



SOMALIA

November 2019

FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM—PRESS RELEASE; AND STAFF REPORT

In the context of the First Review Under the Staff-Monitored Program with Somalia, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's information, following discussions that ended on September 13, 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 October 21, 2019.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Somalia*
Memorandum of Economic and Financial Policies by the authorities of Somalia*
Technical Memorandum of Understanding*
*Also included in Staff Report

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 Management Complete the First Review Under the Staff-Monitored Program with Somalia

On September 23, 2019, the Management of the IMF completed the first review under the fourth Staff-Monitored Program¹ (SMP IV) with Somalia, which covers the period May 2019–July 2020. Reforms in SMP IV focus on further efforts to mobilize revenues, including across the Federal Member States, strengthen public financial management, enhance financial sector stability, and strengthen compliance with the framework for anti-money laundering/ combatting the financing of terrorism.

The authorities' strong commitment and program implementation has strengthened capacity despite a challenging environment. Sustaining the stated commitment of the Finance Ministers of all the Federal Member States (FMS) to the goals of the program will be critical to mitigating program implementation risks.

Underlying economic growth remains stable, supported by donor support and the ambitious and broad reform agenda. However, insecurity and recurring drought represent key risks to the outlook, and, despite progress, growth is insufficient to substantially reduce poverty.

The fiscal policy framework continues to strengthen, with domestic revenue mobilization reaching \$126 million in the year to July 2019 exceeding the indicative target of \$111 committed to in the program. Continued progress on public financial management, including to strengthen expenditure controls and pass the updated Public Financial Management Law, will be key to continuing to improve governance and donor confidence.

Financial stability reforms are deepening. New mobile money regulations are welcome, and implementation will be key for supporting financial stability. Continued efforts to expand the operational and organizational capacity of the Central Bank of Somalia will underpin further development of the financial sector more broadly.

¹ An SMP is an agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail endorsement by the IMF Executive Board. The SMP is supported by quantitative performance measures, indicative targets and structural measures.

Reducing Somalia's debt to sustainable levels under the Heavily Indebted Poor Countries (HIPC) Initiative and normalizing relations with international financial institutions will unlock access to additional financial resources to address Somalia's development needs. Achieving this goal in a timely manner will require a concerted effort on the part of both the authorities and the international community. To reach the HIPC Decision Point, the authorities are developing the necessary track-record in the context of the SMP IV, and work on the authorities' ninth National Development Plan, which will form Somalia's interim poverty reduction strategy, is complete. Securing sufficient financing commitments for arrears clearance and debt relief is also required. The IMF fully supports this goal and is working with its membership to secure the necessary financial resources to cover the IMF's costs of debt relief.

Table 1. Somalia: Selected Economic and Financial Indicators, 2015–22
(Main Export: Livestock)

					Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022
National income and prices								
Nominal GDP in millions of U.S. dollars	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	4.0	3.0	2.5	2.2
Central government finances 1/								
Revenue and grants	3.5	4.1	6.0	5.7	6.9	7.2	7.4	7.7
<i>of which:</i>								
Grants	0.7	1.4	2.8	1.8	3.0	2.9	2.9	2.8
Expenditure, <i>of which:</i>	3.3	4.1	6.6	5.7	6.9	7.0	7.2	7.5
Compensation of employees 2/	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
Central bank summary balances								
Foreign assets (gross)	68.6	60.9	89.2	#VALU E!	...	...	...	...
Gross reserves of the central bank	42.6	41.8	48.1	51.1				
Net foreign assets, excl. IMF 3/	21.6	21.6	24.0	11.3	...	...	...	...
CBS liabilities to government	7.0	5.0	29.0	39.5	...	...	...	...
Balance of payments								
Current account balance	-8.3	-9.4	-9.8	-10.3	-12.8	-12.7	-13.1	-13.7
Trade balance	-75.2	-74.4	-86.7	-84.8	-87.1	-84.2	-81.8	-78.8
Exports of goods and services	25.6	25.2	22.6	23.7	23.0	22.8	21.9	21.8
Imports of goods and services	100.7	99.6	109.2	108.5	110.1	107.0	103.7	100.6
Remittances	32.9	32.5	31.5	31.3	30.9	31.2	31.4	30.8
Grants	34.9	33.3	46.1	43.9	44.1	41.0	38.0	35.1
Foreign Direct Investment	7.4	7.9	8.2	8.6	9.0	8.9	9.0	9.1
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/ Budget data for the Federal Government of Somalia. Fiscal operations are recorded on a cash basis. GDP data cover the entire territory of Somalia.

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

3/ Program definition per TMU 119.



SOMALIA

FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM

October 21, 2019

EXECUTIVE SUMMARY

Background and context. Implementation of the new SMP IV is satisfactory and the economic outlook is in line with expectations. The underlying growth momentum continues, supported by ongoing reforms; however, lower than expected rains in late 2018 and the first half of 2019 threatens Somalia's already fragile food security and the UN has indicated that up to 2.1 million people face severe hunger through December 2019. The authorities are progressing on the HIPC Decision Point benchmarks, and these efforts must be sustained.

Policy discussions. In line with their commitments under SMP IV, the authorities plan to issue a supplementary budget for 2019 that incorporates the better-than-expected year-to-date domestic revenue performance. The outline of the 2020 budget is in line with the program and includes an allocation for payments to the Fund and other key IFIs to demonstrate the authorities' commitment to normalizing relations with the IFIs. All structural benchmarks and all but one indicative target for this review were met. To ensure the continued strong implementation of the program, the authorities clarified the guidelines governing the use of the fiscal buffer and confirmed they had introduced additional controls to protect the floor on net foreign assets.

Program and other risks. Underlying risks to the program are broadly in line with the June 2019 staff report. However, renewed cooperation between the federal government and the member states at both the level of Finance Ministers and the technical level has somewhat reduced the risks to reforms that require broad political support. The authorities are increasing their outreach to donors to garner support for debt relief, including during a high-level meeting on Somalia in the margins of the UN General Assembly in late September and at the Somalia Partnership Forum in early October. However, securing sufficient financing assurances to cover the IMF's share of debt relief remains a challenge.

Approved By
**Thanos Arvanitis and
 Nathan Porter**

Discussions were held in Addis Ababa, Ethiopia during September 9-14, 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 Finance Minister Mr. Abdirahman Beileh; Minister of Planning, Investment, and Economic Development, Mr. Gamal Hassan; Central Bank Governor Mr. Abdirahman Abdullahi; and other officials. Mr. Abdulqafar Abdullahi, (OED) participated in key policy meetings. The mission also met with Finance Ministers and other representatives of the federal member states of Somalia and bilateral and multilateral partners.

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BACKGROUND AND CONTEXT

1. Somalia continues to make progress towards the requirements for debt relief under the Heavily Indebted Poor Country (HIPC) Initiative. Following the successful completion of the third Staff-Monitored program (SMP III), a fourth successive SMP (SMP IV) was approved by management on June 26, 2019, which Executive Directors agreed meets upper credit tranche conditionality standards. This endorsement has opened the way for the authorities to establish the necessary policy track record for a new IMF financial arrangement and the HIPC Decision Point (DP), one of the key HIPC benchmarks. In addition, work on developing the 9th National Development Plan (NDP9), which will be the foundation for the required poverty reduction strategy is near completion. Outreach to inform and mobilize the fund-raising necessary to clear Somalia's arrears and normalize relations with the international financing institutions (IFIs) has also begun. This last step is especially crucial for the IMF and African Development Bank (AfDB) since members will need to commit the financial resources to cover their respective costs of debt relief before the DP can be reached.¹ While donors have been supportive, firm commitments have been lacking thus far. Technical preparations are proceeding, including a joint IMF-World Bank (WB) debt reconciliation mission took place in July.

