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SOMALIA

November 2020

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

In the context of the First Review Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 18, 2020 following discussions that ended on September 25, 2020, 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 November 4, 2020
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and International Development Association (IDA).
- A **Statement by the Executive Director** for Somalia.

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

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PRESS RELEASE

PR20/344

IMF Executive Board Completes the First Review of the Extended Credit Facility for Somalia

FOR IMMEDIATE RELEASE

- Implementation of the Extended Credit Facility (ECF) supported program is off to a good start despite the challenges posed by COVID-19, flooding and the desert locust infestation.
- The authorities' swift response to the triple shock, supported by its partners and including tax relief on some basic commodities and expanding the social safety net, is helping mitigate the impact on people and the economy.
- Sustained reform momentum will be essential for Somalia to reach the HIPC Completion Point.

Washington, DC November 18, 2020: The Executive Board of the International Monetary Fund (IMF) today completed the first review of the Extended Credit Facility (ECF) arrangement for Somalia. The Board's decision enables the immediate disbursement of SDR 7 million (about US$10 million), bringing Somalia's total disbursements under the arrangement to SDR 257.4 million (about US$365.5 million).

Somalia's ECF arrangement was originally approved by the Executive Board on March 25, 2020 (see Press Release No. 20/105) for SDR 292.4 million (about US$395.5 million or around 179 percent of Somalia's quota). The ECF arrangement aims to support the implementation of the authorities' National Development Plan and anchor reforms between the HIPC Decision and Completion Points.

Following the Executive Board discussion, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, made the following statement:

"Performance under the ECF-supported program has been broadly satisfactory, despite the triple shock of COVID-19, flooding, and desert locusts that has hit Somalia. The authorities have taken swift and appropriate actions, supported by the international community, to mitigate the effects of these shocks, including the provision of temporary tax relief on basic food commodities, expanding the social safety net, and providing credit to micro-, small-and-medium-sized enterprises.

"The authorities remain steadfast in their commitment to the broader policies and reforms of the program, which are critical to increase inclusive growth and reduce poverty over the longer term. The implementation of the proposed 2021 budget will underpin greater domestic revenue mobilization and continued control on discretionary operating expenditures, creating scope for spending on priorities identified in the authorities' Ninth National Development Plan (NDP9).

"The authorities' plans to enhance fiscal transparency and accountability, and recent steps to deepen intergovernmental fiscal relations, are welcome. The commitment to improving governance and fighting corruption is also encouraging, as are the planned steps to increase transparency and accountability in the licensing framework for the telecommunications sector. Advancing the licensing and regulation of mobile money operators is urgent.

"Efforts to strengthen the organizational capacity of the central bank are commendable. Continued capacity building across all stakeholders is needed to improve AML/CFT compliance, and the national risk assessment should be completed as quickly as possible.

"Sustained efforts to reach agreement with external creditors on debt relief consistent with the HIPC framework, together with steps to strengthen debt management capacity, are needed to safeguard debt sustainability.

"Continued capacity building will be needed to support the successful completion of the ECF-supported program and reach the HIPC completion point. Support from Somalia's partners for the Somalia Trust Fund will be needed to ensure a continued smooth delivery of IMF technical assistance to support the goals of the ECF-supported program and the HIPC Initiative."

INTERNATIONAL MONETARY FUND

SOMALIA

November 4, 2020

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. Soon after reaching the HIPC Decision Point and embarking on a new IMF-supported program aimed at supporting the implementation of the authorities' National Development Plan and lifting growth, Somalia was hit by a triple shock of flooding, desert locusts, and, importantly, the coronavirus pandemic. Prompt action by the authorities and support from the international community has helped mitigate the impact on peoples' lives and livelihoods, however, these shocks have had a significant impact on economic activity, exports, and domestic fiscal revenues.

Program performance. Despite the crisis, the authorities remain steadfast in their commitment to the program and performance is broadly satisfactory. All structural benchmarks (SBs), indicative targets (ITs) and all but one quantitative performance criterion (QPCs) for end-June 2020 were met, together with the SBs for end-September and end-October, and all but one IT for end-September. Nevertheless, COVID-19 negatively affected domestic revenues, resulting in a miss of the related end-June QPC and end-September IT, and the authorities are requesting a waiver for nonobservance based on their submission for cabinet approval of a 2021 budget that supports a recovery in domestic revenues. Moreover, given prevailing uncertainties, they are requesting a modification of the end-December 2020 QPC on domestic revenues to an IT, and a modification to the QPC on net foreign assets to include an adjustor but also to take due account of their over-performance through June. The authorities are also requesting to reset the target date for enacting the Targeted Financial Sanctions Law to June 2021 given COVID-19 related delays and the upcoming election schedule.

Program and other risks. Somalia's vulnerability to security, political and climate risks have not fundamentally changed since the program request. However, uncertainties surrounding the potential path of the COVID-19 pandemic imply the near-term economic outlook is more uncertain. Risks continue to be mitigated by the authorities' strong track record of reform and donor support.

Staff views. Staff supports the completion of the first review under the ECF arrangement, which will make available SDR 7 million.

Approved By
Thanos Arvanitis (MCD) and Gavin Gray (SPR)

Discussions were held virtually from September 12–22, 2020. The staff team consisted of A. Holland (Head), P. de Imus, A. Chaudry, L. Agoumi (all MCD), G. Kalyandu (FAD), T. Orav (SPR), I. Samake (Resident Representative), W. Irungu (Economist, IMF Office, Somalia), and P. Muir (FAD consultant). The mission met with the Finance Minister, Dr. Abdirahman Beileh; Minister of Constitutional Affairs, Salah Ahmed Jama; Minister of Justice, Hassan Hussein Haji; Minister of Petroleum and Mineral Resources, Abdirashiid Mohamed Ahmed; Minister of Post, Telecommunication and Technology, Abdi Ashur Hassan; Central Bank Governor, Abdirahman Mohamed Abdullahi; and other senior officials. Mr. Abdulqafar Abdullahi (OED) participated in key policy meetings, and the Executive Director, Mr. Dumisani H. Mahlinza and the Alternate Executive Director, Ms. Ita Mary Mannathoko, attended the concluding meeting. The mission also met with representatives of bilateral and multilateral donors.

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BACKGROUND AND CONTEXT

1. The first half of 2020 has been very challenging for Somalia given the unprecedented triple shock of flooding, desert locusts, and the global coronavirus pandemic. This has led to increased displacement of thousands of people, increased food insecurity and increased vulnerability to disease. Security issues also remain a persistent problem.

2. In response to the COVID-19 pandemic, the authorities are implementing a Country Preparedness and Response Plan (CPRP) with the support of international partners. Complementing the CPRP, the authorities introduced various containment measures, and intensified public health communication. Official numbers indicate the infection rate slowed through the summer, but there are signs it is increasing again, particularly in Puntland and Somaliland, as containment measures have been relaxed—schools reopened (August 15) and flights resumed (July 5 for domestic and August 3 for international) (Figure 1). Within the authorities' limited policy space and resources, some fiscal and financial support measures were also implemented, including: (i) temporary tax relief on some basic food commodities (partly offset by a permanent tax increase on some other products); (ii) donor-funded expansion of the social safety net; (iii) donor-funded lending-support to small and medium-sized enterprises; and (iv) additional donor-funded transfers to federal member states (FMS).

3. The upcoming national elections add political uncertainty. A new Prime Minister (PM) was approved on September 18, following the resignation of the former PM after a no confidence vote in parliament on July 25. Following protracted negotiations with the FMS, the model for the upcoming national and Presidential elections has been agreed. Parliamentary elections will take place in December, and the new President is expected to be elected in February 2021 by the new parliament. The agreed model modestly expands suffrage relative to the 2016/17 elections but falls short of the original goal of a "one-person, one-vote" system.

4. Despite these challenges, the authorities continue to make progress towards the HIPC Completion Point (CP) and debt relief. On March 31, an umbrella restructuring agreement was reached with the Paris Club, and on October 5 the authorities submitted to the Paris Club an initial semi-annual progress report on the status of discussions with creditors. This indicates negotiations with Paris Club members are advancing, with agreements reached with Spain and the U.S., and are underway with a number of non-Paris Club creditors, notably Arab bilateral and plurilateral creditors.

RECENT DEVELOPMENTS

5. Despite the triple shock, recent data indicates some economic resilience. Relative to the ECF-request projections of 3.2 percent growth in 2020, staff now project a contraction of 1.5 percent, implying a contraction of about 4.4 percent in real per-capita-incomes. While this is considerably worse than in the program request (Text Table 1, Table 1), it is more optimistic than the authorities' projection (-5 percent) in April. This smaller contraction is supported by recent data on imports, which, together with stronger-than-anticipated remittance flows, point to some resilience in domestic demand (Figure 1). A new World Bank-funded social safety-net program ("Baxnaano") and a subsequent emergency locust reponse are also supporting demand through cash transfers to poor and vulnerable households (Annex I). However, exports have been hit hard, partly reflecting the cancellation of the Hajj, a large export market for Somali livestock, together with the airline and hospitality sectors.

Text Table 1. Somalia: Revised Projections for 2020 and 2021

	Est	Proj.			
	Est	ECF	1st Review	ECF	1st Review
	2019	2020		2021	
National income and prices					
Real GDP, annual percentage change	2.9	3.2	-1.5	3.5	2.9
Consumer prices (e.o.p., percent change)	3.1	3.0	3.0	2.5	2.5
		(Millions of U.S. dollars)			
Central government finances 1/					
Revenue and grants	338.3	493.2	617.7	595.3	537.4
Domestic revenue	229.7	234.4	194.0	266.9	260.0
Grants	108.6	258.8	423.7	328.4	277.4
Expenditure (FGS)	314.5	474.6	628.3	520.6	515.4
Overall balance	23.9	18.5	-10.6	74.7	22.0
		(Percent of GDP)			
Revenue and grants	6.8	9.5	12.6	10.8	10.0
Domestic revenue	4.6	4.5	3.9	4.8	4.8
Grants	2.2	5.0	8.6	6.0	5.2
Expenditure (FGS)	6.4	9.1	12.8	9.5	9.6
Overall balance	0.5	0.4	-0.2	1.4	0.4
		(Millions of U.S. dollars)			
Balance of payments					
Exports of goods and services	1,120	1,178	702	1,230	1,170
Imports of goods and services	5,224	5,817	5,184	6,148	5,830
Remittances	1,578	1,690	1,543	1,801	1,662
Grants	2,043	2,345	2,344	2,471	2,343
		(Percent of GDP)			
Exports of goods and services	22.7	22.6	14.3	22.3	21.8
Imports of goods and services	105.7	111.5	105.4	111.6	108.7
Remittances	31.9	32.4	31.4	32.7	31.0
Grants	41.3	44.9	47.7	44.9	43.7

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

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

6. **Data through September suggest the pressures on the financial sector have eased since the Spring (Table 4).**

a. Remittance inflows to Money Transfer Businesses (MTBs) initially dropped significantly, but inflows increased 2.3 percent in Q2 compared to Q1 and preliminary data for Q3 suggest this trend has been sustained (Figure 1).[1] Businesses' payments abroad to purchase imports have also held up, suggesting continued activity in the informal trading sector during the lockdown.

b. Bank deposits experienced outflows in March and April, but have since rebounded and are only slightly down from Dec-2019 levels, reducing immediate liquidity pressures.[2] However, formal credit to the private sector has slowed, driven mainly by a slowdown in trade financing and construction loans.

[1] This is somewhat due to surge in inflows to non-governmental organizations through which a large portion of humanitarian support is channeled. Anecdotal evidence suggests that flows were sustained by the Somali diaspora's solidarity with friends and family, with an increase in digitalization helping resolve initial operational challenges due to travel restrictions.

[2] Banks' liquidity conditions are tied to the flow of remittances.

7. Fiscal revenues have been negatively impacted by COVID-19. Although Q1 domestic revenues were consistent with expectations, disruptions to international trade and commercial activity hit trade and sales taxes in Q2, especially lucrative khat receipts (Figure 1). In addition, non-tax revenues have been hit by the drop in international travel, and delays in implementing the new licensing and regulatory framework for the telecommunications industry. Sub-national governments, including the FMS and Somaliland, have also seen their revenues fall given the impact of COVID-19.

8. A 2020 supplementary budget was approved and adopted on August 3 (Table 2a). Relative to the original budget, estimated Federal Government of Somalia (FGS) domestic revenues have been reduced by $67 million and grants increased by $179 million, including additional World Bank support ($55 million), front-loading of EU budget support and anticipated African Development Bank (AfDB) support ($13 million). This has allowed the authorities increase expenditures (to $685 million from $476 million), driven by project-specific activities, including a significant increase in donor-financed social spending (to $93 million) and provision for increased transfers to sub-national governments ($104 million) to mitigate their loss of revenues.[3] While the supplementary budget indicates unfunded contingent expenditures of $74 million, given Somalia's financing constraints and limited cash balances, the authorities will prioritize expenditures according to their sequestration rule to match available resources.

OUTLOOK AND RISKS

9. While the crisis is expected to lead to lower near-term growth, the medium and long-term goals of the program are still achievable (Table 1). Reaching the HIPC DP and the related improvement in access to development grants was expected to result in a higher trajectory for growth from 2020 but this has now been delayed. Nevertheless, a recovery is anticipated in 2021, with growth reaching about 3 percent, assuming the impact of the pandemic continues to abate. Growth would then gradually accelerate to a long-term average of 4.75 percent as expected pay-offs from physical and human capital investment materialize. This implies positive real per-capita GDP growth of close to 2 percent over the long run.

10. Although the nature of risks to the program remain as outlined in the ECF-request,[4] the outlook is more uncertain. In particular, the duration and impact of the COVID-19 crisis remains uncertain. While the clarity on the election model and timing is helpful, there remains a risk that the election will lead to delays in progressing key legislation and temporarily diminish focus on

[3] The level of transfers agreed between the FGS and FMS Ministers of Finance reflect the projected loss of domestic revenues of each sub-national government. Utilization of resources can be monitored through a number of channels, including the continued reporting by the FMS to the FGS on the utilization of FGS transfers, the quarterly publication by each FMS of its respective fiscal outturn, and the monthly reporting of fiscal outturns to the FGS and international partners in the current COVID context.

[4] Somalia : Second Review Under the Staff-Monitored Program and Request for Three-Year Arrangements Under the Extended Credit and The Extended Fund Facilities.

reforms. The authorities' continued reform commitment, together with the committed support for the HIPC process from regional leaders,[5] coupled with ongoing partner support, mitigate the risks.

11. In the near term, financing risks to the program are mitigated by current grant commitments, FGS fiscal savings, and the authorities' continued fiscal discipline. An adverse scenario could materialize if the downward trajectory in COVID-19 infections reverses and/or another climate shock hits. And the impact of such shocks could be more persistent than currently projected. If remittances and grants were not to increase further—for instance, given competing demands on donors, or if stimulus measures in remittance source countries wane, then economic growth and domestic revenues would be lower, increasing financing needs. While the sequestration rule and other buffers help mitigate some risk, the authorities would need additional support from the international community to address a significant adverse scenario.

PROGRAM PERFORMANCE

12. Program performance is broadly satisfactory. All structural benchmarks (SBs), indicative targets (ITs) and all but one quantitative performance criterion (QPCs) for end-June were met, together with the SBs for September and October, and all but one IT for end-September (Memorandum of Economic and Financial Policies (MEFP) Tables 1 and 2). Specifically, the impact of the pandemic on trade and sales tax revenues has resulted in the floor on FGS domestic revenues being missed (QPC#1, Figure 1, MEFP Table 1) by $10 million and the related IT by $14 million in September. Strong grant receipts have ameliorated the cashflow situation, and the authorities did not incur any new external debt (QPC #4 and #5; IT #3).

13. Although expenditures have increased in some key areas, FGS-spending has been contained within agreed levels. FGS spending on compensation, goods and services, and contingency was $136.5 million within the June program ceiling of $154 million (QPC #2), and the authorities also met the fiscal balance IT for June (IT #1). Moreover, no new domestic arrears were accumulated (ITs #2). The Central Bank of Somalia (CBS) met the floor on net foreign assets (NFA) with $71 million (QPC #3) reflecting commissions earned on increased donor support.

14. The authorities are requesting a waiver for nonobservance of the missed QPC. This is based on their submission for cabinet approval of a 2021 budget that ensures domestic revenues recover consistent with the economic outlook and the program objectives. However, they are also requesting a modification of the December QPC to an IT given the continued uncertainty surrounding 2020 revenues[6] and to the QPC on NFA to include an adjustor. The adjustor would

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[5] In September 2019, Presidents of the FMS explicitly confirmed their support for the HIPC process, which implicitly binds support for the ECF-supported program given it is necessary for the program to remain on track for Somalia to reach the HIPC CP.

[6] In line with the discussion on review-centric monitoring of quantitative conditionality in "Fund's Pandemic Response Lending Options to Support Members During the Next Stage of the Crisis" (September 3, 2020;).

allow reserves to be drawn as a last resort should fiscal revenues underperform the program baseline due to Covid-19, subject to limits. The authorities are also requesting the December QPC on NFA be increased to take account of the overperformance through June and support the program's objective of reserves accumulation.

15. **QPCs and ITs have been set through September 2021.** The proposed fiscal targets (MEFP Table 1) have been established taking account of discussions on the outlook for the remainder of 2020, the draft 2021 budget and updated medium-term fiscal framework (MTFF). The NFA QPC for June 2021 was also established with the central bank.

16. **Understandings have been reached with the authorities on two new SBs (MEFP Table 2).** SB #8, due June 2021, is aimed at improving fiscal transparency and accountability at the general government level, a process begun under the fourth Staff Monitored Program. SB #9, due March 2021, is aimed at improving transparency and governance around the nascent regulatory regime for telecommunications, a key industry. Both SBs are discussed in further detail below. The draft Targeted Financial Sanctions Law has now been revised, but an extension in the timeframe for enacting the law to June 2021 (SB# 7) was agreed given COVID-19 related delays in parliamentary outreach and the elections timetable (see paragraph 29). The program is expected to revert to the standard of setting SBs for a 12-month ahead period at the next review.

POLICY DISCUSSIONS

A. Recovering Revenues and Sustaining Fiscal Reform Momentum

17. **Staff projects a small deficit of about $11 million in 2020 (Table 2a).** Despite corrective measures, including efforts to strengthen tax compliance, the target for domestic revenue has been revised down to $189 million (December IT) for 2020, given continued crisis-induced uncertainty in revenue collection. Staff encouraged close monitoring of revenue developments and a readiness to defer lower priority Q4-spending if further revenue shortfalls materialize. Overall, staff and the authorities view that, depending on the prioritization and evolution of actual expenditures, a small deficit could be absorbed by the authorities' cash balances if necessary.[7]

18. **The authorities are committed to implementing a 2021 budget consistent with the ECF-supported program objectives and MTFF.** They plan to continue strengthening domestic revenue mobilization to create fiscal space for priority spending under the ninth National Development Plan (NDP9) and tightly control operational expenditures to safeguard fiscal buffers. In this regard, the draft 2021 budget targets a substantial increase in domestic revenues to $260 million.

[7] Spending reprioritization would not affect social spending as this is donor-financed.

a. The 2021 draft budget was approved by Cabinet on October 29 and has been submitted to Parliament for approval and adoption. The draft budget is in line with program projections (Table 2a) and is anchored on the 2021-24 MTFF.[8] It reflects the increase in the tax rate on Khat, the proposed introduction of turnover taxes as recommended by recent tax policy TA in 2021,[9] together with the resumption of positive trends in underlying revenue collection (Text Table 2). The MTFF also reflects the potential impact of introducing the single customs tariff from 2021, though this is intended to be revenue neutral for the first year, and an anticipated broadening of the tax base with the gradual rollout of instruments under the Revenue Act. Staff also discussed the scope to increase duties/taxes on selected luxury goods; however, the authorities' experience with this in 2020 suggests a high elasticity of demand would likely offset any revenue gains.

Text Table 2. Revenue Projections, 2021

Revenues	US$ millions
Projected increase in domestic revenues in 2021	**66.1**
New measures	**34.2**
Introduction of turnover taxes	2.0
Increase in tax rate on Khat /1	32.2
Ongoing measures	
Recovery from COVID-19 reflecting post-June 2020 performance trends	**31.9**
Income taxes	1.1
Taxes on goods and services	8.0
Taxes on international trade	8.5
Other taxes	1.3
Non-tax revenues /2	13.0

1/ Tax rate on Khat increased from $2.50 to $4.00 per kg
2/ Increased telecomunication spectrum license fees contribute $9.7 million

b. The draft budget also maintains reasonable levels of social spending, supported by donor grants, including a carryover of the residual social spending planned for 2020, and identifies and costs spending on select NDP9 priorities (SB#5), including about $38 million discretionary activities of the FGS with the rest reflecting ongoing multi-year donor-funded projects. Going forward, the authorities' discretionary expenditures on NDP9 priorities will be guided by the MTFF; this will identify any additional space to support such spending over and above what is already programmed in the budget baseline and taking account of debt amortization falling due. This helped identify about $26 million of the now allocated spending in the draft 2021 budget.

19. A tax audit strategy has been prepared and is being implemented (SB #1). Initial audits covered 35 companies and 100 tax returns spanning personal and corporate income, and sales tax.

[8] The MTFF is approved by the cabinet and provides a guide to the expenditure limits outlined in the Budget Call circular sent to Ministries, Departments and Administrations (MDAs). The Staff Report for the 2019 Article IV Consultation (Country Report No. 19/256) provides more background information on Somalia's MTFF.

[9] Potential implementation risks reflect the extent of informality and lack of proper documentation of potential taxpayers. However, these are mitigated by the financial police unit that monitors the informal sector and helps in tax collection.

The experience highlighted the need for more audit personnel and greater clarity in the regulations. Staff encouraged a sustained effort on strengthening tax administration and compliance.

20. The customs modernization project is progressing. Modeling work on the ad valorem schedule was completed, and HS codes were introduced at Bossaso and Kismayo (in addition to Mogadishu) at the end of August (SB#4). Capacity building across both customs administration and the private sector will be needed to support the transition from the current system to the ad valorem tariff and to mitigate governance risks.

21. Following the enactment of the Petroleum Law in February, the authorities have launched the petroleum exploration licensing round. Drafting of the Extractive Industry Tax law (EIT; HIPC CPT) and revised model Petroleum Sharing Agreement (PSA) has progressed, and the authorities have committed to having a coherent framework comprising Petroleum Act, model PSA and EIT law in place before issuing any licenses. This will require further work on the PSA and EIT law to reflect staff comments and ensure their consistency.

22. While uneven, cooperation on fiscal federalism appears to be improving (Annex II). FGS and FMS Ministers of Finance are meeting monthly to discuss the fiscal consequences of the crisis and, to enhance intergovernmental fiscal relations and transparency. In this regard, the FGS and FMS signed a memorandum of understanding (MOU) to facilitate data sharing and reporting. In addition, in August, substantive agreements were reached on: (i) sharing the proceeds of the World Bank supplementary development policy operation (DPO); (ii) appointing a committee to propose a more systematic basis for sharing common resources; (iii) the proposed ad valorem tariff schedule; and (iv) presentation of an aggregation of FGS and FMS budgets for 2021.

23. Staff recommended a continued focus on fiscal structural reforms and expediting efforts on customs reforms. Staff proposed a new SB (#8) to support stronger monitoring of the additional spending, particularly transfers to the subnational governments, associated with additional grants. This has focused on enhanced reporting of FMS budgets and outturns. Staff conferred with the authorities and development partners in specifying the exact benchmark to ensure it is feasible within the Somali context and consistent partners' programs.

B. Improving Debt Management Capacity

24. Despite the worse economic outlook, the assessment of debt sustainability is broadly unchanged (see DSA). Somalia is in debt distress and needs to secure the debt relief that will be provided at the CP to restore debt sustainability. At that point, and assuming post-CP borrowing is contracted on highly concessional terms,[10] all debt burden indicators would be significantly below their respective thresholds in 2023, and Somalia would be expected to achieve a moderate risk rating.

