



# SOMALIA

## POVERTY REDUCTION STRATEGY PAPER—JOINT STAFF ADVISORY NOTE

December 2023

The attached Joint Staff Advisory Note on the Poverty Reduction Strategy Paper for Somalia, prepared by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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December 8, 2023

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## INTRODUCTION

1. **This Joint Staff Advisory Note (JSAN) reviews the [mid-term review report \(MTR\) of Somalia's Ninth National Development Plan \(NDP9\)](#).**<sup>1</sup> NDP9 is a nationally owned and comprehensive strategy for poverty reduction and inclusive growth. It covers 2020–2024 and is organized around the four pillars: Inclusive Politics, Security and the Rule of Law, Economic Development, and Social Development. NDP9 was submitted to the IMF and World Bank on October 15, 2019, to fulfill the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative's poverty reduction strategy requirement. The first Annual Progress Report (APR) was received by the World Bank and the IMF in June 2022, and a JSAN was prepared and submitted to the Boards in July 2023. The MTR tracks progress of the first 30 months of NDP9 implementation and serves as APR for 2021 and 2022. The MTR also identifies the gaps, challenges, and lessons learned, and makes practical recommendations for improvement in the implementation of NDP9's final phase from 2023 to 2024.

2. **Somalia continued to face challenges while implementing the NDP9 in 2021 and 2022.** Since 2020, the country has been struggling with the ongoing impacts of a desert locust infestation, persistent drought, the COVID-19 pandemic, and global food and fuel price increases due to Russia's invasion of Ukraine. All of these shocks compounded the hardships of the population, including food insecurity. The number of people facing food insecurity due to the drought rose from 3.2 million in January 2022 to 5.6 million by end-2022. Parliamentary and Presidential elections that were supposed to commence by end-2020 were not completed until in May 2022, also affecting the timing of external grant disbursements. In this context, the implementation of NDP9 slowed down considerably.

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<sup>1</sup> NDP9 is Somalia's poverty reduction strategy (PRS).

### 3. **The MTR addresses concerns raised in staffs' previous JSAN on HIPC Completion**

**Point, climate change, and revenue mobilization.** In terms of progress towards the HIPC Completion Point, as of September 2023 the government has completed 13 of 14 Completion Point triggers. Addressing comments in the previous JSAN, the MTR pays attention to how climate change may impact the NDP9 implementation and climate resilience. Climate change is recognized as a critical challenge, and efforts are being made to make project and programs climate responsive. With regard to domestic revenue mobilization, the MTR states that the rates of tax and revenue collection are low and discusses several areas that can increase revenue, mostly through fees, such as fisheries, civil aviation, and petroleum. In addition, a costing exercise of the NDP9 was conducted for the 2023 Supplementary Budget and the 2024 Budget.

## MACROECONOMIC PERFORMANCE

### A. Introduction

#### 4. **Staffs recognize that Somalia has endured several adverse shocks, but prompt action by authorities supported by international partners and resilient remittance inflows partially cushioned the impact of these shocks.**

Flooding, desert locust infestation, and the Covid-19 pandemic severely reduced growth prospects in 2020. Five consecutive failed rainy seasons from late 2020 to end 2022, as well as a surge in global prices, increased food insecurity by end-2022 to a third of the population (5.6 million people) and adversely affected the economic, humanitarian, and social situation in the country. The impact of the shocks was mitigated by two factors:

- a. **Policy response.** In response to these shocks, the authorities implemented the Country Preparedness and Response Plan (CPRP) with the support of international partners. In 2020, fiscal and financial support measures undertaken to mitigate the impact of these shocks included: (1) temporary tax relief on some basic food commodities, and (2) externally funded temporary expansion of the social safety net, lending-support to small and medium-sized enterprises, and inter-governmental fiscal transfers to FMS to assist them in coping with these shocks. The temporary tax relief was lifted in 2021. However, due to the drought conditions prevailing in 2021-2022, there was an expansion of the safety net both horizontally and vertically with the support of development partners. Coverage of the Baxnaano social safety net program—a government program financed by the World Bank and implemented by the World Food Program that provides unconditional cash transfers to 200,000 households—was temporarily expanded to another 155,000 households for 6 months in 2022. Additionally, the Baxnaano program topped-up the monthly cash benefit with an additional US\$40 (to reach US\$60 per month) for the existing 200,000 *regular* beneficiaries and a monthly flat benefit of US\$60 for the 155,000 household for up to 6 months.
- b. **Remittance inflows.** In 2020 and 2021, resilient remittance inflows helped to alleviate the impact of these shocks on households. Remittance inflows increased by 60 percent between 2019 and 2022. The increase in remittance inflows reflect: (i) the increased disposable income available to the diaspora community with the expansionary policies followed in countries where

the diaspora community primarily reside; and (ii) the tendency of diaspora community to help compatriots living in Somalia weather adverse shocks.

