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SOMALIA

February 2018

2017 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

In the context of the Staff Report for the 2017 Article IV Consultation and First Review Under the Staff-Monitored Program, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 21, 2018, following discussions that ended on December 12, 2017, with the officials of Somalia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 6, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Somalia.

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

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2017 Article IV Consultation with Somalia, and Completion of the First Review under the Staff-Monitored Program (SMP)[1]

On February 21, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Somalia.[2]

Despite a severe drought and sporadic terrorist attacks, Somalia avoided a significant economic slowdown in 2017 with support from the national and international community.

The authorities' commitment to the staff-monitored program is strong and they are implementing difficult reform measures.

In 2017, Somalia faced a severe drought and sporadic terrorist attacks. These developments hurt economic activity, particularly in the north of the country and in rural areas, and temporarily impacted the tax collection efforts of the Federal Government of Somalia. However, the authorities have navigated through these challenges and, with sustained national and international community support, the country avoided a severe humanitarian crisis and a significant economic slowdown.

Nevertheless, economic activity in 2017 is expected to have slowed. The drought that hit the country since late 2016 has receded, but it took a considerable toll, particularly in the remote areas. GDP growth is projected to have remained subdued at 1.8 percent in 2017 (down from 2.2 percent in 2016). Driven by higher food prices, year-on-year inflation increased to 5.2 percent (compared to a 4 percent annual average) at the end of December 2017.

Meanwhile, a small budget surplus was achieved by the end of September 2017, even though domestic revenue fell short of the program target. The surplus of $3.8 million was due in part to a slower-than-expected pace of budget execution. For the period ending in December,

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[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. For more on Somalia SMP, go to: http://www.imf.org/en/Countries/SOM.

[2] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

preliminary information indicates that implementation of critical tax measures, and higher-than-programmed bilateral grants, have helped generate a budget surplus of about $1.8 million. Domestic revenue is also estimated to have met the program target.

Despite the challenging environment, the Somali authorities remain committed to reform implementation under their program. On June 21, 2017, IMF management approved a second 12-month SMP covering the period May 2017–April 2018, following Somalia's successful completion of its first SMP. The program is designed to help economic reconstruction efforts and assist the country in establishing a track record of policy and reform implementation. We are encouraged by the authorities' commitment and the pace of reforms to restore key economic and financial institutions, and welcome their efforts to keep the program on track.

The IMF is helping Somalia reach debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative as soon as feasible within established HIPC procedures. The HIPC process is designed to help countries avoid slipping back into arrears while putting them on a path to sustainable debt and reducing poverty. The authorities are normalizing relations with the international community and establishing track record of reform implementation, developing adequate policy instruments, tackling Somalia's low institutional capacity and fragile security situation to help the country to achieve arrears clearance and debt relief. During this period, Somalia can continue to receive substantial grants from donors. The IMF is also assisting the authorities in addressing outstanding concerns by major creditors, such as weak governance and institutional capacity, and establishing a track record of implementing strong economic policies. Somalia is among the largest beneficiaries of the IMF's technical assistance (TA) and training work, with 87 TA missions since late 2013.

The authorities are continuing to improve Somalia's fiscal framework, including its revenue collection performance. They have taken steps to reform the national currency and developing the country's financial sector. The authorities are also making progress on addressing significant shortcomings in economic data, and making efforts to develop coherent social programs and address corruption.

Executive Board Assessment[3]

Executive Directors commended the authorities' strong commitment to the staff monitored program (SMP) and their efforts to implement important reforms in a difficult environment. Directors noted that Somalia confronted a severe drought and sporadic terrorist attacks in 2017, and with support from the international community, avoided a significant economic slowdown and famine. Going forward, they underscored the importance of continued implementation of reforms to improve the fiscal framework, strengthen the financial sector, and enhance institutions and governance to set the foundation for sustained and inclusive growth.

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[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summaries can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm

Directors welcomed the significant improvement in budget execution and fiscal performance in 2017 as well as the authorities' drive to implement several important tax reforms that contributed to improving the fiscal outturn. They were encouraged by the continued progress on public financial management (PFM) reforms and stressed that building on the reform momentum will be essential to strengthen the fiscal framework. Directors emphasized that, while the government's overall budgetary resources are limited, increased budgetary allocation to social spending is needed.

Directors welcomed the progress toward the launch of the new national currency, which is an essential component of the authorities' economic reform program. They commended efforts to implement the currency reform roadmap, including the development of the legal and anti-counterfeit frameworks, and lauded the federal government for reaching an agreement with Somali federal member states to support currency reform. The successful launch of the new currency will hinge on the development of an appropriate communication strategy and accountability framework.

Directors welcomed the authorities' recent work to improve financial intermediation and the anti-money laundering and combating the financing of terrorism (AML/CFT) framework. They saw merit in the roadmap for financial sector development, and encouraged the authorities to finalize the Targeted Financial Sanctions Regulation Law.

Directors agreed that the renewed focus on governance and corruption is timely. They encouraged the authorities to focus particularly in the areas of PFM, revenue collection, treasury management, and domestic arrears and cash management. Directors stressed that improving the business environment is essential for sustained and inclusive growth and job creation.

Directors welcomed efforts to strengthen statistical institutions and data production, and encouraged the authorities to take further steps to address data gaps.

Directors supported the role of the Fund and the international community in helping Somalia reach debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative as soon as feasible within established HIPC procedures. The HIPC process is designed to help countries avoid slipping back into arrears while putting them on a path of maintaining sustainable debt dynamics and reducing poverty. Directors welcomed that, even before it reaches the HIPC Decision Point, Somalia is receiving substantial grants from the international community. In addition to securing broad based donor support, the establishment of a satisfactory track record of cooperation with the Fund on policies and payments under this and subsequent SMPs would be a critical step in the process of arrears clearance and normalization of relations with the international community which would pave the way to an eventual IMF supported program and HIPC debt relief.

Somalia: Selected Economic and Financial Indicators, 2014–20

(IMF Quota = SDR 44.20 million; Population: 13 million, 2015 estimate)
(Poverty Rate: n.a.; Main Export: Livestock)

	Est.			Proj.	Proj.		
	2014	2015	2016	2017	2018	2019	2020
National income and prices							
Nominal GDP in millions of U.S. dollars	6,528	6,739	6,887	7,382	7,781	8,210	8,688
Real GDP, annual percentage change	2.4	2.5	2.4	1.8	2.5	2.8	3.1
Per capita GDP in U.S. dollars	515	517	513	535	548	562	577
Consumer prices (e.o.p., percent change)	1.3	-1.5	1.3	5.2	2.8	2.6	2.6
Central government finances 1/							
Revenue and grants	2.2	2.1	2.5	3.1	3.2	3.5	3.9
of which:							
Grants 2/	0.9	0.4	0.8	1.3	1.2	1.3	1.4
Expenditure, *of which:*	2.3	2.0	2.5	3.1	3.2	3.5	3.9
Compensation of employees	1.2	0.8	0.8	1.6	1.7	1.7	1.8
Purchase of non-financial assets	0.0	0.0	0.1	0.1	0.1	0.2	0.2
Overall balance	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears	0.7	1.0	1.1	0.9	0.8	0.6	0.4
Central bank assets							
Total assets, *of which*:	89.2	90.6	82.8	140.3	…	…	…
Foreign assets (gross)	68.5	68.6	60.9	97.0	…	…	…
Cash and cash equivalent, in vault (U.S. dollar)	6.2	13.3	8.2	18.5	…	…	…
Domestic assets	20.6	22.0	21.9	43.3	…	…	…
FGS, total deposits 3/	11.7	19.1	12.1	32.2	…	…	…
Balance of payments							
Current account balance	-5.3	-4.7	-6.3	-6.7	-7.2	-6.5	-6.3
Trade balance	-45.3	-44.5	-46.2	-50.5	-45.8	-44.5	-43.9
Exports of goods and services	14.5	15.4	14.8	13.4	13.9	14.3	14.1
Imports of goods and services	59.8	59.9	61.0	64.0	59.7	58.8	58.0
Remittances	20.2	19.2	19.6	20.6	19.5	19.6	19.7
Grants	20.4	21.0	20.8	23.7	19.5	18.8	18.3
Foreign Direct Investment	4.0	4.5	4.9	5.2	5.5	5.7	5.6
External debt	78.5	76.5	74.5	71.5	…	…	…
Market exchange rate (SOS/USD, e.o.p.)	20,265	22,285	24,005	23,605	…	…	…

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

1/ Budget data for the Federal Government of Somalia. 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 of Somalia through treasury accounts at the Central Bank of Somalia.

3/ Includes Treasury deposits, grants, and asset recovery balances.

INTERNATIONAL MONETARY FUND

SOMALIA

February 6, 2018

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM

KEY ISSUES

Somalia continued to suffer from drought and sporadic terrorist attacks in 2017. These developments have hurt economic activity, particularly in the north of the country and in rural areas, and temporarily impacted tax collection efforts of the Federal Government of Somalia. However, the authorities have navigated through these challenges, and, with sustained support from the international community, the country has avoided a significant economic slowdown.

Program performance was broadly satisfactory at end-June and end-September 2017. On the December program targets, the authorities recently stepped up their efforts by implementing several critical tax measures, which are expected to keep the program on track. This is a testament to the continued strong commitment of the authorities to the SMP despite a very difficult environment.

Staff supports the completion of the first review under the SMP in view of the broadly satisfactory performance in a still-challenging environment. These critical challenges include insecurity, a limited capacity to deal with the impacts of droughts, still unresolved issues on political consensus between the federal government and member states, weak capacity and institutions, and poor economic and social infrastructure. Staff supports the completion of the first review under the SMP. For the missed structural benchmark, the authorities plan to renegotiate the remaining two contracts (out of five) with private companies that collect fees on behalf of the government by September 2018.

The Article IV Consultation discussions were centered on near-term policies to (1) improving the fiscal framework; (2) outlining the preparatory work for the launch of the new national currency and the development of the financial sector; (3) establishing the foundations for sustained economic recovery and poverty reduction while strengthening institutions and governance; and (4) Somalia's technical assistance needs.

Staff encourages the authorities to (1) keep up the policy commitment to the SMP; (2) continue improving domestic revenue mobilization and strengthening public financial management; (3) carefully complete the preparatory work for the launch of the new national currency; (4) start the implementation of the financial sector development roadmap and improve compliance with the Anti-Money Laundering and Combating the Financing of Terrorism framework; (5) increase attention to governance and corruption problems and social spending needs; and (6) start addressing the significant economic data gaps.

The authorities agreed with staff's assessment and recommendations. They renewed their commitment to move forward with policy and reform implementation under the SMP. They indicated that the inclusion of staff recommendations in their Memorandum of Economic and Financial Policies signals their strong commitment. They also stressed that facing the country's ongoing challenges with appropriate policy responses will require continued and sustained support from donors and called for an acceleration of the external public debt reduction and arrears clearance process.

Approved By
Adnan Mazarei (MCD) and Yan Sun (SPR)

Prepared By
Middle East and Central Asia Department

Discussions were held in Nairobi, Kenya during December 5–11, 2017. The staff team consisted of Messrs. Elhage (Head), Kohler, Samake (all MCD), Walker (FAD), Wang (SPR), Thiam (Resident Representative), and Muir (FAD consultant). Mr. Lee (STA) overlapped with the mission. Mr. Abdulqafar Abdullahi, (OED) participated in key policy meetings. The mission met with the Finance Minister Mr. Abdirahman Beileh; the Minister of Fisheries and Marine Resources, Mr. Abdirahman M. Abdi Hashi; the Central Bank Governor, Mr. Bashir Issa Ali; the Accountant General, Ms. Fatuma Osman Farah; Mr. Abdirahman M. Abdullahi, Advisor to the Prime Minister; and other officials. The mission also met with representatives of bilateral and multilateral donors.

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BACKGROUND AND CONTEXT

1. **Somalia's economy was buffeted by a severe drought and sporadic terrorist attacks in 2017.** Swift international support has helped contain the humanitarian crisis following the drought, and recovery is starting in many areas. Together with the international community, the authorities are developing a Recovery and a Resilience Framework by analyzing the root causes of their vulnerability to droughts and examining ways to effectively distribute aid, with the aim of developing durable resilience solutions.[1]

2. **The Federal Government of Somalia (FGS) is striving to restore growth, reduce widespread poverty, and achieve peace.** The authorities are committed to achieving overarching agreements on key national issues with the Federal Member States (FMS), developing a coordinated strategy to fight extremist groups and facilitate aid distribution, and implementing credible economic reforms. With the support of the international community, the authorities remain committed to moving forward with their efforts to implement policies and reforms under the Staff-Monitored Program (SMP)**.**

3. **Somalia's relationship with the IMF continues to improve.** The FGS successfully completed the first 12-month SMP with the IMF in April 2017, and the authorities entered a second SMP covering May 2017–April 2018. The second Article IV consultation discussions with Somalia were completed in February 2017 (the first in over 25 years was completed in July 2015). Somalia is among the largest beneficiaries of IMF technical assistance (TA). Between mid-2013 and December 2017, the country received 87 TA and training missions. Somalia's overdue obligation to the IMF reached \$340.5 million (540.9 percent of quota) in December 2017, and the country's overdue financial obligations to the IMF were last reviewed at the time of the 2016 Article IV consultation (February 2017).[2] [3] The next review is scheduled concomitantly with the 2017 Article IV consultation discussions and first review under the SMP.

4. **Since the last Article IV Consultation, the FGS has pursued wide-ranging economic reforms and policies that are in line with staff recommendations under the SMP (Text Table 1).** Despite very challenging political, security, and social environments, the government has implemented critical structural reforms in various sectors and in statistics. They implemented several critical reform measures in public financial management (PFM) and taxes, prepared a financial sector development roadmap, passed the long-standing statistical law, and the measures agreed on in the currency reform roadmap are completed.

[1] The program will be financed by the Somali multilateral partners.

[2] Somalia is in debt distress and has not serviced its external public debt in the past 25 years.

[3] Somalia—Review of Overdue Financial Obligations to the Fund and Further Review Following Declaration of Ineligibility (2015, 2017, and 2018). Somalia was declared ineligible for IMF resources at the time of the review of overdue obligations to the IMF by the Executive Board on May 6, 1988.

Text Table 1. Somalia: Implementation of IMF Policy Recommendations of the 2016 Article IV Consultation	
Recommendations	**Implementation Status**
	Fiscal policy and reforms
Improve ***revenue admisnistration and mobilization***	**Ongoing.** The authorities have implemented several tax revenue measures in 2017. They have agreed with the telecommunications companies to pay their tax obligations in line with the existing tax laws (sales and payroll taxes, and corporate income tax). They have also concluded an agreement with an airline company to pay in full its sales tax, and arrival and departure fees arrears as well as its current obligations.
Strengthen the ***Treasury Single account*** (TSA)	**Ongoing.** The authorities recently completed a stock-taking exercise of all bank accounts for budget transactions and closed 133 bank accounts.
Improve ***cash management***	**Ongoing.** The Ministry of Finance has established and staffed a Cash Management Unit (CMU) and empowered a Domestic Arrears Management Committee.
Strengthen the ***fiscal federalism***	**Ongoing**. The FGS and federal member states have reached an agreement on harmonization of some selected taxes. They have engaged discussions on the harmonization of customs and drafted a common customs strategy roadmap for Somalia.
	Monetary institution reforms
Implement the ***currency reform*** roadmap	**Ongoing.** The CBS undertook reforms to combat widespread counterfeiting, which included the development of an anti-counterfeiting strategy and hiring qualified staff and providing them with the needed training. The CBS also established a management function for the currency reform and prepared detailed plans for the conversion of the current (counterfeit) banknotes in circulation. The CBS is currently finalizing (1) the criteria for the design and security features of the new banknotes and will subsequently start procurement process for the currency printer(s); (2) the cost of the entire reform project; and (3) estimating the volume of banknotes to print.
Improve ***governance and transparency at the CBS***	**Ongoing.** Some progress has been made on the CBS core-banking as well as central banking operations and governance structure. The CBS has continued developing bank licensing framework.
	Financial sector reforms
Strengthen ***oversight position for licensed institutions***	**Ongoing.** Financial reporting, the re-licensing process, and supervisorial capacity have improved, in addition the CBS has started on-site examinations of banks and money transfer businesses (MTBs).
Improve the ***legal and operational frameworkS of AML/CFT***	**Ongoing.** The authorities have established a Financial Reporting Center (FRC) to contribute in protecting the Somalia financial system. To comply with their Anti-Money Laundering and Combating the Financing of Terrorism framework, a draft law to implement targeted sanctions was prepared.
	Data provision
Adopt the ***new statistical law***	**Completed.** The authorities have submitted to Parliament the long-standing statistical law and established the Somali National Bureau of Statistics.
Improve GDP, CPI, balance of payments, and external public debt ***data quality***	**Ongoing.** Considerable progress was made on GDP estimate and on producing consumer price index data.

ECONOMIC DEVELOPMENTS

5. **Economic activity in 2017 is expected to have slowed (Text Table 2 and Figures 1 and 2).** The drought that hit the country since late 2016 has receded, but it took a large toll on economic activity, particularly in the remote areas. Reflecting continued slowdown in the agricultural sector, GDP growth is projected to remain subdued at 1.8 percent in 2017 (down from 2.4 percent in 2016). Driven by higher food prices, year-on-year inflation increased to 5.2 percent (4 percent annual average) at the end of December 2017.[4] Reflecting increased food imports and lower exports of livestock, the trade deficit is expected to have widened by 4.3 percentage points of GDP.

Text Table 2. Somalia: Selected Economic Indicators, 2015–18

(Percent of GDP, unless otherwise indicated)

	Est.		Proj.	
	2015	2016	2017	2018
National income and CPI		(Percent)		
Real GDP growth	2.5	2.4	1.8	2.5
Inflation (CPI, e.o.p.)	-1.5	1.3	5.2	2.8
Fiscal 1/				
Revenue and grants	2.1	2.5	3.1	3.2
of which: grants 2/	0.4	0.8	1.3	1.2
Total expenditure	2.0	2.5	3.1	3.2
of which: Comp. of employees	0.8	0.8	1.6	1.7
Overall balance	0.1	0.0	0.0	0.0
External sector and debt				
Current account balance	-4.7	-6.3	-6.7	-7.2
Trade balance	-44.5	-46.2	-50.5	-45.8
Remittances	19.2	19.6	20.6	19.5
Grants	21.0	20.8	23.7	19.5
External debt	76.5	74.5	71.5	...
Memorandum items		(U.S. dollar, million)		
Treasury deposits at the CBS 3/	19.1	12.1	32.2	...
Stock of arrears	67.7	76.5	68.8	64.2

Sources: Somali authorities; and IMF staff estimates.

1/ Budget data for the Federal Government of Somalia. 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 of Somalia through treasury accounts at the Central Bank of Somalia.

3/ Includes Treasury deposits, donor grants, and assets recovery.

6. **At end-September, a small budget surplus was achieved (Table 2a and Figure 3).** While domestic revenue fell short of the program target at end September 2017, fiscal operations showed a small surplus ($3.8 million), in part due to a slower-than-expected pace of budget execution. For end-December 2017, based on preliminary information, the implementation of critical tax measures since September together with the higher-than-programmed bilateral grants are expected to have resulted in a budget surplus of about $1.8 million and to have lifted domestic revenue to achieve the program target.

7. **Somalia's central bank's balance sheet expanded in the second half of 2017, reflecting mainly a one-off revaluation effect of its property (Table 3).** The SOS/U.S. exchange rate was stable in 2017 at around an average of 23,100.

[4] Since the last Article IV consultation, the time series for GDP and CPI were revised, mostly to reflect the release of the World Bank Household Survey and revised trade data.

8. The financial sector is underdeveloped, but its activities have been increasing (Table 4 and Figure 4).[5] At end-September 2017, the commercial banks' total assets and credit to the private sector were about 4 percent and 1.3 percent of GDP, respectively. Nonetheless, banks' assets have continued to improve since 2015, and their capitalization remains broadly adequate.[6] The loan-to-deposit ratio reached 40.1 percent, up from 33.3 percent in September 2016, and credit to the private sector increased to 31.2 percent (as a share of total assets), from 24.8 percent in the previous year. Mobile money and money transfer businesses (MTBs) play a crucial role in providing financial services in Somalia. In 2017, MTBs provided trade finance amounting to about $2.1 billion.

PERFORMANCE UNDER THE SMP

Performance under the SMP is broadly satisfactory. Staff supports the completion of the first review.

9. Program implementation is broadly satisfactory (see the Memorandum of Economic and Financial Policies–MEFP ¶4).

- **On the end-June 2017 targets, one out of the two structural benchmarks (SBs) was not met due to a small technical delay, and four out of six indicative targets (ITs) were met.** Deviations from the program targets[7] for the two missed ITs (the cash fiscal balance and the domestic revenue floors) were small ($1.8 million and $0.7 million, respectively).

- **On the September 2017 targets, all but one (out of six) ITs and all but one (out of five) SBs were met.** The missed IT, by a small margin of $0.5 million, was, in part, due to the volatile security situation and delays in implementing revenue measures.[8] An SB was missed because two revenue-collection contracts (at the Port of Mogadishu and Mogadishu Airport) out of five that were due to be canceled and renegotiated were delayed. This is partly because the process of contract renegotiation is taking longer than expected.

- **One SB was missed.** The authorities plan to renegotiate the remaining two contracts (with private companies that collect fees on behalf of the government by September 2018. (see the Letter of Intent). Staff supports the authorities' plan, considering the progress already achieved toward the completion of the SB and the reasonable timeline. The World Bank is providing

[5] Banks' data reported are preliminary and subject to revisions.

[6] In December 2017, the CBS Board increased the minimum capital requirement for commercial banks by $2.0 million to $7.0 million.

[7] Occurred in early 2017 as the new government was taking office.

[8] Inland tax collection is considered a deadly job in Somalia. Also, the weak legal environment favors a non-tax-payment culture. In addition, by end-September 2017, no significant tax measures agreed on under the SMP were implemented.

technical, financial, and legal advice to the authorities on the process of renegotiation of the two contracts.

