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Somalia: Letter of Intent, Memorandum on Economic Financial Policies, and Technical Memorandum of Understanding

May 17, 2016

The following item is a Letter of Intent of the government of Somalia, which describes the policies that Somalia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Somalia, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Letter of Intent

Mogadishu
May 17, 2016

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431 USA

Dear Madame Lagarde:

1. As you are aware, Somalia's economic and social infrastructure has been severely damaged by a conflict that has lasted for a quarter of a century. Since 2012, the Federal Government of Somalia has embarked on an ambitious process of rebuilding the state and the economic and social infrastructure. Despite challenging security and economic conditions, our efforts are bearing fruit. With International Monetary Fund (IMF) technical assistance and policy advice, we have reestablished the core functions of our economic institutions, initiated reforms to improve our macroeconomic management, and laid the foundation for economic recovery.
2. The Somali government is committed to sustaining its efforts to rebuild the economy, improve social conditions, and move toward normalizing relations with international financial institutions. In this regard, it has formulated a reform program for the period May 2016–April 2017 that focuses on implementing prudent macroeconomic policies, while strengthening institutional capacity for macroeconomic management. As described in our Memorandum of Economic and Financial Policies (MEFP, Attachment I), our program's objectives are to support economic growth by enhancing governance and economic statistics, strengthening fiscal discipline, rebuilding capacity for monetary policy management, and fostering financial sector development. To assist us in this effort, we are requesting an IMF Staff Monitored Program (SMP). The government hopes that a successful execution of this, and subsequent SMP programs, will eventually allow us to move to an IMF-supported program of an upper credit tranche quality.
3. The government is convinced that the policies and measures set forth in the MEFP are appropriate for meeting the objectives of the program. However, we stand ready to adopt any additional measures that may become necessary. We will remain in close consultation with IMF staff on the adoption of such measures and in advance of any revisions to the policies contained in the MEFP. To facilitate the monitoring of the performance of the program, the government will regularly provide IMF staff with all necessary information, within the required deadlines specified in the attached Technical Memorandum of Understanding (TMU, Attachment II).

4. Finally, the government authorizes the IMF to publish this letter, the attached MEFP and TMU, and the related staff report, including placement of these documents on the IMF website, subject to the removal of market-sensitive information.

Sincerely yours,

/s/

Mohamed Adan Ibrahim
Minister of Finance

/s/

Bashir Issa Ali
Governor of the CBS

Attachments:

1. Memorandum on Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum on Economic and Financial Policies

INTRODUCTION

- 1. This memorandum reviews recent economic developments and outlines our policies and reforms for May 2016—April 2017, for which we are requesting the support of an IMF staff monitored program.**
- 2. Somalia is a fragile state emerging from a protracted civil war.** In 1991, armed opposition groups toppled the government, resulting in a protracted civil conflict and the implosion of the central government. In the 25 years since, the situation has been very difficult and volatile. A provisional constitution was adopted in August 2012 and traditional elders across the country elected a 275-member Federal Parliament. In September 2012, Parliament elected Mr. Hassan Sheikh Mohamud as President, leading to the formation of the Federal Government of Somalia (FGS) in October.
- 3. Since then, the government has taken important steps to rebuild the country's economic institutions.** Somalia now has a functioning Central Bank, a Cabinet, and several government agencies that have been working together, including in developing the economic infrastructure of Somalia. Although these institutions need substantial human and technical capacity, significant progress has been achieved in building the institutional framework and in preparing basic macroeconomic statistics.
- 4. Because of the protracted conflict, however, state institutions remain impaired, the economy is severely underdeveloped, and poverty is pervasive.** The legacy of the destruction of both physical infrastructure and human capital will continue to limit Somalia's growth potential. Weak capacity in government institutions and shortages in accurate and timely statistics hampers policy formulation and implementation. Moreover, a generation where non-payment of taxes was the norm poses challenges to revenue mobilization. Nevertheless, the reestablishment of the basic functions of the country's economic institutions, aided by the international community, provides us with an opportunity to improve macroeconomic management and rebuild institutional capacity.
- 5. Our program aims to facilitate economic recovery and improve the livelihood of our population.** To this end, we will embark on policies and reforms to strengthen our fiscal framework, rebuild the financial system, and improve governance. The SMP, in support of our program while establishing a policy implementation track record as an important step toward an eventual fund arrangement, will also facilitate Somalia's re-engagement with the international community, including the international financial system.

RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

6. **Notwithstanding capacity constraints, the policies undertaken in recent years have supported macroeconomic stability.** In 2015, broad-based economic growth was estimated at 3.7 percent, and inflation remained low at 1 percent. However, due mainly to shortfalls in pledged budget support, the government accumulated new domestic arrears. While the external current account deficit was large at about 15 percent of GDP, the deficit was financed mainly by foreign direct investment (FDI), including increasing inflows from the Somali diaspora.
7. **The government has taken strong measures to improve revenue collection and public financial management (PFM).** We enhanced tax and customs administration, including by training the staff of tax-collecting agencies. On PFM, we underpinned the 2016 budget with more realistic revenue measures, introduced an electronic system for paying salaries of civil servants and phased in the implementation of the Somalia Financial Management Information System. We have strengthened the legislative framework with key legislations passed by Parliament, including the Foreign Investment Law, Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Law, the Audit Law, and the Procurement Law. We established the National Interim Procurement Board to review large concession contracts and ensure transparency.
8. **We have implemented reforms to enhance the governance of the Central Bank of Somalia (CBS).** The CBS Board of Directors has approved new by-laws and regulations to safeguard the autonomy and accountability of the Central Bank, including: (1) setting up an audit committee to report directly to the Board of Directors; (2) establishing an Internal Audit Department reporting to the Governor; and (3) the auditing of the 2014 CBS financial statements, which is in progress.
9. **We have implemented the preconditions for initiating discussions on an SMP.** In particular: (1) on January 11, a presidential decree approved an Appropriation Bill that is consistent with a zero-cash balance; (2) with the IMF technical assistance, significant progress has been made in developing an appropriate institutional framework for data reporting; (3) on March 10, Cabinet approved an arrears management strategy; and (4) on March 17, the CBS Board of Directors approved a road map for currency reform.

PROGRAM OBJECTIVES AND POLICIES

10. **Our objectives are to establish the building blocks for macroeconomic stability and economic recovery.** Therefore, our program focuses on building a sound framework for macroeconomic management, notably strengthening PFM, creating a modern tax and customs administration, implementing an arrears management strategy, reforming the national currency, and improving the licensing and supervision of financial institutions to foster confidence in commercial banks and money transfer businesses (MTBs). The program design recognizes our limited institutional capacity, and envisages capacity building as an essential component. Furthermore, we are preparing a national development plan, which is compliant with the Interim Poverty Reduction Strategy Paper, for the period 2017–19 to guide delivery of aid.

11. **The program for the period May 2016–April 2017 will lay a foundation for sound macroeconomic management.** It focuses on: (1) realistic budgeting and budget execution that avoids the accumulation of new arrears; (2) improving PFM; (3) raising revenue; (4) reforming the national currency; (5) improving commercial banks and MTBs licensing and supervision; (6) facilitating international remittances to Somalia; and (7) developing a statistical system.

12. **Our key macroeconomic objectives for 2016 are to:** (1) achieve real GDP growth of 3.7 percent, supported by the continued expansion of agriculture, telecommunication, and services; (2) limit inflation to 1 percent; and (3) not allow net foreign assets of the CBS to fall below a continuous floor. Given the reality of very low foreign reserves, the CBS will use any recovered CBS foreign assets to increase its net foreign reserves. While the external current account deficit is projected to remain large, we expect FDI and grants to cover the deficit.

