INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/187

SOMALIA

May 2023

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA AND INDICATIVE TARGET, AND INTERIM ASSISTANCE-PRESS RELEASE; AND STAFF REPORT

In the context of the Fifth Review Under the ECF, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on March 20, 2023, with the officials of Somalia on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 1, 2023.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

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

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

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes Fifth Review of the Extended Credit Facility for Somalia

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the fifth review under the Extended Credit Facility with Somalia. The decision allows for an immediate disbursement of about US$9.4 million to Somalia to support the implementation of the authorities' National Development Plan and to anchor reforms between the Heavily Indebted Poor Countries (HIPC) Decision and Completion Points.*

- *Despite significant challenges, including from the continued severe food crisis, Somalia has maintained strong reform momentum and program performance has been satisfactory.*

- *The authorities' steady progress under the Heavily Indebted Poor Countries (HIPC) process is important to lay the ground for achieving the Completion Point in late 2023. Continued support from international partners is imperative to support the authorities' policy efforts.*

Washington, DC – May 19, 2023: On May 17, 2023, the Executive Board of the International Monetary Fund (IMF) completed the fifth review of the Extended Credit Facility (ECF) arrangement for Somalia. The completion of the review enables the immediate disbursement of SDR 7 million (about US$ 9.4 million), bringing Somalia's total disbursement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) to SDR 285.4 million (about US$ 386.1 million). In completing the review, the Executive Board approved a waiver of non-observance for the December 2022 performance criterion on spending on compensation of employees, goods and services, and contingency based on corrective measures in the supplementary budget for 2023. The Executive Board also approved a fourth HIPC interim assistance in the amount of SDR 2.211 million to cover 100 percent of Somalia's eligible debt service to the IMF that falls due between June 17, 2023 and June 16, 2024 or the HIPC Completion Point, whichever is earlier. The Executive Board's decision was taken on a lapse-of-time basis. [1]

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

[1] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

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 Heavily Indebted Poor Countries (HIPC) Decision and Completion Points.

Notwithstanding significant climate, security, and political challenges, the Somalia authorities remain committed to economic reforms and the HIPC process with the aim of building resilience, promoting inclusive growth, and reducing poverty. Program performance has been broadly satisfactory and the HIPC Completion Point appears achievable by 2023Q4.

Economic activity in Somalia has been weighed down by the drought and subdued remittances inflows, and the 2023 GDP growth projection was downgraded by ¼ percent to 2.8 percent. Average inflation is expected to decline to 4.2 percent in 2023 as commodity prices recede. Near-term risks are elevated, including a worsening of the food crisis if healthy rains are not sustained in 2023 or if commodity prices increase. Other risks include security challenges, political risks, and policy slippages that could delay reaching the HIPC Completion Point.

The authorities are committed to advancing fiscal and institutional reforms, and normalizing relations with all external creditors. In particular, sustained efforts are needed to strengthen domestic revenue mobilization to make room for priority spending, while containing discretionary expenditure pressures. In this regard, improvements are ongoing on public financial management, including on payroll integration. It will be important to continue to implement reforms to improve AML/CFT and strengthen governance and transparency, including on procurement and concessions. Continued strengthening of Central Bank of Somalia institutional capacity and financial sector reforms are welcome and should continue. Steady progress is needed to finalize the HIPC completion point triggers and achieve debt relief agreements with all creditors.

Timely financing and capacity development support from development partners is essential for the successful implementation of the authorities' reform strategy. Contributions from Somalia's partners to the Somalia Country Fund are critical to ensure smooth delivery of IMF technical assistance to support the goals of the ECF-supported program and the HIPC Initiative.

INTERNATIONAL MONETARY FUND

SOMALIA

May 1, 2023

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA AND INDICATIVE TARGET, AND INTERIM ASSISTANCE

EXECUTIVE SUMMARY

Context. Somalia continues to face drought and acute food insecurity in some areas, and the security situation remains tense as the government has stepped up its military advances against Al-Shabab. Despite these significant challenges, the authorities remain committed to the reform effort. Program performance is broadly satisfactory and the HIPC Completion Point (CP) appears achievable by 2023Q4.

Reform priorities. To ensure a prudent fiscal policy stance, the authorities are committed to adopting a supplementary budget for 2023 that accommodates high priority spending while keeping fiscal policy in line with program objectives. In this regard, they will continue to strengthen domestic revenue mobilization, including customs modernization, revenue collection from large businesses (in particular the telecom sector), and a new turnover tax. At the same time, they are moving ahead with reforms on public financial management, including full payroll integration. To support governance and reduce corruption vulnerabilities, the authorities are committed to strengthening the strategic and oversight role of the Inter-Ministerial Concessions Committee over large government contracts and concessions, finalizing the legal framework for the extractive industries, and developing the policy for management of non-financial assets. The central bank will continue to enhance its capacity, including financial regulation and supervision. In consultation with the IMF, the authorities will work on formulating the monetary and exchange rate policy frameworks for the currency reform, with implementation of the frameworks to be supported by IMF technical assistance. Key actions on AML/CFT include continued efforts to establish a framework for targeted financial sanctions in line with the international standards and implementation of the national AML/CFT Action Plan.

Program performance. All but one of the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2022 were met. The QPC on government spending was missed by a small margin, and the authorities are requesting a waiver based on corrective measures in the supplementary budget for 2023. They are also requesting a modification to the June 2023 QPC and September 2023 IT ceiling on government spending to accommodate higher security and development outlays while keeping total expenditure within the available resource envelope. The authorities have implemented three structural benchmarks related to payroll integration, the petroleum sector legal framework, and transparency of tax exemptions. In view of capacity constraints, the authorities are requesting new target dates for two structural benchmarks: (1) to operationalize the point-of-sale machines by end-June 2023, to allow sufficient time for installation and engagement with taxpayers; and (2) to issue the regulations of the Targeted Financial Sanctions Law by end-July 2023 to allow time for IMF technical assistance.

HIPC Initiative. The staffs of the IMF and World Bank assess that the HIPC CP appears feasible in late 2023. Timing will depend on finalizing the HIPC CP triggers and the debt relief agreements with creditors. The authorities are requesting the disbursement of a fourth interim HIPC assistance in the amount of SDR 2.211 million to cover 100 percent of Somalia's eligible debt service to the IMF that falls due between June 17, 2023 and June 16, 2024 or the HIPC CP, whichever is earlier

Program and other risks. If healthy rains do not return in 2023 or if commodity prices increase, the food crisis will aggravate. Other risks include security challenges, political risks, and policy slippages that could delay reaching the HIPC CP. Risks to the program are mitigated by continued program ownership, capacity development, 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 March 7–13, 2023 and the Concluding Meeting took place virtually on March 20, 2023. 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.

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CONTEXT

1. Somalia continues facing drought and acute food insecurity in some areas. Rainfall in 2022Q4 was below average, which will have negative lingering effects on crops and livestock in 2023. More than a third of the population (5.6 million people) continued to face acute food insecurity as of December 2022, contributing to internal displacement. The government has been coordinating with the UN system on delivery of humanitarian assistance and, thanks to donor support, close to 7.3 million people are getting some form of assistance. However, the most severely affected areas are under control of Al-Shabaab that thwarts delivery of humanitarian assistance. According to the Integrated Food Security Phase Classification December 2022, half of the population would face acute food insecurity by June 2023 if the April-June rainy season disappoints and financing of humanitarian support is not adequate.

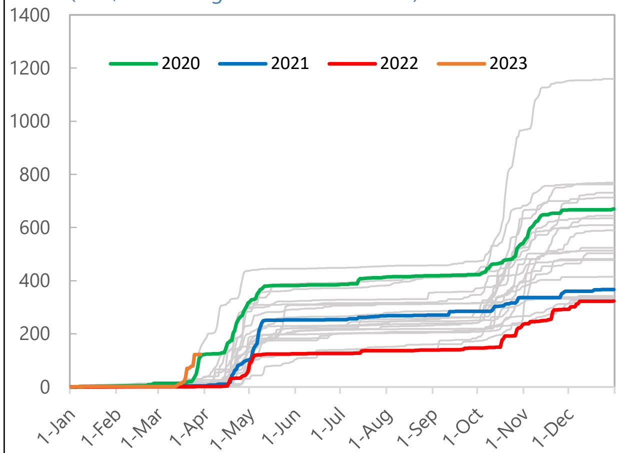
2. Security challenges are elevated as the fight against Al-Shabab continues. Since mid-2022, the new government has scaled up the military and financial campaign against Al- Shabab. The Somali military—with support of local militia, international partners, and the general population—has gained ground against Al-Shabab in the central Somali regions, which has facilitated the delivery of humanitarian assistance. However, significant challenges remain in terms of establishing durable local security arrangements and providing targeted social assistance to the liberated areas. In addition, terrorist attacks continue, including in Mogadishu, underscoring the fragile security situation.

3. Federal Government of Somalia (FGS) and Federal Member States (FMS) reached important agreements on fiscal federalism principles, though political tensions remain. In March 2023, the National Consultative Council brought together the FGS, Presidents of four of the five FMS, and the Mayor of Mogadishu. High-level agreements were reached on creating a National Revenue Authority, the assignment of revenue responsibilities across levels of government, the pool of revenues that are to be shared between FGS and FMS, and other institutional arrangements. However, there have been rising political tensions between Puntland State (not in attendance) and the FGS, creating risks for the advancement of political agreements on federalism and implementation of federal fiscal reforms.

4. Despite these challenges, the authorities remain committed to the reform effort and the HIPC Completion Point (CP) appears achievable by 2023Q4. Somalia continues to make progress towards the HIPC CP triggers and reforms under the ECF-supported program. Progress has also been made in debt relief agreements with creditors.

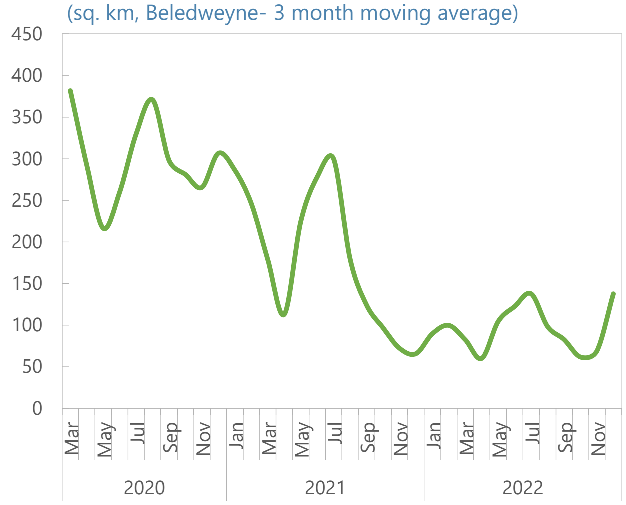
5. Somalia is increasingly integrating with the East African Community (EAC) and the wider world. Somalia is expected to formally join the EAC later this year, following a verification exercise. In February 2023, Mogadishu hosted the Frontline States Summit, attended by presidents of Djibouti, Ethiopia, Kenya, and Somalia. In November 2022, Mogadishu also hosted its first international investment conference, with participation of over 25 investors. The upgrade to Somalia's airspace by the International Civil Aviation Authority in January 2023 signals greater safety and efficiency, which is expected to facilitate an increase in air traffic.

Cumulative Precipitation
(mm, area along Webi Shabele River)



Source: NASA and IMF Staff calculations

Area of Farms with Vegetation
(sq. km, Beledweyne- 3 month moving average)

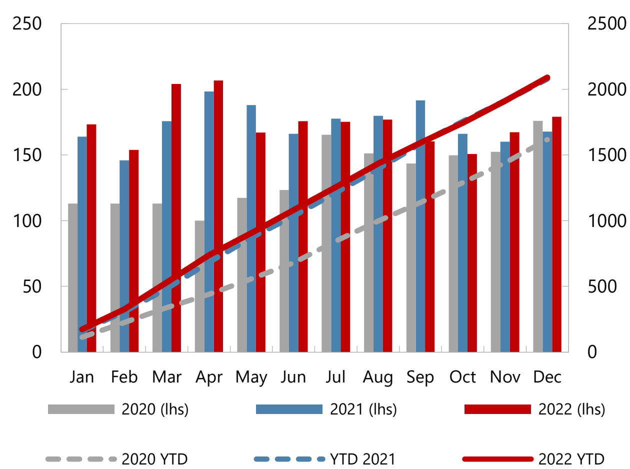


Source: Landsat imageries and IMF Staff calculations

RECENT ECONOMIC DEVELOPMENTS

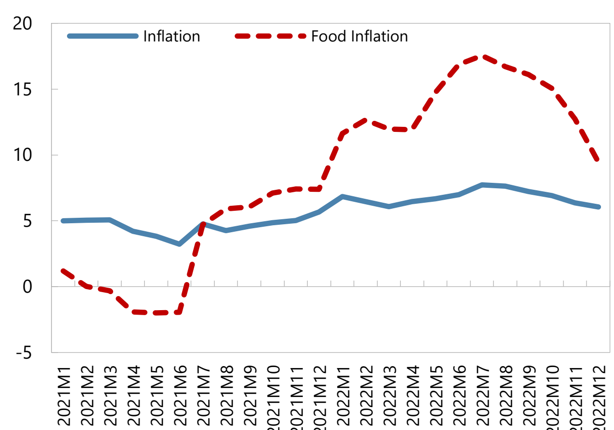
6. **Weaker than expected remittances and exports affected GDP growth in 2022, estimated at 1.7 percent.** Remittances remained broadly flat in 2022—attributed in part to the impact of higher prices on the real income of the diaspora community—and agriculture production and exports contracted due to the ongoing drought. The substantial increase in imports, in particular of food, was financed mainly through higher official grants, contributing to a stable current account balance of 16.8 percent of GDP. With domestic fuel and food price inflation moderating since mid-2022, inflation at end-December declined to 6.1 percent.

Remittance Inflows (Individuals)
(Millions of US$)



Source: Authorities' data and IMF Staff estimates

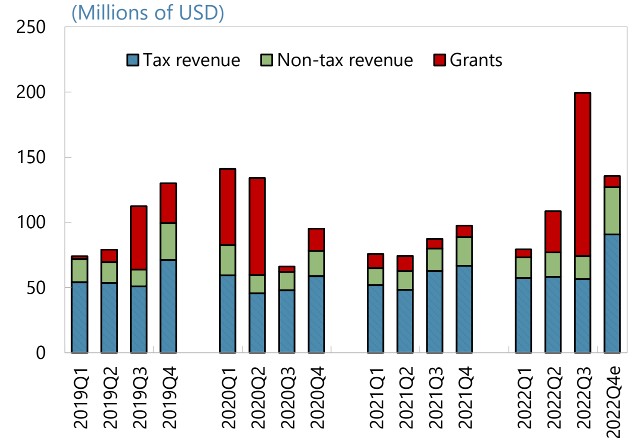
Food and Headline Inflation
(Percent change)



Source: Authorities' data and IMF Staff estimates

7. High budget grants and solid domestic revenue performance contributed to an overall fiscal surplus in 2022. Domestic revenues overperformed, due in part to implementation of the spectrum fees and a US$7 million signing bonus for 7 petroleum production sharing agreements in October 2022. Total expenditures excluding projects were slightly below expectations, resulting in a small surplus of US$2.4 million (0.03 percent of GDP). Cash balances accumulated in 2022 reached US$56 million and are being used to address liquidity needs in the first half of 2023.[1]

Total Revenue, Excluding Project Grants
(Millions of USD)



Source: Somali authorities and IMF staff estimates

8. The financial sector continues to develop, though challenges remain. Deposits and credit to the private sector grew at around 25 percent in 2022, although from a very low base. While reported capital adequacy and liquidity ratios remain sufficient, several smaller banks faced losses last year. The two foreign banks that were granted restricted licenses in 2022 are advancing preparations to become operational in late 2023.[2] A fourth mobile money operator was granted a license in February 2023.

PROGRAM PERFORMANCE

9. Program performance has been broadly satisfactory. All but one of the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2022 were met (Table 10). The authorities have implemented three structural benchmarks (SBs) and are requesting new target dates for two SBs that are taking more time to finalize due to capacity constraints (Table 11).

- The QPC on net international reserves was met.
- The QPC on FGS domestic revenue and IT on the fiscal balance were met with a margin.
- The QPC on FGS spending on compensation of employees, goods and services, and contingency was missed by US$3.4 million (0.04 percent of GDP) due to higher-than-expected spending on goods and services. The authorities are requesting a waiver for the missed QPC based on corrective measures to contain discretionary spending in the supplementary budget for 2023.

[1] For January-July 2022, in the absence of sufficient budget support disbursements, monthly deficits were mostly filled by using SDRs distributed to the Ministry of Finance. Disbursements of budget support grants resumed after the presidential elections and were sufficient to cover the remaining financing needs in 2022H2 and allow for the accumulation of cash balances to meet financing needs in 2023H1.

[2] 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 authorities did not incur any new debt and no new domestic arrears were accumulated in 2022.
- The Pay and Grade policy and roadmap for payroll integration was approved by the Cabinet on December 1, 2022 (SB#5, met, due end-December 2022).
- The revised tender protocol in line with IMF recommendations was approved by the Inter-Ministerial Committee on Contracts (IMCC) on November 22, 2022 (SB#11, met, due end-December 2022).
- The authorities published the annual report on tax exemptions as part of the 2023 budget package and the quarterly report for 2022Q4 in January 2023 (SB#1, met, due end-March 2023).
- Procurement of the point-of-sale (POS) machines is in train, to be followed by operationalization in telecom and tourism sectors (missed SB#2, due end-March 2023). The authorities are requesting a new target date of end-June 2023 to allow sufficient time for installation and engagement with taxpayers.
- The Targeted Financial Sanctions Law was enacted on March 8, 2023 and the related regulations are being drafted (missed SB#10, due December 2022). The authorities are requesting a new target date of end-July 2023 to allow time for technical assistance.

OUTLOOK AND RISKS

10. Growth in 2023 is expected to be weighed down by disappointing rains in 2022Q4 and subdued remittances. Growth for 2023 is forecast at 2.8 percent, 0.3 percentage points lower than anticipated in the fourth review. Low rains at end-2022 will hinder the full recovery of crop and livestock production in 2023. Remittances growth is expected to remain subdued amid slower growth and elevated prices globally. At the same time, slightly higher government spending in the education and security sectors than expected in the fourth review, financed in part by grants, will provide some support to economic activity. As commodity prices recede, inflation is expected at 4.2 percent in the context of the de-facto dollarized economy.

11. Growth is expected to accelerate over the medium term as structural reforms pay-off and access to financing improves. In line with the 2022 Article IV projections, growth is forecast to gradually increase to around 4.3 percent by 2028, supported by a gradual scaling up of public spending and greater private investment, facilitated by the implementation of fiscal, financial, and governance reforms. 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 over the medium term, with gradual improvement in domestic revenues making room for greater investment and social spending.[3]

[3] Once Somalia obtains debt relief at the HIPC Completion Point, Somalia would be assessed as having a moderate risk of debt distress and therefore, based on IDA financing terms, would no longer have access to new grant commitments but only to new concessional loans. Somalia would continue to receive grant disbursements for any project commitments approved before the Completion Point, but these amounts would decline considerably over time.

12. Near-term risks are tilted to the downside. If healthy rains do not resume in 2023 or food prices rise, the food crisis will aggravate. Additional risks include a deterioration of the security situation, political risks linked to federalism, climate-related shocks, lower than anticipated global growth, and persistent global inflationary pressures. If any of these adverse risks materialize, economic growth and domestic revenue would be lower, increasing financing needs. While the sequestration rule (that helps identify discretionary spending that can be rationalized) helps to mitigate some risks, the authorities would need additional support from the international community to address a significant adverse scenario.

PROGRAM AND POLICY DISCUSSIONS

A. Fiscal Policy

13. The authorities are committed to adopting a supplementary budget for 2023 to accommodate high priority spending while keeping fiscal policy in line with program objectives. In the Parliament approved budget, expenditure on compensation of employees, goods and services, and contingency was US$56 million above the program ceiling. Fully implementing this budget would widen the gap between domestic revenues and recurrent expenditure, against the backdrop of diminishing budget grants in the post-HIPC environment. Therefore, the authorities are committed to submitting to Parliament by end-June 2023 a supplementary budget for 2023 that presents a balanced fiscal position based on realistic domestic revenue and budget support grants, and that is consistent with the performance criteria in the ECF-supported program (proposed SB#12) (Table 12).[4] Higher expected revenues in 2023 and larger cash balances from 2022 (compared to the 4th review forecasts) create room to accommodate higher priority spending that supports growth, security, and development—including security sector compensation and provisions (US$21 million) and the hiring of 3,000 new teachers (US$11 million)—while other discretionary spending in the Parliamentary approved budget would be scaled back (including consultants, travel expenses, and other non-priority goods and services) to keep in line with the available resource envelope (Text Table 2). The authorities are requesting a corresponding modification to the June 2023 QPC and September 2023 IT ceiling on compensation of employees, goods and services, and contingency. Any new hires will be incorporated in the payroll system, with wages in line with existing pay scales.

14. Acceleration of revenue reforms is crucial.

- **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. However, a hiatus in 2022 of the external technical support for the project has led to technical delays in the implementation of the Customs Automated System (CAS) at Mogadishu ports and the rollout of

[4] A balanced budget in the authorities' presentation is consistent with a deficit in staff's fiscal presentation due to the differences in assumptions with regard to budget support grants. Staff's deficit forecast remains within the available resource envelope, which includes previously accumulated cash balances.

Text Table 1. Somalia: Increase in Domestic Revenue, Excluding One-off Revenue
(US$ Millions)

	2022 Est.	2023 Proj.
Increase in domestic revenue, excluding one-off revenues	**26.6**	**27.1**
New measures/better enforcement	**5.8**	**16.3**
Turnover taxes		0.2
Tax from telecom, large business		5.2
Khat import tax		4.0
Spectrum fees	4.1	1.9
Fishing license		5.0
Security for overseas travel	1.7	
Ongoing measures	**20.8**	**10.8**
Tax on international trade	7.4	2.8
Other tax revenue	4.9	2.6
Nontax revenue	8.5	5.4
Memorandum item		
One-off revenues		
Signing bonus for production sharing agreements	7.0	

Source: Somali authorities and IMF staff calculations.