- **On the December 2017 targets, the authorities have accelerated the implementation of several revenue measures and adopted remedial fiscal measures.** They also advanced on the SBs for December 2017. Based on available information, one IT out of six has been met and (at least) four are expected to be met.[9] Also, four out of six SB[10] have been met, and some progress has been made on the PFM reforms underpinning the remaining two SBs (MEFP Table 2, and MEFP ¶4, bullet #3).[11]

Text Table 3. Somalia: Performance Under the SMP

	Indicative targets (ITs) 1/			Structural benchmarks (SBs) 1/		
	Total	Met	Not met	Total	Met	Not met
Jun-17	6	4	2 2/	2	1	1
Sep-17	6	5	1 3/	6	4	1
Dec-17	6	1		6	4	

1/ The figures for December 2017 report only confirmed status of ITs and SBs based on information available (also see the MEFP Tables 1 and 2).

2/ Domestic revenue and fiscal balance.

3/ Domestic revenue.

OUTLOOK AND RISKS

In the medium term, growth is expected to recover, and the fiscal outlook continues to improve, although at a gradual pace. Risks to the outlook and the SMP remain tilted to the downside.

10. Economic activity is expected to recover, and fiscal performance is projected to improve. The drought is receding, and with the support of the international community efforts to contain terrorist attacks have been stepped up. These developments, along with the improved momentum of reforms, are boosting the outlook for economic performance. Growth will recover gradually in 2018–2020 and stabilize at around 2.5–3.5 percent. Inflation will remain low, and the fiscal framework is expected to continue to improve over the near term.

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[9] The floor on CBS net foreign assets was met and the following four ITs are likely to be met: (1) ceiling on contracting or guaranteeing of new nominal external non-concessional borrowing; (2) ceiling on contracting new domestic debt; (3) floor on fiscal balance; and (4) floor on revenue. Despite projected positive fiscal outlook for 2017, the full assessment of the ceiling on accumulation of new domestic arrears would take time given the still-weak PFM system.

[10] The four SBs as spelled out in MEFP Table 2 have been assessed and confirmed.

[11] For the two remaining SBs staff will make an assessment when final data is received.

11. Downside risks are significant (Annex I-Risk Assessment Matrix–RAM).[12] They include the fragile security situation; weak institutional capacity that could result in poor fiscal management and new domestic arrears accumulation; inadequate efforts to tackle serious governance problems; a lack of political consensus among the federal government and the federal member states, which could slow critical reform measures; slow progress in policy and reform implementation, particularly on tax reform and domestic revenue mobilization; and shortfalls in donor support to the FGS. The authorities' continued commitment to the program, and sustained and coordinated international support, would help mitigate these risks.

POLICY DISCUSSIONS

The discussions laid the groundwork for the second and final review under the SMP and were centered on near-term policies to (1) improve the fiscal framework; (2) finish the preparation for the launch of the new national currency; (3) develop the financial sector; and (4) establish the foundations for sustained economic recovery and poverty reduction while strengthening institutions and governance.

A. Program Discussions

Staff supports the authorities' request for completion of the first review, and the modification of the missed SB for September 2017. Going forward, Somalia-specific fragility will continue to shape the design of the successor SMP.

12. Completion of the first review. Staff supports the authorities' request for completion of the first review under the SMP. The authorities' recent efforts to press ahead with the implementation of several critical tax measures agreed on for 2017 is expected to bring the end-year fiscal outturn in line with the program target.

13. Completion of the second review. The current SMP expires in April 2018. Staff emphasized that the completion of the second review will hinge on continuous, satisfactory progress under the SMP in completing the SBs as well as meeting ITs for the end of December 2017 and the end of March 2018. Staff also stressed that the completion of the review will be guided by the strength of policy commitments and the appropriateness of the remedial measures to correct for any missed target.

14. Successor SMP and fragility in Somalia (Annex II). The authorities will likely request a successor SMP. Despite important progress made under the two 12-month SMPs since May 2016, the challenges ahead remain daunting. The authorities stressed that the successor SMP should build on the renewed reform momentum since September 2017 and their strong commitment to broaden

[12] The RAM reflects the authorities' comments as well as the outcomes of the policy discussions during December 5–11, 2017.

the reform agenda (see MEFP, ¶6–¶19). Consideration of the country's fragility and pace of capacity absorption will shape the design of the new program.

B. Improving the Fiscal Framework and Budget Credibility

Public finance management needs to be improved by working toward the following: (1) reducing dependence on grants with a sustained increase in domestic revenue; (2) enhancing public wage bill management; (3) implementing agreed PFM reforms under the SMP; and (4) improving annual budget execution.

Background

15. Following the initial slow implementation of revenue measures agreed on under the SMP,[13] the authorities took decisive steps from September 2017 to accelerate the implementation of critical tax measures. Those efforts, along with one-off bilateral grants received in the last quarter, are expected to provide a sufficient fiscal buffer to keep the program on track.[14]

- ***On the revenue measures (Text Table 4 and MEFP ¶6), despite challenging negotiations with key taxpayers, preliminary information indicates that the authorities have been able to implement critical tax measures to lift 2017 revenue collection.*** Most importantly, they reached an agreement with the telecommunications companies to pay their sales tax obligations retroactively from October 2017 and begin payroll tax collection in November 2017. The telecommunications companies have started paying sales taxes based on self-reported sales figures which the authorities have committed to auditing to ensure accuracy.

- ***The authorities received unbudgeted grant pledges of $80 million, of which $37.7 million has already been disbursed.*** In total $35 million of these new grants are projected to be used in 2017, with $5 million transferred to the FMS and the rest used for budget support. The balance will be allocated to the 2018 budget.

16. The draft 2018 budget is broadly in line with the SMP (MEFP ¶7). It provides for a zero-cash balance with no domestic arrears accumulation and includes fiscal measures to increase domestic revenue mobilization. The budget envisages higher grants projections than under the SMP.[15]

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[13] The slow progress in reform implementation reflected mainly weak capacity; weak security and tax administration environments; and issues of political interference, on which the authorities have been making commendable progress in recent months.

[14] For end 2017, the projected attainment of the program revenue target would come from the strong increase in non-tax revenue (mainly airport, harbor, visa, and passport fees) which fully offset the lower-than-programmed tax revenue, of about $5.1 million (Table 2a).

[15] Staff revenue and grants projections remain conservative. Revenue projections are conservative given: (1) progress in implementing new tax measures; and (2) the projected economic recovery. The FGS budgetary grants are based on

(continued)

17. Despite progress on reforms, more efforts are needed to improve the fiscal framework, particularly on the revenue and expenditure sides.

- ***Revenue.*** The high dependence of the government on grants and slow progress in broadening the tax base weaken the fiscal framework. At the same time, agreements on tax and customs harmonization with FMS need to be reached so that the government can proceed with the implementation of a unified tariff rate policy. At around 2 percent of GDP, there is much potential to increase domestic revenues.[16]

- ***Expenditure.*** Civil servant compensation absorbs about one-half of the government budget due, in part, to the increase in the number of civil servants, including police and military. Given the government's overarching objective to improve security, such a trend is expected to continue over the medium term.

Policy Discussions

18. The 2018 budget is in line with the authorities' overall fiscal strategy (MEFP ¶7). The authorities indicated that they will refrain from any expenditures that are not fully covered by realistic revenue projection or confirmed grants. Revenue windfalls (including additional grants for budgetary support) would be used to build up buffers (for contingent measures, including inflows of refugees and humanitarian aid) and to pay down domestic arrears. The authorities intend to implement the needed reforms to enhance cash management practices. The authorities committed to remain current on their bills and continue to adhere to the sequestration provision in the 2016 Appropriation Law.[17] Nonetheless, in the event of shortfall in revenue or grants staff recommends that the authorities reduce expenditure commitments, particularly on non-priority spending (MEFP ¶7, bullet #1), including annual budgetary fund for election and planned domestic expenditure arrears payments, and prioritize the use any existing unearmarked cash buffers.[18]

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grants confirmed by donors. However, staff projection of grants remains conservative to take into account risk of slower-than-planned disbursements.

[16] The GDP series covers the entire country (i.e., the federal state, the federal member states, as well as Somaliland) while the revenue is only that of the FGS.

[17] The sequestration rule refers to expenditure payment prioritization. In the event that treasury cash is not sufficient to make all payments, salaries, and other current and capital expenditure payments should be made before payments of domestic arrears.

[18] Planned expenditures earmarked to be funded by grants would not occur in the event of shortfall in such grants.

19. The authorities have implemented several structural measures to strengthen the fiscal framework (*MEFP* ¶7).

- ***Domestic revenue (Text Table 4).*** The authorities intend to build on the measures implemented in 2017 to broaden the tax base by improving tax administration, including enforcing the tax law. They also agreed to implement, at the beginning of 2018, the bulk of the remaining tax measures initially planned for 2017, and they are expected to generate $17.5 million.[19]

- ***Public wage bill management.*** The authorities recognize the need to restructure the civil service to increase productivity and keep employment compensation under control. To that end, they have initiated an audit of the FGS civil service and are developing a program to identify and remove absentee staff and underperformers across ministries, departments, and agencies (MDAs). To support the reform efforts, staff encouraged the authorities to develop a proper civil service database and make all salary payments through bank accounts.

Text Table 4. Somalia: Projected Yields from Fiscal Measures, 2017–18
(Million of U.S. Dollars)

	2017		2018
	Prog.	Proj.	Proj.
Total projected yields from fiscal measures	12.5	2.9	28.7
Initial fiscal measures 1/	12.5	2.6	
Tax policy, increase in excise tax rate on:	3.0	0.3	1.6
Petroleum products (+25%)	0.7	0.0	0.0
Tobacco (+100%)	0.3	0.3	0.06
Khat from $2 to $2.50 per kg	2.0	0.0	1.5
Tax administration measures:	9.5	2.3	8.8
Departure fee on outbound airline passengers	1.4	0.0	0.9
Sales tax on Telecommunication companies	5.7	2.3	6.5
Sales tax on hotels	0.8	0.0	0.6
Personal income tax (hotels, electricity, telecoms, foreign workers and NGOs) 2/	0.3	0.02	0.35
Sales tax on consumer electricity companies	1.3	0.0	0.45
New fiscal measures 3/		0.3	14.2
Reverse tax exemption for Parliamentarians		0.25	0.25
Collect sales tax on imported goods by value at the port		0.0	10.0
Airlines sales tax and fees 4/		0.0	3.9
Fiscal measures included in the 2018 budget			4.2
Corporate income tax			1.1
In-housing revenue collection 5/			2.6
Higher and increased progressivity rate of rental income tax (from 5% to 15–22%)			0.5

Sources: Somali authorities; and Fund staff estimates and projections.
1/ As outlined in IMF Country Report No. 16/204 (Box 2, page 15).
2/ This measure relates only to telecoms in 2017. The majority of Somalis working in the private sector earn less than the minimum tax threshold.
3/ Proposed by the Somali authorities at the time of the September 2017 Staff Visit.
4/ The 2018 projection includes full-year annual fees and taxes and clearance of fees and taxes arrears.
5/ Includes Visa and Passport fees; Ministry of Commerce, Ministry of Labour, notaries, and road tax.

- ***PFM, including treasury, cash, and domestic arrears management.*** The authorities are updating the 2016–2020 PFM Action Plan and have implemented a commitment control system across MDAs.

  - ***Treasury management.*** The authorities have committed to making considerable progress in reducing MDAs' use of cash advances for procurement, and channeling the payments through the treasury single account (TSA). They have also stepped up efforts to incorporate bank account balances in the Somalia Financial Management Information System (SFMIS), and prepared a roadmap for continued review of MDAs accounts, with the goal of progressively closing all noncritical accounts.

- ***Cash and domestic arrears managements.*** The authorities have operationalized the Cash Management Unit (CMU), which started collecting daily cash balances from the Central Bank of Somalia (CBS). The authorities are expected to endorse the terms of reference of the Cash Management Committee (CMC), which was drafted in December 2017. The CMU's main objective is cash-forecasting and management, which should help the FGS remain current on its payment

[19] These include increased tax on khat; passengers' departure fees from Mogadishu airport; sales tax on hotel and electricity companies; sales tax on imports by value at the port of Mogadishu; and airlines sales tax and fees.

obligations, and avoid new domestic arrears. The mandate of the Domestic Arrears Management Committee (DAMC) has been clarified and the criteria for domestic arrears settlement eligibility have been drafted.

- ***Fiscal federalism (MEFP ¶14).*** The Somali authorities have made progress toward fiscal federalism. The FMS and the FGS authorities have reached agreements on harmonization of several tax measures and they are committed to take needed steps to achieve proper fiscal federalism.

- ***Fiscal coverage and reporting.*** The authorities are taking steps to improve the fiscal coverage and reporting following recent completion of the commitment system. They are also making some progress toward achieving a TSA and GFS-compliant Chart of Accounts (MEFP ¶20). Efforts to improve the civil service database (MEFP ¶7, bullet #3) and include social safety net programs into national budget (MEFP ¶13, bullet #3) are underway.

C. Developing Monetary and Financial Institutions

With the launch of the new national currency approaching, stronger resolve to establish proper financial and monetary institutions will be essential.

Currency Reform—Background

20. The authorities have successfully completed all the measures in the currency reform roadmap, which pave the way for the launch of the new national currency (Box 1 and MEFP ¶8). Among the critical reforms completed, the FGS and the heads of the FMS have agreed—through a signed agreement—to support the reform project, including an effort to combat counterfeiting of the Somali shilling in their regions. The authorities are also preparing an information campaign; a framework for an independent evaluation of the currency reform project; and the budget for the currency reform which will be submitted to donors for funding.

Currency Reform—Policy Discussions

21. At this stage, currency reform will be limited to Phase I, which involves exchanging the counterfeit currencies in circulation with the new banknotes (Box 1, MEFP ¶9, and Informational Annex). The authorities confirmed that there will be no further injection of the new Somali Shillings beyond Phase I and that additional injection of the new currency will only occur during Phase II. They also stressed that: (1) they do not anticipate making any decision about the choice of the future exchange rate regime until Phase II of the currency reform; and (2) they will not intervene in the foreign exchange market which will continue to float freely.[20]

[20] As stated in the Informational Annex (Exchange Rate Arrangement section), Somalia is highly dollarized and is expected to remain so for the foreseeable future.

Box 1. Introduction of the New Currency

The authorities have placed currency reform among their highest priorities. They plan to introduce the new currency as soon as feasible to replace all currency currently in circulation—which are virtually all counterfeit. The new banknotes will be issued, and the Somali Shilling (SOS) will continue to be Somalia's legal tender. This will be an essential step in the fight against counterfeiting. The currency reform is supported by Somalia's development partners and extensive technical assistance from the IMF.

The currency reform consists of two phases. Phase I involves the exchange of counterfeit currencies currently in circulation with new banknotes. During this phase, the CBS will only issue small-denomination banknotes, Injection of additional new Somali Shillings, including larger denominations of the new banknotes, will take place during Phase II.

Preparatory work for the launch of Phase I has been completed. The authorities have outlined a roadmap for all key reforms for issuing a new currency, including: (1) an anti-counterfeiting strategy; (2) an accounting and reporting module; (3) management function; (4) storage and distribution of new banknotes, and invalidation and destruction of old currency; (5) legal framework and accountability frameworks; and (6) scope of exchange and conversion factor for the counterfeit SOS to the new currency.

Phase II of the currency reform will require significant preparatory work. This will include strengthening CBS's capacity and developing monetary instruments and reserve management guidelines.

Financial Sector—Background

22. The financial sector is nascent but plays a critical role in economic activity (see ¶8). Notwithstanding its critical role in the economy, the sector severely suffers from structural problems, including, but not limited to (1) absence of centralized payment and inter-bank payment systems; (2) weak re-licensing, supervision, and regulation of commercial banks and MTBs; (3) shortcomings in the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework and its weak compliance; and (4) a still-weak central bank capacity and widespread SOS counterfeiting.

Financial sector—Policy Discussions

23. The authorities are making strong efforts to develop the financial sector (MEFP ¶10). As part of the SMP benchmarks set for end-2017, the authorities prepared a comprehensive financial sector roadmap that highlights the key bottlenecks for financial development and inclusion, and outlines reforms to improve the functioning of the sector, including issues related to the withdrawal of correspondent banking relationships.[21] The Financial Reporting Center (FRC) is now operational and started reviewing suspicious transactions in December 2017. With continued TA from the IMF, progress has been made on developing regulations for financial sector development; building technical capacity in the areas of commercial bank licensing, regulation, and supervision; and improving transparency and sound commercial banking and financial intermediation in Somalia.

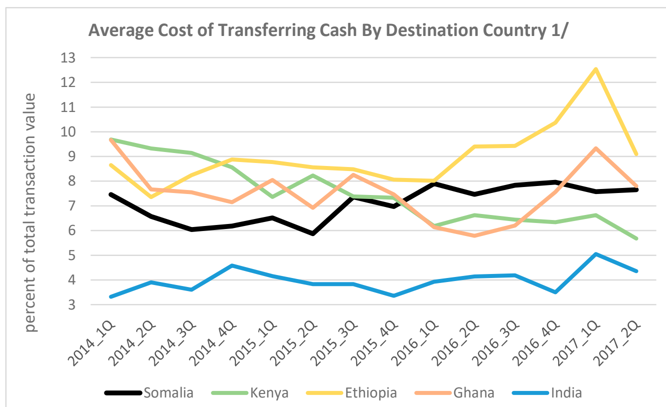
[21] The authorities have reported that CBR withdrawal is constraining financial inflows to several NGOs operating in Somalia and that regulatory pressure on some U.S. and U.K banks has led to termination of some CBRs with MTBs.

24. The authorities are taking steps to move forward with the needed financial sector reform (MEFP ¶11). They have agreed to (1) fully implement new accounting and financial reporting systems in line with international financial reporting standards (IFRS) and audit functions; (2) make tangible progress on strengthening the governance and organizational structure of the CBS together with its oversight authority; (3) continue to develop the necessary financial regulations and strengthen the annual relicensing process of banks and MTBs; (4) expand on-site examinations of banks and MTBs; and (5) address gaps and overlaps in the AML/CFT framework (Box 2). On the latter, in line with Financial Task Force (FATF) standards, the CBS is planning to finalize the Targeted Financial Sanctions Regulation law. This measure will enable provisions to implement Somalia's international obligations under UNSCRs 1267, and 1373, and enhance AML/CFT compliance by MTBs. In this context, they will improve the MTBs' compliance with the AML/CFT regulations and the reporting of suspicious transactions to the Financial Reporting Center (FRC).

Box 2. AML/CFT Regulation and Supervision

Addressing AML/CFT regulatory issues is critical to supporting remittance flows and external financial linkages for Somalia. Remittances make up nearly 40 percent of household income, and the closure of some corresponding accounts has increased costs of transactions over the past several years (see Figure). Overall, however, costs remain contained and inflows averaged over $1.3 billion per year during 2015–2017.

The authorities have made progress on AML/CFT regulations and supervision over the past few years. The CBS has issued foundational regulations since 2014, including Anti-Money Laundering, Customer Registration, and Operations for MTBs. MTBs' compliance with AML/CFT regulation is improving and accelerating, supported by regular financial data collection and examination. The CBS is also strengthening the annual MTB relicensing process and on-site examination. In 2017, on-site inspections of the three largest MTBs, representing over 80 percent of transactions, were conducted for the first time.



Source: The World Bank, Remittance Prices Worldwide, available at http://remittanceprices.worldbank.org. IMF staff calculations.
1/ UK corridor to respective destination. Cost of $200 cash transfer.

Despite progress that has been achieved, important gaps remain. Reporting of suspicious transactions needs to improve and the process regularized. Cooperation between the FRC and the CBS needs to be strengthened, and the lack of reliable national identification and business registration systems limits implementing Know Your Customer (KYC). On the legal side, overlaps in the counter terrorism and the AML/CFT Laws, such as the definition of "financial institution" and "property and funds," need to be streamlined.

The authorities are committed to addressing these gaps. They are strengthening the renewal of MTBs' annual licenses which will focus on improving MTBs compliance with AML/CFT regulations, including reporting requirements. The authorities are also seeking to improve cooperation between the CBS and FRC, including on effective risk-based AML/CFT supervision. A strategy for a national identification system is being considered with World Bank assistance, and a business registry is under construction.

D. Establishing the Foundations for Sustained Economic Recovery and Social Inclusion

Complementing the ongoing fiscal and financial sector reform efforts with stronger resolve to tackle bottlenecks to growth will pave the way to sustained economic recovery and social inclusion.

Background

25. There are pressing needs for developing sustained economic recovery and social inclusion programs for Somalia. The country's per capita GDP during 2014–2016 was only $515, far below regional peers as well as low-income countries. The following four pillars will remain essential for the country:

- ***Business environment.*** The private sector could play a key role in supporting growth and creating jobs, in particular, youth employment which could lower insecurity. However, Somalia's business environment remains structurally weak as evidenced by the country's lowest ranking in almost all key pillars of the World Bank Doing Business survey results.

- ***Governance and corruption (Box 3).*** Governance and corruption problems complicate reform and development efforts. The FGS's efforts to combat corruption are hindered by weak administration and capacity.

- ***Social spending and safety net (Box 4).*** The need for social spending is very large and the FGS's resources to tackle social needs are very limited. Aside from a small budget to provide for orphans of military personnel and police officers, there is no explicit social safety net program at the FGS level, and budgetary social spending is very low.

- ***The National Development Plan (NDP).*** The authorities recognize that the current NDP has several shortcomings, including weak prioritization of development needs and lack of coherent safety net programs; limited sectoral consistency; and poor mapping of costing and financing needs.

Policy Discussions

26. A broad-based reform agenda is underway (MEFP ¶12–13). The authorities have also identified several reform measures, which are listed below, for accelerating economic recovery.

- ***Business environment.*** The authorities have stepped up efforts to increase the participation of the private sector role in economic activity. In particular, the recent passage of a foreign direct investment law and adoption of a procurement bill will further accelerate the role of the private sector. While the authorities welcome the inclusion of Somalia in the Global Doing Business

Survey in 2017, they recommended that some indicators be treated with caution, given that it is the first time the country is in the survey.[22]

- ***Governance and corruption (Box 3).*** While the authorities took important measures on these fronts, the challenges ahead remain significant. They include weak: (1) tax revenue collection; (2) transparency on fiscal reporting; (3) law enforcement; and (4) compliance with the AML/CFT framework.

- ***Social spending and social programs (Box 4).*** The authorities and staff agreed that the inclusion of social safety net programs in the budget and the development of a medium-term fiscal framework would be essential. This would contribute to poverty alleviation, development of resilience framework against shocks, and contribute to creating jobs.