**5. The Somali economy rebounded following a COVID-19-related contraction in 2020, but challenges weigh heavily on growth.**<sup>2</sup> Growth recovered to 3.3 percent in 2021 largely driven by household consumption and private investment, supported by robust remittance inflows and credit growth. The recovery in aggregate demand led to a strong rebound in imports (primarily construction and medical equipment), and, together with a fall in budget grants, contributed to a wider current account deficit. Economic activity in 2022 slowed to 2.4 percent on the back of the global economic slowdown, moderation in remittance inflows, and the domestic drought conditions. Escalating global food and fuel prices, owing to the post-COVID-19 recovery coupled with the impact of Russia's invasion of Ukraine, led to an uptick in inflation from 4.3 percent in 2020 to 6.8 percent in 2022.

## B. Fiscal Policy and Management

**6. While Somalia has implemented important tax administration and policy measures over the first two and half years of NDP9 implementation, staffs emphasize the importance of accelerating domestic revenue mobilization to meet NDP9 priorities.** Domestic revenues increased from about 2.3 percent to 2.5 percent of GDP between 2020 and 2022, thanks to implementation of several tax policy and revenue administration reforms. However, tax receipts are still the lowest among Sub-Saharan Africa and Somalia is heavily reliant on external grants, with external grants financing roughly half of the budget.<sup>3</sup> It is challenging for the authorities to increase domestic revenue, owing in part to the large informal economy. Despite this, staffs do acknowledge the efforts expended by authorities to improve domestic revenue mobilization through the ongoing: (1) reforms on customs modernization, and full implementation of the Somalia Customs Automated System (SOMCAS) in Mogadishu; (2) implementation of a new spectrum fees for telecom operators; (3) implementation of new turnover taxes, with more than 2,500 registered taxpayers; (4) regular reporting on tax expenditures; and (5) implementation of revenue administration efforts, including point of sale machines in the tourism sector and several rounds of tax audits. Given that domestic revenue remains low and insufficient to cover recurrent expenditure, staffs encourage greater domestic revenue mobilization efforts, including timely implementation of tax policy, further efforts to automate tax processes, and other administrative reforms identified in the NDP9 and proposed new ECF-supported program.

**7. Staffs recognize the measures undertaken to strengthen public financial management to fulfill NDP9 priorities.** Public financial management has been consistently improving, with the support of the international community, redirecting additional spending towards NDP9 priorities—health, education, and social protection. There has been progress on budget preparation, cash management, legislated sequestration rules, statistical capacity, and governance to support fiscal

<sup>2</sup> The 2022 Somalia Integrated Household Budget Survey (SIHBS), the first since 1985, was used to revise GDP.

<sup>3</sup> The World Bank provided around 82 percent of total grants in 2022.

discipline, transparency and accountability. Staffs recognize the authorities' efforts on public financial management, including: (1) regular publication of audited financial statements of the FGS and improvements in reporting by FMS; (2) issuance of the Public Financial Management (PFM) Act regulations on debt, public investment, and natural resource management; (3) implementation of expenditure controls through the Somalia Financial Management Information System (SFMIS), including invoice tracking for electricity and internet; (4) approval of the Pay and Grade Policy, progress on integrating all compensation of employees into the single payroll included in SFMIS, and measures to ensure only the MoF can change payroll entries that have financial implications; (5) issuance of guidelines on emergency procurement and approval of new standard operating procedures for the Inter-Ministerial Concessions Committee to reinforce its strategic and oversight role; and (6) amendment of the PFM Regulations to implement the PFM Act's provisions on public property and issuance of the Asset Management Guidelines. Staffs encourage the authorities to continuously undertake additional measures to improve public financial management, including enhancing the accounting system, developing reliable in-year financial reporting, and improving the quality of fiscal data. Moreover, in a post-HIPC environment, staffs emphasize the importance of strengthening debt management capacity—including debt risk assessments—and public investment management capacity.

**8. Despite some progress, further political agreements are needed on Somalia's federal model and staffs encourage the authorities to develop a durable federal fiscal framework.**

Discussions between the FGS and FMS on the fiscal federalism architecture for the country are in train. The Ministry of Interior has spearheaded the Intergovernmental Relations Bill (which is currently at an advanced stage of development), the National Decentralization Strategy, and an initiative to support the devolution and implementation of the power allocation agreement by identifying the government agencies responsible for carrying out these functions. In March 2023, at the National Consultative Council, agreements were reached between FGS, four FMS, and the Mayor of Mogadishu on creating a National Revenue Authority, the assignment of revenue responsibilities across levels of government, and the pool of revenues that are to be shared. In July 2023, the same group agreed on the distribution of external budget support. Full agreement will all five FMS on revenue sharing and expenditure responsibilities still needs to be achieved. Staffs highlight the importance of implementing a sustainable federal fiscal framework to support Somalia's political stability, security, and development goals.

