



# SOMALIA

## POVERTY REDUCTION STRATEGY PAPER—JOINT STAFF ADVISORY NOTE

March 2020

The attached Joint Staff Advisory Note on the Poverty Reduction Strategy Paper for Somalia, prepared by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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## JOINT STAFF ADVISORY NOTE ON THE NINTH NATIONAL DEVELOPMENT PLAN 2020-24

March 6, 2020

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## OVERVIEW

**1. This Joint Staff Advisory Note (JSAN) reviews Somalia's Ninth National Development Plan (NDP9), covering 2020–24.** The Cabinet of the Federal Government of Somalia (FGS) approved NDP9 on September 26, 2019, and the Ministry of Planning, Investment and Economic Development (MoPIED) subsequently published the NDP9 document on its website.<sup>1</sup> Somalia submitted it to the IMF and World Bank on October 15, 2019, to fulfill the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative's poverty reduction strategy requirement.<sup>2</sup>

**2. Somalia has made noteworthy progress since 2012 to recover from decades of conflict and state fragmentation.** The 2012 Provisional Constitution established a federal political structure, including a parliament, the Federal Government of Somalia (FGS) and the Federal Member States (FMSs).<sup>3</sup> Meanwhile African Union forces liberated the capital Mogadishu and other key strategic cities from terrorist groups. Since that time, the country has succeeded in rebuilding core state capabilities, and organized two democratic national elections in 2012 and 2017. Somalia has now reached the stage where it seeks to fully reengage the international community and is requesting debt relief through the HIPC Initiative.

<sup>1</sup> The plan is available at: <http://mop.gov.so/wp-content/uploads/2019/12/NDP-9-2020-2024.pdf>.

<sup>2</sup> "Under the proposed Enhanced HIPC Initiative, it is envisaged that a viable and comprehensive poverty reduction strategy be in place prior to the decision point." IDA and IMF, "Heavily-Indebted Poor Countries Initiative: Strengthening the Link between Debt Relief and Poverty Reduction," August 1999.

<sup>3</sup> The FMSs are Galmudug, Hirshabelle, Puntland, Jubbaland, and South West States. In 1991, Somaliland declared its independence, which is not recognized internationally.

**3. NDP9 is a nationally owned and comprehensive strategy for poverty reduction and inclusive growth.** The strategy is informed by an analysis of the drivers of poverty, which include political fragility, conflict, insecurity and lawlessness, and climatic shocks. This analysis was validated through extensive consultations with a wide range of stakeholders. Building on this, NDP9 presents a comprehensive strategy to reduce poverty in Somalia that is organized around the four pillars of inclusive politics, improved security and the rule of law, inclusive economic growth, and improved human development.

**4. NDP9 builds on lessons learned from past planning exercises and on the successes of the 2017–19 NDP (NDP8)—the first to be crafted by the Somali government since 1986.** Those preparing NDP9 aimed to correct deficiencies of planning as it was undertaken prior to the civil war. Contemporary analyses criticized pre-1991 NDPs on the grounds that they were not underpinned by a credible macroeconomic framework, they presented investment plans that lacked prioritization or supporting analysis, planning was divorced from budgeting, and plans lacked mechanisms for monitoring and evaluation.<sup>4</sup> In stark contrast to pre-war development plans, the stated objective of the eighth and ninth NDPs is poverty reduction, and these NDPs also place a priority on addressing drivers of conflict and fragility. Those leading the development of NDP9 noted that limited alignment between national- and state-level plans hampered implementation of NDP8. They aimed to address this through greater stakeholder participation in plan preparation, especially at state and local levels. In addition, they worked to embed in NDP9 a strategic framework whose prioritization was grounded in analysis and refined through stakeholder consultation. Finally, they sought to avoid fragmentation by focusing NDP9 on four pillars, versus nine in NDP8.

**5. This JSAN offers feedback on NDP9 from the staffs of the IMF and World Bank.** It reviews the process for preparing the strategy, its poverty diagnosis and macroeconomic underpinnings, the main components of the strategy, and finally the plans for implementation. The JSAN presents staffs' views on priorities for strengthening the strategy and its implementation.

**6. Staffs consider that NDP9 exceeds the standards of a typical interim poverty reduction strategy.** Relative to standard requirements for interim strategies, NDP9's underlying analysis is deeper, topics and policy discussions are broader, stakeholder consultations more extensive, and articulation of strategies are more comprehensive than has usually been required at the HIPC Decision Point. This JSAN identifies two areas for improvement that are critical for Somalia to satisfy the HIPC Completion Point requirement of at least one year's satisfactory implementation of NDP9: present information on the costing and related financing of planned interventions; and update the plan's underlying macroeconomic and fiscal framework.

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<sup>4</sup> See for example World Bank, "Somalia: Country Economic Memorandum" (January 1979), "Somalia: Towards Economic Recovery and Growth" (August 1985), "Somalia: Crisis in Public Expenditure Management" (March 1991), and "Somalia: From Resilience Toward Recovery—A Country Economic Memorandum for Somalia" (January 2006). It should be noted that pre-1991 NDPs were prepared in the context of a unitary state and aimed to direct a state-led economy.