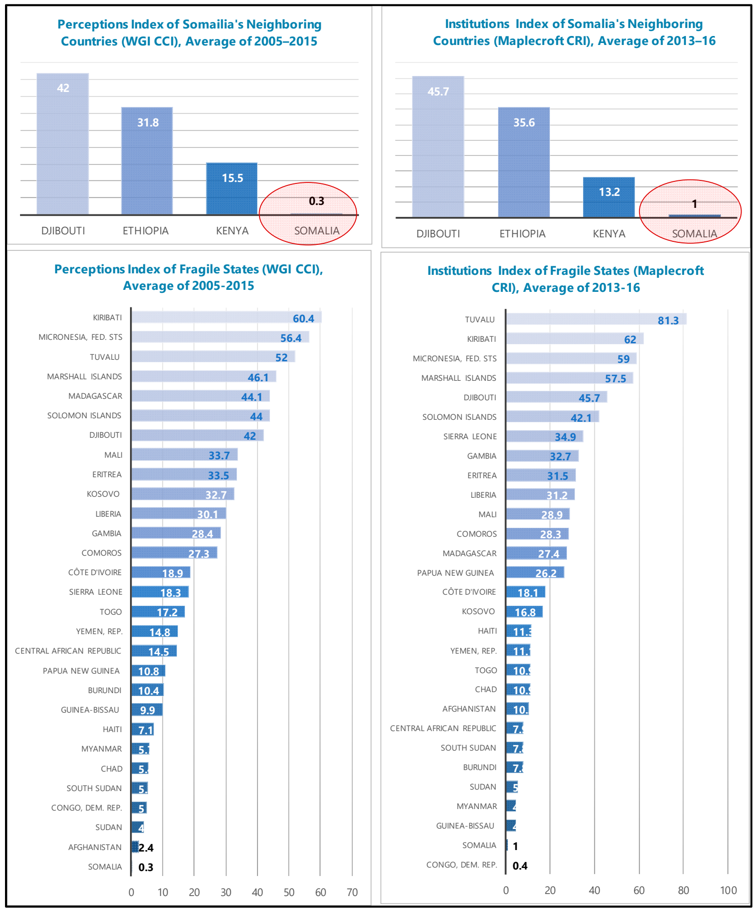
- **The NDP (MEFP ¶13, bullet #4).** The update of the NDP will address the weaknesses identified in the current NDP as well as challenges the country faced during the recent drought. It will also include social safety net and job creation programs; and programs on strengthening resilience to natural disasters.

[22] They indicated that the Global Doing Business Survey provides some insights on where the FGS should focus reforms. They are not surprised by the result and ranking of Somalia as the country is a war-torn fragile state. They, however, have reservations about information related to several indicators, such as corporate income tax female employees on maternity leave; and inspection requirement during construction, as they apply to Somalia.

Box 3. Tackling Governance and Corruption

Governance is weak and corruption remains high. Both the corruption perception index of the Worldwide Governance Indicator Control of Corruption Index (WGI CCI) by Daniel Kaufman (Natural Resource Governance Institute and Brookings Institution) and Aart Kray (World Bank) and the Maplecroft Corruption Risk Index (CRI) point to the lowest ranking of Somalia in terms of corruption.[1/]

The severity of corruption contributes to the weak economic performance. Somalia's President was elected, in February 2017, on an anti-corruption platform. While there is a lack of data to adequately assess the scale and the impact of corruption on the Somali economy, the authorities have acknowledged how critical governance and corruption issues are to the country's economic performance and social cohesion. Greater efforts to address these issues will improve the effectiveness of economic policies, the efficiency of institutions, and the country's overall economic performance.



The authorities have stepped up efforts to tackle corruption and governance issues. Their efforts include the establishment of a "Delivery Unit "at the Prime Minister's office to (1) monitor performance of the government's programs, (2) ensure proper public service delivery, and (3) improve governance at ministers' levels. Also, the Minister of Finance has initiated several programs to strengthen internal audit functions at the ministry in 2018. An anti-corruption bill has been approved by the Parliament, cash payments have diminished, and electronic payment system has expanded across all FGS agencies. To improve procurement system and government effectiveness, all key government contracts with private enterprises are either under review, canceled, or being renegotiated.

1/ The CCI is a governance indicator that serves to measure the perception of corruption, and the CRI measures the quality of anti-corruption institutions. The former can be influenced by media reporting and could fail to track actual patterns of corruption, especially for countries that undergo important structural transformations. The accuracy of the latter can be biased by experts' views (instead of facts on corruption). These non-IMF indicators provide qualitative information about corruption. They do not represent the IMF's assessment of the level of corruption in Somalia.

Box 4. Social Spending Programs

There are limited resources, particularly at the FGS level, allocated to social spending.[1/] In 2016, FGS spending on basic education was less than 1 percent of total government spending, well below the 3 percent target in the budget, and is significantly short of the 12 percent target set for 2019 in the NDP. On education, out of 3.7 million primary school age children, only 1.4 million children are enrolled in primary education.[2/] Nonetheless, social spending, particularly off-budget spending, has increased recently. This, for the most part, reflects domestic and international responses to the drought.

The need for social spending is very large. The return of Somali refugees, internal displaced persons, persistent insecurity, and the recent drought are developments that tend to magnify the vulnerability of the population. Unemployment is yet another major source of instability and vulnerability. Unemployment of the youth population contributes significantly to irregular migration and participation in extremist activities, including Al Shabaab (viewed as a form of employment). Somalia's labor force participation is among the world's lowest, particularly by women. More than 70 percent of the population is under the age of 30, and youth unemployment was estimated to be 67 percent in 2013 (ILO, Labor Force Survey for Somalia, 2013).

Somalia: Priority Social Expenditure Categories, 2015–17
(US$ million, unless otherwise indicated)

	2015 Est.	2016 Est.	2017 Proj.
Total social spending	**182.3**	**197.2**	**506.8**
Basic education	32.1	26.5	48.8
of which: FGS, budget	0.8	0.7	2.2
Health	120.2	136.8	175.6
of which: FGS, budget	0.5	0.6	1.4
Energy and water	0.4	14.7	27.4
of which: FGS, budget	0.4	0.5	1.1
Humanitarian aid 1/	29.5	19.2	254.9
of which: FGS, budget	0.3	0.4	1.3
Memorandum items			
FGS total spending	135.4	171.1	230.3
FGS, budgetary share (%)	1.1	1.1	1.2
Basic eduction as % of total spending 2/	0.6	0.4	1.0
Social spending as % of total spending 2/	1.5	1.3	2.6
Peace, security, and rule of law	137.1	234.8	179.9

Sources: Somali authorities; and IMF staff calculations.
1/ Includes several safety net programs, including humanitarian aid to increase resilience against droughts.
2/ As total of FGS spending (excluding off-budget spending).

Improvement in the FGS's social spending and social protection services is vital. As outlined in the NDP, there is a need to: (1) take concrete steps to assess the social programs and social protection services; (2) draft a social protection policy; and (3) swiftly establish a roadmap for social programs and services by outlining key reform benchmarks, timelines, financing, and assistance needs. Social protection policy should include the development and implementation of (public and private) wage policy. In addition, efforts should be made to strengthen social security provisions and broaden the range of its products and coverage. In this context, the option for cash transfers system policy to the most vulnerable population could be explored.

1/ Social spending in Somalia refers to spending on basic education, health, energy, water, and on humanitarian spending, which includes employment promotion, youth and women protections programs, housing, and resilience program to avoid future humanitarian crises.

2/ Source : Journées Réseaux de l'Enseignement et de la Recherche–JRES, 2015.

E. External Debt Relief and Arrears Clearance for Somalia

The authorities called for an acceleration of the external public debt reduction and arrears clearance process. This will hinge on the country's progress in building capacity and institutions and in securing broad-based creditor support. The key is to help Somalia get on a path of debt sustainability, growth and poverty reduction post arrears clearance and debt relief.

27. Somalia is eligible to receive debt relief under the Heavily Indebted Poor County (HIPC) initiative. The HIPC process has well-established benchmarks and conditions, and is not time-bound. It is designed in a way to help countries not slip back into arrears and to get on a path of sustainable debt dynamics and poverty reduction post arrears clearance and debt relief. Among the key requirements, there is a need to (1) establish a track record of implementing economic policies under an SMP of a quality equivalent to those under an upper-credit tranche (UCT) program; and (2) secure commitments from donors to finance arrears clearance and debt relief.

28. Despite the authorities' strong commitment, Somalia suffers from very low capacity and a difficult security situation. Macroeconomic data remain incomplete, fiscal policy and institutions are still developing, and the central bank is nascent. Notwithstanding Somalia's broadly satisfactory performance, the two one-year SMPs thus far do not qualify as of UCT quality.[23] Rather, they are based on a rudimentary policy package with a "*quick-win approach*" (Annex II), in light of Somalia's very limited capacity and weak institutions. There is also a need to secure broad-based support from creditors to accelerate the HIPC process.[24] The amount of potential debt relief to Somalia is also unknown due to the lack of external debt data.

29. That Somalia has not reached the point of arrears clearance and debt relief has not prevented the country from receiving substantial grants from donors (Table 7). Donors are currently providing Somalia with grants amounting to about $1.5 billion per year (about 20 percent of GDP). In addition, donors spend on average another $500 million per year on peacekeeping, excluding bilateral military aid. Donor assistance includes off-budget social and development spending as well as peacebuilding and humanitarian assistance.

[23] A UCT arrangement is one under which the Executive Board would approve IMF financing above 25 percent of quota. UCT conditionality is met when authorities have committed to—and have the capacity to implement—a set of policies that is adequate to correct external imbalances and enable repayment to the IMF within the specific maturity period (2017 Handbook on IMF Facilities for Low Income Countries (FO/DIS/17/193; 11/13/2017).

[24] See EBM/15/77 (Somalia–Staff Comments on the Process for Debt Relief). Also see: http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/11/Debt-Relief-Under-the-Heavily-Indebted-Poor-Countries-Initiative

OTHER ISSUES

The authorities are making progress, though uneven, on other surveillance issues, namely IMF Article VIII issues, data provision to the IMF, external public debt reconciliation, and capacity development.

30. Article VIII issues (Informational Annex). Somalia still avails itself of the transitional arrangements of Article XIV; however, it no longer maintains restrictions under Article XIV, and the exchange restrictions and multiple currency practices identified at the time of the 1989 Article IV consultation are no longer in effect. Staff continues to encourage the authorities to consider at some point initiating the necessary steps for the country to accept its obligations under Article VIII. The authorities and staff discussed the current exchange system and regulation.

31. Data provision to the IMF (MEFP ¶15). Despite satisfactory progress on improving economic and financial data since the 2016 Article IV Consultation, data provision still has serious shortcomings that significantly hamper surveillance. In addition, rudimentary current account data and lack of effective exchange rate data prevent a meaningful external stability assessment. The authorities agreed to address these shortcomings swiftly, particularly the balance of payment data. Staff, in collaboration with the World Bank, presented and discussed preliminary results of the new Consumer Price Index framework and the new GDP estimates for 2013–2016.

32. Public debt (MEFP ¶19). The authorities are continuing work on completing the external debt database and improving capacity at the Debt Management Unit, which is well along the way toward reconciling and validating Somalia's external debt data with creditors.

33. Capacity development (MEFP ¶20). The authorities expressed interest in continued IMF TA in various areas. They recognized that this assistance has been instrumental in capacity and institution developments, and improved data provision. Given the still significant need for capacity development in Somalia to support the SMP, staff reassured the authorities on the IMF's readiness to provide sustained TA support. Staff also discussed with donors how to improve coordination in capacity building activities in Somalia.

STAFF APPRAISAL

34. Somalia suffered from drought and sporadic terrorist attacks in 2017. These developments hurt economic activity, particularly in the north of the country and rural areas, and temporarily impacted the federal government's tax collection efforts. With sustained national and international community support, the country avoided a severe humanitarian crisis and significant economic slowdown.

35. Somalia faces considerable challenges, including insecurity, an inability to deal with the impacts of droughts, limited political consensus between the federal government and the federal member states, and poor infrastructure and capacity. However, the authorities have navigated through these challenging situations, and their efforts, together with improved donor coordination of support, have been vital in addressing these obstacles.

36. The authorities' commitment to the SMP is strong, and they have implemented difficult reform measures. Their recent efforts to press ahead with several critical tax measures are expected to have brought the end-2017 fiscal outturn in line with the program target. In addition, with the assistance of the IMF, the recently completed measures will help launch the new national currency.

37. Improving domestic revenue and PFM remain the key fiscal goals under the program. The authorities are aware of the urgent need to improve tax collection through enhanced tax administration and coherent tax policy. They have implemented several important tax reform measures in 2017, and they remain committed to implementing the bulk of the remaining measures agreed on with staff in 2018. Progress on PFM-based reforms is encouraging. This includes recent significant advances on domestic arrears and cash management, the PFM bill, and commitment control system.

38. The CBS efforts to complete the preparatory work for the launch of the new national currency are welcome. Issuing a new national currency is among the highest reform priorities for the authorities. With IMF's technical support, the authorities have outlined a comprehensive reform roadmap under which all the measures, including the necessary legal framework, agreed on have been successfully completed. Among the critical reforms completed, the FGS and the heads of the FMS have agreed—through a signed agreement—to support the reform project, including to combat counterfeiting of the Somali shilling in their regions.

39. The steps implemented to improve financial intermediation and the AML/CFT framework are welcome. Beside the reforms implemented under the SMP, the authorities have prepared a comprehensive diagnosis of Somalia's financial sector and laid out structural reforms needed to develop it. Initiatives to finalize the Targeted Financial Sanctions Regulation law and enhance AML/CFT compliance by MTBs is a welcome step to improving the AML/CFT framework and compliance.

40. The renewed focus on governance and corruption is timely. The authorities have rightly recognized the importance of governance and corruption problems in Somalia and have started initiating appropriate policy responses. While staff supports the ongoing efforts to address governance and corruption problems in Somalia (including adherence to international anti-corruption conventions such as the UNCAC), more focus on granular levels of governance and corruption is needed in the areas of PFM, revenue collection points, treasury management, domestic arrears and cash management, and AML/CFT.

41. Increasing the government's budgetary spending on social programs is essential. The need for social spending is urgent, and the FGS budgetary resources to tackle social needs are very limited. Staff calls for greater budgetary allocation of social spending to contribute to creating jobs (for example, through social protection programs), reducing poverty, and improving social inclusion over the medium term.

42. The authorities' drive to address significant shortcomings in economic data will be critical. While staff welcomes recent progress on establishing a new statistical bureau and improving the GDP and CPI data, significant efforts are needed to address other data gaps.

43. IMF technical assistance delivery will continue. The authorities have recognized that IMF TA delivery has been instrumental in capacity and institution developments, and improved data provision. Given the continuing need for capacity and institution development in Somalia to support the SMP, technical assistance delivery from the IMF will be sustained and coupled with improved coordination with donors on capacity building activities in Somalia.

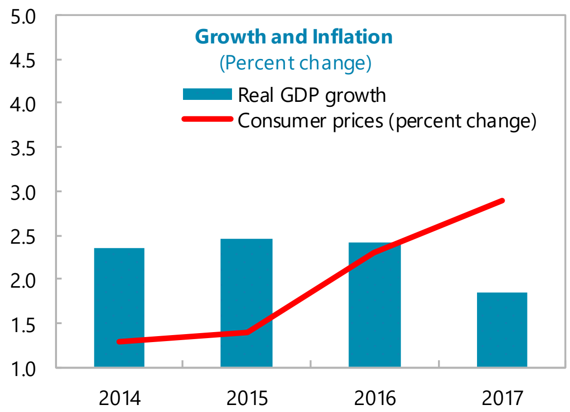
44. Staff supports the completion of the first review under the SMP. Also for the missed structural benchmark for September, staff supports the authorities' plan to renegotiate the remaining two contracts (out of five) by end-September 2018.

45. Going forward, maintaining policy commitment and continued satisfactory performance under the SMP will be vital. The authorities' policy commitment and performance under the SMP are welcome. Continued strong policy implementation under this and subsequent SMPs would help Somalia establish a durable economic track record as a basis for future program engagement with the IMF and eventual debt relief under the HIPC initiative.

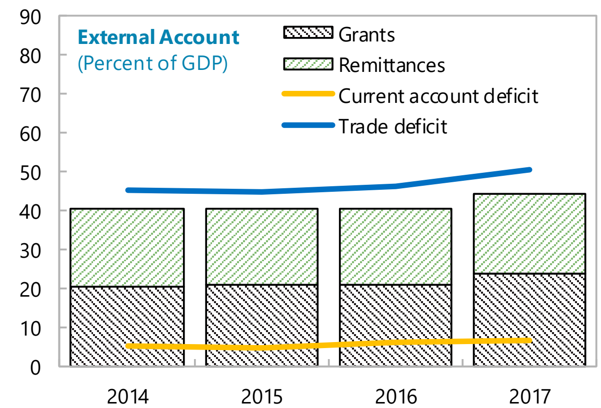
46. It is proposed that the next Article IV Consultation with Somalia be held on the standard 12-month consultation cycle.

Figure 1. Somalia: Selected Economic and Financial Indicators, 2013–17 1/

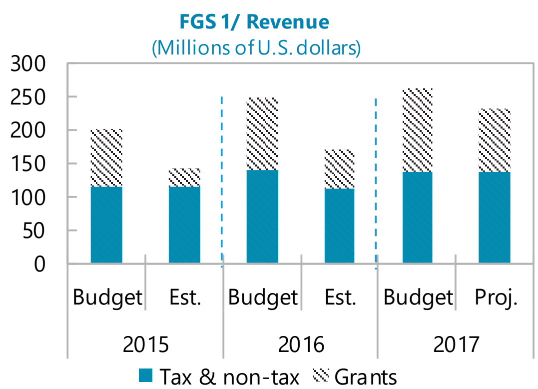
Due largely to drought, growth is expcted to deline, inflation to notch up in 2017.



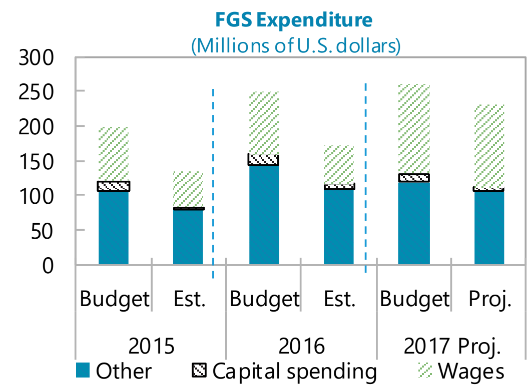
Ample remittances and grants finance a large trade deficit.



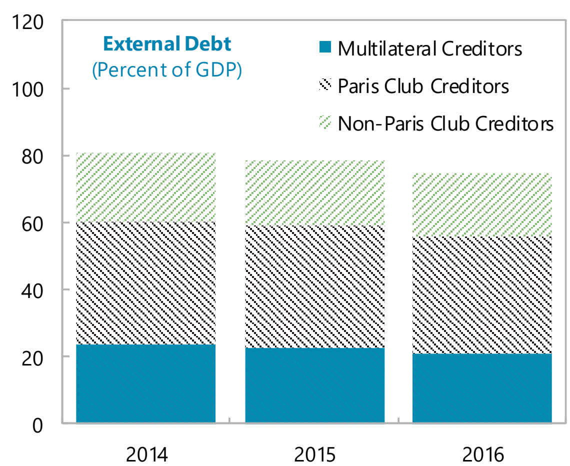
With a small tax base, the government relies heavily on volatile grants...



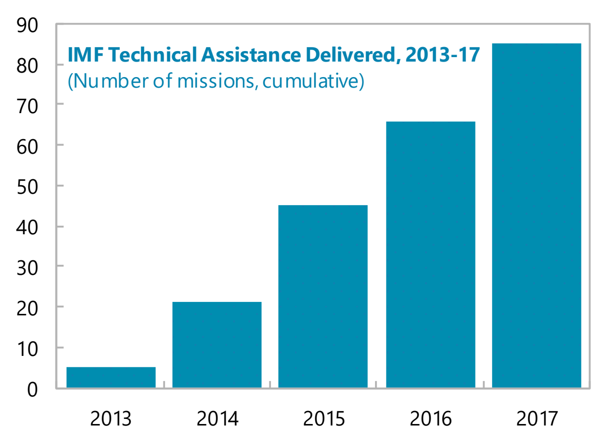
...making budget execution and priority spending difficult.



Somalia's external public debt data are incomplete and virtually all in arrears.



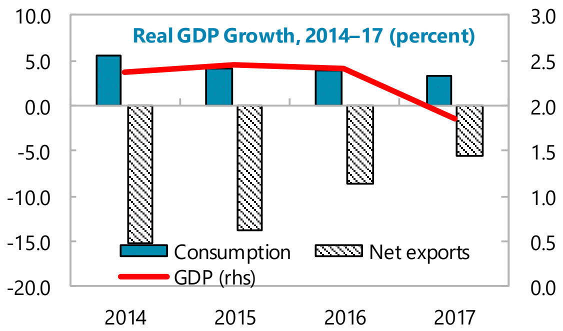
The IMF has continued to intensify TA support since late 2013 and the country is among the largest beneficiaries of TA.



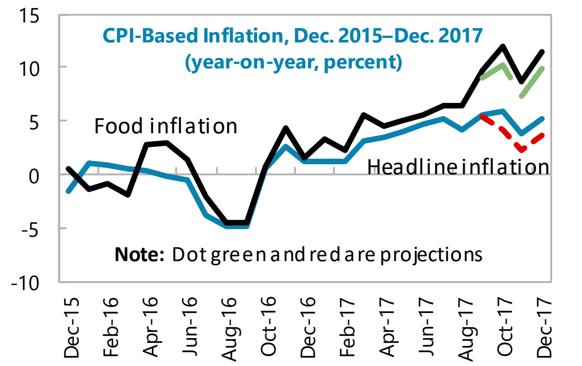
Sources: Somali authorities; and IMF staff estimates.
1/ Federal Government of Somalia.

Figure 2. Somalia: Real Sector Developments, 2009–17

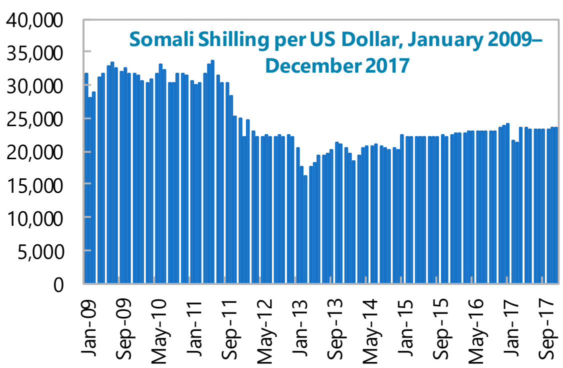
Following the drought, economic activity is projected to slow down in 2017…



… and the inflation, driven by food prices, notched up.