2. The political and security situation in Somalia remains fragile, amid a prolonged election cycle. Political tensions between the federal government (FGS) and federal member states (FMS) appear to be focused on the issues of electoral reform, and on the broader question of the model of federalism in the context of the ongoing constitutional review. Nevertheless, there are positive signs of cooperation across the FGS and FMS in specific policy areas like investment promotion and on the NDP9. In addition, the FGS and FMS Finance Ministers met and agreed to support the economic and financial reforms required by the HIPC process, irrespective of any political differences,² and technical work between FGS and FMS counterparts on customs reforms and fiscal reporting is progressing. Tensions with Galmudug have eased, a peace and reconciliation process is underway, and elections are expected to be rescheduled for the end of the year. Despite targeted terrorist attacks in July, the Jubaland elections on August 22 were conducted peacefully and, although relations with Jubaland are strained, the President has stated his intention to support the HIPC debt relief process.³ Following months of difficult relations, the lower and upper houses of the Federal Parliament announced a resumption of cooperation in July.

3. Climate shocks continue to pose significant humanitarian challenges. Somalia has experienced lower than normal rainfall in the fourth quarter of 2018 and first half of 2019. This has negatively affected food security and contributed to continued internal displacement and rising

¹ In contrast, the World Bank (WB) already has sufficient financial resources in place, including a commitment from a donor with respect to the bridge loan. Please find additional details in IMF [country report no. 19/256](#).

² The Ministers met in the margins of an IMF-World Bank-EU workshop on the HIPC process held in Addis Ababa on September 14. A joint press release confirmed these commitments and their agreement to resume meeting on a regular basis, with the next meeting intended to take place within three months.

³ In a televised address on September 12, 2019.

urbanization. The UN has issued a severe food insecurity alert through December 2019, with almost half of the \$1.1 billion humanitarian response plan funded as of mid-September. To reduce vulnerability to these shocks over the medium-term, the authorities launched their Recovery and Resilience Framework (RRF) in June, with the key recommendations also reflected in the draft NDP9.

ECONOMIC DEVELOPMENTS

4. Real economic growth remains stable.

Real GDP growth is projected at 2.9 percent in 2019 (from 2.8 percent in 2018); this assumes continued support from development and humanitarian partners, and better rainfall in the second half of the year. The ongoing humanitarian response is expected to limit the drought-indexed increase in food prices, with inflation is projected to increase to 4.0 percent for 2019, before easing back to 3.0 percent in 2020.

5. Fiscal performance through July remained strong.

Domestic revenue mobilization has been robust with revenue collection of \$126 million, exceeding the July 2019 indicative target (IT) of \$111 million. Multilateral grants are also on track. In parallel, expenditure restraint, aided by improving cash forecasting, has continued to contain spending within the funds available. Overall, this has resulted in a fiscal surplus of \$4.3 million through July 2019, with no accumulation of new domestic expenditure arrears, contraction of new domestic debt or new non-concessional borrowing as required under SMP IV. The authorities also implemented the Somalia Standard Administrative Document (SSAD) for customs and issued guidelines for the recently established fiscal buffer.

6. Financial activity continues to expand. Growth of deposits in the banking sector and credit to the private sector remained robust at about 30 and 12 percent year-on-year, respectively. In parallel, banks' capitalization increased to over 15 percent in June 2019, and Central Bank of Somalia (CBS) supervision capacity continues to deepen. To continue supporting financial stability, the CBS issued regulations covering the mobile money sector on June 27, 2019. In addition, the CBS is preparing to implement its re-organization and capacity-building plan, developed with the support of IMF technical assistance (TA).

Text Table 1. Somalia: Selected Economic Indicators, 2016–20
(Percent of GDP, unless otherwise indicated)

	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	4.0	3.0
Fiscal 1/					
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 2/	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	-8.0	-7.7
Trade balance	-74.5	-80.5	-73.7	-72.3	-70.7
Remittances	32.5	31.5	29.2	28.8	29.1
Grants	33.3	40.8	36.9	36.2	34.6
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/ Cash basis. Budget data for the Federal Government of Somalia (FGS); GDP data covers all of Somalia.

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

7. Somalia’s external position remains stable, while technical work to reconcile Somalia’s external debt is advancing. Trade via the Port of Mogadishu has continued to grow, largely thanks to continued inflows of grants and remittances. In July, a joint IMF-WB staff mission was undertaken to conduct the technical work on reconciling Somalia’s external debt data, and the authorities are following-up on a handful of outstanding issues with creditors.

PERFORMANCE UNDER SMPIV

8. Overall performance under SMPIV has been satisfactory:

- **For July 2019**, all structural benchmarks (SBs) and all but one of the indicative targets (ITs) were met. The fiscal buffer has been established with initial funding of \$12 million (SB1), the customs reform is progressing as scheduled (SB6), and the mobile money regulations were issued (SB12). The authorities marginally missed the “continuous” floor on NFA of \$24.8 million in June (by just over \$0.1 million). This temporary shortfall was eliminated in July and was due to technical operational factors.⁴ The CBS has subsequently introduced additional internal controls to limit future occurrences.
- **For September and October 2019**, end-July data suggests that the October ITs are likely to be met. Good progress is being made on the six SBs due by end-September and October. The FGS has already received preliminary data for Q1 and Q2 from the five FMS, and has prepared a preliminary version of the general government presentation (SB2). This effort continues to be supported by TA, with further TA planned for October to improve the quality of the consolidation. A preliminary draft of the expenditure assignment guidelines has been prepared that reflects input at the technical level from the FMS, and, while sustained cooperation between FGS and FMS finance ministers will be needed to reach final agreement, there has already been some preliminary discussions with the FMS Finance Ministers (SB3). The Budget and Finance Committee has undertaken a detailed review of the Revenue Bills ahead of the Lower House reconvening, which should facilitate their passage by the Lower House in the near future;⁵ nevertheless securing their passage by the Upper House and enactment by the President before end-October will remain a challenge (SB8). Technical work towards automating manifest verification (SB7) and goods inspection (SB9) is advancing with the support of UK DFID. The CBS has prepared drafts of its updated strategic plan and a transition plan; these will be shared with

⁴ The CBS initially used its balances held abroad to process a foreign payment, with the off-setting domestic assets (US\$ held in Mogadishu) transferred a few days later. Going forward, CBS staff will check the impact of any foreign payments on the calculation of NFA prior to their processing.

⁵ It had its second reading in the Lower House prior to the summer recess. Parliament is expected to reconvene in the middle of September. Somali legislative procedures generally require three readings in the Lower House and two readings in the Upper House, though substantive changes can extend the process. Legislation is enacted into law once it passes the legislature and is signed by the President.

staff for comment ahead of CBS Board approval (SB13). AML-CFT regulations that apply to all financial institutions (SB14) have been drafted, are being reviewed by an inter-agency committee, and are expected to be issued by the Ministry of Finance before the end of October. As with all reviews, staff will make a broad-based assessment of overall program performance at the second review, including an evaluation of progress achieved on the SBs.

