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SOMALIA

March 2020

SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM AND REQUEST FOR THREE-YEAR ARRANGEMENTS UNDER THE EXTEDED CREDIT AND THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

In the context of the Second Review Under the Staff-Monitored Program and Request for Three-Year Arrangements Under the Extended Credit and The Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 24, 2020, following discussions that ended on January 16, 2020, with the officials of Somalia on economic developments and policies underpinning the IMF arrangements. Based on information available at the time of these discussions, the staff report was completed on March 9, 2020.
- A **Statement by the Executive Director** for Somalia.

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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PRESS RELEASE

PR20/105

IMF Executive Board Approves 3-Year ECF and EFF Arrangements for Somalia

FOR IMMEDIATE RELEASE

- IMF Board approves SDR 292.4 million (about US$395.5 million) ECF and EFF arrangements for Somalia.
- The three-year financing package will support the implementation of the authorities' National Development Plan and anchor reforms between the HIPC Decision and Completion Points.
- Reforms will focus on a continued strengthening of public finances to meet Somalia's development needs in a sustainable manner; a deepening of central bank capacity; improvement of the business environment and governance; and enhancing statistics.

WASHINGTON, DC – **March 25, 2020** the Executive Board of the International Monetary Fund (IMF) approved three-year arrangements under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) for Somalia in the amount of SDR 292.4 million (about US$395.5 million or around 179 percent of quota). The program will support the authorities' implementation of their ambitious reform agenda and catalyze concessional donor financing. This will help the country implement its National Development Plan to build greater economic resilience, promote higher and more inclusive growth, and reduce poverty.

At the conclusion of the Executive Board's discussion, Ms. Kristalina Georgieva, Managing Director and Acting Chair, stated:

"Somalia has reached the HIPC Decision Point given the authorities' sustained commitment to reform in a challenging political, security and climate environment. The second review of the staff-monitored program, which has been endorsed as meeting the standards of upper credit tranche conditionality, has been completed. The authorities' strong policy commitment has helped strengthen public financial management and the financial sector, improve governance, and enhance macroeconomic stability.

"The authorities' new three-year economic program is an ambitious and appropriate response to Somalia's macroeconomic challenges. Continued reform commitment, together with the necessary technical assistance, will be critical to achieve the program's objectives, as well as to secure higher and more inclusive growth. The authorities need to continue strengthening the cooperation between the Federal Government of Somalia and Federal Member States.

"The medium-term fiscal framework under the program appropriately balances the need to contain recurrent spending while channeling new resources toward Somalia's development plan. Continued efforts to strengthen fiscal federalism, enhance revenue mobilization and build social protection mechanisms will be important as Somalia moves forward. Swift implementation of Somalia's comprehensive public financial management law is needed, together with efforts to strengthen debt management and ensure a conservative approach to any future borrowing to minimize the risk of falling back into debt distress.

“The central bank’s efforts to strengthen its organizational capacity and enhance regulation and supervision will be critical for the robust and sustainable development of the financial sector. Continued capacity building is needed to improve AML/CFT compliance and the national risk assessment should be completed as quickly as possible. Advancing reforms to promote good governance are also important.

“Improving macroeconomic statistics is important, particularly GDP and balance of payments data. In this regard, the authorities should support the creation of the independent national statistics office and implement the macroeconomic statistics action plan.

“The consultative process that accompanied the drafting of the Ninth National Development Plan (NDP9) is commendable. It is important that the authorities update the underlying macroeconomic policy framework and complete the costing exercise. Financial and technical support from the international community is important to support the authorities’ reforms and the implementation of the NDP9.

“Somalia’s request for interim assistance under the HIPC Initiative on the debt service falling due to the Fund over the next 12 months has been approved. The progress made in securing commitments from other creditors to provide debt relief in the context of the HIPC Initiative is welcome, as there is a need for equitable burden-sharing across all creditors. The coverage and content of the HIPC floating Completion Point triggers, which focus on growth, public financial management, debt management, governance, domestic revenue mobilization, and statistics, is appropriate.

“The global COVID-19 pandemic and regional desert locust swarm pose new risks to the outlook and program. In this regard, strong support from the international community remains critical.”

Annex

Recent Economic Developments

Despite a challenging security, political, and climate environment, Somalia has remained steadfast in implementing economic reforms. This has brought them to the Decision Point for debt relief under the Heavily Indebted Poor Country (HIPC) Initiative. Economic growth and inflation have been relatively stable, but growth has been too low to significantly tackle widespread poverty. In 2019, real gross domestic product (GDP) is estimated to have grown by 2.9 percent. However, the impact of the recent desert locust swarm and the global coronavirus pandemic makes the near-term outlook less certain. Fiscal data reflects continued strong performance in 2019, with domestic revenues outturns outpacing the indicative targets set in Somalia’s Staff Monitored Program (SMP). As a result, there was a small fiscal surplus at the end of the year. The current account deficit, which is primarily financed by grants, remained close to 12 percent of GDP.

Program Summary

The new three-year IMF financing arrangements aim to anchor medium-term policies during the period between the HIPC Decision and Completion Points. These policies build on the 2019 Article IV recommendations and reforms underpinning Somalia’s fourth SMP. Reforms will focus on a continued strengthening of public finances to meet Somalia’s development needs while balancing fiscal sustainability considerations; a continued deepening of central bank capacity; efforts to improve the business environment and governance; and enhancing statistics.

The program will:

• **Guide fiscal policy via a robust medium-term fiscal framework (MTFF)** and balance Somalia's development priorities and fiscal sustainability. In the context of HIPC and NDP9 implementation, staff envisages a substantial increase in expenditures. The program will also further mobilize domestic revenue to support self-sufficiency, provision of public services, and social stability. Nevertheless, fiscal space will remain constrained. To ensure sufficient resources are available for critical development expenditure a ceiling on expenditures on compensation and the use of goods and services has been put in place. Expenditures will continue to be capped by the overall size of the revenue envelope, with a zero limit on new debt accumulation. Additionally, the program places critical importance on sustaining and deepening inter-governmental fiscal relations.

• **Deepen and broaden on-going public financing management (PFM) reforms** which hinge on implementing aspects of the new PFM Act. In particular, strengthening budget preparation and execution, enhancing oversight, institutionalizing recent improvements in budget processes, and enhancing the quality of general government fiscal reporting.

• **Improve the capacity of the central bank**. The program will support the implementation of the central bank's new organizational structure and develop a medium-term vision to guide future policy priorities.

• **Reinforce the supervisory framework and improve AML-CFT compliance**. Further progress in strengthening regulatory and supervisory standards will contribute to continued financial stability. These efforts will include the expansion of supervision to the whole financial sector, especially the mobile money sector. The program will support improvements in AML/CFT capacity, including the deepening of capacity of the Financial Reporting Center, and enhancing inter-agency cooperation through the National Anti-Money Laundering Committee.

• **Support efforts to improve governance**. The program will support the completion of the authorities' National Anti-Corruption Strategy and the related workplan to implement the strategy.

• **Support long-term growth and poverty reduction**. The program will support these goals through fiscal conditionality and reforms, and the complementary floating Completion Point triggers, along with other conditionality in World Bank operations, which are expected to address growth, water management, poverty, gender, and improving the ease of doing business. Additionally, the program will continue to support improvements in the production and dissemination of macroeconomic statistics. Along with other technical assistance providers, staff will monitor and provide capacity development support to the authorities' macroeconomic statistics action plan.

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SOMALIA

March 9, 2020

SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM AND REQUEST FOR THREE-YEAR ARRANGEMENTS UNDER THE EXTENDED CREDIT AND THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Background and context. The Somalia authorities have fulfilled the necessary conditions to reach the HIPC Decision Point (DP), despite continuing challenges. This is a historic achievement and means Somalia has now cleared its arrears and normalized relations with the IMF and other international financial institutions. This will unlock Somalia's access to new financial resources to fund much needed development and social spending.

Staff-Monitored Program (SMP) performance. Program implementation has been satisfactory, and Management has approved the completion of the second review of SMP IV. Domestic revenues exceed the target by a notable amount.

Policies under the ECF/EFF arrangements. The authorities are cancelling the SMP and requesting three-year financing arrangements under blended Extended Credit and Extended Fund Facilities (ECF/EFF) in the total amount of SDR 291 million (178 percent of quota; SDR 253 million under the PRGT and SDR 38 million under the GRA). The program will anchor the authorities' policies and reforms between the HIPC DP and Completion Point (CP). Reforms will focus on a continued strengthening of public finances to meet Somalia's development needs while balancing fiscal sustainability considerations; a continued deepening of central bank capacity; efforts to improve the business environment and governance; and enhancing statistics. Access will be heavily front-loaded and require exceptional access under the PRGT. The full amount of the EFF arrangement will be available in the first purchase. Access under the ECF arrangement will be evenly phased and is intended to be used for CBS reserves accumulation. This level of access is consistent with Somalia's balance of payments needs.

Program and other risks. Risks to the program and outlook remain elevated, although there is also upside potential. The immediate political risks concern the upcoming elections, while frequent climate shocks continue to contribute to agricultural loss and human displacement. On the upside, greater-than-expected impact from reforms under the program and additional development financing, together with the development of new industries, could lead to higher and more inclusive growth than the baseline.

Approved By
Thanos Arvinitis (MCD) and Maria Gonzalez (SPR)

Discussions were held in Addis Ababa, Ethiopia during January 6–16, 2020. The staff team consisted of A. Holland (Head), P. de Imus, L. Kohler (all MCD), G. Kalyandu (FAD), T. Orav (SPR), I. Samake (Resident Representative), W. Irungu (Economist, IMF Office, Somalia) and P. Muir (FAD consultant). The mission met with the Finance Minister Dr. Abdirahman Beileh; Minister of Planning, Investment and Economic Development, Mr. Gamal Hassan; the Central Bank Governor, Mr. Abdirahman Abdullahi; Ms. Hodan Mohamoud Osman, Secretary of the Senate Finance Committee; Mr. Mohamud Abdirahman Sheikh Farah, Chairman of the House of the People Commerce Committee and other officials. Mr. Abdulqafar Abdullahi, (OED) participated in key policy meetings. The mission also met with representatives of bilateral and multilateral donors.

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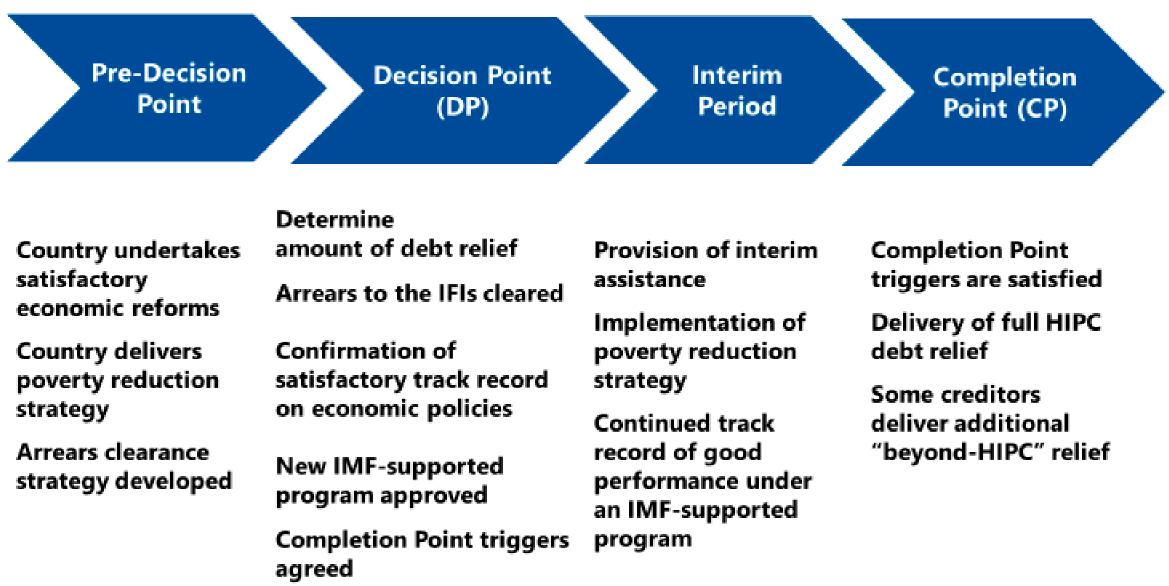
BACKGROUND AND CONTEXT

Somalia, having reached the HIPC Decision Point, has a unique window of opportunity to move toward higher, more inclusive and more resilient growth.

1. **Despite a challenging environment, the authorities' steadfast commitment to economic reform has, together with the support of international partners, brought them to the Decision Point (DP) under the Heavily Indebted Poor Countries (HIPC) Initiative.** Text Figure 1 outlines the HIPC process.[1] To fulfill the conditions to reach the DP, Somalia had to establish a satisfactory track record on economic policies of at least six-months (under a staff-monitored program meeting the conditionality standards of an upper-credit tranche (UCT) arrangement); deliver a poverty reduction strategy (PRS); and clear its arrears to the international financial institutions, and agree a plan to clear arrears to other external creditors. In addition, the IMF had to secure the necessary financial resources to cover its costs of debt relief.

Text Figure 1. HIPC Initiative: A Four Stage Process



2. **The successful completion of two reviews under the fourth successive SMP (SMP IV), whose policy reforms were endorsed by the Executive Board as meeting UCT-conditionality standards on July 22, 2019, establishes the required track record on economic policies.** The authorities' delivered their Ninth National Development Plan (NDP9) as its PRS, on October 15, 2019. On February 26, 2020, the Fund confirmed it had secured sufficient financing pledges to allow it to provide comprehensive debt relief, and arrangements are in place for a bilateral donor to provide bridge financing to help Somalia clear its arrears to the IMF. The authorities have also made three

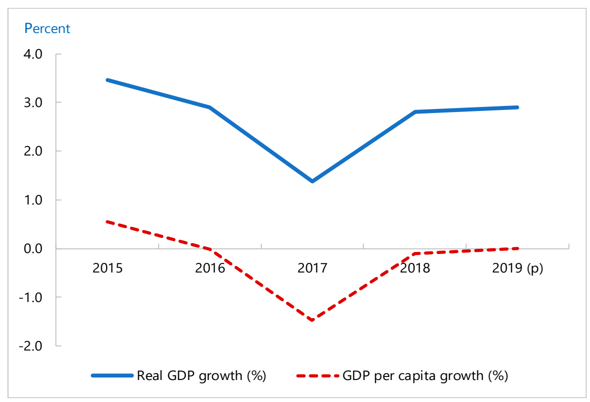
[1] See https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/11/Debt-Relief-Under-the-Heavily-Indebted-Poor-Countries-Initiative for more details.

payments to the IMF in 2020, as part of their commitment to normalize Somalia's relationship with the Fund. Arrears to the African Development Bank (AfDB) and to the World Bank (WB) were cleared on March 5, 2020. Finally, the authorities have secured the necessary financing assurances from other external creditors that they will provide relief in line with the HIPC Initiative.[2]

3. The partnership between the authorities and the international community in Somalia's post-conflict reconstruction also supports broader reforms. At the Somalia Partnership Forum (October 1–2, 2019), international partners recognized Somalia's broader achievements, including in areas security, social services, and reconciliation, and a new Mutual Accountability Framework (MAF), outlining joint commitments, was agreed with the authorities.[3] The Constitutional Review, due to be completed by June 2020, is advancing, and electoral reform is underway ahead of upcoming Presidential and national elections (expected early 2021). While these reforms challenge Somalia's political and administrative capacity, they are key to solidifying political gains and strengthening cooperation between the Federal Government of Somalia (FGS) and the Federal Member States (FMS).

4. Reaching the DP unlocks increased access for Somalia to the needed development financing to support higher growth and reduce poverty. Despite improving macroeconomic stability, per-capita GDP growth has been negative or flat over the past few years (see Text Figure 2), and the country's social development challenges are substantial (see Annex II). Large, multi-year investments in human and physical capital are needed to improve resilience and growth, especially in the agriculture and livestock sector.

Text Figure 2. Real GDP and GDP-per-capita Growth



Source: IMF staff estimates.

RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM

5. Real sector developments in 2019 are broadly as expected (Text Table 1). Spring drought conditions contributed to low cereal production in southern Somalia, while higher-than-normal rainfall in the Autumn led to flooding. While this aggravated human displacement,

[2] See the *Somalia-Enhanced Heavily Indebted Poor Countries (HIPC) Initiative–Decision Point Document* ("Decision Point" document) issued in parallel with this staff report for additional details.

[3] See https://unsom.unmissions.org/somalia-partnership-forum-communiqu%C3%A9-2-october-2019 and https://www.daljir.com/wp-content/uploads/2019/10/4_5807420474300302642.pdf.

humanitarian assistance facilitated higher food imports, mitigating the impact on food insecurity and growth. Fall rains suggested improved conditions for early 2020, but the impact of the recent locust invasion makes the near-term outlook less certain. Inflation was 3.1 percent for 2019 as better food supply and lower transport costs eased pressures on food prices in the second half of the year. The current account deficit widened to 12 percent of GDP from 10 percent, partly reflecting the increase in humanitarian supported imports.

6. **Management has approved the completion of the second review of SMP IV.** All end-September, October, and December indicative targets (ITs) were met and all structural benchmarks (SBs) except one were also met. Despite a significant increase in the use of commitment controls, SB#4 was narrowly missed given the value of payments subject to commitment controls only increased to 74 percent, narrowly missing the 75 percent target. Progress is well advanced on the February 2020 SBs (Tables 1 and 2).

7. **Fiscal data reflects continued strong performance in 2019 (Table 4a and 4b)**. FGS domestic revenue for 2019 reached $230 million compared to $183 million in 2018 and the IT of $196 million. This reflected both an increase in tax revenues (of US$16 million or 11 percent relative to 2018) due to the ongoing payoffs of earlier reforms, and a sharper increase in non-tax revenues (US$31 million or 68 percent), including due to the commencement of regular payments by the International Air Transport Association of over-flight fees but also reflecting two one-off receipts for the payment of telecommuniations licenses ($8.5 million) and a recovery from the International Civil Aviation Organization of back payment of overflight fees ($6.5 million). Expenditures came in below projections (US$315 million relative to US$341 million), resulting in an estimated fiscal surplus for 2019 of US$24 million. The surplus includes US$10 million which is earmarked for use in 2020 and about US$0.5 million for paying down the stock of domestic arrears.

