



**Somalia Trust Fund for Capacity Development in
Macroeconomic Policies and Statistics**

Program Document

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List of Acronyms

AFRITAC	Regional Technical Assistance Center in Africa
AfDB	African development Bank
AML/CFT	Anti-money laundering and combating the financing of terrorism
CBS	Central Bank of Somalia
CD	Capacity development
CEF	The IMF Middle East Center for Economics and Finance located in Kuwait
CPI	Consumer Price Index
DFID	United Kingdom's Department for International Development
FAD	The IMF's Fiscal Affairs Department
FGS	Federal Government of Somalia
GDDS	General Data Dissemination System
GFS	Government Finance Statistics
HES	Household Expenditure Survey
HQ	IMF Headquarters in Washington, DC
ICD	Institute for Capacity Development
IIP	International Investment Position
LEG	The IMF's Legal Department
MCM	The IMF's Monetary and Capital Markets Department
MFS	Monetary and financial statistics
MoF	Ministry of Finance
NA	National accounts
NSO	National Statistics Office
PFM	Public Financial Management
SC	Steering Committee
SMP	Staff-monitored program
STA	The IMF's Statistics Department
TA	Technical Assistance
TAIMS	Technical Assistance Information Management System
TGS	Transitional Government of Somalia (2004-12)
UNDP	United Nations Development Program

I. WHY AN IMF TRUST FUND FOR SOMALIA?

1. **Somalia is emerging from a long period of civil war.** Somalia has been in a state of civil war ever since the early 1990s when the government of Said Barre was toppled in an uprising by a host of militia groups. Thus, a central government and authority effectively ceased to exist in Somalia, and the country disintegrated into countless administrative regions and districts of varying levels of political stability and security, with each region opting to establish its own government, administration, and in some cases even its own currency. In late-2004, a number of countries in the region and among the G7 supported the establishment of Transitional Federal Government (TFG), ushering in a period of political transition that lasted for about eight years.

2. **The international community is normalizing relations with the Federal Government of Somalia (FGS).** The TFG and its accompanying transition period came to a successful end when, in August 2012, a new 275-member Federal Parliament was elected by some 135 traditional elders from across the many regions and districts of Somalia. In turn, the Federal Parliament elected a Federal President, Mr. Hassan Sheikh Mohamud, as the head of the FGS in a process that was widely recognized as the most transparent and representative in more than 20 years. In his public statements, President Mohamud has emphasized the six strategic priorities of his government, including (1) the rule of law and good governance and (2) economic recovery.¹ In the following months a number of governments in the region and across the globe recognized the new FGS. In the wake of the broad international support for the FGS, the IMF in April 2013 announced that it too recognized the FGS as the government of Somalia, as have the World Bank and the African Development Bank (AfDB).²

3. **While Somalia has been welcomed back as an active member of the IMF, it remains ineligible for financial assistance, pending the clearance of longstanding arrears.** Clearance of Somalia's arrears will be an important part of normalizing Somalia's relations with the international community and re-establishing debt sustainability. At the end of 2013, the arrears to the IMF amounted to about US\$362 million, in addition to about US\$275 million to the World Bank and about US\$96 million to the AfDB. It will involve a thorough debt reconciliation of Somalia's external debt, the preparation of a poverty reduction strategy note, soliciting donor resources to finance debt relief under the HIPC initiative, and—on the part of the authorities—establishing a track record of cooperation with the IMF on policies and payments, including in the context of a staff-monitored program

¹ The other four strategic objectives are: peace building and social reconciliation; strengthening the delivery of basic health and education services; building collaborative relations with foreign partners; and unifying the country.

² See <http://www.imf.org/external/np/sec/pr/2013/pr13119.htm> .

(SMP).³ During this period, the IMF is precluded from providing financial support to Somalia, on account of its pending arrears to the IMF, and Somalia will need to rely on sustained financial assistance from the international community, exclusively in the form of grants.

4. **Setting up a framework to assist with strengthening governance and economic management will be important pre-requisites for allowing donors to provide the necessary financial support and allowing the FGS to stand on its own feet.** Pending the clearance of arrears (see below), the delivery of capacity development (CD) that is well coordinated, practical, and prioritized will be the main avenue by which the IMF will be able to assist Somalia and provide advice on the economic policies of the central government of Somalia. Despite security limitations (see below), IMF technical assistance (TA) will need to be broad based and tailored to the needs and absorptive capacity of the country. This will imply a commitment of TA resources from IMF Headquarters (HQ).

5. **The long civil war and instability has taken its toll on the essential state and economic institutions.** Important economic agencies such as the Ministry of Finance (MoF), the Central Bank of Somalia (CBS), and the Central Statistics Office (CSO) suffer from severe degradation of their physical infrastructure and human capital. Restoring key economic institutions that deliver robust and coherent macroeconomic policies will be essential for growth and development in Somalia. Poor quality of policy, institutions, and governance can impair the functioning and legitimacy of the state, negatively impacting economic performance, the delivery of basic social services, and the effectiveness of donor assistance. Sustained and inclusive growth requires a basic institutional foundation, sound macroeconomic policies, good governance, and development-oriented budgets and policies.

6. **Rebuilding the Somali economy and restoring basic social services will be critical for achieving political reconciliation and sustaining political stability in Somalia.** The current heavy reliance on remittances from the Somali Diaspora will need to be complemented with developing alternative sources of domestic activity and production, including in the areas of agriculture, agro-industries, and fisheries, as well as developing the vibrant services sectors, such as communication and construction. Such diversification should be accompanied by an efficient revenue collection and budgeting system that enables the mobilization of revenue from across key economic sectors, and the efficient use of resources to tackle the country's development needs.

7. **The IMF's current budget for capacity development is insufficient to cover the vast needs of Somalia.** The delivery of capacity development to meet these needs will

³ The negotiation and implementation of an SMP will be contingent on the authorities' capacity to compile and report key economic data, as well as execute economic policy measures.

require a strategic, holistic, and long-term approach.⁴ It should also be well coordinated with other TA providers, so as to avoid duplication of efforts, but also ensure that contributions made are complementary and mutually reinforcing. Finally, in coordinating the delivery of TA, due consideration should be paid to the absorptive capacity of Somalia. These objectives will best be served through the establishment of a trust fund for CD that would provide a welcome forum to help in the ongoing coordination with and among donors.