## PARTICIPATORY PROCESS

**7. The authorities developed NPD9 through a highly consultative, participatory process that ensured full country ownership.** They held public consultative meetings with civil society, private sector representatives, FGS and FMS line ministries, national and state parliamentarians, members of the judiciary, and development partners. Consultations proceeded through three distinct rounds that achieved strong participation throughout development of the plan by: (i) gathering stakeholder input on the nature and causes of poverty and on poverty reduction measures (January–March 2019); (ii) forging a consensus around proposed strategic priorities and interventions (May–June 2019); and (iii) validating the plan prior to Cabinet approval in (August–September 2019).

**8. The process was structured to build consensus and ownership at all levels of the federal system.** In each round, meetings with national-level stakeholders in Mogadishu were complemented by consultations at state and local levels. Starting at the concept stage in mid-2018, development of NDP9 was overseen by the National Development Council, a body comprised of the federal and all five state planning ministries.

**9. The NDP9 document incorporates input received during consultations.** The issues raised in each round are presented in detail, both by stakeholder type and by region of the country. Stakeholder input is integrated into the situation analysis for each pillar of NDP9 and clearly informs each pillar's strategies.

## POVERTY DIAGNOSIS

**10. The poverty diagnosis in NDP9 is informed by the Somali High Frequency Survey (SHFS), which is the main source of income poverty data in Somalia.** The SHFS was collected twice—in 2015 and 2017—by the World Bank in collaboration with the FGS Directorate of National Statistics. SHFS is a multi-topic household survey that offers detailed information on housing conditions, education, employment, access to services, security, displacement, gender, remittances, internal displaced population, and perceptions. It can be used to develop a multidimensional poverty indicator.<sup>5</sup>

**11. Staffs welcome the detailed poverty profiles and determinants in NDP9.** The document presents Somalia's poverty profile, spatial variations in living standards, drought impact, displacement, social protection, and remittances. As the two waves of SHFS were not comparable, for the most part, the analysis provided was a snapshot as adequate data for trend analysis was not available

**12. However, staffs caution that SHFS data have important limitations.** Neither wave of SHFS is nationally representative because data were not collected in highly insecure areas. Due to differences in coverage across the two waves, estimates of poverty rates are not directly comparable, and therefore, one cannot say how poverty evolved between 2015 and 2017. Staffs note further that the sustainability of this

<sup>5</sup> The microdata are publicly available on the website of the Directorate of National Statistics at <http://microdata.dns.org.so/>.

survey is questionable since the data were collected and processed by a private survey company hired by the World Bank.

**13. Finally, staffs note that no assessments of the poverty or distributional effects of past development policies or plans are available.** The lack of data has long hampered the ability of the government and partners to monitor progress, target appropriate interventions or design evidence-based policies. With support from development partners, NDP9 looks to strengthen the National Statistical System to monitor core social and macroeconomic statistics. (See the section on Implementation, Monitoring and Evaluation below for more information on statistical capacity building.)

## MACROECONOMIC POLICIES

### A. Introduction

**14. The macroeconomic policy objectives of NDP9 are to promote economic growth in an environment of low inflation, sustainable fiscal and current account balances, and healthy foreign exchange reserves.** The staffs of the IMF and World Bank consider these objectives to be broadly appropriate. Macroeconomic stability and higher and more inclusive growth are preconditions for reducing poverty. Fiscal sustainability requires remaining current on debt service falling due after the HIPC Decision Point and implies avoiding any new debt before reaching the Completion Point. Somalia's de facto dollarization largely ensures price stability. However, building and maintaining a healthy level of foreign reserves by may prove a more challenging policy objective, given the current constrained macroeconomic environment and the authorities' lack of monetary and exchange rate policies and instruments. Additionally, the role of the financial sector development could be expanded upon to explain its potential to catalyze growth.

**15. Staffs welcome the macroeconomic framework presented in the NDP9 document.** The framework is consistent with Somalia's historical trend and capacity to mobilize resources. Its growth outlook is appropriately conservative. The framework includes a gradual improvement in real economic growth from the base year of 2018 to 3.5 percent by 2022, representing only a small increase in real per capita income. Consumer price inflation is anticipated to decline from 3.2 percent in 2018 to 2.2 percent in 2022, which reflects inflation that is consistent with a dollarized economy. The fiscal framework indicates expectations of only modest surpluses or deficits during the period and is consistent with the authorities' commitment to fiscal discipline as a part of Somalia's IMF program. In addition, the authorities have instituted a buffer to mitigate the revenue volatility the FGS routinely faces. The current account deficit is expected to remain large at over 8 percent of GDP, reflecting a structural trade deficit that is financed by international grants, remittances, and foreign direct investment.

