy. What's more, increasing foreign debt reduces national income and increases the percentage of GNP that must be set aside each year to service the debt.

Somalia's poor and negative trade balance, sustained by official assistance and remittances, is projected to continue due to the country's loss of facilities to formal loan funding. Foreign

investors are estimated to be supporting Somalia's surviving balance of payments.

Somalia's economy and human resources have suffered greatly as a result of the country's protracted civil war. Climate shocks have increased vulnerability because they have a direct impact on agricultural activities, which account for the vast majority of economic output. However, significant efforts to promote macroeconomic stability have been made in recent years, with significant foreign help to restore institutions. The positive significant growth rate was maintained when conditions improved.

4.1.2 Model Parameter Estimation

After determining the stability and normality of the time series variables, we calculate the method coefficients to see if there is a correlation among the variables.

Table 5: Model Parameter Estimation

Dependent Variable: ED
Method: Least Squares
Date: 01/20/22 Time: 18:41
Sample: 1970 2010
Included observations: 41

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-53443506	4.31E+08	-0.124120	0.9019
EXR	53738.64	8520.041	6.307322	0.0000
NI	-0.267933	0.222745	-1.202866	0.2367
TOT	4686776.	464427.0	10.09152	0.0000

R-squared	0.885153	Mean dependent var	1.83E+09
Adjusted R-squared	0.875841	S.D. dependent var	1.06E+09
S.E. of regression	3.72E+08	Akaike info criterion	42.40168
Sum squared resid	5.13E+18	Schwarz criterion	42.56886
Log likelihood	-865.2344	Hannan-Quinn criter.	42.46256
F-statistic	95.05626	Durbin-Watson stat	1.301487
Prob(F-statistic)	0.000000		

According to model parameter estimation, the exchange rate and terms of trade have a positive coefficient and a statistically significant relationship on foreign debt, implying that a one-percentage increase in the exchange rate and terms of trade results in 53738.64 percent and 4,686,776 percent increases in external debt, respectively. On the other hand, national income has an inverse relationship to foreign debt. The probability of national income is

greater than 5%, so it is not significant and has a negative coefficient in this estimated model, suggesting that national income does not accurately explain foreign debt.

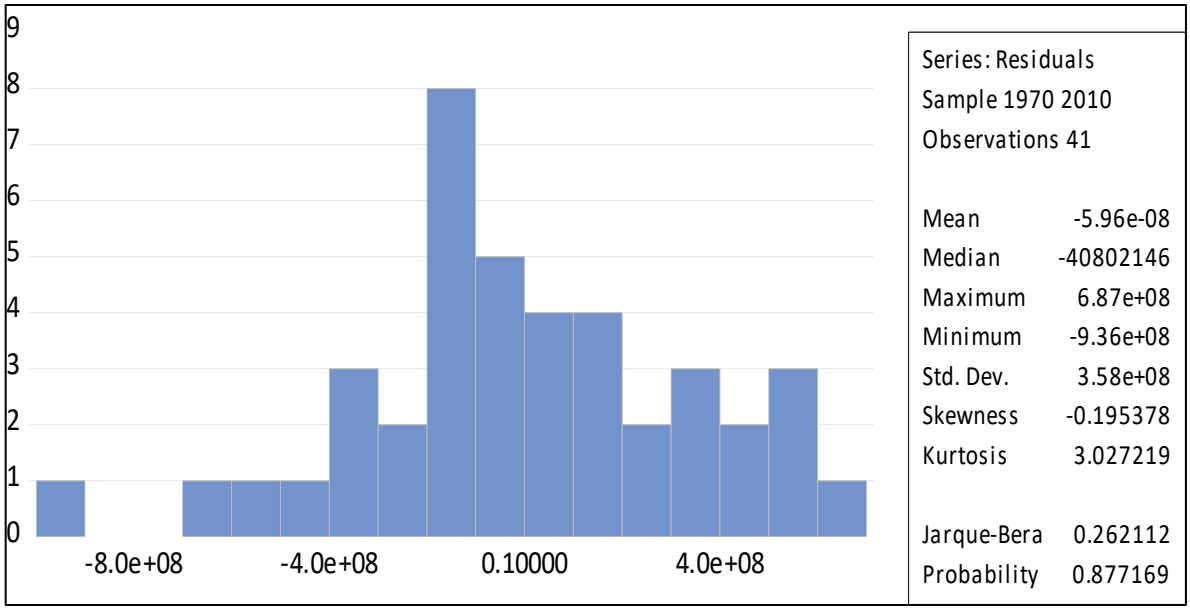
The R-squared value variables account for 0.88 percent of the variance in the dependent variable. To consider adjusted R-squared, the independent variables, which are the exchange rate, national income and terms of trade, determine 0.87 percent of the dependent variable; additionally, the F-statistic of 95.05, corresponding to the Prob (F-statistic) of less than 5%, indicates that the overall model used is significantly good enough in the prediction of the dependent variable, which is external debt. The dependent variable is explained jointly by the three independent variables. The Durbin-Watson stat is 1.30, so there is positive autocorrelation.