Text Table 1. Selected Economic Indicators, 2016-23

(Percent of GDP, unless otherwise indicated)

	Est.				Proj.			
	2016	2017	2018	2019	2020	2021	2022	2023
National income and CPI				(Percent)				
Real GDP growth	2.9	1.4	2.8	2.9	3.2	3.5	3.7	3.9
Inflation (CPI, e.o.p.)	1.2	6.1	3.2	3.1	3.0	2.5	2.2	2.2
Fiscal 1/								
Revenue and grants	4.1	6.0	5.7	6.8	9.5	10.8	12.4	13.6
of which: grants	1.4	2.8	1.8	2.2	5.0	6.0	7.2	7.7
Total expenditure	3.3	5.3	5.7	6.3	9.1	9.5	10.4	11.7
of which: Comp. of employees 2/	1.3	2.8	3.0	3.3	4.2	4.3	4.7	5.0
Overall balance	0.8	0.7	0.1	0.5	0.4	1.4	2.0	1.8
Overall balance, net	0.0	0.0	0.0	0.6	0.0	1.0	1.7	1.7
External sector and debt								
Current account balance	-9.4	-9.8	-10.3	-11.9	-12.3	-12.5	-12.5	-12.7
Trade balance	-74.4	-86.7	-84.8	-86.6	-88.9	-89.3	-90.2	-86.6
Remittances	32.5	31.5	31.3	31.9	32.4	32.7	32.9	32.1
Grants	33.3	46.1	43.9	43.5	44.9	44.9	45.6	42.4
External debt 3/	121.1	115.1	111.3	106.0	73.3	70.1	66.8	9.4
Memorandum items				(U.S. dollar, million)				
Stock of domestic arrears	76.5	68.8	68.8	68.2	66.7	65.0	62.2	59.2

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 bringing onto budget military spending related to the loss of an off-budget grant. The increase in 2020 reflects a reallocation of allowances from G&S to compensation in the context of Somali National Army reform.

3/ Assumes full application of traditional debt relief, multilateral arrears clearance, and interim HIPC assistance as of 2020.

8. The authorities have implemented key fiscal structural reforms, and others are in progress:

- **Preliminary quarterly reports on fiscal operations,** consolidated across the FMS and FGS (SMPIV SB#2), have been produced, providing an insight into general government revenues and expenditures. Data for 2019 suggest that general government revenues reached 6.5 percent of GDP;

- **The customs manifest verification process** has been implemented to confirm customs declarations at the Port of Mogadishu (SMPIV SB#7), a necessary precondition for audits and inspections to reduce leakage, while the automated front-end declaration process now includes goods inspection (SMPIV SB#9);

- **The *Revenue Act*,** which incorporates the *Allocation of Revenue Raising Powers Bill* (SMPIV SB#8), has been enacted, while the amendments to the *Public Procurement Act* are awaiting the President's signature and draft implementation regulations are ready to be issued (SMPIV SB#5);

- **Prelminary expenditure assignment guidelines,** to facilitate spending of shared revenues while fiscal federalism structures are being defined as part of the Constitutional Review, have been agreed with the FMS (SMPIV SB#3); and

9. While still challenging, cooperation on fiscal federalism appears to be improving. Following their meeting in September 2019, Finance Ministers have continued to meet to discuss key fiscal issues, including a common customs tarrif, revenue-sharing issues, and harmonizing public financial management information systems. They also endorsed a policy paper on intergovernmental transfers (a priority under the EU budget support program and complementing the adoption of the expenditure assignment guidelines). At a technical level, work on improving the quality of fiscal reporting across the FGS and FMS (supported by UK DFID, WB) and the IMF) is advancing, and cooperation with the FMS on customs modernization at the Ports of Bossaso and Kismayo has deepened (with the support of UK DFID).

Table 1. Somalia: Indicative Targets under SMP IV, June 2019 – May 2020 1/

(Millions of U.S. dollars)

	2019									2020	
	July 2/			October 3/			December			February	May 4/
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prog.
Fiscal											
Domestic revenue floor	110.9	126.3	Met	154.4	178.3	Met	196.3	229.7	Met	32.0	92.9
Accumulation of new domestic expenditure arrears (ceiling) 5/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0
Contracting of new domestic debt (ceiling) 5/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	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	Met	0.0	0.0	Met	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	25.0	Met	24.8	25.1	Met	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		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/ Program definition as per the Attachement II TMU.

Table 2. 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 quartlery basis.	Met
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.	Met
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).	Not met
5	Enact amendment of the 2016 *Public Procurement, Concessions, and Disposals Act* , and issue associated procurement and disposal regulations.	End-February 2020	Provide oversight to ensure all MDAs follow appropriate practices in conducting public procurements and disposal of public assets. Submit amended act as passed and issued regulations to IMF staff.	
Increasing domestic revenue				
6	Automate the front-end customs declaration functionality related to the use of Somalia Standard Administrative Document for online customs declaration at the Port of Mogadishu.	End- July 2019, thereafter end-month basis	Support domestic revenue generation and modern customs operations, as a step towards national application. Allow for automated processing of front-end customs declaration system. Submit report detailing number-of declaration forms processed by the system for period May-July 2019. Continuous monitoring on a monthly basis following the first test date.	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.	Met
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.	Met
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 continued. Somalia: Structural Benchmarks for SMP 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.	Met
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.	Met
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.	

10. Reforms to strengthen capacity at the Central Bank of Somalia (CBS) are gaining momentum. The CBS adopted its new strategic plan, and the associated transition plan, making progress toward an updated organizational and governance structure (SMPIV SB#13). The authorities also covered a key gap in the AML-CFT framework by issuing new regulations covering all financial institutions (SMPIV SB#14), and an additional regulation that clarifies the governance and enforcement regime. The CBS has also shared its plan to implement and issue licenses under the newly-issued mobile money regulations (SMPIV SB#15).

11. The broader legislative reform agenda has continued to advance. The *Public Financial Management* (PFM) and *Companies Laws* have been enacted, the Senate has passed the *Audit Bill*, and the Lower House has passed the amendment to the *Customs Law*. The amendment to the *Statistics Law* has also been enacted, and staff have provided comments to an preliminary draft of the authorities'action plan for producing and disseminating macreconomic statistics (SMPIV SB#18).

REQUEST FOR ECF/EFF ARRANGEMENTS AND OUTLOOK

12. The authorities are requesting new three-year IMF-financing arrangements that aim to anchor medium-term policies during the period between the HIPC DP and CP (see Appendix I). They are also cancelling the current SMP. Building on the 2019 Article IV recommendations and on-going SMPIV reforms, the policy objectives for the new program include strengthening public finances to meet Somalia's development needs while balancing fiscal sustainability considerations, continued deepening of CBS capacity to conduct financial sector supervision and, eventually, monetary policy; improving the business environment and governance (including AML-CFT and anti-corruption); and enhancing statistics. The reform priorities in the arrangement have been closely coordinated with other donors and complement the proposed HIPC floating CP-triggers that will determine precisely when Somalia could reach the CP (see Box 1).[4] Reforms have been designed to be mutually supportive but not to overlap with the CP-triggers. Satisfactory performance under these new arrangements will also satisfy the CP-trigger related to maintaining macroeconomic stability.

13. On the basis of policies and reforms under this program, real GDP growth is projected to increase gradually and reach a higher long-term steady state compared to previous projections (Figure 1, Annex I). Following the DP, Somalia is expected to experience a gradual scaling up of access to resources to support greater investment in building resilience, human and physical capital, and social spending. In this regard, as the implementation of NDP9 ramps up, growth is expected to gradually accelerate to a peak of close to 5.5 percent by 2027, before settling to a long-term average of 4.8 percent. This is supported by the expected payoffs from infrastructure investment in the short to medium term, and by the expected payoffs from physical and human

[4] For additional details, please see Decision Point document.

capital investment over the longer term. This implies growth would be about 1.3 percentage points higher relative to the projections without debt relief. Somalia's per-capita growth is expected to average about 2 percent per annum over the long-run, compared to zero growth in previous projections. These assumptions are in line with the outturns of other post-HIPC members. In the external sector, the current account deficit is projected to remain elevated, reflecting a continued high demand for imports. However, the implementation of NDP9 should bring a gradual shift in the composition of imports from food and other subsistence items to more investment goods. At the same time, external inflows will slowly transition from grants and remittances towards foreign direct investment (FDI) and other capital flows.

14. Once the HIPC CP is reached and the delivery of debt relief is completed, the composition of development aid is likely to change given that Somalia's debt levels could be considered sustainable. Until Somalia reaches the CP, aid is expected to remain entirely composed of grants; however, once the CP is reached, aid delivery is expected to gradually shift to a mix of grants and highly concessional loans. While reaching the HIPC CP is conditions based (see the HIPC Decision Point Document), the new framework assumes that this happens in 2023.

15. While the risks to the program and outlook are elevated, there is also upside potential. Somalia will remain fragile and vulnerable to security, political, and climate risks into the medium term. On the security side, the expected transition from AMISOM to the Somalia National Army (SNA) represents an important medium-term risk.[5] The immediate political risks concern frictions between the FGS and FMS linked to the on-going Constitutional Review and upcoming elections. Climate shocks continue to contribute to agricultural loss and human displacement. These risks are mitigated by the authorities' efforts and international support and should decline as Somalia's resilience increases. On the upside, the impact on growth of greater development and social spending, or impact of reaching the DP on foreign inflows, could be larger than currently anticipated. Additionally, the development of new sectors, like petroleum, and enhancement of others, like commercial fishing, could also increase growth.

16. Uncertainty on the timing of the HIPC CP is a two-sided risk. Staff's baseline envisages Somalia reaching the CP by March 2023, somewhat faster than the average experience of HIPCs (of around four years). The prerequisites for reaching the CP are establishing a track record of good performance under an IMF arrangement, implementation of a poverty reduction strategy (PRS) for one full year, and meeting the country-specific triggers (as defined in Box 1 and the Decision Point document). The authorities' proven success in implementing reforms suggests that the CP could come even as early as March 2022. However, Somalia's fragility and vulnerability to shocks could entail setbacks that shift this timeline, which would slow the anticipated improvement in the outlook.

[5] This includes potential risks to the budget from increased security costs.

Box 1. Triggers for the Floating Completion Point

Poverty reduction strategy implementation

- Satisfactory implementation for at least one year of Somalia's full poverty reduction strategy, as evidenced by an Annual Progress Report on the implementation of the poverty reduction strategy submitted by the government to IDA and the IMF.

Macroeconomic stability

- Maintain macroeconomic stability as evidenced by satisfactory implementation of the 3-year ECF-supported program.

Public financial and expenditure management

- Publish at least two years of the audited financial accounts of the Federal Government of Somalia.
- Issue regulations to implement the Public Financial Management Act's provisions on debt, public investment, and natural resource revenue management.

Domestic revenue mobilization

- Adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia (to also foster greater trade integration).

Governance, anti-corruption, and natural resource management

- Enact the Extractive Industry Income Tax Law.
- Ratify the United Nations Convention Against Corruption (UNCAC).

Debt management

- Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12-months ahead; annual principal payment projections (for at least the next five years); and key portfolio risk indicators (including proportion of debt falling due in the next 12-months; proportion of variable rate debt; and projected debt service-to-revenues and debt service-to-exports for the next five years).

Social sectors

- Establish a national social registry as a functional platform that supports registration and determination of potential eligibility for social programs.
- FGS and FMS Ministers of Health adopt a joint national health sector strategy.
- FGS and FMS Ministers of Education adopt an agreement defining their respective roles and responsibilities on curriculum and examinations.

Growth/structural

- Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.
- Issue Company Act implementing regulations on minority shareholder protection (to encourage private sector investment).

Statistics

- Publish at least two editions of the "Somalia Annual Fact Book".

POLICY DISCUSSIONS

A. Strengthening the Fiscal Framework and Reforms

17. The 2020 FGS budget continues efforts to strengthen the fiscal framework and support priority needs. Parliament appropriated a 2020 budget with a revenue envelope of $466 million and expenditures of $474 million, an increase of about 23 percent and 29 percent, respectively, from the budget discussed during the first review. While large, the increase in projected revenues is supported by the strong performance in underlying domestic revenues in 2019, and updated projections on grant inflows, much of which are for ear-marked projects, justifying the increase in related expenditures.

18. The budget anticipates the first significant social spending program (for $25 million). This will be supported by a WB project—the Shock Response Safety Net for Human Capital project—whose objective is to provide nutrition-linked unconditional cash transfers to targeted poor and vulnerable households and establish the key building blocks of a national shock-responsive safety net system. Reflecting their policy priorities and the macro-criticality of security, the authorities have chosen to use the residual increase in revenues to increase security-sector salaries.[6] The authorities are planning for an early supplementary budget in the Spring to secure the relevant appropriations for the estimated debt servicing on restructured debt. A second supplementary budget is likely in the Fall (as usual) to incorporate updated projections of post-DP grant inflows and the associated increase in spending, including to take account of the NDP9 costing exercise to be completed by end-June.

19. Beyond 2020, a robust medium-term fiscal framework (MTFF) will guide fiscal policy, balancing the authorities' development priorities and the sustainability of fiscal policy. In the context of HIPC and NDP9 implementation, staff envisages a substantial increase in expenditures, including on multi-year projects. Nevertheless, despite the anticipated increase in revenues, fiscal space will remain constrained so to ensure sufficient resources are available for critical development expenditure, staff proposed a new QPC—a ceiling on expenditures on compensation and use of goods and services (see MEFP Table 1). This will ensure that a significant proportion of any fiscal space generated will be directed to support priorities stemming from NDP9, the costing of which is expected to be completed by June 2020 (SB#5, MEFP Table 2). Going forward, the authorities' efforts to control expenditure on compensation will be supported by WB advice on introducing a formal civil service grading structure and more modern human resource management (HR) practices. Future budgetary processes will commence with an update of the MTFF to cover a rolling three-year basis.

20. The budget will continue to be protected by contingency measures given the tight budget constraint that will persist. To the extent that expenditures are directly linked to grant

[6] Note about half the increase in compensation reflects a reclassification of food rations from the use of goods and services to compensation.

funding, this provides an automatic adjustment if project grants fall short, while the fiscal buffer (implemented under SMP IV) and the authorities' sequestration rule protects priority spending against shortfalls in other revenues. Finally, the authorities' practice of backloading discretionary expenditures, together with the stronger use of commitment controls, allows expenditures to be curtailed if the expected revenues do not materialize. In the event of an over performance of unallocated revenues, NDP9 sets out how the resultant fiscal space would be allocated.

21. During the program, expenditures will continue to be capped by the overall size of the revenue envelope, with a zero limit on new debt accumulation. Staff emphasized the need to anchor fiscal policy to ensure debt sustainability, especially as Somalia will regain capacity to borrow at the HIPC CP. Staff strongly encouraged limiting any future borrowing (subsequent to this program) to concessional sources as much as possible, and emphasized the importance of ensuring transparency and accurate recording of all debt (related CP-trigger). The IMF-supported program includes, as quantitative performance criteria (QPCs), ceilings on contracting new domestic debt and on contracting and guaranteeing new external non-concessionary debt. Staff also emphasized the need for the authorities to develop regulations relating to incurring and managing government debt, including controls on the issuance of government guarantees, and the authority of the FMS to enter into debt contacts now that the *PFM Act* is in place. Recognizing the experience of other HIPC countries and the increasing risk of debt distress in many low-income countries, developing capacity to manage debt effectively will be critical to prepare for the post-CP environment. These reforms are expected to be supported by technical assistance (TA) from the IMF and other development partners.[7]

22. A cornerstone of the program will be to further mobilize domestic revenue to support self-sufficiency, provision of public services, and social stability. Over the program, staff projects FGS domestic revenues to increase from around 4.5 percent of GDP in 2019 to nearly 6.0 in 2023, a percentage point increase broadly consistent with the experience of other fragile states post-DP despite Somalia's narrower tax base (see Tables 3 and 4b, Annex I). This would be expected to translate directly into an increase of general government domestic revenue from 6.5 percent (estimated) in 2019 to nearly 8.0 percent by 2023.

23. The authorities recognize the large social needs, which are magnified by persistent climate shocks. As discussed in Annex II, they are developing their resilience and social protection interventions in line with NDP9. This includes a comprehensive social protection policy that aims to initially focus on social transfers (in the short- to medium-term) and works towards setting a floor on social protection in the future.

24. The authorities will develop an operational plan to support the implementation of the *Revenue Act*, prioritizing the expansion of the coverage and collection of customs and sales taxes. A new QPC floor on FGS domestic revenue will monitor developments. To avoid one-off revenues inflating the assessment of performance, this will exclude any revenues received and

[7] TA from the IMF is supported by a multi-donor trust fund—the Somalia Country Fund (SCF)—and is subject to the availability of financial resources.

recorded in the current fiscal year but related to previous years' activities, with the exception of underpaid taxes and fees recovered through the annual tax audit process.

25. Staff emphasized the importance of sustaining and deepening inter-governmental fiscal relations. Defining fiscal relations between the FGS and the FMS remains key to securing Somalia's fiscal self-sufficiency. Staff strongly encouraged the authorities to sustain regular meetings of the Intergovernmental Fiscal Forum and to continue working with FMS on issues related to intergovernmental fiscal relations, including further review, refinement, and implementation of the expenditure assignments guidelines as the base of shared revenues expands. Additionally, staff encouraged continued capacity development and information-sharing at the technical level. Staff also encouraged the authorities to bring the consolidated reporting on fiscal operations across the FGS and FMS into line with GFSM2014 standards.

26. Continued efforts to strengthen tax administration and improve compliance will support revenue mobilization. Building on past reforms, the authorities are committed to implementing a tax audit strategy for the large and medium taxpayers' office (LMTO) and prepare a report that captures lessons learned from the conduct of audits to inform future improvements (SMPIV SB#10 and ECF/EFF SB#1). On customs, the customs reform roadmap will continue to be advanced, including the introduction of harmonized HS codes at the three regional ports and preparing an ad valorem tariff schedule to prepare for a single tariff schedule for the country (SMP IV SB#11 and ECF/EFF SB#4, and CP trigger). To underpin these reforms, developing a customs guidance manual, delivering the required training, and installing a common IT system will be supported by UK DFID.

27. The authorities will deepen and broaden on-going PFM reforms that hinge on implementing aspects of the *PFM Act*.

- **Budget preparation and execution:** On enhancing oversight, the authorities will review the use and presentation of earmarked revenues to finance the operations of various institutions with the goal of identifying a more appropriate means of financing these institutions over the medium-term. Recent improvements in the budget process will be institutionalized, including by adding functionality to the Somali Financial Management Information System (SFMIS) to support controls for allotments, and linking warrants approval to allotment. Additionally, the SFMIS budget module will be activated to strengthen budget preparation system and automatically align the controls over budget execution. Quality assurance of the SFMIS will be supported by WB TA.

- **Strengthening PFM processes:** Regulations in new areas of activity (CP trigger) and next steps following the passage of the amendments to the *Procurement Act*. In addition, the quality of consolidated fiscal reporting will be enhanced, including by developing a public sector institutional table and complete inventory of FGS public sector non-financial assets, and a reporting framework for MDAs covering contingent liabilities and extrabudgetary transactions.

28. On natural resource management, the *Petroleum Bill* has been enacted. The authorities committed to work towards enacting the *Extractive Industry Tax Law* (CP-trigger) that will provide the legal underpinnings to tax this sector and have a model production sharing agreement in place that embeds the tenets of both these laws before the planned auctioning of oil exploration licenses.

B. Delivering Debt Relief and Debt Sustainability

29. The Fund-supported program is expected to facilitate comprehensive debt relief, which is critical to place Somalia's external debt on a sustainable path. Staff analysis presented in the accompanying HIPC Decision Point document shows that, as of end-2018, Somalia's debt in net present value (NPV) terms corresponded to more than 450 percent of exports of goods and services, well above the HIPC threshold of 150 percent.