[10] Somalia would be expected to be still considered a fragile state and staff would expect a significant share of financing would have a grant element exceeding the minimum 35 percent.

25. Good progress is being made on putting in place the building blocks for stronger debt management. The authorities expect to acquire the Commonwealth Secretariat Meridian debt recording and management system in October, with financial assistance from the African Development Bank. World Bank and IMF TA on preparation of a debt bulletin, the regular publication of which is a HIPC CP trigger (CPT), is underway. Given critical capacity constraints, staff encouraged the authorities to secure further advisory services, with the support of partners, to advance the debt restructuring negotiations,

C. Financial and Monetary Policies and Reforms

26. The CBS is making headway on implementing its restructuring plan. A new Board of Directors, three new senior managers, a Human Resource Advisor, and a Legal Advisor, were appointed, and a transition team has been established. A broad-based capacity development program will be underpinned by a skills gap analysis to feed into the recently approved human resources policy.[11] CBS is preparing its first operational budget in nearly three decades for 2021. These steps will underpin CBS' medium-term business plan and considerations on a future income model.

27. There has been some progress on the currency exchange project. The World Bank is supporting an updated survey to estimate the Shillings in circulation that would be eligible for exchange. The authorities have developed a plan for the project's oversight and its coordination with all levels of government, and are working to close the project financing gap.[12] Measures will also be needed to strengthen the CBS balance sheet and ensure sufficient assets are available to backstop the new currency, before the exchange can be implemented.

28. Financial reforms are advancing in line with the Financial Sector Reform Road Map.

a. As the delays in issuing the underlying telecommunications licenses are being resolved, the licensing of mobile money operators (MMOs) is beginning and the authorities expect to have issued licenses to the two main MMOs by end-2020. The authorities plan to sign an MOU with the National Communications Authority (NCA) and the Financial Reporting Center (FRC) to support greater coordination across the CBS, FRC, and NCA in the oversight of the sector, and facilitate adequate data sharing and a timely licensing process.

b. Progress is being made on developing the guidance on financial reporting and accounting standards, and on developing a governance framework for Islamic banks (SB #6).

[11] These steps will be completed in a near future with the recruitment of a Restructuring Project Manager and a Communications Advisor.

[12] The currency exchange project costing would address the printing of new banknotes, including counterfeiting measures, accounting, and transportation and distribution of the new notes.

c. The authorities continue to strengthen their supervision capacity consistent with their Supervision Action Plan, but intend to re-introduce a moratorium on licensing additional banks until capacity deficiencies are more fully addressed.

d. Over the medium term, the CBS is committed to enhance the prudential regulations for the banking sector, adopt a revised regulation on capital adequacy, and introduce a reserve requirement for commercial banks. Furthermore, the authorities plan to complete the transition arrangements and fully apply the mobile money regulations by 2022.

e. With World Bank assistance, the authorities have made significant progress toward the implementation of an Automated Transfer System (ATS) and the establishment of a National Switch to support the national payment system. In addition, draft bills for the National Payment System Law, revised Financial Institutions Law (FIL), and Insurance Law are under review.

29. Reforms on AML/CFT continue to gain momentum. The necessity of improving the AML/CFT environment to support remittances and correspondent banking relationships has been highlighted by the crisis,[13] and the authorities continue to work with their partners through the Somalia Remittances Advisory Council to facilitate financial inflows. Reforms of the AML/CFT operational and legal framework are accelerating; these will be supported by the progress in advancing the national digital ID, which remains a key impediment.

a. The capacity of the Financial Reporting Center (FRC) is improving (SB #2), with progress on building the necessary physical and IT-infrastructure, and strengthening capacity through on-the job mentoring and tailored training on the new IT-system (go-AML) and related analytics. The FRC is also supporting capacity building on AML/CFT for stakeholders, including drafting guidelines for AML/CFT regulation for financial institutions, issuing AML/CFT compliance and risk assessment manuals, and initiating the drafting of guidance notes for commercial banks and MTBs on the AML/CFT regulations.

b. The authorities remained committed to operationalizing the National Anti-Money Laundering Committee (NAMLC) Task Force, and resolving the overlap and inconsistencies between the new AML/CFT regulations for financial institutions and AML/CFT governance and compliance regulations. However, competing priorities in the COVID-19 context has delayed the anticipated NAMLC meeting.

c. The long-standing challenge of enacting the Targeted Financial Sanctions Bill (SB#7) and issuing of the associated regulations persist. The authorities have revised the bill for re-submission to the Cabinet and then parliament. But progress has been delayed by political uncertainty over the summer, and will be further delayed by the election-related pause in parliamentary activity. Furthermore, the planned sensitization of parliamentarians by

[13] Travel restrictions impeded flows of courier-transported cash.

Somalia's partners has been delayed, in part due to COVID-19. In light of this, staff has agreed an extension of the target date for the SB to June 2021.

d. The authorities plan to complete a first draft of the National Risk Assessment (NRA) by end-2020 with a view to finalization in 2021 (CPT).

D. Governance, Economic Development, and Other Program Issues

30. The authorities have made progress on improving governance and fighting corruption.[14] On-going improvements in and commitments to improve fiscal (e.g. general government reporting and transparency and PFM) and financial governance (e.g. central bank reorganization, financial regulation and supervision), and AML/CFT have been discussed earlier. Focusing on the fight against corruption and improvements to the rule of law, the National Anti-Corruption Strategy (NACS)[15] was endorsed by the cabinet and published (SB #3) and the nomination of commissioners to establish the Anti-Corruption Commission is in train.[16] The cabinet endorsed the UN, African Union, and Arab League conventions on combating corruption and will be submitting them to parliament for ratification. A program with UNDP to improve the integrity system has been signed, and a draft action plan has been started.

31. The NACS outlines the authorities' plan to tackle governance and corruption on multiple fronts. In the near-term, they have committed to enhance the understanding and definition of corrupt practices by putting together regulations that aggregate existing but disparate laws and codes, and to identify gaps in this area. Over the medium term, there are plans to introduce reforms under the *New Policing Model* to address the issue of financial/economic crimes, in addition to security. Moreover, the Ministry of Justice identified judicial reforms, including the development of codes of conduct for judicial officers and staff, as an important area of focus.

32. The authorities are committed to improving transparency in the nascent licensing framework for the telecommunications and mobile money sectors, and agreed a related SB (SB #9). Reforms in this area have been underpinned by support from the World Bank. By March 2021, together with information on the licensing process itself, the National Communications Authority (NCA) will publish the list of licensed mobile network operators and mobile virtual network operators, and the CBS will publish those of the mobile money operators. Staff expects this to help improve governance in the nascent regulatory process for this industry and send a signal on the need for transparency and public accountability in the awarding of licenses in other critical industries.

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[14] For a wider discussion of governance issues see Annex III of the Staff Report for the program request, IMF Country Report No. 20/85.

[15] See https://moj.gov.so/news/approved-national-anti-corruption-strategy/.

[16] The nominees have been endorsed by the cabinet but their approval by the Parliament may be delayed until the new Parliament has been elected. In the interim, the authorities have advanced efforts to enhance public awareness on anti-corruption measures.

33. A new financial facility, Gargaara, was launched to improve access to financing for micro, small and medium-sized enterprises (MSMEs). This has been funded by the World Bank (US$15 million). Gargaara will distribute the funds by on-lending to eligible bank and non-bank financial institutions who will then determine which MSMEs get financing. Gargaara is currently targeting funding of projects in the agriculture, energy, fishery, and livestock sectors. This new facility will complement the CBS' small, grant-funded facility that has been operational since 2017 and which has now reached the full US$3 million of its endowment; the CBS does not plan to expand this program.

34. Following the passage of the amendments to the *Statistics Law*,[17] the National Bureau of Statistics (SNBS) is operational and its Director General appointed. The SNBS noted that in the short run it will focus on institution building with the support of its international partners and implementing its strategic plan. It will also update the Economic Statistics Action Plan to reflect its short-term operational objectives to produce and disseminate specific economic and financial data in coordination with other government entities and the CBS, considering comments by the IMF, World Bank, and Statistics Sweden.

35. The authorities are making progress on fulfilling the HIPC CPTs (Annex III) and reaching the CP by March 2023 remains feasible. The authorities are in the process of implementing NDP9, their poverty reduction strategy, and completing the preliminary costing exercise. The 2021 budget will include the FGS' contribution to NDP9, and an annual performance report will be submitted to the Fund and World Bank at a future date. The approval of the first review by the IMF Board will confirm satisfactory implementation of the ECF program. There is also progress on the other CPTs, including the development of a national social registry. The authorities have launched the first social safety net scheme, Baxnaano, which provides cash transfers to target poor and vulnerable households and which promotes gender inclusion by making the head woman of the household the direct beneficiary. The scheme currently uses the systems of the World Food Program, but the aim of the registry is to create the building block for greater use and reliance on the FGS' own systems (Annex I).

36. Somalia will continue to need extensive capacity development support to meet the program's goals and to reach the HIPC CP. IMF TA will continue to be closely integrated with, and reflect the priorities of, Somalia's ECF-supported program, and be designed to complement the activities of Somalia's other TA providers. This has been underpinned by the resources from the Somalia Trust Fund, Phase I of which ends in October. Fundraising for Phase II, which is intended to support IMF TA delivery through FY2024, has been relatively slow, representing a risk to future IMF TA and the success of the ECF-supported program. Staff has been working to adapt and prioritize activities to maximize the impact of the available resources and to take account the logistical challenges implied by continued COVID-related travel restrictions.

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

PROGRAM ISSUES, FINANCING NEEDS, FINANCING ASSURANCES, AND CAPACITY TO REPAY

37. Staff supports the authorities' request for a waiver of nonobservance for QPC on revenue that reflected the impact of the triple shock of COVID-19, locusts and flooding. Staff also supports the requested modifications to the end-December QPCs given the potential for a protracted impact of these shocks on revenue.

38. Understandings have been reached with the authorities on newly proposed SBs and revised December 2020 and June 2021 program targets, and are presented in the MEFP. To support the program objective of building reserves, the QPC on NFA for end-December is proposed to be increased by $0.5 million to take account of the over-performance achieved through end-June.

39. Despite the temporary increase in annual access limits under the PRGT, Somalia is not seeking an augmentation of the ECF. Even though the increased access would deliver modest scope to tap concessional resources, the authorities are reluctant to incur any new debt and are prioritizing grant financing. Staff's ongoing and frequent dialogue with the authorities will facilitate discussions if conditions change.

40. The program remains fully financed. The FGS has received additional grant funding from the World Bank, AfDB and EU, and work is underway on a new World Bank DPO. Moreover, the financing gap falls considerably in 2021, so there are firm financing assurances through October 2021, and staff expects the continued engagement of international donors indicates good prospects for full financing thereafter (Table 8). The umbrella restructuring agreement with the Paris Club covers the majority of Somalia's creditors and remains adequately representative. Staff confirmed that, as of October 2020, the authorities are actively engaged with several key non-Paris Club creditors on resolving their arrears and restructuring their debt. Consequently, arrears to non-Paris Club creditors can be deemed away under the Fund's policy on Non-Toleration of Arrears to Official Creditors.

41. Somalia's capacity to repay the Fund is adequate, albeit subject to higher-than-usual risks due to its fragility. With this ECF-disbursement, outstanding credit from the Poverty Reduction and Growth Trust (PRGT) would reach 166 percent of quota and total PRGT-disbursements over a twelve month-period would reach 0.3 percent of quota (Table 9). To mitigate debt servicing risks, staff will continue emphasizing the need to anchor fiscal policy on ensuring debt sustainability and, encouraging limiting any future borrowing (subsequent to this program) to concessional sources as much as possible.

42. CBS has made progress implementing Safeguards Assessment' recommendations. The CBS has improved procedures to compile its NFA and undertake periodic reconciliations between its accounting records and the monetary data tables. The audited CBS financial statements for 2017 and 2018 have been published, and the IMF positions have been reflected on the balance sheet. The authorities are aiming to complete the 2019 audit by end-December 2020. The CBS has activated some additional external accounts (including its Federal Reserve Bank of New York account), endorsed its Foreign Exchange Account Policy, and introduced quarterly reporting by the internal audit department to the Audit Committee. Key remaining recommendations include the adoption of an external audit selection and rotation policy and month-end closing procedures for accounting, and reviewing currency operations ahead of the currency exchange.

STAFF APPRAISAL

43. The authorities' prompt actions have mitigated the impact of unexpected external and domestic shocks on the Somali people and the economy. The global pandemic along with the impact of floods and locusts depressed economic activity and aggravated the humanitarian challenges. Notwithstanding the limited policy space, the authorities' adopted a number of measures, underpinned by critical support from the international community, including: a temporary tax relief on some basic food commodities; the introduction of a cash transfer system for the most vulnerable, Baxnaano; and the launch of a credit facility, Gargaara, for micro-, small-and-medium-sized enterprises.

44. Moreover, and despite the crisis, the authorities have sustained their strong commitment to economic reforms and have made satisfactory progress in implementing key reforms under the program. All structural benchmarks, indicative targets and all but one quantitative performance criterion (QPCs) for end-June and all but one indicative target for end-September were met, together with the structural benchmarks for September and October. Cumulative domestic revenues (per program definition) through June for the Federal Government of Somalia (FGS) reached US$99 million against program target of US$109 million and reached $146 million through September against an indicative target of US$160 million. The authorities have requested a waiver for the missed QPC based on the measures planned to ensure domestic revenues recover in 2021.

45. Staff commend the authorities on their continued progress on fiscal reforms, including in the areas of tax and customs administration, and ongoing efforts to enhance intergovernmental fiscal relations and transparency. To underpin the ECF-supported program objectives, the authorities need to implement a 2021 budget that underpins greater domestic revenue mobilization and continued control on operating expenditures to create fiscal space for spending on priorities identified in the authorities' Ninth National Development Plan (NDP9). Further improvements in general government fiscal reporting will improve transparency and accountability.

46. The appointment of the new senior management of the Central Bank of Somalia and the ongoing progress on reorganizing the institution is welcome. And the further progress on AML/CFT issues, including the ongoing work on the National Risk Assessment and efforts to build capacity at the Financial Reporting Center is commendable. It will be critical to expedite the licensing of the mobile money operators (MMOs) to advance the implementation of the mobile money regulatory regime, which will be supported by a new structural benchmark to ensure greater transparency in this process and in the issuance of the underlying telecommunications licenses.

47. Staff are encouraged by the approval by the Council of Ministers of the National Anti-Corruption Strategy and its endorsement of the UN, African Union, and Arab League conventions against corruption. Swift Parliamentary ratification of these conventions will be important to signal the Somalia's commitment to improving governance and fighting corruption.

48. The authorities' have made significant efforts to reach agreement with their external creditors on debt relief consistent with the HIPC framework. Sustained efforts, together with support from their creditors, will be needed to fully secure the required level of debt relief and ensure Somalia's debt sustainability on reaching the HIPC Completion Point.

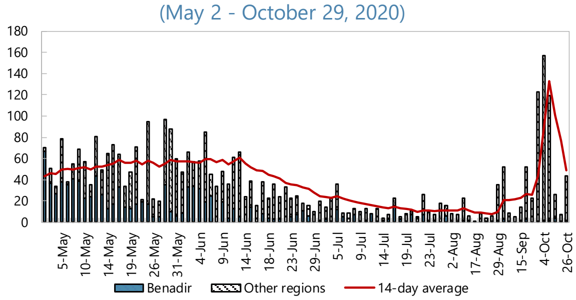
49. Staff supports the authorities' efforts to raise funds to support the second phase of Somalia Trust Fund and the related capacity development program. Despite COVID-19, delivery of key IMF TA has continued, and the authorities have maintained their strong absorption. Staff encourages Somalia's partners to accelerate their pledges to ensure a continued smooth delivery of IMF TA to support the goals of the ECF.

50. Staff supports the authorities' request for a waiver and modification of performance criteria, and the completion of the first review and disbursement of SDR 7 million under the ECF. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) sets out appropriate policies that meet the program's objectives. Despite uncertainties, risks to program implementation remain mitigated by the authorities' strong track record of reform and continued donor support.

Figure 1. Somalia: High Frequency Indicators, 2019–2020

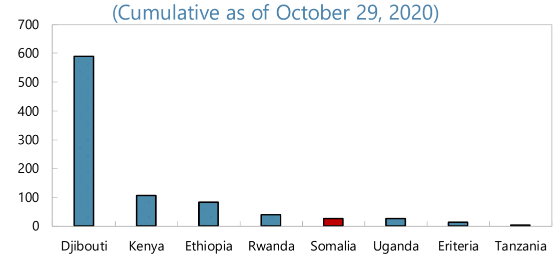
After falling since June, new Covid-19 cases appear to be picking up again.

Daily New Cases Banadir and Other Regions
(May 2 - October 29, 2020)



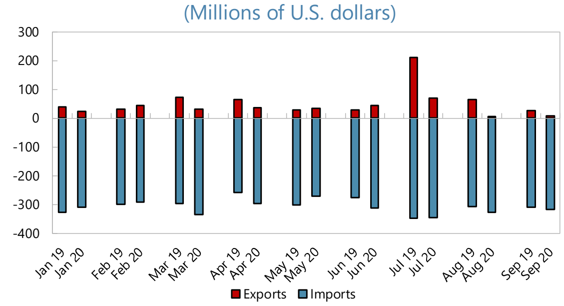
While Somalia's infection rate is not high for the region, its health infrastructure is among the weakest.

Confirmed Cases per 100,000 population
Regional Comparison
(Cumulative as of October 29, 2020)



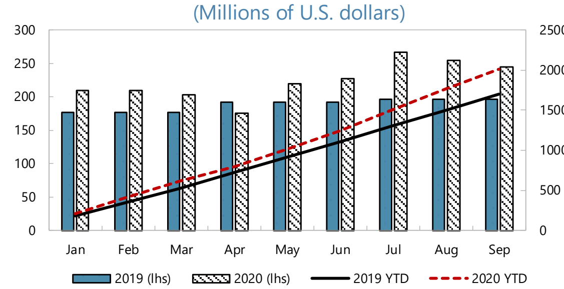
While imports held up, exports have taken a hit especially with a reduced Hajj attendance.

Exports and Imports
(Millions of U.S. dollars)



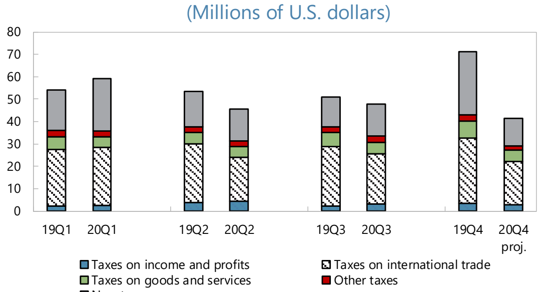
Remittances took a temporary hit in April, but have recovered.

Remittances
(Millions of U.S. dollars)



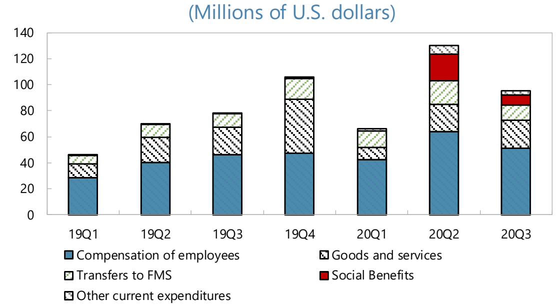
Domestic revenues were negatively affected, but not as badly as anticipated.

Quarterly Domestic Revenues
(Millions of U.S. dollars)



Expenditures have increased in 2020, especially social benefits.

Current expenditures per quarter
(Millions of U.S. dollars)



Sources: Somali authorities, IMF staff calculations, and Johns Hopkins University

Table 1. Selected Economic and Financial Indicators, 2018–2025

(Population: 14 million, 2018 estimate)

	Est.		Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025
National income and prices								
Nominal GDP in millions of U.S. dollars	4,721	4,942	4,918	5,365	5,651	5,964	6,306	6,687
Real GDP in millions of U.S. dollars	4,420	4,548	4,480	4,610	4,758	4,919	5,097	5,295
Real GDP, annual percentage change	2.8	2.9	-1.5	2.9	3.2	3.4	3.6	3.9
Real GDP per capita in U.S. dollars	311	311	298	299	301	304	307	311
Consumer prices (e.o.p., percent change)	3.2	3.1	3.0	2.5	2.2	2.2	2.2	2.2
			(Percent of GDP)					
Central government finances 1/								
Revenue and grants	5.7	6.8	12.6	10.0	11.5	12.5	10.2	10.9
of which:								
Grants	1.8	2.2	8.6	5.2	6.2	6.7	3.7	3.6
Expenditure (FGS)	5.7	6.4	12.8	9.6	10.8	11.9	12.0	12.2
Compensation of employees 2/	3.0	3.3	4.7	4.8	5.2	5.5	5.4	5.6
Purchase of non-financial assets	0.2	0.3	0.9	0.6	1.0	1.0	1.0	0.9
Overall balance	0.1	0.5	-0.2	0.4	0.6	0.6	-1.8	-1.4
Net change in the stock of cash	0.1	0.5	-0.5	0.1	0.3	0.4	-1.8	-1.4
Stock of domestic arrears	1.5	1.4	1.4	1.2	1.1	1.0	0.9	0.8
Public debt 3/	112.8	108.8	40.7	37.9	36.6	30.3	12.4	13.3
			(Millions of U.S. Dollars)					
Monetary Sector								
Net Foreign Assets	-258	-212	-170	-175	-164	189	172	176
Central Bank claims on non-res 4/	122	148	208	219	247	263	243	244
Net Dometic Assets	697	735	717	794	851	574	685	817
Credit to the private Sector	184	206	219	263	313	383	482	623
Broad Money 5/	440	523	547	620	687	763	857	993
			(Percent of GDP)					
Balance of payments								
Current account balance	-7.5	-10.5	-12.8	-12.9	-12.9	-13.2	-14.9	-14.6
Trade balance	-84.8	-83.0	-91.1	-86.8	-88.2	-85.0	-79.9	-76.4
Exports of goods and services	23.7	22.7	14.3	21.8	22.0	22.1	22.2	22.1
Imports of goods and services	108.5	105.7	105.4	108.7	110.2	107.1	102.1	98.5
Remittances	31.4	31.9	31.4	31.0	31.4	30.8	30.2	29.5
Grants	46.6	41.3	47.7	43.7	44.6	41.6	35.3	32.8
Foreign Direct Investment	8.6	9.1	9.4	9.2	9.3	9.6	10.0	10.2
External debt 3/	111.3	107.5	39.4	36.7	35.4	29.3	11.5	12.4
Market exchange rate (SOS/USD, e.o.p.)	24,475	26,015	…	…	…	…	…	…

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

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

2/ Increase in compensation of employees in 2017 reflects bringing onto budget military spending related to the loss of an off-budget grant. The increase in 2020 reflects a reallocation of allowances from G&S to compensation in the context of Somali National Army reform.

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

4/ Includes FGS grants held abroad.