Text Table 2. Somalia: Federal Government Operations Excluding Donor-Funded Projects, 2022–23 1/
(US$ million)

	2022			2023				Difference between 2023 projection and 4th review	
	Budget	4th ECF Review	Prel.	Budget	Proposed supplementary budget	4th ECF Review	Proj.	Diff.	Comment
Revenue and grants	**459**	**429**	**434**	**454**	**454**	**385**	**412**	**28**	
Domestic Revenue	250	248	263	283	283	276	283	7	Mainly higher revenues from fishing licenses
Budget grants 2/	209	181	171	171	171	108	129	21	Higher expected budget grants from the EU
Total expenditure 3/	**445**	**434**	**432**	**480**	**454**	**427**	**456**	**29**	
Current	432	428	424	465	438	424	453	29	
Compensation of employees 4/	258	258	252	293	293	270	293	23	New hires in security sector and teachers
Use of goods and services	91	78	93	113	88	79	88	8	Higher security sector provisions
Other current expenditure	84	92	79	59	58	74	73	-2	Updated estimation of interest payments
Purchase of non-financial assets	12	7	8	16	16	3	3	0	
Non-project fiscal balance 5/	**15**	**-5**	**2**	**-27**	**0**	**-42**	**-44**	**-2**	Slightly higher deficit can be covered by higher cash balances from 2022

Sources: Somali authorities; and IMF Staff estimates and projections.
1/ Fiscal operations are recorded on a cash basis.
2/ Includes only donor support provided to the federal government through treasury accounts at the Central Bank of Somalia.
3/ Advances and transfers to Ministries, Departments and Agencies (MDAs) are not included.
4/ Compensation of employees for 2023 in the budget column includes the expected spending for the hiring of teachers, which was classified under goods and services in the Parliament approved budget.
5/ A balanced budget in the authorities' presentation is consistent with a deficit in staff's fiscal presentation due to the differences in assumptions with regard to budget support grants. Staff's deficit forecast remains within the available resource envelope, which includes previously accumulated cash balances.

the system to FMS ports (SB#4, due end-July 2023). In addition, Puntland is currently not cooperating on the project. The authorities continue to advance on the technical front, as political issues are sorted. Applying a single import duty tariff schedule at all ports, which would be achieved with the rollout of CAS and a common valuation table across all ports, is a HIPC CP trigger.

- **POS machines.** The procurement of the POS machines to be installed at large taxpayers in the telecom and tourism sectors is in train. The authorities acknowledge the urgency of this reform and are requesting a new target date of end-June 2023 to allow sufficient time for installation and engagement with taxpayers (SB#2). While 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.** The authorities continue to advance implementation of the turnover tax (SB#3, due end-May 2023). As of end-February 2023, 4,000 taxpayers had been registered and are expected to start paying taxes on a quarterly basis in June 2023.

- **Modern income tax law.** The draft Income Tax bill is expected to be submitted to Parliament in mid-2023.

15. Further PFM reforms will be implemented to strengthen expenditure controls and fiscal transparency.

- **Payroll integration.** The Cabinet approved the Pay and Grade policy and the roadmap to implement an integrated payroll (SB#5, met). The extension of the coverage of payroll to 50 percent of non-payroll compensation of FGS employees is ongoing (SB#6, due end-May 2023). The authorities are advancing other reforms to strengthen wage bill controls, including establishing the MoF's authority over financial clearance of compensation (SB#7, due end-October 2023).

- **Invoice tracking.** To allow the authorities to monitor outstanding and past-due invoices, invoice tracking for electricity and internet is expected to be launched in May 2023 and a roadmap to expand the coverage of invoice tracking to all goods and services will be developed by end-2023.

B. Monetary and Financial Policy

16. The CBS has continued to strengthen its governance framework. Progress has been made in implementing most of the recommendations of the 2020 Safeguards Assessment. In particular, the timeliness in publication of the CBS audited financial statements has improved. In addition, the Audit Committee's independent oversight of the audit mechanisms and internal control system have been enhanced. The authorities are working on implementing the remaining safeguards recommendations, including draft amendments to CBS Act to enhance the central bank's autonomy.

17. The authorities consider the currency reform as a national development priority. The currency reform will reintroduce the Somali shilling (SOS) as legal tender by replacing old and counterfeit notes in circulation. Nonetheless, even after new SOS banknotes are introduced, the Somali economy is expected to remain highly dollarized for some time. Timing for the implementation of the currency exchange project, with support of the World Bank, will depend on addressing the funding gap and securing a firm agreement between the FGS and all FMS.[5] In consultation with the IMF, the authorities will work on formulating the monetary and exchange rate policy frameworks for the currency reform during 2023H2, with implementation of the frameworks to be supported by IMF technical assistance.

18. Financial sector supervision needs to strengthen further. CBS has strengthened its Licensing ang Supervision Department by new hires and staff training. Progress has been made on the regulations on capital adequacy and the liquidity coverage ratio (SB#9, due September 2023) that are consistent with financial market development and the supervisory capacity of Somalia. The capital adequacy regulation will incorporate higher risk weights on investment in fixed assets to help address concentration risks in real estate and construction. The authorities are also taking steps to upgrade the financial infrastructure, including the national payments system and e-KYC.

19. Sustained progress in addressing AML/CFT weaknesses is critical. The authorities published the National AML/CFT Action Plan (MEFP ¶30) in February 2023. Prioritized and properly sequenced implementation of the Action Plan will help Somalia tackle its ML/TF risks and prepare for the 2024 MENA-FATF Mutual Evaluation. The Targeted Financial Sanctions Law (TFSL) was enacted in March 2023. The authorities are requesting a new target date of end-July 2023 to issue the TFSL regulations (SB#10), to allow time for IMF technical assistance in developing the framework.[6]

C. Governance

20. Continued progress is needed on the harmonized legal framework for the extractive industries. Important recent achievements include the enactment of the Extractive Industries Income Tax (EIIT) Law in March 2023 and the finalization of the tender protocol in November 2022 (SB#11, met). Next steps include issuance of the regulations for the EIIT Law and the Petroleum Law. The authorities have committed to not issuing any new product sharing agreements until the legal framework is complete.

21. The authorities are committed to enhancing the transparency and accountability of procurement and concessions. To reinforce the strategic and oversight role of the IMCC on government contracts and concessions, the authorities are committed to seeking Cabinet approval of standard operating procedures for the IMCC, in line with the requirements of the Procurement Act and IMF recommendations (proposed SB#13, due June 2023). The authorities are also expected to issue and start implementing the guidelines on emergency procurement by end-April 2023. A new PPP Law is under development to provide a framework that attracts private investment while adequately managing fiscal risks and controlling costs.

[5] The World Bank project is currently expected to provide US$40 million in grant financing, against a total estimated cost of US$72 million for the currency exchange project.

[6] The Law provides for a framework for targeted financial sanctions related to terrorist financing. To be in line with the international standards, the authorities also need to enact a framework for targeted financial sanctions related to financing of proliferation of weapons of mass destruction. The latter is not covered under SB#10.

22. Further efforts to bolster governance are needed. Following accession to the UN Convention Against Corruption (UNCAC), the authorities are planning to launch by mid-2023 the review of the current legal framework to identify gaps. The Commissioners for the Independent Anti-Corruption Commission (IACC) are expected to be confirmed by the Parliament in mid-2023 and resources of IACC are to be strengthened (including through funding and training) to improve its capacity.

23. Efforts must continue to bolster management of public assets. To strengthen governance and prevent misuse of government lands and nonfinancial assets, the authorities are working 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 (SB#8, due September 2023).

24. Progress is being made on enhancing statistics. Recent progress includes publication in February 2023 of the 2022 Somalia Integrated Household Budget Survey (SIHBS), the first since 1985, which is expected to improve the GDP and CPI estimates. A new census is expected in 2024, the first after 40 years. The authorities' Statistical Action Plan underpins further improvements in statistical capacity. There is also scope to advance within the e-GDDS framework.

D. HIPC Completion Point

25. In the IMF and IDA staff's view, achieving the HIPC CP by 2023Q4 appears feasible. The authorities are making progress on completing HIPC CP triggers (Annex 2). Notable achievements include the recent approval by Parliament of seven key pieces of legislation needed for the HIPC CP (HIPC CP triggers and laws needed for the ECF and World Bank disbursements), including the Electricity Act, the EIIT Law, the Data Protection Law, the Targeted Financial Sanctions Law, the Digital ID System Law, the Investment and Investor Protection Act, and the Federal Law on Fisheries. The authorities reached debt relief agreements with most Paris Club members and the Kuwait Fund for Arab Economic Development. As of end-March 2023, debt relief agreements have been signed with creditors representing 68.4 percent of the NPV of debt after traditional debt relief. The debt reconciliation exercise for the HIPC CP has been launched. The authorities will need to ensure timely completion of the remaining HIPC CP triggers and finalize debt relief agreements with remaining creditors.

PROGRAM FINANCING AND SAFEGUARDS

26. Staff supports the authorities' request for a waiver for the missed December 2022 QPC on spending on compensation of employees, goods and services, and contingency. Discretionary spending pressures are expected to be contained with support of corrective actions to be included in the supplementary budget for 2023.

27. Understandings have been reached with the authorities on program conditionality.

- **Modification to the June 2023 QPC and September 2023 IT** (Table 10). The authorities are requesting a modification to the June 2023 QPC and September 2023 IT ceiling on compensation of employees, goods and services, and contingency to accommodate higher spending that supports growth, security, and development while keeping within the available resource envelope.

- **Proposed structural benchmarks (SBs)** (Table 12). The proposed SBs are carefully prioritized and sequenced, and anchored in capacity development support. The design of structural benchmarks complements other development partner programs and capacity development where possible.

28. The program is fully financed. The current ECF-supported program ends in end-December 2023. There are firm financing commitments for the remainder of the program period, including disbursements from the World Bank and the European Commission. There are indications that thereafter strong support from Somalia's international partners will continue.

29. The debt sustainability assessment (DSA) remains broadly unchanged from the June 2022 DSA. 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 HIPC CP. 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 HIPC CP. To maintain debt sustainability, a transparent and credible fiscal framework needs to be in place and any borrowing after the HIPC CP needs to be concessional.

30. The IMF has received contributions to cover the estimated cost of the IMF's share in debt relief to Somalia, and the authorities are requesting a fourth HIPC interim assistance. As of January 2023, SDR 261.1 million have been received compared to the estimated total cost of SDR 252.9 million.[7] Total commitments by 123 members, including the European Union, amount to about SDR 288.1 million. In June 2022, the Board approved the third interim assistance of SDR 0.680 million to cover the eligible debt obligations due to the IMF during June 17, 2022 through June 16, 2023, which the Board subsequently agreed to augment in April 2023 by an additional SDR 0.130 million to cover higher debt service costs stemming from the rapid increase in the SDR interest rate.[8] The authorities are requesting a fourth interim assistance in the amount of SDR 2.211 million to cover 100 percent of their eligible debt obligations due to the Fund for the period from June 17, 2023 to June 16, 2024 or the HIPC CP, whichever is earlier. The additional assistance is below the annual limit of 20 percent of total assistance committed by the IMF established by the PRG-HIPC Trust Instrument and would bring the cumulative interim HIPC assistance provided so far to 3.55 percent of the IMF's total debt relief committed at the HIPC Decision Point.

31. Somalia's capacity to repay the fund is adequate, albeit subject to higher than usual risk due to its fragility. Outstanding credit would reach 179 percent of quota in 2023 (equivalent of 4.7 percent of GDP and 213 percent of reserves) and total obligations to the Fund would peak at 44.3 percent of reserves in 2029 (Table 9). To mitigate debt servicing risks, fiscal policy needs to be

[7] The actual cost of debt relief to Somalia will be determined at the HIPC CP based on updated debt and macroeconomic data at that time. For the IMF, the MDRI Trust Fund is closed, but financing is being sought for beyond-HIPC relief.

[8] In March 2020 and March 2021, the IMF Executive Board approved first and second interim assistances to Somalia in the amount of SDR 1.111 million and SDR 0.680 million, respectively, to cover the obligations falling due during March 26, 2020 through March 25, 2021, and March 26, 2021 through March 25, 2022.

anchored on ensuring debt sustainability and borrowing after HIPC CP should rely on concession sources.

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

STAFF APPRAISAL

33. Notwithstanding significant climate, security, and political challenges, the authorities remain committed to economic reforms and the HIPC process. Program performance has been broadly satisfactory and, supported by the authorities' sustained efforts, key program objectives are within reach in the remaining program period.

34. The authorities are taking steps to ensure a prudent fiscal policy stance. The authorities are committed to adopting a supplementary budget for 2023 to accommodate key priority spending in security and education, while scaling back on discretionary spending to keep total expenditure within the available resource envelope. External budget support remains crucial for the budget. Additional grants and broader humanitarian assistance are also needed to further mitigate food security risks.

35. Decisive revenue mobilization efforts are crucial to fully cover recurrent expenditure and 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, budget support grants are expected to decline after the HIPC CP. Strengthening tax capacity requires timely progress on customs modernization, operationalization of POS machines at large businesses, the introduction of the turnover tax, implementation of the new income tax law, and improvement of revenue administration.

36. Public financial management should continue to be strengthened. Fully integrating all compensation of FGS employees into the payroll in a timely manner is a key reform to strengthen controls on compensation. This needs to be followed by a strategy to align the salaries of temporary workers with the existing pay scale of permanent workers. Timely implementation of the invoice tracking functionality will also contribute to expenditure management and fiscal transparency.

37. Staff encourage further 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. Staff encourage the authorities to formulate, in consultation with the IMF, the monetary and exchange rate policy frameworks to be adopted in the context of the currency reform and seek IMF CD support for the implementation. Further development of the national payment system, the e-KYC system, and other financial infrastructure will support financial deepening and financial inclusion. Continued efforts are needed to address ML/TF risks ahead of the MENA FATF

Mutual Evaluation in 2024, including implementation of a targeted financial sanctions framework in line with the international standards and the National AML/CFT Action Plan.

38. While important steps have been taken, sustained efforts are needed to improve governance and fight corruption. It is crucial to strengthen the strategic and monitoring role of IMCC over government contracts and concessions. The PPP framework under development should provide a transparent framework that adequately manages fiscal risks and controls costs. Strengthening the management of on nonfinancial assets will enhance transparency and accountability while promoting prudent use of public assets. Additional measures to improve governance include finalizing the legal framework for the extractive industries, implementing the emergency procurement guidelines, further progress on implementation of the National Anti-Corruption Strategy and the UNCAC, and strengthening the capacity of the IACC.

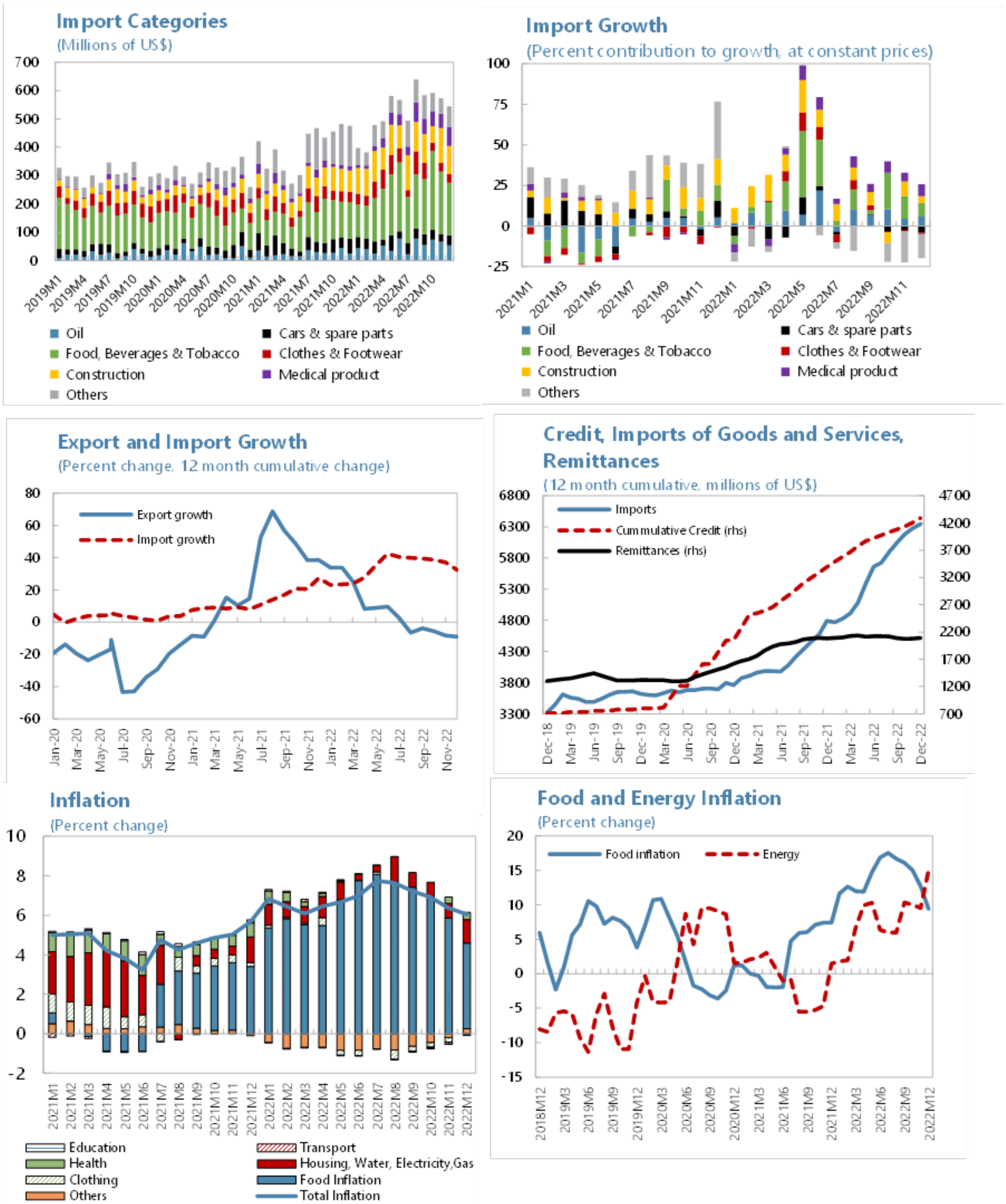
39. The staffs of the IMF and IDA view achievement of the HIPC CP by late 2023 as feasible. Considerable progress has been made on the HIPC CP triggers and progress on the remaining CP triggers suggests they could be finalized in 2023. The authorities have made progress in reaching debt relief agreements 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 CP in a timely manner.

40. 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.

41. Notwithstanding progress made, risks are still 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.

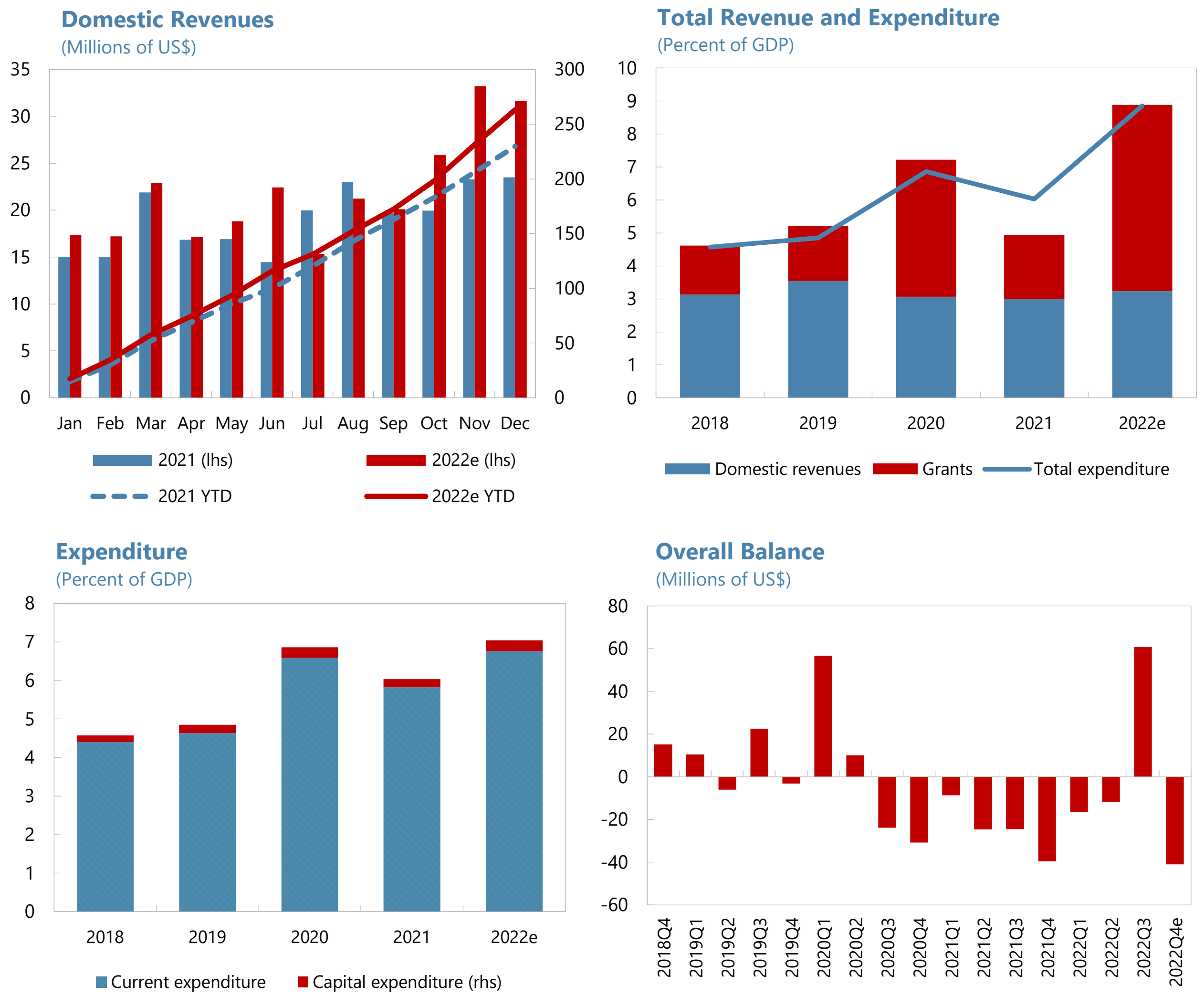
42. Staff supports the completion of the fifth review and disbursement of SDR 7 million under the ECF arrangement. The authorities plan to use the disbursement to help strengthen gross external reserves. Staff supports the authorities' request for a waiver on the December 2022 QPC on spending on compensation of employees, goods and services, and contingency based on corrective measures to contain discretionary spending in the supplementary budget for 2023. Staff supports the request for the modification to the June 2023 QPC and September 2023 IT ceiling on compensation of employees, goods and services, and contingency to accommodate higher spending that supports growth, security, and development while keeping within the available resource envelope. Staff supports the request of the fourth interim assistance in light of the policy performance under the program and continued policy commitment to reform. The attached Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) sets out the appropriate policies that meet the program objectives.

