



SOMALIA

POVERTY REDUCTION STRATEGY PAPER—JOINT STAFF ADVISORY NOTE

July 2023

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 2020 Annual Progress Report on the 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).

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>

International Monetary Fund
Washington, D.C.



SOMALIA

July 7, 2023

POVERTY REDUCTION STRATEGY PAPER—JOINT STAFF ADVISORY NOTE

Approved By
Athanasios Arvanitis
and **Mark Flanagan**
(IMF), and **Keith**
Hansen (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the World Bank.

INTRODUCTION

1. **This Joint Staff Advisory Note (JSAN) reviews the first [Annual Progress Report \(APR\)](#) on Somalia's [Ninth National Development Plan \(NDP9\)](#).**¹ NDP9 is a nationally owned and comprehensive strategy for poverty reduction and inclusive growth. It covers 2020–2024 and is organized around the four pillars: Inclusive Politics, Security and the Rule of Law, Economic Development and Social Development. NDP9 was submitted 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. The first Annual Progress Report (APR) was received by the World Bank and the IMF in June 2022. It describes the progress of the Federal Government of Somali (FGS) in implementing the first year of the NDP9, i.e., in 2020. The government is in the process of preparing the midterm review of NDP9, which will serve as APR for 2021 and 2022.

2. **Somalia began implementing NDP9 at a time of profound challenges posed by the 'triple crises' of locust infestations, a global pandemic, and floods.** An outbreak of desert locusts started in 2019 that threatened the food supply across the Horn of Africa. In 2020, the world was hit by the COVID-19 pandemic. The flash [floods](#) during the second half of 2020 affected over 555,000 people in Hirshabelle, South West, and Jubaland states, as well as the Sanaag and Banadir regions. The floods have damaged thousands of hectares of farmland, property, and infrastructure. The floods affected Somalia at the peak of the COVID-19 pandemic, which made the humanitarian responses more difficult.

¹ NDP9 is Somalia's poverty reduction strategy (PRS).

3. The APR addresses concerns raised in staffs' 2020 JSAN on NDP9's outdated macroeconomic framework underpinning NDP9, limited costing of NDP9 interventions, and the low level of pro-poor spending. The authorities revised the macroeconomic framework in mid-2020 which was incorporated into the revised FY2020 budget. The federal Ministry of Finance worked with major spending ministries in 2020 to cost major development programs linked to NDP9 and incorporate those into the FY2021 budget. In response to the COVID-19 pandemic, the FGS mobilized funding to enable a doubling of social sector spending in the revised FY2020 budget and increased grants to the Federal Member States (FMS) governments to support their pandemic response. These steps are described in more depth.

4. Implementation by the FGS of the NDP9 as a full PRS for at least one year is assessed as satisfactory, Staffs concur with the APR's assessment that important progress has been made on implementation of the NDP9, despite challenges from the triple shocks faced by Somalia in 2020. Notwithstanding the multiple shocks, the Somali authorities preserved macroeconomic stability and maintained the reform momentum, strengthening domestic revenue mobilization, public financial management (PFM), financial sector regulation and supervision, statistics and governance.² Key actions on social sectors include the prompt response to COVID-19, the implementation of a government-owned Baxnaano cash transfer program,³ expansion of financial support to businesses provided by the Gargaara Company,⁴ and legal reforms to provide the fundamentals for growth and poverty reduction. In addition, progress was made on channeling more external resources through the budget. Notwithstanding these accomplishments, the triple shocks in 2020 increased the needs of the population, created more demand for government support, and complicated government operations and logistics.

MACROECONOMIC PERFORMANCE

A. Introduction

5. Staffs recognize that, despite Somalia enduring triple shocks and political uncertainty, prompt action by authorities supported by international partners and resilient remittance inflows partially cushioned the impact of these shocks. The flooding, desert locust infestation, and the global coronavirus pandemic severely reduced growth prospects in 2020. In response to these shocks, the authorities implemented the Country Preparedness and Response Plan (CPRP) with

² For example, the enactment of the Public Financial Management Law, Revenue Administration Law, and the Company Law.

³ Baxnaano is a developmental social safety net program that takes a two-pronged approach, focused on addressing urgent needs in the short-term while investing in national systems and capacities through long-term programming. The program includes providing families with nutrition-linked unconditional cash transfers, delivered via mobile money, which were later scaled up and expanded to address new shocks as seen in 2021 and 2022.