30. The debt sustainability analysis (DSA) under debt sustainability framework for low-income countries confirms the need for HIPC debt relief (see the DSA for details). Both the NPV of the external debt-to-GDP ratio and the NPV of the external debt-to-exports (ratio remain well above their respective thresholds (30 and 140 percent) throughout the projection period. The debt service-to-exports and debt service-to-revenue ratios also see sustained breaches. The alternative scenario that assumes debt relief at the CP (through the HIPC Initiative, Multilateral Debt Relief Initiative, and beyond-HIPC assistance) improves Somalia's debt situation dramatically. Assuming full delivery of such assistance at CP, and that post-CP borrowing is contracted on highly concessional terms, all debt burden indicators would be significantly below their respective thresholds in 2023, consistent with achieving a moderate risk rating at the CP.

C. Financial and Monetary Policies and Reforms

31. The authorities continue to improve CBS capacity, which will need to be deepened as policy needs expand. Work to implement the new organizational structure, including recruiting key staff to support the reorganization and new functions are advancing. Once perquisites are in place, the CBS will develop a medium-term vision to guide the identification of future policy priorities. Supervisory capacity is expanding, especially in mobile money as the CBS implements the new regulations and licensing regime. In addition, near-term reform priorities include conducting a self-assessment of on-site inspection capacity to help outline next steps; further improving analytical capacity and data reporting, especially in the area of Islamic finance (SB#6); developing frameworks for dealing with problem institutions and take related supervisory actions; and, developing additional prudential tools, such as a reserve requirement.

32. The CBS medium-term vision is expected to address the need to develop monetary and exchange rate policy capacity. Somalia is currently a de facto dollarized economy, with no independent monetary policy. However, while no change in the level of dollarization is anticipated, the introduction of new Somali shilling notes in the context of the initial phase of the currency project—which will be limited to replacing the counterfeit notes currently in circulation—will require the CBS to gradually develop some analytical and operational capacity to manage liquidity and support needed exchange rate operations.

33. The authorities have accelerated reforms to improve AML-CFT compliance. Annual bank and MTB relicensing is informed by reporting data provided by the Financial Reporting Center (FRC, Somalia's financial intelligence unit), supporting an improvement in AML-CFT compliance. The FRC's technical capacity and physical infrastructure (goAML software, power, data storage, and security) is becoming more robust (ECF/EFF SB#2), and inter-agency cooperation is improving through the operation of the National Anti-Money Laundering Committee (NAMLC). The authorities have also committed to enact the long-awaited *Targeted Financial Sanctions Law* (SMP IV SB#16 and ECF/EFF SB#7) by early next year, fulfilling a key recommendation of the Financial Action Task Force (FATF).[8] However, bringing this Bill to Parliament has proved challenging, and parliamentarians will need to be better sensitized to the nature of such a law and its importance for improving Somalia's correspondent banking relationships and supporting a greater flow of international payments. Over the program period, the authorities are expected to complete their national risk assessment and regulations for designated non-financial entities will be developed. To improve the implementation of customer due diligence requirements, the authorities will develop the technical and legal underpinnings for a national, digital identification over the course of the program.

34. Further development of the financial system to promote greater access to financial services will be key to meeting long-term growth objectives. The authorities are updating the legal framework, starting with an update to the *Financial Institutions Law*, followed by developing an insurance law. It is expected that the payment system, composed of a national switch and automatic clearing house, will be operational by early 2021. To support greater access to credit, development of a credit reporting system and movable collateral registry is planned, while the dispute resolution system related to business and credit also needs to be enhanced. The WB is also helping to establish a micro-lending program.

D. Governance, Economic Development, and Other Program Issues

35. The program will also support the authorities' ongoing efforts to improve governance and fight corruption (see Annex III). The 2019 Article IV noted that weak governance and the risk of corruption weighed on macro-critical areas. In addition to the program's benchmarks and capacity development in the areas of fiscal and financial governance, including the CP-trigger on publication of the audited financial accounts of the FGS, the program will reinforce the authorities' anti-corruption strategy by encouraging ratification of the UN Convention Against Corruption (UNCAC) (CP-trigger). The President signed the law creating the Anti-Corruption Commission (ACC) late last year, and the process of nominating commissioners has started. However, it will take time before the members of the commission are approved by Parliament and the ACC is constituted. The authorities have committed to securing Cabinet-approval of, and publishing, their National Anti-Corruption Strategy (NACS) (SB#3). The NACS will outline the framework and actions the

[8] The law and associated regulations were drafted with the assistance of IMF TA.

government will take to fight corruption, including improving the legal framework for defining corrupt practices and penalties, developing an asset declaration regime for public officials, increasing public awareness, etc. The authorities have partnered with UNDP to develop an action and support implementation of the NACS.

36. The program will support long-term growth and poverty reduction. Reaching DP will generate new financing to implement NDP9—the pillars of which are (i) inclusive and accountable politics; (ii) improved security and the rule of law; (iii) inclusive economic growth; (iv) improved social development; and, (v) resilience to climate shocks (as informed by Somalia's Drought Impact Needs Assessment or DINA and its Recovery and Resilience Framework or RRF). In that context, the program will support these goals through fiscal conditionality and reforms, and the complementary CP triggers, along with other conditionality in WB operations, which are expected to address growth, water management, poverty, gender, and improving the ease of doing business. The IFC is also supporting efforts to improve the business climate, including developing a "one-stop shop" to coordinate government regulatory functions and facilitate investment. The NDP9 has been published by the authorities. The Joint Bank-Fund Staff Advisory Note commended the authorities for the care taken in the stakeholder consultation process and highlighted the need for the plan to be costed. The authorities have committed to completing the initial costing exercise by June 2020.

37. The authorities have committed to take measures to strengthen data provision. Now that the amendments to the *Statistics Law* have been enacted,[9] the immediate priority will be to create and build the national statistics office from the current Directorate of National Statistics (DNS). The authorities are also developing an action plan for the production and dissemination of macroeconomic statistics to guide future program priorities, supporting the CP-trigger, and coordinate support across different partners, including the IMF, Statistics Sweden and the WB. Building capacity across the FGS and FMS on GFS reporting standards, and enhancing the collection of BOP-related and financial institutions data should continue. Over the next few years, the authorities are expected to develop a production-based GDP-estimate as part of a WB program. Additionally, while capacity development in statistics has focused on the FGS, the statistical units of the FMS need greater support to be better able to collect and process the administrative data that would improve the quality of source data.

38. Somalia will continue to need extensive capacity development support to meet the program's goals and benchmarks and to reach the HIPC CP. TA will continue to be closely integrated with, and reflect the priorities of, Somalia's IMF program. The Fund will continue to coordinate with Somalia's other TA providers to ensure the complementarity of TA and training. Staff is currently fundraising for Phase II of the Somalia Fund for Capacity Development, which has been a successful model in delivering support, covering FY2021-2024. However, progress on this has been relatively slow, representing a risk to the future IMF TA program.[10]

[9] The President signed the amendments in February 2020.

[10] Phase I of the SCF will be completed at end-April 2020, and Phase II is expected to run from May 2020-April 2024. However, despite fundraising efforts, there is only minimal funding available to support TA in the near term.

PROGRAM MODALITIES AND FINANCING ASSURANCES

39. To support their policy and development efforts, the authorities are cancelling the SMP and requesting three-year blended arrangements under Extended Credit and Extended Fund Facilities (ECF/EFF) in the total amount of SDR 292.4 million (179 percent of quota[11]). Reflecting annual PRGT access limits, such arrangements would involve access of SDR 253 million (155 percent of quota) under the Poverty Reduction and Growth Trust (PRGT) and SDR 39.6 million (23 percent of quota) under the General Resources Account (GRA). This would be consistent with the principle that PRGT-eligible members that are not presumed to blend should first seek to meet their needs through the PRGT facilities. Phasing will be front-loaded given the large upfront balance of payments (BoP) need. The authorities have informed staff that they intend to use most of the proceeds of the initial disbursement to repay the bridge financing needed to clear arrears to the IMF. The full amount of the EFF arrangement will be available in the first purchase, and if drawn as expected, the EFF arrangement will lapse. This unusual structure reflects the up-front nature of Somalia's financing needs and is consistent with precedent; program monitoring will continue under the three-year ECF arrangement. Access under the ECF arrangement is expected to be evenly phased and to be used for CBS reserves accumulation (see Table 9). The latter will be monitored via a QPC on net foreign assets. The level of access is consistent with Somalia's BoP need.

40. The program will be monitored by QPCs and ITs which are aimed at continuing to increase domestic revenues and create fiscal space for development spending, while maintaining fiscal discipline, and building reserves. Quantitative anchors include fiscal cash balance, domestic revenue floor, ceiling on non-priority spending, and floor on net foreign assets of the central bank. In addition, the program includes limits on domestic arrears and public debt accumulation (see Attachment I). In line with IMF guidelines on engagement with fragile states, program conditionality is parsimonious and focused on macroeconomic criticality. The program will have semi-annual reviews, with QPCs, ITs, and SBs set for the first 12 months. Remaining SBs from SMPIV will be carried into the new Fund-supported program. The program also aims to support the achievement of the complementary floating CP-triggers (Box 1), which focus on strengthening public financial and debt management, governance, and reforms to reduce poverty and improve social conditions.

[11] Based on Somalia's new quota of SDR 163.4 million.

41. The exceptional access criteria under the PRGT, which need to be met for access above 100 percent of quota in the first 12-months of the program, are considered to be met[12]:

- **Criterion 1:** "an exceptionally large BoP need that cannot be met within the normal limits (e.g., very large external shocks, very low levels of reserves)". Somalia's large BOP need reflects the large external payments due at the outset of the program related to Somalia's arrears clearance operation. Similar arrears clearance cases have involved exceptional access under the PRGT.

- **Criterion 2:** "have a comparatively strong adjustment program and ability to repay the Fund." This criterion would generally not be met for countries in debt distress as defined under the joint Bank-Fund Debt Sustainability Framework, unless expected debt relief or restructuring is projected to reduce the risk of debt distress to a moderate or low level, as is done in the HIPC process. The Fund-supported program entails an ambitious multi-year fiscal policy and structural reform agenda to ensure sustainability and bolster growth. The authorities have demonstrated strong commitment under consecutive SMPs, which is expected to be maintained under the new Fund-supported program. Satisfactory performance under the Fund-supported program would help secure comprehensive HIPC, MDRI and beyond-HIPC debt relief. The DSA confirms that full delivery of HIPC, MDRI, and beyond-HIPC debt relief, coupled with the stronger economic prospects implied by the program, would restore debt sustainability and ensure Somalia's capacity to repay the Fund is adequate. This is confirmed by Table 9, which shows that, at that point, outstanding credit to the Fund would represent only around 1 percent of GDP.

- **Criterion 3 and 4** "has no market access" and "income below the operational cut-off for International Development Association (IDA) assistance." Somalia has not accessed capital markets, and the country's income level is substantially below the prevailing operational cut-off for assistance from IDA.

42. The Fund-supported program takes account of the primary sources of fragility in Somalia, notably the security, political, and climate situation, and related pressure points. The program is also aligned with reforms committed under programs with other partners, including the WB, the EU, and UNDP.

43. The program is fully financed. Financing needs for the next 12-months will be met through expected grants from the EU, WB, and other donors, together with the AfDB and WB arrears clearance operations that were completed in March 2020. The authorities have engaged with their plurilateral creditors to seek an agreement to resolve their arrears and restructure their debt; staff confirmed in early March 2020 that these creditors are in the process of developing restructuring plans. Paris Club creditors also provided official financing assurances for interim debt relief contingent on Somalia reaching the DP, and some of Somalia's largest non-Paris Club official bilateral creditors plan to attend the Paris Club negotiations with Somalia scheduled for March 31, 2020. Moreover, by covering a majority of Somalia's creditor base, the Paris Club agreement, once

[12] There was a discussion of Somalia's eligibility for exception access under the PRGT by the Board in December 2019.

concluded, can be considered adequately representative and arrears to non-Paris Club bilateral creditors can be deemed away under the Fund's policy on Non-Toleration of Arrears to Official Creditors. The expected continued engagement of international donors indicates good prospects for full financing over the duration of the Fund-supported program (see Table 10).

44. The first safeguards assessment of the Central Bank of Somalia is substantially completed. The assessment found that Fund TA has had a positive impact on developing some safeguards at the CBS, including the legal framework and internal audit. However, the quality of the external audit and the transparency of financial reporting need to be enhanced. Strengthening the oversight of the audit committee will be crucial in improving these mechanisms. Further, credit risks in the area of foreign exchange accounts are elevated given the CBS's limited access to international correspondent banks, and key central banking functions such as issuing legal tender and formulating monetary and foreign exchange policy are not yet operational. The central bank will need to build capacity in these areas and take steps to mitigate the related risks.

STAFF APPRAISAL

45. The authorities should be commended for their steadfast commitment to pursue policies and reforms to lay the foundations for stronger and more inclusive growth and eligibility for debt relief under the HIPC Initiative. This sustained commitment to economic reforms has brought Somalia to the HIPC DP, and it may immediately begin receiving interim relief on its debt service falling due. Once it reaches the HIPC CP, Somalia will receive the full amount of debt relief committed at the HIPC DP. On the back of the authorities' strong implementation efforts, including Management's approval of the successful completion of the second review of SMP IV, and despite various climate shocks, the economy has remained stable. Humanitarian support has mitigated the potential impact of the early drought, and the subsequent flooding, but recent locust swarms threaten crop production and food security in 2020. The FGS has maintained its fiscal discipline while increasing domestic revenues, recording a fiscal surplus of US$24 million in 2019 (including US$10 million earmarked for use in 2020 and about US$0.5 million for paying down the stock of domestic arrears), and the CBS has continued to strengthen its financial sector oversight.

46. The authorities' success in enacting several critical legal reforms and progress in deepening inter-governmental relations demonstrates the broader ownership of the reform agenda. The broader commitment of Somalis to the HIPC process has helped parliamentarians push through legal reforms critical to the SMP and other development partners' programs. These include enactment of the *Revenue, Public Financial Management,* and *Anti-corruption Laws*. The authorities' ongoing efforts to deepen inter-governmental fiscal relations, at both political and technical levels, have also facilitated meeting key SBs on general government fiscal reporting and guidelines for expenditure assignments.

47. Continued momentum on economic reforms, together with investment in key infrastructure, is critical to bolster the foundation for sustained inclusive growth and resilience. Economic growth has been too low to significantly tackle poverty and reduce fragility.

Investment in key NDP9 projects that relate to the RRF is necessary to improve water management and increase resilience to climate shocks to reduce their impact on people, agriculture, and livestock, and to reduce Somalia's dependence on humanitarian assistance. Moreover, efforts to improve international trade and the domestic business environment will help create jobs, particularly for the large number of unemployed young people. Improved opportunities for the youth will, in turn, support an improvement in the security situation.

48. Strengthening fiscal federalism, particularly ahead of the completion of the Constitutional Review, will be critical to continued implementation of key revenue raising reforms. Regular meetings of the Intergovernmental Fiscal Forum should be maintained, and FGS and FMS Finance Ministers will need to review and refine their agreement on expenditure assignments as implementation of the *Revenue Act* changes the base of shared revenues. Capacity building and information sharing at the technical level also needs to continue, including efforts to deepen the quality of consolidated reporting of fiscal operations.

49. The FGS will need to continue strengthening its fiscal framework and implementing other fiscal reforms. Despite the significant progress on revenue mobilization, the FGS's budget will continue to be tight, reliant on international grants, with limited space to independently finance necessary social spending and infrastructure investment. The IMF-supported program will continue to instill fiscal discipline through its fiscal QPCs and ITs, while limiting the growth of recurrent expenditures in order to preserve fiscal space for development spending. At the same time, revenue mobilization will continue to be key, including reforms to revenue and customs administration. These efforts will need to be supported by a continued strengthening of PFM practices, including in budget development and execution.

50. The authorities will need to significantly strengthen their debt management capacity. The government does not have the scope to incur new debt during the program period. But the authorities will have to remain current on debt not in arrears and any debt restructured within the HIPC framework. The Debt Management Unit will need the capacity to maintain proper recording and reporting of their outstanding debt and debt service schedules to ensure timely payment. This will require partners' support in securing an upgrade to the current debt recording system and related capacity building needs. Even given full HIPC debt relief, Somalia is expected to be vulnerable to shocks and still face a moderate risk of debt distress, arguing for a conservative approach to future borrowing on concessional terms.

51. Further financial reforms are also needed, in particular to support the continued flow of remittances and increase the role of the financing sector in economic development. The CBS should continue its progress on implementing its restructuring plan and modernize its organization and clarify its priorities with respect to developing monetary policy capacity. The financial transparency of the CBS should also be improved, including through publication of the audited financial statements, and the oversight of the external audit committee should be strengthened. As access to international correspondent banks expands, the authorities should seek to use investment-grade banks to hold their foreign exchange reserves; until that time, the authorities should aim to keep disbursements under the Fund-supported program in their SDR holdings with the IMF. While good progress has been made, the authorities need to continue building their regulatory and supervision capacity as the banking, mobile money, and insurance industries grow. Continued progress on improving AML-CFT compliance is also a priority, including enacting the *Targeted Financial Sanctions Law* and issuing the associated regulations.

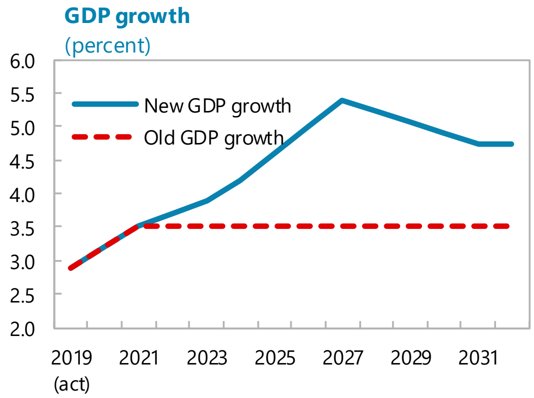
52. Improving governance and fighting corruption will be critical to economic and social development. The current perceptions by Somalia's citizens and the international community of weak governance and a high risk of corruption need to be addressed as a matter of priority to improve trust and strengthen support for reform. Staff welcomes the enactment of the *Anti-Corruption Law* and urges the operationalization of the Anti-Corruption Commission, as well as the completion of the authorities' National Anti-Corruption Strategy. Enhancing the regimes for defining corrupt practices and penalties and for asset declaration would also help change perceptions. Progress in improving the policies and institutions related to the rule of law should also continue.

53. Staff supports the authorities request for exceptional access under the PRGT and a significant front loading of access under the ECF/EFF arrangements. Access limits under the PRGT require the arrangements to be blended across PRGT and GRA resources. The EFF arrangement will be fully available in the first purchase. The authorities intend to use most of the first purchase to repay the bridge financing needed to clear the arrears to the IMF; the remaining access is aimed at building foreign reserves, which are currently very low.

