



SOMALIA

July 2017

SECOND AND FINAL REVIEW UNDER THE STAFF-MONITORED PROGRAM AND REQUEST FOR A NEW STAFF-MONITORED PROGRAM—PRESS RELEASE AND STAFF REPORT

In the context of the Staff-Monitored Program, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's information, following discussions that ended on May 19, 2017, with the officials of Somalia on economic developments and policies underpinning the IMF arrangement under the Staff Monitored Program. Based on information available at the time of these discussions, the staff report was completed on June 22, 2017.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Somalia*
Memorandum of Economic and Financial Policies by the authorities of Somalia*
Technical Memorandum of Understanding*
*Also included in Staff Report

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IMF Management Completes the Second Review under the Staff–Monitored Program for Somalia and IMF Managing Director Approves a New Staff–Monitored Program

- IMF staff welcomes the authorities’ continued commitments to policy and reform implementation despite daunting challenges, including a humanitarian crisis.
- IMF staff encourages the authorities to avoid new domestic arrears and to implement the reform measures envisaged under the Staff–Monitored Program.
- IMF staff welcomes the authorities’ continued progress on currency reform and plans to revive the financial sector.

On June 21, the management of the IMF completed the second and final review under the first Staff–Monitored Program (SMP)¹ with Somalia, and the Managing Director of the IMF approved a new SMP covering the period May 2017–April 2018.

Somalia’s 2016 electoral cycle was completed on February 8, with the election of Mr. Mohamed Abdullahi Mohamed as President. The new government has renewed its commitment to continue with strong policies and reforms to rebuild economic institutions, and to lay the foundations for inclusive economic growth and poverty reduction.

The international community and key donors of Somalia have welcomed the new government’s commitment, reaffirming their support to Somalia at a roundtable held last April in Washington, D.C. and at the Somalia Conference in London in May.

Somalia is a fragile state and the country’s post-war economic situation continues to be very difficult, with poverty remaining widespread. The authorities are lacking the resources and capacity, as well as the policy instruments, such as social safety net programs, to respond to their challenging development needs, including meeting the humanitarian needs resulting from the ongoing drought.

The drought is weakening economic activities and pushing up food prices. The government’s budgetary expenditures in 2017 will be largely consumed by wages and salaries, as well as goods and services. On the revenue side, donor grants are projected to finance about

¹ An SMP is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities’ economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.

40 percent of the 2017 budget. Somalia is still facing a large trade deficit, which will be covered by grants, remittances, and foreign direct investment from the Somali diaspora.

Program implementation through end-December 2016 and end-March 2017 was broadly satisfactory. In view of this performance and the remedial measures by the authorities to address shortcomings in performance under the first SMP, IMF management agreed to the completion of the second and final review of the program.

In view of the major challenges Somalia faces, the authorities requested a new 12-month SMP covering the period May 2017–April 2018, which the Managing Director of the IMF has now approved. The new program will help the authorities maintain macroeconomic stability; rebuild institutions and capacity for macroeconomic management and governance; and to implement the necessary measures to lay the foundation for achieving debt relief in the future under the Heavily Indebted Poor Countries (HIPC) Initiative.

The new SMP is founded on three pillars: fiscal policy and reforms, monetary and financial sector policies and reforms, and governance and capacity development.

- Fiscal policy will focus on improving budget execution and avoiding accumulation of domestic arrears; broadening the tax base; and improving public financial management.
- The monetary and financial sector agenda will include further steps toward currency reform, financial sector development, and establishment of effective regulations for money-transfer businesses. The latter includes improvements to the legal and operational framework in connection with issues related to money laundering and combatting the financing of terrorism, which will help to facilitate the inflows of remittances to support economic activity and poverty reduction.
- Capacity development and reforms to improve governance will be central to the program. These efforts will be supported strongly by technical assistance from the IMF which will continue to be financed from a donors' Trust Fund.

Risks to the program and the outlook are high, including the fragile security situation, weak institutional capacity, and major refugee and humanitarian crises. However, the authorities' continued commitment to the program and sustained and coordinated international support should help mitigate these risks. Improved ownership of the program by the authorities will also be essential to its success.



SOMALIA

June 22, 2017

SECOND AND FINAL REVIEW UNDER THE STAFF-MONITORED PROGRAM AND REQUEST FOR A NEW STAFF-MONITORED PROGRAM

KEY ISSUES

Background and context. Recent developments are broadly in line with the 2016 Article IV Consultation Staff Report. The 2016 electoral cycle was completed on February 8, with the election of Mohamed Abdullahi Mohamed as President, which provides a fresh mandate for stronger reforms in the next four years and continued donor support. Progress is being made in improving the security situation, developing institutional capacity, and state-building. On May 16, 2016, the IMF Managing Director approved a 12-month Staff-Monitored Program (SMP) (May 2016–April 2017) and the first review under the SMP was completed on February 3, 2017. This is the second and last review under the first SMP, which ended in April 2017. The authorities have requested a second 12-month SMP.

Second and final review under the SMP (May 2016–April 2017). For December 2016 targets, four out of five indicative targets and all but one structural benchmarks were met. For March 2017, all indicative targets and structural benchmarks were met, albeit with some delays. Considering the broadly satisfactory progress under the SMP, remedial measures to address the missed targets, particularly on new domestic arrears accumulation, and the authorities' strong commitment toward policy and reform implementation in what remains a difficult environment, staff supports the completion of the second and final review of the SMP.

New 12-month SMP (May 2017–April 2018). Considering the broadly satisfactory performance under the previous SMP and the renewed commitment of the new government to the program implementation, staff supports the authorities' request for a new 12-month SMP. A new program will help address the significant challenges to building a track record in policy and reform implementation by maintaining the reform momentum and macroeconomic stability. It will also boost confidence and continue to catalyze donor support.

Program objectives and anchors. The new SMP is geared toward supporting macroeconomic stability, and rebuilding institutions and capacity to improve macroeconomic management and governance. It will be anchored on: (1) a floor for the fiscal balance (zero cash balance); (2) non-accumulation of new domestic arrears and increasing arrears payments in the event of a revenue windfall; (3) a revenue floor; and (4) a floor on the central bank's net foreign assets. It also includes several reform measures in the areas of public financial management, the financial sector, and economic statistics.

Program risks. Risks to the program and the outlook are high. These include the fragile security situation; weak institutional capacity that could result in poor fiscal management and new domestic arrears accumulation; persistent drought conditions, followed by humanitarian crisis and a significant refugee problem; slow progress in policy and reform implementation; and continued shortfalls in donor support to the Federal Government of Somalia. The authorities' continued commitment to the program and sustained and coordinated international support would help mitigate these risks. Improved ownership and political support for reform measures under the SMP will be essential.

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Discussions were held in Nairobi, Kenya during May 15–19, 2017. The staff team consisted of Messrs. Elhage (Head), Samake, Kohler, (all MCD), Dallari (FAD), and Muir (FAD consultant), as well as Mr. Thiam (Resident Representative). Mr. Tlelima (Advisor to the Executive Director) attended all meetings. The team met with the Central Bank Governor Mr. Bashir Issa Ali; Senior Advisor to the President’s office, Mr. Balal Osman; Representative of the Prime Minister’s office, Mr. Abdi Abdullahi; and other officials. The mission discussed the Memorandum of Economic and Financial Policies with the Finance Minister Mr. Abdirahman Beileh through videoconferencing. The mission also met with representatives of bilateral and multilateral donors.

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BACKGROUND AND CONTEXT

1. **Political developments.** On February 8, Mohamed Abdullahi Mohamed was elected as the new president of Somalia in an election that was welcomed by both the Somali people and the international community.¹ On April 20, the IMF, the World Bank, and the United Kingdom hosted a roundtable during the 2017 Spring Meetings in Washington, D.C. that outlined a broad macroeconomic reform roadmap that could eventually lead to Heavily Indebted Poor Countries (HIPC) Initiative debt relief. On May 10–11, the United Kingdom hosted a Conference for Somalia in London during which donors reaffirmed their support for Somalia while noting, among other topics, the importance of actions to increase transparency and reduce corruption and accelerate economic reform.
2. **State-building and security situation.** With donor support, state-building is advancing and the security situation continues to improve, albeit slowly. However, despite more than 80 percent of the country being liberated from Al-Shabaab, a fragile security situation limits the government's ability to govern effectively and provide much-needed humanitarian support.
3. **Humanitarian needs.** The ongoing drought is severely affecting the Somali people and increasing the risk of a humanitarian crisis. The harsh impact on crops and livestock² has left more than 6 million people (about half of the Somali population) in need of assistance and at risk of food insecurity, prompting an urgent need for humanitarian and financial assistance by the government and the international community. This assistance will be crucial for the government to be able to cope with the humanitarian crisis. The authorities are taking steps to facilitating the distribution of aid, developing capacity to respond to the drought and humanitarian needs, and introducing social safety net programs (see ¶29).
4. **Economic situation.** Somalia's post-war economic situation continues to be very difficult and poverty is widespread. The authorities are lacking the resources and capacity, as well as the policy instruments, such as social safety net programs, to meet the ongoing drought and humanitarian needs.
5. **Fund relations.** Since the resumption of relationship with Somalia in 2013, the IMF has provided policy advice and extensive technical assistance (TA). In addition, on May 16, 2016, the Managing Director approved a 12-month Staff-Monitored Program (SMP). The first review under the SMP was completed on February 3, 2017 together with the conclusion of the 2016 Article IV Consultation with Somalia. The SMP ended in April 2017, and the authorities requested a follow-up SMP to help anchor policies and build a track record in reform implementation. Somalia's overdue financial obligations to the IMF were last reviewed by the Executive Board in February 2017. Somalia is in arrears to the Fund (SDR 238.25 million or 539 percent of quota as of end-May 2017) and is

¹ The country's second democratic election since 2012.

² The state of Puntland has been the hardest hit, with livestock deaths estimated at around 7 million (20 percent of herds).

therefore ineligible for financial support from the Fund. The clearance of external arrears will be an important part of normalizing relations with the international community and establishing a roadmap to external debt sustainability.

6. New 12-month SMP. Staff supports the completion of the SMP and approval of a 12-month follow-up SMP (May 2017–April 2018) in view of the broadly satisfactory performance in very challenging conditions (including a prolonged electoral period–August 2016 to February 2017–the ongoing drought, weak revenue mobilization and slow disbursements of donor grants). Also, the authorities' renewed commitment to policy reform implementation as well as the remedial measures to address the missed targets lend support for the new program. The new SMP focuses on: (1) arrears management and revenue mobilization; (2) currency reform; and (3) financial sector development and effective regulation of money-transfer businesses (MTBs), including on anti-money laundering and combatting the financing of terrorism (AML/CFT), to secure inflows of remittances to support economic activity and poverty reduction. It will also support institution building, governance, and capacity development.

ECONOMIC DEVELOPMENTS AND OUTLOOK

The economic slowdown will continue in 2017, as the drought is severely hitting the agricultural sector and livestock. Risks will continue to be tilted to the downside, not only from the drought, but mainly from weak security and slow progress in policy and reform implementation.

7. Economic activity is weakened by the ongoing drought (Text Table 1). Growth is expected to fall from 3.2 percent in 2016 to 2.4 percent in 2017, with the drought affecting crops and livestock outputs. Due in part to higher food prices, inflation is projected to pick up to 2.9 percent in 2017, from 2.3 percent in 2016. The trade deficit (56.6 percent of GDP on average in 2015–16) is projected to remain sizable and will be largely financed by remittances and grants. Somalia's external debt stood at 81 percent of GDP (\$5,130 million) at the end of 2016 (Tables 7a and 7b).

8. The fiscal position came under further pressure in 2016 (Tables 3a and 3b). Budgetary grants and revenue fell short of program projections (by \$19.1 million). This, for the most part, reflected weak revenue mobilization and low grant disbursements. Arrears continued to build up in the face of a

Text Table 1. Selected Economic Indicators, 2015–18
(Percent of GDP, unless otherwise indicated)

	2015	2016		2017	2018
	Est.	Prog.	Prel.	Proj.	
National income and CPI (Percent)					
Real GDP growth	3.6	3.4	3.2	2.4	3.5
Inflation (CPI, eop)	1.4	1.5	2.3	2.9	2.7
Fiscal 1/ 2/					
Revenue and grants	2.3	3.0	2.7	3.6	3.9
Of which: grants	0.4	1.1	0.9	1.5	1.5
Total expenditure	2.2	3.0	2.7	3.6	3.9
Of which: Wages 3/	0.9	1.2	0.9	1.7	1.8
Overall balance	0.1	0.0	0.0	0.0	0.0
External sector and debt					
Current account balance	-7.2	-6.4	-10.1	-11.1	-10.7
Trade balance	-54.6	-55.0	-58.5	-62.8	-56.4
Remittances	23.4	23.4	24.7	26.0	23.9
Grants	24.6	25.6	24.2	26.3	22.4
Net foreign assets 4/	21.6	21.6	21.6	21.6	21.6
External debt	84.4	79.9	81.0	...	...
Memorandum items (U.S. dollar, million)					
Treasury deposits at the CBS	18.7	...	10.2	...	...
Stock of arrears	67.7	36.3	76.5	60.5	47.9

Sources: Somali authorities; and IMF staff estimates.

1/ Covers only the Federal Government of Somalia's operations.

2/ The fiscal operations are recorded on cash basis.

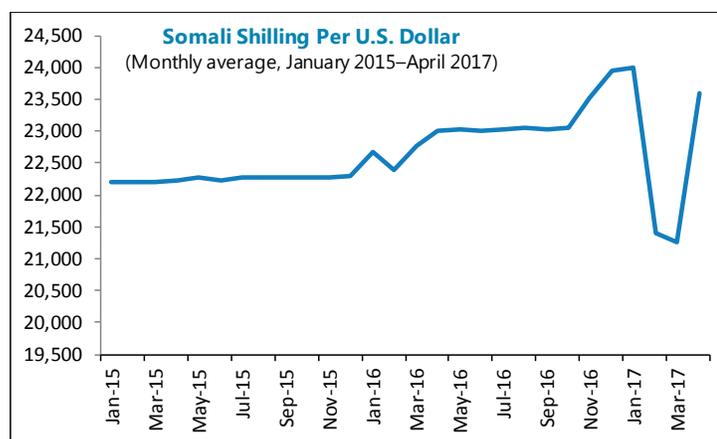
3/ Wages and salaries. Figure for 2017 includes salary payments for 12 months.

4/ Program definition; and millions of U.S. dollars.

cash shortfall.³ In 2017, the fiscal situation is projected to improve as yields from new revenue measures are expected to materialize toward the end of the year, and no new domestic arrears are anticipated.

9. The Central Bank of Somalia's (CBS) balance sheet remained broadly stable (Table 4). CBS assets remained between \$71 million and \$73 million. The SOS⁴/USD exchange rate depreciated by 2.6 percent year-on-year in April 2017, but appreciated by 11.3 percent from February to March 2017 following the peaceful presidential election.⁵

10. Commercial banking activities are being strengthened (Table 5). The CBS made significant progress in developing bank licensing frameworks, particularly on methods for periodic financial reporting by commercial banks, and on a system for bank financial analysis, as well as on the Capital adequacy–quality of Assets–quality of Management–Earnings–Liquidity (CAMEL) bank supervisory scoring system.