8. The IMF capacity development program for Somalia aims at supporting the authorities' efforts to build key economic institutions and develop capacity for implementing sound macroeconomic policies. The IMF has a strong track record in supporting the efforts of its members to establish sound macroeconomic institutions. The CD program for Somalia under the proposed Trust Fund comprises TA, training, and professional attachments,⁵ and is based on the IMF's long experience in fragile countries and post-conflict situations.⁶ IMF TA is also delivered through its Regional Technical Assistance Center in Dar es Salaam, Tanzania ("AFRITAC East"), including TA on regional harmonization and integration in the East African Community.⁷

9. While the IMF's commitment to Somalia in the area of capacity development will be for the long term, the proposed trust fund will initially cover the period FY2015-17 (May to April). It will finance capacity development in five areas: (i) development of integrated macroeconomic frameworks and policies; (ii) establishment of a fully functional central bank; (iii) modernization of tax and customs policy and administration; (iv) strengthening of public financial management (PFM);⁸ and (v) building

⁴ See Section on "Technical Assistance and Training" in [Staff Guidance Note of the Fund's Engagement with Countries in Fragile Situations \(April 25, 2012\)](#).

⁵ Professional attachments allow specially selected staff from recipient institutions to be detailed for several weeks to counterpart institutions (particularly within their region) to develop skills and learn best practices that can be implemented on their return.

⁶ See International Monetary Fund (2008), "The Fund's Engagement in Fragile States and Post-Conflict Countries—A Review of Experience—Issues and Options," (<http://www.imf.org/external/np/pp/eng/2008/030308.pdf>); International Monetary Fund: "MFD TA to Recent Post-Conflict Countries (2005)," Washington DC (<http://www.imf.org/external/np/ta/2005/eng/022805.htm>); and International Monetary Fund (2005): "Rebuilding Fiscal Institutions in Post-Conflict Countries," Washington DC (<http://www.imf.org/external/np/fad/2005/022505.htm>).

⁷ "AFRITAC East", which serves Eritrea, Ethiopia, Kenya, Malawi, Rwanda, and Tanzania, makes substantial use of regional expertise from which Somalia could continue to benefit. Somalia is currently not a member of AFRITAC East, and might wish to apply for membership in AFRITAC East, which would allow the country to benefit from additional technical assistance and training in selected areas, especially regional integration.

⁸ Currently the World Bank is taking the lead on PFM work in Somalia, and the IMF's role would be to supplement this work on the macroeconomic side of the PFM.

capacity for the production and dissemination of macroeconomic data. The program will be flexibly adjusted in coordination with the authorities and other providers in response to changing priorities and circumstances and in order to maximize synergies and avoid overlaps. The expectation will be that after the initial three years—during which TA delivery will be impacted by difficult security conditions and very weak absorptive capacity on the ground (see below)—capacity development will move to a second phase that could also be supported by a successor trust fund. It would build on the preliminary gains achieved until then, with clear objectives and deliverables.

10. Section II below sets out the benefits of the IMF capacity-development model; Section III elaborates on the areas to be covered; Section IV discusses resource needs; Section V covers operational aspects; and Sections VI and VII cover administrative arrangements, as well as general challenges and risks, respectively.

II. BENEFITS OF THE IMF CAPACITY DEVELOPMENT MODEL

11. **The capacity development program is integrated with the country’s macroeconomic development program.** The IMF regional department (in the case of Somalia, the Middle East and Central Asia Department, MCD), in close consultation with TA-providing departments and the Somali authorities, identifies the key TA and training needs deriving from the pursuit of the country’s objectives and from IMF policy advice.⁹ The IMF country team interacts regularly with the authorities to ensure the consistency of TA with macroeconomic policies and modeling. In turn, TA recommendations provide an input in the policymaking process. Integrating capacity development with the authorities’ reform agenda brings synergies and fosters traction in reforms.

12. **Capacity development will be adapted to local constraints.** Reviews of IMF TA to post-conflict countries have highlighted how TA provision is most successful when it responds to the country’s specific political, institutional, and capacity constraints, and the proposed reforms are carefully sequenced in order to match the degree of country ownership, overall capacity, and institutional strength. In some cases, capacity constraints initially require the pursuit of second-best policies that can be later upgraded as capacity develops.

13. **Capacity development is provided in diverse modes of delivery and will entail periodic assessments of constraints and strategic advice based on the IMF’s experience in fragile states.** It combines HQ missions with the assignment of advisors in the field in selected areas (who, in fragile countries, sometimes have to provide day-to-day guidance on line management issues). The capacity development model includes training programs for local staff, complemented by on-site mentoring by the long-term experts and by selective

⁹ Indeed, MCD in close cooperation with the IMF’s Monetary and Capital Markets Department (MCM) has already started to provide TA to the CBS on currency reform and governance.

attachments to relevant external institutions. This training helps to increase the technical knowledge and skills required for a successful absorption of the TA program.

14. **Capacity development will be based on a periodic assessment of needs.** The general scope of TA and training needs will be based on the IMF's assessment of the current situation, a delineation of priorities by the authorities, experience in post-conflict countries, and consultation with donors. More detailed objectives and outcomes, including policy diagnostic and evaluation are provided in separate work plans. This approach facilitates a flexible design that allows for an appropriate sequencing of reforms and reduces the risk of delays in implementation. As is the case with other IMF trust funds, the country authorities play an important role within the Trust Fund's Steering Committee (SC) and in guiding the capacity development agenda, monitoring results, identifying bottlenecks, and adjusting priorities. To this end, it is expected that the Somali authorities will nominate an individual to undertake this role and regularly interact with the SC.

15. **The main goal is to build capacity to implement sound macroeconomic policies.** This includes building from scratch or strengthening key institutions, enhancing transparency and good governance, and improving the decision-making process to reduce the risk of short-sighted or inappropriate policies. In this framework, TA will also review existing regulations and administrative procedures in key areas of macroeconomic management and contribute to their reform as needed. Nuances to reflect the realities of the post-conflict environment—including the still volatile security situation in Mogadishu and the country at large—will be critical (e.g. time tables will likely be longer with outcomes focused on intermediate milestones so that improvements can be measured). Given the tenuous security situation in Mogadishu, the delivery of TA will predominately occur outside Somalia.