Text Table 2. Somalia: Indicative Targets under the Staff-Monitored Program IV, June 2019-May 2020 1/
(Millions of U.S. dollars)

	2019			2020			
	July 2/		Status	October 3/	December	February	May 4/
	Prog.	Prel.		Prog.	Prog.	Prog.	Prog.
Fiscal							
Fiscal balance (cash basis; floor)	0.0	4.3	Met	0.0	0.0	0.0	0.0
Domestic revenue floor	110.9	126.3	Met	154.4	196.3	32.0	92.9
Accumulation of new domestic expenditure arrears (ceiling) 5/	0.0	0.0	Met	0.0	0.0	0.0	0.0
Contracting of new domestic debt (ceiling) 5/	0.0	0.0	Met	0.0	0.0	0.0	0.0
Contracting or guaranteeing of new nominal external non-concessional borrowing (ceiling) 5/	0.0	0.0	Met	0.0	0.0	0.0	0.0
Central Bank of Somalia (CBS)							
Net foreign assets of the CBS (floor) 5/ 6/	24.8	24.9	Met	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	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 Memorandum of Understanding, IMF Country Report No. 18/212.

Text Table 3. Somalia: Structural Benchmarks for SMP IV
(May 2019–July 2020)

Benchmarks	Target dates	Rationale and Monitoring	Status
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.	Met
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 quarterly 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 <i>Public Procurement, Concessions, and Disposals Act</i> , 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.	Met
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.	

Text Table 3. Somalia: Structural Benchmarks for SMP IV (concluded)

(May 2019–July 2020)

Benchmarks	Target dates	Rationale and Monitoring	Status
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.	Met
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.	

PROGRAM AND POLICY DISCUSSIONS

A. Managing Public Finances and Fiscal Reforms

9. Domestic revenue performance was strong in the period to end-July. Domestic revenues continued to increase relative to the same period in 2018, based on improved tax and non-tax collection, reaching \$126 million through end-July, against the 2019 current full year target of \$196 million. Revenues were boosted by two one-off non-tax revenue receipts of about \$10 million—the payment of telecommunications licenses (\$4 million, valid for a period of 20 years) and a recovery from the International Civil Aviation Organization (ICAO) (\$6.5 million) of the surplus of overflight fees collected over previous years. While the telecommunications license fees were included in earlier revenue projections, the one-off payment from ICAO was not. These one-off revenues add to an underlying positive trend in non-tax revenues. All multilateral budget support grants through July 2019 were disbursed, with a \$20 million grant from Qatar (to support 2019 and 2020 budget needs) received in August. The authorities will issue a 2019 supplementary budget by end-October 2019 projecting a revised target of \$221 million in domestic revenue and \$164 million in grants (\$150 million budgeted) for 2019. While this includes the \$12 million anticipated to be transferred in overflight fees for 2019, for which an agreement between the authorities and the International Air Transportation Association (IATA) remains pending, the associated spending will be dependent on receipt of these monies limiting risks to the fiscal balance.

10. The authorities are preparing the 2020 budget in line with the Medium-Term Fiscal Framework and the SMP IV targets. The authorities' draft 2020 budget projects a domestic revenue envelope of \$221 million. Although no new tax policy measures are expected to be introduced, tax revenues are expected to increase to \$154 million, including as existing plans to extend sales tax provisions to electricity and cable companies are implemented. Despite a continued positive trend in underlying receipts, non-tax revenues are expected to fall overall in 2020 due to the non-recurrence of the one-off receipts realized in 2019. Grant forecasts remain conservative with \$139 million expected, of which \$93 million are expected to be composed of budget support. The expenditure envelope of \$360 million anticipates that spending on wages and goods and services will remain near 2019 levels, while transfers to FMS are anticipated to also remain stable at \$42 million.

11. The draft budget includes a provision to initiate token payments on Somalia's protracted arrears to the Fund, the WB and AfDB, highlighting a strong commitment to normalize relations with IFIs. Given pressing development needs facing Somalia and the continued reliance on grants for essential payments, the authorities considered that they could afford a maximum payment of \$10,000 per month to any one IFI. This would imply monthly payments of \$10,000 (or an annual payment of \$0.12 million) to the IMF, which would commence in January 2020, and while there is no formal guidance on the appropriate size of token payments, staff

considers the authorities' proposal to be broadly in line with past precedent and the authorities' exceptional circumstances and development needs.^{6,7}

12. Efforts to mobilize additional revenues are continuing. While no new policy measures are anticipated in the near term, the continued strengthening of revenue administration is anticipated to generate further gains in tax revenues. To improve compliance, the authorities are preparing the groundwork to validate tax returns, perform audits, and expand enforcement operations. With support from technical assistance (TA) partners, the authorities are continuing to reform customs administration processes and procedures, reflected in the recent success in automating the customs declaration process and the ongoing work to automate the manifest verification processes. Passage of the Revenue Bills (SB for end-October) will be an important milestone and lay the foundation for the rollout of FGS measures to the FMS. Going forward that would provide the basis for increasing revenue collection at the federation level, which would help generate fiscal space for the critical development spending Somalia needs and ensure Somalia can remain current on its restructured financial obligations following the HIPC DP.

13. Ongoing public financial management (PFM) reforms are critical to ensure the efficient use of constrained resources. The authorities are committed to passing the PFM Act, which is now with the upper house. This will strengthen the institutional underpinnings for PFM. Expanding the implementation of commitment controls across MDAs will ensure discipline on goods and services spending, as will passage of the Procurement bill, which has undergone two readings in the lower house. The authorities are planning to undertake a quality assurance review of the SFMIS to ensure it meets their needs as increased donor support and revenues are matched by increased expenditures. In particular, there is scope to improve the SFMIS system to reduce some manual processes in the expenditure control framework. The authorities have amended the guidelines for operating the fiscal buffer to clearly restrict its use to meeting critical expenditure on FGS compensation and food rations for the Somalia National Army. The authorities have also finalized the restructured airport-fee management contract, and the commercial terms underpinning the re-negotiation of the Port of Mogadishu contract have been agreed.

14. Efforts are also underway to strengthen fiscal federalism, which will help underpin future fiscal policy development. Some important progress has been made – fisheries revenues collected from last season have been shared with respective FMSs based on the March 2019 agreement, and the amended Petroleum Bill (that reflects the June 2018 Baidoa agreement) has progressed through the lower house. Progress has also been made on the three structural benchmarks requiring FMS support—fiscal reporting (SB2), drafting of expenditure assignment

⁶ The authorities committed to begin making token payments on Somalia's arrears to the IMF in the 2020 budget as part of its efforts to normalize relations and cooperate with the Fund on policies and payments. Arrears to the IMF, World Bank, and AfDB were about \$332, \$351, and \$110 million, respectively, at end-August 2019.

⁷ Taking Liberia as one of the most important relevant precedents, this level of token payment would be in line with a similar percentage of interest and charges falling due.

guidelines (SB3) and passage of the Revenue Bills (SB8). However, further consultation with the FMS will be needed to finalize key agreements before any policy changes can be implemented.