⁴ The Gargaara Company Limited was incorporated in 2019 with the aim of mobilizing financial and technical resources for micro-, small, and medium-sized enterprises. Gargaara expanded its credit facility in 2020 to respond to the triple shocks.

the support of international partners. The fiscal and financial support measures include: (i) temporary tax relief on some basic food commodities; and (ii) externally funded expansion of the social safety net, lending-support to small and medium-sized enterprises and inter-governmental fiscal transfers to FMSs to assist them in coping with these shocks. Resilient remittance inflows and the Baxnaano social safety net program buoyed domestic demand and helped protect the vulnerable.

6. Staffs welcome the revisions to the FY2020 macroeconomic framework to account for adverse impact these shocks had on economic activity. Following the guidance provided by the March 2020 JSAN to update the NDP9 macroeconomic framework, in mid-2020 the authorities revised the macroeconomic framework. GDP growth was downgraded from 3.2 percent (NDP9 forecast) to –0.7 percent, with outer years consistent with the IMF’s November 2020 estimates, which anticipated a gradual increase from 2.9 percent in 2021 to 3.6 percent by 2024. The revised macroeconomic growth forecasts were used to update the government’s Medium-Term Fiscal Framework for the FY2021 Budget Strategy Paper, published on the Ministry of Finance’s [website](#). The revised fiscal projections reflected the quantitative performance criteria and indicative targets under the Extended Credit Facility (ECF)-supported program.

B. Fiscal Policy and Management

7. While Somalia has been actively building its tax capacity, stronger domestic revenue collection is essential to support NDP9 implementation. The authorities have been raising revenues through the implementation of tax policy and tax administration reforms, including the reinstatement of income and sales taxes, development of the Revenue Law, and the establishment of a large- and medium-taxpayer’s office. Nonetheless, the multiple shocks in 2020 hindered domestic revenue collection. Following a steady increase since 2013, in 2020 total domestic revenues (excluding grants) declined to 3 percent of GDP from 3.6 percent of GDP in 2019. Given that domestic revenue remains low and insufficient to cover recurrent expenditure, staffs encourage greater domestic revenue mobilization efforts, including timely implementation of tax policy and administrative reforms identified in the ECF-supported program and NDP9. In this regard, staffs recognize the ongoing efforts to improve customs administration, implement a single duty tariff at all ports, and develop a modern income tax law, which will also contribute to tax harmonization across the federation. Staffs commend the authorities on the recent efforts to increase revenue through such actions as the issuance of a spectrum fee schedule for telecom operators in 2022, which is expected to raise US\$6 million per year over the next 10 years, and the publication of a report on tax exemptions as part of the 2023 budget package.

8. Staffs acknowledge the authorities’ efforts to strengthen the fiscal framework and service delivery to implement the NDP9. With the support of the international community, authorities were able to redirect additional spending towards NDP9 priorities, particularly towards social spending on health, education, and social protection. The government implemented the Financial Management Information System, established expenditure controls with regular and reliable reporting, integrated non-civilian employees into the payroll, audited the FGS financial accounts, and enacted a new PFM Act, new Procurement Act and regulations, and the Petroleum

Act.⁵ In 2020, a budget table consolidating FGS and FMS revenue and expenditure (excluding Banadir and Somaliland) was included in the federal FY2021 Appropriation Act. Staffs welcome the build-up of a fiscal buffer in 2020 to reduce the risks associated with volatility in revenues, which enabled the authorities to maintain priority expenditure in 2021 despite the shortfall in the disbursement of grants. The authorities made important progress in improving management of security sector expenditure. The authorities also undertook several anti-corruption measures in 2020. Staffs encourage the authorities to continuously improve debt management by, among other things, strengthening the capacity of the Debt Management Unit to improve its analytical, negotiation, recording, and reporting capacity. Going forward, staffs encourage authorities to continue strengthening PFM (enhancing the accounting system, developing reliable in-year financial reporting, and improving the quality of fiscal data), debt management, statistical capacity and governance to support the fiscal discipline, transparency and accountability, needed to implement NDP9. In this vein, staffs recognize the recent actions that enhance PFM, such as the Pay and Grade policy and roadmap for payroll integration, approved by the Cabinet at the end of 2022, which sets out salary scales, eligibilities for allowances included in non-payroll payments, and clarifies the roles and responsibilities of the Ministry of Finance and National Civil Service Commission in their controls and financial clearance.

9. Staffs welcome the progress on deepening fiscal federalism through increased fiscal coordination and transfers. FGS transfers to FMS in 2020 were around 16.7 percent (US\$79 million) of overall expenditure, an increase of around 3 percentage points compared to 2019. Fiscal federal reforms are being mainstreamed across several aspects of the HIPC Completion Point (CP) triggers, IMF-supported program, and World Bank Development Policy Financing operations. Examples include the enactment of the Revenue Act as a key milestone toward the harmonization of tax policies across the country; the fuller harmonization of customs operations between FGS and FMS and the expected application of a single import duty tariff schedule at all major ports; the development of public financial management (PFM) regulations on natural resource revenue sharing; and continued monitoring of consolidated fiscal reporting from FGS and FMS. Discussions were undertaken between FGS and FMS on revenue sharing related to the issuing of fishing licenses. Over the longer-term, although progress has been made, staffs highlight the importance of implementing a durable fiscal federal framework to support Somalia's political stability, security, and development goals.