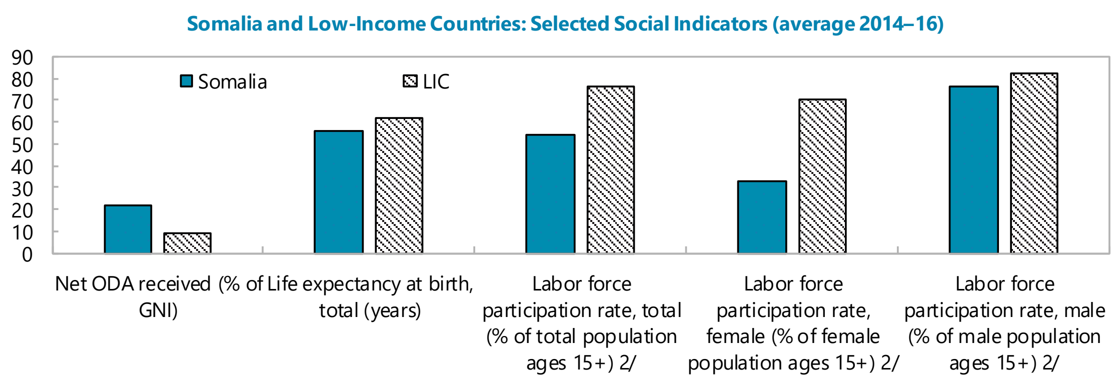


The Somali Shilling and the US dollar exchange rate has stabilized since January 2015.



Meanwhile, the country is facing significant growth challenges, particularly on business environment …

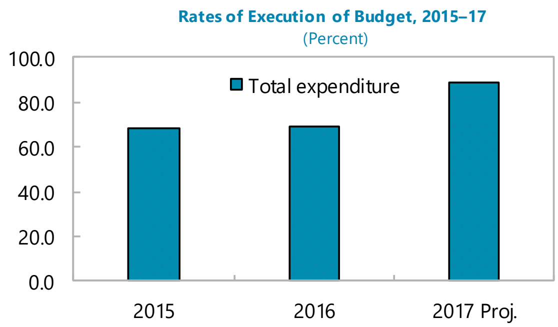
… also limited resources and weak capacity together with large employment contribute to lagging Somalia behind its peers.



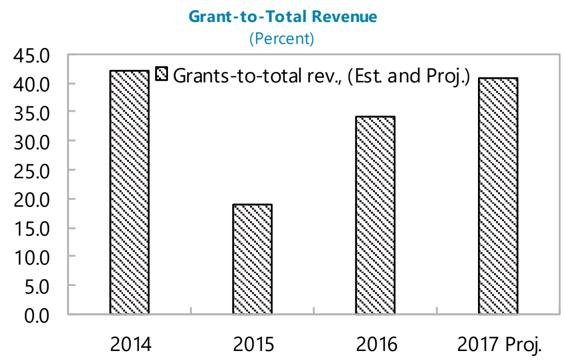
Sources: Somali authorities; World Bank, "*2018 Doing Business*"; and Fund staff estimates and projections.

Figure 3. Somalia: Fiscal Sector Developments, 2014–17

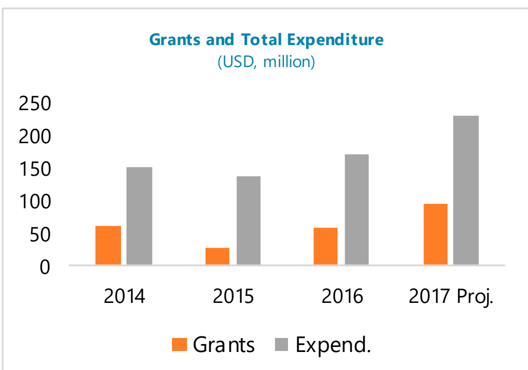
Budget execution rates are improving, in part, due to progress on capacity development, PFM, grants disbursment.



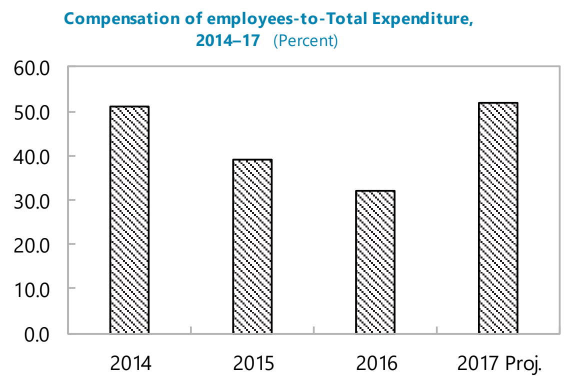
The fiscal revenue continues to depend heavily on volatile grants...



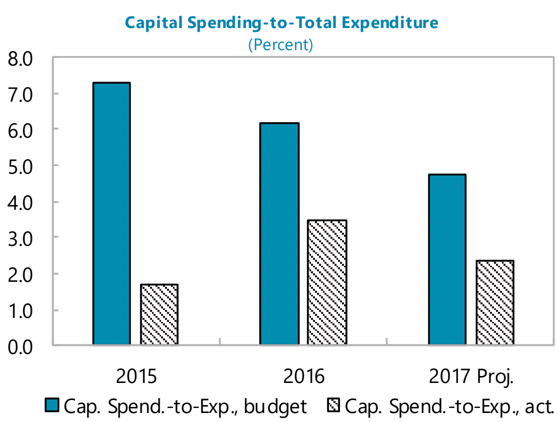
...and total expenditure and grants are positively correlated.



A significant share of total expenditure is absorbed by the compensation of employees.



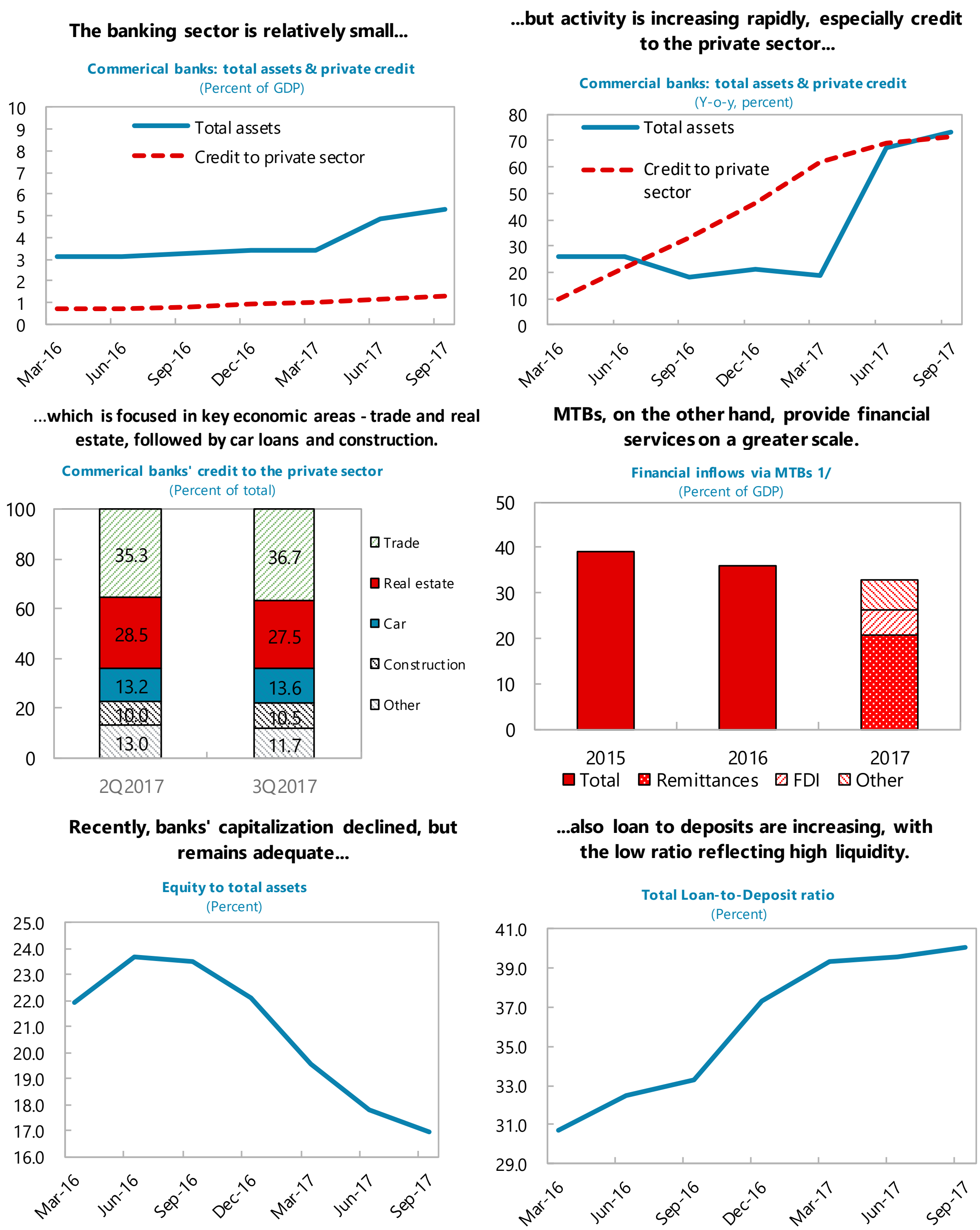
...while limited resources are allocated to capital spending.



Tax revenue to GDP remains very low.

Sources: Somali authorites and IMF staff estimates.
1/ Reflects only tax revenue of the Federal Government of Somalia (collected mainly in Mogadishu). The GDP series cover the entire country (i.e., the Federal state, the federal member states, as well as Somaliland.

Figure 4. Somalia: Financial Sector Developments



Sources: Somali authorites and IMF staff estimates.

1/ A decomposition of financial inflows via MTBs is only available for 2017.

Table 1. Somalia: Selected Economic and Financial Indicators, 2014–20

(IMF Quota = SDR 44.20 million; Population: 13 million, 2015 estimate)
(Poverty Rate: n.a.; Main Export: Livestock)

	Est.			Proj.	Proj.		
	2014	2015	2016	2017	2018	2019	2020
National income and prices							
Nominal GDP in millions of U.S. dollars	6,528	6,739	6,887	7,382	7,781	8,210	8,688
Real GDP, annual percentage change	2.4	2.5	2.4	1.8	2.5	2.8	3.1
Per capita GDP in U.S. dollars	515	517	513	535	548	562	577
Consumer prices (e.o.p., percent change)	1.3	-1.5	1.3	5.2	2.8	2.6	2.6
	(Percent of GDP)						
Central government finances 1/							
Revenue and grants	2.2	2.1	2.5	3.1	3.2	3.5	3.9
of which:							
Grants 2/	0.9	0.4	0.8	1.3	1.2	1.3	1.4
Expenditure, *of which:*	2.3	2.0	2.5	3.1	3.2	3.5	3.9
Compensation of employees	1.2	0.8	0.8	1.6	1.7	1.7	1.8
Purchase of non-financial assets	0.0	0.0	0.1	0.1	0.1	0.2	0.2
Overall balance	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears	0.7	1.0	1.1	0.9	0.8	0.6	0.4
	(Millions of U.S. Dollars)						
Central bank assets							
Total assets, *of which*:	89.2	90.6	82.8	140.3	…	…	…
Foreign assets (gross)	68.5	68.6	60.9	97.0	…	…	…
Cash and cash equivalent, in vault (U.S. dollar)	6.2	13.3	8.2	18.5	…	…	…
Domestic assets	20.6	22.0	21.9	43.3	…	…	…
FGS, total deposits 3/	11.7	19.1	12.1	32.2	…	…	…
	(Percent of GDP)						
Balance of payments							
Current account balance	-5.3	-4.7	-6.3	-6.7	-7.2	-6.5	-6.3
Trade balance	-45.3	-44.5	-46.2	-50.5	-45.8	-44.5	-43.9
Exports of goods and services	14.5	15.4	14.8	13.4	13.9	14.3	14.1
Imports of goods and services	59.8	59.9	61.0	64.0	59.7	58.8	58.0
Remittances	20.2	19.2	19.6	20.6	19.5	19.6	19.7
Grants	20.4	21.0	20.8	23.7	19.5	18.8	18.3
Foreign Direct Investment	4.0	4.5	4.9	5.2	5.5	5.7	5.6
External debt	78.5	76.5	74.5	71.5	…	…	…
Market exchange rate (SOS/USD, e.o.p.)	20,265	22,285	24,005	23,605	…	…	…

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

1/ Budget data for the Federal Government of Somalia. 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 of Somalia through treasury accounts at the Central Bank of Somalia.

3/ Includes Treasury deposits, grants, and asset recovery balances.

Table 2a. Somalia: Federal Government Operations, 2016–20 1/

(Millions of U.S. dollars)

	2016	2017							2018					2019	2020
			June		Sept.		Dec.			March		Dec.			
	Est.	Budg. 2/	Prog.	Prel.	Prog.	Prel.	Prog.	Proj.	Budg.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.
Revenue and grants	171.1	260.1	104.2	92.8	166.1	147.7	234.5	232.1	274.6	66.9	64.5	267.7	250.7	291.0	338.8
Revenue	112.7	137.6	61.7	61.0	97.4	96.9	137.6	137.6	156.0	41.2	41.2	164.8	157.5	182.8	212.8
Tax revenue	88.6	113.6	51.2	49.5	80.8	76.4	113.6	108.5	127.2	33.6	33.5	134.3	126.8	147.2	171.3
Tax on income, profit, and capital gains	2.4	4.0	1.6	1.5	2.6	2.2	4.0	3.2	6.9	1.3	1.3	5.3	5.4	6.3	7.3
Taxes on goods and services	2.9	8.1	1.6	2.0	4.4	2.5	8.1	4.8	17.6	2.8	8.1	11.3	21.5	24.9	29.0
Trade taxes	76.3	95.0	45.3	43.6	69.2	67.6	95.0	94.3	97.0	27.7	22.5	110.6	93.5	108.6	126.4
Other taxes 3/	7.0	6.5	2.7	2.4	4.6	4.2	6.5	6.3	5.7	1.8	1.6	7.2	6.4	7.4	8.7
Non-tax revenue	24.1	24.0	10.5	11.4	16.6	20.5	24.0	29.1	28.8	7.6	7.7	30.5	30.7	35.7	41.5
Grants 4/	58.4	122.6	42.5	31.8	68.7	50.8	96.9	94.5	118.6	25.7	23.3	102.9	93.2	108.2	125.9
Bilateral	31.3	38.1	14.0	14.0	14.0	21.8	14.0	56.8	61.1	5.0	11.4	20.0	45.7	53.0	61.7
Multilateral	27.1	84.5	28.5	17.8	54.7	28.9	82.9	37.7	57.5	20.7	11.9	82.9	47.6	55.2	64.2
Total expenditure	171.1	260.1	104.2	94.6	166.1	143.8	234.5	230.3	274.6	66.9	61.5	267.7	250.7	290.3	337.2
Current	165.1	247.8	100.0	92.1	158.2	139.8	222.8	224.9	260.2	63.3	59.1	253.1	241.1	276.8	320.7
Compensation of employees 5/	55.1	129.0	45.4	48.4	81.8	75.4	109.0	119.7	131.3	31.3	32.1	125.4	128.5	140.3	158.4
Use of goods and services	64.4	89.7	38.7	29.1	53.4	44.9	75.0	72.8	94.3	21.6	21.1	86.3	84.5	98.1	114.2
Transfers to sub-national governments	9.4	19.0	7.0	5.5	13.8	9.6	20.6	20.8	23.7	6.7	5.2	26.8	21.0	24.3	28.3
Contingency	2.1	2.3	1.4	1.3	1.7	2.1	2.1	3.8	2.5	0.5	0.6	2.1	2.5	2.9	3.4
Repayment of arrears and advances	34.1	7.8	7.5	7.8	7.5	7.8	16.1	7.8	8.4	3.2	0.0	12.6	4.6	11.2	16.5
Purchase of non-financial assets	5.9	12.3	4.1	2.5	7.9	4.1	11.7	5.4	14.5	3.7	2.4	14.6	9.6	13.5	16.5
Overall fiscal balance	0.0	0.0	0.0	-1.8	0.0	3.8	0.0	1.8	0.0	0.0	3.0	0.0	0.0	0.7	1.5
Memorandum items															
Accumulation of domestic arrears 6/ 7/	42.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears (end of year) 6/	76.5	68.8	69.0	68.8	69.0	68.8	60.5	68.8	60.4	57.3	68.8	47.9	64.2	52.9	36.4

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

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

2/ Revised budget for 2017.

3/ Comprises items previously included in Taxes on goods and services.

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

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

6/ Estimated arrears. The figure includes only wages, salaries, and allowances.

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

Table 2b. Somalia: Federal Government Operations, 2016–20 1/

(Percent of GDP)

	2016	2017			2018			2019	2020
	Est.	Budg. 2/	Prog.	Proj.	Budg.	Prog.	Proj.	Proj.	Proj.
Revenue and grants	2.5	3.5	3.2	3.1	3.5	3.4	3.2	3.5	3.9
Revenue	1.6	1.9	1.9	1.9	2.0	2.1	2.0	2.2	2.4
Tax revenue	1.3	1.5	1.5	1.5	1.6	1.7	1.6	1.8	2.0
Tax on income, profit, and capital gains	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	0.0	0.1	0.1	0.1	0.2	0.1	0.3	0.3	0.3
Trade taxes	1.1	1.3	1.3	1.3	1.2	1.4	1.2	1.3	1.5
Other taxes 3/	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Non-tax revenue	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5
Grants 4/	0.8	1.7	1.3	1.3	1.5	1.3	1.2	1.3	1.4
Bilateral	0.5	0.5	0.2	0.8	0.8	0.3	0.6	0.6	0.7
Multilateral	0.4	1.1	1.1	0.5	0.7	1.1	0.6	0.7	0.7
Total expenditure	2.5	3.5	3.2	3.1	3.5	3.4	3.2	3.5	3.9
Current	2.4	3.4	3.0	3.0	3.3	3.3	3.1	3.4	3.7
Compensation of employees 5/	0.8	1.7	1.5	1.6	1.7	1.6	1.7	1.7	1.8
Use of goods and services	0.9	1.2	1.0	1.0	1.2	1.1	1.1	1.2	1.3
Transfers to sub-national governments	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Contingency	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Repayment of arrears and advances	0.5	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.2
Purchase of non-financial assets	0.1	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.2
Overall fiscal balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items									
Accumulation of domestic arrears 6/ 7/	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears (end of year) 6/	1.1	0.9	0.8	0.9	0.8	0.6	0.8	0.6	0.4

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

1/ The fiscal operations are recorded on a cash basis. All ratios are calculated based on current GDP projections. GDP data cover the entire territory

2/ Revised budget for 2017.

3/ Comprises items previously included in Taxes on goods and services.

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

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

6/ Estimated arrears. The figure includes only wages, salaries, and allowances.

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

Table 3. Somalia: Summary Accounts of the Central Bank, 2014:Q4–2017:Q4 [1/]

(Thousands of U.S. dollars)

	2014	2015				2016				2017			
	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.
	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Prel.	Prel.	Prel.	Prel.
Assets	83,796	84,030	82,349	87,383	90,586	94,424	88,460	86,838	82,760	94,402	86,265	109,590	140,325
Foreign assets	63,167	62,962	61,195	66,155	68,589	71,937	66,664	64,867	60,873	72,466	64,247	66,412	97,035
SDRs	26,524	25,250	25,736	25,683	25,348	25,766	25,576	25,515	24,567	24,773	25,365	25,707	25,846
Gold 2/	19,551	19,240	19,090	18,133	17,249	17,250	17,250	17,250	17,250	17,250	18,816	18,816	18,816
Foreign exchange	10,897	10,897	10,897	10,897	12,695	13,826	13,327	12,321	10,837	11,620	11,571	13,543	33,910
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	8,496	8,346	18,463
Domestice assets	20,629	21,068	21,154	21,228	21,997	22,487	21,796	21,971	21,887	21,936	22,018	43,178	43,290
of which:													
Cash and cash equivalent (in SOS)	11	24	39	24	571	991	198	377	216	165	177	412	157
Property and equipment	20,615	21,039	21,109	21,198	21,420	21,490	21,592	21,588	21,665	21,765	21,835	42,760	43,127
Liabilities	83,796	84,030	82,349	87,383	90,586	94,424	88,460	86,838	82,760	94,402	86,265	109,590	140,325
Reserve money	1,683	2	24	28	14	2,584	3,690	2,138	3,766	2,329	2,261	9,407	13,413
Government	11,687	7,836	5,568	11,475	19,114	22,785	17,654	15,751	12,087	24,424	15,007	11,366	32,191
of which:													
Treasury deposits 3/	4,470	5,984	3,718	9,596	11,899	14,439	9,807	8,910	6,730	16,724	6,487	1,461	4,317
Grants	5,365	-	-	-	5,365	6,496	5,997	4,991	3,507	5,790	6,608	7,993	27,873
Other domestic liabilities	3,120	3,120	3,120	3,120	3,660	3,660	3,660	3,660	3,660	2,340	1,340	1,340	1,340
Earmarked donor grants (microfinance)	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	1,500	500	500	500
MTB deposits	120	120	120	120	660	660	660	660	660	840	840	840	840
Equity and reserves	67,306	73,072	73,637	72,760	67,797	65,395	63,456	65,289	63,247	65,309	67,657	87,477	93,382
Memorandum items:													
Changes (y-o-y) in:													
Foreign assets (percent)					8.6	14.3	8.9	-1.9	-11.2	0.7	-3.6	2.4	59.4
Domestice assets (percent)					6.6	6.7	3.0	3.5	-0.5	-2.5	1.0	96.5	97.8
NFA (program definition) 4/					21,579	21,580	21,580	21,580	21,580	21,580	23,279	23,866	24,353
Somali shillings per US dollar (end of period)	20,265	22,225	22,255	22,275	22,285	22,905	23,030	23,045	24,005	23,405	23,505	23,255	23,605

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

1/ Based on CBS financial statements and balance sheet data, which are incomplete.