16. **The Trust Fund will complement the contributions of other TA providers.** Somalia has been receiving, and will continue to receive, significant TA from several multilateral and bilateral donors. The proposed TA program aims at filling gaps and exploiting complementarities in areas of IMF expertise, while avoiding wasteful duplication.¹⁰ Since post-conflict situations require more effort than usual in coordinating with other TA providers, the country team and the IMF Resident Representative will help coordinate macroeconomic-relevant capacity development activities to streamline and sequence activities and support comprehensive rather than piecemeal interventions.¹¹

¹⁰ Since the IMF is not a project-lending agency—for example, it cannot fund or develop information technology systems, build or upgrade the physical infrastructure of key institutions, or deliver large-scale staff training projects—it is critical for other donors, neighboring countries, and providers to play such roles.

¹¹ See the external independent evaluation for a trust fund for Iraq:
<http://www.imf.org/external/np/pp/eng/2008/040408a.pdf>.

17. **Capacity development needs are significant and require careful sequencing and adjustment to evolving priorities.** Intensive assistance is important to establish sound macroeconomic policy design, implementation and monitoring.¹² At the same time, absorptive constraints will remain a challenge—at least in the early years, thus requiring appropriate sequencing in TA support and close coordination with other providers. The strategy will also be flexible to respond to changing circumstances. Given the challenging security situation, it will also need to be creative, and apply out-of-the-box thinking, in its implementation. This may reflect external developments—like global events or relations with neighboring countries—and changing priorities on the part of the authorities. Thus, the initial work plan will subsequently be specified through multi-year ‘topical’ projects and related log frames that will be endorsed and updated by the Trust Fund Steering Committee (SC) on a rolling basis (see below).

18. **The program will be delivered in different modalities.** These will need to include the deployment of long-term advisors, IMF staff led missions, specific short-term expert visits, off-site TA on specific topics, training, and professional attachments.¹³ It is expected that during the first months of the Trust Fund’s operation, IMF staff from the TA-providing departments will carry out diagnostic missions and further inform the strategy. These diagnoses will form the basis for detailed work plans with objectives and outcomes, and will be followed by annual staff missions to assess implementation and review the strategy. Activities under the Trust Fund will be coordinated by the IMF mission chief for Somalia, in collaboration with the Resident Representative, who will be temporarily located in Nairobi, and TA-delivering departments. As with other IMF trust funds, financial management and reporting will be coordinated by the Global Partnerships Division of the Institute for Capacity Development (ICD) at IMF HQ.

19. **The current difficult security situation in Somalia has important implications for how TA can be delivered and its costs.** Currently, IMF employees are precluded from traveling into the city of Mogadishu or the rest of the country, thus necessitating the delivery of TA to take place in a third-country location, such as Nairobi (Kenya) or other place that is safe and logistically convenient. As a result, a proper assessment of human and institutional capacities and needs on the ground will be more difficult. It will also have budgetary implications as TA delivery and training will need to take place outside Somalia and entail additional costs for travel and lodging for the Somali counterparts as well as meeting space

¹² A review of the Fund’s engagement in fragile states and post-conflict countries found that, even when multiple donors provided TA, there are indications that the level of TA was not sufficient (see International Monetary Fund (2008), “The Fund’s Engagement in Fragile States and Post-Conflict Countries—A Review of Experience—Issues and Options,” (<http://www.imf.org/external/np/pp/eng/2008/030308.pdf>).

¹³ In cases where suitable long-term advisors cannot be identified, every attempt will be made to meet the objectives in alternative ways, including through experts’ visits.

and other logistical support. Every effort will be made to mitigate these problems as much as possible, for example through appropriate screening of invited counterparts.

III. CAPACITY DEVELOPMENT AGENDA

20. **A considerable degree of flexibility will be needed in the articulation of the program of activity.** Unlike most other countries, the IMF has had no involvement with Somalia for many years, thus making it very difficult to articulate a detailed program of activity without first fielding diagnostic missions on the various areas of TA delivery. This, in turn, is further complicated by the ongoing difficult security situation in and around Mogadishu. Thus, in many cases, detailed plans—outlining realistic objectives, work plans and resource estimates—will need to wait until the initial diagnostic missions have taken stock of the current situation and have agreed an appropriate reform strategy with the authorities.
21. **IMF capacity development will focus on the following goals:**
- ***Build capacity for the production of macroeconomic statistics.*** The focus will be on producing monetary, fiscal, external sector (balance of payments and international investment position), as well as national accounts and price data in line with international standards.
 - ***Develop an adequate macroeconomic framework for monetary and fiscal policy formulation and implementation.*** This framework would aim to include annual and intra-annual quantitative estimates and projections of economic activity, public revenue and expenditure, balance of payments flows, and monetary variables, as well as a medium-term fiscal framework.
 - ***Set up a functioning central bank.*** The primary objective is to provide technical input and hands-on training to CBS staff for capacity development in two main areas: (i) central banking (i.e., establishing and organizing core activities such as monetary and foreign exchange operations, foreign reserves management, accounting, reporting and control, research and statistics, institutional governance, and autonomy and accountability) and (ii) banking supervision and regulation (i.e., building capacity for financial sector oversight and surveillance in line with an eventual risk-based supervision approach and consistent with international standards).
 - ***Improve tax and customs policy and administration.*** The initial focus will be on identifying simple changes to the tax system that can bolster revenues in the near term. With regard to revenue administration, the goal will be to lay the foundation for establishing a basic revenue collection function with an initial emphasis on imports and domestic taxes on larger entities.

- ***Strengthen public financial management.*** The key goal is to provide strategic advice and assist in the coordination of macroeconomic reforms to complement what other TA providers (in particular the World Bank) are delivering in specific areas, such as budget planning and preparation; expenditure control and cash management; and financial oversight and audit.