C. Monetary and Financial Sector Policies

10. Staffs welcome the financial sector reforms, including financial sector governance, anti-corruption, market regulation, and AML/CFT, undertaken by authorities. To strengthen financial sector, the Central Bank of Somalia (CBS) has improved its reporting and audit functions by subjecting banks and money transfer businesses (MTBs) to regular on- and off-site inspections, launched the

⁵ More recent steps to develop the petroleum sector legal framework include: (1) approval of the model Production Sharing Agreement in 2021; (2) issuance of the PFM regulations on natural resource revenue management in 2022; (3) approval of the tender protocol in 2022, and (4) enactment of the Extractive Industries Income Tax Law in 2023.

licensing and regulation of mobile money operators (MMOs) and commenced the publication of CBS audited financial statements. Staffs welcome reforms to transform the CBS from being primarily a fiscal agent for the government into a modern and policy-oriented central bank, that have been supported by the IMF and World Bank technical assistance, including to: (i) strengthen financial sector legal and regulatory frameworks; (ii) build capacity for the regulation and supervision of commercial banks, MTBs and MMOs; (iii) modernize the payment system and develop financial market infrastructure; and (iv) strengthen the organization, governance, accounting, auditing, and risk management of the CBS. Recent actions on AML/CFT include (1) operationalization of the National AML/CFT Taskforce in 2021 to support the National Anti-Money Laundering Committee; (2) publication of the National ML/FT Risk Assessment (NRA) in 2022 and approval of the NRA Action Plan in 2023; and (iii) enactment of the Targeted Financial Sanctions Law in 2023. Staffs encourage further strengthening of the institutional capacity at CBS, including financial supervision, as well as continued efforts to address AML/CFT risks, with the support of further IMF technical assistance.

11. Staffs encourage improving financial inclusion to support private sector growth.

Somalia is a de-facto dollarized economy, for financial assets and liabilities as well as for currency in circulation. Access to mobile money is relatively high in Somalia. The authorities report that approximately 82 percent of the Somali population 15 years of age and older use mobile money services. MTBs facilitate cross-border financial transfers, including remittances to households, transfers to businesses and NGOs in Somalia. However, in 2020 credit represented only 3.2 percent of GDP. Constraints include a relatively narrow formal sector and lack of financial infrastructures. The fragile nature of correspondent banking relations because of severe money laundering/financing of terrorism (ML/FT) concerns constrains banks' ability to provide financial services and money transfer businesses are the main mechanism to transfer money in and out of Somalia. Staffs urge the authorities to further strengthen financial deepening and financial inclusion while protecting financial stability, which includes the establishment of a national unified social registry (a HIPC Completion Point trigger), efforts to address ML/FT risks, and taking steps to protect from cybersecurity risks. In this regard, the enactment in March 2023 of the Data Protection and the Digital ID Laws is welcome.

12. To promote further financial inclusion, NDP9 identifies currency reform as a national development priority. The currency exchange project, supported by the World Bank, will reintroduce the Somali shilling as legal tender by replacing old and counterfeit notes in circulation. This initiative is expected to support financial inclusion of the most vulnerable populations that have limited access to formal financial services and fulfill an important liquidity function by facilitating payments for small value transactions. Staffs encourage the authorities to develop appropriate monetary and exchange rate policy frameworks for the currency reform and further strengthen the capacity of the CBS and financial institutions.

D. Financing and NDP9 Costing

13. Staffs welcome the completion of NDP9 costing for FY2021 and encourage the authorities to build on the lessons learnt for the subsequent budgets. In 2020, the federal

government, through the Ministry of Finance interacted with 16 federal spending entities to cost NDP9 development programs, explicitly linking financing with NDP9 programs in the FY2021 Appropriation Act. In the context of limited resources, Staffs emphasize the need to further refine the costing exercise for the subsequent budgets so that NDP9 implementation efforts are carefully prioritized, sequenced, and matched with planned expenditure interventions.