Figure 1. Somalia: High Frequency Indicators



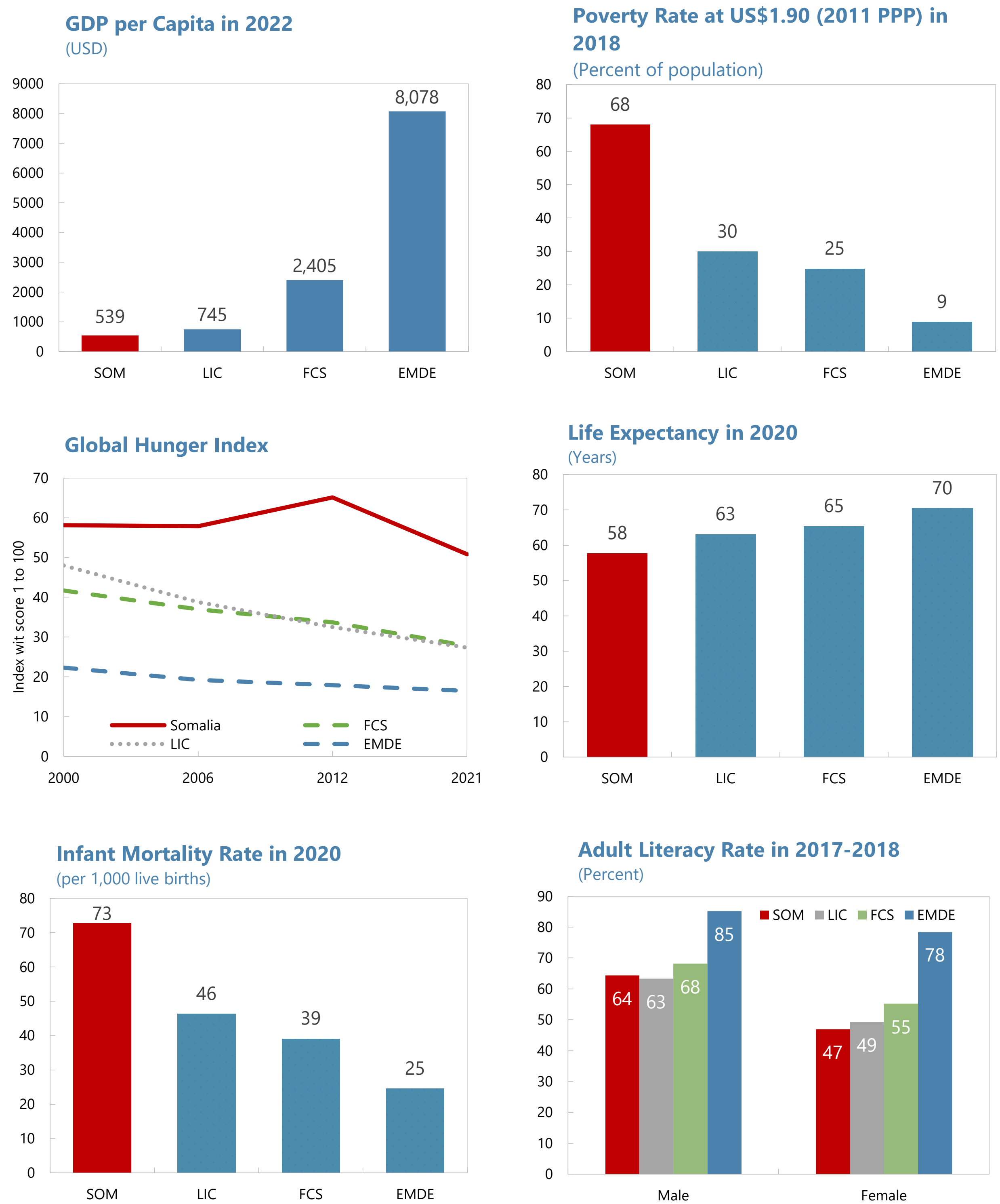
Source: Authorities' data and IMF Staff estimates

Figure 2. Somalia: Fiscal Indicators



Source: Authorities' data and IMF Staff estimates

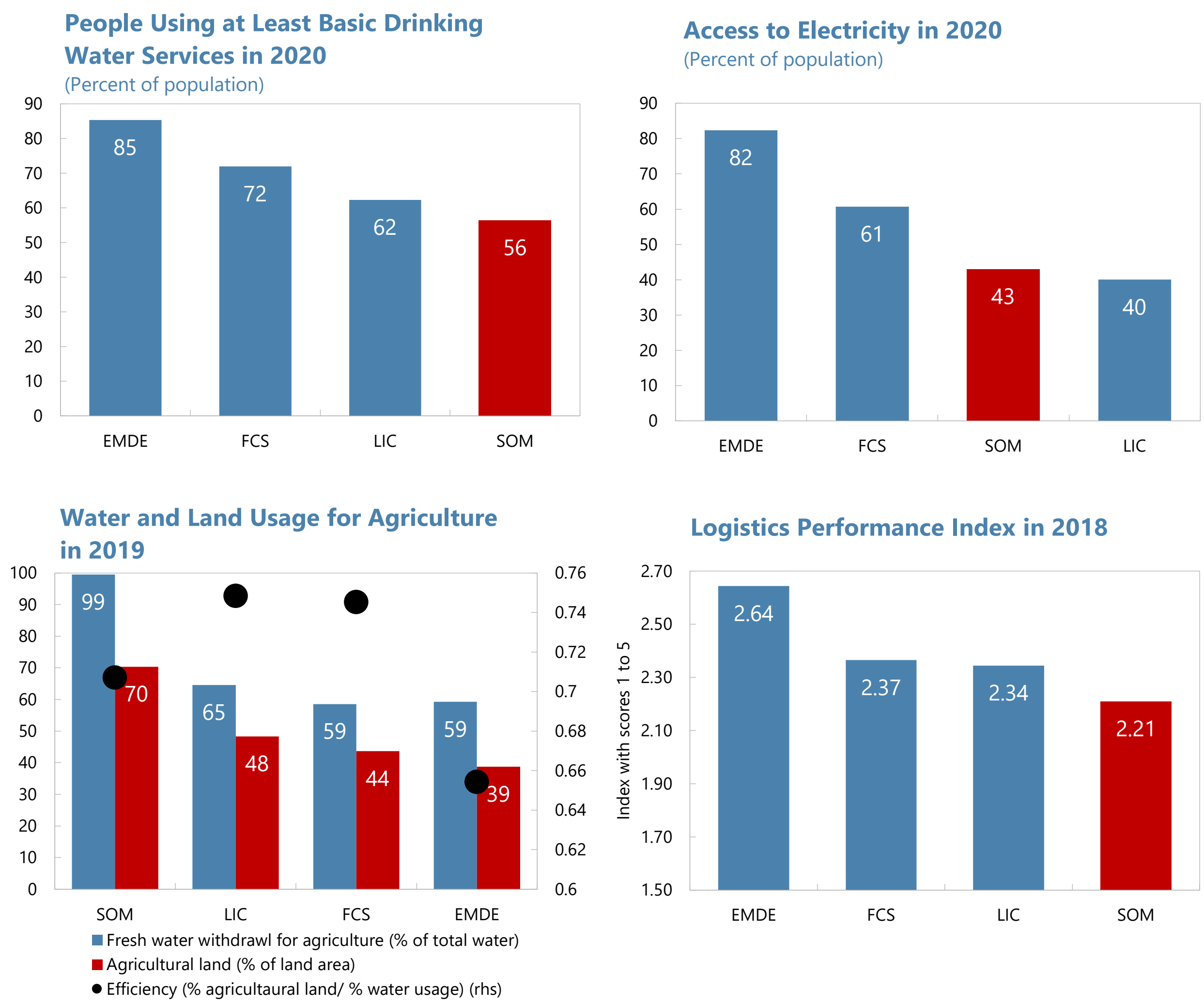
Figure 3a. Somalia: Social Indicators



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, 2021–2028

(Population: 15.6 million, 2022 estimate)

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	4th ECF Review	Est.	4th ECF Review	Proj.	Proj.				
National income and prices										
Nominal GDP in millions of U.S. dollars	7,628	8,414	8,158	9,009	8,738	9,429	10,260	11,128	12,052	12,995
Real GDP in millions of U.S. dollars	6,131	6,250	6,235	6,443	6,410	6,647	6,906	7,182	7,477	7,798
Real GDP, annual percentage change	2.9	1.9	1.7	3.1	2.8	3.7	3.9	4.0	4.1	4.3
Real GDP per capita in U.S. dollars	404	400	399	401	399	403	407	412	418	426
CPI (period average, percent change)	4.6	9.0	6.8	3.9	4.2	3.8	3.6	3.3	3.2	3.0
CPI (e.o.p., percent change)	5.7	8.3	6.1	3.8	3.7	3.9	3.7	3.4	3.3	3.1
				(Percent of GDP)						
Central government finances 1/										
Revenue and grants	4.9	6.7	8.8	6.8	7.8	6.7	6.5	5.5	4.9	5.0
of which:										
Tax	2.1	2.0	2.2	2.1	2.2	2.3	2.6	2.8	3.0	3.2
Grants 2/	1.9	3.8	5.6	3.7	4.6	3.3	2.7	1.4	0.6	0.3
Expenditure (FGS)	6.0	6.8	8.8	7.2	8.3	8.5	8.4	7.2	6.5	6.5
Compensation of employees 3/	3.3	3.1	3.2	3.0	3.4	3.3	3.3	3.3	3.3	3.3
Purchase of non-financial assets	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Overall balance	-1.1	-0.1	0.0	-0.5	-0.5	-1.8	-1.9	-1.8	-1.6	-1.5
Net change in the stock of cash	-0.3	0.4	0.5	-0.6	-0.7	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.6	0.5
Public debt 4/, 5/	46.1	42.5	40.8	7.3	7.0	8.5	9.7	10.7	11.5	12.2
				(Percent of GDP)						
Monetary Sector										
Net Foreign Assets	-3.2	-3.7	-3.2	0.3	1.1	1.0	0.9	0.8	0.6	0.6
Central Bank claims on non-residents 6/	2.9	3.6	4.4	3.4	3.6	3.2	2.9	2.6	2.2	2.1
Net Dometic Assets	18.2	13.9	17.8	10.0	13.3	13.8	14.6	15.7	16.0	16.6
Credit to the private Sector	4.2	4.0	4.9	4.6	5.5	6.3	7.3	8.7	9.7	11.1
Broad Money 7/	15.0	10.2	14.6	10.4	14.4	14.8	15.5	16.5	16.6	17.2
				(Percent of GDP)						
Balance of payments										
Current account balance	-16.8	-15.9	-16.8	-13.6	-16.4	-14.4	-14.6	-14.5	-14.4	-14.0
Trade balance	-71.7	-70.3	-79.1	-69.3	-75.0	-72.2	-71.7	-71.1	-70.7	-70.2
Exports of goods and services	17.2	16.7	17.0	16.8	18.2	18.9	19.5	19.8	20.0	20.2
Imports of goods and services	88.9	87.1	96.2	86.1	93.2	91.1	91.1	90.8	90.7	90.4
Remittances	27.8	27.3	26.3	27.8	27.6	28.4	28.8	28.8	28.8	28.8
Grants	27.8	27.7	36.6	28.5	31.5	29.8	28.6	28.2	27.8	27.8
Foreign Direct Investment	8.0	7.8	7.8	7.8	7.8	7.8	7.8	8.0	8.0	8.0
External debt 4/, 8/	45.2	41.2	40.0	6.4	6.3	7.8	9.1	10.2	11.0	11.7

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 desposits 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, 2021–2028 1/

(In millions of U.S. dollars)

	2021	2022			2023			2024	2025	2026	2027	2028
	Est.	Budget	4th ECF Review	Est.	Budget	4th ECF Review	Proj.	Proj.				
Revenue and grants	376.5	944.9	563.8	721.9	950.7	610.1	681.7	634.0	664.4	611.3	593.9	647.4
Revenue	229.6	250.1	248.1	262.7	283.3	276.3	283.3	323.0	386.8	452.7	525.6	608.4
Tax revenue	162.8	173.7	168.1	181.7	189.9	187.9	189.9	215.6	261.9	311.0	361.8	414.8
Tax on income, profit, and capital gains	15.8	15.8	15.8	18.7	18.6	18.6	18.6	24.5	34.9	45.2	55.7	63.0
Taxes on goods and services	23.4	30.8	24.5	25.8	33.1	31.1	33.1	39.9	52.6	68.0	83.9	103.7
Taxes on international trade and transactions	109.0	111.3	114.3	116.2	123.2	123.2	123.2	134.9	155.5	176.3	198.0	221.3
Other taxes	14.6	15.9	13.6	21.1	14.9	14.9	14.9	16.4	18.9	21.4	24.0	26.9
Non-tax revenue	66.8	76.4	79.9	81.0	93.4	88.4	93.4	107.4	125.0	141.7	163.8	193.6
Grants 2/	147.0	694.8	315.8	459.2	667.4	333.8	398.3	311.0	277.6	158.6	68.3	39.0
Bilateral	2.5	39.6	37.1	37.1	30.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	144.5	655.2	278.7	422.1	637.4	333.8	398.3	311.0	277.6	158.6	68.3	39.0
of which projects	*108.6*	*485.5*	*134.9*	*287.8*	*496.8*	*225.5*	*269.5*	…	…	…	…	…
Total expenditure 3/	460.2	929.9	569.3	719.5	977.2	652.0	725.5	805.2	859.2	806.0	781.8	845.7
Current	444.1	887.1	556.9	706.3	923.0	634.8	708.2	788.2	840.4	787.5	763.2	825.7
Compensation of employees 4/	250.1	263.2	259.6	259.6	298.3	272.5	295.6	313.9	341.2	369.3	402.6	432.5
Use of goods and services	106.1	216.8	118.4	140.7	215.6	140.9	149.1	163.2	170.3	187.5	194.0	212.6
Interest and other charges	0.9	2.5	0.8	0.8	5.8	7.9	6.0	18.3	20.6	22.3	22.3	22.2
Subsidies	1.3	7.5	2.4	5.1	9.0	3.7	3.7	3.9	4.3	4.6	5.0	5.4
Transfers to sub-national governments & Banadir Region	43.6	119.5	101.3	111.2	190.5	87.6	87.6	107.2	104.8	70.5	31.7	33.2
Social benefits	39.9	275.0	73.1	188.9	201.3	118.1	162.1	177.4	194.8	128.7	102.8	114.8
Other expenses	2.3	0.0	1.4	0.0	0.0	1.6	1.6	1.7	1.9	2.0	2.2	2.4
Contingency	0.0	2.5	0.0	0.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Purchase of non-financial assets	16.1	42.8	12.4	13.2	54.2	17.2	17.2	17.0	18.7	18.6	18.6	20.0
Overall fiscal balance	-83.7	14.9	-5.5	2.4	-26.6	-41.9	-43.8	-171.2	-194.8	-194.8	-187.9	-198.2
Net cash inflow from financing activities	60.7	-15.0	35.4	35.9	-14.2	-9.9	-14.2	171.2	194.8	194.8	187.9	198.2
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	60.7	-15.0	32.2	32.7	-14.2	-9.9	-14.2	171.2	194.8	194.8	187.9	198.2
New external borrowing (+)	74.4	0.0	44.6	44.6	0.0	0.0	0.0	179.2	204.4	205.6	203.4	213.5
Amortization of external debt (-)	-13.7	-15.0	-12.4	-11.9	-14.2	-9.9	-14.2	-8.0	-9.6	-10.8	-15.5	-15.3
Disposal of assets	0.0	0.0	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in the stock of cash	-22.9	-0.1	29.9	38.4	-40.8	-51.8	-58.0	0.0	0.0	0.0	0.0	0.0
Memorandum items												
Public debt 5/	3,517	…	3,576	3,332	…	655	615	803	998	1,193	1,381	1,579
of which external public debt 6/	3,449	…	3,468	3,264	…	575	547	735	933	1,131	1,322	1,523
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/	130.0	…	130.0	130.0	…	130.0	130.0	130.0	130.0	130.0	130.0	130.0
Stock of SDR holdings 8/	55.6	…	9.0	9.0	…	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Stock of cash and other balances 9/	43.2	…	73.1	81.6	…	21.4	23.5	23.5	23.5	23.5	23.5	23.5
Budget grants	38.4	209.3	180.9	171.4	170.6	108.3	128.8	…	…	…	…	…
Project grants	108.6	485.5	134.9	287.8	496.8	225.5	269.5	…	…	…	…	…

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 Somlia 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 altenative 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, 2021–2028 1/

(In percent of GDP)

	2021	2022			2023			2024	2025	2026	2027	2028
	Est.	Budget	4th ECF Review	Est.	Budget	4th ECF Review	Proj.	Proj.				
Revenue and grants	4.9	11.6	6.7	8.8	10.9	6.8	7.8	6.7	6.5	5.5	4.9	5.0
Revenue	3.0	3.1	2.9	3.2	3.2	3.1	3.2	3.4	3.8	4.1	4.4	4.7
Tax revenue	2.1	2.1	2.0	2.2	2.2	2.1	2.2	2.3	2.6	2.8	3.0	3.2
Tax on income, profit, and capital gains	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.5	0.5
Taxes on goods and services	0.3	0.4	0.3	0.3	0.4	0.3	0.4	0.4	0.5	0.6	0.7	0.8
Taxes on international trade and transactions	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.6	1.6	1.7
Other taxes	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-tax revenue	0.9	0.9	1.0	1.0	1.1	1.0	1.1	1.1	1.2	1.3	1.4	1.5
Grants 2/	1.9	8.5	3.8	5.6	7.6	3.7	4.6	3.3	2.7	1.4	0.6	0.3
Bilateral	0.0	0.5	0.4	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	1.9	8.0	3.3	5.2	7.3	3.7	4.6	3.3	2.7	1.4	0.6	0.3
Total expenditure 3/	6.0	11.4	6.8	8.8	11.2	7.2	8.3	8.5	8.4	7.2	6.5	6.5
Current	5.8	10.9	6.6	8.7	10.6	7.0	8.1	8.4	8.2	7.1	6.3	6.4
Compensation of employees 4/	3.3	3.2	3.1	3.2	3.4	3.0	3.4	3.3	3.3	3.3	3.3	3.3
Use of goods and services	1.4	2.7	1.4	1.7	2.5	1.6	1.7	1.7	1.7	1.7	1.6	1.6
Interest and other charges	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Subsidies	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	0.6	1.5	1.2	1.4	2.2	1.0	1.0	1.1	1.0	0.6	0.3	0.3
Social benefits	0.5	3.4	0.9	2.3	2.3	1.3	1.9	1.9	1.9	1.2	0.9	0.9
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	0.5	0.1	0.2	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Overall fiscal balance	-1.1	0.2	-0.1	0.0	-0.3	-0.5	-0.5	-1.8	-1.9	-1.8	-1.6	-1.5
Net cash inflow from financing activities	0.8	-0.2	0.4	0.4	-0.2	-0.1	-0.2	1.8	1.9	1.8	1.6	1.5
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	0.8	-0.2	0.4	0.4	-0.2	-0.1	-0.2	1.8	1.9	1.8	1.6	1.5
New external borrowing (+)	1.0	0.0	0.5	0.5	0.0	0.0	0.0	1.9	2.0	1.8	1.7	1.6
Amortization of external debt (-)	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
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	-0.3	0.0	0.4	0.5	0.0	-0.6	-0.7	0.0	0.0	0.0	0.0	0.0
Memorandum items												
Public debt 5/	46.1	…	42.5	40.8	…	7.3	7.0	8.5	9.7	10.7	11.5	12.2
of which external public debt 6/	45.2	…	41.2	40.0	…	6.4	6.3	7.8	9.1	10.2	11.0	11.7
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/	0.9	…	0.8	0.8	…	0.8	0.8	0.7	0.7	0.6	0.6	0.5
Stock of SDR allocations 8/	1.7	…	1.5	1.6	…	1.4	1.5	1.4	1.3	1.2	1.1	1.0
Stock of SDR holdings 8/	0.7	…	0.1	0.1	…	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Stock of cash and other balances 9/	0.6	…	0.9	1.0	…	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Budget grants	0.5	2.6	2.1	2.1	2.0	1.2	1.5	…	…	…	…	…
Project grants	1.4	6.0	1.6	3.5	5.7	2.5	3.1	…	…	…	…	…

Sources: Somali authorities; and IMF Staff estimates and projection

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 Somlia 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

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 1/

(In millions of U.S. dollars)