**16. This framework has become outdated, however, and staffs recommend updating it to incorporate greater support for poverty reduction and additional financing from development partners during the Interim Period.** The framework presented in NDP9 is grounded in a baseline scenario where Somalia does not reach the HIPC Decision Point or receive debt relief. The staffs of the IMF and World Bank are working with the authorities to revise the framework to reflect the more realistic

scenario where Somalia reaches the HIPC Decision Point in early 2020. At that time, the country would gain access to additional grant financing, particularly from the World Bank and African Development Bank. This would support a higher growth trajectory in the medium- and long-term than shown in NDP9's current macroeconomic framework, together with associated changes in the medium-term fiscal framework and the balance of payments. The new framework should maintain a conservative approach to the new projections for growth but could reflect the experience of other countries that reached the Decision Point and have completed the HIPC Initiative process. It could also highlight possible upside surprises to the new baseline that may come from new sources of growth, such as the commercial fishing and petroleum sectors, and from the opening up of regional trade in the of Horn of Africa.

## B. Monetary and Financial Sector Policies

**17. Financial sector regulation and supervision, as well as the anti-money laundering and countering of financing of terrorism (AML/CFT) framework, are critical policy areas.** Staffs welcome NDP9's discussion of these financial sector reforms. They are critical for the financial system to support economic development and foster investment in a sustainable manner and for improving the environment for remittance flows. Staffs and authorities are using the Financial Sector Roadmap as a guide to financial reforms, which are now broadening beyond the banking sector to also include the mobile money and payments systems areas. An important part of the roadmap is the improvements in the organization and governance of the Central Bank of Somalia (CBS), which will be gradually modernized to meet the challenges of the growing financial sector, as well as the anticipated strengthening the Financial Reporting Centre, which along with the CBS and Ministry of Finance (MoF), is at the center of the AML/CFT agenda. Equally important will be the introduction of a digital identification system, which would not only strengthen the know-your-customer dimension of Somalia's AML/CFT framework, but also facilitate citizens' interactions with the government.

**18. Staffs support the authorities' commitment to issuing new Somali shilling banknotes, while maintaining de facto dollarization.** Somali shillings make up only a small amount of money in circulation—only around 0.7 percent of annual GDP.<sup>6</sup> Apart from a small number of notes printed before 1991, all currency in circulation is counterfeit. A key element of financial sector reforms outlined in NDP9 is therefore the issuance of new legitimate banknotes to stamp out counterfeiting activity. The new notes will represent only a small share of the money in circulation, as most transactions are conducted in dollars and the use of mobile money is prevalent. The new shilling notes will provide a more secure store of value and medium of exchange for those that need them to purchase necessities. It also has financial inclusion benefits for the most vulnerable in society who do not have dollar earnings nor access mobile phones to make payments—including internally displaced people (IDPs) and households in remote areas, and those in rural communities. These groups are disproportionately affected by the absence of legitimate notes. Nonetheless, staffs expect Somalia's economy to remain effectively dollarized for some time to come. The development of monetary and exchange rate policies and instruments as well as reserves management will

<sup>6</sup> In 2017, CBS estimated the value of shilling notes in circulation at around 766 billion shillings, equivalent at that time to around US\$33 million.

need to be considered once the shilling is introduced but are likely to play a limited role in macroeconomic management in the early stages.

## C. Fiscal Policy and Management

**19. The authorities should regularly update NDP’s fiscal projections to keep them in line with the latest annual budget and medium-term fiscal framework (MTFF) of the MoF.** This will require consistent coordination between officials of MoF and MoPIED. Staffs have provided technical assistance to the MoF in revising the MTFF and macroeconomic framework to reflect expected conditions after reaching the HIPC Decision Point, including resumed debt service payments, the expected increase in grant financing, and the outcomes of the debt restructurings. The MTFF will be regularly updated based on new developments. It is expected to become embedded in the annual budgeting process—supporting budget preparation, providing constraints on budget expenditures, and instilling fiscal discipline. NDP9’s revised fiscal projections should also reflect the quantitative performance criteria and indicative targets under the new three-year financing arrangement with the IMF that is expected to be approved at the HIPC Decision Point.

**20. Despite recent substantial progress, stronger revenue collection is needed.** Somalia’s domestic revenue level is projected to grow to 4.5 percent of GDP in 2020. Although double its value in 2014, this is the lowest level in the world. Revenue mobilization reforms identified in the NDP9 document are broadly adequate, but a more granular presentation of revenue measures and their sequencing would be welcome. Staffs would also welcome measures to improve tax administration, including activities to be undertaken by the newly established Large and Medium-term Taxpayers Office, as well as improved collection at the port and airport. As plans are developed to implement the newly enacted Revenue Law, the impact should be incorporated into the MTFF and reflected in the NDP9.