14. However, financing NDP9 through the budget system is challenging, with most of the grant financing (more than 70 percent in 2020) still off-budget. Staffs encourage development partners to channel aid flows through country systems to ensure their alignment with the priorities of NDP9, enhance their visibility, and facilitate monitoring and evaluation. To this end, the Ministry of Finance has worked with development partners through the Use of Country Systems (UCS) Working Group to encourage international partners to utilize the Aid Information Management System. This system links planned interventions and spending with NDP pillars. Staffs recognize the importance of reducing off-budget financing of development projects and encourage development partners to provide funding through the budget system and provide complete and timely information on their development activities in Somalia.

POVERTY REDUCTION

15. Staffs note that the FGS significantly increased pro-poor spending in 2020. The mid-year revised budget substantially increased social sector budget and grants to subnational governments in response to the triple shocks. The revised budget allocated US\$149.1 million to social sector ministries, more than double the original approved estimate of US\$64.5 million in January 2020 and increasing these ministries' share of the total budget to 14 percent. This represents over seven-fold increase compared to actual spending of US\$19.3 million in 2019. Cash transfers to households financed by IDA account for most of the increase (72 percent) while the health sector accounts for 22 percent. Although some of the assistance targeted the pastoral nomadic population, which are the poorest group, improvement can be made in aligning subnational transfers with local poverty levels.

16. Staffs welcome the inclusion of a poverty analysis. The APR reiterates NDP9's goal to reduce poverty by 15 percentage points by 2024. The APR also discussed how poor and vulnerable populations identified by the poverty assessment are targeted through programs such as Baxnaano cash transfer and education. Finally, staffs reiterate the comments of the JSAN 2020 which highlight the importance for government to further analyze the poverty and distributional effects of development policies and plans.

17. Staffs note the limited data available to fully assess causes, extent, and distribution of poverty. The second wave of the Somali High Frequency Survey (SFHS), which was implemented in 2017/18, remains the main source of poverty data available in Somalia. A World Bank phone survey, conducted in July 2020, provides additional information on the decline in employment and income, highlighting many Somalis lack access to basic goods and services, particularly vulnerable populations - internally displaced persons (IDPs), nomads, and rural residents. The Somalia National

Bureau of Statistics completed the comprehensive Somalia Integrated Household Budget Survey in 2022, which included a more detailed consumption module and, for the first time, an agricultural module and a module on household enterprises. The authorities will use the survey to strengthen measurement of poverty, CPI and GDP.

18. Going forward, staffs emphasize the importance of intensifying efforts to strengthen the availability and quality of poverty and social data. Future poverty analysis should track poverty across different areas of the country and profile demographic groups that are likely to be poor. In addition, the analysis can explore linkages between poverty and development challenges such as the lack of access to services and increased vulnerability due to climate change.

PROGRESS DURING THE FIRST YEAR OF NDP9 IMPLEMENTATION

A. Pillar 1: Inclusive Politics

19. The APR reports that the onset of the global pandemic in 2020 deepened federalism in Somalia, a cornerstone of NDP9's inclusive politics pillar. Faced with the need to respond to the crisis, the FGS increased grants to subnational governments above levels provided the preceding two years. In addition, the authorities developed rules and frameworks for revenue sharing and drafted the Inter-governmental Relations Act. Staffs acknowledge the efforts undertaken to deepen fiscal federalism during 2020 through the (i) revitalization of the Finance Ministers Fiscal Forum; (ii) agreement on an interim fiscal transfer policy; and (iii) extensive sharing of fiscal and economic data, enabling public reporting of consolidated FGS-FMS government financial operations for the first time.

20. The APR is candid about shortcomings in meeting objectives of the Inclusive Politics pillar. Outstanding constitutional issues prevented adoption of a federal constitution in 2020, despite continued technical work to resolve differences between the FMSs and the FGS. Although the Political Parties Act was enacted in February 2020, elections that were supposed to commence before the end-2020 were postponed to 2021 (and ultimately were not completed until May 2022). In line with NDP9, Staffs encourage tangible progress on electoral reforms to support greater political inclusion and representation.

21. Staffs note the challenges encountered in the implementation of the Inclusive Politics pillar but underscore the pillar's importance for political stability, inclusive economic growth, and poverty reduction. Lack of political settlement leads to stagnation of reforms, discourages political inclusivity at all levels, and could worsen fragility. Constructing a federal state with a well-functioning allocation of spending and revenue responsibilities is inherently difficult but offers important benefits. Establishing a rule-based formula for revenue sharing and intergovernmental grants—linked to clear expenditure responsibilities—can narrow the fiscal gap between states with and without seaports (and their corresponding customs revenue), leading to reduced inequalities and increased citizen trust and state legitimacy.

