



SOMALIA

December 2022

2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY— PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

In the context of the 2022 Article IV consultation and Fourth Review under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** Summarizing the views of the Executive Board as expressed during its December 5, 2022 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 5, 2022, following discussions that ended on October 7, 2022, with the officials of Somalia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 18, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Somalia.

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

Letter of Intent sent to the IMF by the authorities of Somalia*
Memorandum of Economic and Financial Policies by the authorities of Somalia*
Technical Memorandum of Understanding*
Selected Issues
*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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Washington, D.C.



IMF Executive Board Concludes 2022 Article IV Consultation and Fourth Review of the Extended Credit Facility for Somalia

FOR IMMEDIATE RELEASE

- Somalia is currently facing a severe food crisis. Sustained support from international partners is needed for the immediate humanitarian response and to build resilience over time to climate shocks in order to prevent food crises in the future.
- Program performance has been strong, and the reform momentum has been maintained. Steady progress under the HIPC process would lay the ground for the Completion Point to be achieved in late 2023.
- To promote inclusive growth, further efforts are needed to build resilience to climate shocks, advance implementation of the national development plan, and promote financial deepening, while maintaining fiscal sustainability.

Washington, DC – December 7, 2022: On December 5, 2022, the Executive Board of the International Monetary Fund (IMF) completed the fourth review of the Extended Credit Facility (ECF) arrangement for Somalia. The Board's decision enables the immediate disbursement of SDR 7 million (about US\$ 8.9 million), bringing Somalia's total disbursement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) to SDR 278.4 million (about US\$ 393.2 million).

Somalia's ECF arrangement was originally approved by the Executive Board on March 25, 2020 (see Press Release No. 20/105) as part of a three-year blended arrangement under the ECF and the EFF, which involved access of SDR 252.86 million (155 percent of quota) under the ECF and SDR 39.57 million (24 percent of quota) under the EFF. As the full amount of the EFF arrangement was made available on approval and drawn at the first purchase, the EFF arrangement lapsed immediately. The ECF arrangement supports the implementation of the authorities' National Development Plan and anchors reforms between the HIPC Decision and Completion Points.

Executive Board Assessment¹

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the Somali authorities' commitment to economic reforms and the HIPC process, notwithstanding the challenges arising from an acute food crisis. They called for continued efforts by the authorities and sustained support from international partners to address the humanitarian crisis and reduce climate vulnerability to prevent food crises in the future.

¹ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here:

<http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

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Directors positively noted that performance under the program has been strong and commended the authorities' steady progress under the HIPC process that is laying the ground for the Completion Point to be achieved in late 2023. They encouraged the authorities to continue with the timely implementation of the remaining HIPC Completion Point Triggers and to finalize debt relief agreements with all creditors.

Directors praised the implementation of reforms to raise domestic revenues and called for further efforts on tax policy and administration reforms, including customs modernization and the new income tax law. Directors commended the improvement in public financial management and encouraged further progress on payroll integration and fiscal transparency. Such efforts are needed to ensure medium-term fiscal sustainability given Somalia's very low tax ratio amid large development needs, and the expected shift to concessional financing at the Completion Point.

Directors appreciated the continued reforms to strengthen the central bank's governance and legal frameworks, including implementation of IMF Safeguards recommendations. They recommended further bolstering the central bank's financial regulation and supervision capacity.

Directors noted that important steps have been taken on governance. They encouraged continued efforts to address ML/FT risks and ensure the enactment of the Targeted Financial Sanctions Law. Directors stressed the importance of finalizing the legal framework for the extractive industries, developing better control of government lands and real estate, and implementing the National Anti-Corruption Strategy.

Beyond the HIPC Completion Point, Directors stressed the need for further reforms to promote inclusive growth. These include building resilience to climate shocks, advancing implementation of the national development plan, and promoting financial deepening and inclusion, while maintaining fiscal sustainability. Directors noted that support from development partners is important for the successful implementation of the authorities' reform strategy, including continued IMF CD support and financing from partners for the Somalia Country Fund.

It is expected that the next Article IV consultation with Somalia will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.



SOMALIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

November 18, 2022

EXECUTIVE SUMMARY

Context. Somalia is facing a severe drought and acute food insecurity, aggravated by higher global food and fuel prices. Sustained efforts from the authorities and support from international partners are needed for immediate humanitarian assistance and to build resilience over time to climate shocks. Notwithstanding the current challenges, including a fragile security situation, the authorities continue to deliver on their commitments under the IMF supported program and have maintained the reform momentum. Program and Article IV discussions were informed by the Country Engagement Strategy.

Reform priorities. The authorities are committed to strengthening domestic revenue mobilization, including customs modernization, increasing revenue collection from large businesses (in particular the telecom sector), a new turnover tax, and publication of tax exemptions. At the same time, they are moving ahead with reforms on public financial management, including full payroll integration. To support governance, the authorities plan to enhance management of non-financial assets and work towards finalizing the legal framework for the extractive industries. The central bank will continue to enhance its capacity, including financial regulation and supervision. Key actions on AML/CFT include enactment of the Targeted Financial Sanctions Law and development of the national AML/CFT action plan. In the context of the currency reform, the CBS needs to develop exchange rate and monetary policy frameworks and capacity. To support progress in key policy areas, the program includes new indicative targets and structural benchmarks through end-December 2023.

Program performance. All quantitative performance criteria (QPC) and indicative targets (ITs) for end-June and end-September 2022 have been met. The authorities have implemented three structural benchmarks to support stronger domestic revenues and reporting and transparency of the central bank. In view of capacity constraints, the authorities are requesting new target dates for two structural benchmarks: (1) to finalize the tender protocol by end-December 2022 in order to incorporate additional revisions needed to align with best practices; and (2) to approve the pay and grade policy and road map to implement the integrated payroll by end-December 2022 to allow sufficient time for discussion with stakeholders. The program is fully financed for the next 12 months.

HIPC Initiative. The staffs of the IMF and World Bank assess that the HIPC Completion Point appears feasible in late 2023. Timing will depend on finalizing the completion point triggers and the debt relief agreements with creditors.

Article IV discussions. To promote inclusive growth, policy priorities include building resilience to climate shocks (also in support of food security), advancing the implementation of the national development plan to reduce poverty and boost job creation, and promoting financial deepening and financial inclusion (including the currency exchange project). Debt relief at the HIPC Completion Point will facilitate Somalia's access to new sources of financing, but at the same time there will be a shift from grants to concessional financing. Ensuring fiscal sustainability calls for raising domestic revenue to expand public services over time, maintaining a prudent fiscal deficit, and only accessing concessional financing.

Program and other risks. Risks include prolonged drought, additional pressures on international food and energy prices, and security risks. Risks to the program are mitigated by continued program ownership, capacity development (CD), and sustained support from development partners. Somalia continues to need extensive IMF CD support and financing for Somalia Country Fund is critical.

Approved By
Thanos Arvanitis
(MCD) and Mark
Flanagan (SPR)

Discussions were held in Nairobi from September 26 – October 7, 2022. The staff team comprised of Ms. Jaramillo (Head), Ms. Yang, Mr. Kularatne (all MCD), Mr. Nguyen (FAD), Mr. Leon (SPR), Mr. Le Hen (Resident Representative), Mr. Irungu, Mr. Osman (Resident Representative Office), and Mr. Muir (FAD expert). Mr. Abdullahi (OEDAE) participated in key policy meetings. Ms. Gupta, Mr. De Asis, and Ms. De Mesa (all MCD) supported the preparation of this report. The mission met with Finance Minister Nur, Minister of Planning Beenebeene, Central Bank Governor Abdullahi, and other senior officials. The mission also met with development partners, and representatives from the private sector.

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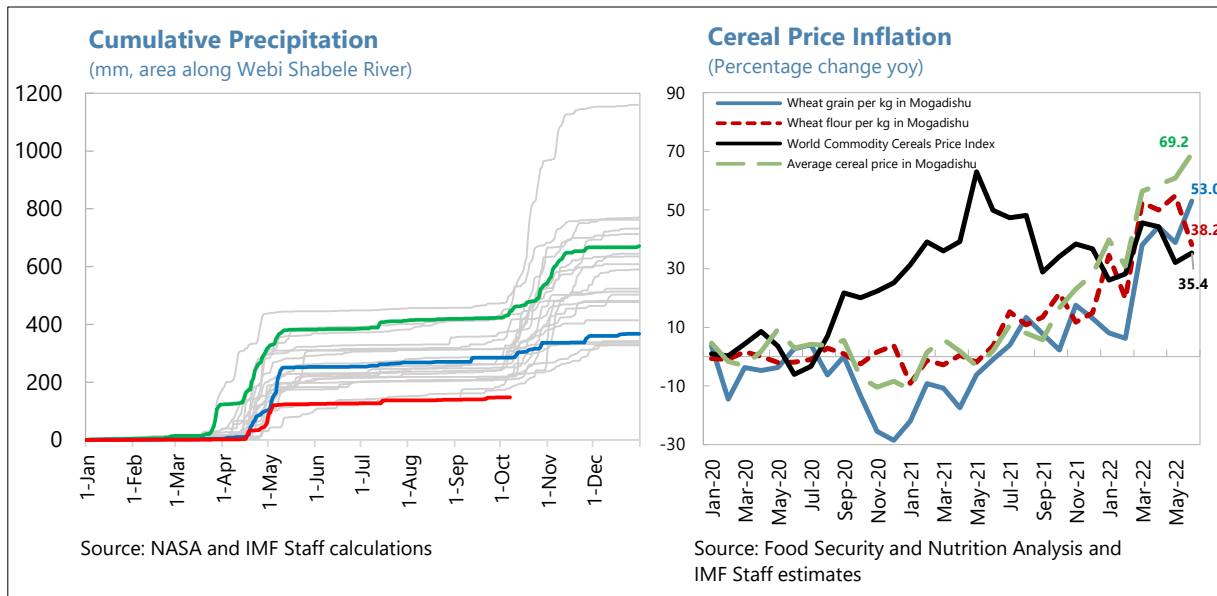
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CONTEXT¹

1. **Somalia has been rebuilding state institutions and the economy since the end of the devastating civil war, with strong support from the international community.** The civil war (1991–2012) led to complete state collapse, with tremendous loss of human and physical capital. Since the 2012 Provisional Constitution that created the Federal Government of Somalia (FGS) and the Federal Member States (FMS), Somalia has successfully undertaken three national elections. Most recently, Parliamentary and Presidential elections were completed in May 2022. Somalia's efforts in rebuilding state capabilities have been strongly supported by international partners, including financing and extensive capacity development (CD) support.
2. **Still, large and sustained investments in human and physical capital are needed to improve resilience and support inclusive growth.** Close to 70 percent of the population lives on less than US\$1.90 a day, and challenges are exacerbated by the large number of internally displaced persons (close to 3 million in 2022). Growth is insufficient to reduce poverty and address large social needs, including job creation. In addition, Somalia is highly vulnerable to climate shocks that aggravate food insecurity.
3. **Prolonged drought has been compounded by global food supply and price pressures, leading to acute food insecurity in some areas.** According to IPC, as of September 12, 2022, 4.3 million people are facing acute food insecurity, and roughly 1.1 million people have been displaced.² While the rapid scale-up of humanitarian assistance has prevented a worse situation, the most severely affected areas are under control of Al-Shabaab that thwarts delivery of humanitarian assistance.
4. **Addressing security risks is a top priority for the new government.** Al-Shabaab still dominates in part of the countryside, especially the South, and the security situation in Somalia is fragile. The new government has announced a new strategy to combat Al-Shabaab, with support from the security services, business community, and civil society.
5. **The authorities continue to advance the reform agenda and make progress toward the HIPC Completion Point.** Between 2016–2020, Somalia successfully implemented four consecutive staff monitored programs (SMPs). The satisfactory track record and clearance of arrears to international financial institutions enabled approval of the HIPC Decision Point in March 2020, which offered Somalia access to interim debt relief and new flows of development finance. Somalia's Extended Credit Facility (ECF) arrangement supports progress toward full debt relief at the HIPC Completion Point (HIPC CP), targeted for late 2023. The program and the related CD support promote reforms to rebuild key economic institutions and lay the foundations for macroeconomic stability and growth, in line with Somalia's national development plan (NDP9).

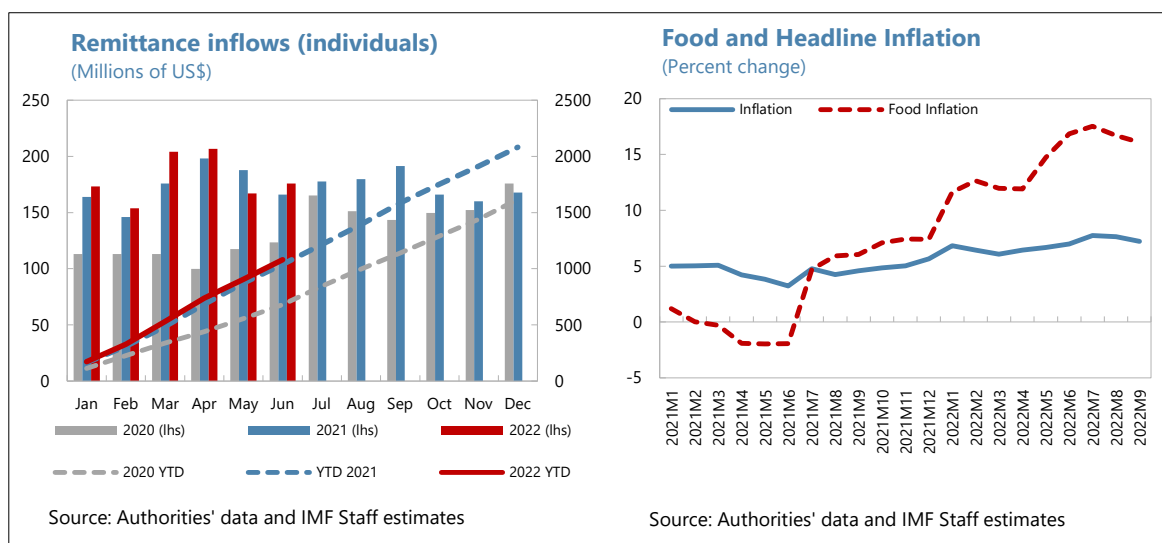
¹ See the Somalia Country Engagement Strategy (Annex III) for an overview of the drivers of fragility, constraints to reform, opportunities and sources of resilience, and reform priorities that inform the strategy for Fund engagement with Somalia.

² Famine has not yet been declared by the Integrated Food Security Phase Classification's Famine Review Committee.



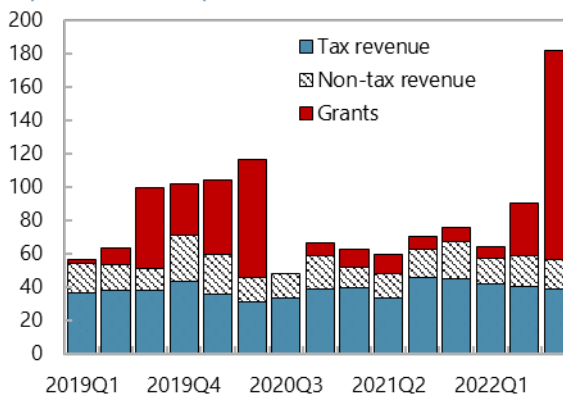
RECENT ECONOMIC DEVELOPMENTS

6. The Somali economy rebounded by 2.9 percent in 2021, following a COVID-19-related contraction in 2020, but challenges weigh heavily on growth this year. Growth in 2021 was largely driven by household consumption and private investment, supported by robust remittance inflows and credit growth. The recovery in aggregate demand led to a strong rebound in imports (primarily construction and medical equipment), and, together with a fall in budget grants, contributed to a wider current account deficit (17.1 percent of GDP). However, economic activity has slowed down notably in recent months on the back of the global economic slowdown and the domestic drought conditions. Rising food and fuel prices increased annual inflation to 7.2 percent (eop) in September 2022.



7. Domestic revenue and expenditure have been in line with projections, and disbursement of budget support grants have resumed. Good performance of custom duties and non-tax revenues offset underperformance of taxes on goods and services. Collection of khat import taxes is also picking up after resumption of imports from Kenya in August 2022. Spending has been in line with expectations. After the completion of elections, disbursements of budget support grants resumed and have been higher than expected³

Total Revenue, Excluding Project Grants
(In millions of USD)



Sources: Somali authorities and IMF staff estimates.

8. The financial sector continues to develop, though challenges remain. Despite strong deposit and credit growth, credit to the private sector remains low as a percent of GDP. While reported capital adequacy and liquidity ratios remain sufficient, reported NPLs have risen from 1 percent at end-2021 to 5 percent in June 2022 and several smaller/newer banks are facing losses. Three mobile money operators have been granted licenses and two new foreign banks were granted restricted licenses.⁴

PROGRAM PERFORMANCE

9. All quantitative performance criteria (QPC) and indicative targets (ITs) for end-June and end-September have been met (Table 10). The authorities have implemented three structural benchmarks (SBs) due through November 2022, and are requesting new target dates for two SBs that are taking more time to finalize due to capacity constraints (Table 11).

- The ad valorem tariff schedule was enacted on June 23, 2022. The customs regulations on valuations and declarations were issued on September 28, 2022 (SB#1, met before the end-November deadline).
- In July 2022, the Ministers of Finance and Communication agreed on the aggregate level of spectrum fees (US\$6 million). The National Communication Authority (NCA) issued the spectrum fee schedule on the NCA website on September 22, 2022, (SB#3, due end-July, implemented with delay).

³ This includes the World Bank Development Policy Financing Operation (DPO) for US\$97.2 million, the European Union for US\$13.7 million, Turkey for US\$27.5 million, and the United Arab Emirates for US\$9.6 million.

⁴ Ziraat Katilim of Turkey and Banque Misr of Egypt were licensed in July 2022 to open branches in Somalia. They will not have access to the retail banking business but only allowed to take corporate clients with assets above US\$100,000. The CBS has signed MOUs with their home country supervisors on the cooperation and allocation of supervisory responsibilities, including the exchange of information and personnel. The moratorium on licensing new banks was reimposed after clearing these two banks.

- The audited 2021 financial statements of the Central Bank of Somalia (CBS) were published on September 8, 2022 (SB#8, due end-August, implemented with delay).
- Technical drafts of the Pay and Grade Policy and roadmap to implement an integrated payroll that controls all compensation of FGS employees have been developed. These are scheduled to be discussed with the Ministry of Labor and National Civil Service Commission before being brought to Cabinet for approval in coming weeks (missed SB#5, due end-October).
- The tender protocol for the petroleum sector was approved on November 4, 2022 by the Inter-Ministerial Concessions Committee (IMCC). However, further revisions are necessary to align the tender protocol with best practices. A revised version is to be discussed by the IMCC in coming weeks (missed SB#7, due end-August).

OUTLOOK AND RISKS

10. Economic activity in 2022 has been downgraded to 1.9 percent (compared to 2.7 percent forecast in the second and third review). This reflects slower global growth, the impact of the drought on agriculture and exports, and slowing remittances that affect consumption and investment. Drought and higher commodity prices are expected to propel average inflation to 9 percent, further dampening consumer demand. The current account deficit is projected to narrow to 15.9 percent of GDP, mainly due to the recovery in grants.

11. Growth in 2023 is subject to considerable uncertainty. If rainfall returns to a healthy pattern in 2022 (staff's baseline), agriculture is expected to recover in 2023, supporting higher exports (including because Saudi Arabia lifted livestock import restrictions in 2022). Access to donor financing would support greater spending on NDP9 priorities and continued remittances and credit would support buoyant investment in construction. On the back of these assumptions, growth is forecast at 3.1 percent (marked down from the earlier forecast of 3.6 percent), as it will take time for livestock and crops to recover following the severe drought, together with heightened security risks. As commodity prices recede, inflation is expected at 3.9 percent, in the context of the de-facto dollarized economy.

12. Medium-term growth is expected to accelerate as structural reforms pay off and access to financing improves, though with some scarring from the pandemic and climate shocks. Growth is forecast at 4.1 percent by 2027, supported by a gradual scaling up of public spending and greater private investment, facilitated by the implementation of fiscal, financial, and governance reforms. However, COVID-19 and climate shocks are expected to have lasting impact—including because of the negative effects on schooling and health—that also affects poverty reduction efforts. Growth is expected at 4.5 percent over the long term, compared to 4.8 percent envisaged at the HIPC Decision Point. The current account deficit is expected to be financed by foreign direct investment and a modest increase in concessional borrowing after the HIPC CP. The fiscal deficit is expected at about 1.5 percent of GDP, with gradual improvement in domestic revenues, which will make room for greater investment and social spending.

13. Near-term risks are markedly on the downside (Annex IV). If rains do not resume in 2022 or commodity prices rise further, the food crisis will aggravate. Security risks remain severe, with additional risks associated with the implementation of the Somali Transition Plan to transfer security responsibilities from the African Union Transition Mission in Somalia (ATMIS) to the Somali security forces and institutions. However, medium term risks are more balanced. On the upside, there could be higher than expected benefits to growth from the normalization of relations with all creditors at the HIPC CP, as well as the harnessing of natural resources (petroleum, fisheries). On the downside, risks include new climate shocks and delay in reaching the HIPC CP, which would reduce economic growth and domestic revenue and increase financing needs. While the sequestration rule (that helps identify discretionary spending that can be rationalized) and current grant commitments from development partners help mitigate some risks, the authorities would need additional support from the international community to address a significant adverse scenario.

Authorities' Views

14. The authorities broadly agreed with staff's assessment of the outlook and risks for the economy. The authorities emphasized negative impact on the economy of the prolonged drought, slowing global growth, and the war in Ukraine. Remittance flows are being affected by weaker growth in economic partner countries, in addition to some diaspora fatigue following a surge in support during the COVID-19 pandemic. The authorities recognize that risks are tilted to the downside given the possibility of another failed rainy season, continued war in Ukraine, and possible global recession. In the medium term, the authorities see potential upside risks with HIPC CP targeted for 2023, structural reforms gaining momentum, and development of the agriculture, fisheries, and petroleum sectors.

PROGRAM AND POLICY DISCUSSIONS

Informed by the Country Engagement Strategy (Annex III), program discussions focused on near-term policies and reforms under the ECF arrangement and HIPC process, and Article IV discussions focused on medium-term policies to promote resilience and inclusive growth.⁵

A. Climate Shocks and Food Insecurity

15. Somalia is vulnerable to climate shocks that exacerbate food insecurity.⁶ Climate shocks to Somalia are both frequent and have widespread impact on the population, well above the average across different regions. As demonstrated by the ongoing drought, climate shocks exacerbate food insecurity because they compound broader challenges in the agriculture sector, including weak security and institutions, inadequate investment and standards, and poor infrastructure. Climate change is expected to increase the frequency and intensity of climate shocks. The country lacks the capacity to mitigate these shocks, including because of inadequate financial

⁵ See Annex I on the implementation of past IMF recommendations

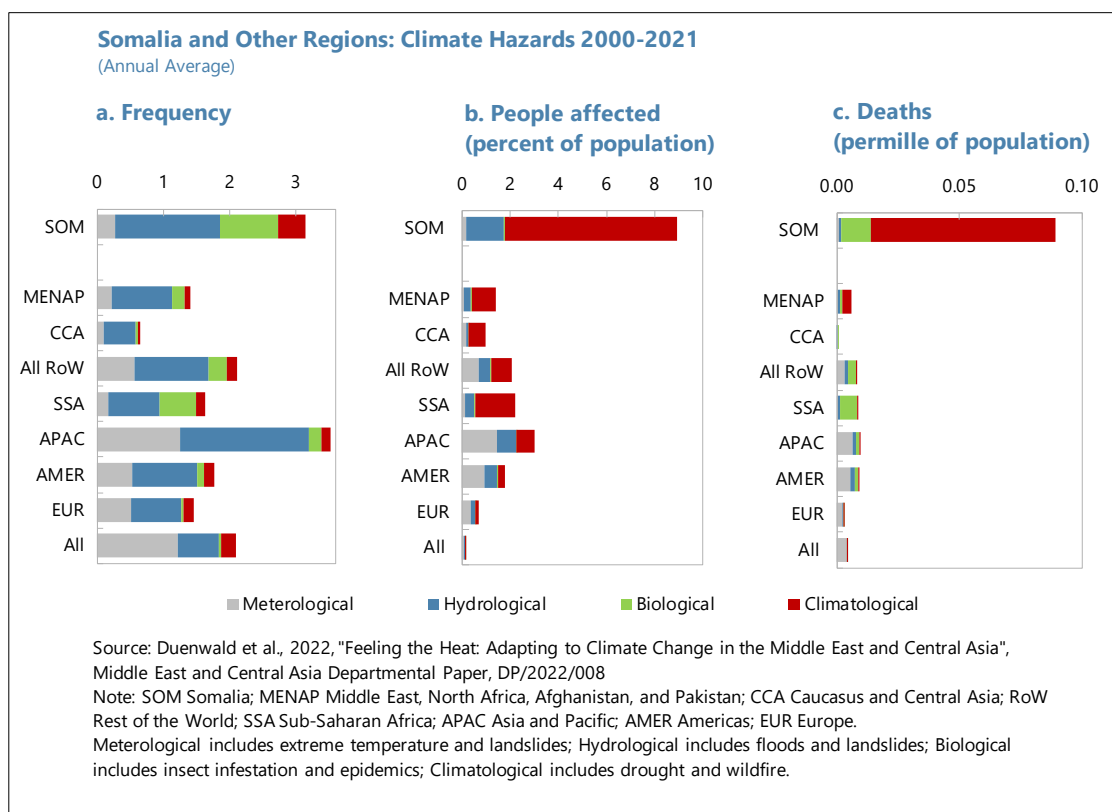
⁶ See Selected Issues Papers on "Climate Challenges in Somalia"—prepared in collaboration with the World Food Program—and "Food Insecurity in Somalia".

resources, infrastructure, and social safety net. As a result, each new climate shock is a setback for growth and poverty reduction.

16. The authorities, with assistance from international partners, continue their efforts to alleviate the acute food insecurity situation. The FGS created the new National Drought Emergency Committee. The government's response has focused on raising awareness and mobilizing external funding in the form of grants and—in the absence of its own delivery network—coordinating with the UN system on delivery of humanitarian assistance.⁷ The World Food Program (WFP) has expanded its delivery of humanitarian support to 4 million people, up from 2.3 million in May 2022. Expansion of the Baxnaano cash transfer program to another 20,000 households (200,000 households are covered already), with the support of the World Bank, is expected to contribute to building resilience. The authorities will also implement drought response actions financed by the 2022 grant disbursement from the UAE. Continued humanitarian support and grant financing from international partners is urgent, in particular if the next rainy season (Oct/Nov) fails. However, the delivery of humanitarian assistance to areas controlled by Al-Shabaab remains a challenge.

17. Further efforts and support from the international community are needed to help Somalia build resilience against climate shocks and strengthen food security. The upcoming update of the Drought Impact and Needs Assessment (DINA), incorporating floods and other shocks, will identify priority areas for action and reform. A Food Security Crisis Plan is under preparation to strengthen food systems in Somalia. Adaptation to climate change and strengthening food security requires large investments in human capital, infrastructure, and the agriculture sector in particular, including irrigation systems. Provision of agriculture extension services including ensuring the availability of drought-resistant seed varieties and fertilizer will enhance the productivity of the sector. Financing from international partners for these efforts will be essential. The authorities also need to strengthen domestic revenue to create fiscal space, improve public expenditure efficiency to ensure greater growth payoffs from investment and social spending; and enhance financial deepening and financial inclusion to allow farmers, businesses, and households to cushion shocks.

⁷ As of September 2022, 71 percent of the estimated financing needs to provide humanitarian support had been met.



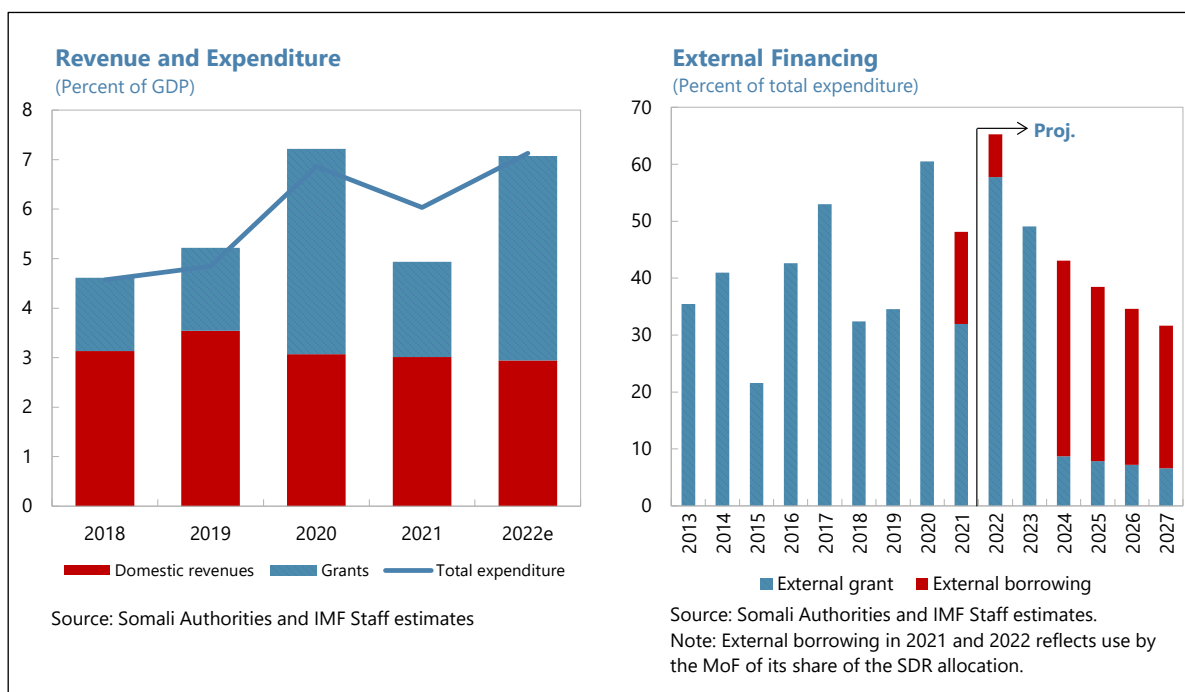
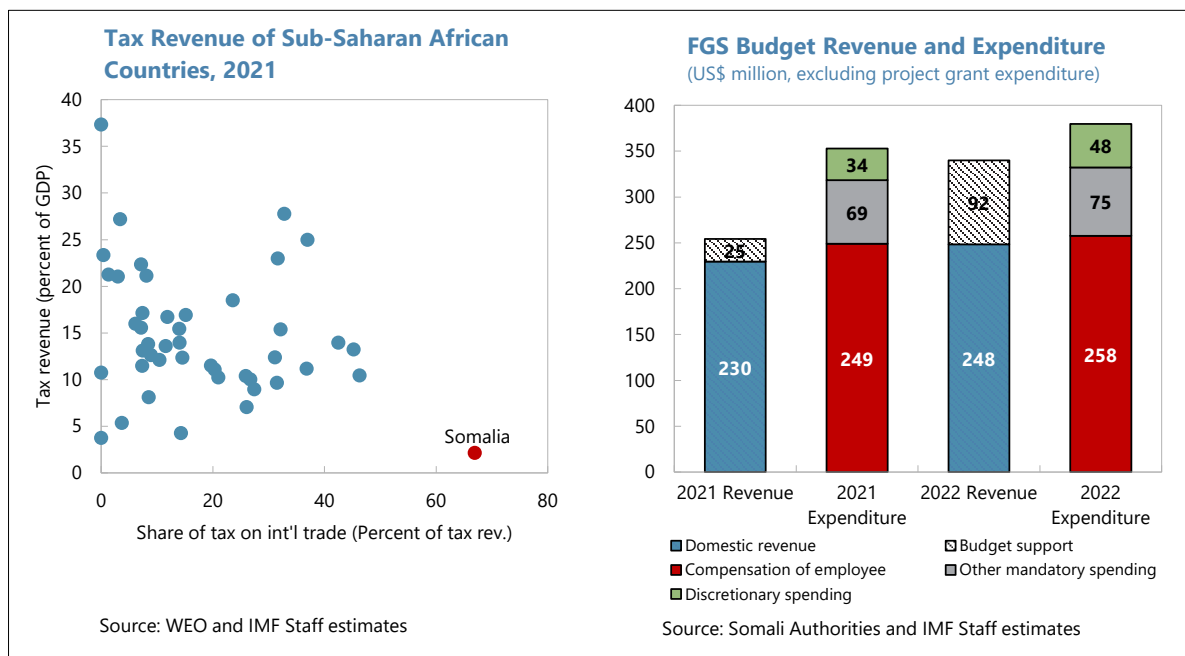
Authorities' Views

18. While addressing the immediate humanitarian needs is a priority, the authorities see urgency in starting to build resilience now to climate shocks that are becoming more frequent and severe. The government has instituted a new Ministry of Environment and Climate Change to focus on building resilience against climate change. The authorities are also promoting greater collaboration across agencies on disaster mitigation and preparedness. The authorities recognize the importance of mobilizing revenue and enhancing the efficiency of public expenditure to make room for key investment in agriculture and climate adaptation. Given limited domestic resources, the authorities call on development partners for support on building resilience to climate shocks and food security.