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

Table 2a. Federal Government Operations, 2018–23 1/

(Millions of U.S. Dollars)

	2018	2019				2020				2021		2022	2023
	Dec.	Dec.			Sep	Dec.				Dec.		Dec.	Dec.
	Est.	Rev. Budg.	Prog.	Est.	Prel.	Budg.	Rev. Budg.	Prog.	Proj.	Proj.		Proj.	Proj.
								ECF	1st Rev.	ECF	1st Rev.		
Revenue and grants	270.2	390.2	344.2	338.3	346.0	466.2	578.1	493.2	617.7	595.3	537.4	647.2	746.0
Revenue	183.4	221.4	196.3	229.7	152.6	234.4	167.5	234.4	194.0	266.9	260.0	295.5	346.0
Tax revenue	138.9	146.1	137.7	154.8	100.6	155.5	107.0	155.5	129.8	177.0	184.3	209.5	238.3
Tax on income, profit, and capital gains	8.6	9.8	9.1	11.7	9.9	11.3	8.7	11.3	12.7	12.9	15.0	17.0	21.3
Taxes on goods and services	22.1	22.8	23.5	25.0	15.0	27.1	17.8	27.1	20.0	30.8	28.1	32.0	36.1
Taxes on international trade and transactions	100.3	103.4	98.0	107.0	67.9	106.0	74.8	106.0	87.4	120.7	127.9	145.3	163.8
Other taxes	7.9	10.1	7.1	11.1	7.8	11.1	5.7	11.1	9.7	12.6	13.4	15.2	17.2
Non-tax revenue	44.5	75.2	58.6	74.9	52.0	78.9	60.5	78.9	64.3	89.9	75.6	86.0	107.7
Grants 2/	86.7	168.8	147.9	108.6	193.4	231.8	410.6	258.8	423.7	328.4	277.4	351.7	400.0
Bilateral 3/	23.5	35.1	30.0	36.4	7.5	30.0	30.0	30.0	30.0	31.0	30.0	30.0	30.0
Multilateral	63.3	133.7	117.9	72.2	185.9	201.8	380.6	228.8	393.7	297.4	247.4	321.7	369.9
of which projects	*18.2*	*63.8*		*63.8*		*127.6*	*206.9*		*220.0*		*167.7*	*190.0*	*280.0*
Total expenditure 4/	267.8	387.5	338.0	314.5	303.2	473.7	682.7	474.6	628.3	520.6	515.4	610.7	710.5
Current	257.9	349.1	312.8	300.3	291.6	433.1	638.4	433.9	584.1	469.5	482.2	554.2	652.7
Compensation of employees 5/	143.1	165.3	157.4	162.3	157.8	220.3	229.9	220.3	229.9	238.3	256.7	291.0	330.6
Use of goods and services	80.6	137.2	117.1	92.7	51.6	132.2	153.0	132.2	122.7	143.0	137.2	155.5	176.6
Interest and other charges	0.0	0.0	0.0	0.0	9.0	0.3	2.6	1.3	0.9	1.2	1.1	1.1	9.4
Subsidies	0.0	2.0	0.0	0.0	1.5	10.1	2.0	10.1	2.0	10.9	2.2	2.5	2.7
Transfers to sub-national governments & Banadir Region	30.1	43.2	35.3	43.5	42.8	42.7	155.0	42.6	132.6	46.3	50.3	62.9	86.6
Social benefits	0.0	0.0	0.0	0.0	27.9	25.0	93.4	25.0	93.4	27.0	31.9	38.0	43.2
Other expenses 6/	0.0	0.0	0.0	0.7	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingency	4.1	1.4	2.3	0.4	0.0	2.5	2.5	2.5	2.5	2.7	2.8	3.2	3.6
Purchase of non-financial assets	9.9	38.4	25.2	14.1	11.6	40.6	44.3	40.7	44.2	51.1	33.2	56.5	57.9
Overall fiscal balance	2.4	2.6	6.2	23.9	42.8	-7.5	-104.7	18.5	-10.6	74.7	22.0	36.5	35.4
Net cash inflow from financing activities	0.0	-2.6	-2.5	-0.5	…	-2.5	-14.3	-17.2	-11.8	-17.4	-16.2	-18.1	-9.8
Net accumulation of domestic debt	0.0	-2.6	-2.5	-0.5	…	-2.5	-2.5	-1.5	0.0	-1.8	-1.8	-2.8	-3.0
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	-2.6	-2.5	-0.5	…	-2.5	-2.5	-1.5	0.0	-1.8	-1.8	-2.8	-3.0
Net accumulation of external debt	0.0	0.0	0.0	0.0	…	0.0	-11.8	-15.7	-11.8	-15.6	-14.4	-15.3	-6.8
New external borrowing (+)	0.0	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of external debt (-)	0.0	0.0	0.0	0.0	…	0.0	-11.8	-15.7	-11.8	-15.6	-14.4	-15.3	-6.8
Net change in the stock of cash	2.4	0.0	3.7	23.3	…	-10.0	-119.0	1.3	-22.4	57.3	5.8	18.4	25.7
Memorandum items													
Public debt	5,324	5,375	5,374	5,379	…	2,001	2,001	2,002	2,004	3,925	2,035	2,066	1,808
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	0.0	0.0
Stock of domestic arrears 7/	68.8	64.6	63.5	68.2	…	65.7	65.7	66.7	68.2	65.0	66.5	63.7	60.7
Stock of cash and other balances 8/	25.5	25.5	29.2	48.8	…	38.8	-70.1	50.2	26.5	48.8	32.2	50.6	76.3

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

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

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

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

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

5/ Increase in compensation of employees in 2017 reflects bringing onto budget military spending related to the loss of an off-budget grant. The increase in 2020 reflects a reallocation of allowances from G&S to compensation in the context of SNA reform.

6/ Other expenses line reflects contingent expense items that will only be incurred once relevant donor grants materialize (grant recorded under multilateral grants)

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

8/ Includes resources in the formal fiscal buffer which is available to meet priority expenditure needs in the event of a shortfall in revenue. Goal is to maintain a minimum of 1-month total FGS compensation plus food component for the Somalia National Army, consistent with the guidelines on the use of the fiscal buffer.

Table 2b. Federal Government Operations, 2018–23 1/

(Percent of GDP)

	2018	2019	2020		2021		2022	2023
	Est.	Est.	Proj.		Proj.		Proj.	Proj.
			ECF	1st Rev.	ECF	1st Rev.		
Revenue and grants	5.7	6.8	9.5	12.6	10.8	10.0	11.5	12.5
Revenue	3.9	4.6	4.5	3.9	4.8	4.8	5.2	5.8
Tax revenue	2.9	3.1	3.0	2.6	3.2	3.4	3.7	4.0
Tax on income, profit, and capital gains	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.4
Taxes on goods and services	0.5	0.5	0.5	0.4	0.6	0.5	0.6	0.6
Taxes on international trade and transactions	2.1	2.2	2.0	1.8	2.2	2.4	2.6	2.7
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Non-tax revenue	0.9	1.5	1.5	1.3	1.6	1.4	1.5	1.8
Grants 2/	1.8	2.2	5.0	8.6	6.0	5.2	6.2	6.7
Bilateral 3/	0.5	0.7	0.6	0.6	0.6	0.6	0.5	0.5
Multilateral	1.3	1.5	4.4	8.0	5.4	4.6	5.7	6.2
Total expenditure 4/	5.7	6.4	9.1	12.8	9.5	9.6	10.8	11.9
Current	5.5	6.1	8.3	11.9	8.5	9.0	9.8	10.9
Compensation of employees 5/	3.0	3.3	4.2	4.7	4.3	4.8	5.2	5.5
Use of goods and services	1.7	1.9	2.5	2.5	2.6	2.6	2.8	3.0
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Subsidies	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	0.6	0.9	0.8	2.7	0.8	0.9	1.1	1.5
Social benefits	0.0	0.0	0.5	1.9	0.6	0.7	0.8	0.9
Other expenses 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingency	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.1
Purchase of non-financial assets	0.2	0.3	0.8	0.9	0.9	0.6	1.0	1.0
Overall fiscal balance	0.1	0.5	0.4	-0.2	1.4	0.4	0.6	0.6
Net cash inflow from financing activities	0.0	0.0	-0.3	-0.2	-0.3	-0.3	-0.3	-0.2
Net accumulation of domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
New domestic debt (+)	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	-0.1
Net accumulation of external debt	0.0	0.0	-0.3	-0.2	-0.3	-0.3	-0.3	-0.1
New external borrowing (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of external debt (-)	0.0	0.0	-0.3	-0.2	-0.3	-0.3	-0.3	-0.1
Net change in the stock of cash	0.1	0.5	0.0	-0.5	1.0	0.1	0.3	0.4
Memorandum items								
Public debt	112.8	108.8	74.6	40.7	71.3	37.9	36.6	30.3
Accumulation of domestic arrears 7/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears 7/	1.5	1.4	1.3	1.4	1.2	1.2	1.1	1.0
Stock of cash and other balances 8/	0.5	1.0	0.9	0.5	0.9	0.6	0.9	1.3

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

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

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

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

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

5/ Increase in compensation of employees in 2017 reflects bringing onto budget military spending related to the loss of an off-budget grant. The increase in 2020 reflects a reallocation of allowances from G&S to compensation in the context of SNA reform.

6/ Other expenses line reflects contingent expense items that will only be incurred once relevant donor grants materialize (grant recorded under multilateral grants)

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

8/ Includes resources in the formal fiscal buffer which is available to meet priority expenditure needs in the event of a shortfall in revenue. Goal is to maintain a minimum of 1-month total FGS compensation plus food component for the Somalia National Army, consistent with the guidelines on the use of the fiscal buffer.

Table 2c. General Government Operations, 2019 and 2020 Q2 1/

(Millions of U.S. Dollars)

	2019					2020		
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Total
Revenue and grants	82.5	98.4	144.0	171.5	496.4	153.5	176.0	329.6
Revenue	72.4	74.8	76.0	100.5	323.7	80.2	64.4	144.7
Tax revenue	57.9	65.4	59.2	68.3	250.9	53.6	47.3	100.9
Tax on income, profit, and capital gains	2.4	3.9	2.4	3.6	12.3	2.3	3.2	5.5
Taxes on payroll and workforce 2/	n.a.	n.a.	n.a.	n.a.	0.0	1.5	2.6	4.1
Taxes on property 2/	n.a.	n.a.	n.a.	n.a.	0.0	0.2	0.2	0.4
Taxes on goods and services	18.0	21.6	13.4	16.1	69.1	12.4	11.2	23.5
Taxes on international trade and transactions	36.4	38.2	39.0	42.8	156.4	37.3	30.1	67.4
Other taxes	0.0	0.0	2.6	3.4	6.1	0.0	0.0	0.0
Non-tax revenue	36.4	19.9	34.6	37.9	128.9	26.6	17.2	43.8
Grants 3/	10.1	23.6	68.0	71.0	172.7	73.3	111.6	184.9
Bilateral	0.0	1.1	28.8	7.5	37.4	0.0	7.5	7.5
Multilateral	10.1	22.5	39.2	63.5	135.3	66.0	94.2	160.2
Total expenditure 4/	62.7	97.1	114.9	149.6	424.2	103.1	166.9	270.0
Current	59.8	93.3	106.4	139.5	399.0	100.9	158.2	259.1
Compensation of employees	40.8	58.5	70.5	81.2	251.1	65.5	79.7	145.3
Use of goods and services	16.6	27.6	29.7	51.9	125.8	17.9	29.2	47.0
Interest and other charges	0.0	0.0	0.0	0.0	0.0	1.5	5.6	7.1
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Transfers to sub-national governments & Banadir Region	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0
Social benefits	0.0	0.0	0.3	0.6	1.0	0.4	20.7	21.0
Other expenses	0.0	0.0	0.0	0.0	0.0	2.3	1.8	4.1
Contingency	0.1	0.2	0.4	0.3	1.0	0.0	0.0	0.0
Purchase of non-financial assets	3.0	3.7	8.4	8.5	23.6	2.2	8.7	10.9
Overall fiscal balance	19.8	1.4	29.1	21.9	72.2	50.4	9.2	59.6

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

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

2/ Reporting on these categories commenced in 2020 reporting.

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

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

Table 2d. General Government Operations, 2019 and 2020 Q2 1/

(Percent of GDP)

	2019					2020		
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Total
Revenue and grants	1.7	2.0	2.9	3.5	10.0	3.1	3.6	6.7
Revenue	1.5	1.5	1.5	2.0	6.6	1.6	1.3	2.9
Tax revenue	1.2	1.3	1.2	1.4	5.1	1.1	1.0	2.1
Tax on income, profit, and capital gains	0.0	0.1	0.0	0.1	0.2	0.0	0.1	0.1
Taxes on payroll and workforce 2/	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0.1	0.1
Taxes on property 2/	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0.0	0.0
Taxes on goods and services	0.4	0.4	0.3	0.3	1.4	0.3	0.2	0.5
Taxes on international trade and transactions	0.7	0.8	0.8	0.9	3.2	0.8	0.6	1.4
Other taxes	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Non-tax revenue	0.7	0.4	0.7	0.8	2.6	0.5	0.3	0.9
Grants 3/	0.2	0.5	1.4	1.4	3.5	1.5	2.3	3.8
Bilateral	0.0	0.0	0.6	0.2	0.8	0.0	0.2	0.2
Multilateral	0.2	0.5	0.8	1.3	2.7	1.3	1.9	3.3
Total expenditure 4/	1.3	2.0	2.3	3.0	8.6	2.1	3.4	5.5
Current	1.2	1.9	2.2	2.8	8.1	2.1	3.2	5.3
Compensation of employees	0.8	1.2	1.4	1.6	5.1	1.3	1.6	3.0
Use of goods and services	0.3	0.6	0.6	1.1	2.5	0.4	0.6	1.0
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Contingency	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
Purchase of non-financial assets	0.1	0.1	0.2	0.2	0.5	0.0	0.2	0.2
Transfer to government deposits held abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	0.4	0.0	0.6	0.4	1.5	1.0	0.2	1.2

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

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

2/ Reporting on these categories commenced in 2020 reporting.

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

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

Table 3. Summary Accounts of the Central Bank, 2017–2020 1/

(Millions of U.S. Dollars)

	2017	2018	2019				2020		
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.
Net Foreign Assets	(317)	(281)	(275)	(285)	(254)	(254)	(204)	(183)	(220)
Foreign assets	89	119	125	116	140	146	207	231	204
SDR holdings	26	25	25	25	24	24	39	39	40
Gold 1/	19	21	21	21	21	21	25	25	25
Foreign exchange	34	41	37	34	60	69	101	110	86
of which:									
Grants	28	35	32	29	55	64	95	103	79
Cash (US$) held locally	11	32	43	37	34	32	42	57	53
Foreign liabilities	407	400	400	401	394	400	411	414	424
IMF obligations	340	335	335	336	331	336	342	345	352
SDR allocations	66	65	65	65	63	64	69	70	71
Net Domestic Assets	380	354	349	336	325	326	282	260	298
Domestic assets	424	419	420	422	416	421	417	422	431
of which:									
Claims on government (net IMF position) 2/	381	375	375	376	370	376	372	375	383
Domestic liabilities	44	65	70	86	90	95	135	161	133
Government	29	40	46	63	66	68	114	125	101
of which:									
Grants	28	35	32	29	55	64	95	103	79
Other domestic liabilities	15	26	24	22	24	26	20	36	32
of which:									
Commercial bank reserves 3/	…	11	14	14	14	14	17	17	18
Other commercal bank deposits	6	14	8	7	8	11	3	17	11
Other demand deposits at the CBS	1	1	1	0	1	0	0	1	1
Microfinance grant	1	-	-	-	-	-	-	1	1
MTB deposits	1	1	1	1	1	1	1	1	1
Other demand deposits	6								
Equity and reserves	62	73	75	51	71	72	78	77	78
of which:									
Property and equipment	43	44	44	45	45	45	45	45	46
Memorandum items:									
NFA (program definition) 4/	32	26	25	25	25	25	71	71	71
Somali shillings per US dollar (eop)	23,605	24,475	24,475	25,015	25,605	26,015	26,005	26,005	25,830

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

1/ Gold price as defined in the TMU.

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

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

4/ Program definition per TMU.

Table 4. Consolidated Commercial Banks Balance Sheet, 2017–2020

(Millions of U.S. Dollars)

	2017	2018	2019				2020		
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep
	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.
Total assets	345	415	426	459	504	556	563	573	604
Cash on Hand	71	115	107	121	133	117	132	121	150
Balances with Central Bank	7	18	15	13	19	18	15	30	22
Deposits with other banks 1/	58	23	26	36	30	79	53	53	73
Credit to private sector	105	184	197	199	194	206	215	193	202
Investment 2/	9	31	32	28	45	60	60	58	51
Other Assets 3/	95	44	48	62	84	77	88	118	105
Total liabilities	292	362	372	388	408	463	453	457	483
Customer Deposits	267	332	344	363	382	430	413	425	440
Financing Liabilities	10	2	2	2	2	2	2	3	3
Other Liabilities	15	27	25	22	22	27	34	21	29
Equity	53	53	54	72	96	93	110	115	121
Memorandum items:									
Credit to private sector									
share of total assets (percent)	30	44	46	43	39	37	38	34	33
share of GDP (percent)	2	4	4	4	4	4	5	4	4
y-o-y changes (percent)	51	75	13	12	12	12	9	-3	…
Total capital to assets (percent)	15	13	13	15	18	16	18	18	15
Loan to deposits (percent)	39	55	57	55	51	48	52	45	46
Liquid assets to total assets (percent)	…	37	34	36	34	32	30	30	35

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

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

2/ Primarilly investment in real estate.

3/ Fixed, intangible and other assets.

Table 5. Monetary Survey, 2018–2023 1/

(Millions of U.S. Dollars)

	Est.		Proj.					
	2018	2019	2020		2021		2022	2023
			ECF	1st Rev.	ECF	1st Rev.		
Net foreign assets	-258	-212	-183	-170	-174	-175	-164	189
Claims on nonresidents	142	188	235	248	264	263	293	311
Central Bank 2/	122	148	193	208	219	219	247	263
of which gross reserves of the CBS	54	51	70	70	88	89	108	117
Other Depository Corporations	20	40	42	40	45	44	46	49
Liabilities to Nonresidents	400	400	418	418	438	438	457	122
Net Domestic Claims	697	735	758	717	806	794	851	574
Net Claims on Central Government	355	307	299	284	312	312	322	-18
of which CBS claim on government (IMF net position)	375	376	458	458	478	478	497	162
Claims on private sector	184	206	232	219	269	263	313	383
Other net claims not included in broad money	159	222	227	214	225	220	215	209
Capital and Reserves	81	115	121	114	127	124	131	138
Other items, net	0	0	7	7	7	7	8	8
Broad Money 3/	440	523	575	547	632	620	687	763
Memorandum items:								
SOS per U.S. dollar (end of period)	24,475	26,015	na	na	na	na	na	na

Sources: International Financial Statistics and IMF Staff.

1/ Preliminary estimates given incomplete financial data.

2/ Includes FGS grants held abroad.

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

Table 6a. Balance of Payments, 2018–23

(Millions of U.S. dollars)

	Prel.		Proj.					
			ECF	1st Rev.	ECF	1st Rev.		
	2018	2019	2020		2021		2022	2023
Current account balance	-356	-518	-641	-630	-686	-693	-729	-786
Overall trade balance	-4,005	-4,104	-4,639	-4,482	-4,918	-4,659	-4,984	-5,067
Goods balance	-3,003	-3,060	-3,468	-3,495	-3,657	-3,486	-3,714	-3,736
Exports of goods, f.o.b.	570	554	595	277	629	587	642	699
Imports of goods, f.o.b.	-3,574	-3,614	-4,064	-3,772	-4,287	-4,074	-4,355	-4,435
Services, net	-1,001	-1,043	-1,171	-987	-1,261	-1,173	-1,271	-1,331
Service credits	549	566	583	425	601	583	601	619
Service debit	-1,550	-1,610	-1,754	-1,413	-1,862	-1,756	-1,871	-1,950
Income (net)	-34	-36	-38	-36	-40	-39	-41	-36
Receipts	44	46	49	46	51	50	53	56
Payments	-78	-82	-86	-81	-91	-89	-94	-91
of which:								
Interest payments, public debt 1/	-24	-4	-1	-2	-1	-2	-2	-10
Multilateral, official			-1	-2	-1	-2	-2	-7
Bilateral, official			0	0	0	0	0	-2
Current transfers (net)	3,682	3,622	4,035	3,887	4,272	4,005	4,296	4,317
Private (net), including remittances	1,483	1,578	1,690	1,543	1,801	1,662	1,774	1,837
Official	2,200	2,043	2,345	2,344	2,471	2,343	2,522	2,480
On budget aid	69	87	207	328	263	262	333	380
Off-budget aid	2,130	1,956	2,138	2,015	2,208	2,081	2,189	2,100
Capital account and financial account	326	513	659	648	704	710	747	795
of which:								
Foreign direct investment	408	447	464	464	495	495	526	570
Official concessional borrowing	0	0	0	0	0	0	0	0
Amortization, public debt 1/	-33	0	-16	-12	-16	-14	-15	-7
Multilateral, official			-16	-12	-16	-14	-15	-3
Bilateral, official			0	0	0	0	0	-3
Errors and omissions	0	0	0	0	0	0	0	0
Overall balance and error and omissions	-30	-5	18	18	18	18	18	9
Financing	30	5	-18	-18	-18	-18	-18	-9
Change in central bank reserves (- = increase)	-27	0	-19	-19	-19	-19	-19	-9
of which: Use of Fund resources (net)	0	0	19	17	18	17	17	-334
Purchases and loans	0	0	353	353	18	18	19	10
Repayments	0	0	-335	-336	0	-1	-1	-344
Arrears, net change (+ = accumulation)	57	5	-1,801	-1,795	0	0	0	-2,983
Prospective debt relief and rescheduling 2/	0	0	1,802	1,796	1	1	1	2,983
Memorandum items:								
Nominal GDP	4,721	4,942	5,218	4,918	5,507	5,365	5,651	5,964

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

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

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

Table 6b. Balance of Payments, 2018–23

(Percent of GDP, unless otherwise indicated)

	Prel.		Proj.					
			ECF	1st Rev.	ECF	1st Rev.		
	2018	2019	2020		2021		2022	2023
Current account balance	-7.5	-10.5	-12.3	-12.8	-12.5	-12.9	-12.9	-13.2
Overall trade balance	-84.8	-83.0	-88.9	-91.1	-89.3	-86.8	-88.2	-85.0
Goods balance	-63.6	-61.9	-66.5	-71.1	-66.4	-65.0	-65.7	-62.6
Exports of goods, f.o.b.	12.1	11.2	11.4	5.6	11.4	10.9	11.4	11.7
Imports of goods, f.o.b.	-75.7	-73.1	-77.9	-76.7	-77.8	-75.9	-77.1	-74.4
Services, net	-21.2	-21.1	-22.4	-20.1	-22.9	-21.9	-22.5	-22.3
Service credits	11.6	11.5	11.2	8.6	10.9	10.9	10.6	10.4
Service debit	-32.8	-32.6	-33.6	-28.7	-33.8	-32.7	-33.1	-32.7
Income (net)	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.6
Receipts	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Payments 1/	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.5
Current transfers (net)	78.0	73.3	77.3	79.0	77.6	74.7	76.0	72.4
Private (net), including remittances	31.4	31.9	32.4	31.4	32.7	31.0	31.4	30.8
Official	46.6	41.3	44.9	47.7	44.9	43.7	44.6	41.6
Capital account and financial account	7.5	10.5	12.3	12.8	12.5	12.9	12.9	13.2
of which:								
Foreign direct investment	8.6	9.1	8.9	9.4	9.0	9.2	9.3	9.6
New concessional borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.7	0.0	-0.3	-0.2	-0.3	-0.3	-0.3	-0.1
Overall balance and error and omissions	-0.6	-0.1	0.3	0.4	0.3	0.3	0.3	0.1
Change in central bank reserves (- = increas	-0.6	0.0	…	…	…	…	…	…
Memorandum items:								
Nominal GDP (Million of U.S. dollars)	4,721	4,942	5,218	4,918	5,507	5,365	5,651	5,964
External debt	111.3	107.5	73.3	39.4	70.1	36.7	35.4	29.3

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

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

Table 7. Proposed 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	210.86	39.57	250.43	153.26	Approval of arrangement
November 18, 2020	7.00	0.00	7.00	4.28	First review and end-June, 2020 performance criteria
April 15, 2021	7.00	0.00	7.00	4.28	Second review and end-December, 2020 performance criteria
October 15, 2021	7.00	0.00	7.00	4.28	Third review and end-June, 2021 performance criteria
April 15, 2022	7.00	0.00	7.00	4.28	Fourth review and end-December, 2021 performance criteria
October 15, 2022	7.00	0.00	7.00	4.28	Fifth review and end-June, 2022 performance criteria
February 28, 2023	7.00	0.00	7.00	4.28	Sixth review and end-December, 2022 performance criteria
Total	252.86	39.57	292.43	178.97	

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

Table 8. External Financing Requirement and Sources, 2020–23

(In millions of U.S. dollars)

		Proj.		
	2020	2021	2022	2023
Gross financing requirement	*6,310*	*4,692*	*5,020*	*8,084*
Trade balance	-4,482	-4,659	-4,984	-5,067
Amortization	11.8	11.8	14.4	15.3
Interest on external obligations	2.3	2.4	2.3	9.7
Official arrears/repayments	1,795	0	0	2,983
Of which: IMF	336	0	0	344
Change in reserves (increase = +)	19.2	18.8	18.9	9.2
Available financing	*4,159*	*4,672*	*5,000*	*5,092*
Current transfers (net) 1/	3,887	4,005	4,296	4,317
Foreign direct investment	464	495	526	570
Official medium- and long-term loans (net)	0	0	0	0
Other flows 2/	-192	172	178	205
Financing gap	*2,151*	*20*	*20*	*2,992*
Exceptional Financing	1,796	1.3	1.3	2,983
HIPC debt relief	1,796	1.3	1.3	2,983
Of which: IMF	2.7	1.4	1.3	346
Remaining gap	*-355*	*-19*	*-19*	*-9*
Identified financing	355	19	19	9
Of which: IMF 3/	355	19	19	9

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

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

2/ Includes other financial account flows.