A. Governance and Statistics

13. **Enhancing the governance of key institutions is critical.** The focus is reorganizing the Ministry of Finance, Ministry of Planning, and CBS and strengthening key legislative and regulatory frameworks. In particular, we plan to primarily reorganize and re-enforce, with donors' assistance, key economic units (including the recently established strategic unit, arrears management committee, national statistics, debt management unit) and departments (customs, Inland Revenue, and the Treasury departments). Donors' technical assistance is expected to provide guidance on best practice and appropriate regulatory framework. The CBS will develop and implement key by-law needed for effective supervision and regulation of banking and MTBs.

14. **We will strengthen institutional capacity, enhance governance, and foster strong private sector led growth.** The authorities will strengthen the anti corruption committee established in 2011 by re-enforcing the oversight of the committee and defining a roadmap. We will continue to introduce appropriate regulations for the private sector (for example, a law governing the telecommunications sector), and formalize administrative procedures. Strengthening fiscal governance is a priority as well. We will submit to Parliament a draft Public Financial Management Bill, already approved by the Cabinet. PFM reforms will continue as outlined in the 2016–20 Public Financial Management Reform Action Plan (PFMRAP) in paragraph 20. We are introducing automated payroll systems for the National Army and Police, and strengthening civilian oversight over their budget resources. Regarding fiscal federalism, we will begin discussions toward harmonizing taxes across sub-national governments, establish channels for intergovernmental transfers, and define basic principles for a national fiscal framework.

15. **We will continue to enhance governance in the financial sector.** Over the next 12 months, the CBS intends to further strengthen the licensing, supervision, and regulation of the nascent Somali commercial banking system. Moreover, we will modernize the CBS's accounting and financial reporting system.

16. **We will continue to rebuild our economic and financial statistics.** In particular, we will submit to Parliament a new statistical law that establishes an institutional framework for data compilation, reporting, and dissemination. Further, we are developing statistical collection infrastructure, including by establishing a list of business enterprises that will form the basis for conducting statistical surveys to collect basic economic statistics.

B. Fiscal Policy and Reforms

17. **Our fiscal policy in 2016 aims to strengthen the role of the budget as a policy tool.** The 2016 budget targets a zero-cash balance. It contains new tax policy measures, realistic revenue forecasts, and prudent expenditure policies. We will execute the budget in conformity with the law. In the event of revenue or grant shortfalls, we will cut spending in conformity with the rules for sequestering (prioritizing) expenditures, and if required, submit a revised budget to Parliament. In light of low domestic revenue and large reconstruction needs, we will continue to rely on donor grants (on budget), which are projected to reach \$121 million, and abstain from domestic and external borrowing. Where possible, we will direct any revenue windfalls to arrears payments.

18. **We have implemented important tax policy measures to raise revenue.** The new measures and improvements in tax and customs administration are expected to yield additional revenue of \$11.7 million, and increase overall tax revenue to \$94.1 million (from \$82.4 million in 2015). The measures seek improved collections in income and profit taxes, and an improved collections modality for the khat tax, as well as negotiated collections from electricity and water companies and MTBs.

19. **We will improve tax and customs administration as part of our effort to strengthen the fiscal framework.** In particular, we plan to introduce a modern system of taxpayer registration to improve tax compliance and expand the taxpayer base. Accordingly, we plan to strengthen audit and enforcement. In this regard, we will complete by the end of March 2017 a plan to modernize tax and customs administration. We will also outline other specific reform measures with the support of IMF technical assistance and other development partners.

20. **We are committed to bringing our PFM systems closer to regional and international standards.** Our priorities outlined in our PFM RAP are concentrated on a small group of core PFM reform initiatives that are prerequisites for effective resource management and a credible budget. These are directed to strengthen: (1) the formulation of macro-fiscal policies and revenue mobilization; (2) the preparation of credible annual budgets; (3) expenditure control. To tighten expenditure commitment control, we have established a monthly allotment ceiling for ministries, departments, and agencies that are in line with our revenue outlook.; (4) accounting and fiscal reporting, as well as external auditing; and (5) cash management.