	2019	2020	2021					2022				
	Total		Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Revenue and grants	508.2	645.0	108.3	138.3	124.0	146.5	517.1	118.3	202.8	284.9	324.4	930.4
Revenue	323.7	301.9	77.6	75.3	89.2	96.3	338.4	87.8	87.8	82.5	122.8	380.9
Tax revenue	250.9	216.8	59.0	54.0	66.7	68.1	247.8	65.5	63.7	59.8	87.7	276.6
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	4.2	6.5	19.3
Taxes on payroll and workforce 2/	0.0	9.7	1.7	2.1	2.5	2.3	8.7	2.2	2.3	2.3	3.2	10.0
Taxes on property 2/	0.0	0.7	0.2	0.1	0.1	0.2	0.6	0.2	0.1	0.2	0.2	0.7
Taxes on goods and services	69.1	53.7	13.7	12.9	17.1	17.1	60.8	13.6	12.6	12.4	21.4	60.1
Taxes on international trade and transactions	156.4	139.9	39.8	34.7	42.6	42.9	160.1	41.8	39.8	36.9	51.4	169.8
Other taxes	6.1	0.0	0.7	0.7	0.4	0.7	2.6	3.5	4.5	3.8	5.0	16.8
Non-tax revenue	128.9	85.1	18.6	21.3	22.5	28.2	90.6	22.3	24.1	22.7	35.1	104.2
Grants	184.5	343.1	30.7	63.0	34.8	50.2	178.7	30.5	115.0	202.4	201.5	549.5
Transfer from FGS 3/	11.8	48.9	4.6	3.3	6.7	10.9	25.6	7.2	10.9	38.2	17.2	73.6
Bilateral	37.4	15.3	0.0	0.0	0.0	2.7	2.7	0.0	29.6	7.5	0.3	37.4
Multilateral	135.3	278.9	26.2	59.6	28.1	36.6	150.5	23.4	74.5	156.7	184.0	438.5
Total expenditure 4/	458.1	618.7	120.2	164.9	149.7	189.4	624.3	133.7	215.6	205.5	384.5	939.4
Current	434.4	597.0	115.9	157.6	142.2	179.5	595.1	128.1	205.9	194.5	367.6	896.1
Compensation of employees	251.1	303.0	74.9	80.3	87.6	90.5	333.3	83.7	87.2	86.4	109.3	366.6
Use of goods and services	125.8	118.5	25.2	33.3	33.6	61.2	153.2	28.7	39.5	47.9	83.6	199.8
Interest and other charges	0.0	14.4	4.2	2.7	2.3	5.4	14.6	1.6	4.8	1.8	4.5	12.7
Subsidies	0.0	2.2	0.1	0.9	0.2	0.0	1.3	0.1	1.0	0.7	3.3	5.1
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	42.3	29.3	111.1
Social benefits	1.0	63.7	0.4	31.7	2.8	6.6	41.5	0.4	45.3	10.9	135.2	191.8
Other expenses	0.0	10.7	1.6	1.3	1.7	2.4	7.0	1.3	0.8	4.6	2.3	9.0
Contingency	1.0	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	23.6	21.7	4.4	7.3	7.5	9.9	29.2	5.6	9.7	10.9	17.0	43.3
Overall fiscal balance	50.1	26.2	-11.9	-26.7	-25.7	-42.8	-107.2	-15.4	-12.8	79.4	-60.2	-9.0

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 1/

(In percent of GDP)

	2019	2020	2021					2022				
	Total		Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Revenue and grants	7.8	9.4	1.4	1.8	1.6	1.9	6.8	1.5	2.5	3.5	3.2	8.4
Revenue	5.0	4.4	1.0	1.0	1.2	1.3	4.4	1.1	1.1	1.0	1.2	3.4
Tax revenue	3.9	3.1	0.8	0.7	0.9	0.9	3.2	0.8	0.8	0.7	0.9	2.5
Tax on income, profit, and capital gains	0.2	0.2	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2
Taxes on payroll and workforce 2/	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Taxes on property 2/	0.0	0.0	0.0	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	0.2	0.2	0.2	0.5
Taxes on international trade and transactions	2.4	2.0	0.5	0.5	0.6	0.6	2.1	0.5	0.5	0.5	0.5	1.5
Other taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.2
Non-tax revenue	2.0	1.2	0.2	0.3	0.3	0.4	1.2	0.3	0.3	0.3	0.3	0.9
Grants 3/	2.8	5.0	0.4	0.8	0.5	0.7	2.3	0.4	1.4	2.5	2.0	4.9
Transfer from FGS	0.2	0.7	0.1	0.0	0.1	0.1	0.3	0.1	0.1	0.5	0.2	0.7
Bilateral	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.1	0.0	0.3
Multilateral	2.1	4.1	0.3	0.8	0.4	0.5	2.0	0.3	0.9	1.9	1.8	3.9
Total expenditure 4/	7.1	9.0	1.6	2.2	2.0	2.5	8.2	1.6	2.6	2.5	3.7	8.4
Current	6.7	8.7	1.5	2.1	1.9	2.4	7.8	1.6	2.5	2.4	3.6	8.1
Compensation of employees	3.9	4.4	1.0	1.1	1.1	1.2	4.4	1.0	1.1	1.1	1.1	3.3
Use of goods and services	1.9	1.7	0.3	0.4	0.4	0.8	2.0	0.4	0.5	0.6	0.8	1.8
Interest and other charges	0.0	0.2	0.1	0.0	0.0	0.1	0.2	0.0	0.1	0.0	0.0	0.1
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	0.9	1.2	0.1	0.1	0.2	0.2	0.6	0.1	0.3	0.5	0.3	1.0
Social benefits	0.0	0.9	0.0	0.4	0.0	0.1	0.5	0.0	0.6	0.1	1.3	1.7
Other expenses	0.0	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.1
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	0.4	0.3	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.2	0.4
Overall fiscal balance	0.8	0.4	-0.2	-0.3	-0.3	-0.6	-1.4	-0.2	-0.2	1.0	-0.6	-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, 2019–2022

(In millions of U.S. dollars)

	2019	2020	2021	2022			
				Mar.	June	Sept	Dec
Net Foreign Assets	82	(250)	(183)	(291)	(281)	(269)	(289)
Foreign assets	146	193	381	359	389	401	391
SDR holdings 1/	24	51	200	164	183	174	184
Gold 2/	21	25	31	30	30	30	30
Foreign exchange	69	77	110	110	110	110	110
of which:							
Grants	64	52	103	103	103	103	103
Other foreign assets	2	-	8	23	-	-	-
Cash (US$) held locally	32	40	40	56	67	87	68
Foreign liabilities	64	444	650	650	670	670	680
IMF obligations	-	371	360	360	380	380	390
SDR allocations	64	73	290	290	290	290	290
Net Domestic Assets	(10)	409	409	401	424	336	402
Domestic assets	85	525	498	534	534	543	543
of which:							
Claims on government 3/	40	392	451	487	487	496	496
Domestic liabilities	95	116	89	133	110	207	142
Government	68	73	54	90	61	128	94
of which:							
Grants	64	52	103	103	103	103	103
Other domestic liabilities	26	42	34	41	46	75	44
Commercial bank reserves 4/	14	20	20	20	20	20	20
Other commercal bank deposits	11	18	12	19	24	53	22
Other demand deposits at the CBS	0	1	0	0	0	0	0
Microfinance grant	-	3	1	1	1	1	1
MTB deposits	1	1	1	1	1	1	1
Other demand deposits							
Equity and reserves	72	159	226	110	144	67	113
of which:							
Property and equipment 5/	45	129	45	45	45	45	45
Memorandum items:							
NFA (program definition) 6/	25	80	175	173	192	193	203

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

2/ Gold price as defined in the Technical Memorandum of Understanding

3/ Corresponds to a claim on the FGS Ministry of Finance composed of (1) the IMF

4/ Prudential regulations require that commercial banks hold $1.5 million of the

5/ Including revaluation reserves.

6/ Program definition per TMU.

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

(In millions of U.S. dollars)

	2019	2020	2021	2022			
				Mar.	June	Sept	Dec
				Est.			
Total assets	556	821	1,262	1,264	1,284	1,275	1,279
Cash on Hand	117	285	553	516	535	487	476
Balances with Central Bank	18	29	28	36	43	69	41
Deposits with other banks 1/	79	104	122	118	91	74	79
Credit to private sector	206	219	319	338	357	371	400
Investment 2/	60	61	86	90	118	126	138
Other Assets 3/	77	123	155	168	138	147	145
Total liabilities	459	704	975	1,035	1,114	1,171	1,247
Customer Deposits 4/	430	659	900	951	1,019	1,030	1,164
Financing Liabilities	2	3	3	4	0	2	3
Other Liabilities	27	32	57	66	75	102	57
Equity	97	117	288	229	169	104	32
Memorandum items:							
Credit to private sector							
share of total assets (percent)	37	27	25	27	28	29	31
share of GDP (percent)	4	4	5	6	6	6	7
y-o-y changes (percent)	12	7	46	37	18	16	18
Total capital to assets (percent)	16	12	14	14	14	14	13
Loan to deposits (percent)	48	33	35	35	35	36	34
Liquid assets to total assets (percent)	32	45	54	53	53	52	52

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/ Primarilly 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 2021–2028

(In millions of U.S. dollars)

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	4th ECF Review	Est.	4th ECF Review	Proj.			Proj.		
Net foreign assets 1/	-243	-310	-260	31	93	90	94	89	73	73
Claims on nonresidents	420	373	423	379	383	380	384	379	364	364
Central Bank 2/	357	303	355	304	311	302	299	287	271	271
of which gross reserves of the CBS	248	193	246	193	193	193	193	193	193	193
Other Depository Corporations	63	70	68	75	73	78	85	93	93	93
Liabilities to Nonresidents 3/	663	683	683	348	290	290	290	290	290	290
Net Domestic Claims	1386	1165	1450	902	1162	1305	1496	1749	1930	2164
Net Claims on Central Government	343	371	366	34	-21	-12	-9	3	19	19
of which CBS claim on government 1/	703	723	723	388	330	330	330	330	330	330
Claims on private sector	319	333	400	413	480	593	752	970	1173	1445
Other net claims not included in broad money	724	461	684	455	702	724	752	777	738	699
Capital and Reserves	137	151	146	161	157	169	184	199	199	199
Other items, net	9	9	9	10	10	11	11	13	14	15
Broad Money 4/	1143	855	1190	933	1255	1396	1590	1838	2003	2237
Memorandum items										
Credit to the private sector (percent of GDP)	4.2	4.0	4.9	4.6	5.5	6.3	7.3	8.7	9.7	11.1

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 Governmnet of Somalia (FGS) grants held abroad.

3/ Assuming reaching HIPC Completion Point in 2023.

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

Table 6a. Somalia: Balance of Payments, 2021–2028

(In millions of U.S. dollars)

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	4th ECF Review	Est.	4th ECF Review	Proj.			Proj.		
Current account balance	-1,278	-1,336	-1,373	-1,222	-1,432	-1,358	-1,502	-1,609	-1,737	-1,814
Overall trade balance	-5,473	-5,919	-6,454	-6,245	-6,555	-6,811	-7,353	-7,910	-8,515	-9,123
Goods balance	-4,130	-4,466	-5,013	-4,699	-5,058	-5,245	-5,617	-6,009	-6,440	-6,885
Exports of goods, f.o.b.	717	772	687	831	818	943	1,082	1,208	1,336	1,466
Imports of goods, f.o.b.	-4,847	-5,238	-5,700	-5,529	-5,876	-6,188	-6,699	-7,217	-7,776	-8,351
Services, net	-1,343	-1,453	-1,441	-1,546	-1,497	-1,566	-1,736	-1,901	-2,076	-2,238
Service credits	593	635	703	680	773	840	914	991	1,074	1,158
Service debit	-1,936	-2,088	-2,145	-2,226	-2,270	-2,406	-2,650	-2,893	-3,149	-3,396
Income (net)	-42	-46	-45	-46	-43	-34	-37	-40	-43	-47
Receipts	54	60	58	64	62	67	73	79	85	92
Payments	-96	-106	-102	-109	-104	-100	-109	-119	-128	-138
of which:										
Interest payments, public debt	-0.9	-1.8	-0.8	-5.4	-6.0	-18.3	-20.6	-22.3	-22.3	-22.2
Multilateral, official	-1	-2	-1	-3	-5	-10	-13	-15	-15	-15
Bilateral, official	0	0	0	-2	-1	-8	-8	-8	-8	-7
Current transfers (net)	4,236	4,628	5,125	5,068	5,166	5,487	5,888	6,341	6,821	7,355
Private (net), including remittances	2,118	2,301	2,142	2,503	2,414	2,675	2,955	3,205	3,471	3,743
Official	2,118	2,327	2,983	2,564	2,751	2,812	2,933	3,136	3,350	3,613
On budget aid 1/	235	253	367	267	319	249	222	127	55	31
Off-budget aid	1,836	2,075	2,616	2,297	2,433	2,563	2,711	3,009	3,296	3,581
Capital account and financial account	1,472	1,281	1,372	1,222	1,432	1,358	1,502	1,609	1,737	1,814
of which:										
Foreign direct investment	607	652	636	698	677	735	800	890	964	1,040
Other Investment	222	0	0	0	0	179	204	206	203	213
of which:										
Long-term debt liabilities 2/	222	0	0	0	0	0	0	0	0	0
Official concessional borrowing	0	0	0	0	0	179	204	206	203	213
Amortization, public debt 3/	-14	-15	-12	-7	-14	-8	-10	-11	-15	-15
Multilateral, official	-14	-15	-12	-3	-14	0	0	0	-5	-8
Bilateral, official	0	0	0	-3	0	-8	-9	-10	-10	-7
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance and error and omissions	193	-55	-1	0	0	0	0	0	0	0
Financing	-193	55	1	0	0	0	0	0	0	0
Change in central bank reserves (- = increase)	-177	54	1	0	0	0	0	0	0	0
of which : Use of Fund resources (net)	73	91	70	-351	-315	-3	-3	0	0	0
Purchases and loans	73	91	70	20	19	0	0	0	0	0
Repayments	0	-1	0	-371	-334	-3	-3	0	0	0
Arrears, net change (+ = accumulation)	-16	-18	0	-1,226	-1,236	0	0	0	0	0
Prospective debt relief and rescheduling 4/	0	20	0	1,226	1,236	0	0	0	0	0
Memorandum items:										
Nominal GDP	7,628	8,414	8,158	9,009	8,738	9,429	10,260	11,128	12,052	12,995
Exports of goods and services	1,310	1,407	1,390	1,510	1,591	1,783	1,996	2,199	2,410	2,624
Exports of goods and services (percent change)	35	7	6	7	14	12	12	10	10	9
Exports of goods (percent change)	32	8	-4	8	19	15	15	12	11	10
Imports of goods and services	-6,783	-7,326	-7,844	-7,755	-8,147	-8,594	-9,349	-10,110	-10,925	-11,747
Imports of goods and services (percent change)	26	9	16	6	4	5	9	8	8	8
Imports of goods (percent change)	26	9	18	6	3	5	8	8	8	7
Remittances (percent change)	29	11	1	9	13	11	10	8	8	8
Current transfers, official (percent change)	2	13	41	10	-8	2	4	7	7	8
External debt 4/, 5/	3,449	3,468	3,264	575	547	735	933	1,131	1,322	1,523
Net Foreign Assets (Program Definition)	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 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/ 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, 2021–2028

(Percent of GDP, unless otherwise indicated)

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	4th ECF Review	Est.	4th ECF Review	Proj.			Proj.		
Current account balance	-16.8	-15.9	-16.8	-13.6	-16.4	-14.4	-14.6	-14.5	-14.4	-14.0
Overall trade balance	-71.7	-70.3	-79.1	-69.3	-75.0	-72.2	-71.7	-71.1	-70.7	-70.2
Goods balance	-54.1	-53.1	-61.4	-52.2	-57.9	-55.6	-54.8	-54.0	-53.4	-53.0
Exports of goods, f.o.b.	9.4	9.2	8.4	9.2	9.4	10.0	10.5	10.9	11.1	11.3
Imports of goods, f.o.b.	-63.5	-62.2	-69.9	-61.4	-67.2	-65.6	-65.3	-64.9	-64.5	-64.3
Services, net	-17.6	-17.3	-17.7	-17.2	-17.1	-16.6	-16.9	-17.1	-17.2	-17.2
Service credits	7.8	7.5	8.6	7.5	8.9	8.9	8.9	8.9	8.9	8.9
Service debit	-25.4	-24.8	-26.3	-24.7	-26.0	-25.5	-25.8	-26.0	-26.1	-26.1
Income (net)	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-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	-1.2	-1.2	-1.1	-1.1	-1.1	-1.1	-1.1
Current transfers (net)	55.5	55.0	62.8	56.3	59.1	58.2	57.4	57.0	56.6	56.6
Private (net), including remittances	27.8	27.3	26.3	27.8	27.6	28.4	28.8	28.8	28.8	28.8
Official	27.8	27.7	36.6	28.5	31.5	29.8	28.6	28.2	27.8	27.8
On budget aid 1/	3.1	3.0	4.5	3.0	3.6	2.6	2.2	1.1	0.5	0.2
Off-budget aid	24.1	24.7	32.1	25.5	27.8	27.2	26.4	27.0	27.3	27.6
Capital account and financial account	16.8	15.9	16.8	13.6	16.4	14.4	14.6	14.5	14.4	14.0
of which:										
Foreign direct investment	8.0	7.8	7.8	7.8	7.7	7.8	7.8	8.0	8.0	8.0
Other Investment	2.9	0.0	0.0	0.0	0.0	1.9	2.0	1.8	1.7	1.6
of which:										
Long-term debt liabilities 2/	2.9	0.0	0.0	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	1.9	2.0	1.8	1.7	1.6
Amortization 3/	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Overall balance and error and omissions	2.5	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in central bank reserves (- = increase)	-2.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (Million of U.S. dollars)	7,628	8,414	8,158	9,009	8,738	9,429	10,260	11,128	12,052	12,995
External debt 4/	45.2	41.2	40.0	6.4	6.3	7.8	9.1	10.2	11.0	11.7
Exports of goods and services	17.2	16.7	17.0	16.8	18.2	18.9	19.5	19.8	20.0	20.2
Imports of goods and services	88.9	87.1	96.2	86.1	93.2	91.1	91.1	90.8	90.7	90.4

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: Revised Schedule of Reviews and Disbursements

Availability date	Amount of Disbursements				Conditions
	Millions of SDRs			Percent of quota 1/	
	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, 2020–2028
(In millions of U.S. dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
Gross financing requirement	*8,706.1*	*5,664.9*	*6,465.2*	*7,811.7*	*6,837.0*	*7,383.4*	*7,943.4*	*8,553.2*	*9,160.1*
Trade deficit	4,410.8	5,473.0	6,453.8	6,555.3	6,810.8	7,353.1	7,910.2	8,515.4	9,122.6
Amortization	11.8	13.7	11.9	14.4	8.0	9.6	10.8	15.5	15.3
Interest on external obligations	-0.9	0.9	0.8	6.0	18.3	20.6	22.3	22.3	22.2
Official arrears/repayments	4,265.2	0.0	0.0	1,235.9	0.0	0.0	0.0	0.0	0.0
Of which : IMF	360.3	0.0	0.0	333.7	0.0	0.0	0.0	0.0	0.0
Change in reserves (increase = +)	19.2	177.3	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Available financing	*3,841.2*	*5,207.6*	*6,067.7*	*6,236.9*	*6,409.0*	*6,956.9*	*7,610.9*	*8,295.2*	*8,913.4*
Current transfers (net) 1/	3,497.9	4,001.2	4,758.1	4,847.1	5,238.2	5,665.6	6,214.0	6,766.9	7,323.9
Of Which : Remittances	1,642.0	2,118.0	2,142.0	2,414.5	2,675.3	2,954.8	3,204.8	3,471.0	3,742.5
Foreign Direct Investment	533.9	606.9	636.3	677.2	735.4	800.3	890.2	964.2	1,039.6
Other flows 2/	-190.6	599.5	673.3	712.6	435.4	491.1	506.7	564.1	550.0
Financing gap	*4,864.9*	*457.3*	*397.5*	*1,574.7*	*428.0*	*426.4*	*332.5*	*258.0*	*246.7*
Exceptional Financing	4,265.2	0.0	0.1	1,235.9	0.0	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	0.0
HIPC debt relief	4,265.2	0.0	0.1	1,235.9	0.0	0.0	0.0	0.0	0.0
Of which : IMF 3/	0.8	0.5	0.6	333.8	0.0	0.0	0.0	0.0	0.0
Remaining gap	*599.7*	*457.3*	*397.4*	*338.9*	*428.0*	*426.4*	*332.5*	*258.0*	*246.7*
Identified financing	599.7	457.3	397.4	338.9	428.0	426.4	332.5	258.0	246.7
Official Grants	228.5	235.2	367.4	318.7	248.8	222.0	126.9	54.6	31.2
IMF 4/	371.1	222.1	30.0	20.2	0.0	0.0	0.0	0.0	2.0
ECF	313.3	0.0	30.0	20.2	0.0	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	0.0
SDR	0.0	222.1	0.0	0.0	0.0	0.0	0.0	0.0	2.0
Official loans (net) 5/	0.0	0.0	0.0	0.0	179.2	204.4	205.6	203.4	213.5

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, 2023–2038

(In millions of SDR, unless otherwise noted)

	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	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	1.3	1.8	1.5	1.2	0.9	0.6	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR related charges	2.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Total obligations	3.3	7.7	31.8	54.1	55.2	58.4	60.2	35.5	9.7	8.3	4.8	2.7	2.7	2.7	2.7	2.7
Outstanding Fund credit, end of period	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	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	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	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	25.8	22.9	18.6	13.7	9.4	5.7	2.4	0.7	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
External public debt	75.2	55.8	40.0	26.7	17.3	9.8	3.9	1.1	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves	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	4.7	4.3	3.6	2.7	1.9	1.1	0.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quota	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	0.3	0.6	2.3	3.5	3.3	3.2	3.1	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External public debt	0.8	1.5	4.9	6.8	5.9	5.5	4.9	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves	2.4	5.6	23.4	39.8	40.6	42.9	44.3	26.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP	0.1	0.1	0.4	0.7	0.7	0.6	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quota	2.0	4.7	19.5	33.1	33.8	35.7	36.8	21.7	5.9	5.1	2.9	1.6	1.6	1.6	1.6	1.6
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

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 Poin.

2/ Projections are based on current IMF charges.