## C. Monetary and Financial Sector Policies

**9. Staffs welcome continued efforts to strengthen financial sector governance and legal frameworks, including through implementation of IMF Safeguards recommendations.**

Modernization efforts are ongoing on organization, governance, accounting, auditing, and risk management of the Central Bank of Somalia. Audited financial accounts of the CBS are being published on a regular basis. On financial regulation, the CBS issued: (1) banking regulations on capital and liquidity requirements, covering risk management aspects; (2) guidance for Islamic bank financial reporting and the guidance for the Shariah bank governance framework; and (3) mobile money regulations. The launch of the National Payment System in 2021 was a major milestone. On

anti-money laundering and combating the financing of terrorism (AML/CFT), actions include; (1) operationalization of the National AML/CFT Taskforce to support the National Anti-Money Laundering Committee; (2) enactment of the Targeted Financial Sanctions Law and issuance of the related regulations; (3) publication of the National Risk Assessment (NRA) on money laundering and financing of terrorism (ML/FT), followed by the publication of the NRA Action Plan; and (4) issuance of guidance to commercial banks on customer due diligence measures and reporting of large cash transactions and suspicious transactions. Staffs underscore the importance of further strengthening supervisory capacity through the allocation of additional resources and training, improvements in data quality, bolstering the payment system infrastructure and oversight, and strengthening capacity to enforce regulations.

**10. Staffs encourage improving financial inclusion to support private sector growth, promote economic empowerment, and foster entrepreneurship.** Somalia is a de-facto dollarized economy, for financial assets and liabilities as well as for currency in circulation. Access to mobile money is relatively high in Somalia and authorities report that approximately 82 percent of the Somali population 15 years of age and older use mobile money services. Money transfer businesses (MTBs) facilitate cross-border financial transfers, including remittances to households, and transfers to businesses and NGOs in Somalia. However, in 2022 credit to private sector was less than 5 percent of GDP. Constraints include a relatively narrow formal sector and limited financial depth as well as lack of supportive financial infrastructures (including for credit enhancement and business development). The fragile nature of correspondent banking relations—due in part to concerns regarding ML/FT risks—constrains banks’ ability to provide financial services and impacts money transfer businesses, which are the main mechanism to transfer money in and out of Somalia. Staffs urge the authorities to further strengthen financial deepening and financial inclusion while protecting financial stability, build capacity to address ML/FT risks and enhance the application of customer due diligence measures, and take steps to protect from cybersecurity risks. In this regard, the enactment in March 2023 of the Data Protection and the Digital ID Laws and the launch of the National ID in September 2023 are welcome. Financial inclusion will also be supported by the proposed currency reform to reintroduce the Somali shilling as legal tender by replacing old and counterfeit notes in circulation. This initiative is expected to support financial inclusion of the most vulnerable populations that have limited access to formal financial services and fulfill an important liquidity function by facilitating payments for small value transactions. Staffs encourage the authorities to develop appropriate monetary and exchange rate policy frameworks for the currency reform that promote credibility and minimize risks, and to further strengthen the capacity of the CBS and financial institutions.

## D. Financing and NDP9 Costing

**11. Staffs welcome the completion of NDP9 costing for FY2021 and FY2023, and encourage the authorities to build on the lessons learnt for subsequent budgets.** In 2020, the federal government, through the Ministry of Finance interacted with 16 federal spending entities to cost NDP9 development programs, explicitly linking financing with NDP9 programs in the FY2021 Appropriation Act. There was no costing undertaken in FY2022. However, as part of the

Supplementary Budget of FY2023 and Budget FY2024, the authorities undertook a costing of NDP9 priorities. Staffs emphasize the need to further refine the costing exercise for subsequent budgets so that NDP9 implementation efforts are carefully prioritized, sequenced, and matched with planned expenditure interventions.

**12. However, financing NDP9 through the budget system is challenging, with most of the grant financing (more than 70 percent in 2020) remains off-budget.** Staffs encourage development partners to channel aid flows through country systems to ensure their alignment with the priorities of NDP9, enhance their visibility, and facilitate monitoring and evaluation. To this end, the Ministry of Finance has worked with development partners through the Use of Country Systems (UCS) Working Group to encourage international partners to utilize the Aid Information Management System.<sup>4</sup> This system links planned interventions and spending with NDP pillars. Staffs recognize the importance of reducing off-budget financing of development projects and encourage development partners to provide funding through the budget system and provide complete and timely information on their development activities in Somalia.

## POVERTY REDUCTION

**13. Staffs note pro-poor program implementation of NDP9.** The significant increase in pro-poor expenditures since 2020 has helped to mitigate somewhat the impact of multiple shocks on the poor. In this regard, implementation of NDP9 and higher pro-poor expenditures since 2020 prevented worse poverty outcomes. The actual budget spending on social benefits in 2022 was US\$189 million, more than three times the amount spent in 2020 (US\$62 million). Baxnaano, the major social protection program, provides support to chronically poor and vulnerable households through a regular long-term unconditional cash transfer program that covered 200,000 households with children aged under five years. Baxnaano also provided emergency cash transfers to support 338,000 drought affected households and 260,000 locust affected households.