**21. Continued public financial management (PFM) reforms would support the fiscal discipline, transparency, and accountability needed to implement NDP9.** The authorities have made significant progress towards more systematic and transparent budget planning and execution, better cash management and forecasting, and more transparent reporting. Continuous improvement in PFM systems, supported by regulations to operationalize the recently enacted PFM Law, would help to improve the efficiency of spending. More efficient PFM processes will be needed to handle the increased scale and complexity of development financing that Somalia should expect to receive after reaching the HIPC Decision Point. Moreover, the authorities will need to rebuild public investment management capabilities as spending on social programs and capital investment increases. It would also be beneficial for the FGS to begin moving to introduce programmatic budgeting over time, when PFM capacity has adequately improved to better align spending with NDP9 priorities.

**22. NDP9 correctly highlights that Somalia’s external debt is unsustainable.** The staffs welcome the government’s commitment not to engage in new external borrowing until debt falls to a sustainable level and capacity to repay improves. Even after receiving debt relief at the HIPC Completion Point, Somalia’s debt carrying capacity will be low. Any future borrowing should be carefully analyzed and aligned with Somalia’s future capacity to repay and with the objective of maintaining medium-term fiscal sustainability. Staffs stress that it is critical for the authorities to stay current on all their obligations falling



due and not to accumulate any new arrears. The authorities will need to pursue a debt strategy that aligns the fiscal framework to this carrying capacity. As noted in the NDP9 document, strengthening the government's debt management institutions will be important both during debt relief operations and for better debt management in the future. In this context, staffs encourage the authorities to strengthen the capacity of the Debt Management Unit by developing an action plan to swiftly improve its analytical, negotiation, recording, and reporting capacity.

**23. Finally, staffs welcome NDP9's emphasis on fiscal federalism, which is a critical dimension of the fiscal framework and financing of NDP9 priorities.** As discussed below, staffs welcome the country's efforts to assign spending and revenue functions across levels of government and to develop an equitable system of intergovernmental transfers. These fundamentally shape the resource envelope and the volume and composition of spending in the fiscal framework.

## D. Financing and NDP9 Costing

**24. As acknowledged in the NDP9 document, the absence of cost estimates in the plan is a significant gap.** Filling this gap is a critical step toward implementing the plan and raising the necessary financing. Staffs acknowledge the challenges in this exercise, and the authorities have expressed the need for technical assistance to support the costing effort. FGS and FMS officials will consult with donors on this exercise. (See below for more information on the role of the states in NDP9 implementation.) Staffs appreciate the authorities' effort to indicate priorities by showing the percentages of the fiscal space available in 2020 that would be allocated by NDP topics (see Table 26 on page 300 in the NDP9 document). Once the costing exercise for 2020–24 is completed, the staffs expect the authorities to prepare a supplementary 2020 budget that confirms how those percentages have been applied to the additional fiscal space resulting from higher post-Decision Point inflows and to provide a detailed costing estimate for the fiscal year 2021. The portion of that estimate that is expected to be on-budget will be made part of the 2021 budget. Indicative estimates for the other years of the NDP9 will be included in the FGS's MTFF.

**25. Revisions to the Somalia's aid architecture are important for implementation of NDP9, especially given the significant off-budget flows that greatly exceed aid channeled through the FGS budget.** Staffs support the authorities' goal of improving the use, direction, and transparency of official development aid (ODA). This would increase the effectiveness and accountability of NDP9 and ensure the consistency of ODA with its priorities. The authorities should carefully consider the new guidelines and operations and discuss them with ODA providers.

**26. Staffs also encourage ODA providers and other partners to provide timely and complete information on their activities in Somalia.** The interventions presented in NDP9 will rely heavily on external support for financing and project management, while federal and state governments build capacity to implement a full public investment program. Federal and state authorities must be able to incorporate information on externally financed activities into their planning and budgeting processes, as well as include data from these activities in monitoring of NDP9 implementation. Staffs suggest that the new processes for providing information to the authorities should aim to facilitate donors' efforts to respond to urgent development needs throughout Somalia.



## REFORMS PROPOSED IN THE STRATEGIC PILLARS OF NDP9

### A. Pillar 1: Inclusive Politics

**27. Pillar 1's objectives are to establish a functioning federal system that is embedded in a ratified constitution and that possesses the institutional capacity to carry out core state functions.**

The pillar calls for finalizing the Federal Constitution of Somalia, ensuring that all state laws are harmonized with the constitution, and clearly delineating the division of labor across local, state, and federal governments. Resumption of the FGS-Somaliland dialogue is also an expected result of actions in Pillar 1.

**28. Fiscal federalism issues are at the core of this pillar.** The assignment of spending functions (including responsibilities for making investments in human and physical capital) is inextricably linked with the political authority that the final constitution will vest in each level of government. Similarly, the Inclusive Politics pillar includes plans for the efficient allocation of revenue raising powers and mechanisms for equitably sharing national revenue. Staffs welcome interventions proposed in this pillar to implement the Revenue Administration Law and harmonize tax systems in the country. They agree on the need for an equitable sharing of revenue from natural resources. These will significantly improve NDP9's fiscal framework and financing of NDP9 priorities.