Table 10. Somalia: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility Arrangement (December 2022–December 2023) 1/

(Millions of U.S. dollars)

		Dec. 2022 4/			Mar. 2023	Jun. 2023 4/	Sept. 2023
		Prog.	Prel.	Status	Prog.	Prog.	Prog.
	Quantitative Performance Criteria						
1	FGS domestic revenue, floor 2/	247.0	262.7	Met		115.0	
2	Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	342.0	345.4	Not met		240.0	
3	Net international reserves, floor	-346.0	-345.0	Met		-346.0	
4	Contracting of new domestic debt, ceiling 3/	0.0	0.0	Met		0.0	
5	Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0.0	0.0	Met		0.0	
6	Accumulation of new external arrears, ceiling 3/	0.0	0.0	Met		0.0	
	Indicative Targets						
1	FGS domestic revenue, floor 2/				55.0		170.0
2	Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/				110.0		340.0
3	Net international reserves, floor				-346.0		-346.0
4	Contracting of new domestic debt, ceiling 3/				0.0		0.0
5	Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/				0.0		0.0
6	Accumulation of new external arrears, ceiling 3/				0.0		0.0
7	Fiscal balance, floor (cash basis) 2/ 5/	0.0 adjusted to -28.3	2.4	Met	0.0	0.0	0.0
8	Accumulation of new domestic expenditure arrears, ceiling 3/	0.0	0.0	Met	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	0.0

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). No conditionality can be set for after the current ECF-supported program expires either (i) on the date of the last disbursement or (ii) on December 24th, 2023 whichever date is earlier.

2/ Cumulative from the beginning of the fiscal year.

3/ This target is applied on a continuous basis.

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

5/ 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 Arrangement, December 2022–December 2023

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring	Status
1	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.	Met
2	Operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors	End-June 2023 (reset from 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.	Not met. Reset to end-June 2023
3	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.	Ongoing
4	Operationalize the Customs Automated System at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo	End-July 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
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	PFM / MOF NCSC MOLSA	Strengthen payroll integrity and expenditure control and governance	Submit to IMF the policy and roadmap approved by the Cabinet	Met
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	(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.	Ongoing
8	(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.	Ongoing
9	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	Ongoing
10	Enact the Targeted Financial Sanctions Law and issue related regulations	End-July 2023 (reset from 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	Not met. Reset to end-July 2023
11	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	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.	Met

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 Labor 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 12. Somalia: Proposed Structural Benchmarks Under the ECF Arrangement, December 2022–December 2023

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring
12	Submit to Parliament a Supplementary Budget for 2023 that presents a balanced fiscal position based on realistic domestic revenues and budget support grants, and that is consistent with the performance criteria in the ECF-supported program.	End-June 2023	Fiscal policy / MOF	To accommodate higher spending that supports growth, security, and development while scaling back discretionary spending to keep within the available resource envelope.	Submit to IMF the Supplementary Budget for 2023 approved by the Cabinet
13	Cabinet approval of standard operating procedures for the Inter-Ministerial Concessions Committee (IMCC), in line with the requirements of the Procurement Act and IMF recommendations.	End-June 2023	Governance / MOF	To strengthen the strategic and oversight role of the IMCC over government contracts and concessions, as outlined in the Procurement Act.	Publish the Cabinet-approved standard operating procedures on the website of the MOF

Source: IMF

Note: Ministry of Finance (MOF).

Table 13. Somalia: Public Debt Holder Profile, 2022–2024

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

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total [1/]	3332.2	100.0	40.8	16.4	20.5	28.9	0.2	0.3	0.4
External	3264.4	98.0	40.0	16.4	20.5	28.9	0.2	0.3	0.4
Multilateral creditors	992.1	29.8	12.2	16.4	19.4	10.6	0.2	0.2	0.1
IMF [2/]	342.6	10.3	4.2	0.1	3.7	3.4	0.0	0.0	0.0
World Bank [3/]	104.9	3.1	1.3	13.4	13.4	0.0	0.2	0.2	0.0
AfDB	21.1	0.6	0.3	2.5	1.2	0.0	0.0	0.0	0.0
Other Multilaterals	523.5	15.7	6.4	0.5	1.2	7.2	0.0	0.0	0.1
Arab Monetary Fund	300.5	9.0	3.7	0.0	0.3	3.6	0.0	0.0	0.0
Arab Fund for Economic and Social Development	143.4	4.3	1.8	0.0	0.2	2.3	0.0	0.0	0.0
International Fund for Agricultural Development	31.0	0.9	0.4	0.5	0.5	0.5	0.0	0.0	0.0
Islamic Development Bank	12.5	0.4	0.2	0.0	0.2	0.2	0.0	0.0	0.0
OPEC Fund for International Development	36.1	1.1	0.4	0.0	0.1	0.7	0.0	0.0	0.0
Bilateral Creditors	2272.3	68.2	27.9	0.0	1.0	18.3	0.0	0.0	0.2
Paris Club [4/]	1673.2	50.2	20.5	0.0	1.0	16.0	0.0	0.0	0.2
Denmark	2.9	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
France	145.3	4.4	1.8	0.0	0.7	6.2	0.0	0.0	0.1
Italy [5/]	111.7	3.4	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Japan [6/]	110.8	3.3	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	2.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Norway	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia [7/]	236.6	7.1	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Spain	40.9	1.2	0.5	0.0	0.0	8.4	0.0	0.0	0.1
United Kingdom	30.3	0.9	0.4	0.0	0.2	1.2	0.0	0.0	0.0
United States	991.8	29.8	12.2	0.0	0.0	0.0	0.0	0.0	0.0
EEC IDA Administered Loans	0.3	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Commercial creditors	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Serbia	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other international creditors [8/]	596.5	17.9	7.3	0.0	0.0	2.3	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	63.4	1.9	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait Fund and Central Bank	125.3	3.8	1.5	0.0	0.0	2.1	0.0	0.0	0.0
Libya	36.2	1.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Romania	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	115.0	3.5	1.4	0.0	0.0	0.2	0.0	0.0	0.0
United Arab Emirates	251.6	7.6	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	67.8	2.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Of which: in arrears	67.8	2.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	8158								

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 Somalian 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 efective 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 Sustainablity 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. Risk Assessment Matrix[1]

Nature/Source of Main Risks	Overall Level of Concern	
	Relative Likelihood	**Expected Impact if Threat Materializes**
CONJUNCTURAL RISKS		
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	**High**	**High** Intensifying spillovers form 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). Lower economic growth could reduce remittances, affecting local consumption and investment.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium**	
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	**High**	**High** Social discontent shock may intensify the already precarious security situation in Somalia.
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	**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.

[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.

Nature/Source of Main Risks	Overall Level of Concern	
	Relative Likelihood	Expected Impact if Threat Materializes
CONJUNCTURAL RISKS		
		However, stagflation in countries 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 downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.	**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. Lower demand for exports will reduce economic growth and tax revenues.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	**Medium**	**Low** Financial instability will negatively affect the incipient financial system and reduce the availability of credit.
STRUCTURAL RISKS		
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	**Medium**	**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 II. Progress on HIPC Completion Point Triggers

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

2. Progress on the HIPC CP triggers and debt relief agreements, as well as the authorities' sustained reform commitment suggest the HIPC CP is feasible by 2023Q4. 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	
1. 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.	The Annual Progress Report evaluating the implementation of the National Development Plan in 2020 was completed in June 2022. Staff of the World Bank and IMF are preparing a Joint Staff Assessment Note.
Macroeconomic stability	
2. Maintain macroeconomic stability as evidenced by satisfactory implementation of the 3-year ECF-supported program.	The fourth review of the ECF-supported program was completed on December 5, 2022.
Public financial and expenditure management	
3. Publish at least two years of the audited financial accounts of the FGS.	The Office of the Auditor General published the 2019, 2020, and 2021 FGS financial accounts.
4. 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.
Domestic revenue mobilization	
5. 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	
6. Enact the Extractive Industry Income Tax (EIIT) Law.	The EIIT Bill was approved by Parliament in March 2023.
7. Ratify the 'United Nations Convention Against Corruption' (UNCAC).	Somalia acceded to the UNCAC in August 2021.

HIPC Completion Point Triggers	Progress
Debt management	
8. Publish at least four consecutive quarterly reports.	Regular 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	
9. 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. The Data Protection Law was approved by Parliament in March 2023, and operational guidelines need to be developed.
10. 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 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.
11. 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	
12. Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.	The Somalia Electricity Bill was enacted on March 8, 2023.
13. 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	
14. Publish at least two editions of the Somalia Annual Fact Book.	The Facts and Figures of Somalia has been published for 2018, 2019, 2020, and 2021.

Appendix I. Letter of Intent

Mogadishu, Somalia
April 30, 2023

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 and elevated food and energy prices. 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 fifth review of the program and disbursement of SDR 7 million (4.28 percent of quota). We met all but one of the quantitative performance criteria (QPC) and all the indicative targets (IT) for end-December 2022. The QPC on spending on compensation of employees, goods and services, and contingency was missed by a small margin (US$3.4 million). We are requesting a waiver for the missed December 2022 QPC based on measures to contain discretionary spending in the Supplementary Budget for 2023. We are also requesting a modification to the June 2023 QPC and September 2023 IT ceiling on compensation of employees, goods and services, and contingency to accommodate higher spending that supports growth, security, and development while keeping within the available resource envelope. 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.

We are also requesting a disbursement of additional interim HIPC assistance in the amount of SDR 2.211 million to cover all of Somalia's eligible debt service to the IMF that falls due between June 17, 2023 and June 16, 2024 or the HIPC Completion Point, whichever is earlier.

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 until the end of the program 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/	/s/
Dr. Elmi M. Nur	Abdirahman M. Abdullahi
Minister of Finance of Somalia	Governor of the Central Bank of Somalia

Attachments (2)

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

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 government affirms 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 levels.

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.** Five consecutive failed rainy seasons have led to acute food insecurity for one third (5.6 million) of Somalia's population as of December 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, the coverage of the Baxnaano cash transfer program has been expanded. 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. The government has stepped up its fight against terrorism to improve security across the country. Since mid-2022, the government has scaled up the military, ideological, and financial campaign against Al- Shabab. As of February 2023, the Somali military—with support of international partners, local militia, and the general population—has gained ground against Al- Shabab in the central Somali regions, which has facilitated the delivery of humanitarian assistance. However, the military campaign as well as the stabilization policies for the liberated areas are generating pressures on government finances.

6. In 2022, real GDP growth moderated to an estimated 1.7 percent, compared 2.9 percent in 2021, owing to subdued growth in exports, credit, and remittances. Rainfall in 2022Q4 was well below average, affecting crops and livestock and therefore also exports. Remittances growth was subdued in 2022—attributed in part to the impact of elevated prices on the purchasing power of the diaspora community—negatively affecting economic activity. Average inflation picked up to 6.8 percent in 2022, on the back of high food and fuel prices.

7. High budget grants and solid domestic revenue performance contributed to an overall fiscal surplus in 2022, and all except one related performance criteria were met. Domestic revenues were close to US$16 million above the program floor. Total expenditure was slightly below expectations, although expenditure on goods and services was higher than anticipated. The quantitative performance criteria (QPC) on domestic revenue and indicative target (IT) on the fiscal balance for December 2022 were met with a margin. The QPC on spending on compensation of employees, goods and services, and contingency was missed by a small amount (US$3.4 million). We are requesting a waiver for the missed December 2022 QPC based on measures to contain discretionary spending in the supplementary budget for 2023.

8. 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. In September 2022, we issued a spectrum fee schedule for telecom operators approved by the National Communications Authority (NCA) in agreement with the Ministry of Finance (MoF). Revenue collection from the spectrum fee schedule is expected to be US$6 million per year for the next 10 years. We published the annual report on tax exemptions as part of the 2023 budget package and the quarterly report for 2022Q4 in January 2023 (SB#1, met), and regular quarterly reports will continue. Following the first and second rounds of tax audits in 2020 and 2021, in 2022 we undertook a third 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.

9. Public financial management (PFM) was strengthened. To strengthen transparency, we published the annual financial statements of the Federal Government of Somalia (FGS) for 2019, 2020, and 2021, 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. The Pay and Grade policy and roadmap for payroll integration was approved by the Cabinet on December 1, 2022 (SB#5, met). The pay and grade policy sets out salary scales for temporary workers and other employees, eligibilities for allowances included in non-payroll payments, and clarifies the roles and responsibilities of the MoF and National Civil Service Commission in their controls and financial clearance.

10. 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 2022Q4 (CPT).

11. The CBS is making significant progress on promoting financial stability and financial deepening. The launch of the National Payment System (NPS) in 2021 was a major milestone, enabling a safer and more efficient payment infrastructure. Transactions through the NPS have been increasing. IBAN account standardization was launched March 27, 2023 to improve cross-border payments and reduce operational processes within the NPS. 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. As of February 2023, four mobile money operators have been granted licenses. Mobile money regulations were issued, the payment system and mobile money oversight division was established, and a regulation manual drafted. Capacity in financial supervision has been improving through increased resouces and moving towards risk-based prudential surpervision.

12. The CBS is strengthening its institutional framework and capacity, including through implementation of safeguards assessment 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 performance management system was established. Implementation of recommendations from the March 2020 safeguards assessment is progressing well, including resolution of the recurring audit qualification of the financial statements. The 2021 audited financial statements were published in September 2022. The period-end closing procedures and training plans for CBS staff, including staff of the Finance Department, have been completed.

13. 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 and published in 2022. The NRA Action Plan was approved by NAMLC on January 17, 2023, and published in February 2023.

The Targeted Financial Sanctions Law (TFSL) was enacted on March 8, 2023. 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.

14. 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 Parliament ratified the African Union and Arab anti-corruption conventions. 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.

15. 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. The revised tender protocol in line with IMF recommendations was approved by the Inter-Ministerial Committee on Contracts on November 22, 2022 (SB#11, met). The Extractive Industries Income Tax (EIIT) Law was passed by both chambers of Parliament in March 2023 (CPT).

16. 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). Key pieces of legislation that support development efforts were passed by Parliament in March 2023, in particular the Electricity Act, the Extractive Industries Income Tax Law, the Data Protection Law, the Targeted Financial Sanctions Law, the Digital ID System Law, the Investment and Investor Protection Act, and the Federal Law on Fisheries.

17. 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.

18. 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. The 2022 Somalia Integrated Household Budget Survey (SIHBS), the first since 1985, was published in February 2023 and is expected to improve the GDP and CPI estimates.

To promote data transparency, Somalia continues to implement the enhanced General Data Dissemination System (e-GDDS) framework.

Outlook and Risks

19. Growth in 2023 is expected to be weighed down by the prolonged drought and subdued remittance inflows. While disappointing rains in 2022 will have a lingering negative effect, livestock and crop exports are expected to recover gradually if rainfall in 2023 returns to healthy levels. Remittance inflows are expected to improve only modestly, in the context of lower global growth. Inflation is expected to decline to 3.7 percent (eop) in 2023 reflecting lower commodity prices. Growth is expected to increase to 4.3 percent by 2028, as financial and structural reforms facilitate a gradual scaling up of public spending and foster greater private investment.

20. 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, lower than anticipated global growth, 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

21. Somalia's ECF arrangement supports continued progress toward the HIPC Completion Point and implementation of NDP9. Reform priorities in the ECF-supported program include: (i) increasing domestic revenue mobilization; (ii) strengthening PFM (including the legal and regulatory framework, internal and external audit, expenditure controls, cash management, accounting and reporting, and debt management); (iii) continued deepening of CBS capacity; and (iv) 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

22. 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.

23. For 2023, we will continue to improve revenue collection and make room for priority spending, while containing discretionary expenditure pressures. We will submit to Parliament a Supplementary Budget for 2023 that presents a balanced fiscal position based on realistic domestic revenues and budget support grants, and that is consistent with the performance criteria in the ECF-supported program (proposed SB#12, end-June 2023). The Supplementary Budget will accommodate expenditure that is supportive of growth, security, and development—including security sector compensation and provisions and the hiring of new teachers—while other discretionary spending will be scaled back. Any new hires will be incorporated in the payroll system, with wages in line with existing pay scales. To increase revenues, we are committed to implementing a series of measures as delineated below. Social benefit spending will continue to be financed through project grants. The Supplementary budget will also include a costing of NDP9 for 2023.

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#4), 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-June 2023, we will operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors (SB#2, was due end-March 2023). 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 2,000 newly registered taxpayers who commence paying taxes by end-May 2023 (SB#3). As of end-February 2023, 4,000 taxpayers had already been registered. 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.

- **Modern income tax law.** We will finalize the draft Income Tax bill and expect to submit to Parliament in June 2023. Once enacted, the new law 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 2023, we will continue strengthening tax audits by implementing the new audit manual, which draws lessons from the first, second and third rounds of audits in 2020, 2021, and 2022.

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 and ensure payroll integrity, we will integrate all compensation of employees into the single payroll included in the SFMIS, following a sequenced approach as 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). To support implementation of the recently approved Pay and Grade policy, 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 (SB#7). Such a provision was already included in the 2023 Appropriation Law. In addition, we will include in the 2024 budget a strategy to align salaries of temporary workers with the existing pay scale of permanent workers.

- **Streamlining of business processes.** We will streamline the budget execution and Treasury management process in order to enhance financial controls and reporting. From May 2023, daily operation of the invoice tracking functionality will cover electricity and internet and a roadmap to expand the coverage of invoice tracking to all goods and services will be developed by end-

December 2023. 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 monthly and annual financial statements, including a memorandum annex on SDR balances of the MoF. We will amend the PFM Regulations to require costing of the National Development Plan in the annual and supplementary budgets. 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. By April 2023, we will issue and start implementing the circular and guidelines on emergency procurement, which 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 and oversight role of the Inter-Ministerial Concessions Committee (IMCC) by seeking Cabinet approval of standard operating procedures for the IMCC, in line with the requirements of the Procurement Act and IMF recommendations (proposed SB#13, due June 2023). The standard operating procedures would specify, among others: (i) the role of IMCC Chairperson (Minister of Finance) in setting the agenda and convening meetings; (ii) administrative procedures for presenting projects to be discussed by the IMCC, including sufficient lead time to prepare the necessary technical assessments for projects to be reviewed by the IMCC; and (iv) the interim role of the MoF Procurement Department in providing technical support to the IMCC and preparing technical assessments of projects to be considered until a the Concessions Technical Unit is established and has built adequate capacity.

- **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 (SB#8).

- **Public-private partnerships (PPP) law and regulations.** We will develop a strong legal and fiscal institutional framework for PPPs to promote investment while adequately managing fiscal risks. Important elements to contain fiscal risks related to PPPs include (i) a sound PPP framework; (ii) controlling costs, including by establishing a gateway process managed by the Ministry of Finance; and (iii) disclosure of costs and risks. With these elements in mind, we are preparing the PPP law and regulations.

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. Now that the Extractive Industries Income Tax (EIIT) has been enacted (CPT), we will develop the related regulations. We will also finalize the Petroleum Act regulations. We commit to not issuing any new product sharing agreements until the legal framework is completed, including the EIIT regulations and the Petroleum Act regulations. 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, Financial Institutions, and Islamic Insurance are being finalized for submission to Parliament. We will draft amendments to the CBS Act to enhance the central bank's autonomy. We are developing a National QR code and National SWITCH to support the national payment system, as well as an e- KYC system. We plan to issue the regulations on capital adequacy and liquidly coverage ratios by end-September 2023 (SB#9) and will engage early on with banks that may not meet the new requirements. Staffing and capacity of the CBS Licensing and Supervision Department will continue to be strengthened to improve the quality of supervision. 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. We are taking steps to address the operational and financial needs associated with the currency exchange project, including securing a firm agreement between the FGS and all FMS and addressing the funding gap. We will also work on formulating the monetary and exchange rate policy frameworks and developing capacity of the CBS and financial institutions—in consultation with the IMF, including further IMF technical assistance. 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 implement the recently approved NRA action plan, and prepare for the MENA-FATF Mutual Evaluation Assessment in 2024. With the TFSL now enacted, we will issue the related regulations by end-July 2023 (SB#10, was due end-December 2022) as well as amend the 2016 AML/CFT law to ensure consistency with the TFSL.

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. Now that the Electricity Act has been enacted, we will 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 Laws 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 commencement of the Business Survey in the coming year. A new census is expected in 2024, the first after 40 years. 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 Tables 2 and 3). These will be assessed through semi-annual reviews. The sixth review will be based on the QPCs and ITs set for 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 (December 2022–December 2023) 1/
(Millions of U.S. dollars)

		Dec. 2022 4/			Mar. 2023	Jun. 2023 4/	Sept. 2023
		Prog.	Prel.	Status	Prog.	Prog.	Prog.
	Quantitative Performance Criteria						
1	FGS domestic revenue, floor 2/	247.0	262.7	Met		115.0	
2	Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	342.0	345.4	Not met		240.0	
3	Net international reserves, floor	-346.0	-345.0	Met		-346.0	
4	Contracting of new domestic debt, ceiling 3/	0.0	0.0	Met		0.0	
5	Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0.0	0.0	Met		0.0	
6	Accumulation of new external arrears, ceiling 3/	0.0	0.0	Met		0.0	
	Indicative Targets						
1	FGS domestic revenue, floor 2/				55.0		170.0
2	Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/				110.0		340.0
3	Net international reserves, floor				-346.0		-346.0
4	Contracting of new domestic debt, ceiling 3/				0.0		0.0
5	Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/				0.0		0.0
6	Accumulation of new external arrears, ceiling 3/				0.0		0.0
7	Fiscal balance, floor (cash basis) 2/ 5/	0.0 adjusted to -28.3	2.4	Met	0.0	0.0	0.0
8	Accumulation of new domestic expenditure arrears, ceiling 3/	0.0	0.0	Met	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	0.0

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). No conditionality can be set for after the current ECF-supported program expires either (i) on the date of the last disbursement or (ii) on December 24th, 2023 whichever date is earlier.

2/ Cumulative from the beginning of the fiscal year.

3/ This target is applied on a continuous basis.