B. Supporting Financial Stability and Improving Financial Intermediation

15. Reforms in the financial sector continue. With WB operational and financial assistance, the CBS is finalizing an updated Strategic Plan and a costed Transition Plan to implement the new organizational structure, developed with the support of IMF TA. The CBS is also well advanced in preparing the necessary elements (transition plan, supervisory manual, staffing, etc.) to implement the recently issued mobile money regulations, starting with the February 2020 licensing round. To support financial sector infrastructure more broadly, contracts for the payment system vendors have been finalized and an initial draft prepared of the Payment Systems Law. The update to the Financial Institutions Law has also progressed with WB assistance.

16. The authorities are moving to accelerate ongoing AML-CFT reforms under the newly finalized AML-CFT Action Plan. A July WB scoping mission has confirmed the reform priorities outlined in the Action Plan. The authorities recently convened two meetings of the inter-agency AML-CFT committee, which reviewed the Action Plan and prioritized next steps.⁸ Among these are to clarify the responsibilities of operational agencies, strengthen the annual MTB-licensing process, the issuance of AML-CFT regulations that apply to all financial institutions, the enactment of the targeted financial sanctions law and regulations, and the strengthening of the Financial Reporting Center.

17. Momentum behind Phase I of the currency reform- the currency replacement phase – is building.⁹ The WB has confirmed its willingness to provide technical and operational support for the currency replacement project, including fundraising effort. IMF and WB staff will continue to collaborate closely on this project, especially on the ramifications for CBS capacity building needs and to coordinate policy advice.

C. Other Near-Term Policy Issues

18. The authorities continue to address key macroeconomic and financial data gaps. The authorities are continuing to coordinate the revision of the national accounts with key donors. On external statistics, the CBS is finalizing the FDI and traveler surveys, while continuing to improve MTB data on cross-border financial flows. To support SB2, the authorities have completed the initial compilation of GFS for the central and state governments, drafted an action plan to address recommendations from the last GFS TA mission, and prepared the templates for collecting GFS source data. A further TA mission planned for October will help cement these efforts. Finally, the

⁸ The National Anti-Money Laundering and Countering of the Financing of Terrorism Committee (NAMLC).

⁹ For additional background, please see [Country Report No. 19/256](#) and [Country Report No. 19/67](#).

amended National Statistics Bill has been submitted to the legislature, and the authorities are also drafting a statistics roadmap, which will be used to meet the requirement under SB18.

19. Reforms to improve governance and combat corruption continue. The parliament passed the anti-corruption bill, which the President signed into law on September 21, 2019. This will pave the way for the formation of the anti-corruption commission. An anti-corruption strategic plan is also being developed by the authorities to support implementation of the bill once enacted. Continuing the reforms discussed to support revenue mobilization, PFM, CBS capacity, financial sector stability, and AML/CFT compliance would further strengthen governance and reduce vulnerabilities to corruption.

20. Work on the technical requirements needed to achieve HIPC Decision Point is on track. By end-September, the authorities plan to submit to Cabinet the 9th National Development Plan, which will serve as the interim poverty reduction strategy. The current draft reflects three rounds of stakeholder consultation and in-depth analysis of the poverty-related challenges facing Somalia, along with key recommendations from the Recovery and Resilience Framework. As noted earlier, the debt reconciliation exercise is close to finalization, and IMF and WB staff are working on the HIPC debt relief analysis and related documentation. The authorities are also working to strengthen their debt management framework and capacity; passage of the PFM law will address key gaps in the legal framework.

21. Securing the necessary financial commitments for arrears clearance and debt relief, especially to meet the Fund's costs of debt relief, is a significant hurdle to reaching the HIPC Decision Point.¹⁰ While preliminary discussions have begun, a concerted effort on the part of the IMF membership is needed to mobilize the necessary financing, including for the required bridge financing, and ensure the IMF can move forward once the authorities have established the necessary track record on implementing sound economic policies.

STAFF APPRAISAL

22. Underlying economic growth remains stable, but the outlook remains vulnerable to climate and security shocks. The ambitious and broad reform agenda, coupled with strong donor support, continues to support economic growth. However, insecurity and recurring drought represent key risks to the outlook, and, despite progress, growth is insufficient to substantially reduce poverty.

23. The authorities remain strongly committed to implementing the reforms under SMPIV. The satisfactory performance for the first review is welcome, as is the commitment from FMS Finance Ministers to support the goals of the program. Sustaining this cooperation will be critical to

¹⁰ The situation for the World Bank and African Development Bank is as discussed in IMF [country report no. 19/256](#).

mitigating key risks to the program, especially with respect to timely passage of the Revenue Bills and development of expenditure assignment guidelines.

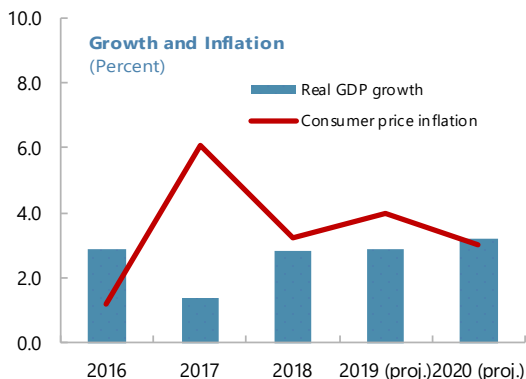
24. The fiscal policy framework continues to be strengthened. Domestic revenue generation is encouraging, while the implementation of the fiscal buffer will help smooth volatile revenues. The authorities are also to be commended for meeting WB RCRF and EU budget support benchmarks. Continued progress on PFM, particularly strengthening expenditure controls and passing the updated PFM Law, will be key to continuing to improve governance and donor confidence.

25. Staff is encouraged by ongoing financial stability reforms. New mobile money regulations are welcome, and implementation will be key to supporting financial stability. Rapid, properly sequenced implementation of the AML-CFT Action Plan will support cross-border financial linkages and economic growth. Finally, continued efforts to expand CBS capacity underpin positive developments in the financial sector – including preparing for the Phase I of the currency reform.

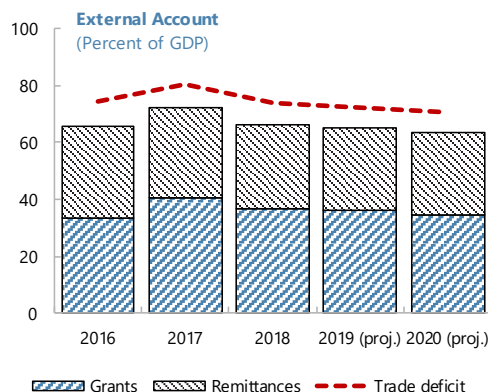
26. Achieving the authorities' goal of reaching the HIPC Decision Point in early 2020 will require a concerted effort on the part of both the authorities and the international community. The authorities are developing the necessary track-record in the context of the SMPIV, and work on NDP9 is close to completion. To support the normalization of relations with the international financial institutions, the authorities have proposed to initiate payments on arrears to IFIs, within their limited capacity, starting in 2020. Staff views that the proposed payments to the Fund are in line with past precedent. Reaching the Decision Point will also require securing sufficient financing commitments to clear Somalia's arrears to the IMF and the African Development Bank, including securing the necessary bridge loans. While efforts are in progress, securing these financial commitments is a challenging and complex process. While donors have been supportive, firm commitments remain lacking which represents a significant risk to achieving the authorities' goal in a timely manner.