21. **We will implement several PFM reform measures during May 2016–April 2017** (Table 2). These include: (1) approval by the Minister of Finance of the PFM RAP by the end of June 2016; (2) preparation of a plan to identify existing domestic arrears and a repayment schedule by the end of September 2016—the plan will include the identification and verification of existing

arrears and the formulation of an arrears-clearance schedule; (3) achievement of 100 percent of non-salary Recurrent Cost and Reform Financing reimbursement by the end of December 2016; (4) completion of a report on the process and design of an electronic payment system for the Somali National Army and Police with biometric screening by the end of December 2016—this structural benchmark will involve the selection of a consulting firm to prepare a report on the feasibility and the processes needed to introduce electronic allowances payments, with biometric screening, for the Somali National Army and Police; (5) completion of an action plan to improve the policy and processes for cash management function by the end of March 2017—this action will involve taking stock of the reforms and changes introduced with the assistance of development partners (including the IMF), identifying weaknesses, and proposing action plan to address them; (6) completion of a plan to modernize the revenue and customs administration by the end of March 2017—this structural benchmark be achieved by establishing a modern system of tax registration and tax administration, including assessment, audit and enforcement, together with investment in modern ICT system for collecting revenue; and (7) issuance of a Prime Ministerial decree to endorse the Minister of Finance to cosign all foreign grant agreements by the end of March 2017.

C. Financial Sector Policies and Reforms

22. **We will undertake financial sector reforms to underpin economic recovery.** Accordingly, we will: (1) prepare monthly financial statements of the CBS by mid-2016; (2) strengthen the organizational and governance structure of the CBS; (3) implement new accounting and financial reporting systems and practices at the CBS; and (4) strengthen the licensing, supervision, and regulation of financial institutions. We are also preparing a medium-term strategy to improve payment systems.

23. **The reform of the national currency is a high political priority.** The economy is largely cash-based and highly dollarized. The CBS has not been in a position to issue legal tender currency since the early 1990s. As a result, virtually all Somali Shilling (SOS) currently in circulation are counterfeit notes. Therefore, the existing currency situation is insufficient for the needs of the Somali economy. In particular, the poorer segments of the population are suffering. In March 2016, the Board of Directors of the CBS decided on the principles for currency reform in two stages. Supported by the IMF and a development partner, the CBS has initiated technical work on a comprehensive currency reform. In its first phase, the CBS will issue new SOS 1,000 banknotes. In a second phase, additional denominations will be issued. We welcome the IMF's commitment to providing considerable near-term technical assistance to support our currency reform. However, the CBS and the government lack the funds needed to finance the reform. Grants from international donors will be critical not only for the procurement of new banknotes on the international market but also for implementing this reform. We will also reach out to other central banks for additional technical support and advice to underpin this necessary project.

24. **We intend to advance reforms to foster financial intermediation.** We have phased out the provisional licensing, and we will take steps toward a risk-based approach to the licensing and supervision of commercial banks. We will also implement the AML/CFT framework with the support of a development partner, including the issuance of regulations for a risk-based supervisory approach to MTBs.. Further, we are working with the World Bank to establish a trusted agent to conduct joint examinations with CBS staff on MTBs to facilitate the flow of remittances to Somalia.

TECHNICAL ASSISTANCE

25. **Technical assistance delivery is addressing weak capacity constraints and supporting policymaking.** In recent years, a large number of our staff and institutions have benefitted from technical assistance supported by development partners. Technical assistance in 2014–15 encouraged the Ministry of Finance to prepare a realistic 2016 budget. Further improvements in the consumer price index, gross domestic product, and external sector statistics, however, are needed. The preparation of CBS financial statements is gradually restoring its credibility and capacity for managing monetary policy. With IMF technical assistance, we also started enhancing the banking regulation and supervisory regime.