**29. Staffs encourage the authorities to accelerate the pace of fiscal federalism reforms.** Efforts should be made to maintain the momentum created by the 2019 Fisheries Agreement and the agreement on expenditure guidelines. These both support the constitutional reform process and would put in place legal and institutional elements of fiscal federalism that, in many federal systems worldwide, are defined outside of constitutions. Staffs note the need to harmonize provisions in the PFM and Petroleum Laws related to natural resource revenue sharing, to address potential horizontal inequities in oil revenue-sharing arrangements, to ensure accountability over shared revenues, and to establish procedures for the FMSs to contribute to national economic policy development.

**30. Staffs also encourage the authorities to incorporate measures that increase transparency and accountability into NDP9.** Openness in budgeting, the use of taxes, and public sector performance would increase the legitimacy of the state. Transparency is also an important tool for reconciliation. Staffs note that transparency measures typically do not require large funding and could lead to increased tax morale and compliance.

### B. Pillar 2: Security and the Rule of Law

**31. NDP9 identifies security and the rule of law as necessary conditions for economic and human development.** The document describes how terrorism, conflicts over water and other scarce resources, human trafficking, cyber-attacks, and illegal economic activities have contributed to poverty and fragility, undermined economic development, and resulted in environmental degradation. It notes accomplishments in improving PFM in the security sector, including the payroll verification and biometric registration of security personnel, the introduction of competitive bidding for rations contracts, and the

adoption of more robust internal controls and audit systems. Pillar 2 presents a rich collection of interventions to be undertaken between 2020 and 2024 to increase the effectiveness of national army and police forces, reform justice and judiciary systems, improve women's and other vulnerable groups' access to justice, protect human rights, and reduce corruption. Staffs welcome the commitments in NDP9 to ensure that security and legal institutions address disadvantages experienced by women, IDPs, ethnic minorities, and other disadvantaged groups.

**32. Explicit prioritization and costing of interventions would facilitate implementation of this pillar.** Although the plan contains a proposal for sequencing interventions over 2020–24, the document presents strategies and interventions without a clear filter or prioritization matrix. The document could have reflected more on financial investments required under this pillar and on tradeoffs between investments in the security sector and investments in other sectors. The security sector chapter is structured mainly around specific actors (police, army, etc.), while the work is often cross-cutting in nature. Interventions might be grouped according to overall security sector reform themes to make NDP9 implementation more efficient. As NDP9 is implemented, authorities might give emphasis to security and rule of law reforms that provide confidence and trust in government systems and build the capability of emerging government structures.

## C. Pillar 3: Economic Development

**33. Pillar 3 of NDP9 aims to broaden and sustain economic growth and provide greater employment opportunities by transforming traditional industries (e.g., livestock and crop production) and adapting them to climate change, while inducing growth elsewhere in the private sector.** Expected results include: (i) more resilient traditional livelihoods and food production systems; (ii) a policy and regulatory environment that is more accessible and attractive to investors and small businesses; (iii) a more diversified and future-fit economy; and (iv) reduced unemployment through the creation of work that is accessible to all levels of Somali society. The pillar proposes a broad set of interventions that include government investments in infrastructure and focuses on building the legal, regulatory, and institutional framework for private sector-led economic growth. Among these are the following actions:

- passage of foundational laws, including the Company Law (subsequently enacted in December 2019) and laws on insurance, intellectual property rights, and public-private partnerships;
- establishment or strengthening of regulatory bodies for banking, electricity, petroleum, and telecommunications; and
- articulation of sectoral strategies and master plans for energy, livestock, fisheries, urban development, and water.

**34. Staffs commend the authorities for the comprehensive analysis that underpins the strategies and interventions proposed in this pillar, and they welcome the pillar's emphasis on promoting inclusive economic growth as a driver of poverty reduction.** Staffs acknowledge that "economic development" is inherently wide-ranging and all-encompassing—this pillar of NDP9 includes agriculture, livestock, energy, petroleum, fisheries, transport, telecommunications, the financial sector, manufacturing, and construction. But they nevertheless encourage the authorities to focus and prioritize

interventions in this pillar of NDP9 to ensure successful implementation. Staffs also encourage the authorities to build on the participatory process used to develop NDP9 by ensuring that reforms implemented in this pillar are developed through structured consultations between the public and private sectors, between the state and civil society, and between local, state, and national governmental bodies.

**35. Agriculture and livestock.** Staffs note the need for public sector investment and services in this area (e.g., in irrigation and disease control). Staffs also encourage the authorities to focus on measures to catalyze private investment in areas that have high growth potential and could meet demands of the expanding urban population, such as dairy, meat, and poultry. Complementary investments and reforms in transport infrastructure, financial services, production and marketing systems, adaptation to climate change and adoption of drought-resistance crops and seed, animal health treatment, forestry, water, and energy could support increased productivity in agriculture and livestock.