3/ Includes HIPC interim relief from the IMF. Disbursements in 2020-23 are conditional on Board approval of ECF reviews.

Table 9. Projected Repurchases / Payments and Indicators of Capacity to Repay the Fund

(In millions of SDR, unless otherwise noted)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total
Obligations from prospective drawings 1/															
1. Principal															
Repurchases	0.0	0.0	0.0	0.0	3.3	27.7	50.9	53.7	56.5	57.2	32.8	6.3	3.5	0.7	292.4
2. Charges and interest 2/															
Charges	0.1	0.4	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0	3.8
SDR related charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Total obligations	0.1	0.5	0.5	0.5	3.7	28.1	51.2	53.9	56.6	57.3	32.8	6.3	3.5	0.7	296.8
Outstanding Fund credit, end of period	257.4	271.4	285.4	292.4	289.1	261.5	210.6	156.9	100.5	43.3	10.5	4.2	0.7	0.0	...
Memorandum items:															
Outstanding Fund credit, in percent of															
Exports of goods and services	50.6	32.2	32.0	31.1	29.2	25.1	19.1	13.5	8.1	3.3	0.8	0.3	0.0	0.0	...
External public debt	18.4	19.2	19.9	23.6	56.7	44.8	33.2	23.1	13.7	5.4	1.2	0.4	0.1	0.0	...
Gross official reserves	506.5	423.6	369.4	350.9	349.7	318.4	256.4	191.1	122.3	52.7	12.8	5.1	0.9	0.0	...
GDP	7.2	7.0	7.1	6.9	6.5	5.6	4.2	2.9	1.8	0.7	0.2	0.1	0.0	0.0	...
Quota	157.5	166.1	174.7	179.0	176.9	160.0	128.9	96.0	61.5	26.5	6.4	0.0	0.0	0.0	...
Total Obligations, in percent of															
Exports of goods and services	0.0	0.1	0.1	0.0	0.4	2.7	4.7	4.6	4.6	4.4	2.3	0.0	0.0	0.0	...
External public debt	0.0	0.0	0.0	0.0	0.7	4.8	8.0	7.9	7.7	7.1	3.7	0.0	0.0	0.0	...
Gross official reserves	0.2	0.7	0.6	0.5	4.5	34.1	62.2	65.5	68.8	69.5	39.8	0.0	0.0	0.0	...
GDP	0.0	0.0	0.0	0.0	0.1	0.6	1.0	1.0	1.0	0.9	0.5	0.0	0.0	0.0	...
Quota	0.1	0.3	0.3	0.3	2.3	17.2	31.3	33.0	34.7	35.0	20.1	3.9	2.2	0.4	...
Quota	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	...

Source: Fund staff estimates and projections.

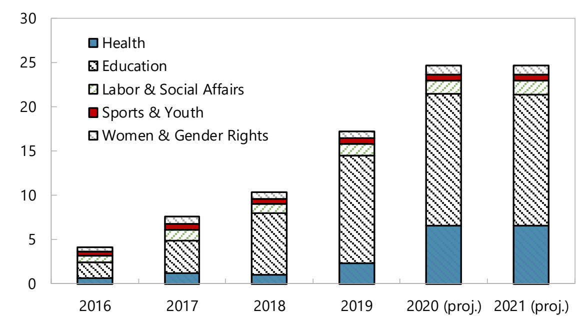
1/ Assumes HIPC CP in early 2023. Based on the proposed level and phasing of access, and subject to the approval of the IMF's Executive Board.
2/ Projections are based on current IMF charges.

Annex I. Increasing FGS Social Spending

1. **The economic and social situation has been dire since the civil war.** The civil war decimated both human capital and institutional capacity. In particular, the scope for the authorities to provide key services in education, health, social assistance, and other social services was destroyed, with the gap partially filled by the international community, mostly as humanitarian support. The impact of this is reflected in Somalia's pervasive poverty.[1]

2. **Since 2016, as fiscal reforms have strengthened, the FGS's expenditures on education, health, social assistance, and other social services ("social spending") have steadily increased (Figure).** As of 2019, total social spending had more than trebled relative to levels in 2016, with spending on education growing particularly fast. In 2020, donor support has facilitated a critically important increase in health expenditures to help meet the challenges of the coronavirus pandemic.

Social Spending in FGS Budget
(Millions of US$)



3. **The other notable development in 2020 has been the launch of the FGS social safety net program, Baxnaano.** This is being supported by the World Bank and comprises a cash transfer program for rural areas (underpinned by $65 million in multi-year financing by the World Bank Shock-Responsive Safety Net for Human Capital Project (SRSNHC). It aims to provide recipients $20 per month, which would cover approximately 30 percent of the food basket of rural households. The goal is to reach 200,000 households nationwide, constituting approximately 10 percent of the population. The targeting criteria is a distress benchmark index that considers chronic poverty and food insecurity. The disbursements are paid on a quarterly basis through mobile money, with women being the direct recipient, and using the UN World Food Program (WFP) delivery system, while FGS' own delivery system is being developed (also supported by SNHCP).

4. **Baxnaano has been scaled-up for six months to address the immediate locust-related food insecurity challenges.** Regular beneficiaries residing in locust-impacted areas (approximately 30,000 households) will receive an additional $40 per month, bringing the total transfer to $60 per month, while an additional 70,000 households will be added temporarily to the list of beneficiaries, also receiving $60 per month. This scaling-up has been underpinned by $40 million from the World Bank (IDA regional window) for the Shock-Responsive Safety Net for Locust Response Project.

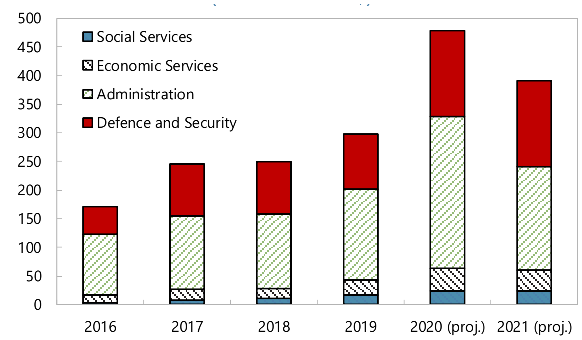
5. **The program complements support being provided directly by other partners.** For example, the WFP Urban Safety Net program provides cash transfers of $35 per month to a targeted

[1] See "Somalia—Enhanced Heavily Indebted Poor Country (HIPC) Initiative—Decision Point Document".

125,000 urban poor in Mogadishu. While this program started with the provision of food, it changed to predictable cash transfers in July 2018. This safety net targets not just very poor urban families but also families with members living with disability, young children, and/or women benefitting from nutrition support. The European Union (EU) is also active in supporting a cash transfer program targeting the vulnerable urban population with an initial budget of $15 million.

6. All these programs are critical given the continuing high levels of food insecurity and hardship facing the Somali people, especially in the current context of flooding, locusts, and COVID-19. Going forward the launch of the unified social registry, enhanced by the national digital ID, together with appropriate data protection provisions, will facilitate greater coordination, improve the targeting of support, and help maximize the reach of the programs. As the authorities build greater capacity in this area, and given the progress in improving PFM and fiscal transparency, donors should consider greater use of FGS systems to channel their social safety net support. This would enhance the sustainability of Baxnaano, while facilitating an expansion of coverage, which would enhance the credibility of the FGS, minimize coordination risks, and contribute to greater social stability.

FGS Expenditures 1/
(Millions of US $)



1/ There was no marked on-budget social spending until 2019 when grant financed social spending increased. The grant financed social spending is conducted through third parties and includes the World Bank financed social safety net project.

7. More broadly, despite these recent improvements, overall social spending by the FGS remains a very small portion of budgeted expenditure. Looking ahead, the capacity of the FGS to continue building on recent achievements will reflect their success in increasing domestic revenue mobilization to generate fiscal space for this spending, together with sustained donor support. In this context, multi-year World Bank financing will support the health and education sector through 2024. Securing greater security will also be critical for generating fiscal space for the key investment in human capital to promote higher, more inclusive and stable growth. To maximize its impact, social spending will need to be guided by the priorities outlined in NDP9, with the broader impact evaluated as part of the ongoing monitoring and evaluation of the implementation of NDP9.

Annex II. Step-by-Step Towards Fiscal Federalism

1. **The adoption of the Draft Constitution in 2012 has set the basis for a federal system in Somalia.** As with other federal countries, the process of realizing a full fiscal federal system can take many years and is, in practice, a gradual process requiring a series of activities and agreements that ultimately culminate into a complete or near complete system.

2. **Somalia is no different, and, since 2016 when the overall economic reform process began in earnest,** the authorities have progressed this important agenda along both technical and administrative, as well as policy and political lines (Figure)[1] While the final model of fiscal federalism will be subject to the outcome of the ongoing constitutional review process, these steps and agreements mark important milestones helping shape the formation of fiscal federalism in Somalia. They have largely been achieved under the auspices of the Finance Ministers Fiscal Forum that was established in 2017, together with support from the international community.

Key policy and political decisions include:

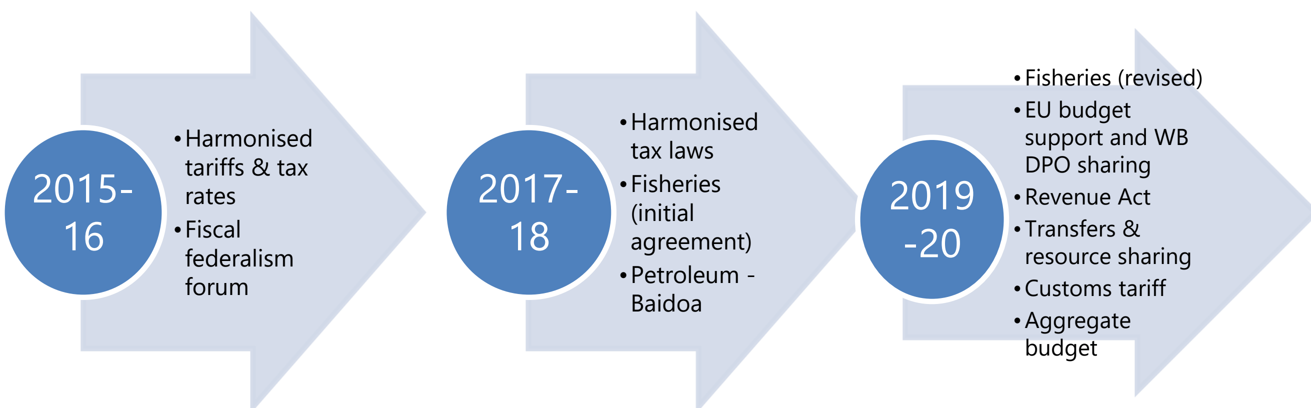
- the harmonization of tariffs on khat and some imported items (2016);
- initial agreement to share resources from fisheries (February 2018)
- agreement to harmonize tax laws that opened the door for the Revenue Act (April 2018);
- Baidoa agreement on petroleum resource management and revenue sharing (June 2018);
- agreement to share revenues from EU budget support (ongoing, September 2019), and World Bank budget support (August 2020);
- agreement on fiscal reporting to FGS on acquittal of transfers (September 2019), followed by MOU on fiscal reporting and data sharing on fiscal outturns (April 2020);
- agreement on the definition of common revenues in the Revenue Act provisions and the proposals to manage these ("expenditure assignments") (November 2019);
- agreement on paper to guide fiscal transfers from FGS to FMS (November 2019);
- appointment of technical committee to develop a systematic basis of sharing common resources, (August 2020);
- agreement on adopting an ad valorem customs tariff for the country (August 2020); and
- agreement to present an aggregated FGS and FMS budget starting with 2021 budget (August 2020).

[1] See World Bank, "Somalia: Moving the Federalism Agenda Forward", July 2020.

3. **These efforts have also been supported by increasing technical cooperation between the FGS and FMS officials through the Technical Inter-governmental Fiscal Federalism Committee.** This has included efforts to strengthen PFM systems across the FGS and FMS, including efforts to harmonize the charts of accounts, and revenue administration, including the ongoing efforts to modernize customs administration. Key partners are supporting the authorities in these endeavors, including through joint capacity building activities.

4. **While progress has not always been smooth, recent advances have strengthened the dialogue and trust at both the technical and political levels,** and are providing the foundation for fuller discussions so that the agenda can advance again as Somalia moves into the next political cycle.

Key Milestones in Progress Towards Fiscal Federalism, 2016-2020



Annex III. Progress Towards the HIPC Completion Point

1. In order to achieve full and irrevocable debt relief under the HIPC initiative, Somalia must meet the Completion Point (CP) requirements. In addition to sustaining a track record of good performance under an IMF program, it must also implement the key reforms agreed to at the Decision Point (i.e., the Floating Completion Point Triggers or CPTs). These include at least one year of implementation of NDP9—Somalia's Poverty Reduction Strategy (PRS).

2. Somalia is making progress towards reaching CP. In addition to the satisfactory performance under the ECF, the authorities have worked to integrate provision for expenditures on NDP9 into the 2021 budget, a key element of costing the strategy and which will support its implementation. It is expected that the authorities will submit an Annual Progress Report in early 2021 that covers 2020 implementation of NDP9. IMF and World Bank staff will then submit a Joint Staff Advisory Note (JSAN) to the IMF and World Bank Boards. Progress on the other CPTs is outlined in the table below.

3. The staffs of the IMF and IDA have not changed their baseline assumption that achieving the CP by March 2023 appears feasible (IMF Country Report No. 20/85). While the prevailing crisis has increased risk to the outlook and the IMF program, the timeline still appears feasible given the authorities sustained reform commitment, but it remains critical that development partners continue to provide the necessary capacity building support.

HIPC CP Trigger	Progress
Public financial and expenditure management	
Publish at least two years of the audited financial accounts of the Federal Government of Somalia.	The 2018 audited financial accounts were published in October 2019. The audit of 2019 FGS financial statements is ongoing by the Office of the Auditor General. The audit reports are expected to be sent to parliament in December 2020 and thereafter published
Issue regulations to implement the Public Financial Management Act's provisions on debt, public investment, and natural resource revenue management.	Regulations covering debt and natural resource revenue management have been drafted and are currently under review. Regulations on public investment management have not yet been drafted.
Domestic revenue mobilization	
Adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia (to also foster greater trade integration).	Agreement between FGS and FMS has been reached on the single tariff and technical progress on developing the necessary systems and building the required capacity to support a common valuation approach is being made with support from the World Bank and the UK's DIFD. As an interim step, the key ports are expected to adopt a common tariff schedule in 2021 based on FMS-specific valuation tables.
Governance, anti-corruption, and natural resource management	
Enact the Extractive Industry Income Tax Law.	A draft has been prepared and will be presented to the Cabinet soon.
Ratify the United Nations Convention Against Corruption (UNCAC)	Approved and endorsed in a Cabinet meeting held on June 4, 2020. Ratification will require the approval of parliament.
Debt management	
Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12-months ahead; annual principal payment projections (for at least the next five years); and key portfolio risk indicators (including proportion of debt falling due in the next 12-months; proportion of variable rate debt; and projected debt service-to-revenues and debt service-to-exports for the next five years).	A new debt recording system is in the process of being acquired. Technical assistance in the pipeline from the IMF and the World Bank.
Social sectors	
Establish a national unified social registry as a functional platform that supports registration and determination of potential eligibility for social programs	The World Bank in collaboration with the World Food Program (WFP) and UNICEF is supporting the authorities to establish the registry. After initial delays, the recruitment of the lead firm to provide technical assistance has been concluded, and

	implementation started in mid-September. The Minister of Labor and Social Affairs has established a technical committee to
HIPC CP Trigger	**Progress**
	oversee implementation and provide overall guidance. Registration of cash transfer beneficiaries is ongoing. The data will be migrated to the registry once the platform and the associated operational guidelines are developed. The planned date to reach basic functionality of the registry is July 2021, subject to smooth progress and timely development of the data protection policy.
FGS and FMS Ministers of Education adopt an agreement defining their respective roles and responsibilities on curriculum and examinations	FGS and FMS (except Puntland) adopted an agreement clarifying roles and responsibilities in the administration of harmonized national exams. Also, FGS and FMS education authorities formalized and adopted a common curriculum framework and syllabus for primary and secondary education. Puntland has its own examination and curriculum. Completion of the trigger will depend on the resolution of FGS and Puntland disagreements on this issue.
FGS and FMS Ministers of Health adopt a joint national health sector strategy	The FGS, FMS and Somaliland are currently developing a plan known as an "Investment Case (IC)" for health. This is a prioritized, costed strategy that maps actions to available resources. A Somali Country Coordination Platform, inclusive of health sector stakeholders has been developed and is meeting regularly to support the preparation of the IC. A draft of the IC is expected by November 2020, with a view to having it finalized by February 2021. The development and prioritization of an essential package of health services, a key component of the IC, is currently underway, jointly led by FGS and Somaliland Ministries of Health and supported by World Bank, WHO, and DFID.
Growth / structural	
Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.	The IFC has reviewed and provided comments on the draft Somalia Electricity Act to ensure it is in line with international best practices and fit for the Somalia context. The draft law is currently awaiting stakeholder consultations.
Issue Company Act implementing regulations on minority shareholder protection to encourage private sector investment	The IFC has engaged a legal advisory firm and an international company law expert to provide technical input to the Ministry of Commerce and Industry on the drafting of the implementing regulations. The regulations have been approved by Cabinet. A ministerial decree is expected to be issued in 2021Q1.
Statistical Capacity	
Publish at least two editions of the "Somalia Annual Fact Book".	The first edition of the fact book, "Facts and Figures 2018" was published in July 2020. The 2019 edition is planned for mid-2021.

Appendix I. Letter of Intent

Mogadishu, Somalia

November 4, 2020

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

Dear Ms. Georgieva:

1. Somalia has made great progress in rebuilding our economy since the end of the devastating civil war and the subsequent international recognition of the Federal Government of Somalia (FGS) in 2012. The FGS, with the support of its development partners, continues to implement wide-ranging reforms. With the IMF, 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. We look forward to continuing close collaboration while Somalia works towards completing the HIPC process.

2. 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 remains vulnerable to climate shocks that exacerbate these poverty challenges. No more so than at the current time, when flooding, together with the prevailing coronavirus pandemic and desert locust invasion, has seen our economy take a significant hit. In response, we prepared a supplementary budget that allows for a significant increase in key expenditures to respond to this multi-pronged crisis, and are grateful to our partners and donors for all their support. The security situation also remains challenging, and, although there is greater clarity emerging on upcoming elections, the political environment is still uncertain. Nonetheless, we remain committed to the economic and political reform process, which will benefit current and future generations of Somalis.

3. Considering Somalia's satisfactory performance under the ECF, we request IMF Executive Board approval of the completion of the first 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 indicative targets (IT) for end-June, and all but one indicative target for end-September—the global coronavirus pandemic led to a large loss of domestic revenue and a shortfall relative to the related end-June QPC and related end-September IT. We therefore request the Board of the IMF for a waiver for the missed QPC, based on our submission to the Council of Ministers of a draft 2021 budget that supports a recovery in domestic revenues in 2021 to a path close to that envisioned

under the ECF-supported program request. Given the continued uncertainty regarding revenue collection for the remainder of 2020, we request a modification of the end-December QPC into an IT in recognition of this uncertainty. In addition, we are requesting the ECF-supported program be modified to include an adjustor on the floor on the net foreign assets (NFA) of the CBS to allow some limited amount of reserves to be drawn in the event that a prolonged impact of COVID-19 results in fiscal revenues underperforming the program baseline. Reflecting our desire to gradually build reserves under the program, we also request the end-December QPC on NFA be increased to reflect part of the overperformance through end-June 2020 in line with discussions. As previously committed, we plan to use the disbursement under the first review to help strengthen our external reserves as Somalia seeks to increase its integration in the global trade and financial system.

4. The attached Memorandum of Economic and Financial Policies (MEFP) describes the reform priorities of the remainder of the three-year arrangement. It identifies specific reforms and conditionality for the subsequent twelve months that build on reforms initiated under consecutive SMPs, take account of the policy priorities identified in NDP9 and reflect the challenges that have emerged during the COVID-19 pandemic. Additional reforms will be detailed on 12-month rolling basis during reviews as information on needs and priorities continue to emerge. The policy anchors for the program remain strengthening PFM, including debt management; domestic revenue mobilization; continued deepening of CBS capacity; and, enhancing governance (including AML/CFT). Program objectives will also be supported by the floating Completion Point-triggers. We will 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).

5. We stand ready to take additional measures should they be needed to meet the objectives of the economic program, and will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached memorandum, in accordance with the Fund policy on such consultations.

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

Sincerely yours,

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

Attachments (2)

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

This Memorandum of Economic and Financial Policies (MEFP) reviews economic developments and describes progress made in recent months 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.

A. Background and Context

1. We have made great strides in rebuilding institutions and policy-making capacity with the support of development partners, including the IMF, since 2013. Within the context of our previous 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. The government's strong reform commitment and international support have combined to create a unique window of opportunity to address low growth and poverty in Somalia. Large, multi-year investments in human and physical capital are needed to improve resilience and lead to higher and more inclusive growth. Therefore, the increased access to grant-based financing expected to materialize as we progress through the HIPC process will be critical.

3. The political environment remains challenging, but progress is being made. A new Prime Minister has been appointed and the election model for the upcoming national and Presidential Elections has been agreed. Finance Ministers across all the Federal Member States (FMS) are fully committed to supporting the economic reforms needed to underpin the HIPC process, and technical cooperation has also been gathering steam. Together with our partners' policy and financial assistance, we remain commited to staying the course of reform and continuing to deepen political cooperation at the federal and regional level.

4. Somalia has been significantly impacted by multiple shocks—flooding, desert locusts, COVID-19 pandemic—during the first half of 2020, but recent data show some signs of economic resilience. Import flows have remained stable through July, partly supported by stronger-than-expected remittance flows. Nonetheless, the disruption to Somalia's exports has been substantial, especially for the key livestock sector, which is impacted by the cancellation of the Hajj. The latest data shows that inflation through August 2020 was broadly stable at 4.1 percent year-on-year.