**14. Staffs welcome the government's effort to monitor poverty.** In August 2023, the Somalia National Bureau of Statistics (SNBS) launched the Poverty and Inequality Report, which provides insights into the current poverty situation in Somalia. The poverty statistics were calculated based on the Somali Integrated Household Budget Survey (SIHBS) data conducted in 2022. Subsequent rounds of SIHBS should be conducted in the near future to track progress on poverty reduction and other goals. The SNBS estimated the national poverty using the national poverty line, which was based on the basic needs requirement for Somalia. The report shows that 54.4 percent of the Somali population live below the national poverty line of \$2.06 per person per day. Poverty rates are lower among urban households compared to their rural counterparts, although the nomadic population experience the highest rates of poverty, with over three-quarters living below the

<sup>4</sup> The Aid Information Management System is a robust aid flow information management system, which has been established by the Ministry of Planning, Investment and Economic Development (MoPIED) and is regularly updated. The AIMS captures self-reported aid flow information by development partners and as such is as 'robust' as the data provided by partners. To date, MoPIED has provided annual aid flow reports and has used the information to trace financial contributions against NDP9 priority areas.

poverty line. Since the 2022 SIHBS is the first household budget survey since 1985, inference about poverty trends during the NDP9 implementation period cannot be drawn; therefore, the reported poverty reduction in the MTR is not accurate.

**15. At the same time, staffs emphasize the importance of enhancing the availability, quality, and analysis of poverty and social data.** Future poverty analysis should identify poverty across different areas of the country and identify demographic groups that are likely to be poor. In addition, the analysis may examine the linkages between poverty and development issues, such as the lack of access to services and increased vulnerability due to climate change, as well as the link between macro level structural policies and poverty reduction.

## PROGRESS DURING THE FIRST HALF OF NDP9 IMPLEMENTATION

### A. Pillar 1: Inclusive Politics

**16. The MTR reports the deepening of federalism in Somalia, a cornerstone of NDP9's inclusive politics pillar.** The authorities have formulated several laws and policies including the National Local Government Capacity Development Policy, Local Government Act, the National ID and Public Registration Act. Staffs acknowledge the efforts undertaken to deepen fiscal federalism since 2020 through the (1) agreement on an intergovernmental transfer formula for budget support; (2) adoption of the harmonized chart of accounts and reporting format by the FGS and FMS; and (3) agreement at technical level of the harmonized Tax Identification Number (TIN) structure. The harmonization of the chart of accounts and reporting format has been implemented in four of the FMS.

**17. The MTR is upfront about challenges in meeting objectives of the Inclusive Politics pillar.** Challenges faced during the first three years of NDP9 implementation include the lack of public awareness and the lack of clear roles and responsibilities of each governmental institution, resulting in conflicts between political actors in the FGS and FMS. Political tensions, security uncertainties, and delay in federal elections impeded implementation of some activities in the Pillar.<sup>5</sup> The MTR acknowledges the role of corruption in undermining NDP9 implementation. The competition between the FGS and armed non-state actors, as well as between the FGS and the FMS poses further challenges. Finally, limited capacity within Somali government institutions also impeded NDP9 implementation.

**18. Staffs acknowledge challenges in implementing the Inclusive Politics pillar but emphasize its importance for political stability, inclusive economic growth, and poverty reduction.** Unfinished political settlements cause slow reform, avert political inclusion, and could

<sup>5</sup> As described in [Somalia's IMF Country Engagement Strategy](#), lack of political consensus among the FGS and all FMS impacts implementation of federal fiscal reforms. This highlights the challenges in achieving the goals set out in terms of the Inclusive Politics Pillar.



worsen fragility. Instituting a rule-based formula for revenue sharing and intergovernmental grants—linked to clear expenditure responsibilities—can help narrow the fiscal gap between states with and without seaports (and their corresponding customs revenue), leading to reduced inequalities and increased citizen trust and state legitimacy.

## B. Pillar 2: Security and the Rule of Law

**19. The MTR acknowledges challenges on the security front, while noting the prioritization of the current administration to defeat al-Shabaab militants.** The MTR cites some progress from the government offensives, including liberation of 70 towns and villages, while more soldiers are being trained ahead of ATMIS's exit from Somalia by December 2024. The African Union force has already handed over seven bases to Somali Security Forces. However, the country still faces challenges stemming from the extended droughts and food security crisis, compounded by domestic political tensions.

**20. Staffs noted the government's efforts in curbing corruption.**<sup>6</sup> The MTR highlights the government's efforts to strengthen public financial management systems, improve expenditure controls, strengthen the role of the Auditor General Office, and implement biometric registration in security sector as important measures in curbing corruption. Staffs commend the authorities for: (1) acceding to the UN Convention Against Corruption (UNCAC) and ratifying the African Union Convention on Preventing and Combating Corruption and Arab Anti-Corruption Convention; (2) publishing the National Anti-Corruption Strategy (NACS); (3) enhancing transparency in the regulatory process for key industries with the CBS and National Communication Authority (NCA), respectively, publishing on their websites the outcomes of licensing applications for Mobile Network Operators and Mobile Money Operators; (4) enactment of the Audit Law that supports a robust federal audit system; and (5) development of the legal framework for the extractive industries including enactment of the Petroleum Law and Extractive Industries Fiscal Regime Law. Staffs highlight the importance of sustained efforts to improve governance and fight corruption, and recommend that authorities report on the progress made in implementing the NACS, the status of the Anti-Corruption Commission, and compliance with the UNCAC.