B. Fiscal Policy

19. Somalia has been actively building its tax capacity, but domestic revenues remain low and insufficient to cover recurrent expenditure. Somalia's tax system collapsed during the civil war and started to be rebuilt in 2013. Domestic revenues increased from about 1 percent to 3 percent of GDP between 2013 and 2021, thanks to implementation of several tax policy and revenue administration reforms. Nonetheless, tax revenue is the lowest among Sub-Saharan Africa (SSA), reflecting a large informal economy, much of it currently outside the reach of the tax authorities. Somalia has a high reliance on international trade taxes (two-thirds of tax revenue), even as customs duties are significantly undercharged, and obtains little revenue from taxes on income

and goods and services. Overall, domestic revenues have not been enough to cover compensation of employees and other mandatory spending.



20. Somalia is heavily reliant on external grants, which are expected to decline significantly after the HIPC CP. External grants finance roughly half of the budget, with the World Bank providing around 82 percent of total grants in 2022. However, while debt relief at the HIPC CP will facilitate Somalia’s access to new sources of financing, it will also entail a change in IDA

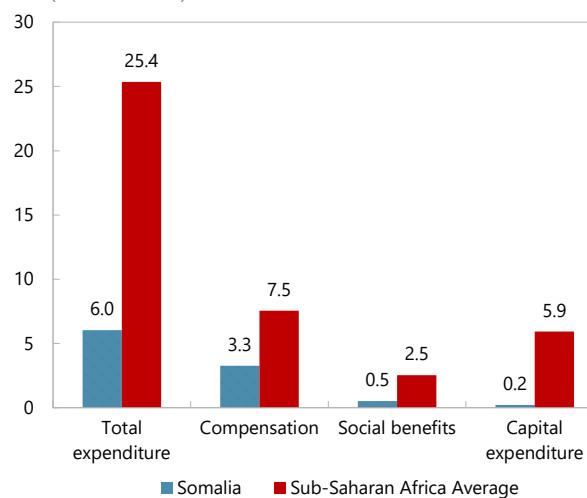
financing terms as applicable to countries at a moderate risk of debt distress, from all grants to only concessional lending.

21. Somalia’s total expenditure is also very low against its large social and development needs. Expenditure is only a quarter of the SSA average and compensation of employees only half of the SSA average. On-budget social spending in Somalia is increasing, including thanks to the World Bank support, but remains a fraction of the spending in other SSA countries. Public investment is very low.⁸

22. While public financial management (PFM) has been steadily improving, further efforts are needed to improve expenditure capacity. The budget process ceased to exist during the civil war. The FGS approved its first budget in 2013 and has since been enhancing its ability to implement a meaningful budget. The Somalia Financial Management Information System (SFMIS), in place since 2014, has supported expenditure controls and regular and reliable reporting. No new domestic arrears have been accumulated since 2017, thanks to improvements to budget preparation, cash management, and the legislated sequestration rules. Still, there is much room to strengthen accountability and efficiency of spending.

23. Strong controls on compensation of non-civilian workers and civilian permanent workers have been implemented but these have not covered compensation of civilian temporary workers outside the payroll. In 2019, all non-civilian employees were integrated into the government payroll (including biometric registration) and their financing was switched from bilateral off-budget grants to the budget.⁹ Meanwhile, the headcount of civilian permanent staff has been frozen since 2017 and their pay scale unchanged since 2013. Payroll controls have been supported by the automated payroll system and electronic payments through the SFMIS. However, compensation of civilian temporary workers paid outside the payroll (which corresponded to 22 percent of total compensation in 2021) has increased by 29 percent per year between 2017 and 2021, and temporary workers in many entities receive salaries that exceed the highest amount in the civil service pay scale.

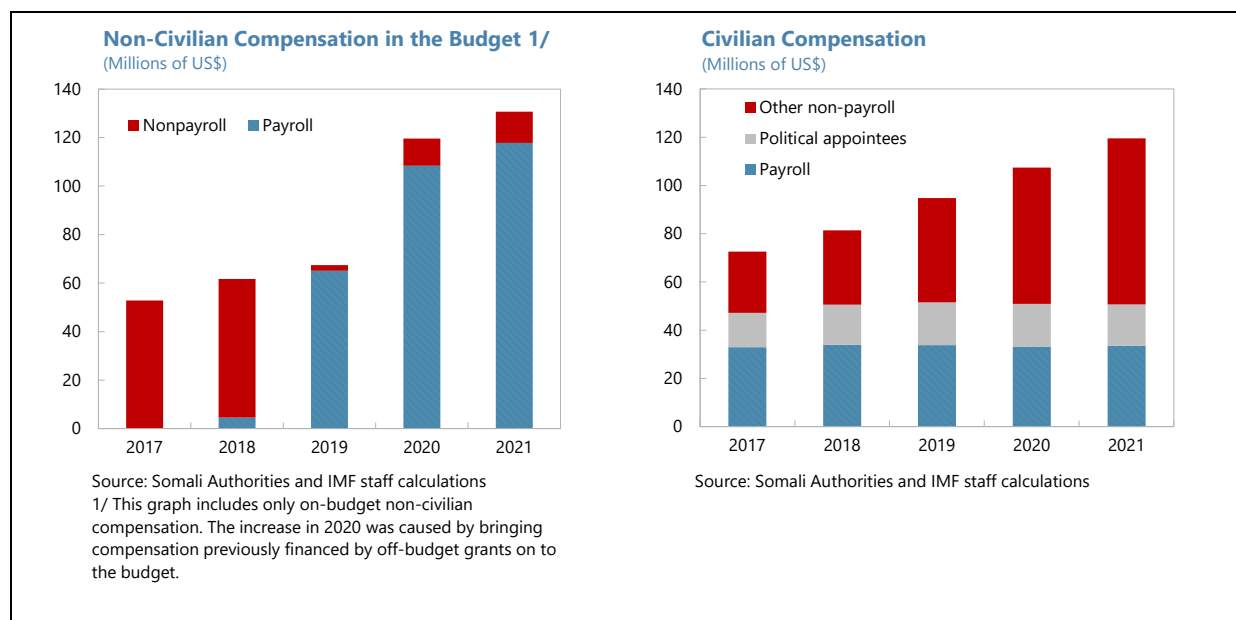
Government Expenditure, 2021
(Percent of GDP)



Source: WEO and IMF Staff estimates

⁸ The private sector is the main source of health care, education, water delivery, telecommunications, transport, and security.

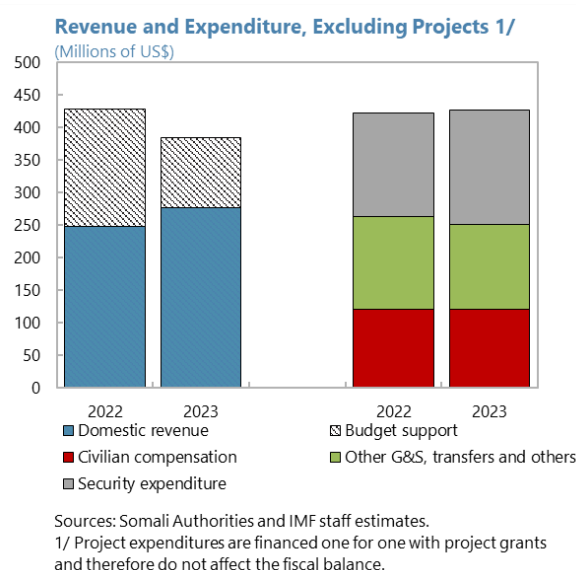
⁹ Non-civilian employees include the Somali National Army, the Police Force, the National Security Force (intelligence), and the Custodian Corp (prisons).



Program Discussions

24. Higher grants and solid revenue performance are expected to improve the overall fiscal position in 2022. Domestic revenue and expenditure for 2022 are expected to remain in line with expectations. For January–July 2022, in the absence of sufficient budget support grants, monthly deficits were mostly filled by further withdrawal of SDRs distributed to the Ministry of Finance (MoF).¹⁰ However, the disbursements of budget support grants resumed after the presidential elections and are expected to cover the estimated financing needs in 2022–23.

25. The draft 2023 budget appears to be consistent with the objectives of the program. The budget promotes higher domestic revenues, maintains domestically financed current expenditure in check while accommodating higher spending on drought response and security, and incorporates higher externally financed projects in support of NDP9 priorities, including social spending. A higher fiscal deficit in 2023 compared to 2022 is driven mainly by the timing of budget grant disbursements.



¹⁰ Somalia received SDR157 million from the 2021 General SDR Allocation. Following discussions with IMF staff, the authorities distributed SDR93 million to the MoF and SDR64 million to the CBS to strengthen reserves.

- Domestic revenues.** Consecutive shocks affecting households and businesses since 2020 (including desert locusts, the pandemic, election delays, prolonged drought, high food and fuel prices) have prevented a recovery in revenues as a share of GDP. Notwithstanding the difficult economic conditions and the lingering challenges from the drought, domestic revenue is expected to increase by 0.2 percentage points of GDP in 2023 compared to 2022, thanks to the newly implemented spectrum license fee, higher collection of khat import taxes, and collection of administrative fees. Importantly, for the first time since the war, domestic revenues would match the size of compensation of employees.

Changes in Domestic Revenue

	(US\$ million)	
	2022	2023
Projected increase in domestic revenue	19.0	28.2
New measures	0.2	16.8
Turnover tax	-	0.2
Tax from telecom and large businesses	-	5.2
Spectrum license fees	0.2	5.8
Khat import tax	-	4.0
Security fee for overseas travel	-	1.7
Ongoing measures	18.8	11.4
Custom duties	5.3	4.9
Other tax revenue	0.1	3.7
Non-tax revenue	13.4	2.7

Source: Somali authorities and IMF staff estimates.

- Mandatory spending.** Against the backdrop of markedly lower budget support grants in 2023 and limited sources for deficit financing, mandatory expenditure will remain contained to ensure fiscal sustainability. In this respect, the budget is expected to maintain a nominal wage and headcount freeze, with the only exception of new security sector recruits. Spending for goods and services will also remain at the 2022 nominal level, except for military food rations.
- NDP9 priorities and social spending.** Expenditure on social benefits, including the Baxnaano program, is expected to expand from 0.9 percent of GDP in 2022 to 1.3 percent of GDP in 2023 (an increase of more than 60 percent). These and other NDP9 priorities will continue to be financed mainly by project grants. By keeping mandatory spending in check, any higher-than-expected domestic revenues or budget support in 2023 would be used to raise NDP-related spending.
- Deficit and Financing.** Based on conservative budget support estimates for 2023, an overall fiscal deficit of 0.5 percent of GDP is expected for 2023. The deficit is expected to be financed with previously accumulated cash balances¹¹

26. Acceleration of revenue reforms is crucial. Good progress is being made on several fronts:

- Customs modernization.** The ad-valorem tariff schedule was enacted in June 2022 and the customs regulations on valuations and declarations were issued in September 2022 (SB#1, met). The CAS is being piloted at the port and airport of Mogadishu. However, external financing for

¹¹ Remaining MoF SDRs are insufficient to finance the deficit.

the required technical support to roll out the CAS out to FMS ports (SB#2) was interrupted, delaying the project timeline and a new July 2023 deadline for the SB is proposed. This timeframe will also allow for the including in the CAS rollout a common valuation table across the FMS ports, in order to attain the goal of applying a single tariff schedule (HIPC CP trigger).

- **Spectrum fees.** In September, a spectrum fee schedule for telecom operators was approved by the NCA in agreement with the MoF (SB#3, implemented with delay). Revenue collection from the spectrum fee schedule is expected to be US\$6 million per year for the next 10 years.
- **POS machines.** The authorities are expected to operationalize POS machines at large taxpayers in telecom and tourism sectors (SB#4, end-March 2023). Although the expected revenue yield from this reform is uncertain—and therefore not yet incorporated in the baseline—this important measure is expected to start contributing to revenues in 2023.
- **Turnover tax.** To expand the tax net and promote a culture of tax compliance, the authorities will introduce turnover taxes with at least 2000 newly registered taxpayers who commence paying taxes by end-May 2023 (proposed SB#10).
- **Tax exemptions.** To strengthen control and transparency of tax exemptions, by March 2023, the authorities will comply with the requirements of the 2019 Public Financial Management Law to (i) notify the Cabinet and Auditor General within 7 days of granting a tax exemption; (ii) submit to Parliament quarterly tax exemption reports; and (iii) publish in the annual budget (Policy Framework Paper) a statement of tax exemptions (proposed SB#11).

27. Further strengthening of PFM, including on wage bill controls, is called for.

- **Payroll integration.** Bringing all compensation of permanent and temporary workers into the payroll will ensure greater control over the number of employees and their salary levels and increases. The authorities are to obtain Cabinet approval of the pay and grade policy and the roadmap to implement an integrated payroll that controls all compensation of employees of the FGS (SB#5, reset target date to end-December 2022). The extension of coverage of payroll to 50 percent of non-payroll compensation is underway and expected to be completed by May 2023 (SB#6). Full implementation of the pay and grade policy and preclusion of any compensation of employees outside of the payroll requires that the MoF have financial clearance authority to approve compensation of all FGS employees. Therefore, by end-October 2023, the authorities will (i) configure the SFMIS to allow only the MoF to change the payroll entries; (ii) obtain Cabinet approval of the 2024 Appropriation Bill including a provision specifying the MoF's authority over the financial clearance of compensation of all FGS employees (proposed SB#12).
- **Invoice tracking functionality in the SFMIS,** which allows the authorities to monitor outstanding and past-due invoices, is expected to be active by May 2023.
- **Procurement and concessions.** A circular on emergency procurement guidelines will be issued in early 2023 to better define emergency situations, set out permissible procurement methods for a given situation, and require use of standardized specifications and framework contracts

that would facilitate the procurement process while creating safeguards against wastage. A new PPP Law is under development to provide a framework that attracts private investment while adequately managing fiscal risks and controlling costs.

Article IV Discussion

28. After HIPC CP, fiscal policy needs to ensure fiscal sustainability. Domestic revenue should be raised to cover mandatory spending in the first instance and cover an expansion in public services and investment over time. Mandatory spending must remain in check, especially as budget grants phase out. As own resources expand, education, health, infrastructure, and social spending should increase in line with the NDP9 priorities. Once the HIPC CP opens access to financing, it is crucial that Somalia maintains a prudent fiscal deficit and only access concessional financing.

29. Achieving the authorities' ambitious longer-term revenue target of 15 percent of GDP will require concerted tax policy and administration reforms and sustained capacity building efforts. Measures supporting progress toward this target include:

- **Completion of the ad valorem customs reform.** Revenue collected at customs (customs duties, sales tax on imports, port fees) are expected to increase due to the efficiency gains from the introduction of ad-valorem tariffs and the improved data, processes, and systems at customs. It is expected that in early 2024, the authorities will begin application of ad valorem tariffs that rely on invoice values, using the common valuation table to provide minimum values for duty calculation. To raise revenues, the next step is to raise the minimum values for duty calculation by gradually adjusting the common valuation table to reflect market prices.
- **Introduction of a modern income tax system.** Enactment of the new Income Tax Law would streamline definitions of taxable income and deductions and is expected to increase income tax collection over the medium-term. Implementation of the law will also require preparing the tax administration for the new processes.
- **Improving tax and customs administration.** Other revenue measures include the issuance of the implementing regulations of the Revenue Management Law, development of the Integrated Tax Administration System (ITAS), and implementation of the new audit manual.

30. A medium-term priority is to align all FGS salaries with the pay scales defined in the pay and grade policy. A systematic review of Ministries, Departments and Agencies (MDAs) and independent commissions should be carried out in due course, as the needs for specific MDAs or sub-institutions may fade over time.

31. Strengthening fiscal transparency is needed to deepen intergovernmental fiscal relations in the medium-term. Greater FMS accountability and transparency will be needed as the FGS increases transfers to FMS, including regular reporting by Banaadir and the publication of audited FMS annual financial statements.

Authorities' Views

32. The authorities see a pressing need to build fiscal space for development expenditure, which requires enhancing domestic revenue, maintaining a prudent path for mandatory expenditure, and sustained external support. Near-term fiscal policy will continue to be guided by the IMF-supported program. The authorities are committed to implementing key revenue reforms that lay the groundwork for greater revenue collection and enhance transparency and accountability. Expenditure will need to increase over time as the government expands its delivery of services, and the development of strict expenditure controls will help to direct resources where they can be most productive. The authorities are also committed to ensuring fiscal sustainability after the HIPC CP, though expressed concern about the expected shift in the IDA financing from grants to concessional lending.

C. Monetary and Financial Policies

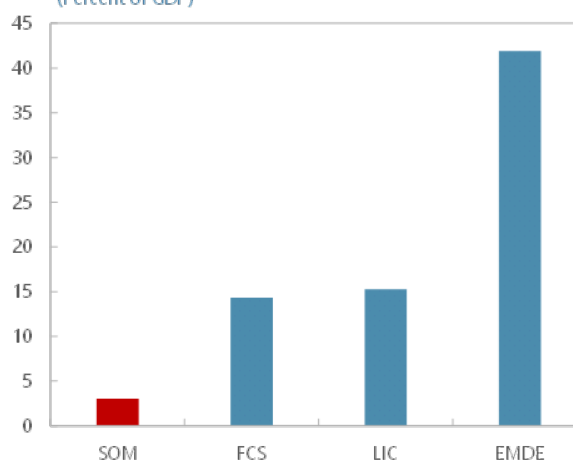
33. Financial intermediation remains limited. Credit represents only 4.2 percent of GDP, well below peer countries. Constraints include the limited formal sector and lack of financial infrastructures. In addition, the fragile nature of the existing correspondent banking relations because of ML/FT concerns constrains banks' ability to provide financial services.

34. The CBS is building its institutional capacity. The CBS was reestablished in 2009. Somalia is a de-facto dollarized economy. The CBS has not issued currency since 1991, and it does not conduct monetary or exchange rate policy.¹² On financial sector supervision, banks and money transfer businesses are subject to regular on- and off-site inspections and annual relicensing. In 2021 the CBS launched the licensing and regulation of mobile money operators. However, data quality is a serious concern, and the capacity of supervisors needs to be strengthened. Implementation of the CBS Strategic Plan is ongoing to transform the CBS from being primarily a fiscal agent for the government into a modern and policy-oriented central bank.

Program Discussion

35. The CBS has continued to strengthen its governance and legal frameworks, including through implementation of some of the outstanding IMF Safeguards recommendations. Modernization efforts are ongoing on organization, governance, accounting, auditing, and risk

Credit to the Private Sector, 2021
(Percent of GDP)



Source: WEO and IMF Staff estimates

Note: SOM Somalia; FCS Fragile and conflict-affected states; LIC Low-income countries; EMDE Emerging Market and Developing Economies

¹² Most transactions in Somalia are conducted in U.S. dollars and the use of mobile money is prevalent. Somalia shillings (mainly counterfeit notes) are used primarily by rural and internally displaced peoples with limited access to U.S. dollars, and to facilitate transactions in denominations less than one U.S. dollar.

management. Implementation of Safeguards recommendations is progressing, including the publication of the 2021 CBS audited financial statements in September 2022 (SB# 8, implemented with delay). Steps to update the policy on the selection and rotation of external auditors and to strengthen accounting operations and capacity are underway and are expected to be finalized soon.

36. The CBS should continue to strengthen financial sector regulation and supervision. The authorities are to issue the regulations on capital adequacy and the liquidity coverage requirement by September 2023 (proposed SB#13), to bring them in line with international standards.¹³ Strengthening supervisory capacity calls for additional resources and training, improvements in data quality, and strengthening capacity to enforce regulations. Risks that require close monitoring include concentrated exposure to the real estate and construction sector, related party transactions, and ML/FT. The presence of foreign banks has the potential to improve efficiency, market competition, and access to international markets, but requires close coordination with foreign country supervisors to perform effective supervision.

37. Continued efforts are needed to address AML/CFT deficiencies. The authorities should act promptly to ensure the enactment of the Targeted Financial Sanctions Law (SB#9). The National Strategic AML/CFT Action Plan is being developed, with support from the World Bank. The authorities should ensure that the Action Plan includes clear and concrete actions, explicitly designate the responsible agencies, and set clear and appropriate priorities with timeline. This will facilitate its implementation to address the weaknesses identified in the AML/CFT framework where possible ahead of the 2024 MENAFATF Mutual Evaluation. Additional training on AML/CFT issues is needed across all stakeholders.

Article IV Discussion

38. CBS should continue implementing the CBS Strategic Plan and the Financial Sector Reform Roadmap. Key actions include building capacity in systemic financial stability oversight, monetary and exchange policy and operation, and reserve and debt management. To ensure the integrity of the financial sector, existing regulations need to be enforced. Risk management of the financial institutions and quality of data reporting need to be improved.

39. Ongoing reforms should support financial deepening and financial inclusion. The Financial Institutions Bill, the Insurance Bill, and the National Payment Bill are to be submitted to Parliament. A National Switch to support the national payments system and the e-KYC system are being developed. Progress is also being made toward a new national digital ID to support enhanced KYC and financial intermediation and support targeted delivery of government services. In the pipeline are also the establishment of a credit bureau and collateral registration.

40. Currency reform remains a priority for the authorities and would support financial inclusion of marginalized groups. The introduction of new shilling notes will provide a more

¹³ The revised capital adequacy regulation will incorporate risk weightings of assets, and to some extent, the market risk and operational risk components of Basel II. The revised Liquidity Coverage Ratio (LCR) regulation will align with Basel III and clarify and simplify the computation of the LCR.

secure store of value and medium of exchange for those that need them to purchase necessities. It also has financial inclusion benefits for the most vulnerable in society who do not have dollar earnings nor access to mobile money. In parallel to addressing the operational and financial needs associated with the currency exchange project (with World Bank support), steps are needed to define medium-term monetary and exchange rate policy priorities and develop some basic monetary policy capacity. The authorities will also need to secure the assets required to backstop the new currency, including by mobilizing donor assistance. Even after new Somali shilling banknotes are issued, the Somali economy is expected to remain effectively dollarized for some time to come.

Authorities' Views

41. The CBS remains committed to steadily advancing on its different reform pillars. These include improving CBS capacity for core functions, developing the national payments system, modernizing the regulatory and legal framework, and developing the financial infrastructure to improve financial intermediation. To strengthen financial regulation and supervision, the CBS is onboarding new staff to the Licensing and Supervision Department, and a training plan has been developed. The CBS will also take steps to encourage the development of risk management and internal controls of financial institutions. The authorities expect the introduction of foreign banks to Somali market to bring multiple benefits, including providing new financial products and transferring knowledge and techniques.

42. Addressing AML/CFT remains a priority to support the establishment of formal correspondent banking relationships and support the flow of remittances into Somalia. The National Strategic AML/CFT Action Plan will be a key tool ahead of the FTAF evaluation.

43. The currency reform will follow a phased approach. Preparatory works are on-going for the resumption of the currency reform project, including the operational and financial needs. The CBS will seek support from development partners to build capacity in cash management, as well as in monetary and exchange policy operations. A plan to recapitalize the CBS is also needed to support its role as a modern central bank.

D. Inclusive Growth and Governance

44. Some progress has been made in NDP9 implementation, with the overarching objective of reducing poverty and promoting job creation. The NDP9 is organized around four pillars of inclusive politics, security and the rule of law, economic development, and social development. Building resilience to climate shocks is a cross-cutting theme. The 2020 progress report has been completed and a mid-term progress report for 2020-2022 is in train. Among the achievements so far are more external resources being channeled through the budget and the rollout and scaling up of the Baxnaano safety net program. In addition, the FGS and FMS are working jointly on enhancing human capital development by adopting a joint national health sector strategy and agreeing on their respective roles and responsibilities on school curricula and examinations (HIPC CP triggers).

45. Fisheries and petroleum are important resources that could be harnessed to promote inclusive growth and employment. Somalia has the longest coastline in Africa and rich fishing grounds. However, coastal fishing has remained artisanal while foreign commercial vessels have enjoyed legal and illegal harvesting offshore. Constraints include lack of adequate investment, poor infrastructure, and a weak institutional framework and governance. Somalia has potentially sizeable oil and gas reserves, though unproven. A new petroleum sector could contribute significantly to economic diversification, exports, and government coffers.

46. Somalia is a fragile state with significant capacity constraints that contribute to weak governance and corruption risks. Significant information gaps make it difficult to fully assess the governance conditions in Somalia. However, the National Anti-Corruption Strategy of Somalia acknowledges the ubiquity of corruption, and its threat to security, justice, and development. Further, third party indicators ([Worldwide Governance Indicators](#), [Transparency International Corruption Perception Index](#), [Verisk Maplecroft Corruption Index](#)) reflect the severity of the perceptions of corruption. Past reforms have improved governance practices and transparency across multiple dimensions, including on fiscal and financial sector governance, anti-corruption, market regulation, and AML/CFT (Annex II). Some progress has been made in implementing the action plan of the National Anticorruption Strategy. Sustained efforts are needed to promote good governance and reduce vulnerabilities to corruption.

Program Discussion

47. Additional progress on the HIPC CP triggers (CPT) has been made that support Somalia's path toward a more inclusive growth (Annex V). Establishment of a national social registry as a functional platform is a necessary building block for a comprehensive shock response safety net system. To ensure the functionality of the platform, the data protection legal and operational framework need to be in place, including a Data Protection Law and USR data protection operational guidelines. Enactment of the Electricity Act and issuance of supporting regulations will facilitate private sector investment in the energy sector. Other outstanding HIPC CP triggers include to adopt and apply a single import duty tariff schedule at all ports and enact the Extractive Industry Income Tax Law.

48. Progress has been made on the petroleum sector legal framework. The authorities are expected to revise the tender protocol in line with IMF recommendations (SB #7, reset target date to end-December 2022) and are drafting the Petroleum Law regulations. The Extractive Industry Income Tax Law (EIIT) needs to be enacted (CPT). In October 2022, several production sharing agreements based on direct negotiations were signed with a private firm that holds a seismic option agreement from 2013. Going forward, in view of the important work underway on the legal framework, any new production sharing agreements should be issued only after the EIIT is enacted and the Petroleum Act is operationalized.

49. Efforts are ongoing to bolster management of public assets. A government priority is to better control government lands and real estate, which are of a significant scale and have been prone to irregularities. By end-September 2023, the authorities are to (i) amend the PFM Regulations

to implement the PFM Act's provisions on public property and (ii) issue the asset management policy, in line with IMF recommendations, to provide a standard approach in government assets management, enhance transparency and accountability, and promote a prudent use of public lands and real estate (proposed SB#14).

50. The staffs of the IMF and IDA view achievement of the HIPC CP by late 2023 as feasible. Reforms are advancing on public financial management, domestic revenue mobilization, governance, social sectors, and statistics (Annex V). Timely achievement of the HIPC CP is backed by the authorities' strong ownership and track-record of reform implementation, and the continued support from development partners. It remains critical, however, that partners continue to provide the necessary financing and capacity development support.

Article IV Discussion

51. Improving the business environment will facilitate private investment and inclusive growth. Reaching the HIPC CP in a timely manner will have important confidence effects and facilitate new sources of financing to support NDP9 implementation. Further progress across all the NDP9 pillars is essential to meet the employment needs of a growing youth population, increase economic diversification, and ensure more inclusive growth. To foster the development of natural resources, including petroleum and fisheries, it will be important to attract private investment by providing well-designed legal, institutional, and governance frameworks, as well as ensuring coordination between the FGS and FMS on implementation.

52. Further efforts are needed to improve governance and fight corruption. Transparency and accountability promote greater trust in government—which is fundamental as the Somali state seeks to strengthen taxation, regulation, and other key functions. It is important to continue implementing the action plan of the National Anti-Corruption Strategy, review the existing laws to ensure the compliance with the United Nations Convention Against Corruption (UNCAC) and strengthen the resources of the Independent Anti-Corruption Commission (IACC).

Authorities' Views

53. The authorities are focused on reaching the HIPC CP and accelerating implementation of NDP9 priorities. They are concentrating efforts on implementing all outstanding HIPC CP triggers to reach the CP in 2023. The authorities underscored that implementation of the NDP9 requires building the government's domestic revenue and institutional capacity, having well-functioning and transparent macroeconomic frameworks, and achieving greater level of security. The authorities emphasized that own resources are insufficient in the near-term to address development needs and that external financing remains critical. In this regard, they are working with development partners to encourage greater channeling of aid flows through country systems to ensure their alignment with the priorities of the NDP9, enhance their visibility, and facilitate monitoring and evaluation.

