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SOMALIA

August 2019

2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM, AND REQUEST FOR NEW STAFF-MONITORED PROGRAM—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Somalia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 22, 2019 consideration of the staff report that concluded the Article IV consultation with Somalia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 22, 2019, following discussions that ended on May 2, 2019, with the officials of Somalia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 28, 2019.
- A **Debt Sustainability Analysis** prepared by the staff of the International Monetary Fund and the International Development Association (IDA)
- **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Somalia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2019 Article IV Consultation with Somalia

On July 22, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the 2019 Article IV consultation[1] with Somalia.

Improved confidence, on the back of the continued implementation of reforms, and strong donor support continue to support economic activity, especially in the telecom, trade, construction, and financial sectors. However, poor rainfall in Spring weighs on the outlook and threatens food security. GDP growth is estimated at 2.8 percent in 2018 after 1.4 percent in 2017. If normal rains resume later this year, GDP growth could remain broadly unchanged at around 2.9 percent in 2019. Inflation is expected at 3.0 percent in 2019, following 3.2 percent in 2018.

The Federal Government of Somalia's (FGS) continued efforts to broaden the tax base and strengthen tax administration has been reflected in increased domestic revenue (almost 30 percent higher than in 2017). This has supported a small expansion in spending on health and education. However, expenditures continue to be dominated by spending on salaries and other operating costs, especially on security-related expenditures, with little space for critical social and development programs.

Despite stronger growth and the improving fiscal position, per capita incomes remain very low and more resources are needed to achieve greater economic resilience and reduce poverty. With debt at unsustainable levels (at about $4.7 billion or 100 percent of GDP in 2018, of which 96 percent is in arrears), Somalia will need the continued support of the international community to help meet much-needed humanitarian and development needs. Somalia's fourth SMP (May 2019–July 2020) will support the authorities' continued reform efforts, laying the foundation for greater self-sufficiency and higher and more inclusive growth. The program will expand and deepen measures to build fiscal sustainability, across

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

the FGS and the Federal Member States, further improve financial stability, address residual anti-money laundering and combating the financing of terrorism (AML/CFT) gaps, and strengthen governance and the fight against corruption.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' strong commitment to implementing three consecutive staff-monitored programs (SMP) in a challenging environment, noting that Somalia's gradual economic recovery reflected the authorities' sustained policy and reform efforts, coupled with strong donor support. Directors recognized the challenging security and political situation, and welcomed the authorities' ongoing efforts to improve economic resilience and inclusive growth. Directors indicated that the forthcoming National Development Plan should provide a blueprint to support these goals, and encouraged consultation with a wide set of stakeholders.

Directors welcomed the continued improvement in fiscal performance. Efforts to broaden the tax base and strengthen tax administration have increased domestic revenues, supporting a small expansion in health and education spending. However, substantially boosting development spending and achieving fiscal self-sufficiency will require more effort in terms of revenue mobilization. Directors encouraged continued public financial management (PFM) reforms, highlighting the need to strengthen commitment controls and embed improvements in procurement. They welcomed the cabinet approval of the airport-fee contract and further progress on the renegotiation of the Mogadishu port contract. Directors stressed that implementing a strong fiscal framework, supported by effective natural resource management and revenue-sharing frameworks with the Federal Member States, will be critical to realizing Somalia's longer-term potential.

Directors welcomed the authorities' efforts to enhance financial sector stability and strengthen supervision, and agreed that bringing mobile money service providers under the regulatory umbrella is a key near-term priority. Directors were encouraged by the progress in strengthening the anti-money laundering and combating the financing of terrorism regime, and stressed the need to address the remaining legal and operational gaps.

Directors encouraged continued progress on addressing governance weaknesses and the risk of corruption. They emphasized that passage of key legislation—including on revenue, PFM, audit, petroleum, statistics, and anti-corruption—would promote better governance and transparency. Directors encouraged further efforts to strengthen statistical institutions and

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

address data gaps. They noted that intensive capacity development support will need to be sustained to bolster ongoing reforms.

Directors concurred that Somalia's external debt is unsustainable, and supported the authorities' continued efforts to make progress toward the Heavily Indebted Poor Country (HIPC) initiative Decision Point. In this context, Directors agreed that the macroeconomic and structural policies outlined under the fourth SMP meet the policy standards associated with upper credit tranche arrangements. Directors also welcomed the authorities' intention to begin making token payments to the IMF in 2020, and stressed that these should be very small given Somalia's limited resources and challenging circumstances. Directors considered that satisfactory implementation of the SMP will help establish a track record and pave the way toward arrears clearance and eventual debt relief under the HIPC initiative. They recognized that this will also require the concerted effort of the membership to mobilize the necessary financing for debt relief, including to meet the costs for the Fund. To this end, they looked forward to discussing possible financing options in the period ahead.

Somalia: Selected Economic and Financial Indicators, 2015–22

(IMF quota = SDR 44.2 million; Population: 14.2 million, 2018 estimate)

(Poverty incidence: 69 percent; Main Export: Livestock)

	Est.				Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022
National income and prices								
Nominal GDP in millions of U.S. dollars 1/	4,049	4,198	4,509	4,721	4,958	5,218	5,507	5,816
Real GDP, annual percentage change	3.5	2.9	1.4	2.8	2.9	3.2	3.5	3.5
Per capita GDP in U.S. dollars	310	313	327	332	339	347	357	368
Consumer prices (e.o.p., percent change)	0.3	1.2	6.1	3.2	3.0	2.7	2.3	2.2
	(Percent of GDP)							
Central government finances 2/								
Revenue and grants	3.5	4.1	6.0	5.7	6.9	7.2	7.4	7.7
of which:								
Grants	0.7	1.4	2.8	1.8	3.0	2.9	2.9	2.8
Expenditure, *of which:*	3.3	4.1	6.6	5.7	6.9	7.0	7.2	7.5
Compensation of employees 3/	1.3	1.3	2.8	3.0	3.2	3.3	3.4	3.5
Purchase of non-financial assets	0.1	0.2	0.1	0.2	0.5	0.4	0.4	0.3
Overall fiscal balance	0.0	0.0	-0.6	0.0	0.1	0.2	0.2	0.2
Drawdown of government deposits	0.0	0.0	0.7	0.1	0.0	0.0	0.0	0.0
Overall balance, net	0.1	0.0	0.1	0.2	0.1	0.2	0.2	0.2
Stock of domestic arrears	1.7	1.8	1.5	1.5	1.3	1.1	0.8	0.6
	(Millions of U.S. Dollars)							
Central bank summary balances								
Foreign assets (gross)	68.6	60.9	89.2	118.9	…	…	…	…
Gross reserves of the central bank	42.6	41.8	48.1	51.1				
Net foreign assets, excl. IMF 4/	21.6	21.6	24.0	26.2	…	…	…	…
CBS liabilities to government	7.2	5.4	29.3	39.5	…	…	…	…
	(Percent of GDP)							
Balance of payments								
Current account balance	-6.0	-9.4	-9.0	-8.3	-8.3	-8.0	-8.0	-8.9
Trade balance	-72.8	-74.5	-80.5	-73.7	-72.6	-71.1	-71.4	-70.6

Exports of goods and services	25.6	25.4	22.1	25.9	26.8	26.5	26.2	27.0
Imports of goods and services	98.5	99.9	102.6	99.6	99.4	97.6	97.6	97.6
Remittances	32.9	32.5	31.5	29.2	28.8	29.1	29.3	28.8
Grants	34.9	33.3	40.8	36.9	36.3	34.7	34.7	33.7
Foreign Direct Investment	7.4	7.9	8.2	8.6	9.0	8.9	9.0	9.0
External debt	108.2	105.3	103.3	99.5	99.5	99.5	99.4	99.3
Market exchange rate (SOS/USD, e.o.p.)	22,285	24,005	23,605	24,475	…	…	…	…

Sources: Somali authorities; and Fund staff estimates and projections.

1/ There has been a significant downward revision to GDP compared to the last staff report that affects all ratios to GDP.
2/ Budget data for the Federal Government of Somalia. Fiscal operations are recorded on a cash basis. GDP data cover the entire territory of Somalia.
3/ Increase in compensation of employees in 2017 reflects the bringing onto budget military spending related to the loss of an off-budget grant.
4/ Program definition per TMU ¶9.

SOMALIA

June 28, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM, AND REQUEST FOR NEW STAFF-MONITORED PROGRAM

KEY ISSUES

Background and context. The Somali authorities continue to make important strides in state-building and maintaining political and economic stability; nevertheless, Somalia remains fragile and vulnerable to security and climate shocks. While the underlying growth momentum is robust, supported by improving confidence given consistent reform implementation, improved security, and strong donor support, drought conditions threaten agricultural performance in 2019 and have triggered warnings of severe food insecurity.

Program performance. Program implementation of SMP III has been strong, with all but one structural benchmarks (SBs) and all indicative targets (ITs) met. The authorities have requested a new 15-month SMP to cement reforms and support reaching the HIPC decision point (DP) as soon as the necessary conditions are met.

Policies under SMP IV. Reforms under the SMP IV are focused on further efforts to mobilize revenues and strengthen public financial management, expanding the scope of financial sector supervision and regulation, and continuing to strengthen AML/CFT compliance. The new national development plan (NDP9) will outline the authorities' priorities with respect to poverty reduction and inclusive growth. Staff considers that the macroeconomic and structural policies outlined under the authorities' ambitious program meet the policy standards associated with programs supported by arrangements in the upper credit tranches (UCT) or under the Poverty Reduction and Growth Trust (PRGT), paving the way for achieving HIPC decision point (DP).

Article IV policy discussions. The Article IV consultation focused on policies to support higher and more inclusive growth, strengthen the medium-term fiscal framework, deepen the financial sector, increase economic resilience, and improve governance and the business environment. Discussions highlighted the need to implement a durable fiscal federal framework, establish a robust framework for effective natural resource management, and develop the medium-term fiscal framework. For the financial side, the focus was on improving financial infrastructure. Currency reform remains a priority of the authorities to support financial inclusion for marginalized groups and mitigate the risk of counterfeiting.

Program and other risks. Security and political risks, and climate shocks remain the main sources of risk. In particular, ongoing challenges to FGS-FMS cooperation could delay progress on critical reforms. In addition, slow progress on mobilizing the necessary financial resources for HIPC debt relief, especially to cover the IMF's portion, could delay reaching the HIPC DP, which would increase the risk of reform fatigue and delay access to the resources needed to support development and reduce poverty.

Approved By
Thanos Arvanitis (MCD) and Nathan Porter (SPR)

Discussions were held in Addis Ababa, Ethiopia during April 26–May 2, 2019. The staff team consisted of A. Holland (Head), L. Kohler, P. de Imus (all MCD), G. Kalyandu (FAD), T. Orav (SPR), I. Samake (Resident Representative), W. Irungu (Economist, IMF Office, Somalia) and P. Muir (FAD consultant). The mission met with the Finance Minister Mr. Abdirahman Beileh; Minister of Investment, the Economy, and Planning, Mr. Gamal Hassan; the Central Bank Governor, Mr. Abdirahman Abdullahi; Mr. Siraji, Chairman of the Economic and Finance Committee of the House of the People; and other officials. Mr. Abdulqafar Abdullahi, (OED) participated in key policy meetings. The mission also met with representatives of bilateral and multilateral donors and conducted conference calls with some civil society representatives.

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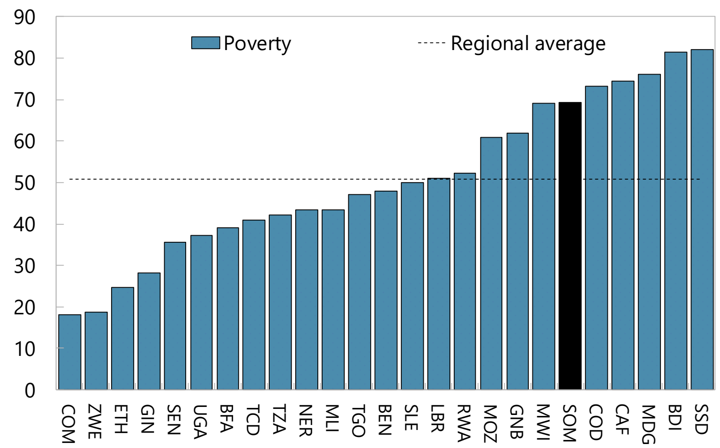
BACKGROUND AND CONTEXT

After a devastating civil war, the Somali authorities have made remarkable efforts in rebuilding the economy and policy institutions.

1. **Somalia is a fragile state that is very vulnerable to security and climate shocks.** The long civil war (1991–2012) devastated the economy, infrastructure, and public institutions, with a huge loss of human capital. This impact has been aggravated by climate shocks, affecting agriculture and livestock which account for the largest share of GDP.[1] Nearly seven out of ten citizens live in poverty,[2] and international grants and remittances are critical to maintaining even low levels of consumption (see Text Figure 1). High youth unemployment and gender inequality add to the political and social challenges. Despite some progress in reconciliation, the country remains politically fragmented, and work towards stabilizing relations between the FGS and five Federal Member States (FMS) is ongoing.

Text Figure 1: Poverty Incidence in Sub-Saharan Africa
(Percent of population)



Sources: World Bank

2. **Despite these challenges, the Somali authorities have made important strides in state-building and maintaining political and economic stability.** This progress has been supported by considerable donor support covering political, security and economic matters (see Annex 1), initially under the 2013 Somali Compact and New Deal for Somalia, and currently under the framework of the 2017 London Conference and the New Partnership for Somalia (NPS).[3] The reform agenda is wide-reaching including political settlement, security, rule of law, women's rights, youth empowerment, and economic development, which are aligned to the country's sustainable development goals, recognizing the interconnectedness of political, security, and economic reforms.

[1] Somalia suffered a devastating drought-induced famine in 2010–2011, while another famine was only narrowly avoided in 2017 due to Federal Government of Somalia (FGS) and international donor intervention.

[2] Somali Poverty and Vulnerability Assessment, World Bank, August 2018. 69 percent of the population live in extreme poverty, defined as living on less than $1.90 per day, 2011 $, PPP adjusted.

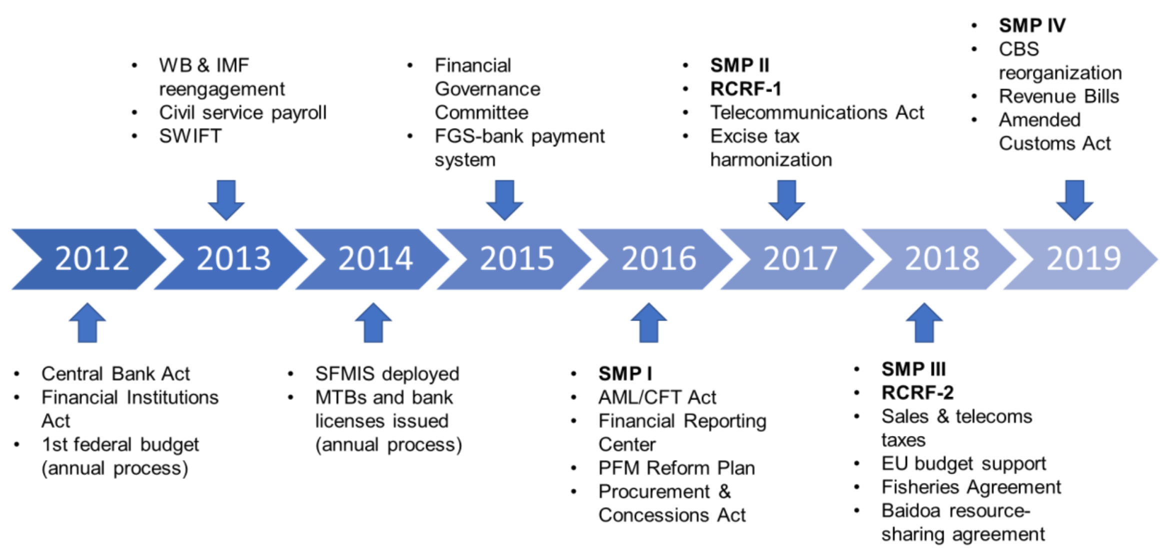
[3] See: https://reliefweb.int/report/somalia/london-somalia-conference-2017-new-partnership-somalia-peace-stability-and-prosperity

Specifically:

- **Political and security reforms.** Since 2012, the Somali people agreed to a Provisional Constitution, formed its parliament, and constituted the Federal Republic of Somalia (FRS), comprising the FGS and FMS. The second FRS elections were held in 2017, with a peaceful transfer of power to the current administration. In 2018, the FGS established the Federalization Negotiation Technical Committee (FNTC) to accelerate state and national constitutional discussions.

- **Economic and financial reforms.** Somalia has achieved great progress in advancing some important reforms, supported by the IMF and other donors (Text Figure 2). The FGS has established a basic fiscal framework, supported by an annual budget process, regular fiscal reporting, improved cash management capacity, and well advancing public financial management (PFM) reforms. Some politically difficult reforms—such as introducing biometric registration of the security sector and taxation of the telecommunication industry—have been adopted. On the financial side, the Central Bank of Somalia (CBS) conducts regular supervision of banks and money transfer bureaus (MTBs), and is set to improve its governance and organization. A baseline AML/CFT legal and operational framework is now in place. Economic and financial statistics are improving, and deeper structural reforms to support growth and governance are planned. These economic reforms have spanned the two political administrations with the priorities governed by the prevailing National Development Plan (NDP8).

Text Figure 2. Somalia's Economic and Financial Reform Trajectory



3. **Somalia's relationship with the IMF has deepened over recent years.** Since 2015, three Article IV consultations and three staff-monitored programs (SMPs) have been completed. The overall traction of Fund policy advice, including Article IV recommendations, has been high (see Annex II). Intensive technical assistance (TA) from the IMF has contributed to extensive capacity development (Annex I).[4] Although obligations to the Fund are all in protracted arrears (SDR 242 million, 547 percent of the 8th quota,[5] or about $333 million at end-May 2019) the authorities are strongly committed to normalizing relations.[6] They hope that the Executive Board agrees with staff's assessment that the macroeconomic and structural policies under the proposed SMP meet the policy standards associated with programs supported by arrangements in the upper credit tranches (UCT) or under the Poverty Reduction and Growth Trust (PRGT), thereby cementing their cooperation with the Fund and leading to the Decision Point (DP) under the Highly Indebted Poor Countries (HIPC) Initiative (see Annex III). This is expected to unlock new multilateral concessional financing to support their development efforts.

4. **Relations with other donors have also strengthened.** In particular, the World Bank has approved two pre-arrears clearance grants (in 2017 and 2018) and is ready for an arrears clearance operation as soon as DP is reached. The EU approved a three-year budget finance grant in 2018. The FGS has also received substantial budget support from key bilateral partners, and total official development grants, mostly off-budget, have averaged around $1.5 billion over the past few years (see Table 9).

5. **At the same time, significant risks lie ahead.** While broader risks are detailed in paragraph 14, the authorities recognize that effective cooperation between the FGS and the FMS will be needed to successfully deliver the desired reforms but that recent tensions, especially in the context of the current FMS electoral cycle, represent a key risk to that.[7] In addition, key legislative reforms, such as the PFM, Procurement, Revenue, and the amended Customs Bills, are currently with Parliament, creating a heavy legislative schedule over the next months. Against these risks, the FGS recently set up an SMP monitoring committee at the Ministerial level chaired by the Deputy Prime Minister to help unlock political impediments and ensure consistent reform delivery.

[4] See Informational Annex for summary of MCD Country Engagement Strategy.

[5] Given Somalia is in arrears to the Fund, it may not consent or pay for the quota increases under the Eleventh and Fourteenth General Reviews of Quota. Were these increases to have been made, Somalia's arrears would represent about 140 percent of Somalia's updated quota.

[6] Somalia's overdue financial obligations to the IMF were last reviewed at the time of the Article IV consultation (February 2018). Somalia was declared ineligible for IMF resources at the time of the review of overdue obligations to the IMF by the Executive Board on May 6, 1988.

[7] A week-long negotiation between the FMS and FGS in May 2019 failed to achieve a break-through. This has been followed by declarations from two FMS (Puntland and Galmudug) announcing a temporary suspension of cooperation with the FGS.

ECONOMIC DEVELOPMENTS

Economic activity recovered in 2018, supporting a robust fiscal outturn and stronger financial sector activity. However, the outlook for 2019 is constrained by risks of a weak agricultural season.

6. **Improved confidence on the back of reform implementation and strong donor support have supported economic activity, but the outlook is weighed down by drought conditions (Text Table 1 and Figure 1).** Robust activity in the telecom, trade, construction, and financial sectors is supporting increased economic activity, with GDP growth estimated at 2.8 percent in 2018 (Text Table 2). Despite this momentum, drought conditions in early 2019 threaten this year's agricultural season. The UN Food and Agriculture Organization has already issued a special alert for severe food insecurity for July-September. Assuming that normal rains resume, GDP growth could remain broadly unchanged at around 2.9 percent in 2019; however, there is considerable uncertainty at this point. Inflation eased to 3.2 percent in 2018 and is expected at 3.0 percent in 2019, under the same assumptions.

Text Table 1. Somalia: Selected Economic Indicators, 2016–20

(Percent of GDP, unless otherwise indicated 1/)

	Est.			Proj.	
	2016	2017	2018	2019	2020
National income and CPI	(Percent)				
Real GDP growth	2.9	1.4	2.8	2.9	3.2
Inflation (CPI, e.o.p.)	1.2	6.1	3.2	3.0	2.7
Fiscal 2/					
Revenue and grants	4.1	6.0	5.7	6.9	7.2
of which: grants	1.4	2.8	1.8	3.0	2.9
Total expenditure	4.1	6.6	5.7	6.9	7.0
of which: Comp. of employees 3/	1.3	2.8	3.0	3.2	3.3
Overall fiscal balance	0.0	-0.6	0.0	0.1	0.2
Drawdown of government deposits	0.0	0.7	0.1	0.0	0.0
Overall balance, net	0.0	0.1	0.2	0.1	0.2
Commercial Banks					
Credit to private sector (mn of USD)	66.1	105.2	161.4	...	...
Total capital to assets (percent)	22.1	15.3	13.3	...	...
External sector and debt					
Current account balance	-9.4	-9.0	-8.3	-8.3	-8.0
Trade balance	-74.5	-80.5	-73.7	-72.6	-71.1
Remittances	32.5	31.5	29.2	28.8	29.1
Grants	33.3	40.8	36.9	36.3	34.7
External debt	105.3	103.3	99.5	...	...
Memorandum items	(U.S. dollar, million)				
Stock of domestic arrears	76.5	68.8	68.8	63.5	57.2

Sources: Somali authorities; and IMF staff estimates.

1/ There has been a significant downward revision to GDP compared to the last staff report that affects all ratios to GDP.

2/ Cash basis. Budget data for the Federal Government of Somalia (FGS); GDP data covers all of Somalia.

3/ Increase in compensation of employees in 2017 reflects the bringing onto budget military spending related to the loss of an off-budget grant.

7. **Per capita incomes remain very low.** An updated household survey shows per capita consumption is significantly lower than originally estimated,[8] resulting in a 37 percent downward revision to the level of GDP to $4.7 billion in 2018. Per capita income is estimated at around $332, one of the lowest in the world.

8. **A large trade deficit is financed by stable external flows (see Tables 7–9).** The current account deficit narrowed slightly during 2018, as agricultural exports (mainly livestock) recovered

[8] Only an expenditure-based GDP is currently estimated. The World Bank's Wave 2 High Frequency Household survey shows an average real per capita daily consumption of $1.26 in 2017, relative to previous estimates of $1.70 for 2016 in the Wave 1 survey. This change is the main driver of the lower level of estimated GDP. Other changes include updated CPI data (which affects the growth rate of per capita consumption), updated trade data (used to estimate private investment for 2016 and 2017), and updated government expenditure data for 2017.

from the 2017 drought. Nonetheless, the trade deficit remains high at 73 percent of GDP, which continues to be financed by large inflows of remittance and grants (Figure 1). External debt reached about $4.7 billion or nearly 100 percent of GDP in 2018, with 96 percent ($4.5 billion in arrears, of which $1.8 billion or 39 percent reflects late interest and charges).[9]

9. The FGS ended 2018 with a fiscal surplus given improved domestic revenue mobilization and expenditure restraint, and despite lower-than-expected grants (see Table 3, Figure 3). Domestic revenue mobilization continues to strengthen, including on the back of continued improvements in tax administration, with 2018 outturn at $183 million exceeding program projections. Through March 2019, domestic revenue has continued to exceed program targets by a small amount. Improved cash forecasting and expenditure restraint ensured the containment of expenditures within available funds. Nevertheless, the authorities managed to expand spending slightly on health and education, including by rehabilitating a number of hospitals and taking over the operation of three schools. Security-related expenditure also increased to compensate for the withdrawal of some donor support. The 2018 outturn on grants (at $87 million) was lower than the program level (of $97 million), which is also the case for the first quarter of 2019.

10. PFM continued to strengthen through 2018. In particular, expenditure controls have continued to improve, as has cash management. In addition, the use of cash advances continues to decline, and the use of cash forecasting to inform allotments is now regularized. Significant progress has also been made on operationalizing the Treasury Single Account (TSA).[10] Progress has also been made in modernizing customs administration with the Harmonized Commodity Description and Coding System (HS) implemented at the Port of Mogadishu since March 2019.

11. Financial sector activity is increasing but the sector remains stable (see Tables 4–6, Figure 4). In 2016–18, partly reflecting strong deposit inflows, private sector credit grew by an annual average of around 53 percent, albeit from a very low base, leading to a small decline in capital ratios. At the same time, the Central Bank of Somalia (CBS) supervisory capacity has improved steadily, and banks' and MTBs' data reporting is also improving, including due to the implementation of recent asset classification regulations. Importantly, mobile money regulations have been prepared and are expected to be issued shortly. On AML/CFT, the Financial Reporting Center (FRC) has been operational since the second half of 2018, with suspicious and large transaction reporting now underway, and implementing regulations for the Targeted Financial Sanctions (TFS) Bill were drafted with IMF assistance.

[9] Of the $191 million not in arrears, $31 million and $160 million are obligations to the African Development Fund and the International Development Agency, respectively.

[10] 68 Ministry, Departments and Administrations (MDA) accounts have been closed, and balances on five remaining accounts transferred to the TSA. Linkages have been established between SFMIS and the CBS banking system providing real-time information on TSA balances.

PERFORMANCE UNDER SMP III

Program implementation has remained strong and SMP III has been completed.

12. All but one structural benchmark under SMP III, and all quantitative indicative targets (ITs), including all continuous ITs, have been met (see Text Table 2 and Table 1).

- **For June and September 2018,** all structural benchmarks (SBs) and indicative targets (ITs) were met, including over-performance on domestic revenue and the fiscal balance.
- **For December 2018 and March 2019,** all December and March ITs were met, again with over performance on domestic revenue and the fiscal balance. Also, all but one SBs were met, while continued monitoring of SBs#2, #3, and #5 indicate they were also met through March 2019.
- **One SB was missed.** SB#6 for December 2018—re-negotiation of the airport and port fee-collection contracts—was missed despite good faith efforts by the authorities. Agreement on the airport concession was subsequently reached in May. However, although negotiations continue, agreement has not yet been reached on the terms of a new Mogadishu port contract. Given the ongoing negotiation efforts, no remedial measures are envisioned for SMPIV; instead the program addresses reforms in the framework for procurement and concessions more broadly.

Text Table 2. Somalia: Indicative Targets Under the Staff-Monitored Program III, May 2018–April 2019 1/

(Millions of U.S. dollars)

	2018									2019		
	June			Sept. 2/			Dec.			March 3/		
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status
Fiscal												
Fiscal balance (cash basis; floor)	0.0	2.3	Met	0.0	3.6	Met	0.0	7.9	Met	0.0	16.5	Met
Domestic revenue floor	75.7	82.9	Met	116.1	127.2	Met	165.0	183.4	Met	47.0	54.0	Met
Accumulation of new domestic expenditure arrears (ceiling) 4/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Contracting of new domestic debt (ceiling) 4/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Contracting or guaranteeing of new nominal external non-concessional borrowing (ceiling) 4/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Central Bank of Somalia (CBS)												
Net foreign assets of the CBS (floor) 4/ 5/	24.0	25.2	Met	24.0	25.3	Met	24.0	26.2	Met	24.0	25.1	Met
Memorandum item												
Debt contracting or guaranteeing of nominal external concessional borrowing (ceiling).	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	

Sources: Somali authorities; and Fund staff estimates and projections.

1/ Based on preliminary data. Cumulative from the beginning of the year.

2/ Test date for the first review of the SMP.

3/ Test date for the second review of the SMP.

4/ Continuous indicative target.

5/ Calculated using program exchange rates. See Technical Memorandum of Understanding, IMF Country Report No. 18/212. New information on the nature of CBS reserves gathered during the May 2019 discussions resulted in a revision of NFA for 2018.