Capitalization of banks remains strong and their assets increased by 20.5 percent in 2016 (and 7.6 percent between December 2016 and March 2017).

PERFORMANCE UNDER THE SMP

Somalia's performance under the SMP was broadly satisfactory considering the various events that tested the authorities' capacity to implement their reforms.

11. For December 2016 targets (Text Tables 2 and Table 1), four out of five indicative targets (ITs) and all but one structural benchmarks (SBs) were met.

- **Missed IT on domestic arrears (continuous IT).** The ceiling on the accumulation of new domestic arrears was missed by \$25.6 million (excluding \$17.3 million, equivalent to two months of salaries, which was not included in the 2016 budget).⁶ Despite remedial measures agreed to at the time of the first review, delayed payments, and domestic arrears continued to accumulate

³ Total domestic arrears and unpaid salaries at the end of 2016 amounted to \$42.9 million (including \$17.3 million—equivalent to two months of salaries—not included in 2016 initial budget). Expenditure adjusted to lower revenue to achieve a zero-fiscal balance (on a cash basis).

⁴ Somali shilling.

⁵ The authorities explained the appreciation in the SOS/USD exchange rate as a sign of confidence following the successful presidential election.

⁶ The authorities included the November and December 2016 salary payments in the stock of domestic arrears.

through the end of 2016. The root causes of these new arrears are weak tax collection, lower-than-projected grants, and still-poor public financial management (PFM). The failure to establish the Domestic Arrears Management Committee (DAMC) also weakened the authorities' ability to monitor new arrears.

- **Missed SB on non-salary Recurrent Cost and Reform Financing (RCRF) reimbursement.** The benchmark of "achieving 100 percent of non-salary RCRF reimbursement" was missed. While some treasury and procurement processes require additional improvement, the authorities and staff noted that progress has been made in many reforms underlying the reimbursement, such as in payment processes. To allow for more reimbursements under the program, the authorities and World Bank staff also agreed to revise the eligibility criteria of contracts over \$50,000, and to accelerate efforts to modernize payment processes, and develop commitment controls for all Ministries, Departments, and Agencies (MDAs).

12. For March 2017 targets (test date), all ITs and all SBs were met, albeit with some delays. Revenue mobilization during the first quarter of 2017 was strong. Domestic revenue reached \$28.8 million compared to \$26.2 million in the same quarter in 2016.⁷ As a result, in the first quarter of 2017, the authorities were able to pay \$7.5 million in domestic arrears (equivalent to October 2016 delayed payments). Given that the authorities included the November and December 2016 delayed payments in the stock of arrears as of end 2016 (¶11 and ¶14, bullet #1), there was no accumulation of new domestic arrears in the first quarter of 2017. The SBs on "Complete an action plan to improve the policy and processes for cash management function" and "Complete a plan to modernize the revenue and customs administration" have been completed with some delays (Table 1).⁸

13. Developments since March 2017 are encouraging. Total revenue has continued to improve through end-April 2017 and the authorities are current on their payments. The two proposed SBs set for June 2017 under the new SMP are expected to be implemented on schedule (MEFP⁹ ¶10, SB #1 and 2, and MEFP Table 2). The supplementary budget has been drafted and approved by the Cabinet on June 8. It is expected to be submitted to the parliament for approval by end-June.

14. Staff's views

- **On domestic arrears accumulation (MEFP ¶9, bullet #2).** Considering the difficult environment, the commitment of the new government to address the root causes of arrears, and the importance of maintaining reform momentum, staff agreed with the authorities' strategy that: (1) given the government's limited resources and the need to introduce proper fiscal management in 2017, all new domestic arrears and delayed payments from 2016 be included in

⁷ See Box 2 for details.

⁸ The delays were technical in nature, due to the delayed confirmation of the new Minister of Finance in late March 2017.

⁹ Memorandum of Economic and Financial Policies.

the stock of arrears; (2) the DAMC be established and empowered to swiftly begin monitoring arrears and finalize domestic arrears stocktaking for 2015 and 2016 (MEFP ¶10, SB #1, and MEFP Table 2); and (3) no new domestic arrears be accumulated. Also, any revenue windfall will be allocated to paying down domestic arrears. To keep this and subsequent SMPs on track, staff stressed the importance of adhering to this strategy.

- **On the non-salary RCRF.** Given the importance of payment reforms in improving fiscal transparency and accountability, staff and the authorities agreed on the need to continue making progress under the RCRF (MEFP ¶10, SB #4, and MEFP Table 2).
- **On the completion of the SMP.** Staff supports the completion of the SMP in view of the broadly satisfactory performance, and progress the authorities have made in many important areas. Since May 2016, Somalia has coped with a raft of difficult circumstances, including: a prolonged electoral period (August 2016 to February 2017), the ongoing drought, weak revenue collection, and slow disbursement of donor grants.

Text Table 2. Somalia: Indicative Targets under the Staff-Monitored Program, 2016–17 1/

(Millions of U.S. dollars)

	2016									2017				
	March		June			Sept. 2/			Dec.			March 3/		
	Est.	Prog.	Prel.	Status	Prog.	Act.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	
Fiscal														
Fiscal balance (cash basis; floor)	0.0	0.0	0.3	Met	0.0	0.2	Met	0.0	0.0	Met	0.0	0.0	Met	
Accumulation of new domestic expenditure arrears (ceiling) 4/ 5/	0.0	0.0	0.0	Met	0.0	10.0	Not	0.0	42.9	Not met	0.0	0.0	Met	
Contracting of new domestic debt (ceiling) 4/	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	
Contracting or guaranteeing of new nominal external non-concessional borrowing (ceiling) 4/	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	
Central Bank of Somalia (CBS)														
Net foreign assets of the CBS (floor) 4/ 6/	21.6	21.6	23.5	Met	21.6	21.6	Met	21.6	21.6	Met	21.6	21.6	Met	
Issuance of banknotes other than SOS 1,000 (ceiling) 4/ 7/	0.0	0.0	0.0	Met	0.0	0.0	Met							
Issuance of SOS banknotes that are not backed by foreign assets denominated in U.S. dollars of the CBS (ceiling) 4/ 7/	0.0	0.0	0.0	Met	0.0	0.0	Met							
Memorandum item														
Contracting or guaranteeing of nominal external concessional borrowing (ceiling).	0.0	0.0	0.0		0.0	0.0	Met	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/ Continuous indicative target.

5/ The arrears figure for December 2016 includes the 2-month salaries (\$17.3 million) not included in the 2016 budget.

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

7/ Removed after September 2016 test date.

Table 1. 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	Met
2. Prepare a plan to identify existing domestic arrears and repayment schedule.	Sep-16	Adopt an arrears management strategy	Met
3. Achieve 100 percent of non-salary Recurrent Cost and Reform Financing reimbursement. 1/	Dec-16	Enhance budget planning and execution	Missed 1/
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	Met
5. Complete an action plan to improve the policy and processes for cash management function	Mar-17	Enhance cash management	Met
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	Met
Tax Policy			
7. Complete a plan to modernize the revenue and customs administration	Mar-17	Improve tax compliance and expand the tax base	Met
8. Pass the 2017 Appropriation Bill to endorse the tax code rates for Income and Sales Taxes	Mar-17	to help re-inforce existing tax law for payroll income tax and sales for telecommunications, electricity and water supplies, and hotels	Met
Financial Sector			
9. Require approval by the Board of Directors of the CBS to issue commercial bank and MTB licenses	Dec-16	Enhance financial licensing and supervision	Met
10. Finalize the anti-counterfeit strategy	Mar-17	To support the anti-counterfeiting strategy	Met
Macroeconomic Statistics			
11. Establish and maintain a business registry to support the collection of macroeconomic statistics	Sep-16	Develop economic statistics	Met

1/ The action is still in progress. Significant progress has been made, and the authorities and the World Bank agreed to revise the eligibility criteria of contracts over \$50,000.

NEW SMP AND POLICY DISCUSSION

Staff supports the authorities' request for a new 12-month SMP (May 2017–April 2018). Policy discussions focused on the program objectives, modalities, monitoring, and risks as well as macroeconomic policies and necessary reforms for 2017–19 to: (1) improve PFM and revenue mobilization; (2) keep the momentum of currency reform; (3) revive the financial sector; and (4) lay the foundations for inclusive economic growth.

A. Follow-Up 12-Month SMP

15. Staff supports the request for a new SMP. Based on progress under the previous SMP, the remedial measures to end domestic arrears accumulation and to complete the non-salary RCRF, as well as the authorities' commitment to maintain reforms and policy implementation momentum, staff supports the authorities' request for a new 12-month SMP (May 2017–April 2018).

Objectives and Features of the New SMP

16. Program objectives and anchors. The new 12-month SMP is guided by the findings of the 2016 Article IV Consultation and lessons learned from the previous SMP. It will help Somalia maintain reform momentum and macroeconomic stability, and continue to build a track record of implementing policies. Despite encouraging progress under the first SMP, significant challenges remain to advance the needed policies and reforms to lay the foundations for future growth and poverty reduction. The new SMP is guided by the lessons learned from the current SMP (Box 1). The new SMP will continue to be geared toward supporting macroeconomic stability, rebuilding institutions, and capacity for improved macroeconomic management and governance. It will be anchored on: (1) a floor for the fiscal balance (zero cash balance); (2) non-accumulation of new domestic arrears and increasing arrears payments in the event of a revenue windfall; (3) a revenue floor; and (4) a floor on the central bank's net foreign assets.

17. Key features of the program. The program is designed on three pillars: fiscal policy and reforms, monetary and financial sector reforms, and governance and capacity development. In the fiscal sector, the program aims to broaden the tax base, as well as improve PFM and arrears and cash management. In the monetary and financial sector, implementing the agreed currency reform measures and establishing a financial sector development roadmap will be critical. In the governance and capacity development areas, continued progress with building institutions, economic data, and capacity are integral parts of the program (MEFP, Attachment I).

Program Monitoring and Risks

18. The SMP will be monitored based on quarterly ITs and SBs (MEFP Tables 1 and 2). It will have two reviews which are expected to be completed by end-December 2017 and end-June 2018, respectively. The program's ITs are defined in the Technical Memorandum of Understanding (TMU, Attachment II).

Box 1. Somalia: May 2016–April 2017 SMP and Follow-up SMP: Lessons Learned

Objectives, Outcomes, and Lessons

The SMP design was in line with the recommendations of the July 2015 Article IV Consultation, the IMF's first with Somalia since 1989. The previous SMP sought to achieve macroeconomic stability and anchor policy through improved fiscal and financial institutions, as well as build capacity. Program design was rudimentary and focused on short-term objectives, while accounting for weak institutional and human capacity and scarce data. The program also correctly identified key risks, some of which materialized.

The authorities' commitment to policy and reform under the program and continued donor support helped ease the challenges of implementing the program. The program was effective in helping implement critical reforms in budget, PFM, tax policy, and developing the process for issuing a new currency. TA programs from the IMF and donors aimed at developing capacity were also instrumental in the program being successfully completed.

At the same time, the previous SMP exposed weaknesses in reform implementation that will need to be addressed under the new SMP. Experience under the previous SMP revealed that domestic arrears accumulation and monitoring continue to be difficult issues. Furthermore, the authorities' efforts to generate additional revenue by improving efficiency and broadening the tax base required more political support and TA. Also, grants continue to be volatile and delayed, complicating budget execution. While the previous SMP supported the currency reform and focused on strengthening the central bank, it did not address issues related to the weak financial intermediation which is nearly absent in Somalia. Finally, Somalia will need to overcome key impediments to growth (weak institutions and governance; weak human capital; poor infrastructure; and an underdeveloped financial sector).

Follow-Up SMP

The follow-up SMP's reform priorities and monitoring seek to address the above issues. The election of a new government with a four-year mandate is important for generating political will for difficult reforms.

- **On the fiscal side**, the new SMP will support the authorities' reform agenda by including SBs on PFM and the revenue floor which will require broadening the tax base. Arrears monitoring will be improved through the introduction of an automated system of recording fiscal operations on a commitment basis. The structural agenda covers a well-defined set of macro-critical areas with the highest pay-off in terms of Somalia's growth and development priorities.
- **On the financial sector and growth**, the new SMP, while continuing to support the currency reform, pays greater attention to reviving the financial sector development and the effective regulation of the MTBs to secure remittance inflows (from the Somali diaspora) to support economic activity and help reduce poverty.

19. Program risks. Risks to the program and to the outlook are high. These stems mainly from fragile security; weak policy commitment and slow progress in policy and reform implementation, which could weaken the fiscal position; the accumulation of new domestic arrears; severe drought conditions in some key regions of Somalia, followed by humanitarian crisis and a significant refugee problem; and possible shortfalls in donor support to the FGS (Risk Assessment Matrix, Annex I). Another critical risk to the program could be the authorities' capacity to implement the agreed set of SBs.

- **Staff views.** Staff stressed that the authorities' continued commitment to the program, and sustained and coordinated international support—including with regards to security, peace, and capacity building—would help mitigate risks. In this context, adherence to the agreed strategy to avoid new domestic arrears and remain current on government bills will be critical. Staff also noted that achieving the tax revenue targets will be critical for the success of the program and will depend on necessary political will and on coordination between the Ministry of Finance (MoF) and the Ministry of Posts and Telecommunication. On the government's capacity to implement the set of SBs, staff noted that they have been backed by IMF TA and discussed with the authorities. The authorities and staff also agreed that their phasing is appropriate.

B. Improving Fiscal Discipline and Revenue Collections

20. The authorities are preparing a supplementary budget. The current 2017 budget approved by the parliament in early April¹⁰ is ambitious, as it includes the repayment of three months' worth of civil servant salaries from 2016 (about \$24 million). It envisages \$267.6 million in expenditure, compared to an outturn of \$171.1 million in 2016. In view of the security situation, weak revenue collection capacity (due in part to a weak legal enforcement framework),¹¹ delays in the implementation of new tax revenue measures (Box 2), and poor performance in grant disbursements, the authorities and staff agreed on the need to prepare a more realistic budget. Hence, a supplementary budget which is more closely aligned with the SMP (MEFP ¶9) will be submitted to parliament by the end of June.

21. The authorities agreed that the supplementary budget should feature more realistic revenue and grants, and prudent expenditure (MEFP ¶9). The revised budget will be underpinned by the following policies and measures:

- **Overall policy.** The fiscal framework (Tables 3a and 3b) in the SMP will guide the supplementary budget, taking into account the strategy to avoid new domestic arrears accumulation (¶13, bullet #1). In the event of a revenue windfall, the authorities will increase the amount allocated for paying down domestic arrears. Under the current framework, the authorities and staff have agreed on initial payments of \$16.1 million and \$12.6 million in 2017 and 2018, respectively.
- **Revenue policy (MEFP ¶9, bullet #1).** Projected budgetary grants are based on confirmed and committed pledges. Domestic revenue is projected to increase to \$137.6 million (2.1 percent of GDP) from \$112.7 million (1.8 percent of GDP) in 2016. This increase is being underpinned by a set of tax policy and reform measures aimed at replacing the current negotiated taxes with the existing tax law. Revenues from these measures, are projected to be about \$23 million (Box 2).