A. Coordination of Technical Assistance

22. **Close coordination of macro-relevant TA with the country’s macroeconomic policy framework will be critical for the success of the TA program.** This coordination effort will be led by the authorities with the support of the SC of the Trust Fund and the IMF country team, with input from the TA-delivering departments. The goal is to keep a frequent dialogue on the focus, modalities, and sequencing of the TA. At the same time, the IMF country team dedicated to Somalia will interact with the authorities on the implementation of a macroeconomic framework and policies. The choice of macroeconomic policies will also influence priorities for TA, training, and attachments, while benefiting from the implementation of the capacity-development agenda. Such close coordination will also need to take place between the IMF and other bilateral and multilateral agencies, so as to avoid duplication of efforts and overwhelming the authorities’ limited capacity to entertain TA missions and absorb and implement their recommendations.

B. Macroeconomic Framework

23. **One key priority is the development and monitoring a short-term macroeconomic framework.** While work has already started on developing such a framework—with staff visits in June and November 2013 making useful progress in this respect—there are some ways to go. Ongoing work on the annual fiscal framework (or budget) at the MoF promises to provide valuable input into this process. The need for support is particularly acute at the central bank, where a monetary framework also needs to be developed.

24. **The IMF will provide support from Headquarters in the form of backstopping, quality control and supervision.** As a starting point, there will need to be initial, HQ-led missions in the respective sectors to review plans, assess operational capacity and priorities, and discuss the direction of further TA. Security conditions allowing, the IMF will also field long-term macroeconomic advisors to support senior management at the central bank and the MoF. More general, regular HQ-led missions will review progress, identify obstacles to effective implementation, and re-adjust TA priorities as needed.

C. Macroeconomic Statistics

25. **There is an urgent need to provide institutional support to the National Statistics Office (NSO).** It currently has a very low endowment, relevance, and traction in Somalia. Going forward, there is a need to address significant data gaps in macroeconomic statistics.

Sound macroeconomic policy making and analysis depend on the availability of reliable data—national accounts and prices, government finance, monetary and financial, and balance of payments (including data on international reserves and external trade). Therefore, developing macroeconomic statistics in accordance with international standards is a priority.

National accounts and price statistics

26. **The ability of Somalia to compile national accounts (NA) and price statistics has been severely disrupted.** The NA and consumer price index (CPI) are no longer produced. International partners are organizing to provide support needed to rebuild the statistical system. The World Bank, the AfDB, and the United Nations Development Program (UNDP) have recently conducted a joint mission to assess what statistics exist and what can be done to move forward.

27. **Rebuilding the system of data collection is a key issue towards resuming NA compilation.** Due to a lack of basic data, the NA compilation has been interrupted. Available data are only those of Mogadishu and are related to consumer price data, import and export in quantity (and not in value), consumption of water and electricity. Resuming NA compilation requires the collection of administrative and enterprises data, and the execution of surveys, including on agriculture and household consumption.

28. **Compiling a meaningful CPI to monitor inflation is a high priority for Somalia.** The NSO is collecting monthly prices on 102 items thought to be “commonly purchased”. These data are used to calculate average prices on individual products, but the NSO has no data on household expenditure to derive weights to construct a meaningful CPI. The last weights were established in 1985 and are no longer relevant for a today’s consumption patterns.

29. **A population survey funded by the United Nations Population Fund is planned.** A household expenditure survey (HES) may also be included in the World Bank’s future assistance. The population survey will provide the sample frame data for the HES, and in turn, the HES will provide the necessary inputs for the CPI. In the meanwhile, a CPI could be formed by borrowing weights from another country thought to have similar consumption patterns to those in Somalia.

IMF Support

- **National accounts:** The first step will be: (i) to review and assess available source data, including any administrative by-product, (ii) set up a regular data collection program, and (iii) train staff on concepts, methods, and data sources for NA compilation. Once source data are available, the second step will consist of conducting short-term visits to provide TA in NA compilation and starting with GDP estimates from the production side.

- **Price statistics:** In the initial stage, short-term expert visits are needed to develop a CPI based on Mogadishu data and weights that will be borrowed from a country similar to Somalia (to be identified). As the population survey is completed and some form of household expenditure survey is subsequently available, the CPI could be improved by additional TA missions.
- There may be a need for a resident expert to assist the NSO in Year 3.

Monetary and financial statistics

30. **Developing technical capacity for producing monetary statistics is critical to implement a sound monetary policy.** In line with its responsibility for compiling monetary and financial statistics (MFS), the CBS will need to establish a Monetary Statistics Unit. In the near term, the most pressing need is the compilation of accurate central bank surveys and their consolidation with data from commercial banks and similar institutions, most of which have yet to be licensed and properly supervised.

IMF Support

- The first step will be to: (i) train the CBS staff on basic concepts, definitions, and a framework for collecting and compiling monetary statistics; (ii) provide guidelines to start preparatory work on data collection; and (iii) assist in reviewing source data for the CBS, if any, and compiling the CBS balance sheet, as needed.
- The second step would involve short-term missions to: (i) review progress on the CBS's preparation for the data collection and to provide recommendations, based on the findings, on the way forward with data collection; and (ii) review and improve the compilation of the CBS balance sheet.
- The third step would involve short-term missions to: (i) review source data for other depository corporations; and (ii) provide hands-on training for compiling the surveys for the CBS and these corporations.
- There may be a need for a resident MFS expert to assist the CBS in implementing the third step.

Government finance statistics

31. **The production of government finance statistics (GFS) facilitates effective financial management of government and is a key input to the compilation of the national accounts.** Capacity to compile and analyze these data needs to be developed. Identifying and assigning resources to be responsible for government finance statistics within the government of Somalia is a precursor to the provision of effective TA by the IMF's Statistics Department (STA).

32. **Resource limitations and lack of source data are challenges to government finance statistics compilation.** There is no financial management framework or oversight controls in place. Available source data are limited in coverage and detail, and significant work is required to elevate the fundamental financial management and information collection processes to the functional levels necessary to compile government finance statistics. It will also be important to properly capture and reflect in the budget donor grants and spending that are currently taking place outside the budget. The TA work in government financial statistics will be conducted in collaboration with the World Bank team tasked with assisting in PFM reforms and related capacity development within Somalia.

IMF Support

- The first step will be to: (i) take stock of existing budget execution data; and (ii) provide training in government finance statistics concepts to human resources responsible for data compilation; and
- Once source data are available, short-term missions will provide on-the-job training and technical assistance in the compilation of GFS.