E. Statistical Issues

54. While progress is being made on enhancing statistics, many gaps remain and continued CD support is needed. Recent progress includes the publication since 2020 of official estimates of annual GDP by expenditure and ongoing improvements in reporting of monthly fiscal data. Somalia also recently implemented the e-GDDS framework. The authorities will soon publish a new household survey, which will update the poverty rate, CPI weights, and GDP. A new census is expected in 2024, the first after 40 years. Nonetheless, too few data sources and poor quality of economic data remain significant obstacles to good policymaking. The authorities' Statistical Action Plan underpins further improvements in statistical capacity, including further work on GDP by expenditure, a production-based estimate of GDP, and a new national CPI. There is also scope to advance within the e-GDDS framework. To support economic management and governance, continued IMF CD support is needed to strengthen the compilation and dissemination of macroeconomic and financial statistics, including national accounts, consumer price index, government finance statistics, external sector statistics, and monetary and financial statistics.

PROGRAM FINANCING AND SAFEGUARDS

55. Performance criteria and structural benchmarks have been agreed through the end of the program. Indicative targets have been set for September and December 2023 (Table 10).¹⁴ In view of Somalia's fragility and weak institutional capacity, the proposed SBs are parsimonious, carefully prioritized and sequenced, and anchored in capacity development support (Table 12).

56. The program is fully financed, with firm commitments through December 2023 and good prospects thereafter. The second DPO from the World Bank is expected in 2023, as well as disbursements from the Somalia Recurrent Cost & Reform Financing Project (RCRF). These represent firm commitments to fully cover financing needs through December 2023. Strong support from international partners indicates good prospects for financing thereafter.

57. The debt sustainability assessment is unchanged from the last program review. Somalia is in debt distress, both for external and overall public debt. Nevertheless, Somalia's debt is assessed as sustainable in a forward-looking sense, contingent on the full delivery of debt relief under the HIPC Initiative, Multilateral Debt Relief Initiative (MDRI), and beyond-HIPC assistance at the Completion Point. Full delivery of this debt relief would bring all debt burden indicators significantly below their respective thresholds, consistent with achieving a moderate risk rating at the Completion Point. To maintain debt sustainability, any borrowing after the HIPC CP needs to be concessional.

58. Negotiations with creditors on external public debt restructuring are advancing. Debt relief agreements have been reached with almost all Paris Club members and the Kuwait Fund for Arab Economic Development, thereby covering 66 percent of Somalia's creditors. As the Paris Club

¹⁴ The test date for the 6th and last review is June 2023.

agreement is representative, based on the Paris Club’s comparability of treatment, principal arrears to non-Paris Club creditors can be deemed away under the Fund’s Lending into Arrears to Official Bilateral Creditors (LIOA) policy.

The IMF has received contributions to cover the estimated cost of the IMF’s share in debt relief to Somalia.¹⁵ As of October 2022, SDR 253.8 million have been received compared to the estimated total cost of SDR 252.9 million. Total commitments by 122 members and the European Union amount to about SDR 286.7 million. The Board approved the third interim assistance of SDR 0.68 million to cover the obligations due to the IMF during June 17, 2022 through June 16, 2023.¹⁶

59. Somalia’s capacity to repay the Fund remains adequate, albeit subject to risks.

Outstanding credit would reach 179 percent of quota in 2023 (equivalent to 4.6 percent of GDP and 213 percent of reserves) and total obligations to the Fund would peak at 43.8 percent of reserves in 2029 (Table 9). To mitigate debt servicing risks, fiscal policy needs to be anchored on ensuring debt sustainability and borrowing after HIPC Completion Point should rely on concessional sources.

60. Somalia will continue to need extensive CD support, financed by the Somalia Country Fund (SCF). Fundraising for SCF Phase II that support CD delivery through FY2024 has been insufficient, representing a risk to reform implementation.

61. Somalia avails itself of the transitional arrangements of Article XIV. While the Somali shilling is the official currency, the de facto currency is the U.S. dollar. No exchange restrictions or multiple currency practices have been identified since the last Article IV consultation. In due course, Somalia should consider initiating the necessary steps to formally accept its obligations under Article VIII.

STAFF APPRAISAL

62. Somalia finds itself being hit by multiple shocks that have led to an acute food crisis.

Support from the international community remains urgent to sustain the ongoing humanitarian response that is critical for millions of Somalis. Sustained efforts by the authorities are needed to reduce vulnerability to climate shocks and strengthen food security to prevent food crises in the future, with continued support from the international partners.

63. Despite the challenges, the new government reaffirmed its commitment to economic reforms and the HIPC process. Program performance has been strong, with all performance criteria met and firm implementation of structural reforms. All QPCs and ITs for end-June and

¹⁵ This estimated cost of debt relief is subject to possible revisions at the HIPC Completion Point based on updated debt and macroeconomic data at that time.

¹⁶ The first and the second tranches of interim HIPC assistance were approved on March 25, 2020, and March 25, 2021, in the amount of SDR 1.11 million for the period March 25, 2020–March 24, 2021, and SDR 0.68 million for the period March 25, 2021–March 24, 2022, respectively. In total, since March 2020, the Executive Board has approved for Somalia three tranches of interim HIPC assistance totaling to SDR 2.47 million (see Staff Report for the 2022 Article IV Consultation and Fourth Review Under the ECF Arrangement—Informational Annex).

end- September 2022 have been met. Three structural benchmarks were implemented to support stronger domestic revenues and reporting and transparency of the central bank. In view of capacity constraints, and technical progress to date, staff supports the authorities' request for new target dates for two structural benchmarks: (1) to finalize the tender protocol by end-December 2022 in order to incorporate additional revisions needed to align with best practices; and (2) to approve the pay and grade policy and road map to implement the integrated payroll by end-December 2022 to allow sufficient time for discussion with stakeholders.

64. The draft 2023 budget continues the authorities' fiscal efforts and is aligned with the ECF objectives. Domestic revenue will be supported by the implementation of the 2023 budget measures. While mandatory expenditure will remain contained, social spending is expected to increase financed by project grants. Expected liquidity needs in 2023 are expected to be met with recent and planned disbursements of budget support grants.

65. Acceleration of domestic revenue reforms is crucial to make room for development spending over time. Somalia has been actively building its tax capacity, but domestic resources remain insufficient to cover recurrent expenditure. In addition, there is heavy reliance on external grants that are expected to decline significantly after the HIPC CP. To strengthen revenues and improve transparency, continued progress is needed on customs modernization, implementation of a new income tax law, operationalization of POS machines, the introduction of the turnover tax, publication of tax exemptions, and improvement of revenue administration.

66. Public financial management should continue to be strengthened. The authorities are encouraged to implement the pay and grade policy and fully integrate all compensation of employees into the payroll. Prompt implementation of the invoice tracking functionality and emergency procurement guidelines will contribute to expenditure management. Fiscal reporting and accountability of both FGS and FMS should continue to be enhanced.

67. Beyond the HIPC CP, fiscal policy needs to ensure fiscal sustainability. Debt relief at the HIPC Completion Point will facilitate Somalia's access to new sources of financing, but at the same time there will be a shift from grants to concessional financing. Ensuring fiscal sustainability calls for raising domestic revenue to expand public services over time, maintaining a prudent fiscal deficit, and only accessing concessional financing.

68. Staff welcomes the ongoing reforms to promote financial deepening and financial inclusion. The CBS institutional framework is being strengthened, including through implementation of IMF Safeguards recommendations. Continued efforts are needed to bolster financial regulation and supervision capacity. Development of the national payments system and the currency reform will support financial deepening and financial inclusion. The monetary and exchange rate policy framework needs to be defined in the context of the currency reform. Continued efforts are needed to address ML/FT risks ahead of the MENA-FATF Mutual Evaluation Assessment in 2024, including enactment of the Targeted Financial Sanctions Law and progress on the National ML/FT Risk Assessment action plan with clear accountability and a prioritized timeline.

69. Sustained efforts are needed to promote inclusive job-rich growth, including steps to improve governance and fight corruption. Further progress across all the NDP9 pillars is necessary. Measures to improve governance include finalizing the legal framework for the extractive industries, better control of government lands and real estate, measurable progress on implementation of the NACS and the UNCAC, and more resources for the IACC.

70. The staffs of the IMF and IDA view achievement of the HIPC CP by late 2023 as feasible. Considerable progress has been made on the HIPC CP triggers and the remaining triggers are expected to be finalized in 2023. The authorities have made progress in reaching debt relief agreements with the majority of creditors. It is important that development partners sustain the financing, capacity development, and debt relief support to help Somalia attain the HIPC Completion Point in a timely manner.

71. Somalia continues to need extensive IMF CD support and financing for Somalia Country Fund is critical. Staff encourages Somalia's partners to accelerate their pledges to the SCF to ensure a continued smooth delivery of IMF TA to support the goals of the ECF and HIPC process.

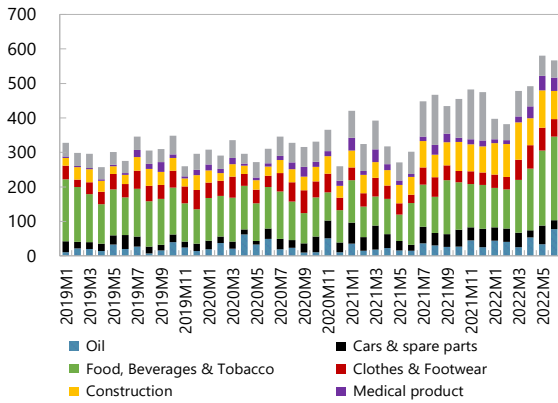
72. Risks are significant and reflect Somalia's drivers of fragility. Risks include prolonged drought and new climate shocks, additional pressures on international food and energy prices, delay in reaching the HIPC CP, and security risks. Risks to the program are mitigated by continued program ownership, capacity development, and sustained support from development partners.

73. Staff supports the completion of the fourth review and disbursement of SDR 7 million under the ECF arrangement. The authorities plan to use the disbursement to help strengthen the gross external reserves. The attached Letter of Intent and Memorandum of Economic and Financial Policies sets out the appropriate policies that meet the program objectives.

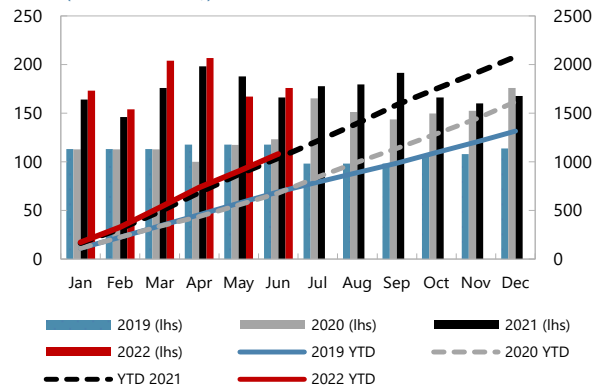
74. It is recommended that the next Article IV consultation with Somalia be held on a twenty-four-month cycle pursuant to Decision No. 14747-(10/96), as amended.

Figure 1. Somalia: High Frequency Indicators

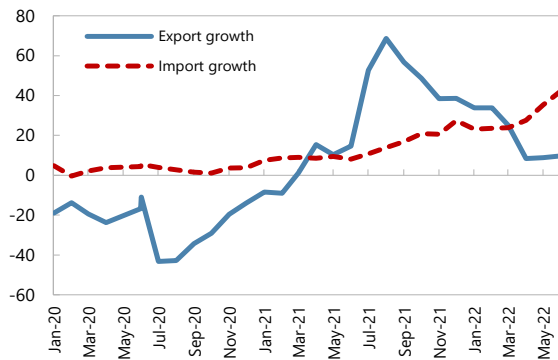
Import Categories
(Millions of US\$)



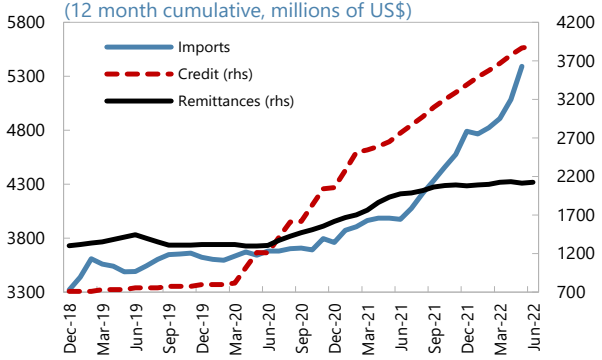
Remittance inflows (individuals)
(Millions of US\$)



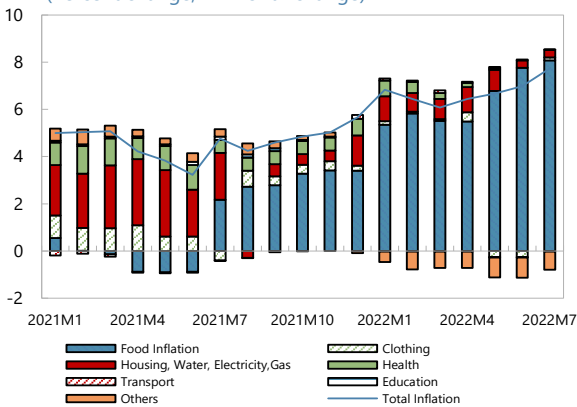
Export and Import Growth
(Percent change, 12 month cumulative change)



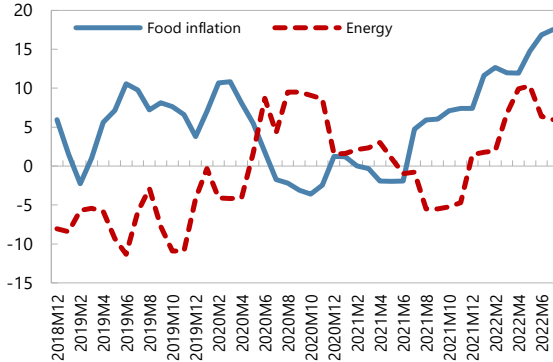
Credit, Imports of Goods and Services, Remittances
(12 month cumulative, millions of US\$)



Inflation
(Percent change, 12 month change)



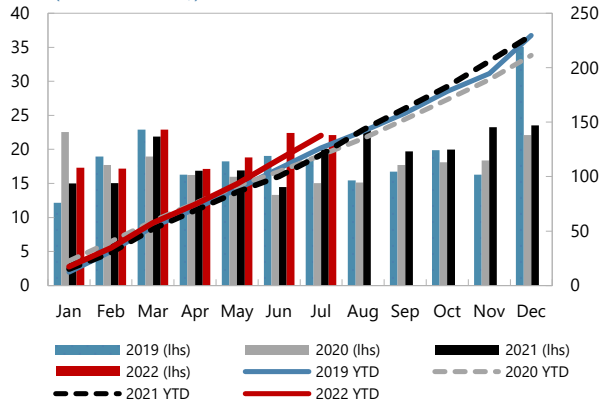
Food and Energy Inflation
(Percent change)



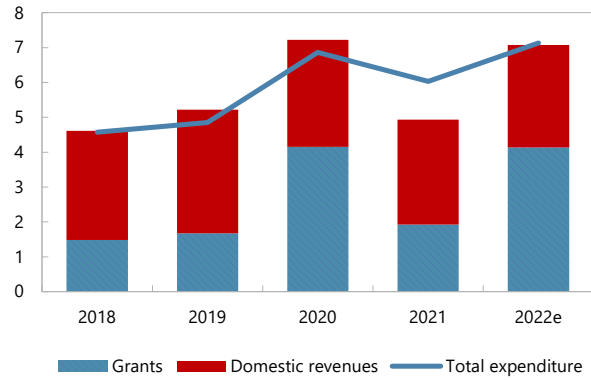
Source: Authorities' data and IMF Staff estimates

Figure 2. Somalia: Fiscal Indicators

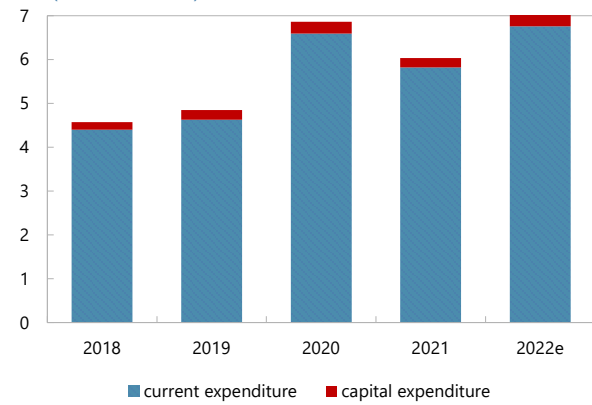
Domestic Revenues
(Millions of US\$)



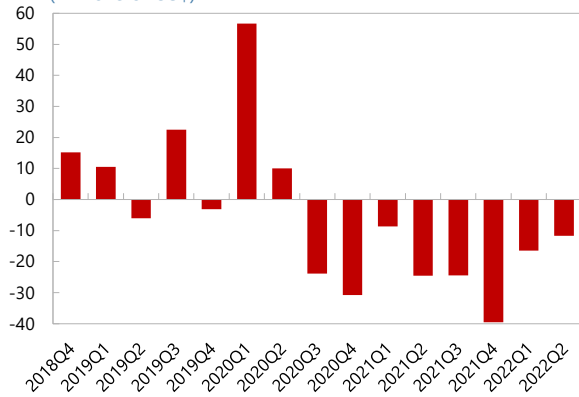
Revenue and Expenditure
(Percent of GDP)



Expenditure
(Percent of GDP)



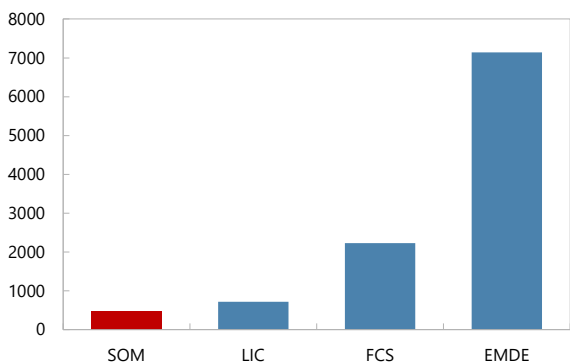
Overall Balance
(Millions of US\$)



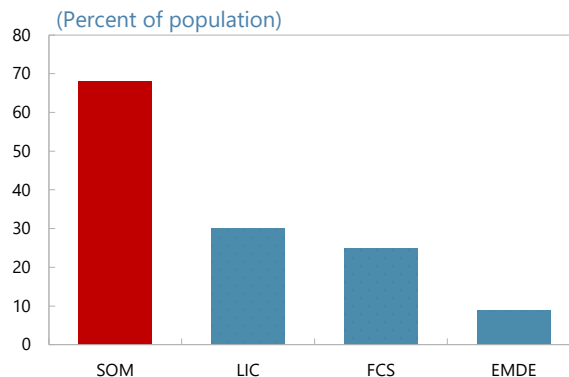
Source: Authorities' data and IMF Staff estimates

Figure 3a. Somalia: Social Indicators

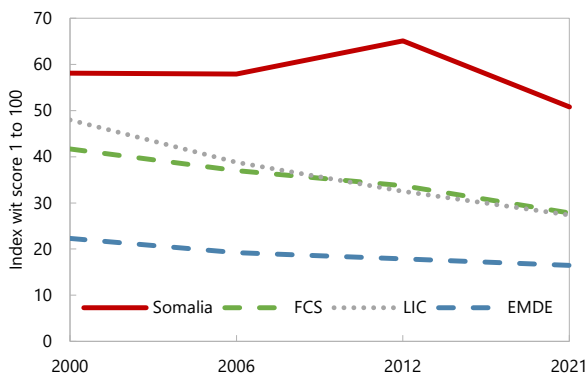
GDP per Capita, 2021
(USD)



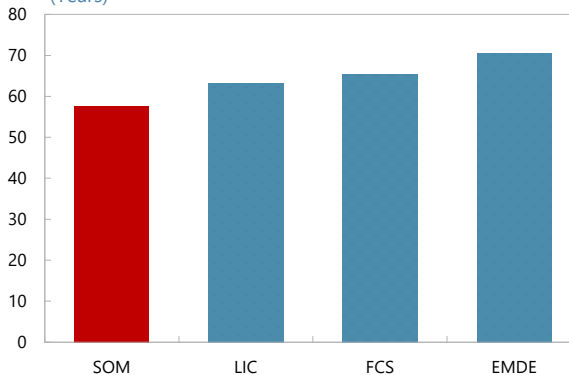
Poverty Rate at US\$1.90 (2011 PPP), 2018
(Percent of population)



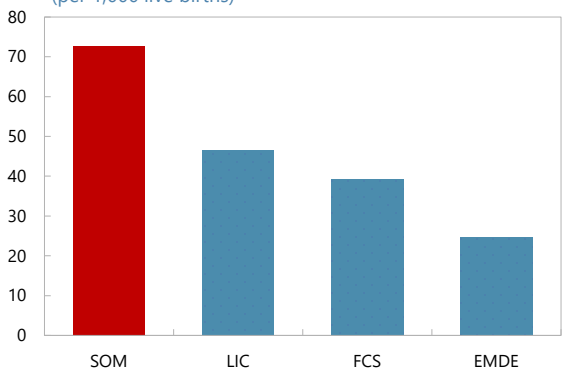
Global Hunger Index



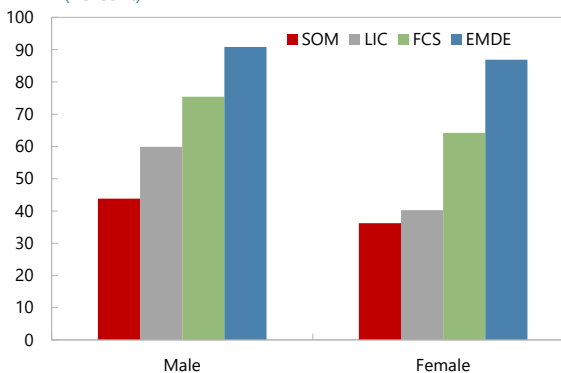
Life Expectancy in 2020
(Years)



Infant Mortality Rate in 2020
(per 1,000 live births)



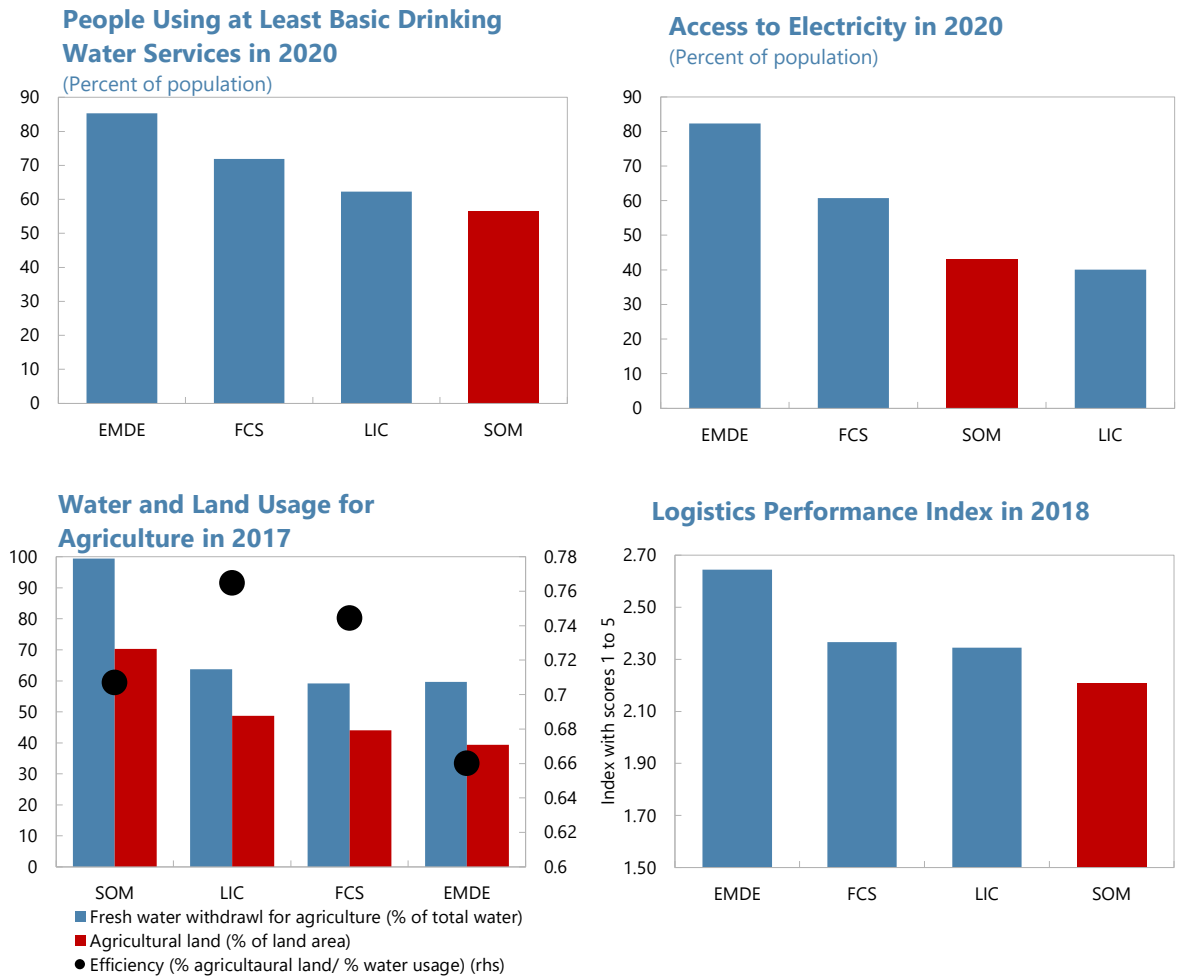
Adult Literacy Rate in 2016
(Percent)



Sources: WEO, IMF Staff estimates, World Bank Development Indicators, Global Hunger Index, UNFPA (2016), Educational Characteristics of the Somali People

Note: SOM Somalia; LIC Low Income Countries; FCS Fragile and conflict-affected states; EMDE Emerging markets and developing economies

Figure 3b. Somalia: Infrastructure and Vulnerability to Climate Shocks



Source: World Bank Development Indicators and IMF Staff estimates
 Note: SOM Somalia; LIC Low Income Countries; FCS Fragile and conflict-affected states; EMDE Emerging markets and developing economies

Table 1. Somalia: Selected Economic Indicators, 2019–2027

(Millions of U.S. Dollars)

	2019	2020	2021	2022		2023	2024	2025	2026	2027
	Est.	Est.	Est.	2 nd /3 rd ECF Review	Latest est.			Proj.		
National income and prices										
Nominal GDP in millions of U.S. dollars	6,485	6,883	7,628	8,202	8,414	9,009	9,806	10,687	11,633	12,659
Real GDP in millions of U.S. dollars	5,973	5,956	6,131	6,281	6,250	6,443	6,681	6,942	7,219	7,515
Real GDP, annual percentage change	2.7	-0.3	2.9	2.7	1.9	3.1	3.7	3.9	4.0	4.1
Real GDP per capita in U.S. dollars	416	403	404	402	400	401	405	409	414	420
CPI (period average, percent change)	4.5	4.3	4.6	8.5	9.0	3.9	4.0	3.6	3.3	3.2
CPI (e.o.p., percent change)	3.1	4.8	5.7	7.8	8.3	3.8	3.9	3.5	3.2	3.1
(Percent of GDP)										
Central government finances 1/										
Revenue and grants	5.2	7.2	4.9	6.7	6.7	6.8	4.0	4.4	4.8	5.1
<i>of which:</i>										
Tax	2.4	2.0	2.1	2.1	2.0	2.1	2.5	2.8	3.1	3.4
Grants 2/	1.7	4.2	1.9	3.6	3.8	3.7	0.5	0.5	0.5	0.4
Expenditure (FGS)	4.8	6.9	6.0	7.0	6.8	7.2	5.9	6.1	6.3	6.5
Compensation of employees 3/	2.5	3.3	3.3	3.2	3.1	3.0	2.8	2.9	3.0	3.1
Purchase of non-financial assets	0.2	0.3	0.2	0.3	0.1	0.2	0.4	0.5	0.6	0.7
Overall balance	0.4	0.4	-1.1	-0.3	-0.1	-0.5	-1.9	-1.7	-1.5	-1.4
Net change in the stock of cash	0.4	0.2	-0.3	0.1	0.4	-0.6	0.0	0.0	0.0	0.0
Stock of domestic arrears	1.0	1.0	0.9	0.8	0.8	0.8	0.7	0.6	0.6	0.5
Public debt 4/, 5/	82.9	57.8	45.9	43.8	42.5	7.3	9.7	10.5	11.1	11.5
(Percent of GDP)										
Monetary Sector										
Net Foreign Assets	1.9	-2.8	-3.2	-4.3	-3.7	0.3	0.1	0.2	0.2	0.2
Central Bank claims on non-residents 6/	2.3	2.8	2.9	3.3	3.6	3.4	2.8	2.6	2.4	2.1
Net Domestic Assets	6.2	14.0	14.8	14.3	13.9	10.0	10.7	11.4	12.5	13.2
Credit to the private Sector	3.2	3.2	3.5	3.9	4.0	4.6	5.5	6.7	8.3	9.8
Broad Money 7/	8.1	11.3	11.6	10.0	10.2	10.4	10.8	11.5	12.7	13.4
Net Foreign Assets (Program Definition, in millions of U.S. dollars)	25	80	175	...	...	...	...	...	...	...
(Percent of GDP)										
Balance of payments										
Current account balance	-10.4	-10.8	-17.1	-14.3	-15.9	-13.6	-14.8	-15.3	-15.1	-15.0
Trade balance	-63.5	-64.1	-70.9	-71.0	-70.3	-69.3	-68.7	-68.7	-68.6	-68.5
Exports of goods and services	17.3	14.1	17.2	16.9	16.7	16.8	16.8	16.9	17.0	17.0
Imports of goods and services	80.8	78.2	88.0	87.9	87.1	86.1	85.6	85.6	85.5	85.5
Remittances	24.3	23.5	27.3	29.1	27.3	27.8	28.0	28.0	28.0	28.0
Grants	29.4	30.3	27.0	28.2	27.7	28.5	26.3	25.9	25.9	25.9
Foreign Direct Investment	6.9	7.8	8.0	7.8	7.8	7.8	7.8	7.8	8.0	8.0
External debt 8/	81.9	57.2	45.3	42.3	41.2	6.4	9.1	10.0	10.6	11.1

Sources: Somali authorities; and IMF 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/ A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress. Lower grants would result in deficits of 1.5 to 2.0 percent of GDP, higher than the ones projected under the alternative before this policy change. The difference with previous deficit projections would dissipate over time as the previous deficit projections already incorporated a gradual shift away from grants to loans.

3/ The increase in compensation of employees in 2020 reflects a reallocation of allowances from G&S to compensation in the context of Somali National Army reform.

4/ Assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDRI and "beyond-HIPC" relief at Completion Point in 2023.

5/ Public debt includes arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt.

Consistent with the public debt definition in the DSA. It includes net SDR position of the FGS.

6/ Includes FGS grants held abroad.

7/ Primarily deposits at commercial banks. Data before 2020 does not yet include balances held with MMOs.

8/ Consistent with the DSA external debt definition, which reflects the external debt of the country as a whole. Includes the total net SDR position of the central bank. This differs from public external debt reported in Tables 2A, 2B, and 10.