5. Data through June reflects the negative impact of COVID-19 on fiscal performance. To offset the impact of COVID-19 on the most vulnerable, we introduced a temporary tax relief on key basic commodities that will expire by the end of the year. To help compensate for this some customs duties were increased on selected goods. Cumulative domestic revenue for the FGS was US$99 million against a program target of US$109 million, based on the program definition. Over the same period, FGS spending on compensation, goods and services, and contingency of was $136.5 million, within the June program ceiling of $154 million. The period fiscal balance was US$66 million, reflecting strong budget support grant inflows and no accumulation of new domestic arrears. Despite pandemic-related disruptions, fiscal structural reforms continued apace: the tax audit strategy was completed and an initial round of tax audits undertaken; modelling of the customs ad valorem schedule was completed and HS codes introduced at Bossasso and Kismayo (in addition to Mogadishu); the *Petroleum Act* was signed into law, with drafting progressed on the Extractive Industry (EI) tax law and revised model Petroleum Sharing Agreement (PSA); and to enhance intergovernmental fiscal relations and transparency, the FGS and FMS signed a memorandum of understanding to facilitate data sharing and reporting, and are meeting regularly to discuss the fiscal consequences of the crisis.

6. In the financial sector, with the support of recently appointed key senior management, the CBS is making significant progress on strengthening its institutional capacity. Although the implementation of the new mobile money regulatory framework has been delayed due to delays in the approval of the new, underlying telecommunications licensing framework, the mobile money regulations have been issued, a Mobile Money Supervision Unit has been established, and a regulation manual drafted. Progress has also been made on the National Risk Assessment, and industry and other stakeholder outreach, together with training on AML/CFT regulations continues.

7. Given the impact of multiple shocks, the near-term outlook for the Somali economy has deteriorated, and the medium-term outlook appears more uncertain. Economic activity is now expected to contract by 1.5 percent during 2020, compared to growth of 3.2 percent as indicated in our request for the ECF-supported program. We expect the Somali economy will resume a gradual growth trajectory from 2021, and and it remains realistic to expect growth to reach around 4¾ percent in the longer run given the envisaged improvements in macroeconomic stability and investment in physical and human capital. That said, there remains a risk of a resurgence in COVID-19 that could create new disruptions—both globally and in Somalia—and set back the anticipated recovery.

8. We have considered how best to safeguard our objectives under the ECF-supported program were Somalia to face the impact of a longer-than-anticipated global COVID-19 pandemic such that the anticipated recovery in 2021 fails to materialize. In such an eventuality, shortfalls in revenues relative to the updated baseline under the ECF-supported program could emerge, putting the execution of the approved 2021 budget at risk. While some of that risk could be absorbed by our continued fiscal discipline, our sequestration rule that prioritizes critical expenditure, and some remaining fiscal savings, we would likely need further support from our international partners. Given the uncertainty around the potential timing and scale of donor support, we are requesting the IMF Executive Board that the ECF-supported program be modified to include an adjustor on the floor on the net foreign assets of the CBS to allow some limited amount of this exceptional financing need to be absorbed in the event that fiscal revenues underperform the program baseline due to Covid-19, subject to limits as defined in the TMU.

B. Economic and Financial Policies for 2020–23

9. Somalia's ECF-supported program provides an anchor for medium-term policies during the period between the HIPC Decision and Completion Points and supports the implementation of NDP9. As noted previously, our policy anchors for the ECF-supported program reflect the priorities set out in NDP9. These are strengthening PFM, including the legal and regulatory framework, internal and external audit, expenditure controls, cash management, accounting and reporting, and debt management; domestic revenue mobilization; continued deepening of CBS capacity; and, enhancing governance (including AML/ CFT). Specific reforms to meet these objectives, beyond those discussed below, will continue to be introduced on a 12-month rolling basis as information on needs and priorities emerges. Program objectives are also supported by the floating Completion Point (CP)-triggers. The program remains anchored on a floor for domestic revenue, a ceiling on recurrent operating expenditures, a floor on the cash-based fiscal balance, no accumulation of domestic arrears, no new debt accumulation, and a floor on the net foreign assets of the CBS (see MEFP Table 1). Structural benchmarks (MEFP Table 2) anchor key reform objectives in the areas of revenue administration, public financial management, financial stability, and governance and AML-CFT. By the conclusion of the arrangement, we expect to have increased the efficiency and transparency of fiscal processes, even as domestic revenues and expenditures increase; established some limited capacity for monetary and exchange rate policy; and enhanced statistics and governance across all macro-critical sectors.

Fiscal Policy and Reforms

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

11. We have approved a supplementary 2020 budget to reflect the crisis-related fiscal needs. This takes account of the large inflow of budget support grants that we will use to offset declines in domestic revenue at the FGS level, but also across the Federal Member States, the Banaadir Regional Administration (BRA), and Somaliland to ensure that critical expenditures can be met across all levels of government. It also captures the significant increase in key social and resilience-enhancing expenditures that will be facilitated by specific projects, rendering this expenditure budget neutral. In addition, the supplementary budget has secured the necessary appropriations for debt servicing on restructured post-HIPC DP external debt in 2020. Nevertheless, given the anticipated drop in domestic revenues across the FGS, FMS, BRA and Somaliland projected at the time the budget was prepared, the supplementary budget indicated a large financing gap. Recent data has been more encouraging suggesting that governments' revenue gaps may not be that large and the financing gap has narrowed. At the FGS-level, to mitigate risks further and help counteract the COVID-19 related decline in domestic revenues, we have increased the tax rate on Khat, although there remains some uncertainty as to when imports will resume.

12. We have updated the MTFF to cover 2021-2024 and this has informed the 2021 budget preparation. The MTFF has identified some modest fiscal space to support our own spending on NDP9 priorities. The MTFF also reflects our continued committed to increase domestic revenue mobilization and meet our ECF-program objectives of balancing the budget and servicing our external debt. Our 2021 budget will target a substantial increase in domestic revenues and continue a tight control on operational expenditures. It will also maintain reasonable levels of social spending, supported by donor grants, including a carryover of the residual social spending planned for 2020, and identified and costed spending on select NDP9 priorities (SB#4). Future budget processes will continue to commence with an updated MTFF to cover a rolling three-year basis.

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

- *Over the next twelve months:* On tax policy, we will introduce some of the recommendations from the November 2019 IMF tax policy technical assistance (TA) mission starting with the introduction of turnover tax. We have developed our plan to implement the *Revenue Act*, which focuses on increasing the awareness of the *Revenue Act* and its' instruments across the FMS, and building broader capacity in revenue administration. We also plan to complete a preliminary assessment of the potential revenue impact for the individual instruments. We will reinvigorate our tax administration as we prepare for the post-crisis economic recovery, and plan to undertake further tax audits to safeguard tax compliance, building on the lessons learned from our initial audits. In addition, we will continue working on our Customs Reform Road Map, including by implementing the agreed ad valorem tariff schedule at our three largest ports based on the individual valuation tables and in preparation for the eventual introduction of a single tariff schedule (based on either pre-shipment declarations or commercial invoicing) (CP trigger). We will also complete the drafting of, and enact, the *Extractive Industry Income Tax Law* (CP trigger) and finalizing the revised model PSA to provide a clear fiscal framework for the petroleum sector as it develops.

- *Over the course of the program,* we are committed to rolling-out the *Revenue Act* to the FMS, prioritizing customs and sales taxes. We will implement the single customs tariff schedule across the FGS and FMS (CP trigger). To support future progress on revenues, we will continue building the administrative and enforcement capacity of the LMTO, including issuing any required guidance, and strengthening capacity and compliance on customs, including across the FMS. More broadly, to safeguard fiscal revenues from key economic sectors as they develop and new regulatory frameworks are implemented, such as telecommunications and petroleum, we will ensure that fiscal management issues are reserved for the Ministry of Finance while sector regulators operate independently and transparently within their regulatory mandates.

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

Overarching PFM issues:

- *Over the next twelve months,* we will issue the *PFM* regulations on budget preparation & execution, payment process, cash advances, and cash management & banking. We will further enhance fiscal transparency by providing clarity on the breakdown of FGS transfers to BRA and the FMS in our monthly published fiscal reports. We will also ensure the FMS continue to provide timely feedback on the use of these transfers

- *Over the course of the program,* in line with the August 2019 IMF PFM TA report and as we implement the PFM regulations, we will undertake a comprehensive review of current business practices and develop a more efficient expenditure approval process, and develop PFM regulations on debt, investment and asset management (CP trigger). We will implement the amendments to the *Procurement Act*, and related regulations, and draft a new concessions law to ensure there are adequate legal safeguards to meet our needs going forward. In addition, we will work towards developing a procurement portal that will be used for the advertising and tracking of public procurements, as well as the publication of the award of procurement contracts. We will also undertake a review of the organizational structure of the Ministry of Finance to further enhance its efficiency and effectiveness going forward.

Budget preparation and execution:

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

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

Cash management:

- *Over the next twelve months*, the CMU will develop fiscal year forecasts of revenue and expenditures, disaggregated into monthly projections and update the forecasts monthly. We will continue to improve commitment control compliance and develop a cash planning process involving MDAs, supported by development of a related IT solution. We will also restrict any cash advances to only exceptional circumstances, and re-open some bank accounts based on an Accountant General assessment to provide better transparency of MDA cash holdings.

Fiscal reporting and accountability:

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

- *Over the program period,* we will publish two subsequent sets of audited financial accounts for the FGS (CP trigger). We will continue working on developing a consolidated FGS public sector financial reporting system, including implementing an enhanced General Data Dissemination System (e-GDD) to improve data transparency in support of the program goals.

Debt management:

- *Over the course of the program,* the Debt Management Unit (DMU) will continue negotiations with external creditors on restructuring Somalia's external public debt. The March 31, 2020 agreement with the Paris Club provides a framework for these discussions, and discussions are already well advanced with several Paris Club members. Somalia has also reached out to its multilateral creditors and non-Paris Club members, including at the September 2020 meeting of the League of Arab States, with a view to advancing these negotiations. Capacity building efforts will advance now that that procurement of the Commonwealth Secretariat Meridian debt management system is underway, financed with the help of the African Development Bank. In addition, the IMF and World Bank will provide TA to the DMU on developing a template for a future debt bulletin. The latter will be critical for meeting the requirement to publish four consecutive quarterly public debt reports that outline the outstanding stock of general government debt, debt-servicing projections, and risk assessment (CP trigger).

Natural resource management:

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

Intergovernmental fiscal relations

b. *Over the next twelve months,* we will further enhance the transparency and accountability of fiscal operations across the FGS and FMS and deepen intergovernmental relations. We have established a dedicated intergovernmental fiscal federalism secretariat that coordinates all issues on fiscal federalism. We will develop a more systematic basis to guide fiscal transfers of common revenues to the FMS, based on a set of objective criteria, besides the already agreed to petroleum and fisheries sectors resource sharing. Beginning for 2021, we will also present an aggregated budget for the FGS and FMS in an annex to the FGS Budget Policy Framework Paper, and will begin publication of an aggregated monthly fiscal report of revenues and expenditures, outlining the budget execution covering the FGS and FMS [following the format in our consolidation tool], together with the individual FMS-level detail (SB#8). This will also reflect ongoing progress on unifying the chart of accounts and accounting guidance across the FGS and FMS in line with GFSM2014.

c. *Over the course of the program,* we will continue working with FMS on issues related to intergovernmental fiscal relations, including further review and refinement of expenditure assignments as the base of shared revenues increase. We are committed to sustaining regular meetings of the Intergovernmental Fiscal Forum, along with continued capacity development support and information sharing at the technical level.

Monetary and Financial Sector Reforms

15. Efforts to strengthen the CBS' organizational framework, build capacity, and implement critical reforms continue. These include implementation of the CBS transition plan, further strengthening of prudential supervision and improving monetary and financial statistics, and building capacity in banking operations and payment systems. A new Board of Directors was appointed early in 2020, and three new senior managers, together with a Human Resource Advisor and a Legal Advisor, have now been hired. A transition team to oversee the implementation of the transition plan has been established, and a new Human Resources policy to attract and retain staff has been approved. Our ECF-program will continue to be anchored on gradually building our reserves while maintaining a minimum floor.

a. *Over the next twelve months,* we will continue to make headway on the CBS restructuring program. We will complete the recruitment of a Restructuring Project Manager, a Communications Advisor, and the initial skills gaps analysis is ongoing, and we will finalize and approve the CBS operational budget for 2021.

b. *Over the course of the program,* we will complete the transition to the new organizational structure. With IMF and World Bank guidance, we will assess evolving monetary policy needs. We will also prepare a medium-term business plan, and review the CBS' underlying income model to modernize and align it more directly with the business needs.

16. We will continue implementing other reforms to support financial sector stability and strengthen financial intermediation. Reform priorities are outlined in our Financial Sector Reform Road Map. Recent developments include the launch of *a new facility to* support access to financing for micro, small and medium-sized enterprises (Gargaara), with the support of the World Bank.

a. *Over the next twelve months,* we will continue working with the industry to secure the licensing of mobile money operators and begin implementation of the mobile money regulatory regime. We will agree a Memorandum of Understanding (MOU) with the National Communications Authority (NCA) and the FRC to support greater inter-agency coordination across the CBS, FRC, and NCA in the oversight of the sector, to clarify the respective roles and responsibilities, and facilitate adequate data sharing and a timely licensing process.. With TA from the IMF, we will enhance the regulatory framework for Islamic banking by issuing guidance on financial reporting and accounting standards and developing a governance framework (SB #6). In addition, we will strengthen the Supervision Action Plan to improve and broaden on- and off-site inspections. In this context and as part of the broader transition plan, we plan to recruit additional staff for the Licensing and Supervision Department (LSD). Improvements in data collection and reporting are also ongoing. With World Bank assistance, the first stage of the implementation of an Automated Transfer System (ATS) is expected to be completed shortly and establishment of a National Switch to support the national payment system is well underway. Draft bills for the National Payment System, revised Financial Institutions Law (FIL), and Insurance are currently under review and are expected to be submitted to Council of Ministers, with the National Payment System the initial priority.

b. *Over the course of the program,* we will enhance prudential regulations for the banking sector, including by adopting a revised regulation on capital adequacy, and introducing a reserve requirement. We will also fully apply the mobile money regulations by 2022. We will continue developing other regulations called for in the FIL, including micro finance, Forex bureau and crisis management. With World Bank assistance, we will also progress work on introducing a credit bureau and movable collateral registry to help manage credit risk and support greater financial intermediation. We will continue to evaluate our capacity needs to meet current and future prudential supervision commitments, such as insurance.

17. In the context of a World Bank project, we plan to implement the currency exchange project (currency reform phase I) once the preconditions and financing are in place. We are currently undertaking a survey to estimate the amount of old Shilling in circulation. The first high-level steering committee meeting on the currency exchange project will shortly be convened, to be chaired by the new Prime Minister. This will facilitate increased political engagement and coordination at all levels of the FGS. The existing MOU with the FMS will be revisited to further support the goals of the project. In addition to addressing the other operational and financial needs associated with the project, we will formulate our medium-term policy priorities and develop some basic monetary policy capacity before implementation. We will also need to secure the assets required to backstop the new currency, including by catalyzing donor assistance.

18. Implementation of the recommendations of the safeguards assessment is progressing well. The FY2018 audit report has been approved and published, and our accounts now reflect the IMF positions on the CBS balance sheet. We are expecting to complete the FY2019 audit by end of December 2020. We have also clarified that the full ownership of the proceeds of asset recovery to date has been allocated to the CBS. The CBS account with the Federal Reserve Bank of New York has now been reactivated and the Foreign Exchange Account Policy has been endorsed by the CBS Board of Directors. Quarterly reporting by the internal audit department to the Audit Committee has now been introduced.

19. We will continue accelerating reforms of the AML/CFT operational and legal framework to support correspondent banking and the critical flow of remittances into Somalia. With the IMF and World Bank, we have developed an Action Plan to guide the priorities in this area. Despite the COVID-19 and related lockdown challenges, the FRC continues to make progress in building capacity and enhancing its relationships with key stakeholders. A draft of its 2019 Annual Report has been prepared, training of staff on the goAML software is ongoing, and awareness raising of stakeholders (industry, judiciary, police) on the AML/CFT regulations has been ongoing. Guidelines for AML/CFT regulation for financial institutions have been drafted with the support of Financial Services Volunteer Corps. Guidance notes for commercial banks, and MTBs on the AML/CFT regulations are also underway while AML/CFT compliance and risk assessment manuals have been issued.

a. *Over the next twelve months,* we will secure the endorsement of the National Anti-Money Laundering Committee (NAMLC) of the proposal to resolve the overlap and inconsistencies between the new AML/CFT regulations for financial institutions and AML/CFT governance and compliance regulations. We have revised the draft of the long-overdue *Targeted Financial Sanctions Law* and will present it to Cabinet shortly with a view to presenting it to Parliament and having it enacted by end-March 2021 and issue the associated regulations (SB#7, reset for end-June 2021). We will agree an MOU with the FRC – including to clarify responsibilities and coordinate training. We will complete and issue the AML/CFT regulations and guidance for the Designated Non-Financial Businesses and Professions (DNFBPs), and the mobile money operators (MMOs), based on the drafts already prepared. In addition, we will operationalize the NAMLC Task Force to support technical progress on these issues. A first draft of the National Risk Assessment (NRA) report is expected by end-October 2020, and we will to finalize the NRA in a timely manner (CP trigger).

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

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

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

Corruption Strategy (NACS), which has been published by the Ministry of Justice (SB#3). We have been conducting outreach to different stakeholders around the federation to increase awareness of the NACS and encourage the development of an anti-corruption mindset. We urge our donors to support our multi-year program with UNDP to improve our national integrity system. In addition, given that improving governance and reducing the perception of corruption is a key priority for us:

a. *Over the next twelve months,* we are developing a draft action plan to implement the NACS that can be quickly rolled out after the upcoming elections. We will also compile in a new regulation all the provisions in existing laws, including the penal code, that define corrupt practices and the associated penalties, and identify any gaps or amendments needed.

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

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

22. To improve governance in our regulatory processes for key industries, we intend to publish the outcomes of licensing processes in the telecommunications and mobile money sectors. The process for issuing licenses to Mobile Network Operators (MNOs) by the NCA is underway, with some already issued, and the issuance of licenses to Mobile Virtual Network Operators (MVNOs) will follow in due course. This will facilitate the issuance by the CBS of any related MMO licenses. In order to improve the reporting, transparency, and accountability in the process, the NCA and the CBS will publish the outcomes of the license applications for MNOs, MVNOs and MMOs, respectively, including which firms were granted a license, the general terms of those licenses (including licensing fees), and the criteria for qualification by end-June 2021 (SB#9). This will help set an important precedent for future transparency in other important sectors as the regulatory frameworks for those sectors advance.

23. While the prevailing crisis has forced us to reprioritize our efforts in the short run, we remain committed to advancing a broad-based reform agenda to bolster the foundations for sustained inclusive growth and improve the resilience to climate shocks. We fulfilled our commitment to pass the Somali Standards and Quality Control Bill and establish the Somali Bureau of Standards earlier this year. 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. A bill to establish an Investment Promotion Agency, which will work on investment policy and the promotion of key industries, and the related Investment Protection Bill are currently being deliberated by Parliament.

a. *Over the next twelve months*, with support from our development partners, we will take further steps to implement the findings of the Somalia Drought Impact and Needs Assessment and the Recovery and Resilience Framework. Indeed, the floods this year have reinforced the need to focus on improving water management and resilience. We are thus developing the National Water Resource Strategic Plan, as well as the Somalia Water Development Fund. To enhance trade and reduce transportation costs, we will continue to improve our road system and interconnections to neighboring countries. In addition, to enhance the visibility and oversight of aid flows, and to ensure their alignment with the priorities of NDP9, we are working towards operationalizing the new aid architecture. Finally, we will continue working to enact the legal framework to underpin the development of formal accounting standards and establish a Somali Institute of Certified Public Accountants.

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

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

25. We will establish a national social registry, a necessary building block for a comprehensive shock response safety net system (CP trigger). This will support the registration and determination of potential eligibility for social programs. We have initiated a social safety net scheme, Baxnaano, with the support of the World Bank and using the systems of the World Food Program. This aims to provide cash transfers to targeted poor and vulnerable households and has also been used to channel funds from the World Bank's locust response project. Over time, the delivery of the scheme will transition to a greater use and reliance on the FGS' own systems.

26. To enhance human capital development, we have drafted an education Memorandum of Understanding (MOU) between FGS and FMS. This defines the respective roles and responsibilities of the FGS and FMS in the areas of curriculum and national examination (CP trigger). This draft has already been signed by most FMS, and we will continue working to come to full agreement. In addition, over the course of the program, we will adopt the Joint National Health strategic plan, which will support effective functions and accountability across different levels of governments (CP trigger).

27. Improving key macroeconomic and financial data will be critical to guiding economic policies. Now that the amendments to the National Statistics Law have been passed, we have established the National Bureau of Statistics (SNBS). We have also published Somalia Facts and Figures 2018, the first edition of a fact book and including national accounts, and shared the first version of our Economic Statistics Action Plan (ESAP) with our international partners. In addition to reforms to improve comprehensive fiscal and financial sector data, we agree that:

a. *Over the next twelve months,* we will develop the strategic and institutional framework of the SNBS and to update the ESAP to reflect the short-term operational objectives and progress on collecting and disseminating macroeconomic and financial data. We are working towards the second edition of Facts and Figures (CP trigger). In this context, we will continue our work on developing key statistics and the capacity to report them regularly to the IMF. On other external data, the CBS remains engaged with MOF to strengthen the collection of import and export of goods data from ports beyond Mogadishu, introduce information from the travel survey and airline companies' data to more reliably scale up Immigration Department travel data, and send the IMF preliminary FDI inflow estimates from the survey. We are also progressing a National Labor Survey.

b. *Over the course of the program*, we will also outline other granular reforms to improve macroeconomic and financial data. We will work with our partners to develop production-based national accounts data, which will improve our understanding of economic developments, and to work on collecting labor data.

C. Program Monitoring and Access

28. Program implementation is being monitored through quantitative performance criteria, continuous performance criteria, and indicative targets (MEFP Table 1**) and structural benchmarks (MEFP Table 2).** These will be assessed through semi-annual reviews. The second review will be based on the PCs set through end-December 2020 data, and the third review on the ITs set through end-March 2021 and the PCs set through end-June 2021 data as described in MEFP Table 1 and the structural conditionality as described in MEFP Table 2 (below). All reviews will be conditioned on quantitative performance criteria outlined in MEFP Table 1. These are defined in the TMU (Attachment II).

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

	2020									2021			
	June			September			December			March		June	September
	Performance Criteria 2/			Indicative Target			Performance Criteria 2/	Indicative Target 3/	Performance Criteria 2/	Indicative Target	Indicative Target	Performance Criteria 2/	Indicative Target
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	1st Rev.	1st Rev.	Prog.	1st Rev.	1st Rev.	1st Rev.
Quantitative Performance Criteria													
1 FGS domestic revenue floor 4/	109.0	98.5	Not met	160.0	146.4	Not Met	234.0	195.0		50.0	50.0	115.0	177.0
2 Ceiling on spending on FGS public compensation, goods & services, & contingency 4/	154.0	136.5	Met	231.0	209.3	Met	308.0		308.0	77.0	85.2	170.4	255.6
3 Net foreign assets of the CBS (floor) 4/	69.1	71.0	Met	69.1	70.9	Met	78.7		79.2	78.7	79.2	79.1	88.1
4 Contracting of new domestic debt (ceiling) 4/ 5/	0.0	0.0	Met	0.0	0.0	Met	0.0		0.0	0.0	0.0	0.0	0.0
5 Ceiling on contracting or guaranteeing any new external, non-concessional debt 4/ 5/	0.0	0.0	Met	0.0	0.0	Met	0.0		0.0	0.0	0.0	0.0	0.0
6 Accumulation of new external arrears (ceiling) 4/ 5/	0.0	0.0	Met	0.0	0.0	Met	0.0		0.0	0.0	0.0	0.0	0.0
Indicative Targets													
1 Fiscal balance (cash basis; floor) 4/ 6/	-10.0	66.2	Met	-10.0	42.8	Met	-10.0	-10.0		0.0	0.0	0.0	0.0
2 Accumulation of new domestic expenditure arrears (ceiling) 4/ 5/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0		0.0	0.0	0.0	0.0
3 Ceiling on contracting or guaranteeing any new external, concessional debt 4/ 5/ 7/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0		0.0	0.0	0.0	0.0

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

1/ Cumulative from the beginning of the fiscal year.

