



# SOMALIA

April 2021

## ENHANCED HEAVILY INDEBTED POOR COUNTRIES INITIATIVE—REQUEST FOR ADDITIONAL INTERIM ASSISTANCE

In connection with the Executive Board's consideration of Somalia's request for additional interim assistance under the Enhanced Heavily Indebted Poor Countries Initiative, the following documents have been released and are included in this package:

- A **Press Release** summarizing the decision taken by the Executive Board to approve the request.
- The paper prepared by a staff team of the International Monetary Fund. It is based on the information available at the time when it was completed on March 11, 2021.
- Letter of Intent sent to the IMF by the authorities of Somalia.

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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Approved Additional Interim Assistance Request Under the Enhanced HIPC Initiative for Somalia

FOR IMMEDIATE RELEASE

**Washington, DC – March 25, 2021:** On March 24, 2021, the Executive Board of the International Monetary Fund granted additional interim assistance to Somalia under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in an amount of SDR 0.68 million (about US\$ 0.97 million) on a lapse of time basis.<sup>1</sup> This interim assistance will cover Somalia's debt service obligations to the Fund for the period March 25, 2021 through March 24, 2022.

On March 25, 2020, the Executive Board approved that Somalia had reached the HIPC Decision Point. At the same time, the Board approved three-year arrangements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) (see Press Release No 20/105). The Board also approved interim assistance in the amount of SDR 1.11 million (about US\$ 1.5 million) for the period March 25, 2020–March 24, 2021.

The first ECF review was completed on November 18, 2020 (see [Press Release No. 20/344](#)). Performance under the ECF-supported program has been satisfactory and Somalia continues to make progress on debt rescheduling and other reforms needed to reach the HIPC Completion Point.

### Background

Interim assistance under the enhanced HIPC Initiative is debt relief granted on a country's debt service falling due between the HIPC Decision and Completion Points. Once a country reaches the HIPC Completion Point, it will receive the full debt relief committed at the HIPC Decision Point.

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<sup>1</sup> The Executive Board takes decisions under its lapse of time procedure when the Board agrees that a proposal can be considered without convening formal discussions.



# SOMALIA

## ENHANCED HEAVILY INDEBTED POOR COUNTRIES INITIATIVE—REQUEST FOR ADDITIONAL INTERIM ASSISTANCE

March 11, 2021

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

Prepared by the Middle East and Central Asia Department (in consultation with the Legal, Strategy, Policy and Review, and Finance Department).

- 1. On March 25, 2020, the Executive Board approved Somalia's HIPC Initiative decision point<sup>1</sup> and a three-year arrangement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF)<sup>2</sup>.** At the same time, the Executive Board committed to provide interim assistance in the amount of SDR 1.111 million to cover Somalia's debt service payments to the Fund due over the twelve-month period from March 25, 2020.
- 2. The authorities are requesting additional interim HIPC assistance from the Fund in the amount of SDR 680,000 (Appendix I) to cover the period March 25, 2021-March 24, 2022.** The interim HIPC assistance will be applied to cover 100 percent of eligible debt service to the IMF falling due over the 12 months starting from March 25, 2021.
- 3. Performance under the ECF-supported program has been satisfactory so far.** The first review under the ECF was completed on November 18, 2020.<sup>3</sup> Preliminary data indicate that all the quantitative performance criteria and indicative targets for end-December 2020 have been observed. The authorities have also continued to advance reforms under the program with the structural benchmark (SB) for December 2020 being met based on staff's preliminary assessment. Specifically, the Central Bank of Somalia Board has approved and issued Sharia governance guidelines for Islamic commercial banks (December 2020 SB). Progress is also being made to enhance transparency in the regulatory process of the telecommunications and mobile money sectors (March 2021 SB).