**36. Infrastructure and energy.** Substantial investments will be required to finance the rehabilitation of infrastructure. Considering the constrained fiscal environment discussed above, staffs recommend that the authorities avoid any new debt but rather explore innovative financing structures that prioritize private sector solutions, giving due regard to appropriate governance mechanisms, and minimize the use of scarce public sector resources. This is especially relevant for the infrastructure and energy sectors, where markets are traditionally conducive to private investment. Recognizing the positive political developments in the Horn of Africa, the authorities might explore the feasibility of investments along trade corridors that can support regional market integration. In the energy sector, staffs encourage market-led interventions that: (i) establish and or strengthen the transmission and distribution of electricity; (ii) ensure access by small and medium enterprises; and (iii) bolster renewable energy on a least-cost basis.

**37. Petroleum.** As noted by the authorities, developments in the petroleum sector offer substantial opportunities for Somalia but are also subject to risks, potentially including corruption, environmental degradation, and the inequitable sharing of both the benefits and costs of oil production. Staffs strongly encourage the authorities to—prior to opening the sector to commercial exploitation—finalize the legal and regulatory framework governing the oil sector, its fiscal regime (e.g., by enacting the Extractives Industries Income Tax Law), and natural resource revenue sharing arrangements. Staff also underscore the importance of issuing regulations to implement relevant provisions of the PFM Law on natural resource revenue management, including those that require transparent reporting of natural resource revenues in budgets and public sector financial statements.

**38. International trade.** Staffs would welcome more clarity on the organizational framework for negotiating trade arrangements, including the Continental Free Trade Agreement, accession to the World Trade Organization, and on establishing a National Trade Facilitation Council. They welcome the authorities' plans to improve the country's trade facilitation systems, including the proposed trade information portal, which would enhance transparency and could help to streamline trade logistics processes.

**39. Medium and small enterprises.** Formalization of businesses in Somalia and providing an environment that encourages small firms to grow into large firms would support job creation. Staffs note NDP9 could give greater emphasis to the need for business entry reforms (currently under implementation

by the Ministry of Commerce and Industry) and possible interventions specifically aimed at encouraging growth by small enterprises.

## D. Pillar 4: Human Development

**40. Pillar 4 focuses on building human capital and increasing resilience to shocks as the foundations for poverty reduction and promotion of shared prosperity.** Staffs concur with the analysis underpinning this pillar of NDP9, which shows that decades of conflict, state fragmentation, and environmental shocks have left Somalia with health and education levels that are amongst the lowest in the world. Staffs also note that the private sector and non-state actors currently provide most primary health, and education and social protection services—financed by household income, remittances, and foreign grants—and that reintroduction of public provision of these services will take place in a federal political system. These arrangements present unique opportunities and challenges. NDP9 addresses them with strategies and interventions that emphasize partnerships, standards, accountability mechanisms, and scaling up of pilot projects.

**41. Staffs agree with NDP9’s emphasis on developing foundations for service delivery, such as basic standards and regulations for non-state providers, and better coordination of humanitarian assistance.** These must be accompanied by strengthening direct service delivery for vulnerable groups and multisectoral interventions that include enhanced access to safe water and sanitation within the framework of progressively increasing financing and improved governance. Some key steps have already been taken, such as the approval of the National Social Protection Policy, the Education Sector Strategic Plan (2018–20), the new national education curriculum, and increased access to an Essential Package of Health Services. Staffs also agree with NDP9’s emphasis on women’s empowerment—with the reduction in the number of females undergoing female genital mutilation being a key indicator—and the special attention NDP9 gives to the needs of vulnerable groups, such as displaced persons.

## E. Cross-Cutting Issues: Climate Resilience and Legal Reform

**42. Staffs welcome that the authorities have identified building resilience to climate shocks as a cross-cutting priority and key theme of NDP9.** References to it and to the 2018 Recovery and Resilience Framework (RRF) appear throughout the NDP9 document, and resilience is a particular focus in the Economic Development and Social and Human Development Pillars. Figure 15 (on page 69 of the document) is also helpful in emphasizing its cross-cutting nature and wide geographic scope, and in identifying the broad areas of intervention by non-governmental organizations, FMS, and FGS. The importance of this theme cannot be understated given the country’s vulnerabilities to drought, floods, and now locusts. The authorities could have brought out NDP9’s connections to the RRF more clearly, since it is currently spread out in various sectors, and the key messages from the RRF could have been more prominently discussed and highlighted.

**43. NDP9 also includes a challenging legislative reform agenda.** Many proposed interventions require new laws or amendments to pre-1991 laws to support Somalia’s transition to a federal state and a market economy. The constitutional reform process will result in the need for new legal reforms, as will the

government's plans to join the World Trade Organization (WTO) and East Africa Community.<sup>7</sup> Somalia's engagement with international partners adds an additional layer of complexity, through multiple programs of financial and technical assistance for legislative reforms on the one hand, and varying conditionality in these programs on the other (including the HIPC floating Completion Point triggers). Pursuing these reforms could tax the country's limited capacity. Staffs therefore recommend that the authorities develop and regularly update a prioritized Legislative Action Plan that assigns clear responsibilities and deadlines for their completion.