Table 1. Somalia: Structural Benchmarks Under the Staff-Monitored Program III, May 2018–April 2019

	Benchmarks	Target dates	Rationale and Monitoring	Status
Public Financial Management				
1	A Minister of Finance order to require that all salaries provided in cash be paid directly to individuals' bank accounts and record/register all Somali National Army payroll and non-payroll into the SFMIS payroll module.	Jun-18	Improve PFM and fiscal reporting.	Met
2	A Minister of Finance order to require all Federal Member States (FMS) and the Banadir region to report at end-Q1 and end-Q3 on the utilization of any FGS budgetary transfer.	Sep-18	Improve fiscal transparency, accountability, FGS leadership and oversight over the FMS.	Met
3	Record cash advances in SFMIS and process them in accordance with the Appropriations Act.	Sep-18	Improve cash management and payment processes.	Met
4	Complete the stocktaking and recording of all payroll and goods & services vouchers to December 31, 2017 which are in arrears into SFMIS.	Sep-18	Create an accurate and verified complilation of domestic arrears, to improve governance, and to allow a transparent process of repayment to begin.	Met
5	Design and implement a cash-forecasting system to inform allotments which are issued prior to commitment, in accordance with the Appropriations Act.	Dec-18	Provide effective use of the purchasing module in SFMIS, improve cash management, and limits/avoid new arrears.	Met
6	Conclude the renegotiation of the Mogadishu port and airport fee-collection contracts.	Dec-18	Strengthen PFM and broaden FGS revenue base. Provide concluded and signed Mogadishu port and airport fee-collection contracts.	Not met
7	The Minister of Finance to issue an order: (1) to identify Ministries, Departments, and Agencies (MDAs) accounts at commercial banks and the CBS, close unnecessary accounts, and move active accounts to CBS; and, (2) to require that all active MDA accounts be mapped to the SFMIS.	Mar-19	Make progress towards developing the Treasury Single Account. Will require that: (1) the ministry will establish a list of all MDA bank accounts respective signatories and operating mandates; (2) all MDA bank accounts be opened upon express issuance of formal authorization by the Accountant General; and, (3) CBS will report monthly bank balances of Treasury accounts.	Met
Tax Administration and Tax Policy				
8	Ensure that the large-and-medium-taxpayer office (LMTO) is fully operational and share its organizational structure and staffing status.	Jun-18	Enhance the Inland Revenue Department, expand the revenue base and increase domestic tax collection.	Met
9	Minister of Finance to issue order to make the renewal of all licenses by Ministries, Departments, and Agencies (MDAs) conditional on presenting a tax clearance certificate (TCC) from the Ministry of Finance.	Jun-18	Expand the revenue base and increase domestic tax collection.	Met
10	The LMTO to increase the number of registered large and medium taxpayers from 25 to at least 50, evaluate all potential tax arrears for 2017 in Mogadishu, and collect the corresponding tax obligations due.	Sep-18	Expand the revenue base and increase domestic tax collection. This follows the establishment of the LMTO. LMTO staff will determine which of these arrears are considered potentially recoverable and record needed information. Provide new registration list of large- and medium taxpayers.	Met

Table 1. Somalia: Structural Benchmarks Under the Staff-Monitored Program III, May 2018–April 2019 (Concluded)

Benchmarks	Target dates	Rationale and Monitoring	Status
Tax Administration and Tax Policy (continued)			
11 Submit the Revenue Bill to Parliament.	Dec-18	Update the tax law by also correcting deficiencies of the old tax laws	Met
12 The Minister of Post and Telecommunication (MPT) and the Minister of Finance to develop a plan to enforce regulations-associated with the fees to be levied (licensing, spectrum, etc.).	Dec-18	Improve revenue collection. Communications Act, which would provide considerably broader powers to MPT to regulate the sector, including the ability to set appropriate fees and regulatory requirements. Provide the agreed fee structure and the plan for collection.	Met
13 The Ministry of Finance to take over all non-tax revenue collections from at least 5 of the remaining MDAs which are currently collecting theses revenues.	Dec-18	Improve revenue collection. FGS to provide SFMIS report showing non-tax revenue collections from the regulatory and operational activities of all MDAs.	Met
14 Finalize petroleum and fisheries operational revenue-sharing mechanisms between the FGS and FMS.	Mar-19	Operational step toward fiscal federalism. Adopting a petroleum and fisheries revenue sharing mechanisms will advance the tax harmonization process, contribute to national unity, and promote equity and accountability.	Met
15 Submit an amended National Customs Act to Parliament, and the Ministry of Finance to implement a common classification of goods based on HS codes and a front-end customs declaration process.	Mar-19	It will provide the foundation for a new tariff while improving coordination and efficiency. It will focus on HS classifications of goods. Provide common nomenclature of goods by HS code and a report detailing the progress of implementing the customs declaration process.	Met
MOPIED–National Development Plan			
16 Prepare a draft of the National Development Plan 2020-24.	Mar-19	The NDP 2020-24 is intended to serve as the interim PRSP document. Provide Draft 1 as specified in the NDP 9 Concept Note, which includes the first round of consultations at the national and FMS/BRA levels.	Met
CBS–Financial Sector Development			
17 Submit to Parliament the draft Targeted Financial Sanctions Act.	Sep-18	Strengthen the AML/CFT framework to address terrorist financing risks and correspondent banking relationships (CBR) pressures.	Met
18 CBS to issue regulation on credit classification and provision, and review reporting requirement for banks.	Mar-19	Improve financial intermediation, banking supervision, legislation, and supervision. This action will include update on reporting requirements for banks to include data relevant to the classification of credit and extent of provisioning. It will also include identification of gaps that would be filed by reporting requirement.	Met

OUTLOOK AND RISKS

While the outlook is stable, there are significant risks surrounding it.

13. Under the baseline, growth is projected to remain at around 3.5 percent over the medium-term. This outlook assumes continued political stability and strong external financial flows to support investment and consumption, and steady growth in agricultural production (the largest sector), telecommunications, transport, and construction. The trade deficit is expected to remain large, although constrained by available external financing. The fiscal position is projected to continue improving on the back of stronger revenue mobilization and PFM efforts, with domestic revenues reaching 5.2 percent of GDP by 2022,[11] and grants remaining broadly steady. This is expected to facilitate a gradual increase in expenditures, but which will still remain well below investment and social needs. The financial sector is expected to deepen gradually, and oversight continue to strengthen.

14. The risks to this outlook are on the downside (see Annex IV). Security and political risks, and climate shocks remain the main sources of risk. Terrorist attacks have increased recently, especially in the Mogadishu area. Heightened political tensions between the FGS and FMS, as well as Presidential elections (expected in early 2021), could slow reforms, particularly related to fiscal federalism. The dryer than average weather conditions during late 2018 and early 2019 increase food insecurity. Poor revenue collection, lower-than-pledged grants, lack of fiscal discipline, and weak governance could undermine fiscal performance. The failure of a mobile money operator could affect the domestic payments system and erode household savings. Upside risks include a stronger than expected improvement in the security situation, stronger growth outlook and higher than projected fiscal revenues from reforms already in the pipeline, and higher FDI and grants due to improved confidence or a well-designed national development plan.

PROGRAM AND POLICY DISCUSSIONS

Program discussions focused on near term policies and reforms under the SMP-IV to support revenue mobilization and spending efficiency, ensure financial stability, and continue to strengthen AML/CFT compliance. Broader policy discussions under the Article IV consultation focused on policies to pave the way for higher and more inclusive growth, strengthen the medium-term fiscal framework, deepen the financial sector, increase economic resilience, improve governance, fight corruption, and enhance the business environment.

15. SMPIV and Article IV discussions focused on extending reforms across the FGS and the FMS to lay a firmer foundation for self-sufficiency to support reaching the HIPC DP and beyond. SMPIV will expand and deepen measures to build fiscal sustainability, especially at a

[11] Based on ongoing revenue measures reflected in 2018 and 2019 budget. This does not yet include any potential yields from rolling-out current revenue measures to the FRS-level.

national level, improve financial stability, address residual AML/CFT gaps, and strengthen governance and reduce the scope for corruption over the medium term. Key reforms under the SMP are front-loaded, and the reviews are structured to meet the track-record requirement of the HIPC Initiative as soon as feasible, assuming Executive Board endorsement that the program meets the UCT-conditionality standard (see MEFP, Appendix I, Attachment I, Tables 1 and 2). The authorities also intend to take steps that will address key medium-term challenges, including to deepen PFM reforms and strengthen the underpinnings of fiscal policy, build debt and resource management capacity, and address development spending needs (see MEFP, Attachment I, paragraphs 15, 18, and 23). More broadly, staff encouraged the authorities to also continue building capacity to develop a robust medium-term fiscal framework to underpin fiscal policy decisions. This will be essential to ensure debt sustainability is maintained beyond HIPC, even as Somalia's development spending needs begin to be addressed more fully.

A. Managing Public Finances amid Sustained Fiscal Pressures

16. Despite improved domestic revenues, a significant share of the FGS budget is grant-financed and operational expenses are dominated by wages. Domestic revenues are expected to continue to increase, with a further widening of the tax base and improved compliance in 2019 and beyond. However, grants remain an important source of budget financing, accounting for about 32 percent of total 2018 revenues, with almost half earmarked for specific projects. Operational expenditures are still dominated by wages, although expenditure on goods and services and capital equipment is expected to increase gradually. Transfers to FMS have also gradually increased, reaching $30 million (0.6 percent of GDP) in 2018. However, currently, resources for spending on development are very limited.

Program Discussions

17. The authorities will submit a supplementary budget for 2019 that reflects increased domestic revenues in line with first quarter 2019 outturns and the SMP. Observed trends and the commencement of some non-tax flows (such as airspace fees) justify revising the 2019 budget projections. Staff estimate that the revised domestic revenue projections will reach $196 million from $190 million in the budget, representing a 7 percent increase over the 2018 outturn.

18. Staff and the authorities agreed on a medium-term fiscal framework for the FGS for 2020–2022 that reflects improving domestic revenues and steady increases in operational expenditures. On the back of agreed policies, the domestic revenue envelope is expected to gradually increase to $221 million in 2020 and to $238 million by 2022. These gains will be supported by further strengthening the large and medium-sized tax-payers' office (LMTO) (SB#9) to ensure taxpayer compliance with the four key obligations (registration, filing, payment and reporting).[12] The framework also projects the expiry of existing EU and WB budget support grants; however, new grants are expected to fill the gap in the context of continued reform implementation and

[12] 80 taxpayers are now registered with the LMTO (as of April 2019).

intensifying donor engagement and confidence. The framework anticipates that expenditure on wages and goods and services will be maintained within the current range. However, the need to increase development spending and pay down domestic arrears will increase expenditure pressures.[13] In addition, once debt relief has been granted, the framework will need to accommodate debt servicing associated with restructured debt.[14] Depending on the precise timing, a supplementary budget may need to be issued to make the necessary appropriations. Staff also recommended further efforts to improve the scope and coverage of the medium-term fiscal framework by incorporating the estimated costs of NDP9 that could affect the budget.

19. Staff encouraged the implementation of a fiscal buffer to support critical expenditures if revenues fall short (see Box 1). Budget financing is highly dependent on grants and trade-related fees and taxes that account for as much as 55 percent (2018) of domestic revenues. The authorities agreed that a fiscal buffer, initially sized at one months' worth of critical expenditures of wages and security costs, would mitigate the vulnerabilities associated with this concentration (SB#1). The buffer will initially be financed from existing bilateral grants, with guidelines to govern its replenishment.

20. PFM reforms will be deepened to improve expenditure control, safeguard limited resources, and improve governance. Consistent with Fund advice, the authorities are implementing expenditure controls to enhance the oversight and governance over spending, and avoid the accumulation of new arrears. The authorities agreed that the enforcement of commitment controls and tightening of procurement procedures will enhance control over the purchase of goods and services as they increase in magnitude (SB# 4 and 5). In addition, the authorities committed to continuing to institutionalize other PFM measures pursued under SMP III such as budget preparation and execution, and cash management. Staff also encouraged the authorities to sustain efforts to strengthen the capacity of the Debt Management Unit and urged the authorities to clarify the debt contracting authority across different levels of government.

21. In parallel, fiscal reforms that span the FGS and FMS are needed to broaden the revenue base further and increase fiscal space for spending to support growth and poverty reduction. Fiscal reporting by the FGS and FMS (SB#2) will provide greater insight into the general government operations of the FGS, a key test for moving towards the HIPC DP. Enacting the revenue bill (SB#8) will provide the basis for broadening revenue mobilization across the FRS. To facilitate spending revenues collected under FGS and FMS common arrangements (such as fishing licenses or petroleum-related revenues), staff urged the development of expenditure assignment guidelines to ensure transparency in their use (SB#3). Further, customs reforms in Mogadishu (SBs#6, 7 and 9) and

[13] The authorities have established a Domestic Arrears Management Committee to monitor and manage the stock of domestic arrears, including arrears of wages and salaries. A stock-taking exercise has been undertaken to compile and verify arrears so that repayment can begin (SMP III SB#4). Repayment of arrears due to Somali residents should support demand and contribute to economic growth and stability.

[14] Achieving the HIPC DP will result in a very significant reduction in debt; however, not all debt is expected to be cancelled, and Somalia will need to remain current on servicing the remaining restructured debt under the new terms to avoid accumulation of new external debt arrears.

the key ports of Bossaso and Kismayo (SB#11) will modernize customs practices and support greater efficiencies in revenue mobilization.

Article IV Discussions

22. **Over the longer term, implementing a durable fiscal federal framework will be critical to supporting Somalia's development goals.** Progress has been made, but the issues are complex, spanning many areas of politics and policy, and building trust after the decades of conflict has proven to be challenging and is likely to take time (see Box 2). Currently the key fiscal federalism building blocks are being put in place through the constitutional review process, and discussions in other fora such as the Council of Ministers Inclusive Politics Economic Forum. As the likely model has yet to be formally discussed, and the fiscal federalism process is very much in its early formative stages, challenges in coordination abound. Nevertheless, the authorities agreed that these reforms are an essential element of fulfilling Somalia's development goals.

23. **Effective natural resource management and revenue-sharing will also be critical to realize Somalia's resource endowment potential, while maintaining political stability.** The full scale of potential revenues from the development of petroleum and fisheries resources will only materialize if well managed. Fisheries licensing commenced in 2018, while petroleum exploration licenses are planned to be auctioned in 2019. The continuation of transparent fisheries licensing, building on the 2018 experience that generated fees of $1 million, will help facilitate the commercial development of the sector and support growth.[15] To ensure the potential petroleum gains are secured, staff urged that the Petroleum Bill be enacted and Extractive Industry Tax provisions adopted, and a clear strategy for auctioning oil blocks devised, before the planned oil exploration licensing is implemented.[16]

24. **Over the medium term, the proliferation of agencies and commissions with independent budget resources should be constrained.** Government expenditure remains dominated by spending on salaries that crowds-out critical program spending in areas such as health and education. Salary numbers in the civil service have almost doubled since 2013. Staff recommended that the authorities plan a systematic review of MDAs and independent commissions in due course, as the needs for specific MDAs or sub-institutions may fade over time. Such an effort would complement the efforts of the biometric registration exercise in containing salary costs and help identify scope for further rationalization and reduction in operating costs. Over the shorter term and as fiscal space increases, program spending on education, health, infrastructure should also increase. To inform policy decisions and enhance accountability, this will also require MDA expenditure data to be mapped to specific programs. Staff recommended a gradual improvement in

[15] In March 2019, in Addis Ababa, the FGS and FMS reached a detailed agreement on the distribution of fishing license revenues; the authorities report that the distribution of the 2018 revenues have now been transferred in accordance with that agreement.

[16] The AfDB has provided support in the drafting of the Petroleum Bill, while IMF TA has helped inform the proposed tax provisions for the extractive industry.

budget presentation by progressively introducing program definitions for MDAs and integrating program codes into SFMIS during 2020–2021.

B. Supporting Financial Stability and Improving Financial Intermediation

25. The number of licensed banks is set to double in 2019, and financial inflows appear to be moving towards more formal channels (see Figure 4). In 2019, the CBS licensed five new banks (an additional two licenses are pending), doubling the number of banks, and potentially stretching supervision capacity. This suggests that CBS re-organizing and continued capacity building remains a priority. Declining financial inflows via MTBs while imports remain robust suggest that financial channels maybe formalizing in the favor of banks and mobile money service providers.[17,18] However, credit risk, poor financial infrastructure, and a difficult business climate continues to constrain lending.

Program Discussions

26. Progress is expected to be made under SMP IV on improving CBS organization and governance. A transition plan towards the agreed new organizational structure will be developed and implemented as soon as feasible (SB#13). The CBS has made substantial progress on strengthening accounting and internal audit capacities and processes, including developing a multi-year audit plan, an accounting manual, and a plan for IFRS compliance, which is expected by the end of 2019. An IMF Safeguards Assessment, anticipated to precede the HIPC DP, would highlight key residual gaps. In this context, staff encouraged recognition of IMF positions on the CBS balance sheet.

27. Further improvements in financial supervision will be made with regulation of the mobile money sector introduced in 2019 and implemented early 2020. Banks and MTBs are subject to regular on- and off-site inspections and annual relicensing, and CBS staff has begun implementing a supervision IT system. To further improve supervision, the CBS is preparing guidelines on operational risk, agent banking, and accounting standards for Islamic banking. In view of the possible strains on supervisory capacity from the expanded number of licensed financial institutions, staff welcomed the resumption of the moratorium of licensing new banks. Mobile money regulations will be issued by end July (SB#12) and implemented gradually starting at the end of 2019 when the CBS plans to issue the first set of licenses (SB#15). This will represent a major structural change to the sector, requiring a phased transition. The CBS plans to outline an implementation period for mobile network operators (MNOs) to become fully compliant with the new regulations.

28. Deeper AML/CFT reforms are needed to support financial inflows that are key to supporting domestic consumption and investment. While substantial progress has been made in a short period of time, more reforms are needed to improve compliance (see Box 3). To help

[17] This assumption is also supported by the fact that one former MTB applied and was awarded a full banking license.

[18] Data gaps on financial inflows represented by banks and mobile money operators are expected to filled beginning early 2020 under SMPIV.

prioritize and sequence these reforms, the authorities have developed an AML/CFT action plan with IMF and World Bank staff assistance. Key items include: (i) the issuance of regulations covering financial entities other than MTBs (SB#14); (ii) the issuance of targeted financial sanction regulations once the bill is passed (SB#16); (iii) capacity building at the Financial Reporting Center (FRC) (SB#17); (iv) strengthening reporting compliance and enforcement; and, (v) improving inter-agency coordination and communication.

Article IV Discussions

29. Structural reforms to build financial infrastructure are also necessary to enhance financial inclusion and support greater credit creation. The authorities are addressing key impediments in the financial sector infrastructure, including efforts to introduce a Digital ID, a national payments system, and a movable collateral register (with the support of the World Bank). On the legal framework, the FGS plans to review and update the Financial Institutions Law and introduce the Insurance Law. Staff welcomed these efforts, and also encouraged efforts to adopt the Companies' Law and other measures that will improve the business climate.

30. Currency reform remains a priority for the authorities and would support financing inclusion of marginalized groups. Counterfeit notes are used primarily by rural and internally displaced peoples with limited access to US dollars, and to facilitate transactions in denominations less than one US dollar. Staff noted, and the authorities agreed, that the project should remain limited to exchanging counterfeit notes in circulation for new, secure, legitimate currency, and that the preconditions needed to be in place before commencing with the implementation. Outstanding issues include: (i) finalizing a communication strategy; (ii) preparing the project timeline; (iii) setting-up the project management framework and administration; and (iv) operationalizing the accountability framework.

C. Establishing the Foundations for Sustained Economic Growth and Improving Governance

31. Ensuring stability and poverty reduction over the medium-term will require boosting growth. The latest household survey indicates Somalia is poorer than previously thought, and with 50 percent of the population estimated to be less than 15-years old and about one in seven people displaced, including due to climate-related events, the social challenges facing Somalia are extreme.[19] A Disaster Needs Assessment (DINA) and subsequent Recovery and Resilience Framework (RRF), completed in 2018, will help address climate vulnerabilities. The DINA includes measure aimed at improving household and community assets and livelihoods, such as improving agricultural productivity and livestock management, which are critical given the large shares of these sectors in the economy and of exports, respectively.

[19] Source: Population Estimation Survey, 2014, Government of Somalia and United Nations.

Program Discussions

32. The authorities are developing an updated National Development Plan (NDP9) to promote stability, poverty reduction, and higher and more inclusive growth. A first draft was prepared under SMP III, and the authorities are continuing broad-based consultations with domestic and international stakeholders. The authorities intend NDP9 to serve as the authorities' interim Poverty Reduction Strategy for the HIPC DP (see Annex III). A preliminary draft indicates that reforms will focus on the following pillars: security, inclusive politics, economic growth and inclusion, social services and protection, and effective governance. These pillars are similar to those in NDP8, but NDP9 aims to improve prioritization to support more effective implementation, and to include estimates of costs and sources of financing. The authorities agreed with staff that the plan should prioritize the findings of the DINA and RRF given the country's vulnerability to weather shocks.

Article IV Discussions

33. Future development will also rest on the ability to harness the country's natural resources. The country has great potential in commercial fishing, with the longest coastline in Africa, and in the oil sector, which could help the country diversify its economy. However, security issues, degraded infrastructure, and still developing legal and governance frameworks impede development. Staff welcomed the June 2018 Baidoa Agreement and the subsequent March 2019 Addis Ababa Fishery Management and Revenue Sharing Agreement which secured political agreement on the ownership, administration, and sharing of revenues from natural resources. However, to support progress in the oil sector, staff urged the authorities to implement the full governance and legal framework needed.

34. While there are commercial success stories, a poor business climate and structural impediments restrain investment and broader, more inclusive growth. Employment in telecommunications and use of mobile network service, especial mobile money, continue to grow. Staff welcomed the new legal and governance framework reflected in the Communications Act and the National Communications Agency (to regulate the industry). However, broader development is impeded by limited access to affordable and reliable energy, with the country facing one of the highest electricity tariffs in the world, poor transportation network, and very poor to water and sanitation. Moreover, the lack of a skilled labor force and access to finance also impede private sector development (Figure 2).

35. The authorities are making efforts to improve the business environment with the support of international partners. Enabling legislation has been submitted to Parliament, including the Company's Act and the Foreign Investment Law. Authorities have launched an online business registration system and efforts to establish a "one-stop shop" to expedite establishing a business are ongoing. The authorities indicated that they are discussing with the World Bank and other evaluators on how to improve their business environment to strengthen the role of private sector in economic development.

36. Weak governance and the risk of corruption also weigh on macro-critical areas. A dearth of data makes it difficult to fully assess the risk of corruption and the state of governance in Somalia. However, the available information suggests widespread governance challenges and severe and systemic corruption (see Box 4). The authorities have acknowledged these challenges and have identified weak governance as a key driver of poverty and a pillar of its draft NDP given they make it difficult for the FGS to gain trust, impeding its relationship with potential tax payers, FMS, and donors.

37. In this context, staff welcomed ongoing reforms to improve governance and reduce corruption, which will also support donor confidence. It is important to recognize that the state structure, which effectively disappeared during the civil war, is relatively new and has significant capacity constraints. The institutions, frameworks, and practices that lead to better governance and reduce the risk of corruption are still being re-built. Reforms secured within the framework of consecutive SMPs that have emphasized improvements to revenue mobilization, PFM, central bank governance and organization, financial regulation and supervision, and AML/CFT, and included improved reporting and greater transparency, have contributed to efforts to strengthen governance. The Ministry of Finance is now participating in the Open Budget Survey and has made significant strides in increasing transparency, including holding forums for the Minister to respond to the public, maintaining a social media presence, and sharing monthly revenue and expenditure reports on its website. Moreover, the authorities have submitted legislation related to anti-corruption, the auditor general, and AML/CFT. Senior political leaders made it a priority to commission the newly-formed National Economic Council to study financial integrity issues in order to provide advice to the administration on reforms in these areas.

D. External Position, Arrears Clearance, and Debt Relief

38. Without debt relief, Somalia's debt is unsustainable, and the external position is substantially weaker than the level consistent with fundamentals.

- **Somalia is in debt distress,** with public debt at 100 percent of GDP, 384 percent of exports, and 1,762 percent of revenues in 2018, and 96 percent in arrears.[20] Under the baseline scenario that assumes modest stable growth, no debt relief, and no new debt accumulation, the total debt burden rises gradually to over 128 percent of GDP by 2039 as late interest continues to accrue on arrears (based on the originally contracted interest rates). Under various shock scenarios, the debt burden deteriorates faster and could exceed 190 percent of GDP (see Debt Sustainability Analysis Annex).

- **External debt is unsustainable, and reserves are minimal (less than one month of imports).** Somalia has no access to external financing, and the trade deficit is largely covered by grants and

[20] Arrears to the World Bank and AfDB amounted to about $340 and $107 million, respectively, at end-2018.

remittances. Any reduction in inflows lead commensurately to a reduction in imports. Overall, staff considers the external position as very weak.[21]

39. Debt relief under the HIPC Initiative is needed to restore debt sustainability and support Somalia's medium-term development prospects. Somalia's unsustainable debt burden and substantial stock of arrears constrain its access to external official financing, hampering its capacity to finance development projects and reduce widespread poverty. Given that Somalia is expected to be eligible for assistance under the HIPC Initiative,[22] the first milestone in the debt relief process is reaching the HIPC DP, at which point the international community would commit to reducing Somalia's debt to a level considered sustainable, and Somalia can begin to receive interim relief on debt service falling due. To reach the DP, three benchmarks need to be met: (i) establishing a (minimum six-month) track record of strong policy performance under a UCT-standard program; (ii) adoption of an interim PRSP, and (iii) receive necessary financing assurances, including to clear arrears to the IMF, World Bank and African Development Bank (AfDB) Group (see Annex III). Assuming Board endorsement of SMP IV as UCT-compliant, items (i) and (ii) are under the authorities' control. The World Bank has sufficient resources set aside for an arrears clearance operation as soon as the HIPC DP is reached. The AfDB Group has resources in the Transition Support Facility that can be used to help clear arrears to the Nigerian Trust Fund and AfDB (non-concessional window).[23] The AfDB is working with the authorities on the modalities to secure the resources needed to cover the portion of arrears due to the African Development Fund (about $80 million as of end-December 2018). Under the AfDB burden-sharing policy, one third of the total arrears to the AfDB Group (about $107 million as of end-December 2018) should be provided by the authorities (with donor support).

40. Ensuring sufficient financing assurances, particularly for the IMF's share of HIPC debt relief, will require coordinated efforts from the authorities and the IMF membership. The Fund's participation for Somalia under the HIPC Initiative was not included in the original HIPC cost estimates and hence additional resources will need to be mobilized before Somalia can reach the DP.[24] Mobilizing these resources, however, is likely to be a complicated and protracted process.[25]

41. In due course, Somalia should consider initiating the necessary steps to formally accept its obligations under Article VIII. Somalia still avails itself of the transitional arrangements of Article

[21] Given insufficient data and the arrears situation, the standard EBA-lite based assessments cannot be used.

[22] Eligibility will be formally confirmed when the Preliminary HIPC Document is discussed.

[23] Pillar 2 of the Transition Support Facility of the AfDB is available to provide resources for arrears clearance support to Somalia, Sudan and Zimbabwe on a first-come, first-served basis. Based on the prohibition of refinancing policy of the AfDB, only arrears to the Nigerian Trust Fund and African Development Bank (non-concessional window) can be covered from these resources.

[24] The other outstanding, unfunded protracted arrears case is Sudan. In 2005, the G8 committed to providing any extra resources necessary to fund these cases at the appropriate time. See *The G-8 Debt Cancellation Proposal and Its Implications for the Fund—Further Considerations* (9/19/2005), paragraphs 39 and 49.

[25] In the case of Liberia, securing the necessary financing commitments to clear arrears to the Fund took about two years, with significant efforts by the U.S. and the G-7, including about nine months to secure the financial resources from 102 member countries.

XIV; however, it no longer maintains restrictions under Article XIV, and the exchange restrictions and multiple currency practices identified at the time of the 1989 Article IV have been eliminated.

E. Authorities' Views

42. The authorities were broadly aligned with staff on the policy discussions. They appreciate the policy framework provided by successive SMPs, which has also helped coordinate efforts from other IFIs. They urged continued assistance from the Fund and other IFIs for capacity development, which has been critical to support policy and reform implementation. On specific policies, while they agreed with the proposed revenue and expenditure reforms, they pointed to the challenges that fiscal federalism issues pose for PFM, especially given current tensions with FMS. On the financial sector, the authorities noted that the pace and sequence of implementing the CBS reorganization plan will depend on the availability of donor support, which still needs to be clarified. The authorities also emphasized that the implementation of mobile money regulations will need to be phased, but agreed with staff to prioritize key elements, such as trust accounts to protect customers' holdings. On governance, the authorities noted that while the assessment methodology underpinning various third-party indicators, such as the World Bank's Doing Business Indicators or Transparency International, can be used to guide reforms to the business climate, they expressed a broader concern about the use of the use of these indicators, particularly perceptions-based indices, as they do not accurately reflect the efforts that have been made to address governance and corruption since 2012. On risks, while the authorities agreed with the overall thrust of the risk assessment, they suggested that the risk of terrorism or domestic conflict was now lower given the impact of recent campaigns that have resulted in a loss of territory by Al Shabaab and reduced their organizational capabilities.

43. More broadly, the authorities strongly argued that following several years of strong policy cooperation with the Fund and the World Bank, SMP IV should lead to the HIPC DP once they have established a successful six-month implementation record, expected by the second review. The authorities noted that they have demonstrated sustained cooperation with the Fund and the World Bank under very challenging circumstances, and their agreement on the SMP IV shows once again their commitment to continue building a strong track record of policy cooperation. They also pointed to their efforts to develop an appropriate PRS, reflecting a broad-based participatory process. In view of their efforts, and while recognizing that the HIPC process is benchmark-based, the authorities noted their hope that the international community will support the timely mobilization of the necessary resources to finance the Fund's share of debt relief, which would allow them to reach the DP in early 2020. They also emphasized that there is a risk of reform fatigue if debt relief becomes a distant goal. Finally, they noted that, in the context of their commitment to fully normalize relations with IFIs, they intend to start making token payments from January 2020, with the size to be discussed in more detail during the first review of SMP IV when the 2020 budget preparations will be more advanced. However, they emphasized that, given the significant social constraints and development challenges they face, especially in the face of the evolving food insecurity situation, these would necessarily need to be very small and should be informed by Somalia's still limited payment capacity, as well as relevant past precedents.

F. Program Modalities

44. SMP IV (May 2019–July 2020) principally focuses on extending reforms across the FGS and FMS to lay a firmer foundation for self-sufficiency over the longer term. The program comprises 18 structural benchmarks and envisages three reviews—July 2019, October 2019, and May 2020, and will continue to be anchored by indicative targets on the fiscal balance (taking account of the seasonality created by the timing of Ramadan), zero accumulation of domestic arrears, an increasing quarterly revenue floor, and a floor on net foreign assets (NFA) of the CBS. In the event of a shortfall in expected domestic revenues and grants, the floor on the fiscal balance will be adjusted to take account of any use of the fiscal buffer, provided it is in line with the guidelines and that there are no overruns in other non-priority spending items. The definition of NFA has been clarified to exclude the CBS-owned US dollar holdings in Mogadishu, which are categorized as operational balances. In addition, efforts will continue to strengthen financial sector stability and addressing residual gaps in the AML/CFT framework.

G. Data Issues

45. Improving macroeconomic and financial statistics will provide better information about developments and support policy making, and also support efforts to enhance transparency and governance. The authorities have made substantial progress on reporting monthly CPI and fiscal data, and quarterly data on the CBS and commercial banks' balance sheets, and cross-border financial flows via MTBs. An annual expenditure-based GDP estimate is also well developed. In the context of concurrent TA on balance of payments and government finance statistics additional priorities were outlined, including trade in goods, current transfers, FDI, travel data, and general government fiscal reporting (SB#2) and debt compilation. Staff welcomed these efforts and recommended the adoption of the amendments to the Statistical Bill as an important step to make further progress on statistics (SB#18). In the absence of production-based national accounts indicators, staff recommended the collection and analysis of micro-level data that would help with surveillance and the planned project to estimate a production-based GDP.

STAFF APPRAISAL

46. Somalia's economy continues to gradually recover but conditions remain extremely difficult for the vast majority of the population. These are reflected in challenging social conditions in a country where over 70 percent of the population lives in poverty, and access to health care and education is still limited. The outlook, although steadily improving, remains vulnerable to the still fragile security situation, climate shocks, domestic political tensions, and still developing institutional capacity.

47. Despite these headwinds, staff is encouraged by the authorities' determination to meet their commitments under successive SMPs. The authorities' consistent implementation of difficult reforms has helped maintain macroeconomic stability and build capacity in key institutions covering all economic and financial sectors. In view of their performance in meeting all indicative targets and all but one structural benchmark, Management approved the successful completion of SMP III.

48. At the same time, continued efforts are needed to improve economic resilience, increase employment and reduce poverty. In this regard, the timely and steadfast implementation of the broader reform agenda under SMP IV is critical to further improve economic conditions and help unlock the additional resources needed to address Somalia's development needs.