4.2 Model Diagnostics

4.2.1 Normality Test

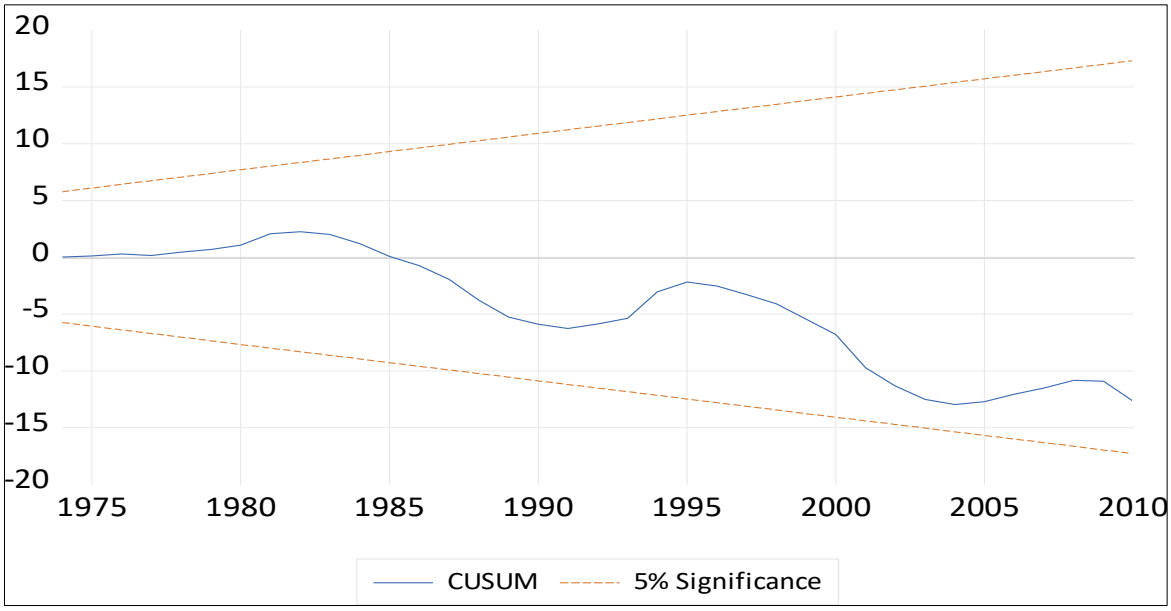
The normality test is conducted to ensure that the error term is normally distributed, and the figure below confirms that the data used in this research is normally distributed and the model is good since the probability is greater than 5%. Thus, this model accepted the null hypothesis.

Figure 8: Shows the Normality Test



The residual is located between the two straight lines, showing that the model is correctly specified and the figure indicates 5% critical boundaries, implying that the dependent variable, which is external debt, is a table variable.