Table 2a. Somalia: Federal Government Operations, 2019–2027 1/
(In millions of U.S. dollars)

	2019	2020	2021	2022		2023		2024	2025	2026	2027	
	Est.	Est.	Est.	Budget	2 nd /3 rd ECF Review	Latest est.	Draft Budget	Latest est.	Proj.			
Revenue and grants	338.3	496.9	376.5	941.7	546.3	563.8	929.1	610.1	392.1	471.4	555.0	643.6
Revenue	229.7	211.2	229.6	247.0	247.0	248.1	276.3	276.3	342.1	419.8	501.8	588.7
Tax revenue	154.8	139.5	162.8	173.7	173.7	168.1	187.9	187.9	240.5	302.6	366.3	432.1
Tax on income, profit, and capital gains	11.7	16.2	15.8	15.8	15.8	15.8	18.6	18.6	30.6	44.8	57.9	70.1
Taxes on goods and services	25.0	21.3	23.4	30.8	30.8	24.5	31.1	31.1	51.1	74.8	96.8	117.3
Taxes on international trade and transactions	107.0	91.1	109.0	111.3	111.3	114.3	123.2	123.2	141.6	163.3	188.7	218.2
Other taxes	11.1	11.0	14.6	15.9	15.9	13.6	14.9	14.9	17.2	19.8	22.9	26.5
Non-tax revenue	74.9	71.7	66.8	73.3	73.3	79.9	88.4	88.4	101.6	117.2	135.4	156.6
Grants 2/	108.6	285.7	147.0	694.8	299.3	315.8	652.8	333.8	50.0	51.6	53.2	54.9
Bilateral	36.4	15.0	2.5	39.6	0.0	37.1	30.0	0.0	0.0	0.0	0.0	0.0
Multilateral	72.2	270.7	144.5	655.2	299.3	278.7	622.8	333.8	50.0	51.6	53.2	54.9
of which projects	18.0	132.3	108.6	485.5	164.6	134.9	493.8	225.5	...	...	...	...
Total expenditure 3/	314.5	472.2	460.2	918.7	572.3	569.3	913.6	652.0	582.2	652.6	728.5	821.0
Current	300.3	453.6	444.1	873.3	548.6	556.9	845.6	634.8	544.4	598.7	657.3	726.9
Compensation of employees 4/	162.3	227.0	250.1	262.0	260.8	259.6	272.5	272.5	276.0	312.1	350.5	397.5
Use of goods and services	92.7	80.3	106.1	209.6	118.0	118.4	192.5	140.9	134.2	140.0	155.7	169.7
Interest and other charges	0.0	1.8	0.9	2.5	0.9	0.8	5.8	7.9	18.4	18.8	18.6	18.6
Subsidies	0.0	2.2	1.3	7.5	3.1	2.4	9.0	3.7	3.8	4.2	4.8	5.4
Transfers to sub-national governments & Banadir Region	43.5	78.9	43.6	120.1	81.5	101.3	83.2	87.6	21.2	24.5	28.3	32.7
Social benefits	0.0	62.1	39.9	269.1	80.3	73.1	280.1	118.1	87.0	95.0	95.0	98.0
Other expenses	0.7	1.4	2.3	0.0	1.6	1.4	0.0	1.6	1.5	1.6	1.8	1.9
Contingency	0.4	0.0	0.0	2.5	2.5	0.0	2.5	2.5	2.4	2.5	2.8	3.0
Purchase of non-financial assets	14.1	18.6	16.1	45.3	23.6	12.4	68.0	17.2	37.8	53.9	71.2	94.1
Overall fiscal balance	23.9	24.7	-83.7	23.1	-26.0	-5.5	15.6	-41.9	-190.1	-181.2	-173.5	-177.4
Net cash inflow from financing activities	-0.5	-12.7	60.7	-15.0	38.0	35.4	-12.2	-9.9	190.1	181.2	173.5	177.4
Net accumulation of domestic debt	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New domestic debt (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears and advances (-)	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net accumulation of external debt	0.0	-12.7	60.7	-15.0	38.0	32.2	-12.2	-9.9	190.1	181.2	173.5	177.4
New external borrowing (+)	0.0	0.0	74.4	0.0	50.6	44.6	0.0	0.0	202.6	194.4	189.2	195.2
Amortization of external debt (-)	0.0	-12.7	-13.7	-15.0	-12.7	-12.4	-12.2	-9.9	-8.0	-9.6	-12.9	-14.9
Reconstitution of SDR (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.5	-3.6	-2.8	-2.8
Disposal of assets	0.0	0.0	0.0	0.0	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0
Net change in the stock of cash	23.3	12.0	-22.9	8.1	12.0	29.9	3.4	-51.8	0.0	0.0	0.0	0.0
Memorandum items												
Public debt 5/	5,379	3,980	3,499	...	3,596	3,576	...	655	951	1,124	1,287	1,454
of which external public debt 6/	5,311	3,912	3,431	...	3,468	3,468	...	575	889	1,066	1,232	1,402
Accumulation of domestic arrears 7/	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/	67.8	67.8	67.8	...	67.8	67.8	...	67.8	67.8	67.8	67.8	67.8
Stock of SDR allocations 8/	0.0	0.0	130.0	...	130.0	130.0	...	130.0	130.0	130.0	130.0	130.0
Stock of SDR holdings 8/	0.0	0.0	55.6	...	5.0	9.0	...	9.0	9.0	9.0	9.0	9.0
Stock of cash and other balances 9/	48.8	66.7	43.2	...	55.2	73.1	...	21.4	21.4	21.4	21.4	21.4
Budget grants	90.6	153.4	38.4	209.3	134.7	180.9	159.0	108.3	...	...	...	...
Project grants	18.0	132.3	108.6	485.5	164.6	134.9	493.8	225.5	...	...	...	...

Sources: Somali authorities; and IMF 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. A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress.

3/ Advances and transfers to Ministries, Departments and Agencies (MDAs), and grants to other organizations not expensed are not included.

4/ The increase in 2020 reflects a reallocation of allowances from goods and services to compensation of employees in the context of Somalia National Army reform.

5/ Debt stock reported herein assumes debt relief through the HIPC Initiative, MDRI, and beyond HIPC at Completion Point, which is assumed for 2023 (consistent with DSA's alternative scenario).

6/ Consistent with the public debt definition in the DSA. It includes net SDR position of the FGS.

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

8/ The authorities decided to distribute the 2021 SDR Allocation by the IMF on August 23, 2021 for SDR156.6 million (about US\$ 222.13 million) between the CBS (about US\$ 90 million) and the FGS (about US\$132 million).

9/ The figure includes all cash balances, including fiscal buffer and projects.

Table 2b. Somalia: Federal Government Operations, 2019–2027 1/
(In percent of GDP)

	2019	2020	2021	2022			2023		2024	2025	2026	2027
	Est.	Est.	Est.	Budget	2 nd /3 rd ECF Review	Latest est.	Draft Budget	Latest est.	Proj.			
Revenue and grants	5.2	7.2	4.9	11.2	6.7	6.7	10.3	6.8	4.0	4.4	4.8	5.1
Revenue	3.5	3.1	3.0	2.9	3.0	2.9	3.1	3.1	3.5	3.9	4.3	4.7
Tax revenue	2.4	2.0	2.1	2.1	2.1	2.0	2.1	2.1	2.5	2.8	3.1	3.4
Tax on income, profit, and capital gains	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.5	0.6
Taxes on goods and services	0.4	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.5	0.7	0.8	0.9
Taxes on international trade and transactions	1.7	1.3	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.5	1.6	1.7
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-tax revenue	1.2	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1	1.2	1.2
Grants 2/	1.7	4.2	1.9	8.3	3.6	3.8	7.2	3.7	0.5	0.5	0.5	0.4
Bilateral	0.6	0.2	0.0	0.5	0.0	0.4	0.3	0.0	0.0	0.0	0.0	0.0
Multilateral	1.1	3.9	1.9	7.8	3.6	3.3	6.9	3.7	0.5	0.5	0.5	0.4
Total expenditure 3/	4.8	6.9	6.0	10.9	7.0	6.8	10.1	7.2	5.9	6.1	6.3	6.5
Current	4.6	6.6	5.8	10.4	6.7	6.6	9.4	7.0	5.6	5.6	5.7	5.7
Compensation of employees 4/	2.5	3.3	3.3	3.1	3.2	3.1	3.0	3.0	2.8	2.9	3.0	3.1
Use of goods and services	1.4	1.2	1.4	2.5	1.4	1.4	2.1	1.6	1.4	1.3	1.3	1.3
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.1
Subsidies	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	0.7	1.1	0.6	1.4	1.0	1.2	0.9	1.0	0.2	0.2	0.2	0.3
Social benefits	0.0	0.9	0.5	3.2	1.0	0.9	3.1	1.3	0.9	0.9	0.8	0.8
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of non-financial assets	0.2	0.3	0.2	0.5	0.3	0.1	0.8	0.2	0.4	0.5	0.6	0.7
Overall fiscal balance	0.4	0.4	-1.1	0.3	-0.3	-0.1	0.2	-0.5	-1.9	-1.7	-1.5	-1.4
Net cash inflow from financing activities	0.0	-0.2	0.8	-0.2	0.5	0.4	-0.1	-0.1	1.9	1.7	1.5	1.4
Net accumulation of domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New domestic debt (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net accumulation of external debt	0.0	-0.2	0.8	-0.2	0.5	0.4	-0.1	-0.1	1.9	1.7	1.5	1.4
New external borrowing (+)	0.0	0.0	1.0	0.0	0.6	0.5	0.0	0.0	2.1	1.8	1.6	1.5
Amortization of external debt (-)	0.0	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Reconstitution of SDR (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposal of assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in the stock of cash	0.4	0.2	-0.3	0.1	0.1	0.4	0.0	-0.6	0.0	0.0	0.0	0.0
Memorandum items												
Public debt 5/	82.9	57.8	45.9	...	43.8	42.5	...	7.3	9.7	10.5	11.1	11.5
<i>of which external public debt 6/</i>	81.9	56.8	45.0	...	42.3	41.2	...	6.4	9.1	10.0	10.6	11.1
Accumulation of domestic arrears 7/	0.0	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears 7/	1.0	1.0	0.9	...	0.8	0.8	...	0.8	0.7	0.6	0.6	0.5
Stock of SDR allocations 8/	0.0	0.0	1.7	...	1.6	1.5	...	1.4	1.3	1.2	1.1	1.0
Stock of SDR holdings 8/	0.0	0.0	0.7	...	0.1	0.1	...	0.1	0.1	0.1	0.1	0.1
Stock of cash and other balances 9/	0.8	1.0	0.6	...	0.7	0.9	...	0.2	0.2	0.2	0.2	0.2
Budget grants	1.4	2.2	0.5	2.5	1.6	2.1	1.8	1.2	...	...	...	...
Project grants	0.3	1.9	1.4	5.8	2.0	1.6	5.5	2.5	...	...	...	...

Sources: Somali authorities; and IMF 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. A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress.

3/ Advances and transfers to Ministries, Departments and Agencies (MDAs), and grants to other organizations not expensed are not included.

4/ The increase in 2020 reflects a reallocation of allowances from goods and services to compensation of employees in the context of Somalia National Army reform.

5/ Public debt stock reported herein assumes debt relief through the HIPC Initiative, MDRI, and beyond HIPC at Completion Point, which is assumed for 2023 (consistent with DSA's alternative scenario).

6/ Consistent with the public debt definition in the DSA. It includes net SDR position of the FGS.

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

8/ The authorities decided to distribute the 2021 SDR Allocation by the IMF on August 23, 2021 for SDR156.6 million (about US\$ 222.13 million) between the CBS (about US\$ 90 million) and the FGS (about US\$ 132 million).

9/ The figure includes all cash balances, including fiscal buffer and projects.

Table 2c. Somalia: General Government Operations, 2019-2022 Q2 1/

(In millions of U.S. dollars)

	2019	2020	2021				2022		
	Total	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
Revenue and grants	508.2	645.0	108.3	138.3	124.0	146.5	517.1	118.3	202.8
Revenue	323.7	301.9	77.6	75.3	89.2	96.3	338.4	87.8	87.8
Tax revenue	250.9	216.8	59.0	54.0	66.7	68.1	247.8	65.5	63.7
Tax on income, profit, and capital gains	12.3	12.7	2.9	3.4	3.8	4.8	14.9	4.2	4.3
Taxes on payroll and workforce 2/	0.0	9.7	1.7	2.1	2.5	2.3	8.7	2.2	2.3
Taxes on property 2/	0.0	0.7	0.2	0.1	0.1	0.2	0.6	0.2	0.1
Taxes on goods and services	69.1	53.7	13.7	12.9	17.1	17.1	60.8	13.6	12.6
Taxes on international trade and transactions	156.4	139.9	39.8	34.7	42.6	42.9	160.1	41.8	39.8
Other taxes	6.1	0.0	0.7	0.7	0.4	0.7	2.6	3.5	4.5
Non-tax revenue	128.9	85.1	18.6	21.3	22.5	28.2	90.6	22.3	24.1
Grants	184.5	343.1	30.7	63.0	34.8	50.2	178.7	30.5	115.0
Transfer from FGS 3/	11.8	48.9	4.6	3.3	6.7	10.9	25.6	7.2	10.9
Bilateral	37.4	15.3	0.0	0.0	0.0	2.7	2.7	0.0	29.6
Multilateral	135.3	278.9	26.2	59.6	28.1	36.6	150.5	23.4	74.5
Total expenditure 4/	458.1	618.7	120.2	164.9	149.7	189.4	624.3	133.7	215.6
Current	434.4	597.0	115.9	157.6	142.2	179.5	595.1	128.1	205.9
Compensation of employees	251.1	303.0	74.9	80.3	87.6	90.5	333.3	83.7	87.2
Use of goods and services	125.8	118.5	25.2	33.3	33.6	61.2	153.2	28.7	39.5
Interest and other charges	0.0	14.4	4.2	2.7	2.3	5.4	14.6	1.6	4.8
Subsidies	0.0	2.2	0.1	0.9	0.2	0.0	1.3	0.1	1.0
Transfers to sub-national governments & Banadir Region	55.5	84.5	9.4	7.4	14.0	13.3	44.1	12.1	27.3
Social benefits	1.0	63.7	0.4	31.7	2.8	6.6	41.5	0.4	45.3
Other expenses	0.0	10.7	1.6	1.3	1.7	2.4	7.0	1.3	0.8
Contingency	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of non-financial assets	23.6	21.7	4.4	7.3	7.5	9.9	29.2	5.6	9.7
Overall fiscal balance	50.1	26.2	-11.9	-26.7	-25.7	-42.8	-107.2	-15.4	-12.8

Sources: Somali authorities; and IMF Staff estimates.

1/ Unconsolidated basis. Aggregates the fiscal accounts of the Federal Government of Somalia, Puntland, Galmudug, Hirshabelle, South West, and Jubaland. The numbers are based on preliminary reports from FMS and are subject to revision. The fiscal operations are recorded on a cash basis.

2/ Reporting on these categories commenced in 2020 reporting.

3/ Transfer from FGS to Banadir region is not included.

4/ Advances and transfers to MDAs are not included.

Table 2d. Somalia: General Government Operations, 2019-2022 Q2 1/
(In percent of GDP)

	2019		2020		2021				2022	
	Total	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	
Revenue and grants	7.8	9.4	1.4	1.8	1.6	1.9	6.8	1.4	2.3	
Revenue	5.0	4.4	1.0	1.0	1.2	1.3	4.4	1.0	1.0	
Tax revenue	3.9	3.1	0.8	0.7	0.9	0.9	3.2	0.8	0.7	
Tax on income, profit, and capital gains	0.2	0.2	0.0	0.0	0.1	0.1	0.2	0.1	0.0	
Taxes on payroll and workforce 2/	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	
Taxes on property 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Taxes on goods and services	1.1	0.8	0.2	0.2	0.2	0.2	0.8	0.2	0.1	
Taxes on international trade and transactions	2.4	2.0	0.5	0.5	0.6	0.6	2.1	0.5	0.4	
Other taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	
Non-tax revenue	2.0	1.2	0.2	0.3	0.3	0.4	1.2	0.3	0.3	
Grants 3/	2.8	5.0	0.4	0.8	0.5	0.7	2.3	0.4	1.3	
Transfer from FGS	0.2	0.7	0.1	0.0	0.1	0.1	0.3	0.1	0.1	
Bilateral	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.3	
Multilateral	2.1	4.1	0.3	0.8	0.4	0.5	2.0	0.3	0.8	
Total expenditure 4/	7.1	9.0	1.6	2.2	2.0	2.5	8.2	1.6	2.4	
Current	6.7	8.7	1.5	2.1	1.9	2.4	7.8	1.5	2.3	
Compensation of employees	3.9	4.4	1.0	1.1	1.1	1.2	4.4	1.0	1.0	
Use of goods and services	1.9	1.7	0.3	0.4	0.4	0.8	2.0	0.3	0.4	
Interest and other charges	0.0	0.2	0.1	0.0	0.0	0.1	0.2	0.0	0.1	
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Transfers to sub-national governments & Banadir Region	0.9	1.2	0.1	0.1	0.2	0.2	0.6	0.1	0.3	
Social benefits	0.0	0.9	0.0	0.4	0.0	0.1	0.5	0.0	0.5	
Other expenses	0.0	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.0	
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Purchase of non-financial assets	0.4	0.3	0.1	0.1	0.1	0.1	0.4	0.1	0.1	
Overall fiscal balance	0.8	0.4	-0.2	-0.3	-0.3	-0.6	-1.4	-0.2	-0.1	

Sources: Somali authorities; and IMF Staff estimates.

1/ Unconsolidated basis. Aggregates the fiscal accounts of the Federal Government of Somalia, Puntland, Galmudug, Hirshabelle, South West, and Jubaland. The numbers are based on preliminary reports from FMS and are subject to revision. The fiscal operations are recorded on a cash basis.

2/ Reporting on these categories commenced in 2020 reporting.

3/ Transfer from FGS to Banadir region is not included.

4/ Advances and transfers to MDAs are not included.

Table 3. Somalia: Summary Accounts of the Central Bank, 2019–June 2022
(In millions of U.S. dollars)

	2019				2020				2021				2022	
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	June
Net Foreign Assets	61	51	76	82	(204)	(183)	(220)	(250)	(251)	(285)	(183)	(183)	(291)	(281)
Foreign assets	125	116	140	146	207	231	204	193	186	154	388	381	359	389
SDR holdings 1/	25	25	24	24	39	39	40	51	51	40	201	200	164	183
Gold 2/	21	21	21	21	25	25	25	25	31	31	31	31	30	30
Foreign exchange	37	34	60	69	101	110	86	77	88	67	110	110	110	110
of which:							Est.							
Grants	32	29	55	64	95	103	79	52	64	42	103	103	103	103
Other foreign assets	2	2	2	2	2	2	2	-	-	-	-	8	23	-
Cash (US\$) held locally	43	37	34	32	42	57	53	40	16	17	46	40	56	67
Foreign liabilities	65	65	63	64	411	414	424	444	437	439	655	650	650	670
IMF obligations	-	-	-	-	342	345	352	371	365	367	363	360	360	380
SDR allocations	65	65	63	64	69	70	71	73	72	72	292	290	290	290
Net Domestic Assets	14	(0)	(5)	(10)	282	260	298	409	417	450	413	409	401	424
Domestic assets	84	85	85	85	417	422	431	525	519	533	501	498	534	534
of which:														
Claims on government 3/	40	40	39	40	372	375	383	392	386	400	454	451	487	487
Domestic liabilities	70	86	90	95	135	161	133	116	102	82	88	89	133	110
Government	46	63	66	68	114	125	101	73	72	49	45	54	90	61
of which:														
Grants	32	29	55	64	95	103	79	52	64	42	103	103	103	103
Other domestic liabilities	24	22	24	26	20	36	32	42	30	33	43	34	41	46
Commercial bank reserves 4/	14	14	14	14	17	17	18	20	20	20	20	20	20	20
Other commercial bank deposits	8	7	8	11	3	17	11	18	8	10	21	12	19	24
Other demand deposits at the CBS	1	0	1	0	0	1	1	1	1	0	0	0	0	0
Microfinance grant	-	-	-	-	-	1	1	3	2	2	1	1	1	1
MTB deposits	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Other demand deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity and reserves	75	51	71	72	78	77	78	159	166	165	230	226	110	144
of which:														
Property and equipment 5/	44	45	45	45	45	45	46	129	130	130	45	45	45	45
Memorandum items:														
NFA (program definition) 6/	25	25	25	25	71	71	71	80	86	76	175	175	173	192

Sources: Central Bank of Somalia (CBS); and IMF Staff estimates and projections.

1/ The authorities decided to distribute the 2021 SDR Allocation by the IMF on August 23, 2021 for the SDR 156.6 million (about US\$ 222.13 million) between the CBS (about US\$ 90 million) and the FGS (about US\$ 133 million).

2/ Gold price as defined in the Technical Memorandum of Understanding (TMU).

3/ Corresponds to a claim on the FGS Ministry of Finance composed of (1) the IMF obligations prior to 2020, and (2) the net negative SDR position prior to 2020.

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

5/ Including revaluation reserves.

6/ Program definition per TMU.

Table 4. Somalia: Consolidated Commercial Banks Balance Sheet, 2019–June 2022

(In millions of U.S. dollars)

	2019	2020				2021			2022	
	Dec.	Mar.	Jun.	Sep.	Dec. Est.	Mar.	Jun.	Dec.	Mar.	June
Total assets	556	563	573	604	821	841	956	1,262	1,264	1,275
Cash on Hand	117	132	121	150	285	311	329	553	516	535
Balances with Central Bank	18	15	30	22	29	23	26	28	36	43
Deposits with other banks 1/	79	53	53	73	104	99	124	122	118	91
Credit to private sector	206	215	193	202	219	246	304	319	338	327
Investment 2/	60	60	58	51	61	60	62	86	90	140
Other Assets 3/	77	88	118	105	123	102	112	155	168	138
Total liabilities	459	455	463	482	704	707	767	975	1,035	1,114
Customer Deposits 4/	430	413	425	440	659	657	715	900	951	1,019
Financing Liabilities	2	2	3	3	3	3	3	3	4	0
Other Liabilities	27	34	21	29	32	36	40	57	66	75
Equity	97	108	110	122	117	134	189	288	229	161
Memorandum items:										
Credit to private sector										
share of total assets (percent)	37	38	34	33	27	29	32	25	27	26
share of GDP (percent)	4	4	3	3	4	4	5	5	6	6
y-o-y changes (percent)	12	9	-3	4	7	14	57	46	37	8
Total capital to assets (percent)	16	18	18	15	12	10	9	14	14	14
Loan to deposits (percent)	48	52	45	46	33	37	43	35	35	32
Liquid assets to total assets (percent)	32	30	30	35	45	46	46	54	53	53

Sources: Central Bank of Somalia; and IMF Staff estimates and projections.

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

2/ Primarily investment in real estate.

3/ Fixed, intangible and other assets.

4/ Starting from December 2020, include deposits of mobile money operators.

Table 5. Somalia: Monetary Survey 2019–2027
(In millions of U.S. dollars)

	2019	2020	2021	2022		2023	2024	2025	2026	2027
		Est.		2 nd /3 rd ECF Review	Latest est.			Proj.		
Net foreign assets 1/	124	-190	-243	-349	-310	31	9	17	28	29
Claims on nonresidents	188	237	420	334	373	379	358	365	373	368
Central Bank 2/	148	179	357	267	303	304	276	276	276	271
of which gross reserves of the CBS	51	70	248	158	193	193	193	193	193	193
Other Depository Corporations	40	57	63	67	70	75	82	89	97	97
Liabilities to Nonresidents 3/	64	427	663	683	683	348	348	348	345	338
Net Domestic Claims	399	966	1131	1172	1165	902	1047	1214	1453	1671
Net Claims on Central Government	-29	316	414	407	371	34	62	60	56	55
of which CBS claim on government 1/	40	467	703	723	723	388	388	388	385	378
Claims on private sector	206	219	267	321	333	413	535	712	969	1240
Other net claims not included in broad money	222	432	450	444	461	455	450	442	428	376
Capital and Reserves	115	123	137	145	151	161	176	191	208	208
Other items, net	0	-7	9	10	9	10	11	12	14	15
Broad Money 4/	523	776	888	824	855	933	1057	1231	1481	1701
Memorandum items										
Credit to the private sector (percent of GDP)	3.2	3.2	3.5	3.9	4.0	4.6	5.5	6.7	8.3	9.8

Sources: Somali authorities, IMF staff estimates and projections.

1/ The authorities decided to distribute the 2021 SDR Allocation by the IMF on August 23, 2021 for the SDR 156.6 million (about US\$ 222.13 million) between the CBS (about US\$ 90 million) and the FGS (about US\$ 132 million).

2/ Includes Federal Government of Somalia (FGS) grants held abroad.

3/ Assuming reaching HIPC Completion Point in 2023.

4/ Primarily deposits at commercial banks. Data does not yet include balances held with Mobile Network Operators.

Table 6a. Somalia: Balance of Payments, 2019–2027
(In millions of U.S. dollars)

	2019	2020	2021	2022		2023	2024	2025	2026	2027
		Est.		2 nd /3 rd ECF Review	Latest est.		Proj.			
Current account balance	-671	-746	-1,306	-1,170	-1,336	-1,222	-1,451	-1,631	-1,759	-1,904
Overall trade balance	-4,118	-4,411	-5,405	-5,825	-5,919	-6,245	-6,739	-7,343	-7,977	-8,670
Goods balance	-3,068	-3,304	-4,073	-4,397	-4,466	-4,699	-5,065	-5,502	-5,969	-6,485
Exports of goods, f.o.b.	554	545	717	756	772	831	912	996	1,094	1,202
Imports of goods, f.o.b.	-3,622	-3,849	-4,790	-5,153	-5,238	-5,529	-5,977	-6,498	-7,063	-7,687
Services, net	-1,050	-1,107	-1,331	-1,428	-1,453	-1,546	-1,674	-1,841	-2,008	-2,186
Service credits	566	425	593	632	635	680	740	806	878	955
Service debit	-1,617	-1,532	-1,925	-2,060	-2,088	-2,226	-2,414	-2,648	-2,886	-3,141
Income (net)	-36	-38	-42	-45	-46	-46	-40	-44	-48	-52
Receipts	46	49	54	58	60	64	69	76	82	90
Payments	-81	-86	-96	-103	-106	-109	-109	-119	-130	-141
<i>of which:</i>										
Interest payments, public debt	-4	-2	-2	-2	-2	-5	-15	-15	-15	-14
Multilateral, official	...	-2	-2	-2	-2	-3	-7	-7	-7	-7
Bilateral, official	...	0	0	0	0	-2	-8	-8	-8	-8
Current transfers (net)	3,482	3,703	4,141	4,700	4,628	5,068	5,329	5,756	6,265	6,818
Private (net), including remittances	1,578	1,618	2,080	2,386	2,301	2,503	2,745	2,992	3,256	3,544
Official	1,904	2,084	2,061	2,314	2,327	2,564	2,584	2,764	3,009	3,274
On budget aid 1/	87	229	118	239	253	267	40	44	47	52
Off-budget aid	1,817	1,856	1,943	2,075	2,075	2,297	2,544	2,721	2,962	3,223
Capital account and financial account	667	778	1,480	1,079	1,281	1,222	1,451	1,631	1,759	1,904
<i>of which:</i>										
Foreign direct investment	447	534	607	636	652	698	765	834	931	1,013
Other Investment	0	0	222	0	0	0	203	194	189	195
<i>of which:</i>										
Long-term debt liabilities 2/	0	0	222	0	0	0	0	0	0	0
Official concessional borrowing	0	0	0	0	0	0	203	194	189	195
Amortization, public debt 3/	0	-13	-16	-15	-15	-7	-8.0	-9.6	-12.9	-14.9
Multilateral, official		-13	-16	-15	-15	-3	-0.5	-0.5	-0.5	-0.5
Bilateral, official		0	0	0	0	-3	-7.5	-9.2	-10.3	-10.3
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance and error and omissions	-5	32	175	-91	-55	0	0	0	0	0
Financing	5	-32	-175	91	55	0	0	0	0	0
Change in central bank reserves (- = increase)	0	-32	-177	90	54	0	0	0	0	0
<i>of which:</i> Use of Fund resources (net)	0	9	99	91	91	-351	0	0	0	0
Purchases and loans	0	370	99	91	91	20	0	0	0	0
Repayments	0	-361	-1	-1	-1	-371	0	0	0	0
Arrears, net change (+ = accumulation)	5	-4,265	-16	-18	-18	-1,226	0	0	0	0
Prospective debt relief and rescheduling 4/	0	4,265	19	20	20	1,226	0	0	0	0
Memorandum items:										
Nominal GDP	6,485	6,883	7,628	8,202	8,414	9,009	9,806	10,687	11,633	12,659
Exports of goods and services	1,120	970	1,310	1,388	1,407	1,510	1,652	1,803	1,972	2,158
Exports of goods and services (percent change)	0	-13	35	8	7	7	9	9	9	9
Exports of goods (percent change)	-3	-2	32	9	8	8	10	9	10	10
Imports of goods and services	-5,238	-5,381	-6,715	-7,213	-7,326	-7,755	-8,391	-9,146	-9,949	-10,828
Imports of goods and services (percent change)	2	3	25	11	9	6	8	9	9	9
Imports of goods (percent change)	1	6	24	12	9	6	8	9	9	9
Remittances (percent change)	1	23	29	15	11	9	10	9	9	9
Current transfers, official (percent change)	-13	9	-1	12	13	10	1	7	9	9
External debt 5/	5,311	3,934	3,452	3,468	3,468	575	889	1,066	1,232	1,402
Net Foreign Assets (Program Definition)	25	80	175	...	...	...	...	...	...	...

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

1/ Includes only donor support provided to the federal government through treasury accounts at the Central Bank of Somalia. A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress.

2/ Includes allocations of SDRs in August 2021, for SDR 156.6 million or US\$ 222.13 million.

3/ From 2023, reflects payments on restructured debt, including IDA, assuming full delivery of HIPC, MDRI, and beyond-HIPC assistance. Excludes payments to the IMF.

4/ Assumes full delivery of HIPC, MDRI, and beyond-HIPC assistance.

5/ Consistent with the DSA external debt definition, which reflects the external debt of the country as a whole. Includes the total net SDR position of the central bank. This differs from public external debt reported in Tables 2A, 2B, and 10.