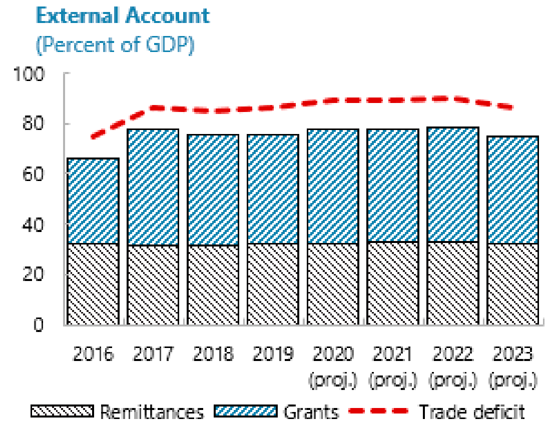
54. The upcoming national elections and prospects of a change in government administration represent an important risk to the program. The DP is only the beginning of the HIPC process, and the authorities the need to remain on track with the new Fund-supported program to reach the CP and qualify for full HIPC debt relief. This will require continued stamina from the authorities, regardless of any change in administration, to sustain the reform momentum, but the prospect of full HIPC debt relief creates a strong incentive. Continued technical and financial support from donors will also be needed to maximize the program's success.

Figure 1. Macroeconomic Outlook, 2016-23

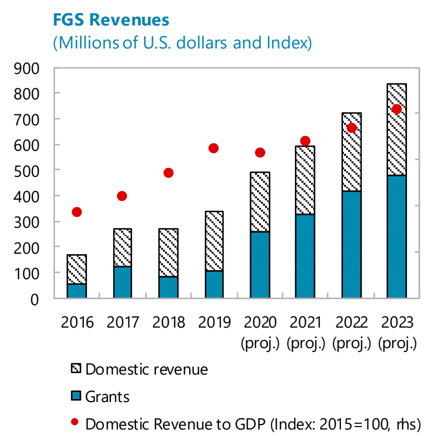
Reaching the HIPC DP will augment the trajectory of Somalia's GDP growth



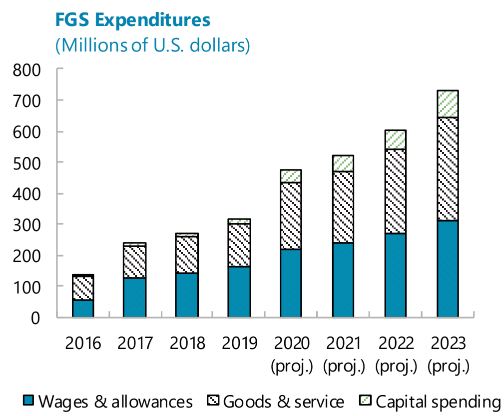
However, the trade deficit will remain large and primarily financed by grants and remittances



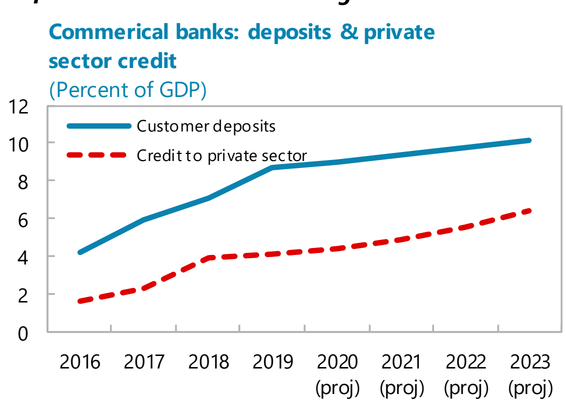
As domestic revenues continue to increase, DP brings additional grants…



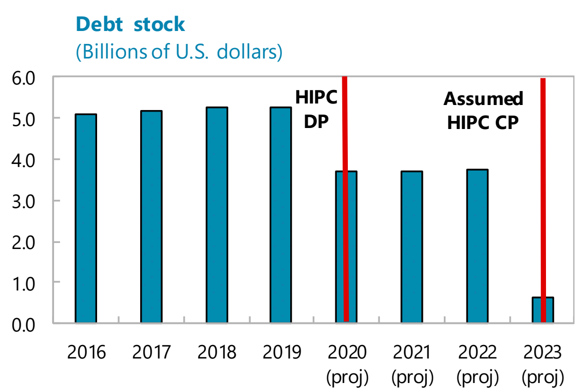
… supporting higher discretionary spending and improving fiscal stability



The financial sector continues to grow.



The HIPC process will lead to significant debt relief.



Sources: Somali authorities and IMF Staff Estimates
1/ Index of total Domestic Revenue to GDP with base year of 2016.
2/ Estimates through 2023.

Table 3. Somalia: Selected Economic and Financial Indicators, 2016-2025

(Population: 14 million, 2018 estimate)

	Est.				Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
National income and prices										
Nominal GDP in millions of U.S. dollars	4,198	4,509	4,721	4,958	5,218	5,507	5,827	6,179	6,570	7,012
Real GDP in millions of U.S. dollars	4,241	4,300	4,420	4,548	4,694	4,858	5,038	5,235	5,454	5,705
Real GDP, annual percentage change	2.9	1.4	2.8	2.9	3.2	3.5	3.7	3.9	4.2	4.6
Real GDP per capita in U.S. dollars	316	311	311	311	312	315	319	323	328	335
Consumer prices (e.o.p., percent change)	1.2	6.1	3.2	3.1	3.0	2.5	2.2	2.2	2.2	2.2
					(Percent of GDP)					
Central government finances 1/										
Revenue and grants	4.1	6.0	5.7	6.8	9.5	10.8	12.4	13.6	10.8	11.5
of which:										
Grants	1.4	2.8	1.8	2.2	5.0	6.0	7.2	7.7	4.2	4.1
Expenditure (FGS)	3.3	5.3	5.7	6.3	9.1	9.5	10.4	11.7	13.1	13.7
Compensation of employees 2/	1.3	2.8	3.0	3.3	4.2	4.3	4.7	5.0	5.3	5.6
Purchase of non-financial assets	0.3	0.1	0.2	0.3	0.8	0.9	1.1	1.4	1.8	1.9
Overall balance	0.8	0.7	0.1	0.5	0.4	1.4	2.0	1.8	-2.3	-2.2
Overall balance, net	0.0	0.0	0.0	0.6	0.0	1.0	1.7	1.7	-2.3	-2.2
Stock of domestic arrears	1.8	1.5	1.5	1.4	1.3	1.2	1.1	1.0	0.9	0.8
Public debt 3/	122.9	116.6	112.8	107.4	74.6	71.3	67.9	10.3	12.2	13.9
					(Millions of U.S. Dollars)					
Monetary Sector										
Net Foreign Assets	-324	-318	-258	-212	-183	-174	-162	191	174	179
Central Bank claims on non-res 4/	58	89	122	148	193	219	248	263	243	244
Net Dometic Assets	539	611	697	735	758	806	865	593	711	854
Credit to the private Sector	70	105	184	206	232	269	321	395	500	651
Broad Money 5/	178	270	334	432	471	517	580	664	777	928
					(Percent of GDP)					
Balance of payments										
Current account balance	-9.4	-9.8	-10.3	-11.9	-12.3	-12.5	-12.5	-12.7	-14.5	-14.8
Trade balance	-74.4	-86.7	-84.8	-86.6	-88.9	-89.3	-90.2	-86.6	-81.5	-78.1
Exports of goods and services	25.2	22.6	23.7	22.8	22.6	22.3	22.4	22.4	22.3	22.1
Imports of goods and services	99.6	109.2	108.5	109.4	111.5	111.6	112.6	109.0	103.7	100.2
Remittances	32.5	31.5	31.3	31.9	32.4	32.7	32.9	32.1	31.3	30.4
Grants	33.3	46.1	43.9	43.5	44.9	44.9	45.6	42.4	36.1	33.4
Foreign Direct Investment	7.9	8.2	8.6	9.0	8.9	9.0	9.1	9.3	9.6	9.8
External debt 3/	121.1	115.1	111.3	106.0	73.3	70.1	66.8	9.4	11.4	13.2
Market exchange rate (SOS/USD, e.o.p.)	24,005	23,605	24,475	26,015	…	…	…	…	…	…

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 bringing onto budget military spending related to the loss of an off-budget grant. The increase in 2020 reflects a reallocation of allowances from G&S to compensation in the context of Somali National Army reform.

3/ Assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDRI and "beyond-HIPC" relief at Completion Point.

4/ Includes FGS grants held abroad.

5/ Primarily desposits at commercial banks. Data does not yet include balances held with MNOs.

Table 4a. Somalia: Federal Government Operations, 2016 – 23 1/

(Millions of U.S. Dollars)

	2016	2017	2018	2019			2020		2021	2022	2023
	Dec.	Dec.	Dec.	Dec.			Dec.		Dec.	Dec.	Dec
	Est.	Est.	Est.	Rev. Budg.	Prog.	Est.	Budg.	Prog.	Proj.	Proj.	Proj.
Revenue and grants	171.1	268.5	270.2	390.2	344.2	338.3	466.2	493.2	595.3	723.4	837.6
Revenue	112.7	142.6	183.4	221.4	196.3	229.7	234.4	234.4	266.9	304.7	359.9
Tax revenue	88.6	112.0	138.9	146.1	137.7	154.8	155.5	155.5	177.0	202.1	230.8
Tax on income, profit, and capital gains	2.4	3.4	8.6	9.8	9.1	11.7	11.3	11.3	12.9	14.7	18.5
Taxes on goods and services	2.9	8.9	22.1	22.8	23.5	25.0	27.1	27.1	30.8	35.2	39.9
Taxes on international trade and transactions	76.3	92.8	100.3	103.4	98.0	107.0	106.0	106.0	120.7	137.8	156.1
Other taxes	7.0	6.9	7.9	10.1	7.1	11.1	11.1	11.1	12.6	14.4	16.3
Non-tax revenue	24.1	30.6	44.5	75.2	58.6	74.9	78.9	78.9	89.9	102.6	129.1
Grants 2/	58.4	125.9	86.7	168.8	147.9	108.6	231.8	258.8	328.4	418.6	477.7
Bilateral 3/	31.3	81.8	23.5	35.1	30.0	36.4	30.0	30.0	31.0	32.0	33.0
Multilateral	27.1	44.1	63.3	133.7	117.9	72.2	201.8	228.8	297.4	386.7	444.7
Total expenditure 4/	137.0	237.7	267.8	387.5	338.0	314.5	473.7	474.6	520.6	604.0	723.7
Current	131.1	231.3	257.9	349.1	312.8	300.3	433.1	433.9	469.5	539.8	634.8
Compensation of employees 5/	55.1	125.4	143.1	165.3	157.4	162.3	220.3	220.3	238.3	271.4	309.7
Use of goods and services	64.4	79.0	80.6	137.2	117.1	92.7	132.2	132.2	143.0	162.9	185.9
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0	0.3	1.3	1.2	1.1	9.4
Subsidies	0.0	0.0	0.0	2.0	0.0	0.0	10.1	10.1	10.9	12.4	13.2
Transfers to sub-national governments & Banadir Region	9.4	22.9	30.1	43.2	35.3	43.5	42.7	42.6	46.3	58.2	80.5
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0	25.0	25.0	27.0	30.8	32.7
Other expenses	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Contingency	2.1	4.0	4.1	1.4	2.3	0.4	2.5	2.5	2.7	3.0	3.5
Purchase of non-financial assets	5.9	6.3	9.9	38.4	25.2	14.1	40.6	40.7	51.1	64.2	88.9
Overall fiscal balance	34.1	30.9	2.4	2.6	6.2	23.9	-7.5	18.5	74.7	119.3	113.9
Financing:											
Use of cash and other balances	0.0	-23.1	-2.4	0.0	0.0	-23.3	10.0	0.0	0.0	0.0	0.0
Net use of TSA balances	0.0	-3.1	-8.4	0.0	0.0	-19.4	0.0	0.0	0.0	0.0	0.0
Net draw down of government deposits /6	0.0	-20.0	5.9	0.0	0.0	-3.9	10.0	0.0	0.0	0.0	0.0
Transfer to government deposits (-)	0.0	-50.0	0.0	0.0	0.0	-10.0	0.0	0.0	0.0	0.0	0.0
Transfer from government deposits (+)	0.0	30.0	5.9	0.0	0.0	6.1	10.0	0.0	0.0	0.0	0.0
Net accumulation of domestic debt	-34.1	-7.8	0.0	-2.6	-2.5	-0.5	-2.5	-17.2	-17.4	-18.1	-9.8
Repayment of arrears and advances (-)	-34.1	-7.8	0.0	-2.6	-2.5	-0.5	-2.5	-1.5	-1.8	-2.8	-3.0
New external borrowing (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of external debt (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-15.7	-15.6	-15.3	-6.8
Overall fiscal balance, net	0.0	0.0	0.0	0.0	3.7	0.0	0.0	1.3	57.3	101.3	104.1
Memorandum items											
Public debt	5,160	5,259	5,324	5,321	5,320	5,325	3,892	3,893	3,925	3,957	638
Accumulation of domestic arrears 7/	42.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears 7/	76.5	68.8	68.8	64.6	63.5	68.2	65.7	66.7	65.0	62.2	59.2
Stock of cash and other balances 8/	0.0	23.1	25.5	25.5	25.5	48.8	38.8	48.8	48.8	48.8	48.8

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

1/ 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 bringing onto budget military spending related to the loss of an off-budget grant. The increase in 2020 reflects a reallocation of allowances from G&S to compensation in the context of SNA reform.

6/ FGS deposits held abroad, including the fiscal buffer.

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

8/ Includes cash balances in the TSA and deposits held abroad.

Table 4b. Somalia: Federal Government Operations, 2016-23 1/

(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023
	Est.	Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	4.1	6.0	5.7	6.8	9.5	10.8	12.4	13.6
Revenue	2.7	3.2	3.9	4.6	4.5	4.8	5.2	5.8
Tax revenue	2.1	2.5	2.9	3.1	3.0	3.2	3.5	3.7
Tax on income, profit, and capital gains	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3
Taxes on goods and services	0.1	0.2	0.5	0.5	0.5	0.6	0.6	0.6
Taxes on international trade and transactions	1.8	2.1	2.1	2.2	2.0	2.2	2.4	2.5
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Non-tax revenue	0.6	0.7	0.9	1.5	1.5	1.6	1.8	2.1
Grants 2/	1.4	2.8	1.8	2.2	5.0	6.0	7.2	7.7
Bilateral 3/	0.7	1.8	0.5	0.7	0.6	0.6	0.5	0.5
Multilateral	0.6	1.0	1.3	1.5	4.4	5.4	6.6	7.2
Total expenditure 4/	3.3	5.3	5.7	6.3	9.1	9.5	10.4	11.7
Current	3.1	5.1	5.5	6.1	8.3	8.5	9.3	10.3
Compensation of employees 5/	1.3	2.8	3.0	3.3	4.2	4.3	4.7	5.0
Use of goods and services	1.5	1.8	1.7	1.9	2.5	2.6	2.8	3.0
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Subsidies	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
Transfers to sub-national governments & Banadir Region	0.2	0.5	0.6	0.9	0.8	0.8	1.0	1.3
Social benefits	0.0	0.0	0.0	0.0	0.5	0.6	0.7	0.7
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingency	0.0	0.1	0.1	0.0	0.0	0.0	0.1	0.1
Purchase of non-financial assets	0.1	0.1	0.2	0.3	0.8	0.9	1.1	1.4
Overall fiscal balance	0.8	0.7	0.1	0.5	0.4	1.4	2.0	1.8
Financing:	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of cash and other balances	0.0	-0.5	-0.1	-0.5	0.0	0.0	0.0	0.0
Net use of TSA balances	0.0	-0.1	-0.2	-0.4	0.0	0.0	0.0	0.0
Net draw down of government deposits /6	0.0	-0.4	0.1	-0.1	0.0	0.0	0.0	0.0
Transfer to government deposits (-)	0.0	-1.1	0.0	-0.2	0.0	0.0	0.0	0.0
Transfer from government deposits (+)	0.0	0.7	0.1	0.1	0.0	0.0	0.0	0.0
Net accumulation of domestic debt	-0.8	-0.2	0.0	0.0	-0.3	-0.3	-0.3	-0.2
New domestic borrowing (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears and advances (-)	-0.8	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
New external borrowing (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of external debt (-)	0.0	0.0	0.0	0.0	-0.3	-0.3	-0.3	-0.1
Overall fiscal balance, net	0.0	0.0	0.0	0.0	0.0	1.0	1.7	1.7
Memorandum items								
Public debt	122.9	116.6	112.8	107.4	74.6	71.3	67.9	10.3
Accumulation of domestic arrears 7/	1.0	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	1.4	1.3	1.2	1.1	1.0
Stock of cash and other balances 8/	0.0	0.5	0.5	1.0	0.9	0.9	0.8	0.8

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

1/ 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 bringing onto budget military spending related to the loss of an off-budget grant. The increase in 2020 reflects a reallocation of allowances from G&S to compensation in the context of SNA reform.

6/ FGS deposits held abroad, including the fiscal buffer.

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

8/ Includes cash balances in the TSA and deposits held abroad.

Table 4c. Somalia: General Government Operations, 2019 1/

(Millions of U.S. Dollars)

	2019				
	Q1	Q2	Q3	Q4	Total
Revenue and grants	82.5	98.4	144.0	171.5	496.4
Revenue	72.4	74.8	76.0	100.5	323.7
Tax revenue	57.9	65.4	59.2	68.3	250.9
Tax on income, profit, and capital gains	2.4	3.9	2.4	3.6	12.3
Taxes on goods and services	18.0	21.6	13.4	16.1	69.1
Taxes on international trade and transactions	36.4	38.2	39.0	42.8	156.4
Other taxes	0.0	0.0	2.6	3.4	6.1
Non-tax revenue	36.4	19.9	34.6	37.9	128.9
Grants 2/	10.1	23.6	68.0	71.0	172.7
Bilateral	0.0	1.1	28.8	7.5	37.4
Multilateral	10.1	22.5	39.2	63.5	135.3
Total expenditure 3/	62.7	97.1	114.9	149.6	424.2
Current	59.8	93.3	106.4	139.5	399.0
Compensation of employees	40.8	58.5	70.5	81.2	251.1
Use of goods and services	16.6	27.6	29.7	51.9	125.8
Interest and other charges	0.0	0.0	0.0	0.0	0.0
Subsidies	0.0	0.0	0.0	0.0	0.0
Social benefits	0.0	0.0	0.3	0.6	1.0
Other expenses	0.0	0.0	0.0	0.0	0.0
Contingency	0.1	0.2	0.4	0.3	1.0
Purchase of non-financial assets	3.0	3.7	8.4	8.5	23.6
Overall fiscal balance	19.8	1.4	29.1	21.9	72.2

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

1/ The numbers are based on preliminary reports from FMS and are subject to revision. The fiscal operations are recorded on a cash basis.