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

5/ 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 Arrangement (December 2022–December 2023)

Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring	Status
1 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.	Met
2 Operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors	End-June 2023 (reset from 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.	Not met. Reset to end-June 2023
3 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.	Ongoing
4 Operationalize the Customs Automated System at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo	End-July 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
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	PFM / MOF NCSC MOLSA	Strengthen payroll integrity and expenditure control and governance	Submit to IMF the policy and roadmap approved by the Cabinet	Met
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 (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.	Ongoing
8 (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.	Ongoing
9 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	Ongoing
10 Enact the Targeted Financial Sanctions Law and issue related regulations	End-July 2023 (reset from 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	Not met. Reset to end-July 2023
11 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	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.	Met

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 Labor 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 3. Somalia: Proposed Structural Benchmarks Under the ECF Arrangement (December 2022–December 2023)

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring
12	Submit to Parliament a Supplementary Budget for 2023 that presents a balanced fiscal position based on realistic domestic revenues and budget support grants, and that is consistent with the performance criteria in the ECF-supported program.	End-June 2023	Fiscal policy / MOF	To accommodate higher spending that supports growth, security, and development while scaling back discretionary spending to keep within the available resource envelope.	Submit to IMF the Supplementary Budget for 2023 approved by the Cabinet
13	Cabinet approval of standard operating procedures for the Inter-Ministerial Concessions Committee (IMCC), in line with the requirements of the Procurement Act and IMF recommendations.	End-June 2023	Governance / MOF	To strengthen the strategic and oversight role of the IMCC over government contracts and concessions, as outlined in the Procurement Act.	Publish the Cabinet-approved standard operating procedures on the website of the MOF

Source: IMF

Note: Ministry of Finance (MOF).

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 June 2023, and related ITs for March 2023 and September 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 March, June, and September 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 (SFMIS) 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)

	Mar-23	Jun-23	Sep-23
Maximum amount of the fiscal balance adjustor	**33.5**	**90.5**	**90.5**
Memorandum items			
Budget support grants in the Budget estimate	60.0	130.0	170.6
Possible sources of financing for fiscal deficit	90.5	90.5	90.5
Proceeds from SDR holdings distributed to the MOF	0.0	0.0	0.0
Withdrawal of cash buffers (including fiscal buffer and SDR transit account) 1/	56.1	56.1	56.1
Proceeds from CBS temporary advances 2/	34.4	34.4	34.4

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 Allocation[1];

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 approximately SDR157 million. Of this, the authorities distributed about SDR93 million to the MoF and about 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		
	Mar-23	Jun-23	Sep-23
Adjustor 1, in the event that the CBS transfers distributable earnings to the government	-0.2	-0.2	-0.2
Adjustor 2: in the event of CBS temporary liquidity advances to the government 1/	-34.4	-34.4	-34.4

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.

Table 3. 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 sheetdata 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 netassets, high quality liquid assets, and 30-day funding requirement), and average profit ratesand 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 forthe 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 CBSon 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 tobe added as oversight and supervision develops, but latest for end-December 2020 data point.	Quarterly	4 weeks after the end of each quarter.

Table 3. 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: • 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: • 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 andother 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.

Table 3. 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 accountsconsistent 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 inspectionsreport 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 theend 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.

Table 3. 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, bycreditor, and origination currency. The amount of new external debt contracted orguaranteed 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 theCBS, by creditor.	Annually	30 days after the end of each year
		Accumulation of any new arrears (principalor 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 15th 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

May 1, 2023

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA AND INDICATIVE TARGET, AND INTERIM ASSISTANCE—DEBT SUSTAINABILITY ANALYSIS

Approved By
Thanos Arvanitis and Mark Flanagan (IMF), Manuela Francisco and Asad Alam (IDA)

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

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

This debt sustainability analysis (DSA) provides an update of the June 2022 DSA. Total public debt is US$ 3.3 billion, or 40.8 percent of GDP at end-2022—nearly all of which is external (Tables 1 and 2).[1] *The revised baseline scenario includes (i) updated macroeconomic assumptions, (ii) use of the 2021 SDR allocation, (iii) interim assistance received since the Heavily Indebted Poor Countries (HIPC) Decision Point in March 2020, and (iv) updated information consistent with debt relief agreements signed with Paris Club creditors. Somalia is in debt distress, both for external and overall public debt. The present value of external debt in 2022 is 40 percent of GDP, well above the 30 percent threshold for countries like Somalia with weak debt carrying capacity. The baseline forecast indicates substantial and sustained breaches of the PV of external debt-to-exports and the external debt service-to-revenues indicative thresholds in the absence of debt relief. Somalia is in arrears with external creditors, and debt restructuring negotiations are ongoing. 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 (an alternative scenario under the DSA analysis). 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.*

[1] The DSA reflects a debt carrying capacity of weak considering Somalia's Composite Indicator of 1.57, based on the October 2022 World Economic Outlook and the latest CPIA vintage (2021).

PUBLIC DEBT COVERAGE

1. **Public debt data coverage is limited to the federal government.** The coverage of public debt captured by the Debt Sustainability Assessment (DSA) is near complete.[2] There is no government guaranteed debt, there are no known liabilities of state-owned enterprises or subnational governments, and no public-private partnerships (PPPs) (Text Table 1).[3] Somalia's domestic financial institutions and local capital markets are not yet developed, and as such there is no domestic public debt aside from legacy government arrears. Default settings are applied to the DSA contingent liability stress test and no other tailored stress tests are applicable to Somalia. External debt for the DSA is defined on a residency basis. A reconciliation exercise of external obligations was finalized in conjunction with the March 2020 HIPC Decision Point document, and its findings continue to figure in this DSA.[4]

2. **Progress on the HIPC Completion Point triggers (Annex II) and debt relief agreements suggest that reaching the HIPC Completion Point (CP) is feasible by 2023Q4**—though it is important to note that the HIPC Completion Point (CP) is a floating milestone, with no pre-established timeframe and which will be reached when the country meets the agreed HIPC Completion Point triggers. In preparation for the possible CP, a new debt reconciliation exercise is expected in the first semester of 2023.

3. **The Federal Government of Somalia (FGS) is strengthening its debt management capacity with the support of technical assistance from international partners.** The Ministry of Finance established a Debt Management Unit (DMU) in December 2015. The AfDB financed the installation of a debt recording system and provided training to staff in the unit, primarily to support the reconstruction of loan records. The debt recording system is being upgraded to the Commonwealth Meridien System, which is a cloud-based IT system that will allow for an in-depth review of the existing portfolio. The DMU has been issuing quarterly debt bulletins since the end of 2020, and the quality of these bulletins has been improving with technical assistance from the IMF.[5] The coordination between the DMU and other departments is improving. The 2023 Budget Policy Framework Paper included a section on debt. The quarterly publication of the debt bulletin and improved treatment of debt issues in national budget documents were performance and policy actions (PPAs) under the IDA Sustainable Development Finance Policy.[6] A joint IMF-WB technical assistance mission took place in 2021 to establish a roadmap for strengthening debt management capacity, focusing on the legal framework, the institutional framework, as well as debt recording, monitoring, and reporting.

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[2] The World Bank and the IMF provide support to the government in this area through technical assistance, development policy financing, and the Sustainable Development Finance Policy (SDFP).

[3] Somalia's general government debt stock excludes a Russian claim on a non-central government entity. The claim concerns special correspondent accounts at the Central Bank of Somalia totaling about $7.5 million (or 0.1 percent of GDP). PPPs may potentially be agreed at some point in the future; the International Finance Corporation (IFC) is providing support on the legislative framework.

[4] See Somalia—Enhanced Heavily Indebted Poor Countries (HIPC) Initiative Decision Point Document (March 2020, Country Report No. 20/86).

[5] The publication of at least four consecutive quarterly debt reports is one of the triggers to reach HIPC Completion Point.

[6] The FY2022 Performance and Policy Action (PPA) is "PPA 2: The Recipient's Ministry of Finance (i) Publishes quarterly debt bulletins on the MOF's website; and (ii) submits information on debt statistics to parliament on the Draft Budget Act".

Text Table 1. Somalia: Public Debt Coverage

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.1	Potential increase in debt in dispute with Russia
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.0	No government guaranteed or non-guaranteed SOE debt in Somalia
4	PPP	35 percent of PPP stock	0.00	No PPPs exist in Somalia
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		5.1	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

Source: Somali Authorities and IMF staff estimates.

BACKGROUND ON DEBT

4. The November 2020 DSA reported that the nominal level of the total stock of debt outstanding in 2019 was US$ 5.3 billion at end-2019, of which US$5.1 billion was in arrears. The vast bulk of this debt was with official creditors.[7] Most was owed to Paris Club (PC) creditors (58 percent), followed by multilaterals (29 percent), and non-Paris Club bilateral creditors (13 percent). All domestic debt (1.5 percent of GDP) represented central government arrears.[8]

5. Debt stock estimates for end-2022 reflect updates from information provided by the Somali authorities. The overall level of public debt stock is estimated at end-2022 at US$ 3.3 billion, or 40.8 percent of GDP (see Table 5). This estimate incorporates debt stock levels at end-2022 provided from the authorities for IDA, the IMF and the African Development Bank (AfDB) Group, as well as for all bilateral creditors that have already signed a debt relief agreement in 2020-22. For this set of creditors, debt stocks for 2022 differ from the 2021 estimates in the June 2022 DSA because of updates to the interim relief assumptions to reflect the terms of the actual agreements signed, exchange rate fluctuations, and amortization made from 2021 through end-2022 (to IDA and AfDB). For bilateral creditors that have not yet signed an agreement, it continues to assume the application of Cologne terms.[9]

6. Somalia has signed agreements with individual creditors to restructure its external public debt. The authorities continue to advance in negotiations around the modalities of a debt restructuring

[7] Of the US$191 million not in arrears, US$31 million and US$160 million were obligations to the African Development Fund and the International Development Association, respectively.

[8] Somalia's stock of domestic debt (estimated at US$68.8 million, end-2018) reflects the accumulation government wage arrears to civil servants due to constrained resources and longstanding weaknesses in public financial management. No new arrears have been accumulated since end-2017, and the authorities are committed to gradually clearing these arrears in line with available resources.

[9] Paris Club granted Somalia Cologne Terms on March 31, 2020, in the context of Somalia reaching the HIPC Decision Point; and it is assumed that applying Cologne Terms to creditors that have not yet signed an agreement with Somalia is consistent with the comparability of treatment provision embedded in the Paris Club agreement. Under Cologne terms, most HIPC countries receive a reduction in eligible pre-cutoff date non-official development assistance (non-ODA) debt of 90 percent in net present value (NPV) terms on debt service falling due and 67 percent in net present value (NPV) terms on arrears. Pre-cutoff date ODA credits are rescheduled on interest rates at least as concessional as the original interest rates over 40 years with 16 years grace period.

with most multilateral creditors (Arab Monetary Fund, Islamic Development Bank, Arab Fund for Economic and Social Development). International partners have indicated support for International Fund for Agricultural Development (IFAD) arrears clearance and HIPC debt relief.[10] In an agreement signed on March 31, 2020, countries of the Paris Club agreed to provide interim debt relief as part of the HIPC Initiative.[11] Debt relief and restructuring agreements have been signed subsequently with most Paris Club creditors, except Russia.[12] The authorities signed an agreement with the Kuwait Fund for Arab Economic Development (KFAED) on April 24, 2022.[13] The authorities report that negotiations are advanced with the Saudi Fund and the Abu Dhabi Fund. As of end-March 2023, debt relief agreements have been signed with creditors representing 68.4 percent of the NPV of debt after traditional debt relief. The Somali authorities are receiving technical assistance from the AfDB African Legal Support Facility to support the discussions on the restructuring debt with creditors.

7. Data weaknesses constrain macroeconomic analysis, limiting the significance of the results provided by the standardized stress tests in the Debt Sustainability Framework for Low-income Countries (LIC-DSF). Although data quality is gradually improving, important limitations remain due to a relatively short time series for national accounts data, substantial gaps in balance-of-payments data, and a heavy reliance on third-party data for trade estimates and secondary transfers. Direct investment data are currently estimated.

BACKGROUND ON MACROECONOMIC FORECASTS

8. Growth in 2022 was subdued, as Somalia was affected by multiple sources of shocks. Real GDP growth was estimated at 1.7 percent in 2022, compared to 2.7 percent projected in June 2022 DSA. The economy was affected by (i) climate-related shocks (a long drought spell with five consecutive failed rainy seasons); (ii) lower export growth (crops and livestock): and (iii) subdued growth of remittances (attributed in part to the impact of global inflation on the purchasing power of the diaspora community). The prolonged drought has contributed to widespread food insecurity. By February 2023, an estimated 8.3 million Somalis were affected by the drought, more than half of the population.[14] The government's response has focused on identifying the most affected areas, raising awareness to mobilize external funding, and coordinating with the UN system on delivery of humanitarian assistance. The substantial

[10] On February 3, 2023, IDA agreed to finance 85 percent of IFAD's share of HIPC debt relief to Somalia through the IDA-managed Debt Relief Trust Fund (DRTF), provided that DRTF donors support this arrangement. This financing will include compensation of up to one-third of the HIPC debt relief to be delivered by IFAD to Somalia in the interim period.

[11] For press release please refer to http://www.clubdeparis.org/en/communications/press-release/debt-relief-to-somalia-31-03-2020. It was also agreed, on an exceptional basis, that Somalia would not be required to make debt service payments until at least end March 2024, given Somalia's very limited payment capacity, and if it continued to implement satisfactorily an IMF-supported program.

[12] The authorities are actively engaged in negotiations on a debt relief agreement with Russia. An agreement with Russia on its Paris Club debt is subject to an agreement on the US$7.5 million debt excluded from the perimeter of the Paris club treatment.

[13] The agreement includes a clause which states KFAED is committed to delivering its full share of debt relief to Somalia under the HIPC initiative.

[14] United Nations Office for the Coordination of Humanitarian Affairs and ReliefWeb, Somalia Humanitarian Response Plan, February 2023. Accessed on March 28th 2023.

increase in imports, in particular food, was financed mainly through higher official grants, contributing to a stable current account balance of 16.8 percent of GDP.

9. Growth is expected to pick up modestly in 2023, weighed down by adverse climate conditions and a more challenging external environment. Growth is forecast at 2.8 percent, 0.8 percentage points lower than anticipated in the June 2022 DSA. Disappointing rains at end-2022 will hamper the full recovery of crop and livestock production in 2023. The impact of the climate-related disasters is being mitigated through the expanded rollout of cash transfers (supported by the World Bank, the World Food Program, and other partners). Inflation is expected at 4.2 percent in 2023 as commodity prices recede. However, near-term downside risks include, prolonged drought conditions or new weather-related shocks, resurgence of the desert locust infestation, additional pressures on international food and energy prices, security risks, and spillovers from geopolitical developments.

10. Budget grants and solid domestic revenue performance contributed to a small surplus in 2022. Domestic revenues increased to 3.2 percent of GDP in 2022, compared to 3 percent of GDP in 2021, thanks to strong non-tax revenues and the signing bonus for 7 petroleum production sharing agreements. Overall, domestic revenue mobilization continues to be dominated by trade-related taxes. Budget support grants increased from 0.5 percent in GDP in 2021 to 2.1 percent of GDP in 2022, following successful completion of reforms and the conclusion of elections in May 2022, followed by a peaceful transition of power. Project grants also increased from 1.4 percent of GDP in 2021 to 3.5 percent of GDP in 2022, including an expansion in social benefits. Total expenditure increased from 6 percent of GDP in 2021 to 8.8 percent of GDP 2022, resulting in a small overall surplus.

11. Over the medium-term, growth is expected to accelerate as the government undertakes reforms supported by the HIPC process, the ECF-supported program, and IDA development policy financing, though with some scarring from climate shocks. The average growth projection for 2023-27 has been marked down to 3.7 percent from 3.9 percent in the June 2022 DSA (Text Table 3). Growth over the medium- and long-term would be driven by: (i) confidence effects related to reaching the HIPC Completion Point (with ongoing progress suggesting CP may be feasible in 2023Q4) and enhanced access to international finance; (ii) continued political stability and reduced security risks; (iii) a gradual scaling up of public spending (in sectors such as energy, transport, education, health)—financed with domestic revenues and concessional borrowing—to support implementation of the national development plan and progress toward the sustainable development goals; (iv) financial deepening and financial inclusion as financial sector reforms pay off; and (v) greater FDI and private investment supported by improvements in the business environment, including security and governance. COVID-19 and climate shocks are expected to have lasting impact—including because of the negative effects on schooling and delivery of health services—and growth is expected at 4.5 percent over the long term, compared to 4.8 percent envisaged at the time of HIPC DP. Staff considers the medium-term growth forecast to be conservative, as it is below the median observed for HIPC fragile countries and similar to what was observed for Somalia during the period 2013 and 2019 (pre-HIPC).[15] While Somalia currently has limited monetary and fiscal policy response options to address multiple shocks, policies and institutions are gradually being built, which can be further supported

[15] The medium- to long-term growth forecast at HIPC DP was informed by an analysis of the key macroeconomic outturns for 36 HIPC beneficiaries between 2000 and 2010. For the fragile countries in this sample, median real growth accelerated by 0.3 percentage points per year over the five years after DP. For Somalia, it was assumed at HIPC DP that growth would accelerate starting at 0.2 ppts per year, and then increase to 0.4 ppts. The current projection assumes growth (post-HIPC DP) to accelerate by around 0.2 ppts per year and then moderate to 0.1 ppts.

by access to new sources of financing upon reaching the HIPC CP. Inflation in the long term is expected to average 2.2 percent as Somalia remains a de facto dollarized economy.[16]

12. It is expected that Somalia will continue running a structural trade deficit over the medium- and long-term. Somalia's exports are currently dominated by the export of livestock (representing about 80 percent of total exports of goods). Over time, the volume of exports is expected to improve because of an ongoing diversification of export markets beyond Saudi Arabia and outside of the Hajj period. New insurance products are being prepared to help mitigate risks to livestock. The authorities' commitment to the diversification of exports is also a response to the vulnerability of livestock to climate-related shocks. Expected pipeline investments in electricity and transport should support the emergence of new productive sectors such as fisheries. A gradual decrease in the current account deficit, as imports prices fall and exports grow, will be financed by increased access to international finance and higher FDI inflows. The latter is expected to result from a confidence boost as Somalia reaches HIPC Completion Point, coupled by a gradually improving business environment.

13. Over the medium and long term, higher domestic revenues would make room for greater public investment and social spending. Domestic revenue is projected to increase by around 0.3 percent of GDP per year over 2023-2027, on the back of broad-based revenue-enhancing reforms.[17] Over the medium-term, trade related revenues (customs duties, sales tax on imports and port fees) are expected to increase due to efficiency gains from the introduction of ad-valorem tariffs and improved data, processes, and systems at customs, which is being supported with technical assistance. The approval of the new Income Tax Law (which clarifies and streamlines deductions) and the introduction of excise taxes on money transfer business, airtime, and telecommunications are projected to lead to an increase in income and sales taxes.[18] The revenue administration is also expected to continue adding new taxpayers to the tax net (for instance large firms in banking and hospitality), expand its use of digital tools, and enhance its enforcement capacity. Over time, higher domestic revenues would make room for greater spending on investment and social services. In the absence of HIPC Completion Point (baseline scenario), Somalia would have limited access to external borrowing, and therefore in the near term would continue to rely on grant financing to run a balanced budget. Once Somalia achieves HIPC Completion Point and gains new access to concessional borrowing (alternative scenario), grants are expected to gradually decline and be replaced by concessional loans. In this case, the budget would move from an overall balance to moderate deficits of about 1.5 percent of GDP. Sustained improvements over time in expenditure execution and public investment management will facilitate greater absorption of additional resources to expand public spending on human development and public infrastructure.

[16] Because of dollarization, Somalia's inflation would follow similar trends to the U.S. The U.S. Federal Reserve has an aim of inflation of 2 percent over the longer run. Inflation in Somalia averaged 2.5 percent from 2013-2019 (pre-COVID).

[17] Compared to the LT forecast at HIPC decision point, domestic revenues are still expected to reach 9 percent of GDP by 2040 but following a more gradual path. These forecasts are supported by the authorities' strong track record in building tax capacity, which has increased from about 1 percent of GDP in 2013, to 3.2 percent of GDP in 2022. The projected medium-term and long-term path for revenues is comparable to the experience of other HIPC fragile countries.

[18] Effective tax rates on telecom sector in Somalia are far less than those in other countries in the region. In introducing excise taxes on money transfer business, their design will need to mitigate risks of arbitrage and adverse impact on poor households.

14. Notwithstanding the recent challenges, the authorities continued to make sustained progress in their policy reform agenda. Important progress has been made towards achieving the HIPC Completion Point triggers, including on public financial and expenditure management, domestic revenue mobilization, governance, social sectors, and statistics. Of note is the recent approval Parliament of seven key pieces of legislation linked to the HIPC CP in March 2023. Furthermore, the authorities have made commendable progress in implementing the performance and policy actions under the IDA Sustainable Development Finance Policy, including maintaining a commitment to not borrow on non-concessional terms and improving debt transparency and reporting. In addition, the authorities are implementing a complementary set of reforms supported by the World Bank's Development Policy Financing operation which is currently under preparation and will further support progress in achieving HIPC Completion Point triggers.

15. Although the nature of risks to the outlook has not changed since the Decision Point, near-term risks are tilted to the downside. Prolonged drought conditions would hurt growth and increase food insecurity. Additional pressures on international food and energy prices due to the war in Ukraine, along with possible supply constraints, heighten food security risks and compound economic hardship on the population. Other risks include resurgence of the desert locust infestation and security risks. Over the medium to long term, the risks are balanced. On the upside, the growth dividend of reaching the HIPC Completion Point on foreign investment inflows could be larger than currently anticipated. The development of new sectors (like the petroleum sector) and enhancement of others (like commercial fishing) could also increase growth. Greater political stability can support advances in the fiscal federalism agenda. On the downside, if Somalia remains in debt distress for a lengthy period of time, it would have detrimental consequences on growth and the country's fiscal sustainability. In addition, the expected transition from the African Union Transition Mission in Somalia (ATMIS) to the Somalia National Army (SNA), potential frictions between the FGS and the FMS during the development of the fiscal framework, and an intensification of climate shocks represent important medium-term risks.