49. In particular, further fiscal efforts will help put Somalia more clearly on the path to fiscal self-sufficiency. Revenue efforts on taxes, non-taxes, and customs will need to be continued and expanded to a Federal level, including fiscal reporting. On PFM, commitment controls need to be fully implemented across all agencies, and improvements in procurement fully institutionalized. Over the longer term, implementing a durable fiscal federal framework, supported by effective natural resource management and revenue-sharing frameworks, will be critical to realize the potential of Somalia's natural resources, and support development more broadly.

50. Staff is encouraged by the authorities' further efforts to enhance financial sector stability. Bringing mobile money service providers within the oversight of the CBS is an essential element of that. Staff urges the implementation of the CBS re-organization plan as soon as possible, including adoption of the revised Strategic Plan. The further progress in strengthening the anti-money laundering and combating the financing of terrorism (AML/CFT) regime, including improvements in the implementation of large and suspicious transaction reporting requirements and efforts to build capacity at the FRC, is also welcome and needs to continue. However, the remaining gaps in AML/CFT legal and operational framework need to be addressed, notably by enacting the TFS bill and issuing the associated regulations.

51. Governance weaknesses and the risk of significant corruption need to be effectively addressed. Staff acknowledged the authorities' efforts to reduce these risks, including through reforms already achieved in strengthening PFM, enhancing fiscal transparency, strengthening financial sector oversight, and gains in the AML/CFT architecture. However, the reform momentum has to be continued and strengthened. Swift implementation of key legislation currently with Parliament—including on revenue, public financial management, audit, petroleum, and statistics—would promote better governance and help consolidate reform. Finally, enacting the draft anti-corruption law as soon as feasible would also be an important step forward.

52. Associated with these efforts, the authorities will need to increase efforts to support broad-based and inclusive economic growth. The new National Development Plan (NDP9) will provide an important blue print for that. Staff urges further consultation to narrow the plan's priorities and recommends these incorporate the key findings of the DINA and RRF. It is critical that the cost of the plan be estimated and a financing strategy to be considered. Furthermore, additional reforms are needed to support the business and investment environment, including developing physical and financial infrastructure, strengthening property rights, and the judicial process.

53. Efforts to build capacity will need to be sustained into the longer term as reforms broaden and deepen. Key areas will continue to include PFM and revenue mobilization, financial stability, AML-CFT compliance, governance, and macroeconomic statistics. However, moving forward, a focus on debt and natural resource management, the development of medium-term fiscal frameworks, and public investment management will also be needed.

54. Despite the reform efforts, Somalia's debt is unsustainable. Cognizant of the progress achieved by the authorities since 2012, staff supports the authorities' efforts to reach the HIPC decision point as soon as the benchmarks are met. This would unleash critical grant-based, development financing, key to securing Somalia's future. To start the process, staff finds that SMPIV meets the conditionality standard of an IMF upper credit tranche arrangements. Assuming the Executive Board's endorsement, Somalia would need to demonstrate satisfactory performance under the program for at least six months to meet the track record benchmark under HIPC. Further, staff encourages the authorities to complete NDP9, which would meet the requirements of an interim poverty reduction strategy, and continue efforts to secure the necessary financing assurances from international partners for HIPC relief and IFI arrears clearance.

55. Risks ahead are on the downside. Key among them are political risks associated with the elections and political developments, particularly given advancing critical reforms will require constructive cooperation between the FGS and the FMS. While this may be challenging, the risk of inaction could undermine Somalia's cohesion and stability. In addition, slow progress by the international community on mobilizing the necessary financial resources, especially from the membership for the IMF's portion of HIPC debt relief, could delay reaching the HIPC DP.

56. It is proposed that the next Article IV Consultation with Somalia be held on the standard 12-month consultation cycle.

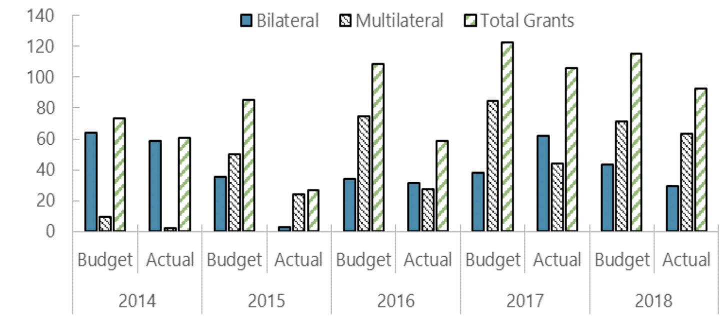
Box 1. Smoothing Revenue and Spending Cycles–Benefits of a Fiscal Buffer

Background. Fiscal buffers help countries smooth budgetary revenue and spending cycles, strengthen fiscal discipline, manage debt, and limit domestic arrears accumulation.

Benefits. Given its dependence on concentrated revenue sources, Somalia would benefit from a well-managed fiscal buffer:

- First, a large share of budget revenues from donor grants which have historically been volatile.
- Second, paying public sector salaries and security costs on time is key to maintaining the government's operational capacity. In particular, shortfalls in revenues in 2013-2016 resulted in arrears accumulation and increased operational vulnerabilities.

Somalia Grants Revenue-budget VS Actual, 2014-2018
(USD million)



Source: IMf Staff

Tentative guidelines. These should be tailored to Somalia unique circumstances, and caution exercised when drawing inferences from other countries' models. Specific guidelines have been discussed with the authorities but not yet formally adopted:

- **Usage.** Triggered only by revenue short-falls that would affect priority spending (wages and allowance of civil service and security).
- **Size.** Maximum (ceiling) would be two-months of total FGS compensation plus the food component of goods and services (G&S) for the SNA.
- **Replenishment trigger.** Minimum (floor) would be one-month of total FGS compensation plus food component of G&S for SNA.
- **Management and reporting.** (i) primary oversight and management would lie with the Prime Minister and Minister of Finance; (ii) monitoring of the buffer would be undertaken by the Cash Management Committee, who would make recommendations on its use to the Minister of Finance and Prime Minister; and (iii) monthly financial reporting in the SMP.

Box 2. Progress and Next Steps Towards Fiscal Federalism

Achieving fiscal federalism is a high-priority policy objective. Decades of civil war and complex clan politics have left Somalia fragmented, with a federal model adopted to support the peace process. The 2012 Provisional Constitution (Articles 42(h), 50 (f), 54 and 125) allows for the establishment of a Federal State but does not define intergovernmental fiscal relations nor authority over fiscal resources, which is left to FGS and FMS agreement. Clarifying these authorities is key to broadening the revenue base, improving accountability, and supporting common policies and better coordinated public service delivery.

Substantial progress has been achieved since 2012: (i) the National Security Council and the Inter-governmental Fiscal Forum have been established to further dialogue; (ii) a natural resource sharing agreement was reached in June 2018 ("Baidoa agreement") and a preliminary fisheries revenue-sharing agreement in March 2019; and (iii), Revenue Harmonization and Revenue Administration Bills, and a Statistical Bill are currently before the Parliament.

However, further progress faces several critical macroeconomic and structural challenges:

- **Coordination issues.** There is limited coordination and overlap of responsibility in critical socio-economic areas, such as health, education, and transport. The cost of the security sector crowds-out public service delivery across states.
- **Insufficient revenues.** Both FGS and FMS' rely on donor financing to meet their spending needs. At the same time, FGS transfers to FMS are constrained by limited domestic revenues and low and volatile budgetary grants.
- **Reporting.** There is no common fiscal reporting framework from FMS. This, together with the lack of a consolidated fiscal account for Somalia makes it difficult to monitor and assess general government operations across FGS and FMS levels.

Going forward, a credible and solid fiscal federal framework will be needed to cement state-building and support longer-term fiscal sustainability. The approach needs to be tailored to Somalia's socio-economic circumstances, and properly sequenced and prioritized:

- Operationalize a common budget classification and accounting framework, guided by the 2014-GFSM, across FGS and FMS, and ensure that the annual budgets for FGS and FMS are consistent with common underlying chart of accounts.
- Clarify revenue generation assignments and spending responsibilities that are appropriately sequenced.
- Strengthen FGS and FMS revenue collection and PFM capacity across the FGS and FMS.
- Reform the transfer system to make it consistent with delivering a minimum standard of public services.

Box 3. AML/CFT Reforms: Progress and Next Steps

Background and recent developments. Since 2016, when the landmark AML/CFT Law was passed, the authorities have made great strides in developing the legal and operational framework to improve AML/CFT compliance, including establishing the Financial Reporting Center (FRC, Somalia's FIU) and issuing regulations. The focus so far has been on money transfer bureaus (MTBs), which conduct the vast majority of cross-border transactions. Submission of the *Targeted Financial Sanctions Law t*o Parliament in 2018 represents the most recent reform to the legal framework. On the operational side, the FRC has greatly improved capacity, guided by a three-year strategic plan. It has hired staff, started renovating its building, developing basic IT resources, and established channels to reporting entities (e.g., training, and disseminating reporting guidelines and establishing National Compliance Forum for reporting entities). Reporting of large transactions started in the third quarter of 2018 and improved in early 2019 reflecting a strengthening of internal risk controls at financial institutions. Finally, in late 2018, Somalia joined the regional MENAFAFT. Together, these reforms have culminated in improved AML/CFT compliance.

Next steps to support AML/CFT compliance. To guide the next phase of reforms, the authorities have developed an AML/CFT Action Plan in coordination with IMF and World Bank. This plan identifies key reforms needed over the short- to medium term. Several urgent reforms are included in the new SMP IV:

- In the context of a formalizing financial sector, AML/CFT regulations will be expanded to other financial institutions, including mobile money operators (SBs13 and 11).
- Once the *Targeted Financial Sanctions Regulations* Law is passed by Parliament, the implementing regulations, already developed with IMF TA, will be issued (SB15).
- Capacity at the FRC will continue to be strengthened, focusing on physical infrastructure, IT systems, secure data collection and storage, and data analysis capabilities (SB16).

Other important reforms that are planned include:

- Improve Know-Your-Customer framework by rolling out a national digital ID with World Bank assistance by early 2020.
- Improve inter-agency coordination and communication by developing MOUs and an operation sub-committee of the Somalia National AML/CFT Committee (NAMLC).
- Begin preparations for a county level risk assessment under MENAFATF within two years, thereby complying with FATF's recommendation.

Box 4. Governance Assessment and Reforms

The IMF Board adopted the policy framework outlined in "Review of 1997 Guidance Note on Governance-A proposed Framework for Enhanced Fund Engagement".[1] The paper articulates the principles that underpins the Fund's engagement on governance issues to promote more systematic, effective, candid, and evenhanded engagement with member countries regarding governance vulnerabilities, including corruption, that are judged to be macro-critical. The framework has four elements: assess the nature and severity of governance vulnerabilities; assess the macroeconomic implications of governance vulnerabilities; provide policy advice and capacity development support where Fund engagement is warranted; and measures to prevent private actors from offering bribes or providing services that facilitate concealment of corruption proceeds.

Available information suggests that Somalia has widespread governance weaknesses and perceptions of severe corruption. However, there are significant information gaps that makes it difficult to conduct a full assessment. Third party indicators and reports, (e.g. World Bank's World Governance Indicators, Transparency International, 2016 UN Monitoring Group on Somalia and Eritrea, and Maplecroft) reflect the severity of perceptions. In the World Bank's World Governance Indicators, all of Somalia's sub-indicators rate in the lower end of the -2.5 to 2.5 absolute scale (Figure 2). At the same time, continuous improvements in voice and accountability and political stability have been seen since 2012.

Somalia is a fragile state with significant capacity constraints, which contributes to its governance weaknesses. Institutional and human capital is weak, and poverty is widespread, which contributes to the risk of corruption. For example, the government's recent efforts at biometric registration has revealed an inflated public payroll, which they are in the process of rectifying.

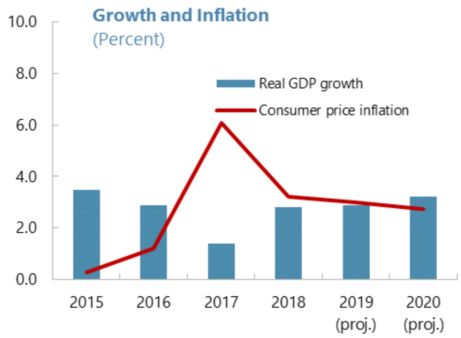
The authorities have identified steady, incremental progress on governance as one of the key pillars of national development. While not directly targeting governance and corruption weaknesses, the reform efforts undertaken by the authorities under the SMP benchmarks have led to improved governance practices and transparency. The Fund's TA has supported these reforms (See Annex I for a discussion on IMF capacity development). In addition, the authorities are also directly addressing corruption directly through their work on an anti-corruption strategy (below).

- **Fiscal governance.** The FGS is making gains in revenue mobilization. Significant effort has been made on transparent fiscal reporting, expenditure controls, and procurement.
- **Financial sector governance.** The CBS has accepted a restructuring plan, has improved accounting, financial reporting and audit functions and is also anticipating an IMF Safeguards Assessment in the near future. Financial reporting by, and regulation of, financial institutions has also made great strides. AML/CFT compliance has improved and reforms here are accelerating (see Box 3 on AML/CFT reforms).
- **Anti-corruption.** A national anti-corruption strategic plan is being developed by Ministry of Justice to coordinate efforts across the government. Anti-corruption and audit bills have been submitted to Parliament, and once the relevant legislation is passed, an anti-corruption commission will be formed.
- **Market regulation.** Market regulation is relatively nascent. Legislation was passed and the National Communication Agency established to regulate the telecommunications industry. Company and foreign investment bills have been submitted to Parliament.
- **Rule of law.** The country's dispute resolution system continues to be a hybrid of the legal framework the pre-existed the Federal Republic of Somalia (based on the Italian system), shariah law, and the customary (Xeer) system. The authorities indicate that the customary arbitration system is commonly used and has been effective in addressing typical, small-sized property rights and contractual disputes. The UNDP is supporting the government's efforts to improve the national integrity system and policing.

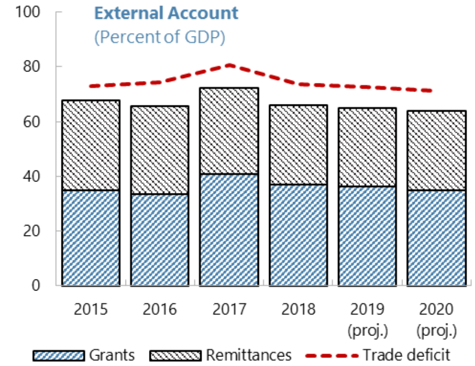
[1] IMF, "Review of the 1997 Guidance Note on Governance–A proposed Framework for Enhanced Fund Engagement", April 2018. https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/04/20/pp030918-review-of-1997-guidance-note-on-governance

Figure 1. Somalia: Selected Economic and Financial Indicators, 2015–20

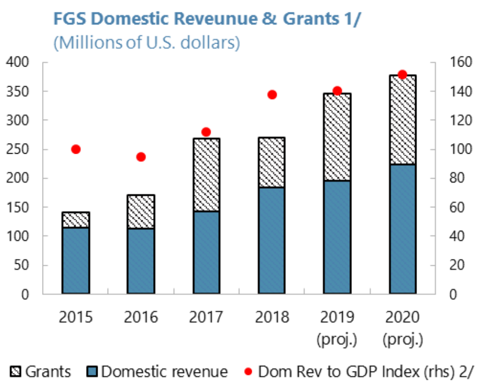
Growth is recovering following the 2017 drought.



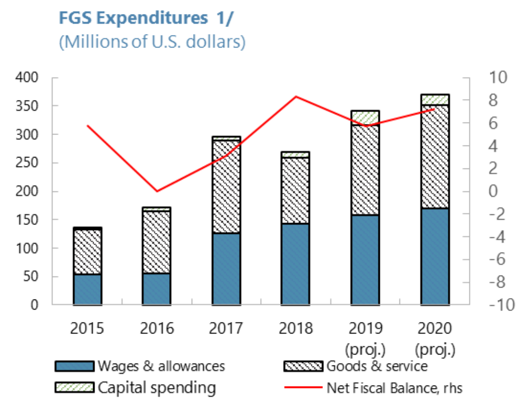
The large trade deficit is financed by remittances and grants.



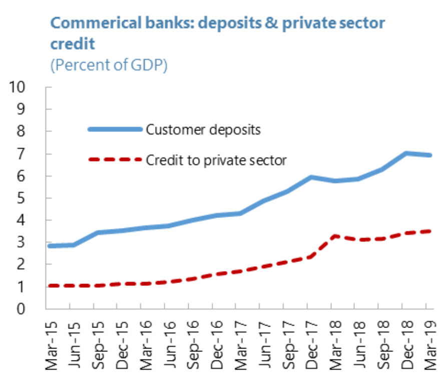
Domestic revenue mobilization continues to stengthen ...



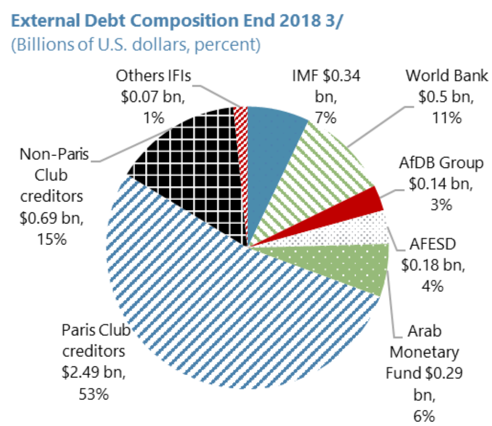
... supporting higher discretionary spending and fiscal stability.



Financial sector intermediation is growing albeit from a low base.



Somalia's large external debt of US$ 4.7 billion is mostly held by Paris Club and multilateral creditors.

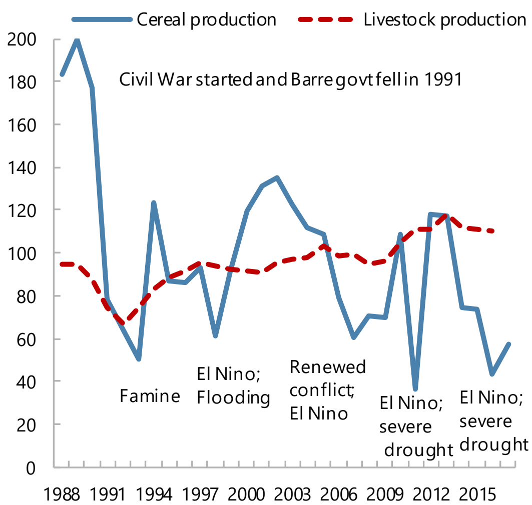


Sources: Somali authorites; and IMF staff estimates.
1/ Estimates through 2020.
2/ Index of total Domestic Revenue to GDP with base year of 2016.
3/ AfDB Group includes AfDB, AfDF and Nigeria Trust Fund. AFESD stands for Arab Fund for Economic and Social Development and AMF stands for Arab Monetary Fund.

Figure 2. Somalia: Structural Issues and Governance

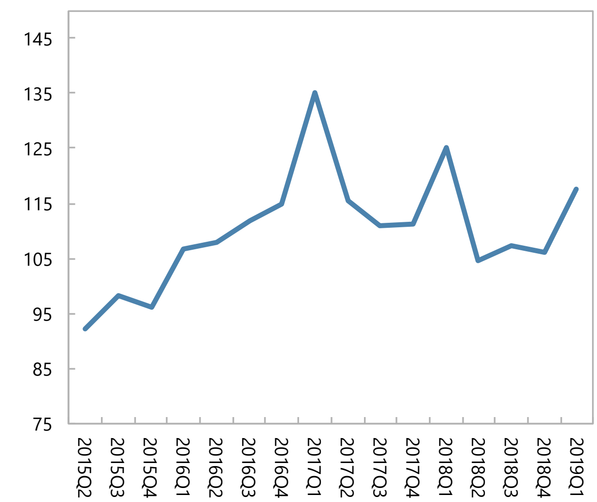
Climate and conflict threatens food security,...

Domestic Food Production
(Index 2004-2006 avg. = 100)



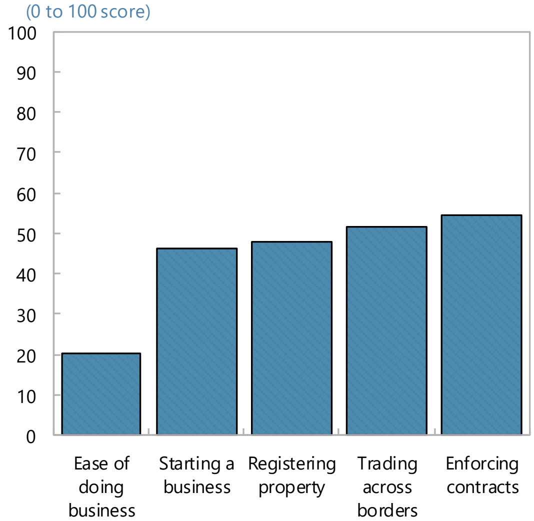
...and water scarcity is a challenge during drought.

Average Potable Water Prices
(Somali schilling per liter)



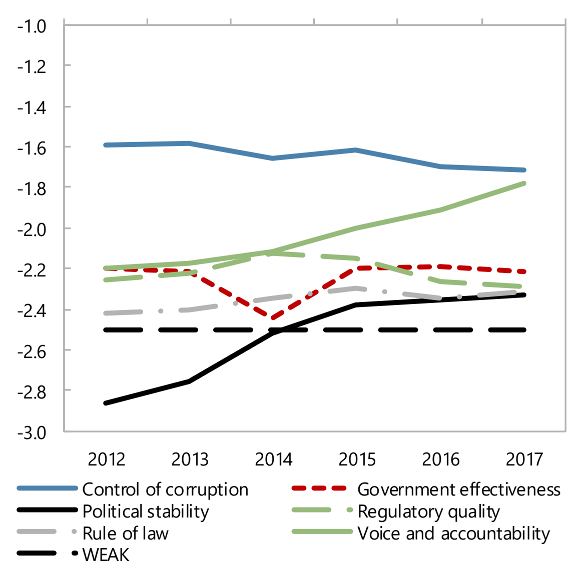
Structural reforms are needed to boost growth...

Doing Business Indicators
(0 to 100 score)



...including, significant improvements to governance.

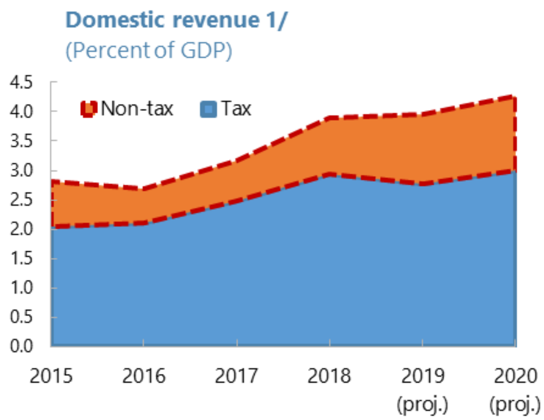
World Governance Indicators
(-2.5 weak to 2.5 strong)



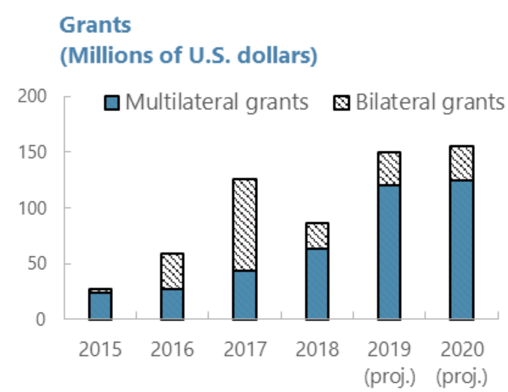
Source: World Bank and Famine Early Warning Systems Networ.

Figure 3. Somalia: Fiscal Sector Developments, 2015–20

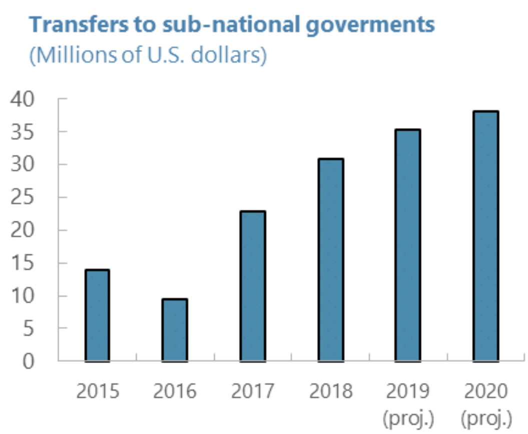
Non-tax revenue remains an important component …



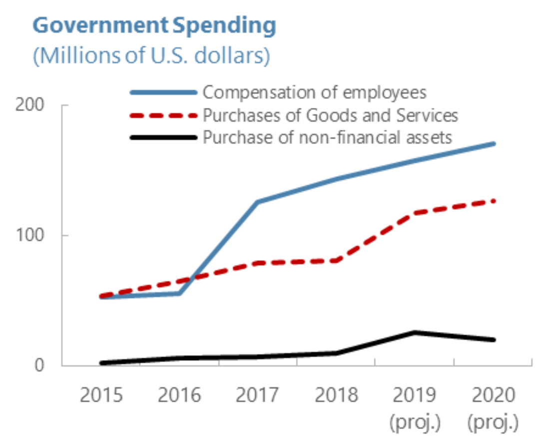
… grants continue to be volatile …



… transfers to sub-national governments continues to increase …



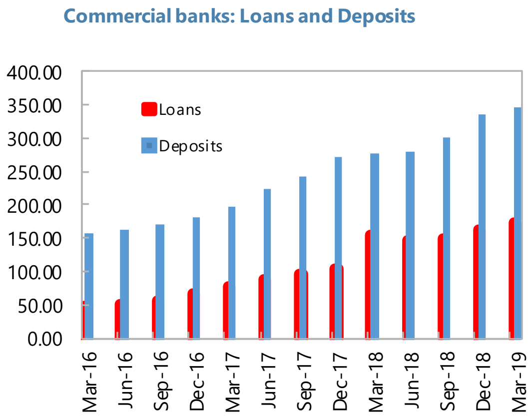
… spending on goods and services and on capital expenditure is also increasing.



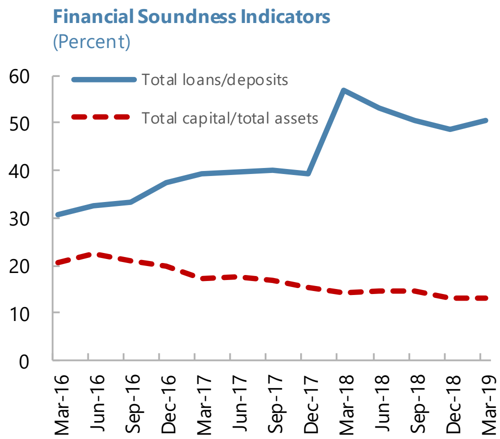
Sources: Somali authorites and IMF staff estimates.
1/ Reflects only tax revenue of the Federal Government of Somalia (collected mainly in Mogadishu). The GDP series cover the entire country (i.e., the Federal state, the Federal Member States, as well as Somaliland).

Figure 4. Somalia: Financial Sector Developments 1/

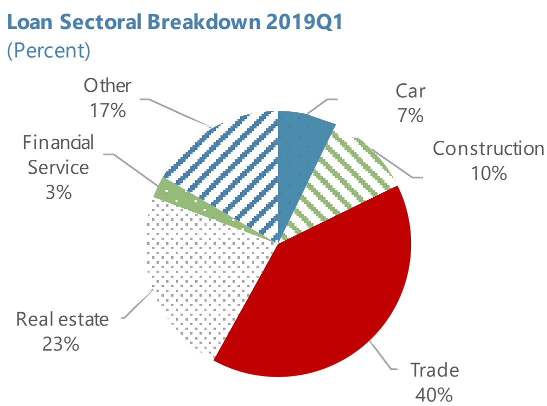
Loans to the private sector have increased rapidly, driven by depsit growth...



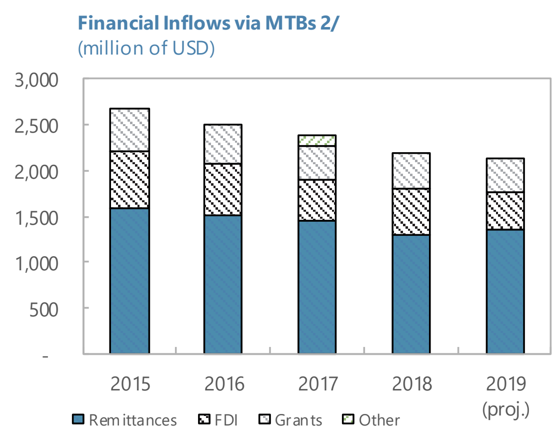
...but liquidity and capital ratios remain robust.



Loans to the private sector are concentrated in trade, real estate, and construction sectors.



MTBs are main conduit to external inflows, but their share appears to be declining.



Sources: Somali authorites and IMF staff estimates.
1/ Through March 2019.
2/ 2017 and 2019 are estimated based on 2017 (Q2-Q4) and 2019Q1 data, respectively.

Table 2. Somalia: Selected Economic and Financial Indicators, 2015–22

(Main Export: Livestock)

	Est.				Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022
National income and prices								
Nominal GDP in millions of U.S. dollars 1/	4,049	4,198	4,509	4,721	4,958	5,218	5,507	5,816
Real GDP, annual percentage change	3.5	2.9	1.4	2.8	2.9	3.2	3.5	3.5
Per capita GDP in U.S. dollars	310	313	327	332	339	347	357	368
Consumer prices (e.o.p., percent change)	0.3	1.2	6.1	3.2	3.0	2.7	2.3	2.2
	(Percent of GDP)							
Central government finances 2/								
Revenue and grants	3.5	4.1	6.0	5.7	6.9	7.2	7.4	7.7
of which:								
Grants	0.7	1.4	2.8	1.8	3.0	2.9	2.9	2.8
Expenditure, *of which:*	3.3	4.1	6.6	5.7	6.9	7.0	7.2	7.5
Compensation of employees 3/	1.3	1.3	2.8	3.0	3.2	3.3	3.4	3.5
Purchase of non-financial assets	0.1	0.2	0.1	0.2	0.5	0.4	0.4	0.3
Overall fiscal balance	0.0	0.0	-0.6	0.0	0.1	0.2	0.2	0.2
Drawdown of government deposits	0.0	0.0	0.7	0.1	0.0	0.0	0.0	0.0
Overall balance, net	0.1	0.0	0.1	0.2	0.1	0.2	0.2	0.2
Stock of domestic arrears	1.7	1.8	1.5	1.5	1.3	1.1	0.8	0.6
	(Millions of U.S. Dollars)							
Central bank summary balances								
Foreign assets (gross)	68.6	60.9	89.2	118.9	…	…	…	…
Gross reserves of the central bank	42.6	41.8	48.1	51.1				
Net foreign assets, excl. IMF 4/	21.6	21.6	24.0	26.2	…	…	…	…
CBS liabilities to government	7.2	5.4	29.3	39.5	…	…	…	…
	(Percent of GDP)							
Balance of payments								
Current account balance	-6.0	-9.4	-9.0	-8.3	-8.3	-8.0	-8.0	-8.9
Trade balance	-72.8	-74.5	-80.5	-73.7	-72.6	-71.1	-71.4	-70.6
Exports of goods and services	25.6	25.4	22.1	25.9	26.8	26.5	26.2	27.0
Imports of goods and services	98.5	99.9	102.6	99.6	99.4	97.6	97.6	97.6
Remittances	32.9	32.5	31.5	29.2	28.8	29.1	29.3	28.8
Grants	34.9	33.3	40.8	36.9	36.3	34.7	34.7	33.7
Foreign Direct Investment	7.4	7.9	8.2	8.6	9.0	8.9	9.0	9.0
External debt	108.2	105.3	103.3	99.5	99.5	99.5	99.4	99.3
Market exchange rate (SOS/USD, e.o.p.)	22,285	24,005	23,605	24,475	…	…	…	…

Sources: Somali authorities; and Fund staff estimates and projections.