Table 6b. Somalia: Balance of Payments, 2019–2027

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022		2023	2024	2025	2026	2027
		Est.		2 nd /3 rd ECF Review	Latest est.			Proj.		
Current account balance	-10.4	-10.8	-17.1	-14.3	-15.9	-13.6	-14.8	-15.3	-15.1	-15.0
Overall trade balance	-63.5	-64.1	-70.9	-71.0	-70.3	-69.3	-68.7	-68.7	-68.6	-68.5
Goods balance	-47.3	-48.0	-53.4	-53.6	-53.1	-52.2	-51.7	-51.5	-51.3	-51.2
Exports of goods, f.o.b.	8.5	7.9	9.4	9.2	9.2	9.2	9.3	9.3	9.4	9.5
Imports of goods, f.o.b.	-55.8	-55.9	-62.8	-62.8	-62.2	-61.4	-61.0	-60.8	-60.7	-60.7
Services, net	-16.2	-16.1	-17.5	-17.4	-17.3	-17.2	-17.1	-17.2	-17.3	-17.3
Service credits	8.7	6.2	7.8	7.7	7.5	7.5	7.5	7.5	7.5	7.5
Service debit	-24.9	-22.3	-25.2	-25.1	-24.8	-24.7	-24.6	-24.8	-24.8	-24.8
Income (net)	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4
Receipts	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Payments	-1.3	-1.3	-1.3	-1.3	-1.3	-1.2	-1.1	-1.1	-1.1	-1.1
Current transfers (net)	53.7	53.8	54.3	57.3	55.0	56.3	54.3	53.9	53.9	53.9
Private (net), including remittances	24.3	23.5	27.3	29.1	27.3	27.8	28.0	28.0	28.0	28.0
Official	29.4	30.3	27.0	28.2	27.7	28.5	26.3	25.9	25.9	25.9
On budget aid 1/	...	3.3	1.5	2.9	3.0	3.0	0.4	0.4	0.4	0.4
Off-budget aid	...	27.0	25.5	25.3	24.7	25.5	25.9	25.5	25.5	25.5
Capital account and financial account	10.4	10.8	17.1	14.3	15.9	13.6	14.8	15.3	15.1	15.0
<i>of which:</i>										
Foreign direct investment	6.9	7.8	8.0	7.8	7.8	7.8	7.8	7.8	8.0	8.0
Other Investment	0.0	0.0	2.9	0.0	0.0	0.0	2.1	1.8	1.6	1.5
<i>of which:</i>										
Long-term debt liabilities 2/	0.0	0.0	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New concessional borrowing	0.0	0.0	0.0	0.0	0.0	0.0	2.1	1.8	1.6	1.5
Amortization 3/	0.0	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Overall balance and error and omissions	-0.1	0.5	2.3	-1.1	-0.7	0.0	0.0	0.0	0.0	0.0
Change in central bank reserves (- = increase)	0.0	-0.5	-2.3	1.1	0.6	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (Million of U.S. dollars)	6,485	6,883	7,628	8,202	8,414	9,009	9,806	10,687	11,633	12,659
External debt 4/	81.9	57.2	45.3	42.3	41.2	6.4	9.1	10.0	10.6	11.1
Exports of goods and services	17.3	14.1	17.2	16.9	16.7	16.8	16.8	16.9	17.0	17.0
Imports of goods and services	80.8	78.2	88.0	87.9	87.1	86.1	85.6	85.6	85.5	85.5

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

1/ Includes only donor support provided to the federal government through treasury accounts at the Central Bank of Somalia. A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress.

2/ Includes allocations of SDRs in August 2021, for SDR 156.6 million or US\$ 222.13 million.

3/ From 2023, reflects payments on restructured debt, including IDA, assuming full delivery of HIPC, MDRI, and beyond-HIPC assistance. Excludes payments to the IMF.

4/ Consistent with the DSA external debt definition, which reflects the external debt of the country as a whole. Includes the total net SDR position of the central bank. This differs from public external debt reported in Tables 2A, 2B, and 10.

Table 7. Somalia: Proposed Revised Schedule of Reviews and Disbursements

Availability date	Amount of Disbursements			Percent of quota 1/	Conditions
	Millions of SDRs				
	PRGT (ECF)	GRA (EFF)	Total		
March 25, 2020	210.86200	39.56778	250.42978	153.26200	Approval of arrangement
November 18, 2020	7.00000	0.00000	7.00000	4.28400	First review and end-June 2020 performance criteria
April 15, 2021 and October 15, 2021, respectively	14.00000	0.00000	14.00000	8.56800	Second and Third Review, and end-Dec 2020 and end-June 2021 performance criteria
October 15, 2022	7.00000	0.00000	7.00000	4.28400	Fourth review and end-June 2022 performance criteria
April 15, 2023	7.00000	0.00000	7.00000	4.28400	Fifth review and end-December 2022 performance criteria
October 15, 2023	7.00000	0.00000	7.00000	4.28400	Sixth review and end-June 2023 performance criteria
Total	252.86200	39.56778	292.42978	178.96600	

Source: IMF

1/ New quota of SDR 163.4 million.

Table 8. Somalia: External Financing Needs and Sources, 2020–2027
(In millions of U.S. dollars)

	2020	2021	2022	2023	2024	2025	2026	2027
<i>Gross financing requirement</i>	8,709.2	5,599.3	5,881.5	7,482.6	6,762.4	7,367.8	8,004.6	8,699.6
Trade deficit	4,410.8	5,404.6	5,918.6	6,244.6	6,739.4	7,343.4	7,977.1	8,670.3
Amortization	11.8	15.8	15.3	6.8	8.0	9.6	12.9	14.9
Interest on external obligations	2.1	1.7	1.8	5.4	15.1	14.8	14.6	14.4
Official arrears/repayments	4,265.2	0.0	0.0	1,225.8	0.0	0.0	0.0	0.0
<i>Of which: IMF</i>	361.3	0.0	0.0	370.9	0.2	0.1	0.1	0.1
Change in reserves (increase = +)	19.2	177.3	-54.1	0.0	0.0	0.0	0.0	0.0
<i>Available financing</i>	3,844.4	5,240.6	5,579.4	5,969.6	6,519.9	7,129.9	7,767.9	8,451.8
Current transfers (net) 1/	3,474.1	4,023.3	4,375.7	4,800.7	5,288.6	5,712.3	6,218.0	6,766.5
<i>Of Which: Remittances</i>	1,618.2	2,080.0	2,300.9	2,503.4	2,744.9	2,991.5	3,256.4	3,543.7
Foreign Direct Investment	533.9	606.9	652.1	698.2	764.8	833.6	930.6	1,012.7
Other flows 2/	-163.6	610.4	551.5	470.7	466.4	584.0	619.2	672.5
<i>Financing gap</i>	4,864.7	358.7	302.2	1,513.1	242.6	238.0	236.7	247.8
Exceptional Financing	4,265.2	19.0	19.5	1,225.8	0.0	0.0	0.0	0.0
HIPC interim assistance (Excl. IMF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC debt relief	4,265.2	19.0	19.5	1,225.8	0.0	0.0	0.0	0.0
<i>Of which: IMF 3/</i>	0.8	0.5	0.6	371.6	0.9	0.3	0.2	0.2
<i>Remaining gap</i>	599.5	339.7	282.6	287.3	242.6	238.0	236.7	247.8
Identified financing	599.5	339.7	282.6	287.3	242.6	238.0	236.7	247.8
Official Grants	228.5	117.6	252.6	267.1	40.0	43.6	47.5	51.6
IMF 4/	371.0	222.1	30.0	20.2	0.0	0.0	0.0	1.0
ECF	313.3	0.0	30.0	20.2	0.0	0.0	0.0	0.0
EFF	56.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR	0.0	222.1	0.0	0.0	0.0	0.0	0.0	1.0
Official loans (net) 5/	0.0	0.0	0.0	0.0	202.6	194.4	189.2	195.2

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

1/ Official grants, including budget support, and private remittances.

2/ Includes other financial account flows.

3/ Includes HIPC interim assistance on IMF-related operations prior to HIPC Completion Point, and HIPC Relief in 2023.

4/ Disbursements in 2020-23 are conditional on Board approval of ECF reviews.

5/ Includes WB loan financing only from 2024 onwards.

Table 9. Somalia: Indicators of Fund Credit and Capacity to Repay, 2022–2038
(In millions of SDR, unless otherwise noted)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Obligations from prospective drawings 1/																	
1. Principal																	
Repurchases and Repayments	0.0	0.0	3.3	27.7	50.2	51.6	55.1	57.2	32.8	7.0	5.6	2.1	0.0	0.0	0.0	0.0	0.0
2. Charges and interest 2/																	
Charges	0.3	1.4	1.4	1.2	0.9	0.7	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR related charges	0.4	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	2.0	2.0	2.0
Total obligations	0.7	3.4	6.7	30.9	53.1	54.3	57.6	59.5	34.9	9.0	7.6	4.1	2.0	2.0	2.0	2.0	2.0
Outstanding Fund credit, end of period	278.4	292.4	289.1	261.5	211.3	159.7	104.7	47.5	14.7	7.7	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Net Use of Fund Credit	21.0	14.0	-3.3	-27.7	-50.2	-51.6	-55.1	-57.2	-32.8	-7.0	-5.6	-2.1	0.0	0.0	0.0	0.0	0.0
Disbursements and Purchases	21.0	14.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	0.0	3.3	27.7	50.2	51.6	55.1	57.2	32.8	7.0	5.6	2.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:																	
Outstanding Fund credit, in percent of																	
Exports of goods and services	27.6	27.2	24.7	20.6	15.3	10.5	6.4	2.7	0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
External public debt	11.2	71.6	46.1	35.0	24.5	16.3	9.6	4.0	1.2	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves	201	213	212	193	156	118	77.2	35.0	10.8	5.7	1.5	0.0	0.0	0.0	0.0	0.0	0.0
GDP	4.6	4.6	4.2	3.5	2.6	1.8	1.1	0.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quota	170.4	179.0	176.9	160.0	129.3	97.7	64.0	29.1	9.0	4.7	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Total Obligations, in percent of																	
Exports of goods and services	0.1	0.3	0.6	2.4	3.8	3.6	3.5	3.4	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External public debt	0.0	0.8	1.1	4.1	6.1	5.5	5.2	5.1	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves	0.5	2.5	4.9	22.7	39.1	40.0	42.4	43.8	25.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP	0.0	0.1	0.1	0.4	0.7	0.6	0.6	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quota	0.4	2.1	4.1	18.9	32.5	33.2	35.2	36.4	21.3	5.5	4.7	2.5	1.2	1.2	1.2	1.2	1.2
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	163.4	163.4	163.4

Source: IMF staff estimates and projections.

1/ Projections do not include the requested disbursement of interim HIPC assistance. Projections do not incorporate debt relief expected at the HIPC Completion Point.

2/ Projections are based on current IMF charges.

Table 10. Somalia: Quantitative Performance Indicators and Indicative Targets Under the ECF (June 2022–December 2023) 1/
(In millions of U.S. dollars)

	Jun. 2022 4/			Sept. 2022			Dec. 2022 4/	Mar. 2023	Jun. 2023 4/	Sept. 2023 4/	Dec. 2023
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prog.	Prog.	Prog.	
Quantitative Performance Criteria											
1 FGS domestic revenue, floor 2/	95.0	115.8	Met				247.0		115.0		
2 Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	200.0	155.1	Met				342.0		220.0		
3 Net international reserves, floor	-346.0	-345.4	Met				-346.0		-346.0		
4 Contracting of new domestic debt, ceiling 3/	0.0	0.0	Met				0.0		0.0		
5 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0.0	0.0	Met				0.0		0.0		
6 Accumulation of new external arrears, ceiling 3/	0.0	0.0	Met				0.0		0.0		
Indicative Targets											
1 FGS domestic revenue, floor 2/				150.0	172.4	Met		55.0		170.0	276.0
2 Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/				300.0	237.5	Met		110.0		310.0	352.0
3 Net international reserves, floor 5/				-346.0	-345.4	Met		-346.0		-346.0	-346.0
4 Contracting of new domestic debt, ceiling 3/				0.0	0.0	Met		0.0		0.0	0.0
5 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/				0.0	0.0	Met		0.0		0.0	0.0
6 Accumulation of new external arrears, ceiling 3/				0.0	0.0	Met		0.0		0.0	0.0
7 Fiscal balance, floor (cash basis) 2/	0.0 adjusted to -72.1 7/	-28.2	Met	0.0	32.5	Met	0.0	0.0	0.0	0.0	0.0
8 Accumulation of new domestic expenditure arrears, ceiling 3/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
9 Contracting or guaranteeing any new external, concessional debt, ceiling 3/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
Memorandum item:											
Gross international reserves 6/		192.2									

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

1/ The quantitative targets, indicative targets, and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).

2/ Cumulative from the beginning of the fiscal year.

3/ This target is applied on a continuous basis.

4/ Test date for the fourth, fifth, and sixth reviews, respectively.

5/ Net International Reserves as defined in the TMU of IMF Country No. 22/228

6/ Gross international reserves are defined as the sum of (i) gold; (ii) foreign currency held abroad; and (iii) SDR holdings in the IMF SDR department, net of (i) unused portion of the government's share of the 2021 IMF General SDR allocation, (ii) government deposits in foreign currency held abroad; and (iii) other foreign currency deposits by residents of Somalia held abroad.

7/ The program floor on the fiscal balance is adjusted down by the amount of shortfalls in budget support grants as compared to the budget estimate, up to the maximum amounts stipulated in Table 1 of TMU.

Table 11. Somalia: Structural Benchmarks Under the ECF, June 2022–October 2023

Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring	Status
1 Issue the customs regulations on valuation and declarations and enact the law specifying the ad valorem tariff schedule	End-November 2022	Domestic revenue / MOF	Support domestic revenue generation and custom modernization	Publish the issued regulations and enacted law on the website of the FGS MOF.	Met
2 Operationalize the Customs Automated System at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo	End-July 2023 (reset from end-April 2023)	Domestic revenue/ MOF	Support domestic revenue generation and custom modernization	Confirm use of the Custom Automated System for processing of declarations and calculation of duties at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo. Provide IMF staff with reports on declarations and respective duty amounts generated from the Custom Automated System for the three ports and four airports.	Ongoing
3 Issue a spectrum fee schedule for telecom operators approved by the NCA Board in agreement with the MoF	End-July 2022	Domestic revenue/ NCA MOF MOCT	Support domestic revenue generation and telecommunication regulations	Publish the NCA-Board approved spectrum fee schedule on the website of the NCA	Implemented with delay
4 Operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors	End-March 2023	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Confirm installment of POS machines at taxpayers with large market share in telecom and tourism sectors in Mogadishu. Provide IMF staff with summary of data transmitted from POS machines to tax offices.	Ongoing
5 Cabinet approval of (i) a pay and grade policy and (ii) a roadmap to implement an integrated payroll that controls all compensation of employees of FGS, as part of the 2023 budget documents	End-December 2022 (reset from end-October 2022)	PFM / MOF NCSC MOLSA	Strengthen payroll integrity and expenditure control and governance	Submit to IMF the policy and roadmap approved by the Cabinet	Not met, reset to end-December 2022
6 Extend coverage of payroll to 50 percent of non-payroll compensation of FGS employees	End-May 2023	PFM / MOF NCSC MOLSA	Strengthen payroll integrity and expenditure control and governance	Submit to IMF staff monthly SFMIS reports detailing amount of payroll and non-payroll payments for compensation of employees. A ratio of non-payroll payments to total compensation of employees to be decreased to 16 percent or less on average between March and May 2023 (relative to 32 percent in 2021).	Ongoing
7 Finalize the Tender Protocol in line with IMF recommendations to include an objective and transparent bid evaluation criteria, clear prequalification procedures, and an adequate timeframe for the evaluation of bids and signature of contracts	End-December 2022 (reset from end-August 2022)	Governance / MOF MPMR SPA	To protect the interests of Somalia by promoting competition in bidding rounds for petroleum exploration contracts	Provide IMF staff the IMCC approved tender protocol document.	Not met, reset to end-December 2022
8 Publish audited CBS financial statements for 2021	End-August 2022	Governance / CBS	Enhance central bank transparency and accountability	Publish on the CBS website the 2021 Central Bank of Somalia Annual Report, the audited Financial Statements including the independent external auditor's management letter.	Implemented with delay
9 Enact the Targeted Financial Sanctions Law and issue related regulations. 1/	End-December 2022	AML-CFT Governance / MOF CBS	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	Ongoing

Source: IMF

Note: Ministry of Finance (MOF), Central Bank of Somalia (CBS), Ministry of Petroleum and Mineral Resources (MPMR), Ministry of Communications and Technology (MOCT), Ministry of Labour and Social Affairs (MOLSA), Somalia Petroleum Authority (SPA), Inter-Ministerial Concessions Committee (IMCC), Federal Member States (FMS), National Civil Service Commission (NCSC), public financial management (PFM), Somalia Financial Management Information System (SFMIS), International Public Sector Accounting Standards (IPSAS), Anti-Money Laundering/Combating the Financing of Terrorism (AML-CFT)

1/ Reset SB left over from the 1st review for end-June 2021.

Table 12. Somalia: Proposed Structural Benchmarks Under the ECF, December 2022–December 2023)

Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring
10 Introduce turnover taxes with at least 2000 newly registered taxpayers who commence paying taxes	End-May 2023	Domestic revenue/ MOF	Support domestic revenue generation	Confirm collection of at least amount due for the first month after the introduction. Provide IMF staff with a list of taxpayers registered for turnover taxes.
11 Comply with the requirements of the 2019 Public Financial Management Law to (i) notify the Cabinet and Auditor General within 7 days of granting a tax exemption; (ii) submit to Parliament quarterly tax exemption reports; and (iii) publish in the annual budget (Policy Framework Paper) a statement of tax exemptions.	End-March 2023	Domestic revenue/ MOF	Support domestic revenue generation	Publish the individual; quarterly; and annual tax exemptions statements on the MoF website. December 2022 quarter report published by end-March 2023; the annual statement to appear in the 2023 Budget. The information in the quarterly reports shall include; (a) the individual to whom the tax exemption was granted; (b) Reasons for the exemption; (c) total taxes due to the government but not paid; and (d) Benefits to the Government arising from this tax exception. The annual statement will provide a summary of the preceding 4 quarters published reports.
12 (i) Configure the SFMIS to allow only the MoF to change the payroll entries; (ii) Cabinet approval of the 2024 Appropriation Bill including a provision specifying the MoF's authority over the financial clearance of compensation of all FGS employees.	End-October 2023	PFM / MOF	Strengthen wage bill controls and payroll integrity and governance	Confirm with IMF staff the re-configuring the SFMIS payroll module. Update payroll business processes and training of users to support the new policy. Submit to IMF staff the Cabinet-approved draft Appropriation Bill with the required authority clause.
13 Issue the Banking Regulations on Capital Adequacy and Liquidity Coverage Ratio	End-September 2023	Financial Supervision / CBS	Improving risk-based financial supervision	Publish the issued regulations on the website of the CBS
14 (i) Amend PFM Regulations to implement the PFM Act's provisions on public property and (ii) issue the asset management policy, in line with IMF recommendations, to provide a standard approach in government assets management, enhance transparency and accountability, and promote a prudent use of public lands and real estate.	End-September 2023	Governance / MOF	Strengthen governance and prevent misuse of government lands and nonfinancial assets	Publish the amended regulations and issued policy on the MoF website.

Source: IMF

Note: Ministry of Finance (MOF), Central Bank of Somalia (CBS), Ministry of Petroleum and Mineral Resources (MPMR), Ministry of Communications and Technology (MOCT), Ministry of Labour and Social Affairs (MOLSA), Somalia Petroleum Authority (SPA), Inter-Ministerial Concessions Committee (IMCC), Federal Member States (FMS), National Civil Service Commission (NCSC), public financial management (PFM), Somalia Financial Management Information System (SFMIS), International Public Sector Accounting Standards (IPSAS), Anti-Money Laundering/Combating the Financing of Terrorism (AML-CFT)

Table 13. Somalia: Public Debt Holder Profile, 2018–2022

(In millions of U.S. dollars, unless otherwise indicated)

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US\$)	(Percent total debt)	(Percent GDP)	(In US\$)			(Percent GDP)		
Total ^{1/}	3499.3	100.0	45.9	17.6	16.8	12.7	0.3	0.2	0.2
External	3431.5	98.1	45.0	17.6	16.8	12.7	0.3	0.2	0.2
Multilateral creditors	1154.7	33.0	15.1	17.6	16.8	12.7	0.3	0.2	0.2
IMF ^{2/}	433.3	12.4	5.7	0.0	0.0	0.0	0.0	0.0	0.0
World Bank ^{3/}	121.8	3.5	1.6	14.1	13.4	10.6	0.2	0.2	0.1
AfDB	23.8	0.7	0.3	2.6	2.5	1.2	0.0	0.0	0.0
Other Multilaterals	575.7	16.5	7.5	0.5	0.5	0.5	0.0	0.0	0.0
<i>Arab Monetary Fund</i>	304.6	8.7	4.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Arab Fund for Economic and Social Development</i>	189.8	5.4	2.5	0.0	0.0	0.0	0.0	0.0	0.0
<i>International Fund for Agricultural Development</i>	32.3	0.9	0.4	0.5	0.5	0.5	0.0	0.0	0.0
<i>Islamic Development Bank</i>	13.1	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0
<i>OPEC Fund for International Development</i>	35.9	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral Creditors	2276.8	65.1	29.8	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club ^{4/}	1695.5	48.5	22.2	0.0	0.0	0.8	0.0	0.0	0.0
Denmark	3.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	154.2	4.4	2.0	0.0	0.0	0.6	0.0	0.0	0.0
Italy ^{5/}	112.6	3.2	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Japan ^{6/}	121.8	3.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	2.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Norway	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia ^{7/}	237.6	6.8	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Spain	40.9	1.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom	30.4	0.9	0.4	0.0	0.0	0.2	0.0	0.0	0.0
United States	991.8	28.3	13.0	0.0	0.0	0.0	0.0	0.0	0.0
EEC IDA Administered Loans	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	2.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Serbia</i>	2.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other international creditors ^{8/}	578.8	16.5	7.6	0.0	0.0	0.2	0.0	0.0	0.0
Algeria	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bulgaria	3.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Iraq	63.3	1.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait Fund and Central Bank	121.9	3.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Libya	27.6	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Romania	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	113.3	3.2	1.5	0.0	0.0	0.2	0.0	0.0	0.0
United Arab Emirates	247.6	7.1	3.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	67.8	1.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Of which: in arrears	67.8	1.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	7628								

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

1/ Debt records provided by the authorities and reconciled with creditor statements include loans that were contracted from 1965 to 2002. These loans include loans that financed projects in pre-civil war subnational jurisdictions, including Somaliland. For all loans, the recognized debtor is the Ministry of Finance of the FGS or a line ministry of the FGS. Note that this excludes a Russian claim on the Central Bank of Somalia totaling about \$7.5 million (or 0.1 percent of GDP), which has been deemed to be not eligible for HIPC debt relief.

2/ IMF debt stock reported in 2021 includes net SDR position of government (used for budget support)

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

4/ Consistent with HIPC Debt Reconciliation Exercise in 2018. Updated 2019–2021 debt stocks as reported by Somali Debt Management Unit (DMU), reflecting interim debt relief terms under agreements signed for all PC creditors, except Russia.

5/ Debt cancellation of 100 percent of ODA debt became effective on March 2021. The remaining amount reported represents non-ODA debt under Cologne terms assumptions of interim debt relief.

6/ No debt reduction at the HIPC Decision Point, Japan will cancel 100% of their debt stock at the HIPC Completion Point.

7/ As of time of preparation of this report, Russia has not signed a debt relief agreement with Somalia. The amount reported reflects estimates of interim debt relief under Cologne Terms computed as part of the HIPC DRA.

8/ The amount reported for non-PC creditors reflects estimates of interim debt relief under Cologne Terms computed as part of the HIPC DRA exercise. This follows 2018 Guidance Note for Bank-Fund Debt Sustainability Framework for Low-Income Countries. Total debt stock for Non-PC reported herein is lower than reported by the DMU, which reflects contractual owed debt less any debt relief expected.

Annex I. Implementation of Previous IMF Recommendations

	2019 Article IV Recommendations	Actions Since 2019 Article IV
Revenue Mobilization	Continue revenue efforts on taxes, nontaxes and customs.	Progress has been made in revenue mobilization. The large taxpayer office has been established.
Strengthen PFM	Improve commitment control. Institutionalize improvement in procurement. Improve federal fiscal framework. Develop medium-term fiscal framework.	Commitment controls have been improved. The Procurement Portal of FGS has been in effect. A medium-term fiscal framework has been established. The federal fiscal framework needs to be further developed.
Financial Supervision	Bring the mobile money service providers under the oversight of CBS.	Mobile Money Regulation has been in effect. Three Mobile Money Operators have been licensed by the CBS. By regulation, they have deposited the customer funds into the banking system.
Build CBS Capacity	Implement the CBS reorganization plan and adopt the Strategic Plan.	CBS has gone through significant reorganization in line with Fund recommendation and revised Strategic Plan adopted. The CBS board has been reconstituted and management strengthened. New Human Resource and Communication strategies have been made.
AML/CFT	Build capacity of FRC. Enact the TFS bill and issue associated regulations.	Resources of FRC have been strengthened. The GoAML has been launched with the capacity to receive large and suspicious transaction. However, the enactment of the TFSL has been delayed due to the election delays.
Address governance weakness	Implementation of key legislations and enact Anti-Corruption Law	Key legislations in PFM, Audit, Petroleum and Statistics have been adopted. The Anti-Corruption Law has also been approved.
Promote Inclusive growth	Improve the focus of the National Development. Estimate the cost of the plan and consider a financing strategy.	The National Development Plan has gone through extensive consultation with stakeholders. Implementation relies largely on donor support. Efforts have been made to estimate the cost of plan. The authorities have finalized the progress report for its implementation in 2020.
Improve business environment	Develop physical and financial infrastructure, strengthen property rights and judicial process.	Financial sector has growing as is financial supervisory capacity. The development of mobile money enable improvement in financial inclusiveness. Additional efforts are needed to strengthen property rights.
Debt Management	Build capacity in debt management.	Debt management unit has been established at the MoF and debt statistics published on a quarterly basis. Progress has been made in negotiating debt relief with Paris Club and non-Paris Club members.

Annex II. Progress in Improving Governance and Transparency

The Somali authorities are well aware of governance and corruption challenges and have identified steady, incremental progress on governance as one of the key pillars of the [National Development Plan 2020-24](#). Reforms under the SMPs, ECF arrangement, and HIPC process—backed by IMF CD support—have supported improvements in governance practices and transparency across multiple dimensions.

- **Fiscal governance**
 - **Revenue.** Notable achievements have been made in revenue mobilization. Domestic revenue increased from about 1 percent of GDP in 2013 to 3 percent of GDP in 2021, thanks to implementation of tax policy and administration reforms, including the introduction of income and sales taxes, development of the Revenue Law, and the establishment of a large- and medium-taxpayers' office. Going forward, strengthening transparency and control of tax exemptions is an important governance-related reform.
 - **Public financial management.** The Somalia Financial Management Information System (SFMIS) was implemented in 2014, which has supported expenditure controls and regular and accurate reporting. With the full implementation of commitment controls in 2019, the FGS moved away from budget execution based on untransparent cash advances. In 2019, all non-civilian employees were integrated into the government payroll (including biometric registration) and their financing was switched from bilateral grants to the budget. No new domestic arrears have been accumulated since 2017, thanks to improvements to budget preparation, cash management, and the legislated sequestration rules. The PFM Act was approved in 2019 and significant effort has been made on transparent fiscal reporting, expenditure controls, and procurement. The Procurement Law and regulations have been issued and are being implemented.
- **Financial sector governance**
 - **Central bank governance.** The CBS has made important progress in improving its governance, transparency, and capacity. Reporting and the audit function have been improved. Significant progress has been made in implementing the IMF Safeguards Assessment recommendations, including the publication of audited CBS financial statements with a clean auditor's opinion.
 - **Financial sector regulation and supervision.** Banks and money transfer businesses are subject to regular on- and off-site inspections and annual relicensing. In 2021, the CBS launched the licensing and regulation of mobile money operators and licensing conditions have been published.
- **Anti-corruption.** Good progress has been made in the development of some actions under the National Anti-Corruption Strategy (NACS), and additional efforts must ensue. NACS

progress includes: (1) establishment of the Code of Conducts for civil servants and ethics training; (2) clear policies have been developed on dismissal, career advancement, career development, benefits, ethics, inclusivity and discrimination, health and sanitation; and (3) the National Civil Service Commission has been modernized and restructured as an efficient, centralized human resource management hub that advertises positions with clear job descriptions and expected work outputs. Somalia also accessed the UNCAC and the Independent Anti-Corruption Committee (IACC) was established, though resources and capacity need to be strengthened.

- **Market regulation.** The Telecommunications Act was passed in 2017 and the National Communication Agency was established to regulate the telecommunications industry. The Petroleum Act was passed in 2020, establishing the framework for exploration and production of hydrocarbons in the country onshore and offshore. The National Petroleum Authority was formed to regulate, influence, and promote the Somali petroleum industry. Awarded licenses in key sectors (including mobile network operators and mobile money operators) and licensing condition have been published.
- **AML/CFT.** Somalia passed the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Act in 2016. The Financial Reporting Center was set up, responsible for the receipt, analysis and appropriate dissemination of financial intelligence. The [National ML/FT Risk Assessment](#) was finalized and published in 2022, and an action plan is under preparation

Annex III. Country Engagement Strategy¹

Although risks to reform implementation and Fund engagement are significant, they are mitigated by the authorities' strong ownership and careful tailoring of the reform agenda to the country's fragilities and capacity constraints. Somalia has built a strong track-record of reform implementation since 2016, during a time when the political, security, economic and social conditions were more difficult than they are today. This was achieved thanks to (i) strong ownership of the reform agenda by the authorities, (ii) careful prioritization and sequencing of reforms that take into account institutional and capacity constraints, (iii) close integration between program design and CD support, and (iv) close coordination with development partners and other CD providers to ensure complementarities. Going forward, IMF engagement will continue to be guided by these principles, which would also mitigate the risks of reform fatigue.

Context

1. Somalia has been rebuilding state institutions and the economy since the end of the devastating civil war, with strong support from the international community. The civil war between 1991–2012 led to complete state collapse, destroying the rule of law, the economy, infrastructure, basic public services, and public institutions, with tremendous loss of human capital. Following a series of reconciliation conferences, Somalia embraced federalism as a system of governance. The Provisional Constitution adopted in 2012 created the Federal Government of Somalia (FGS) and the Federal Member States (FMS). Since then, Somalia has successfully undertaken three parliamentary and presidential elections, with peaceful transfers of power. Somalia's efforts in rebuilding core state capabilities have been strongly supported by international partners, including financing and extensive technical assistance.

2. Social and economic challenges are immense, requiring large and sustained investments in human and physical capital. Growth is currently insufficient to reduce poverty and address large social needs, including creating jobs for the youth. GDP per capita in 2021 is estimated at US\$404, making it the second poorest country in the world. Close to 70 percent of the population lives on less than US\$1.90 a day. Urban households in Somalia spend more than 75 percent of their budget on food and have few coping mechanisms to deal with shocks. Health and education outcomes fall well behind that of peers. Poverty and inequality challenges are exacerbated by the large number of internally displaced persons (IDPs)—estimated at 2.98 million in 2022—due to climate and conflict. Moreover, 75 percent of Somalia's population is under 30 and, in the context of limited employment opportunities, may fall prey to recruitment by violent groups. In addition, Somalia is highly vulnerable to climate shocks, namely drought. Since 2020, challenges have been exacerbated by the COVID-19 pandemic, desert locust infestation, a prolonged drought since 2021, and pressure on food and fuel prices due to the war in Ukraine..