External sector statistics

33. **Capacity for producing balance of payments and international investment position (IIP) statistics also needs to be established.** In line with its responsibility for compiling balance of payments data, the CBS will need to establish a Balance of Payments Unit. The Unit will need to start collecting and compiling data systematically, and significant staff training and TA will be required to set up the data compilation system.

34. **Scant sources are available at this stage within the CBS to compile balance of payments statistics.** For the current account, there is a lack of data on external trade in goods and services, current transfers, and income. The lack of data sources requires efforts to establish customs-based trade statistics, adding data on values to existing data on volume and type of exports and imports, develop data-sharing networks with other agencies, and develop a survey-based system to collect data on services, primary and secondary income (including workers' remittances), and capital and financial account entries.

IMF Support

- Short-term missions to assist in the development of data collection and compilation systems for balance of payments and IIP statistics.

Data dissemination

35. **The medium- to long-term objective is for Somalia to participate in the IMF's General Data Dissemination System (GDSS).** The GDSS fosters sound statistical practices with respect to the compilation and dissemination of economic, financial, and socio-

demographic statistics. It provides a structured process through which participants commit voluntarily to improve the quality of their statistical data to meet the needs of macroeconomic analysis. Participation in the GDDS involves the adoption of the GDDS as a framework of statistical development, the appointment of a country coordinator, and the preparation of metadata to be disseminated to the public, describing the statistical methodology and the dissemination practices as well as plans for improvement.

IMF Support

- Short-term missions to assist the authorities in preparing GDDS metadata, including plans for improvement, using the templates based on the Data Quality Assessment Framework, and set a timeframe for Somalia's participation in the GDDS.

D. Monetary and Financial Sector

36. **The IMF has started to provide TA to the CBS.** IMF staff and experts have had technical discussions with the authorities on the possible re-denomination and introduction of new banknotes, including important decisions that need to be taken by policymakers and institutional arrangements that have to be put in place over the next 1–2 years, and more generally on the governance structure of the CBS. These discussions will continue and be supplemented by additional expert advice, as the need arises.

37. **IMF capacity development will focus on two main areas to enable the CBS to become fully functional.** The primary goal is to provide technical guidance and advice to the CBS for establishing its basic institutional and governance structure, and building capacity of the CBS in bank supervision and regulation.

Central banking and bank supervision

38. **CBS management has identified as a high priority establishing, and organizing the work of, a fully-fledged central bank.** Currently, the CBS faces severe capacity constraints and lacks effective institutional arrangements for carrying out the basic central bank functions. While the CBS has a staff of some 85 persons, most lack the required technical and operational skills to run a modern and effective central bank. In addition, with no licensed commercial banks operating in Somalia and no local currency issued or brought into circulation since more than 20 years, the CBS lacks the capacity to license and supervise banks, and to conduct the most basic of monetary or central banking operations.

39. **MCM will provide technical assistance to the CBS for capacity building in central banking and regulatory issues.** Key elements of the proposed TA plan in central banking operations include: (i) accounting, financial reporting and information technology infrastructure; (ii) central bank governance, structure, and organization; (iii) monetary and exchange rate policy and operations; (iv) foreign reserve management; (v) internal audit and risk management; and (vi) possible currency reform. For the proposed TA program under

bank supervision and regulation, the main components are: (i) developing legal and regulatory frameworks (some of this work will be jointly done with LEG); (ii) establishing supervisory systems; and (iii) building capacity in all these areas.

IMF Support

40. **A long-term general advisor to the management of the CBS on monetary and financial issues.** The advisor would assist in the implementation of the strategic organizational plan, and help strengthen central bank functions and operations, including banking supervision and monetary operations. The priority would be to establish the basic capacity and organizational structure for a functioning central bank. Once that is accomplished, MCM would follow up with targeted training and capacity development through a combination of peripatetic short-term expert visits and HQ-led TA missions in the following specialized areas:

- Peripatetic expert visits on central bank accounting.
- Topical expert visits to assist in specific areas where targeted TA is needed. This could include central bank operations, licensing, bank supervision, internal audits, and the payment system.¹⁴
- Periodic HQ-based TA, jointly by the IMF’s Legal Department (LEG) and MCM, to support any necessary amendments to the CBS Act and the development of the clearing and settlements legislation and other CBS regulations.
- Field-based TA in areas related to central banking and bank supervision legal issues (jointly with LEG). For example, this will include providing on-site legal training to the staff of the central bank (for example, through a seminar that may be held in Kenya) as well as the use of a peripatetic external expert to monitor internal discussions and implementation of the legal framework.
- Annual HQ-led missions to review progress, identify obstacles to effective implementation, re-adjust TA priorities, and update the strategic plan.
- Other priorities include advice on:
 - eventually international reserve management;
 - exchange rate regime and policies; and

¹⁴ AFRITAC East experts could also be involved once Somalia becomes one of its members.

- compiling monetary and financial statistics (see the section on macroeconomic statistics above).

E. Fiscal Areas

41. **Given the absence of a proper needs assessment, the specific areas of TA activity in the fiscal sector can only be provided as a broad range.** At this early stage, this will be based on the experience that the IMF has gathered in other similar countries emerging from conflict. A high priority will, therefore, be to field, as soon as feasible, a multi-sector scoping mission from the IMF's Fiscal Affairs Department (FAD) that would undertake a high-level assessment of the critical gaps and TA needs in discussion with the authorities. This would also allow FAD to identify complementarities with other TA providers; facilitate consultation among departments to guide the prioritization and sequencing of TA and training; and prepare a more robust work plan that nevertheless retains the needed flexibility.

Public financial management

42. **Substantial TA is being provided in the areas of public finance management.** The World Bank, the UNDP, the United Kingdom's Department for International Development (DFID), and the AfDB are providing TA in PFM to the FGS in budget planning, budget execution, financial management and accounting systems, and drafting regulations.

43. **Further work is required to develop several aspects of PFM.** The Macroeconomic Planning Department at the MoF needs to develop experience in macroeconomic management, fiscal monitoring and revenue projections. Budget execution and PFM systems and procedures are still weak, and regulations for internal and external audit need to be developed.