2/ Gold price is set as defined in the TMU, paragraph 10.

3/ Includes treasury and development bank deposits.

4/ See Attachment II, TMU, paragraph 10.

Table 4. Somalia: Consolidated Commercial Banks Balance Sheet, 2015:Q1–2017:Q3 1/

(Thousands of U.S. dollars)

	2015				2016				2017		
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.
	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Prel.	Prel.	Prel.
Total assets	168,484	169,717	190,038	192,989	212,510	213,985	225,122	234,207	252,064	282,413	305,817
Cash on Hand	52,895	56,597	72,887	63,940	100,588	64,383	60,713	62,811	65,200	70,480	71,239
Balances with Central Bank	5	21	61	449	1,251	1,202	1,067	1,494	3,117	3,097	5,398
Deposits with other banks 2/	12,306	13,482	16,095	32,833	9,680	24,078	47,554	41,476	20,465	24,732	44,412
Credit to private sector	43,019	42,173	41,966	45,211	47,278	51,394	55,806	66,056	76,561	86,887	95,543
Investment 3/	15,581	15,848	15,732	9,621	8,892	9,521	9,448	12,680	14,701	15,929	8,767
Other Assets 4/	44,679	41,597	43,296	40,934	44,821	63,407	50,535	49,689	72,021	81,288	80,458
Total liability	120,151	122,282	144,579	147,767	165,928	163,385	172,204	182,440	202,704	232,208	254,036
Customer Deposits	115,769	117,284	139,712	142,456	153,817	158,051	167,626	177,091	194,606	219,692	238,318
Financing Liabilities	134	150	171	357	1,976	892	994	943	1,625	1,647	6,335
Other Liabilities	4,248	4,848	4,696	4,955	5,905	4,442	3,585	4,405	6,473	10,870	9,384
Equity	48,333	47,436	45,459	45,221	46,581	50,600	52,918	51,767	49,359	50,205	51,781
Memorandum items:											
Credit to private sector											
share to total assets (percent)	…	…	…	…	22.2	24.0	24.8	28.2	30.4	30.8	31.2
y-o-y changes (percent)	…	…	…	…	9.9	21.9	33.0	46.1	61.9	69.1	71.2
Total loan to deposit ratio (perce	…	…	…	…	30.7	32.5	33.3	37.3	39.3	39.5	40.1
Equity to total assets (percent)	…	…	…	…	21.9	23.6	23.5	22.1	19.6	17.8	16.9

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

1/ Quarterly financial data has been reported since March 2015 and is incomplete.

2/ Deposits and placements with banks and other financial institutions.

3/ Securities, associations and joint ventures, and property.

4/ Fixed, intangible and other assets.

Table 5a. Somalia: Balance of Payments, 2014–20
(Millions of U.S. dollars)

	Prel.			Proj.			
	2014	2015	2016	2017	2018	2019	2020
Current account balance	-343	-318	-435	-497	-563	-534	-546
Goods balance	-2,072	-2,026	-2,223	-2,672	-2,487	-2,512	-2,598
Exports of goods, f.o.b.	608	683	647	599	675	761	799
Imports of goods, f.o.b.	2,680	2,710	2,869	3,271	3,162	3,273	3,397
Services, net	-887	-974	-962	-1,059	-1,076	-1,142	-1,214
Service credits	337	355	373	393	404	414	425
Service debit	-1,224	-1,328	-1,335	-1,452	-1,479	-1,556	-1,639
Income (net)	-31	-29	-30	-32	-34	-36	-38
Receipts	36	38	39	41	44	46	49
Payments	-67	-67	-68	-73	-77	-82	-86
Current transfers (net)	2,647	2,711	2,779	3,266	3,033	3,155	3,303
Private (net), including remittances 1/	1,316	1,296	1,348	1,518	1,516	1,612	1,713
Official 2/	1,330	1,414	1,431	1,748	1,517	1,544	1,591
Capital account and financial account	343	318	435	497	563	534	546
of which:							
Foreign direct investment	261	303	334	384	426	467	484
Errors and omissions	3	-5	6	0	0	0	0
Overall balance	3	-5	6	0	0	0	0
Change in the central bank net foreign assets /3	-3	5	-6	0	0	0	0
Memorandum items:							
Nominal GDP	6,528	6,739	6,887	7,382	7,781	8,210	8,688
External public debt	5,128	5,155	5,130	5,279	…	…	…

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 5b. Somalia: Balance of Payments, 2014–20

(Percent of GDP, unless otherwise indicated)

	Prel.			Proj.			
	2014	2015	2016	2017	2018	2019	2020
Current account balance	-5.3	-4.7	-6.3	-6.7	-7.2	-6.5	-6.3
Goods balance	-31.7	-30.1	-32.3	-36.2	-32.0	-30.6	-29.9
Exports of goods, f.o.b.	9.3	10.1	9.4	8.1	8.7	9.3	9.2
Imports of goods, f.o.b.	-41.1	-40.2	-41.7	-44.3	-40.6	-39.9	-39.1
Services, net	-13.6	-14.4	-14.0	-14.3	-13.8	-13.9	-14.0
Service credits	5.2	5.3	5.4	5.3	5.2	5.0	4.9
Service debit	-18.7	-19.7	-19.4	-19.7	-19.0	-19.0	-18.9
Income (net)	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Receipts	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Payments	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Current transfers (net)	40.5	40.2	40.4	44.3	39.0	38.4	38.0
Private (net), including remittances 1/	20.2	19.2	19.6	20.6	19.5	19.6	19.7
Official 2/	20.4	21.0	20.8	23.7	19.5	18.8	18.3
Capital account and financial account	5.3	4.7	6.3	6.7	7.2	6.5	6.3
of which:							
Foreign direct investment	4.0	4.5	4.9	5.2	5.5	5.7	5.6
Errors and omissions	0.0	-0.1	0.1	0.0	0.0	0.0	0.0
Overall balance	0.0	-0.1	0.1	0.0	0.0	0.0	0.0
Change in the central bank net foreign assets /3	0.0	0.1	-0.1	0.0	0.0	0.0	0.0
Memorandum items:							
Nominal GDP (Million of U.S. dollars)	6,528	6,739	6,887	7,382	7,781	8,210	8,688
External public debt	78.5	76.5	74.5	71.5	…	…	…

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.
4/ Data for 2016 is through end-October.

Table 6a. Somalia: External Public Debt, 2013–17

(Millions of U.S. dollars)

	Prel.				
	2013	2014	2015	2016	2017
Total stock outstanding 1/	5,122	5,128	5,155	5,130	5,279
of which: arrears 2/	4,752	4,742	4,860	4,757	4,900
Multilateral creditors	1,556	1,507	1,468	1,442	1,504
International Monetary Fund	360	341	328	319	340
World Bank	520	502	491	484	506
AfDB Group	142	135	130	133	138
Arab Fund for Economic and Social Development	178	181	171	150	155
International Fund for Agricultural Development	32	31	30	29	30
OPEC Fund for International Development	35	35	35	35	35
Arab Monetary Fund	278	271	270	280	286
Islamic Development Bank	11	11	13	13	13
Bilateral creditors	3,566	3,621	3,687	3,688	3,775
Paris Club creditors 3/	2,244	2,301	2,392	2,392	2,477
Denmark	2	2	2	2	2
France	384	424	476	425	484
Italy	571	571	571	582	600
Japan	119	99	103	117	117
Netherlands	7	6	6	6	6
Norway	2	2	2	2	2
Spain	37	38	38	39	40
United Kingdom	81	82	82	81	81
United States	904	936	969	993	1,004
Russia	138	141	144	145	140
Non-Paris Club creditors 4/	1,322	1,320	1,296	1,296	1,298
Algeria	2	2	2	2	2
Bulgaria	9	9	9	9	9
Iraq	66	66	66	66	66
Kuwait Fund and Central Bank	296	294	273	271	271
Libya	5	5	5	5	5
Romania	6	6	3	3	3
Saudi Arabia	105	105	105	108	109
Serbia	2	2	2	2	2
United Arab Emirates	832	832	832	832	832

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

1/ All non-US$ claims are converted at period-end exchange rates.
2/ Based on current data from the authorities and creditors, a certain portion of Somalia's external debt is not in arrears. The latter is mainly accounted for by: i) Saudi Arabia extending the maturity of its claims on Somalia in 2016 ($106 million); ii) World Bank loans ($176 million), and iii) AfDB loans ($34 million).
3/ For Paris Club creditors, most loan-by-loan data is available. Authorities are working to fill the remaining gap.
4/ Data obtained from several non-Paris Club members. Other figures are estimated from old World Bank debt database (WBXD).

Table 6b. Somalia: External Public Debt, 2013–17
(Percent of GDP)

			Prel.		
	2013	2014	2015	2016	2017
Total stock outstanding 1/	81.8	78.5	76.5	74.5	71.5
of which: arrears 2/	75.9	72.6	72.1	69.1	66.4
Multilateral creditors	24.8	23.1	21.8	20.9	20.4
International Monetary Fund	5.8	5.2	4.9	4.6	4.6
World Bank	8.3	7.7	7.3	7.0	6.9
AfDB Group	2.3	2.1	1.9	1.9	1.9
Arab Fund for Economic and Social Development	2.8	2.8	2.5	2.2	2.1
International Fund for Agricultural Development	0.5	0.5	0.4	0.4	0.4
OPEC Fund for International Development	0.6	0.5	0.5	0.5	0.5
Arab Monetary Fund	4.4	4.2	4.0	4.1	3.9
Islamic Development Bank	0.2	0.2	0.2	0.2	0.2
Bilateral creditors	56.9	55.5	54.7	53.6	51.1
Paris Club creditors 3/	35.8	35.3	35.5	34.7	33.6
Denmark	0.03	0.03	0.03	0.03	0.03
France	6.1	6.5	7.1	6.2	6.6
Italy	9.1	8.7	8.5	8.5	8.1
Japan	1.9	1.5	1.5	1.7	1.6
Netherlands	0.1	0.1	0.1	0.1	0.1
Norway	0.0	0.0	0.0	0.0	0.0
Spain	0.6	0.6	0.6	0.6	0.5
United Kingdom	1.3	1.3	1.2	1.2	1.1
United States	14.4	14.3	14.4	14.4	13.6
Russia	2.2	2.2	2.1	2.1	1.9
Non-Paris Club creditors 4/	21.1	20.2	19.2	18.8	17.6
Algeria	0.02	0.02	0.02	0.02	0.02
Bulgaria	0.1	0.1	0.1	0.1	0.1
Iraq	1.1	1.0	1.0	1.0	0.9
Kuwait Fund and Central Bank	4.7	4.5	4.0	3.9	3.7
Libya	0.1	0.1	0.1	0.1	0.1
Romania	0.1	0.1	0.0	0.0	0.0
Saudi Arabia	1.7	1.6	1.6	1.6	1.5
Serbia	0.0	0.0	0.0	0.0	0.0
United Arab Emirates	13.3	12.7	12.3	12.1	11.3

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

1/ All non-US$ claims are converted at period-end exchange rates.

2/ Based on current data from the authorities and creditors, a certain portion of Somalia's external debt is not in arrears. The latter is mainly accounted for by: i) Saudi Arabia extending the maturity of its claims on Somalia in 2016 ($106 million); ii) World Bank loans ($176 million), and iii) AfDB loans ($34 million).

3/ For Paris Club creditors, most loan-by-loan data is available. Authorities are working to fill the remaining gap.

4/ Data obtained from several non-Paris Club members. Other figures are estimated from old World Bank debt database (WBXD).

Table 7. Somalia: Off-Budget Aid, 2014–17
(Millions of U.S. dollars)

	2014 Act.	2015 Act.	2016 Act.	2017 Proj.
Total estimated grants	1,657	1,741	1,731	2,090
Total Official Development Assistance (ODA) aid 1/	1,218	1,172	1,231	1,590
Humanitarian aid	672	588	613	933
Developmental aid	546	584	618	657
Support for peacekeeping 2/	439	569	500	500
Memorandum items:				
FGS budgetary grants 3/	61.0	26.9	58.4	94.5
FGS budgetary grants, as perecnt of ODA	5.0	2.3	4.7	5.9

Sources: Authorities and ACU Aid Flow Mapping.
1/ Excludes on-budget grants.
2/ Bilateral military aid is not captured in the table.
3/ Federal Government of Somalia budgetary grants.

Annex I. Risk Assessment Matrix 1/

Nature/Source of Risks	Relative Likelihood	Impact if Realized	Policy Responses
Global Risks			
Intensification of the risks of fragmentation/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			
Financial 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) continue institutional building; (ii) improve national security; and economic statistics; (iii) strengthen local capacity; and (iv) seek continued donors' support.
Fiscal risks Weak donor support; weak governance; weak policy commitment to collect tax.	**High**	**High** (1) lower revenue (including grants from donors) (2) domestic 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.
Currency reform risks Inadequate fund for currency reform; weak regional supports, weak distribution of new currency.	**Medium**	**High** (1) Delay in donor funding (2) lack of credibility in the new currency (3) increased counterfeiting	(i) follow through the currency reform agenda engaging potential donor community 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 July 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 of 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.

Annex II. Fragility and IMF Engagement Under the SMP

As in other low-income fragile countries, Somalia faces specific challenges, including continued security-related uncertainty, political economy issues between the Federal Government of Somalia and the five Federal Member States, frequent droughts, and the lack of a legal national currency and widespread counterfeiting. This Annex discusses how the design of the Staff-Monitored Program (SMP) takes into account Somalia's specific fragile situation, highlights achievements under the SMP, and lays out several critical steps forward.

1. **Somalia is a low-income fragile state that suffered from a decades-long civil war that has caused extensive damage to the country's economic and social infrastructures.** With the support of the international community, the Federal Government of Somalia (FGS) was established in August 2012. It is a federation of five partially self-governing states or regions under a central government located in Mogadishu (excluding the state of Somaliland). The FGS successfully completed its second democratic presidential election in February 2017. The first election, which was the country's first in over two decades, was completed in June 2012.

2. **The country's fragility is daunting.** Decades of war resulted in very weak institutions and widespread poverty, with per capita GDP only $515 during 2014–2016, far below other low-income countries. The security situation remains fragile, aggravated by high youth unemployment, and the country is highly vulnerable to poor rain seasons, which regularly hit the economy and endanger humanitarian conditions. The government's fiscal position is weak, partly because of still-poor fiscal management, volatile development grants, and a substandard tax collection system. Somalia's public external debt burden is heavy, with no capacity to repay. Both the central bank and the financial sector are nascent, constraining the effectiveness of financial intermediation, and widespread counterfeiting has eroded confidence in the national currency.

3. **It is under these circumstances that the first and current SMPs were designed.** Also, the IMF, through a multi-donor Trust Fund, has been providing extensive technical assistance (TA) to Somalia. Since 2013, more than 87 TA and training missions have been delivered, and two Article IV consultations have been concluded. Somalia is in arrears to the IMF, and as such, it cannot benefit from IMF financial support.

4. **Despite a very challenging environment, considerable progress was achieved over the past two years under the SMPs.** Thus far, performance under the SMPs has been generally satisfactory, with limited revisions to SBs and ITs. The two SMPs (May 2016–April 2017 and May 2017–April 2018) were designed based on a "quick win" strategy to achieve quick, satisfactory results in critical reform and policy implementation areas and to develop capacity and promote ownership on the IMF's program issues. There were no prior actions during the program. This is, in part, because of the authorities' strong commitment to the program implementation and improvement in capacity–though, at a slow pace.

5. **The program design and monitoring were essential in achieving quick and meaningful results.** The design of the first (May 2016–April 2017) and second (May 2017–April 2018) SMPs

considered the political economy aspects and the need to strengthen the FGS's institutions and capacity, while rebuilding key economic data. The programs' reform priorities were sequenced in a way that at least one to two essential departments at the Ministry of Finance (MoF) (Budget and Treasury departments; and Inland and Customs Departments), at the Central Bank of Somalia (CBS), and at the Ministry of Planning, Investment and Economic Development should be involved in the completion of (at most) one SB every quarter so that the total number of SBs (on average) per quarter would not exceed four. Also, TA and training delivery were planned to ensure that the authorities would be able to implement the SBs.

Annex Text Table 1. Somalia: Structural Benchmarks (SBs) in the Program Design

	Number of SBs		
	Total	Met	Not met
First SMP			
Jun-16	1	1	0
Sep-16	2	2	0
Dec-16	3	2	1
Mar-17	5	5	0
Second SPM 1/			
Jun-17	2	1	1
Sep-17	5	4	1
Dec-17	6	4	
Mar-18	2		

1/ The figures for December 2017 report only confirmed status of SBs based on information available (also see the MEFP Table 2).

6. **The program pillars were centered on near-term vital areas.** The SMP design and monitoring focused on: (1) economic and financial data development; (2) fiscal and monetary institutions restructuring; (3) PFM reform; (4) mobilizing domestic revenue; (5) strengthening the banking system; (6) AML/CFT framework; and (7) currency reform.

- ***Rebuilding economic and financial data.*** With extensive TA from the IMF and in coordination with donors, staff has developed CPI and GDP time series. Efforts to complete the debt database, the balance of payments, and monetary statistics are underway.

- ***Building fiscal institutions and developing a PFM framework have been a focus of the TA and reform priorities.*** Key departments at the MoF—including revenue collection departments, the Budget Department, the Accountant General's Office, and the Debt Management Unit—with clear roles and responsibilities have been established. The authorities prepared their first annual budget in 2014, and, since then, they have produced regular annual budgets together with the FGS monthly fiscal operations reporting. The authorities adopted the PFM Bill and established a Cash Management Unit and a Domestic Arrears Management Committee. They have made progress toward rationalizing the Chart of Accounts and have implemented commitment controls across MDAs.

- ***Supporting national currency reform and strengthening the monetary and financial institutions.*** The SMPs have focused on three critical areas: Currency reform; broadening financial sector legislation, regulation, and supervision; and the AML/CFT. After nearly two years of the IMF's TA support, the pre-conditions for the launch of the new Somali Shilling have been completed. Given the relatively low administrative capacity at the CBS, for program monitoring purposes, the authorities and staff have agreed on a narrow definition of net foreign assets (NFA) (see TMU) that is easy to monitor. As the new currency is expected to be launched soon, and given improved capacity at the CBS, the program's definition of NFA will be revisited. The program also focused on the need to improve the AML/CFT framework to safeguard the important inflows of remittances to the country, particularly given the increased restrictions on financial transactions to Somalia in the wake of withdrawal of a corresponding banking relationship.

- **Progress has been made on banking legislation, regulation and supervision.** The authorities have been able to take the following steps: (1) develop a bank licensing framework, and methods for commercial bank periodic reporting, financial analysis, and on-site bank examination supervisory scoring system; (2) complete on-site examinations of two commercial banks in 2017; and (3) produce a complete manual on on-site banking supervision.

- ***Staff has intensified coordination efforts with Somalia's partners.*** Staff has maintained regular briefings to donors on program performance, economic developments, and technical assistance needs and coordination efforts. The IMF, together with the United Kingdom's Department for International Development (DFID) and the World Bank, organized a roundtable on Somalia's near-term reform needs in April 2017; the IMF also participated in the May 2017 London conference. At the technical level, the IMF and the World Bank have collaborated on issues such as central banking activity and organization, and basic statistical rebuilding process. The coordination is gaining momentum, and the World Bank and IMF teams have agreed to expand the joint work to new areas, including the financial sector and AML/CFT.

- ***Develop capacity, mainly at the MoF, the CBS, and the Ministry of Planning.*** IMF's TA is delivered through a multi-donor Trust Fund and closely coordinated with other partners.

7. The macroeconomic framework is being strengthened with improved data reconstitution, institution building, and human capacity improvement. The country remains highly vulnerable to the volatility of donors' grants, natural disaster, insecurity, still-developing political consensus between the FGS and the FMS, and inflows of remittances.

- Given the authorities' strong commitment, program design needs to be flexible to account for stronger performance than programmed, unforeseen developments beyond the authorities' control, to help maintain the reform momentum.

- Continued political commitment and support will remain essential for keeping the SMP on track and accelerating the reform momentum.

- Coordination among all TA providers will remain key to ensure the effectiveness of TA provided to Somalia and that priority capacity development needs are met.

  As capacity develops, the problem of high staff turnover and the need to attract qualified and experienced staff will need to be addressed.

Appendix I. Letter of Intent

Mogadishu, Somalia
January 24, 2018

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.,
Washington, D.C. 20431, U.S.A.

Dear Ms. Lagarde:

The Federal Government of Somalia (FGS) has marked milestones in reform and policy implementation supported by the Staff-Monitored Program (SMP). On June 21, 2017, the International Monetary Fund's (IMF) management approved a second 12-month SMP covering the period May 2017–April 2018. This followed the satisfactory completion of the first 12-month SMP (May 2016–April 2017) supported by the IMF to help economic reconstruction efforts and to start establishing a track record of policy and reform implementation. This letter updates our June 2017 Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP), which remain valid. We are grateful to the IMF for its continued support.

Our country was hit by a severe drought and terrorist attacks in 2017; but preliminary indications suggest that the economy has remained resilient. We have been able to weather these shocks thanks to increased remittances inflows from the diaspora; and to appropriate responses by the FGS and the support of the international community. Strong coordination with the Federal Member States (FMS) played an important role in easing the impact on certain regions.

Despite the difficult environment, we have made good progress under the SMP for June and September 2017 targets. We have outlined remedial measures to address the root causes of the shortfall in the domestic revenue floor relative to the program target. For December 2017, four out six structural benchmarks (SBs) have been met, and we are making progress toward the completion of the remaining two SBs. The supplementary MEFP attached, describes the progress made under the economic and financial program supported by the SMP and presents the key objectives for 2018–20.

In line with the SMP, we are also advancing in the implementation of a broad-based reform agenda to build economic resilience and strengthen the foundations for sustained inclusive growth. To achieve our development goals, we have developed, with Somalia's development partners, a mutual accountability framework (MAF) as recommended at the May 2017 London Conference. Progress on reform implementation under the MAF is broad-based and covers all critical areas for Somalia, including: (1) political settlement; (2) security; (3) rule of law; (4) human rights and gender; (5) youth empowerment; (6) financial and economic management; (6) growth, economic recovery, and resilience; and (7) inclusion. The MEFP remains consistent with the MAF and our broader development agenda as spelled out in the National Development Plan (NDP).