**21. Staffs note the progress in the justice sector.** The MTR reports that the government provided legal aid services to over 10,000 beneficiaries (55 percent women). In addition, 40 judges and 40 judge assistants have been recruited to improve access to justice. However, final political agreement on the justice and corrections model has not yet been reached.

**22. Given the importance of security spending for political and therefore economic stability, staffs encourage the authorities to ensure that the security sector is carefully managed and that resources are adequate and timely.** In this regard, the FGS should maintain its commitment to security sector registration and keep the information up to date. Efforts have been

<sup>6</sup> The [National Anti-Corruption Strategy](#) of Somalia acknowledges the ubiquity of corruption, and its threat to security, justice, and development.

made to establish competitive tendering for security rations. NISA should resolve incomplete tender processes and ensure that rations are delivered under valid, competitively tendered contracts.

### C. Pillar 3: Economic Development

**23. Staffs commend the authorities for the comprehensive update of the implementation and achievements under the Economic Development pillar.** The policy environment for key enabling sectors—namely water, energy, transport, and digital sector—has been strengthened and programs have been put in place to support food security and trade integration. Other important reforms that will support economic development include the enactment of the Fisheries Law and the regulations for the Company Act.

**24. Water and energy.** The Ministry of Energy and Water Resources is implementing the National Water Resources Strategy (NWRS) and Roadmap 2021–2025 and has launched the Water Sector Coordination Facility which is responsible for sector coordination and oversight of the NWRS. The Facility is encouraging a shift from emergency assistance to long-term programmatic support to the water sector by the development community and coordinated by the FGS. Large-scale investments in rainwater harvesting, water reservoirs, and water catchments are providing water for rural resilience. Staffs encourage the government to address urban water supply and sanitation as well. Staffs also welcome the update on the energy sector: the Electricity Act was promulgated in March 2023, and tariff and licensing regulations were approved in April 2023. The National Electricity Authority (NEA) was established in June 2023. Staffs encourage the government to operationalize the NEA.

**25. Transport and Infrastructure.** Staffs commend the update provided in the MTR, which shows significant progress in the aviation sector, and the ambitious approach to road and port sector development. Regarding aviation, the MTR highlights the achievement in reaching an important milestone regarding control of its airspace, upgrade of some airport infrastructure, and strengthening of the governance of the sector. In the ports sector, the MTR highlights the ongoing construction of the new port in Garacaad under private financing. Staffs encourage the FGS to continue their efforts to establish governance and coordination mechanisms to ensure cooperation between the four, soon to be five, maritime ports, and to avoid unhealthy competition and minimize corruption risks. Given the need to shift to civil works implementation by the responsible agencies, staffs encourage them to develop clear project implementation and coordination mechanisms, including processes and mandates for cross-agency/ministry engagements. This is particularly important, highlighting the potential savings and increased benefits from a joint implementation of linear infrastructure (roads, digital, energy, water).

**26. Digital Sector.** Staffs commend progress made in the telecommunications sector, enabling interconnection between separate operator networks, and mobile phone users to call and make payments across networks. Future progress reports could assess information and communication technology (ICT)/digital sector developments more broadly to include elements such as national ID, cybersecurity, data protection, and digital infrastructure development including the national data center. Staffs encourage the government to accelerate implementation of data protection, cyber

security, and digital ID activities which will promote a secure online space as more Somalis start using the internet, as well as to ensure inclusive development through the use of digital IDs. Staffs suggest that improved data collection is necessary for monitoring progress of reforms, with a focus on indicators for digital connectivity and internet access.

## D. Pillar 4: Social Development

**27. Social Protection.** Staffs commend the government's prompt response to the external and domestic shocks, which was enabled through sustained investments in the social protection system, supported by financial and technical assistance from the World Bank. Staffs welcome the extensive discussion of Baxnaano's role in building and protecting human capital of poor households while addressing shocks. Achievement of Unified Social Registry (USR) functionality as one of the first government managed and implemented systems is a key milestone for the social protection sector. Building on successful implementation since 2020, staffs encourage the government to strengthen and institutionalize Baxnaano as a key step towards taking up direct implementation of the program and service delivery. In addition, staffs encourage the government to invest in expanding the unified social registry linking the national ID with the registry to streamline data management and introducing interventions to build human capital and improve labor market outcomes. Staffs encourage the government to seek financing, in particular external grants, to facilitate continuity of Baxnaano's operations beyond June 2024, to support continued pro-poor public spending in the remaining years of the NDP9.

**28. Education.** Staffs note the progress in the education sector, including approving important legal and policy frameworks, the recent hiring of 3,000 teachers, and the agreement between the FGS and FMS Ministries of Education (MOE) on their respective roles and responsibilities on curriculum and examinations. However, the MTR could underscore the urgency in implementing the National Assessment System, which would allow the government to assess students' learning levels, facilitating evidence-based measures to enhance educational quality. Drawing on experience from other fragile states similar to Somalia, a streamlined mechanism to directly finance schools, regardless of their governance structure, can significantly increase enrollments. Additionally, assessing educational infrastructure is crucial in addressing demand for schools. Finally, staffs encourage the use of standard indicators in the MTR, such as the net and gross enrollment rates for a more precise understanding of Somalia's school enrollment dynamics.