¹ This Country Engagement Strategy (CES) provides an overview of the drivers of fragility, constraints to reform, opportunities and sources of resilience, and reform priorities that inform the strategy for Fund engagement with Somalia. The CES draws insights from exchanges with the authorities, development partners, and the private sector. The CES informs the Article IV discussions and program engagement with Somalia.

3. Following a strong track-record of reform implementation, Somalia reached the HIPC Decision Point and embarked on a three-year IMF-supported program in March 2020. The HIPC process and IMF-supported program—and the related CD support—promote reforms to rebuild key economic institutions and lay the foundations for macroeconomic stability and growth, in line with Somalia’s national development plan.

4. Several elements have contributed to successful IMF engagement with Somalia, though important risks remain. IMF engagement with Somalia has been characterized by: (1) strong ownership of the reform agenda by the authorities; (2) careful prioritization and sequencing of reforms that take into account institutional and capacity constraints; (3) close integration between program design and CD support; and (4) close coordination with development partners and other CD providers to ensure complementarities. Risks to IMF engagement reflect the drivers of Somalia’s fragility—including political instability, weak institutional capacity, security.

Drivers Of Fragility

5. Somalia’s fragility stems from the following sources:

- As state capacity is gradually rebuilt and the Federal Government of Somalia (FGS) gains legitimacy, it faces resistance from multiple actors that do not want to cede power or rents.
- Somalia is vulnerable to frequent climate-related and biological disasters. Climate shocks impact livelihoods and exacerbate food insecurity risks, which trigger internal displacement. The country lacks the capacity to mitigate these shocks, including because of inadequate infrastructure, financial resources, and social safety net. As a result, each new climate disaster is a setback for growth and poverty reduction efforts.
- Structural impediments and a poor business climate restrain private investment and broader, more inclusive growth. Private sector development is held back by (1) security issues; (2) dilapidated infrastructure, including limited access to affordable and reliable energy, poor transportation network, and very poor water and sanitation; (3) lack of a skilled labor force; and (4) lack of access to finance.

Sources Of Resilience And Opportunities

6. Meanwhile, Somalia has important resources that could be harnessed to promote inclusive growth.

- Remittances from the Somali diaspora have been a lifeline for households and businesses.
- Support from the development partners in financing and CD have been strong.
- Commitment from the authorities to maintain macroeconomic stability and implement reforms have been very strong.

- Somalia also has important resources—such as oil, gas and fisheries—that could be harnessed to promote inclusive growth.

Possible Constraints To Reform Implementation

7. Somalia faces severe capacity and resource constraints in implementing the necessary reforms.

- Against a backdrop of weak enforcement capacity by the Federal Government, reform implementation relies heavily on negotiation to bring different stakeholders on board. As a result, the implementation of ambitious reforms takes time, and a gradual and nimble approach is needed to ensure broad support from different stakeholders.
- Capacity constraints are severe. Government institutions have started to be rebuilt but there is generally not enough adequately trained and experienced staff. The availability of data and information is also inadequate.
- Somalia has been actively building its tax capacity, but domestic revenues remain insufficient to fully cover recurrent expenditure and expand public services. Domestic revenues have increased from about 1 percent of GDP in 2013 to 3 percent of GDP in 2021, thanks to implementation of tax policy and administration reforms. However, external grants finance about half of the budget. Tax collection relies mainly on voluntary tax compliance as enforcement capacity is weak, including because the authorities cannot validate the accuracy of tax declarations and the ability to sanction is limited. Mobilizing new sources of revenue requires a carefully sequenced approach to facilitate negotiation with private sector firms to convince them to accept government taxing authority, register and file in a timely manner, provide accurate declarations, and make the corresponding payments.
- While public financial management has been reconstructed and steadily improving, further efforts are needed to improve expenditure capacity. There have been significant improvements in budget preparation, cash management, expenditure controls and regular and reliable reporting. Additional PFM reforms are needed to continue strengthening spending efficiency and controls, and enhance transparency and reporting.
- Institutional capacity at the CBS needs to be strengthened further. CBS operations relate mainly to acting as a fiscal agent and conducting banking services for the government. Reforms are being implemented to: (1) strengthen financial sector legal and regulatory frameworks; (2) build capacity for the regulation and supervision of commercial banks, money transfer businesses, and mobile money operators; and (3) modernize the payment system and develop financial market infrastructure
- Limited access to financing for both the government and private sector hinder economic development. Somalia is in debt distress. Before reaching the HIPC CP, access to external financing is expected to remain constrained. Local capital markets are not yet developed and

domestic bank intermediation remains limited. The fragile nature of correspondent banking relations because of ML/FT concerns also constrains banks' ability to provide financial services.

- Perceptions of corruption are a concern. Reforms under the SMP and ECF have helped improve governance practices and transparency, including in the areas of fiscal and financial sector governance. Important steps in anti-corruption include accession to the UN Convention Against Corruption, and establishment of the Independent Anti-Corruption Commission. Further efforts are needed to strengthen the anti-corruption framework and ensure its implementation by building capacity at all levels and across government.

Reform Priorities And Fund Engagement

8. Ensuring political stability and security are fundamental to Somalia's economic and social development. It will be critical to address the following key areas:

- **Federalism.** Over the longer-term, implementing a durable fiscal federal framework will be critical to support Somalia's political stability, security, and development goals. Progress has been made, but the issues are complex, spanning many areas of politics and policy, and building trust after the decades of conflict has proven to be challenging and is likely to take time. For instance, progress on the federal agenda will require resolving the ambiguity of the constitutional text and a lack of consensus on the meaning of federalism; addressing border demarcations; clarifying the status of the capital Mogadishu; and establishing a well-structured fiscal federalism framework, including resource sharing. Fiscal federal reforms have been mainstreamed across several aspects of the HIPC Completion Point triggers and IMF-supported program. Examples include the enactment of the Revenue Act as a key milestone toward the harmonization of tax policies across the country; the fuller harmonization of customs operations between FGS and FMS and application of a single import duty tariff schedule at all major ports; the development of PFM regulations on natural resource revenue sharing; and continued monitoring of consolidated fiscal reporting from FGS and FMS. Further reform needs will be clearer as the constitutional review process is completed and the legal underpinnings for fiscal federalism are established.
- **Security.** Greater security will support inclusive growth by boosting business and consumer confidence, facilitating greater agriculture production, and allowing the government to, over time, deliver public services and infrastructure to the entire territory. Greater state control will also improve the ability of the government to enforce taxation, regulations, and other institutional reform efforts that will help set the conditions for inclusive growth. In this regard, the authorities' efforts to dismantle Al-Shabaab and achieve government control over all of the territory in Somalia—including a smooth transition from ATMIS to the Somalia National Army—seek to ameliorate the security situation, thereby supporting growth and economic stability. However, these efforts will also create fiscal pressures to cover compensation of security workers, military equipment and logistics, as well as spending to address the humanitarian and development needs of local communities.

9. Building State capacity and setting the conditions for greater resilience and inclusive, job-rich growth will help Somalia address the sources of fragility.

The State will gain legitimacy and support from the population as it provides a stable environment for economic activity and job creation, it increases the delivery of services (security, social services, infrastructure) to reduce poverty and inequality, and it is transparent and accountable. Priority reforms are discussed below, though noting that in the fragile context it is important to remain nimble to take advantage of any windows of opportunity or reassess the approach if new constraints emerge.

- **Maintain macroeconomic stability.** Policy discussions emphasize preserving macroeconomic and financial stability by maintaining a prudent fiscal stance, building reserves, and strengthening financial sector regulation and supervision. Once the HIPC CP opens access to financing, it is crucial that Somalia maintain a prudent fiscal deficit and only access concessional financing.
- **Mobilize domestic revenue and strengthen PFM.** Key reforms include implementation of the Revenue Act and the Customs Reform Roadmap (which includes applying a single import duty tariff schedule at all ports), and modernizing the Income Tax Law. Further PFM reforms are also critical to continue improving spending efficiency, cash management, fiscal risk management, and public debt management, in particular as the government gradually expands its service delivery.
- **Increase social spending and quality infrastructure investment.** To create the space for social and infrastructure spending, it is important to mobilize additional resources, including on-budget support from development partners and climate financing. Meanwhile, it is essential to improve spending capacity, public investment efficiency, and accountability.
- **Promote financial deepening and financial inclusion while protecting financial stability.** Further efforts to deepen financial sector supervision, and structural reforms to improve the payments system are needed. To strengthen corresponding banking relationships, it is important to develop and implement the National Strategic AML/CFT Action Plan in a prioritized manner in light of the MENA-FATF Mutual Evaluation Assessment in 2024. Establishment of a national digital ID will help improve the private sector's access to credit.
- **Improve the business environment, governance and transparency.** Revenue and PFM reforms discussed above will strengthen fiscal governance. For financial governance, it is important to strengthen governance of the CBS and financial institutions, improve financial sector supervision, and develop the AML/CFT framework and enforcement capacity. To foster the development of natural resources, including petroleum and fisheries, it will be important to attract private investment by providing well-designed legal, institutional, and governance frameworks. Further progress on implementation of the National Anti-Corruption Strategy (NACS) and the UNCAC is needed.

10. In the near-term, IMF engagement with Somalia is guided by the ECF-supported program and HIPC process. In view of Somalia's fragility and weak institutional capacity, the

reform agenda is parsimonious, carefully prioritized and sequenced, and anchored in CD support. Where possible, reforms complement those of other development partner programs and technical assistance. There are also strong relationships and ongoing communication with the other development partners across a variety of macro-critical issues.

CD Priorities

11. CD activities have gained traction in Somalia. IMF CD support is closely integrated with Somalia's ECF-supported program and HIPC process, and complements the activities of Somalia's other CD providers. CD activities are sequenced to support comprehensive rather than piecemeal interventions. Delivery modalities include HQ-led missions, expert assignments, remote/hybrid delivery, desk reviews, and seminar/workshops. While the virtual work environment has been effective for training and ad hoc review activities, in person missions are by far superior in terms of depth of debates and ability to meaningfully transfer knowledge.

12. Somalia will continue to need extensive IMF CD support. CD delivery will continue to build on past reform efforts. Priority areas over the next three years are discussed below, though noting that in the fragile context it is important to reassess the priorities on a regular basis in order to best serve the country.

- **Tax policy.** In support of revenue mobilization that is efficient, fair, and simple, core workstreams are (1) the reform of the income tax law; (2) support on quantitative methods to forecast revenue and undertake policy analysis; and (3) extractive industries fiscal regime.
- **Revenue administration.** In support of revenue mobilization, the focus is on compliance improvement through the development of tax audit capacity.
- **Public financial management.** To improve public expenditure efficiency and governance, key areas are to (1) strengthen the capacity of the MoF to prepare and execute a credible and transparent budget, (2) improve the fiscal reporting of the FGS and general government, and (3) develop the PFM legal framework.
- **Financial sector legislation, regulation, and supervision.** In order to promote financial deepening and financial inclusion while protecting financial stability, CD support is aimed at: (i) developing regulations for sound commercial banking; (2) building technical capacity in the areas of financial sector licensing, regulation, and supervision; and (3) improving transparency and encouraging sound commercial banking and financial intermediation
- **Central bank organization, governance, and accounting.** To improve the institutional capacity and governance of the CBS to protect macroeconomic and financial stability, key areas are: (1) enhancing CBS governance, transparency, and organization; and (2) strengthening CBS accounting, internal audit, and risk management.

- **Statistics.** To support economic management and governance, the focus is on strengthening the compilation and dissemination of macroeconomic and financial statistics, including national accounts, consumer price index, government finance statistics, external sector statistics, and monetary and financial statistics.

13. Insufficient donor funding for the Somalia Country Fund (SCF) would jeopardize the reform agenda. All IMF CD to Somalia is financed by the SCF, a multi-donor fund established in 2015. Fundraising for Phase II of the SCF, which will support TA delivery through FY2024, has been relatively slow, representing a risk to future IMF TA and the success of the ECF-supported program.

Scope Of Partnership

14. The country team maintains strong relationships and ongoing communication with numerous development partners across a variety of issues, with the Resident Representative playing a key role. Donor coordination is guided by the operations of the Somalia Partnership Forum, the Somalia Development and Reconstruction Facility (SDRF), and the Pillar Working Groups (PWGs).

15. The IMF team maintains active engagement with the World Bank, the EU, UK's FCDO, US, and AfDB, among others, on recent economic developments, the macroeconomic outlook, and risks. The team also discusses financing needs and financing options with partners. To better understand the Somalia business climate from a stakeholder's perspective, the country team continues to engage the Somali private sector during missions.

16. The team is collaborating with different partners in specific areas. This includes the WFP on food insecurity and climate change; the World Bank, African Development Bank, and FCDO on fiscal issues; the World Bank on payroll management and wage bill controls; the World Bank, Sweden Statistics, Norway and the IFC on statistics, and the Somalia Financial Governance Committee (FGC) on governance issues.

Main Risks To Fund Engagement

17. Although risks to reform implementation and Fund engagement are significant, they are mitigated by the authorities' strong ownership and careful tailoring of the reform agenda to the country's fragilities and capacity constraints. Risks to fund engagement include Somalia's vulnerability to security and political risks, the resource limitations and capacity constraints, risks of delays and/or shortfalls in disbursement of budget support grants, and insufficient funding of the Somalia Country Fund. Nonetheless, Somalia has built a strong track-record of reform implementation since 2016, during a time when the political, security, economic and social conditions were more difficult than they are today. This was achieved thanks to (i) strong ownership of the reform agenda by the authorities, (ii) careful prioritization and sequencing of reforms that take into account institutional and capacity constraints, (iii) close integration between program design and CD support, and (iv) close coordination with development partners and other

CD providers to ensure complementarities. Going forward, IMF engagement will continue to be guided by these principles, which would also mitigate the risks of reform fatigue.

Annex IV. Risk Assessment Matrix¹

Nature/Source of Main Risks	Overall Level of Concern	
	Relative Likelihood	Expected Impact if Threat Materializes
CONJUNCTURAL RISKS		
Intensifying spillovers from Russia’s war in Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	High	High Intensifying spillovers from Russia’s war in Ukraine and commodity price shocks would exacerbate inflation in Somalia. Humanitarian support to Somalia may also be affected by the supply shock (of food).
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	High	
Systemic social unrest. Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows from EMDEs, slowing economic growth, and giving rise to economically damaging populist policies (e.g., implementing fossil fuel subsidies).	High	High Systemic social unrest may intensify the already precarious security situation in Somalia.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in developing and EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation	Medium	High As a dollarized economy, Somalia does not conduct active monetary policy but imports monetary policy from advanced economies. High global commodity price inflation will significantly impact the poor households which are roughly 70 percent of the population. However, stagflation in countries

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff’s subjective assessment of the risks surrounding the baseline (“low” is meant to indicate a probability below 10 percent, “medium” a probability between 10 and 30 percent, and “high” a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

		hosting Somali diaspora community may adversely impact remittance inflows.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices	Medium	High A global recession would significantly affect Somalia's state-building, development and poverty reduction process through trade and financing including remittance and international aid inflows.
Local Covid-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	Medium	Low Somalia received vaccination both through the COVAX and bilaterally. Vaccination is slow. Local Covid-19 outbreak would slow growth, inhibit trade and revenue mobilization efforts.
STRUCTURAL RISKS		
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	High	High Pastoral agriculture plays a key role in the economy and livestock is the most important export for Somalia. With insufficient infrastructure, natural disasters would cause output loss and human suffering.

Annex V. Progress on HIPC Completion Point Triggers

1. **In order to achieve full and irrevocable debt relief under the HIPC initiative, Somalia must meet the Completion Point Triggers (CPT).** The table below describes progress on each of the CPT.

2. **The baseline assumption remains valid that achieving the Completion Point by 2023 is feasible.** While the prevailing conditions have increased risks to the outlook and the IMF program, the timeline still appears feasible given the authorities' sustained reform commitment. It remains critical, however, that development partners continue to provide the necessary budget support and project financing, as well as capacity building support.

HIPC Completion Point Triggers	Progress
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.	Progress has been made across the four NDP9 pillars, including social, economic, security, and governance policies. However, the COVID-19 pandemic and lower than expected funding have slowed its implementation in 2021. The Annual Progress Report for 2020 was finalized in June 2022, and is being assessed by the staffs of the World Bank and IMF.
Macroeconomic stability	
Maintain macroeconomic stability as evidenced by satisfactory implementation of the 3-year ECF-supported program.	The 1st review of the ECF-supported program was completed on November 18, 2020. The 2 nd and 3 rd reviews were completed on June 17, 2022.
Public financial and expenditure management	
Publish at least two years of the audited financial accounts of the FGS.	The Office of the Auditor General published the 2019 and 2020 FGS financial accounts .
Issue regulations to implement the Public Financial Management Act's provisions on debt, public investment, and natural resource revenue management.	The PFM regulations—including chapters on debt, public investments, and natural resource revenue management—were approved by the Cabinet in May 2022.

HIPC Completion Point Triggers	Progress
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).	The customs regulations on valuation and declarations were issued in September 2022 and the ad valorem tariff schedule was enacted in June 2022. The Customs Automated System (CAS) is being piloted in Mogadishu port and airport. The next step is for the CAS to be rolled out to Bosaso, Garowe, and Kismayo, together with a common valuation table.
Governance, anticorruption, and natural resource management	
Enact the Extractive Industry Income Tax (EIIT) Law.	Cabinet approved the EIIT Bill in December 2020 and will be submitted to Parliament.
Ratify the 'United Nations Convention Against Corruption' (UNCAC).	The UNCAC was ratified by the Somali Parliament and assented by the President in December 2020.
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).	The Ministry of Finance is making progress to improve debt reporting. Quarterly debt bulletins have been published since 2020Q4 with information on the outstanding stock and composition of debt liabilities and financial assets, and, where they exist, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure.
Social sectors	
Establish a national unified social registry (USR) as a functional platform that supports registration and determination of potential eligibility for social programs.	The authorities are establishing a USR with support from the World Bank, the World Food Program (WFP) and UNICEF. The USR platform/MIS have been developed and ready to receive data and support the functions of registration and determination of eligibility. The core team dedicate to manage the operations the USR has been established at the Ministry of Labor and Social Affairs. The drafting of the operational manual detailing the operational processes of the system and institutional management are well advanced. However, progress is needed on the development of the data protection and data privacy Law and operational guidelines.

HIPC Completion Point Triggers	Progress
FGS and FMS Ministers of Education (MOE) adopt an agreement defining their respective roles and responsibilities on curriculum and examinations.	On July 14, 2021, the FGS and FMS MoEs including Puntland finalized and officially signed the revised draft education cooperation MoU at the intergovernmental meeting held in Garowe. A permanent intergovernmental forum for education has been formalized. Key agreements reached include the formation of national examination, certification, and curriculum boards. An interim committee to develop the criteria for selection of the board members was also established.
FGS and FMS Ministers of Health adopt a joint national health sector strategy.	The Somalia Health Sector Strategic Plan for 2022-2026 was finalized. FGS and FMS ministers have agreed on a framework for a joint national health strategy.
Growth/structural	
Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.	The draft Somalia Electricity Bill was subject to consultations and was endorsed by Cabinet and submitted to the Parliament in December 2020. The bill will be resubmitted to Parliament.
Issue Company Act implementing regulations on minority shareholder protection to encourage private sector investment	The regulations to the Company Act were issued in January 2021. A second set of Regulations to the Company Act were issued in May 2022 specifically covering the issue of minority shareholder protection.
Statistical capacity	
Publish at least two editions of the <i>Somalia Annual Fact Book</i> .	The Facts and Figures of Somalia has been published for 2018 , 2019 , and 2020

Appendix I. Letter of Intent

Mogadishu, Somalia
November 17, 2022

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

Dear Ms. Georgieva:

Somalia has made great progress in rebuilding the 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, since 2016, we have maintained an intensive technical engagement over consecutive Staff Monitored Programs (SMP) and the current program under the Extended Credit Facility (ECF). This engagement continues to help strengthen our key economic and financial policy institutions. Our government has reiterated its commitment to macroeconomic stability and structural reforms to build resilience, promote inclusive growth, and reduce poverty. We look forward to continuing close collaboration while Somalia works towards completing the HIPC process.

Despite the progress achieved, the challenges ahead are significant and continued grant-based support will be critical as we progress through the HIPC process. Growth is currently insufficient to reduce widespread poverty and address large social needs, including creating jobs for the youth. Somalia is highly vulnerable to climate shocks that hurt growth and hinder poverty reduction efforts. Challenges are currently exacerbated by prolonged drought, the sharp rise in global food and energy prices, and inadequate access to COVID-19 vaccines, testing, and treatment. The security situation also remains challenging. Nonetheless, we remain committed to the economic and political reform process, which will benefit current and future generations of Somalis.

Considering Somalia's satisfactory performance under the ECF and the commitments laid out in attached Memorandum of Economic and Financial Policies, we request IMF Executive Board approval of the completion of the fourth review of the program and disbursement of SDR 7 million (4.28 percent of quota). We met all quantitative performance criteria (QPC) and all indicative targets (IT). As previously committed, we plan to use the disbursement under the review to help strengthen our gross external reserves as Somalia seeks to increase its integration in the global trade and financial system.

The attached Memorandum of Economic and Financial Policies (MEFP, Attachment I) describes the reform priorities for the remainder of the arrangement. It identifies specific reforms and conditionality for the subsequent twelve months that build on reforms initiated under consecutive SMPs and the ECF and take account of the policy priorities identified in our national development plan. Additional reforms will be detailed on a 12-month rolling basis during reviews as information on needs and priorities continue to emerge. The policy anchors for the program remain strengthening public financial management (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 HIPC Completion Point-triggers. We will continue to 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).

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.

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, in accordance with the IMF's transparency policy.

Sincerely yours,

/s/

Dr. Elmi Mohamud Noor
Minister of Finance of Somalia

/s/

Abdirahman M. Abdullahi
Governor of the Central Bank of Somalia

Attachments (2)

Attachment I. Supplemental Memorandum of Economic and Financial Policies for 2020–2023

This Memorandum of Economic and Financial Policies (MEFP) reviews economic developments and describes recent progress toward the objectives laid out in our program supported by the Extended Credit Facility (ECF). It also updates the previous MEFP and highlights the steps to be taken in the months ahead.

Background and Program Performance

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 and current National Development Plans (NDP8 and NDP9), 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. **Somalia’s strong reform commitment and international support create a unique window of opportunity to address low growth and poverty in Somalia.** Close to 70 percent of the population lives on less than US\$1.90 a day. Growth is currently insufficient to reduce poverty and address large social needs, including health, education, and job creation. Somalia is also highly vulnerable to climate shocks that aggravate food insecurity, hurt growth, and hinder poverty reduction efforts. 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 is critical.
3. **The successful completion of elections has paved the way for a peaceful and smooth transition of power to a new government.** Following successful Presidential elections in May 2022, a new Prime Minister and Cabinet were in place in August 2022. The new government has affirmed its commitment to macroeconomic stability and structural reforms to promote inclusive growth and poverty reduction. 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 gathered pace. Together with our partners’ policy and financial assistance, we remain committed to staying the course of reform and continuing to deepen political cooperation at the federal and regional level.
4. **We are taking action to mitigate the food crisis in several districts resulting from the prolonged drought, compounded by severe security risks and global food supply and price pressures.** Four consecutive failed rainy seasons have led to acute food insecurity for 4.3 million people as of September 12, 2022, with the most severely affected areas under the control of Al-Shabaab that thwarts delivery of humanitarian assistance. For the immediate response, the government is mobilizing external resources from international partners and is coordinating with the UN system on delivery of humanitarian assistance. In addition, there are plans to expand the coverage of the Baxnaano cash transfer program. To help build resilience over time, the newly

created Ministry of Environment and Climate change is preparing a Food Security Crisis Plan to strengthen food systems in Somalia.

5. In 2021, Somalia's economy started to rebound, although COVID-19, drought, and rising commodity prices continued to take a toll. Real GDP growth recovered to 2.9 percent in 2021, following a contraction of 0.3 percent in 2020, primarily driven by a resurgence of household consumption and exports. Still, growth has been insufficient to bring real GDP per capita back to the 2019 level. More recently, economic activity and food security was affected by prolonged drought that has affected crops and livestock. Food insecurity has been exacerbated by rising global food prices. Coupled with rising fuel prices, inflation picked up to 5.7 percent (eop).

6. Higher grants and solid revenue performance are facilitating an improvement in the overall fiscal position in 2022, and all related performance criteria have been met. Domestic revenue collection and expenditure have been in line with expectations, while the disbursements of budget support grants have been higher than expected. The quantitative performance criteria (QPC) and indicative targets (ITs) for June 2022 and September 2022 on domestic revenue and spending on compensation of employees, goods and services, and contingency were all met with a margin. The ITs on the fiscal balance were also met.

7. We continued to make progress in revenue administration reforms. Modeling work on the ad valorem schedule was completed and HS codes were introduced at Mogadishu, Bossaso, and Kismayo in August 2020. In 2021, we piloted Point of Sales (POS) machines at hotels in Mogadishu that transmit sales data to tax offices on a real-time basis, which has had positive effects on data integrity and revenue collection. On customs modernization, the ad-valorem tariff schedule was enacted on June 23, 2022 and the customs regulations on valuations and declarations were issued in September 2022 (SB#1, met). In September, we issued a spectrum fee schedule for telecom operators approved by the National Communications Authority (NCA) in agreement with the Ministry of Finance (MoF) (SB#3, implemented with delay). Revenue collection from the spectrum fee schedule is expected to be US\$6 million per year for the next 10 years. Following the first round of tax audits in 2020, in 2021 we undertook a second round of tax audits that have helped improve the quality of tax returns, particularly those submitted by small and medium-size enterprises. As part of our efforts to implement the 2019 Revenue Administration Law, we held public awareness events improve taxpayer's understanding of the new legal requirements.

8. Public financial management (PFM) was strengthened. To strengthen transparency, we published the annual financial statements of the Federal Government of Somalia (FGS) for 2019 and 2020, which were audited by the Auditor-General (HIPC Completion Point Trigger (CPT)). The PFM Act regulations on debt, public investment, and natural resource revenue management were issued in May 2022 (CPT). The aggregated budget—which combines budgets of the FGS, five Federal Member States (FMS) and Banaadir Regional Administration (BRA)—was published for the first time, as part of the 2021 Budget Policy Framework. We have been publishing the monthly consolidation reports of fiscal outturns of the FGS and five FMS in the MoF website since January 2021. To strengthen expenditure controls, we have fully operationalized the functionality of the Somalia Financial Management Information System (SFMIS) to control commitments within

allocations and warrants, which are guided by monthly cash forecasts. To improve public procurement, we have launched the Somali Public Procurement website which provides a one-stop platform of publication of procurement information.

9. Debt management has continued to improve. The Debt Management Unit (DMU) has successfully upgraded its debt recording management system with the Commonwealth Meridian System. The DMU has been publishing consecutive quarterly public debt reports, so far from 2020Q4 to 2022Q2 (CPT).

10. The CBS is making significant progress on promoting financial development. The launch of the National Payment System in 2021 was a major milestone, enabling a safer and more efficient payment infrastructure. The Gargaara program, with World Bank support, continues to support access to financing for micro, small, and medium-sized enterprises. The guidance for Islamic bank financial reporting and the guidance for the Shariah bank governance framework were issued in 2020. The two largest mobile money operators were granted licenses in 2021. Mobile money regulations were issued, the payment system and mobile money oversight division was established, and a regulation manual drafted.

11. The CBS is strengthening its institutional framework and capacity, including through implementation of IMF Safeguards recommendations. The QPC on NIR has been consistently met. The CBS is enhancing its governance and decision-making arrangements. A function-based organizational structure was adopted, and a new performance management system was established. Implementation of IMF Safeguards recommendations is progressing well, including resolution of the recurring audit qualification of the financial statements. The 2021 audited financial statements were published in September 2022 (SB#8, implemented with delay).

12. Some important steps have been taken on AML/CFT. The National AML/CFT Taskforce has been operational since February 2021 to support the National Anti-Money Laundering Committee. The National ML/FT Risk Assessment (NRA) was finalized. Key infrastructure and IT systems were acquired to support the Financial Reporting Center's capacity to review and assess suspicious transactions. Efforts have been made to improve the integrity of the financial sector through outreach and training.

13. We continue our governance and anti-corruption efforts. To enhance the transparency in the regulatory process for key industries, the CBS and National Communication Authority (NCA), respectively, have published on their websites the outcomes of licensing applications for Mobile Network Operators and Mobile Money Operators. We acceded to the UN Convention Against Corruption (UNCAC) in August 2021 (CPT), and ratified the African Union and Arab anti-corruption conventions. The Independent Anti-Corruption Commission (IACC) was established. We published the National Anti-Corruption Strategy (NACS) and outreach is ongoing to public sector employees for ethics training and to increase awareness of the NACS.

14. We continue to make progress on the petroleum sector legal framework. The Model Oil and Gas Production Sharing Agreement (PSA) was approved by the Inter-Ministerial

Concessions Committee (IMCC) in November 2021. The PFM regulations on natural resource revenue management were issued in May 2022.

15. We have also implemented reforms to support inclusive growth and resilience to climate shocks. We passed the Somali Standards and Quality Control Bill and established the Somali Bureau of Standards in 2020. These provide a framework for agricultural standards and certification to support activity and employment in the largest sector of our economy. Additionally, we established a “one-stop-shop” to e-register business for integrated tax and business licensing services. In May 2022, we issued a second set of regulations to the Company Act specifically covering the issue of minority shareholder protection to encourage private sector investment (CPT).

16. The FGS and FMS are work jointly on enhancing human capital development. The FGS and FMS Ministers of Education adopted an agreement defining their respective roles and responsibilities on curriculum and examinations (CPT). The FGS and FMS Ministers of Health also adopted a joint national health sector strategy (CPT), which will support effective functions and accountability across different levels of governments.

17. We continue to enhance our capacity to produce macroeconomic and financial statistics. The Somalia National Bureau of Statistics has published the Somalia Facts and Figures annually since 2018 (CPT). National accounts and consumer price index are published annually and monthly, respectively. A National Labor Survey was published in September 2021. To promote data transparency, Somalia has recently implemented the enhanced General Data Dissemination System (e-GDDS) framework.

Outlook and Risks

18. In 2022, we expect growth of 1.9 percent, impacted by the drought and subdued global growth. Slower global growth coupled with higher global inflation is expected to dampen remittance inflows, affecting domestic consumption and investment expenditure. Agricultural exports are being affected by the drought. Higher international food and fuel costs will dampen economic activity and will bring inflation to 9 percent in 2022. Growth is expected to increase to 4.1 percent by 2027, as financial and structural reforms facilitate a gradual scaling up of public spending and foster greater private investment.