26. **The government has identified the following priorities for technical assistance:** (1) internal controls, payments, and commitments; (2) cash management and treasury single account (TSA); (3) procurement; (4) accounting and reporting; (5) modernization of tax and customs administration; (6) external auditing; (7) natural resource and concessions management; (8) restoring traditional central banking operations; and (9) building capacity for the production and dissemination of macroeconomic statistics.

27. **During the program period, we are requesting IMF technical assistance in:** (1) macrofiscal forecasting, policy analysis, and planning; (2) tax policy, revenue, and customs administration; (3) budget preparation and execution; (4) reforms in cash management and forecasting, and the TSA; (5) planning and implementing treasury reforms; (6) internal controls; (7) fiscal federalism; (8) bank licensing, supervision, and regulation; (9) currency reform; and (10) macroeconomic statistics. We will make specific requests to the IMF for assistance.

RELATIONS WITH INTERNATIONAL CREDITORS

28. **We recognize the importance of normalizing relations with international creditors.** In due course, this will help address the burden of external debt and arrears. Given the urgency of meeting Somalia's social and reconstruction needs, a substantial reduction in the debt burden is an essential element of our economic strategy. Therefore, we will make every effort to establish a sufficient track record of sound economic management with successful completion of this and subsequent SMPs.

29. **Government records on external debt have been lost or destroyed during the conflict, but are being reconstituted.** With technical assistance from the African Development Bank, our Debt Management Unit has engaged with Somalia's external creditors to collect loan information. This has allowed the establishment of an external debt database. We are still waiting to receive additional creditor information.

30. **We are seeking advice from international partners on moving toward arrears clearance and the Heavily Indebted Poor Countries (HIPC) debt relief initiative.** We will continue to reach out to bilateral and other creditors to inform them of the government's desire for a comprehensive resolution of its debt burden.

PROGRAM MONITORING

31. **The government and the CBS will closely monitor the implementation of its program for May 1, 2016—April 30, 2017 with the help of quarterly quantitative benchmarks** (Table 1) **and structural benchmarks** (Table 2). The program will have two reviews to assess its performance based on the test dates of September 30, 2016 and March 31, 2017. The quantitative benchmarks are defined in the TMU (Attachment II).

Table 1. Somalia: Indicative Targets Under the Staff-Monitored Program, 2015-17 1/

(Millions of U.S. dollars)

	2015	2016			2017	
	Dec. Est.	March Prel.	June Prog.	Sept. 2/ Prog.	Dec. Prog.	March 3/ Prog.
Fiscal						
Fiscal balance (cash basis; floor)	5.8	6.0	0.0	0.0	0.0	0.0
Accumulation of new domestic expenditure arrears (ceiling) 4/	33.0	0.0	0.0	0.0	0.0	0.0
Contracting of new domestic debt (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0
Contracting or guaranteeing of new nominal external borrowing (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0
Central Bank of Somalia (CBS)						
Net foreign assets of the CBS (floor) 4/ 5/	21.6	21.6	21.6	21.6	21.6	21.6
Issuance of banknotes other than SOS 1,000 (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of SOS banknotes that are not backed by foreign assets denominated in U.S. dollars of the CBS (ceiling) 4/	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 year.

2/ Test date for the first review of the SMP.

3/ Test date for the second review of the SMP.

4/ Monitored on continuous basis starting from January 1, 2016.

5/ Calculated using program exchange rates. See Technical Memorandum of Understanding (Attachment II) for definitions of the program targets.