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

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

Table 4d. Somalia: General Government Operations, 2019 1/

(Percent of GDP)

	2019				
	Q1	Q2	Q3	Q4	Total
Revenue and grants	1.7	2.0	2.9	3.5	10.0
Revenue	1.5	1.5	1.5	2.0	6.5
Tax revenue	1.2	1.3	1.2	1.4	5.1
Tax on income, profit, and capital gains	0.0	0.1	0.0	0.1	0.2
Taxes on goods and services	0.4	0.4	0.3	0.3	1.4
Taxes on international trade and transactions	0.7	0.8	0.8	0.9	3.2
Other taxes	0.0	0.0	0.1	0.1	0.1
Non-tax revenue	0.7	0.4	0.7	0.8	2.6
Grants 2/	0.2	0.5	1.4	1.4	3.5
Bilateral	0.0	0.0	0.6	0.2	0.8
Multilateral	0.2	0.5	0.8	1.3	2.7
Total expenditure 3/	1.3	2.0	2.3	3.0	8.6
Current	1.2	1.9	2.1	2.8	8.0
Compensation of employees	0.8	1.2	1.4	1.6	5.1
Use of goods and services	0.3	0.6	0.6	1.0	2.5
Interest and other charges	0.0	0.0	0.0	0.0	0.0
Subsidies	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir	0.0	0.0	0.0	0.0	0.0
Social benefits	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0
Contingency	0.0	0.0	0.0	0.0	0.0
Repayment of arrears and advances	0.0	0.0	0.0	0.0	0.0
Purchase of non-financial assets	0.1	0.1	0.2	0.2	0.5
Transfer to government deposits held abroad	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	0.4	0.0	0.6	0.4	1.5

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

1/ The numbers are based on preliminary reports from FMS and are subject to revision. The fiscal operations are recorded on a cash basis.

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

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

Table 5. Somalia: Summary Accounts of the Central Bank, 2016-2019 1/

(Millions of U.S. Dollars)

	2016	2017	2018	2019
	Est.	Est.	Est.	Est.
Net Foreign Assets	(321)	(317)	(281)	(254)
Foreign assets	61	89	119	146
SDRs (net)	(38)	(40)	(40)	(40)
Gold 1/	17	19	21	21
Foreign exchange	11	34	41	69
of which:				
Grants	4	28	35	64
Cash (US$) held locally	8	11	31.9	32
Foreign liabilities	382	407	400	400
IMF obligations	319	340	335	336
SDR allocations	62	66	65	64
Net Domestic Assets	366	380	354	326
Domestic assets	379	424	419	421
of which:				
Claims on government (net IMF position) 2/	357	381	375	376
Domestic liabilities	13	44	65	95
Government	5	29	40	68
of which:				
Grants	4	28	35	64
Other domestic liabilities	7	15	26	26
of which:				
Commercial bank reserves 3/	…	…	11	14
Other commercal bank deposits	2	6	14	11
Equity and reserves	45	62	73	72
of which:				
Property and equipment	22	43	44	45
Memorandum items:				
NFA (program definition) 4/	25.1	31.7	26.1	25.1
Somali shillings per US dollar (eop)	24,005	23,605	24,475	26,015

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

1/ Gold price as defined in the TMU.

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

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

4/ Program definition per TMU.

Table 6. Somalia: Consolidated Commercial Banks Balance Sheet, 2016-2019

(Millions of U.S. Dollars)

	2016	2017	2018	2019
	Est.	Est.	Est.	Est.
Total assets	234	345	415	556
Cash on Hand	63	71	115	117
Balances with Central Bank	1	7	18	18
Deposits with other banks 1/	41	58	23	79
Credit to private sector	70	105	184	206
Investment 2/	9	9	31	60
Other Assets 3/	50	95	44	77
Total liabilities	182	292	362	463
Customer Deposits	177	267	332	430
Financing Liabilities	1	10	2	2
Other Liabilities	4	15	27	27
Equity	52	53	53	93
Memorandum items:				
Credit to private sector				
share of total assets (percent)	30	30	44	37
share of GDP (percent)	2	2	4	4
y-o-y changes (percent)	43	51	75	12
Total capital to assets (percent)	22	15	13	16
Loan to deposits (percent)	39	39	55	48
Liquid assets to total assets (percent)	…	…	37	32

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

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

2/ Primarilly investment in real estate.

3/ Fixed, intangible and other assets.

Table 7. Somalia: Monetary Survey, 2016-2023 1/

(Millions of U.S. Dollars)

	Est.				Proj.			
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Net foreign assets	-324	-318	-258	-212	-183	-174	-162	191
Claims on nonresidents	58	89	142	188	235	264	295	313
Central Bank 2/	58	89	122	148	193	219	248	263
of which gross reserves of the CBS	43	51	54	51	70	88	107	116
Other Depository Corporations	0	0	20	40	42	45	47	50
Liabilities to Nonresidents	382	407	400	400	418	438	457	122
Net Domestic Claims	539	611	697	735	758	806	865	593
Net Claims on Central Government	355	359	355	307	299	312	322	-18
of which CBS claim on government (IMF net position)	357	381	375	376	458	478	497	162
Claims on private sector	70	105	184	206	232	269	321	395
Other net claims not included in broad money	114	147	159	222	227	225	221	216
Capital and Reserves	71	83	81	115	121	127	135	143
Other items, net	4	6	0	0	7	7	8	8
Broad Money 3/	178	270	334	432	471	517	580	664
Memorandum items:								
SOS per U.S. dollar (end of period)	24,005	23,605	24,475	26,015	na	na	na	na

Sources: International Financial Statistics and IMF Staff.

1/ Preliminary estimates given incomplete financial data.

2/ Includes FGS grants held abroad.

3/ Primarilly desposits at commercial banks. Data does not yet include balances held with MNOs.

Table 8a. Somalia: Balance of Payments, 2016-23

(Millions of U.S. dollars)

	Prel.				Proj.			
	2016	2017	2018	2019	2020	2021	2022	2023
Current account balance	-393	-440	-486	-592	-641	-686	-726	-784
Overall trade balance	-3,124	-3,908	-4,003	-4,292	-4,639	-4,918	-5,256	-5,352
Goods balance	-2,203	-2,966	-3,003	-3,218	-3,468	-3,657	-3,886	-3,911
Exports of goods, f.o.b.	647	486	570	565	595	629	686	745
Imports of goods, f.o.b.	-2,850	-3,452	-3,574	-3,783	-4,064	-4,287	-4,572	-4,655
Services, net	-921	-941	-1,000	-1,074	-1,171	-1,261	-1,369	-1,441
Service credits	410	532	549	566	583	601	619	637
Service debit	-1,331	-1,473	-1,549	-1,640	-1,754	-1,862	-1,988	-2,078
Income (net)	-30	-33	-34	-36	-38	-40	-42	-36
Receipts	39	42	44	46	49	51	54	58
Payments	-69	-75	-78	-82	-86	-91	-96	-94
of which:								
Interest payments, public debt 1/	-26	-55	-24	-4	-1.3	-1.2	-1.1	-9.4
Multilateral, official					-1.3	-1.2	-1.1	-7.0
Bilateral, official					0.0	0.0	0.0	-2.4
Current transfers (net)	2,761	3,500	3,551	3,736	4,035	4,272	4,572	4,604
Private (net), including remittances	1,364	1,420	1,479	1,580	1,690	1,801	1,916	1,984
Official	1,397	2,080	2,072	2,156	2,345	2,471	2,656	2,620
On budget aid	47	101	69	87	207	263	335	382
Off-budget aid	1,350	1,979	2,003	2,069	2,138	2,208	2,321	2,238
Capital account and financial account	339	369	456	605	659	704	744	793
of which:								
Foreign direct investment	330	369	408	447	464	495	528	574
Official concessional borrowing	0	0	0	0	0	0	0	0
Amortization, public debt 2/	-4	-46	-33	-16	-15.7	-15.6	-15.3	-6.8
Multilateral, official					-15.7	-15.6	-15.3	-3.5
Bilateral, official					0.0	0.0	0.0	-3.3
Errors and omissions	0	0	0	0	0.0	0.0	0.0	0.0
Overall balance and error and omissions	-54	-71	-30	13	18	18	18	10
Financing	54	71	30	-13	-18	-18	-18	-10
Change in central bank reserves (- = increase)	25	-30	-27	-33	-19	-19	-20	-10
of which: Use of Fund resources (net)	0	0	0	0	19	18	19	-334
Purchases and loans	0	0	0	0	353	18	19	10
Repayments	0	0	0	0	-335	0	0	-344
Arrears, net change (+ = accumulation)	29	101	57	20	-1,801	0	0	-2,984
Prospective debt relief and rescheduling 3/	0	0	0	0	1,802	1.3	1.3	2,984
Memorandum items:								
Nominal GDP	4,198	4,509	4,721	4,958	5,218	5,507	5,827	6,179

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

1/ From 2023, reflects payments on restructured debt, including IDA. Excludes payments to the IMF.

2/ From 2020, reflects payments after application of traditional debt relief mechanisms. Excludes payments to the IMF.

3/ Assumes traditional debt relief from bilateral creditors and interim relief from multilateral creditors.

Table 8b. Somalia: Balance of Payments, 2016-23

(Percent of GDP, unless otherwise indicated)

	Prel.				Proj.			
	2016	2017	2018	2019	2020	2021	2022	2023
Current account balance	-9	-10	-10	-12	-12	-12	-12	-13
Overall trade balance	-74	-87	-85	-87	-89	-89	-90	-87
Goods balance	-52	-66	-64	-65	-66	-66	-67	-63
Exports of goods, f.o.b.	15	11	12	11	11	11	12	12
Imports of goods, f.o.b.	-68	-77	-76	-76	-78	-78	-78	-75
Services, net	-22	-21	-21	-22	-22	-23	-23	-23
Service credits	10	12	12	11	11	11	11	10
Service debit	-32	-33	-33	-33	-34	-34	-34	-34
Income (net)	-1	-1	-1	-1	-1	-1	-1	-1
Receipts	1	1	1	1	1	1	1	1
Payments 1/	-2	-2	-2	-2	-2	-2	-2	-2
Current transfers (net)	66	78	75	75	77	78	78	75
Private (net), including remittances	32	31	31	32	32	33	33	32
Official	33	46	44	43	45	45	46	42
Capital account and financial account	9	10	10	12	12	12	12	13
of which:								
Foreign direct investment	8	8	9	9	9	9	9	9
New concessional borrowing	0	0	0	0	0	0	0	0
Amortization	0	-1	-1	0	0	0	0	0
Overall balance and error and omissions	-1	-2	-1	0	0	0	0	0
Change in central bank reserves (- = increase)	1	-1	-1	-1	…	…	…	…
Memorandum items:								
Nominal GDP (Million of U.S. dollars)	4,198	4,509	4,721	4,958	5,218	5,507	5,827	6,179
External debt	121	115	111	106	73	70	67	9

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

1/ As of 2023 include payments on restructured debt, including IDA.

Table 9. Somalia: Proposed Schedule of Reviews and Disbursements Under the ECF and EFF Arrangements

Availability date	Amount of Disbursements				Conditions
	Millions of SDRs			Percent of Quota 1/	
	PRGT (ECF)	GRA (EFF)	Total		
March 25, 2020	210.86	39.57	250.44	153.3	Approval of arrangement
October 15, 2020	7.00	0.00	7.00	4.3	First review and end-June, 2020 performance criteria
April 15, 2021	7.00	0.00	7.00	4.3	Second review and end-December, 2020 performance criteria
October 15, 2021	7.00	0.00	7.00	4.3	Third review and end-June, 2021 performance criteria
April 15, 2022	7.00	0.00	7.00	4.3	Fourth review and end-December, 2021 performance criteria
October 15, 2022	7.00	0.00	7.00	4.3	Fifth review and end-June, 2022 performance criteria
February 28, 2023	7.00	0.00	7.00	4.3	Sixth review and end-December, 2022 performance criteria
Total	252.86	39.57	292.44	179.0	

Source: International Monetary Fund.
1/ New quota of SDR 163.4 million

Table 10. Somalia: External Financing Requirement and Sources, 2020-23

(In millions of U.S. dollars)

	Proj.			
	2020	2021	2022	2023
Gross financing requirement	*6,475*	*4,954*	*5,291*	*8,362*
Trade balance	-4,639	-4,918	-5,256	-5,352
Amortization	15.7	15.6	15.3	6.8
Interest on external obligations	1.3	1.2	1.1	9.4
Official arrears/repayments	1,801	0	0	2,984
Of which: IMF	335	0	0	344
Change in reserves (increase = +)	18.4	18.5	18.6	9.8
Available financing	*4,303*	*4,918*	*5,256*	*5,352*
Current transfers (net) 1/	4,035	4,272	4,572	4,604
Foreign direct investment	464	495	528	574
Official medium- and long-term loans (net)	0	0	0	0
Other flows 2/	-197	151	155	174
Financing gap	*2,172*	*35*	*35*	*3,010*
Exceptional Financing	1,819	17	16	3,001
HIPC interim assistance	17	17	16	16
HIPC debt relief	1,802	0	0	2,984
Of which: IMF	0	0	0	344
Remaining gap	*-353*	*-18*	*-19*	*-10*
Identified financing	353	18	19	10
Of which: IMF 3/	353	18	19	10

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

1/ Official grants and private remittances.
2/ Includes new, grant-based budget support from multilateral institutions after DP.
3/ Disbursements in 2020-23 are conditional on Board approval of ECF reviews.

Table 11. Somalia: Projected Repurchases / Payments and Indicators of Capacity to Repay the Fund

(In millions of SDR, unless otherwise noted)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total
Obligations from prospective drawings 1/															
1. Principal															
Repurchases	0.0	0.0	0.0	0.0	0.0	2.1	4.9	7.7	8.4	8.4	6.3	3.5	0.7	0.0	42.0
2. Charges and interest 2/															
Charges	0.7	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.9
SDR related charges	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	3.3
Total obligations	0.9	0.9	0.9	0.2	0.2	2.3	5.1	7.9	8.6	8.6	6.5	3.7	0.9	0.2	48.2
Outstanding Fund credit, end of period	270.0	284.0	291.0	42.0	42.0	39.9	35.0	27.3	18.9	10.5	4.2	0.7	0.0	0.0	...
Memorandum items:															
Outstanding Fund credit, in percent of															
Exports of goods and services	31.6	32.0	31.1	4.3	4.1	3.7	3.0	2.2	1.5	0.8	0.3	0.0	0.0	0.0	...
External public debt	9.8	10.2	10.4	10.2	8.0	6.2	4.7	3.3	2.1	1.1	0.4	0.1	0.0	0.0	...
Gross official reserves	537.2	448.7	381.7	50.8	51.2	48.9	42.9	33.5	23.2	12.9	5.2	0.9	0.0	0.0	...
GDP	7.2	7.2	7.0	1.0	0.9	0.8	0.7	0.5	0.3	0.2	0.1	0.0	0.0	0.0	...
Quota	165.2	173.8	178.1	25.7	25.7	24.4	21.4	16.7	11.6	6.4	2.6	0.0	0.0	0.0	...
Total Obligations, in percent of															
Exports of goods and services	0.1	0.1	0.1	0.0	0.0	0.2	0.4	0.6	0.7	0.6	0.4	0.0	0.0	0.0	...
External public debt	0.0	0.0	0.0	0.1	0.0	0.4	0.7	1.0	1.0	0.9	0.6	0.0	0.0	0.0	...
Gross official reserves	1.8	1.4	1.2	0.3	0.3	2.8	6.3	9.7	10.5	10.5	8.0	0.0	0.0	0.0	...
GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	...
Quota	0.5	0.5	0.5	0.1	0.1	1.4	3.1	4.8	5.3	5.3	4.0	2.3	0.6	0.1	...
Quota	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	...

Source: Fund staff estimates and projections.

1/ Assumes HIPC CP in early 2023 (gray shading). Based on the proposed level and phasing of access, and subject to the approval of the IMF's Executive Board.

2/ Projections are based on current IMF charges.

Annex I. Revised Macroeconomic Framework

1. The revised macroeconomic framework assumes that reaching the HIPC DP will increase development spending in Somalia, helping drive higher growth. Staff assume that on-budget development grants increase by about $100 million per year after DP, creating space for a significant increase in physical and human capital investment[1]

2. The impact on real GDP growth is expected to be gradual, reflecting Somalia's current fragility and the expected delay in pay-offs. Staff estimates are conservative, balancing Somalia's fragility against possible upside risks:

- Long-run growth is estimated at 4.8 percent. The pace of development spending is expected to taper-off as conditions improve.
- The fiscal envelope is expected to increase significantly to over 13 percent of GDP by 2023, reflecting both higher grants and domestic revenue mobilization. Once Somalia receives the full amount of debt relief (at CP) and its debt burden falls to sustainable levels, the delivery of aid is likely to begin switching to more concessional loans. This will require development expenditure to slow to a more sustainable level to ensure debt remains low.
- The current account deficit will remain elevated at over 10 percent of GDP. This is driven by Somalia's high import needs, even as the composition of imports transitions from basic to investment goods. The trade deficit will continue to be financed by grants and remittances, but increasingly by FDI as the business environment improves. Over the longer term, the deficit will begin to decline reflecting stronger export growth amid better economic activity and greater regional integration.
- While risks to this outlook remain tilted to the downside, there is the potential for upside surprises. In particular, the impact on growth of greater development and social spending, or impact of reaching the DP on foreign inflows, could be larger than currently anticipated. Additionally, the development of new sectors, like petroleum, and enhancement in others like commercial fishing could also raise Somalia's growth potential.

3. Analysis of the macroeconomic outturns of the 36 previous HIPC beneficiaries support staff's projections. In particular, these projections are broadly consistent with the sample of HIPC beneficiaries that were deemed "fragile" at the HIPC DP**:**[2]

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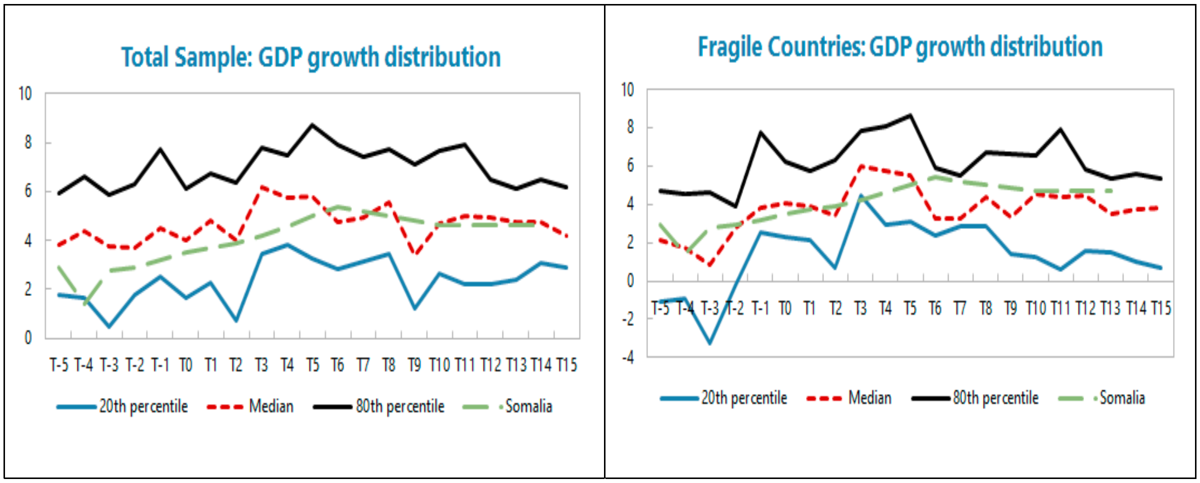
[1] Consultation with WB and AfDB counterparts suggests this should be feasible. This increase would be additional to the 2019 baseline of $118 million, which includes both WB pre-arrears clearance grants and EU budget support. The 2016-2018 annual average for multilateral grants was $45 million.