1/ There has been a significant downward revision to GDP compared to the last staff report that affects all ratios to GDP.

2/ Budget data for the Federal Government of Somalia. Fiscal operations are recorded on a cash basis. GDP data cover the entire territory of Somalia.

3/ Increase in compensation of employees in 2017 reflects the bringing onto budget military spending related to the loss of an off-budget grant.

4/ Program definition per TMU ¶9.

Table 3a. Somalia: Federal Government Operations, 2016–22 1/

(Millions of U.S. dollars)

	2016	2017	2018				2019				2020	2021	2022
	Dec.	Dec	Dec.				March		Dec.		Dec.	Dec.	Dec.
	Est.	Est.	Budg.	Rev. Budg.	Prog.	Est.	Prog.	Prel.	Budg.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	171.1	268.5	274.6	297.1	261.9	270.2	72.1	58.5	340.1	344.2	373.7	409.3	449.5
Revenue	112.7	142.6	156.0	172.5	165.0	183.4	47.0	54.0	189.9	196.3	220.9	251.5	286.6
Tax revenue	88.6	112.0	127.2	127.9	124.6	138.9	35.5	36.2	135.2	137.7	154.4	175.8	200.3
Tax on income, profit, and capital gains	2.4	3.4	6.9	7.2	5.4	8.6	1.5	2.1	9.1	9.1	10.3	11.8	13.4
Taxes on goods and services	2.9	8.9	17.6	19.4	18.5	22.1	5.3	5.9	22.0	23.5	26.7	30.4	34.6
Taxes on international trade and transactions	76.3	92.8	97.0	94.5	94.0	100.3	26.8	25.3	97.0	98.0	109.3	124.4	141.8
Other taxes	7.0	6.9	5.7	6.8	6.7	7.9	1.9	2.9	7.1	7.1	8.1	9.2	10.5
Non-tax revenue	24.1	30.6	28.8	44.7	40.4	44.5	11.5	17.8	54.7	58.6	66.5	75.7	86.3
Grants 2/	58.4	125.9	118.6	124.6	96.9	86.7	25.0	4.5	150.2	147.9	152.8	157.7	162.9
Bilateral 3/	31.3	81.8	61.1	43.5	44.1	23.5	11.4	0.0	30.0	30.0	31.0	32.0	33.0
Multilateral	27.1	44.1	57.5	81.1	52.8	63.3	13.6	4.5	120.2	117.9	121.8	125.8	129.9
Total expenditure 4/	171.1	295.4	274.6	297.1	261.9	268.4	69.0	42.0	340.1	340.5	363.6	399.2	436.5
Current	165.1	239.1	259.1	281.6	250.9	258.5	66.1	40.3	313.7	315.3	343.6	377.4	421.5
Compensation of employees 5/	55.1	125.4	131.2	145.3	131.2	143.1	35.0	28.9	154.1	157.4	169.8	184.6	206.2
Use of goods and services	64.4	79.0	93.3	96.7	93.3	80.6	24.9	10.6	117.3	117.1	126.3	137.4	153.4
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	9.4	22.9	23.7	33.3	20.6	30.1	5.5	0.0	37.9	35.3	38.1	41.4	46.3
Contingency	2.1	4.0	2.5	4.4	2.5	4.1	0.7	0.0	2.5	2.3	2.5	2.7	3.0
Repayment of arrears and advances	34.1	7.8	8.4	1.5	3.3	0.0	0.1	0.4	1.5	2.5	6.3	10.5	11.8
Purchase of non-financial assets	5.9	6.3	15.6	15.5	11.0	9.9	2.9	1.7	26.4	25.2	20.0	21.7	15.0
Transfer to government deposits held abroad 6/	0.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	0.0	-26.9	0.0	0.0	0.0	1.8	3.0	16.5	0.0	3.7	10.0	10.1	13.0
Financed by:													
Draw down of government deposits held abroad	0.0	30.0				6.1		0.0		0.0	0.0	0.0	0.0
Overall fiscal balance, net	0.0	3.1	0.0	0.0	0.0	7.9	3.0	16.5	0.0	3.7	10.0	10.1	13.0
Memorandum items													
Accumulation of domestic arrears 7/	42.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears 6/	76.5	68.8	60.4	67.2	65.4	68.8	65.4	63.5	65.7	63.5	57.2	46.7	34.9
Government deposits held abroad 6/	0.0	20.0				13.9		13.9		13.9	13.9	13.9	13.9

Sources: Somali authorities; and Fund staff estimates and projections.

1/ The fiscal operations are recorded on a cash basis. Positions shown are cumulative year to date.

2/ Includes only donor support provided to the federal government through treasury accounts at the Central Bank of Somalia.

3/ Bilateral grants revenue for 2017 includes US$50 million later transferred to create Government deposits held abroad.

4/ Advances and transfers to MDAs, and grants to other organizations not expensed are not included.

5/ Increase in compensation of employees in 2017 reflects the bringing onto budget military spending related to the loss of an off-budget grant.

6/ Transfer to government deposits to meet emergency needs, FGS deposits held abroad for financing purposes.

7/ The figure includes only wages, salaries, and allowances.

Table 3b. Somalia: Federal Government Operations, 2016–22 1/

(Percent of GDP)

	2016	2017		2018				2019		2020	2021	2022
	Est.	Prog.	Est.	Budg.	Rev. Budg.	Prog.	Est.	Budg.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	4.1	5.1	6.0	5.8	6.3	5.5	5.7	6.9	6.9	7.2	7.4	7.7
Revenue	2.7	3.1	3.2	3.3	3.7	3.5	3.9	3.8	4.0	4.2	4.6	4.9
Tax revenue	2.1	2.4	2.5	2.7	2.7	2.6	2.9	2.7	2.8	3.0	3.2	3.4
Tax on income, profit, and capital gains	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	0.1	0.1	0.2	0.4	0.4	0.4	0.5	0.4	0.5	0.5	0.6	0.6
Taxes on international trade and transactions	1.8	2.1	2.1	2.1	2.0	2.0	2.1	2.0	2.0	2.1	2.3	2.4
Other taxes	0.2	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.2
Non-tax revenue	0.6	0.6	0.7	0.6	0.9	0.9	0.9	1.1	1.2	1.3	1.4	1.5
Grants 2/	1.4	2.1	2.8	2.5	2.6	2.1	1.8	3.0	3.0	2.9	2.9	2.8
Bilateral 3/	0.7	1.3	1.8	1.3	0.9	0.9	0.5	0.6	0.6	0.6	0.6	0.6
Multilateral	0.6	0.8	1.0	1.2	1.7	1.1	1.3	2.4	2.4	2.3	2.3	2.2
Total expenditure 4/	4.1	5.1	6.6	5.8	6.3	5.5	5.7	6.9	6.9	7.0	7.2	7.5
Current	3.9	5.0	5.3	5.5	6.0	5.3	5.5	6.3	6.4	6.6	6.9	7.2
Compensation of employees 5/	1.3	2.7	2.8	2.8	3.1	2.8	3.0	3.1	3.2	3.3	3.4	3.5
Use of goods and services	1.5	1.6	1.8	2.0	2.0	2.0	1.7	2.4	2.4	2.4	2.5	2.6
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	0.2	0.5	0.5	0.5	0.7	0.4	0.6	0.8	0.7	0.7	0.8	0.8
Contingency	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1
Repayment of arrears and advances	0.8	0.2	0.2	0.2	0.0	0.1	0.0	0.0	0.1	0.1	0.2	0.2
Purchase of non-financial assets	0.1	0.1	0.1	0.3	0.3	0.2	0.2	0.5	0.5	0.4	0.4	0.3
Transfer to government deposits held abroad 6/	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	0.0	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2
Draw down of government deposits held abroad	0.0	0.0	0.7	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance, net	0.0	0.0	0.1	0.0	0.0	0.0	0.2	0.0	0.1	0.2	0.2	0.2
Memorandum items												
Accumulation of domestic arrears 7/	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears 7/	1.8	1.5	1.5	1.3	1.4	1.4	1.5	1.3	1.3	1.1	0.8	0.6
Government deposits held abroad 6/	0.0	0.0	0.4				0.3		0.3	0.3	0.3	0.2

Sources: Somali authorities; and Fund staff estimates and projections.

1/ The fiscal operations are recorded on a cash basis. All ratios are calculated based on current GDP estimates and projections. GDP data are for the entire territory of Somalia while fiscal data are for the central government alone.

2/ Includes only donors' support provided to the Federal government through treasury accounts at the Central Bank of Somalia.

3/ Bilateral grants revenue for 2017 includes US$50 million later transferred to create Government deposits held abroad.

4/ Advances to MDAs and grants to other organizations are not included.

5/ Increase in compensation of employees in 2017 reflects the bringing onto budget military spending related to the loss of an off-budget grant.

6/ Transfer to government deposits to meet emergency needs, FGS deposits held abroad for financing purposes.

7/ The figure includes only wages, salaries, and allowances.

Table 4. Somalia: Summary Accounts of the Central Bank, 2015–2019 1/

(Thousands of U.S. dollars)

	2015	2016	2017	2018				2019
	Dec.	Dec.	Dec.	March	June	Sept.	Dec.	March
	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.
Net Foreign Assets (NFA)	(324)	(321)	(317)	(306)	(302)	(297)	(281)	(275)
Foreign assets	69	61	89	110	101	103	119	125
SDRs (net)	(39)	(38)	(40)	(41)	(40)	(40)	(40)	(40)
SDR holdings	25	25	26	26	25	25	25	25
Gold 2/	17	17	19	21	21	21	21	21
Foreign exchange	13	11	34	32	35	39	41	37
of which:								
Grants	5	4	28	27	30	29	35	32
Cash (US$) held locally	13	8	11	28	19	18	32	43
Foreign liabilities	392	382	407	416	403	400	400	400
IMF obligations	328	319	340	348	338	335	335	335
SDR allocations	64	62	66	68	65	65	65	65
Net Domestic Assets	377	366	380	375	372	368	354	349
Domestic assets	389	379	424	433	421	420	419	420
of which:								
Claims on government (net IMF position) 3/	367	357	381	389	378	375	375	375
Domestic liabilities	11	13	45	59	50	52	65	70
Government	7	5	29	43	35	34	40	46
of which:								
Grants	5	4	28	27	30	29	35	32
Other domestic liabilities	4	7	15	15	14	17	26	24
of which:								
Commercial bank reserves 4/	…	…	…	7	10	10	11	14
Other commercal bank deposits	…	2	6	3	2	5	14	8
Equity and reserves	54	45	62	69	70	71	73	75
of which:								
Property and equipment	21	22	43	43	44	44	44	44
Memorandum items:								
Changes (y-o-y) in:								
Foreign assets (percent)	9	(11)	47	52	57	56	33	14
Domestice assets (percent)	(3)	(2)	12	26	19	10	(1)	(3)
Gross reserves of the central bank	43	42	48	51	50	47	51	51
NFA (program definition) 5/	22	22	24	25	25	25	26	25
Somali shillings per US dollar (eop)	22,285	24,005	23,605	23,405	24,305	24,455	24,475	24,475

Sources: Central Bank of Somalia (CBS); and Fund staff estimates.

1/ Based on incomplete financial data.

2/ Gold price as defined in the TMU ¶9.

3/ Assumes a claim on the FGS Ministry of Finance composed of (1) the IMF obligations and (2) the net negative SDR position.

4/ Prudential regulations require that commcercial banks hold $1.5 of the minimum $7 million capital requirement at the CBS; MTBs must hold $60,000 each at the

5/ Program definition per TMU ¶9. New information on the nature of CBS reserves gathered during the May 2019 discussions resulted in a revision of NFA for 2018.

Table 5. Somalia: Consolidated Commercial Banks Balance Sheet, 2015–2019 1/

(Millions of U.S dollars)

	2015	2016	2017	2018	2019
	Dec.	Dec.	Dec.	Dec.	March
	Est.	Est.	Est.	Est.	Est.
Total assets	194	234	345	415	426
Cash on Hand	64	63	71	115	107
Balances with Central Bank	0	1	7	18	15
Deposits with other banks 2/	33	41	58	23	26
Credit to private sector	45	66	105	161	174
Investment 3/	10	13	9	53	55
Other Assets 4/	42	50	95	44	48
Total liabilities	148	182	292	362	372
Customer Deposits	143	177	267	332	344
Financing Liabilities	0	1	10	2	2
Other Liabilities	5	4	15	27	25
Equity	47	52	53	53	54
Memorandum items:					
Credit to private sector					
share of total assets (percent)	23	28	30	39	41
share of GDP (percent)	1	2	2	3	4
y-o-y changes (percent)	…	46	59	53	13
Total capital to assets (percent)	…	22	15	13	13
Loan to deposits (percent)	…	37	39	49	51
Liquid assets to total assets (percent)	…	…	…	37	34

Sources: Central Bank of Somalia; and Fund staff estimates.

1/ Quarterly financial data has been reported since March 2015 and is incomplete.

2/ Primarily deposits and placements with non-resident banks and other financial institutions.

3/ Securities, associations and joint ventures, and property.

4/ Fixed, intangible and other assets.

Table 6. Somalia: Monetary Survey 2015–2019 1/

(Thousands of U.S. dollars)

	2015	2016	2017	2018	1Q2019
	Est.	Est.	Est.	Est.	Est.
Net foreign assets	-299	-286	-272	-258	-251
Claims on nonresidents	93	96	134	142	148
Central Bank	63	58	81	122	127
of which gross reserves of the CBS	43	43	51	54	51
Liabilities to Nonresidents	392	382	407	400	400
Net Domestic Claims	464	533	607	697	701
Net Claims on Central Government	350	349	355	355	345
of which CBS claim on government (IMF net position)		357	381	375	375
Claims on private sector	45	66	105	161	174
Other net claims not included in broad money	69	118	147	181	181
Capital and Reserves	43	71	83	84	84
Other items, net	5	4	6	0	-1
Broad Money 2/	144	178	270	334	346
Currency in Circulation	1	0	0	0	0
Transferable Deposits	143	178	269	334	345
Memorandum items:					
SOS per U.S. dollar (end of period)	22,285	24,005	23,605	24,475	24,475

Sources: International Financial Statistics and IMF Staff.

1/ Preliminary estimates given incomplete financial data.

2/ Data does not yet include balances held with MNOs.

Table 7a. Somalia: Balance of Payments, 2015–22
(Millions of U.S. dollars)

	Prel.				Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022
Current account balance	-243	-397	-405	-391	-409	-417	-442	-516
Overall trade balance	-2,949	-3,127	-3,630	-3,478	-3,599	-3,710	-3,931	-4,105
Goods balance	-1,984	-2,204	-2,740	-2,544	-2,598	-2,649	-2,785	-2,963
Exports of goods, f.o.b.	683	657	463	675	764	803	847	910
Imports of goods, f.o.b.	-2,667	-2,861	-3,202	-3,219	-3,362	-3,452	-3,632	-3,874
Services, net	-965	-923	-890	-934	-1,000	-1,061	-1,145	-1,142
Service credits	355	410	532	549	565	581	597	659
Service debit	-1,320	-1,334	-1,422	-1,483	-1,566	-1,642	-1,742	-1,801
Income (net)	-29	-30	-33	-34	-36	-38	-40	-42
Receipts	38	39	42	44	46	49	51	54
Payments	-67	-69	-75	-78	-82	-86	-91	-96
Current transfers (net)	2,746	2,761	3,257	3,121	3,225	3,331	3,529	3,632
Private (net), including remittances	1,331	1,364	1,420	1,379	1,427	1,521	1,616	1,674
Official	1,414	1,397	1,837	1,742	1,798	1,810	1,913	1,958
Capital account and financial account	262	372	435	429	409	417	442	516
of which:								
Foreign direct investment	300	330	369	408	447	464	494	526
Overall balance and error and omissions	19	-25	30	38	0	0	0	0
Change in central bank reserves (- = increase)	-19	25	-30	-38	…	…	…	…
Memorandum items:								
Nominal GDP	4,049	4,198	4,509	4,721	4,958	5,218	5,507	5,816
External public debt	4,380	4,420	4,657	4,697	…	…	…	…

Sources: Authorities, Direction of Trade Statistics, UN Comtrade, and Fund staff estimates and projections.

Table 7b. Somalia: Balance of Payments, 2015–22

(Percent of GDP, unless otherwise indicated)

	Prel.				Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022
Current account balance	-6	-9	-9	-8	-8	-8	-8	-9
Overall trade balance	-73	-74	-81	-74	-73	-71	-71	-71
Goods balance	-49	-52	-61	-54	-52	-51	-51	-51
Exports of goods, f.o.b.	17	16	10	14	15	15	15	16
Imports of goods, f.o.b.	-66	-68	-71	-68	-68	-66	-66	-67
Services, net	-24	-22	-20	-20	-20	-20	-21	-20
Service credits	9	10	12	12	11	11	11	11
Service debit	-33	-32	-32	-31	-32	-31	-32	-31
Income (net)	-1	-1	-1	-1	-1	-1	-1	-1
Receipts	1	1	1	1	1	1	1	1
Payments	-2	-2	-2	-2	-2	-2	-2	-2
Current transfers (net)	68	66	72	66	65	64	64	62
Private (net), including remittances	33	32	31	29	29	29	29	29
Official	35	33	41	37	36	35	35	34
Capital account and financial account	6	9	9	8	8	8	8	9
of which:								
Foreign direct investment	7	8	8	9	9	9	9	9
Overall balance and error and omissions	0	-1	1	1	0	0	0	0
Change in central bank reserves (- = increase)	0	1	-1	-1	…	…	…	…
Memorandum items:								
Nominal GDP (Million of U.S. dollars)	4,049	4,198	4,509	4,721	4,958	5,218	5,507	5,816
External public debt	108	105	103	100	…	…	…	…

Sources: Authorities, Direction of Trade Statistics, UN Comtrade, and Fund staff estimates and projections.

Table 8a. Somalia: External Public Debt, 2014–18 1/

(Millions of U.S. dollars)

	2014	2015	Prel. 2016	2017	2018
Total stock outstanding	4,389	4,380	4,420	4,657	4,697
of which: in arrears 2/	6,307	2,910	4,656	4,448	4,506
Multilateral creditors	1,493	1,457	1,442	1,522	1,514
AfDB Group	133	130	131	138	138
AfDB	-	-	-	24	24
African Development Fund (AfDF)	-	-	-	111	111
Nigerian Trust Fund	-	-	-	3	3
Arab Fund for Economic and Social Development	175	172	173	179	181
Arab Monetary Fund	270	265	263	286	286
International Fund for Agricultural Development	24	24	24	26	26
International Monetary Fund	341	328	319	340	335
Islamic Development Bank	14	13	13	13	13
OPEC Fund for International Development	36	36	36	36	36
World Bank 3/	501	489	482	504	500
Bilateral creditors	2,896	2,923	2,978	3,135	3,183
Paris Club creditors	2,256	2,269	2,316	2,457	2,492
Denmark	8	8	8	9	9
France	367	340	347	417	420
Italy	577	580	589	608	616
Japan	99	102	108	116	120
Netherlands	6	6	6	7	7
Norway	2	2	2	2	2
Russia	141	143	145	149	151
Spain	37	38	38	39	39
United Kingdom	82	82	81	83	84
United States	936	969	992	1,028	1,044
Non-Paris Club creditors	640	654	662	678	691
Algeria	2	2	2	2	2
Bulgaria	10	10	10	10	10
Iraq	160	166	171	176	181
Kuwait Fund and Central Bank	117	119	115	118	118
Libya	23	25	27	29	30
Romania	3	3	2	3	3
Saudi Arabia	99	101	103	105	106
Serbia	2	2	2	2	2
United Arab Emirates	223	227	231	235	238

Sources: Somalia Debt Management Unit; IMF; World Bank; and AfDB.

1/ All non-US dollar claims are converted at period-end exchange rates. The external debt database is undergoing a reconcilliation process.

2/ Based on current data from the authorities and creditors, a portion of Somalia's external debt is not in arrears.
3/ All obligations due the World Bank are to the International Development Agency (IDA).

Table 8b. Somalia: External Public Debt, 2014–18 1/

(Percent of GDP, unless otherwise indicated)

			Prel.		
	2014	2015	2016	2017	2018
Total stock outstanding	110.7	108.2	105.3	103.3	99.5
of which: in arrears 2/	159.1	71.9	110.9	98.6	95.5
Multilateral creditors	37.7	36.0	34.3	33.8	32.1
AfDB Group	3.4	3.2	3.1	3.1	2.9
Arab Fund for Economic and Social Development	4.4	4.2	4.1	4.0	3.8
Arab Monetary Fund	6.8	6.5	6.3	6.3	6.1
International Fund for Agricultural Development	0.6	0.6	0.6	0.6	0.5
International Monetary Fund	8.6	8.1	7.6	7.6	7.1
Islamic Development Bank	0.3	0.3	0.3	0.3	0.3
OPEC Fund for International Development	0.9	0.9	0.8	0.8	0.8
World Bank 3/	12.6	12.1	11.5	11.2	10.6
Bilateral creditors	73.1	72.2	70.9	69.5	67.4
Paris Club creditors	56.9	56.0	55.2	54.5	52.8
Denmark	0.2	0.2	0.2	0.2	0.2
France	9.3	8.4	8.3	9.3	8.9
Italy	14.6	14.3	14.0	13.5	13.0
Japan	2.5	2.5	2.6	2.6	2.5
Netherlands	0.2	0.1	0.1	0.2	0.1
Norway	0.0	0.0	0.0	0.0	0.0
Russia	3.6	3.5	3.5	3.3	3.2
Spain	0.9	0.9	0.9	0.9	0.8
United Kingdom	2.1	2.0	1.9	1.8	1.8
United States	23.6	23.9	23.6	22.8	22.1
Non-Paris Club creditors	16.1	16.1	15.8	15.0	14.6
Algeria	0.04	0.04	0.04	0.03	0.03
Bulgaria	0.3	0.2	0.2	0.2	0.2
Iraq	4.0	4.1	4.1	3.9	3.8
Kuwait Fund and Central Bank	3.0	2.9	2.7	2.6	2.5
Libya	0.6	0.6	0.6	0.6	0.6
Romania	0.1	0.1	0.1	0.1	0.1
Saudi Arabia	2.5	2.5	2.4	2.3	2.3
Serbia	0.05	0.05	0.05	0.05	0.05
United Arab Emirates	5.6	5.6	5.5	5.2	5.1

Sources: Somalia Debt Management Unit; IMF; World Bank; and AfDB.

1/ All non-US dollar claims are converted at period-end exchange rates. The external debt database is undergoing a reconcilliation process.

2/ Based on current data from the authorities and creditors, a portion of Somalia's external debt is not in arrears.

3/ All obligations due the World Bank are to the International Development Agency (IDA).

Table 9. Somalia: Off-Budget Aid, 2014–18

(Millions of U.S. dollars)

	2014 Act.	2015 Act.	2016 Act.	2017 Act.	2018 Prel.
Total estimated grants	1,685	1,741	1,688	2,171	2,091
Total Official Development Assistance (ODA) aid 1/	1,218	1,172	1,186	1,627	1,513
Humanitarian aid	672	588	563	1,011	909
Developmental aid	546	584	623	616	604
Support for peacekeeping 2/	467	569	502	544	578
Memorandum items:					
FGS budgetary grants 3/	61.0	26.9	58.4	125.9	86.5
FGS budgetary grants, as percent of ODA	5.0	2.3	4.9	7.7	5.7

Sources: Authorities and UN-WB Aid Coordination Unit.
1/ Off-budget FGS grants. Excludes on-budget grants.
2/ Bilateral military aid is not captured in the table.
3/ Federal Government of Somalia budgetary grants.

Annex I. Somalia's Political and Economic Reform Agenda and Partnership with the International Community

Stabilization

1. **Stability and commitment to reform has been sustained since the landmark, UN-backed agreement on the Provisional Constitution in 2012.** This was quickly followed by the creation of the Parliament and the election of the President, which moved the country from the central Transition Federal Government to the Federal Government of Somalia (FGS). The UN, the African Union Mission in Somalia (AMISOM), and US have been involved in providing peacekeeping and security support even before 2012, including in the fight against Al-Shabaab militants. Between the period to 2016, five Federal Member States were constituted, which, along with the FGS, form the Federal Republic of Somalia. Reflecting this evolving structure and the legacy of conflict, Somalia has a decentralized fiscal regime. A relatively peaceful transfer of power occurred in 2017 to the current administration, and the commitment to reform has continued despite the change in administration.

A Somali and Donor Framework for Reform and Nation Building

2. **State-building and post-war reconstruction has been supported by the international community.** The Somali Compact and the New Deal for Somalia Conference in Brussels in 2013 agreed the framework and pledging vehicle to support the reconstruction effort. The Compact served as the country's comprehensive development and political roadmap for 2014–2016[1] This also established the High-Level Partnership Forum, the Mutual Accountability Framework (MAF), and the Somali Development and Reconstruction Facility that governs the working relationship and dialogue with donors. The Compact was followed by the formulation of NDP 8 (2017–2019), which outlined the FGS's priorities for the development agenda. At the 2017 London Somalia Conference, the FGS and the international community agreed on the Security Pact and the New Partnership for Somalia (NPS), which set the prevailing partnership principles and outlined the enabling actions needed to fulfill the country's development and recovery goals. The authorities are currently working on NDP 9, which will set priorities for 2020–24 and serve as an interim PRSP.

3. **The NPS has involved a wide-reaching reform agenda.** Table 2 illustrates the engagement areas and objectives in the NPS and the current MAF. It spans politics, the rule of law, governance, human rights, youth empowerment, infrastructure, and inclusion. The Fund's involvement is mainly in two areas: growth and economic recovery, and financial and economic management.

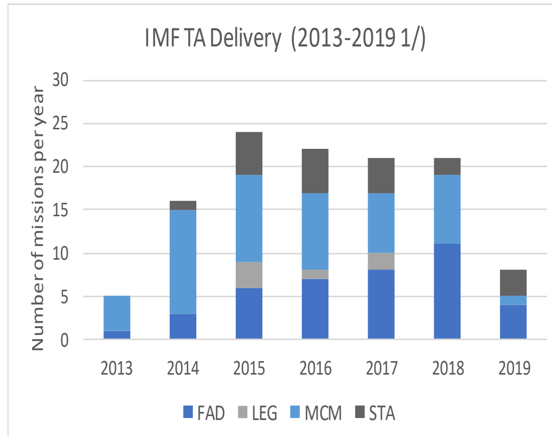
[1] During the 2nd Partnership Forum in Brussels in July 2018 58 countries and six international organizations attended.

Somalia: New Partnership for Somalia and Mutual Accountability Framework: Engagement Areas and Objectives

Themes	Objective/Initiative
Political Settlement	1. Regular and substantive FGS-FMS dialogue 2. Local Government Laws 3. Electoral Law 4. National Independent Electoral Commission strategic plan 5. National Reconciliation Framework 6. National Stabilization strategy
Security	1. National Security Architecture 2. Transition from AMISOM to Somalia led security 3. Payroll consolidation and verification 4. Transfer for high risk case load
Rule of Law	1. Rule of law institutions 2. State level plans for police, justice and corrections 3. Anti-corruption commission 4. Transfer for high risk case load
Human Rights and Gender	1. UN Human Rights Council's Universal Periodic Review 2. Bill of Rights 3. Political participation 4. Combatting gender-based violence 5. Child Rights Law 6. Independent Human Rights Commission
Youth EmpowermentSocial Development	1. Work plan for youth 2. Somali Youth Fund 3. National Education Act 4. Health Sector Strategic Plan
Financial and Economic Management	1. IMF SMP 2. Communications Act 3. Finance Governance Committee 4. FGS annual audited financial statements 5. Harmonized customs tariff
Growth, Economic Recovery, and Resilience	1. Public Private Dialogue and its website 2. Regulatory framework for investment board 3. Tuna licensing agreement 4. Company's Act 5. National Employment Strategy 6. National Resilience Strategy 7. Harmonized export and quarantine procedures 8. Financial Sector Roadmap
Inclusion and Regulation	1. Continued and enhanced discussion with the public 2. Civic education 3. National policy and institutional framework for IDPs and vulnerable groups 4. Social protection policy
Infrastructure	1. National Water Roadmap and Laboratory 2. Infrastructure development 3. Urban infrastructure planning 4. Highway Authority 5. Laws and regulations for Water and Energy sectors

Economic Reforms and IMF Engagement

4. The IMF re-engaged with Somalia in April 2013, providing both policy advice and capacity building support. In addition to the ongoing policy dialogue through Article IV discussions and the SMPs this support has entailed over 115 TA missions. In 2015, the IMF launched the "Trust Fund for Capacity Development in Macroeconomic Policies and Statistics for Somalia"—the Somalia Country Fund (SCF)—to finance the IMF's capacity development (CD) activities. Somalia has remained among the largest beneficiaries of IMF CD program, particularly among fragile states. The SCF has helped broadly double the number of TA missions (relative to 2013) to about 20 missions per year. Importantly, given the ongoing security challenges, the SCF has also supported the authorities' full participation in IMF engagement given the need for this to take place in a third country.



1/ Through end-April 2019

5. The IMF's approach in Somalia has been tailored to the challenges facing a fragile state:

- It has focused on "quick-wins" that delivered rapid gains and helped build traction both at the authorities and donor community level.
- Successive SMPs integrated mutually supportive policy advice and TA capacity building, and a gradual approach to institution building.
- Engagement has been supported by strong and sustained coordination across the IMF (TA and regional departments) and with other donors, such as the World Bank, EU, and DFID.
- "Needs assessment" missions have helped ensure TA has been tailored to Somalia's country-specific circumstances and the pace of capacity absorption.