¹⁰ Due to repeated delays in the electoral process (from September 2016 to February 2017) and the formation of the new government, the parliament started meeting in late March 2017.

¹¹ The legal framework is still weak, and poor governance and widespread insecurity limit the tax administration's ability to collect revenue.

- **Expenditure policy (MEFP ¶19, bullet #2).** The authorities agreed that, starting in 2017, fiscal projections will assume full payment of all civil servant and security forces salaries; that the government will improve budget execution and fiscal discipline; and that it will remain current on its payment obligations. The fiscal program also envisages assessing the effectiveness of MDA spending and the civil service with an aim of eliminating duplicated activities and ghost workers. The authorities also plan to introduce a social safety net program, particularly for vulnerable areas facing large humanitarian needs.
- **Debt management (MEFP ¶129).** The authorities agreed to step up efforts to swiftly complete the debt database and improve capacity at the Debt Management Unit (DMU). They are reaching out to creditors and are expected to complete about 95 percent of the external debt database by the end of August 2017.

22. The authorities are establishing an ambitious package of structural reforms, consistent with the SMP, to improve budget execution, fiscal management, and revenue collection (MEFP ¶10–14, and MEFP Table 2).

- **On avoiding accumulation of new domestic arrears and arrears management,** the authorities are determined to swiftly initiate a plan to establish the cash management function unit (MEFP, SB #1), and form and empower the DAMC (MEFP ¶10, SB #2).
- **On treasury management and budget execution,** the authorities' commitment to update and adopt the PFM Bill (MEFP ¶10, SB #3) remains a critical reform priority. To support this reform, the authorities will move quickly to: (1) implement commitment controls and operationalize the purchasing module functionality of the Somalia Financial Management Information System (SFMIS); (2) improve annual budget preparation procedures; (3) improve the fiscal transparency and accountability under the RCRF (MEFP ¶10, SB #4 and #5); and (4) make progress toward a functional Treasury Single Account (TSA). On the latter, staff supports the authorities' efforts to prepare a transitional plan in which all bank accounts will be mapped to the SFMIS. They will also continue the review of MDAs accounts with the view of closing non-critical ones and substantially reducing the use of cash advances to MDAs.
- **On revenue mobilization,** important structural efforts are underway to lift revenue. In the context of reforming the tax and customs administrations, the government is determined to: (1) conclude the renegotiation of all existing revenue-collection contracts (MEFP ¶13, SB #6); (2) establish a large- and medium-sized taxpayer office (LMTO) (MEFP ¶13, SB #7); (3) undertake actions to eliminate tax loopholes and revenue leakages at Customs (MEFP ¶14, SB #8); and (4) develop an audit program to revamp business processes for automated processing to combat fraud and tax evasion and facilitate the movement of goods (MEFP ¶14, SB #9).

Box 2. Somalia: New Measures to Increase Tax Revenues

Projected yields from the new revenue measures were revised down. At the time of the first review, these efforts were projected to yield about \$43 million in additional revenue in 2017, of which more than half was to come from the telecommunications sector (see Text Table). However, some projected yields have now been revised down due to delays in the implementation of revenue measures and revisions in revenue projections. The yield from sales taxes on petroleum, khat, and hotels as well as from income tax are expected to be lower due to delayed implementation (ranging from two to six months). Income from telecommunications fees was excluded and the base for the telecoms sales tax was reduced based on a peer analysis. Plans to introduce sales taxes on utilities were removed particularly in view of the burden already represented by the drought. The vehicle registration tax was delayed but could be implemented in the future. The net effect, including the new measures, will lead to a reduction of identified revenues from these measures of about \$20 million.

Additional offsetting measures have already been implemented.

Since early 2017, the authorities have introduced new tax administrative measures at the port and airport in Mogadishu. These measures include the improvement in the electronic payments and the reduction of cash transactions to reduce corruption. In addition, they have renewed the contracts of several staff and are enforcing the existing tariff rates to reduce leakages. These efforts have resulted in about a 20 percent increase in Customs revenue through the first four months of 2017 compared to the same period in 2016.

Tax revenue collection could also surprise on the upside. Some possible sources of additional revenue were not included in staff projections, such as income tax on telecommunications sector employees. While revenue from telecommunications fees was removed, passage of the Communications Act (MEFP ¶17, SB #10, and MEFP Table 2) would make these revenues more likely to materialize. Finally, the authorities are benefiting from TA to improve the tax and customs administrations.

Text Table. Projected Yields from New Tax Revenue Measures
(Millions of U.S. Dollars)

	2017	
	Prog. 1/ Rev. proj. 2/	Rev. proj. 2/
New tax revenue measures	43.0	22.9
Tax rate increase	7.3	3.0
on petroleum products (+25%)	1.0	0.7
on tobacco (+100%)	0.3	0.3
on khat from \$2 to \$3 per kg	6.0	2.0
Departure tax on outbound airline passengers	3.6	1.4
Improve tax collection	32.1	6.8
Tax on telecom companies 3/	24.5	5.7
Fees on vehicles' registration	3.0	0.0
Sales tax on electricity companies	1.3	0.0
Sales tax on hotels	1.5	0.8
Sales tax on consumer water industries	0.3	0.0
Income tax on employees of hotels; electricity companies; foreign workers; and NGOs	1.5	0.3
Subsequent measure taken by authorities		
Personnel and processing reforms at customs 4/	na	11.7

Sources: Somali authorities; and Fund staff estimates and projections.
 1/ As in the 2016 Article IV Consultation staff report.
 2/ Revised 2017 projections lower largely due to delayed implementation and exclusion of the telecom fees, about \$14 million under the program
 3/ The program projection included telecom licensing fees. These are not included in the revised projection.
 4/ Authorities started appointing new personnel, streamlining processes, and improving inspections to reduce leakages and improve efficiency at the Mogadishu airport and port.

C. Keeping the Currency Reform Momentum

23. Reforming the national currency remains a key priority. The CBS is preparing to reissue new SOS banknotes to combat massive counterfeiting in the country, restore confidence in the national currency, and provide the CBS with the ability to conduct monetary policy. The authorities prepared a reform roadmap in late 2016; however, the process is taking longer than initially envisaged mainly due to weak capacity and a lengthy electoral period which lasted from August 2016 to February 2017.

24. Since the approval of a revised currency reform roadmap in late February 2017, progress has been encouraging (MEFP ¶15–16). The revised roadmap features the key legal and operational frameworks required for the launch of the new currency. Several important reforms have been implemented since February. In line with the roadmap, the CBS: (1) has finalized the anti-counterfeit strategy note; (2) has designed special accounting and reporting system modules; and (3) has developed a task force of high-level CBS staff to manage the currency reform program.

25. The authorities are committed to keeping the currency reform agenda on track. In this context, they plan to undertake a package of new measures under the currency reform roadmap, including establishing a national anti-counterfeit center (MEFP ¶16, SB #10). They have also initiated discussions with the Ministry of Finance on key reform modalities, including the denominations and design features of the new banknotes and the estimated costs of the reform (MEFP ¶16, SB #11).

D. Reviving the Financial Sector

26. The authorities recognize the urgent need to revamp the financial sector. At the same time, they are aware that currency reform and financial sector reform will reinforce each other. The most pressing obstacles to increased financial intermediation include: (1) absence of centralized payment and inter-bank payment systems; (2) weak re-licensing, supervision, regulation, and compliance of MTBs, which has significant implications for securing inflows of remittances to Somalia; (3) shortcomings in the AML/CFT framework and its weak implementation, which can negatively affect correspondent banking relationships; and (4) a still-weak central bank capacity and widespread SOS counterfeiting.

27. The authorities envisage several important reforms to revive the financial sector (MEFP ¶17 and MEFP Table 2). In this context, they will: (1) submit to parliament the longstanding Communication Act to license mobile network operators (MEFP ¶17, SB #12) which will allow them to regulate mobile money operations; (2) outline a roadmap for financial sector development (MEFP ¶17, SB #13); (3) develop software for MTBs to reduce gaps in compliance; (4) develop a plan to strengthen the procedure for the renewal of MTB licenses and enhance compliance with existing regulations, including on AML/CFT (MEFP ¶17, SB #14). ; and (5) develop and implement key regulations for banking and MTBs, as well as continue building supervisory capability at the CBS and strengthening compliance with AML/CFT standards. The implementation of a targeted financial sanctions regime to comply with terrorist financing-related United Nations Security Council

Resolutions should help alleviate some of the pressure on correspondent banking relationships and MTBs.

E. Laying the Foundations for Inclusive Economic Growth

28. Developing Somalia’s economic resilience is one of the priorities of the new government. At the London Conference on May 10–11, 2017, donors expressed their broad support for the authorities’ economic recovery and resilience-building plans set out in the National Development plan (NDP). To achieve their development objectives, the authorities will implement a coherent set of reforms guided by the SMP, and the outcomes of the London Conference and the Roundtable which was held in April in Washington D.C. This will include critical reforms to improve the business environment as well as the financial sector.

29. Staff supports the authorities’ economic recovery and social inclusion strategy (MEFP ¶18–19). The strategy is rightly set up around three pillars that focus on leveraging the country’s comparative advantages and addressing its structural weaknesses; namely: (1) improving infrastructure with basic water and energy access; (2) generating employment through agribusiness, including livestock, fisheries, and agriculture; and (3) increasing skills and access to finance, and developing capacity. Staff also supports the authorities’ efforts to improve the business environment and welcomes the passage of the foreign direct investment (FDI) law and the adoption of the procurement bill. The inclusion of Somalia into the Global Doing Business Survey for the first time in 2017 is also a welcome step for the development of the private sector. Staff encourages the authorities to start preparing a revised NDP to focus more on a number critical areas, including: (1) developing social safety net programs; (2) strengthening the NDP linkage to the annual budget; and (3) outlining a strategy for stronger private sector participation in the economy.

30. While the authorities’ development strategy is commendable, staff stressed that focus on governance, economic statistics, and capacity development is equally important.

- **On governance (MEFP, ¶20–22)**, staff welcomed the recent renewal of the Financial Governance Committee (FGC) which will review large procurement and concession contracts, and play a key role in reviewing progress in PFM and currency reform. Staff also encouraged the authorities to make progress on fiscal federalism, natural resource management and transparency, and procurement.
- **On statistics (MEFP, ¶23)**, the authorities will submit to parliament the new statistical law (MEFP ¶23, SB #15, and MEFP Table 2); and take several actions to improve economic statistics, including improving the business registry list and external sector data.
- **On TA (MEFP, ¶24–26)**, the authorities are cognizant of the merit of the TA delivered by donors in helping improve institutions and capacities in the fiscal and financial areas. The authorities and staff agreed that, the successful completion of many of the SBs identified under the new SMP would require additional TA support. Staff indicated that the Fund will continue to provide a high level of TA.

STAFF APPRAISAL

31. The Somali authorities are to be commended for implementing important reforms in challenging conditions. Since late 2016, Somalia has been hit by a severe drought. It is becoming apparent that this impact could be more significant than initially anticipated, leading to a downward revision of growth in 2017. In addition, the parliamentary and presidential elections—originally planned for August – September 2016—were completed in February 2017. Furthermore, execution of the 2016 budget was difficult, largely due to weak revenue mobilization, slower-than-expected grant disbursement, and poor PFM practices. Nevertheless, despite low administrative capacity, the FGS was able to implement several tangible reforms under the SMP.

32. Risks to the program and the outlook are high. Economic outlook and the SMP are vulnerable to the fragile security situation; slow progress in policy and reform implementation; poor fiscal management; weak institutional capacity; persistent drought conditions and the humanitarian crisis; and shortfalls in donor support to the FGS. While the number of proposed measures agreed on is appropriate, a lack of policy commitment could signal overwhelming structural reform agenda under the SMP. Staff believes that the authorities' continued commitment to the program, and sustained and coordinated international support would help mitigate these risks. In addition, political support for the reform measures under the SMP will be essential for the success of the program.

33. Mobilizing domestic revenue and improving expenditure management are key fiscal goals of the new program. Guided by the lessons learned from the current SMP, the new SMP emphasizes domestic revenue mobilization and expenditure management, including budget execution and cash and treasury management. Lifting domestic revenue from its current very low level, through strong reforms, will offset the volatility of grants and support the country's development goals. Staff welcomed the authorities' continued effort to improve the TSA system.

34. Reform momentum of the national currency should be maintained. Progress under the currency reform roadmap has been encouraging since it was endorsed by the CBS Board of Directors in late February 2017. The roadmap carefully featured the key legal and operational frameworks required for the launch of the new currency. In this context, critical steps toward combating counterfeiting, and on the accounting and reporting modules, have been completed.

35. Financial sector development is urgently needed. The authorities recognized the urgent need to revamp the financial sector. At the same time, they are cognizant that currency reform and financial sector reform will mutually re-enforce each other. Staff recommended that the authorities step up efforts to: (1) outline a roadmap for financial sector development; (2) regulate the use of mobile money; (3) develop software to be used by all MTBs to reduce gaps in compliance; (4) develop a plan to strengthen the procedures for the renewal of MTB licenses and enhance compliance with existing regulations, including on AML/CFT; and (5) develop and implement key regulations for banking and MTBs.

36. The need for capacity development remains significant. There is a significant need to develop capacity of government institutions and the CBS. In addition, successful completion of several structural benchmarks under the new SMP will require additional TA from the Fund. Provision of TA from the Fund is expected to remain high in the period ahead.

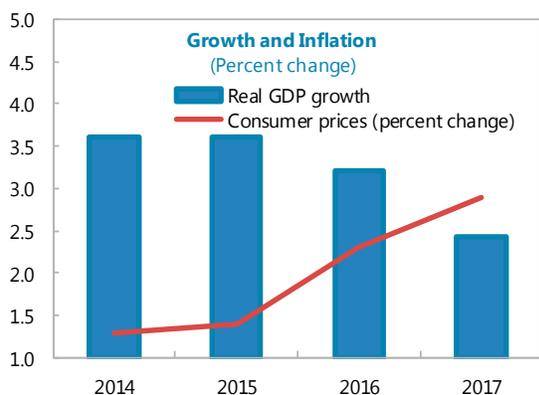
37. Performance under the SMP was broadly satisfactory and, therefore, staff supports the completion of the second and final review. For December 2016 targets, four out of five indicative targets and all but one of the SBs were met, albeit with some delays. For March 2017 targets, all indicative targets and all SBs were met. Considering the broadly satisfactory progress under the SMP, remedial measures to address the missed targets, particularly on the accumulation of new domestic arrears, and the authorities' strong commitment toward policy and reform implementation in what remains a difficult environment, staff supports the completion of the second and final review of the SMP.