[2] The sample is constrained to members who remained "on-track" (i.e., had an interim period of five years or less). Fragility is defined as members with a CPIA score of less than 3.2 at DP. T0 is defined as the year in which DP is reached.

- Real GDP growth level. There was considerable variability in actual outturn, with the median long-term growth for all countries averaging 5.1 percent, dropping to 4.3 percent for fragile countries. The projection for Somalia is pitched between the median for the overall sample and the sub-sample of fragile countries. This reflects Somalia's ongoing fragility but also the demonstrated capacity to implement reforms.



- Tax revenue mobilization. Median tax revenue for fragile members increased by about 1.5 ppts of GDP on average per year over the five years after DP. For Somalia, staff assume a gradual increase that is more in line with the experience of the full sample. The assumed pace reflects the short-term challenges associated with the need to gradually roll-out the provisions of the Revenue Act to the FMS, coupled with limited technical capacity and recognizing the current political context

- Current account balance. Somalia's current account balance is projected to remain at the bottom of the distribution (80% percentile), reflecting its current structural dependence on grants and remittances, and high import needs.

Annex II. Social Development Challenges and Policies

1. **Debt relief under HIPC provides an opportunity to better address Somalia's large social development needs as set out in NDP9**. Normalizing its relations with the international financial institutions and other creditors will unlock Somalia's access to additional financial resources to jumpstart growth and begin reducing widespread poverty.

2. **The country's pervasive poverty implies an urgent need to improve resilience and social protection.** About 70 percent of Somalis live on less than US$1.90 a day (in purchasing power parity terms), with people experiencing an annual 0.4 percent decline in real per capita incomes in 2016-18. Persistent climate shocks, with Somalia ranking 15th on the U.K. Department for International Development list of developing countries at high disaster risk, makes social protection and food security particularly urgent and challenging. According to the World Food Program, Somalia is one of the 10 countries with the world's highest prevalence of malnutrition. During the drought of 2016–2017, OCHA estimated that some 308,000 children under 5 years of age were acutely malnourished and 56,000 children were severely malnourished, whilst the overall burden of acute malnutrition was more than 800,000 cases.[1] The WB Somalia Household High Frequency Survey, Second Wave (Wave 2-SHFS, 2018) echoes these results, finding that 66 percent of Somali's reported experiencing at least one shock in the previous year, with drought accounting for 50 percent of these shocks.

3. **Conflict and insecurity exacerbate social development needs.** According to the International Organization for Migration, protracted conflicts have displaced over one million Somalis internationally and about 1.1 million internally (IDPs). Many of the latter reside in camps where they lack access to basic services and economic opportunities. Lack of job opportunities for the young also increases the potential for participation in extremist activities, including Al Shabaab, aggravating security challenges.[142]

4. **Access to financial resources for social development is limited.** The FGS total revenues (including grants) remains relatively low (below 6.0 percent of GDP in 2017—18), while spending on employees' compensation and in goods and services dominates the budget. Most social and humanitarian programs are financed by off-budget grants from international donors, which the government has limited visibility into.

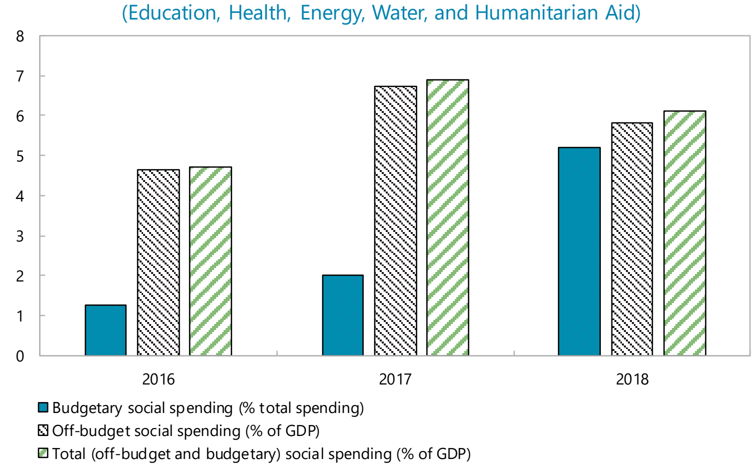
[1] United Nations Office for the Coordination of Humanitarian Affairs.

[2] Somalia's labor force participation is among the world's lowest, particularly by women. More than 70 percent of the population is under the age of 30, and youth unemployment was estimated to be 67 percent in 2013 (ILO, Labor Force Survey for Somalia, 2013).

5. The authorities are developing their resilience and social protection interventions. With WB support, they are planning to introduce a conditional cash transfer system. They plan to ratify and implement a national strategy for IDPs and assess options for their (re)integration. This will include improved land and housing tenure, and support for reunification of lost family member measures. With support from the international community, efforts are also underway to improve nutrition and food security, including strengthening the capacity to deliver food. The authorities are strengthening Disaster Risk Management and have published a National Disaster Policy and are working on establishing early warning systems as a priority. Public works programs that will provide alternative employment and income to vulnerable households in the event of a natural disaster are planned. The authorities also aim to improve access to health, education and other essential services, as well as social protection systems.

Somalia Social Spending

(Education, Health, Energy, Water, and Humanitarian Aid)



Sources: Somali authorities; and IMF staff calculations.

6. The Social Protection Policy outlines a comprehensive strategy. It broadly consists of developing strong capacity that would initially focus on social transfers (in the short to medium) and work towards introducing a social protection floor in the future.[3] The objectives are:

- Commence the development of a social registry, and necessary integration with other databases, and establish a social transfer program for the most vulnerable populations, along with needed capacity and human resources.
- Design an income transfer program to provide a transitional safety net categorically targeted to vulnerable groups and population at high risk of food insecurity or malnourishment.
- Improve coordination between FGS and development partners on capacity building and reform implementation and establish planning for social insurance provision and develop an accredited capacity building approach for social workers in the housing, health, nutrition, water, sanitation, hygiene, education, child protection, and other key services sectors.

[3] The Social Protection Floor (SPF) Initiative is a joint initiative by the United Nations and development partners to promote universal access to essential social transfers and services.

- Establish a Social Protection Floor, which will include the expansion of locally-procured school-feeding as a national social transfer program.
- Formalize and facilitate financial inclusion of the informal sector through savings accounts, mobile banking, and micro loans, including for the self-employed and producers in rural areas.
- Develop and implement a wages and remuneration policy, and an appropriate minimum wage.

7. Some of these policies target particular vulnerable groups. The National Disability Act was enacted in late 2019 and the authorities plan now to implement the Disability Roadmap. They have ratified the Somali Women's Charter and prepared the National Gender Policy and the National Plan on Ending Sexual Violence in Conflict.

8. Reaching the HIPC DP will unlock access to greater development financing. Staffs macroeconomic framework estimates additional grants of about $100 million after DP. The AfDB and WB have prepared several social development projects that are aligned with NDP9 and cover both the FGS and FMS. AfDB projects will mainly focus on water infrastructure, while WB projects will include Urban Resilience, Human Capital and Women's Empowerment, Shock Response Safety Net for Human Capital Project (includes conditional cash transfers and cash for work programs), and other projects related to scaling up the financial sector and financing for small- and medium-sized enterprises. Meanwhile, the international community has agreed to continue supporting the implementation of the Recovery and Resilience Framework and supporting the establishment and utilization national systems for safety net delivery.

Annex III. Efforts to Improve Governance and Fight Corruption

1. Somalia's 2019 Article IV highlighted that available information suggests that Somalia has widespread governance weaknesses and perceptions of severe corruption. For instance, Transparency International, TRACE bribery risk matrix, and the Mo Ibrahim Index on African governance each give Somalia very low scores in areas such as: perception of corruption; bribery risk; transparency and accountability; and rule of law.[1] The 2019 Worldwide Governance Indicators also rates Somalia at the lower end of the scale, although the trend indicates steady, continuous improvements in a few areas, including voice; accountability; and political stability. Overall, however, significant information and data gaps makes a full, objective and independent assessment challenging, and quantification of the macroeconomic consequences difficult.

2. The Federal Government of Somalia (FGS) has been proactively working with its development partners to improve governance, which is a priority area to be addressed in NDP9. Reforms to improve governance and accountability—such as public financial management reforms; the strengthening of financial regulation and supervision, AML/CFT policies and operations; enhancement of central bank governance and operations; and in the rule of law (such as capacity building in policing and the judicial system)—have been incorporated into successive SMPs, and UNDP, WB and bilateral donor' projects.

3. The authorities' efforts have yielded important results. In 2019, the Parliament passed a number of critical legal reforms namely: the Revenue, Customs, PFM, and Anti-Corruption Laws. Further, the Ministry of Justice & Judiciary Affairs established the National Integrity unit (NIU), which is tasked with coordinating the government's efforts on anti-corruption. The NIU has drafted a National Anti-Corruption Strategy (NACS) which takes an inclusive and multidisciplinary approach to addressing transparency, accountability and the rule of law gaps. The strategy is underpinned by five key pillars: (i) leadership; (ii) strengthening anti-corruption institutions and laws; (iii) strengthening financial accountability; (iv) public service accountability; and (v) building a culture of ethics and integrity. The draft NACS has been vetted with various stakeholders in government, the FMS, civil society, the private sector, and the international community. Under the new Fund program, the authorities will secure the approval of the NACS by the Council of Ministers and publish it (SB3). Additionally, the government will develop an action plan to operationalize the NACS once the national elections have been decided.

4. The authorities remain focused on strengthening capacity and institutions. The FGS is currently setting-up the independent Anti-Corruption Commission at both the federal level and at the regional state level, in line with the new Anti-Corruption Law. The authorities are also considering consolidating into a single set of regulation all the current provisions that define both corruption practices and penalties, but which are currently covered in multiple parts of the penal code; and are planning to develop the legal framework for asset declaration among government

[1] Mo Ibrahim Foundation, "African Governance report 2019". https://mo.ibrahim.foundation/sites/default/files/2019-10/African_Governance_Report_2019.pdf

officials and politicians. The authorities also plan to ratify the UN (CP trigger), the African Union, and Arab League Conventions Against Corruption. A new program with the UNDP to help strengthen Somalia's national integrity system further will underpin these efforts,[2] which will also be supported by the new Fund program.

[2] Agreement signed between the Somalia government and the UNDP, "Strengthening Anti-Corruption efforts across Somalia (SACE-AS)", 2018.

Appendix I. Letter of Intent

Mogadishu, Somalia

March 5, 2020

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

Dear Ms. Georgieva:

1. Somalia has made great progress in rebuilding our economy since the end of the devastating civil war and the subsequent international recognition of the Federal Government of Somalia (FGS) in 2012. The FGS, with the support of its development partners, continues to implement wide-ranging reforms. With the IMF, we have maintained an intensive technical engagement over four consecutive Staff Monitored Programs (SMP) since 2016 that have helped strengthen our key economic and financial policy institutions. We look forward to continuing close collaboration and the normalization of our relations with the Fund as Somalia enters the HIPC process and begins to benefit from debt relief.

2. Despite the progress achieved, the challenges ahead are significant, so accessing scaled-up, grant-based financing as we progress through the HIPC process will be critical. Growth is insufficient to reduce widespread poverty and address large social needs, including creating jobs for the youth. Somalia remains vulnerable to climate shocks which exacerbates these poverty challenges. The political and security situation remains challenging. Nonetheless, we remain committed to the economic and political reform process, which will benefit current and future generations of Somalis.

3. Considering Somalia's satisfactory performance under the fourth SMP, we welcome Fund Management approval of the 2nd Review of SMPIV. Given our strong policy track record, we request IMF Executive Board approval of financial assistance under a blended Extended Credit and Extended Fund Facility (ECF/EFF) of SDR 252.862 million and SDR 39.56778 million, respectively, and are cancelling the SMP, effective upon approval of such financing arrangements. We request that this financing is heavily frontloaded so that we have the resources available to resolve the bridge financing required to clear our arrears to the IMF. We plan to use the residual financing to help strengthen our external reserves as Somalia seeks to increase its integration in the global trade and financial system. We are also requesting access to IMF interim assistance under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative to address the debt servicing due to the IMF over the course of the period between the HIPC Decision and Completion Points.

4. The attached Memorandum of Economic and Financial Policies (MEFP) describes the reform priorities of the three-year arrangement and identifies specific reforms and conditionality for the first twelve months. Additional reforms will be detailed on 12-month rolling basis during reviews as information on needs and priorities emerge. Building on the 2019 Article IV recommendations and reforms initiated under consecutive SMPs, and taking account of the policy priorities identified in NDP9, the policy anchors for the new program are strengthening PFM, including debt management; domestic revenue mobilization; continued deepening of CBS capacity; and, enhancing governance (including AML-CFT). Program objectives will also be supported by the floating Completion Point-triggers. We will seek technical assistance support from our partners where necessary to implement the agreed reforms. To facilitate the monitoring of performance under 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. We stand ready to take additional measures should they be needed to meet the objectives of the economic program, and will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached memorandum, in accordance with the Fund policy on such consultations.

6. Considering the opportunity cost involved in having many key officials traveling outside Somalia to hold discussions with IMF missions, we urge the IMF to consider the possibility of conducting missions at the UN compound at the Mogadishu Adan Abdulle International Airport.

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

Sincerely yours,

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

Attachments (2)

Attachment I. Supplemental Memorandum of Economic and Financial Policies for 2020–23

This Memorandum of Economic and Financial Policies (MEFP) reviews economic developments and describes policies that the Federal Government of Somalia (FGS) plans to implement in 2020–23 under new ECF/EFF arrangements.

A. Background and Context

1. **We have made great strides in rebuilding institutions and policy-making capacity with the support of development partners, including the IMF, since 2013.** Within the context of our previous National Development Plan (NDP8), we have implemented wide-ranging reforms that have helped rebuild key institutions, including economic institutions, and laid the foundations for macroeconomic stability and growth.

2. **The government's strong reform commitment and international support have combined to create a unique window of opportunity to address low growth and poverty in Somalia.** Large, multi-year investments in human and physical capital are needed to improve resilience and lead to higher and more inclusive growth. Therefore, the increased access to grant-based financing expected to materialize as we progress through the HIPC process will be critical.

3. **The political environment is improving**. Work is well underway on the electoral reforms needed for the 2021 Presidential Elections, and the Constitutional Review is also progressing, with the technical work expected to be completed by June 2020. Finance Ministers across all the Federal Member States (FMS) are fully committed to supporting the economic reforms needed to underpin the HIPC process, and technical cooperation has also been gathering steam. Together with our partners' policy and financial assistance, we remain commited to staying the course of reform and continuing to deepen political cooperation at the federal and regional level.

4. **Macroeconomic conditions are stable.** Real growth in 2019 is expected at 2.9 percent, despite Spring drought conditions, and higher-than-normal rainfall in Autumn. While the humanitarian response has helped mitigate the impact on economic activity, these conditions led to a slight deterioration of the current account deficit, with food imports increasing and agricultural exports declining. The latest inflation data shows that inflation ended at 3.1 percent in 2019. Data through December reflects continued strong fiscal performance, with cumulative domestic revenue for the FGS reaching US$230 million, a 25 percent increase over the same period in 2018. The 2019 fiscal balance was US$23.9 million (including 10 million earmarked for 2020 expenditures and 0.5 million for paydown domestic arrears), and no new domestic arrears were accumulated. Fiscal structural reforms continued apace, with the *Revenue Act* signed into law, the FGS and FMS collaborating to start consolidated fiscal reporting, key customs administrative reforms implemented, and the FGS and FMS agreeing expenditure assignment guidelines. With respect to financial sector developments, the CBS continues to make progress on rebuilding its capacity and is implementing new mobile money regulations to support financial stability. Critical AML-CFT

regulations have been issued and compliance is improving. Recognizing this progress, IMF Management approved the second review of SMPIV.

5. While risks around the medium-term macroeconomic outlook remain on the downside, there is upside potential, especially given the prospect of successful reform implemenation during the HIPC interim period. Somalia remains vulnerable to security, political, and climate risks . On the security side, the expected transition of AMISOM responsibilies to the Somalia National Army (SNA) represents an important challenge for the medium-term. The immediate political risks emanate from the on-going Constitutional Review and upcoming national elections (expected in early-2021). Climate shocks continue to contribute to agricultural loss and human displacement. These risks are mitigated by national efforts and contributions, together with international support, and should reduce as Somalia's resilience increases. On the upside, the impact of greater development and social spending, of reaching the Decision Point on foreign inflows, developing new sources of growth, or enhancing regional trade integration could be larger than currently anticipated.

B. Economic and Financial Policies for 2020–23

6. A new Fund-supported program will anchor medium-term policies during the HIPC interim period and support implementation of NDP9. Building on the 2019 Article IV discussions and on-going SMPIV reforms, our policy anchors for the new program reflect the priorities set out in NDP9. These are strengthening PFM, including the legal and regulatory framework, internal and external audit, expenditure controls, cash management, accounting and reporting, and debt management; domestic revenue mobilization; continued deepening of CBS capacity; and, enhancing governance (including AML-CFT). Specific reforms to meet these objectives, beyond those discussed below, will be introduced on a 12-month rolling basis as information on needs and priorities emerges. Program objectives, especially beyond the short-term, will also be supported by the floating Completion Point (CP)-triggers. The program will be anchored on a floor for domestic revenue, a ceiling on recurrent operating expenditures, a floor on the cash-based fiscal balance, no accumulation of domestic or external arrears, no new debt accumulation, and a floor on the net foreign assets of the CBS (see MEFP Table 1). Structural benchmarks (MEFP Table 2) will anchor key reform objectives in the areas of revenue administration, public financial management, financial stability, and governance and AML-CFT. Relative to SMPIV, we have further specified the floor on domestic revenue to adjust for revenues accrued in previous years, one-off, and exceptional revenues (see TMU). The ceiling on recurrent expenditures (compensation, goods and services, and contingencies) is to ensure space for critical social and other development spending. At the conclusion of the arrangement, we expect to have increased the efficiency and transparency of fiscal processes, even as domestic revenues and expenditures increase; established some limited capacity for monetary and exchange rate policy; and enhanced statistics and governance across all macro-critical sectors.