## IMPLEMENTATION, MONITORING AND EVALUATION

**44. NDP9 adequately identifies the main implementation challenges facing Somalia, including those relating to internal capacity constraints and multi-level coordination, and it correctly identifies the need to adopt a budgeting strategy that integrates donor and domestic fiscal resources for the duration of the plan.** Building on the experiences of NDP8 (see paragraph 4. above), the Implementation chapter of NDP9 proposes a set of government-driven aid, coordination, and oversight policies that aim to progressively strengthen capacities of the state. Staffs welcome the authorities' plan to establish a National Aid Policy, guided by a comprehensive set of implementation strategies: clear division of responsibilities between federal and state governments, joint coordination of service provision by government and partners, costing and prioritization, rolling out geographically-relevant interventions (within and/or across administrative jurisdictions), leveraging data for a results and learning-based management approach, and finally strengthening specific core government functions.

**45. NDP9 envisions implementation at multiple levels of government and in coordination with non-state actors.** FGS ministries will have primary responsibility for policy development, vertical coordination with FMSs, data collection and management, and monitoring. They will develop standard operating procedures for program development and implementation. FMS and Somaliland governments will produce state-level strategies and plans. State-level ministries will be primarily responsible for implementation of the initiatives by which national and state-level priorities will be met. States will also be responsible for localizing the sectoral plans prepared by federal line ministries. Under the recently approved national monitoring and evaluation strategy for NDP9, FMSs will provide quarterly, semiannual, and annual reports to the MoPIED Monitoring and Evaluation Directorate. Furthermore, NDP9 calls for continuing the collaboration with non-state actors, which for many years have been providing health, education, water, sanitation, and other services. NDP9 aims to increase the effectiveness of non-state actors by aligning their activities more closely to national and state priorities and linking their monitoring and evaluation activities to FGS systems of data collection and management.

**46. The main causes of poverty and required interventions have been identified through two rounds of consultations, and staffs welcome NDP9's good summary of the drivers of poverty,**

<sup>7</sup> Somalia applied for WTO accession in December 2015. Preparing the Memorandum of the Foreign Trade Regime—which includes a detailed inventory of all laws, regulations, and policies related to international trade and investment—is the first task in the accession process. This step is routinely followed by an, often lengthy, process of revising the country's legal framework to bring it in line with WTO rules.

**vulnerability, and low resilience in Somalia.** Proposed strategies, interventions, and outcomes in the four pillars are consistent with NDP9's analysis of the main causes of poverty, given the constraints imposed by data limitations. Staffs encourage the authorities to expand the logic of interventions and results embedded in NDP9 and refine implementation of NDP9 as more information becomes available, through new or updated data sources.

**47. Staffs encourage the authorities to pursue a delivery strategy that emphasizes geographic areas with maximum potential to address the underlying causes of poverty.** An area-based approach for implementation will require efforts in setting regional targets for both outcomes and outputs. Beyond the prioritization obtained through rounds of consultations, more focused cause-effects analysis will provide clear guidance for implementation.

**48. Staffs also stress the importance of integrating planning and budgeting.** Annual budget preparation and execution processes must both reflect and contribute to NDP9's planning and implementation strategies. Staffs encourage the authorities to use their priority matrix, which has been developed by MoPIED to prioritize NDP9 projects, to inform the projects that will be executed each year during the annual project planning process. Adequate costing—which is currently lacking in NDP9—will provide the inputs needed to mobilize donor resources and to plan and manage development spending. Information on the costed projects that emerge from this exercise should be shared with MoF to ensure they are captured in the annual budget exercise and reflected in the latest MTFF. Budget execution data from MoF will provide critical feedback information to refine plans. Annual work plans should balance the need to execute identified priorities versus financing constraints. They should also consider the contributions that quick wins make towards maintaining public support for reform.

**49. Staffs find that NDP9's monitoring and evaluation architecture is well adapted to the initial needs of the plan, identifying outcome indicators at both plan and pillar levels, and setting baselines and identifying viable data sources for future measurements.** While recognizing institutional capacity constraints, defining targets through consultation is important to generate ownership in managing and operating the results framework. As stated in the NDP9 document, preparation for implementation must include ambitious annual and final targets, though strictly in line with organizational capacity and financial allocations in the short and medium term. As discussed above, the pillar-based approach to implementation will require setting regional targets for both outcomes and outputs. The public interventions agenda could be developed under existing institutional coordination mechanisms, such as the National Development Council, General Directorates meetings and Group Pillar discussion.

**50. Additionally, staffs recommend introducing a clear reporting mechanism to track the status of implementation at the levels of strategies and interventions, which may be used to prioritize and streamline delivery of the expected outcomes for each pillar.** The stated Sustainable Development Goals approach will help to frame NDP9 in the global 2030 agenda, and the current indicator matrices provide the highest layer of monitoring and evaluation analysis. Because most of these indicators will be updated yearly, and some less often, continuous tracking of the implementation of NDP9 will require developing indicators and targets at the output level (interventions/investments) to generate structured and regular progress reports (monitoring and evaluation) on the action plan for each pillar.