44. **Strengthening budget planning and execution procedures will be essential to improve budget credibility and enhance fiscal discipline.** Success of this endeavor will also require political commitment to re-establish respect of the regulatory framework and the budgetary process. This will require awareness-building at the political and oversight levels, as well as significant training of PFM staff throughout the government of Somalia. Going forward, the focus should be in the following areas:

- ***Expenditure control and cash management.*** Greater focus on budget execution is expected to leverage the benefits of recent reforms in budget planning and preparation, to ensure that budget credibility is maintained in execution. The focus will be on strengthening commitment controls, establishing an appropriate payments regime, and instituting a cash management system with regular in-year monitoring by senior staff of the MoF. Finally, the focus will also be on establishing an internal audit function to support PFM decision making and to enhance awareness of the PFM regulatory framework and procedures.

- ***Accounting and reporting.*** The priorities in this area will be on (i) timely, regular and reliable in-year fiscal reporting; (ii) timely production of annual accounts; (iii) comprehensive coverage of fiscal reports and accounts; (iv) timely preparation of consolidated financial statements; and (v) disclosure of information on debt, guarantees, and, eventually, all stocks and flows.
- ***Budget planning and preparation.*** There is a need to build capacity to consolidate and sustain recent budget planning reforms before more demanding reforms are considered (particularly related to medium-term budgeting). The realism of budget estimates should also be improved through the systematic use of budget outturn data and closer coordination with international partners to better assess expected grant flows. Coordination between the MoF, the CBS and the NSO in the preparation of the macroeconomic framework should also be enhanced.
- ***Forecasting macro aggregates.*** Capacity to produce reliable forecasts of macroeconomic and macro fiscal indicators (GDP, inflation, aggregate revenues and expenditures) needs to be built to underpin budget credibility.
- ***Financial oversight and audit.*** The focus in this area will be on the external audit of budget institutions' financial statements to facilitate parliamentary oversight. Capacity building of parliamentary support staff will also be required.
- ***Fiscal decentralization.*** *There is a need to build capacity for resource mobilization and sharing to address regional disparities and reduce risk of conflict over access to limited resources. While fiscal decentralization may be a medium- to long-term prospect, initial efforts should focus on presenting budgetary and fiscal information by region, and gradually supporting de-concentration of government services through regional PFM capacity development, notably the development of regional treasuries under the MoF.*

IMF Support

- A diagnostic mission to assess current PFM systems and procedures, review the legal framework, identify gaps, assess current capacity of the MoF and recommend a three-year TA program to complement existing PFM support from the World Bank, DFID, the UNDP, and the AfDB.
- Annual HQ-led follow up missions to review progress in PFM reform implementation.
- Targeted assistance in specialized areas, including advice on fiscal legal frameworks, through peripatetic expert visits in coordination with other TA providers.

- Capacity building of PFM staff, through workshop and training events, participation of selected staff in AFRITAC East regional workshops, and peer-to-peer learning through study tours to neighboring East African countries.

Tax policy and law

45. **There is an urgent need to raise domestic revenue.** Currently the central government's revenue relies overwhelmingly on customs revenues that originate from the sea and airport of Mogadishu. This is eclipsed by grants from international partners, most of which are disbursed outside the budget. In addition, the capacity of raising revenue and administering tax and customs operations is very weak, with most other ports of entry outside the control of the central government.

46. **In view of the present constraints, tax policy should focus on simplicity and ease of administration and taxing large entities.** To identify the proper policy reforms, the impact of tax policy options should be carefully assessed. IMF TA will assist the authorities in their efforts to achieve “quick wins” that can rapidly bolster revenues. In terms of specific initial reforms, the TA would evaluate the potential for a low-rate tax on domestic consumption, improving taxes at the border, and the feasibility of introducing an effective income tax. Moreover, as Somalia has oil and gas prospects and some mining, a sound fiscal regime to collect a reasonable share of the potential resources would also be important. In this context, it may be useful to review Somalia's natural resource fiscal regimes. In proposing reforms, consideration will have to be given to the fiscal federalism issues that are (or will be) central to the ongoing political reconciliation efforts of the FGS, including understanding the current local and central taxes and then determining the appropriate level (i.e., central or local) for each tax.

47. **The tax laws should urgently be reviewed.** It is likely that the existing tax laws are outdated and largely ineffective. Those laws should urgently be reviewed to detect constraints for the tax policy reforms discussed in the previous paragraph. Where necessary recommendations should be made for law reform (see below “F. Legal Framework”).

IMF Support

- A HQ-based diagnostic TA mission to assess the needs and discuss the priorities with the authorities;
- Follow-up missions on specific issues as necessary, including advice on fiscal legal frameworks (jointly with LEG). These would be complemented, as needed, by a more detailed work program on the tax regime and its administration; and
- Targeted TA to support the implementation of the reform program through peripatetic expert visits.

Revenue administration

48. **Reform priorities in the area of revenue administration will have to be identified in the context of a proper diagnostic mission.** Meaningful progress on tax and customs administration issues will need to await visits to Somalia itself. Though quick wins may be possible, substantive and sustainable increases in revenue collection should not be expected through revenue administration reforms. Experience shows that, especially in post-conflict countries, building basic tax and customs administration infrastructures takes time (several years). The situation in Somalia may be even more challenging than in other post-conflict countries, in view of the yet unresolved conflicts between the central government and the regional governments, and between the regions themselves.

IMF Support

- Decisions on the practical and optimal forms of delivering TA in revenue administration will need to await a proper assessment on the ground;
- Similarly, the opportunity to post a resident advisor in Somalia cannot be pre-assessed or assumed in the absence of a diagnostic mission; and
- Pending a diagnostic mission to Somalia, IMF support will be delivered through training workshops on customs and tax administration, respectively.

F. Legal Framework

49. **There is a need to review and upgrade a number of laws relating to macroeconomic management and resource mobilization and development.** These include, in the monetary and financial areas, laws relating to central banking, banking supervision, and anti-money laundering and combating the financing of terrorism (AML/CFT).¹⁵ In the fiscal area, they include tax laws and regulation, and legal framework for PFM.

IMF Support

- HQ-based TA by LEG to draft legislations and regulations on central banking, and banking supervision (including addressing issues in banking regulations, crisis management and banking resolution, emergency liquidity assistance, and macro-prudential oversight); and

¹⁵ The AML/CFT needs will be substantially covered by the World Bank, in collaboration with the United Nations Office against Drugs and Crime and the U.S. Treasury's Office of Technical Assistance, among other providers.