Fiscal Policy and Reforms

7. The FGS will continue to improve the fiscal framework and fiscal sustainability over the medium term. As noted above, our fiscal anchors will be the cash balance, revenue floor, and spending targets outlined with the IMF. In addition, we will seek to protect social spending and avoid accumulation of domestic arrears. On policies, the key fiscal objectives of the program are to anchor policy in a medium-term fiscal framework (MTFF) and integrate the costs of NDP9 priorities into our budgets going forward; improve budget execution; accelerate the mobilization of domestic revenues; improve public financial management to safeguard fiscal resources and strengthen governance; and strengthen inter-governmental fiscal relations. We will maintain a budget in line with the agreed program targets, with any unanticipated revenue surplus to be used to replenish the fiscal buffer or other cash balances, as needed, or pay down domestic arrears.

8. We will develop a supplementary 2020 budget that is in-line with our fiscal framework and reflects the post-HIPC DP environment. In particular the 2020 supplementary budget will secure the necessary appropriations for debt servicing on restructured post-DP external debt in 2020. It will be informed by the 2019 revenue and expenditure outturns and the agreed program targets. The supplementary budget will be approved by the Cabinet and the Parliament as soon as possible after the Decision Point and by no later than end-October 2020.

9. We will update the MTFF to cover 2020-2023 and to inform the 2021 budget preparation. This will reflect the 2019 budget outturns and projected debt servicing needs. From the MTFF, taking account of current policies, we will identify the fiscal space available to support priorities stemming from the NDP9, taking into account the costing exercise that is expected to be completed by end-October 2020 (SB#5) and potential impact of the implementation of the *Revenue Act*. Future budget processes will commence with an updated MTFF to cover a rolling three-year basis.

10. Accelerating the mobilization of domestic revenue and improving revenue administration are cornerstones of our fiscal program.

- *Over the next twelve months:* On tax policy, we will develop an operational plan to implement the instruments included in the *Revenue Act,* including a preliminary assessment of the potential revenue impact. We will implement a tax audit strategy to inform the conduct of tax audits and prepare a report that captures lessons learned to inform future improvements in the conduct of audits by end-June 2020 (SB#1). In addition, we will continue on-going work on implementing our Customs Reform Road Map, including introducing harmonized HS codes at our three largest ports and preparing an ad valorem tariff schedule in preparation for the introduction of a single tariff schedule for the country by end-September 2020 (SB#4 and CP trigger), developing a customs guidance manual, delivering the required training, and installing a common IT system.

- *Over the course of the program,* we are committed to implementing the operational plan to roll-out the *Revenue Act* to the FMS, prioritizing customs and sales taxes, and refining our assessment of the revenue impact. In addition, we will work towards enacting the *Extractive*

Industry Income Tax Law (CP trigger), which will provide the legal underpinnings to tax this sector as it develops. To support future progress on revenues, we will continue to build the administrative and enforcement capacity of the LMTO, including issuing any required guidance.

11. Improving public financial management (PFM) is a key element of our fiscal program, particularly as budget revenues increase.

<u>Overarching PFM issues:</u>

- *Over the next twelve months,* we will begin implementing the *PFM Act* by issuing those regulations already drafted—specifically, budget preparation & execution, payment process, cash advances, and cash management & banking.

- *Over the course of the program,* in line with the August TA PFM report and as we implement the PFM regulations, we will undertake a comprehensive review of current business practices and develop a more efficient expenditure approval process, and develop PFM regulations on debt, investment and asset management (CP trigger). We will implement the amendments to the *Procurement Act*, and related regulations, and review the existing provisions on concessions to ensure they are adequate for our needs going forward. We will also undertake a review of the organizational structure of the Ministry of Finance to further enhance its efficiency and effectiveness going forward.

<u>Budget preparation and execution</u>:

- *Over the next twelve months,* for the 2021 budget, we will institutionalize improvements in the budget development process as discussed in the August 2019 IMF TA report. Additionally, we will operationalize the SFMIS budget module to strengthen the budget preparation system and automatically align the controls over budget execution with the budget as approved by Parliament. We will add functionality to SFMIS to support controls for allotments, linking warrants approval to allotments, which are informed by our monthly cash forecasts. To support continued operability of the SFMIS, we will conduct a review of the functionality and governance, and develop a plan to address identified gaps, with support from our external partners.

- *Over the course of the program,* to enhance oversight, we will review the use and presentation of earmarked revenues to finance the operations of various institutions or units.

<u>Cash management:</u>

- *Over the next twelve months*, the CMU will analyze the sources of forecast errors to improve the accuracy of projections. We will continue to improve commitment control compliance (SB#4 under SMPIV) and cash management across MDAs. We will also restrict any cash advances to meet only in exceptional circumstances, and re-open some bank accounts based on an Accountant General assessment to provide better transparency of MDA cash holdings.

Fiscal reporting and accountability:

- *Over the next twelve months,* we will enact the *Audit Bill*. In addition, the Accountant General will circulate a reporting framework for MDAs, including extrabudgetary transactions (off-budget grants), contingent liabilities, and financial assets and liabilities. In addition, we will develop a FGS public sector institutions table and complete an inventory of FGS public sector non-financial assets.

- *Over the program period,* we will publish two subsequent sets of audited financial accounts for the FGS (CP trigger). We will continue working on developing a consolidated FGS public sector financial reporting system.

Debt management:

- *Over the next twelve months,* the Debt Management Unit will conduct a needs assessment and develop an action plan to bolster capacity to accurately record and report public debt data, with assistance from development partners.

- *Over the course of the program,* we will publish at a minimum four consecutive quarterly, public debt reports that outline the outstanding stock of general government debt, debt-servicing projections, and risk assessment (CP trigger).

Natural resource management:

a. *Over the next twelve months,* we will not issue any oil exploration licenses until the *Petroleum Act* is operationalized, the *Extractive Industry Income Tax Law* is enacted (CP trigger), model Production Sharing Agreement (PSA) finalized, and associated PFM regulations are issued. We will finalize the model PSA, in line with the provisions of the *Petroleum Act*, the *Extractive Industry Income Tax Law*, and the *PFM Act* on natural resource management.

Intergovernmental fiscal relations

b. *Over the course of the program,* we will continue working with FMS on issues related to intergovernmental fiscal relations, including further review and refinement of expenditure assignments as the base of shared revenues increase. We are committed to sustaining regular meetings of the Intergovernmental Fiscal Forum, along with continued capacity development support and information sharing at the technical level. We will also continue deepening the quality of consolidated reporting of fiscal operations across the FGS and FMS to bring it into line with GFSM2014. Specifically, we will devise and promulgate a standard, quarterly financial data reporting template, unified charter of accounts, and accounting guidance to units of the FGS and FMS in line with the GFSM2014.

Monetary and Financial Sector Reforms

12. **The CBS continues to build capacity to support evolving policy needs.** These include prudential supervision, supporting banking operations and the payment system, conducting macroeconomic analysis, and eventually implementing basic monetary policy. Our program will continue to be anchored on gradually building our reserves while maintaining a minimum floor.

- *Over the next twelve months,* we will hire a legal advisor and a restructuring project manager to help implement the CBS reorganization plan, and the three functional executives called for in our Transition Plan. A newly hired human resource advisor will complete a skills gap analysis and HR policy to retain, develop and acquire needed talent. Once the three functional executives are in place, we will quickly initiate the transition to the new organizational structure.

- *Over the course of the program,* we will complete the transition to the new organizational structure and develop a longer-term HR strategy that outlines the skills and capacity needs going forward. With IMF and WB guidance, we will assess evolving monetary policy needs, particularly given the planned currency exchange reform. Finally, we will also develop a medium-term business plan and budget that supports a broader role for the CBS as the financial sector and monetary policy environment evolves, and reconsider the CBS' current income model in light of ongoing and potential future operational needs.

13. **We will continue implementing other reforms to support financial sector stability and strengthen financial intermediation.** Reform priorities are specified in our Financial Sector Reform Road Map.

a. *Over the next twelve months,* we will implement the mobile money regulations over a reasonable time-period, leveraging the licensing process and focusing on the key elements (liquidity controls, protection of funds, and AML-CFT compliance). In this context, a mobile money licensing and supervision manual, guidelines and inspection capacity will be developed. We will also issue guidance on financial reporting and accounting standards for Islamic banking, and develop a governance framework for institutions offering Shariah compliant financial products and services by the end of 2020 (SB#6). In addition, we will develop and implement a Supervision Action Plan to strengthen and broaden on- and off-site inspections, develop a plan for resolving problem institutions, and issue guidelines on Shariah- compliant financial products. On accounting, we will reflect IMF positions on the CBS balance sheet and clarify other positions, such as proceeds from asset recovery. With World Bank (WB) assistance, we will continue to establish an Automated Transfer System (ATS) and establish a National Switch to support the national payment system. We will submit to Parliament a revised Financial Institutions Law, National Payment Systems Act, and Insurance Act, and draft related regulations, with due regard for priorities and capacity.

b. *Over the course of the program,* we will complete the implementation of the mobile money regulations by the 2021 licensing round. We will also develop additional prudential regulations, including appropriate reserve requirements. We will continue developing regulations called for in the FIL, including micro finance, Forex bureau and crisis management regulations. In the context of a WB development project, we will establish an MSME Financial Facility to support private sector access to financing. With WB assistance, we will also progress work on introducing a credit bureau and movable collateral registry to help manage credit risk and support greater financial intermediation. We will continue to evaluate our capacity needs to implement current and future prudential supervision commitments, such as insurance.

14. In the context of a WB project, we plan to implement the currency exchange project (currency reform phase I) once the preconditions and financing are in place. In addition to the operational and financial needs associated with the project, we will need to formulate medium-term policy priorities and some basic monetary policy capacity before implementation. We will also need to secure the assets required to backstop the new currency, including by catalyzing donor assistance. We will further clarify these considerations with IMF and WB bank assistance once the new functional executives are in place.

15. We will continue accelerating reforms of the AML/CFT operational and legal framework to support the critical flow of remittances into Somalia. With the IMF and WB, we have developed an Action Plan to guide the priorities in this area.

- *Over the next twelve months,* we will clarify any overlap and inconsistencies between the new AML-CFT regulations for financial institutions and AML-CFT governance and compliance regulations, continue work on building capacity at the Financial Reporting Center by end-June 2020 (SB#2), and will enact the long-overdue *Targeted Financial Sanctions Law* by the end-March 2021 and issue the associated regulations (SB#7). We will revise existing reporting guidelines and issue new guidelines to support implementation of the new AML-CFT reporting and compliance regulations in banks, MTBs, and MNOs, and develop guidance for DNFBPs. To further improve compliance, we will strengthen AML-CFT requirements in the annual relicensing processes and will continue laying the groundwork to conduct a National Risk Assessment (NRA) in a timely manner. In addition, we will operationalize the NAMLC Task Force to support technical progress on these issues.

- *Over the course of the program,* we will complete the NRA, whose findings will inform a new National Strategy for AML-CFT, and prepare for the MENA-FATF Mutual Evaluation Assessment in 2024. To support resumption of correspondent banking relationships, we will develop a public relations strategy and expand communications with source and transit country regulators (i.e., MOUs, informational websites, Egmont Group participation, etc.). We will continue efforts at training and capacity building in our financial institutions, leveraging innovations such as the National Compliance Forum.

Policies for Improving Economic Growth, Governance, Social Inclusion and Statistics

16. We continue our strong commitment to improving governance and fighting corruption. We recently enacted an Anti-Corruption Law that establishes the Anti-Corruption Commission, which is in the process of being appointed. The Cabinet will shortly approve a National

Anti-Corruption Strategy (NACS), which we will subsequently publish. We urge our donors to support our multi-year program with UNDP to improve our national integrity system. In addition, given that improving governance and reducing the perception of corruption is a key priority for us:

- *Over the next twelve months,* we will secure Cabinet-approval of our National Anti-corruption Strategy and publish it by end-June 2020 (SB#3). We will also develop a draft action plan to implement the NACS that can be quickly rolled out after the upcoming elections. We will also compile in a new regulation all the provisions in existing laws, including the penal code, that define corrupt practices and the associated penalties, and identify any gaps or amendments needed.

- *Over the course of the program,* we will begin implementing the action plan to operationalize the NACS, with the help of our international partners. We will ratify the UN, African Union, and Arab Conventions Against Corruption (CP trigger). We will also develop the legal framework for an asset declaration regime by senior public officials. We will also work to protect the independence of the judiciary and improve its capacity, as well as to take other efforts to create a culture that rejects corruption.

17. To further support efforts to reduce the risk of corruption, we intend to take additional steps to modernize key public institutions. Over the course of the program, we will complete the pay and grading system for the FGS civil service, enact the amendments to the Civil Service Law and Public Pensions Bill, and modernize the FGS civil service commission.

18. We are advancing a broad-based reform agenda to bolster the foundations for sustained inclusive growth and improve the resilience to climate shocks. In addition, to the policies outlined above, we commit to:

- *Over the next twelve months,* with support from our development partners, we will take further steps to implement the findings of the Somalia Drought Impact and Needs Assessment and the Recovery and Resilience Framework. To improve water management and resilience, we will develop the National Water Resource Strategic Plan by June 2020, as well as the Somalia Water Development Fund. By June 2020, we will pass the Somali Standards and Quality Control Bill and establish the Somali Bureau of Standards, providing a framework for agricultural standards and certification to support activity and employment in the largest sector of our economy. To enhance trade and reduce transportation costs, we will continue to improve our road system and interconnections to neighboring countries. We will start establishing a “one-stop-shop” to e-register business for integrated tax and business licensing services. This will also be coordinated with the digital ID and assist with access to credit via the new MSME Financing Facility. In addition, we are taking steps to enhance the visibility and oversight of aid flows, This includes requesting our development partners to obtain a clearance letter from the Minisiter of Planning, Industry and Economic Development to ensure these flows are aligned with our priorities as set out in NDP9. In parallel to this procedural approval , we are developing an Aid Policy that will inform and include a revised Aid Architecture. Finally, we will continue working to enact the legal framework to underpin the development of formal accounting standards and establish a Somali Institute of Certified Public Accountants.

- *Over the course of the program,* we will enact the Electricity Act and issue supporting regulations to improve the supply – and reduce the cost – of electricity for households and entrepreneurs by permitting private investment in the sector (CP trigger). We will also issue key regulations under the Companies Act to support private sector investment and strengthen corporate governance (CP trigger), and establish an Investment Promotion agency to work on investment policy and the promotion of key industries. We will continue expanding our trade opportunities by working towards accession to the World Trade Organization and on improving regional and bilateral trade ties.

19. We will also introduce a national digital ID that will not only support enhanced KYC and financial intermediation, but which will also support targeted delivery of government services. Specifically, in the first twelve months, we will continue developing the legal underpinnings for the digital ID and procure the necessary IT system. Over the course of the program, we will complete this work, including enacting the *Digital ID* and *Data Protection Bills*, and establish the national ID agency. We will also transition the use of the ID to support the targeted social protection scheme, which will initially be developed using partners' systems.

20. Over the course of the program, to enhance human capital development, we will adopt the Joint National Health strategic plan, and develop an education MOU the between FGS and FMS. The education MOU will define the respective roles and responsibilities of the FGS and FMS in the areas of curriculum and national examination. The health strategy and MOU will support effective functions and accountability across different levels of governments (CP trigger).

21. Improving key macroeconomic and financial data will be critical to guiding economic policies. In addition to reforms to improve comprehensive fiscal and financial sector data, we agree that:

- *Over the next twelve months*, now that the amendments to the National Statistics Law have been passed, we will develop the operational framework to collect and disseminate macroeconomic and financial data via an action plan.[1] We are working towards a first edition of a "Somalia Fact Book" (CP trigger). In this context, we will continue our work on developing key statistics and the capacity to report them regularly to the IMF. On other external data, we will engage with MOF to expand import and export of goods data to other ports, introduce information from the travel survey and airline companies' data to more reliably scale up Immigration Department travel data, and send the IMF preliminary FDI inflow estimates from the survey. We are also progressing a National Labor Survey, and plan to publish national accounts later this year.

- *Over the course of the program,* we will publish at least one other edition of the "Somalia Fact Book" (CP trigger). We will also outline other granular reforms to improve macroeconomic and

[1] SB#18 for end-February 2020 under SMPIV.

financial data. We will work with our partners to develop production-based national accounts data, which will improve our understanding of economic developments, and to work on collecting labor data.

C. Program Monitoring and Access

22. Program implementation will be monitored through quantitative performance criteria, continuous performance criteria, and indicative targets (MEFP Table 1) and structural benchmarks (MEFP Table 2). Program implementation will be monitored through semi-annual reviews. The first review will be based on end-June 2020 data, the second review is based on end-December 2020 data, and indicative targets are set for end-September 2021. Subsequent reviews will be scheduled at future reviews. All reviews will be conditioned on quantitative performance criteria outlined in table 3. These are defined in the TMU (Attachment II).

MEFP Table 1. Somalia: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit and Extended Financing Facilities 1/

(Millions of U.S. dollars)

	2020			2021
	June	September	December	March
	Performance Criteria 2/	Indicative Target	Performance Criteria 3/	Indicative Target
	Prog.	Prog.	Prog.	Prog.
Quantitative Performance Criteria				
FGS domestic revenue floor 4/	109.0	160.0	234.0	50.0
Ceiling on spending on FGS public compensation, goods & services, & contingency 4/	154.0	231.0	308.0	77.0
Net foreign assets of the CBS (floor) 4/	69.1	69.1	78.7	78.6
Contracting of new domestic debt (ceiling) 4/ 5/	0.0	0.0	0.0	0.0
Ceiling on contracting or guaranteeing any new external, non-concessional debt 4/ 5/	0.0	0.0	0.0	0.0
Indicative Targets				
Fiscal balance (cash basis; floor) 4/ 6/	-10.0	-10.0	-10.0	0.0
Accumulation of new domestic expenditure arrears (ceiling) 4/ 5/	0.0	0.0	0.0	0.0
Ceiling on contracting or guaranteeing any new external, concessional debt 4/ 5/ 7/	0.0	0.0	0.0	0.0

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

1/ Cumulative from the beginning of the fiscal year.

2/ Test date for the first review.

3/ Test date for the second review.

4/ As defined in the Technical Memoradum of Understanding.

5/ Continuous target.

6/ QPC for 2020 reflects receipt of grants in 2019 intended to be partially used to meet 2020 budget expenses.

7/ Excluding any disbursements under a Fund arrangement.