Figure 1. Somalia: Macroeconomic Developments, 2016–2020

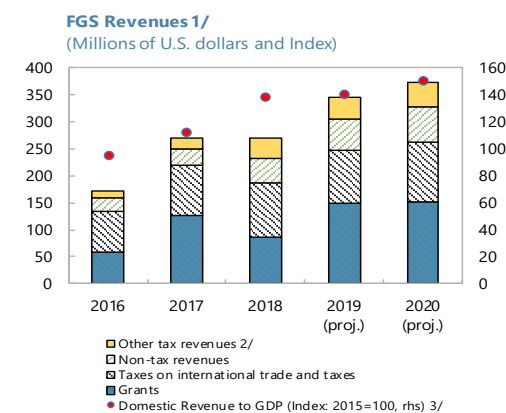
Poor rains has triggered a slowing of the growth recovery.



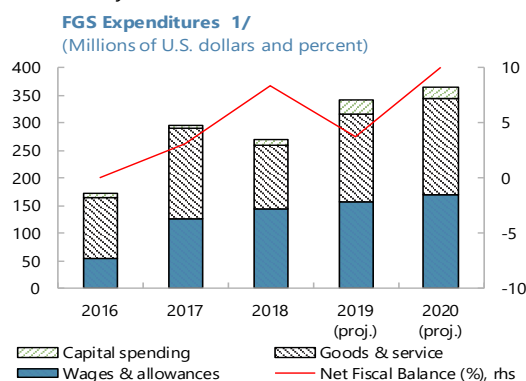
The large trade deficit is largely financed by remittances and grants



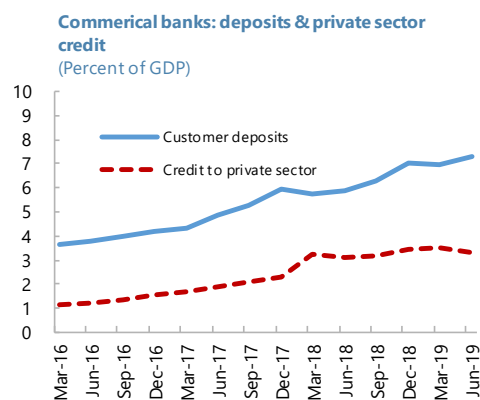
Domestic revenue mobilization continues to strengthen...



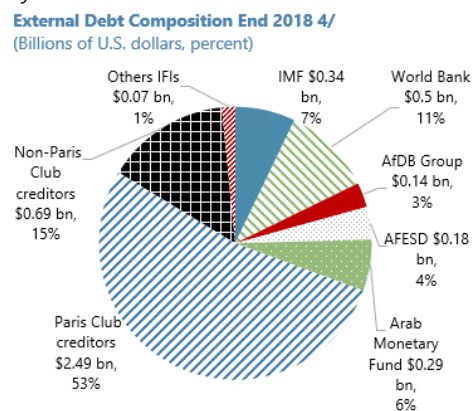
... supporting higher discretionary spending and improving fiscal stability.



Financial sector intermediation continues to grow.



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



Sources: Somali authorities; and IMF staff estimates.

1/ Estimates through 2020

2/ Other domestic revenues include: taxes on income, profit & capital gains, taxes on goods and services, and other taxes.

3/Index of total Domestic Revenue to GDP with base year of 2016

4/ AfDB Group includes AfDB, AfDB and Nigeria Trust Fund. AFESD stands for Arab Fund for Economic and Social Development and AMF stands for Arab Monetary Fund.

Table 1. Somalia: Selected Economic Indicators, 2015–2022

	Est.				Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022
National income and prices								
Nominal GDP in millions of U.S. dollars	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	4.0	3.0	2.5	2.2
(Percent of GDP)								
Central government finances 1/								
Revenue and grants	3.5	4.1	6.0	5.7	6.9	7.2	7.4	7.7
<i>of which:</i>								
Grants	0.7	1.4	2.8	1.8	3.0	2.9	2.9	2.8
Expenditure, <i>of which:</i>	3.3	4.1	6.6	5.7	6.9	7.0	7.2	7.5
Compensation of employees 2/	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 3/	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	-8.0	-7.7	-7.6	-8.5
Trade balance	-72.8	-74.5	-80.5	-73.7	-72.3	-70.7	-71.0	-70.2
Exports of goods and services	25.6	25.4	22.1	25.9	27.1	26.8	26.6	27.3
Imports of goods and services	98.5	99.9	102.6	99.6	99.3	97.6	97.5	97.5
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	36.2	34.6	34.7	33.6
Foreign Direct Investment	7.4	7.9	8.2	8.6	9.0	8.9	9.0	9.1
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/ Budget data for the Federal Government of Somalia. Fiscal operations are recorded on a cash basis. GDP data cover the entire territory of Somalia.

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

3/ Program definition per TMU 19.

Table 2a. Somalia: Federal Government Operations, 2016–2022 1/

(Millions of U.S. Dollars)

	2016		2017		2018		2019			2020	2021	2022
	Dec.	Dec.	Dec.	Jul.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	
	Est.	Est.	Est.	Prel.	Budg.	Rev. Budg.	Prog.	Proj.	Proj.	Proj.		
Revenue and grants	171.1	268.5	270.2	148.3	340.1	385.1	344.2	373.7	409.3	449.5		
Revenue	112.7	142.6	183.4	126.3	189.9	221.3	196.3	220.9	251.5	286.6		
Tax revenue	88.6	112.0	138.9	87.7	135.2	146.1	137.7	154.4	175.8	200.3		
Tax on income, profit, and capital gains	2.4	3.4	8.6	6.6	9.1	9.8	9.1	10.3	11.8	13.4		
Taxes on goods and services	2.9	8.9	22.1	12.9	22.0	22.8	23.5	26.7	30.4	34.6		
Taxes on international trade and transactions	76.3	92.8	100.3	61.5	97.0	103.4	98.0	109.3	124.4	141.8		
Other taxes	7.0	6.9	7.9	6.7	7.1	10.1	7.1	8.1	9.2	10.5		
Non-tax revenue	24.1	30.6	44.5	38.6	54.7	75.2	58.6	66.5	75.7	86.3		
Grants 2/	58.4	125.9	86.7	22.0	150.2	163.8	147.9	152.8	157.7	162.9		
Bilateral 3/	31.3	81.8	23.5	0.1	30.0	30.1	30.0	31.0	32.0	33.0		
Multilateral	27.1	44.1	63.3	21.9	120.2	133.7	117.9	121.8	125.8	129.9		
Total expenditure 4/	171.1	295.4	268.4	144.0	340.1	385.2	340.5	363.6	399.2	436.5		
Current	165.1	239.1	258.5	139.8	313.7	348.7	315.3	343.6	377.4	421.5		
Compensation of employees 5/	55.1	125.4	143.1	81.6	154.1	165.3	157.4	169.8	184.6	206.2		
Use of goods and services	64.4	79.0	80.6	36.5	117.3	138.1	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		
Transfers to sub-national governments & Banadir Region	9.4	22.9	30.1	20.5	37.9	40.9	35.3	38.1	41.4	46.3		
Contingency	2.1	4.0	4.1	0.2	2.5	1.4	2.3	2.5	2.7	3.0		
Repayment of arrears and advances	34.1	7.8	0.0	0.4	1.5	2.6	2.5	6.3	10.5	11.8		
Purchase of non-financial assets	5.9	6.3	9.9	4.2	26.4	36.5	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		
Overall fiscal balance	0.0	-26.9	1.8	4.3	0.0	0.0	3.7	10.0	10.1	13.0		
Financed by:												
Draw down of government deposits held abroad	0.0	30.0	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Overall fiscal balance, net	0.0	3.1	7.7	4.3	0.0	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		
Stock of domestic arrears 7/	76.5	68.8	68.8	68.4	65.7	64.6	63.5	57.2	46.7	34.9		
Government deposits held abroad 6/ 8/	0.0	20.0	14.1	12.6	12.6	13.5	13.5	13.5	13.5	13.5		

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

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.