<sup>1</sup> IMF Country Report No. 20/86. <https://www.imf.org/en/Publications/CR/Issues/2020/03/26/Somalia-Enhanced-Heavily-Indebted-Poor-Countries-HIPC-Initiative-Decision-Point-Documents-49290>

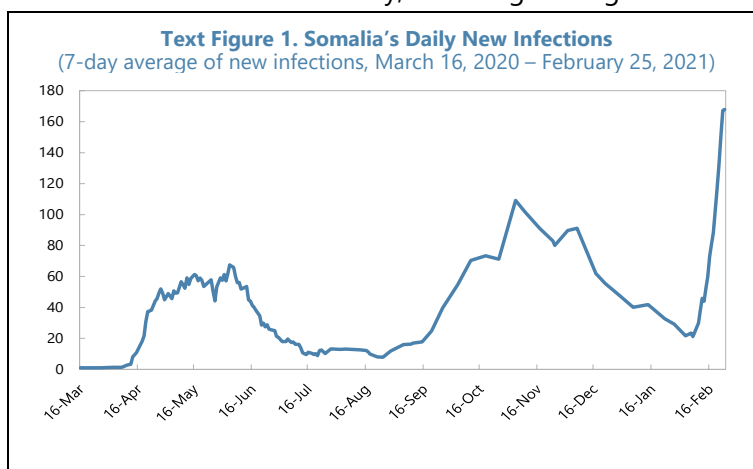
<sup>2</sup> IMF Country Report No. 20/85. <https://www.imf.org/en/Publications/CR/Issues/2020/03/26/Somalia-Second-Review-Under-the-Staff-Monitored-Program-and-Request-for-Three-Year-49289>

<sup>3</sup> IMF Country Report No. 2020/310. <https://www.imf.org/en/Publications/CR/Issues/2020/11/30/Somalia-First-Review-Under-the-Extended-Credit-Facility-Press-Release-Staff-Report-and-49924>

**4. The authorities also continue making progress on broader reforms required for reaching the HIPC Completion Point.** Subsequent to the progress reported in the first review of the ECF, the authorities have begun preparing the first Annual Progress Report on the implementation of their poverty reduction strategy; the public financial management regulations have been issued; the proposal to ratify the UN Convention on Anti-Corruption has progressed to the Upper House; and the audited financial accounts of the Federal Government of Somalia for 2019 have been published. Technical support has also been made available to the authorities from the African Development Bank, World Bank and IMF to strengthen debt recording and support the preparation of a debt bulletin<sup>4</sup>. In addition, the draft Extractives Industries Income Tax (EIIT) Bill has been approved by the Cabinet. Complementing that, the authorities maintain their commitment to having a coherent framework comprising Petroleum Act, model Production Sharing Agreement and EIIT law in place before issuing any licenses in the hydrocarbon sector.

**5. Negotiations with creditors on securing the restructuring of Somalia's external public debt are well underway.** With the assistance of the African Development Bank, the authorities have secured the support of debt advisers to help advance these negotiations. Significant progress has been made in implementing the Paris Club umbrella agreement, with agreement now in place with nearly all individual Paris Club creditors.<sup>5</sup> The Somali authorities are also advancing negotiations with key Arab bilateral and plurilateral creditors. Given the representative nature of the Paris Club agreement, sufficient financing assurances remain in place.

**6. The COVID-19 pandemic continues to pose challenges.** A new wave of infections has hit Somalia, with some indications of a higher severity relative to the initial outbreak. In response, the authorities have reintroduced some containment measures in February, including closing schools and universities again. Somalia is among the 92 low- and middle-income countries due to benefit from the COVAX program, which will support the procurement of vaccines for 20 percent of the population; the first delivery is anticipated to arrive in March, with complementary donor support expected to cover the required logistics around the actual rollout.



**7. Although progress on the program has been sustained, political risks have intensified.** The parliamentary and Presidential elections scheduled for December 2020 and January/February 2021, respectively, have not yet taken place as differences emerged among key political leaders about implementation of the new electoral model. While important progress was achieved during negotiations with key stakeholders

<sup>4</sup> The publication of four consecutive quarterly debt reports is a floating trigger for the HIPC Completion Point.