38. Based on the broadly satisfactory performance under the previous SMP, staff supports the authorities' request for a new 12-month SMP. Despite the progress thus far, significant challenges remain to build a track record in policy and reform implementation. Somalia is facing daunting challenges to: (1) start mobilizing domestic revenue on an ad-valorem basis and lift revenue collection; (2) boost PFM to improve cash, treasury, and arrears management, as well as budget execution; (3) complete currency reform; and (4) develop the financial sector. The new SMP will help maintain reform momentum and macroeconomic stability. It will also boost confidence and continue to catalyze donor support and will focus on: (1) arrears management and revenue mobilization; (2) currency reform; and (3) financial sector development and effective regulation of MTBs, including on AML/CFT, to secure important inflows of remittances to support economic activity and poverty reduction.

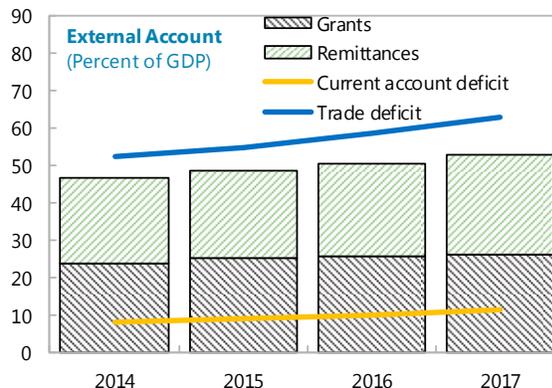
39. Staff supports the authorities' economic recovery and social inclusion strategy. It will address Somalia's infrastructure needs, particularly in the water and energy sectors, and generate employment, increase skills and access to finance, and capacity development. To this end, staff supports the outcomes of the London conference on Somalia. This will include helping Somalia cope with the humanitarian crisis resulting from the drought, one of many priorities identified by the conference in London. The IMF will continue to assist the authorities with the needed technical assistance and policy advice to achieve the objectives set under the SMP.

Figure 1. Somalia: Economic Developments, 2013–17 1/

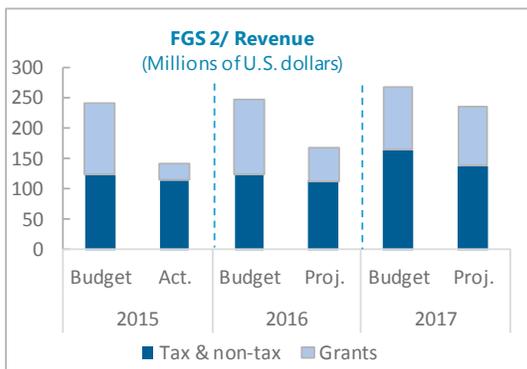
Due largely to drought, growth is expected to decline, inflation to notch up in 2016–17.



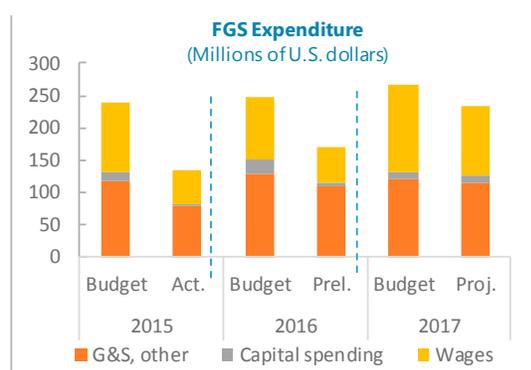
Ample remittances and grants finance a large trade deficit and limit the size of the current account deficit.



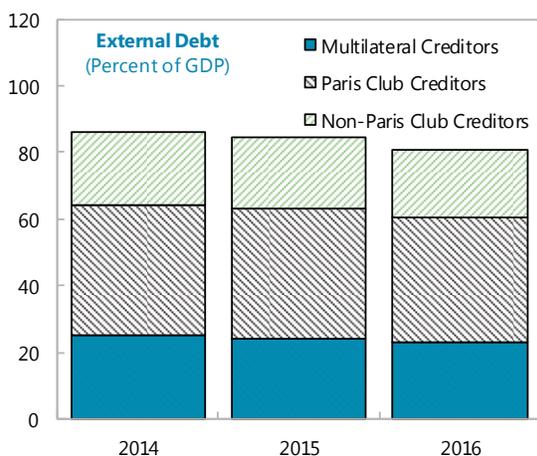
With small tax base, government relies heavily on volatile grants...



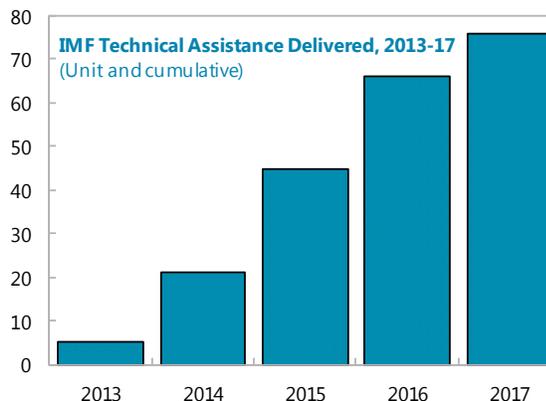
...making budget execution and priority spending difficult.



Somalia's external public debt remains large and is virtually all in arrears.



The IMF has continued to intensify TA support since late 2013 and the country is among the largest



Sources: Somali authorities; and IMF staff estimates.
 1/ Based on rudimentary data and subject to changes.
 2/ Federal Government of Somalia.

Table 2. Somalia: Economic Developments, 2013–18

(IMF Quota = SDR 44.20 million; Population: 14 million, 2015 estimate)
 (Population growth rate: 2.5 percent, estimate; Per Capita GDP: N61\$425, 2015 estimate)
 (Poverty Rate: n.a.; Main Export: Livestock)

	Est.			Prel.	Proj.	
	2013	2014	2015	2016	2017	2018
National income and prices						
Nominal GDP in millions of U.S. dollars	5,723	5,950	6,111	6,336	6,522	6,787
Real GDP, annual percentage change	2.8	3.6	3.6	3.2	2.4	3.5
Per capita GDP in U.S. dollars	429	436	436	442	443	450
Consumer prices (e.o.p., percent change)	4.5	1.3	1.4	2.3	2.9	2.7
	(Percent of GDP)					
Central government finances 1/						
Revenue and grants, <i>of which:</i>	1.9	2.5	2.3	2.7	3.6	3.9
Grants 2/	0.7	1.0	0.4	0.9	1.5	1.5
Expenditure, <i>of which:</i>	2.1	2.5	2.2	2.7	3.6	3.9
Wages and salaries	0.9	1.3	0.9	0.9	1.7	1.8
Capital expenditures	0.0	0.0	0.0	0.1	0.2	0.2
Overall balance	-0.1	0.0	0.1	0.0	0.0	0.0
Stock of domestic arrears	0.5	0.8	1.1	1.2	0.9	0.7
	(Millions of U.S. Dollars)					
Central bank assets						
Total assets, <i>of which:</i>	87.0	83.8	90.6	84.3	...	...
Foreign assets (gross)	66.2	63.2	68.6	62.4	...	...
Cash and cash equivalent, in vault (U.S. dollar)	7.0	6.2	13.3	8.2	...	...
Domestic assets	20.8	20.6	22.0	21.9	...	...
FGS, total deposits 3/	14.4	11.7	18.7	10.2	...	...
	(Percent of GDP)					
Balance of payments						
Current account balance	-4.8	-6.3	-7.2	-10.1	-11.1	-10.7
Trade balance	-47.9	-52.5	-54.6	-58.5	-62.8	-56.4
Exports of goods and services	16.5	19.2	20.5	17.8	15.8	15.9
Imports of goods and services	64.4	71.7	75.1	76.4	78.7	72.4
Remittances	22.7	22.9	23.4	24.7	26.0	23.9
Grants	20.9	23.8	24.6	24.2	26.3	22.4
Foreign Direct Investment	4.5	4.8	5.0	5.4	5.7	6.0
External debt	89.5	86.2	84.4	81.0	...	...
Market exchange rate (SOS/USD, e.o.p.)	20,435	20,268	22,286	23,960	...	...

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

1/ Budget data for the federal government. Fiscal operations are recorded on a cash basis. GDP data cover the entire territory of Somalia.

2/ Includes only donors' support provided to the Federal government through treasury accounts at the Central Bank of Somalia.

3/ Includes Treasury (single account) deposits, donor grants, and assets recovery.

Table 3a. Somalia: Federal Government Operations, 2015–18^{1/}
(Millions of U.S. dollars)

	2015		2016			2017				2018			
	Est.	Prog.	Prel.	Budget	March Prel.	June Proj.	Sept. Proj.	Dec. Proj.	March Proj.	June Proj.	Sept. Proj.	Dec. Proj.	
Revenue and grants	141.2	190.2	171.1	267.6	42.5	104.2	166.1	234.5	66.9	133.9	200.8	267.7	
Revenue	114.3	119.7	112.7	164.7	28.8	61.7	97.4	137.6	41.2	82.4	123.6	164.8	
Tax revenue	82.4	89.0	88.6	132.9	24.1	51.2	80.8	113.6	33.6	67.2	100.7	134.3	
Tax on income, profit and capital gains	1.9	3.3	2.4	6.6	0.5	1.6	2.6	4.0	1.3	2.7	4.0	5.3	
Taxes on goods and services	9.3	10.3	9.9	39.5	2.1	4.3	9.0	14.6	4.6	9.2	13.8	18.4	
Trade taxes	71.1	75.4	76.3	86.8	21.6	45.3	69.2	95.0	27.7	55.3	83.0	110.6	
Non-tax revenue	31.9	30.7	24.1	31.8	4.7	10.5	16.6	24.0	7.6	15.2	22.8	30.5	
<i>of which: Exceptional revenue 2/</i>	0.0	6.0	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Grants 3/	26.9	70.5	58.4	103.0	13.7	42.5	68.7	96.9	25.7	51.5	77.2	102.9	
Bilateral	2.8	35.3	31.3	18.5	6.0	14.0	14.0	14.0	5.0	10.0	15.0	20.0	
Multilateral	24.1	35.2	27.1	84.5	7.7	28.5	54.7	82.9	20.7	41.5	62.2	82.9	
Total expenditure	135.4	190.2	171.0	267.6	34.5	104.2	166.1	234.5	66.9	133.9	200.8	267.7	
Current	133.1	185.6	165.1	255.9	33.4	100.0	158.2	222.8	63.3	126.6	189.8	253.1	
Wages and salaries 4/	52.9	79.0	55.1	136.4	12.3	45.4	81.8	109.0	31.3	62.7	94.0	125.4	
Goods and services	53.0	64.6	64.4	87.6	10.8	38.7	53.4	75.0	21.6	43.1	64.7	86.3	
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Transfers to sub-national government	13.8	9.0	9.4	20.6	1.8	7.0	13.8	20.6	6.7	13.4	20.1	26.8	
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingency	2.6	1.6	2.1	2.1	0.9	1.4	1.7	2.1	0.5	1.1	1.6	2.1	
Arrears and delayed payments	10.8	31.4	34.1	9.2	7.5	7.5	7.5	16.1	3.2	6.3	9.5	12.6	
Capital	2.3	4.6	5.9	11.7	1.2	4.1	7.9	11.7	3.7	7.3	11.0	14.6	
Overall fiscal balance	5.8	0.0	0.0	0.0	7.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Memorandum items													
Accumulation of domestic arrears 5/ 6/	33.1	0.0	42.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Arrears and delayed payments 5/	10.8	31.4	34.1	9.2	7.5	7.5	7.5	16.1	3.2	6.3	9.5	12.6	
<i>of which: arrears</i>	10.8	31.4	34.1	9.2	7.5	7.5	7.5	16.1	3.2	6.3	9.5	12.6	
Stock of domestic arrears (end of year) 5/	67.7	36.3	76.5	67.3	69.0	69.0	69.0	60.5	57.3	54.2	51.0	47.9	

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

1/ The fiscal operations are recorded on a cash basis.

2/ Includes spending covered by recovered assets.

3/ Includes only donors' support provided to the Federal government through treasury accounts at the Central Bank of Somalia.

4/ Figure for 2017 includes salary payments for 12 months.

5/ Estimated arrears. The figure for 2016 includes only wages, salaries and allowances.

6/ The figure for 2016 includes \$17.3 million (November and December wages) that were taken out of the revised budget.

Table 3b. Somalia: Federal Government Operations, 2014–18^{1/}
(Percent of GDP)

	2014	2015	2016		2017			2018
	Est.	Est.	Prog.	Prel.	Prog.	Budget	Proj.	Proj.
Revenue and grants	2.5	2.3	3.0	2.7	3.8	4.1	3.6	3.9
Revenue	1.5	1.9	1.9	1.8	2.4	2.5	2.1	2.4
Tax revenue	1.2	1.3	1.4	1.4	2.0	2.0	1.7	2.0
Tax on income, profit and capital gains	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Taxes on goods and services	0.1	0.2	0.2	0.2	0.6	0.6	0.2	0.3
Trade taxes	1.1	1.2	1.2	1.2	1.3	1.3	1.5	1.6
Non-tax revenue	0.3	0.5	0.5	0.4	0.4	0.5	0.4	0.4
<i>of which: Exceptional revenue 2/</i>	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Grants 3/	1.0	0.4	1.1	0.9	1.5	1.6	1.5	1.5
Bilateral	1.0	0.0	0.6	0.5	0.3	0.3	0.2	0.3
Multilateral	0.0	0.4	0.6	0.4	1.2	1.3	1.3	1.2
<i>of which projects</i>	0.0	0.4	...	0.2	0.7	...	...	...
Total expenditure	2.5	2.2	3.0	2.7	3.9	4.1	3.6	3.9
Current	2.5	2.2	2.9	2.6	3.7	3.9	3.4	3.7
Wages and salaries 4/	1.3	0.9	1.2	0.9	1.9	2.1	1.7	1.8
Goods and services	1.0	0.9	1.0	1.0	1.0	1.3	1.1	1.3
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national government	0.2	0.2	0.1	0.1	0.3	0.3	0.3	0.4
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingency	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears and delayed payments	0.0	0.2	0.5	0.5	0.5	0.1	0.2	0.2
Capital	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2
Overall fiscal balance	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items								
Accumulation of domestic arrears 5/ 6/	0.3	0.5	0.0	0.7	0.0	0.0	0.0	0.0
Arrears and delayed payments 5/	0.0	0.2	0.5	0.5	0.5	0.1	0.2	0.2
<i>of which: arrears</i>	0.0	0.2	0.5	0.5	0.0	0.1	0.2	0.2
Stock of domestic arrears (end of year) 5/	0.8	1.1	0.6	1.2	1.2	1.0	0.9	0.7

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

1/ The fiscal operations are recorded on a cash basis.

2/ Includes spending covered by recovered assets.

3/ Includes only donors' support provided to the Federal government through treasury accounts at the Central Bank of Somalia.

4/ Figure for 2017 includes salary payments for 12 months.

5/ Estimated arrears. The figure for 2016 includes only wages, salaries and allowances.

6/ The figure for 2016 includes \$17.3 million (November and December wages) that were taken out of the revised budget.