2/ Test date for the first review, second, and third reviews, respectively.

3/ The authorities are requesting the December 2020 PC on FGS domestic revenues to be converted to an IT and to be reduced to reflect the crisis impact.

4/ As defined in the Technical Memorandum of Understanding. 2021 figures will be adjusted for the exchange rates and gold price at end-2020 when available.

5/ Continuous target.

6/ The negative QPC for 2020 reflects receipt of grants in 2019 intended to be partially used to meet 2020 budget expenses. Cash surplus in June 2020 is expected to decline as commitments are paid later in the year.

7/ Excluding any disbursements under a Fund arrangement.

MEFP Table 2. Structural Benchmarks for the Arrangement (March 2020-June 2021)

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring	Status
1	Develop and implement an tax audit strategy at the LMTO to validate tax returns and revenues. 1/	End-June 2020	Domestic revenue / MOF	Support domestic revenue generation and governance.	Report number and value of returns audited, tax audit strategy, and tax audit summary report on key findings.	Met
2	Further operationalize and build capacity at the Financial Reporting Center to review and assess suspicious transactions. 1/	End-June 2020	Governance / FRC	Support operational capacity of the AML-CFT framework. Address key gaps: (1) key physical infrastructure, (2) IT system (GOAML), and (3) secure data collection and storage.	Confirm acquisition of key physical and data management infrastructure, and IT systems. Provide summary of activities over previous six months.	Met
3	Publish a cabinet-approved National Anti-Corruption Strategy	End-June 2020	Governance / MOJ	Advance anti-corruption reforms. Finalize the FGS' strategy for tackling corruption after the consultation processes are complete.	Secure cabinet approval, publish the document on the government's website, and submit draft action plan to implement the strategy to the IMF staff.	Met
4	Implement harmonized HS codes and prepare ad valorem tariff schedule at key ports of Bossaso, Kismayo, and Mogadishu. 1/	End-September 2020; thereafter end-month basis	Domestic revenue / MOF	Support domestic revenue generation and modern customs operations, as a step towards national application.	Submit schedule of HS codes and ad valorem rate schedule, and report revenue on a continuous, monthly basis (following first test date).	Met
5	Complete preliminary NDP9 costing and reflect in 2021 budget.	End-October 2020	PFM / MOF & MOPIED	Strengthen budget execution, institutions and governance in piblic finance to support spending efficiency and avoid fiscal deficits.	Update MTFF developed with IMF staff in May 2019 and identify available fiscal space to meet NDP9 priorities; complete NDP9 costing exercise; include some provision for costed NDP9 priorities for the first year (2021) and identify targeted amounts for subsequent years (2022-2023). Submit MTFF and draft 2021 budget to IMF staff for review and gain Cabinet approval.	Met
6	Issue guidance for (1) financial reporting and accounting standards and (2) Shariah governance framework for Somali banks.	End-December 2020	Financial stability / CBS	Support financial stability. To clarify the nature of Shariah-compliant assets and liabilities on Somali banks' balance sheets and banks' related governance frameworks, to support better risk assessment.	Submit issued CBS-Board approved guidelines to the IMF.	
7	Enact the Targeted Financial Sanctions Law and issue related regulations. 1/	End-June 2021	Governance / MOF	Support normalization of correspondent banking relationships by bringing Somalia AML-CFT framework into compliance with international standards.	Submit issued regulations (by the Ministry of Finance) to IMF staff.	
8	Enhance the clarity and accountablity of the aggregated FGS and FMS fiscal status.	End-June 2021	Fiscal transparency / MOF	Enhance the quality of general government reporting and improve intergovernmental fiscal transparency and accountability.	Publish the aggregated 2021 FGS and FMS budget in the 2021 FGS Budget Strategy paper; publish on the internet the aggregated FGS and FMS fiscal outturns (revenue and expenditures) on a monthly basis using the 6 digit classification codes (with a 2 month lag, following first test date).	
9	Enhance transparency in the regulatory process of the Telecommunications and Mobile Money Sectors.	End-March 2021	Governance / NCA and CBS	Improve transparency and accountability in the regulatory process for important industries. This applied to telecommunications and mobile money, but has implications for other important industries in the future.	Publish on the NCA and CBS websites, respectively the outcomes of licensing applications for Mobile Network Operators and Mobile Money Operators, i.e. which firms were given licenses, the terms of the licenses (including standard licensing fees), and the criteria for issuing the licenses.	

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

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) sets out the definitions of the quantitative performance criteria and indicative targets agreed to by the Somali authorities and the International Monetary Fund (IMF) regarding for the three-year blended Extended Credit Facility and Extended Financing Facility spanning March 2020-2023. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable IMF staff to assess program implementation and performance. The definitions could be revisited during the program reviews to ensure that the memorandum continues to reflect the best understanding of the Somali authorities and IMF staff in monitoring the program.

Quantitative Targets

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

2. Quantitative performance criteria are proposed for December 31, 2020 and June 2021 with respect to:

- Floor on Federal Government of Somalia (FGS) domestic revenue (for June 2021 only);
- Ceiling on spending on FGS public compensation, goods & services, & contingency;
- Floor on the Central Bank of Somalia's (CBS) net foreign assets (NFA);
- Ceiling on new domestic debt contracted by the FGS;
- Ceiling on accumulation of new external arrears by the FGS; and
- Ceiling on contracting or guaranteeing any new external, non-concessional debt.

<u>Indicative targets</u>

- Floor on Federal Government of Somalia (FGS) domestic revenue (for December 2020);
- Floor on the FGS fiscal balance (on a cash basis);
- Ceiling on accumulation of new domestic expenditure arrears by the FGS; and

- Ceiling on contracting or guaranteeing any new external, concessional debt, excluding and disbursements under an IMF arrangement.

Definitions and Computation

3. The government is defined as the FGS. This definition excludes public entities with autonomous legal personalities whose budgets are not included in the federal government budget and federal members states (FMS). For the purpose of monitoring external debt, the general government is defined as the FGS and federal members states (FMS) (Galmudug, Hirshabelle, Jubaland, Puntland, and South West State) and the Banaadir region.

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

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

- Government revenues and grants should be recognized on a cash basis and should be recorded when received. For program monitoring purposes, domestic revenues will exclude any revenues received and recorded in the current fiscal year but that relate to previous years' activities, such the ICAO revenues in 2019, with the exception of underpaid taxes and fees recovered through the annual tax audit process, and prepayments (e.g., telecommunications license for 20 years). The Government SFMIS reports will be used as the basis for program monitoring of revenues and expenditures, supplemented by monthly financial reports published by the Minister of Finance.

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

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

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

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

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

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

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

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

10. For program monitoring, debt is defined for program purposes in accordance with Executive Board Decision No. 15688 (14/107), Point 8(a) and 8(b), adopted on December 5, 2014 and is defined on a residency basis.

- The term "debt" will be understood to mean a current (that is, not contingent) liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:
  - Loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
  - Suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
  - Leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

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

12. Domestic debt is defined as debt for which the counterparty is resident of Somalia, including the CBS. The definition of domestic debt excludes temporary advances for liquidity management from the CBS. Temporary advances will be fully repaid within 90 days. QPCs and related ITs on domestic debt are cumulative ceilings on contracting new domestic debt from the beginning of the fiscal year.

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

14. The CBS's net foreign assets are defined as the difference between the CBS's gross foreign assets and gross foreign liabilities. Gross foreign assets are defined as (i) gold (valued over the calendar year at the market price of December 31, 2019 ($1,517.275 per ounce)); plus (ii) total foreign exchange held abroad; and (iii) Somalia's SDR holdings in the SDR Department (valued over the calendar year at the December 30, 2019 exchange rate of $1.382830 per SDR); net of (iv) government grant deposits at the CBS in foreign currency held abroad; and (v) other earmarked foreign currency deposits by residents of Somalia held abroad. IMF representative exchange rates against the U.S. dollar at December 30, 2019 will be used to convert foreign assets and liabilities denominated in currencies other than U.S. dollars. These exchange rates and gold price will be reset annually on the final business day of the year for the subsequent year. The current baseline for NFA includes an amount of US$1.19 million of recovered assets (included in the CBS' "total foreign exchange held abroad"). The allocation of these assets between the CBS and the FGS has been clarified, with no related impact on the NFA targets.

15. The program floor on net foreign assets of the CBS will be adjusted down to reflect any exceptional financing needed in the event of a shortfall in revenues relative to the program baseline due to a longer-than-anticipated impact of the global COVID-19 pandemic. This would be limited to a maximum size of one twelfth the level of annual FGS domestic revenues in the program baseline.

A. Program Monitoring

Program-Monitoring Committee

16. The Somali authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance (MoF), the CBS, and the Ministry of Planning, Investment and Economic Development (MoPIED). The IMF Resident Representative will have observer status on this committee. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the Fund regularly on program performance, and transmitting the supporting materials necessary for the evaluation of benchmarks. The committee shall provide the Fund with quarterly progress reports on the program within four weeks of the end of each quarter, using the latest available data.

Data Reporting to the Fund

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

Somalia: Data Reporting, March 2020–March 2023				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
Central Bank of Somalia	Monetary survey	Detailed balance sheet data of the CBS submitted in the reporting template.	Monthly	3 weeks after the end of each month
		Consolidated commercial banks' balance sheet data 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; starting with the end-March 2021 data point.	4 weeks after the end of each quarter
	Other financial indicators	Prudential data as per associated CBS regulations (total capital, core capital, total net assets, high quality liquid assets, and 30-day funding requirement), and average profit rates and tenor information for private sector financing assets from banks.	Quarterly	4 weeks after the end of each quarter
	Balance of payments	Trade in goods data by HS code and value for the ports of Mogadishu, and Bossaso and Kismayo, starting end-September 2020; petroleum imports to Mogadishu; and travel data from the Immigration Department.	Quarterly	4 weeks after the end of each quarter
		Cross-border current transfers (both inflows and outflows) by MTBs, and banks, and for MMOs starting from end-March 2021.	Quarterly	4 weeks after the end of each quarter
	FGS external accounts	Provide end-month balances included in the Treasury Single Account held abroad by the CBS on behalf of the FGS, including on-budget grants and the fiscal buffer.	Monthly	3 weeks after the end of each month
Ministry of Finance	FGS budget operations	For annual and supplemental budgets: • Revenue by GFS 6-digit revenue classification; • Proposed Appropriation by MDA, program/project and 4-digit object code; • Proposed appropriation by MDA and 2-digit object code; • Staffing table by MDA; and • Donor assistance tables; by COFOG showing on and off-budget spending; spending by NDP sector; and spending by FGS, Banaadir, and FMS.	As required	Within a week of submission to Cabinet and to the Parliament; and when signed by the President.

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

		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 4-digit object code; and • for applicable MDAs, details of budget transfers to each FMS and other units. Reports 1A and 1B (as amended)	Monthly	4 weeks after the end of the month
		A comprehensive table summarizing Government operations including revenue, expenditure (by MDA and Object code), and TSA balances for the month and YTD. These should include the fiscal buffer balances. (Report 5A, 5B, 5C and 5D).	Monthly	4 weeks after the end of the month
		The outstanding appropriation, allotment, warrant, commitment, and expenditure recorded by MDA in Report 2A.	Monthly	4 weeks after the end of the month
		Payments report showing all payments in number and value made, disaggregated by those paid directly to vendor's bank accounts consistent with commitment controls; cash advances; and other payments.	Monthly	4 weeks after the end of the month
		SFMIS audit report recording use of the allotment "allow to exceed" control override function.	Monthly	4 weeks after the end of the month
		The monthly cash plan and at least one-month ahead forward projections; supported by SFMIS reports on domestic revenue and donor budget support (report 3A); operating budget expenditures by MDA (report 3B); and operating budget expenditures by object code at 4-digit level (report 3C)	Monthly	4 weeks after the end of each month
		A report of all payment requests by MDAs awaiting payment since the beginning of the calendar year where the commitments exceed the agreed payment terms (in SFMIS/Excel).	Monthly	4 weeks after the end of the month

Somalia: Data Reporting, March 2020–March 2023 (continued)				
		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
	Customs modernization	Report showing number of declarations, manifests processed, and goods inspections report (as per SMP IV).	Monthly	4 weeks after the end of the month
	FMS and BRA budgets	For annual and supplemental budgets: Budget for each FMS and BRA, and aggregated budget (both revenue and expenditure).	As required	Within a week of approval.
	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 (from mid-June 2021).
	Domestic arrears	A table providing the end-of-period stock of domestic arrears accumulated during the year by MDA and 4-digit Object Code.	Annually	4 weeks after the end of the year
	Domestic debt	The amount of new domestic debt contracted by Government.	Monthly	4 weeks after the end of the month
	External debt	End of year external debt in U.S. dollars, by creditor, and origination currency. The amount of new external debt contracted or guaranteed by Government.	Annually	6 weeks after the end of the year
		Disbursements and repayments: (i) scheduled; and (ii) actual interest and principal on debt of the Government and the CBS, by creditor.	Annually	30 days after the end of each year
		Accumulation of any new arrears (principal or interest payments) on external debt.	Monthly	3 weeks after the end of the month
	Structural benchmarks	A table with a description of the status of implementation of the structural benchmarks in MEFP Table 2 of the MEFP.	Quarterly	4 weeks after the end of each quarter
Financial Reporting Center	AML/CFT compliance data	On a monthly basis, total number of each STR, LCTR, and Nil reports received from banks, MTBs, and MMOs. Total number of each banks, and MTBs that have submitted reports during the period. MMO reporting to be added as oversight and supervision develops, but latest for end-December 2020 data point.	Quarterly	4 weeks after the end of each quarter

<table>
<tr><th colspan="5">Somalia: Data Reporting, March 2020–March 2023 (concluded)</th></tr>
<tr><td rowspan="2">Directorate of National Statistics of MoPIED</td><td rowspan="2">CPI and other economic indicators</td><td>Indicators to assess overall economic trends, such as the consumer price index.</td><td>Monthly</td><td>6 weeks after the end of each month; CPI every 15th of the month consistent with inflation report (or next available business day)</td></tr>
<tr><td>GDP by expenditure data (from June 2020)</td><td>Annually</td><td>6 months after the end of each year</td></tr>
</table>

INTERNATIONAL MONETARY FUND

SOMALIA

November 4, 2020

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

Approved By
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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 March 2020 DSA. Total public debt is US$5.3 billion, or 109 percent of GDP at end-2019—nearly all of which is external (Tables 1 and 2). The revised baseline scenario takes the authorities' end-2019 debt stock data, includes the interim assistance received at the HIPC Decision Point in March 2020, and incorporates the impact of the three natural shocks that Somalia is confronting—flooding, locusts, and the coronavirus pandemic. The present value of external debt is now some 15 percentage points of GDP lower at around 60 percent of GDP, thanks in large part to interim relief, but it remains well above the 30 percent threshold for countries like Somalia with weak capacity to manage debt[1]. The baseline forecast also indicates substantial and sustained breaches of the PV of external debt-to-exports indicative threshold. The PV of external debt service-to-exports threshold, and the debt service-to-revenue threshold, also see sustained breaches beyond 2023, highlighting the risks of any delay in reaching the HIPC Completion Point. Contingent on the full delivery of the HIPC Initiative, MDRI, and beyond-HIPC assistance at the Completion Point (an alternative scenario under the DSA analysis), Somalia's debt indicators would still be consistent with a manageable debt situation following Completion Point. As such, in a forward-looking sense, Somalia's debt is assessed as sustainable.

[1] Somalia's Composite Indicator is 0.87 based on the October 2019 WEO and the 2019 CPIA, corresponding to the weak debt-carrying capacity.

PUBLIC DEBT COVERAGE

1. Public debt data coverage is limited to the central government. The coverage of public debt captured by the Debt Sustainability Assessment (DSA) is near complete. 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).[2] 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. 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.[3] External debt for the DSA is defined on a residency basis.

Text Table 1. Somalia: Public Debt Coverage

	Subsectors of the public sector	Sub-sectors covered
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	0.0	
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	0.0	No PPPs exist in Somalia.
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			5.0	

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.

2. Somalia's debt-carrying capacity is classified as weak. This classification is guided by the composite indicator score, as determined by the World Bank's CPIA, the country's real GDP growth, import coverage of foreign exchange reserves, remittances as percent of GDP, and growth of the world economy. The DSA for Somalia uses the October 2019 vintage of the WEO and the 2019 CPIA. The latest available composite indicator score for Somalia is 0.867 (Text Table 2).

[2] 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.

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

Text Table 2. Somalia: Composite Indicator and Threshold Tables

Debt Carrying Capacity and Thresholds

Country	Somalia
Country Code	**726**

Debt Carrying Capacity	**Weak**

Final	Classification based on current vintage	Classification based on the previous vintage
Weak	Weak 0.87	Weak 0.57

Note: Until the October 2018 WEO vintage is released, the previous vintage classification and corresponding score are based solely on the CPIA per the previous framework.

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

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

Note: Calculated based on the most recent WEO vintage ([October 2019]).

BACKGROUND ON DEBT AND MACROECONOMIC DATA

3. **The March 2020 HIPC Decision Point document reported that the nominal level of the total stock of debt outstanding was US$5.3 billion at end-2018, of which US$5.0 billion is in arrears.** The vast bulk of this debt is with official creditors. $2.0 billion is composed of principal, $1.3 billion is unpaid interest, and $1.7 billion is late interest or fees.[4] Most is owed to Paris Club creditors (58 percent), followed by multilaterals (29 percent), and non-Paris Club bilateral creditors (11 percent). All domestic debt (1.5 percent of GDP) represents central government arrears.[5]

4. **Debt stock estimates for 2019 have been provided by the Somali authorities.** This update incorporates debt stock levels clarified during the initial debt restructuring discussions with key creditors, and data on the accumulation of late interest and fees through end-2019. The resulting changes are minor, and the overall level at end-2019 (US$5.3 billion, or 109 percent of 2019 GDP), is consistent with expectations. The planned TA program of the IMF and the World Bank aims to help the Somali authorities

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

[5] Somalia's stock of domestic debt (estimated at US$68.8 million, end-2018) reflects the accumulation of 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.

establish a basis for regular recording and dissemination of estimates of the debt stock and debt service obligations, including to update the debt data to incorporate the impact of the formal bilateral agreements to restructure Somalia's external debt. The publication of four consecutive quarterly debt reports is a trigger for the floating HIPC Completion Point.

5. Following the achievement of the HIPC Decision Point, representatives of the Paris Club creditor countries and the government of Somalia agreed to restructure Somalia's external public debt.[6] The March 31, 2020 agreement was concluded under Cologne terms, designed to provide interim debt relief as part of the HIPC Initiative. This resulted in the immediate cancellation of US$ 1.4 billion in non-Official Development Assistance (non-ODA) debt owed by Somalia to Paris Club creditors. 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. Achieving the Decision Point, also led to the provision of debt relief by IDA and the African Development Bank through the concessional clearance of arrears, resulting in the cancellation of US$0.5 billion of debt in arrears. At the same time, the IMF agreed to provide HIPC interim assistance on IMF-related obligations falling due prior to Somalia reaching the Completion Point, subject to Somalia maintaining satisfactory progress under the new ECF arrangement. At the Completion Point, it would provide beyond-HIPC assistance through cancellation of the portion of the pre-Decision Point financing that is not already covered by HIPC debt relief.

6. Somalia is conducting negotiations with individual creditors to finalize restructuring its external public debt. Among the Paris Club creditors, agreements have been signed with Spain and the United States, and are nearing signature with Norway, and the United Kingdom. Among other creditors, representatives of the Kuwait Fund for Development, Saudi Fund for Development, and the Abu Dhabi Fund for Development attended the March 2020 Paris Club meeting as observers, expressing their support to the terms of the agreement and indicating their willingness to provide comparable terms. The Somali authorities have undertaken outreach to these and other creditors, such as the Islamic Development Bank, the Arab Monetary Fund and the Arab Fund for Economic and Social Development (AFESD), at a meeting of the League of Arab States in early September 2020, and negotiations with the Kuwait Fund for Development and AFESD are advancing. Talks are also ongoing with the International Fund for Agricultural Development (IFAD) around the modalities of a debt reprofiling (with World Bank and IMF support).

7. Data weaknesses significantly constrain macroeconomic analysis, limiting the significance of the results provided by the standardized stress test in the 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, but an FDI survey is underway.

[6] For press release please refer to http://www.clubdeparis.org/en/communications/press-release/debt-relief-to-somalia-31-03-2020.

MEDIUM- AND LONG-TERM ASSUMPTIONS

8. **The revised baseline scenario for Somalia reflects the impact of three simultaneous natural shocks—flooding, desert locusts, and the coronavirus pandemic** (Text Table 4). Somalia is classified as a fragile, conflict-affected country by the World Bank.[7] Three decades of instability have left the country vulnerable to frequent climate shocks, such as cycles of drought and flooding (directly contributing to the desert locust infestation), as well as security shocks. The long-term macroeconomic assumptions under the previous DSA recognized these persistent vulnerabilities in anticipating relatively slow payoffs from planned structural reforms under the Fund-supported program. Moreover, Somalia is expected to realize a relatively smaller growth dividend compared to other countries that have transited the HIPC debt relief process due to its persistent fragility. The new baseline updates this baseline, particularly to incorporate the unique impacts of the global coronavirus pandemic for Somalia. Given the substantial uncertainties around the potential evolution of the pandemic and its economic spillovers, the new baseline leverages available high-frequency trade and remittance data through the first three months of the shock (i.e., through end-June 2020), which informs staff estimates of the near term impacts and their likely implications over the medium-term.

9. **In the near term, the coronavirus pandemic is expected to curb economic activity.** The projection for 2020 real GDP growth has been marked down from 3.2 percent to -1.5 percent, as the shocks feed through upon important pillars of Somalia's undiversified economy—international trade and transfers.

- **International trade, notably exports, has been hard hit.** Somali commodity exports are mainly concentrated in agricultural products, especially livestock. Supply and transport disruptions have reduced receipts by half through end June, and given strict limits on visitors to Hajj pilgrimage, livestock exports are unlikely to recover in 2020. Services exports have also declined, due mainly to travel restrictions. At the same time, after falling from March to May, imports of goods recovered to register an increase of 3.2 percent in value terms through end-June 2020 (relative to H1 2019), suggesting that a serious disruption of domestic consumption has been averted. Food imports have declined, suggesting that there has been some effect on domestic consumption but that this has not been as severe as initially anticipated. Nonetheless, import growth is likely to remain subdued in the near term, growing 4.6 percent in 2020 (compared to 7.4 percent previously) in line with lower international transfers. This would constrain the deterioration of the current account deficit in 2020 to around 12.8 percent of GDP (previously 12.3 percent).

- **International transfers have sustained domestic consumption, but these flows are expected to taper off in the coming months.**

    - ***Private transfers*** from émigré communities are a key source of foreign exchange, typically remitting around 32 percent of GDP per annum from 2013-19. These flows were disrupted early in the pandemic, as an important traditional channel for these funds—cash transfers via air

[7] Please see https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations.

transport—ceased to function. However, concerted efforts to with development partners have helped to shift transfers toward formal bank and digital solutions. This facilitated an increase in remittances in dollar terms in Q2 2020 by 2 percent relative to Q1 2020, and these flows were 7.7 percent higher than Q2 2019. Given that remittances tend to be linked to economic conditions in remitting countries, strong economic headwinds in the latter are likely to curb flows in the second half of the year. It is expected that private transfers will modestly decline 2 percent for the year (compared to a previous forecast of 7 percent growth).