B. Pillar 2: Security and the Rule of Law

22. The APR acknowledges that the triple shocks contributed indirectly to increased conflict and greater incursion by Al-Shabaab in vulnerable areas with an increase in the severity of poverty, food insecurity, and displacement. Nevertheless, it reports that the authorities achieved noteworthy progress in 2020 in implementing interventions related to NDP9's Security and the Rule of Law pillar. In the security sector, major accomplishments include progress towards the transition from AMISOM forces to the SNA and a strengthened legal framework for the security sector.

23. The authorities took several steps to address corruption in 2020. The APR identifies the establishment of the Integrity Coordination Unit at the Ministry of Justice, which leads anti-corruption efforts for the FGS, and ratification in December 2020 of the UN Convention against Corruption (a HIPC Completion Point trigger) as major accomplishments, along with the drafting or review of 45 laws, policies, and strategies, including the National Anti-Corruption Strategy (an ECF structural benchmark) and the law establishing the Anti-Corruption Commission.

24. The rule of law has been strengthened. The APR reports that: (i) the government provided legal aid services to over 4,000 beneficiaries (75 percent women); (ii) over 5,000 beneficiaries, (40 percent women) used the Alternative Dispute Resolution Centers; and (iii) 1,040 beneficiaries (45 percent women) used mobile courts—more than doubling the final target of 500. Staffs encourage the authorities to continue efforts to improve governance and address corruption risks.

25. Staffs note that important progress on security sector registration, salary, and rations was not captured in the 2020 APR. For example, direct payment of security sector salaries strengthened expenditure management and reduced the risk of misuse of funds. In 2020, the FGS completed a second round of biometric registration for national security sector personnel, including all SNA forces (including those in the FMS), the Somali Police Force at the FGS level, the Federal Custodial Corps (prisons), and the National Intelligence and Security Agency (NISA). In addition, the FGS continued its efforts to regularize the main security sector rations contracts.

26. Given the importance of security spending for political and therefore economic stability, staffs encourage the authorities to ensure that the security sector is carefully managed and that resources are adequate and timely. In this regard, the FGS should maintain its commitment to security sector registration and keep the information up to date. Efforts have been made to establish competitive tendering for security rations. NISA should resolve incomplete tender processes and ensure that rations are delivered under valid, competitively tendered contracts.

C. Pillar 3: Economic Development

27. Staffs commend the authorities for the comprehensive update of the implementation and achievements under the Economic Development pillar. Several programs, to improve agriculture, livestock, telecommunication, infrastructure, and trade, have been instituted to respond to the economic shocks.

28. Water and energy. The water sector was adversely affected by the COVID-19 pandemic and the impact of climate shocks. The APR highlights the completion of the National Water Resources Strategy and Roadmap 2021–2025. However, the APR could have also discussed the implications of the climatic shocks on water scarcity and food security. While the FGS has made considerable progress to improve water conditions across the country, staffs encourage the continued shift from emergency assistance to long-term programmatic support to the water sector, with the adequate commitment and support provided by the development community, coordinated by the FGS. Staffs recognize reforms in the energy policy and legal framework. The Electricity Bill and Energy Policy were approved by the Council of Ministers and the bill submitted to Parliament in December 2020.⁶ The Electricity Act was passed by both houses of Parliament and promulgated in March 2023. Staffs encourage the government to prepare for investments in transmission and distribution and to foster development of the regulatory framework of the sector.

29. Financial sector. Staffs welcome the comprehensive update and substantial progress made on the financial sector reforms. In addition to reforms discussed earlier, staffs welcome the launch of the National Payment System and Gargaara—the financial institution established to facilitate access to finance for micro, small and medium enterprises.⁷ The APR would have benefited from a more detailed update on the progress to implement digital ID, which is a critical enabler for financial inclusion, financial sector integrity, and government delivery of social services. Given NDP9’s emphasis on women’s empowerment, staffs would encourage future progress reports to include more discussion on the efforts made to increase access to finance for women.

30. Telecommunication. Staffs commend progress made to develop the policy, legal and regulatory framework for digital development and welcome the emphasis on ‘Telecom and IT’ in the APR. Future progress reports could assess information and communication technology (ICT) sector developments more broadly to include elements such as national ID, cybersecurity, data protection and digital infrastructure development. Staffs also note that some of the policies mentioned in the APR have not yet been fully implemented and would encourage the government to continue the work on digital inclusion and consumer protection policies. Staff encourage the government to accelerate implementation of data protection, cyber security, and digital ID activities and ensure that progress on foundational telecommunications regulation is sustainable. Staffs suggest that improved data collection is necessary for monitoring progress of reforms, with a focus on indicators for digital connectivity and internet access.

D. Pillar 4: Social Development

31. The APR underscores the government’s prompt response (with the support of development partners) to the triple shocks through the introduction of a social protection

⁶ Staffs note that the suspension of Parliament during the protracted electoral delay precluded legislative action of the bill. Enactment of this law is a HIPC Completion Point Trigger.