Table 4. Somalia: Summary Accounts of the Central Bank, 2014: Q4 – 2017: Q1^{1/}
(Thousands of U.S. dollars)

	2014		2015			2016				2017
	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March
	Act.	Est.	Est.	Est.	Est.	Prel.	Prel.	Prel.	Prel.	Prel.
Assets	83,834	84,064	82,384	87,472	90,636	94,426	88,401	86,838	84,320	95,999
Foreign assets	63,199	62,998	61,238	66,203	68,639	71,939	66,605	64,867	62,433	74,063
SDRs	26,557	25,286	25,779	25,731	25,398	25,767	25,516	25,515	24,561	24,803
Gold 2/	19,551	19,240	19,090	18,133	17,249	17,250	17,250	17,250	18,816	18,816
Foreign exchange 3/	10,897	10,897	10,897	10,897	12,695	13,826	13,327	12,321	10,837	11,620
Cash and cash equivalent (US\$)	6,195	7,575	5,472	11,442	13,296	15,096	10,512	9,781	8,219	18,824
Domestic assets	20,635	21,066	21,146	21,269	21,997	22,487	21,796	21,971	21,887	21,936
Liabilities	83,834	84,064	82,384	87,472	90,636	94,426	88,401	86,838	84,320	95,999
Reserve money	2,392	710	732	608	1,044	1,901	2,431	1,654	2,477	1,782
Government	11,686	7,836	5,568	11,446	18,665	21,464	15,803	14,677	10,190	23,222
Treasury deposits 4/	4,470	5,984	3,718	9,596	11,449	13,118	7,956	7,836	4,833	15,522
Grants	...	5,365	...	...	5,365	6,496	5,997	4,991	3,507	5,790
Asset recovery proceeds	1,851	1,852	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,910
Other domestic liabilities	3,120	3,120	3,120	3,120	3,660	3,660	3,660	3,660	3,660	2,340
Earmarked donor funds	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	1,500
MTF deposits	120	120	120	120	660	660	660	660	660	840
Other ext. liabilities 5/	0	0	0	0	0	0	0	0	0	0
Equity and reserves	66,636	72,398	72,964	72,298	67,267	67,401	66,507	66,847	67,993	68,655
Memorandum items:										
Changes (y-o-y) in:										
Foreign assets (percent)	...	...	...	...	...	14.2	8.8	-2.0	-9.0	3.0
Domestic assets (percent)	...	...	...	...	...	6.7	3.1	3.3	-0.5	-2.5
Somali shillings per US dollar (end of period)	20,268	22,211	22,218	22,269	22,286	22,779	22,994	23,030	23,960	21,248

Sources: Central Bank of Somalia; and Fund staff estimates.

1/ Based on the Central Bank of Somalia (CBS) financial statements. The CBS' account data are still preliminary and incomplete.

2/ Gold valued at market price.

3/ Includes external assets recovery, official grants, and earmarked funds.

4/ Includes treasury and Development Bank deposits, and grants.

5/ Excluding Somalia's overdue financial obligations to the IMF.

Table 5. Somalia: Consolidated Commercial Banks Balance Sheet, 2015: Q1 – 2017: Q1^{1/}
(Thousands of U.S. dollars)

	2015				2016				2017
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March
Total assets	168,134	169,877	190,756	194,382	212,510	213,985	225,122	234,207	252,064
Cash on Hand	52,895	56,597	72,887	63,937	100,588	64,383	60,713	62,811	65,200
Balances with Central Bank	5	21	61	449	1,251	1,202	1,067	1,494	3,117
Banks and financial inst. deposits 1/	11,955	13,482	16,095	32,833	9,680	24,078	47,554	41,476	20,465
Credit to private sector	43,019	42,173	41,966	45,205	47,278	51,394	55,806	66,056	76,561
Investment 2/	15,581	15,848	15,732	9,621	8,892	9,521	9,448	12,680	14,701
Assets	44,679	41,756	44,014	42,337	44,821	63,407	50,535	49,689	72,021
Total liability	119,881	122,302	144,579	147,755	165,928	163,385	172,204	182,440	202,704
Banks and financial inst. deposits 3/	0	0	0	0	4,230	0	0	0	0
Customer Deposits	115,499	117,304	139,712	142,806	153,817	158,051	167,626	177,091	194,606
Financing Liabilities	134	150	171	64	1,976	892	994	943	1,625
Other Liabilities	4,248	4,848	4,696	4,885	5,905	4,442	3,585	4,405	6,473
Equity	48,253	47,575	46,177	46,627	46,581	50,600	52,918	51,767	49,359
Memorandum items:									
Credit to private sector 4/									
share to total assets (percent)	...	...	...	...	22.2	24.0	24.8	28.2	30.4
y-o-y changes (percent)	...	...	...	...	9.9	21.9	33.0	46.1	61.9

Sources: Central Bank of Somalia; and Fund staff estimates.

1/ Deposits and Placements with banks and other financial institutions.

2/ In securities, associates and Joint ventures, and property.

3/ Deposits and Placements of banks and other financial institutions.

4/ The financial sector is nascent. Quarterly data have started been produced since March 2015.

Table 6a. Somalia: Balance of Payments, 2013–18
(Millions of U.S. dollars)

	Prel.				Proj.	
	2013	2014	2015	2016	2017	2018
Current account balance	-276	-376	-439	-640	-722	-725
Trade balance	-2,741	-3,121	-3,339	-3,708	-4,099	-3,830
Goods balance	-1,868	-2,040	-2,315	-2,636	-2,955	-2,677
Exports of goods, f.o.b.	640	808	897	757	650	700
Imports of goods, f.o.b.	-2,508	-2,849	-3,211	-3,393	-3,605	-3,377
Service balance	-874	-1,081	-1,025	-1,072	-1,144	-1,154
Service credits	303	337	355	373	382	382
Service debit	1,177	1,418	1,379	1,445	1,526	1,536
Income (net)	-32	-31	-29	-30	-31	-32
Receipts	35	36	38	39	40	42
Payments	-67	-67	-67	-69	-72	-74
Current transfers (net)	2,498	2,776	2,930	3,099	3,408	3,138
Private (net), including remittances 1/	1,300	1,362	1,427	1,564	1,693	1,621
Official 2/	1,198	1,413	1,503	1,534	1,714	1,517
Capital account and financial account	276	376	439	640	722	725
<i>of which</i>						
Foreign direct investment	258	283	306	339	372	406
Errors and omissions	0	-3	5	-6	0	0
Overall balance	0	-3	5	-6	0	0
Change in the central bank net foreign assets 3/	...	3	-5	6	0	0
Memorandum items:						
Nominal GDP	5,723	5,950	6,111	6,336	6,522	6,787
External public debt	5,122	5,128	5,155	5,130	...	...

Sources: Authorities, Direction of Trade Statistics, UN Comtrade, and Fund staff estimates and projections.

1/ 2013 data from Barclays Bank, PLC.

2/ Includes direct budget support.

3/ Excluding Somalia's net position with the IMF. Negative sign means increase in reserves.

Table 6b. Somalia: Balance of Payments, 2013–18
(Percent of GDP, unless otherwise indicated)

	Prel.				Proj.	
	2013	2014	2015	2016	2017	2018
Current account balance	-4.8	-6.3	-7.2	-10.1	-11.1	-10.7
Trade balance	-47.9	-52.5	-54.6	-58.5	-62.8	-56.4
Goods balance	-32.6	-34.3	-37.9	-41.6	-45.3	-39.4
Exports of goods, f.o.b.	11.2	13.6	14.7	11.9	10.0	10.3
Imports of goods, f.o.b.	-43.8	-47.9	-52.6	-53.6	-55.3	-49.8
Service balance	-15.3	-18.2	-16.8	-16.9	-17.5	-17.0
Service credits	5.3	5.7	5.8	5.9	5.9	5.6
Service debit	20.6	23.8	22.6	22.8	23.4	22.6
Income (net)	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Current transfers (net)	43.6	46.7	47.9	48.9	52.3	46.2
Private (net), including remittances 1/	22.7	22.9	23.4	24.7	26.0	23.9
Official 2/	20.9	23.8	24.6	24.2	26.3	22.4
Capital account and financial account	4.8	6.3	7.2	10.1	11.1	10.7
<i>of which</i>						
Foreign direct investment	4.5	4.8	5.0	5.4	5.7	6.0
Errors and omissions	0.0	-0.1	0.1	-0.1	0.0	0.0
Overall balance	0.0	-0.1	0.1	-0.1	0.0	0.0
Change in the central bank net foreign assets 3/	0.0	0.1	-0.1	0.1	0.0	0.0
Memorandum items:						
Nominal GDP (in millions of USD)	5,723	5,950	6,111	6,336	6,522	6,787
External public debt	89.5	86.2	84.4	81.0	...	...

Sources: Authorities, Direction of Trade Statistics, UN Comtrade, and Fund staff estimates and projections.

1/ 2013 data from Barclays Bank, PLC.

2/ Includes direct budget support.

3/ Excluding Somalia's net position with the IMF. Negative sign means increase in reserves.

Table 7a. Somalia: External Public Debt, 2013–16
(Millions of U.S. dollars)

	Prel.			
	2013	2014	2015	2016
Total stock outstanding 1/	5,122	5,128	5,155	5,130
<i>of which: arrears</i>	4,752	4,742	4,860	4,757
Multilateral creditors	1,556	1,507	1,468	1,442
International Monetary Fund	360	341	328	319
World Bank	520	502	491	484
AfDB Group	142	135	130	133
Arab Fund for Economic and Social Development	178	181	171	150
International Fund for Agricultural Development	32	31	30	29
OPEC Fund for International Development	35	35	35	35
Arab Monetary Fund	278	271	270	280
Islamic Development Bank	11	11	13	13
Bilateral creditors	3,566	3,621	3,687	3,688
Paris Club creditors 2/	2,244	2,301	2,392	2,392
Denmark	2	2	2	2
France	384	424	476	425
Italy	571	571	571	582
Japan	119	99	103	117
Netherlands	7	6	6	6
Norway	2	2	2	2
Spain	37	38	38	39
United Kingdom	81	82	82	81
United States	904	936	969	993
Russia	138	141	144	145
Non-Paris Club creditors 3/	1,322	1,320	1,296	1,296
Algeria	2	2	2	2
Bulgaria	9	9	9	9
Iraq	66	66	66	66
Kuwait Fund and Central Bank	296	294	273	271
Libya	5	5	5	5
Romania	6	6	3	3
Saudi Arabia	105	105	105	108
Serbia	2	2	2	2
United Arab Emirates	832	832	832	832

Sources: Somalia Debt Management Unit; World Bank; and AfDB.

1/ Claims in currency of loan are converted to US\$ at period-end exchange rates.

2/ For Paris Club creditors, extrapolations of known penalty interest rates were applied. The average penalty interest rate is about 3.4 percent. For Non-Paris Club creditors, late interest rate is only known for Kuwait. No penalty interest has been included for 2014.

3/ Data of Non-Paris Club creditors is preliminary as a large portion is estimated from the World Bank debt database (WBXD).

Table 7b. Somalia: External Public Debt, 2013–16
(Percent of GDP)

	Prel.			
	2013	2014	2015	2016 1/
Total stock outstanding 2/	89.5	86.2	84.4	81.0
<i>of which: arrears</i>	83.0	79.7	79.5	75.1
Multilateral creditors	27.2	25.3	24.0	22.8
International Monetary Fund	6.3	5.7	5.4	5.0
World Bank	9.1	8.4	8.0	7.6
AfDB Group	2.5	2.3	2.1	2.1
Arab Fund for Economic and Social Development	3.1	3.0	2.8	2.4
International Fund for Agricultural Development	0.6	0.5	0.5	0.5
OPEC Fund for International Development	0.6	0.6	0.6	0.6
Arab Monetary Fund	4.9	4.6	4.4	4.4
Islamic Development Bank	0.2	0.2	0.2	0.2
Bilateral creditors	62.3	60.9	60.3	58.2
Paris Club creditors 3/	39.2	38.7	39.1	37.7
Denmark	0.03	0.03	0.03	0.04
France	6.7	7.1	7.8	6.7
Italy	10.0	9.6	9.3	9.2
Japan	2.1	1.7	1.7	1.8
Netherlands	0.1	0.1	0.1	0.1
Norway	0.03	0.03	0.03	0.03
Spain	0.6	0.6	0.6	0.6
United Kingdom	1.4	1.4	1.3	1.3
United States	15.8	15.7	15.9	15.7
Russia	2.4	2.4	2.4	2.3
Non-Paris Club creditors 4/	23.1	22.2	21.2	20.5
Algeria	0.03	0.03	0.02	0.02
Bulgaria	0.2	0.2	0.1	0.1
Iraq	1.2	1.1	1.1	1.0
Kuwait Fund and Central Bank	5.2	4.9	4.5	4.3
Libya	0.1	0.1	0.1	0.1
Romania	0.10	0.10	0.04	0.04
Saudi Arabia	1.8	1.8	1.7	1.7
Serbia	0.03	0.03	0.03	0.03
United Arab Emirates	14.5	14.0	13.6	13.1

Sources: Somalia Debt Management Unit; World Bank; and AfDB.

1/ Figures for 2016 are based on information through end-December 2016.

2/ Claims in currency of loan are converted to US\$ at period-end exchange rates.

3/ For Paris Club creditors, extrapolations of known penalty interest rates were applied. The average penalty interest rate is about 3.4 percent. For Non-Paris Club creditors, late interest rate is only known for Kuwait. No penalty interest has been included for 2014.

4/ Data of Non-Paris Club creditors is preliminary as a large portion is estimated from the World Bank debt database (WBXD).

Table 8. Somalia: Off-Budget Aid, 2014–16
(Millions of U.S. dollars)

	2014	2015	2016
	Act.	Act.	Proj.
Total aid 1/	1,218	1,172	1,249
Humanitarian aid	672	588	613
Developmental aid	546	584	636
Support for peacekeeping 2/	439	569	500
Total estimated grants	1,657	1,741	1,749
Total federal budget expenditure 3/	151	135	171
<i>Percent of federal budget expenditure to total grants</i>	<i>12.4</i>	<i>11.6</i>	<i>13.7</i>

Sources: Authorities and ACU Aid Flow Mapping.

1/ Includes Official Development Assistance only and excludes on-budget grants.

2/ Bilateral military aid is not captured in the table.

3/ The figure for 2015 is preliminary and 2016 is based on the revised budget.