In view of the progress made in a challenging security and political environment, and our continued commitment to the program, we are requesting the completion of the first review under the current SMP. For the missed SB in September 2017, we plan on renegotiating the remining two contracts (out of five) with private companies that collect fees on behalf of the government at the airport and Mogadishu port by end-September 2018. 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).

In line with our commitment to transparency, 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,

/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 updates the Memorandum of Economic and Financial Policies (MEFP) of June 2017, which supports the completion of the second review of the first Staff-Monitored Program (SMP) and the request for a second 12-month SMP for the period May 2017 to April 2018. The document reviews economic developments, assesses performance under the SMP, and describes policies that the Federal Government of Somalia (FGS) plans to implement in 2018–2020.

A. Background and Context

1. The drought and sporadic terrorist attacks took a toll on economic activity in 2017. The drought has hurt economic activity, particularly in the north of the country and rural areas. This and the terrorist attacks temporarily impacted the FGS tax collection efforts. These developments offset steady recovery in the service sector, including in the telecommunication and transportation sectors. Growth is projected to remain subdued at 1.8 percent and inflation to pick up to 5.2 percent in 2017 (1.3 percent in 2016). Sustained national and international community support is helping the country avoid severe humanitarian crisis, and donors' humanitarian aid has been strong.

2. Swift policy responses and international support have helped contain the shocks. Efforts by the FGS and the Federal Member States (FMS) to facilitate aid transportation and distribution was essential to responding to the drought and avoiding severe humanitarian crisis. Recovery from the drought is starting in many areas. With the support from the international community, we have established a drought impact needs assessment (DINA), a Recovery and a Resilience Framework which aims at analyzing the root causes of our vulnerability to drought and effective aid distribution, with the view to developing durable resilience solutions. On the security front, the government and Somalia's partners' security forces have launched massive offensive against terrorist groups in response to recent attacks. This was followed by an important high-level conference in Mogadishu on December 4–5, 2017, on security during which our partners strongly re-affirmed their support to our government and to help lay out new strategy to improve security and prevent terrorist attacks.

3. The economy is at a crossroads, and this second SMP comes at an important juncture for Somalia. Despite recent advances on reform and policy implementation, development challenges ahead for Somalia are daunting. Somalia's economic institutions are weak and poverty remains widespread. Also, despite progress, security remains fragile and aggravated by high youth unemployment. Our external debt burden is heavy and we have no capacity to service our debt. It is in this context that the current SMP will help strengthen institutions and economic policies, paving the way for higher and more inclusive economic growth, and eventual debt relief under the HIPC Initiative as soon as feasible.

B. Program Performance

4. The implementation of the program is broadly satisfactory (see Tables 1 and 2).

- ***For June 2017*, one out of the two structural benchmarks (SBs) was not met due to a small technical delay and two out of six indicative targets (ITs) were not met—the cash fiscal balance and the revenue floor.** The latter occurred in early 2017 as the new government was taking office.

- ***For the September targets*, all but one (out of six) ITs and all but one (out of five) SBs were met. We are working on completing the process required for the SB which was not met, namely, the renegotiation of the five revenue-collection contracts.** Three out of the five contracts have been canceled (road tax, property transfer tax, and vehicle licensing) and the government subsequently took over tax revenue collection, while complications with the renegotiation of the port and airport fee collection contracts delayed the process. Based on progress already realized toward the completion of this benchmark, we are proposing the following modification: "The FGS will continue renegotiation with the existing port and airport service providers and will sign new memoranda of understanding on more favorable terms." With the improved capacity at the Ministry of Finance and help from of our legal and financial advisors, we believe that we will be able to finalize the renegotiation of the two new contracts by the end September 2018.

- **We have also advanced on the SBs set for December 2017 and completed additional reforms which are outlined in this MEFP. Four out of six SBs have been met.** Regarding the other two SBs, we are working hard on completing the processes required for the remaining two SBs, and substantial progress has been made since September 2017. To meet the eligibility criteria required to achieve 100 percent of non-salary recurrent cost of the RCRF budget, we have made the payment processes and commitment control system mandatory for all MDAs and streamlined eligible expenditures, which now include mainly utilities, stationary, and rent. We hope to submit sufficient payment vouchers for eligibility assessment to achieve the benchmark. With respect to achieving a target of 50 percent in number of transactions of electronic vendor payments to be processed through the purchasing module of the Somalia Financial Management Information System (SFMIS), we have now fully operationalized the purchasing module and, as a result, at end-November we were approaching 40 percent, up from zero percent in late September.

C. Economic and Financial Policies for 2018–20

5. We expect our economy to recover and fiscal performance to continue to improve in 2018–2019. Growth is expected to recover to 2.5–3.0 percent and inflation to decline to 2.0–2.5 percent in 2018–19 as the drought is abating. The fiscal position, especially on revenue mobilization and budget execution, is also projected to improve. Our broad fiscal policy will be anchored by: (1) maintaining a zero-cash fiscal balance; (2) avoiding any new domestic arrears accumulation; and (3) continuing to improve domestic revenue mobilization as committed to under the SMP. On the monetary policy side, we will not allow the net foreign assets of the Central Bank of

Somalia, CBS (as defined in the Technical Memorandum of Understanding–TMU) to fall below a continuous floor. Given the reality of very low foreign reserves, the CBS will use its portion of recovered CBS foreign assets to increase its net foreign reserves.

Fiscal Policy and Reforms

6. **We implemented a set of critical policy measures to keep the program on track by end-2017.** Indeed, we concluded discussions and agreed with the telecommunications companies to pay their tax obligations in line with the existing tax laws (sales and payroll taxes, and corporate income tax)) retroactively as of October 2017. The agreement also clarifies that there will be no more negotiated payments of taxes; instead, compliance with the income tax (personal and corporate) law and the sales tax law will be enforced. The telecommunications companies have started paying sales taxes based on self-reported sales figures, which we will audit to ensure accuracy. Also, we have concluded an agreement with an airline company for it to pay in full its sales tax and arrival and departure fees ("*arriva partenze*") arrears and current obligations. The airline recognized obligations to the FGS amounting to $3.6 million, which are expected to be paid no later than end-January 2018.

7. **The 2018 budget was passed in December 2017 and is aligned with the SMP.** To ensure that the 2018 budget continues to be anchored by a zero-cash balance, improved domestic revenue, and non-accumulation of new domestic arrears, we are committed to implementing the following measures:

- ***Overall Fiscal policy.*** We are committed to greater fiscal discipline and to improving the fiscal framework. To those ends, we commit to the following actions: (1) refrain from any expenditures that are not fully covered by realistic revenue and pledged grants projections; (2) ensure that the FGS remain current on its obligations, and in the event of revenue or grant shortfalls, we will cut non-priority spending in line with the rules for sequestering (prioritizing) expenditures; and (3) where possible, revenue windfalls (including additional grants for budgetary support) should be used to build up buffers and pay down domestic arrears in line with the procedures established by the Domestic Arrears Management Committee (DAMC).

- ***Revenue measures.*** We are determined to strengthen tax collection. A significant increase in domestic revenue remains an important target under the program. We are pressing ahead with the implementation of the recently agreed-on tax measures as well as improving compliance. We will continue discussions on the harmonization of customs with federal member states and draft a common customs strategy roadmap for Somalia. We expect the large-and-medium-taxpayer office (LMTO) to start enforcing tax compliance with the identified taxpayers in early 2018.

- ***Expenditure measures.*** The FGS is of the view that our civil service needs restructuring to ensure an increase in staff productivity and contain the public wage bill; the World Bank is conducting a study to this end. We have signed a contract with a consulting firm to conduct an HR audit. In coordination with the National Civil Service Commission, a pilot program is underway to identify and remove absentee staff and underperformers after due diligence and proper assessments at the Ministry of Finance. This pilot has identified 32 such workers and will be extended to all MDAs once the results of the World Bank study are available.

- ***PFM; treasury, and cash and arrears managements.*** Our overall fiscal policy strategy will be supported by several critical fiscal reforms that are underway. In this context, the PFM Action Plan for 2016–2020, which was endorsed by the FGS, is being updated. We have fully implemented a commitment control system across the government. We are committed to making progress on achieving a Treasury Single Account (TSA), reducing the use of cash advances to MDAs, and closing bank accounts of MDAs that are outside of the TSA. A Cash Management Unit (CMU) is now operational and is collecting daily cash balances from the CBS. In addition, draft terms of reference of the Cash Management Committee (CMC) are being prepared. Following the establishment of the DAMC, the committee's arrears settlement eligibility criteria have been drafted.

Financial Sector Reforms

8. **We have nearly completed all benchmarks under the currency reform roadmap.** We have achieved a political consensus across FMS to fight against counterfeiting in the context of the currency reform. We are also finalizing the development of a package of measures for the storage and distribution of the new currency and the invalidation and destruction of old banknotes under a supporting legal framework. Finally, we are preparing an information campaign and a framework for an independent evaluation of the currency reform program. With the completion of these steps, we will finalize the budget for the currency reform and prepare for the launch of the new currency with the support of our partners.

9. **The launch of the currency reform will be limited to exchanging the counterfeit currencies currently in circulation for the new national currency (Phase I).** Following the launch of the new banknotes, we will not intervene in the foreign exchange market and keep the current free-floating exchange rate system in place. Meanwhile, we will accelerate efforts to strengthen the capacity at the CBS and develop the needed monetary and reserve management instrument prior to the launch of Phase II of the reform program, which is the injection of additional new Somali Shilling, including larger denomination of the new banknotes.

10. **We have prepared a draft financial sector development roadmap.** We are cognizant that a stronger financial sector and greater financial intermediation are essential to achieve sustained economic growth and poverty reduction**.** Our financial system is nascent, and financial infrastructure and institutions are underdeveloped. The draft roadmap highlights key bottlenecks for financial development and inclusion, and outlines the reforms to improve the functioning of the sector and to address issues related to the withdrawal of correspondent banking relationship (CBRs). In the next few months, we will improve its presentation and structure, in collaboration with the IMF and the World Bank, to guide our reform policy in the sector.

11. **Meanwhile, we will build on reform momentum in the financial sector.**

- Over the past two years, the CBS has improved its capacity to supervise banks and money transfer businesses (MTBs). We will continue these efforts going forward. We have also established an Executive and an Audit Committees, and we are implementing new accounting and financial reporting systems, and improving our accounting and audit functions. We will continue to strengthen the governance and organizational structure of the CBS and its oversight authority; and to improve commercial banks accounting and reporting standards in line with international financial reporting standards (IFRS).

- The CBS is continuing to strengthen the annual relicensing process and has started conducting on-site examinations of the largest MTBs. The Financial Reporting Center (FRC) is now operational, and in December 2017 began reviewing suspicious transactions. We are working to strengthen cooperation between the FRC and the CBS. In line with Financial Task Force (FATF) standards, the CBS will finalize the Targeted Financial Sanctions Regulation law—which enables provisions to implement Somalia's international obligations under UNSCRs 1267 and 1373, — and enhance AML/CFT compliance by MTBs. We will also improve the MTBs' compliance with the AML/CFT regulations and the reporting of suspicious transactions to the FRC.

Policies for Accelerating Economic Recovery and Social Inclusion

12. We are advancing a broad-based reform agenda to strengthen economic resilience and the foundations for sustained inclusive growth. The development challenges for Somalia, after decades of civil war, are significant. The risk of humanitarian crisis following the drought early this year has prompted increased international support. In this context, the May 2017 London Conference recommended the establishment of a mutual accountability framework (MAF) in collaboration with our development partners. Progress on reform implementation under the MAF has been broad-based and covers all critical areas for Somalia, including: (1) political settlement; (2) security; (3) rule of law; (4) human rights and gender; (5) youth empowerment; (6) financial and economic management; (7) growth, economic recovery, and resilience; and (8) social inclusion.

13. We have identified several priority areas for accelerating economic recovery and social inclusion.

- ***Combating corruption and improving governance will remain essential for the FGS.*** Since the government took office in early 2017, we have taken various tangible initiatives to combat corruption and improve governance. These include (1) the passage of the anti-corruption bill, which is in line with international best practices; (2) the establishment of a "Delivery Unit" to monitor the performance of all government programs; (3) issuing of orders by all ministers to fight against civil servant workers' absenteeism; (4) continued efforts to improve transparency on monetary and fiscal reporting, including, where possible, on the off-budget support; and (5) the development of a website for the FGS budget. We intend to maintain this momentum. To that end, the anti-corruption law was passed by the lower house of Parliament and is currently awaiting approval in the Senate. We are in the process of establishing an anti-corruption commission to improve governance and combat mismanagement and malpractice.

- ***We will continue to improve the business environment.*** We have already stepped up efforts to increase the private sector role in the economy, and we passed a foreign direct investment (FDI) law and adopted a procurement bill. We will continue to enable the business environment through public-private sector dialogue, improved financial governance and intermediation, and new business regulations, as well as access to finance. Access to financial services will be achieved by following through with the Financial Sector Development Roadmap, including better AML/CFT compliance. We are pleased that Somalia entered the Global Doing Business Survey for the first time in 2017. We will work on areas identified to raise the position of Somalia in this regard.

- ***Developing social safety net programs in the budget and improving social spending will remain critical for developing resilience and supporting poverty reduction.*** We have made progress on managing and facilitating refugees return to Somalia. Also, under the United Nation Refugee Return and Reintegration project, an increasing number of refugees are being placed in training institutions (mainly in Kenya) and trained in peace building and conflict resolution. Going forward, we will develop and include social safety net programs in our future budgets. We will improve the visibility of existing payments to orphans by moving payments from the Somali National Army and police budgets to the Disabled and Orphans Organization budget. We will also improve the budgetary allocations on social spending, including education, health, and humanitarian supports.

- ***We will update our NDP with a focus on accelerating economic recovery and social inclusion.*** It will prominently promote our recovery and growth efforts, improve resilience through social safety net, and enable financial and private sector inclusion. We will also start preparing medium-term fiscal framework and link it to the NDP. We will also improve the realism of the social program targets, including poverty incidence, job creation, and capacity and resilience program in response to drought and other social safety net programs. We will also identify and ensure adequate financing of the revised NDP.

D. Institutions and Statistics

14. Our efforts to empower the government and institutions will be essential for sustained growth and social cohesion, particularly in the following areas:

- ***Fiscal federalism and PFM legislation.*** Fiscal federalism will be critical for achieving our development goals. Our recent progress on fiscal federalism discussions with FMS is encouraging. We reached agreement on harmonization of some selected taxes with federal member states, and both the FGS and states have shown a desire to modernize their approach to customs by shifting from specific tariffs to an ad valorem tariff. We expect to reach agreement with the regions on licensing for off-shore fishing, starting with tuna, by [end-March], in time for the start of the June tuna season. The Federal PFM Bill has been approved by the cabinet and is under discussion by Parliament. Meanwhile, we are in the process of harmonizing the FMS legislation with that of the FGS.

- ***Natural resource management and transparency.*** We remain committed to transparent and equitable management of natural resources. In this context: (1) the draft Federal PFM Bill includes a clause that sets out the principles 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 natural 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 Minister of Finance will work with the Ministry of Petroleum to review the revenue-sharing formula proposed in the petroleum agreement and initiate new negotiations with all FMSs following the approval of the Petroleum Bill by Parliament.

- ***Procurement and concessions.*** The FGS has reaffirmed its strong commitment to transparency in the process of government contract concessions and renegotiation. Several government contracts have been canceled, renegotiated, or are under review. Among other immediate positive impacts of this process, the FGS revenue collections are improving. We will build on this momentum and seek support from donors on procurement and other needed operational assistance, and on capacity building within the Minister of Finance and across line ministries.

15. We have made considerable progress in improving statistical institutions and economic and financial statistical database reconstitution. We have recently established the Somali National Bureau of Statistics (SNBS) and submitted the new statistical law to Parliament. These are encouraging steps toward the production of much needed economic, financial, and social data to guide policies. We are building on the progress of the business registry database in Mogadishu to expand it to FMS. We have revised the national account data for 2013–2016 and developed a new consumer price index series. We will continue to use partner data to collect trade in goods data by value and volume for Mogadishu in 2018.

16. We will continue to improve our economic and financial database. In this regard, we are committed to (1) expanding and further improving the business registry data; (2) continuing to improve remittance data via the MTB survey; (3) initiating surveys on travel, primary transfers, and foreign direct investment in 2018; (4) providing banking sector financial data by residency starting in 2018; (5) accelerating the process of ensuring that the CBS and commercial banks' balance sheets are IFRS compliant; and (6) completing a civil service database. Separately, the CBS will formulate an action plan for improving source data for the CBS and for collecting financial and non-financial data**.**

E. Relations with International Creditors and Debt Relief

17. We will continue to make efforts to normalize relations with international creditors. 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 May 2017 donors' conference in London, we will make every effort to establish a sufficient track record of sound economic management, with successful completion of this and subsequent SMPs.

18. The April 20 Roundtable discussed the process for future debt relief. We understand that Somalia is ineligible for financial assistance from the IMF, given the pending 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. With the help of the international financial institutions (IFIs), we will strive to implement reform measures that are necessary for achieving debt relief under the bench-mark based HIPC Initiative. As recommended at the April 2017 Roundtable and endorsed at the May 2017 London conference, we understand that the debt-relief process will involve establishing a track record of economic management, cooperation with the IMF on policies and payments. We will continue to reach out to our creditors to secure their financial support in due time.

19. Meanwhile, we will step up efforts to complete our debt database and improve capacity at the Debt Management Unit (DMU). The FGS' records on external debt were lost during the conflict, but are being reconstituted. With technical assistance (TA) from the African Development Bank, our DMU has reconstructed about two-thirds of our external debt database. Currently, the DMU is in the process of reconciling and validating Somalia's external debt data with creditors. To this end, we have reached out to 21 bilateral creditors, representing nearly 80 percent of Somalia's external debt, to confirm the loan-by-loan terms, principals, and interest outstanding (The remaining 20 percent of external debt is primarily with multilateral creditors). As of today, 12 bilateral creditors have responded to the validation exercise; once the remaining nine bilateral creditors respond, we would have 99 percent of Somalia's external debt confirmed. We also will continue to improve capacity at the DMU given its criticality for future debt sustainability assessment.

F. Technical Assistance

20. During the program period, we are requesting IMF TA) in the following areas: (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 of banks; (8) currency reform; (9) central banking operations and governance structure; (10) banking operations; and (11) macroeconomic statistics.

G. Program Monitoring

21. We will reactivate our SMP Monitoring Committee and continue to monitor the implementation of our program by preparing and assessing the 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/

	2017								2018
	March	June			Sept. 2/			Dec.	March 3/
	Prel.	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prog.
Fiscal									
Fiscal balance (cash basis; floor)	0.0	0.0	-1.8	Not Met	0.0	3.8	Met	0.0	0.0
Revenue (floor)	28.8	61.7	61.0	Not Met	97.4	96.9	Not Met	137.6	41.2
Accumulation of new domestic expenditure arrears (ceiling) 4/	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0
Contracting of new domestic debt (ceiling) 4/	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0
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
Central Bank of Somalia (CBS)									
Net foreign assets of the CBS (floor) 4/ 5/	21.6	23.1	23.3	Met	23.1	23.9	Met	23.1	23.1
Memorandum item									
Contracting or guaranteeing of nominal external concessional	0.0	0.0	0.0		0.0	0.0		0.0	0.0

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

1/ Based on preliminary data. 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	Met
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	Not met
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	Met
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	In progress 1/
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	In progress 1/
Tax Administration–Inland Revenue Departmen				
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	Not met
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	Met
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	Met
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	Met
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.	Met
Financial sector and AML/CFT				
12	Submit to Parliament the Communication Act to license mobile network operators	Sep-17	Support mobil money activity	Met
13	Develop a roadmap for financial sector development	Dec-17	Develop the financial sector	Met
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	Met

1/ Despite some progress as spelled out in the MEFP (paragraph 4, bullet #3), the full assessment of these two SBs will be done upon receiving the authorities' report of their submission for the end of 2017.

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 Memorandum of Economic Financial and Policies and are listed below:

a) Floor on the fiscal balance (on a cash basis).
b) Ceiling on accumulation of new domestic expenditure arrears of the Federal Government of Somalia (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 Central Bank of Somalia (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 FGS.** 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 nontax 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; the monthly financial statements will be prepared by the Minister of Finance.

5. The fiscal balance, on a cash basis, is defined as the difference between (1) the sum of central government revenue (as defined in paragraph 4) and budget grants; and (2) 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, considering any contractual grace periods. Government payment includes 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 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, Investment and Economic Development. 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, Investment, and Economic Development 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 (continued)				
		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

INTERNATIONAL MONETARY FUND

SOMALIA

February 6, 2018

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of December 31, 2017)

Membership Status: Joined: August 31, 1962; Article XIV

General Resources Account

	SDR Million	Percent Quota
Quota	44.20	100.00
IMF holdings of currency (exchange rate)	140.45	317.77
Reserve Tranche Position	0.00	0.00

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation 1/	46.46	100.00
Trust Fund	18.15	39.06

1/ Excluding SDRs allocate and placed in escrow account under the Fourth Amendment of the IMF's Articles of agreement (SDR 4,156,315), such holdings will be available to Somalia upon the settlement of all overdue obligations to the Fund

Outstanding Purchases and Loans

	SDR Million	Percent Quota
Stand-by Arrangements	67.72	153.22
Trust Fund	6.46	14.62
SAF Loans	8.84	20.00
Contingency and Compensatory	28.53	64.54

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
SAF	Jun 29, 1987	Jun 28, 1990	30.94	8.84
Stand-By	Jun 29, 1987	Jun 28, 1988	33.15	5.53
Stand-By	Feb 22, 1985	Sep 30, 1986	20.10	20.10

Overdue Obligations and Projected Payments to the IMF (SDR Million) 1/

	Overdue (as of 12/31/2017)	2018	2019	2020	2021	2022
Total	**239.09**	**1.96**	**1.97**	**1.97**	**1.97**	**1.97**
Principal	111.55					
Charges/Interest	127.54	1.96	1.97	1.97	1.97	1.97

Implementation of HIPC Initiative: **Not yet reached decision point**.

Implementation of Multilateral Debt Relief Initiative (MDRI): **Not applicable**.

Implementation of Catastrophe Containment and Relief (CCR): **Not applicable**.