**29. Health.** Staffs acknowledge the progress made in improving the health policy framework and implementing the programs proposed under NDP9 notwithstanding the setbacks caused by the COVID-19 pandemic. The Federal Ministry of Health and Human Services spearheaded key policy and legislative initiatives aimed at improving the coverage and quality of health services, including (1) updating the Essential Package of Health Services Framework (EPHS 2020), (2) the Somalia Health Sector Strategic Plan 2022-2026 (HSSP III), (3) the Somalia Health Sector Investment Case (2022-2026); (4) establishing the National Health Professionals Council (NHPC); and (5) enacting the National Medicines Regulatory Authority Bill. Staffs encourage the government to expedite the implementation of these key policies and to further enhance FGS-FMS collaboration on health service delivery.

**30. Cross-cutting themes.** Staffs commend greater attention to climate change in the MTR. The current shift of the global climate into an El Niño phase may have alleviated drought conditions that have affected Somalia over recent years, but the reprieve is likely to be temporary and come at the cost of higher flood risk. Climate change is recognized as a critical challenge and efforts are being made to make project and programs climate responsive. In the rural space, there are efforts to expand drought-resistant agriculture and water conservation measures, including subsurface dams. In this regard, greater coordination between development partners and humanitarian agencies would be beneficial. A key challenge is to provide guidance on key climate measures and milestones for the next NDP. On gender equality, the MTR could highlight challenges in the efforts to close gender gaps—such as coordination and women’s representation—and obstacles faced by the gender and human rights bills.

## IMPLEMENTATION, DONOR COORDINATION, AND MONITORING AND EVALUATION

**31. Staffs are encouraged to note that the authorities are well positioned to achieve the HIPC Completion Point by December 2023 and have continued to make steps to improve donor coordination.** Somalia has already achieved 13 of 14 HIPC Completion Point triggers, including on public financial and expenditure management, domestic revenue mobilization, governance, social sectors, and statistics. Progress was made in implementing the remaining trigger on applying a single import duty tariff schedule, for which the government will request a waiver. Staffs welcome the establishment of the Aid Coordination Office and the Somalia Aid Information Management System as important steps to enhance aid coordination and strengthen donor harmonization. Nevertheless, significant improvements are needed to reduce duplicate projects and averting aid, improve information sharing, and achieve the transparency and accountability that would allow increased use of country systems and channeling resources through the budget.

**32. Staffs commend the FGS’ efforts to improve data and the statistical system in Somalia.** The FGS has made substantial progress in producing data needed to monitor progress of NDP9. The authorities have strengthened programming and analytical capacity of the fiscal agencies to inform implementation of policies and programs. To help strengthen data transparency, Somalia implemented the IMF Enhanced General Data Dissemination System (e-GDDS) in June 2022 by publishing essential macroeconomic and financial data through a National Summary Data Page. The Somalia Integrated Statistics and Economic Planning Capacity Building Project (SISEPCBP) aims at strengthening capacity of the SNBS, the Monitoring and Evaluation Directorate (MED) in MoPIED, and the statistical offices of the ministries, departments and agencies (MDAs) responsible for collecting and analyzing data. The 2022 SIHBS was conducted for the first time since 1985, and has been used to monitor poverty, as shown by the Poverty and Inequality Report released by SNBS in August 2023. The survey was used to rebase GDP and will be used to update the CPI basket in 2024. Going forward, the FGS needs to continue to build its capacity to analyze such data to guide evidence-based policy making. Staffs also welcome the government’s ongoing efforts aimed at implementing the 2020 Statistics Act, and implementing the National Strategy for Development of

Statistics (NSDS) for strengthening the national statistical system. These efforts have significantly contributed to strengthening coordination and data sharing within the country's national statistics system. SNBS has published four editions of the Somalia Annual Fact Book. Finally, we strongly encourage the government to use this data in planning and evaluation, including in the APRs.

**33. Staffs welcome the progress that FGS made during the past two years in strengthening the monitoring and evaluation (M&E) system in Somalia and urge the FGS and FMS to continue strengthening the system.**

Staffs welcome the progress made by the MED in MoPIED to coordinate all public sector M&E activities. To do so effectively, MED has developed a National Integrated Monitoring and Evaluation Framework (NIMEF) that is being used as an M&E mechanism for monitoring, evaluating, and coordinating implementation of all activities presented in NDP9. Thus, the NIMEF provides an integrated monitoring and evaluation framework for regular and systematic tracking, documenting, and evaluating progress of the strategic priorities in the NDP9. To strengthen its data sources for measuring key indicators and targets included in NIMEF, the MED needs to work closely with the various entities involved in data collection and analysis, key among these being the SNBS. Creating strong linkages between the activities of MED, MOF and SNBS is critical in producing appropriate data needed for monitoring and evaluation of activities included in NDP9. Staffs welcome recommendations from the MTR to strengthen communication and hold consultation with stakeholders both at the FGS and FMS levels in order to raise awareness of NDP9, gather feedback for course correction, and build support for NDP10 preparation.