- As regards the fiscal legal framework, LEG will review the tax laws and legal framework for public financial management, with due regard to the constitutional constraints related to the federal structure of the country.

G. Training and Professional Attachments

50. **The Trust Fund will include a training component.** Training will be integrated and will complement the above TA activities. Long-term advisors and periodic visits will provide part of the training. Training will be coordinated by ICD and delivered through courses in Nairobi, the Kuwait and AFRITAC East training centers,¹⁶ and other regional IMF centers, and at IMF HQ. Training will cover some of the areas referred to in the previous sections, including macroeconomic analysis, natural resource management, fiscal transparency, debt management, financial sector stability, and anti-money laundering and combating of financial terrorism.¹⁷

51. **Professional attachments will help to strengthen absorption capacity.** The effectiveness of the attachments will be enhanced by involving the long-term advisors and the IMF Resident Representative in identifying priority areas, screening participants and following up after the attachment.

IV. PROJECTED RESOURCE NEEDS

52. **The estimated cost for capacity development under the Somalia Trust Fund is about US\$9.3 million over three years.** This budget will cover the costs of a dedicated program of CD delivery by the IMF at HQ and in the field (including in “third-country” locations), long-term advisors, specialized short-term experts, and training and attachments, including the costs of travel of Somali counterparts and their lodging, backstopping, project management and evaluation, and SC meetings. The program is expected to be delivered through diagnostic missions, short-term experts, and stand-alone training. Experts will also provide training via seminars and mentoring to maximize the number of TA recipients. Table 1 shows the resource needs and planned expenditures.

53. **The Trust Fund envisages a considerable engagement of MCM for the provision of TA on monetary and financial issues and policies, comprising almost 41 percent of the budget.** This is followed by support in the statistics area (about 27 percent), the fiscal

¹⁶ The Kuwait training center is officially known as the IMF Middle East Center for Economics and Finance (CEF).

¹⁷ This trust fund will begin to cover the training needs of Somalia, but more would most likely be needed over time. The IMF mission chief together with other relevant contact points would assess the priorities for training so that an appropriate agreed sequencing of courses could be proposed.

sector (23 percent), legal issues, and TA coordination and training in macroeconomic frameworks.

Somalia Trust Fund for Capacity Development in Macroeconomic Policies and Statistics - Resource Needs (US\$ millions, rounded)

	Year 1	Year 2	Year 3	Total	Percent of Total
Personnel costs (1)	1.5	1.8	2.6	5.9	64%
of which:					
<i>Experts</i>	<i>1.0</i>	<i>1.2</i>	<i>1.9</i>	<i>4.1</i>	
<i>Staff costs</i>	<i>0.3</i>	<i>0.4</i>	<i>0.4</i>	<i>1.1</i>	
<i>BSP and Project Management</i>	<i>0.2</i>	<i>0.2</i>	<i>0.3</i>	<i>0.7</i>	
Travel	0.2	0.3	0.3	0.9	9%
Seminars/Study Tours	0.1	0.2	0.1	0.3	4%
Steering Committee meetings	0.1	0.1	0.1	0.2	3%
Evaluation	-	-	0.1	0.1	1%
Travel Costs for Somali authorities	0.2	0.5	0.5	1.2	13%
Total	2.1	2.9	3.7	8.7	93%
Trust fund management fee (2)	0.1	0.2	0.3	0.6	7%
Grand Total	2.2	3.1	3.9	9.3	100%
Percent of total	24%	33%	43%	100%	

(1) Includes HQ-based work, field delivery of TA through staff missions and expert visits, expert travel, backstopping, research, dissemination, and project management.

(2) Equal to 7% of trust fund expenditures. Covers costs of maintaining donor relations, including, reporting, legal support and financial transactions.

V. GOVERNANCE AND OPERATIONAL ARRANGEMENTS

54. **Compared to a bilateral approach, a capacity development program based on a multi-donor Trust Fund benefits from efficiency gains in organizing and administering TA, while improving donor coordination.** The governance and operational arrangements of the Trust Fund are designed to reap these benefits.

A. Governance Structure

Steering Committee

55. **Work under the Trust Fund will be guided by a Steering Committee, composed of representatives of the authorities, donors, and the IMF.** The SC will have a rotating chairmanship and ICD will serve as its Secretariat. The SC will meet annually initially in Nairobi, with additional meetings as necessary (possibly by video conference), and its decisions will be taken on a consensus basis. The SC meetings will be scheduled to overlap, to the extent possible, with area department's visits.¹⁸ Whenever possible, TA-providing

¹⁸ It will also be important to synchronize the SC meetings and the annual work program approval with the Fund's internal planning and budgeting cycle.

departments will participate in SC meetings, including with the use of video-teleconferencing facilities. The annual SC meetings will be complemented by regular coordination (non-decision-making) meetings to be scheduled by the Resident Representative or the SC Chairman. When appropriate, other stakeholders will be invited to participate in the SC as observers. ICD will ensure a regular flow of information and, when necessary, consult informally with the SC.

56. The SC will provide strategic guidance and contribute to setting priorities, including the endorsement of annual work plans. The SC will review progress under the work plan as well as performance under the program. The SC may also serve as a forum for coordinating TA on macroeconomic issues among the Trust Fund donors and other stakeholders. For that purpose, the Trust Fund will share information on mission planning and reports with the SC members. The operational guidelines for the SC, as well as the clarification of the roles of its members and of the Secretariat, will be agreed upon at the first SC meeting.

Identification of country needs and TA programming at the IMF

57. In consultation with the authorities, the IMF country team will ensure the integration of Somalia’s reform agenda with technical assistance priorities drawing on the expertise of TA-providing departments. The area department identifies TA needs, sets priorities across TA departments, and balances short- and medium-term considerations, while relying on the TA departments’ technical expertise and country knowledge for TA prioritization, sequencing, and delivery mode. This prioritization will ensure that IMF TA focuses on the IMF’s core expertise and is consistent with the needs of the country.

B. Work Plan

58. TA selection and delivery will be responsive to identified needs. TA prioritization will be based on well-defined criteria with due consideration to the authorities’ commitment to reform and consistency with the IMF’s broader work priorities and expertise.