⁷ It is important to clarify that only the first draft of the national risk assessment was available in 2020 and that the report was not completed until 2022.

system. Staffs welcome the extensive discussion of the Baxnaano program in addressing shocks from the triple crises in 2020. Staffs wish to correct the APR understanding: Baxnaano is a cash transfer program and does not provide food. As there was no previous social safety net program, Baxnaano was not built upon a pre-existing public social safety net program or as a result of a shift in a food basket program. Rather, Baxnaano is the first-ever, government-led, cash transfer program, carried out by the Ministry of Labour and Social Affairs with WFP implementation assistance and financed by the World Bank. Baxnaano currently provides unconditional cash transfers to 200,000 poor and vulnerable households with children, reaching about 1.2 million people. Building on the successful implementation in 2020, staffs encourage the government to take over direct responsibility in implementing the program, build the unified social registry (a HIPC Completion Point trigger), and develop policies focused on pro-poor public spending in the remaining years of the NDP9 implementation.

32. The APR acknowledges the difficulties that the COVID-19 caused in implementing health and education programs proposed under NDP9. It should be noted, however, that the FMS health ministries set up the COVID-19 Information System, which allowed for registration and maintenance of national COVID-19 statistics. Staffs encourage the government to continue expanding basic education opportunities with a focus on areas with largest gaps. To further build health institutions, FMSs should enhance management information systems, contract management and PFM.

IMPLEMENTATION, DONOR COORDINATION, AND MONITORING AND EVALUATION

33. Staffs welcome the FGS effort to coordinate contributions from development partners. The coordination of aid and donor-government relations is an ongoing issue in Somalia, as highlighted in the March 2020 JSAN for NDP9. The FGS has made efforts to improve aid coordination by reviving the UCS Working Group in November 2020, which resulted in a revised UCS roadmap for 2021–2023 that included FGS, development partners, with joint commitments and milestones. Despite these efforts, coordination between international partners and the FGS remains a challenge. This lack of coordination can hinder alignment of support with NDP9 priorities, and can result in a lack of accountability, transparency, trust and cooperation between the FGS and development partners. To address these issues, it is crucial for the FGS and international partners to work together to channel development support through the budget and improve the overall effectiveness of aid delivery in Somalia.

34. Staffs commend efforts to improve data and the statistical system in Somalia. FGS has made substantial progress in producing data needed to monitor progress of NDP9. The authorities have strengthened programming and analytical capacity of the fiscal agencies to inform implementation of policies and programs. To help strengthen data transparency, Somalia implemented the [IMF Enhanced General Data Dissemination System \(e-GDDS\)](#) in June 2022 by publishing essential macroeconomic and financial data through a [National Summary Data Page](#). The

Somalia National Bureau of Statistics has collected and published new data for the required indicators such as Somali Health and Demographic Survey, the Labour Force Survey, and the Somalia Integrated Household Budget Survey. Going forward, FGS needs to continue to build its capacity to analyze such data to guide evidence-based policy making. Staffs also welcome the government's ongoing efforts aimed at implementing the Statistics Act that was operationalized in 2020. These efforts have contributed to a successful fulfillment of the statistics HIPC Completion Point trigger – the publication of Somalia Facts and Figures. Further strengthening of the national statistical system will be achieved with implementation of the legal and institutional reforms that are contained in the Statistics Act, continued implementation of the Statistical Action Plan and advancing within the e-GDDS framework, supported by technical assistance from development partners.

35. Staffs welcome the progress made in creating a strong monitoring and evaluation framework and urge the government to continue strengthening the system. Ministry of Planning, Investment and Economic Development's (MoPIED) Monitoring and Evaluation Department (MED) is responsible for coordinating all government monitoring and evaluation activities. To do so effectively, MED has developed a National Integrated Monitoring and Evaluation Framework (NIMEF) that will be used as a monitoring and evaluation (M&E) mechanism, working with the various entities involved with data collection and analysis. NIMEF's overarching strategic goal is to support evidence-based decision-making and accountability in the implementation of NPD9 by providing integrated monitoring and evaluation framework for regular and systematic tracking, documenting and evaluating progress of the strategic priorities in the NPD9. However, limitations exist between NDP9 strategic planning and actions undertaken at the ministries and/or agencies. In this regard, staffs encourage government to take steps to increase the linkages between priority setting, planning, and budgeting processes within the budget preparation process. This includes reviewing all key performance indicators in the budget preparation documents and in other ministerial strategic and planning documents to ensure the indicators included in these documents have appropriate data available for tracking progress on implementation. Finally, staffs encourage strengthening linkages between the activities of MED and those of national statistics system deemed critical for monitoring and evaluation of projects and programs outlined in NDP9.