Table 9. Somalia: Completed TA, 2013–17^{1/}

Department	Activity	Start Date
FAD	Budget diagnostics (w/ MCD staff visit)	10/22/2013
	Initial assistance on budget preparation and execution (w/ MCD staff visit)	2/17/2014
	Budget preparation and execution (w/ MCD staff visit)	4/28/2014
	Budget preparation and execution (w/ MCD staff visit)	9/9/2014
	Public financial management	1/26/2015
	General tax policy	3/30/2015
	Budget execution (expert visit)	4/26/2015
	PFM diagnostic	6/8/2015
	Tax policy issues	9/29/2015
	Developing a Medium-term PFM Reform Strategy	6/8/2015
	Developing a PFM Reform Strategy and Action Plan	Mar-16
	PFM capacity development and reporting	Apr-16
	Fiscal reporting, cash forecasting, and PFM legal framework	Jun-16
	Workshop on taxation of extractive industries and fiscal decentralization	Aug-16
	Workshop on key PFM Reforms	Sep-16
	Budget execution control, cash and arrears management	Sep-16
	Budget execution and preparation	Nov-16
	Revenue administration	Mar-17
	Cash Management	Mar-17
	Budget Execution and Cash Management	Apr-17
Tax policy	May-17	
LEG	Procedures for CBS Management Committee	8/1/2015
	Amendment CBS rules of conduct and ethics	8/1/2015
	Administrative procedures for CBS supervisory decisions and supervisory penalties	8/1/2015
	Central bank governance	6/1/2016
	Currency reform	2/16/2017
	Legal drafting CFT	4/20/2017
MCM	Advisory on currency reform	8/26/2013
	Central bank accounting and financial reporting workshop	10/27/2013
	Support to the FGC Advisory Committee	12/9/2013
	Support to the FGC Advisory Committee	12/10/2013
	Meeting with the CBS Governor	1/20/2014
	Support to FGC	2/23/2014
	Support to the FGC	4/22/2014
	Advice to FGC	5/28/2014
	Support to the FGC	7/29/2014
	Supervision and regulation	9/1/2014
	Support to the FGC	9/8/2014
	Central bank modernization (FGC)	9/15/2014
	Support to the FGC	10/27/2014
	Supervision and regulation	11/10/2014
	Support to the FGC	12/2/2014
CBS Board orientation course	12/4/2014	

Source: International Monetary Fund.

1/ Based on information through April 2017.

Table 9. Somalia: Completed TA, 2013–17 (concluded) ^{1/}

Department	Activity	Start Date
MCM	Participation in the FGC meetings and MCD staff visit	1/26/2015
	Central Bank Governance	4/27/2015
	Central Bank Governance	6/15/2015
	Training on Bank Supervision and Regulations	7/27/2015
	Central Bank Governance and Support to the FGC	8/3/2015
	Training on Bank Supervision and Regulations	8/3/2015
	Banking Supervision and Regulation Training	9/14/2015
	Training on Bank Supervision and Regulations	11/5/2015
	Support to the FGC	11/22/2015
	CB governance anc currency reform	12/7/2015
	Support to the FGC	3/7/2016
	Currency reform	3/29/2016
	Support to the FGC	4/27/2016
	Training on Bank Supervision and Regulations	3/11/2016
	Board Orientation Course	5/25/2016
	Currency reform	5/25/2016
	Support to the FGC	6/12/2016
	Banking Supervision and Regulation Training	9/15/2016
	Banking Supervision and Regulation Training	12/4/2016
	Currency reform	2/16/2017
Banking Supervision and Regulation Training	3/23/2017	
Central bank accounting and internal audit	4/18/2017	
STA	Real sector statistics training	1/27/2014
	Consumer price index	1/12/2015
	National accounts	4/25/2015
	Multisector statistics	4/29/2015
	Balance of Payments	Jul-15
	Balance of Payments	Dec-15
	National accounts and business register	Apr-16
	Balance of Payments	Jul-16
	Consumer price index	Oct-16
	National account	Nov-16
	Multisector statistics	Nov-16
National account	Apr-17	

Source: International Monetary Fund.
^{1/} Based on information through April 2017.

Annex I. Somalia: Risk Assessment Matrix 1/

Nature/Source of Risks	Relative Likelihood	Impact if Realized	Policy Responses
Global Risks			
Weaker-than-expected global growth—significant slowdown in key advanced, and emerging frontier economies.	High/ Medium	Medium (1) lower demand for exports (2) possible reduction in donor support (3) lower remittances.	(i) greater revenue mobilization; and (ii) swiftly adopt the ongoing World Bank reform on social safety nets.
Heightened risk of fragmentation/state failure/security dislocation in the Middle East and some countries in Africa.	High	High (1) lower remittances (2) influx of refugees (3) lower growth.	(i) improve business environment and national security; (ii) greater revenue mobilization; and (iii) strengthen social safety nets.
Country specific risks			
Tightening regulatory and supervisory frameworks in advanced and emerging markets.	Medium	Medium (1) de-risking, prompting banks to forego money transfer business, leading to lower remittances.	(i) upgrade capacity in licensing, supervision, and regulation of banks and MTBs; (ii) adhere to AML/CFT law, and (ii) strengthen governance structure of CBS.
Institutional risk Protracted insecurity, weak institutions, delay in reform implementation, persistent drought, and poor data availability.	High	High (1) destruction of economic infrastructure (2) possible reduction in donor support (3) lower growth (4) humanitarian crisis.	(i) improve national security; and economic statistics; (ii) strengthen local capacity; and (iii) seek donors' support.
Fiscal risks Loose fiscal policy and slowdown in reform in the run-up of the elections.	High	High (1) lower revenue (including grants from donors) (2) arrears accumulation (3) policy slippages and SMP off-track.	(i) maintain reform momentum; (ii) greater revenue mobilization; and (iii) keep expenditure under control and improve PFM.
Failed currency reform Inadequate preparation of the currency reform	Medium	High (1) increase in US\$ and SOS counterfeits (2) further depreciation of SOS (3) continued absence of monetary policy.	(i) follow through the currency reform agenda while improving communication and mitigating other inherent risks.
Poor financial system supervision Lack of credible supervision and AML/CFT.	High	High (1) reduction in remittance inflows, which support the livelihood of many Somalis.	(i) upgrade capacity in licensing, supervision, and regulation of banks and MTBs (including for AML/CFT); and (ii) strengthen governance structure of CBS.

1/ Based on the January 2017 Risk Assessment Matrix (RAM). The RAM shows events that could materially alter the baseline outlook (the scenario most likely to materialize in the view of Fund staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability of 10–30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix I. Letter of Intent

Mogadishu, June 16, 2017

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Ms. Lagarde:

On February 8, Mr. Mohamed Abdullahi Mohamed was elected as the new president of Somalia, as part of our country's second democratic election since 1991. This election came at a critical time in the democratic process that we have embarked on since 2012. For the people of Somalia, it is a source of pride and hope. This peaceful election was also welcomed by the international community as an opportunity to pave the way to implement needed reforms to benefit in the future from debt relief and access to international financial markets.

Somalia's overall environment is very difficult. The Federal Government of Somalia (FGS) is facing daunting challenges to rebuild its institutions, restore stability and growth, and reduce poverty. The security situation, despite recent improvement, remains fragile. Capacity is low, institutions are weak, and social infrastructure is limited. Somalia's public debt burden is heavy and there is no capacity to repay the debt. While we do not have access to international financing, our funding needs are large. At the same time, our fiscal position remains difficult, partly because of weak tax revenue collection and volatile budgetary grants.

This situation is further complicated by the severe drought that has significant economic and humanitarian consequences on Somalia. The drought is harshly affecting our crops and livestock, and has left more than half the Somali population (about 6 million people) in need of assistance and at risk of food insecurity. The drought is hurting economic activities and putting additional spending pressures on the FGS and the member states. Despite these difficult conditions, our performance under the Staff Monitored Program (SMP) remains broadly satisfactory and we are requesting the completion of the second review under the SMP the first IMF program for Somalia since 1990.

It is in this challenging context that we are requesting the approval of a follow-up 12-month SMP. This would continue to support the FGS in the design of economic policies and reforms that would enable us to achieve debt relief in the future, while preserving macroeconomic stability. We remain committed to maintaining the current policy and reform momentum under the follow-up SMP.

Meeting the expenditure envisaged in the 2017 budget will require a stronger effort to support new revenue measures and improve tax collection. We believe that a strong commitment to reform and policy implementation, as well as continued support from donors and the wider international community, will be critical to meet the needs of Somalia.

We welcome the Roundtable held in Washington, D.C. on April 20 and the follow-up London Conference on Somalia on May 11. The broad support expressed by donors at these events will help pave the way for sustained international support to Somalia. Our goal is to rebuild the economy, improve social conditions, and normalize relations with international financial institutions. The FGS remains committed to implementing the recommendations from these fora, particularly under the framework of the SMP. 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, strengthening fiscal discipline, rebuilding capacity, fostering financial sector development, and improving economic statistics.

In this regard, our reform program under the SMP for the period May 2017–April 2018 will focus on implementing prudent macroeconomic policies, including by implementing critical structural measures, advancing toward currency reform, and continuing to strengthen institutional capacity for macroeconomic management. We continue to value IMF technical assistance (TA). We are proud of the results achieved at the different ministries and at the Central Bank of Somalia. With IMF TA 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.

The FGS is convinced that the policies and measures set forth in the MEFP are appropriate for meeting the objectives of the program. We remain committed to the implementation of these policies and reforms and 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 FGS will regularly provide IMF staff with all necessary information within the deadlines specified in the attached Technical Memorandum of Understanding (TMU, Attachment II).

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

Sincerely yours,

SOMALIA

/s/

Abdirahman Duale Beileh
Minister of Finance of Somalia

/s/

Bashir Issa Ali
Governor of the Central Bank of Somalia

Attachment (2)

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) reviews economic developments in 2015–16, and performance under Somalia’s Staff-Monitored Program (SMP) for the period May 2016 to April 2017. It also outlines our policies and reforms for 2017–19.

A. Background and Context

1. The 2016 electoral process came to an end in February 2017 with the election of a new president. During August 2016–February 2017, 14,000 delegates elected Parliament members, who in turn elected the President from among 25 candidates. The Somali Parliament then elected Mr. Mohamed Abdullahi Mohamed as the new President of Somalia on February 8. This important election is a source of pride for the people of Somalia, and sent a strong, positive signal to the international community. A new Cabinet was endorsed by the parliament on March 29, 2017.

2. Under the SMP, the government took important steps to rebuild the country’s economic institutions. Somalia now has functioning key administrative institutions, a cabinet, and the administration of Federal Government of Somalia (FGS) agencies and Federal Member States (FMSs) that are working together. They are developing the economic infrastructure of Somalia. The FGS has consistently improved fiscal, financial, and statistical institutions and capacities. Specifically:

- *On budget institutions*, fiscal management and institutions continue to be enhanced. The preparation and presentation of the 2017 budget improved relative to the previous years. For instance, budget consultations were held with various stakeholders, including civil society and the private sector, in the preparation of the 2017 budget.
- *On fiscal measures*, we started training our staffs in the tax and customs administration. The Cabinet has: (1) approved a new public financial management (PFM) law; (2) introduced an electronic system for paying the salaries of civil servants and increased direct payment to vendors in a manner that minimizes handling cash; (3) submitted the 2015 financial statements to the auditor general; and (4) continued the implementation of the Somalia Financial Management Information System (SFMIS). We are determined to advance further with the enhancement of payment reforms and the Treasury Single Account (TSA) and the introduction of a commitment system and related payment reforms.
- *On currency reform*, the Central Bank of Somalia (CBS) has reconstituted a fully staffed cash management department, prepared an anti-counterfeit strategy, developed accounting and reporting modules, established currency management functions, and implemented other measures from the currency reform roadmap. Also, methods for periodic reporting by commercial banks and a system for bank financial analysis, as well as the Capital Adequacy, Asset Quality, Management Earnings and Liquidity (CAMEL) bank supervisory scoring system, have been developed.

- *On financial sector measures*, to enhance the governance of the CBS, its 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 and risk management committee and an asset management committee to report directly to the Board of Directors; (2) establishing an Internal Audit Department reporting to the Governor; and (3) the 2014 audit of the CBS financial statement has been completed (the 2015 and 2016 audits are ongoing).
- *On governance and transparency*, we have strengthened the legislative framework with the passage of key legislation by Parliament, including the Foreign Investment Law, the Anti-Money Laundering (AML) Law, the Audit Law, and the Procurement Law. We have received training to help the CBS to: (1) build confidence in the payment system; (2) safeguard the continued flow of international remittances to Somalia; and (3) work with money transfer businesses (MTBs) on AML and combating the financing of terrorism (CFT). We have established the National Anti-Money Laundering Committee (NAMLC) to oversee the efforts of the FGS to monitor transactions. The Financial Reporting Center was established to liaise and directly work with financial institutions, including MTBs, to receive and analyze information concerning money laundering and terrorism financing. We established the National Interim Procurement Board to review large concession contracts and ensure transparency.
- *On capacity development*, we have intensified staff training at the Ministry of Finance (MoF), CBS, and Ministry of Planning, Investment and Economic Development (MOPIED), delivered by multilateral organizations and bilateral donors. We have benefited from more than 60 IMF technical assistance (TA) and training missions and workshops over the past two years.

3. Somalia is confronting a severe drought which is increasing humanitarian needs. The short rain season combined with low level of rainfall contributed to severe drought. This has severely affected crops and livestock, mainly in the southern and the northern regions of the country. As a result, both internally displaced persons and refugees from Somalia (particularly in Ethiopia) have increased. In early 2017, livestock deaths reached 7 million. Agricultural production and exports are expected to fall substantially. Lower food production is driving food prices up in certain regions. The international community estimates that about 6.2 million people require assistance (about half of the Somali population), of which 333,000 children are acutely malnourished and 3.3 million people need health support. The challenge of providing humanitarian support is being compounded by a lack of coordination and monitoring of humanitarian aid distribution amid security challenges in some regions.

4. As a result of the drought, economic activity was hurt in 2016. Economic growth recovered to about 3.5 percent in 2014–15. Economic growth in 2016 slowed to about 3.2 percent, mainly as a result of the impact of the drought on the agriculture sector, which was partially offset by growing activity in the construction, telecommunications, and service sectors. Reflecting higher food prices, inflation picked up to 2.3 from 1.4 percent in 2015. Revenue shortfalls and delays in donor support made the 2016 budget execution difficult. The external trade deficit is large, at more than 58 percent of GDP, financed mainly by remittances and grants.

5. It is in this challenging context that we request a follow-up 12-month SMP. During May 2016–April 2017, the FGS faced significant challenges in implementing policy reform. These include the 2016 electoral process which spanned from August 2016 to February 2017; the ongoing drought which highlighted our vulnerability to shocks and low capacity to respond to crises; and tight financing condition which is exacerbated by weak revenue collection, slow disbursements of grants, and the absence of external concessional financing. Despite these difficulties, progress under the SMP was broadly satisfactory. We remain committed to policy and reform implementation and, with the SMP ending in April 2017, we are requesting a follow-up 12-month SMP during May 2017–April 2018. We believe that a new SMP will continue to support the FGS in the design of economic policies and reforms that would enable us to eventually achieve debt relief and higher and more inclusive growth, while preserving macroeconomic stability. We remain committed to maintaining the current policies and reform momentum under the follow-up SMP.

B. Program Performance

6. Our performance under the SMP remains broadly satisfactory.

- **June 2016 indicative targets.** We met all SMP indicative targets and the structural benchmark (SB) for June 2016.
- **September 2016 review.** For the first review under the SMP in September 2016, we met all the SBs and six of the seven indicative targets (ITs)). The ceiling on the accumulation of new domestic arrears was missed, mainly due to the delayed disbursement of budgetary grants by two bilateral donors and a shortfall in revenue.
- **December 2016 indicative targets.** Four out of the five indicative targets were met. The target on new domestic arrears accumulation was breached. On the SBs, all but one benchmark were observed. The benchmark for achieving 100 percent of non-salary Recurrent Cost and Reform Financing (RCRF) reimbursement was delayed despite progress on implementing reforms to payment processes.
- **March 2017 review.** For March 2017, all the indicative targets and, albeit with some delay, structural benchmarks were met.
- **Other reforms.** Progress has been made on advancing a pilot program involving 12 Ministries, Departments, and Agencies (MDAs) to modernize payment processes and commitment control will be made mandatory for all MDAs in 2017. Training was provided to all MDAs on modernizing payment processes and commitment controls. The stocktaking of existing bank accounts of MDAs identified 133 accounts that have been closed. These reforms will be key for the success of the RCRF program.