6. The delivery of the CD program has focused on rebuilding and developing the capacity at the key fiscal, monetary, and statistical institutions. The priorities for the CD program have been carefully aligned with the objectives and benchmarks set under the SMPs. There are nine key workstreams: (i) public financial management (PFM); (ii) tax policy and administration; (iii) banking legislation, regulation, and supervision; (iv) central bank organization, governance, and accounting; (v) currency reform; (vi) financial and fiscal law; (vii) legal framework for combating the financing of terrorism (AML/CFT); (viii) central bank law; and (ix) macroeconomic and financial statistics. For each workstream, there is a clearly sequenced and prioritized TA program. In some instances, the authorities have set out a broader reform action plans—for example, in PFM, financial sector, and AML/CFT reforms—to help prioritize and sequence key reforms, and to ensure effective coordination of activities across donors.

7. Results have been broad-based and deep:

- **Fiscal.** Progress on budgeting and PFM are rapidly improving budget credibility and the fiscal framework. On PFM, the offices of accountant general and auditor general were established in 2015, underpinning stronger financial governance, and accounting and reporting operations improved with the implementation of the Somalia Financial Management Information System (SFMIS) in 2017. Cash forecasting was operationalized and cash advances reduced significantly in 2018. On tax and customs administration, the authorities have started enforcing existing taxes (ex., sales, payroll, corporate income tax), improved tax payer segmentation, implemented tax payer IDs, strengthened the large tax-payer unit, and begun modernizing customs administration. On building the foundations for fiscal federalism, the authorities have harmonized selected taxes, concluded revenue sharing agreements for fisheries and oil, and submitted the Revenue Harmonization Bill and the Revenue Administration Bill to Parliament.

- **Monetary and financial.** Since 2014, the CBS has been re-built from scratch, including establishing a governance structure and passing the Central Bank Law. It has developed accounting practices, prepares monthly financial statements that are approaching IFRS consistency, and appointed internal and external auditors. The legal and operational framework for supervision of the financial system has been established, and the 11 MTBs and 10 banks face quarterly off-site inspections and annual on-site inspections and relicensing rounds. On AML/CFT, the foundational Law was passed in 2016, the Financial Reporting Center (FRC, Somalia's FIU) established in 2017 and operationalized in 2018, large transaction reporting began in late 2018, and the draft Financial Targeted Sanctions Bill was submitted to Parliament in 2018.

- **Data and statistics.** FGS fiscal statistics are well developed, while other data is more nascent. The authorities report monthly or quarterly data on CPI, CBS and commercial bank balance sheets, exchange rate developments, and cross-border flows via MTBs. In 2017, the authorities established the Somali National Bureau of Statistics and submitted the statistical law to Parliament. With continued extensive TA from the IMF and other donors, progress is being made toward improving statistics on national accounts, consumer prices, balance of payments, and external public debt.

Annex II. Implementation of Past IMF Policy Recommendations

Recommendation	Implementation Status
Reforms to the Fiscal Framework, Policy and Administration	
Budgets should reflect realistic revenue projections and confirmed grants	Authorities have been receptive and realistic revenue forecasts are being made as observed in the 2018 outturns and approved 2019 budget.
Enhance cash management practices	Cash management has improved and use of cash advances has been reduced considerably. Monthly cash forecasts have been developed and been used to inform expenditure allotment since 3Q18. Budget execution in line with the cash forecasts has improved but further experience and review is needed.
Improve operability of the TSA	Many MDA accounts have been closed, and most residual accounts have been mapped to SFMIS. This provides greater insight into balances of the TSA for the cash management unit.
Broaden the tax base and increase domestic revenues	The authorities implemented politically difficult income and sales tax instruments. They have submitted the *Revenue Bills* to parliament, agreed on fisheries licenses with FMS, and are harmonizing customs rates. On administration, they have operationalized LMTO and in the process of creating modern customs processes.
Monetary and Financial Reforms	
Prepare for phase I of the currency reform	Final preparatory reforms still pending and financing has not been completely identified. The World Bank is considering providing project based support.
Implement Financial Sector Reform Roadmap	The authorities are continuing to improve supervision capacity and the quality of financial data. They have approved a plan to improve the organization and governance of the CBS, which is now moving into the operational phase, and have drafted a Regulation to start supervising the mobile money sector, which is also near completion.
Improve compliance with AML-CFT regulations	Compliance with the AML-CFT regulations is improving the context of annual relicensing of MTBs. The authorities have submitted the Targeted Financial Sanctions Law to the Parliament, and have developed an Action Plan to address remaining gaps, particularly FRC capacity and the regulatory framework.
Sustained Growth and Statistical Issues	
Improve the business environment, including addressing weaknesses in the NDP	Authorities are developing NDP 2020-2024, which includes a review of and lessons learned from the NDP 2017-2019. A National Communications Authority was established to regulate the telecommunication industry, while a Company Act was sent to parliament.
Reduce corruption and improve governance	The authorities have continued to implement PFM reforms. The CBS agreed to a restructuring plan that will in part improve governance. Financial sector supervision has improved (see above). Authorities made some high profile enforcement actions against corruption violations.
Fill key macroeconomic statistical gaps	CPI is being published monthly, and a revaluation of expenditure-based GDP is in train. The authorities are receiving support to improve their business registry and start a production-based GDP estimate. The debt database is complete and undergoing a reconciliation process. Balance of payments is also improving, namely remittance data, and trade in goods and FDI data is also being developed.

Annex III. The HIPC Process

HIPC Benchmarks

1. **The HIPC process is designed to help ensure countries achieve and can maintain debt sustainability post-debt relief.** The process has well-established benchmarks and conditions, and is not time-bound. The key requirements are: (i) establishing a track record of implementing economic policies an upper credit tranche (UCT) arrangement; (ii) develop a poverty reduction and strategy; and (iii) commitments from donors to finance arrears clearance and debt relief.[1] In addition, there are other a number of other technical steps involved, including reconciling external debt and conducting a HIPC debt relief analysis (see Annex Figure 1).

- **Establishing a track record.** Under the PRGF-HIPC Trust Instrument, to reach the DP, countries must have established a minimum of six-months of track record of policy performance under a specified list of upper credit tranche (UCT) instruments.[2,3] An SMP was added to this list in 2008 provided the Board agrees that the macroeconomic and structural policies outlined in the SMP meet the standard associated with UCT-arrangements.[4,5] This standard is linked to the IMF's credit risk management framework to ensure that authorities have the commitment and capacity to implement a set of policies that are adequate to correct external imbalances and enable repayment to the Fund within the specified maturity period.[6] For Liberia, the Board's assessment in 2006 was broad-based, with Directors pointing to specific policies or conditions in key areas—including revenue growth, implementation of PFM reforms, and banking sector stability—as evidence of meeting the UCT-standard (see Annex Figure 2).

- **Poverty reduction strategy (PRS).** Under HIPC, there is strong link between debt relief and poverty reduction. This is realized by adopting a satisfactory interim PRS to reach the DP and implementing it for at least a year before reaching Completion Point. The PRS, which requires a joint IMF-WB assessment, should be: country driven with broad participation; results-oriented; comprehensive and multi-dimensional; take a medium- to long-term perspective; and be anchored by a sustainable macro-fiscal framework. The authorities are

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[1] Somalia's arrears to the IMF reached SDR 242 million or $333 million (547 percent of quota) at end-May 2019. The Fund's participation under the HIPC Initiative was not included in the original estimates of the HIPC Initiative.

[2] See *Instrument to Establish a Trust for Special Poverty and Growth Operations for the Heavily Indebted Poor Countries Initiative and Interim ECF Subsidy Operations* (Decision No. 11436 (97/10), as amended (the "PRFG-HIPC Trust Instrument")).

[3] See *2016 Handbook of IMF Facilities for Low Income Countries,* Appendix III, paragraph 4. The UCT-standard is linked with IMF credit risk management to ensure the authorities have the commitment and capacity to implement a set of policies adequate to correct external imbalances and enable repayment to the Fund within the specified maturity period (between five and ten years for standard IMF financing arrangements).

[4] *The Acting Chair's Summing Up – Proposals to Modify the PRGT-HIPC Trust Instrument* (BUFF/08/4; 1/16/2008)

[5] *2016 Handbook of IMF Facilities for Low-Income Countries* (FO/DIS/16/31; 2/23/2016).

[6] Between five and ten years for standard IMF financing arrangements.

making good progress. Stakeholder consultations are well advanced on NDP9, which will help guide FGS and FMS-wide priorities and resource allocation through the medium term. NDP9 is targeted for Cabinet approval by end-September 2019.

- **Financing assurances.** This has two aspects, financing assurances to cover the HIPC debt relief more broadly ("creditor participation assurances") and to ensure sufficient financing for the IMF portion of debt relief ("HIPC financing assurances"):

  - The authorities will need to secure pledges from multilateral, and Paris Club and non-Paris Club bilateral creditors to provide debt relief on HIPC terms. Practically, this requires commitments amounting to at least 70 percent of HIPC eligible claims.

  - The Fund's costs of providing debt relief to Somalia were not included in the original HIPC Trust, therefore sufficient resources will need to be committed by member countries to finance the Fund's share of debt relief. This is likely to be a time intensive process, which will require extensive Fund member coordination and commitment.

In addition, before reaching DP, Somalia would need to clear arrears to the IMF (also to World Bank and AfDB). For the IMF, this operation would include an intra-day bridge loan from a donor which would be refinanced via an IMF arrangement. Finally, donors are likely to need to be able to provide additional resources to finance the implementation of Somalia's economic development and poverty reduction program (as outlined in the iPRS).

- Other technical requirements

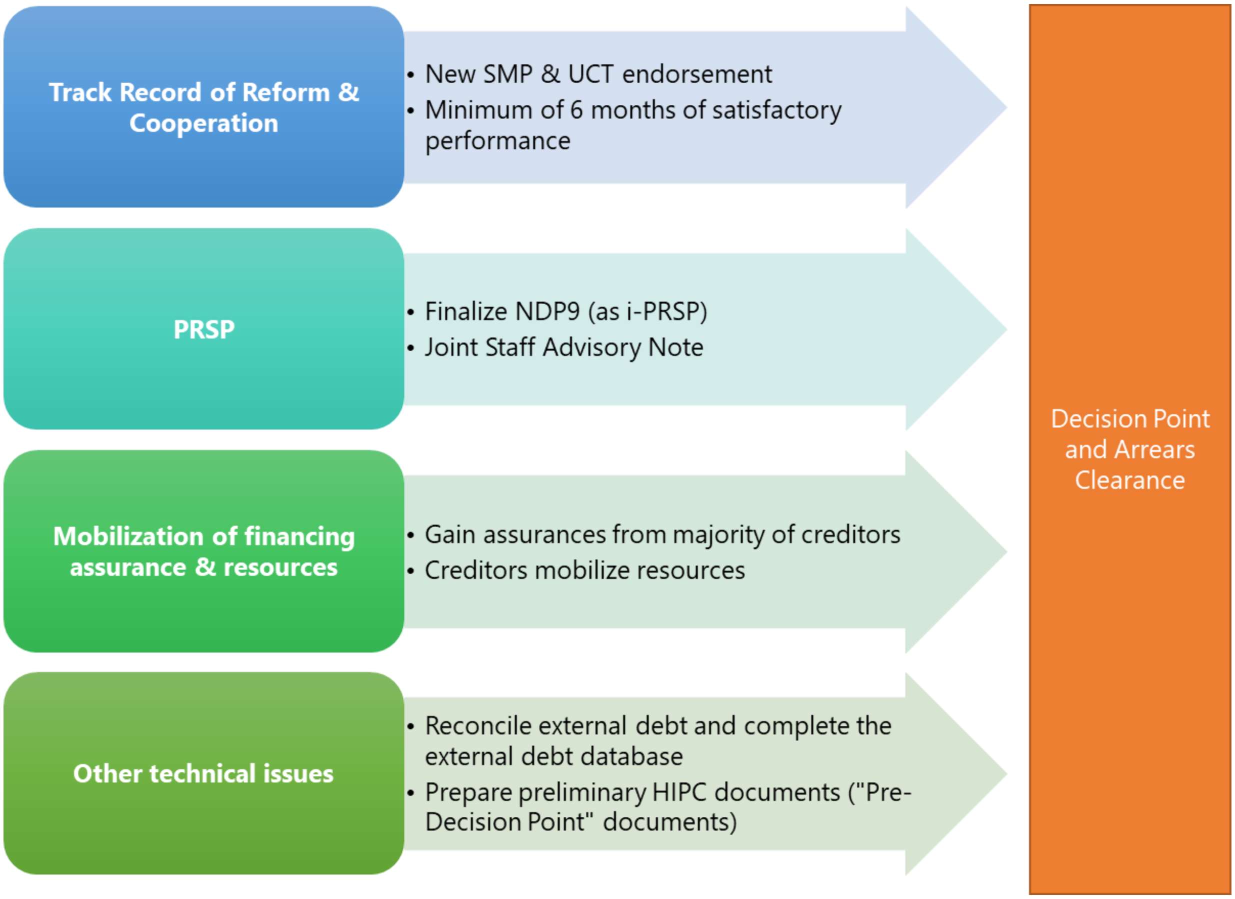
  - Complete and reconcile the Somalia external debt database with creditors. This process is well underway and a joint WB/IMF debt reconciliation mission planned for July 2019.

  - IMF, World Bank, and AfDB need to develop an arrears clearance strategy and financing modalities. This will be developed in the context of identifying financing assurances.

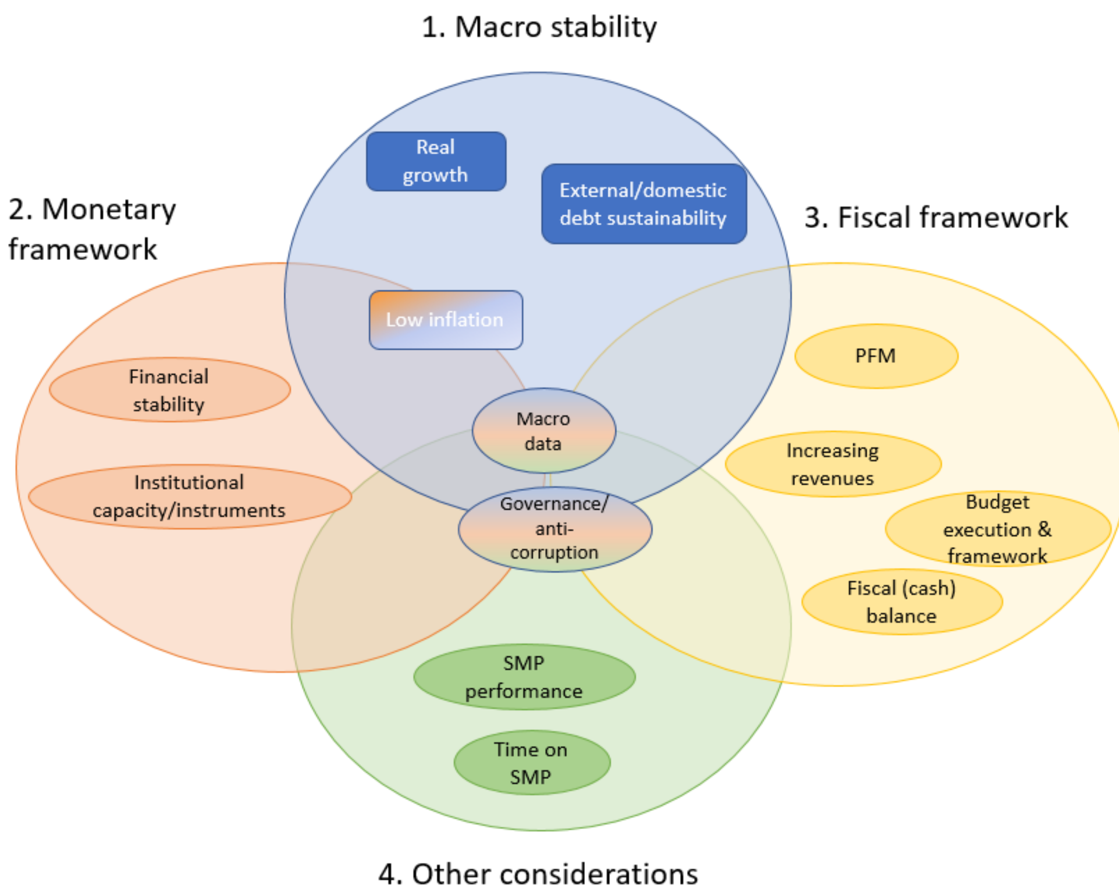
HIPC Process for Somalia

2. The illustrative HIPC process, based on the benchmarks outlined above, is summarized in Figure 1. An initial trigger will be Board endorsement of SMPIV as meeting the UCT-conditionality standard. If this step is accomplished in July 2019, the DP could potentially be reached in early 2020, depending on program performance and if the other benchmarks were met, particularly financing assurances.

Annex Figure 1. Somalia: Illustrative HIPC Decision Point Process



Annex Figure 2. Somalia: Illustrative UCT Standard Assessment



Annex IV. Risk Assessment Matrix [1]

Nature/Source of Risks	Relative Likelihood	Impact if Realized	Policy Responses
Global Risks			
Weaker-than-expected global growth.	**High/ Medium**	**Medium** (i) lower demand for exports (ii) possible reduction in donor support (iii) lower remittances	(i) policies to support export growth and remittances (ii) greater domestic revenue mobilization; and (iii) accelerate recovery and resilience planning.
Heightened security risks across the world, particularly in Middle East and some countries in Africa.	**High**	**Low** (i) lower grant funding (ii) disruption to trade	(i) improve national security and maintain good relations with security partners; (ii) diversify and maintain good relations with development partners; and (iii) greater revenue mobilization
Country Specific Risks			
Climate Shock Drought or extreme flooding; famine.	**Medium**	**High** (i) death and displacement (ii) infrastructure damage (iii) higher humanitarian demand (iv) lower agricultural production	(i) accelerate implementation of recovery and resilience plan; (ii) maintain good relations with donor community; (iii) policies to support remittances; and (iv) create fiscal space and build a buffer.
Domestic Conflict or Sustained Terrorism Strengthening of Al Shabaab's control and intensification of terrorist attacks.	**High**	**High** (i) death and displacement (ii) infrastructure damage (iii) reduced confidence and growth	(i) improve national security and maintain good relations with security partners; (ii) strengthen capacity of essential economic institutions and operations; and (iii) create fiscal space to spend on social development needs.
Political Risk & Weak Governance Heightened tension between FGS and FMS, or breakdown of relations with United Nations or neighbors.	**Medium**	**High** (i) delay in progress on reforms (ii) delayed or lower grants (iii) reduced support for HIPC (iv) less trade or security support	(i) accelerate fiscal federalism reforms; (ii) improve budget transparency, execution and expenditure efficiency; (iii) accelerate PFM reforms, especially on budget execution and commitment controls; and, (iv) strengthen AML/CFT compliance
Fiscal Risk Lower-than-expected or volatile grants; lower-than-expected domestic revenues; poor budget execution and commitment controls.	**Medium**	**Medium** (i) cut critical expenditures (ii) accumulate arrears	(i) follow sequestration rule, (ii) build fiscal buffer, and, (iii) accelerate PFM reforms, especially on budget execution and commitment controls
Financial System Risk Lack of mobile money regulations and poor AML/CFT compliance.	**Low**	**Medium** (i) reduction in remittance inflows, which support the livelihood of many Somalis (ii) loss of household savings (iii) disrupted payments and transactions.	(i) strengthen AML/CFT compliance; and (ii) implement regulations for mobile money.

[1] Based on the February 2019 Risk Assessment Matrix (RAM). The RAM shows events that could materially alter the baseline outlook (the scenario most likely to materialize in the view of Fund staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability of 10–30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix I. Letter of Intent

Mogadishu, Somalia

June 24, 2019

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.,
Washington, D.C. 20431, U.S.A.

Dear Ms. Lagarde:

1. Somalia has made substantial and steady progress in rebuilding its economy since the end of the devastating civil war and the subsequent international recognition of the Federal Government of Somalia (FGS). The FGS, with the support of its development partners, is implementing a wide-ranging reform and capacity-building effort. The IMF has played an important role in this process through three successive Staff-Monitored Programs (SMPs) beginning from May 2016, as well as through the provision of substantial technical assistance.

2. Our strong commitment to this reform agenda has ensured that progress continues, even in the face of serious shocks, such as the severe drought in 2016-2017, as well as still challenging security conditions. As a result, the macroeconomic environment has remained stable, and Somalia's fiscal and monetary institutional framework, and technical capacity to implement effective policies, have advanced substantially. The fiscal framework has improved, notably through measures that have strengthened budget preparation and execution, broadened the revenue base, and enhanced tax collection and public financial management (PFM). The FGS has also developed a Somalia Recovery and Resilience Framework (RRF) to address Somalia's vulnerabilities to natural disasters and implemented reforms to enhance financial sector stability and deepen intermediation. Finally, we are working toward the launch of a new national currency in due course.

3. Despite the milestones achieved thus far under the SMPs, the challenges ahead are significant. External public debt is high, and we do not have the capacity to service our debt obligations. Growth is insufficient to reduce widespread poverty and address large social needs, including the need to create job opportunities for the youth, and the risk of setbacks is high given our vulnerability to climate shocks and the ongoing fragility of the security situation. It is in this context that we remain committed to continued progress under our comprehensive reform agenda.

4. We are requesting the completion of the second and final review of SMPIII. Program performance has been good despite a difficult environment. We have met all end-June and

end-September indicative targets (ITs) and structural benchmarks (SBs). We have also met all the ITs set for end-December and end-March 2019, overperforming the targets for domestic revenue and net foreign assets. Of the ten SBs established for this review, the only benchmark that was not completed related to the renegotiation of the airport-fee collection and Port of Mogadishu contracts, which had been targeted for end-December 2018. In that regard, agreement in principle has been reached on the airport-management contract and the contract is currently being scrutinized by the interim National Procurement Commission prior to Cabinet approval. On the Port of Mogadishu contract, we continue to negotiate in good faith.

5. We are requesting a fourth SMP that builds upon the achievements realized under the previous three SMPs. The attached Memorandum of Economic and Financial Policies (MEFP) sets forth the key objectives and policies of SMP IV. It will focus on expanding revenue mobilization reforms to cover FGS and the Federal Member States (FMS), deepening public financial management reforms, and strengthening financial sector stability and compliance with the Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT) framework. We are committed to implementing these policies and reforms and stand ready to adopt any additional measures that may become necessary to keep the SMP on track. We will remain in close consultation with IMF staff on the adoption of such measures and in advance of any revisions to the policies contained in the MEFP. To facilitate the monitoring of the performance of the program, the FGS will regularly provide IMF staff with all necessary information within the deadlines specified in the attached Technical Memorandum of Understanding (TMU, Attachment II).

6. The macroeconomic and structural policies under SMPIV have been developed to meet the conditionality standards associated with programs supported by arrangements in the upper credit tranches. We hope that the IMF's Executive Board will agree that this standard is met and that SMPIV lays the basis for Somalia to fulfill the track-record criterion required for the Decision Point under the Enhanced Highly Indebted Poor Countries (HIPC) Initiative. In parallel, we are also advancing our work on other relevant criteria. We expect Cabinet to approve Somalia's ninth National Development Plan by end September 2019, which builds upon the 2017-2019 NDP8 and will serve as Somalia's interim Poverty Reduction Strategy (iPRS). We are already engaged with IMF and World Bank staff, and other creditors to provide all necessary information in support of qualification for the Enhanced HIPC Initiative and are working with donors to develop a strategy to address our arrears with international financial institutions. We appreciate the expressions of support for this process from our donors and creditors at the April 2019 IMF-WB Spring Meetings. To further highlight our strong commitment to this process, we intend to make budget appropriations to enable token payments on our overdue obligations to the IMF and other relevant international financial institutions to commence in 2020.

7. Considering the opportunity cost involved in having many key officials traveling outside Somalia, several times a year, to hold discussions with IMF missions, we urge the IMF to revisit its policy regarding travel to Mogadishu. We would be grateful if the IMF considers the possibility of conducting missions at the UN compound at the Mogadishu International Airport.

8. In line with our commitment to transparency, the FGS authorizes the IMF to publish this letter, the attached MEFP, TMU, and the related staff report, including the placement of these documents on the IMF website, subject to the removal of market-sensitive information.

Sincerely yours,

/s/	/s/
Abdirahman Duale Beileh	Abdirahman M. Abdullahi
Minister of Finance of Somalia	Governor of the Central Bank of Somalia

Attachments (2)

Attachment I. Supplemental Memorandum of Economic and Financial Policies for 2019–21

This Memorandum of Economic and Financial Policies (MEFP) reviews economic developments, assesses performance under the third Staff-Monitored Program (SMP) (SMP III), requests a fourth SMP (SMP IV) that aims to meet the upper-credit tranche conditionality standard (May 2019–July 2020), and describes policies that the Federal Government of Somalia (FGS) plans to implement in 2019–21.

A. Background and Context

1. Since engagement with the IMF was re-established in 2013, we have made large strides in rebuilding institutions and policy-making capacity with the support of development partners. We have implemented wide-ranging reforms under the current National Development Plan (NDP8), New Partnership for Somalia, three Article IV consultations, and three SMPs since 2016. Intensive technical assistance (TA) from international organizations and other partners has contributed to this capacity development. Coupled with our policy commitment, these efforts have helped establish key economic institutions and laid the foundations for macroeconomic stability and growth.

2. While much work remains to be done, we look forward to achieving debt relief under the Enhanced Highly Indebted Poor Countries (HIPC) Initiative in the near future. We will work diligently towards achieving the HIPC benchmarks as soon as possible, particularly finalizing a high-quality National Development Plan (NDP9) by end-September 2019, reaching out to creditors for debt relief, and continuing sustained reform implementation. Agreeing to a new SMP that the IMF Executive Board endorses as meeting the upper credit tranche (UCT) standard will be a key step on this road. At the same time, we recognize that reaching Decision Point is not an end in itself, and we remain committed to the sustained reform efforts that will be needed beyond the Decision Point to reach the HIPC Completion Point and to create a truly resilient and sustainable economy that provides economic opportunities for, and ensures the welfare of, all Somalis.

3. Recent improvements in economic conditions are underpinned by robust activity in construction, transport and telecommunications. Agricultural output has also improved since the 2017 drought. Real GDP growth is estimated to increase to 2.8 percent in 2018 (from 1.3 percent in 2017) and projected at 3.0 percent for 2019. Inflation eased to 3.2 percent in 2018 and is expected to subside to 3.0 percent in 2019.

4. We continue to improve our capacity to collect economic statistics. The improvement in the security situation over the last few years has allowed us and the World Bank to expand the reach of the High Frequency Household Survey (Wave I and Wave II). This has allowed us to extend the geographic reach of the analysis and capture a more complete picture of our population. A comparison between these two surveys suggests that per capita consumption was likely overestimated in Wave I. As this information informs the estimation of GDP, this indicates that the whole time series for the level of GDP was likely much lower than we initially thought. However, this new information has not affected our assessment of the general trajectory of GDP growth since 2014. While this is the best estimate currently available, we emphasize that data collection for the household survey coincided with the drought and potentially influenced the results. We aim to continue working on improving the measurement of GDP, which will be supported by ongoing statistical reforms.

5. **Fiscal performance under SMPIII has been strong.** Domestic FGS revenues outperformed in 2018—6 percent higher than the supplementary budget at $183 million (equivalent to 3.9 percent of GDP), and expenditure controls have improved on the back of continued PFM reforms. The use of cash advances continues to decline, and cash forecasting has continued to improve and informs monthly allotments. At the Port of Mogadishu, we have already adopted Harmonized Commodity Description and Coding System (HS) codes and introduced on-line declaration, which are the first important steps in modernizing customs administration and moving towards full implementation of automatic front-end customs declaration.

6. **Progress on fiscal federalism remains on track.** We have developed and adopted a roadmap for mainstreaming fiscal federalism concepts into the key sectors of security, public financial management, inclusive politics, and economic policies. The Council of Ministers Inclusive Politics Forum is currently scrutinizing candidate models of fiscal federalism. This forum will act as the main platform for all discussions with regards to fiscal federalism and the constitutional review process. Once decided, the model will provide the framework for determining the relative roles of the FGS and FMS, mechanisms for revenue-sharing, management of natural resources, and clarifying public borrowing powers.

7. **Financial sector supervision is strengthening, and credit is expanding rapidly, though from a low base.** The central bank has enhanced its on- and off-site inspection capacity for both banks and MTBs, banks remain well capitalized, and quarterly data reporting is improving. Regulations to supervise mobile money service providers are being drafted. At the same time, financial intermediation is not yet contributing enough to economic growth. Furthermore, supervisory capacity needs further strengthening, which will be supported by an enhanced Central Bank of Somalia (CBS) organizational structure and governance. Progress has also been made on operationalizing the AML/CFT framework, with financial institutions now regularly reporting large transactions to the FRC and capacity to analyze suspicious transactions is beginning to be built. The draft Targeted Financial Sanctions Act is with the Parliament and implementing regulations have been drafted with IMF assistance. Looking ahead, we will focus on completing the legal and operational framework for AML/CFT, ensuring compliance, and strengthening FRC capacity.

8. **Many of these reforms have helped improve governance and reduce the risks of corruption in the public sector.** We will continue to build on this progress. Along with the PFM and financial sector reforms highlighted above, we have submitted Anti-corruption and Audit Bills to Parliament, and an anti-corruption strategy will be presented to cabinet in the near future. Furthermore, we have strengthened public property management by appointing a Ministerial Committee to oversee and provide guidance, and we have completed an HR audit of all government

personnel, including the security sector, which has eliminated ghost workers and duplications. In addition, all security sector contracts have been reviewed; those that did not adhere to the proper procurement procedures have been cancelled and will be retendered. Further, the Office of the Auditor General has conducted an interim audit of the security sector. For the private sector, we are improving the judicial system to support private property rights, and are planning to automate the online business registry to ease the registration process.

9. **Despite recent advances, risks to growth and stability remain substantial.** Somalia remains vulnerable to security and political challenges, as well as climate shocks. Fiscal and financial risks, given volatile grants and still low institutional capacity, must be contained. Somalia's external debt is unsustainable, and arrears limit access to the financial resources needed to invest in the country's future. Against these risks, we are committed to continuing and accelerating reforms under SMPIV, to continued cooperation with the donor community, and to deeper coordination with the FMS to further fiscal federalism. Importantly, we will strive to reach HIPC decision point in early 2020 to help unleash much needed resources. In addition, we recognize that many key legislative reforms, such as the PFM, Procurement, Revenue, and the Amended Customs Bill, are currently with Parliament, creating a heavy legislative schedule.

B. Program Performance

10. Performance under SMP III has been good (see Tables 2 and 3).

- **For June and September 2018,** all structural benchmarks (SBs) and indicative targets (ITs) were met, including over-performance on domestic revenue and net foreign assets (NFA).

- **For December 2018 and March 2019,** December ITs were met, with the domestic revenue floor, fiscal balance, and NFA targets exceeded. For March, the revenue and fiscal balance ITs were met. All December and March SBs were met, save one. Despite our best efforts, the re-negotiation of the airport-management contract and the Mogadishu port contract was not completed. Agreement has been reached on the airport-management contract and we expect to sign this contract shortly; however, negotiations with the Mogadishu port operator continue. We continue to make good faith efforts to reach an agreement on the Port contract as the continued smooth operation and investment in the Port is critical given its importance in revenue mobilization and supply of critical goods.