8/ Government deposits for end-2019 to 2022 reflect projections of 1-month of total FGS compensation plus food component of goods and services for the Somali National Army, consistent with the guidelines for the fiscal buffer.

Table 2b. Somalia: Federal Government Operations, 2016–2022 1/

	(Percent of GDP)												
	2016		2017		2018			2019		2020	2021	2022	
	Est.	Prog.	Est.	Budg.	Rev. Budg.	Prog.	Est.	Budg.	Rev. Budg.	Prog.	Proj.	Proj.	Proj.
Revenue and grants	4.1	5.1	6.0	5.8	6.3	5.5	5.7	6.9	7.8	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	4.5	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	2.9	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	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	0.5	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	2.1	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	0.2	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	1.5	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	3.3	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	0.6
Multilateral	0.6	0.8	1.0	1.2	1.7	1.1	1.3	2.4	2.7	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	7.8	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	7.0	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	3.3	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	2.8	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	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	0.8	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	0.0	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	0.1	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	0.7	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	1.0	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	0.0	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	0.0
Overall fiscal balance, net	0.0	0.0	0.1	0.0	0.0	0.0	0.2	0.0	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	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	1.3	1.1	0.8	0.6
Government deposits held abroad 6/ 8/	0.0	0.0	0.4				0.3			0.3	0.3	0.2	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.

8/ Government deposits held abroad for end-2019 to 2022 reflect projections of 1-month of total FGS compensation plus food component of goods and services for the Somali National Army, consistent with the guidelines for the fiscal buffer.

Table 3. Somalia: Summary Accounts of the Central Bank, 2015–2019Q2 1/

(Millions of U.S. Dollars)

	2015		2016		2017		2018				2019							
	Dec.		Dec.		Dec.		March		June		Sept.		Dec.		March		June	
	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	
Net Foreign Assets (NFA)	(324)	(321)	(317)	(306)	(302)	(297)	(281)	(275)	(285)									
Foreign assets	69	61	89	110	101	103	119	125	116									
SDRs (net)	(39)	(38)	(40)	(41)	(40)	(40)	(40)	(40)	(40)									
SDR holdings	25	25	26	26	25	25	25	25	25									
Gold 2/	17	17	19	21	21	21	21	21	21									
Foreign exchange	13	11	34	32	35	39	41	37	34									
<i>of which:</i>																		
Grants	5	4	28	27	30	29	35	32	29									
Other foreign assets 3/	-	-	-	2	2	2	2	2	2									
Cash (US\$) held locally	13	8	11	28	19	18	32	43	37									
Foreign liabilities	392	382	407	416	403	400	400	400	401									
IMF obligations	328	319	340	348	338	335	335	335	336									
SDR allocations	64	62	66	68	65	65	65	65	65									
Net Domestic Assets	377	366	380	375	372	368	354	349	366									
Domestic assets	389	379	424	433	421	420	419	420	422									
<i>of which:</i>																		
Cash and cash equivalent (in SOS)	1	0	0	0	0	0	0	0	0									
Claims on government (net IMF position) 3/	367	357	381	389	378	375	375	375	376									
Domestic liabilities	11	13	45	59	50	52	65	70	56									
Government	7	5	29	43	35	34	40	46	34									
<i>of which:</i>																		
Grants	5	4	28	27	30	29	35	32	29									
Other domestic liabilities	4	7	15	15	14	17	26	24	22									
<i>of which:</i>																		
Commercial bank reserves 4/	...	...	...	7	10	10	11	14	14									
Other commercial bank deposits	...	2	6	3	2	5	14	8	7									
Equity and reserves	54	45	62	69	70	71	73	75	80									
<i>of which:</i>																		
Property and equipment	21	22	43	43	44	44	44	44	45									
Memorandum items:																		
Changes (y-o-y) in:																		
Foreign assets (percent)	9	(11)	47	52	57	56	33	14	14									
Domestic assets (percent)	(3)	(2)	12	26	19	10	(1)	(3)	0									
Gross reserves of the central bank	43	42	48	51	50	47	51	51	50									
NFA (program definition) 5/	22	22	24	25	25	25	26	25	25									
Somali shillings per US dollar (eop)	22,285	24,005	23,605	23,405	24,305	24,455	24,475	24,475	25,012									

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 commercial banks hold \$1.5 of the minimum \$7 million capital requirement at the CBS; MTBs must hold \$60,000

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 4. Somalia: Consolidated Commercial Banks Balance Sheet, 2015–2019Q2 1/

(Millions of U.S. Dollars)

	2015	2016	2017	2018	2019	
	Dec.	Dec.	Dec.	Dec.	March	June
	Est.	Est.	Est.	Est.	Est.	Est.
Total assets	194	234	345	415	426	457
Cash on Hand	64	63	71	115	107	121
Balances with Central Bank	0	1	7	18	15	13
Deposits with other banks 2/	33	41	58	23	26	36
Credit to private sector	49	70	105	184	197	206
Investment 3/	6	9	9	31	32	33
Other Assets 4/	42	50	95	44	48	49
Total liabilities	148	182	292	362	372	387
Customer Deposits	143	177	267	332	344	363
Financing Liabilities	0	1	10	2	2	2
Other Liabilities	5	4	15	27	25	22
Equity	47	52	53	53	54	71
Memorandum items:						
Credit to private sector						
share of total assets (percent)	25	30	30	44	46	45
share of GDP (percent)	1	2	2	4	4	4
y-o-y changes (percent)	...	43	51	75	13	16
Total capital to assets (percent)	...	22	15	13	13	15
Loan to deposits (percent)	...	39	39	55	57	57
Liquid assets to total assets (percent)	...	...	...	37	34	36

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/ Primarily investment in real estate.

4/ Fixed, intangible and other assets.