Figure 9: Shows The Stability Test



4.2.2 Multicollinearity Test

If there is a high correlation between two independent variables, the problem of multicollinearity appears. The multicollinearity problem makes a significant variable insignificant by increasing its standard error. If the standard error increases, the t-value decreases, resulting in a high p-value. The correlation analysis in the table below shows that terms of trade and national income have the maximum correlation coefficient of 0.49, whereas the exchange rate and national income have the lowest correlation coefficient of 0.15, implying that there are no very significant correlations between all independent variables. As a result, Table 6 confirms that there are no significant concerns regarding multicollinearity.

Table 6: Correlation Matrix

	EXR	**NI**	**TOT**
EXR	1.000000	0.159113	0.459522
NI	O.159113	1.000000	0.496915
TOT	0.459522	0.496915	1.000000

4.2.3 Heteroskedasticity Test

Heteroskedasticity variance happens once the variances of the error terms are not equal or constant. A white test is conducted to identify the problem, and Table 7 reveals that the model is healthy and there is no heteroscedasticity since the p-value is not statistically significant at the 5% level, indicating that this model is accepted as null hypothesis and homascadastistic, which means a good regression model.

Table 7: Heteroskedasticty: White Test

Heteroskedasticity Test: White
Null hypothesis: Homoskedasticity

F-statistic	1.860649	Prob. F(9,31)	0.0964
Obs*R-squared	14.37988	Prob. Chi-Square(9)	0.1094
Scaled explained SS	11.87030	Prob. Chi-Square(9)	0.2207

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 01/22/22 Time: 17:20
Sample: 1970 2010
Included observations: 41

4.2.4 Autocorrelation Test

Autocorrelation arises when the error term is correlated. As seen in table 8, there is no autocorrelation in the model. since the probability p-values in diagnostic tests are greater than 0.05. It is assumed that residuals are not serially correlated and the model accepts the null hypothesis, which supports the validity of the fitted model. This means that the model's projected parameters are valid and could offer valuable insights for economic policy recommendations.

Table 8: Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 3 lags

F-statistic	1.849681	Prob. F(3,34)	0.1568
Obs*R-squared	5.752624	Prob. Chi-Square(3)	0.1243

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 01/22/22 Time: 17:13
Sample: 1970 2010
Included observations: 41
Presample missing value lagged residuals set to zero.

5. CONCLUSION AND POLICY RECOMMENDATIONS

Somalia's external debt has always been a determining element in its development. Somalia, with its $5.1 billion external debt, is unable to repay its government bonds over time, making it one of the remaining countries in the world that does not yet qualify for debt relief under Initiative (HIPC).

The International Monetary Fund (IMF) has restricted Somalia from lending to public works projects that could have a significant economic impact or achieve a sustainable competitive advantage.

Therefore, the main purpose of this thesis was to study the macroeconomic factors effecting external debt in Somalia. In time series analysis from 1970 to 2010, both descriptive and econometric methods were used. focusing on explanatory variables such as exchange rate, terms of trade, and national income. According to OLS estimates, several indicators show that terms of trade and exchange rates have a positive effect on foreign debt. Thus, our analysis shows that the exchange rate and terms of trade have a statistically significant relationship on foreign debt, implying that a one-unit increase in trade and the Somali exchange rate resulted in an increase in foreign debt. A rise in the exchange rate clearly shows a depreciation of the Somali shilling against the US dollar. The exchange rate is the most significant factor in Somalia's foreign debt. The research also found an inverse relationship between both foreign debt and national income. National income has a probability greater than 5%, meaning that it is statistically insignificant for this regression analysis, implying that national income does not satisfactorily reflect foreign debt. It is ultimately contingent on the management of foreign debt. If the debt is used for hostile and warlike activities, it has a negative economic impact and vice versa.

The findings of the thesis have substantial policy recommendations that the government can put into action. The goal of exchange rate stability is to lessen the effect of currency volatility on foreign debt. Somalia's federal government should implement arrears schemes and request bridging loans from allies to cover IMF and World Bank defaults.