C. Economic and Financial Policies for 2017–19

7. Our objectives are to continue to lay the foundations to establish macro stability and accelerate economic recovery. Our program focuses on building a sound framework for macroeconomic management, notably: (1) improving the budget preparation and execution;

(2) developing and maintaining a coherent fiscal framework; (3) improving expenditure effectiveness and PFM; (4) creating a modern tax system and increasing FGS tax revenue; (5) implementing an arrears management strategy following the establishment of the Domestic Arrears Management Committee, with the view to avoid arrears accumulation and start paying down existing domestic arrears; (6) restoring monetary policy with the reform of the national currency and by enhancing the governance, transparency, and accountability at the CBS; facilitating the flow of remittances to Somalia; (7) improving the financial sector by strengthening the licensing and supervision of financial institutions to foster confidence in commercial banks and MTBs; and, (8) developing a statistical system. Program design recognizes our limited institutional capacity, and envisages capacity building as an essential component. Furthermore, our national development plan (NDP), which is compliant with the Interim Poverty Reduction Strategy Paper, outlines the FGS growth and poverty reduction strategy priorities for the period 2017–19.

8. Economic recovery is expected to resume in 2018–19. Growth is projected to decelerate to about 2.0 percent and inflation to increase to 2.7–3.0 percent in 2017. Thereafter, growth is expected to recover to 3.0–3.5 percent in 2018–19. The weak growth rate in 2017 reflects mainly the impact of the drought. The construction, telecommunications, and service sectors will remain the engines of growth. While the trade balance is projected to remain large, we expect remittances and grants to continue to cover a large part of the deficit. We will not allow the net foreign assets (as defined in the Technical Memorandum of Understanding–TMU) of the CBS to fall below a continuous floor. Given the reality of very low foreign reserves, the CBS will use recovered CBS foreign assets to increase its net foreign reserves.

Fiscal Policy and Reforms

9. Our fiscal framework for 2017–19 aims at strengthening the role of the budget as a policy tool. The budget will continue to be guided by the SMP. In early April, the Appropriation Act of 2017, which endorses the tax code for income and sales taxes, was approved by the Parliament. Our fiscal framework will be anchored by: (1) maintaining a floor of zero-cash fiscal balance; (2) avoiding accumulation of new domestic arrears and remaining current on government payments; and (3) ensuring that fiscal revenue is maintained above a floor. We envisage passing a supplementary budget which will continue to remain consistent with our fiscal policy. Moreover, any revenue (including budgetary grants) windfall will be used for contingent measures, including paying down the stock of domestic arrears.

- **On the revenue side,** in light of low domestic revenue and weak tax administration capacity, we will continue to seek donor grants for budget support while abstaining from domestic and external borrowing. The projected budgetary grants for 2017 are based on confirmed and committed pledges. Domestic revenue in 2017 is projected to reach \$137.6 million, up from \$112.7 million in 2016 (0.4 percent of GDP increase). This increase is underpinned by a reform agenda aiming at replacing negotiated taxes with the existing tax law, and strengthening tax policy as well as tax administration:

- **Tax policy in 2017** introduces increased tariffs on khat and imported tobacco. New measures also include the introduction of a departure tax for all international travelers. In the telecommunications sector, a negotiated tax policy is replaced by adherence to the existing sales tax law. This measure will broaden the tax base and improve revenue collection by enforcing the existing tax law for hotel sales tax and telecommunications sales tax (Law No. 2 of January 7, 1984). We will continue discussions on the harmonization of customs with federal member states and draft a common customs strategy roadmap for Somalia
- **Tax administration** measures include compliance with the income tax by enforcing the existing law (Law No. 5, November 7, 1966) on hotels, telecommunications firms, electricity companies' foreign workers, and non-government organization (NGO) employees. Efforts to improve tax compliance and widen the tax base, also including plans to modernize tax and customs administration, are underway.
- **On the expenditure side**, we will improve budget execution and fiscal discipline and remain current on our payments. In this context, we will execute the budget in conformity with the Appropriation Law. In the event of revenue or grant shortfalls, we will cut spending in line with the rules for sequestering (prioritizing) expenditures. To keep the program on track, we will: (1) include all new domestic arrears (as well as delayed payments) committed under the 2016 budget (\$25.6 million) and the two-month salaries (\$17.3 million) excluded from the original 2016 budget in the stock of arrears; (2) swiftly establish the Domestic Arrears Management Committee (DAMC), complete a stocktaking of domestic arrears through December 2016, and recommend the settlement of domestic arrears in line with the fiscal framework; (3) direct any revenue windfalls to the payment of domestic arrears; and (4) improve the effectiveness of FGS spending, including the implementation of commitment controls.

10. Our fiscal policy will be supported by structural measures concentrated on strengthening the public financial management (PFM) and enhance domestic revenue. On PFM, we will:

- **Initiate the plan endorsed by the Minister of Finance to establish cash management functions, starting with establishment of the Cash Management Committee** (by end-June 2017, structural benchmark 1). This measure intends to support the cash management action plan. The Accountant General's Office (AGO) will prepare a Ministerial Order requiring all cash advances to be acquitted before new advances are processed, and progressively implement this reform over time. The AGO will hold weekly MoF management meetings to review cash forecasts and prepare a cash management manual.
- **Adopt a Minister of Finance order to form and empower the DAMC to begin monitoring arrears and to finalize domestic arrears stocktaking for 2015 and 2016** (by end-June 2017, structural benchmark #2). Prepare an order forming the DAMC for the Minister's signature. In line with the adopted arrears management strategy, limit domestic arrears and delayed payment, and start paying down domestic arrears to improve the credibility of fiscal policy.

- **Update and adopt the PFM Bill by the Cabinet, and introduce a clause in the revised PFM Bill that vest the power to grant tax exemptions solely to the Ministry of Finance** (by end-September 2017, structural benchmark #3). This measure intends to improve PFM through budget preparation and execution and revenue forecast.
- **Meet the eligibility criteria required to achieve 100 percent of non-salary recurrent cost of the RCRF budget** (by end-December 2017, structural benchmark #4). Given the importance of payment reforms in improving fiscal transparency and accountability, will continue to make progress under the RCRF.
- **Achieve a target of 50 percent in number of transactions of electronic vendor payments to be processed through the purchasing module of the SFMIS** (by end-December 2017, structural benchmark #5).

11. On expenditure management and budget execution, we will continue to enhance cash management, payment processes, and public procurement. Implementation of the purchasing module functionality to the SFMIS and its operationalization will be developed by September 2017. To tighten expenditure commitment control, we will move to monthly allotment ceilings in 2018 for MDAs that are in line with our cash outlook. We will also continue to improve the preparation of credible annual budgets.

12. On treasury management, we are making progress towards the implementation of a TSA. A stocktaking of the bank accounts was conducted in March 2017. Of the 212 existing accounts, 133 accounts were closed by the AGO. Continued efforts to unlock the benefits of a TSA are planned, including preparing a transitional plan whereby all bank accounts will be mapped to the SFMIS, and the preparation of a roadmap for continued review of MDA accounts with a view to progressively closing all non-critical accounts. Improved treasury management will be supported by our plans to significantly reduce MDAs' use of cash advances for procurement. We expect to reach agreements with donors to bring on budget and channel through TSA 10 project accounts used by MDAs previously recorded as off-budget donor grants.

13. On tax administration at the Inland Revenue Department:

- **The FGS will conclude the renegotiation of all five existing revenue-collection contracts** (by end-September 2017, structural benchmark #6). This measure intends to strengthen oversight of the FGS revenue streams, and reinforce and improve revenue collections.
- **An order by the Ministry of Finance to establish and make fully operational a large-and-medium-taxpayer office (LMTO) in Mogadishu, and assign experienced manager and staff** (by end-December 2017, structural benchmark #7) will be prepared and adopted. Priority should be given to monitoring the taxpayers that represent the greatest revenue potential. Given the existing low capacity, focus will be on the taxpayer segment. Recruitment process will be transparent and publicly available. The LMTO will administer at least 25 of the largest enterprises

and serve as a pilot to develop the taxpayer registry, and design and implement the core tax administration functions.

14. On tax administration at the Customs Department:

- **The Ministry of Finance to issue an order to undertake in 2018 a review of: (1) the front-end import declaration process; and (2) the physical examination function, to identify weaknesses that could lead to revenue leakage** (by end-December 2017, structural benchmark #8).
- **We will develop an audit program to review and revamp business processes in preparation for automated processing** (by end-March 2018, structural benchmark #9). This measure intends to provide a more effective audit program to: (1) combat fraud and suppress tax evasion; (2) facilitate the movement of goods; and (3) establish a level playing field for businesses and, therefore, improve the foreign investment climate.

Financial Sector Reforms

15. We will implement a credible national currency reform and develop a roadmap aiming at reviving the financial sector.

16. Currency reform is a high priority. As part of a wider reform initiative, the CBS and the FGS have started the process of re-establishing confidence in the Somali shilling (SOS). The CBS is preparing to reissue new SOS banknotes to combat the existing massive counterfeiting in the country and restore confidence in the national currency. The CBS Board of Directors endorsed a comprehensive currency reform roadmap in February 2017. Specific measures include:

- **Under the national currency reform roadmap, we have already successfully implemented several structural measures.** On accounting and reporting module aspects of the reform, we have already designed special accounting and reporting system modules to form the key information management system for the entire currency reform. On the management function, we have developed a task force of high-level CBS staff to manage the command and control structure, as the currency reform will evolve.
- **We will establish a National Anti-Counterfeit Center** (by end September 2017, structural benchmark #10). Anti-counterfeiting is one of the main parts of the currency reform roadmap. Developing the center, including the needed regulation, will complete the anti-counterfeiting strategy.
- **Within the scope of exchange, important progress is underway.** We have already initiated discussions with the MoF on the scope of exchange and conversion rate; the specific denominations and the design features of the new banknotes; and the estimated costs of the reform. Other critical aspects of this reform are expected to be completed by August 2017. These include the preparation of decision and communication on (1) denominations; (2) design and security features; and (3) volume of the new banknotes. Importantly, we will *adopt*

regulations on: (1) denominations of the SOS notes to be issued; (2) design and security features; and (3) volume of banknotes (by end December 2017, structural benchmark #11). This step should complete actions on denominations and volume of banknotes to be issued.

- **Three other broad reforms are on track.** These include: (1) the storage, distribution, collection, invalidation, and destruction of banknotes (planned to be completed by end-August 2017); (2) the definition and preparation of the legal framework (expected to be completed by end-August 2017); and (3) the accountability element, which is scheduled to be completed by end-November 2017.

17. Reviving the financial sector through stronger financial intermediation is essential. The financial sector in Somalia is nascent and dominated by six domestic commercial banks and 14 licensed MTBs. Somalia is almost fully dollarized; however, given the large volume of mobile payment services, the country is among the least monetized economies in the world. The contribution of the diaspora remittances to the Somali economy is significant and large. Hence, the withdrawal of correspondent banking relationship (CBRs) is having an impact on the Somali financial sector. To jumpstart the financial sector development, we will implement several important reforms. More specifically, we will:

- **Submit to Parliament the Communication Act to license mobile network operators** (by end September 2017, structural benchmark #12), to improve the needed regulatory framework for mobile money and services and improve confidence in the system. At the same time, the National Communications Act will regulate the telecommunications sector in Somalia. In addition, it will help the government generate additional revenue to collect license fees from telecommunication operators.
- **Develop a roadmap for financial sector development** (by end-December 2017, structural benchmark #13). The roadmap should be guided by a stocktaking report on Somalia's financial sector that would outline: (1) the key issues related to financial sector development and financial inclusion; (2) the market structure; (3) the regulatory framework and enforcement practice, including dispute resolution; and (4) the challenge of dealing with the correspondent banking relationship and AML/CFT. In this context, the CBS will continue efforts to draft a counter-terrorist financing law, in line with the Financial Action Task Force (FATF) standard, and enhance AML/CFT compliance by money transfer businesses (MTBs).
- **Develop a software to be used by all MTBs to reduce gaps in compliance.** The CBS needs to strengthen its ability to regulate MTBs, particularly by investing in an information technology system. It will transmit data to servers maintained by the compliance and supervision section of the CBS.
- **Develop a plan to improve the renewal of MTBs' licenses and the compliance with existing regulations** (by end-March 2018, structural benchmark #14). The plan will define the licensing and re-licensing requirement procedures and will require a proper vetting mechanism by the CBS Board of Directors. The specified requirements will be guided by the requirements included

in the regulations on customer registration and operations and by the new AML/CFT law. This process should also require more detail information about the MTBs' legal and ownership structure, requiring additional oversight for nonfinancial, foreign entities which are not regulated in their home jurisdiction.

- **Continue the important reform program directives underway at the CBS.** These include developing and implementing key regulations for banking and money transfer businesses, as well as building supervisory capability at the CBS and strengthening compliance with AML/CFT regulations to protect the flow of funds for millions of Somalis who depend on remittances as a source of income.
- **We will also continue to improve commercial bank accounting and reporting standards** in line with international financial reporting standards (IFRS), and strengthen CBS oversight. In this context, we will: (1) continue to prepare monthly financial statements of the CBS and commercial banks; (2) continue to strengthen the organizational and governance structure of the CBS (establish an Executive Committee and an Audit Committee); and (3) implement new accounting and financial reporting systems and practices at the CBS.

Policies for Accelerating Economic Recovery and Social Inclusion

18. The development challenges, after decades of civil war, are significant. Poverty is widespread, and youth unemployment is high and contributes to insecurity, which in turn is undermining economic activity. Development grants are volatile; the FGS tax collection system is weak; and compliance, particularly by the private sector, is very low. This reduces the capacity of the FGS to fund its development needs. At the same time, while we do not have access to any financing sources, Somalia's public debt burden is heavy, and there is no capacity to repay.

19. The election of the new President in February 2017 paved the way for important reforms needed to jumpstart a strong economic recovery. In this context, we welcome the very strong support by the donor community at the Roundtable on April 20, 2017, and the London conference on May 10–11, 2017. We welcome the broad support on our economic recovery and resilience plan, as set out in the NDP, for growth and poverty reduction. To achieve our development goals and access development financing in the long run, we will implement a coherent set of reforms as guided by the SMP and the agreed roadmap of reforms proposed at the Roundtable. More specifically:

- **The foundation of our economic recovery will have three priority areas:** (1) enabling infrastructure with basic water and energy access; (2) generating employment through agribusiness, including livestock, fisheries, and agriculture; and (3) increasing skills and access to finance, and capacity development.
- **We will continue to enable the business environment.** We have already stepped up efforts to include the private sector in the development process. These include: passing a foreign direct investment (FDI) law, taking AML action, and adopting a procurement bill. We will continue to

enable the business environment through public-private sector dialogues, improved financial governance, and new business regulations, as well as access to finance. Access will be achieved by (1) improving credit information and the collateral law; (2) complying with the AML/CFT; and (3) identifying development areas and ensuring that the large unemployment rates among the youth is reduced. In this context, we are pleased that Somalia entered the Global Doing Business Survey for the first time in 2017.