Table 2. Somalia: Prior Actions and Structural Benchmarks under the Staff-Monitored Program, May 2016–April 2017

Benchmarks	Target dates	Macroeconomic Rationale	Status
Actions to Prepare for the SMP			
1. Approve an Appropriation Bill for 2016 consistent with a zero cash balance budget by a presidential decree		Enhance budget planning and execution	Met
2. Set up an institutional framework for fiscal data reporting		Improve fiscal data reporting	Met
3. Approve an arrears management strategy by the cabinet		Improve arrears management	Met
4. Approve a roadmap for currency reform by the Board of Directors of the Central Bank of Somalia (CBS)		Bring confidence to the Somalia Shilling and the CBS to start formulating policies	Met
Structural Measures			
Public Financial Management (PFM)			
1. Minister of Finance to approve the 2016–20 PFM Reform Action Plan	Jun-16	Bring PFM systems closer to regional and international standards	
2. Prepare a plan to identify existing domestic arrears and repayment schedule.	Sep-16	Adopt an arrears management strategy	
3. Achieve 100 percent of non-salary Recurrent Cost and Reform Financing reimbursement.	Dec-16	Enhance budget planning and execution	
4. Complete a report on the process and design of an electronic payment system for the Somali National Army and Police with biometric screening	Dec-16	Improve fiscal reporting	
5. Complete an action plan to improve the policy and processes for cash management function	Mar-17	Enhance cash management	
6. Issue a Prime Ministerial decree to endorse the Minister of Finance to cosign all foreign grant agreements	Mar-17	Improve revenue budgeting and planning	
Tax Policy			
7. Complete a plan to modernize the revenue and customs administration	Mar-17	Improve tax compliance and expand the tax base	
Financial Sector			
8. Require approval by the Board of Directors of the CBS to issue commercial bank and MTB licenses	Dec-16	Enhance financial licensing and supervision	
Macroeconomic Statistics			
9. Establish and maintain a business registry to support the collection of macroeconomic statistics	Sep-16	Develop economic statistics	

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) sets out the framework for monitoring the performance of the Federal Government of Somalia (FGS) and the Central Bank of Somalia (CBS) under the 2016 Staff-Monitored Program (SMP). It specifies the quantitative benchmarks on which the implementation of the SMP will be monitored. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable IMF staff to assess program implementation and performance.

QUANTITATIVE BENCHMARKS

A. Quantitative Indicators

2. The quantitative benchmarks (Table 1 of the MEFP) are the following:
- a) Floor on the fiscal balance (on a cash basis).
 - b) Ceiling on accumulation of new domestic expenditure arrears of the FGS.
 - c) Ceiling on new domestic debt contracted by the FGS.
 - d) Ceiling on new external debt contracted or guaranteed by the FGS or the CBS.
 - e) Floors on CBS's net foreign assets.
 - f) Ceiling on issuance of banknotes other than SOS 1,000.
 - g) Ceiling on issuance of SOS banknotes that are not backed by foreign assets denominated in U.S. dollars of the CBS.
3. Quantitative indicators have been set for the end of June 2016, end of September 2016, end of December 2016, and end of March 2017. All quantitative benchmarks are cumulative from January 1, 2016.

B. Definitions and Computation

4. **For the purposes of the SMP, the government is defined as the Federal Government of Somalia.** This definition excludes public entities with autonomous legal personalities whose budgets are not included in the Federal Government budget.
5. **Government revenue** includes all tax and non-tax receipts transferred into the FGS general accounts at the CBS and excludes grants. It is measured on a cash basis, and cumulative from January 1, 2016.
6. **The fiscal balance**, on a cash basis, is defined as the difference between: (a) the sum of central government revenue (as defined in paragraph 4) and grants; and (b) total current expenditure plus capital expenditure (excluding foreign-financed off budget investment).

7. **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, taking into account any contractual grace periods.

8. **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.

- For program monitoring purpose, the term “debt” will be understood to mean a current, i.e., 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 a number of forms, the primary ones being as follows:
 - (i) 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);
 - (ii) 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
 - (iii) 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 purpose of 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.
- 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.