The Paris Club, non Paris Club and the multilateral creditors should ensure that they can give

a financial guarantee to the IMF for debt cancellation prior to the cancellation and decision dates. keep encountering debt forgiveness and avoid further delays in debt forgiveness for Somalis. Somalia's debt relief needs to be accelerated. Progress in peacebuilding, national security, and political stability is essential for faster debt relief.

Somalia's debt relief efforts must be supported and led by governments, businesspeople, and international civil society. This should remain a precedent for the Somalia federal administration.

Furthermore, the manufacture of value-added items must be improved. This will increase the efficiency of on-site operations. Reliance on external debt and assistance does not foster economic stability. As a result, the Somali government should refrain from relying on external debt and policymakers should devise strategies to limit excessive debt dependency.

The government should increase exports while cutting imports to avoid mounting debt as a result of trade conditions. Somalia must shift its trading strategy away from commodity exports and toward value-added commodity exports in order to boost exports.

To protect growing industries, the government has to take and implement steps. With the exception of capital items required for export activity, trade liberalisation zones, industrial zones and the establishment of export-oriented infrastructure are all actively encouraged.

On the other hand, foreign assistance can also help to avoid debt increases. If the assistance is in the form of a loan, the debt repayment obligations may be enhanced. To cut costs, appropriate exchange rate restrictions should be implemented.

Therefore, to cover the growing budget deficit, the government should restructure its tax base. This could be accomplished by increasing income streams and aggressively pursuing tax improvements, which will assist in reducing tax evasion and tax intrusion.

Finally, Somalia should have a strong debt management policy. All legislative bodies should implement anti-corruption measures and penalize those who steal and misuse government funds, which could help Somalia overcome its massive external debt.

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APPENDIX 1

LIST OF TABLES

Table 9: Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	Std.Dev.
ED	1.83E+09	2.37E+09	3.05E+09	77085000	1.06E+09
TOT	458.6741	500	675.2955	130.563	163.0876
EXR	5954.998	1749.167	31900	6.2815	7814.197
NI	2.20E+09	2.25E+09	2.67E+09	1.67E+09	3.06E+08

Source: Author's estimation analysis

Table 10: Model Parameter Estimation

Dependent Variable: ED
Method: Least Squares
Date: 01/20/22 Time: 18:41
Sample: 1970 2010
Included observations: 41

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-53443506	4.31E+08	-0.124120	0.9019
EXR	53738.64	8520.041	6.307322	0.0000
NI	-0.267933	0.222745	-1.202866	0.2367
TOT	4686776.	464427.0	10.09152	0.0000

R-squared	0.885153	Mean dependent var	1.83E+09
Adjusted R-squared	0.875841	S.D. dependent var	1.06E+09
S.E. of regression	3.72E+08	Akaike info criterion	42.40168
Sum squared resid	5.13E+18	Schwarz criterion	42.56886
Log likelihood	-865.2344	Hannan-Quinn criter.	42.46256
F-statistic	95.05626	Durbin-Watson stat	1.301487
Prob(F-statistic)	0.000000		

Table 11: Heteroskedasticty: White Test

Heteroskedasticity Test: White
Null hypothesis: Homoskedasticity

F-statistic	1.860649	Prob. F(9,31)	0.0964
Obs*R-squared	14.37988	Prob. Chi-Square(9)	0.1094
Scaled explained SS	11.87030	Prob. Chi-Square(9)	0.2207

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 01/22/22 Time: 17:20
Sample: 1970 2010
Included observations: 41