- ***In the period ahead, the revised NDP will reflect:*** (1) the new partnership between the FGS and the private sector; (2) the linkage with the annual budget; (3) the linkage with a coherent macroeconomic framework; (4) social safety net programs; and (5) development of a statistical system. More specifically, we will: (1) assess the realism of the NDP key targets on poverty incidence, growth objective, job creation, and capacity in response to the drought; (2) improve the social safety net program; (3) strengthen the NDP linkage to the annual budget; (4) outline a strategy underpinned by a greater business environment and private sector participation for economic recovery; and (5) reduce NDP costs and identify realistic development projects and financing overtime.

D. Governance and Statistics

20. Enhancing the governance of key institutions is critical. The focus will be on reorganizing the MoF, the MOPIED, and CBS, and strengthening key legislative and regulatory frameworks. With the assistance of donors, we plan to primarily reorganize and re-enforce key economic units (including the recently established domestic arrears management committee, cash management unit, national statistics, and debt management unit) and departments (customs, inland revenue, and the Treasury). Donors' TA is expected to provide guidance on best practices and an appropriate regulatory framework.

21. We will continue to strengthen institutions and enhance governance. We have recently passed the Bill for establishing the Anti-Corruption Commission and implemented the Open Government Initiative. 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. The mandate of the Financial Governance Committee (FGC) has been renewed by the Minister of Finance and will continue to review large procurements and concessions, and will play an enhanced role in reviewing progress in PFM reforms. It will also provide advice on asset recovery, and the management and disposal of Government assets.

22. For governance, our near-term focus will be on the following areas:

- ***Fiscal federalism.*** Fiscal federalism will be critical for achieving our development goals. The FGS and the FMSs will establish an initial agreement on revenue sharing, expenditure responsibility, and mechanisms for resource equalization in advance of any final Constitutional Settlement. An intergovernmental fiscal federalism technical committee has been established, which is responsible for coordinating the fiscal federalism agenda going forward. Ahead of these steps,

the MoF will make an immediate start by agreeing on a harmonized customs tariff with the FMSs. The FGS will also start the necessary building of the intergovernmental fiscal system by aligning national and subnational fiscal arrangements. However, we believe that the fiscal federalism will not be achieved without complex political settlement. We also believe that donor support to FMSs should be channeled through the FGS to ensure alignment to the agreed fiscal federalism principles.

- **Natural resource management and transparency.** We remain committed to transparent and equitable management of natural resources. In this context: (1) the FGC will continue to play a key advisory role, and the FGS will include a clause in the draft PFM Bill that set out the principles of governing natural resource revenue management as it relates to fiscal policy; (2) the FGS will finalize the revisions to the legal framework for the management of naturel resources and establish the necessary regulatory institutions before entering any production sharing agreements; (3) the Ministry of Fisheries will propose a framework for sharing federal offshore fishing; and (4) the MoF should work with the Ministry of Petroleum to review the revenue-sharing formula proposed in the petroleum agreement, and initiate new negotiations with all FMSs.
- **Procurement and concessions.** We will issue a Cabinet order to reaffirm the FGS commitment to contracting, concessions and asset leasing process, procurement, and responsibilities. We will support the continuation of the recently established Commission to Protect Public Properties, working toward a clear, expanded terms of reference. We will seek support from donors on procurement and other needed operational assistance, and capacity building within the MoF and across line ministries.

23. We will continue to rebuild our economic and financial statistics. We will swiftly take steps to produce basic statistics to guide our policy strategies. The priority measures are spelled out below.

- **We will submit to Parliament the new Statistical Law** (by end-September 2017, structural benchmark #15). We will submit the new law, which establishes an institutional framework for data compilation, reporting, dissemination, and sectoral regulation, to the Parliament for approval. The law would include articles on statistical systems, statistical confidentiality, cooperation between state agencies, and data sharing.
- **The CBS will formulate an action plan for improving source data for the CBS and preparatory work for future collection of financial and non-financial data.** The action intends to start a formal process of compiling and producing MFS-based data for the central and commercial banks.
- **Further, we commit to taking specific actions to improve statistical data by:** (1) completing the list of business enterprises to facilitate surveys for critical economic statistics collection that will support broadening the tax base and developing FDI statistics; (2) collecting data on the value and volume of exports and imports using internationally recognized systems, and

improving coordination among statistical agencies at the Ministries of Finance, Commerce, Transportation, and the CBS and MOPIC; (3) improving remittance data collected from MTBs; and (4) implementing the recommendations of the recent FAD Report on Financial Reporting, including improvement to the Chart of Accounts.

E. Technical Assistance

24. TA is addressing weak capacity constraints and supporting policymaking. In recent years, many of our staff and institutions have benefited from TA supported by development partners. TA in 2014–16 helped the MoF to prepare a realistic 2016 budget. However, further improvements in the consumer price index, GDP, and external sector statistics are needed. With the preparation of financial statements, the CBS is gradually restoring its credibility and capacity for managing monetary policy. With IMF TA, we also started enhancing the banking regulation and supervisory regime.

25. The FGS has identified the following priorities for TA: (1) internal controls, payments, and commitments; (2) cash management and the treasury single account (TSA); (3) procurement; (4) arrears management; (5) accounting and reporting, and COA improvement; (6) modernization of tax and customs administration; (7) external auditing; (8) natural resource and concessions management; (9) advancing central banking operations, licensing and supervision; and (10) building capacity for the production and dissemination of macroeconomic statistics.

26. During the program period, we are requesting IMF TA in: (1) tax policy, revenue, and customs administration; (2) budget preparation and execution; (3) reforms in cash management and forecasting, and the TSA; (4) planning and implementing Treasury management and reforms, including a GFS-compliant Chart of Accounts; (5) internal controls; (6) natural resources sharing; (7) licensing, supervision, and regulation; (8) currency reform; (9) banking operations; and (10) macroeconomic statistics. As we advance on reform priorities, it will become increasingly critical for the IMF's expert advice and implementation support to be provided on the ground.

F. Relations with International Creditors and Debt Relief

27. Continued efforts to normalize relations with international creditors will be essential. This should, in due course, help address the burden of external debt and arrears, and facilitate access to concessional financing. 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, as committed at the donors' conference in London (May 10–11, 2017), we will make every effort to establish a sufficient track record of sound economic management, with successful completion of this and subsequent SMPs.

28. The April 20 Roundtable discussed the process for future debt relief. We understand that Somalia is ineligible for financial assistance from the IMF, pending the clearance of its longstanding arrears. We note that external arrears clearance will be an important part of

normalizing our relations with the international financial community, and with the help of the international financial institutions (IFIs), we are looking to implement the needed benchmark-based measures to achieving debt relief. Also, as recommended at the April 2017 Roundtable, endorsed at the May 11 London conference, we understand that the process will involve establishing a track record of economic management, cooperation with the IMF on policies and payments. This will include reaching out to creditors, and securing agreement and comprehensive financial support.

29. Meanwhile, we will step up efforts to complete our debt database and improve capacity at the Debt Management Unit (DMU). FGS records on external debt were lost or destroyed during the conflict, but are being reconstituted. With TA from the African Development Bank, our DMU has reconstructed about two-thirds of our external debt database. We are reaching out to creditors bilaterally and hope to complete about 95 percent of the debt database by end-August 2017. In this context, we will continue to improve capacity at the DMU given its criticality for future debt sustainability assessment.

G. Program Monitoring

30. Our SMP Monitoring Committee will continue to monitor the implementation of our program with the help of quarterly indicative targets (Table 1) and SBs (Table 2). The program will have two reviews to assess its performance based on the test dates of September 30, 2017, and March 31, 2018. The indicative targets are defined in the TMU (Attachment II).

Table 1. Somalia: Indicative Targets under the Staff-Monitored Program, 2017-18^{1/}

(Millions of U.S. dollars)

	2017				2018
	March	June	Sept. 2/	Dec.	March 3/
	Prel.	Prog.	Prog.	Prog.	Prog.
Fiscal					
Fiscal balance (cash basis; floor)	0.0	0.0	0.0	0.0	0.0
Revenue (floor)	28.8	61.7	97.4	137.6	41.2
Accumulation of new domestic expenditure arrears (ceiling) 4/	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
Contracting or guaranteeing of new nominal external non-concessional borrowing (ceiling) 4/	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	23.1	23.1	23.1	23.1
Memorandum item					
Contracting or guaranteeing of nominal external concessional borrowing (ceiling).	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/ Continuous indicative target.

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

Table 2. Somalia: Structural Benchmarks under the Staff-Monitored Program, May 2017–April 2018

Benchmarks	Target dates	Macroeconomic Rationale	Status
Public Financial Management (PFM)			
1 Initiate the plan endorsed by the Minister of Finance to establish cash management functions, starting with establishment of the Cash Management Committee	Jun-17	Improve cash management	
2 Adopt a Minister of Finance order to form and empower the DAMC to begin monitoring arrears and to finalize arrears stocktaking for 2015 and 2016	Jun-17	Improve PFM	
3 Update and adopt the PFM Bill by the Cabinet, and introduce a clause in the revised PFM Bill that vest the power to grant tax exemptions solely to the Ministry of Finance	Sep-17	Improve PFM through budget preparation and execution; treasury and arrears managements; and revenue forecast	
4 Meet the eligibility criteria required to achieve 100 percent of non-salary recurrent cost of the RCRF budget	Dec-17	Improve PFM and transparency	
5 Achieve a target of 50 percent in number of transactions of electronic vendor payments to be processed through the purchasing module of the SFMIS	Dec-17	Improve PFM and transparency	
Tax Administration–Inland Revenue Departmenten			
6 The FGS will conclude the renegotiation of all five existing revenue-collection contracts	Sep-17	Strengthen oversight of the FGS revenue streams, and re-enforce and improve revenue collections	
7 Prepare and adopt an order by the Ministry of Finance to establish and make fully operational a large-and-medium-taxpayer office (LMTO) in Mogadishu, and assign experienced manager and staff	Dec-17	Administer the 25 largest taxpayers and assign the most experienced manager and staff	
Tax Administration–Customs Department			
8 The Ministry of Finance to issue an order to undertake in 2018 a review of: (1) the front-end import declaration process; and (2) the physical examination function, to identify weaknesses that could lead to revenue leakage	Dec-17	Reduce tax loopholes, and to improve and speed up the import declaration process at the customs	
9 Develop an audit program to review and revamp business processes in preparation for automated processing	Mar-18	Provide a more effective audit program	
Currency reform			
10 Establish a National Anti- Counterfeit Center	Sep-17	Complete the "Anti-counterfeiting" strategy	
11 Adoption by the CBS of regulations on 1) denominations of the SOS notes to be issued; 2) design and security features; and 3) volume of banknotes	Dec-17	Conclude the "scope of exchange" under the roadmap.	
Financial sector and AML/CFT			
12 Submit to Parliament the Communication Act to license mobile network operators	Sep-17	Support mobil money activity	
13 Develop a roadmap for financial sector development	Dec-17	Develop the financial sector	
14 Develop a plan to improve the renewal of MTBs' licenses and enhance compliance with existing regulations	Mar-18	Improve MTBs regulation, supervision, and compliance	
Macroeconomic statistics			
15 Submit to parliament the new Statistical Law	Sep-17	Complete the passage of the law	

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) sets out the understanding between the Somali authorities and the International Monetary Fund (IMF) regarding the definitions of the indicative targets for the 12-month Staff-Monitored Program (SMP) spanning May 2017–April 2018. It specifies the indicative targets 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. The definitions are valid at the start of the program but may need to be revisited during the program reviews to ensure that the memorandum continues to reflect the best understanding of the Somali authorities and the IMF staff in monitoring the program.

A. Indicative Targets

1. The indicative targets have been set for the end of June 2017, end of September 2017, end of December 2017, and end of March 2018. Unless otherwise specified, all indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year. Indicative targets are specified in Table 1 of the MEFP and they are:

- a) Floor on the fiscal balance (on a cash basis).
- b) Ceiling on accumulation of new domestic expenditure arrears of the FGS.
- c) Floor on FGS revenue
- d) Ceiling on new domestic debt contracted by the FGS.
- e) Ceiling on new external debt contracted or guaranteed by the FGS or the CBS.
- f) Floors on CBS's net foreign assets.

2. The above variables also constitute indicative targets for June 2017 and December 2017.

Definitions and Computation

3. 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.

4. 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, 2017. Revenues of the Government which are defined in line with the Government Financial Statistics Manual (GFSM 2001) on a cash accounting basis, excluding grants.

- Revenues of the central government include taxes and other compulsory transfers imposed by the Government, property income derived from the ownership of assets, sales of goods and services, penalties and forfeits and voluntary transfers received from nongovernment other than grants. The definition for program monitoring excludes grants and other noncompulsory contributions received from foreign governments and international

organizations; such transfers between the Government units would be eliminated in the consolidation of the fiscal reports and not recorded as revenue. [Receipts from the sale of nonfinancial assets (e.g., [sale of physical assets) and [future] signature bonuses from natural resource contracts), transactions in financial assets and liabilities, such as borrowing but excepting interest payments, are also excluded from the definition of revenue.

- Revenues should be recognized on a cash basis and flows should be recorded when cash is received. The Government SFMIS reports will be used as the basis for program monitoring; in particular, the monthly financial statements prepared by the MoF.

5. 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 budget grants; and (b) total current expenditure plus capital expenditure (excluding foreign-financed off budget investment).

6. 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. Government payment include all expenditure for which vouchers have been approved by the Budget Department/Accountant General Office, expenditures that are automatically approved by legislation, debt payments to CBS and commercial banks, and transfers to regional governments.

7. 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 several 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.

8. 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.

9. Benchmarks for external debt are cumulative ceilings on contracting or guaranteeing of new nominal external non-concessional borrowing by the government from January 1, 2017. External debt is defined by the residency of the creditor.

10. 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, 2016 (\$1,157.10 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, 2016 will be used to convert foreign assets and liabilities denominated in currencies other than U.S. dollars.

B. Program Monitoring

Program-Monitoring Committee

11. 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

12. 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 2017–April 2018

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
	Treasury Single Account	A list indicating the operating user (MDA or otherwise) of all government bank accounts, including closing balances	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, vendor purchasing/payments, and bank balances for fiscal year 2017-18.	Monthly	4 weeks after the end of the month
		Monitoring Agent reports for Recurrent Cost and Reform Financing non-salary reimbursement eligibility	Monthly	4 weeks after the end of the month
		The monthly cash plan.	Quarterly	4 weeks after the end of each quarter

Somalia: SMP Data Reporting, May 2017–April 2018 (concluded)				
		The disbursements of loans.	Monthly	4 weeks after the end of each month
	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