9. **Domestic debt** is defined as short-term and medium-to-long-term borrowing from residents of Somalia, including the CBS. The definition of domestic debt excludes temporary advances for liquidity management from the CBS, and domestic expenditure arrears as defined in paragraph 6. Temporary advances will be fully repaid within 90 days.

10. **Benchmarks for external debt** are cumulative ceilings on contracting or guaranteeing of nominal external non-concessional borrowing by the government from January 1, 2016. External debt is defined by the residency of the creditor.

11. **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: (1) gold valued, over the program period, at the market price of December 31, 2015 (\$1,060.80 per ounce); plus (2) foreign exchange (including recovered CBS assets, non-earmarked budget and earmarked donor grants); minus (3) government budget grant deposits at the CBS in foreign currency; minus (4) other earmarked foreign currency deposits by residents of Somalia. Somalia's net position to the IMF is excluded from the definition of net foreign assets. Gross foreign liabilities under the SMP are set at zero. Relevant exchange rates against the U.S. dollar at December 31, 2015 will be used to convert foreign assets and liabilities denominated in currencies other than U.S. dollars.

PROGRAM MONITORING

Program-Monitoring Committee

12. The Somali authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the Central Bank of Somalia, and the Ministry of Planning and International Cooperation. 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 a monthly progress report on the program within four weeks of the end of each month, using the latest available data.

Data Reporting to the Fund

13. To allow monitoring of developments under the program, the Ministry of Finance, the CBS and the Ministry of Planning and International Cooperation will provide to the Resident Representative's office of the IMF the following information contained in the data reporting table below.

Somalia: SMP Data Reporting, May 2016–April 2017

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
Central Bank of Somalia	CBS balance sheet	Detailed balance sheet of the CBS.	Monthly	3 weeks after the end of each month
	Monetary survey	Banking system balance sheet and consolidated balance sheet of commercial banks.	Quarterly	4 weeks after the end of each quarter
	Balance of payments	Exports, imports, invisible transactions, remittances, and capital and financial account flows.	Quarterly	2 months after the end of each quarter
	Revenue and expenditure	The detailed reports on CBS cash revenues and expenditures in U.S. dollars, and on aggregated basis (including both recurrent and capital spending).	Quarterly	3 weeks after the end of each quarter
		Disbursements and repayments: (1) scheduled; and (2) actual interest and principal on debt of the Government and the CBS, by creditor.	Monthly	30 days after the end of each month
	CBS temporary advances to the FGS	Provide monthly amounts and terms of the temporary advances to the Ministry of Finance.	Monthly	1 week after the end of each month
	Budget grants	Provide data on the amounts of on-budget grants.	Monthly	1 week after the end of each month
Ministry of Finance	FGS budget operations	The detailed revenue and expenditure by budget line and a completed summary table on Government operations.	Monthly	4 weeks after the end of each month
		The outstanding appropriation, allotment, commitment, and Recurrent Cost and Reform Financing non-salary reimbursement for fiscal year 2016-17.	Monthly	4 weeks after the end of the month
		The monthly cash plan.	Quarterly	4 weeks after the end of each quarter
		The disbursements of loans.	Monthly	4 weeks after the end of each month

Somalia: SMP Data Reporting, May 2016–April 2017 (continued)

	Domestic arrears	A table providing the end-of-period stock of domestic arrears accumulated during the program period by charts of accounts.	Monthly	4 weeks after the end of the month
	Domestic debt	The amount of new domestic debt contracted by Government.	Monthly	4 weeks after the end of the month
	External debt	The amount of new external debt contracted or guaranteed by Government.	Monthly	4 weeks after the end of the month
	Structural benchmarks	A table with a description of the status of implementation of the structural benchmarks in Table 2 of the MEFP.	Monthly	4 weeks after the end of the month
National Statistics Office	CPI and other economic indicators	Indicators to assess overall economic trends, such as the consumer price index.	Monthly	6 weeks after the end of each month
		Trade data, production data.	Quarterly	6 weeks after the end of each quarter