CONCLUSION, RISKS, AND RECOMMENDATIONS

36. Staffs believe that the APR accurately captures the key achievements in the implementation of the PRS in 2020, as well as the ongoing challenges. Important progress has been made on implementation of the NPD9 despite challenges that were exacerbated by the triple shocks faced by Somalia in 2020. Major achievements include: (i) the implementation of the Baxnaano program, which is a government owned program and financed through the budget; (ii) sustained reform momentum across a number of areas, including revenue, PFM, CBS institutional capacity, statistics and governance; and (iii) the increase of development partner support that is being channeled through the budget, with the adequate safeguards in place. Moving forward, the government could build upon these achievements, to sustain the reform momentum. Staffs

encourage the authorities to further strengthen the PRS as a management and monitoring tool for government action.

37. Implementation by the FGS of the NDP9 as a full PRS for at least one year is assessed as satisfactory, in fulfillment of the HIPC Completion Point trigger. Staffs recognize the costing exercise for the NDP9. The FGS successfully implemented NDP9 with a partial cost projection exercise in 2020. The APR reported that the Ministry of Finance worked with 16 Federal spending entities to cost 29 programs under the NDP's four pillars. APR activities are also reflected in the national budget. The first review of the ECF-supported program also indicated the implementation of NDP9, Somalia's PRS. In this regard, the APR should have referred to the NDP9 as a full PRS.

38. Staffs are encouraged to note that the authorities continue to make progress towards the HIPC Completion Point by remaining steadfast to macroeconomic reforms under the ECF-supported program, IDA's Inclusive Growth Development Policy Financing, and HIPC Floating CP triggers (see Annex). Negotiations with creditors on external public debt restructuring are advancing. The first review of the ECF-supported program was completed in November 2020, and subsequently the second to fourth reviews of the program have been completed, highlighting the authorities' commitment to reforms under the program, a necessary condition to reach HIPC Completion Point.

39. NDP9 implementation continues to face significant risks, while some effort to address these risks were reported in the APR. Some of these risks were also highlighted in the JSAN 2020 for NDP9. NDP9 implementation risks stem from (1) insecurity; the APR highlights how the increasing insecurity in the country could impede progress in various sectors, such as infrastructure and education; (2) the lack of policy prioritization, particularly on expenditure policy; (3) absence of full costing aligned with FGS and FMS fiscal frameworks; (4) political risks, including those stemming from the lack of full consensus regarding the federal system (which creates tensions in the inter-governmental relations) and uncertainty around the process for national elections; (5) the perception of pervasive corruption and weak governance; (6) heavy reliance on off-budget donor support for financing of the NDP9 combined with an absence of coherent aid policy strategy to catalyze and align large donors' assistance to support the NDP9; (7) limited monitoring and evaluation capacity, as well as data to monitor progress and develop a medium-term policy framework; (8) risks related to revenue collection, including ability of the tax administration to ensure adequate registration, filing, declarations, and payments by the private sector; (9) risks associated with ensuring sound public financial management in line with the PFM laws and regulations; (10) severe capacity constraints, where institutions have only recently been created and staffed with few adequately trained and experienced employees. Finally, climate change poses a significant risk to the successful implementation of NDP9. The APR highlighted that climate change is a leading cause of natural disasters.

40. This JSAN highlights the following recommendations to support achievement of all the goals of the NDP9:

- Protect fiscal sustainability and strengthen debt management. Even after reaching the HIPC Completion Point, future borrowing decisions should be aligned with Somalia's future capacity

to repay while maintaining medium-term fiscal sustainability;

- Accelerate domestic revenue mobilization reforms to increase resources to support implementation of NDP9 priorities;
- Continue strengthening public financial management to improve expenditure implementation, transparency, and accountability;
- Continue reforms to support institutional capacity, including making progress on key legislation;
- Improve transparency and accountability through greater attention to improving governance. In addition, the authorities are encouraged to step up efforts to reduce the perception of corruption;
- Ensure that the security sector is carefully managed and that resources are adequate and timely, given the importance of security spending for political and therefore economic stability;
- Promote tangible progress on electoral reforms to support greater political inclusion and representation; and
- Incorporate climate change resilience into its implementation of NDP9 programs to ensure successful implementation and sustainable development. The midterm review of the NDP9 should explore in detail how to improve climate resilience during the second half of the program's implementation.