Table 5. Somalia: Monetary Survey 2015-2019Q2 1/

(Millions of U.S. Dollars)

	2015	2016	2017	2018	2Q2019
	Est.	Est.	Est.	Est.	Est.
Net foreign assets	-299	-286	-272	-258	-255
Claims on nonresidents	93	96	134	142	146
Central Bank	63	58	81	122	116
<i>of which</i> gross reserves of the CBS	43	43	51	54	50
Liabilities to Nonresidents	392	382	407	400	401
Net Domestic Claims	464	533	607	697	740
Net Claims on Central Government	350	349	355	355	357
<i>of which</i> CBS claim on government (IMF net position)	367	357	381	375	376
Claims on private sector	49	70	105	184	206
Other net claims not included in broad money	65	114	147	159	177
Capital and Reserves	43	71	83	84	95
Other items, net	5	4	6	0	-1
Broad Money 2/	144	178	270	334	364
Memorandum items:					
SOS per U.S. dollar (end of period)	22,285	24,005	23,605	24,475	25,012

Sources: International Financial Statistics and IMF Staff.

1/ Preliminary estimates given incomplete financial data.

2/ Primarily deposits at commercial banks. Data does not yet include balances held with MNOs.

Table 6a. Somalia: Balance of Payments, 2015–2022

(Millions of U.S. dollars)

	Prel.				Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022
Current account balance	-243	-397	-405	-391	-397	-400	-421	-497
Overall trade balance	-2,949	-3,127	-3,630	-3,478	-3,584	-3,691	-3,908	-4,085
Goods balance	-1,984	-2,204	-2,740	-2,544	-2,589	-2,638	-2,771	-2,951
Exports of goods, f.o.b.	683	657	463	675	770	812	858	921
Imports of goods, f.o.b.	-2,667	-2,861	-3,202	-3,219	-3,360	-3,450	-3,630	-3,871
Services, net	-965	-923	-890	-934	-995	-1,054	-1,136	-1,134
Service credits	355	410	532	549	571	588	606	667
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	3,223	3,329	3,527	3,630
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	1,797	1,808	1,911	1,956
Capital account and financial account	262	372	435	429	397	400	421	497
<i>of which:</i>								
Foreign direct investment	300	330	369	408	447	464	495	528
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	4,933	5,194	5,474	5,774

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

Table 6b. Somalia: Balance of Payments, 2015–2022

(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	-72	-71	-71	-70
Goods balance	-49	-52	-61	-54	-52	-51	-50	-51
Exports of goods, f.o.b.	17	16	10	14	16	16	16	16
Imports of goods, f.o.b.	-66	-68	-71	-68	-68	-66	-66	-67
Services, net	-24	-22	-20	-20	-20	-20	-21	-19
Service credits	9	10	12	12	12	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
<i>of which:</i>								
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	99	100	99	99

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

Table 7a. Somalia: External Public Debt, 2014–2018 1/

(Millions of U.S. Dollars)

	Prel.				
	2014	2015	2016	2017	2018
Total stock outstanding	4,389	4,380	4,420	4,657	4,697
<i>of which: in arrears 2/</i>	4,127	4,143	4,204	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 reconciliation 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 7b. Somalia: External Public Debt, 2014–2018 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
<i>of which: in arrears 2/</i>	104.1	102.3	100.1	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 reconciliation 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 8. Somalia: Off Budget Aid, 2014-2018

(Millions of U.S. dollars)

	2014	2015	2016	2017	2018
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	910
Developmental aid	546	584	623	616	603
Support for peacekeeping 2/	467	569	502	544	578
Memorandum items:					
FGS budgetary grants 3/	61.0	26.9	58.4	125.9	86.7
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.

Appendix I. Letter of Intent

Mogadishu, Somalia

September 21, 2019

Mr. David Lipton
Acting Managing Director
International Monetary Fund
700 19th Street, N.W.,
Washington, D.C. 20431, U.S.A.

Dear Mr. Lipton:

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. We are grateful for the Executive Board's endorsement of the fourth SMP as meeting the standards associated with arrangements in the Upper Credit Tranches, which will support our objective of reaching the HIPC Decision Point as soon as possible.
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 climate and 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, expenditure control and other public financial management (PFM) areas. The FGS has also launched 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. In this difficult context, we remain committed to continued progress under our comprehensive reform agenda.

4. The attached Memorandum of Economic and Financial Policies (MEFP) describes progress made in recent months toward the key objectives and policies of SMP IV. It also updates the previous MEFP and highlights the policy steps to be taken in the months ahead. The focus remains 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/Combating 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 continue to regularly provide IMF staff with all necessary information within the deadlines specified in the attached Technical Memorandum of Understanding (TMU, Attachment II).

5. Based on the strength of policies outlined in this letter, and considering our performance under the program, we are requesting the completion of the first review of SMP IV. Program performance has been satisfactory despite a difficult environment. We have met all structural benchmarks (SBs) due end-July 2019, and are progressing well on the SBs programmed for end-September and October. One indicative target (IT)—the continuous floor on net foreign assets (NFA)—was marginally missed for technical reasons in June. This was corrected in July and procedures have been put in place to avoid future occurrences.

6. As endorsed by the IMF's Executive Board in July, the macroeconomic and structural policies under SMP IV meet the conditionality standards associated with programs supported by arrangements in the upper credit tranches. This 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 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. 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/

Abdirahman Duale Beileh
Minister of Finance of Somalia

/s/

Abdirahman M. Abdullahi
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 fourth Staff-Monitored Program (SMP) (SMP IV), , 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, four 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 continue to 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 endorsed as meeting the upper credit tranche (UCT) standard was 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. Stable economic conditions, despite challenging conditions, are underpinned by robust activity in construction, transport and telecommunications.

However, agricultural output and inflation continue to be affected by low rain-fall. After increasing from 1.4 percent in 2017 to 2.8 percent in 2018, real GDP growth is projected to remain broadly flat in 2019 at 2.9 percent. After easing substantially in 2018 (from 6.1 percent in 2017 to 3.2 percent), inflation is projected to increase to 4.0 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 year-to-date in 2019 has been strong. Domestic FGS revenues reached nearly \$126 million compared to a full year target of \$196 million, expenditures have remained in check, monthly cash forecasts are being conducted, and there are no new arrears. The cumulative fiscal surplus through end-July reached \$4.3 million on a cash basis. We also implemented the Somalia Standard Administrative Document (SSAD) for customs and drafted guidelines for the recently established fiscal buffer.

6. Progress on fiscal federalism remains on track although political challenges persist. Technical engagement with the federal member states (FMS) on fiscal reporting, tax policy and the modernization of customs administration is progressing, and we will continue seeking to enhance cooperation to ensure progress on key reforms outlined in the SMP. More broadly, 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 continues to expand. 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 have been issued. 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, the Audit Bill and amended PFM Act have been passed by the House of the People and are now with the Senate. An Anti-corruption Bill has been passed by the Parliament and is awaiting Presidential signature, 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 SMP IV, to continued cooperation with the donor community, and to deeper coordination with the FMS to further fiscal federalism. While SNA forces stepped up the liberation of critical areas, FGS completed the integration of key forces in Galmudug State as part of the ongoing security reforms. Government efforts to deepen federalism are advancing with successful Galmudug reconciliation and Prime Minister's visits to FMS, effective FGS and FMS Education Ministers meeting in Mogadishu for the discussion on cooperation framework is of particular note, and continued engagement between FGS and FMS on all technical matters including the development of NDP9. 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 Bills, are currently with Parliament, creating a heavy legislative schedule.