<sup>5</sup> Negotiation with Russia are ongoing

over February 1-6, and a technical sub-committee reached an agreement on February 16 on the remaining issues, a final agreement has yet to be secured. In the meantime, the incumbent President's four-year mandate ended on February 8, 2021. While the incumbent President is expected to remain in place until the next President is elected, that position has been challenged by the opposition (including presidential contenders and the states of Puntland and Jubbaland) seeking to rule out any term extension. The international community has intensified its efforts to encourage all stakeholders to agree on a consensus approach and avoid prolonged tensions over electoral implementation.<sup>6</sup>

**8. Delays in the elections are increasing liquidity pressures.** In view of the political uncertainty, some donor budget support has been delayed, aggravating the financial pressures as the domestic revenue mobilization effort continues to reflect some impact of the COVID-19 pandemic. To ensure that core priority expenditures are met, while avoiding accumulating domestic expenditure arrears, the authorities have drawn on the fiscal buffer established under the fourth Staff Monitored Program. However, a protracted delay to the needed donor budgetary support would see the buffers exhausted and could put some fiscal targets at risk.

**9. The ongoing political uncertainty may delay the completion of the second review, however, it should not affect the achievement of key program objectives.** While delays in resolving the situation could impede the timing for the review, broad support remains across federal and regional leaders for the HIPC process, which mitigates broader program risks. Also, staff considers the immediate liquidity pressures to be temporary given that the international community remains engaged and resources are expected to be released with the completion of elections. In this regard, staff remains closely engaged with the authorities, aiming to bring the second review to the Board as soon as conditions allow.

**10. Staff supports the authorities' request for additional HIPC interim assistance in light of satisfactory policy performance under the program and continued policy commitment to reform despite challenges.** The requested interim HIPC assistance will fully cover Somalia's debt service payments to the Fund due during the March 25, 2021-March 24, 2022 period, and will support the authorities' policy and reform efforts at a challenging time given the impact from the pandemic. The additional assistance is below the annual limit of 20 percent of total assistance committed by the IMF established by the PRG-HIPC Trust Instrument and would bring the cumulative interim HIPC assistance provided so far to 1.3 percent of the IMF's total debt relief committed at the HIPC Decision Point.

**11. A draft decision to grant additional interim assistance equivalent to SDR 680,000 is attached for Directors' consideration.** The decision is proposed for adoption on a lapse of time basis.

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<sup>6</sup> See <https://unsom.unmissions.org/call-continued-efforts-reach-fgs-fms-agreement-electoral-implementation>.

**Table 1. Somalia: Selected Economic and Financial Indicators, 2018-26**

(Population: 14 million, 2018 estimate)

	Est.			Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>National income and prices</b>									
Nominal GDP in millions of U.S. dollars	4,721	4,944	4,920	5,367	5,641	5,941	6,268	6,633	7,046
Real GDP in millions of U.S. dollars	4,152	4,272	4,208	4,330	4,469	4,621	4,787	4,974	5,187
Real GDP, annual percentage change	2.8	2.9	-1.5	2.9	3.2	3.4	3.6	3.9	4.3
Real GDP per capita in U.S. dollars	292	292	280	281	283	285	288	292	404
Consumer prices (e.o.p., percent change)	3.2	3.1	4.1	2.5	2.1	2.1	2.1	2.2	2.2
(Percent of GDP)									
<b>Central government finances 1/</b>									
Revenue and grants	5.7	6.8	10.1	10.0	11.5	12.5	10.2	10.9	11.6
<i>of which:</i>									
Grants	1.8	2.2	5.8	5.2	6.2	6.7	3.7	3.6	3.5
Expenditure (FGS)	5.7	6.4	9.9	9.6	10.8	11.9	12.0	12.2	12.4
Compensation of employees 2/	3.0	3.3	4.6	4.8	5.1	5.5	5.4	5.6	5.8
Purchase of non-financial assets	0.2	0.3	0.4	0.6	1.0	1.0	1.0	0.9	0.9
Overall balance	0.1	0.5	0.2	0.4	0.7	0.6	-1.8	-1.3	-0.8
Net change in the stock of cash	0.1	0.5	0.2	0.1	0.3	0.5	-2.0	-1.5	-1.0
Stock of domestic arrears	1.5	1.4	1.4	1.2	1.1	1.0	0.9	0.8	0.7
Public debt 3/	112.8	108.8	40.7	37.9	36.6	30.4	11.9	12.4	12.2
(Millions of U.S. Dollars)									
<b>Monetary Sector</b>									
Net Foreign Assets	-258	-212	-169	-180	-170	181	167	171	178
Central Bank claims on non-res 4/	122	148	209	214	241	255	239	239	240
Net Domestic Assets	697	735	716	799	856	579	685	814	1003
Credit to the private Sector	184	206	219	263	312	381	479	618	820
Broad Money 5/	440	523	547	620	686	760	852	985	1181
(Percent of GDP)									
<b>Balance of payments</b>									
Current account balance	-7.5	-10.5	-13.3	-12.2	-11.9	-11.9	-13.4	-13.0	-12.4
Trade balance	-84.8	-83.0	-91.3	-85.8	-86.9	-83.5	-78.7	-75.0	-70.5
Exports of goods and services	23.7	22.6	14.3	21.8	22.2	22.6	23.0	23.2	23.4
Imports of goods and services	108.5	105.6	105.5	107.6	109.1	106.1	101.6	98.2	93.9
Remittances	31.4	31.9	30.8	31.3	31.9	31.4	30.8	30.1	29.3
Grants	46.6	41.3	47.9	42.9	43.8	40.7	34.9	32.4	29.3
Foreign Direct Investment	8.6	9.1	9.4	9.2	9.3	9.7	10.1	10.5	10.8
External debt 3/	111.3	107.4	39.3	36.7	35.5	29.4	11.0	11.6	11.5
<b>Market exchange rate</b> (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 2. Somalia: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit and Extended Financing Facilities 1/**  
(millions of U.S. dollars)