Exchange Rate Arrangement

The official currency of Somalia is the Somali shilling (SOS). The de jure exchange rate arrangement is undetermined. Due to the absence of administrative measures controlling the level of the exchange rate and the inoperative status of the CBS in the foreign exchange market, the de facto exchange rate arrangement is classified as free-floating. The de facto currency is the U.S. dollar, which is used for the majority of transactions. The U.S. dollar banknotes are used as cash currency with Somali banknotes serving as a sub-denomination. Banks transact only in U.S. dollars. Mobile phone payments, which are widely used, are also only denominated in U.S. dollars. The Somali shilling, which is virtually all counterfeit, is used only for small cash payments, particularly in remote areas. Also, neighboring countries' currencies are used in border areas. Residents exchange U.S. dollars and shillings at a freely determined market exchange rate. This rate varies across federal member states (the Federal Government of Somalia is a federation of five states, excluding Somaliland and Banadir region). The domestic exchange markets have remained generally stable across states. For example in Mogadishu, the SOS/U.S. exchange rate ranged between 21,197 and 23,995 since January 2015.

Somalia still avails itself of the transitional arrangements of Article XIV; however, it no longer maintains restrictions under Article XIV. At the time of Somalia's 1989 Article IV consultation, the following measures subject to Fund's approval under Article VIII remained in effect: (i) a multiple currency practice and exchange restricting arising from the imposition of a 10 percent levy on all applications for purchases of foreign exchange under the commodity import program, (ii) a multiple currency practice arising from different exchange rates applicable to official transactions and to transactions in external accounts and to import/export accounts, and (iii) an exchange restriction evidenced by some external payments arrears. However, based on the information provided by the authorities and gathered by staff, staff understand that these measures are no longer in effect. Staff will continue to monitor developments in the exchange system and encourage the authorities to take the necessary steps to accept their obligations under Article VIII at the appropriate time.

Article IV Consultation

The Executive Board concluded the last Article IV Consultation with Somalia on February 3, 2017 (the third since November 18, 1989).

Technical Assistance (TA) 2013–17

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	3/10/2016
	PFM capacity development and reporting	4/16/2016
	Fiscal reporting, cash forecasting, and PFM legal framework	6/16/2016
	Workshop on taxation of extractive industries and fiscal decentralization	8/3/2016
	Workshop on key PFM Reforms	9/14/2016
	Budget execution control, cash and arrears management	9/14/2016
	Budget execution and preparation	11/15/2016
	Cash Management	3/1/2017
	Revenue & customs administrations	3/8/2017
	Workshop on Budget Execution and Cash Management	4/28/2017
	Budget Execution and Cash Management	5/15/2017
	Tax policy	7/6/2017
	PFM: cash management, arears, reporting, and 2018 budget	9/7/2017
	Tax policy	11/18/2017
	PFM: cash management, arears, reporting, and 2018 budget	12/5/2017
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

Somalia: Completed TA, 2013–17 1/ (continued)

Department	Activity	Start Date
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
	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	3/12/2017
	Central bank accounting and internal audit	4/18/2017
	Banking Supervision and Regulation Training	6/18/2017
	Internal Audit and Accounting	9/18/2017
	Currency Reform	10/10/2017

Somalia: Completed TA, 2013–17 1/ (concluded)

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	7/1/2015
	Balance of Payments	12/2/2015
	National accounts and business register	4/1/2016
	Balance of Payments	7/2/2016
	Consumer price index	10/3/2016
	National account	11/4/2016
	Multisector statistics	11/4/2016
	National account	4/4/2017
	Consumer price index	7/19/2017
	Consumer price index	10/1/2017
	National accounts	12/5/2017

Source: International Monetary Fund.
1/ Based on information through December 2017.

Resident Representative

Mr. Samba Thiam, resident representative for Somalia, has been posted in Nairobi since December 1, 2014.

IMF-WORLD BANK COLLABORATION

(As of December 31, 2017)

The IMF and the World Bank Group country teams for Somalia coordinate closely on macroeconomic and structural issues. *Collaboration is becoming more regular as both institutions scale up their engagement with Somalia. Notable areas of collaboration include:*

- **Fiscal:** The IMF and the World Bank have collaborated closely on fiscal policy matters. There is an agreement on fiscal priorities and policies between the two institutions. Specifically, both teams have urged the authorities to: (i) prepare and execute a realistic budget; (ii) improve public financial management, (iii) implement the revenue mobilization plan; and, (iv) find agreement between federal and sub-national governments on fiscal federalism. There has been extensive collaboration on public finance management issues, particularly, on finalizing the implementation of the Treasury Single Account and the Financial Management Information System. More recently, the World Bank team began developing a macro-fiscal framework. Additionally, the teams have collaborated closely in assisting the authorities with the preparation and management of the 2017 and 2018 budgets and supporting public financial management. The WB continues to provide critical budget support through the Recurrent Costs and Reforms Financing program (RCRF), which reimburses eligible expenditures for salaries and some non-salaries recurrent costs.

- **Financial sector:** Over the past two years, the IMF and World Bank have provided support to the Central Bank of Somalia's (CBS) capacity to supervise the country's commercial banks and money transfer bureaus (MTBs), respectively. During that period, regulations were adopted, an annual relicensing regime implemented, collection of financial data regularized, and on-site inspections started. This support also covered AML-CFT issues, particularly for MTBs. Moving forward, the IMF and World Bank will collaborate on assisting the authorities in developing and implementing a financial sector reform road map to improve intermediation to support economic growth.

- **External debt statistics:** In 2014, the IMF and the World Bank collaborated in the establishment of the Technical Working Group on Somalia's Debt. The Bank and Fund have co-chaired a number of high level roundtables at the World Bank and IMF Spring Meetings in Washington, D.C.

- **Macroeconomic statistics:** Somalia's macroeconomic statistics depend upon collaboration between the IMF and the World Bank. A few significant examples of such collaboration include:

(i) a World Bank funded household survey, currently on its second wave, which enabled the IMF to provide assistance in delivering: (a) objective estimates for household final consumption expenditure to derive GDP; and, (b) appropriate expenditure patterns for estimating the Consumer Price Index;

(ii) World Bank implementation of the Core Banking system at the CBS, which will improve financial data and operations, a core mandate of the Bank and will help the Fund support financial stability in Somalia; and,

(iii) efforts to improve trade in goods data via technical assistance and training for the Customs Department at the Port of Mogadishu.

RELATIONS WITH THE WORLD BANK GROUP[1]

(As of December 31, 2017)

The Somalia Interim Strategy Note (ISN) was endorsed by the World Bank Board in December 2013 and remains the overarching strategy document for the Bank Group's engagement in Somalia. Its objective is to lay the foundations for a solid poverty reduction strategy and progress towards shared prosperity in the long term. These goals will be reached by delivering initially on selected priorities under the Peace and State-building Goals (PSGs) of the Somali Compact, a high-level mutual accountability framework endorsed at the Brussels Conference in September 2013 and are now replaced in a new Partnership Agreement with the new Federal Government at the London Conference of May 2018. The ISN is structured around two priorities: (i) strengthening core economic institutions; and, (ii) expanding economic opportunity.

Under Priority I (Strengthening Core Economic Institutions), the World Bank is focusing on improving economic governance, including macro-fiscal and public finance management, as well as building statistical capacity and supporting the establishment and implementation of a sound regulatory framework in strategic economic sectors. Key trust-funded activities under this area include: (i) a set of core systems strengthening projects (the Recurrent Cost and Reform Financing, Public Financial Management Strengthening, and Capacity Injection/Civil service strengthening); (ii) a financial governance program undertaken in partnership with the IMF and the African Development Bank; (iii) an information and communications technology (ICT) regulatory support project; and, (iv) a petroleum sector program. Policy dialogue and economic and sector work focuses inter alia on macro- and fiscal planning, revenue mobilization, inter-governmental fiscal relations, and statistical strengthening and socio-economic data collection.

Under Priority 2 (Expanding Economic Opportunity), the World Bank is focusing on supporting job creation through private sector investment through public-private partnerships (PPPs), public private dialogue, and targeted financial support; as well as financing basic rehabilitation of infrastructure for employment generation and productivity. Key activities under this priority include: (i) two projects on private and financial sector development ; (ii) an urban development project; and, (iii) an energy sector support project. While the UN leads assistance in both the health and education sectors, the World Bank is preparing the ground programming with analytical work.

Activities are underway in developing the new overarching strategy document for WBG engagement in Somalia. The Country Partnership Framework (CPF) aims to make the country-driven model more systematic, evidence-based, selective, and focused on the Bank's twin goals of ending extreme poverty and increasing shared prosperity in a sustainable manner. Used in conjunction with a Systematic Country Diagnostic (SCD), the CPF will guide WBG support in Somalia. The SCD identifies the binding constraints to reducing poverty and increasing shared prosperity and—based on these—the CPF sets out the main development goals that WBG aims to help the country achieve, and proposes a selective program of indicative WBG interventions. The CPF will be

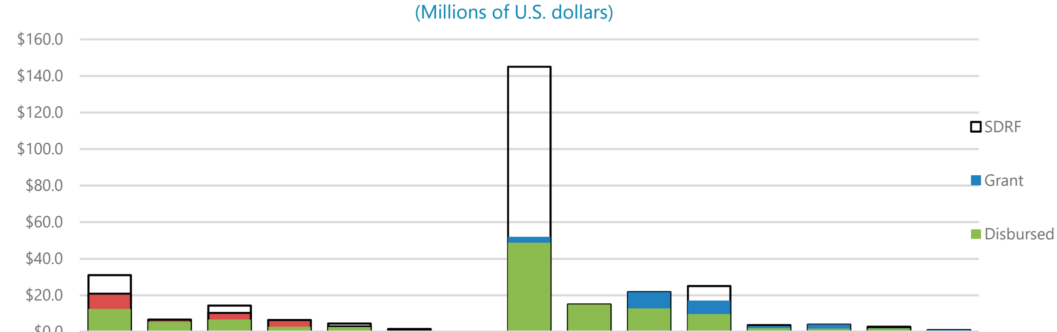
[1] Prepared by the World Bank.

based on robust analytics, such as the SCD, Public Expenditure Reviews, consultations with stakeholders, and knowledge products such as the Poverty Profile and Somalia Economic Update. The CPF provides an opportunity to create a five-year engagement plan based on Somali guidance, and for the Bank to validate (or re-orient and adapt) the WBG portfolio to the evolving political and economic contexts. The CPF also develops scenarios for International Development Assistance (IDA) re-engagement. The SCD and CPF, both a first for Somalia, will be completed in 2018.

Active Projects and Pipeline

As Somalia is in arrears to the World Bank, the World Bank project portfolio is primarily supported by the Somalia Multi-Partner Fund (MPF), a multi-donor trust fund, launched in August 2014 with approximately \$320.5 million in contributions from ten donors (of which \$252.6 million is paid in) and expected to grow year by year.[2] The State- and Peace-Building

Multi-Partner Fund Protfolio by Peace and State-building Goals
(Millions of U.S. dollars)



	SCORE	Urban I	ICT	SFF-LD	Oil & Gas	Energy		RCRF II	RCRF I	PFM	CIP	Support to Remittances	FGC	Knowledge Fund	Education
	PSG 4							PSG 5							
SDRF	\$31.0	\$6.7	\$14.4	\$6.5	\$4.5	\$1.6		\$145.0	\$15.0	\$21.8	\$25.1	\$3.7	\$4.0	\$2.9	\$1.0
Grant	\$20.9	\$6.7	\$10.4	\$6.5	\$3.0	\$1.2		\$52.0	\$15.0	\$21.8	\$17.1	\$3.1	\$4.0	\$2.6	\$1.0
Disbursed	\$12.6	\$5.5	\$6.8	\$2.8	\$2.6	\$0.4		\$48.7	\$15.0	\$12.8	\$9.8	\$2.0	\$1.8	\$2.0	\$0.3

Fund (SPF), a World Bank-administered global MDTF, has also contributed \$36 million to Somalia since 2012, providing the seed money for several of the projects that have since been scaled up through the MPF.[3] The active portfolio consists of 15 projects totaling \$161 million in signed grants, of which \$118 million has been disbursed already.

Recurrent Cost and Reform Financing (RCRF) Program, Phase II: Funded by the MPF, the objective of the RCRF is to support the government to execute a credible and sustainable payroll and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the FGS and eligible sub-national authorities. The RCRF supports the government to lay

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[2] Current donors are: Denmark, the European Union, Finland, Germany, Italy, Norway, Sweden, Switzerland, United Kingdom, United States and World Bank's State- and Peace-Building Fund.

[3] Including transfers to the MPF and Som-PREP II.

the foundations for a simple system of inter-governmental dialogue, while providing the associated resource transfers to strengthen inter-governmental trust. Intergovernmental transfers have increased in 2017 largely through the support of the RCRF. Ultimately, the establishment of these fiscal arrangements should promote greater equity and resource distribution among federal and sub-national governments. In addition to support at the level of the FGS in Mogadishu, Federal Member States (FMS), including Jubaland, Puntland, South West and Galmudug are also receiving transfers for core government functions. Newly formed Hirshabelle, the last FMS, is preparing the readiness criteria for project support. The RCRF expanded its scope in 2017 through the surge support initiative, the temporary, policy-base financing that creates fiscal space for public works activities and non-salary recurrent costs. Surge support is based on enabling Somali authorities to deliver public services to citizens and the principles of government leadership, accountability and consistency in relations between FGS and each FMS. The surge support is based on conditional agreements of benchmarks, as funds are delivered on upon meeting these benchmarks. Parallel to these benefits, the surge support provides institutional leverage to support key reforms—through conditioned incentives—through ongoing MPF Governance projects, including PFM and CIP.

Analytical and Technical Assistance on Education: Funded by the MPF, this project provides complementary support to component 3 of the RCRF, which has planned support for: i) the establishment of a basic accountability system for the education and health sectors, ii) payment of salaries and allowances for eligible teachers and health workers and iii) eligible non-salary recurrent costs. The objective of this small-scale TA package is to address critical knowledge and information gaps in education sector and provide technical assistance to strengthen the capacity of the public education delivery system to manage a diversity of service providers and address the challenges of policies, governance, access, quality and equity in a sustainable manner.

Capacity Injection Project (CIP): Funded by the MPF, the objective of this project is to enable the government fill critical capacity gaps in the civil service, and strengthen the capacity of key ministries and agencies to perform core government functions. Project components cover: (i) developing capacity for key cross-cutting government functions; (ii) strengthening the policies and procedures for civil service management; and, (iii) aiding policy management, coordination and monitoring capabilities at the center of government. CIP supports 10 FGS beneficiary institutions and 9 in Puntland. As of December 2017, 175 civil servants have been placed in BIs through a merit-based recruitment process, of which approximately 25 percent have been women.

Somaliland Civil Service Strengthening Project: Funded by the MPF, this is a sister project to the CIP tailored to the specific needs of Somaliland for civil service reform. The objective of the project is to strengthen the human resource and policy management functions of selected line ministries and central agencies. Its core components include: (i) developing capacity for key cross-cutting government functions; (ii) strengthening the policies, procedures and systems for civil service management; and (iii) strengthening policy management, coordination and monitoring capabilities at the center of government.

Public Financial Management Strengthening Project, Phase II: Funded by the MPF, the objective of the project is to establish systems for transparent and accountable public funds management, building on the work launched under Phase I. It focuses on the implementation of medium-term fiscal frameworks to underpin: (i) planning budget preparation; (ii) managing revenue mobilization and tax administration; (iii) developing Somalia's financial management information system; (iv) managing expenditure control; (v) overseeing procurement, accounting and financial reporting; (vi) conducting auditing and monitoring; and, (vi) establishing structures to oversee public financial management reforms in Somalia.

Financial Governance Policy Dialogue: Funded by the MPF, the objective of this program is to provide technical advice and facilitate policy dialogue to strengthen transparency and accountability in the areas of strategic public procurement and concessions, asset recovery, and other selected areas of financial governance. In 2014 the FGS and the international community established the Financial Governance Committee (FGC), a hybrid Somali-international body that provides a forum for dialogue on strategic financial governance issues. This project provides assistance to the FGC with: (i) predictable and reliable funding for its basic operations; and, (ii) technical assistance to help advance its work program. As of December 2017, the FGC had issued confidential assessments for 28 signed or draft contracts. In April 2017, FGC published the Financial Governance Report, which sets out the financial governance priorities that the FGC has identified for the coming year to strengthen ongoing state-building efforts.

Petroleum Sector Inclusive Development: Funded by the MPF, the objectives of this project are to: (i) facilitate a process to harmonize issues of ownership, control and revenue sharing in the petroleum sector; (ii) support the development of a petroleum strategy and a policy, legal and fiscal framework; and, (iii) build government capacity to negotiate and manage petroleum contracts. A review of the legal and fiscal framework for petroleum sector has been completed and a petroleum legal framework is under development. A new Upstream Petroleum Bill, including a Model Production Sharing Agreement (PSA), and the first set of Upstream Regulations (a general upstream regulation and two regulations covering environment, health, safety) have been drafted, with support of the Bank and AfDB. The Model PSA was reviewed by the Financial Government Committee.

MPF Knowledge Fund / Knowledge for Results (K4R): Funded by the MPF, the objectives of this program are to: (i) enhance the development impact of domestic policies and development partner interventions through better knowledge of socio-economic realities as well as political economy constraints; (ii) promote basic accountability through better information on availability and use of public resources (including from development partners), and; (iii) revitalize the strategic planning process, through tailored support to regions, engagement with a broader set of stakeholders. K4R activities fall under four broad components: (i) Poverty and Distributional Analysis and Statistics; (ii) Macro-Fiscal Framework; (iii) Public Expenditure Reviews (PER) and Fiscal Federalism; (iv) Growth drivers.

ICT Sector Support in Somalia, Phase II: Funded by the MPF, the objective of the project is to support the ICT Sector in Somalia by contributing to establish an enabling environment and by encouraging efficiency and equity in access to connectivity. The program aims to allow the ICT sector grow and support connectivity benefits to the government and the citizens. The scope of the work combines technical assistance, and provision of goods (e.g., communications rooms in ministries), and services (e.g., connectivity and bandwidth support for the higher education).

Supporting Remittance Flows to Somalia (SRFS): Funded by the MPF, the objective of this project is to Work alongside the Central Bank of Somalia (CBS) to implement a number of activities aimed at tackling key deficiencies affecting the remittance market in Somalia until a sounder financial system is in place, and to accelerate and support financial system development. The work is guided by the Somali Remittances Stakeholder Advisory Council, co-chaired by the Central Bank Governor and the World Bank Country Director and with representatives from Somalia, the World Bank, IMF, AfDB, USG, UK and IGAD. The Council has met quarterly since June 2015. To strengthen the regulatory framework for the Money Transfer Operator (MTO) sector, the World Bank worked with the CBS to draft and enact MTO Operating Regulations based on the recently adopted AML/CFT Law. The Trusted Agent procured through this project supervises all licensed MTOs alongside the CBS. Outreach sessions have been conducted by the Trusted Agent and CBS with MTOs regarding the new regulations.

Somali Core Economic Institutions and Opportunities Program (SCORE) Funded by the MPF, SCORE aims to: (a) improve the enabling environment for private and financial sector development; and (b) catalyze private investment and job creation. It builds on the achievements and lessons learned from SOMPREP 1 and 2 and expands the geographic coverage of interventions to not only cover Somaliland but also Puntland and southern and central Somalia. The program's activities support i) strengthening central bank supervision and regulation; ii) improving the business environment by reducing the time and cost of starting and operating a formal business; iii) developing the port sector in Mogadishu (and possibly Kismayo, Marka and/or Bosaso); v) supporting the recovery of the private sector by providing matching grants to support small and medium-sized enterprises (SME) via the Somalia Business Catalytic Fund (SBCF); and promoting the development of SMEs through direct and indirect capacity building support via an SME Service Facility (SMEF) providing technical assistance, training and coaching services.

Somalia Investment Climate Reform Program (SICRP): Funded by the MPF and implemented by the IFC, this project aims to unlock private investment by removing selected barriers to doing business and support government and the private sector to create a conducive investment climate regime in Somalia. The SICRP provides support for: (i) the facilitation of a robust Public Private Dialogue (PPD); (ii) 3–4 areas measured by the Doing Business Survey; (iii) trade facilitation support and training; and (iv) improving government to business services (G2B). SICRP is implemented in close collaboration with SCORE.

Somali Urban Investment Planning Project (SUIPP) and Somali Urban Resilience and Recovery Project (SURRP): SUIPP is aimed at preparing the ground for the larger scale SURRP by providing (i) feasibility assessments and preliminary plans for selected urban investment and institutional strengthening activities and (ii) enhanced project preparation and implementation capacity of the municipalities of Mogadishu, Garowe, and Hargeisa, the Ministry of Public Works of the FGS and the Hargeisa Water Authority. All assessments and plans were finalized in June 2017 and are ready for investment pending financing. The SURRP will be developed in early 2018 after discussions with the client on priority investments and areas.

The Special Financing Facility for Local Development (SFF-LD) supports the construction and reconstruction of new and damaged infrastructure for local service delivery in targeted areas of Somalia and support the development of basic public investment management functions. The project builds on the work of the Norwegian-established Special Financing Facility. Whereas the RCRF takes on the recurrent costs component, the SFF-LD takes on the small-scale infrastructure component of this project. Construction. Projects in the first set of regions—Bay and Middle Shabelle—will break ground in December 2016; the second set of regions—Lower Shabelle, Nugaal and Bakool—has been confirmed with government counterparts. Each region has $700,000 for a project identified through consultation with local communities and authorities. The same government implementation unit used its emergency component to allow a response to the 2017 drought with essential water, sanitation and hygiene (WASH) services in the worst-affected areas. The success of the Contingency Emergency Response component is directly dependent on the use and strengthening of country systems, and the Bank's flexibility and agility in a changing context.

The Somalia Power Sector Development Master Plan seeks to support the building blocks for the establishment of a modern energy sector in Somalia. The components of the program are: (i) developing a master plan that sets out priorities and investment sequencing in generation, transmission and generation over a 20-year period, and delivers detailed electrical infrastructure development plans for a number of urban areas; (ii) preparing a "Lighting Africa Somalia" investment; and, (iii) developing a renewable energy resource map for Somalia.

Water for Agro-Pastoral Livelihoods Pilot (WALP) Project[4]: The objective of the project is to build the government to implement small-scale water interventions to provide safe water for human consumption and sufficient quantities of water for livestock as inputs to enhancing fodder and agricultural production in targeted arid lands of Somaliland and Puntland. This will be done by piloting the development and implementation of under-utilized rural water supply technologies, including sand dams.