- ***Public transfers*** in the form of budget grants are projected to increase from US$ 207 million to US$ 339 million, or some 2.9 percentage points of GDP. These funds will help largely offset lower domestic revenues amid lower activity and additional spending needs for pandemic mitigation. However, these higher flows of on-budget support may not provide a net macroeconomic stimulus if they reflect a switching between different types of aid flows rather than additional in-flows. There are some preliminary indications that development partners are offsetting higher on-budget support against lower off-budget aid (i.e., official current transfers that are not reflected in the government budget).

10. In the medium term, some economic scarring is likely (Text Table 3). While the impact of the shocks will be concentrated in the near term, falling incomes and reduced economic activity are likely to have lasting consequences.

- **Fiscal space for the development agenda will be more constrained.** On average, domestic revenue mobilization will be some 0.7 percentage points of GDP lower on average over 2020-24, reflecting lower economic activity. In addition, the pulling forward of donor aid to counter the pandemic is likely to lead to small reductions in future official flows (averaging 33.5 percent of GDP through 2029, or lower by about 0.7 percentage points compared to previous assumptions).

- **Leading to a more modest growth dividend.** Given a more constrained resource envelope—and assuming fiscal policy remains prudently based on broadly balanced budgets, no new external or domestic debt financing, and no arrears—the expenditure outlook relative to the pre-COVID scenario is expected to weaken. The 2020 shock to remittances that is expected to persist, slowing private sector development and therefore Somalia's post-HIPC dividend will be smaller and peak around 5.1 percent (instead of 5.4 percent previously). Potential growth in the long run remains around 4.7-4.8 percent.

- **And permanently lower trade flows.** Both export and imports are expected to recover in 2021, but to a level about 5 percent lower than previously, and remaining so into the future. The current account deficit remains large, financed by official grants and remittances.

As earlier, this baseline envisages an economy that will remain fully dollarized, implying low inflation and no adverse nominal exchange rate movements. It also assumes that the government seeks to maximize grants and that any recourse to external debt financing in the longer run would occur on highly concessional terms.[8] There are notable upside risks, for example, if domestic stability were to improve substantially thanks to strengthening security or deepening federalism. There is also a potential for positive regional spillovers.

11. The available realism tools suggest the macroeconomic assumptions of the baseline scenario is reasonable. 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. Other tools suggest that the planned fiscal adjustment is in the middle of the distribution and signal pessimism on the growth path, but the latter does not capture the impact of the various shocks (COVID-19, locusts and flooding) in 2020. It should be noted that fiscal multipliers for Somalia are likely to be weak given conservative projections of the impact of reforms supporting revenue mobilization and limited channels of transmission (e.g. via the underdeveloped financial system) (Figure 3).

Text Table 3. Macroeconomic Projections

(percent of GDP, unless otherwise indicated)

	DSA March 2020 1/				Current DSA			
	2018	2019-24	2029	2039	2018	2019-24	2029	2039
GDP growth (percent)	2.8	3.6	5.0	4.7	2.8	2.4	5.0	4.8
GDP deflator (percent)	1.8	2.0	2.0	2.0	1.8	2.5	2.1	2.1
Non-interest current account deficit 2/	10.3	11.5	12.7	11.5	7.5	21.7	13.3	11.6
Primary deficit	-0.1	-0.5	-1.0	-0.7	0.1	0.2	-0.7	-0.7
Exports	23.7	22.5	21.1	20.6	23.7	20.8	21.4	20.7
Revenues and grants	5.7	10.7	12.7	13.3	5.7	11.2	12.8	13.3
of which: grants	1.8	5.5	3.5	2.5	1.8	6.1	3.7	2.6

Sources: Somali authorities and IMF staff estimates.

Sources: Somali authorities and IMF and World Bank estimates.
1/ IMF Country Report No. 20/86
2/ Excludes other current account flows related to debt relief.

12. The baseline scenario now assumes interim HIPC debt relief, consistent with the guidance under the Bank-Fund Low Income Country Debt Sustainability Framework.[9] The scenario assumes no new borrowing over the interim period. It also assumes the application of Cologne terms by all bilateral creditors following the HIPC Decision Point.[10] 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

[8] For illustrative purposes, starting in 2024, the central government is assumed to undertake moderate deficit financing, with the overall deficit (including grants) projected to average about 2.0 percent of GDP per year through 2029, which is financed through external concessional borrowing.

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

[10] Under Cologne terms, most low-income countries receive a reduction in eligible non-official development assistance (ODA) debt of 90 percent in net present value (NPV) terms on debt service falling due and 67 percent 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 (30 years maturity with 12 years' grace for 50 percent NPV reduction).

or MDRI.[11] An alternative scenario is presented that incorporates the full impact of multilateral arrears clearance, interim debt relief, HIPC, MDRI and beyond HIPC debt relief. The assumption remains that Somalia will reach the HIPC Completion Point in early 2023; despite the coronavirus pandemic, the country has continued to make progress on the triggers for the HIPC floating completion point, so no change is needed at this time. Reaching that milestone would result in an estimated to provide an additional stock reduction of external debt of about 50 percent of GDP relative to the baseline.[12]

EXTERNAL DEBT SUSTAINABILITY

13. Somalia remains in debt distress in the revised baseline scenario, which assumes interim HIPC relief. The revised DSA assumptions result in an improvement in all indicators, largely thanks to the inclusion of interim HIPC relief. Relative to the previous baseline, the PV of external debt-to-GDP is now some 10 percentage points of GDP lower in the medium term. The PV of the external debt-to-exports also declines substantially. External debt service as a share of exports (2 percent) and revenues (8 percent) are now under their thresholds (respectively 10 and 14 percent) through 2023 thanks to the exceptional moratorium on debt service provided by Paris Club creditors under the debt relief agreement concluded in March 2020. Notwithstanding these improvements, the sustainability thresholds for the external debt stock relative to GDP and exports still see significant breaches throughout the forecast horizon. Moreover, the external debt service thresholds are breached beyond 2023, highlighting the risk that Somalia could reach the HIPC Completion Point later than currently anticipated. 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 given that Somalia has reached the HIPC Decision Point.

14. While the revisions to the macroeconomic outlook imply a deterioration in Somalia's debt carrying capacity, the HIPC Initiative includes provisions to ensure countries receive adequate debt relief to exit in a sustainable situation. The revisions described above, which are driven by the impact of interim HIPC relief, obscure the impact of the significant changes to Somalia's macroeconomic outlook due to the natural shocks it is currently experiencing. The HIPC Initiative provides for instances where countries experience such a fundamental and exogenously-driven change in their economic circumstances 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.

15. 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

[11] For the IMF, the MDRI Trust Fund is closed, but financing is being sought for beyond-HIPC relief.

[12] See Appendix V in "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries," (February 2018). While the guidance note indicates that the only interim HIPC relief should be incorporated as a customized scenario, as in previous HIPC Decision Point cases such as Liberia (IMF Country Report No. 08/160) and Comoros (IMF Country Report No. 10/242), this analysis also presents full debt relief on HIPC terms.

scenarios.[13,14] While the standardized stress test suggest the most serious shocks stem from a one-time depreciation, it bears noting that the former is unlikely to occur in Somalia's fully dollarized context. As such, the non-debt flow shock is a greater vulnerability, as a consistently high-ranking shock scenario across all indicators, which highlights Somalia's high dependence on external aid. Furthermore, the external debt service-to-revenue ratio experiences large breaches under all shock scenarios, accentuating liquidity risks if Somalia Completion Point is delayed.

16. 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 previous 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 timing of the HIPC Completion Point, and a delay could compromise the debt restructuring assumptions underpinning the alternative scenario.

PUBLIC DEBT SUSTAINABILITY

17. Indicators of public debt are largely indistinguishable from the indicators for external debt. The PV of total public debt-to-GDP would be 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.

CONCLUSION

18. Somalia's external public debt and overall public debt remain in distress under the baseline scenario, but 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. The baseline scenario has improved thanks to the inclusion of HIPC interim relief, but the external debt burden indicators relative to GDP and exports remain well above their indicative thresholds, and debt service indicators would see immediate breaches should there be a delay in achieving the HIPC Completion Point. The baseline incorporates the impact of three simultaneous natural shocks—flooding, desert locusts, and the coronavirus pandemic—which imply a deterioration of Somalia's debt carrying capacity. This stresses once more the need for debt relief. Debt relief under the HIPC Initiative, MDRI, and beyond-HIPC assistance improve Somalia's external

[13] The standardized tests embedded in the LIC-DSF generate a financing gap that is assumed to be filled by the accumulation of new debt. However, Somalia has no access to any formal debt financing. 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.

[14] Somalia's severe data weaknesses could bias the simulation results. For example, exports estimates derived from third-party sources may overestimate informal flows, while GDP estimates based on the household survey may not fully capture fast-growing sectors, e.g. telecommunications and services.

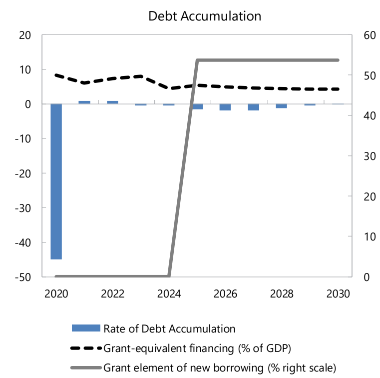
debt situation and bring debt to a manageable level such that it can be assessed sustainable in a forward-looking sense. The inclusion of domestic debt does not materially impact the analysis. Even after full debt relief, Somalia is expected to remain highly vulnerable to shocks, underscoring the importance of strengthening debt management institutions and capacity over the medium term.

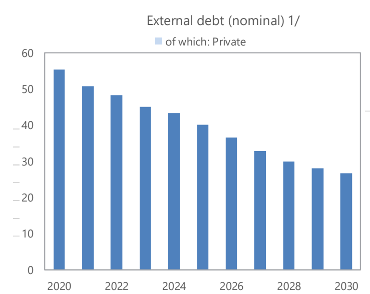
Table 1. Somalia: External Debt Sustainability Framework, 2019–2040

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	107.5	55.3	50.8	48.3	45.0	43.3	40.1	26.6	14.3	46.0	39.7
of which: public and publicly guaranteed (PPG)	107.5	55.3	50.8	48.3	45.0	43.3	40.1	26.6	14.3	46.0	39.7
Change in external debt	-3.9	-52.1	-4.5	-2.5	-3.3	-1.7	-3.2	-1.4	-1.3		
Identified net debt-creating flows	...	5.0	2.2	2.1	2.1	3.3	2.8	1.6	-1.5	...	2.3
Non-interest current account deficit	10.5	12.8	12.9	12.8	13.1	14.8	14.2	13.5	11.5	9.6	13.4
Deficit in balance of goods and services	83.0	91.1	86.8	88.2	85.0	79.9	76.4	59.0	42.7	69.8	75.7
Exports	22.7	14.3	21.8	22.0	22.1	22.2	22.1	21.3	20.7		
Imports	105.7	105.4	108.7	110.2	107.1	102.1	98.5	80.2	63.3		
Net current transfers (negative = inflow)	-73.3	-79.0	-74.7	-76.0	-72.4	-65.5	-62.3	-45.6	-31.5	-62.0	-62.6
of which: official	-41.3	-47.7	-43.7	-44.6	-41.6	-35.3	-32.8	-20.6	-13.3		
Other current account flows (negative = net inflow)	0.7	0.7	0.7	0.7	0.5	0.4	0.1	0.2	0.3	0.7	0.3
Net FDI (negative = inflow)	-9.1	-9.4	-9.2	-9.3	-9.6	-10.0	-10.2	-10.9	-12.5	-6.7	-10.1
Endogenous debt dynamics 2/	...	1.6	-1.4	-1.5	-1.5	-1.5	-1.2	-0.9	-0.5		
Contribution from nominal interest rate	0.0	0.0	0.0	0.1	0.1	0.1	0.4	0.3	0.2		
Contribution from real GDP growth	-3.1	1.6	-1.5	-1.5	-1.6	-1.5	-1.6	-1.3	-0.7		
Contribution from price and exchange rate changes	...	...	...	...	...	...	...	...	...		
Residual 3/	...	-57.1	-6.7	-4.6	-5.4	-5.0	-6.0	-3.0	0.2	...	-9.7
of which: exceptional financing	...	-66.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	105.4	60.8	56.5	54.5	51.3	48.1	43.9	27.1	14.2		
PV of PPG external debt-to-exports ratio	465.1	425.9	259.2	247.7	231.9	216.7	198.4	127.4	68.9		
PPG debt service-to-exports ratio	...	...	1.7	1.8	7.4	12.2	13.3	7.9	2.9		
PPG debt service-to-revenue ratio (excl. grants)	...	...	7.8	7.5	28.2	41.5	40.5	18.5	5.4		
Gross external financing need (Million of U.S. dollars)	70.2	181.2	215.7	221.7	309.6	472.7	460.7	398.1	-74.5		
Key macroeconomic assumptions											
Real GDP growth (in percent)	2.9	-1.5	2.9	3.2	3.4	3.6	3.9	4.9	4.8	2.5	3.6
GDP deflator in US dollar terms (change in percent)	1.7	1.0	6.0	2.1	2.1	2.1	2.1	2.1	2.1	2.0	2.3
Effective interest rate (percent) 4/	0.0	0.0	0.1	0.1	0.1	0.2	1.1	1.3	1.2	...	0.8
Growth of exports of G&S (US dollar terms, in percent)	0.1	-37.3	66.6	6.2	6.1	6.1	5.9	6.2	6.6	3.0	7.6
Growth of imports of G&S (US dollar terms, in percent)	1.9	-0.8	12.4	6.8	2.5	0.8	2.3	3.6	4.9	4.8	3.4
Grant element of new public sector borrowing (in percent)	...	0.0	0.0	0.0	0.0	0.0	53.7	53.7	53.7	...	...
Government revenues (excluding grants, in percent of GDP)	4.6	3.9	4.8	5.2	5.8	6.5	7.3	9.0	11.0	3.0	7.1
Aid flows (in Million of US dollars) 5/	132.4	473.0	327.4	416.7	474.7	448.0	428.7	461.9	459.1		
Grant-equivalent financing (in percent of GDP) 6/	...	8.3	6.1	7.4	8.0	4.4	5.4	4.3	2.5	...	5.6
Nominal GDP (Million of US dollars)	4,942	4,918	5,365	5,651	5,964	6,306	6,687	9,365	18,285		
Nominal dollar GDP growth	4.7	-0.5	9.1	5.3	5.5	5.7	6.0	7.1	6.9	4.6	6.0
Memorandum items:											
PV of external debt 7/	105.4	60.8	56.5	54.5	51.3	48.1	43.9	27.1	14.2		
In percent of exports	465.1	425.9	259.2	247.7	231.9	216.7	198.4	127.4	68.9		
Total external debt service-to-exports ratio	0.0	0.0	1.7	1.8	7.4	12.2	13.3	7.9	2.9		
PV of PPG external debt (in Million of US dollars)	5211.3	2991.9	3033.3	3077.9	3056.9	3030.0	2936.3	2536.1	2603.9		
(PVt-PVt-1)/GDPt-1 (in percent)		-44.9	0.8	0.8	-0.4	-0.5	-1.5	-0.2	-0.2		
Non-interest current account deficit that stabilizes debt ratio	14.3	64.9	17.4	15.3	16.4	16.5	17.4	14.9	12.8		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

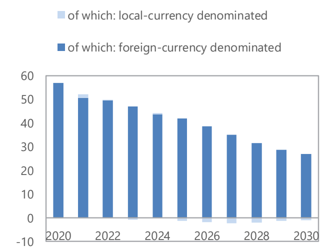
Table 2. Somalia: Public Sector Sustainability Framework, Baseline Scenario, 2019–2040

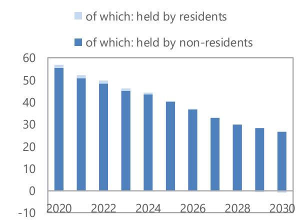
(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	108.8	56.7	52.1	49.6	46.2	44.1	40.5	25.7	16.3	47.4	40.1
of which: external debt	107.5	55.3	50.8	48.3	45.0	43.3	40.1	26.6	14.3	46.0	39.7
Change in public sector debt	-3.9	-52.1	-4.6	-2.6	-3.4	-2.1	-3.6	-1.6	-0.7		
Identified debt-creating flows	-5.5	-65.4	-4.7	-2.6	-2.5	-0.1	-0.3	-0.7	-0.9	...	-7.1
Primary deficit	-0.5	0.5	-0.9	-1.3	-0.9	2.4	1.8	1.1	-1.6	-0.3	0.6
Revenue and grants	6.8	12.3	10.9	12.6	13.8	10.9	11.5	12.6	13.5	4.7	12.3
of which: grants	2.2	8.3	6.1	7.4	8.0	4.4	4.2	3.5	2.5		
Primary (noninterest) expenditure	6.4	12.8	10.1	11.3	12.9	13.2	13.3	13.7	11.9	4.3	12.9
Automatic debt dynamics	-5.1	0.5	-4.7	-2.6	-2.5	-2.5	-2.1	-1.8	-0.9		
Contribution from interest rate/growth differential	-5.1	0.1	-2.7	-2.4	-2.4	-2.4	-2.1	-1.8	-0.8		
of which: contribution from average real interest rate	-1.9	-1.5	-1.1	-0.8	-0.8	-0.8	-0.4	-0.5	-0.1		
of which: contribution from real GDP growth	-3.2	1.7	-1.6	-1.6	-1.6	-1.6	-1.7	-1.3	-0.8		
Contribution from real exchange rate depreciation	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	-66.4	0.9	1.3	0.9	0.0	0.0	0.0	1.6	0.0	-5.8
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	-66.4	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	0.9	1.3	0.9	0.0	0.0	0.0	1.6		
Residual	1.6	13.7	-1.9	-0.1	-1.0	-2.1	-3.4	-1.0	0.2	...	-0.6
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	106.8	62.2	57.8	55.7	52.4	48.8	44.2	26.2	16.2		
PV of public debt-to-revenue (excl. grants) ratio	1560.6	1577.3	1193.3	1065.3	904.0	751.3	607.5	289.6	148.0		
Debt service-to-revenue (excl. grants) ratio 3/	...	...	6.8	7.0	6.2	29.3	42.5	8.6	3.0		
Gross financing need 4/	-0.5	0.0	0.0	0.1	0.2	2.6	1.6	0.6	1.7		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	2.9	-1.5	2.9	3.2	3.4	3.6	3.9	4.9	4.8	2.5	3.6
Average nominal interest rate on external debt (in percent)	0.0	0.0	0.1	0.1	0.1	0.2	1.1	1.3	1.2	...	0.8
Average real interest rate on domestic debt (in percent)	-1.7	-1.0	-5.7	-1.3	-0.6	0.2	-6.0	25.9	8.1	-1.3	-6.8
Real exchange rate depreciation (in percent, + indicates depreciation)	...	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.7	1.0	6.0	2.1	2.1	2.1	2.1	2.1	2.1	1.4	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	15.4	97.8	-18.9	15.8	18.0	6.0	4.8	5.2	2.2	18.5	13.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.5	52.6	3.7	1.3	2.5	4.5	5.4	2.8	-0.9	-36.1	8.1
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		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, 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.

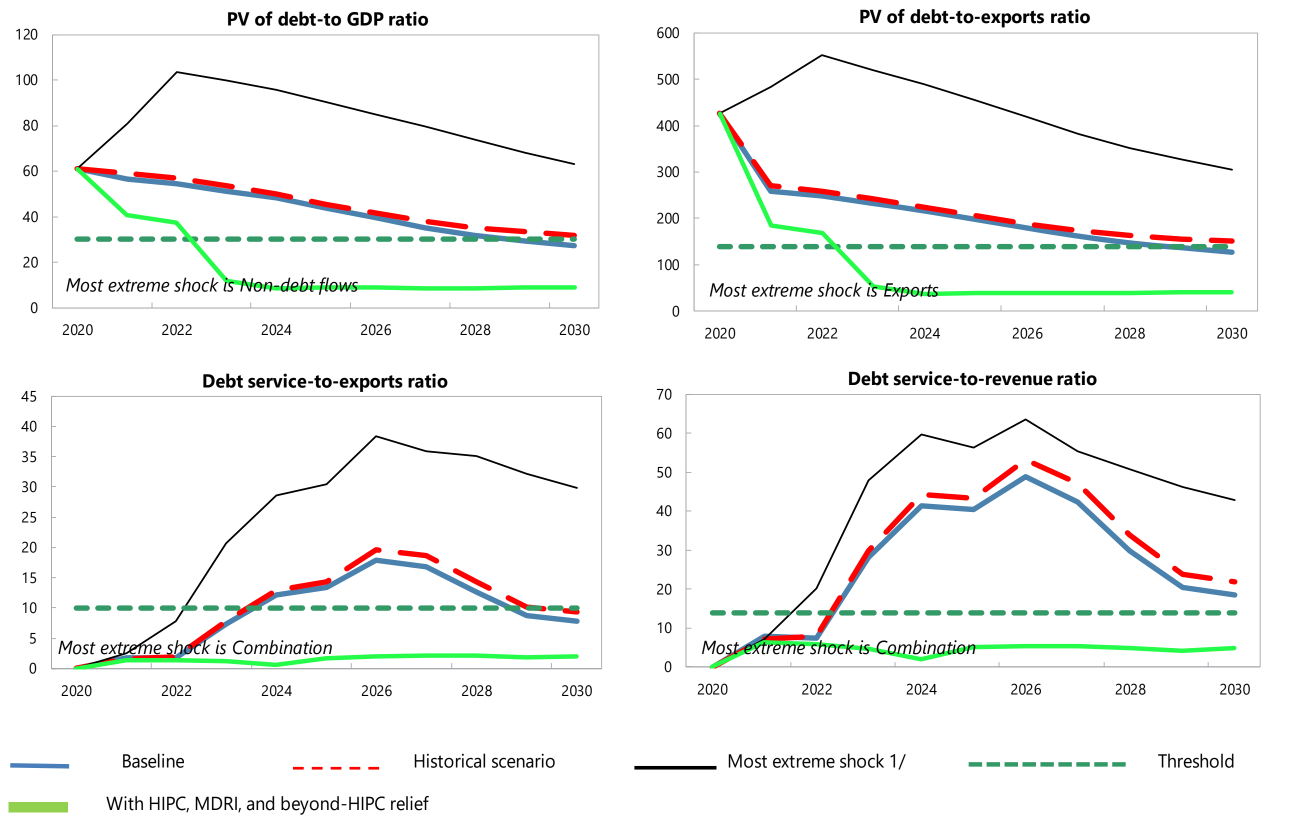
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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 Debt under Alternative Scenarios, 2020–2030



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

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

Borrowing Assumptions for 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%	1.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	38
Avg. grace period	5	6

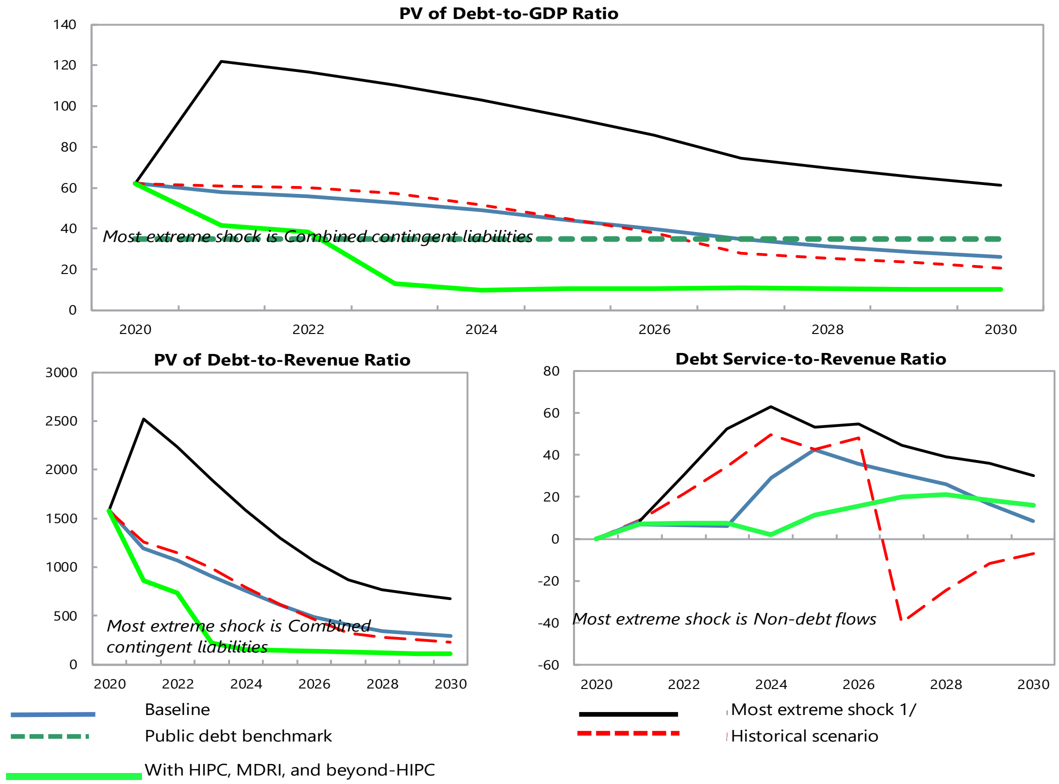
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are 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 Alternatives Scenarios, 2020–2030



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.6%	1.5%
Avg. maturity (incl. grace period)	27	38
Avg. grace period	5	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0%	0.0%

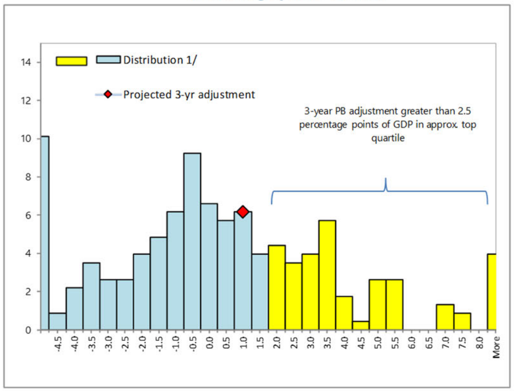
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

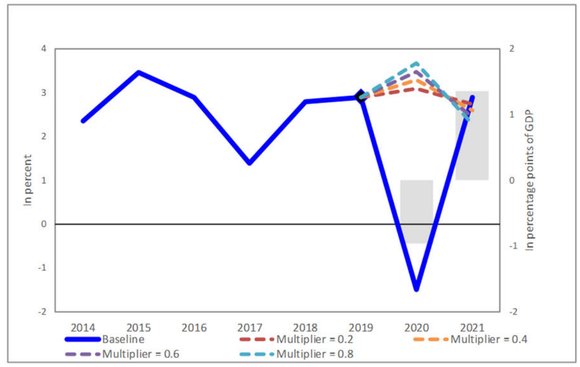
Figure 3. Somalia: Realism Tools

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).