B. Program Performance

10. Performance under SMP IV has been good (see Tables 1 and 2).

- **For July 2019**, all structural benchmarks (SBs) were met—a fiscal buffer was established (SB#1), the customs reform is progressing as scheduled (SB#6), and mobile money regulations were issued (SB#12). All but one of the indicative targets (ITs) were also met, including over-performance on domestic revenue. While the “continuous” floor on net foreign assets (NFA) was marginally missed in June, this reflected technical factors, which were reversed in July, and the CBS has adopted additional internal controls to avoid future occurrences.
- **For September and October 2019**, we are making good progress on the six relevant SBs and are confident these will be met, although they are not without challenges. In particular, preliminary work on quarterly fiscal reporting for the federation has been done (SB#2), although some further TA (expected in October) is expected to be needed to improve the consolidation process. A preliminary draft of the expenditure assignment guidelines has been prepared, including with input from the FMS at the technical level, but these remain to be discussed by the FMS Finance Ministers (SB#4). The Budget and Finance Committee of the House of the People

has undertaken a full review of the Revenue Bills that should support their timely passage by the Lower House once it reconvenes in the middle of September. Nevertheless, given the busy legislative calendar, achieving passage by the Senate and subsequent enactment by end of October will be a challenge (SB#8).

C. Economic and Financial Policies for 2019–21

11. SMPIV is aligned with our medium-term priorities and serves as an anchor for reforms over the program period. 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 improving oversight and governance. Work to mitigate financial stability risks will also continue. Structural benchmarks (Table 2) 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 3).

12. The macroeconomic and structural policies under SMP IV meet the conditionality standards associated with programs supported by arrangements in the upper credit tranches (UCT) and hence pave the way for a financial arrangement with the IMF. In that context, we will also 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 fiscal sustainability over the medium term. We remain committed to maintaining fiscal discipline and oversight, improving the budget process, increasing the use of commitment controls and enforcing procurement procedures, and more transparent fiscal reporting for general government operations covering the FGS and FMS (SB#2). We will evaluate the SFMIS by end-December to assess the functional adequacy of the system to support PFM and related reforms into the future. In addition to other PFM measures, we will continue to avoid accumulating new arrears, and make budgeted annual repayments in line with our medium-term fiscal framework. We have finalized the biometric registration of security personnel and are currently validating it, which will further solidify the accuracy of personnel number and allow for greater control over our wage bill. Any revenue surplus will go toward paying arrears payments and, if needed, replenishing the fiscal buffer. We will continue building on the reforms achieved under SMP III, including our progress in operationalizing the treasury single account (TSA) and enhancing its transparency.

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

(Millions of U.S. dollars)

	2019			2020			
	July 2/		Status	October 3/	December	February	May 4/
	Prog.	Prel.		Prog.	Prog.	Prog.	Prog.
Fiscal							
Fiscal balance (cash basis; floor)	0.0	4.3	Met	0.0	0.0	0.0	0.0
Domestic revenue floor	110.9	126.3	Met	154.4	196.3	32.0	92.9
Accumulation of new domestic expenditure arrears (ceiling) 5/	0.0	0.0	Met	0.0	0.0	0.0	0.0
Contracting of new domestic debt (ceiling) 5/	0.0	0.0	Met	0.0	0.0	0.0	0.0
Contracting or guaranteeing of new nominal external non-concessional borrowing (ceiling) 5/	0.0	0.0	Met	0.0	0.0	0.0	0.0
Central Bank of Somalia (CBS)							
Net foreign assets of the CBS (floor) 5/ 6/	24.8	24.9	Met	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	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 Memorandum of Understanding, IMF Country Report No. 18/212.

Table 2. Somalia: Structural Benchmarks Under the Staff-Monitored Program IV, May 2019–July 2020

Benchmarks	Target dates	Rationale and Monitoring	Status
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.	Met
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 quarterly 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 <i>Public Procurement, Concessions, and Disposals Act</i> , 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.	Met
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 2, Somalia: Structural Benchmarks Under the Staff-Monitored Program IV, May 2019–July 2020 (concluded)

Benchmarks	Target dates	Rationale and Monitoring	Status
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.	Met
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.	

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). With successful implementation of customs front-end declaration functionality and the online SADD at the Port of Mogadishu, work on incorporating the verification of the manifest and goods inspection will follow shortly (SBs# 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. 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 finalize agreements with the international air transportation association (IATA) to permit monthly direct overflight transfers as soon as possible, and continue to identify new measures to mobilize revenues with the continued assistance of TA from IMF.

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 Budget. We are committed to fully implementing the programmed revenue measures for 2019 budget, and to this end we will seek cabinet approval of a supplementary budget to increase the target domestic revenue to \$221 million by the end of October, well in excess of the programmed 2019 floor. While this does reflect a strengthening of underlying recurrent revenues, it also reflects two significant one-off measures (telecommunication licensing and a one-off payment representing prior years' overflight fees) that will drop out in 2020. We are confident that we will receive the programmed grants of \$164 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. Our 2020

domestic revenue projection of \$221 million reflects a continuing strengthening of recurrent domestic revenues that offsets the loss of the 2019 one-off measures.

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 have established a fiscal buffer (SB#1). To this end, we have issued guidelines that clarify its purpose and objective and stipulate its operation. We have updated these guidelines to clarify that usage of the buffer is intended to be restricted to only cover payment of FGS compensation and the food component of SNA expenditures.
- **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 SMP III 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). The draft plans will be shared with the IMF before adoption. The mobile money regulations have been issued (SB#12) and will be rapidly implemented. We plan to establish the related supervisory capacity and procedures so that we will be ready to issue mobile money service provider licenses within six months of the regulations being issued (SB#15). The draft supervision manual and plan governing the transition to full implementation of the regulations will be shared with the IMF before being finalized.

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 Operational Risk, Financial Reporting and Accounting Standards for Islamic Banks, which are currently under development, will more stringently enforce the Audited Financial Statement regulation, and draft a Supervisors Code of Conduct. 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 are developing an AML-CFT Operational Framework to strengthen coordination between government agencies and clarify supervisory responsibilities, and prepare the ground work to conduct a national risk assessment hopefully 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. In this context, the World Bank is considering providing financial and operational support for the currency replacement project.

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 aspects 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 costed to the extent possible given limited data, 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. NDP9 will be used to inform spending priorities in subsequent government budgets, with the medium-term fiscal framework guiding the overall envelope for related activities.

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. We plan to submit a draft for cabinet approval by the end of September.

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 expect the President to sign the Anti-corruption Bill into law soon, which mandates its subsequent implementation. We will form the anti-corruption commission once legislation is signed. 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 October 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 thank the IMF Executive Board for agreeing that SMPIV meets the UCT-standard and establishes the basis for reaching the track-record criterion. Once the Cabinet approves our interim poverty reduction strategy (the NDP9), we will submit it 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 making token payments on our overdue obligations to the IMF starting in January 2020. With due consideration for Somalia's very limited repayment capacity, we propose to make a maximum payment of \$10,000 a month to the Fund. 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

29. Our standing SMP Monitoring Committee will continue to monitor the implementation of our program by preparing and assessing the indicative targets (Table 3) and structural benchmarks (Table 4). The second review is set for December 2019, based on the SBs and ITs set for end-September and end-October 2019. The indicative targets are defined in the TMU (Attachment II).

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.	Monthly	3 weeks after the end of each month
		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	6 weeks after the end of the year
		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 year
	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