

Central Bank

Governance and Organization

Board Orientation
Central Bank of Somalia

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Introduction

- **Somalia has made tangible progress toward sound and accountable economic and financial governance.** This Board orientation is another step on this journey.
- **My brief presentation will:**
 - Explain the general functions of the Fund, its structure, and its main activities;
 - How the IMF has interacted with Somalia since the resumption of relations based on its core mandate;
 - Explain the function of the newly created Res Rep (RR) office as a source of advice and feedback for the CBS and the Board; and
 - Touch on the relevance of the CBS in the context of Somalia.

I-General Functions of the IMF, Structure and Main Activities

- **The IMF oversees the international monetary system** and monitors the economic and financial policies of its 188 member countries. This activity is known as surveillance.
- **Surveillance is important because** in today's globalized economy, the policies of one country can affect many other countries.
- **There are two main aspects to the IMF's surveillance work:**
 - bilateral surveillance, or the appraisal of and advice on the policies of each member country; and
 - multilateral surveillance, or oversight of the world economy.

Overseeing the Bigger World Picture

- The IMF monitors global and regional economic trends, and analyzes spillovers from members' policies onto the global economy. The key instruments of multilateral surveillance are the regular publications *World Economic Outlook* (WEO),
 - *Global Financial Stability Report* (GFSR), and
 - *Fiscal Monitor*.
- The IMF also publishes *Regional Economic Outlook reports*, providing more detailed analysis for five major regions of the world.
- The IMF's mandate and structure have evolved overtime with changes in the global economy.
- The IMF's current governance structure is as follows:

Board of Governors

- I. **The Board of Governors** is the highest decision-making body of the IMF.
 - II. It consists of one governor and one alternate governor for each member country.
 - III. **The governor is appointed by the member country** and is usually the minister of finance or the head of the central bank.
- **The Board of Governors elects or appoints executive directors**, and is the ultimate arbiter on issues related to the interpretation of the IMF's Articles of Agreement.

The Executive Board

- The IMF's 24-member **Executive Board** takes care of the daily business of the IMF. Together, these 24 board members represent all 188 countries.
- **The Board discusses everything** from the IMF staff's annual health checks of member countries' economies to monetary and financial policy issues relevant to the global economy.
- **The board normally makes decisions** based on consensus but sometimes formal **votes** are taken.

Ministerial Committees

- **The IMF Board of Governors** is advised by two ministerial committees:
 - the **International Monetary and Financial Committee** (IMFC) and
 - the **Development Committee**.
- **The IMFC has 24 members** and its structure mirrors that of the Executive Board and its 24 constituencies. As such, the IMFC represents all the member countries of the Fund.
- **The Development Committee** is a joint 24-member committee, tasked with advising the Boards of Governors of the IMF and the World Bank on issues related to economic development in emerging and developing countries.

II(1)-IMF Interaction with Somalia

- **Since the Fund resumed relations with Somalia**, it has been providing technical assistance in a number of areas.
- **Developing capacity and institutions.** Fund staff is providing advice on:
 - currency reform, banking operations, central banking, and
 - statistical systems.
- **For CBS, in particular, the Fund is assisting the Somali authorities in strengthening its financial governance.**
 - Setting up capabilities for licensing and supervising of financial institutions, and
 - Providing advice on setting an AML/CFT framework.

II(2)-IMF Interaction with Somalia

- **The Fund is also providing assistance in a technical advisory capacity to the Financial Governance Committee, a committee comprising the authorities and other IFIs to oversee and promote good governance in key financial institutions in Somalia.**
- **TA is planned also to improve tax policy and administration.**

II(3)-IMF Interaction with Somalia

- **Moreover, considerable progress toward preparing the groundwork for Article IV consultation discussions and a staff-monitored program (SMP) has been achieved.**
- **Finally, with 70% of the needed resources secured, the Fund has finalized a Trust Fund for Capacity Development to ensure the delivery of TA.**

III-Function and Objectives of the ResRep Office

- **The opening of a Resident Representative (RR) office is a milestone in the IMF/Somalia relations.**
- **The purpose of the RR post in Somalia is to facilitate the economic policy dialogue with the Somali authorities, particularly in the context of possible and ongoing Fund-supported programs.**
- **The RR will also support the Fund's capacity-building program with Somalia, including technical assistance (TA) and training, and coordinating activities with other multilateral and bilateral stakeholders.**

Key Responsibilities of the RR:

- **Managing the relationship with the Somali authorities** by effectively conveying policy messages and maintaining dialogue;
- **Providing advice to the authorities on economic policy issues**, in consultation with HQ, and helping advance analytical work on key issues facing the Somali economy;
- **Identifying priorities and needs for capacity building**, including TA and training, and facilitating the Fund's TA program;
- **Improve close coordination** with other bilateral and multilateral organizations providing TA to Somalia; and
- **Representing the Fund** in government and donor initiatives that are relevant to the Fund's mandate.

IV (1)

-RELEVANCE OF THE CENTRAL BANK OF SOMALIA BOARD

- **A Functioning Board is Critical for the CBS Mandate**
- **Governance at the CBS needs to be enhanced and brought in line with practices of other central banks.** The CBS will require continuous oversight from the Board through regular/frequent Board meetings, to conform with CBS Law and central bank practice elsewhere.
- **The Board will have the utmost responsibility of overseeing,** through the Governor, the effective implementation of the new Central Bank Act and preparing licensing criteria for entry of private sector banks and other financial institutions, including money transmitters (Hawala agencies).

IV(2)-RELEVANCE OF THE CENTRAL BANK OF SOMALIA BOARD

- **The May and July 2014 Board meetings**, as well as the recent provisional licensing of six commercial banks and eight Hawalas are welcome steps.
- **To further strengthen oversight at the CBS** and mitigate the risk of misuse of funds, the establishment of an Audit Committee reporting to the Board will be essential.
- **The creation of an internal audit function**, transparency of financial reporting, and the reinforcement of the legal structure will help ease concerns about safeguards.

IV(3)-RELEVANCE OF THE CENTRAL BANK OF SOMALIA BOARD

- **The CBS needs also to make further progress toward** adopting a modernized accounting and financial reporting framework to replace its outdated chart of accounts.
- **Statutory compliance needs to be formally monitored.** As the leading financial institution in the country, the CBS should lead by example and ensure that banking statutory requirements are adhered to on an ongoing basis.

Conclusion

- I would like to congratulate the CBS Management for pressing forward with efforts at modernizing the institution, including the appointment of this Board of Directors in April 2014.
- I am sure that you will extract the most from the training of the coming days to enhance the effectiveness of all the Board.
- The IMF and my RR office in particular stand ready to continue to provide TA and hands-on training and advice to assist the CBS with its efforts.