**51. Staffs welcome the commitment to include monitoring indicators in NDP9 on overcoming gender and social inclusion.** The NDP9 document states that “all program and policy data shall be gender-disaggregated, and all NDP9 interventions will include a gender analysis, and targets and indicators that are appropriately gendered” (page 109). NDP9 will also track statistics on levels of gender-based violence.

**52. The authorities are candid about data gaps that pose challenges for NDP9’s monitoring framework.** These gaps include data on household income and spending, consumer and producer prices, and production and investment components of the national accounts. Staffs note that the authorities are preparing a statistical capacity development project and are working closely with international partners (including the IMF and World Bank) to ensure sustained collection of these data by the government. Staffs encourage the authorities to also initiate regular and frequent collection of data on employment (disaggregated by gender and age). Finally, it is important to build capacity in FMS statistical bureaus. Staffs welcome the recent enactment of amendments the National Statistics Law, as well as the preparation of a statistical action plan that sets out a strategic plan to develop capacity and produce economic, financial, and social statistics.

## CONCLUSION, RISKS AND RECOMMENDATIONS

**53. The NDP9 document outlines a comprehensive assessment of Somalia’s development challenges and associated policies through a strong participatory approach, and it provides a realistic monitoring and evaluation framework.** The staffs of the IMF and World Bank believe that NDP9 provides an adequate framework to support sustained growth recovery and to reduce widespread poverty.

**54. NDP9 implementation, however, faces significant risks.** These stem from: (1) insecurity and national election uncertainty; (2) lack of policy prioritization, particularly on expenditure policy; (3) absence of full costing aligned with FGS and FMS fiscal frameworks; (4) absence of coherent aid policy strategy to catalyze and align large donors’ assistance to support the NDP9; (5) limited monitoring and evaluation capacity; (6) the perception of corruption and weak governance, which limit confidence and financing support; (7) absence of private sector-led development policy associated with policies to strengthen tax collection and the revenue base and public finance management, and (8) limited economic, financial, and poverty data, which hamper the development of coherent medium-term macroeconomic framework linking to poverty outcomes.

**55. This JSAN highlights the following recommendations:**

- Staffs emphasize that the authorities should update NDP9’s macroeconomic and fiscal framework and should publish cost and financing information on NDP9 interventions.
- Staffs welcome the authorities’ commitment to submit a supplemental 2020 budget soon after the HIPC Decision Point and to complete the NDP9 costing exercise by June 2020. The government’s proposed 2021 budget and supplementary 2020 budgets should incorporate revisions in expected financial flows associated with reaching the HIPC Decision Point and show how additional resources will be allocated towards realizing NDP9 priorities within the limits of



the available fiscal space. This will ensure consistency between annual budgets, NDP9, and changes in economic and fiscal conditions.

- To limit the risk that debt becomes unsustainable again in the post-HIPC period, staffs encourage the authorities to develop and action plan to strengthen the capacity of the Debt Management Unit. Even if Somalia restores debt sustainability, any future borrowing decisions should be well analyzed and aligned with Somalia's future capacity to repay while maintaining medium-term fiscal sustainability. Finally, staffs stress that it is critical for the authorities to stay current on all their obligations falling due and not to accumulate any new arrears.
- NDP9 could give more prominence to the objective of fighting corruption given its systemic importance in Somalia and prevailing negative perceptions. NDP9 currently focus on reducing corruption as one of many objectives under "Improved Security and Rule of Law" rather than as a cross-cutting issues. Greater attention to improving governance and fight corruption would be welcome. In this context staffs welcome the recent enactment of the Anti-Corruption Law and we encourage the authorities to swiftly establish the Anti-Corruption Commission and approve a National Anti-Corruption Strategy. In addition, the authorities are encouraged to step up other efforts to reduce the perception of corruption, ratify the United Nations, African Union, and Arab Conventions Against Corruption, and modernize key public institutions.
- Staffs encourage the authorities to develop a prioritized Legislative Action Plan that reflects the required legal reforms identified in NDP9 and is regularly updated as the authorities take on new commitments (e.g., HIPC Completion Point triggers).

**56. Staffs expect the authorities to include the cost and financing information and regular updates to NDP9's macroeconomic and fiscal framework in the Annual Progress Reports the FGS submits to the IDA and the IMF in the coming years.**

**57. Staffs will assess progress in implementing these recommendations and the evolution of risks in future JSANs based on these Annual Progress Reports; these JSANs will be shared with the IDA and IMF Boards.** Combined with annual monitoring data, this information would enable staffs to advise the IMF and IDA Boards of Executive Directors whether Somalia has satisfactorily implemented NDP9 for at least one year, in line with HIPC Completion Point requirements.