MEFP Table 2. Structural Benchmarks for the Arrangement, March 2020-March 2021

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring
1	Develop and implement an tax audit strategy at the LMTO to validate tax returns and revenues. 1/	End-June 2020	Domestic revenue / MOF	Support domestic revenue generation and governance.	Report number and value of returns audited, tax audit strategy, and tax audit summary report on key findings.
2	Further operationalize and build capacity at the Financial Reporting Center to review and assess suspicious transactions. 1/	End-June 2020	Governance / FRC	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.
3	Publish a cabinet-approved National Anti-Corruption Strategy	End-June 2020	Governance / MOJ	Advance anti-corruption reforms. Finalize the FGS' strategy for tackling corruption after the consultation processes are complete.	Secure cabinet approval, publish the document on the government's website, and submit draft action plan to implement the strategy to the IMF staff.
4	Implement harmonized HS codes and prepare ad valorem tariff schedule at key ports of Bossaso, Kismayo, and Mogadishu. 1/	End-September 2020; thereafter end-month basis	Domestic revenue / MOF	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).
5	Complete preliminary NDP9 costing and reflect in 2021 budget.	End-October 2020	PFM / MOF & MOPIED	Strengthen budget execution, institutions and governance in piblic finance to support spending efficiency and avoid fiscal deficits.	Update MTFF developed with IMF staff in May 2019 and identify available fiscal space to meet NDP9 priorities; complete NDP9 costing exercise; include some provision for costed NDP9 priorities for the first year (2021) and identify targeted amounts for subsequent years (2022-2023). Submit MTFF and draft 2021 budget to IMF staff for review and gain Cabinet approval.
6	Issue guidance for (1) financial reporting and accounting standards and (2) Shariah governance framework for Somali banks.	End-December 2020	Financial stability / CBS	Support financial stability. To clarify the nature of Shariah-compliant assets and liabilities on Somali banks' balance sheets and banks' related governance frameworks, to support better risk assessment.	Submit issued CBS-Board approved guidelines to the IMF.
7	Enact the Targted Financial Sactions Law and issue related regulations. 1/	End-March 2021	Governance / MOF	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.

1/ Reset SBs left over from SPMIV for end-May 2020.

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) sets out the definitions of the quantitative performance criteria and indicative targets agreed to by the Somali authorities and the International Monetary Fund (IMF) regarding for the three-year blended Extended Credit Facility and Extended Financing Facility spanning March 2020-2023. 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 could 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.

Quantitative targets

1. The test dates for quantitative performance criteria (QPC) have been set for the end of June 2020 and end of December 2020, and those for the related indicative targets (IT) for end of September 2020 and end of March 2021. Other ITs are set for June, September, and December 2020, and March 2021. Quantitative targets after March 2021 will be set on a 12-month rolling basis during program reviews, with test dates for QPCs usually set on a semiannual basis, and those for ITs set on a quarterly basis. Unless otherwise specified, all quantitative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year; they are specified in MEFP Table 1 of the Memorandum of Economic Financial and Policies:

2. Quantitative performance criteria are proposed for June 30, 2020, and December 31, 2020 with respect to:

- Floor on Federal Government of Somalia (FGS) domestic revenue;
- Ceiling on spending on FGS public compensation, goods & services, & contingency;
- Floor on the Central Bank of Somalia's (CBS) net foreign assets (NFA);
- Ceiling on new domestic debt contracted by the FGS;
- Ceiling on accumulation of new external arrears by the FGS; and
- Ceiling on contracting or guaranteeing any new external, non-concessional debt.

<u>Indicative targets</u>

- Floor on the FGS fiscal balance (on a cash basis);
- Ceiling on accumulation of new domestic expenditure arrears by the FGS; and,
- Ceiling on contracting or guaranteeing any new external, concessional debt, excluding and disbursements under an IMF arrangement.

Definitions and Computation

3. 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 and federal members states (FMS). For the purpose of monitoring external debt, the general government is defined as the FGS and federal members states (FMS) (Galmudug, Hirsabelle, Jubaland, Puntland, and South West State) and the Banaadir region.

4. Government domestic 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 current 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.

- Domestic 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 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. For program monitoring purposes, domestic revenues will exclude any revenues received and recorded in the current fiscal year but that relate to previous years' activities, such the ICAO revenues in 2019, with the exception of underpaid taxes and fees recovered through the annual tax audit process, and prepayments (e.g., telecommunications license for 20 years). 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.

5. Total FGS public compensation, and spending on goods and services and contingencies, is specified by expenditures in associated budget items. These are determined by GFS classification for compensation, goods and services spending, and contingency. The table on data reporting below requests expenditures by budget item (GFS classification) for each MDA.

6. Budget execution control points for Somalia are defined in accordance with accepted international practice:

- **Allotment**: A stage in the procedure for distributing budget funds among spending units made by the Ministry of Finance to MDAs permitting them to either commit or pay out funds, or both, within a specified time period and within the amounts appropriated. In Somalia, the allotment is issued by the Budget Department. Also referred in some texts as 'apportionment' or 'allocation'.

- **Warrant**: A request from an MDA for the release of all, or more commonly a part, of the total allotment that allows a line ministry or spending agency to make commitments. Once approved, the warrant reduces the available allotment. Also referred in some texts as 'reservation'.

- **Commitment**: A commitment refers to a stage in the expenditure process at which a contract or other form of legally binding agreement is entered into, generally for future delivery of goods or services. A liability will not be recognized until delivery of the item, but the government is contractually committed to meeting the obligation once delivery is made.

7. 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 established guidelines, and provided that there are no overruns in other, non-priority spending items.

8. 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.

9. External arrears of the government are defined as debt obligations to non-residents that are not paid on the contractual due date (plus any applicable grace period). For program purposes, external arrears exclude arrears arising from debt that is being renegotiated with creditors in the context of the HIPC process, including Paris Club creditors; and more specifically, to external arrears in respect of which a creditor has agreed that no payment needs to be made pending negotiations.

10. For program monitoring, 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 and is defined on a residency basis.

- 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.

11. 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.

12. Domestic debt is defined as debt 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. QPCs and related ITs on domestic debt are cumulative ceilings on contracting new domestic debt from the beginning of the fiscal year.

13. QPCs (and related ITs) for external debt are cumulative ceilings on contracting or guaranteeing of new non-concessional borrowing by the general government from the beginning of the fiscal year. ITs on external debt are cumulative ceilings on contracting of new concessional borrowing by the general government from the beginning of the fiscal year. For program purposes, external debt is defined by the residency of the creditor and is deemed to have been contracted when an underlying loan agreement is signed. Excluded from this PC are disbursements from the IMF. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed. In addition, for program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its signing is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

14. 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 calendar year at the market price of December 31, 2019 ($1,517.275 per ounce)); plus (ii) total foreign exchange held abroad; and (iii) Somalia SDR holdings in the SDR Department (valued over the calendar year at the December 30, 2019 exchange rate of $1.382830 per SDR); net of (iv) government grant deposits at the CBS in foreign currency held abroad; and (v) other earmarked foreign currency deposits by residents of Somalia held abroad. IMF representative exchange rates against the U.S. dollar at December 30, 2019 will be used to convert foreign assets and liabilities denominated in currencies other than U.S. dollars. These exchange rates and gold price will be reset annually on the final business day of the year for the subsequent year. The current baseline for NFA includes an amount of US1.19 million of recovered assets (included in the CBS' "total foreign exchange held abroad"). The allocation of these assets between the CBS and the FGS needs to be clarified; once that is confirmed, the NFA targets will be adjusted.

Program-Monitoring Committee

15. The Somali authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance (MoF), the CBS, and the Ministry of Planning, Investment and Economic Development (MoPIED). 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 quarterly progress reports on the program within four weeks of the end of each quarter, using the latest available data.

Data Reporting to the Fund

16. To allow monitoring of developments under the program, the MoF, CBS, and MoPIED, and the Financial Reporting Center will provide to the Resident Representative's office of the IMF the following data on the schedule as specified in the table below.

Somalia: Data Reporting, March 2020–March 2023				
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, including deposits by mobile money operators (MMOs).	Quarterly	4 weeks after the end of each quarter
	Financial data not included in broad money	Volume and value of mobile money transaction by residency.	Quarterly; starting with the end-2020 data point.	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-September 2020; petroleum imports to Mogadishu; travel data from the Immigration Department; and cross-border current transfers by MTBs, and banks, and for MMOs starting from end-December 2020.	Quarterly	4 weeks after the end of each quarter
	FGS external accounts	Provide end-month balances included in the Treasury Single Account held abroad by the CBS on behalf of the FGS, including on-budget grants and the fiscal buffer.	Monthly	3 weeks after the end of each month
Ministry of Finance	FGS budget operations	For annual and supplemental budgets: • Revenue by GFS revenue classification; • Proposed Appropriation by MDA, program/project and 4-digit object code; • Proposed appropriation by MDA and 2-digit object code; • Staffing table by MDA; and • Donor assistance tables; by COFOG showing on and off-budget spending; spending by NDP sector; and spending by FGS, Banaadir, and FMS.	As required	Within a week of submission to Cabinet and to the Parliament; and when signed by the President.

Somalia: SMP Data Reporting, May 2018–April 2019 (continued)				
		Current year SFMIS reports showing budget, virements, and monthly data for: • revenue at GFS revenue classification; • expenditure by budget line and GFS classification with MDA lines, disaggregated by program/project and showing data by GFS 4-digit object code; and • for applicable MDAs, details of budget transfers to FMS and other units. Reports 1A and 1B (as amended)	Monthly	4 weeks after the end of the month
		A comprehensive table summarizing Government operations including revenue, expenditure (by MDA and Object code), and TSA balances for the month and YTD. These should include the fiscal buffer balances. (Report 5A, 5B, 5C and 5D).	Monthly	4 weeks after the end of the month
		The outstanding appropriation, allotment, warrant, commitment, and expenditure recorded by MDA in Report 2A.	Monthly	4 weeks after the end of the month
		Payments report showing all payments in number and value made, disaggregated by those paid directly to vendor's bank accounts consistent with commitment controls; cash advances; and other payments.	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
		The monthly cash plan and at least one-month ahead forward projections; supported by SFMIS reports on domestic revenue and donor budget support (report 3A); operating budget expenditures by MDA (report 3B); and operating budget expenditures by object code at 4-digit level (report 3C)	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

Somalia: SMP Data Reporting, May 2018–April 2019 (concluded)				
	Customs modernization	Report showing number of declarations, manifests processed, and goods inspections report (as per SMP IV).	Monthly	4 weeks after the end of the month
	FMS' fiscal operations	Reports of fiscal operations (expenditures and revenues) from all Federal Member States (FMS).	Quarterly	4 weeks 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
		Accumulation of any new arrears (principal or interest payments) on external debt.	Monthly	3 weeks after the end of the month
	Structural benchmarks	A table with a description of the status of implementation of the structural benchmarks in MEFP Table 2 of the MEFP.	Quarterly	4 weeks after the end of each quarter
Financial Reporting Center	AML-CFT compliance data	On a monthly basis, total number of each STR, LCTR, and Nil reports received from banks, MTBs, and MMOs. Total number of each banks, and MTBs that have submitted reports during the period. MMO reporting to be added as oversight and supervision develops, but latest for end-December 2020 data point.	Quarterly	4 weeks after the end of each quarter
Directorate of National Statistics of MoPIED	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; CPI every 15th of the month (or next available business day)
		GDP by expenditure data (from June 2020)	Annually	6 months after the end of each year

Statement by Mr. Mahlinza, Executive Director,
and Mr. Abdullahi, Advisor on Somalia
March 24, 2020

Somalia declared its first case of COVID-19 on Saturday, March 14, 2020. The authorities immediately took action to contain the virus by banning all international flights and closing all schools and universities as well as suspending all sporting events for 15 days. The authorities believe that containment is the best option as the country lacks effective public health systems and infrastructure to carry out widespread testing and care for the sick. Economic growth could be impacted, and government revenues and remittances will decline as the health crisis continues to impact Somalia's trading partners.

Introduction

1. Our Somali authorities wish to thank staff for continued Fund support in the implementation of reforms that have helped in the advancement of the arrears clearance and debt relief processes. They also wish to thank staff for the constructive engagement during the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) negotiations. They broadly agree with staff assessment and policy recommendations.

2. Over the last few years, Somalia has made steady progress in rebuilding the core political, institutional and economic capabilities of a viable state, supported by the steadfast implementation of successive staff monitored programs (SMPs). Security condition have improved, and macroeconomic stability is beginning to emerge. Nevertheless, social and economic fragilities remain, while the pace of economic growth has been inadequate to meaningfully improve living standards. In addition, the high debt overhang has continued to prevent Somalia from accessing needed development finances.

3. To address these long-standing challenges the authorities have fulfilled the necessary conditions to reach the HIPC Decision Point. In this regard, the authorities have established a satisfactory track record of strong policy implementation under the current UCT quality SMP. On September 26, 2019, the Somali Cabinet approved a comprehensive and widely consulted 9th National Development Plan. Somalia also cleared arrears to the World Bank and the African Development Bank, early March 2020, and secured adequate assurances to clear IMF arrears.

4. Against this background, the authorities seek Executive Directors' support towards their request for cancellation of the current SMP; and request for a three-year arrangement under the blended Extended Credit Facility (ECF) and Extended Fund Facility (EFF) program. This new program will anchor policy reforms between the HIPC Decision Point and the HIPC Completion Point. This program is expected to build and deepen past reforms by strengthening public finance management, upscaling financial sector development, enhancing institutional capacity of the Central Bank of Somalia (CBS), and improving governance.

Performance Under the Staff Monitored Program

5. To establish a track record of strong policy implementation that meets the requirements for HIPC qualification, the authorities have continued to post solid performance under the UCT quality SMP program. All end September and December indicative target were met including all

structural benchmarks, except one relating to the use of commitment controls. Consequently, the IMF management approved the completion of the second review of the SMP program, confirming that Somalia has established the six months track record of satisfactory performance, required for the HIPC Decision Point.

6. Throughout implementation of the four SMPs, the authorities have made determined efforts to successfully implement reforms and meet the required targets. To this end, they established a monitoring structure that reports directly to the Prime Minister. Going forward, the authorities are committed to maintaining the same momentum in implementing policies and reforms in the period leading up to the HIPC Completion Point. They view reforms as essential to delivering long term growth and lifting the citizens out of poverty.

Fiscal and debt management reforms

7. The authorities remain committed to strengthening their fiscal framework to support priority development needs. Over the years, efficiency of tax collection has improved, new tax measures have been introduced and large businesses have begun to make regular tax payments. As a result, domestic revenue doubled from \$112.7 million in 2016 to estimated \$229.7 million in 2019. Moving forward, the Somali authorities are committed to sustaining revenue growth by deepening reforms and implementing new tax measures. In this regard, they plan to operationalize the recently approved *Revenue Act*, implement a tax audit strategy and continue with the customs reforms currently underway. In the medium term, the implementation of the Revenue Act will be extended to all Federal Member States with a high priority to broaden the coverage and collection of customs and sales tax.

8. The authorities plan to maintain focus on achieving expenditure efficiencies and aligning their expenditures with the overall size of the resource envelope. In this respect, they recently concluded an audit of public servants to better contain the wage bill. Concurrently, they plan to maintain a cap on compensation and use of goods and services. Going forward, they intend to introduce a formal civil service grading structure and modern human resources management practices, with the support of the World Bank.

9. To strengthen public finance management, the authorities have implemented several measures including the introduction of Somalia Financial Management Information System (SFMIS) which has automated government transactions and reduced errors and opportunities for corruption. Moreover, improved cash forecasting and stronger use of commitment controls enhanced efficiency in the management of government finances. To further improve PFM, the recently enacted PFM Act will be operationalized, once the new regulations have been developed At the same time, a comprehensive review of current business practices to improve the efficiency of the expenditure approval process will be undertaken. The authorities also plan to improve budget preparation and execution by rolling out the budget module in the SFMIS. They are committed to prioritizing implementation of the customs reform roadmap focusing on the introduction of the harmonized HS codes at the three regional ports, development of a guidance manual training, and installation of a common IT system with the support of development partners.

10. The authorities are determined to maintain debt sustainability beyond the HIPC Completion Point. In this regard, they are building the necessary institutional structure to manage the country's debt with support from the Fund and other partners. Further, the authorities have already conducted a debt reconciliation exercise and have established a computerized debt management system at the Ministry of Finance' Debt Management Unit. In addition, they plan to compile and timely report comprehensive external debt data. Going forward, they will maintain a zero limit on new debt accumulation and plan to remain current on debt service obligations.

Monetary and financial sector reforms

11. The authorities' medium-term objective is to develop monetary and exchange rate policy capacity within the Central Bank of Somalia (CBS). To this end, recruitment to support the reorganization and new functions of the central bank is largely on track. This is being supported by intensive capacity development including in bank supervision, conducting self-assessment of on-site inspection, analytical capacity and data reporting, development of frameworks for dealing with problematic institutions, and development of prudential tools, such as reserve requirements.

12. While the economy remains dollarized, the authorities intend to introduce a new currency, the Somalia Shilling. The first phase of the two-phase currency reform is aimed at facilitating small transactions for the vulnerable citizens. In the interim, the authorities are building human and institutional capacity required to effectively execute the country's monetary and exchange rate policies.

13. To strengthen and deepen the financial system, the authorities are updating the legal framework, starting with the amendment of the Financial Institutions Law. In parallel, the CBS continues to improve its regulatory regime and capacity to effectively supervise the mobile money market and support the strong mobile money sector. In this context, mobile money regulations have been approved, and the payment system will be operationalized early 2021.

Structural Reforms

14. As part of effort to improve governance and the fight against corruption, the President signed the Anti-Corruption Law on September 21, 2019, which creates the Anti-Corruption Commission. At the same time, the authorities are developing a robust National Anti-Corruption Strategy (NACS) and plan to ratify the UN Convention Against Corruption. Over the course of the program, the authorities will rectify the African Union and Arab Conventions Against Corruption as well as develop and implement an action plan that will operationalize the NACS. To strengthen accountability, the authorities will enact an Audit bill that encompasses international best practice and complete an inventory of Federal Government public sector non-financial assets.

15. The authorities will build on the progress made thus far in creating a workable fiscal federalism framework. Supported by a technical committee, the Intergovernmental Fiscal Forum will continue to hold regular meetings to strengthen fiscal cooperation. The forum will refine agreements on an expenditure assignment guideline to align it with the new Revenue Act and work towards a single import duty tariff schedule. Further, the constitutional review process

currently underway will clarify the relative roles and responsibility of different levels of government. In this context, the authorities are committed to maintaining an open dialogue at the highest level of government to collectively address challenges facing the country and create a comprehensive fiscal federalism framework.

16. The authorities consider building resilience to climate shocks and social protection mechanisms as a priority. The country faces persistent climate related shocks without adequate social protection. With the help of development partners, the authorities are advancing efforts to strengthen Disaster Risk Management and early warning systems. In addition, they are placing importance on building social safety net levers including a cash transfer system and establishing a national social registry to facilitate the targeting of vulnerable members of the society.

17. The authorities continue to strengthen the Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) operational and legal framework. Following the enactment of the 2016 AML/CFT law, the Financial Reporting Centre was created and continues to make steady improvements in supporting compliance with the framework, as its capacity becomes stronger. Going forward, new guidelines will be issued to help banks comply with the AML/CFT regulations. In addition, the authorities are committed to enact the Targeted Financial Sanctions Law aimed to improve AML/CFT compliance. In the medium term, a new national AML/CFT strategy will be developed following a National Risk Assessment exercise. This strategy will address any AML/CFT shortcomings before the next MENA-FATF Mutual Evaluation assessment in 2024.

Conclusion

18. The authorities consider reaching the HIPC Decision Point as an important milestone in Somalia's development agenda. They are mindful of the challenges ahead and remain committed to implementing reforms with the same determination demonstrated during the implementation of the SMP. They wish to thank all the members for their contributions of the SCA-1 and Deferred Charges Accounts and additional cash grants provided to clear Somalia's arrears to the Fund. They look forward to continued support in implementing reforms as well as support from the international community.