Table 1. Somalia: Indicative Targets under the Staff-Monitored Program III, May 2018–April 2019 1/

(Millions of U.S. dollars)

	2018									2019		
	June			Sept. 2/			Dec.			March 3/		
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status
Fiscal												
Fiscal balance (cash basis; floor)	0.0	2.3	Met	0.0	3.6	Met	0.0	7.9	Met	0.0	16.5	Met
Domestic revenue floor	75.7	82.9	Met	116.1	127.2	Met	165.0	183.4	Met	47.0	54.0	Met
Accumulation of new domestic expenditure arrears (ceiling) 4/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Contracting of new domestic debt (ceiling) 4/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Contracting or guaranteeing of new nominal external non-concessional borrowing (ceiling) 4/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Central Bank of Somalia (CBS)												
Net foreign assets of the CBS (floor) 4/ 5/	24.0	25.2	Met	24.0	25.3	Met	24.0	26.2	Met	24.0	25.1	Met
Memorandum item												
Debt contracting or guaranteeing of nominal external concessional borrowing (ceiling).	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	

Sources: Somali authorities; and Fund staff estimates and projections.

1/ Based on preliminary data. Cumulative from the beginning of the year.

2/ Test date for the first review of the SMP.

3/ Test date for the second review of the SMP.

4/ Continuous indicative target.

5/ Calculated using program exchange rates. See Technical Memorandum of Understanding, IMF Country Report No. 18/212. New information on the nature of CBS reserves gathered during the May 2019 discussions resulted in a revision of NFA for 2018.

Table 2. Somalia: Structural Benchmarks under the Staff-Monitored Program III, May 2018–April 2019

	Benchmarks	Target dates	Rationale and Monitoring	Status
Public Financial Management				
1	A Minister of Finance order to require that all salaries provided in cash be paid directly to individuals' bank accounts and record/register all Somali National Army payroll and non-payroll into the SFMIS payroll module.	Jun-18	Improve PFM and fiscal reporting.	Met
2	A Minister of Finance order to require all Federal Member States (FMS) and the Banadir region to report at end-Q1 and end-Q3 on the utilization of any FGS budgetary transfer.	Sep-18	Improve fiscal transparency, accountability, FGS leadership and oversight over the FMS.	Met
3	Record cash advances in SFMIS and process them in accordance with the Appropriations Act.	Sep-18	Improve cash management and payment processes.	Met
4	Complete the stocktaking and recording of all payroll and goods & services vouchers to December 31, 2017 which are in arrears into SFMIS.	Sep-18	Create an accurate and verified complilation of domestic arrears, to improve governance, and to allow a transparent process of repayment to begin.	Met
5	Design and implement a cash-forecasting system to inform allotments which are issued prior to commitment, in accordance with the Appropriations Act.	Dec-18	Provide effective use of the purchasing module in SFMIS, improve cash management, and limits/avoid new arrears.	Met
6	Conclude the renegotiation of the Mogadishu port and airport fee-collection contracts.	Dec-18	Strengthen PFM and broaden FGS revenue base. Provide concluded and signed Mogadishu port and airport fee-collection contracts.	Not met
7	The Minister of Finance to issue an order: (1) to identify Ministries, Departments, and Agencies (MDAs) accounts at commercial banks and the CBS, close unnecessary accounts, and move active accounts to CBS; and, (2) to require that all active MDA accounts be mapped to the SFMIS.	Mar-19	Make progress towards developing the Treasury Single Account. Will require that: (1) the ministry will establish a list of all MDA bank accounts respective signatories and operating mandates; (2) all MDA bank accounts be opened upon express issuance of formal authorization by the Accountant General; and, (3) CBS will report monthly bank balances of Treasury accounts.	Met
Tax Administration and Tax Policy				
8	Ensure that the large-and-medium-taxpayer office (LMTO) is fully operational and share its organizational structure and staffing status.	Jun-18	Enhance the Inland Revenue Department, expand the revenue base and increase domestic tax collection.	Met
9	Minister of Finance to issue order to make the renewal of all licenses by Ministries, Departments, and Agencies (MDAs) conditional on presenting a tax clearance certificate (TCC) from the Ministry of Finance.	Jun-18	Expand the revenue base and increase domestic tax collection.	Met
10	The LMTO to increase the number of registered large and medium taxpayers from 25 to at least 50, evaluate all potential tax arrears for 2017 in Mogadishu, and collect the corresponding tax obligations due.	Sep-18	Expand the revenue base and increase domestic tax collection. This follows the establishment of the LMTO. LMTO staff will determine which of these arrears are considered potentially recoverable and record needed information. Provide new registration list of large- and medium taxpayers.	Met

Table 2. Somalia: Structural Benchmarks under the Staff-Monitored Program III, May 2018–April 2019 (Concluded)

	Benchmarks	Target dates	Rationale and Monitoring	Status
Tax Administration and Tax Policy (continued)				
11	Submit the Revenue Bill to Parliament.	Dec-18	Update the tax law by also correcting deficiencies of the old tax laws	Met
12	The Minister of Post and Telecommunication (MPT) and the Minister of Finance to develop a plan to enforce regulations-associated with the fees to be levied (licensing, spectrum, etc.).	Dec-18	Improve revenue collection. Communications Act, which would provide considerably broader powers to MPT to regulate the sector, including the ability to set appropriate fees and regulatory requirements. Provide the agreed fee structure and the plan for collection.	Met
13	The Ministry of Finance to take over all non-tax revenue collections from at least 5 of the remaining MDAs which are currently collecting theses revenues.	Dec-18	Improve revenue collection. FGS to provide SFMIS report showing non-tax revenue collections from the regulatory and operational activities of all MDAs.	Met
14	Finalize petroleum and fisheries operational revenue-sharing mechanisms between the FGS and FMS.	Mar-19	Operational step toward fiscal federalism. Adopting a petroleum and fisheries revenue sharing mechanisms will advance the tax harmonization process, contribute to national unity, and promote equity and accountability.	Met
15	Submit an amended National Customs Act to Parliament, and the Ministry of Finance to implement a common classification of goods based on HS codes and a front-end customs declaration process.	Mar-19	It will provide the foundation for a new tariff while improving coordination and efficiency. It will focus on HS classifications of goods. Provide common nomenclature of goods by HS code and a report detailing the progress of implementing the customs declaration process.	Met
MOPIED–National Development Plan				
16	Prepare a draft of the National Development Plan 2020-24.	Mar-19	The NDP 2020-24 is intended to serve as the interim PRSP document. Provide Draft 1 as specified in the NDP 9 Concept Note, which includes the first round of consultations at the national and FMS/BRA levels.	Met
CBS–Financial Sector Development				
17	Submit to Parliament the draft Targeted Financial Sanctions Act.	Sep-18	Strengthen the AML/CFT framework to address terrorist financing risks and correspondent banking relationships (CBR) pressures.	Met
18	CBS to issue regulation on credit classification and provision, and review reporting requirement for banks.	Mar-19	Improve financial intermediation, banking supervision, legislation, and supervision. This action will include update on reporting requirements for banks to include data relevant to the classification of credit and extent of provisioning. It will also include identification of gaps that would be filed by reporting requirement.	Met

C. Economic and Financial Policies for 2019–21

11. SMPIV will be aligned with our medium-term priorities and will anchor reforms over the next two years. Over this period, we will focus on additional measures to build fiscal sustainability, especially at the combined level of the FGS and FMS, while also continuing to deepen PFM reforms with a view to reducing the corruption. Work to mitigate financial stability risks will also continue. Structural benchmarks (Table 3) will anchor key reform objectives, including to expand the mobilization of domestic revenues, strengthen commitment controls and procurement processes, implement CBS reorganization, broaden financial sector reforms, and cement the implementation of the AML/CFT framework. The program will continue to be anchored on a floor for domestic revenue, a zero floor on the cash-based fiscal balance, no accumulation of domestic arrears, and a floor on the net foreign assets of the CBS (see Table 4).

12. The macroeconomic and structural policies under SMP IV have been developed to meet the conditionality standards associated with programs supported by arrangements in the upper credit tranches (UCT) and pave the way for a financial arrangement with the IMF. In that context, we will focus on medium-term objectives and further efforts to establish self-sufficiency. This will require redoubled efforts to advance fiscal federalism, address transparency and governance concerns, encourage private investment, and properly manage our limited resources. NDP9 will provide a blueprint for this.

Fiscal Policy and Reforms

13. The FGS will continue to improve the fiscal framework and budget sustainability in the medium term. We remain committed to maintaining fiscal discipline and oversight, improving the budget process, increasing the use of commitment controls and tightening procurement procedures, and more transparent fiscal reporting. In addition to other PFM measures, we will continue to avoid accumulating new arrears. We have finalized the biometric registration of security personnel, which will allow for greater control over our wage bill. Revenue windfalls will go toward paying down arrears and, if needed, replenishing the fiscal buffer, and we will develop clear guidelines to manage each process. The reforms achieved under SMPIII, including our progress in operationalizing the treasury single account (TSA) and enhancing its transparency, will support these efforts.

14. To support the aim of moving towards greater fiscal self-sufficiency, we will broaden domestic revenue mobilization efforts to the FMS. To this end, we will (i) roll out the enacted Revenue Bills' tax instruments to facilitate the collection of domestic revenue across FGS and FMS (SB#8); and, (ii) report fiscal performance for general government operations covering FGS and FMS (SB#2). With successful implementation of customs front-end declaration functionality at the Port of Mogadishu, work on incorporating the verification of the manifest and goods inspection will follow shortly (SBs#6, 7 and 9). We will also work to roll out customs reforms to other main ports and further advance efforts to modernize customs administration, with the support of our international partners (SB#11). We are committed to the preparation of an ad valorem schedule to facilitate the transition to a modern system of customs tariffs by May 2020, and are committed to implementation as early as feasible in 2020, depending on progress on capacity building and in line with article 20 of the World Trade Organization (WTO, Customs valuation methodology). At the same time, developing an audit strategy at the LMTO will improve oversight and governance of Inland Revenue Department (SB#10), which will safeguard revenues. We will strengthen ongoing revenue reforms, in particular by enhancing LMTO capacity, establishing a tax academy, and enhancing the collection of sales taxes on goods and services, including by expanding it to the FMS. Moving forward, we will continue to identify new measures to mobilize revenues with the continued assistance of TA from IMF. We will also develop a medium-term strategy to inform our approaches for increasing domestic revenues and financing our development spending over the medium term.

15. We will ensure that the Petroleum Bill is enacted and Extractive Industry Tax provisions are approved by the cabinet, with a clear strategy for auctioning oil blocks devised, prior to the issuance of licenses. The development of our oil sector will lay the foundations for generating revenues over the long term. We remain committed to continuing offering fisheries licenses transparently and will build on our 2018 experience to attract more bidders in future auctions. We will distribute the related revenues in line with the revenue-sharing agreement signed in March 2019.

16. In tandem with broadening revenue collection efforts, including to the FMS, we will issue interim guidelines to facilitate spending the revenues collected under FGS and FMS common arrangements. We will prepare these interim guidelines taking account of the existing agreements, discuss them with FMS counterparts, and issue them in line with those discussions (SB#3). These will anticipate the outcome of the ongoing constitutional review process, which will provide guidance on how national revenues will be allocated and managed. We are committed to increasing FGS transfers to FMS, while requiring greater accountability from the recipients.

17. Structural reforms will inform the 2019 Budget as well as the 2020 fiscal strategy and budget. We are committed to fully implementing the programmed revenue measures for 2019 budget, and to this end we will issue a supplementary budget to increase the target domestic revenue to $196 million. We anticipate increased domestic revenue from ongoing measures and new non-tax revenue measures namely: (i) airport fees; (ii) overflight fees; (iii) visa charges; (iv) annual tuna fisheries licensing fees; and, (v) telecommunications licensing and spectrum fees. We are confident that we will receive the programmed grants of $154 million, but we remain ready to cut discretionary expenditures in case of a fall in grants, while utilizing our fiscal buffer (as discussed below) to meet critical expenditures. The revenue measures implemented in 2019 budget will continue into 2020. Given this and the extensive structural reforms to expand the tax base, we expect to easily exceed the 2019 revenue floor and that the 2020 domestic revenue projection of $221 million.

18. We will strengthen PFM reforms to support fiscal stability, accountability and oversight. We are committed to enhancing our public financial management processes to secure resources for our budget, ensuring they are well spent and accounted for.

- **Fiscal buffer.** To further support fiscal stability and expenditures in the face of often volatile revenues, we will establish a fiscal buffer (SB#1). To this end, we will issue guidelines that clarify its purpose and objective and stipulate its operation, including, management, usage triggers and replenishment provisions. The seed money will come from the unused 2018 bilateral grants of about $12 million.

- **Reporting combined fiscal operations of the FGS and FMS.** We will progress fiscal reporting so that it captures the government operations of both the FGS and FMS to support fiscal federalism and ensure a broader assessment of the country's revenue and expenditure capacity (SB#2).

- **Commitment and expenditure controls.** We will implement commitment controls to cover all goods and services and ensure that all MDAs adhere to commitment control guidelines to strengthen our budget execution (SB#4). We will also issue and implement regulations on public procurement and disposals (SB#5) and include a certification of delivery of goods and services in the AGO payment voucher.

- **Debt management.** We will continue to enhance our debt management capacity in anticipation of future access to debt financing. We will clarify the debt contracting powers among FGS, FMS and other government levels, as well as for guarantees, and develop monitoring guidelines.

- **Institutionalizing efficient resource usage.** We are committed to continue implementing the critical reforms achieved under SMPIII on: (i) cash forecasting; (ii) arrears management; (iii) reducing the use of cash advances; and, (iv) budget preparation and execution.

Financial Sector Reforms

19. Short-term reform priorities are to strengthen CBS governance and organization, and to regulate and supervise the mobile money sector. We will implement the CBS re-organization plan in line with IMF TA recommendations, beginning with determining the transition plan and updating the CBS strategic plan (SB#13). Mobile money regulation will be issued (SB#12) and will be rapidly implemented. We plan to establish the related supervisory capacity so that we will be ready to issue mobile money service provider licenses within six months of the regulations being issued (SB#15).

20. We will continue implementing other reforms to support financial sector stability and strengthen intermediation. To continue strengthening supervisory capacity and oversight, we will continue to deepen the quality of off- and on-site inspections, improve financial reporting and data quality, and develop a plan for dealing with problem institutions. We will also issue new guidelines on Agent Banking, Operational Risk, Financial Reporting and Accounting Standards for Islamic Banks, which are currently under development, and will more stringently enforce the Audited Financial Statement regulation. Following the 2018/19 licensing round, we have reintroduced the moratorium on licensing new banks, and going forward, will ensure that rate at which new licenses will be issued to financial institutions is commensurate with CBS capacity, and financial stability. On audit and accounting, we will develop a multi-year audit plan, finalize an accounting manual, and clarify progress to full IFRS compliance. We will also clarify the treatment of the IMF position on the CBS balance sheet. More broadly to support financial deepening and broaden access to financial services, we expect to complete the payments system reform with World Bank assistance, and will advance work on introducing a movable collateral registry and credit bureau in due course. We also plan to, update key financial sector laws (Financial Institutions, Payment Systems, and Insurance) and the Companies Law, and roll out a digital ID to support KYC and financial inclusion objectives.

21. We will accelerate reforms of the AML/CFT operational and legal framework to support the critical flow of remittances into Somalia. We have developed a detailed AML/CFT Reform Action Plan to properly prioritize and sequence reforms, and coordinate with numerous stake-holders and donors. Urgent priorities include issuing AML/CFT regulations that cover financial entities other than MTBs (SB#14). Issuing the implementing regulations to support the Targeted Financial Sanctions Law will also be a priority once the Bill is passed (SB#16), and a preliminary draft has already been prepared with IMF assistance. We will continue to improve capacity building at the Financial Reporting Center (FRC) (SB#17), including but not limited to training, physical infrastructure, IT systems, and data security. In addition, we will continue to strengthen coordination between the FRC and CBS and prepare the ground work to conduct a national risk assessment within the next three years.

22. We plan to launch Phase I of currency reform as soon as preparations are completed. Phase I is limited to exchanging counterfeit notes in circulation for new, secure, legitimate currency. We recognize that further work is needed, particularly on the project management framework, refining the project timeline, updating the budget, finalizing the communication strategy and operationalizing the accountability framework. We understand that progress on these issues, including support from development partners, will help drive the program funding process to completion.

Policies for Improving Economic Growth, Governance, and Social Inclusion

23. We are advancing a broad-based reform agenda to strengthen economic resilience and bolster the foundations for sustained inclusive growth. As NDP8 (2017–19) comes to an end, we are developing NDP9 (2020–24), which will outline our national priorities and reflect consultation with a wide set of national stakeholders and the international donor community. The plan is aimed at addressing the multi-dimensional apsects of poverty that the country faces. Its goals are to reduce insecurity, strengthen inclusive politics, accelerate economic growth and strengthen institutions, improve access to social services, and strengthen the institutional capacity for effective governance. It will incorporate findings of the Disaster Needs Assessment (DINA) and subsequent Recovery and Resilience Framework (RRF), completed in 2018, to help address climate vulnerabilities, which will be implemented during the course of 2019. NDP9 will be fully costed, and an investment strategy will be developed, acknowledging that financing reconstruction and development will require a variety of sources – the government budget, overseas development aid, private sector investment, foreign direct investment, and remittances. The costing exercise will be fully reflected in NDP 9 and will inform subsequent government budgets.

24. NDP9 will be a critical anchor for prospective debt relief and Somalia's medium-term economic development strategy. NDP9 will act as our Interim Poverty Reduction Strategy (iPRSP), a key benchmark for HIPC decision point and a blueprint for economic development and our engagement with donors over the medium-term. In this context, it will anchor development programs during the HIPC interim period.

25. We have a strong commitment to improving governance and fighting corruption. These efforts will support efficient use of our limited resources and is critical to gaining donor financing for HIPC decision point and beyond. Many reforms that we are committing to under the SMP will support governance and transparency, including increasing fiscal revenues, customs, procurement, other PFM, CBS reorganization, financial sector surveillance and regulation, and AML/CFT. We are also pursuing a wider range of reforms that span market regulation, policing, and the judicial system. We will urge passage by the Parliament of the Anti-corruption Bill and its subsequent implementation. We will form the anti-corruption commission once legislation has passed. We will continue to strengthen the Reform Implementation Unit and internal controls, which aim to monitor reform priorities and procurement issues. We are also working with the UN on reforms to our Integrity System, which includes rule of law and anti-corruption policies and institutions.

26. Improving key macroeconomic and financial data will be critical to guiding economic policies. The creation of the National Statistics Bureau and passage of the National Statistics Bill will create the institutional framework for a more centralized and formal generation of statistical data (SB#18). In this context, we will continue our work on developing key statistics and the capacity to report them regularly to the IMF. Harmonized fiscal reporting under Government Financial Statistics (GFS) is progressing well. We will develop a production side GDP estimate with World Bank assistance over the next couple of years. A labor force survey will be undertaken later this year with the support of the ILO. The coverage of CPI will be expanded to wider geographic coverage depending on available resources. We will continue to improve the quality of data reported by financial institutions and work on developing a monetary survey with IMF assistance. We will urgently focus on reconciling the external debt database with IMF and WB assistance, as a critical technical precondition for preparation of a preliminary HIPC decision point document. On other external data issues, we will roll-out an FDI survey by September 2019, develop international trade data covering Mogadishu, Kismayo, and Bossaso based on harmonized HS codes, ensure the availability of aggregated traveler data from the Immigration Department, and continue making improvements to and expanding the current transfers database to cover banks and mobile money service providers.

27. These efforts will support Somalia normalizing relations with international financial institutions and reaching the Decision Point under the HIPC Initiative. Normalization could help to mobilize additional donor support to fund our economic development and poverty reduction objectives. We recognize that the HIPC process is a benchmark-based process, and that reaching Decision Point requires fulfilling three criteria: (i) at least six months satisfactory performance under a program that meets the standard of an UCT-arrangement; (ii) delivery of the cabinet-approved

NDP9 as Somalia's interim poverty reduction strategy (iPRS); and (iii) clearing arrears to the international financial organizations and mobilizing adequate financing assurances, including to cover the IMF's share of HIPC debt relief.

28. We are hopeful that the IMF Executive Board will agree that SMPIV meets the UCT-standard and establishes the basis for reaching the track-record criterion. We expect that Cabinet will approve our interim poverty reduction strategy (the NDP9) by end-September 2019, which would be submitted for IMF and World Bank review shortly thereafter. In addition, in line with established IMF policy to support normalization of relations in cases of protracted arrears, we have committed to make provision for token payments on our overdue obligations to the IMF. We recognize that this is likely to require similar payments to the African Development Bank and World Bank given their equivalent creditor status. We will propose an amount for the token payments to the IMF with due consideration for Somalia's very limited repayment capacity and other related demands from the African Development Bank and World Bank. Importantly, we will continue to reach out to our creditors at the highest level to maximize the available debt relief and to donors to fund arrears clearance.

D. Program Monitoring

Our standing SMP Monitoring Committee will continue to monitor the implementation of our program by preparing and assessing the indicative targets (Table 4) and structural benchmarks (Table 5). The program will have three reviews to assess its performance based on the test dates of July 31, 2019; October 31, 2019; and May 31, 2020. The indicative targets are defined in the TMU (Attachment II).

Table 3. Somalia: Indicative Targets Under the Staff-Monitored Program IV, May 2019–July 2020 1/

	2019			2020	
	July 2/	October 3/	December	February	May 4/
	Prog.	Prog.	Prog.	Prog.	Prog.
Fiscal					
Fiscal balance (cash basis; floor)	0.0	0.0	0.0	0.0	0.0
Domestic revenue floor	110.9	154.4	196.3	32.0	92.9
Accumulation of new domestic expenditure arrears (ceiling) 5/	0.0	0.0	0.0	0.0	0.0
Contracting of new domestic debt (ceiling) 5/	0.0	0.0	0.0	0.0	0.0
Contracting or guaranteeing of new nominal external non-concessional borrowing (ceiling) 5/	0.0	0.0	0.0	0.0	0.0
Central Bank of Somalia (CBS)					
Net foreign assets of the CBS (floor) 5/ 6/	24.8	24.8	24.8	24.8	24.8
Memorandum item					
Contracting or guaranteeing nominal external concessional or non-concessional borrowing debt (ceiling).	0.0	0.0	0.0	0.0	0.0

Sources: Somali authorities; and Fund staff estimates and projections.

1/ Based on preliminary data. Cumulative from the beginning of the year.

2/ Test date for the first review of the SMP.

3/ Test date for the second review of the SMP.

4/ Test date for the final review of the SMP.

5/ Continuous indicative target.

6/ As defined in the Technical Memoradum of Understanding, IMF Country Report No. 18/212.

Table 4. Somalia: Proposed Structural Benchmarks for SMP IV, May 2019–July 2020

Benchmarks	Target dates	Rationale and Monitoring
Fiscal transparency, cash management, and expenditure controls		
1 Establish a "fiscal buffer" under the TSA to support fiscal liquidity management and submit monthly reports on available balances.	End-July 2019; thereafter end-month basis	Sustain critical expenditures and avoid arrears in the face of volatile revenues. Issue and submit the guidelines governing its initial financing, future replenishment, use and reporting. Account balances to be reported on a continuous, monthly basis following first test date.
2 Submit quarterly reports on the fiscal operations of the FMS and FGS.	End-September 2019; thereafter end-quarter basis	Support production of national revenue and expenditure information and support fiscal federalism. Report FGS and FMS operations (in the agreed format) on a quarter to date basis. The first report should capture 1Q and 2Q 2019 data, and will be subsequently monitored on a continuous quartlery basis.
3 Prepare and issue expenditure assignment guidelines to facilitate spending of revenues collected under FGS and FMS arrangements.	End-October 2019	Develop national expenditure assignment system to complement revenue assignment specified in Revenue Allocation Bill and support fiscal federalism. Guidelines to be issued in anticipation of ongoing constitutional review process, and in line with existing agreements. FGS to prepare and submit to IMF staff copy of the issued interim principles and guidelines and minutes of discussions between the FGS and FMS.
4 Enforce the use of commitment controls on payments for goods and services across all MDAs.	End-December 2019; thereafter end-year	To strengthen governance, budget oversight and improve budget execution by achieving as close to 100% vendor payments subject to commitment controls. Submit regulations instructing MDAs to follow the commitment control system. Include certification of delivery of goods and services in AGO payment voucher. Submit monthly SFMIS report detailing for MDAs the number and value of vendor payments utilizing the commitment systems (analysis to exclude donor projects). Cumulative year-to-date value of payments covered to increase to 75 percent and proportion of payments to increase to 80 percent of total by end-December 2019 (relative to 50 and 65 percent for 2018). Continuous monthly reporting to support the SB; subsequent test-date of May 2020 (for 2020 cumulative YTD).
5 Enact amendment of the 2016 *Public Procurement, Concessions, and Disposals Act*, and issue associated procurement and disposal regulations.	End-February 2020	Provide oversight to ensure all MDAs follow appropriate practices in conducting public procurements and disposal of public assets. Submit amended act as passed and issued regulations to IMF staff.
Increasing domestic revenue		
6 Automate the front-end customs declaration functionality related to the use of Somalia Standard Administrative Document for online customs declaration at the Port of Mogadishu.	End- July 2019, thereafter end-month basis	Support domestic revenue generation and modern customs operations, as a step towards national application. Allow for automated processing of front-end customs declaration system. Submit report detailing number-of declaration forms processed by the system for period May-July 2019. Continuous monitoring on a monthly basis following the first test date.
7 Implement manifest verification in the customs IT systems at the Port of Mogadishu.	End- September 2019, thereafter end-month basis	Support domestic revenue generation and modern customs operations, as a step towards national application. Allow for validation of online customs declarations submitted via Somalia Standard Administrative Document. Submit report detailing number-of goods manifests processed by the system in September 2019. Continuous monitoring on a monthly basis following the first test date.
8 Enact Revenue Bill ("Allocation of Revenue Raising Power" and "Revenue Administration" Bills).	End-October 2019	Support national revenue collection and expand the tax base by assigning revenue raising authority between FGS and FMS. Submit Revenue Acts to the IMF staff.
9 Include goods inspection in the automated front-end declaration process and IT systems at the Port of Mogadishu.	End-December 2019; thereafter end-month basis	Support domestic revenue generation and modern customs operations, as a step towards national application. Allow for verification of goods processed through the automated customs front-end declaration system. Submit report on number of goods inspections undertaken. Continuous monitoring on a monthly basis following the first test date.

Table 4. Somalia: Proposed Structural Benchmarks for SMP IV, May 2019–July 2020 (Concluded)

	Benchmarks	Target dates	Rationale and Monitoring
10	Develop and implement an tax audit strategy at the LMTO to validate tax returns and revenues.	End-May 2020	Support domestic revenue generation and governance. Report number and value of returns audited, tax audit strategy, and tax audit summary report on key findings.
11	Implement harmonized HS codes and prepare ad valorem tariff schedule at key ports of Bossaso, Kismayo, and Mogadishu.	End-May 2020; thereafter end-month basis	Support domestic revenue generation and modern customs operations, as a step towards national application. Submit schedule of HS codes and ad valorem rate schedule, and report revenue on a continuous, monthly basis (following first test date).
Financial stability, monetary policy capacity, and AML-CFT			
12	CBS to issue Mobile Money Regulations	End-July 2019	Support stability of the financial system. Submit issued mobile money regulations to the IMF staff.
13	Adopt updated CBS Strategic Plan and transition toward updated organizational structure (as approved by the CBS Board November 2018).	End-October 2019	Strengthen capacity and governance at the Central Bank of Somalia. (i) Prepare updated CBS Strategic Plan; (ii) prepare and secure Board approval of a transition plan to guide the interim period before full implementation of updated CBS organizational structure, and (iii) secure Board approval of updated organizational structure and Strategic Plan. Before submitting to Board, send draft CBS organizational structure and Strategic Plan to IMF staff, and subsequently deliver Board-approved versions.
14	MOF to issue AML/CFT regulations that apply to all financial institutions.	End-October 2019	Support normalization of correspondent banking relationships by broadening enforcement of AML-CFT provisions. Submit issued regulations to the IMF staff.
15	Implement Mobile Money Regulations.	End-February 2020	Support stability of the financial system. Establish LSD capacity to supervise MNOs; develop and finalize prioritized transition plan to imposing full compliance with regulations, supervision manual, and data reporting template; and issue licenses for MNOs. Submit transition plan and regulation manual, and LSD resourcing plan to IMF staff.
16	Issue regulations implementing the Targeted Financial Sanctions Law, following approval by Parliament.	End-May 2020	Support normalization of correspondent banking relationships by bringing Somalia AML-CFT framework into compliance with international standards. Submit issued regulations (by the Ministry of Finance) to IMF staff.
17	Further operationalize and build capacity at the Financial Reporting Center to review and assess suspicious transactions.	End-May 2020	Support operational capacity of the AML-CFT framework. Address key gaps: (1) key physical infrastructure, (2) IT system (GOAML), and (3) secure data collection and storage. Confirm acquisition of key physical and data management infrastructure, and IT systems. Provide summary of activities over previous six months.
Macroeconomic and financial data and other governance reforms			
18	Pass Amendment to the Statistics Law and build the capacity to collect key macroeconomic statistics on national basis.	End-February 2020	Improve macroeconomic data. Submit passed Amendment; submit a detailed and time-bound statistics action plan to close key data gaps in the areas of trade, FDI, GDP, employment, CPI, and monetary statistics.

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) sets out the understanding between the Somali authorities and the International Monetary Fund (IMF) regarding the definitions of the indicative targets for the 12-month Staff-Monitored Program (SMP) spanning May 2019–July 2020. It specifies the indicative targets on which the implementation of the SMP will be monitored. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable IMF staff to assess program implementation and performance. The definitions are valid at the start of the program but may need to be revisited during the program reviews to ensure that the memorandum continues to reflect the best understanding of the Somali authorities and IMF staff in monitoring the program.

Indicative Targets

1. The indicative targets have been set for the end of July 2019, end of October 2019, end of December 2019, end of February 2020, and end of May 2020. Unless otherwise specified, all indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year. Indicative targets are specified in Table 1 of the Memorandum of Economic Financial and Policies and they are:

- Floor on the Federal Government of Somalia (FGS) fiscal balance (on a cash basis).
- Floor on FGS revenue;
- Ceiling on accumulation of new domestic expenditure arrears by the FGS;
- Ceiling on new domestic debt contracted by the FGS;
- Ceiling on new external debt contracted or guaranteed by the FGS or the Central Bank of Somalia (CBS); and,
- Floor on CBS's net foreign assets.

Definitions and Computation

2. For the purposes of the SMP, the government is defined as the FGS. This definition excludes public entities with autonomous legal personalities whose budgets are not included in the federal government budget. The general government includes the FGS and the federal member states (Galmudug, Hirsabelle, Jubaland, Puntland, and South West State).