## CONCLUSION, RISKS, AND RECOMMENDATIONS

**34. Staffs welcome that the MTR accurately captures most of the key achievements in the implementation of the NDP9 between 2020 and 2022, as well as the ongoing challenges.**

Important progress has been made on implementation of the NDP9 despite challenges that were exacerbated by the prolonged drought, COVID-19 pandemic, price hikes due to Russia's invasion of Ukraine, as well as the protracted election process between 2020 and 2022. Major achievements include: (1) a significant increase in pro-poor expenditures, supported by a better legal framework and capacity building, implementation of the Baxnaano program as well as the establishment of the national unified social registry, (2) improvements in domestic revenue mobilization, including the implementation of the SOMCAS, new turnover taxes and spectrum fees, and revenue administration reforms; (3) improvements in public financial management including enhancements in reporting, the adoption of the Pay and Grade Policy, progress on payroll integration, publication of PFM regulations, the implementation of expenditure controls, strengthened procedures and oversight for procurement and concessions, and new policies for the management of non-financial assets; (4) financial sector reforms, which include the licensing of mobile money operators, the creation of a national payments system, the establishment of the AML/CFT taskforce and the completion of a national ML/FT Risk Assessment, and the enactment of the Targeted Financial Sanctions Law and issuance of the related regulations; (5) undertaking anti-corruption measures with the adoption of UNCAC and regional anti-corruption conventions, a National Anti-corruption Strategy and the establishment of Independent Anti-Corruption Commission; (6) strengthened business environment and policy framework for key enabling sectors (aviation, telecommunications sector, energy), and

(7) efforts to improve the availability and quality of data and the statistical system . Moving forward, the government could build upon these achievements to sustain the reform momentum and continue building the foundations for a sustained and inclusive growth and poverty reduction. Staffs encourage the authorities to maximize the implementation of priority actions during the last year of the NDP9 implementation.

**35. NDP9 implementation continues to face significant risks, while some effort to address these risks were reported in the MTR.** Some of these risks were also highlighted in the JSAN for the APR 2020. NDP9 implementation risks stem from: (1) insecurity, which could impede provision of basic public services and development; (2) the lack of policy prioritization, particularly on expenditure policy and absence of full costing aligned with FGS and FMS fiscal frameworks; (3) political risks, including those stemming from the lack of full consensus regarding the federal system (which creates tensions in the inter-governmental relations) and uncertainty around the process for national elections; (4) corruption and weak governance, and risks associated with ensuring sound public financial management in line with the PFM laws and regulations; (5) heavy reliance on off-budget donor support for financing of the NDP9 combined with an absence of coherent aid policy strategy to catalyze and align large donors' assistance to support the NDP9; (6) risks related to revenue collection, including ability of the tax administration to ensure adequate registration, filing, declarations, and payments by the private sector; and (7) severe capacity constraints, where institutions have only recently been created and staffed with few adequately trained and experienced employees. Finally, external shocks, including climate change, pose a significant risk to the successful implementation of NDP9.

**36. This JSAN highlights the following recommendations to support achievement of all the goals of the NDP9.** Staffs commend the preparation of the MTR for NDP9, its sincere discussions about challenges, and the practical recommendations. While staffs largely agree with actions recommended in the MTR, we would like to highlight the following:

- Defend fiscal sustainability and take steps to strengthen capacity for public debt management and debt risk assessments. Even after reaching the HIPC Completion Point, future borrowing decisions should be aligned with Somalia's future capacity to repay while maintaining medium-term fiscal sustainability;
- Accelerate domestic revenue mobilization to increase resources to support the implementation of NDP9 priorities;
- Continue to strengthen public financial management and public investment management to improve expenditure, transparency and accountability;
- Enhance transparency and accountability through greater attention to improving governance. In addition, the authorities are encouraged to step up efforts to reduce corruption;
- Ensure that the security sector is carefully managed and that resources are adequate and timely, given the importance of security spending for political and thus economic stability;

- Promote tangible progress on electoral reforms to support greater political inclusion and representation; and
- Catalyze climate leadership across the government when implementing NDP9 programs to ensure effective and sustainable development.

**37. Staffs will assess progress in implementing these recommendations and the evolution of risks.** Combined with annual monitoring data, this information would enable staffs to advise the IMF and IDA Executive Directors on Somalia's further implementation of the NDP9. Staffs encourage the timely development of a streamlined and realistic NDP10, which is expected in 2025. Its preparation may draw on the experience of NDP9, the lessons learnt in implementing NDP9, and the staffs' recommendations.