19. We have considered how best to safeguard our objectives under the ECF-supported program in case downside risks materialize. Significant near-term risks include another failed rainy season exacerbating the drought and food insecurity, security risks, and additional pressures on international food and energy prices. Shortfalls or delays in disbursement of budget support grants also create risks for the budget. If any of these risks materialize, revenue shortfalls could be partly absorbed by our continued fiscal discipline and our sequestration rule that prioritizes critical expenditure. Importantly, we would seek additional financing from development partners.

Economic and Financial Policies

20. Somalia’s ECF-supported program supports continued progress toward the HIPC Completion Point and implementation of NDP9. Reform priorities in the ECF-supported program include: increasing domestic revenue mobilization; strengthening PFM (including the legal and regulatory framework, internal and external audit, expenditure controls, cash management, accounting and reporting, and debt management); continued deepening of CBS capacity; and enhancing governance (including AML/ CFT). Performance criteria consist of a floor for domestic revenue, a ceiling on recurrent operating expenditures, a floor on the cash-based fiscal balance, no accumulation of domestic arrears, no new debt accumulation, and a floor on the net international reserves of the CBS (see MEFP Table 1 and TMU). Structural benchmarks (MEFP Table 2) involve key reform objectives in the areas of revenue administration, public financial management, financial stability, and governance and AML-CFT. Program objectives are also supported by the floating HIPC Completion Point triggers (CPT). Additional reforms to meet program objectives, beyond those discussed below, will continue to be introduced on a 12-month rolling basis as information on needs and priorities emerges. By the conclusion of the arrangement, we expect to have increased the efficiency and transparency of fiscal processes, 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

21. The FGS will continue to improve the fiscal framework and fiscal sustainability over the medium term. 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.

22. For 2022, we will continue to implement the budget, and will build cash buffers to finance 2023. Domestic revenue collection is expected to be in line with the budget. A supplementary budget is not expected for this year; therefore, expenditure will also remain in line with expectations. To contain upward pressure on compensation of employees, the 2022 budget included a nominal wage freeze and limits the headcount increase to the already committed new recruits in the security sector. To support NDP9 implementation, we are increasing social benefits spending financed through project grants. The overall balance in 2022 will be in surplus—as disbursements of budget support grants surpass the estimated financing needs for the rest of the year—facilitating a buildup of cash balances in 2022 that can be used to meet expected liquidity pressures in 2023.

23. For 2023, our fiscal policy will be centered on domestic revenue mobilization, while containing expenditure. Our updated MTFF indicates that domestic revenues and budget support grants will be sufficient to achieve a roughly balanced budget in 2023, although the fiscal envelop

will continue to be extremely tight. To increase revenues, we are committed to implementing a series of measures as delineated below. To contain operating expenses, we will retain the nominal wage freeze, place limits on the headcount increases, and minimize the allocation to discretionary spending. Social benefit spending is expected to be maintained, financed through project grants.

24. Domestic revenue mobilization is a cornerstone of our fiscal program:

- **Customs modernization.** We will expedite the reforms needed to adopt and apply a single import duty tariff schedule at all ports (CPT). The implementation of ad valorem tariffs is key to improving the efficiency of customs administration and mobilizing revenue from trade taxes. In order to develop the infrastructure for ad valorem customs valuation, we will operationalize the Customs Automated System (CAS) at the ports and airports of Mogadishu, Bosaso, and Garowe, and Kismayo by July 2023 (SB#2, reset from April 2023), including a common valuation table to attain the goal of applying a single tariff schedule. In order to protect the integrity and coherence of declaration processing and duty calculation across different ports and airports, we will strengthen collaboration with the FMS on the timely roll-out of the CAS. On completion of these reforms, we will begin application of ad valorem tariffs that rely on invoice values, initially keeping the common valuation table to provide minimum values for duty calculation.
- **Revenue mobilization from large businesses, in particular the telecom sector.** We will speed up the pace of revenue mobilization from the telecom sector, which offers significant revenue potential for the government. Bringing effective tax rates on the telecom sector up to a level comparable to that of peers and other countries in the region is essential to achieve the domestic revenue targets. In order to improve enforcement of sales taxes, by end-March 2023, we will operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors (SB#4). On completion of these reforms, we plan to introduce additional revenue measures, such as excise taxes on airtime, in order to mobilize further revenue from the telecom sector over the medium-term.
- **Turnover tax.** We will introduce turnover taxes with at least 2000 newly registered taxpayers who commence paying taxes by end-May 2023 (proposed SB#10). Introducing a turnover tax will be important to expand the tax net to a large number of small retailers and businesses in Mogadishu, helping to promote formalization, promoting a culture of tax compliance, and signaling that everybody is required to pay their fair share of tax.
- **Tax exemptions.** To strengthen controls and transparency, by March 2023 we will comply with the requirements of the 2019 Public Financial Management Law to (i) notify the Cabinet and Auditor General within 7 days of granting a tax exemption; (ii) submit to Parliament quarterly tax exemption reports; and (iii) publish in the annual budget (Policy Framework Paper) a statement of tax exemptions (proposed SB#11)
- **Modern income tax law.** We will submit for Parliament approval the new Income Tax Law (ITL), which is currently at an advanced stage of preparation. Once enacted, the new ITL will

streamline definitions of taxable income and deductions and is expected to increase income tax collection over the medium-term.

- **Other revenue administration measures.** We will issue the implementing regulations of the Revenue Management Law, which will cover a range of enforcement issues (including the Taxpayer Identification Number, Large and Medium Taxpayers Offices, and tax audits), and facilitate harmonization of revenue administration functions across the FGS and FMS. In order to leverage information and communication technologies for revenue administration, we will develop the Integrated Tax Administration System (ITAS). Once operationalized, the ITAS will enable the collection and use of third-party data and enhance tax audits, automate collection processes, and improve inland tax administration effectiveness. In 2022, we will continue strengthening tax audits by implementing the new audit manual, which draws lessons from the first and second rounds of audits in 2020 and 2021.

25. We will bolster efforts to improve PFM, which is important to strengthen expenditure controls and fiscal transparency:

- **Payroll integration.** To strengthen controls on compensation, we will integrate all compensation of employees into the single payroll included in the SFMIS. We will obtain the Cabinet approval of (i) a pay and grade policy and (ii) a roadmap to implement an integrated payroll that controls all compensation of employees of FGS (SB#5), with a reset target date to end-December 2022 to allow sufficient time for discussion with stakeholders. To fill gaps in the existing wage policy, the pay and grade policy will set out salary scales for temporary workers and other employees, eligibilities for allowances included in non-payroll payments, and clarify the roles and responsibilities of the MoF and National Civil Service Commission in their controls and financial clearance. Ensuring the payroll integrity requires all compensation of employees to be integrated in the automated payroll of the SFMIS, following a sequenced approach to be set out in the roadmap. As a short-term target, we will extend coverage of payroll to 50 percent of non-payroll compensation of FGS employees by end-May 2023 (SB#6). The full implementation of the Pay and Grade Policy will require the MoF's financial clearance authority to approve compensation of all FGS employees and any change therein. Therefore, by end-October 2023, we will (i) configure the SFMIS to allow only the MoF to change the payroll entries; (ii) obtain Cabinet approval of the Appropriation Law 2024 including a provision specifying the MoF's authority over the financial clearance of compensation of all FGS employees (proposed SB#12).
- **Streamlining of business processes.** We will streamline the budget execution and Treasury management process in order to enhance financial controls and reporting. We will develop and enforce an invoice tracking functionality in the SFMIS. In order to monitor accumulation of unpaid invoices and arrears and enable their timely reporting, we will require Ministries, Departments and Agencies (MDAs) to register invoices in the SFMIS immediately after they are received. The SFMIS will enforce this requirement by rejecting a payment voucher for which an invoice has not been registered yet. To improve efficiencies, we plan to accelerate automation of cash planning and revenue management through the SFMIS by eliminating paper-based

parallel process and utilizing the interfaces with the CAS and ITAS. These reforms will be supported by implementation of recommendations provided by the recent SFMIS Quality Assurance exercise, which has identified room for strengthening the Information and Communication Technology governance.

- **Fiscal transparency and accountability.** At the FGS level, we will continue expanding the additional disclosures in the annual financial statements, including a memorandum annex on SDR balances of the MoF. To promote improvements of FMS financial statements, an intergovernmental technical working group will undertake a gap analysis of the FMS' latest financial statements and prepare a common template that complies with the Cash-basis International Public Sector Accounting Standards (IPSAS). In order to expand the coverage of general government fiscal reports, we will coordinate with the Banaadir to develop their regular fiscal reporting process and ensure their participation in aggregated reporting.
- **Public procurement.** We will continue to develop an open and transparent process for public procurement through implementation of the Public Procurement Law and regulations. To foster more effective regulatory compliance, we will strengthen capacity of MDAs through the training and sensitization of the procurement laws and guidelines. We will issue a circular on emergency procurement guidelines to better define emergency situations, set out permissible procurement methods for a given situation, and require use of standardized specifications and framework contracts that would facilitate the procurement process while creating safeguards against wastage. We will also reinforce the strategic role of the Inter-Ministerial Concessions Committee (IMCC), including by strengthening technical support to the IMCC.
- **Public lands and real estate.** To strengthen governance and prevent misuse of government lands and nonfinancial assets, by end-September 2023 we will (i) amend the PFM Regulations to implement the PFM Act's provisions on public property and (ii) issue the asset management policy, in line with IMF recommendations, to provide a standard approach in government assets management, enhance transparency and accountability, and promote a prudent use of public lands and real estate (proposed SB#14).

26. We continue to advance in negotiations with external creditors on restructuring Somalia's external public debt. We have reached debt relief agreements with most Paris Club members and the Kuwait Fund for Arab Economic Development (KFAED). We continue seeking to finalize debt relief agreements with remaining creditors, including non-Paris Club and multilateral creditors.

27. We are working towards finalizing and implementing a harmonized legal framework for the extractive industries. We will submit the Extractive Industries Income Tax (EIIT) to Parliament for enactment (CPT). To promote competition in bidding rounds for petroleum exploration contracts, we will revise the tender protocol in line with IMF recommendations (SB#7), with a reset target date of end-December 2022 to allow sufficient time for additional revisions to align with best practices. With the model PSA and associated PFM regulations finalized, we will not issue any new product sharing agreements until the EIIT is enacted, the tender protocol is finalized,

and the Petroleum Act is operationalized. Any direct negotiations will be limited and informed by price discovery through previous licensing rounds.

Monetary and Financial Sector Reforms

28. We will continue implementing reforms to strengthen CBS institutional capacity and support financial deepening. Draft bills for the National Payment System, revised Financial Institutions Law, and Insurance will be submitted to Parliament. We are developing a National Switch to support the national payment system, as well as a e-KYC system. We plan to issue the regulations on capital adequacy and liquidity coverage ratios by end-September 2023 (proposed SB#13). Staffing and capacity of the CBS Licensing and Supervision Department will continue to be strengthened to improve the quality of supervision. The period-end closing procedures and training plans for CBS staff, including staff of the Finance Department, will be completed soon. Considerations are being given to the amendment of CBS Law and enabling CBS capitalization. We will also continue to build gross international reserves with support of disbursements under the ECF arrangement.

29. With World Bank support, we plan to implement the currency exchange project once the preconditions and financing are in place. In addition to addressing the operational and financial needs associated with the project, we will formulate our medium-term monetary and exchange rate policy priorities and develop 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.

30. We will continue advancing reforms of the AML/CFT operational and legal framework to comply with international standards and support the flow of remittances into Somalia. We will develop an action plan to address the gaps identified by the NRA, and prepare for the MENA-FATF Mutual Evaluation Assessment in 2024. We will resubmit the Targeted Financial Sanctions Law to Parliament for enactment and will issue related regulations (SB#9).

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

31. We continue our strong commitment to improving governance and fighting corruption. We will take steps to review the existing laws to ensure compliance with the UNCAC. We will strengthen the resources of the Independent Anti-Corruption Commission and continue implementing the action plan of the National Anti-Corruption Strategy.

32. We remain committed to advancing a broad-based reform agenda to bolster inclusive growth and improve the resilience to climate shocks. We are updating the Drought Impact and Needs Assessment and will incorporate floods and other shocks. We are also developing an overarching and coherent economic policy framework, anchored in the NDP9 and with an employment focus. We will work with development partners to encourage greater channeling of aid flows through country systems to ensure their alignment with the priorities of the NDP9, enhance their visibility, and facilitate monitoring and evaluation. We will enact the Electricity Act

and issue supporting regulations to facilitate private sector investment in the energy sector (CPT). We will continue working towards accession to the World Trade Organization and on improving regional and bilateral trade ties.

33. We will also introduce a national digital ID to support enhanced Know-Your-Customer and financial intermediation, and support targeted delivery of government services. We will develop the legal underpinnings for the digital ID and procure the necessary IT system. We will enact the Digital ID and Data Protection Bills, and establish the national ID agency. We will also leverage the digital ID to support the implementation of targeted social protection programs.

34. We will establish a national unified social registry (CPT), a necessary building block for a comprehensive shock response safety net system. The USR will be a functional platform that support the registration and determination of potential eligibility for social programs. We are implementing a social safety net scheme—Baxnaano—with the support of the World Bank and using the systems of the World Food Program. To ensure the functionality of the platform, we will enact a Data Protection Law and issues the USR data protection operational guidelines.

35. We are committed to improving key macroeconomic and financial data, acknowledging the critical role it plays in guiding economic policies. Availability of economic activity and social data will be broadened with the expected publication of the Integrated Household Budget Survey (IHBS) in end 2022 and commencement of the Business Survey in November 2022. A new census is expected in 2024, the first after 40 years. The data obtained by the IHBS will be used to rebase GDP and reweight the CPI index. Work is also ongoing to develop production-based national accounts data in 2023 by using data from the Business Survey.

Program Monitoring and Access

36. Program implementation is being monitored through quantitative performance criteria, continuous performance criteria, and indicative targets (MEFP Table 1) and structural benchmarks (MEFP Table 2). These will be assessed through semi-annual reviews. The fifth review will be based on the QPCs and ITs set for end-December 2022, and the sixth review on the QPCs and ITs set through end-June 2023 (as described in MEFP Table 1 and TMU), and the structural conditionality as described in MEFP Table 2. All reviews will be conditioned on quantitative performance criteria outlined in MEFP Table 1.

Table 1. Somalia Quantitative Performance Indicators and Indicative Targets Under the ECF (June 2022–December 2023) 1/
(Millions of U.S. dollars)

	Jun. 2022 4/			Sept. 2022			Dec. 2022 4/	Mar. 2023	Jun. 2023 4/	Sept. 2023 4/	Dec. 2023
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prog.	Prog.	Prog.	Prog.
Quantitative Performance Criteria											
1 FGS domestic revenue, floor 2/	95.0	115.8	Met				247.0		115.0		
2 Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	200.0	155.1	Met				342.0		220.0		
3 Net international reserves, floor	-346.0	-345.4	Met				-346.0		-346.0		
4 Contracting of new domestic debt, ceiling 3/	0.0	0.0	Met				0.0		0.0		
5 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0.0	0.0	Met				0.0		0.0		
6 Accumulation of new external arrears, ceiling 3/	0.0	0.0	Met				0.0		0.0		
Indicative Targets											
1 FGS domestic revenue, floor 2/				150.0	172.4	Met		55.0		170.0	276.0
2 Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/				300.0	237.5	Met		110.0		310.0	352.0
3 Net international reserves, floor 5/				-346.0	-345.4	Met		-346.0		-346.0	-346.0
4 Contracting of new domestic debt, ceiling 3/				0.0	0.0	Met		0.0		0.0	0.0
5 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/				0.0	0.0	Met		0.0		0.0	0.0
6 Accumulation of new external arrears, ceiling 3/				0.0	0.0	Met		0.0		0.0	0.0
7 Fiscal balance, floor (cash basis) 2/	0.0 adjusted to -72.1 7/	-28.2	Met	0.0	32.5	Met	0.0	0.0	0.0	0.0	0.0
8 Accumulation of new domestic expenditure arrears, ceiling 3/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
9 Contracting or guaranteeing any new external, concessional debt, ceiling 3/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
Memorandum item:											
Gross international reserves 6/		192.2									

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

1/ The quantitative targets, indicative targets, and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).

2/ Cumulative from the beginning of the fiscal year.

3/ This target is applied on a continuous basis.

4/ Test date for the fourth, fifth, and sixth reviews, respectively.

5/ Net International Reserves as defined in the TMU of IMF Country No. 22/228

6/ Gross international reserves are defined as the sum of (i) gold; (ii) foreign currency held abroad; and (iii) SDR holdings in the IMF SDR department, net of (i) unused portion of the government's share of the 2021 IMF General SDR allocation, (ii) government deposits in foreign currency held abroad; and (iii) other foreign currency deposits by residents of Somalia held abroad.

7/ The program floor on the fiscal balance is adjusted down by the amount of shortfalls in budget support grants as compared to the budget estimate, up to the maximum amounts stipulated in Table 1 of TMU.

Table 2. Somalia Structural Benchmarks Under the ECF (June 2022–June 2023)

Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring	Status
1 Issue the customs regulations on valuation and declarations and enact the law specifying the ad valorem tariff schedule	End-November 2022	Domestic revenue / MOF	Support domestic revenue generation and custom modernization	Publish the issued regulations and enacted law on the website of the FGS MOF.	Met
2 Operationalize the Customs Automated System at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo	End-July 2023 (reset from end-April 2023)	Domestic revenue/ MOF	Support domestic revenue generation and custom modernization	Confirm use of the Custom Automated System for processing of declarations and calculation of duties at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo. Provide IMF staff with reports on declarations and respective duty amounts generated from the Custom Automated System for the three ports and four airports.	Ongoing
3 Issue a spectrum fee schedule for telecom operators approved by the NCA Board in agreement with the MoF	End-July 2022	Domestic revenue/ NCA MOF MOCT	Support domestic revenue generation and telecommunication regulations	Publish the NCA-Board approved spectrum fee schedule on the website of the NCA	Implemented with delay
4 Operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors	End-March 2023	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Confirm installment of POS machines at taxpayers with large market share in telecom and tourism sectors in Mogadishu. Provide IMF staff with summary of data transmitted from POS machines to tax offices.	Ongoing
5 Cabinet approval of (i) a pay and grade policy and (ii) a roadmap to implement an integrated payroll that controls all compensation of employees of FGS, as part of the 2023 budget documents	End-December 2022 (reset from end-October 2022)	PFM / MOF NCSC MOLSA	Strengthen payroll integrity and expenditure control and governance	Submit to IMF the policy and roadmap approved by the Cabinet	Not met, reset to end-December 2022
6 Extend coverage of payroll to 50 percent of non-payroll compensation of FGS employees	End-May 2023	PFM / MOF NCSC MOLSA	Strengthen payroll integrity and expenditure control and governance	Submit to IMF staff monthly SFMIS reports detailing amount of payroll and non-payroll payments for compensation of employees. A ratio of non-payroll payments to total compensation of employees to be decreased to 16 percent or less on average between March and May 2023 (relative to 32 percent in 2021).	Ongoing
7 Finalize the Tender Protocol in line with IMF recommendations to include an objective and transparent bid evaluation criteria, clear prequalification procedures, and an adequate timeframe for the evaluation of bids and signature of contracts	End-December 2022 (reset from end-August 2022)	Governance / MOF MPMR SPA	To protect the interests of Somalia by promoting competition in bidding rounds for petroleum exploration contracts	Provide IMF staff the IMCC approved tender protocol document.	Not met, reset to end-December 2022
8 Publish audited CBS financial statements for 2021	End-August 2022	Governance / CBS	Enhance central bank transparency and accountability	Publish on the CBS website the 2021 Central Bank of Somalia Annual Report, the audited Financial Statements including the independent external auditor's management letter.	Implemented with delay
9 Enact the Targeted Financial Sanctions Law and issue related regulations. 1/	End-December 2022	AML-CFT Governance / MOF CBS	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	Ongoing

Source: IMF

Note: Ministry of Finance (MOF), Central Bank of Somalia (CBS), Ministry of Petroleum and Mineral Resources (MPMR), Ministry of Communications and Technology (MOCT), Ministry of Labour and Social Affairs (MOLSA), Somalia Petroleum Authority (SPA), Inter-Ministerial Concessions Committee (IMCC), Federal Member States (FMS), National Civil Service Commission (NCSC), public financial management (PFM), Somalia Financial Management Information System (SFMIS), International Public Sector Accounting Standards (IPSAS), Anti-Money Laundering/Combating the Financing of Terrorism (AML-CFT)

1/ Reset SB left over from the 1st review for end-June 2021.

Table 3. Somalia Proposed Structural Benchmarks Under the ECF (December 2022–December 2023)

Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring
10 Introduce turnover taxes with at least 2000 newly registered taxpayers who commence paying taxes	End-May 2023	Domestic revenue/ MOF	Support domestic revenue generation	Confirm collection of at least amount due for the first month after the introduction. Provide IMF staff with a list of taxpayers registered for turnover taxes.
11 Comply with the requirements of the 2019 Public Financial Management Law to (i) notify the Cabinet and Auditor General within 7 days of granting a tax exemption; (ii) submit to Parliament quarterly tax exemption reports; and (iii) publish in the annual budget (Policy Framework Paper) a statement of tax exemptions.	End-March 2023	Domestic revenue/ MOF	Support domestic revenue generation	Publish the individual, quarterly, and annual tax exemptions statements on the MoF website. December 2022 quarter report published by end-March 2023; the annual statement to appear in the 2023 Budget. The information in the quarterly reports shall include: (a) the individual to whom the tax exemption was granted; (b) Reasons for the exemption; (c) total taxes due to the government but not paid; and (d) Benefits to the Government arising from this tax exception. The annual statement will provide a summary of the preceding 4 quarters published reports.
12 (i) Configure the SFMIS to allow only the MoF to change the payroll entries; (ii) Cabinet approval of the 2024 Appropriation Bill including a provision specifying the MoF's authority over the financial clearance of compensation of all FGS employees.	End-October 2023	PFM / MOF	Strengthen wage bill controls and payroll integrity and governance	Confirm with IMF staff the re-configuring the SFMIS payroll module. Update payroll business processes and training of users to support the new policy. Submit to IMF staff the Cabinet-approved draft Appropriation Bill with the required authority clause.
13 Issue the Banking Regulations on Capital Adequacy and Liquidity Coverage Ratio	End-September 2023	Financial Supervision / CBS	Improving risk-based financial supervision	Publish the issued regulations on the website of the CBS
14 (i) Amend PFM Regulations to implement the PFM Act's provisions on public property and (ii) issue the asset management policy, in line with IMF recommendations, to provide a standard approach in government assets management, enhance transparency and accountability, and promote a prudent use of public lands and real estate.	End-September 2023	Governance / MOF	Strengthen governance and prevent misuse of government lands and nonfinancial assets	Publish the amended regulations and issued policy on the MoF website.

Source: IMF

Note: Ministry of Finance (MOF), Central Bank of Somalia (CBS), Ministry of Petroleum and Mineral Resources (MPMR), Ministry of Communications and Technology (MOCT), Ministry of Labour and Social Affairs (MOLSA), Somalia Petroleum Authority (SPA), Inter-Ministerial Concessions Committee (IMCC), Federal Member States (FMS), National Civil Service Commission (NCSC), public financial management (PFM), Somalia Financial Management Information System (SFMIS), International Public Sector Accounting Standards (IPSAS), Anti-Money Laundering/Combating the Financing of Terrorism (AML-CFT)

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) in relation to the blended Extended Credit Facility and Extended Financing Facility spanning March 2020- December 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 quantitative performance criteria (QPC) and indicative targets (IT) are specified in Table 1 of the Memorandum of Economic Financial and Policies (MEFP). Quantitative targets 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.

QPCs for December 2022 and June 2023, and related ITs for September 2022, March 2023, September 2023, and December 2023:

- Floor on Federal Government of Somalia (FGS) domestic revenue;
- Ceiling on spending on FGS compensation of employees, goods & services, & contingency;
- Floor on the Central Bank of Somalia's (CBS) net international reserves (NIR);
- 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.

ITs for September, December 2022 and March, June, September, December 2023:

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

Definitions and Computation

2. 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 FMS (Galmudug, Hirshabelle, Jubaland, Puntland, and South West State) and the Banaadir region.

3. Government revenue and expenditure is defined in accordance with the Government Financial Statistics Manual (GFSM) 2014 on a cash basis of accounting. Government revenues and expenditure are recognized when cash is received and paid and measured on a cumulative basis from the beginning of the current fiscal year (which coincides with the calendar year). Financing transactions—including amortization of World Bank and other debt, receipts and repayments of CBS advances, and withdrawal and reconstitution of Special Drawing Rights (SDR) distributed to the MoF—are excluded from revenue and expenditure. Interest payments are included in expenditure. Receipts from the disposal of nonfinancial assets are also excluded from the definition of revenue. The Somalia Financial Management Information System (SFMS) reports will be used as the basis for program monitoring of revenues, expenditures, and financing transactions, supplemented by monthly financial reports published by the Ministry of Finance.

4. Government domestic revenue includes all tax and nontax receipts received into the FGS general accounts and excludes grants. Domestic revenues 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 (i) grants and other noncompulsory contributions received from foreign governments or international organizations and (ii) transfers of CBS distributable earnings that are not included in the Appropriation Law.

5. Spending on FGS compensation of employees, goods and services and contingencies excludes expenditure made under project appropriations specified in the Appropriation Law. Spending on compensation of employees and goods and services is determined in line with the GFSM 2014. The table on data reporting below requests expenditures by 4-digit level object code for each MDA with a breakdown for those financed by the general government fund, contingency funds, and project support grants specified in the Appropriation Law.

6. Tax exemptions refer to all revenue losses resulting from preferential tax policies. The detailed reporting requirements under the PFM Law are:

- a. Article 5 (3): Within 7 days of granting an exemption the Minister shall notify the Council of Ministers and the Auditor General of the tax exemptions and the reasons for the exemptions.
- b. Article 5 (4): The Minister shall submit the tax exemptions approved to both Houses of

Parliament on or before March 31st, June 30th, September 30th, and December 31st of each financial year.

- c. Article 5 (5): The content of the reports should show at the micro level the individual to whom the tax exemption was granted; the reasons for the exemptions; the total of taxes due to the Government but not paid; and the benefits to the Government arising from the tax exemption.
- d. Article 18 (1)(f): The proposed Budget Appropriation Bill submitted by the Minister to both Houses of the Federal Parliament of Somalia should contain the annual tax exemption report.

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

- a. **Allotment:** An allotment refers to a ceiling on the amount of warrants to be requested by MDAs during a specific time period. An allotment is issued by the MoF within available funds for the period covered. Also referred in some texts as ‘apportionment’ or ‘allocation’.
- b. **Warrant:** A warrant refers to a ceiling on the amount of commitments to be made by MDAs during a specific time period. A warrant is issued by the MoF on request from an MDA within the amount of available allotment. Once approved, the warrant reduces the available allotment.
- c. **Commitment:** A commitment refers to a contract or other form of legally binding agreements to make payments. They include agreements to make payments in exchange for future delivery of goods or services and agreements of a continuing nature, including those for compensation of employees. In case of the former, 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.

8. The fiscal balance, on a cash basis, is defined as the difference between (i) total government revenue (including domestic revenue, transfers of CBS distributable earnings that are not included in the Appropriation Law, and grants); and (ii) total government expenditures (excluding foreign-financed off-budget expenditure).

9. Adjustor to the fiscal balance floor. The floor on the fiscal balance will be adjusted down by any delays or shortfalls in budget support grants as compared to the budget estimate, up to the maximum amounts stipulated in TMU Table 1, to cover priority spending as specified in the sequestration rule under the Appropriation Law, and provided that there are no overruns in other, non- priority spending items.

Table 1. Somalia Adjustor to the Fiscal Balance Floor, Maximum Amount
(US\$ million, cumulative flows from the beginning of each calendar year)

	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Maximum amount of the fiscal balance adjustor	64.1	33.5	67.9	88.6	54.2
Memorandum items					
Budget support grants in the Budget estimate	199.7	60.0	110.0	108.3	108.3
Possible sources of financing for fiscal deficit	64.1	88.6	88.6	88.6	54.2
Proceeds from SDR holdings distributed to the MOF	50.6	0.0	0.0	0.0	0.0
Withdrawal of cash buffers (including fiscal buffer and SDR transit account) 1/	13.5	54.2	54.2	54.2	54.2
Proceeds from CBS temporary advances 2/	0.0	34.4	34.4	34.4	0.0

1/ The Fiscal Buffer is a dedicated account in the Treasury Single Account managed in accordance with the MoF guidelines of July 25, 2019. The SDR transit account is an account held with a correspondent bank in Turkey through which proceeds from SDR holdings distributed to the MOF are channeled.

2/ In line with the CBS Law, the total amount outstanding at any time of CBS advances shall not exceed 15 percent of the most recent audited domestic revenue of FGS. In line with the Appropriation Law, all liquidity advances should be repaid by end-December of the fiscal year. In line with the Short-Term Government Financing Agreement between the CBS and MoF signed on June 21, 2021, the maturity of temporary advances should not exceed 90 days.

10. New domestic arrears of the government are defined as FGS' obligations for payments to residents 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 contract or agreement, after any contractual grace periods lapse. Obligations for payments include CBS advances, borrowing from commercial banks, and accrued but unpaid expenditure commitments for compensation of employees, goods and services, interest payments, mandatory transfer to the Banaadir region, and acquisition of nonfinancial assets. New domestic arrears include those accumulated from the beginning of the fiscal year.

11. 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.

12. For program purposes, debt is defined in accordance with Executive Board Decision No. 15688 (14/107), Point 8(a) and 8(b), adopted on December 5, 2014, as amended, 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.

13. 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.

14. 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.

15. 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 performance criteria 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.

16. The CBS's net international reserves are defined as the difference between gross foreign assets and gross foreign liabilities. All SDRs are valued over the calendar year at the December 30, 2019 exchange rate of US\$1.382830 per SDR. 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.

- a. Gross foreign assets are defined as the sum of (i) gold (valued over the calendar year at the market price of December 31, 2019 (US\$ 1,517.275 per ounce)); (ii) total foreign exchange held abroad; and (iii) Somalia's SDR holdings in the IMF SDR Department; net of (iv) the unused portion of the MoF share of the 2021 IMF General SDR Allocation¹;
- b. Gross foreign liabilities are defined as the sum of (i) government deposits at the CBS in foreign currency held abroad; (ii) other earmarked foreign currency deposits at the CBS by residents of Somalia held abroad; (iii) outstanding IMF credits and loans; and (iv) total amount of SDR general allocation; net of (v) the MoF share of the 2021 General SDR Allocation as per the September 2021 Memorandum of Understanding between the MoF and the CBS.

17. Adjustors to the NIR floor. In case any of the following events materialize, the NIR floor would be adjusted downward by the maximum amounts stipulated in TMU Table 2.