	end-December 2020 2/			
	Indicative Target		Performance Criteria	
	Program targets 3/	Preliminary data	Program targets 3/	Preliminary data
<b>Quantitative Performance Criteria</b>				
FGS domestic revenue floor 4/	195.0	205.0		
Ceiling on spending on FGS public compensation, goods & services, & contingency 3/			308.0	307.3
Net foreign assets of the CBS (floor) 4/			79.2	80.4
Contracting of new domestic debt (ceiling) 4/ 5/			0.0	0.0
Ceiling on contracting or guaranteeing any new external, non-concessional debt 4/ 5/			0.0	0.0
Ceiling on accumulation of new external arrears by the central government 4/ 5/			0.0	0.0
<b>Indicative Targets</b>				
Fiscal balance (cash basis; floor) 4/ 6/	-10.0	12.0		
Accumulation of new domestic expenditure arrears (ceiling) 4/ 5/	0.0	0.0		
Ceiling on contracting or guaranteeing any new external, concessional debt 4/ 5/ 7/	0.0	0.0		

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

1/ Cumulative from the beginning of the year.

2/ Test date for the second review.

3/ As modified and approved by the Board at the completion of the first review.

4/ As defined in the TMU.

5/ Continuous target.

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

7/ Excluding any disbursements under a Fund arrangement.

## Appendix I. Letter of Intent

Mogadishu, Somalia  
March 4, 2021

Ms. Kristalina Georgieva  
Managing Director  
International Monetary Fund  
700 19th Street, N.W.,  
Washington, DC 20431

Dear Ms. Georgieva,

On behalf of the Federal Republic of Somalia, we request a disbursement of additional interim HIPC assistance in the amount of SDR 680,000 to cover all of Somalia's eligible debt service to the International Monetary Fund (IMF) that falls due between March 25, 2021, and March 24, 2022.

Our Extended Credit Facility (ECF)-supported program remains on track with the first review of the arrangement completed on November 18, 2020. Based on preliminary data, we have observed all quantitative performance criteria and indicative targets of the program for December 2020. Structural reform commitments through December 2020 were also met and those for March 2021 are on track. Progress also continues towards meeting the floating completion point triggers for the enhanced HIPC Initiative.

We remain fully committed to implementing our ECF-supported economic program and anticipate that the second review under the ECF will be completed as soon as feasible.

Sincerely yours,

\_\_\_\_\_(s)\_\_\_\_\_  
Abdirahman Duale Beileh  
Minister of Finance of Somalia

\_\_\_\_\_(s)\_\_\_\_\_  
Abdirahman M. Abdullahi  
Governor of the Central Bank of Somalia