3. Government revenue includes all tax and nontax receipts received into the FGS general accounts and excludes grants. It is measured on a cash basis, and cumulative from the beginning of the fiscal year (which coincides with the calendar year). Revenues of the government, which are defined in line with the Government Financial Statistics Manual (GFSM 2014) on a cash accounting basis, excluding grants.

- Revenues of the federal government include taxes, non-tax revenues and other compulsory transfers imposed by the government, property income derived from the ownership of assets, sales of goods and services, penalties and forfeits and voluntary transfers received from nongovernment other than grants. The definition for program monitoring excludes grants and other noncompulsory contributions received from foreign governments or international organizations. Receipts from the sale of nonfinancial assets (for example, the sale of physical assets) and future signing bonuses from natural resource contracts, transactions in financial assets and liabilities, such as borrowing but excepting interest payments, are also excluded from the definition of revenue.

- Government revenues and grants should be recognized on a cash basis and should be recorded when received. The Government SFMIS reports will be used as the basis for program monitoring of revenues and expenditures, supplemented by monthly financial reports published by the Minister of Finance.

4. **The fiscal balance,** on a cash basis, is defined as the difference between (i) the sum of government revenue (as defined in paragraph 3) and budget grants; and (ii) total expenditures (excluding foreign-financed off-budget investment). In the event of a shortfall in expected revenue and grants, the floor on the fiscal balance will be adjusted down by the amount drawn from the fiscal buffer to cover priority spending (public wages and food rations for security personnel), as governed by the guidelines established under SMP structural benchmark #1, and provided that there are no overruns in other, non-priority spending items.

5. **New domestic expenditure arrears of the government are defined as budgeted federal government payments to residents determined by contractual obligations that remain unpaid 90 days after the due date.** Under this definition, the due date refers to the date in which payments are due according to the relevant contractual agreement, considering any contractual grace periods. Government payment include all expenditure for which vouchers have been approved by the Budget Department/Accountant General Office, expenditures that are automatically approved by legislation, debt payments to CBS and commercial banks, and transfers to regional governments.

6. **Debt is defined for program purposes in accordance with Executive Board Decision No. 15688 (14/107), Point 8(a) and 8(b), adopted on December 5, 2014.**

- For program monitoring purpose, the term “debt” will be understood to mean a current (that is, not contingent) liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

    - Loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- Suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- Leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

- Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt.

7. Domestic debt is defined per paragraph 6 for which the counterparty is resident of Somalia, including the CBS. The definition of domestic debt excludes temporary advances for liquidity management from the CBS. Temporary advances will be fully repaid within 90 days.

8. Benchmarks for external debt are cumulative ceilings on contracting or guaranteeing of new nominal external non-concessional borrowing by the government from the beginning of the calendar year. External debt is defined by the residency of the creditor.

9. The CBS's net foreign assets are defined as the difference between the CBS's gross foreign assets and gross foreign liabilities. Gross foreign assets are defined as (i) gold valued, over the program period, at the market price of December 31, 2018 ($1,282.49 per ounce); plus (ii) total foreign exchange; net of (iii) CBS-owned US dollar holdings in Mogadishu categorized as operational balances, (iv) government grant deposits at the CBS in foreign currency (v) other earmarked foreign currency deposits by residents of Somalia, and (vi) recovered Somalia foreign assets pending clarification of ownership between CBS and MOF . Somalia's net position to the IMF is excluded from the definition of net foreign assets. Relevant exchange rates against the U.S. dollar at December 31, 2018 will be used to convert foreign assets and liabilities denominated in currencies other than U.S. dollars.

A. Program Monitoring

Program-Monitoring Committee

10. The Somali authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the Central Bank of Somalia, and the Ministry of Planning, Investment and Economic Development. The IMF Resident Representative will have observer status on this committee. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the Fund regularly on program performance, and transmitting the supporting materials necessary for the evaluation of benchmarks. The committee shall provide the Fund with a monthly progress report on the program within four weeks of the end of each month, using the latest available data.

Data Reporting to the Fund

11. To allow monitoring of developments under the program, the Ministry of Finance, the CBS, and the Ministry of Planning, Investment, and Economic Development will provide to the Resident Representative's office of the IMF the following information contained in the data reporting table below.

Somalia: SMP Data Reporting, May 2018–April 2019				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
Central Bank of Somalia	Monetary survey	Detailed balance sheet data of the CBS submitted in the reporting template.	Quarterly	3 weeks after the end of each quarter
		Consolidated commercial banks' balance sheet data by residency submitted in the reporting template.	Quarterly	4 weeks after the end of each quarter
	Other financial indicators	Prudential data as per associated CBS regulations (total capital, core capital, total net assets, high quality liquid assets, and 30-day funding requirement), and average profit rates and tenor information for private sector financing assets from banks.	Quarterly	4 weeks after the end of each quarter
	Balance of payments	Trade in goods data by HS code and value for the ports of Mogadishu, and Bossaso and Kismayo, starting end-June 2020; petroleum imports to Mogadishu; travel data from the Immigration Department; and cross-border current transfers (MTBs, and banks (and December 2019) MMSPs starting June 2020).	Quarterly	4 weeks after the end of each quarter
	CBS temporary advances to the FGS	Provide monthly amounts and terms of the temporary advances to the Ministry of Finance.	Monthly	1 week after the end of each month
	Budget grants	Provide data on the amounts of on-budget grants, including transfers to the government's accounts from the government's external accounts at the CBS.	Monthly	3 weeks after the end of each month
Ministry of Finance	FGS budget operations	The detailed revenue and expenditure by budget line and a comprehensive table summarizing Government operations including TSA balances.	Monthly	4 weeks after the end of each month
		The outstanding appropriation, allotment, commitment, vendor purchasing/payments, cash advances, and bank balances since the beginning of the calendar year. Also, FGS bank balances reflected in the up to date TSA.	Monthly	4 weeks after the end of the month
		SFMIS audit report recording use of the allotment "allow to exceed" control override function.	Monthly	4 weeks after the end of the month

Somalia: SMP Data Reporting, May 2018–April 2019 (concluded)				
		The monthly cash plan.	Monthly	4 weeks after the end of each month
		A report of all payment requests by MDAs awaiting payment since the beginning of the calendar year where the commitments exceed the agreed payment terms (in SFMIS/Excel).	Monthly	4 weeks after the end of the month
		Payroll and non-payroll salary and allowance payments made by MDAs and individual embassies (in Excel).	Monthly	4 weeks after the end of the month
	Regional Member States' fiscal operations	Reports of fiscal operations (expenditures and revenues) from all Federal Member States (FMS) starting end-3Q2019.	Quarterly	Quarterly after the end of each quarter
	Domestic arrears	A table providing the end-of-period stock of domestic arrears accumulated during the year by MDA and 4-digit Object Code.	Annually	4 weeks after the end of the year
	Domestic debt	The amount of new domestic debt contracted by Government.	Monthly	4 weeks after the end of the month
	External debt	End of year external debt in U.S. dollars, by creditor, and origination currency. The amount of new external debt contracted or guaranteed by Government.	Annually	4 weeks after the end of the month
		Disbursements and repayments: (i) scheduled; and (ii) actual interest and principal on debt of the Government and the CBS, by creditor.	Annually	30 days after the end of each month
	Structural benchmarks	A table with a description of the status of implementation of the structural benchmarks in Table 2 of the MEFP.	Monthly	4 weeks after the end of the month
National Statistics Bureau	CPI and other economic indicators	Indicators to assess overall economic trends, such as the consumer price index.	Monthly	6 weeks after the end of each month
		GDP by expenditure data (from June 2020).	Annually	6 months after the end of each year

INTERNATIONAL MONETARY FUND

SOMALIA

June 28, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM, AND REQUEST FOR NEW STAFF-MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

Approved By
Thanos Arvanitis (IMF, MCD), Nathan Porter (IMF, SPR), and Marcello Estevão (IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA).

Risk of external debt distress:	**In debt distress**
Overall risk of debt distress	**In debt distress**
Granularity in the risk rating	**Unsustainable**
Application of judgment	**No**

This report presents the first official debt sustainability analysis undertaken for Somalia. Based on both external and public debt indicators, Somalia is in debt distress. Total public debt is very high—at $4.8 billion, or 101 percent of GDP at end-2018—nearly all of which is external (100 percent of GDP) (Tables 1 and 2). The finding that Somalia is in debt distress reflects the high external arrears on debt relative to GDP, which now represent 96 percent of the debt stock. While Somalia has no capacity to access new financing, its debt burden will continue to increase as late interest on arrears continues to accumulate. Under broadly steady state assumptions, Somalia's total public debt is expected to increase to around 128 percent of GDP by 2039. Key risks that affect the outlook include external financing, security, and climate, further highlighting the unsustainability of Somalia's current debt burden. Consequently, in the absence of debt relief, Somalia will remain in debt distress.

PUBLIC DEBT COVERAGE

1. Public debt data coverage is limited to the central government. There is no government guaranteed debt, there are no known liabilities of state-owned enterprises or subnational governments, and public-private partnerships do not exist. Given the nascent state of domestic financial institutions and local capital markets, domestic public debt does not exist beyond the accumulation of government arrears. While external obligations are currently undergoing a reconciliation process, available information is sufficient to undertake a preliminary debt sustainability analysis.

2. Somalia's debt-carrying capacity is classified as weak. This classification is guided by the composite indicator score, as determined by the World Bank's CPIA, the country's real GDP growth, import coverage of foreign exchange reserves, remittances as percent of GDP, and growth of the world economy.

Text Table 1. Somalia: Composite Indicator and Threshold Tables

Debt Carrying Capacity and Thresholds

Country	Somalia
Country Code	726

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage
Weak	Weak	Weak
	1.23	0.57

EXTERNAL debt burden thresholds	
PV of debt in percent of	
Exports	140
GDP	30
Debt service in percent of	
Exports	10
Revenue	14

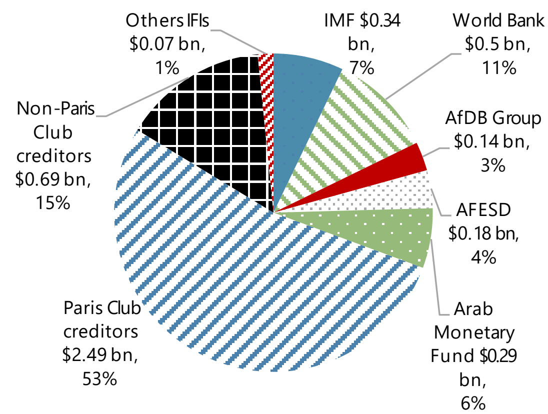
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Note: Calculated based on the most recent WEO vintage (April 2019).

BACKGROUND ON DEBT AND MACROECONOMIC DATA

3. Somalia has not contracted any new external debt since the late 1980s; the existing debt is mainly due to official creditors. The nominal level of indebtedness has risen steadily since 1991 reflecting the accumulation of arrears and late interest. Currently, of the $4.5 billion in arrears, $1.7 billion is composed of principal, $1.0 billion is unpaid interest, and $1.8 billion is late interest or fees.[1] Most is owed to Paris Club creditors (53 percent), followed by multilaterals (32 percent), and non-Paris Club bilateral creditors (15 percent) (see Text Figure 1). All domestic debt (1.5 percent of GDP) represents central government arrears.

Text Figure 1. External Debt Composition, end-2018



4. Data limitation significantly constrain macroeconomic analysis, limiting the significance of the results provided by the standardized stress test in the LIC-DSF (see also paragraph 9). The national accounts data contain only a relatively short time series (six years), which builds from expenditure-based estimates derived from household survey data (see staff report for further details). Substantial gaps are also present in balance-of-payments data, including on current account flows. Trade data are based on third party data and augmented by data for the Port of Mogadishu. Secondary transfers data are also derived from third parties and are cross-checked with Somali data which are improving. Direct investment data are derived from the real sector file but an FDI survey is under construction.

MEDIUM- AND LONG-TERM ASSUMPTIONS

5. Somalia is a fragile state that is very vulnerable to security and climate shocks, although macroeconomic conditions are slowly improving. In the wake of a long civil war, Somalia's economic and human capital has been significantly degraded. The fragilities are accentuated by frequent climate shocks, which directly impact agricultural activities that account for the bulk of economic activity. These characteristics underpin staffs' tailored shocks. Nonetheless, important efforts have been made in recent years to improve social and macroeconomic stability, with substantial international support aiming to rebuild institutions. As a result, improving conditions have helped to ensure positive real growth rates, albeit at relatively modest average of about 2.5 percent (2013–18). These are expected to rise to around 3.5 percent over the medium term.

[1] Of the $191 million not in arrears, $31 million and $160 million are obligations to the African Development Fund and the International Development Fund, respectively.

6. The baseline scenario broadly assumes a continuation of the status quo into the medium and long term. The baseline scenario assumes stable real growth of around 3.5 percent a year, moderately exceeding Somalia's 2.9 percent population growth rate since 2000[2], and reflecting an anticipated positive impact of the successor SMP, which should help buttress macroeconomic stability and consolidate recent structural reforms. It is also assumed that the economy will remain fully dollarized, implying low inflation and no adverse nominal exchange rate movements. The trade balance is expected to remain highly negative, financed by official grants and remittances. The residual current account balance is assumed to be financed by foreign direct investment as Somalia has no access to other financing. Export growth will remain in line with overall economic growth. The fiscal stance is expected to remain in balance, given no access to new external or domestic debt financing, and no accumulation of new domestic arrears, as required under the new SMP. Even with these relatively benign assumptions, Somalia's debt stock would be expected to continue to increase in the absence of HIPC debt relief, given the accumulation of late interest and other penalties.[3]

EXTERNAL DEBT SUSTAINABILITY

7. Somalia's current external public debt is unsustainable and given the high share of debt relative to GDP in arrears, the country is in debt distress. Under the baseline assumptions, external debt will increase to about 128 percent of GDP by the end of the projection period.[4] Moreover, by 2039, external debt would reach around 480 percent of exports, and debt service would be over 80 percent of fiscal revenues. All these indicators substantially exceed Somalia's indicative thresholds (Tables 1 and 2, Text Figure 2).

8. The materialization of any risk scenarios would only aggravate the already unsustainable position. The application of the standard DSA stress test to Somalia is complicated by the short historical data series as well as severe structural breaks.

9. Given the specifics of Somalia circumstances and, in particular, the binding financing constraint it faces, standard sensitivity tests have only limited relevance. The standardized tests embedded in the LIC-DSF generate a financing gap that is assumed to be filled by the accumulation of new debt. However, Somalia has no access to any formal debt financing so, in practice, any additional financing needs would be expected to be accommodated through lower fiscal expenditures, lower imports, or higher grants. In addition, the volatility and short time series of the data undermine the calculation of the standard deviations used to scale the tests. Nevertheless, the results of the standard tests are shown in Figures 1 and 2, and Tables 3 and 4.

10. Instead, staff have focused on assessing the potential impact of a number of tailored stress tests (Text Figure 2). These tailored tests reflect the risks identified in the risk assessment matrix (RAM)

[2] Derived from World Bank total population data for Somalia, 2000–2017.

[3] Staff currently have no specific information on penalties; this should be clarified through the debt reconciliation process.

[4] The projection period has been extended to 20 years from the standard 10 years.

and focus instead on potential shocks to economic activity, but which take account of the financing constraint. These include the impact of a sustained deterioration in domestic security conditions and a climate shock. We also consider the impact of a general loss of confidence in reform momentum. For analytical purposes, the shocks are designed to materialize in the near term and would be expected to occur through changes in economic activity, export receipts, and fiscal revenues relative to the baseline, rather than in financing gaps.

- **External financing shock.** This scenario would be consistent with a loss of confidence in the government reform program, for example, if progress under the SMP or other reform programs were to deteriorate significantly, which would affect both donor engagement and investor confidence. In this scenario, development aid and FDI fall gradually to about half their current levels by 2024, thereafter stabilizing. Humanitarian aid and remittances, however, are assumed to remain stable. This loss of inflows reduces the scope for key development spending, leading to lower growth of about 2.0 percent by 2024, constraining fiscal revenues relative to the baseline. At this point, the lower level of GDP would imply that debt would be equivalent to 171 percent of GDP and 640 percent of exports, and debt service of around 120 percent of revenues by 2039.

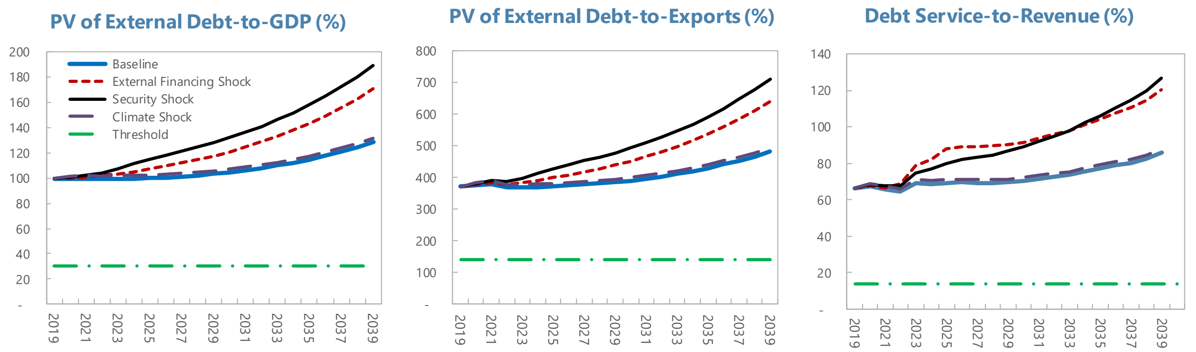
- **Security shock.** Under this scenario, a sustained deterioration in security conditions materializes and GDP slows even further to nil by 2024, followed by a modest recovery. Nonetheless, the effects of the security shock would continue to drag on longer-term growth, which would be weaker than under the baseline (at 1.8 percent). Continued donor support helps to support fiscal revenues in the short-run, but over the long run lower growth depresses the potential for domestic revenue mobilization. As a result, debt would reach 190 percent of GDP and 711 percent of exports, and debt service of 127 percent of revenues by 2039.

- **Climate shock.** Under this scenario, we assume a reoccurrence of drought akin to the 2017 episode. The effects of this shock are largely mitigated by increased mobilization of humanitarian aid. In this scenario, GDP growth slows immediately in the aftermath to 1 percent and then recovers to the baseline rate of growth (of 3.5 percent) after two years. With the shock dissipating quickly, the long-term impact on debt is small relative to the baseline (to 132 percent of GDP and 494 percent of exports, and debt service equivalent to 88 percent of fiscal revenues by 2039.

PUBLIC DEBT SUSTAINABILITY

11. Indicators of public debt are largely indistinguishable from the indicators for external debt. The conclusions with regards to external debt sustainability are relevant also for public debt sustainability, given that domestic debt is limited to a small stock of government arrears.

Text Figure 2. External Debt Shocks



CONCLUSION

12. Somalia external public debt and overall public debt are in distress. The assessment of external debt distress reflects the high level of external arrears relative to GDP, and indeed arrears are approaching the totality of the debt stock. The external debt and total public debt are already in breach of their indicative thresholds, and the trajectory deteriorates further in the medium and long term, even under relatively hopeful steady state assumptions. Key risks that affect the outlook include external financing, security, and confidence shocks, as well as the risk of higher interest rates, further highlighting the unsustainability of Somalia's current debt burden. Exiting this unsustainable debt situation will require debt relief, and the authorities should continue to pursue the HIPC debt relief process as a priority. Successful completion of that process holds the prospect of possibly renewed access to regular debt financing.

Authorities' Views

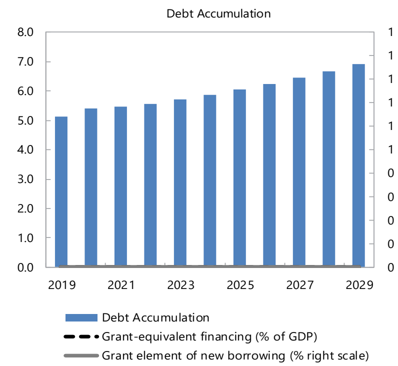
13. The authorities broadly agreed with the results of the DSA. They concurred with the underlying macroeconomic assumptions, the use of tailored shocks in response to data limitations, the projected debt paths within the analysis, and the headline debt sustainability rating. They stressed that restoring debt to a sustainable path and realizing poverty reducing real GDP growth will hinge upon completing the HIPC debt relief process. To make fast progress to that end, the authorities have prioritized efforts to fulfil the necessary prerequisites. The authorities also recognized the importance of early preparations to build debt management capacity to ensure that debt remains sustainable post-HIPC, and plan to intensify efforts to strengthen monitoring capacity, clarify the power to contract debt at the central and general government levels, and develop frameworks for the issuance of government guarantees.

Table 1. Somalia: External Debt Sustainability Framework, Baseline Scenario, 2018–2039

(in percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	99.5	99.5	99.5	99.4	99.3	99.3	99.5	103.2	128.2	29.0	100.3
of which: public and publicly guaranteed (PPG)	99.5	99.5	99.5	99.4	99.3	99.3	99.5	103.2	128.2	29.0	100.3
Change in external debt	-3.8	0.0	0.1	-0.1	-0.1	0.0	0.2	1.1	3.9		
Identified net debt-creating flows	-5.0	-3.5	-3.9	-4.2	-3.5	-3.3	-3.3	-3.4	-4.1	-5.0	-3.5
Non-interest current account deficit	8.2	3.9	3.4	3.3	4.0	4.0	3.8	2.6	-1.6	5.5	3.5
Deficit in balance of goods and services	73.7	72.6	71.1	71.4	70.6	68.8	67.2	59.7	46.9	55.4	66.8
Exports	25.9	26.8	26.5	26.2	27.0	27.0	26.9	26.8	26.6		
Imports	99.6	99.4	97.6	97.6	97.6	95.8	94.1	86.5	73.6		
Net current transfers (negative = inflow)	-66.1	-65.0	-63.8	-64.1	-62.4	-59.8	-58.1	-50.7	-38.0	-50.7	-58.3
of which: official	-36.9	-36.3	-34.7	-34.7	-33.7	-32.5	-31.4	-26.4	-18.7		
Other current account flows (negative = net inflow)	0.6	-3.6	-3.9	-4.0	-4.1	-5.0	-5.2	-6.4	-10.5	0.1	-5.0
Net FDI (negative = inflow)	-8.6	-9.0	-8.9	-9.0	-9.0	-9.0	-9.0	-9.0	-8.9	-5.5	-9.0
Endogenous debt dynamics 2/	-4.6	1.6	1.6	1.4	1.5	1.7	1.9	3.0	6.4		
Contribution from nominal interest rate	0.1	4.3	4.6	4.7	4.8	5.0	5.2	6.4	10.5		
Contribution from real GDP growth	-2.8	-2.7	-3.0	-3.3	-3.3	-3.3	-3.3	-3.4	-4.1		
Contribution from price and exchange rate changes	-1.9	...	...	...	...	...	...	...	...		
Residual 3/	1.2	3.5	4.0	4.1	3.3	3.3	3.5	4.5	8.0	1.2	3.8
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	98.6	98.7	98.9	98.9	98.9	99.1	99.4	103.2	128.3		
PV of PPG external debt-to-exports ratio	380.1	368.3	373.1	377.5	366.7	367.4	368.9	384.9	481.7		
PPG debt service-to-exports ratio	2.0	17.7	18.9	19.4	19.1	19.7	20.4	24.4	39.5		
PPG debt service-to-revenue ratio	13.3	66.4	67.5	65.8	64.2	63.8	63.3	64.7	81.0		
Gross external financing need (Million of U.S. dollars)	3.5	-17.6	-27.0	-32.2	9.3	18.5	17.6	12.2	4.6		
Key macroeconomic assumptions											
Real GDP growth (in percent)	2.8	2.9	3.2	3.5	3.5	3.5	3.5	3.5	3.5	-3.5	3.4
GDP deflator in US dollar terms (change in percent)	1.8	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.3	2.0
Effective interest rate (percent) 4/	0.1	4.6	4.9	5.0	5.1	5.3	5.5	6.6	8.9	0.1	5.6
Growth of exports of G&S (US dollar terms, in percent)	23.1	8.6	4.1	4.3	8.7	5.6	5.5	5.5	5.5	5.8	5.9
Growth of imports of G&S (US dollar terms, in percent)	1.7	4.8	3.4	5.5	5.6	3.7	3.7	3.9	3.1	5.8	4.2
Grant element of new public sector borrowing (in percent)	...									...	...
Government revenues (excluding grants, in percent of GDP)	3.9	4.2	4.5	4.9	5.2	5.6	6.0	7.7	11.1	2.4	5.9
Aid flows (in Million of US dollars) 5/	86.7	147.9	152.8	157.7	162.9	168.3	173.9	204.6	283.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	...	...	...	...	...	...	...	...
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	...	...	...	...	...	...	...	...
Nominal GDP (Million of US dollars)	4,721	4,958	5,218	5,507	5,816	6,143	6,488	8,526	14,724		
Nominal dollar GDP growth	4.7	5.0	5.2	5.5	5.6	5.6	5.6	5.6	5.6	-2.0	5.5
Memorandum items:											
PV of external debt 7/	98.6	98.7	98.9	98.9	98.9	99.1	99.4	103.2	128.3		
In percent of exports	380.1	368.3	373.1	377.5	366.7	367.4	368.9	384.9	481.7		
Total external debt service-to-exports ratio	2.0	17.7	18.9	19.4	19.1	19.7	20.4	24.4	39.5		
PV of PPG external debt (in Million of US dollars)	4652.4	4894.8	5162.9	5448.5	5754.2	6085.8	6446.0	8802.0	18891.9		
(PVt-PVt-1)/GDPt-1 (in percent)		5.1	5.4	5.5	5.6	5.7	5.9	6.9	11.1		
Non-interest current account deficit that stabilizes debt ratio	12.0	3.9	3.3	3.4	4.2	4.0	3.6	1.5	-5.5		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

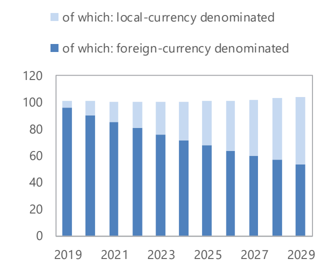
Table 2. Somalia: Public Sector Sustainability Framework, Baseline Scenario, 2018–2039

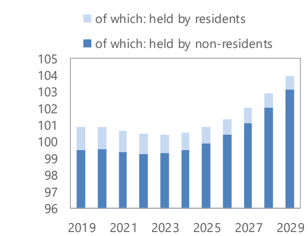
(in percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	101.0	100.9	100.9	100.6	100.5	100.4	100.6	104.0	128.7	30.2	101.4
of which: external debt	99.5	99.5	99.5	99.4	99.3	99.3	99.5	103.2	128.2	29.0	100.3
Change in public sector debt	-3.9	-0.1	0.0	-0.2	-0.2	0.0	0.1	1.1	3.9		
Identified debt-creating flows	-4.7	-0.7	-0.9	-1.3	-1.6	-1.5	-1.6	-2.3	-4.0	-4.7	-1.6
Primary deficit	0.0	-0.3	-0.3	-0.3	-0.4	-0.2	-0.3	-0.4	-0.1	0.1	-0.3
Revenue and grants	5.7	7.2	7.4	7.7	8.0	8.3	8.7	10.1	13.0	3.7	8.6
of which: grants	1.8	3.0	2.9	2.9	2.8	2.7	2.7	2.4	1.9		
Primary (noninterest) expenditure	5.7	6.9	7.1	7.4	7.7	8.1	8.4	9.7	12.9	3.8	8.3
Automatic debt dynamics	-4.6	-0.4	-0.6	-1.0	-1.2	-1.3	-1.4	-1.9	-3.9		
Contribution from interest rate/growth differential	222.5	-9.5	6.0	1.2	-2.7	0.4	0.2	-0.7	-3.2		
of which: contribution from average real interest rate	225.3	-6.6	9.2	4.6	0.7	3.8	3.6	2.7	1.0		
of which: contribution from real GDP growth	-2.9	-2.8	-3.1	-3.4	-3.4	-3.4	-3.4	-3.5	-4.2		
Contribution from real exchange rate depreciation	-227.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.8	9.7	-5.7	-1.1	2.9	-0.2	0.2	2.2	7.2	0.8	1.2
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	100.0	100.1	100.3	100.2	100.1	100.2	100.4	104.0	128.8		
PV of public debt-to-revenue and grants ratio	1,747.5	1,399.5	1,349.9	1,297.9	1,245.4	1,202.1	1,160.0	1,031.2	990.2		
Debt service-to-revenue and grants ratio 3/	9.1	66.4	67.5	65.8	64.2	63.8	63.3	64.7	81.0		
Gross financing need 4/	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	2.8	2.9	3.2	3.5	3.5	3.5	3.5	3.5	3.5	-3.5	3.4
Average nominal interest rate on external debt (in percent)	0.1	4.6	4.9	5.0	5.1	5.3	5.5	6.6	8.9	0.1	5.6
Average real interest rate on domestic debt (in percent)	-1.8	-2.0	-1.9	-1.9	-2.0	-2.0	-2.0	-2.0	-2.0	-1.3	-2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-69.4	...	...	...	...	...	...	...	...	85.5	...
Inflation rate (GDP deflator, in percent)	1.8	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-10.8	24.3	6.7	8.0	7.0	9.3	7.3	7.1	5.3	19.5	8.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.8	-0.2	-0.3	-0.1	-0.2	-0.2	-0.4	-1.4	-4.0	-32.9	-0.6
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

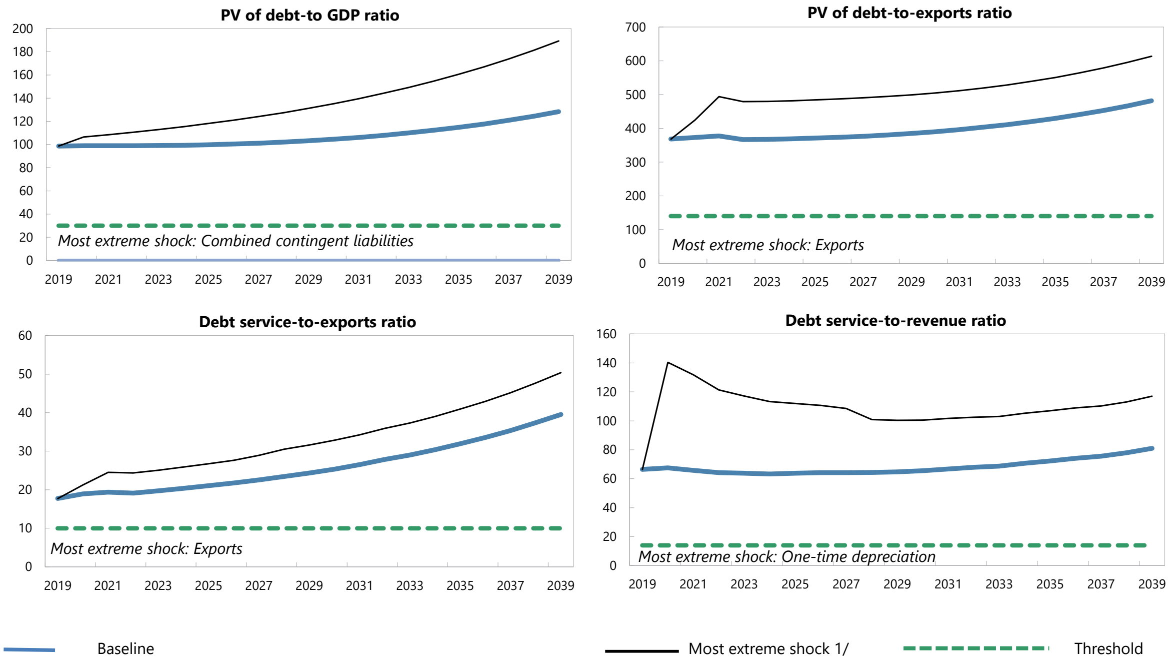
Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt . Definition of external debt is Residency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Somalia: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2019–2029