Sources: Staff estimates

Table 3. Somalia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–2030

(In percent)

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	**60.8**	**56.5**	**54.5**	**51.3**	**48.1**	**43.9**	**39.5**	**35.2**	**31.7**	**29.2**	**27.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	60.8	59.0	56.9	53.6	49.7	45.5	41.5	37.9	35.2	33.4	31.9
A2. Alternative Scenario: With HIPC, MDRI and beyond-HIPC assistance	60.8	40.4	37.3	11.8	8.3	8.7	8.8	8.6	8.6	8.7	8.9
B. Bound Tests											
B1. Real GDP growth	60.8	57.5	56.6	53.3	49.9	45.6	41.1	36.6	32.9	30.3	28.1
B2. Primary balance	60.8	56.9	56.0	53.7	51.9	49.3	46.5	43.4	40.5	38.2	36.2
B3. Exports	60.8	61.8	65.5	62.1	58.7	54.3	49.7	45.0	41.0	37.8	35.1
B4. Other flows 2/	60.8	80.9	103.7	99.7	95.6	90.5	85.0	79.4	73.6	68.1	63.2
B6. One-time 30 percent nominal depreciation	60.8	70.5	54.5	50.7	46.9	42.0	36.9	31.8	27.8	25.5	23.7
B6. Combination of B1-B5	60.8	83.9	99.3	95.1	91.0	85.7	80.1	74.5	68.6	63.4	58.9
C. Tailored Tests											
C1. Combined contingent liabilities	60.8	59.9	58.4	56.4	55.0	52.7	50.1	47.3	44.6	42.5	40.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
PV of debt-to-exports ratio											
Baseline	**425.9**	**259.2**	**247.7**	**231.9**	**216.7**	**198.4**	**179.7**	**161.6**	**146.6**	**136.1**	**127.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	425.9	270.3	258.6	242.7	224.3	205.3	188.6	173.7	162.9	156.0	150.3
A2. Alternative Scenario: With HIPC, MDRI and beyond-HIPC assistance	425.9	185.3	169.5	53.3	37.5	39.3	39.8	39.7	39.8	40.7	41.8
B. Bound Tests											
B1. Real GDP growth	425.9	259.2	247.8	232.0	216.8	198.4	179.7	161.7	146.6	136.1	127.4
B2. Primary balance	425.9	261.0	254.7	242.8	234.1	222.7	211.0	199.1	187.6	178.3	170.5
B3. Exports	425.9	482.7	551.6	520.3	490.1	454.3	417.9	382.9	351.4	326.8	305.9
B4. Other flows 2/	425.9	370.9	471.5	450.9	431.1	408.7	386.2	364.5	340.7	317.7	297.4
B6. One-time 30 percent nominal depreciation	425.9	259.2	198.7	183.9	169.7	152.2	134.4	117.2	103.2	95.4	89.3
B6. Combination of B1-B5	425.9	605.2	420.5	705.7	672.8	634.9	596.8	560.1	520.6	485.1	454.1
C. Tailored Tests											
C1. Combined contingent liabilities	425.9	274.8	265.7	255.3	248.1	238.0	227.6	216.9	206.5	198.3	191.6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	**0.0**	**1.7**	**1.8**	**7.4**	**12.2**	**13.3**	**18.0**	**16.7**	**12.6**	**8.7**	**7.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	...	1.6	1.9	7.8	12.9	14.2	19.6	18.6	14.3	10.1	9.3
A2. Alternative Scenario: With HIPC, MDRI and beyond-HIPC assistance	...	1.4	1.4	1.2	0.6	1.7	2.0	2.1	2.1	1.8	2.0
B. Bound Tests											
B1. Real GDP growth	...	1.5	1.8	7.4	12.2	13.3	18.0	16.7	12.6	8.7	7.9
B2. Primary balance	...	1.5	1.8	7.6	12.4	13.7	18.6	17.5	13.5	9.9	9.2
B3. Exports	...	2.6	4.4	16.1	24.8	26.9	35.4	33.1	26.8	21.3	19.4
B4. Other flows 2/	...	1.5	4.6	13.0	17.5	18.5	22.9	21.5	21.2	21.2	19.7
B6. One-time 30 percent nominal depreciation	...	1.5	1.8	6.2	11.0	12.2	16.9	15.7	11.6	5.9	5.2
B6. Combination of B1-B5	...	2.5	7.8	20.6	28.7	30.4	38.3	35.9	35.1	32.2	29.8
C. Tailored Tests											
C1. Combined contingent liabilities	...	-2.6	-1.8	4.0	9.0	10.4	15.4	14.5	10.6	6.9	6.2
C2. Natural disaster	...	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	...	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	...	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	**0.0**	**7.8**	**7.5**	**28.2**	**41.5**	**40.5**	**48.8**	**42.3**	**29.9**	**20.5**	**18.5**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	...	7.1	7.9	29.8	44.2	43.3	53.2	47.0	34.0	23.8	21.8
A2. Alternative Scenario: With HIPC, MDRI and beyond-HIPC assistance	...	6.4	5.9	4.6	1.9	5.2	5.4	5.4	4.9	4.2	4.8
B. Bound Tests											
B1. Real GDP growth	...	6.9	7.8	29.3	43.1	42.1	50.8	43.9	31.0	21.3	19.2
B2. Primary balance	...	7.8	7.7	28.9	42.4	41.8	50.5	44.2	32.2	23.4	21.7
B3. Exports	...	6.8	10.0	33.0	45.7	44.1	52.0	45.1	34.4	27.0	24.6
B4. Other flows 2/	...	6.8	19.4	49.6	59.8	56.1	62.2	54.2	50.5	49.9	46.2
B6. One-time 30 percent nominal depreciation	...	...	9.4	29.3	46.7	46.1	57.2	49.4	34.3	17.4	15.3
B6. Combination of B1-B5	...	...	20.1	48.0	59.7	56.4	63.5	55.3	50.9	46.3	42.7
C. Tailored Tests											
C1. Combined contingent liabilities	...	...	-7.7	15.2	30.7	31.7	41.9	36.5	25.1	16.3	14.6
C2. Natural disaster	...	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	...	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	...	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/ 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.

2/ Includes official and private transfers and FDI.

Table 4. Somalia: Sensitivity Analysis for Key Indicators of Public Debt, 2020–2030

(In percent)

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	**62.2**	**57.8**	**55.7**	**52.4**	**48.8**	**44.2**	**39.6**	**35.0**	**31.2**	**28.5**	**26.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	62	61	60	57	51	45	38	28	26	23	21
A2. Alternative Scenario : With HIPC, MDRI, and beyond-HIPC	62	42	38	13	10	10	11	11	11	10	10
B. Bound Tests											
B1. Real GDP growth	62	59	58	54	49	43	37	29	26	25	23
B2. Primary balance	62	63	61	57	52	46	40	31	29	27	24
B3. Exports	62	63	66	63	59	54	49	45	40	37	34
B4. Other flows 2/	62	82	105	101	96	91	85	79	73	67	62
B6. One-time 30 percent nominal depreciation	62	75	72	67	59	52	44	34	30	27	24
B6. Combination of B1-B5	62	62	60	55	50	43	35	25	21	18	16
C. Tailored Tests											
C1. Combined contingent liabilities	62	122	117	110	103	95	86	75	70	65	61
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
PV of Debt-to-Revenue Ratio											
Baseline	**1,577.3**	**1,193.3**	**1,065.3**	**904.0**	**751.3**	**607.5**	**489.3**	**406.1**	**343.6**	**313.0**	**289.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	1577	1258	1148	985	792	613	467	324	281	255	230
A2. Alternative Scenario : With HIPC, MDRI, and beyond-HIPC	1577	860	736	221	149	143	133	126	116	114	114
B. Bound Tests											
B1. Real GDP growth	1577	1209	1100	923	752	592	458	331	290	270	252
B2. Primary balance	1577	1295	1169	982	801	633	492	362	315	291	271
B3. Exports	1577	1298	1269	1085	910	746	611	517	444	406	376
B4. Other flows 2/	1577	1696	2006	1738	1483	1247	1051	919	805	741	689
B6. One-time 30 percent nominal depreciation	1577	1553	1377	1148	916	712	541	392	330	297	267
B6. Combination of B1-B5	1577	1276	1150	945	763	584	432	289	230	196	172
C. Tailored Tests											
C1. Combined contingent liabilities	1577	2516	2236	1900	1584	1298	1060	866	766	717	676
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	**-**	**6.8**	**6.5**	**6.2**	**29.3**	**42.5**	**35.7**	**30.6**	**25.9**	**16.7**	**8.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	...	9	22	34	50	43	48	-40	-25	-12	-7
A2. Alternative Scenario : With HIPC, MDRI, and beyond-HIPC	...	7	8	8	2	11	16	20	21	19	16
B. Bound Tests											
B1. Real GDP growth	...	9	21	33	47	40	44	36	21	10	6
B2. Primary balance	...	9	20	32	45	39	43	34	21	10	6
B3. Exports	...	9	22	36	48	41	44	35	23	13	8
B4. Other flows 2/	...	9	31	53	63	53	55	44	39	36	30
B6. One-time 30 percent nominal depreciation	...	9	25	40	58	52	59	49	32	18	13
B6. Combination of B1-B5	...	8	19	30	43	36	40	32	18	7	2
C. Tailored Tests											
C1. Combined contingent liabilities	...	7	12	18	34	29	34	27	14	3	-2
C2. Natural disaster	...	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	...	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	...	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/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

**Statement by Ms. Mannathoko, Executive Director,
and Mr. Abdullahi, Advisor to the Executive Director for Somalia
November 18, 2020**

I. Introduction

1. Our Somali authorities thank staff for the constructive engagement during the first review under the Extended Credit Facility (ECF). They appreciate the ongoing support from the Fund as they address the impacts of multiple shocks and the unprecedented global health crisis. Fund engagement will continue to be critical as they work to exit from fragility.

2. The Somali economy has been adversely affected by floods and desert locust infestation, as well as the fallout from the COVID-19 pandemic. Even before the current crisis, the country faced daunting challenges including frequent droughts which compounded the difficulties associated with fragility and weak institutions. Nevertheless, the authorities continue to make substantial progress in implementing important reforms that will enable the transition from the HIPC Decision Point, which was reached on March 2020, to the HIPC Completion Point, in the HIPC debt relief process. The continued support of the Fund and other development partners remains critical in helping the authorities implement key requirements that must be met to reach the Completion Point.

3. Based on the satisfactory performance under the ECF program, our Somali authorities request the Executive Board's support for the completion of the first review under the ECF arrangement. Given the impact of the COVID-19 crisis on revenues and the external sector, alongside uncertainty over the path of the crisis, they request a waiver of non-performance of the missed quantitative performance criterion (QPC) on the domestic revenue floor, and modifications to the program QPCs and indicative targets related to revenue collection and net foreign assets of the central bank.

II. Recent Developments

4. Recognizing the risks associated with poor health infrastructure and limited testing capacity, the authorities acted proactively with containment measures to curb the spread of the COVID-19 virus. However, given the high informality of the economy alongside increased unemployment and poverty, containment measures have been difficult to maintain. As a sign of possible resurgence of the spread of the virus, reported cases and fatalities have been increasing since late September.

5. Economic activity is expected to contract by 1.5 percent in 2020 compared to the pre-COVID-19 projection of 3.2 percent. Looking ahead, economic growth is projected to rebound to 3 percent in 2021 and converge to pre-COVID-19 long term average growth projections thereafter. However, the economic outlook is subject to considerable near-term uncertainties given the potential for a global and domestic resurgence of the virus.

6. On the political front, after an extensive dialogue, the federal government and regional leaders have agreed on election modalities and dates for the upcoming parliamentary and presidential elections scheduled for December 1-27, 2020 and February 8, 2021, respectively. This agreement and improved intergovernmental cooperation promise a better environment for the implementation of reforms.

III. RCF Program Performance

7. The authorities' strong commitment to reforms continues to lay the foundation for macroeconomic stability and growth. The authorities were resolute in implementing program targets and structural reform benchmarks. As a result, they met all structural benchmarks through October 2020, and all but one QPC and one IT. The latter two targets relate to domestic revenue collection which underperformed relative to the cumulative program floor, mainly due to the impact of the pandemic. Moving forward, to mitigate risks to revenue performance, the Cabinet-approved draft 2021 budget includes new growth and revenue measures aimed at bringing revenue back up to levels initially envisaged by the program.

IV. HIPC Debt Relief and the Completion Point

8. Following the March 2020 determination that Somalia has reached the HIPC Decision Point, the authorities have continued to engage actively with all creditors. They have reached out to all bilateral and multilateral creditors, with notable agreements reached with Spain and the United States, Somalia's largest bilateral creditor. The Somali authorities are grateful for the constructive engagement with all creditors thus far. Further, as highlighted by staff in Annex II, the authorities are diligently implementing the floating HIPC Completion Point triggers with a view to completing them by March 2023. Progress has already been made on all of them, including governance and anti-corruption reforms, revenue mobilization, and public finance management, among others. Furthermore, implementation of the poverty reduction strategy under the Ninth National Development Plan (NDP9), aimed at reducing the prevalence of poverty in the country, is also advancing well. The draft 2021 budget guided by the 2021-24 MTFF has carved out allowance for spending to support NDP9.

9. The authorities are of the view that the development of strong debt management capacity over the course of the program is a key objective essential to ensure debt sustainability beyond the completion point. Towards this end, they are receiving intensive capacity development and Fund TA, in addition to the necessary debt management IT infrastructure support from development partners. They will also seek additional support, where needed.

V. Policy Responses and Reforms

Fiscal Policy

10. Somalia's HIPC Decision Point in March 2020 and its normalization of relations with IFIs, came at an opportune time. Countering the substantial contraction in domestic revenue due to the shock induced by the pandemic, grants from the World Bank, African Development Bank, and the European Union provided critical on-budget resources to support higher expenditure, including elevated social spending under a new cash transfer-based social safety net program (Baxnaano) and a program that supports lending to micro, small and medium-sized enterprises (Gargaara). Guided by the Country Preparedness and Response Plan, UN agencies and other partners have taken actions to help mitigate immediate humanitarian and socio-economic consequence of the pandemic. The authorities also did what they could: early in the pandemic they had introduced targeted revenue-neutral temporary tax relief for imported basic food commodities; and they had a modest onetime health care allocation.

11. Looking ahead, the authorities are focused on maintaining momentum in fiscal reforms. They remain committed to implementing domestic resource mobilization reforms that will boost revenues, under the Fund supported program. The 2021 budget underpinned by the 2021-24 medium-term fiscal framework (MTFF) will advance significant reforms, including new tax and non-tax measures and actions to strengthen revenue administration. Guided by the customs reform road map and key agreements with the regions, the authorities will introduce, over the course of the program, a single ad valorem customs tariff across three major ports, in an important milestone that will also enhance revenue collection in the future. In addition, the authorities plan to improve revenue administration and compliance, implement a tax audit strategy and hire more tax auditors.

12. The authorities recognize that a cooperative fiscal federalism will be key to maintaining the current reform momentum; facilitating the rolling out to regions, of reforms needed for better macroeconomic management and revenue collection. The relationship between federal member states and the federal government continues to improve, reflecting concerted efforts by the federal leadership. Frequent meetings between regional and federal finance ministers have resulted in strong commitments to support key economic reforms, and the signing of a memorandum of understanding to facilitate sharing and reporting of fiscal data, which will enhance intergovernmental fiscal relations and transparency.

13. On debt, notwithstanding the availability of financing options from the Fund, the authorities would like to avoid contracting additional debt as much as possible, in favor of seeking grants resources to meet their current and near-term financing needs. Nevertheless, should conditions deteriorate due to a resurgence of the virus, a failure of committed grants to materialize, or occurrence of another climate-related shock, they may be forced to reconsider this position. In the meantime, fiscal discipline supported by a sequestration rule that prioritizes critical expenditures alongside modest fiscal buffers should continue to mitigate financing risks to the program.

Monetary Policy and Financial Sector Reforms

14. Although the economy remains largely dollarized, in the medium term, the introduction of a new Somali currency remains a priority for the authorities as this could boost financial inclusion for the poor. Progress is being made with support from the World Bank, to advance the first phase of the necessary currency reforms under the currency exchange project. The authorities are also taking steps to strengthen the central bank balance sheet before the first phase of the currency exchange is implemented. They are also taking steps to build the CBS' monetary policy instruments and capacity, before implementation of the currency reform.

15. The restructuring of the Central Bank of Somalia (CBS) is a key priority and focus of the central bank's management. With the merit-based appointment of a new competent Board of Directors and the hiring of three senior directors over the summer, the formation of the bank's leadership is now complete. The implementation of a complex transformative transition plan will now begin. The CBS has also made steady progress in implementing recommendations from the safeguards assessment and is committed to implementing the remaining recommendations.

16. Reforms aimed at supporting a strong and well-regulated financial sector are also progressing on multiple fronts in accordance with the Financial Sector Reform Road Map, developed with

support from the Fund. In this regard, the CBS will refrain from issuing additional licenses to banks while building the capacity of its supervision department. Similarly, the CBS will strengthen the regulatory environment by enacting a National Payment System Law, Insurance Law, and an amendment to the 2011 Financial Institutions Law. The CBS is also taking concrete steps to regulate mobile money operators in coordination with the National Communications Authority and Financial Reporting Centre.

17. The authorities recognize that building a robust AML/CFT regime is critical to maintaining the flow of remittances and FDI into the country, and to the establishment of correspondent banking relationships. Accordingly, they have made tangible progress in creating the necessary operational and regulatory framework. On November 4, the House of the People passed the National ID Authority Law, the absence of which had been a key deficiency identified in the AML/CFT framework. In addition, the Financial Reporting Centre (FRC) is building its human and IT capacity while also completing the building blocks of a robust AML/CFT regulatory framework. To promote cooperation and coordination of all agencies involved in implementing the AML/CFT framework, the authorities are planning to reinvigorate the National Anti-Money Laundering Committee (NAMLC) task force chaired by the Minister of Finance.

VI. Structural Reforms

18. The authorities continue to prioritize governance reforms and the fight against corruption, as evidenced by ongoing improvements in fiscal and financial governance, the AML/CFT framework and recent legislative changes. Recent high-profile court cases and convictions of senior public officials on charges of corruption and misuse of public funds, send a strong signal that corrupt practices by government officials will no longer be tolerated. The authorities are committed to implementing the recently enacted Anti-Corruption Law, and the new Prime Minister has publicly committed to focus on the fight against corruption, building on past achievements. Cabinet approved the new National Anti-Corruption Strategy and endorsed and submitted to the parliament for approval, the nominations of nine highly respected and qualified anti-corruption commissioners. Cabinet also endorsed the United Nations, African Union, and Arab League conventions on combating corruption, which will be submitted to parliament for ratification. In addition, a program with UNDP to improve the integrity system has been signed, and a draft action plan has been started.

19. Concrete actions are being taken to improve data collection and dissemination. Substantial progress was made by the Department of National Statistics, with support and training from several international development partners including the Fund, and as a result the quality of data collection and analysis have improved overtime. With the establishment and operationalization of the autonomous Somali National Bureau of Statistics (SNBS), the development of an institutional framework to collect and disseminate high quality and reliable economic data will be accelerated. A needs assessment has been conducted and the human resources necessary to deliver the mandate and objectives of the new Bureau have been identified. At the same time, a five-year strategic plan and necessary regulations are being developed.

20. Finally, the Fund's capacity development (CD) and technical assistance (TA) support has been extremely important and especially beneficial in building the government's capacity to manage the economy while strengthening its macro-fiscal institutions. Fund TA has been instrumental in advancing reforms in public finance management, revenue mobilization and modernizing and building the central bank capacity among other things. Somali authorities believe that continued

and enhanced IMF capacity development and TA support remain critical to reaching the HIPC completion point and meeting challenges ahead. They are however concerned that the slower than expected replenishment of the Somalia Trust Fund may lead to gaps in capacity support, impacting delivery on some critical CD and TA projects. Therefore, the authorities join staff in encouraging Somalia's development partners to contribute generously to Phase II of the Somalia Trust Fund.

VII. Conclusion

21. Our Somali authorities remain committed to the reform agenda under the ECF arrangement aimed at building strong institutional capacity to implement prudent macroeconomic policies that will spur durable and inclusive growth. They look forward to Executive Directors' support towards the completion of the first review under the ECF arrangement. They also look forward to enhanced staff capacity development and TA support as they work towards reaching the HIPC completion point.