Economic and Sector Work

Statistical Strengthening and Socio-Economic Data Collection: The lack of available data and low attributable analysis is one of the major barriers for developing methods to combat poverty in Somalia. One of the components to the MPF Knowledge Fund (Poverty and Distributional Analysis and Statistics) is a Bank-Executed (BE) activity aimed at collecting socioeconomic, peace and state-building, and perception data representative of all accessible areas of Somalia. Using an innovative high-frequency computer assisted household survey, the project is providing vital household expenditure, socioeconomic and peace and state-building goal data. The instrument is tailored to collect data quickly, in highly insecure settings, and is designed to work in tandem with new econometric techniques to produce a reliable poverty profile and CPI base weights. A first wave of

[4] WALP is not funded by MPF

the survey was already implemented covering Somalis living in Mogadishu, urban and rural areas in Puntland and Somaliland, as well as in IDP settlements. The World Bank will support the roll-out throughout Somalia—combining high frequency surveys and more standard household surveys—to provide regular poverty, social and process data, as well as other relevant information that can be gathered through that instruments. This work will also support poverty assessments and other poverty analytical studies made possible by the data collection exercises. A comprehensive Poverty Profile, with findings from both waves, will be published in mid-2018.

Policies and Institutions for Economic Growth: Through the MPF Knowledge Fund, the World Bank is providing guidance to Somali authorities on how to develop economic policies, rebuild institutions of economic management, and provision of infrastructure and social services, which can generate stable economic growth and reduce poverty. This will involve carrying out fresh, comprehensive, and in-depth analysis of the Somali economy to understand how stable growth can be generated in the next three to five years. Examples of the analytical products under this component include the Somalia Country Economic Memorandum (CEM) on Agriculture, CEM on Digital and Physical Connectivity (financial services, ICT, transport and infrastructure), and stand-alone studies in ICT, livestock, and fisheries sectors.

Macroeconomic and Fiscal Planning: The World Bank worked with relevant ministries to support the development of a simple macro-fiscal framework for Somalia's National Development Plan with clear linkages to the annual planning and budgeting process, as well as a simple public investment management framework covering financing modalities and time horizons.

Policy Engagement on Revenue Mobilization, Natural Resource Management and Inter-governmental Fiscal Relations: The World Bank plans to undertake an analysis to generate a better understanding of the Somali economy and potential sources for maximizing revenue generation. The work will focus on policy related issues and areas for advisory work, including supporting licensing and regulatory frameworks for telecommunications, ports management, ICT and the extractive industries. This will also include technical support on revenue management options for natural resource revenues. Inter-governmental fiscal relations engagement initially focuses on sharing relevant international experience with the government. Fiscal Federalism Forums, supported by the Bank, convene periodically to harmonize policies and practices related to revenue, resource sharing and regulation of key goods and services. Lastly, an environmental impact assessment has been requested by the Government and the concept note is under review.

Public Expenditure Reviews (PERs): The World Bank is supporting the production of regular PERs at both the federal and regional level, with the goal of closely monitoring the evolution of macro-fiscal and budgetary trends, and providing the underlying analysis for the Recurrent Cost and Reform Project. The World Bank has also supported a Security and Justice Public Expenditure Review as a joint exercise with the UN. This PER aims to unpack the fiscal implications of the current response to the threats facing Somalia, and the long-term implications by offering a data-driven and evidence-based analysis, not only of revenues and expenditures of the security sector, but of the violence and insecurity Somalia is facing.

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP[5]

(As of Decmber 31, 2017)

The Somalia Country Brief (CB) 2017–20 approved by the African Development Bank (AfDB) Board of Directors on November 3, 2017, builds on the Bank's work under the CB 2013–16, and is aligned to Somalia's National Development Plan (NDP) 2017–19 by directly supporting the Plan's pillars associated with effective and efficient institutions, restoring strategic infrastructure, and building resilience. Thus, the CB's overarching objective will be to *"Build longer term resilience in Somalia, through targeted support to the development of relevant infrastructure, institutional capacity, and skills"*. To achieve this objective, the CB will implement programmes under two main pillars: (i) *Rebuilding key infrastructure to enhance resilience and diversify livelihoods*; and (ii) *Institutional capacity building and skills development for improved governance and job creation*. The two pillars will also ensure that the Bank is able to deliver on the expectation that the authorities and international partners have of the Bank to take the lead in rehabilitating and developing Somalia's infrastructure over the next few years.

Due to the arrears situation, resources from the AfDB group to Somalia have been committed mainly from the *Transition Support Facility* (TSF) Pillar I and III resources. In addition, resources have been committed from other instruments not affected by the existence of arrears such as the *Special Relief Funds,* the *African Water Facility* (AWF), *African Legal Support Facility* (ALSF), *Rural Water Supply and Sanitation Initiative* (RWSSI), *Global Environmental Facility* (GEF) trust funds. The CB 2017–20 will be financed through ADF-14 TSF Pillar I resources (i.e., UA 15m, $21.6m) and 50 percent of its ADF-14 PBA allocation (i.e., UA 7.5m, $10.7m). The remainder of the CB work programme will be financed from donor contributions to the AfDB Multi-partner Somalia Infrastructure Fund (SIF) which is part of a comprehensive, coherent and coordinated multi-partner initiative to assist Somalia in consolidating peace and moving along a path of long-term development. The SIF is one of the funding windows that was established under the framework of the Somalia Development and Reconstruction Facility (SDRF) for intermediating economic reconstruction and development finance assistance to Somalia. The SIF's goal is to support and accelerate Somalia's inclusive and sustainable economic recovery, peace and state building within the context of AfDB's *Strategy for Addressing Fragility and Building Resilience in Africa*.

The Bank Group's current approved portfolio consists of thirteen operations, of which eleven are national and two are regional, for a total commitment of UA 82.3m ($117.2m). In terms of sectoral distribution, the agriculture sector has the largest allocation, amounting to UA 47.05m ($67.1m, 57 percent), followed by the water and sanitation sector at UA 15.63m ($22.3m 19 percent), social sector at UA 9.2m ($13.1m, 11 percent), and multisector at UA 10.43m ($14.9m 13 percent). The portfolio's average age is about 1.56 years, with an average disbursement rate of 21.13 percent. In addition to the Bank's portfolio of projects, the *African Legal Support Facility* (ALSF) has been providing very valuable support to Somalia. The ALSF has assisted the FGS in preparing a model *Production Sharing Agreement* (PSA) and developing a PSA

[5] Prepared by the African Development Bank.

toolkit that will help in licensing onshore and offshore gas and oil exploration. The ALSF has also conducted capacity building for government officials, and is assisting the FGS with the review and renegotiation of a number of key concession agreements.

A large share of the resources that have been committed for Somalia include the UA 25m ($35.6m) *Short Term Regional Emergency Response Project* (STRERP). Somalia continues to face serious challenges including food insecurity as a result of recurring droughts. For this reason, the Bank's Board of Directors approved, in July 2017, the STRERP, which falls within the context of the Bank's broader "*Say No To Famine*" framework. Among other interventions, this project aims to stimulate the local private sector and reduce cross-border migration in search of food, water and pasture. The project also includes activities to put in place the preliminary building blocks that will strengthen links between the production, distribution and consumption hubs of food systems in the affected regions. This will help facilitate increased system-wide efficiency and longer-term resilience, which is aligned with the Bank's High5s priorities, and particularly the *Feed Africa Strategy*.

The Bank will continue to play a leadership role in the dialogue related to the infrastructure pillar of the NDP. The Bank will also continue to participate in discussions related to broad economic development, PFM and financial governance issues. This will include active participation in dialogue on the country's external debt arrears clearance and the HIPC process[6], as Somalia's normalization of its relationship with multilateral institutions will unlock access to resources (e.g. ADF and IDA) which are vital for funding the country's infrastructure development programme. Furthermore, as the administrator of the SIF, the Bank will continue to play an active role in the SDRF Steering Committee. The Bank will benefit from the political and security dialogue in this forum, as this will help to identify risks to the new CB's programme and also ensure that Bank supported projects 'do no harm' and directly contribute to Somalia's state building.

The Bank's analytical work will continue to be demand-led, ensure complementarity with the project pipeline, and remain selective to effectively inform country policy dialogue. During implementation of the CB 2017–20, emphasis will be on undertaking analytical work that directly helps to prepare quality projects in the indicative project pipeline. The analytical work will include an assessment of the *Vocational Training Sector*, to understand what exists and identify the support required from the Bank to expand and develop one or more existing centre(s). These would be centre (s) that develop construction related skills, so that the rehabilitation of infrastructure and its subsequent maintenance is labour intensive and provides job opportunities for the unemployed, particularly vulnerable youths, in Somalia. A feasibility study for the establishment of a *Somalia Electrification Agency* will also be undertaken to inform FGS and interested partners on the initial institutional steps that will be required to accelerate the development and formalisation of the energy sector. The Agency will, in the short to medium-term, be tasked with guiding and accelerating the formalisation and expansion of electricity supply. Additional analytical and knowledge work will

[6] The Bank's role to date (e.g. reconciling the debt, setting up a debt-management-unit) in the arrears clearance and HIPC process has been laudable in catalyzing the interest and momentum of other key development partners (including the IMF, USAID, WB, DfID and EU) who are central to the process.

be identified on an on-going basis during the country dialogue with the authorities and other stakeholders.

On the external debt database, the African Development Bank provided significant support to the Debt Management Unit (DMU) in the Ministry of Finance. More recently, the IMF has collaborated closely with the DMU to complete the external debt database, which is expected in 2018.

STATISTICAL ISSUES

(As of December 31, 2017)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. Data gaps are caused by institutional weaknesses and weak capacity, and poor source data.. The Somali authorities have established the Somali National Bureau of Statistics (SNBS) and submitted to the parliament the new statistical law.
National Accounts: STA in collaboration with MCD and the World Bank have re-estimated new GDP series for 2013–16. Estimates for government final consumption expenditure and public investment are derived from the FGS and five Federal Member States (FMS) accounts (Somaliland, Puntland, Jubbaland, South West State, and Galmudug State).. Household final consumption used the World Bank 2016 high frequency household. Estimates for private capital formation are based upon imports of machinery and construction material from counter-party trade data. The FGS continues to seek TA to address data gaps and intends to commence reporting of basic IFS data to the IMF as they become available.
Price Statistics: The FGS began has started publishing Consumer Price Index (CPI) online. MCD and STA have helped the developed new CPI series using the World Bank 2016 high frequency household. The new series include basket of 419 items (312 items previously). With STA support, progress is being made on improving the expenditure weights for the CPI and expand the national coverage of the CPI, including Puntland while continuing to improve the CPI quality. Somalia does not have a producer price index (PPI).
Government Finance Statistics: FGS commenced use of an automated financial management information system (FMIS) during 2015 to replace the previous manual recording of fiscal operations. However, staff has some concerns about the robustness of this system and the authorities' possible lack of control over it. A mapping between the underlying chart of accounts and GFS items is being developed with technical assistance from the IMF. The Minister of Finance has indicated a desire to present a consolidated national budget (for the FGS and FMSs together); a GFS technical mission discussed this with the authorities in January 2018. Somalia does not currently have any significant public trading enterprises.
Monetary and Financial Statistics: The CBS financial reporting is improving but the balance sheet data is incomplete. Commercial banks started reporting quarterly balance sheet data on a quarterly basis in 2017. Neither is consistent with IFRS and both should be considered under construction. Over the period, increased financial information will need to be collected from money transfer bureaus (MTBs) and mobile money operators, in line with the financial sector road map.
Financial sector surveillance: Financial sector surveillance has improved but much work remains. Improved financial data, that is IFRS compliant is an important step. As noted above, reporting requirements will also need to be expanded to MTBS and mobile money operators.

External sector statistics: A time series for annual Balance of Payments has been compiled for 2013–15. Results are largely based on third party data and dependent upon qualitative assessments of the authorities and broad assumptions applied to existing data. Estimates for imports and exports of goods and services are based upon counter-party data. Customs administration reforms are expected to improve data on the trade in goods via the port of Mogadishu in 2018. Off-budget grants data have been updated employing the World Bank report on aid flow mapping and the budgetary grants are obtained from the FGS fiscal data reporting. Remittance data for 2013 was compiled using counter-party bank data. However, a survey of MTBs was initiated in 2017 and is expected to replace the third-party data as the survey data improves. Trade in services is comprised by the CIF portion of goods trade and travel, employing data from the Immigration Department. An estimate of Somalia's reserves will be available when balance sheet data from the CBS are audited and published, expected in early 2018. On the FGS external debt, the debt database is expected to be complete in 2018.

II. Data Standards and Quality	
Somalia does not participate in the enhanced General Data Dissemination System (e-GDDS).	No data ROSC is available.

III. Reporting to STA
No data in the format of SRFs have been received by STA.

Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[7]	Memo Items: Data Quality – Methodological Soundness[8]	Memo Items: Data Quality – Accuracy and Reliability[9]
Exchange Rates[1]	n.a.	n.a.	D	n.a.	n.a.	n.a.	n.a.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	12/2017	01/2018	M	M	n.a.	n.a.	n.a.
Reserve/Base Money[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Broad Money[1]	n.a.	n.a.	n.a.	n.a.	n.a.		
Central Bank Balance Sheet[2]	09/2017	01/2018	M	M	n.a.		
Consolidated Balance Sheet of the Banking System	n.a.	n.a.	n.a.	n.a.	n.a.		
Interest Rates	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Consumer Price Index	12/2017	01/2018	M	n.a.	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government[4]	n.a.	n.a.	M	n.a.	n.a.		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
External Current Account Balance	12/2016	12/2017	A	A	n.a.	n.a.	n.a.
Exports and Imports of Goods and Services[5]	12/2016	12/2017	A	A	n.a.		
GDP/GNP[5]	12/2016	12/2017	A	n.a.	n.a.	n.a.	n.a.
Gross External Debt	12/2016.	01/2018	A	n.a.	n.a.	n.a.	n.a.
International Investment Position[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: The Somali authorities have provided fiscal, exchange rates, and public external debt data to the mission team during staff visits and this consultation.

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] This reflects the assessment provided in the data ROSC or the Substantive Update for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

Statement by Dumisani Hebert Mahlinza, Alternate Executive Director for Somalia, and Abdulqafar Abdullahi, Advisor to Executive Director February 21, 2018

Our Somali authorities thank staff for the constructive engagement during the 2017 Article IV Consultation and the First Review under the Staff Monitored Program (SMP). They broadly concur with staff's assessment of the macroeconomic challenges facing the country and policy recommendations. The authorities remain committed to the implementation of the economic reform agenda under the SMP, and believe it is essential to improving the economic wellbeing of its citizens.

In parallel, the authorities have prioritized the establishment of a viable fiscal federalism framework between the Federal Government of Somalia (FGS) and the Federal Member States (FMS). The ongoing Constitutional Review process will clarify roles and responsibilities of the different levels of government including the assignment of revenue. Implementation of the newly created national security architecture and the ongoing dialogue between national and regional leaders will facilitate peace and stability in the country.

Somalia continues to experience the lingering effects of a severe drought which negatively impacted economic activity in 2017. The humanitarian consequences of the drought were partly averted by timely responses from the authorities alongside support by the international partners and the Diaspora community. The challenging security conditions, characterized by several attacks by terrorist groups, continued to weigh on growth.

As a result, economic growth slowed down to 1.8 percent in 2017, from 2.4 percent in 2016. Steadfast implementation of economic policies supported by the Fund, moderated the slow-down in economic activity. Inflation increased to 5.2 percent in 2017 from 1.3 percent in 2016 on the back of high food prices. As the drought effects recede, inflation is expected to decline to 2.8 percent in 2018 and remain low thereafter. At the same time, economic growth is expected to recover and stabilize at 2.5–3.5 percent in 2018–20.

The fiscal position ended the year with a surplus of $2.7 million, owing to a better than expected revenue collection, improved expenditure management, and unexpected donor budget support. Domestic revenue collection exceeded the program budget by $5.09 million (3.7 percent budgeted revenue) and additional support from donors filled the fiscal gap created by unrealized budgeted grants.

Despite the recent challenges, the Somali authorities have remained steadfast in advancing the reform agenda under the SMP. As part of an effort to enhance program implementation, the authorities have elevated monitoring of the SMP progress to a weekly agenda item during Cabinet meetings. This focus has galvanized the whole of government to support the successful completion of the SMP.

Program performance under the SMP remains satisfactory, with most of the performance and structural benchmarks for June and September 2017 having been met. However, two out of four Indicative Targets (IT) due in June 2017, and one out of six ITs due in September 2017 were missed by small margins owing to the political transition, security incidents, and temporary delays in implementing some of the revenue measures. By the end of September 2017, only one structural benchmark was still in progress due to difficulties in cancelling two out of five revenue collection contracts, which are currently being renegotiated.

Over the years, the authorities have made considerable progress in strengthening institutional capacity to collect revenues. Domestic revenue collection has increased by 88.2 percent between 2013 (the first full year budget) and 2017. Despite the drought, security challenges and the political transition, domestic revenue increased by 27 percent in 2017.

Somalia is committed to maintain strong fiscal discipline supported by firm fiscal anchors. Measures to improve tax administration and revenue collection have yielded positive results. In the last six months, the FGS created a large tax-payers' office, introduced sales tax in hotels, and started collecting sales tax on imported goods at ports of entry. The FGS also reached an agreement with telecommunications companies to move away from negotiated taxes to sales tax based on transactions. Further, collection of payroll tax from employees of large NGOs and telecommunications companies has commenced, while the number of tax exemptions on imported goods have been reduced. Discussions between the FGS and its FMS are underway to lay the foundation for the move away from specific customs tax to ad valorem, recognizing that there is scope to increase customs revenue.

The authorities remain committed to improve Public Finance Management. Towards this end, a commitment control system has been implemented across all MDAs, cash advances for procurement are being reduced, and a civil service audit to improve public service efficiency is on-going. As part of the fiscal consolidation program, the authorities are reviewing security expenditures, which accounted for 28% of total government expenditure in 2016. At the same time, biometric registration of all security personnel, aimed at streamlining the payroll, is ongoing.

The Central Bank of Somalia (CBS) continues to advance efforts to improve its capacity to license, regulate and supervise financial institutions. With the support of the World Bank, a new payment system has been launched and the CBS has reached a general agreement with all major financial institutions to create the first Somali inter-bank payment system, with a view to improve financial intermediation.

The authorities remain committed towards the successful implementation of currency reforms. Towards this end, the CBS has completed a comprehensive currency reform road map and commenced preparatory work for a successful phase one, which entails the introduction of a new currency. They have mobilized other branches of government and obtained agreement from FMS to support the process.

The authorities believe that a strong and integrated financial sector that is acceptable to the international financial community is key for economic development. In this regard, the CBS has developed a detailed financial sector road map to be implemented with the support of international development partners led by the IMF and the World Bank. In addition, the CBS has continued to improve its capacity to supervise both banks and money transfer businesses, with support from the Fund. Efforts are also underway to address regulatory and capacity gaps in the Anti-Money Laundering and Combating the Financing of Terrorist (AML/CFT) framework. Further, the Financial Reporting Centre for suspicious transactions is operational, and efforts to develop critical regulations are continuing. That said, the authorities remain committed to further strengthen the regulatory framework.

Curbing corruption remains a key priority for the authorities. In this regard, the President, the Prime Minister, and the Minister of Finance embarked on a strong public campaign against corruption, since the new government assumed office. A new Auditor General and an Accountant General were appointed in the last six months, and a competitive recruitment process for Directors General and Permanent Secretaries for all MDAs is ongoing. In addition, the FGS is rebuilding the integrity of its institutions and putting in place stringent measures to safeguard public funds. Further, the government is slowly creating an environment where impunity to misappropriate public funds or assets is becoming increasingly difficult.

The authorities recognize that a thriving and vibrant private sector is key to job creation and economic growth. In this light, decisive steps have been taken to improve the business environment, including the recent passage of a foreign direct investment law together with the adoption of a procurement bill to foster private sector development. Further, a high-level dialogue between the government and business leaders to ensure support for the government reform agenda and improve the business environment, is ongoing.

Regarding improvement to the capacity for data collection, analysis and timely dissemination of statistics, Somalia has taken advantage of numerous technical assistance opportunities from the IMF and other development partners. In addition, the establishment of the Somalia Bureau of Statistics and the passage of the new Statistical Law, which is under parliamentary consideration along with improved capacity of the CBS to collect financial data, will allow the government to collect and report reliable economic and financial data.

Tangible progress has been made to advance the fiscal federalism agenda. Since September, finance ministers agreed to harmonize selected taxes, update national sales tax regime, and create harmonized customs laws and administration with a goal of moving to ad valorem tax. Discussion among national leaders on natural resources management and revenue sharing have also gathered substantial momentum. On February 10, 2018, the FGS and FMSs leaders signed an interim agreement on the management and licensing of fisheries resources earlier. This agreement will allow Somalia to take advantage of the upcoming tuna fishing season and lead to the creation of Fisheries Management Authority.

The authorities recognize that successful implementation of the SMP is critical to an accelerated process towards re-engagement with International Financial Institutions (IFIs) and arrears clearance. While appreciating the support from development partners, they consider the inability to access IDA grants and other available grants from IFIs as a constraint to supporting the country's effort to rebuild its institutions and propel economic development. Re-engagement with IFIs through accelerated arrears clearance could unlock grants from many sources to support improvements in security, poverty reduction, and rebuilding of economic infrastructure and deepening reforms. Likewise, it could also improve government's credibility and facilitate intergovernmental fiscal relations and negotiations.

The Somali authorities are taking steps towards meeting some of the conditions required for debt relief. The Debt Management Unit, with support from African Development Bank, has reconstructed 67% of the external debt database. With the cooperation of the remaining bilateral creditors, the authorities will soon complete the validation exercise. In addition, Somalia intends to produce a poverty reduction strategy paper, within a short period of time, using the high frequency survey and poverty level data produced with the assistance of the World Bank along with the National Development Plan. That said, the authorities stand ready to work with the Fund to ensure speedy external debt relief and arrears clearance.

The authorities remain committed to the successful completion of the current SMP program, which has laid a solid foundation for macroeconomic stability and eventual resolution of the country's debt burden. They are particularly grateful to the international community for their consistent and high-level support, including through the IMF Multi-Partner Trust Fund. They look forward to a successor SMP to help address the challenges that lay ahead. They remain committed to sustaining the reform momentum and look forward to an accelerated re-engagement to reach the Decision Point of the HIPC process, and unlock critical external resources required to support sustained and inclusive growth.