Table 12: Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 3 lags

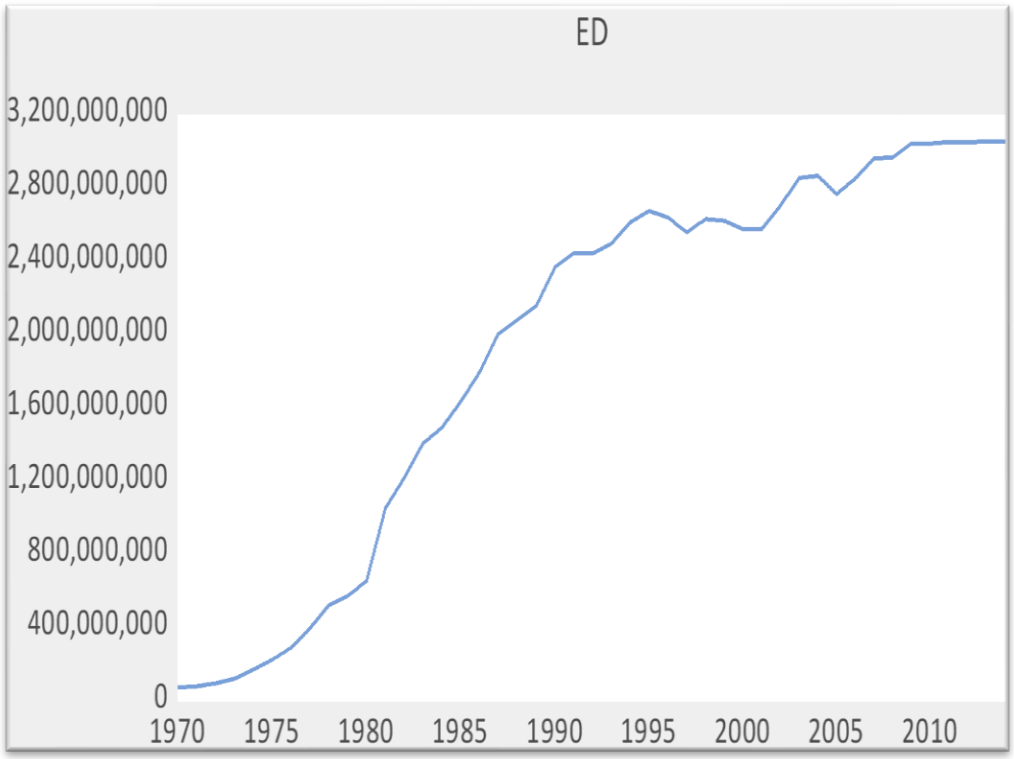
F-statistic	1.849681	Prob. F(3,34)	0.1568
Obs*R-squared	5.752624	Prob. Chi-Square(3)	0.1243

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 01/22/22 Time: 17:13
Sample: 1970 2010
Included observations: 41
Presample missing value lagged residuals set to zero.