Text Table 2. Somalia: Macroeconomic Projections

(Percent of GDP, unless otherwise indicated)

	DSA June 2022 1/						Current DSA Baseline Scenario 2/					
	2022	2023	2024	2025	2026	2027-42	2022	2023	2024	2025	2026	2027-42
GDP growth (percent)	2.7	3.6	3.7	3.9	4.0	4.5	1.7	2.8	3.7	3.9	4.0	4.5
Per capita GDP growth	-0.1	0.8	0.9	1.1	1.2	1.6	-1.1	0.0	0.9	1.1	1.2	1.6
GDP deflator (percent)	8.3	4.0	5.0	5.0	4.9	2.3	6.8	4.2	3.8	3.6	3.3	2.2
						(in percent of GDP)						
Non-interest current account defi	14.5	12.5	11.3	12.3	12.2	12.1	16.8	16.4	14.4	14.7	14.5	14.6
Exports	16.9	16.9	17.2	17.2	17.2	17.2	17.0	18.2	18.9	19.5	19.8	20.2
Primary fiscal deficit	0.5	-0.3	0.7	0.7	0.7	1.0	0.0	0.3	0.0	-0.1	-0.1	1.4
Revenues and grants	6.4	6.7	5.9	6.3	6.6	8.8	8.8	7.8	7.2	6.7	6.8	7.2
of which: grants	3.4	3.3	2.3	2.1	2.0	1.5	5.6	4.6	3.7	2.9	2.7	0.4

Sources: Somali authorities and IMF staf estimates

1/ Somalia 2nd and 3rd Review

2/ The current DSA baseline scenario includes interim debt relief but excludes HIPC Completion Point relief. The macroeconomic tables in the IMF staff report include interim debt assistance and HIPC Completion Point relief (as in the DSA alternative scenario).

16. The available realism tools are not applicable. Given that Somalia's debt stock is largely determined by its progress under the HIPC Initiative, the realism tool comparing debt stocks and flows across DSA vintages is not yet applicable. Furthermore, the tool assessing the realism of the public investment-growth nexus is inoperable due to gaps in Somalia's investment data. The fiscal adjustment realism tool suggests that there will be no fiscal adjustment over the next three years as, without HIPC CP, Somalia will continue to rely on grants to maintain a balanced budget. While the realism tool signals optimism on the growth path, it does not consider that growth in 2023 is expected to rebound as agriculture recovers following the prolonged drought and growth in remittances improves (Figure 3).

17. The baseline scenario continues to assume interim HIPC debt relief, consistent with the guidance under the Bank-Fund Low-Income Country Debt Sustainability Framework.[19] The baseline scenario assumes no new borrowing over the interim period. This baseline scenario incorporates information of debt relief agreements already signed as described in paragraph 6. Consistent with the LIC-DSF guidance note and the HIPC Debt Relief Analysis, the baseline does not include relief under the HIPC Initiative at the Completion Point nor MDRI.[20] The baseline scenario assumes continued financing in the form of grants from 2023-2027, including from IDA. Starting in 2028, grant disbursements would start to decline according to the disbursement cycle of previously approved projects, offset by gradually rising concessional financing, including through IDA regular credits.

18. An alternative scenario is presented that incorporates the full impact of multilateral arrears clearance, interim debt relief, HIPC, MDRI and beyond HIPC debt relief. This scenario assumes full delivery of additional debt relief at the HIPC Completion Point at end-2023, as the country has continued to make progress on the HIPC Completion Point triggers and debt relief agreements (similar assumption to the June 2022 DSA). Reaching that milestone would bring external debt to 6.3 percent of GDP in 2023 in the alternative scenario, compared to 38 percent of GDP in the baseline scenario (and compared to 82 percent of GDP in 2019).[21] The alternative scenario assumes that new financing in 2024-2027 would shift from grants to highly concessional loans, similar to those under IDA20.[22] The alternative scenario also assumes that from 2028 new borrowing would be on concessional terms similar to IDA regular credits. Somalia would continue to receive grant disbursements for any project commitments approved before the Completion Point, but these amounts would decline considerably over time. The alternative scenario assumes that the revenue path is the same as the baseline scenario (as per paragraph 14). Therefore, as grant disbursements decline, Somalia would increase its borrowing to sustain expenditure, resulting in overall deficits of 1.5 to 2.0 percent of GDP over the medium and long term. Robust access to budget support financing from development partners will continue to be needed to support essential recurrent spending, especially in the near-term.

[19] See Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018 (Appendix V. HIPC Initiative and MDRI).

[20] For the IMF, the MDRI Fund is closed, but financing is being sought for beyond-HIPC assistance.

[21] See Appendix V in "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries," (February 2018).

[22] Once Somalia obtains debt relief at the HIPC Completion Point, the country would be assessed as having a moderate risk of debt distress and therefore, based on IDA financing terms, would no longer have access to new grant commitments but only to highly concessional loans--in particular, to 50-year maturity loans and shorter-term maturity loans.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

19. Somalia's debt-carrying capacity is classified as weak. This classification is guided by the composite indicator score, as determined by the World Bank's CPIA, the country's real GDP growth, import coverage of foreign exchange reserves, remittances as percent of GDP, and growth of the world economy. The DSA for Somalia uses the October 2022 vintage of the WEO and the 2021 CPIA. The latest available composite indicator score for Somalia is 1.57 (Text Table 4).[23]

Text Table 3. Somalia: Composite Indicator and Threshold Tables

Debt Carrying Capacity and Thresholds

Country	Somalia
Country Code	726

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak 1.57	Weak 1.57	Weak 1.57

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

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

Note: Calculated based on the most recent WEO vintage (October 2022) and the latest CPIA vintage (2021).

EXTERNAL DEBT SUSTAINABILITY

20. Somalia remains in debt distress in the baseline scenario, which assumes interim HIPC relief. The revised DSA assumptions result in lower levels for the ratios of PV of external debt to GDP in the near term compared to the June 2022 DSA due to the larger nominal GDP. Over the long term, the path of PV of external debt to GDP, debt service to exports, and debt service to revenue is slightly higher than in the June 2022 DSA because of slightly larger primary deficits (1.5 percent of GDP compared to 1- 1.3 percent of GDP in the June 2022 DSA). The PV of external debt-to-GDP, the PV of the external debt-to-exports, and external debt service to revenue continue to see significant breaches of the corresponding indicative

[23] The composite index reflects an increase in the WB CPIA in 2021 to 2.1 from 2.0 in 2020.

thresholds over the forecast period, highlighting the importance of Somalia securing debt relief through reaching the HIPC Completion Point milestone. Somalia is in arrears with external creditors, and debt restructuring negotiations are ongoing. That said, in a forward-looking sense, Somalia's debt is still considered sustainable, given the expectation that all outstanding arrears will be treated under debt restructuring agreements since Somalia has reached the HIPC Decision Point.

21. While the revisions to the macroeconomic outlook and the PV of debt imply exacerbated debt vulnerabilities and further worsening of the debt situation, the HIPC Initiative does include provisions to ensure countries exit in a sustainable situation. The HIPC Initiative does provide for instances where countries experience a fundamental change in their economic circumstances due to exogenous factors during the interim period. While it is premature to provide an assessment at this stage, if specific conditions are met, Somalia could seek additional debt relief from all creditors, beyond the amount committed at the Decision Point, to reduce debt burden indicators to the HIPC thresholds, ensuring a sustainable debt burden at the conclusion of the process.

22. The standardized stress tests continue to demonstrate that Somalia's external debt position is subject to considerable vulnerabilities and highlight the importance of debt relief. While the application of the standard DSA stress test to Somalia is complicated by the short historical data series as well as severe structural breaks, most debt indicators deteriorate substantially under temporary shock scenarios.[24,] While the standardized stress test suggests the most serious shocks stem from a one-time depreciation, this shock is unlikely to occur in Somalia's de-facto dollarized context. As such, the non-debt flow shock (a shock in current official transfers) is a greater vulnerability, as a consistently high-ranking shock scenario across all indicators, which highlights Somalia's high dependence on official development assistance. Furthermore, the external debt service-to-revenue ratio experiences large breaches under all shock scenarios, accentuating liquidity risks during the HIPC interim period.

23. Somalia's debt situation is markedly better under the alternative scenario that assumes debt relief through the HIPC Initiative, MDRI, and beyond HIPC, underscoring that traditional debt relief alone is insufficient. Assuming full delivery of this additional debt relief at the Completion Point (as under the June 2022 DSA), all debt burden indicators would be significantly below their respective thresholds from 2023, consistent with achieving a moderate risk rating at the Completion Point. There are, however, risks around the time it will take the authorities to complete all HIPC Completion Point triggers, and a delay could slow the expected progress in the debt restructuring assumptions underpinning the alternative scenario. Even under this alternative scenario including full debt relief, Somalia will remain fragile, with downside risks coming from international commodity prices shocks and climate shocks that could negatively affect the revenue path. Expenditure pressures in education, health and security will need to be financed on highly concessional terms to prevent a spike in debt service over the medium term.

[24] The standardized tests embedded in the LIC-DSF generate a financing gap that is assumed to be filled by the accumulation of new debt. However, Somalia would have limited (or no) access to any formal debt financing under the DSA baseline (which assume no HIPC Completion). While the DSA assumes additional financing, in practice, any additional financing needs would be expected to be accommodated through lower fiscal expenditures, lower imports, or higher grants. In addition, Somalia's severe data weaknesses could also bias the simulation results.

PUBLIC DEBT SUSTAINABILITY

24. With domestic debt being negligible, indicators of public debt are similar to the indicators for external debt. The PV of total public debt-to-GDP is well above the benchmark, with serious breaches under the various stress scenarios. The conclusions with regards to external debt sustainability are relevant also for public debt sustainability, given that there is no market for domestic debt and the existing stock of domestic debt is limited to a small stock of government arrears. As in the external debt sustainability analysis, under the alternative scenario debt burden indicators improve significantly and drop below their respective thresholds.

RISK RATING AND VULNERABILITIES

25. Somalia's external public debt and overall public debt remain in distress under the baseline scenario. The baseline shows a downward revision in the present value of debt compared to the June 2022 DSA, reflecting a higher nominal GDP in the near-term. The PV of external debt-to-GDP, the PV of the external debt-to-exports, and external debt service to revenue see significant breaches of the corresponding indicative thresholds over the medium term. This stresses once more the need for debt relief.

26. However, in a forward-looking sense, overall debt is assessed as sustainable contingent on the full delivery of eligible debt relief at the HIPC Completion Point. Debt relief under the HIPC Initiative, MDRI, and beyond-HIPC assistance improve Somalia's external debt situation and bring debt to a manageable level such that it can be judged sustainable in a forward-looking sense. The inclusion of domestic debt does not materially impact the analysis. The authorities' ongoing commitment to reform and strong track-record of reform implementation since 2016, the backing of the HIPC process by regional leaders, and the continued support from development partners provide support to the timely achievement of the HIPC completion point. Even after achieving HIPC Completion Point, Somalia is expected to remain highly vulnerable to shocks, underscoring the importance of continuing to strengthen domestic revenue mobilization, debt management institutions, and institutional capacity.

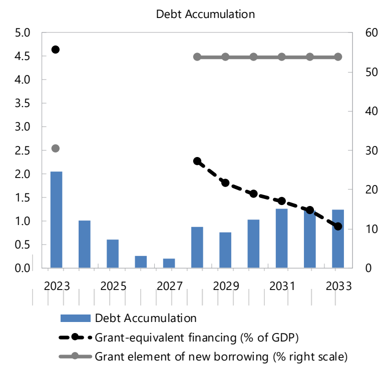
AUTHORITIES' VIEWS

27. The authorities underscored the important progress that has been made towards the HIPC Completion Point. Debt relief agreements have been reached with most Paris Club members and the KFAED, and negotiations are advancing with remaining creditors. Reforms to complete the HIPC Completion Point triggers are moving forward steadily, including on domestic revenue mobilization, PFM, governance, social sectors, and statistics, as well as the recent enactment of key legislation. The authorities reiterated their steadfast commitment to timely implementation of reforms in order to achieve the Completion Point within the planned timelines.

Table 1. Somalia: External Debt Sustainability Framework, Baseline Scenario, 2020–2043
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	57.2	45.2	40.0	37.7	35.2	32.3	29.4	26.9	26.3	26.4	29.6	22.3	29.0
of which: public and publicly guaranteed (PPG)	57.2	45.2	40.0	37.7	35.2	32.3	29.4	26.9	26.3	26.4	29.6	22.3	29.0
Change in external debt	-23.9	-11.9	-5.2	-2.3	-2.5	-2.9	-2.9	-2.5	-0.6	0.2	0.3		
Identified net debt-creating flows	-2.0	3.2	6.1	7.6	5.3	5.6	5.3	5.3	4.9	5.2	5.1	2.5	5.4
Non-interest current account deficit	10.5	16.7	16.8	16.2	14.1	14.4	14.2	14.1	13.7	14.5	14.4	10.0	14.3
Deficit in balance of goods and services	64.1	71.7	79.1	75.0	72.2	71.7	71.1	70.7	70.2	71.0	71.0	65.6	71.2
Exports	14.1	17.2	17.0	18.2	18.9	19.5	19.8	20.0	20.2	20.2	20.2		
Imports	78.2	88.9	96.2	93.2	91.1	91.1	90.8	90.7	90.4	91.2	91.2		
Net current transfers (negative = inflow)	-54.1	-55.5	-62.8	-59.1	-58.2	-57.4	-57.0	-56.6	-56.6	-56.6	-56.6	-56.2	-57.1
of which: official	-30.3	-27.8	-36.6	-31.5	-29.8	-28.6	-28.2	-27.8	-27.8	-27.8	-27.8		
Other current account flows (negative = net inflow)	0.5	0.5	0.5	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.6	0.1
Net FDI (negative = inflow)	-7.8	-8.0	-7.8	-7.7	-7.8	-7.8	-8.0	-8.0	-8.0	-8.4	-8.4	-6.5	-8.0
Endogenous debt dynamics 2/	-4.7	-5.6	-2.9	-0.8	-0.9	-0.9	-0.9	-0.8	-0.7	-0.8	-1.0		
Contribution from nominal interest rate	0.0	0.0	0.0	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.3		
Contribution from real GDP growth	0.2	-1.5	-0.7	-1.0	-1.3	-1.3	-1.2	-1.1	-1.1	-1.1	-1.2		
Contribution from price and exchange rate changes	-4.9	-4.1	-2.2	...	...	...	...	...	...	...	...		
Residual 3/	-21.9	-15.2	-11.3	-9.9	-7.8	-8.6	-8.2	-7.9	-5.5	-5.1	-4.8	-16.1	-6.7
of which: exceptional financing	-62.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	38.0	37.3	35.6	33.2	30.9	28.7	27.4	24.5	23.3		
PV of PPG external debt-to-exports ratio	...	...	222.7	205.1	188.0	170.8	156.3	143.6	135.9	121.1	115.4		
PPG debt service-to-exports ratio	1.4	1.3	1.2	2.4	4.2	5.5	6.4	8.8	9.4	2.1	3.8		
PPG debt service-to-revenue ratio	6.6	7.4	6.2	13.3	22.7	27.7	30.8	40.2	49.3	6.6	7.9		
Gross external financing need (Million of U.S. dollars)	201.2	687.4	752.0	776.7	666.3	782.6	832.2	952.7	981.7	1170.4	2337.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-0.3	2.9	1.7	2.8	3.7	3.9	4.0	4.1	4.3	4.5	4.5	3.1	4.1
GDP deflator in US dollar terms (change in percent)	6.4	7.7	5.2	4.2	4.1	4.7	4.3	4.0	3.4	2.1	2.1	4.2	3.2
Effective interest rate (percent) 4/	0.0	0.0	0.0	0.6	1.0	1.0	1.0	1.2	1.4	1.1	1.0	0.0	1.1
Growth of exports of G&S (US dollar terms, in percent)	-13.4	35.0	6.1	14.5	12.1	11.9	10.2	9.6	8.9	6.7	6.7	5.1	9.1
Growth of imports of G&S (US dollar terms, in percent)	2.7	26.1	15.6	3.9	5.5	8.8	8.1	8.1	7.5	6.8	6.7	8.2	6.9
Grant element of new public sector borrowing (in percent)	...	...	...	30.4	...	...	...	...	53.7	53.7	...	...	50.4
Government revenues (excluding grants, in percent of GDP)	3.1	3.0	3.2	3.2	3.5	3.8	4.1	4.4	3.8	6.6	9.6	2.6	4.6
Aid flows (in Million of US dollars) 5/	288.1	64.4	462.7	398.3	353.5	296.1	304.1	310.5	392.0	293.8	791.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.6	...	...	...	...	2.3	0.9	1.0	...	2.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	96.9	...	...	...	...	75.2	53.7	44.8	...	70.2
Nominal GDP (Million of US dollars)	6,883	7,628	8,158	8,738	9,429	10,260	11,128	12,052	12,995	17,967	34,348		
Nominal dollar GDP growth	6.1	10.8	6.9	7.1	7.9	8.8	8.5	8.3	7.8	6.7	6.7	7.3	7.4
Memorandum items:													
PV of external debt 7/	...	...	38.0	37.3	35.6	33.2	30.9	28.7	27.4	24.5	23.3		
In percent of exports	...	...	222.7	205.1	188.0	170.8	156.3	143.6	135.9	121.1	115.4		
Total external debt service-to-exports ratio	1.4	1.3	1.2	2.4	4.2	5.5	6.4	8.8	9.4	2.1	3.8		
PV of PPG external debt (in Million of US dollars)			3097.0	3263.7	3352.6	3410.2	3437.0	3459.6	3565.7	4394.2	8004.0		
(PVt-PVt-1)/GDPt-1 (in percent)				2.0	1.0	0.6	0.3	0.2	0.9	1.2	1.6		
Non-interest current account deficit that stabilizes debt ratio	34.4	28.7	22.0	18.5	16.6	17.3	17.1	16.7	14.3	14.3	14.1		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

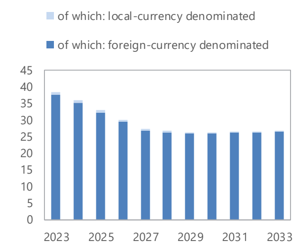
Table 2. Somalia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–2043

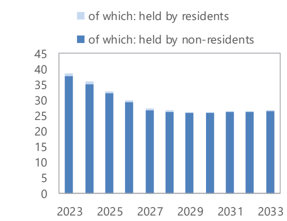
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	58.1	46.1	40.8	38.5	36.0	32.9	30.0	27.4	26.7	26.7	29.7	23.2	29.4
of which: external debt	57.2	45.2	40.0	37.7	35.2	32.3	29.4	26.9	26.3	26.4	29.6	22.3	29.0
Change in public sector debt	-24.0	-12.0	-5.3	-2.3	-2.5	-3.0	-2.9	-2.6	-0.7	0.1	0.3		
Identified debt-creating flows	-67.1	-4.6	-3.0	-2.2	-2.5	-2.6	-2.3	-2.0	-0.1	0.1	0.0	-24.9	-1.0
Primary deficit	-0.4	1.1	0.0	0.3	0.0	-0.1	-0.1	0.0	1.5	1.5	1.5	-0.1	0.8
Revenue and grants	7.2	4.9	8.8	7.8	7.2	6.7	6.8	7.0	5.2	6.6	9.6	4.7	6.4
of which: grants	4.2	1.9	5.6	4.6	3.7	2.9	2.7	2.6	1.4	0.0	0.0		
Primary (noninterest) expenditure	6.8	6.0	8.8	8.1	7.2	6.7	6.8	6.9	6.8	8.1	11.1	4.6	7.3
Automatic debt dynamics	-4.7	-5.7	-3.0	-2.5	-2.5	-2.5	-2.2	-1.9	-1.6	-1.4	-1.6		
Contribution from interest rate/growth differential	-4.7	-5.7	-3.0	-2.5	-2.5	-2.5	-2.2	-1.9	-1.6	-1.4	-1.6		
of which: contribution from average real interest rate	-5.0	-4.0	-2.2	-1.4	-1.1	-1.2	-1.0	-0.8	-0.5	-0.3	-0.3		
of which: contribution from real GDP growth	0.2	-1.7	-0.8	-1.1	-1.4	-1.3	-1.3	-1.2	-1.1	-1.1	-1.3		
Contribution from real exchange rate depreciation	0.0	0.0	0.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-62.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-6.2	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-62.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	43.1	-7.5	-2.2	-0.1	-0.1	-0.4	-0.7	-0.6	-0.6	0.0	0.3	11.1	-0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	38.8	38.1	36.3	33.9	31.4	29.2	27.9	24.7	23.3		
PV of public debt-to-revenue and grants ratio	...	...	438.4	488.7	502.2	503.4	459.1	418.8	531.2	374.1	243.0		
Debt service-to-revenue and grants ratio 3/	2.8	4.5	2.3	5.5	10.9	16.2	18.9	25.7	36.7	6.8	8.0		
Gross financing need 4/	-62.1	1.3	0.2	0.0	0.0	0.0	0.0	0.0	1.6	1.6	2.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-0.3	2.9	1.7	2.8	3.7	3.9	4.0	4.1	4.3	4.5	4.5	3.1	4.1
Average nominal interest rate on external debt (in percent)	0.0	0.0	0.0	0.6	1.0	1.0	1.0	1.2	1.4	1.1	1.0	0.0	1.1
Average real interest rate on domestic debt (in percent)	-6.1	-7.1	-4.9	-4.0	-2.9	3.1	3.6	3.8	3.5	-1.0	-1.1	-3.5	0.3
Real exchange rate depreciation (in percent, + indicates depreciation)	0.0	0.0	0.0	...	...	...	...	...	...	...	...	0.0	...
Inflation rate (GDP deflator, in percent)	6.4	7.7	5.2	4.2	4.1	4.7	4.3	4.0	3.4	2.1	2.1	4.2	3.2
Growth of real primary spending (deflated by GDP deflator, in percent)	40.8	-9.5	48.8	-5.4	-8.0	-3.6	6.0	6.0	2.3	8.4	7.8	20.9	3.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	23.6	13.1	5.2	2.6	2.5	3.0	2.9	2.6	2.2	1.4	1.2	14.0	2.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

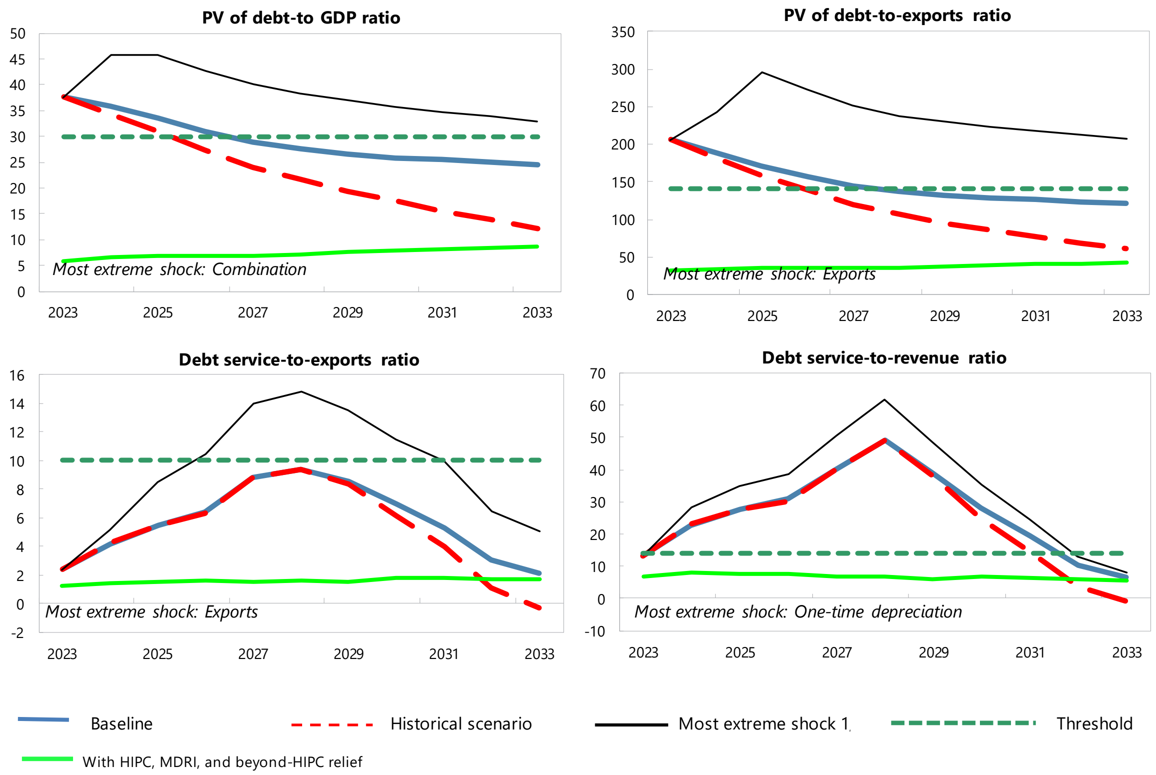
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

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

Figure 1. Somalia: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2023–2033



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price 2/	No	No
Market financing	n.a.	n.a.