59. Work plans will be submitted to the Steering Committee for endorsement at its regular meetings.¹⁹ At each SC meeting, the IMF representative will deliver a report on the execution of activities under the previously endorsed work plan.

C. Results-Based Management, Accountability and Quality Control

60. The Trust Fund is designed and will operate on the basis of results-based management principles. The Trust Fund integrates four core principles: (1) clear linkage

¹⁹ An operational guidance note lays out more detailed procedures for operations under the Trust Fund, including interactions between Fund staff and SC members in preparing the work plan.

between Somalia's strategies and specific TA projects to maximize effectiveness as well as to increase prospects for sustainability; (2) indicators at module/project level to track progress and identify results; (3) use of performance-management tools such as the IMF's TA Information Management System (TAIMS) to track and report on results; and (4) use of performance information for accountability and decision-making through feedback to the SC and integration into successive work plans. This will foster accountability and effectiveness of the TA.

- In line with the Results-Based Management approach, TA under the Trust Fund will be organized into projects. Each project will have specific objectives linked to country strategies. It will also identify the inputs needed to deliver the specific output that will in turn contribute toward the desired country-level objectives.
- Areas within IMF control and those that require action by the authorities will be distinguished. To ensure ownership, staff will take input from the authorities in defining the main project deliverables and expected results.
- Attainment of these outcomes will be measured using a set of observable indicators. Indicators for each component will be fine-tuned as needed and monitored through the project-level reporting process.
- Project implementation and monitoring will be enabled through TAIMS—a computerized system for managing and tracking all of the IMF's TA activities.²⁰ Relevant information on project status will be accessible to donors via the IMF's *Donor Gateway* (<https://www-extranet.imf.org>), a secure website. In addition to financial information, the Donor Gateway is a central repository of information on donor arrangements, including their legal documentation, project documents, progress reports, project status, and self-assessments. The Gateway also provides access to Regional Strategy Notes as well as other information on IMF TA.
- The IMF country team will, in the context of its activities with Somalia, monitor the progress in implementing reforms that are supported by the Trust Fund. The IMF's TA departments will supervise, carry out, and backstop the TA delivered. This reflects the role of these departments in maintaining the quality and consistency of IMF TA. Operationally, quality control will be provided through: (a) the screening and selection process for experts; (b) regular supervision and backstopping support from IMF HQ; and (c) regular assessments of progress against the pre-defined project objectives and outcomes.

²⁰ See *Enhancing the Impact of Fund TA*, IMF Staff Paper, April 3, 2008, at <http://www.imf.org/external/np/pp/eng/2008/040308a.pdf>

D. Evaluation

61. **After two years of operation, an independent evaluation of the work under the Trust Fund will be conducted.** External experts will assess the effectiveness of this work and formulate recommendations. The findings will inform discussions on operations for the remainder of the implementation of the Trust Fund, as well as the design and framework of a possible successor Trust Fund. The terms of reference, methodology, and performance indicators will be proposed by the IMF to be endorsed by the SC.

VI. FINANCING AND ADMINISTRATIVE ISSUES

A. Financing

62. **As some of the TA is critical at the outset, the Trust Fund may begin implementation, once pledges exceed US\$3 million, and there are indications that the remaining financing gap can be closed.**

B. Administrative Arrangements

63. **All financial contributions to the Trust Fund will be paid into a multi-donor subaccount established by the IMF.**²¹ This Subaccount will be used to receive and disburse financial contributions for the sole use of financing TA activities under the Trust Fund. All funds will be commingled.

64. **The basis for the financial arrangements between donors and the IMF will be legal understandings.** Such legal understandings will establish the purpose of the contributions and the method, terms, and conditions by which the costs of activities under the Trust Fund will be financed from the resources contributed to the Subaccount. The IMF will administer and account for all donor contributions in accordance with its financial regulations and other applicable IMF practices and procedures. If the IMF recruits outside consultants and experts, it will do so in accordance with its normal procedures.²²

65. **The IMF will charge all project-related costs, including staff costs related to their participation in the SC, under the Trust Fund on the basis of actual cost.** As with other trust funds, this includes a Trust Fund management fee of 7 percent of finances utilized.

²¹ The IMF has created a subaccount governed by its *New Framework Administered Account for Selected Fund Activities (SFA)* adopted in March 2009 (see <http://www.imf.org/external/np/pp/eng/2009/030409.pdf>).

²² The IMF maintains a roster of experts whose certification is based on, among other criteria, strong performance records and proven familiarity with international best practice.

66. **The IMF will provide donors with reports on the subaccount's expenditures and commitments.** The operations and transactions conducted through the subaccount will be subject to annual audits. Separate reporting on the execution of the Trust Fund budget will also be provided at each SC meeting and will be available via the IMF's Donor Gateway.

VII. GENERAL CHALLENGES AND RISKS

67. **Delivering CD activities to Somalia bears significant challenges and risks.** Given the ongoing serious security concerns, most of the TA and training will need to be delivered initially in a third-country location, such as in Nairobi (Kenya). This will not only incur additional costs for transport and accommodation of the Somali counterparts, but also impact the IMF's ability and effectiveness in delivering the envisaged capacity development. While the medium- to long-term objective is to move such activities to Somalia, the security conditions that would allow for such a move will be carefully assessed by the IMF's own security professionals. This would also apply to the security arrangements that would need to be in place, should a re-location to Somalia be recommended. As has unfortunately been evidenced in other similar fragile states, the work program could also experience periodic set-backs, including through high turn-over of key counterparts and trainees, unstable governments, and possible escalation of the civil conflict. On the other hand, it is also possible that the security situation stabilizes more rapidly, thus allowing a more effective, on-site delivery of assistance.

68. **The Trust Fund will need to mitigate these risks by remaining flexible and agile.** Changing conditions on the ground may present new challenges and needs, and the work program under this Trust Fund will need to respond to these new realities in a flexible and pragmatic way, after due consideration and discussion with the SC and other stakeholders. In addition, while the IMF will aim to step up its activities under this Trust Fund promptly and seamlessly, some delays can be expected in the first year, i.e., until the initial needs assessments are made by TA-providing departments and the necessary infrastructure is in place (e.g., the SC is established, work plans are agreed, technical experts are recruited, etc.).