APPENDIX 2

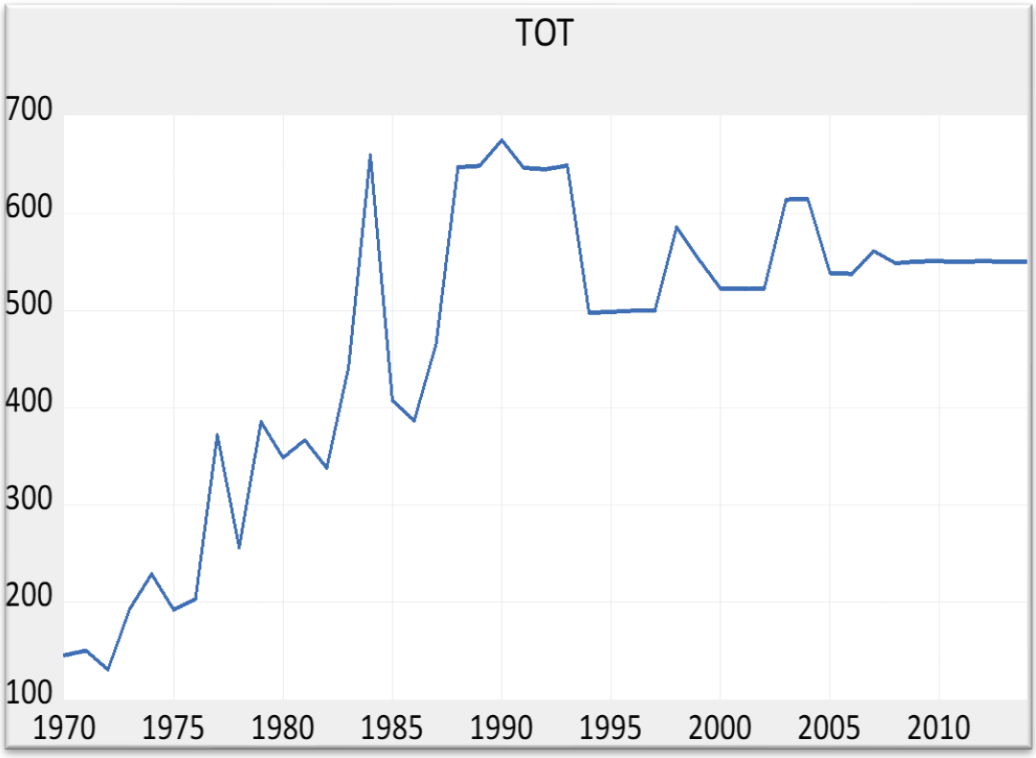
LIST OF FIGURES

Figure 2: Trends in External Debt of Somalia



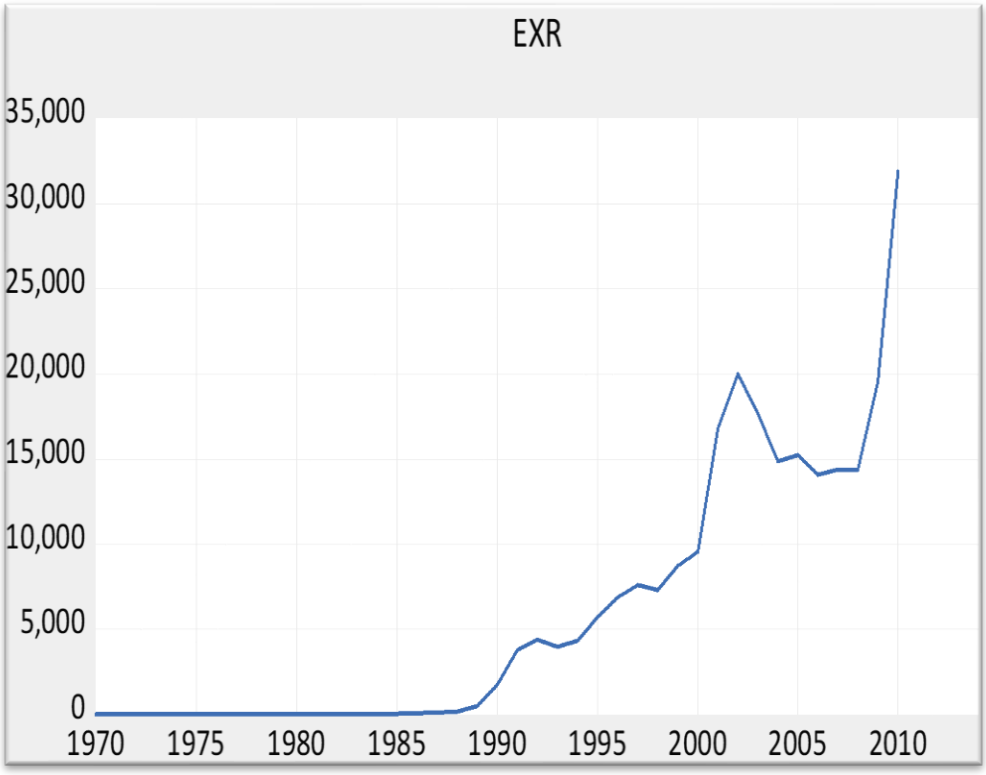
Source: Author's estimation analysis

Figure 3: Terms of Trade of Somalia



Source: Author's estimation analysis

Figure 4: Exchange Rate of Somalia



Source: Author's estimation analysis