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

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.6%	1.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	34	38
Avg. grace period	5	5

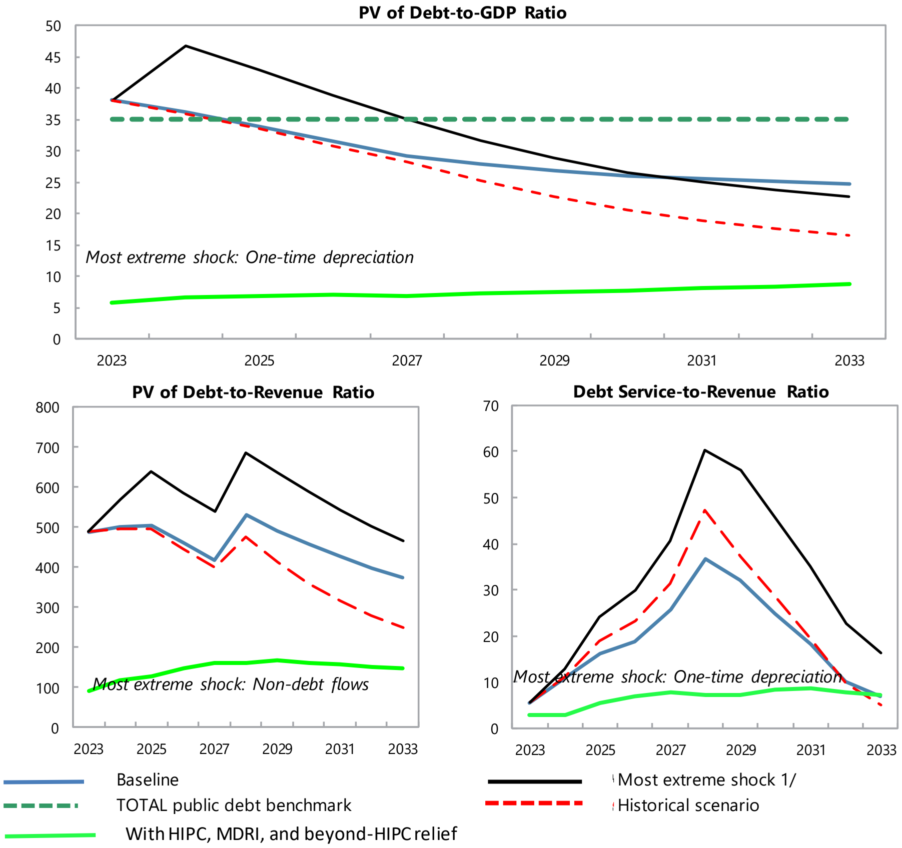
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Somalia: Indicators of Public Debt Under Alternative Scenarios, 2023-2033[§]



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	77%	77%
Domestic medium and long-term	0%	0%
Domestic short-term	23%	23%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.6%	1.4%
Avg. maturity (incl. grace period)	34	38
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-4.3%	-4.3%

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

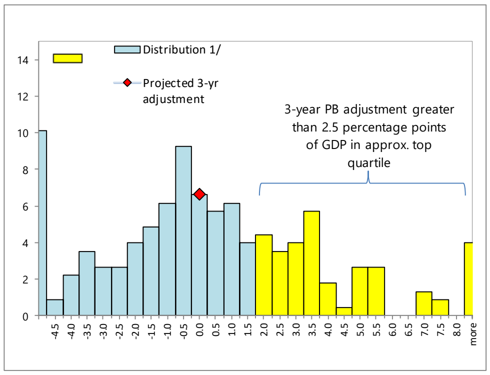
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

[§]/Alternative scenarios of macroeconomic shocks for the Baseline scenario

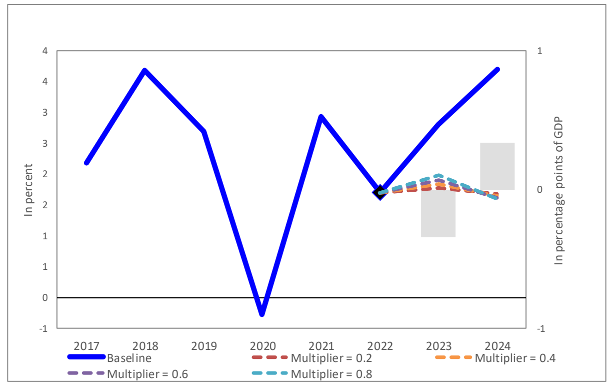
Figure 3. Somalia: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Table 3. Somalia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023-2033

(In percent)

	Projections 1/										
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
PV of debt-to GDP ratio											
Baseline	**37**	**36**	**33**	**31**	29	27	26	26	25	25	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**37**	**34**	**31**	27	24	21	19	17	15	14	12
B. Bound Tests											
B1. Real GDP growth	**37**	**37**	**36**	**34**	**31**	30	29	28	28	27	27
B2. Primary balance	**37**	**36**	**35**	**33**	**32**	**31**	**31**	**31**	**31**	**31**	**30**
B3. Exports	**37**	**38**	**39**	**37**	**34**	**33**	**32**	**31**	**30**	29	29
B4. Other flows 3/	**37**	**40**	**42**	**40**	**37**	**35**	**34**	**33**	**32**	**31**	**30**
B5. Depreciation	**37**	**45**	**42**	**39**	**36**	**34**	**33**	**32**	**32**	**31**	**31**
B6. Combination of B1-B5	**37**	**46**	**46**	**43**	**40**	**38**	**37**	**36**	**35**	**34**	**33**
C. Tailored Tests											
C1. Combined contingent liabilities	**37**	**38**	**37**	**35**	**34**	**33**	**33**	**33**	**33**	**32**	**32**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**37**	**36**	**33**	**31**	29	27	26	26	25	25	24
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	**205**	**188**	**171**	**156**	**144**	136	131	127	125	123	121
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**205**	**181**	**158**	137	119	106	95	86	77	68	60
B. Bound Tests											
B1. Real GDP growth	**205**	**188**	**171**	**156**	**144**	136	131	127	125	123	121
B2. Primary balance	**205**	**192**	**179**	**167**	**158**	**155**	**154**	**153**	**153**	**152**	**150**
B3. Exports	**205**	**242**	**295**	**271**	**250**	**237**	**229**	**222**	**217**	**211**	**207**
B4. Other flows 3/	**205**	**214**	**218**	**200**	**185**	**176**	**170**	**164**	**160**	**155**	**151**
B5. Depreciation	**205**	**188**	**171**	**156**	**144**	136	131	127	125	123	121
B6. Combination of B1-B5	**205**	**255**	**211**	**252**	**233**	**220**	**213**	**206**	**200**	**195**	**190**
C. Tailored Tests											
C1. Combined contingent liabilities	**205**	**203**	**189**	**177**	**168**	**164**	**163**	**162**	**162**	**161**	**159**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**205**	**188**	**171**	**156**	**144**	136	131	127	125	123	121
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	2	4	5	6	9	9	9	7	5	3	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	2	4	5	6	9	9	8	6	4	1	0
B. Bound Tests											
B1. Real GDP growth	2	4	5	6	9	9	9	7	5	3	2
B2. Primary balance	2	4	6	7	9	10	9	8	6	4	3
B3. Exports	2	5	8	**10**	**14**	**15**	**13**	**12**	10	6	5
B4. Other flows 3/	2	4	6	7	10	**10**	9	9	8	5	4
B5. Depreciation	2	4	5	6	9	9	9	7	5	3	2
B6. Combination of B1-B5	2	5	8	9	**13**	**13**	**12**	**11**	9	6	5
C. Tailored Tests											
C1. Combined contingent liabilities	2	4	6	7	9	10	9	8	6	4	3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	2	4	5	6	9	9	9	7	5	3	2
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	13	**23**	**28**	**31**	**40**	**49**	**39**	**28**	**20**	10	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	13	**23**	**27**	**30**	**40**	**49**	**38**	**25**	**14**	4	-1
B. Bound Tests											
B1. Real GDP growth	13	**24**	**30**	**33**	**44**	**54**	**42**	**30**	**21**	11	7
B2. Primary balance	13	**23**	**28**	**32**	**41**	**51**	**41**	**31**	**23**	14	10
B3. Exports	13	**23**	**29**	**34**	**44**	**53**	**42**	**32**	**25**	**15**	11
B4. Other flows 3/	13	**23**	**31**	**36**	**45**	**54**	**43**	**35**	**28**	**18**	13
B5. Depreciation	13	**28**	**35**	**39**	**50**	**62**	**49**	**35**	**24**	13	8
B6. Combination of B1-B5	13	**24**	**35**	**39**	**49**	**59**	**47**	**39**	**30**	**19**	13
C. Tailored Tests											
C1. Combined contingent liabilities	13	**23**	**29**	**33**	**42**	**52**	**42**	**31**	**22**	13	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	13	**23**	**28**	**31**	**40**	**49**	**39**	**28**	**20**	10	7
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

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

Table 4. Somalia: Sensitivity Analysis for Key Indicators of Public Debt, 2023-2033

(In percent)

	Projections 1/										
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
PV of Debt-to-GDP Ratio											
Baseline	**38**	**36**	34	31	29	28	27	26	26	25	25
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**38**	**36**	34	31	28	25	23	21	19	18	16
B. Bound Tests											
B1. Real GDP growth	**38**	**37**	**36**	33	30	28	27	26	25	25	25
B2. Primary balance	**38**	**36**	34	31	28	26	24	23	23	22	22
B3. Exports	**38**	**38**	**39**	**37**	34	33	31	30	30	29	28
B4. Other flows 3/	**38**	**41**	**43**	**40**	**38**	**36**	35	34	33	32	31
B5. Depreciation	**38**	**47**	**43**	**39**	**35**	32	29	27	25	24	23
B6. Combination of B1-B5	**38**	**35**	33	29	26	23	21	19	18	17	16
C. Tailored Tests											
C1. Combined contingent liabilities	**38**	**39**	**36**	33	30	28	26	25	24	24	24
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**38**	**36**	34	31	29	27	26	25	25	24	24
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	489	502	503	459	419	531	492	457	427	399	374
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	489	496	494	446	399	475	412	359	314	279	249
B. Bound Tests											
B1. Real GDP growth	489	505	515	466	419	525	482	447	419	396	380
B2. Primary balance	489	500	499	447	398	492	445	407	377	352	332
B3. Exports	489	528	582	533	489	621	576	535	495	460	428
B4. Other flows 3/	489	570	638	586	539	685	636	589	543	502	466
B5. Depreciation	489	674	660	588	517	616	536	471	419	379	345
B6. Combination of B1-B5	489	492	486	424	374	447	385	334	295	265	245
C. Tailored Tests											
C1. Combined contingent liabilities	489	541	531	477	426	528	479	439	406	380	359
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	489	498	499	453	409	512	470	436	409	387	370
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	6	11	16	19	26	37	32	25	18	10	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	6	11	19	23	31	47	37	28	20	10	5
B. Bound Tests											
B1. Real GDP growth	6	11	20	25	34	51	47	40	32	22	17
B2. Primary balance	6	11	20	25	31	47	43	36	28	19	14
B3. Exports	6	11	17	21	27	39	34	28	23	14	11
B4. Other flows 3/	6	11	18	22	29	40	35	31	26	17	13
B5. Depreciation	6	13	24	30	40	60	56	46	35	23	16
B6. Combination of B1-B5	6	11	16	19	29	44	40	32	24	14	9
C. Tailored Tests											
C1. Combined contingent liabilities	6	11	36	27	33	48	44	36	28	18	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	6	11	20	25	33	50	46	39	31	22	17
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Table 5. Somalia: Public Debt Holder Profile, 2022–2024
(In millions of U.S. Dollars, unless otherwise indicated)

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total 1/	3332.2	100.0	40.8	16.4	20.5	28.9	0.2	0.3	0.4
External	3264.4	98.0	40.0	16.4	20.5	28.9	0.2	0.3	0.4
Multilateral creditors	992.1	29.8	12.2	16.4	19.4	10.6	0.2	0.2	0.1
IMF 2/	342.6	10.3	4.2	0.1	3.7	3.4	0.0	0.0	0.0
World Bank 3/	104.9	3.1	1.3	13.4	13.4	0.0	0.2	0.2	0.0
AfDB	21.1	0.6	0.3	2.5	1.2	0.0	0.0	0.0	0.0
Other Multilaterals	523.5	15.7	6.4	0.5	1.2	7.2	0.0	0.0	0.1
Arab Monetary Fund	300.5	9.0	3.7	0.0	0.3	3.6	0.0	0.0	0.0
Arab Fund for Economic and Social Development	143.4	4.3	1.8	0.0	0.2	2.3	0.0	0.0	0.0
International Fund for Agricultural Development	31.0	0.9	0.4	0.5	0.5	0.5	0.0	0.0	0.0
Islamic Development Bank	12.5	0.4	0.2	0.0	0.2	0.2	0.0	0.0	0.0
OPEC Fund for International Development	36.1	1.1	0.4	0.0	0.1	0.7	0.0	0.0	0.0
Bilateral Creditors	2272.3	68.2	27.9	0.0	1.0	18.3	0.0	0.0	0.2
Paris Club 4/	1673.2	50.2	20.5	0.0	1.0	16.0	0.0	0.0	0.2
Denmark	2.9	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
France	145.3	4.4	1.8	0.0	0.7	6.2	0.0	0.0	0.1
Italy 5/	111.7	3.4	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Japan 6/	110.8	3.3	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	2.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Norway	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia 7/	236.6	7.1	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Spain	40.9	1.2	0.5	0.0	0.0	8.4	0.0	0.0	0.1
United Kingdom	30.3	0.9	0.4	0.0	0.2	1.2	0.0	0.0	0.0
United States	991.8	29.8	12.2	0.0	0.0	0.0	0.0	0.0	0.0
EEC IDA Administered Loans	0.3	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Commercial creditors	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Serbia	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other international creditors 8/	596.5	17.9	7.3	0.0	0.0	2.3	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	63.4	1.9	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait Fund and Central Bank	125.3	3.8	1.5	0.0	0.0	2.1	0.0	0.0	0.0
Libya	36.2	1.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Romania	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	115.0	3.5	1.4	0.0	0.0	0.2	0.0	0.0	0.0
United Arab Emirates	251.6	7.6	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	67.8	2.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Of which: in arrears	67.8	2.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	8158								

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 Somalian 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 efective 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 Sustainablity 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. Policy Reform Agenda

1. The authorities have achieved significant progress in key reform areas, with support from the international community. Highlights include (i) a significant increase in domestic revenue mobilization, including the introduction of income and sales taxes, implementation of the spectrum fees, development of the Revenue Law, and the establishment of a large- and medium-taxpayers' office; (ii) enhanced PFM, including the implementation of the Somalia Financial Management Information System (SFMIS), implementation of a strict commitment control process, and issuance of the PFM Act regulations; (iii) progress on fiscal federalism, including the establishment of the Intergovernmental Fiscal Forum (IGFF) and publication of an aggregated FGS and FMS budget and expenditure reports; (iv) a strengthening of capacity at the CBS and an expansion of regulatory oversight to the mobile money sector; (v) a stronger AML/CFT framework, including with the enactment of the AML/CFT law, publication of the National ML/FT Risk Assessment and action plan, and enactment of the Targeted Financial Sanctions Law; (vi) efforts to improve governance and reduce the risk of corruption, including the enactment of an Anti-Corruption Act, accession to the UN Convention Against Corruption in August 2021; (vii) reforms to support inclusive growth and resilience to climate shocks, including enactment of the Somali Standards and Quality Control Bill and establishment of the Somali Bureau of Standards; and (viii) progress on developing key statistics, such as national accounts, balance of payments, CPI, and monetary statistics.

2. The authorities remain committed to an ambitious reform agenda, in line with the ECF-supported program and HIPC initiative and anchored by the National Development Plan (NDP9). Progress has been made across the four NDP9 pillars, including social, economic, security, and governance policies. However, the COVID-19 pandemic, climate shocks, and lower than expected funding have slowed its implementation. In the years ahead, critical work will continue on domestic revenue mobilization, public financial management (PFM), debt management, fiscal federalism, data and statistics, monetary policy, financial sector regulation, and governance and anti-corruption, including within the framework of future IMF programs and WB operations. Challenges to these objectives include limitations on resources, as well as important capacity constraints and aid absorption bottlenecks.

3. Reforms focus on the following key areas and will continue to be supported by technical assistance and other support from the IMF, World Bank, and other development partners:

- **Fiscal:** The authorities aim to increase domestic revenues further, including by implementing 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. They also plan to further strengthen PFM, including by implementing a full integration of the payroll. They will develop an action plan to strengthen the capacity of the debt management unit. They are working towards finalizing the petroleum framework, including issuing the regulations for the Petroleum Law and for the recently enacted Extractive Industries Income Tax Law (EIIT). They will continue working to deepen fiscal federalism, including by revising the expenditure assignment guidelines.

- **Financial:** The authorities will continue implementing the Financial Sector Reform Roadmap, including further efforts to deepen financial sector supervision, and structural reforms to improve the payment system. They will complete the transition to the new CBS organizational structure and continue strengthening the AML/CFT operational and legal framework. The authorities will also work towards implementation of the National Strategic AML/CFT Action Plan and preparing for the MENA-FATF Mutual Evaluation Assessment in 2024.

- **Inclusive growth**. The authorities will move forward with plans to establish a national digital ID, which will help improve the private sector's access to credit. Growth will also be supported by improvements to infrastructure, including in the energy sector (policy reforms and new investments) and transportation.

- **Statistics.** The authorities will implement their Statistical Action Plan to underpin further improvements in statistical capacity. Key priorities include further work on GDP by expenditure, the development of a production-based estimate of GDP, and to develop a new national CPI.

Annex II. HIPC Completion Point

1. The staffs of the IMF and IDA maintain that achieving the Completion Point by 2023Q4 appears feasible. The authorities' ongoing commitment to reform and strong track-record of reform implementation since 2016, the backing of the HIPC process by regional leaders, and the continued support from development partners provide support to the timely achievement of the HIPC completion point. 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	
1. 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.	The Annual Progress Report evaluating the implementation of the National Development Plan in 2020 was completed in June 2022. Staff of the World Bank and IMF are preparing a Joint Staff Assessment Note.
Macroeconomic stability	
2. Maintain macroeconomic stability as evidenced by satisfactory implementation of the 3-year ECF-supported program.	The fourth review of the ECF-supported program was completed on December 5, 2022.
Public financial and expenditure management	
3. Publish at least two years of the audited financial accounts of the FGS.	The Office of the Auditor General published the 2019, 2020, and 2021 FGS financial accounts.
4. 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.
Domestic revenue mobilization	
5. 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	
6. Enact the Extractive Industry Income Tax (EIIT) Law.	The EIIT Bill was approved Parliament in March 2023.
7. Ratify the 'United Nations Convention Against Corruption' (UNCAC).	Somalia acceded to the UNCAC in August 2021.

HIPC Completion Point Triggers	Progress
Debt management	
8. Publish at least four consecutive quarterly reports.	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	
9. 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. The Data Protection Law was approved by Parliament in March 2023, and operational guidelines need to be developed.
10. 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 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.
11. 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	
12. Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.	The Somalia Electricity Bill was enacted on March 8, 2023.
13. 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	
14. Publish at least two editions of the Somalia Annual Fact Book.	The Facts and Figures of Somalia has been published for 2018, 2019, 2020, and 2021.