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

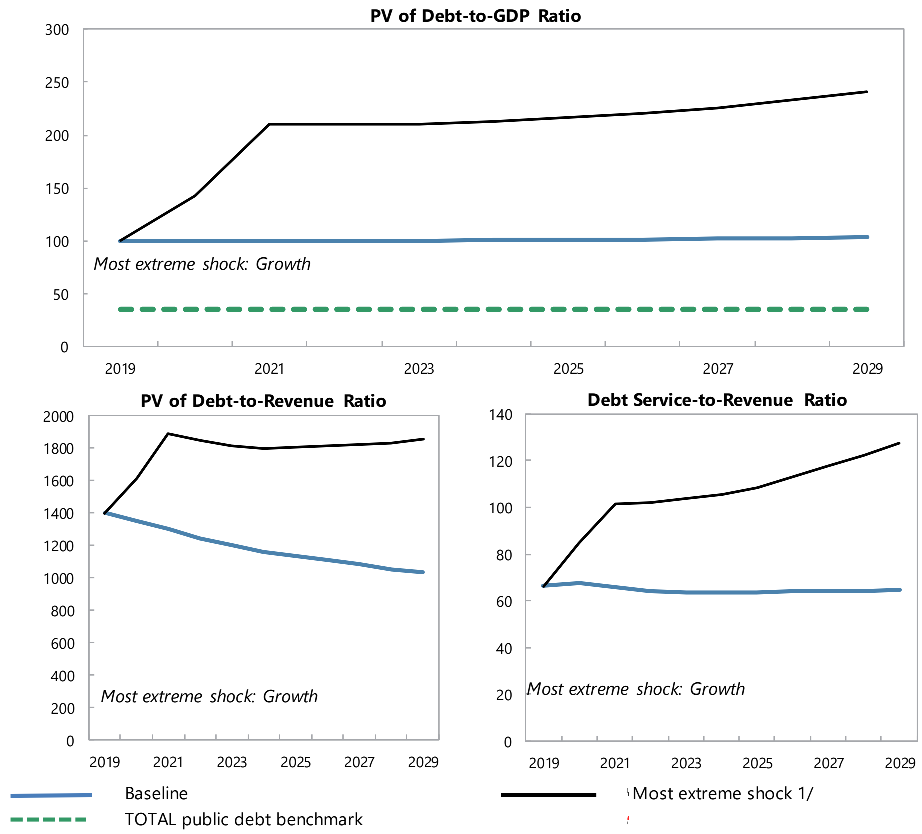
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.0%	0.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	1	38
Avg. grace period	0	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Somalia: Indicators of Public Debt under Alternative Scenarios, 2019–2029



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.0%	0.8%
Avg. maturity (incl. grace period)	1	38
Avg. grace period	0	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Somalia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–2029

(in percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	99	99	99	99	99	99	100	100	101	102	103
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	99	102	105	108	111	114	117	121	125	129	134
B. Bound Tests											
B1. Real GDP growth	99	101	104	104	104	105	105	106	107	108	109
B2. Primary balance	99	103	106	108	110	113	116	119	122	125	128
B3. Exports	99	102	106	106	106	106	106	107	108	108	109
B4. Other flows 3/	99	101	104	104	104	104	104	105	106	106	107
B5. Depreciation	99	125	115	115	116	116	117	118	119	120	122
B6. Combination of B1-B5	99	110	114	114	114	114	114	115	115	116	117
C. Tailored Tests											
C1. Combined contingent liabilities	99	106	109	111	113	115	118	121	124	128	131
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	368	373	377	367	367	369	371	374	377	380	385
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	368	383	400	399	410	422	436	450	466	482	499
B. Bound Tests											
B1. Real GDP growth	368	373	377	367	367	369	371	374	377	380	385
B2. Primary balance	368	390	404	401	410	420	430	441	453	465	478
B3. Exports	368	424	494	479	480	482	484	487	491	494	499
B4. Other flows 3/	368	382	396	384	385	386	388	390	393	396	399
B5. Depreciation	368	373	349	339	341	342	345	348	351	356	362
B6. Combination of B1-B5	368	411	398	432	433	434	436	439	441	444	448
C. Tailored Tests											
C1. Combined contingent liabilities	368	401	414	410	419	429	439	450	462	475	489
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	18	19	19	19	20	20	21	22	23	23	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	18	19	20	20	21	22	23	24	25	27	29
B. Bound Tests											
B1. Real GDP growth	18	19	19	19	20	20	21	22	23	23	24
B2. Primary balance	18	19	20	20	20	21	22	23	24	26	27
B3. Exports	18	21	24	24	25	26	27	28	29	31	32
B4. Other flows 3/	18	19	20	19	20	21	21	22	23	24	25
B5. Depreciation	18	19	19	19	19	20	21	21	22	22	23
B6. Combination of B1-B5	18	20	22	22	22	23	24	25	26	27	28
C. Tailored Tests											
C1. Combined contingent liabilities	18	19	20	20	20	21	22	23	24	25	26
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	66	67	66	64	64	63	64	64	64	64	65
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	66	112	107	102	100	98	98	98	98	99	100
B. Bound Tests											
B1. Real GDP growth	66	114	110	104	100	97	95	94	92	90	89
B2. Primary balance	114	112	106	101	97	94	94	94	94	94	94
B3. Exports	66	113	108	102	99	95	94	93	92	91	90
B4. Other flows 3/	66	111	105	100	96	93	92	90	90	90	88
B5. Depreciation	66	140	132	121	117	113	112	111	109	101	100
B6. Combination of B1-B5	66	119	115	109	105	101	100	98	99	98	97
C. Tailored Tests											
C1. Combined contingent liabilities	114	112	107	101	98	95	94	93	92	90	89
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Somalia: Sensitivity Analysis for Key Indicators of Public Debt, 2019–2029

(in percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	**100**	**100**	**100**	**100**	**100**	**100**	**101**	**101**	**102**	**103**	**104**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	**100**	**102**	**108**	**114**	**122**	**130**	**140**	**151**	**164**	**178**	**195**
B. Bound Tests											
B1. Real GDP growth	**100**	**142**	**210**	**210**	**211**	**213**	**216**	**221**	**226**	**233**	**240**
B2. Primary balance	**100**	**96**	**95**	**93**	**92**	**92**	**92**	**92**	**93**	**95**	**96**
B3. Exports	**100**	**102**	**104**	**104**	**104**	**104**	**104**	**105**	**106**	**106**	**107**
B4. Other flows 3/	**100**	**103**	**105**	**105**	**105**	**105**	**105**	**106**	**106**	**107**	**108**
B5. Depreciation	**100**	**125**	**121**	**117**	**114**	**112**	**110**	**108**	**107**	**107**	**107**
B6. Combination of B1-B5	**100**	**108**	**121**	**118**	**114**	**111**	**108**	**106**	**104**	**104**	**103**
C. Tailored Tests											
C1. Combined contingent liabilities	**100**	**99**	**97**	**96**	**95**	**94**	**94**	**95**	**96**	**97**	**99**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	1,400	1,350	1,298	1,245	1,202	1,160	1,135	1,112	1,082	1,053	1,031
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	1,400	1,344	1,327	1,318	1,321	1,331	1,366	1,408	1,451	1,500	1,563
B. Bound Tests											
B1. Real GDP growth	1,400	1,613	1,886	1,844	1,816	1,796	1,801	1,813	1,822	1,834	1,857
B2. Primary balance	1,400	1,293	1,225	1,159	1,106	1,059	1,034	1,012	988	967	954
B3. Exports	1,400	1,368	1,347	1,292	1,247	1,202	1,176	1,151	1,119	1,086	1,061
B4. Other flows 3/	1,400	1,382	1,361	1,305	1,258	1,214	1,187	1,162	1,128	1,095	1,069
B5. Depreciation	1,400	1,744	1,617	1,502	1,407	1,322	1,266	1,216	1,164	1,117	1,080
B6. Combination of B1-B5	1,400	1,390	1,410	1,321	1,241	1,167	1,114	1,069	1,024	985	954
C. Tailored Tests											
C1. Combined contingent liabilities	1,400	1,332	1,258	1,190	1,136	1,088	1,061	1,039	1,015	994	982
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	66	67	66	64	64	63	64	64	64	64	65
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	66	71	72	74	78	82	87	94	101	108	116
B. Bound Tests											
B1. Real GDP growth	66	84	101	102	104	105	108	113	117	122	127
B2. Primary balance	66	68	67	65	65	65	66	68	69	70	72
B3. Exports	66	67	66	65	64	64	64	65	65	67	67
B4. Other flows 3/	66	67	66	65	65	64	65	65	66	67	67
B5. Depreciation	66	78	90	89	88	88	89	92	94	96	98
B6. Combination of B1-B5	66	72	77	76	76	76	76	77	78	78	79
C. Tailored Tests											
C1. Combined contingent liabilities	66	68	67	66	66	66	66	67	67	68	68
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

SOMALIA

June 28, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM, AND REQUEST FOR NEW STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department (in consultation with other departments)

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(As of April 30, 2019)

Somalia the IMF: https://www.imf.org/en/Countries/SOM

Somalia's Financial Position in the Fund:
https://www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=870&date1key=2099-12-31

Somalia's Exchange Rate Arrangement:
There have been no changes since the 2017 Article IV discussion nor since the last published AREAER: https://www.elibrary-areaer.imf.org/Pages/Reports.aspx

Article IV Consultation:
The Executive Board concluded the last Article IV Consultation with Somalia on February 21, 2018 (the fourth since November 18, 1989).

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

(As of April 30, 2019)

Somalia and the World Bank: http://www.worldbank.org/en/country/somalia

Somalia and the Multi-Partner Fund–Supported by the World Bank: https://somaliampf.net/

World Bank Projects:
http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=SO

Somalia and the African Development Bank:
https://www.afdb.org/en/countries/east-africa/somalia

COUNTRY ENGAGEMENT STRATEGY

(As of April 30, 2019)

In line with the 2018 Management Implementation Plan on the IMF's engagement with fragile states[1], a forward-looking holistic engagement strategy has been developed for Somalia that integrates policy advice and capacity building.[2] The overarching objective of the engagement strategy is to support the authorities' economic recovery and institution-building agenda and facilitate Somalia's re-engagement with international financial institutions (IFIs). It identifies challenges posed by a difficult social and economic context, notably insecurity, political risks, a youthful population faced with pervasive poverty, heightened vulnerability to climate shocks, and the need to develop government and macroeconomic institutions under severe resource constraints and/or volatile aid flows. Furthermore, the political-economic setting is further complicated by an ongoing dialogue between the Federal Government and the Federal Member States on a range of issues including the shape of fiscal federalism.

The engagement strategy aims to address Somalia's vast needs and serious challenges through a comprehensive, yet adaptive approach anchored upon a detailed capacity development strategy and successive IMF Staff Monitored Programs (SMPs). It centers upon an overarching road map of economic and financial reforms that includes specific sector plans, which have been developed with other IFIs and across Fund departments. SMPs complement these plans by setting out specific short-term goals that align with capacity constraints and the need to catalyze donor support. To ensure effective coordination and sequencing, and make modifications to reflect changing realities, the engagement plans are regularly updated through the IMF's representation at donor meetings/roundtables and its participation in the Financial Governance Committee (which brings together donors and the authorities to discuss technical reforms issues). A further venue for coordination has been through the multi-donor-funded Somalia Country Fund for Capacity Development in Macroeconomic Policies and Statistics, which since 2015 has been instrumental in financing the delivery of the IMF's extensive technical assistance and training program (see Annex I). A dedicated outreach plan has also been developed in support of the IMF's engagement to provide frequent interactions with stakeholders, including NGOs working in Somalia.

[1] https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/10/04/pp-mip-the-imf-and-fragile-states

[2] Somalia is in protracted arrears on its obligations to the IMF, so is not currently eligible for a Fund financing arrangement.

STATISTICAL ISSUES

(As of April 30, 2019)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that makes surveillance challenging. Data gaps are caused by institutional weaknesses and weak capacity, and poor source data. The Somali authorities envisage the creation of a Somali National Bureau of Statistics (SNBS) through the passage of the National Statistics bill, currently before parliament, to create the institutional framework for a more centralized and formal generation of statistical data.
National Accounts: STA in collaboration with MCD and the World Bank have re-estimated new GDP series for 2013–16. Estimates for government final consumption expenditure and public investment are derived from the FGS and five Federal Member States (FMS) accounts (Galmudug, Hirshabelle, Puntland, Jubbaland, and South West State) and the non-member Somaliland. Household final consumption used the World Bank 2016 high frequency household. There is currently an effort to re-estimate the series again using the World Bank's 2017 high frequency survey. Estimates for private capital formation are based upon imports of machinery and construction material from counter-party trade data. A labor force survey is expected to be conducted later in 2019, with the support of ILO, and the FGS continues to seek TA to address data gaps and intends to commence reporting of basic IFS data to the IMF as they become available. The World Bank is starting a project with the authorities to estimate a production-based GDP series.
Price Statistics: The FGS publishes monthly Consumer Price Index (CPI) online. MCD and STA have helped developed new CPI series using the World Bank 2016 high frequency household, which is also supported by Statistics Sweden. The new series include basket of 419 items (312 items previously). With STA support, progress is being made on improving the expenditure weights for the CPI and expanding the national coverage of the CPI, including Puntland while continuing to improve the CPI quality. Somalia does not have a producer price index (PPI).
Government Finance Statistics: FGS commenced use of an automated financial management information system (FMIS) in 2015 to replace the previous manual recording of fiscal operations. A mapping between the underlying chart of accounts and GFS items was developed with technical assistance from the IMF, and progress towards the Treasury Single Account (TSA) by closing unnecessary MDA accounts and mapping them to SFMIS is complete. The Minister of Finance has indicated a desire to present a consolidated Federal budget (for the FGS and FMSs together); a GFS technical mission discussed this with the authorities in January 2018. Somalia does not currently have any significant public trading enterprises.
Monetary and Financial Statistics: Financial sector data is currently being reported regularly, and data quality is steadily improving. A preliminary monetary survey is complete, and CBS financial reporting is improving. Commercial banks have been reporting balance sheet data on a quarterly basis since 2017 While neither is consistent with IFRS, the CBS is on track to make its balance sheet IFRS complaint by end of 2019. Data is also now reported on a quarterly basis on cross-border flows through money transfer bureaus (MTBs). Looking ahead, financial information will need to be collected from mobile money operators and incorporated into the monetary survey once supervision by the CBS is operational.
Financial Sector Surveillance: With the continued implementation of the financial sector roadmap aimed at reforming and developing the financial sector, financial sector surveillance has improved but much work remains. Developing the financial infrastructure including a central payments system and expanding reporting requirements to MTBS and mobile money operators remain key priorities.

External Sector Statistics: Statistics on external debt, international trade and remittances from MTB's have also advanced, while preliminary steps to improve data on other current transfers and income, as well as foreign direct investment, have also been taken. A time series for annual Balance of Payments has been compiled for 2013–16. Results are largely based on third party data and dependent upon qualitative assessments of the authorities and broad assumptions applied to existing data. Estimates for imports and exports of goods and services are based upon counter-party data. An FDI survey is expected to be rolled out by September 2019, and the ongoing customs administration reforms including the implementation of HS codes, front-end customs declaration process and automation are expected to improve data on the trade in goods via the port of Mogadishu in 2019. Off-budget grants data have been updated employing the World Bank report on aid flow mapping and the budgetary grants are obtained from the FGS fiscal data reporting. The Aid Information Management Systems (AIMS), expected to be rolled out in June 2019 will further strengthen Aid reporting. Remittance data for 2013 was compiled using counter-party bank data. The MTBs survey initiated in 2017, is expected to replace the third-party data and further improve remittances data. Trade in services is comprised by the CIF portion of goods trade and travel, employing data from the Immigration Department. An estimate of Somalia's reserves will be available when balance sheet data from the CBS are audited and published. The construction and reconciliation of the FGS external debt database is well advanced, in preparation for a full Debt Sustainability Analysis (DSA) and the preparation of an arrears clearance strategy.

II. Data Standards and Quality

Somalia does not participate in the enhanced General Data Dissemination System (e-GDDS).	No data ROSC is available.

III. Reporting to STA

No data in the format of SRFs have been received by STA.

Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[7]	Memo Items: Data Quality–Methodological Soundness[8]	Memo Items: Data Quality–Accuracy and Reliability[9]
Exchange Rates[1]	3/2019	4/2019	D	n.a.	n.a.	n.a.	n.a.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	12/2017	01/2018	M	M	n.a.	n.a.	n.a.
Reserve/Base Money[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Broad Money[1]	n.a.	n.a.	n.a.	n.a.	n.a.		
Central Bank Balance Sheet[2]	09/2017	01/2018	M	M	n.a.		
Consolidated Balance Sheet of the Banking System	n.a.	n.a.	n.a.	n.a.	n.a.		
Interest Rates	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Consumer Price Index	04/2019	05/2019	M	n.a.	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government[4]	3/2019	4/2019	M	n.a.	n.a.		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2018	5/2019	n.a.	n.a.	n.a.	n.a.	n.a.
External Current Account Balance	12/2016	12/2017	A	A	n.a.	n.a.	n.a.
Exports and Imports of Goods and Services[5]	12/2016	12/2017	A	A	n.a.		
GDP/GNP[5]	12/2016	12/2017	A	n.a.	n.a.	n.a.	n.a.
Gross External Debt	12/2016	01/2018	A	n.a.	n.a.	n.a.	n.a.
International Investment Position[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: The Somali authorities have provided fiscal, exchange rates, and public external debt data to the mission team during staff visits and this consultation.

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] This reflects the assessment provided in the data ROSC or the Substantive Update for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

INTERNATIONAL MONETARY FUND

SOMALIA

July 22, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM, AND REQUEST FOR NEW STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX—FUND RELATIONS

Prepared By	Middle East and Central Asia Department (in consultation with other departments)

This staff supplement expands the specific details on key aspects of Fund relations with Somalia in line with the information published on the Fund's website.

FUND RELATIONS

(As of June 30, 2019)

Membership Status: Joined: August 31, 1962; Article XIV

General Resources Account	SDR Million	Percent Quota
Quota	44.20	100.00
Fund holdings of currency (exchange rate)	140.45	317.77
Reserve position in Fund	0.00	0.00

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation 1/	46.46	100.00
Trust Fund	17.74	38.18

1/ Excluding SDRs allocate and placed in escrow account under the Fourth Amendment of the IMF's Articles of agreement (SDR 4,156,315), such holdings will be available to Somalia upon the settlement of all overdue obligations to the Fund

Outstanding Purchases and Loans	SDR Million	Percent Quota
Stand-by Arrangements	67.72	153.22
Trust Fund	6.46	14.62
SAF Loans	8.84	20.00
Contingency and Compensatory	28.53	64.54

Outstanding Purchases and Loans	SDR Million	Percent Quota
Stand-by Arrangements	67.72	153.22
Trust Fund	6.46	14.62
SAF Loans	8.84	20.00
Contingency and Compensatory	28.53	64.54

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
SAF	Jun 29, 1987	Jun 28, 1990	30.94	8.84
Stand-By	Jun 29, 1987	Jun 28, 1988	33.15	5.53
Stand-By	Feb 22, 1985	Sep 30, 1986	20.10	20.10

Overdue Obligations and Projected Payments to the IMF (SDR Million) 2/ Overdue (as of 6/30/2019)						
		2019	2020	2021	2022	2023
Total	**242.02**	**1.96**	**1.97**	**1.97**	**1.97**	**1.97**
Principal	111.55					
Charges/Interest	130.47	1.18	2.29	2.29	2.29	2.29

2/ The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

Implementation of HIPC Initiative: Not yet reached decision point.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.

Implementation of Catastrophe Containment and Relief (CCR): Not applicable.

Exchange Rate Arrangement

The official currency of Somalia is the Somali shilling (SOS). The de jure exchange rate arrangement is undetermined. Due to the absence of administrative measures controlling the level of the exchange rate and the inoperative status of the CBS in the foreign exchange market, the de facto exchange rate arrangement is classified as free-floating. The de facto currency is the U.S. dollar, which is used for the majority of transactions. The U.S. dollar banknotes are used as cash currency with Somali banknotes serving as a sub-denomination. Banks transact only in U.S. dollars. Mobile phone payments, which are widely used, are also only denominated in U.S. dollars. The Somali shilling, which is virtually all counterfeit, is used only for small cash payments, particularly in remote areas. Also, neighboring countries' currencies are used in border areas. Residents exchange U.S. dollars and shillings at a freely determined market exchange rate. This rate varies across federal member states (the Federal Government of Somalia is a federation of five states, excluding Somaliland and Banadir region). The domestic exchange markets have remained generally stable across states. For example, in Mogadishu, the SOS/U.S. exchange rate has averaged 23,292 with a standard deviation of 918 since January 2015 using monthly quotes.

Somalia still avails itself of the transitional arrangements of Article XIV; however, it no longer maintains restrictions under Article XIV. At the time of Somalia's 1989 Article IV consultation, the following measures subject to Fund's approval under Article VIII remained in effect: (i) a multiple currency practice and exchange restricting arising from the imposition of a 10 percent levy on all applications for purchases of foreign exchange under the commodity import program, (ii) a multiple currency practice arising from different exchange rates applicable to official transactions and to transactions in external accounts and to import/export accounts, and (iii) an exchange restriction evidenced by some external payments arrears. However, based on the information provided by the authorities and gathered by staff, staff understand that these measures are no longer in effect. Staff will continue to monitor developments in the exchange system and encourage the authorities to take the necessary steps to accept their obligations under Article VIII at the appropriate time.

Statement by Mr. Mahlinza on Somalia
July 22, 2019

Introduction

1. Our authorities welcome the deepening engagement with the Fund and the constructive dialogue with staff during the recent mission. They broadly share staff's appraisal and agree with the key policy recommendations.

2. Steady improvements in Somalia's public institutions and security conditions have helped in maintaining political and economic stability. Since the formation of a permanent government in 2012, Somalia has made remarkable strides in improving macroeconomic conditions, rebuilding policy and institutional infrastructure, and improving security outcomes. At the same time, the authorities have taken steps to address the security challenges, which have receded in recent times, reflecting in part, the increased effectiveness of the Somalia National Army (SNA), and strong support from the African Union Mission in Somalia (AMISOM).

3. The authorities remain committed to reform implementation. As part of an effort to entrench macroeconomic stability, address poverty, and achieve sustainable growth, Somalia has continued to implement bold reforms, supported by three successive IMF Staff Monitored Programs (SMP). Building on this experience, the authorities aim to establish a strong performance record that meets upper credit tranche (UCT) conditionality through the implementation of the fourth SMP. Considering the key objective to meet the HIPC decision point requirements, the authorities are finalizing the ninth National Development Plan (NDP9), which seeks to reduce the incidence of poverty and support inclusive growth. To this end, the authorities seek the Executive Board's endorsement of the fourth SMP.

Program Performance

4. Performance under the third SMP has been solid. The authorities met and exceeded all 2018 indicative targets for June, September, and December and those for March 2019. Furthermore, all but one structural benchmarks (SB) have been met. The missed benchmark involved renegotiation of two contracts with two foreign companies that manage the Mogadishu airport and the seaport. Despite good faith efforts, the authorities were unable to conclude both negotiations before the test date. Nevertheless, negotiations of the airport management contract have since been concluded and a new contract has been signed. Negotiations of the seaport management contract are still on-going and expected to be concluded soon.

Recent Economic Development and Outlook

5. **Recovery from the severe 2017 drought continues.** The economy grew by 2.8 percent in 2018, up from 1.4 percent in 2017, driven by improved activity in the agriculture sector, telecommunications, trade, construction, and the financial sector. The recovery in livestock exports following the 2017 drought narrowed the current account deficit slightly to 8.3 percent of GDP in 2018, down from 9 percent of GDP in 2017. With no access to external debt, and reserves at less than a month of import cover, the trade deficit was financed primarily through grants and remittances. Inflation declined from 6.1 percent in 2017 to 3.2 percent in 2018 and is expected to decline further to 3.0 percent in 2019. Looking ahead, GDP growth is expected to reach 2.9 percent in 2019, subject to favorable weather conditions. Over the medium-term, growth is projected to stabilize at around 3.5 percent, subject to continued security improvements and political stability. However, the economy remains vulnerable to disruptive climate shocks, and food insecurity.

Policy Priorities and Reforms

The authorities intend to press ahead with a wide-range of coherent macroeconomic, structural, and institutional reforms geared at rebuilding the nation's policy and institutional infrastructure. To mitigate against reform fatigue and overcome political impediments, a Ministerial level SMP monitoring committee chaired by the Deputy Prime Minister has been established.

Fiscal Policy, PFM Reforms and Debt Relief

6. **The authorities remain committed to a medium-term fiscal framework, underpinned by robust revenue mobilization and improved tax administration.** The 2019 Revenue Bill, currently in Parliament, aims to intensify efforts to improve sales tax collection by expanding the tax to federal states. Further, the authorities plan to strengthen the large and medium-sized taxpayers' office (LMTO) to enhance tax compliance. Going forward, the authorities intend to modernize customs processes to support the implementation of an ad valorem tax schedule and a new harmonized system of customs tariffs. These reforms are expected to boost Government revenue collection over the medium-term.

7. **Expenditure restraint will continue to underpin the fiscal outlook.** To strengthen expenditure management, the authorities aim to maintain wages, and goods and services expenditure within current parameters, while creating space for increased development and social spending to support the new NDP9. Going forward, the authorities intend to build a fiscal buffer sufficient to cover one month of wages and critical security-related expenditures. The buffer will cover any budget shortfalls resulting from fluctuations in domestic revenue and grants.

8. **Sustained efforts to strengthen public financial management (PFM) will continue under the new SMP.** The authorities recognize the need to sustain the progress

made over the past few years to rebuild the Somalia PFM system – supported by the 2013-16 PFM Action Plan developed with World Bank TA. Going forward, the authorities will strengthen commitment and expenditure controls, enhance debt management capacity and continue to promote the efficient use of resources. The authorities are also committed to enact a new PFM Bill, which is currently in the senate, following approval by the lower house. They also plan to amend the 2016 Public Procurement, Concessions, and Disposal Act and issue associated regulations by early 2020. At the same time, they are prioritizing implementation of reforms aimed at improving institutional capacity for budget preparation and execution, cash forecasting and management, debt management, and reducing cash advances.

9. Achieving the HIPC decision point remains an urgent priority. Somalia remains in debt distress, with public debt at 100 percent of GDP. To reach the Decision Point under the HIPC initiative, the Somali authorities have implemented far-reaching reforms under a challenging environment. They remain committed to work diligently towards normalizing relations with International Financial Institutions (IFIs). To this end, they are pursuing a number of preparatory activities including debt reconciliation and finalization of an IPRSP compliant National Development Plan consistent with the requirements for HIPC decision point. They are also determined to establish a solid track record under the new UCT quality SMP.

Financial Sector Policies

10. The authorities remain committed to strengthening financial stability and improving bank supervision. In this respect, the CBS will be developing a transitional plan for the new organizational structure, which takes into account the growth in the financial sector. To improve supervision, the CBS is preparing guidelines on operational risk, agent banking, and accounting standards for Islamic banking. Further, building on the substantial progress made in accounting and internal audit capacities, the CBS will develop an accounting manual and a plan for IFRS compliance, which is expected by the end of 2019.

11. The Currency reform agenda remains a key priority. The authorities view a phased currency reform agenda as prudent and critical to facilitate small transactions. To ensure successful currency reforms, the CBS will develop a detailed project management framework, finalize a communication strategy, and operationalize an accountability framework.

12. A well-regulated mobile money sector is critical for financial stability. In this respect, the CBS is taking the necessary actions to regulate the sector. They plan to issue mobile money regulations by the end of July 2019. In the meantime, the Telecommunications Authority, which became operational in 2018, immediately began exerting regulatory control over the telecommunications sector, issuing annual licenses to those meeting regulatory requirements.

Structural Reforms

13. Strengthening fiscal federalism in Somalia remains a key government priority. In this respect, the National Security Council, which brings together Federal Government of Somalia (FGS) and Federal Member States (FMS) leaders, and the Intergovernmental Fiscal Forum, comprising Finance Ministers from FMS, have continued to provide political leadership on constitutional and governance issues. In addition, a Council of Ministers Inclusive Politics Forum has been established to lead the technical work on constitutional review, including determining an appropriate fiscal federalism model for Somalia. Further, a Revenue Harmonization, Revenue Administration, and Statistics Bills, has been tabled before Parliamentary.

14. The authorities recognize the importance of an equitable sharing of revenue streams from Somalia's rich natural resources. In this context, a landmark natural resources management and resource sharing agreement was concluded in June 2018. In addition, a fisheries license revenue sharing agreement was concluded in March 2019, building on the 2018 agreement that created a transparent fisheries licensing regime. Further, a Petroleum Bill has been approved by the lower house of the Parliament and is currently being considered by the Senate. Further, the authorities are committed to adopting Extractive Industry Tax provisions and developing a strategy for auctioning oil blocks, before issuance of exploration licenses.

15. Work on strengthening the AML/CFT framework is advancing. Since the passage of the AML/CFT Law in 2016, tangible progress to build the legal and administrative structures to improve compliance has been made, including the establishment of Financial Reporting Center, development of regulations to cover other financial institutions including MMOs and preparation of a Targeted Financial Sanction Law. With the support of the Fund and the World Bank, the authorities have developed a comprehensive and well sequenced AML/CFT action plan that will guide the next stage of reforms.

16. Improving overall governance and fighting corruption remains high on Government's agenda. The authorities recognize that fighting corruption and improving governance is a long-standing challenge that requires concerted institutional efforts and a cultural change. To this end, an Anti-Corruption Law has been approved by both houses of Parliament while an Audit Bill is presently with the Senate, following its approval by the lower house of Parliament. Furthermore, an anti-corruption commission will be established as soon as the enabling legislation is enacted. The authorities are determined to sustain efforts to improve the justice system, including policing, with support from the UNDP.

Conclusion

17. Our Somali authorities reaffirm their commitment to implementing far reaching reforms under the new SMP. They view strong economic and political institutions as instrumental to delivering long term growth and reduce poverty. In this regard, they value continued engagement and support from the Fund and international community.