## Annex I. Progress on HIPC Completion Point Triggers<sup>1</sup>

HIPC Completion Point Triggers	Assessment
<b>Poverty Reduction Strategy Implementation</b>	
1. Satisfactory implementation for at least one year of Somalia's full poverty reduction strategy, as evidenced by an Annual Progress Report on the implementation of the poverty reduction strategy submitted by the government to IDA and the IMF.	<b>Met.</b> The <a href="#">Annual Progress Report</a> evaluating the implementation of the <a href="#">Ninth National Development Plan</a> (NDP9) covering 2020-24 in 2020 was completed in June 2022. Staffs of the World Bank and IMF issued a <a href="#">Joint Staff Assessment Note</a> (JSAN) confirming satisfactory implementation of the NDP9 during 2020, which was transmitted to the IDA and IMF Executive Boards in July 2023.
<b>Macroeconomic Stability</b>	
2. Maintain macroeconomic stability as evidenced by satisfactory implementation of the 3-year ECF-supported program.	<b>Met.</b> The <a href="#">fifth review of the ECF-supported program</a> was completed on May 17, 2023. The sixth review and final review will be considered for approval by the IMF Executive Board in December 2023.
<b>Public Financial and Expenditure Management</b>	
3. Publish at least two years of the audited financial accounts of the Federal Government of Somalia (FGS).	<b>Met.</b> The Office of the Auditor General published <a href="#">the 2019, 2020, 2021, and 2022 FGS financial accounts</a> .
4. Issue regulations to implement the Public Financial Management Act's provisions on debt, public investment, and natural resource revenue management.	<b>Met.</b> The <a href="#">PFM regulations</a> —including chapters on debt, public investments, and natural resource revenue management—were approved by the Cabinet in May 2022.
<b>Domestic Revenue Mobilization</b>	
5. Adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia (to also foster greater trade integration).	<b>Not completed but satisfactory progress has been made.</b> The customs regulations on valuation and declarations were issued in September 2022 and the ad valorem tariff schedule was enacted in June 2022. The Somalia Customs Automated System (SOMCAS) system has incorporated harmonized tariffs, Harmonized System (HS) codes, and harmonized item descriptions. The SOMCAS system is now fully operational in Mogadishu seaport and airport as of October 2023. In Kismayo seaport and airport, SOMCAS has been partially implemented, as shipping lines and airlines are entering manifests into the system and declarations are being made for khat imports. However, efforts are still ongoing to implement a common valuation table across Mogadishu and Kismayo. Once this is resolved, Kismayo will be able to carry out all the customs processing through SOMCAS. The reform has been paused in the ports of Bosaso and Garowe in the Federal Member State of Puntland due to political conditions.

<sup>1</sup> Progress as of end October 2023.



HIPC Completion Point Triggers	Assessment
<b>Governance, Anticorruption, and Natural Resource Management</b>	
6. Enact the Extractive Industry Income Tax Law.	<b>Met.</b> The <a href="#">Extractive Industries Fiscal Regime Law</a> was enacted in June 2023.
7. Ratify the 'United Nations Convention Against Corruption' (UNCAC).	<b>Met.</b> Somalia acceded to the <a href="#">UNCAC</a> in August 2021.
<b>Debt Management</b>	
8. Publish at least four consecutive quarterly reports.	<b>Met.</b> Regular quarterly <a href="#">debt bulletins</a> have been published since 2020Q4 with information on the outstanding stock and composition of debt liabilities, including their currency denomination, maturity, interest rate structure and projected debt service and key risk indicators.
<b>Social Sectors</b>	
9. Establish a national unified social registry (USR) as a functional platform that supports registration and determination of potential eligibility for social programs.	<b>Met.</b> In July 2023, the functionality status of the USR was achieved with the successful completion of all governance, technical and operational requirements that enables Ministry of Labour and Social Affairs (MoLSA) to operate the USR for the intended objective.
10. FGS and Federal Member States (FMS) Ministers of Education (MOE) adopt an agreement defining their respective roles and responsibilities on curriculum and examinations.	<b>Met.</b> On July 14, 2021, the FGS and FMS MoEs finalized and officially signed the revised education cooperation <a href="#">Memorandum of Understanding</a> (MoU) at the intergovernmental meeting held in Garowe. A permanent intergovernmental forum for education has been formalized. Key agreements reached include the formation of national examination, certification, and curriculum boards. An interim committee to develop the criteria for selection of the board members was also established.
<b>Social Sectors</b>	
11. FGS and FMS Ministers of Health adopt a joint national health sector strategy.	<b>Met.</b> The <a href="#">Somalia Health Sector Strategic Plan</a> for 2022-2026 was finalized. FGS and FMS ministers have agreed on a framework for a joint national health strategy.
<b>Growth/Structural</b>	
12. Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.	<b>Met.</b> The Somalia Electricity Act was enacted on March 8, 2023. Two regulations - the <a href="#">ESP Licensing Regulations</a> and the <a href="#">ESP Tariff Regulations</a> - have also been approved.
13. Issue Company Act implementing regulations on minority shareholder protection to encourage private sector investment	<b>Met.</b> The regulations to the <a href="#">Companies Act</a> were issued in January 2021. A second set of Regulations to the Company Act were issued in May 2022 specifically covering the issue of minority shareholder protection.
<b>Statistical Capacity</b>	
14. Publish at least two editions of the Somalia Annual Fact Book.	<b>Met.</b> The <a href="#">Facts and Figures of Somalia</a> has been published for 2018, 2019, 2020, and 2021.