- a. If the CBS transfers distributable earnings to the government as per the Central Bank of Somalia Act.
- b. If the CBS provides the MoF with temporary liquidity advances to finance delays or shortfalls in budget support grants relative to the budget estimate. In line with the CBS Law, the total amount outstanding at any time of CBS advances shall not exceed 15 percent of the most recent audited domestic revenue of FGS. In line with the Appropriation Law, all liquidity advances should be repaid by end-December of the fiscal year. In line with the Short-Term Government Financing Agreement between the CBS and MoF signed on June 21, 2021, the maturity of temporary advances should not exceed 90 days.

¹ As part of the 2021 IMF General SDR Allocation, Somalia received SDR157 million. Of this, the authorities distributed SDR93 million to the MoF and SDR64 million to the CBS to strengthen reserves. The September 2021 Memorandum of Understanding between the CBS and MoF clarifies the responsibilities and procedures related to the distribution of the 2021 IMF General SDR Allocation, including that the MoF will be responsible for servicing the liability related to the use of the SDRs (including net charges).

Table 2. Somalia Adjustors to the NIR Floor*(US\$ million, cumulative flows from the beginning of each calendar year)*

	Maximum adjustment amounts				
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Adjustor 1, in the event that the CBS transfers distributable earnings to the government	-1.5	-0.2	-0.2	-0.2	-0.2
Adjustor 2: in the event of CBS temporary liquidity advances to the government 1/	0.0	-34.4	-34.4	-34.4	0.0

1/ In line with the CBS Law, the total amount outstanding at any time of CBS advances shall not exceed 15 percent of the most recent audited domestic revenue of FGS. For 2022, the most recent audited domestic revenue corresponds to 2020 and the maximum amount of liquidity advances from the CBS is USD31.7 million. For 2023, the most recent audited domestic revenue will correspond to 2021 and the maximum amount of liquidity advances from the CBS is currently estimated at USD34.4 million--this amount will need to be updated in forthcoming program reviews once the audited accounts for 2021 become available. In line with the Appropriation Law, all liquidity advances should be repaid by end-December of the fiscal year. In line with the Short-Term Government Financing Agreement between the CBS and MoF signed on June 21, 2021, the maturity of temporary advances should not exceed 90 days.

Program Monitoring

18. Program-Monitoring Committee. The Somali authorities shall maintain a program-monitoring Technical Working Group (TWG) composed of senior officials from the Ministry of Finance (MoF), the CBS, Financial Reporting Centre (FRC), Somalia National Bureau of Statistics (SNBS), and the Ministry of Planning, Investment and Economic Development (MoPIED). The IMF Resident Representative will have observer status on this working group. The TWG 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.

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

Somalia: Data Reporting, March 2020–December 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 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.	Quarterly	4 weeks after the end of each quarter.
	Other financial indicators	Prudential data as per associated CBS regulations (total capital, core capital, total net assets, high quality liquid assets, and 30-day funding requirement), and average profit rates and tenor information for private sector financing assets from banks.	Quarterly	4 weeks after the end of each quarter.
	Balance of payments	Trade in goods data by HS code and value for the ports of Mogadishu, and Bossaso and Kismayo, starting end-September 2020; petroleum imports to Mogadishu; and travel data from the Immigration Department.	Quarterly	4 weeks after the end of each quarter.
		Cross-border current transfers (both inflows and outflows) by MTBs, and banks, and for MMOs starting from end-March 2021.	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.
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.

Somalia: Data Reporting, March 2020–December 2023 (continued)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
Ministry of Finance	FGS budget operations	For annual and supplemental budgets: <ul style="list-style-type: none"> Revenue by GFS 6-digit revenue classification; Statement of tax exemption for the previous 12-month period (annual budget only); Proposed Appropriation by MDA, program/project and 4-digit object code; Proposed appropriation by MDA and 2-digit object code; Staffing table by MDA; Donor assistance tables by COFOG showing on and off-budget spending; Proposed 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.
		Current year SFMIS reports showing budget, virements, and monthly data for: <ul style="list-style-type: none"> revenue at GFS 6-digit revenue classification code; expenditure by budget line and GFS classification with MDA lines, disaggregated by program/project and showing data by GFS 6-digit object code; and for applicable MDAs, details of budget transfers to each FMS and other units. Reports 1A, 1B and special report for FMS transfers.	Monthly	4 weeks after the end of the month.
		A report that shows details of FGS financing transactions (Report 1C).	Monthly	4 weeks after the end of the month.
		Original budget, virement, allotment, warrant, commitment, and YTD expenditure by 4-digit level object codes for each MDA, with breakdown to those financed by general government fund, contingency fund, and project support grants (Report 2A).	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) (excluding funding for donor projects); expenditures (excluding those financed by project support grants) by MDA and 4-digit level object code (report 3B); and expenditures (excluding those financed by project support grants) by object code at 4-digit level (report 3C).	Monthly	4 weeks after the end of each month.

Somalia: Data Reporting, March 2020–December 2023 (continued)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
Ministry of Finance	FGS budget operations	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.
		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.
	Payroll	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.
	SDR balances	Table showing SDR balances of the MoF and changes therein from the beginning of a fiscal year, with breakdown of withdrawal and reconstitution of SDR holdings and their credits and deductions for interest.	Monthly	4 weeks after the end of the month.
	Customs modernization	Report showing number of declarations, manifests processed, and goods inspections report generated from both the Custom Automated System (CAS) (after the operationalization) and the Somali Single Administrative Document (SOMSAD) system (until being replaced by the CAS).	Monthly	4 weeks after the end of the month.
	FMS and Banaadir budgets	For annual and supplemental budgets: Budget for each FMS, and aggregated budget (both revenue and expenditure). BRA budget to be provided in due course.	As required	Within a week of approval
	FMS and Banaadir final accounts	Final accounts of each FMS and BRA.	Annually	6 months after the end of the year.
	FMS fiscal operations	Reports of fiscal operations (expenditures and revenues) from all Federal Member States (FMS) (using the consolidation tool).	Monthly	6 weeks after the end of each month.
	BRA fiscal operations	Reports of revenue and expenditure of the Banaadir region.	Monthly	6 weeks after the end of each month (from September 2023).
	Domestic arrears	A letter confirming no accumulation of arrears or a table providing the end-of-period stock of domestic arrears accumulated during the year by MDA and 4-digit Object Code.	Quarterly	4 weeks after the end of the quarter.

Somalia: Data Reporting, March 2020–December 2023 (concluded)

Somalia: Data Reporting, March 2020–December 2023 (concluded)				
Ministry of Finance	Outstanding Invoices	A report that shows amount of outstanding invoices, including those past due and not due yet.	Monthly	4 weeks after the end of the month (from May 2023).
	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.
Somalia National Bureau of Statistics	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 15 th of the month consistent with inflation report (or next available business day)
		GDP by expenditure data (from June 2020).	Annually	6 months after the end of each year.



SOMALIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—INFORMATIONAL ANNEX

November 18, 2022

Prepared By

The Middle East and Central Asia Department
(In consultation with other departments and the World Bank)

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RELATIONS WITH THE FUND

(As of September 2022)

Membership Status: Joined: August 31, 1962

General Resources Account:

	SDR Million	Percent Quota
Quota	163.40	100.00
Fund holdings of currency	202.97	124.22
Reserve tranche position	0.0	0.0

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	207.23	100.00
Holdings	124.50	60.08

Outstanding Purchases and Loans:

	SDR Million	Percent Quota
Extended Arrangement	39.57	24.22
ECF Arrangements	231.86	141.90

Latest Financial Arrangements:

Type	Date of arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ECF	Mar 25, 2020	Dec 24, 2023	252.86	231.86
EFF	Mar 25, 2020	Mar 25, 2020	39.57	39.57
SAF	Jun 29, 1987	Jun 28, 1990	30.94	8.84

¹Formerly PRGF.

Projected Payments to the Fund¹

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2022	2023	2024	2025	2026
Principal			3.30	27.68	50.17
Charges/interest	0.64	2.85	2.84	2.68	2.48
Total	0.64	2.85	6.14	30.36	52.65

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	SDR Million
I. Commitment of HIPC assistance	
Decision point date	Mar 2020
Assistance committed by all creditors (US\$ Million) ^{1/}	341.20
Of which: IMF assistance (US\$ million)	183.50
(SDR equivalent in millions)	135.70
Completion point date	Floating
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	2.47
Interim assistance	2.47
Completion point balance	--
Additional disbursement of interest income ^{2/}	--
Total disbursements	2.47

^{1/} Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

^{2/} Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable**Exchange arrangements**

The de jure and de facto exchange rate arrangements are free floating. The official currency of Somalia is the Somali shilling (SOS). However, the economy is effectively dollarized. The de facto currency is the U.S. dollar, which is used for the majority of transactions. The U.S. dollar banknotes are used as cash currency with Somali banknotes serving as a sub-denomination. Banks transact only in U.S. dollars. Mobile phone payments, which are widely used, are also only denominated in U.S. dollars. The Somali shilling, which is largely counterfeit, is used only for small cash payments, particularly in remote areas. Residents exchange U.S. dollars and shillings at a freely determined market exchange rate. This rate varies across federal member states (the Federal Government of Somalia is a federation of five states, excluding Somaliland and Banadir region). The domestic exchange markets have remained generally stable.

Somalia has not accepted the obligations under Article VIII, Sections 2, 3, and 4 and therefore avails itself of the transitional arrangements under Article XIV. Somalia no longer maintains restrictions under the transitional provisions of Article XIV.

Article IV Consultation. The 2019 Article IV consultation was concluded by the Executive Board on June 7, 2019.²

Resident Representative. The Resident Representative for Somalia is based in Nairobi, Kenya.

² Please see Press Release IMF Staff Completes 2019 Article IV Consultation Discussions, Review Visit and Reaches Staff-Level Agreement on a Fourth Staff-Monitored Program with Somalia (<https://www.imf.org/en/News/Articles/2019/05/13/pr19164-somalia-2019-article-iv-consultation-discuss-review-visit-staff-level-agreement-fourth-smp>) and Somalia: 2019 Article IV Consultation-Second Review Under the Staff-Monitored Program, and Request for New Staff-Monitored Program-Press Release; Staff Report; and Statement by the Executive Director for Somalia (<https://www.imf.org/en/Publications/CR/Issues/2019/07/30/Somalia-2019-Article-IV-Consultation-Second-Review-Under-the-Staff-Monitored-Program-and-48543>)

TECHNICAL ASSISTANCE PROVIDED BY THE FUND

Somalia: Completed TA, 2019–October 2022 1/

Department	Activity	Mission Date
FAD	Revenue administration	April-18
	Tax Laws	May-18
	PFM: cash management, arrears, and reporting	May-18
	Tax laws	September-18
	PFM: cash management, arrears, and reporting	September-18
	2019 Budget preparation	September-18
	Public financial management and 2019 budget preparation	October-18
	Tax Laws	November-18
	PFM: cash management, arrears, and reporting	December-18
	Tax laws	January-19
	Revenue administration	April-19
	PFM: cash management, arrears, and reporting	April-19
	2020 Budget preparation	April-19
	Public financial management	July-19
	2020 Budget preparation	September-19
	Tax Laws	November-19
	Tax Administration	December-19
	2020 Budget preparation & MTFF	January-20
	Review of Draft Extractive Industry Fiscal Law and Mining	May-20
	Budget preparation	July-20
	Cash management	August-20
	Budget preparation	October-20
	Preparation for Income Tax Reform	December-20
	Improving revenue forecasting	December-20
	Revenue Administration workshp	January-21
	Debt Recording, Reporting and Monitoring	January-21
	Budget preparation	March-21
	Revenue Forecast	June-21
	Improving Fiscal Reporting	August-21
	Budget Preparation	September-21
	Assesment of Internal Auditing Practices	January-22
	Income tax - Review of draft legislation comments	January-22
	Budget preparation	February-22
Federal Tax Policy Workshop	March-22	
Income Tax - line by Line review with drafting committee	March-22	
Income Tax law follow up workshop	June-22	
June 22 Reforms Plan Updates	June-22	

Source: International Monetary Fund.

1/ Based on information through October 2022.

Somalia: Completed TA, 2019–October 2022 1/ (concluded)

Department	Activity	Mission Date
MCM	Bank Supervision & Regulations	March-19
	Bank Supervision & Regulations	August-19
	Central Bank Organisation - Work from home Mission	October-19
	Bank Supervision & Regulations	December-19
	Virtual TA (COVID): Bank Supervision & Regulation	April-20
	Virtual TA (COVID): Risk Based Supervision	October-20
	Virtual TA (COVID): Risk Based Supervision	June-21
	Bank Supervision II	October-21
	MFS/FSIs - Improving Compilation	January-22
	Banking Supervision	May-22
STA	Business register	March-19
	Balance of Payments	April-19
	Government financial statistics	April-19
	National Account (SOM TTF)	August-19
	Government financial statistics	October-19
	(Remote TA) Monetary and Financial Statistics (SOM TTF)	May-20
	(Remote TA) Balance of Payments Statistics (SOM TTF)	February-21
	(Remote TA) National Account Statistics (SOM TTF)	April-21
	Desk Work - EGDDS	April-21
	(Remote TA) Chart of Accounts review	August-21
	(Remote TA) GFS& PSDS Workshop	October-21
	GDP Data Revision and Dissemination policy	April-22
	National Accounts	May-22
	E-GDDS - Implementation of IMF Data Standards Initiatives	May-22
GDP - Improving GDP compilation system	May-22	

Source: International Monetary Fund.

1/ Based on information through October 2022

RELATIONS WITH THE OTHER INTERNATIONAL ORGANIZATIONS

(As of September 2022)

African Development Bank:

- Country page: <https://www.afdb.org/en/countries/east-africa/somalia>

European Union:

- Country page: https://www.eeas.europa.eu/delegations/somalia_en?s=153

World Bank Group:

- Country page: <https://www.worldbank.org/en/country/somalia>
- Overview of World Bank Group lending: <https://financesapp.worldbank.org/countries/Somalia/>
- BRD-IDA project operations: https://projects.worldbank.org/en/projects-operations/projects-list?lang=en&countrycode_exact=TM&os=0&qterm=somalia

STATISTICAL ISSUES

As of October 2022

I. Assessment of Data Adequacy for Surveillance

General: Data provision has serious shortcomings that significantly hamper surveillance. Macroeconomic and financial statistics are being developed but there are few data sources and information systems are not yet adequate. The authorities' Statistical Action Plan underpins further improvements in statistical capacity, including further work on GDP by expenditure, a production-based estimate of GDP, and a new national CPI. There is also scope to advance within the e-GDDS framework. To support economic management and governance, continued IMF CD support is needed to strengthen the compilation and dissemination of macroeconomic and financial statistics, including national accounts, consumer price index, government finance statistics, external sector statistics, and monetary and financial statistics.

National accounts: Official estimates of annual GDP by expenditure began to be compiled and released in 2020, and were developed via tripartite technical assistance provided by the IMF, World Bank, and Statistics Sweden. New estimates are released each June. Estimates used a fixed base year of 2017. SNBS has received technical assistance to help develop a business register to support a business survey, which in turn will allow it to compile estimates of GDP by production. A business census is forthcoming (February 2023), and the SNBS expects to publish production-based GDP estimates later in 2023. A new census is expected in 2024, the first after 40 years.

Price statistics: CPI data collection does not cover the whole country. SNBS plans to add the remaining two federal regions to expand geographical coverage of the CPI, from which a national CPI will be calculated. Updating of the CPI weights is planned based on the Integrated Household Budget Survey the results of which are expected to be published at the end of 2022. Publication of the CPI with national coverage and updated weights is planned in 2023.

External sector statistics (ESS): The balance of payments is not available to Fund staff. The international investment position is not compiled. The IMF provided several technical assistance missions during 2016–20 to the Central Bank of Somalia (CBS) on the ESS under the umbrella of the Somalia Trust Fund for Capacity Building in Macroeconomic and Financial Statistics aiming to strengthening staff capacity on the balance of payments source data and compilation. The CBS has achieved progress in implementing some of the previous missions' recommendations. However, the COVID-19 pandemic led to the postponement and in some cases slow progress regarding the implementation of the planned activities for improving data collection. A November 2022 mission will provide technical assistance to the CBS in improving balance of payments compilation, including assessing the coverage of cross-border trade in goods and services statistics, personal transfers data, and direct investment data.

Government finance statistics: Data for the general government, although regularly and timely disseminated by the Ministry of Finance, only covers transactions at the budgetary level for the

Federal Government and the Federal Member States on an aggregated (not consolidated) basis. As no below-the-line information is published, data is incomplete, and its consistency cannot be directly assessed.

Monetary and financial statistics: The authorities provide data on central bank balance sheet and commercial bank consolidated balance sheet on a monthly basis. Data are not reported for publication in the International Financial Statistics (IFS). Mobile money operators' balance sheets have not yet been included in the monetary and financial statistics. Stock data (balance sheet) of Money Transfer Business (MTB) and financial soundness indicators are not reported.

II. Data Standards and Quality

Somalia has joined the IMF Data Standards Initiatives, implementing the recommendations of the Enhanced General Data Dissemination System (e-GDDS) by publishing essential macro-economic and financial data through a National Summary Data Page (NSDP) in June 2022 (<https://somalia.opendataforafrica.org/fhubste>). E-GDDS implementation was one of the authorities' commitments under the First ECF Review in 2020. The data published under the e-GDDS provides policymakers and domestic and international stakeholders access to information critical for monitoring economic conditions and policies

Table 1. Common Indicators Required for Surveillance
(As of October 2022)

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	Not applicable	Not applicable	n.a.	n.a.	n.a.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	August, 2022	October, 2022	M	M	M
Reserve/Base Money	August, 2022	October, 2022	M	M	M
Broad Money	August, 2022	October, 2022	M	M	M
Central Bank Balance Sheet	August, 2022	October, 2022	M	M	A
Consolidated Balance Sheet of the Banking System	August, 2022	October, 2022	M	M	A
Interest Rates ²	Not available	Not available	n.a.	n.a.	n.a.
Consumer Price Index	September 2022	October 2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Not applicable	Not applicable	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing ³ – Budgetary Central Government	August 2022	October, 2022	M	M	n.a.
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	June 2021	October 2021	M	M	n.a.
External Current Account Balance	April 2022	August 2022	Q	Q	Q
Exports and Imports of Goods and Services	April 2022	August 2022	Q	Q	Q
GDP/GNP	December 2021	June 2022	A	A	A
Gross External Debt	June 2021	October 2021	A	A	I
International Investment Position ⁶	Not available	Not available	n.a.	n.a.	n.a.

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

³Foreign, domestic bank, and domestic nonbank financing.

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

⁵Including currency and maturity composition.

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

⁷Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Statement by the Staff Representative on Somalia
December 5, 2022

This statement is to update the Executive Board on some recent developments following the issuance of the Staff Report for the 2022 Article IV Consultation and Fourth Review Under the Extended Fund Facility. These developments do not alter the thrust of the staff report or staff appraisal.

Drought and food security. Overall cumulative rainfall since the start of the Deyr season in October remains well below average across most of the country, risking a fifth consecutive failed rainy season. It remains urgent for humanitarian aid to be scaled up and sustained.

Tender protocol for the petroleum sector. On November 22, 2022, the Inter-Ministerial Concessions Committee approved the revised tender protocol and accompanying amended regulation, in line with IMF recommendations, thereby completing the structural benchmark.

Budget 2023. The 2023 budget was approved by Cabinet on November 16, 2022 and was submitted to Parliament on November 27, 2022 for consideration. Staff's assessment of the Cabinet approved budget remains broadly unchanged relative to the staff report. It is consistent with agreements reached with staff: it promotes higher domestic revenues, maintains domestically financed current expenditure in check while accommodating higher spending on drought response and security, and incorporates higher externally financed project in support of NDP9 priorities, including social spending. In particular:

- **Domestic revenue.** Domestic revenue in the approved budget is forecast at 3.1 percent of GDP, in line with expectations, and incorporates some additional revenue from new fishing licenses.
- **Mandatory spending** (excluding projects). Compensation of employees is budgeted at 3.1 percent of GDP, compared to 3 percent of GDP in the draft budget earlier seen by staff, mainly on account of higher spending in the defense and security sector. Goods and services are budgeted at 1.1 percent of GDP, compared to 1 percent of GDP in the draft budget, including some additional spending on military supplies, utilities and fuel, and other operating expenses.
- **Transfers to Federal Member States (FMS).** While the approved budget incorporates 0.7 percent of GDP in transfers to FMS, compared to 0.5 percent of GDP in the draft budget, discussions on the size of transfers are still ongoing between the Federal Government and the FMS.
- **Overall balance.** As a result of these small deviations, the approved budget shows an overall deficit of 0.2 percent of GDP for 2023, compared to a surplus of 0.2 percent of GDP in the draft budget. Staff considers the overall fiscal objectives for 2023 as appropriate, and the small deficit in 2023 is expected to be covered by budget grants already disbursed in 2022.

**Statement by Mr. Mohieldin, Executive Director for Somalia, Mr. Alhosani, Alternate Executive Director, Ms. Choueiri, Senior Advisor to the Executive Director.
December 5, 2022**

The conclusion of parliamentary and presidential elections on May 15, 2022, followed by a peaceful transition of power, reinforced Somalia's commitment towards state-building and stability despite a fragile security situation and domestic and global challenges. The newly elected government is focused on addressing security risks, urgent climate change, and severe food insecurity, which are compounded by higher global food and fuel prices. Somalia is currently facing a severe and prolonged drought with potential for famine. With four failed rainy seasons and the fifth at risks of also being failed, 4.3 million people are currently facing acute food insecurity and that number is expected to rise to 6.7 million by the end of the year. Therefore, the Somali authorities continue to mobilize resources from international partners in coordination with UN agencies to avert famine. Despite the challenges, the authorities have made progress in economic reforms and reforms under the Ninth National Development Plan (NDP9) which is focused on rebuilding Somalia's economic institutions, improving public finance management, and achieving sustainable and equitable growth. The Somali authorities also continue to fully own their IMF-supported program, as reflected in strong performance under the program. This performance, together with the continued support from development partners will underpin Somalia's efforts towards reaching the Highly Indebted Poor Countries Completion Point (HIPC CP) by end-2023, which would be a notable achievement given the country's challenging circumstances and capacity constraints.

Introduction

- 1. The Somali authorities very much appreciated the constructive dialogue with the Fund staff** during the Article IV Consultation and Fourth Review Under the Extended Credit Facility Arrangement (ECF) mission. They also viewed the Selected Issues Paper on food insecurity and exposure to climate shocks as topical and timely.
- 2. Somalia continues to make notable strides in rebuilding policy and institutional capacity, benefitting from support from the IMF and other development partners.** The authorities are making concerted efforts to implement broader reforms articulated in the Ninth National Development Program (NDP9) and supported by the ECF program. They are also making progress in the implementation of the required floating triggers to reach the HIPC CP by end-2023. Despite the challenging domestic and external environment compounded by severe climate, pandemic, and geo-political shocks, the authorities have kept the ECF program firmly on track. Moreover, the country has shown remarkable resilience in maintaining macroeconomic stability and is benefiting from the successful conclusion of peaceful elections, which laid a solid

groundwork for coordinated reform efforts and strong ownership. Nonetheless, the country is facing a humanitarian crisis occasioned by successive and severe droughts and rising food and energy prices. Considering the acute food insecurity, the authorities seek continued generous and timely donor support to avert hunger and starvation, as well as medium-term help to build resilience

3. **Somalia continues to rely on extensive capacity development (CD) support.** In this regard, the authorities would be grateful for accelerated pledges by development partners to the Somalia Country Fund—largely the main vehicle for Fund CD delivery in Somalia—to support the goals of the ECF and HIPC process.

Program Performance

4. **Program Performance is strong.** All quantitative performance criteria and indicative targets for end-June and end-September have been met. Further, four out of the five structural benchmarks (SBs) that were due by end-October were met, albeit with delays on one SB. The missed SB (pay and grade policy) and delayed SB (tender protocol for the petroleum sector) reflect capacity and technical constraints. In view of the strong program performance, the authorities are requesting to reset the due date for these two benchmarks to end-December 2022. They also seek the support of the Executive Directors to complete the fourth review under the ECF arrangement and conclusion of the Article IV consultation.

Recent Economic Developments and Outlook

5. **Following a rebound to 2.9 percent in 2021, economic growth is expected to slow down to 1.9 percent in 2022 weighed by the multiple shocks.** It is expected to pick up to 3.1 percent in 2023, underpinned by higher exports, remittances, and investments. That said, the economic outlook remains clouded by adverse weather events culminating in the fifth consecutive drought season, as well as the adverse spillovers from geopolitical developments. Moreover, remittance flows are being affected by weaker growth in economic partner countries. In the medium term, growth is expected to accelerate, bolstered by deeper reforms in public finance, financial sector, and governance, as well as the development of the agriculture, fisheries, and petroleum sectors.

6. **The spillovers from geopolitical developments and drought are expected to push average inflation to 9 percent in 2022.** Considering that 75 percent of Somalia's consumption basket comprises of food items, higher food inflation will have disproportionate effects on the most vulnerable.

Fiscal Policy and Reforms

7. **The Somali authorities are committed to creating fiscal space to support increased priority spending through strong revenue mobilization and better expenditure management.** Revenue collection efforts have been challenged by multiple shocks including COVID-19, drought, desert locust, and political uncertainty. However, revenue has started to recover during the second half of the year and is expected to increase further in 2023, supported by the newly implemented spectrum license fee, higher collection of khat import taxes, and collection of administrative fees. A 2023 budget, consistent with program objectives, was approved by Cabinet on November 16, 2022. It promotes higher domestic revenues, while keeping domestically financed current expenditure under control and accommodating higher spending on drought response and security. The 2023 budget also incorporates higher externally financed projects in support of NDP9 priorities, including social spending. To strengthen revenues and improve transparency, the authorities are taking decisive actions to improve the efficiency of revenue administration, particularly customs administration, with a view to introduce ad valorem tariff structure by next year. The ad valorem schedule was completed, and work on regulations on customs valuations and declaration were issued in September 2022. Full implementation of the ad valorem tariff structure is expected to commence in the second half of 2023 or early 2024.

8. **The authorities are cognizant of the importance of post-HIPC CP fiscal sustainability when grant financing from the World Bank and other development partners is expected to substantially decline.** In this regard, they aim to increase the domestic revenue collection to 15 percent of GDP in the long term from the low base of three percent through a combination of new tax measures and improved tax collection efficiency. Towards this goal, the authorities aim to modernize the income and consumption tax by enacting a new Income Tax Law in 2023, issue the regulations for the Revenue Management Law, and develop an Integrated Tax Administration System.

9. **The authorities will continue to enhance public finance management and expenditure efficiency and transparency.** To improve the efficiency of budget execution and control, the authorities will introduce invoice tracking functionality to the Somali Financial Management Information System (SFMIS). As part of the efforts to improve fiscal transparency, the authorities will improve the budget execution and Treasury management process and expand the coverage of general government fiscal reports. Furthermore, they will introduce a new Pay and Grade policy and a roadmap to implement an integrated payroll system that covers all civilian public sector employees by the end of the year. Efforts are also underway for the effective implementation of the Public Procurement Law and regulations.

Financial Sector Policies and Reforms

10. **The authorities continue to make significant progress in strengthening the institutional framework and capacity of the Central Bank of Somalia (CBS).** The new function-based management structure is yielding results by improving decision making and operations of the CBS. The authorities are making substantial progress in implementing the IMF safeguards recommendations which have already made contributions to improving external audit, legal, reporting, internal audit, and controls. Further, the launch of the payments system has improved the efficiency of the payment structure and the currency reform will support financial deepening and financial inclusion. The authorities have finalized the National Payment Systems and Insurance draft law, which will be submitted to Parliament. They authorities are also developing a National Switch to support the national payment system. The authorities plan to issue regulations on capital adequacy and liquidity coverage ratios by end-September 2023. Moreover, staffing and capacity of the CBS Licensing and Supervision Department will continue to be strengthened to improve the quality of supervision. The CBS will also take steps to encourage the development of risk management and internal controls of financial institutions. The recent licensing of two foreign banks is expected to improve market competition, provide new financial products, and transfer knowledge and techniques.

11. **The authorities have taken concrete steps to build and operationalize the AML/CFT legal framework in an effort to support the establishment of formal correspondent banking relationships and promote the flow of remittances into Somalia.** The National AML/CFT Taskforce has been operational since February 2021 to support the National Anti-Money Laundering Committee. The National ML/FT Risk Assessment (NRA) was finalized. Key infrastructure and IT systems were acquired to support the Financial Reporting Center's capacity to review and assess suspicious transactions. Moreover, efforts have been made to improve the integrity of the financial sector through outreach and training

Structural Reforms and Climate Change

12. **The authorities are committed to advance structural reforms, notably enhancing the governance framework and intensifying the fight against corruption.** The authorities will take steps to review the existing laws to ensure compliance with the UNCAC They plan to provide the necessary resources to improve the capacity to enable the newly established Independent Anti-Corruption Commission to effectively carry out its functions and continue the implementation of the action plan of the national Anti-Corruption Strategy. Somali authorities have made substantial progress in improving governance and rebuilding integrity institutions. Nevertheless, they feel that perception indices which slowly improves over time, do not accurately capture progress made and hard-won reforms.

13. **Progress is being made in enhancing the petroleum sector legal framework.** The authorities have revisited last week the tender protocol in line with IMF recommendations and

have completed the drafting of the Petroleum Law regulations. In addition, in October 2022, several production sharing agreements based on direct negotiations were signed with a private firm that holds a seismic option agreement from 2013. Moreover, the PFM regulations on natural resource revenue management were issued in May 2022.

14. **Somalia remains one of the most vulnerable countries in the world to climate change, which highlights the need to improve the resilience to climate shocks.** The severity and frequency of droughts and floods have been increasing in recent years with devastating implications for the poorest segments of the society and economic growth. The authorities are taking concrete actions to address both immediate consequences of climate change as well as taking steps on mitigation and adaptation. In this context, the new administration has created a new Ministry of Environment and Climate Change tasked to lead and coordinate Somalia's response to climate change and building of resilience. They are also promoting greater collaboration across agencies on disaster mitigation and preparedness. Given extremely limited fiscal space, Somalia is not able to make the required investment in infrastructure and social safety net to adequately adapt to climate change. In this regard, the authorities call on international development partners to continue their much-needed support to help the country to build resilience to climate shocks and food security.

HIPC Initiative

15. **The Somali authorities are focused on reaching the HIPC CP in 2023.** They very much welcome the assessment of the staffs of the IMF and World Bank that the HIPC Completion Point appears feasible in late 2023. To that effect, they are working tirelessly to implement all HIPC CP triggers in a timely manner, and very much hope for timely debt relief agreements with creditors. As part of this effort and to better target government services to most vulnerable households, the authorities will establish a national unified social registry (USR). The USR will support the registration and determination of potential eligibility for social programs. To ensure the functionality of the platform, the authorities will enact a Data Protection Law and issues the USR data protection operational guidelines.

Conclusion

16. Despite a challenging domestic and global environment, the Somali authorities remain committed to implementing the challenging reforms needed to reach the HIPC CP in 2023. They value their engagement with IMF staff and the substantial technical assistance and capacity development support they receive. They look forward to the support of Executive Directors towards the conclusion of the Article IV consultation and completion of the Fourth review under the ECF program.