41. The authorities are already working on a number of near-term reform measures in the lead up to the HIPC Completion Point that are in line with these recommendations, among others:

- Strengthening domestic revenue, including by taking steps to operationalize the Customs Automated System at the main ports, operationalize point-of-sale machines in key sectors, introduce a turnover tax, and initiate the development of the Integrated Tax Administration System (ITAS);
- Enhancing PFM, including integrating all federal government workers into the payroll, launching the invoice tracking system, improving reporting, and strengthening PFM capacity of FMS;
- Improving governance and transparency, including by seeking enactment of a modernized Audit Bill, working towards finalizing the legal framework for the extractive industries, and developing a policy for the management of non-financial assets. In addition, a taskforce was commissioned to coordinate implementation of the measures announced in the Prime Minister's Directive of May 2023 on financial governance and integrity, including stronger oversight over concessions and procurement and development of a merit-based system for appointments; and
- Mainstreaming climate resilience, by creating a new Ministry of Environment and Climate Change that is to focus on incorporating climate change resilience into the implementation of NDP9 programs.

42. Staffs will assess progress in implementing these recommendations and the evolution of risks in future JSANs based on subsequent APRs. 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 on Somalia's further implementation of the NDP9.

Annex. Status of HIPC Completion Point Triggers

HIPC Completion Point Triggers	Progress ¹
Poverty reduction strategy implementation	
Satisfactory implementation for at least one year of Somalia's full poverty reduction strategy, as evidenced by an Annual Progress Report on the implementation of the poverty reduction strategy submitted by the government to IDA and the IMF.	The Annual Progress Report evaluating the implementation of the National Development Plan in 2020 was completed in June 2022. Staff of the World Bank and IMF have prepared a Joint Staff Assessment Note.
Macroeconomic stability	
Maintain macroeconomic stability as evidenced by satisfactory implementation of the 3-year ECF-supported program.	The fifth review of the ECF-supported program was completed on May 17, 2023.
Public financial and expenditure management	
Publish at least two years of the audited financial accounts of the FGS.	The Office of the Auditor General published the 2019, 2020, and 2021 FGS financial accounts .
Issue regulations to implement the Public Financial Management Act's provisions on debt, public investment, and natural resource revenue management.	The PFM regulations—including chapters on debt, public investments, and natural resource revenue management—were approved by the Cabinet in May 2022.
Domestic revenue mobilization	
Adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia (to also foster greater trade integration).	The customs regulations on valuation and declarations were issued in September 2022 and the ad valorem tariff schedule was enacted in June 2022. The Customs Automated System (CAS) is being piloted in Mogadishu port and airport. The next step is for the CAS to be rolled out to Bosaso, Garowe, and Kismayo, together with a common valuation table.
Governance, anticorruption, and natural resource management	
Enact the Extractive Industry Income Tax (EIIT) Law.	The EIIT Bill was approved to Parliament in March 2023.
Ratify the 'United Nations Convention Against Corruption' (UNCAC).	Somalia acceded to UNCAC in August 2021.
¹ Progress as of June 16, 2023	

HIPC Completion Point Triggers	Progress
Debt management	
<p>Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12 months ahead; annual principal payment projections (for at least the next five years); and key portfolio risk indicators (including proportion of debt falling due in the next 12 months; proportion of variable rate debt; and projected debt service-to-revenues and debt service-to-exports for the next five years).</p>	<p>Regular quarterly debt bulletins have been published since 2020Q4 with information on the outstanding stock and composition of debt liabilities and financial assets, and, where they exist, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure.</p>
Social sectors	
<p>Establish a national unified social registry (USR) as a functional platform that supports registration and determination of potential eligibility for social programs.</p>	<p>The authorities are establishing a USR with support from the World Bank, the World Food Program (WFP) and UNICEF. The USR platform/MIS have been developed and ready to receive data and support the functions of registration and determination of eligibility. The core team dedicated to manage the operations the USR has been established at the Ministry of Labor and Social Affairs. The drafting of the operational manual detailing the operational processes of the system and institutional management are well advanced. The Data Protection Law was approved by Parliament in March 2023, and operational guidelines need to be developed.</p>
<p>FGS and FMS Ministers of Education (MOE) adopt an agreement defining their respective roles and responsibilities on curriculum and examinations.</p>	<p>On July 14, 2021, the FGS and FMS MoEs finalized and officially signed the revised draft education cooperation MoU at the intergovernmental meeting held in Garowe. A permanent intergovernmental forum for education has been formalized. Key agreements reached include the formation of national examination, certification, and curriculum boards. An interim committee to develop the criteria for selection of the board members was also established.</p>
<p>FGS and FMS Ministers of Health adopt a joint national health sector strategy.</p>	<p>The Somalia Health Sector Strategic Plan for 2022–2026 was finalized. FGS and FMS ministers have agreed on a framework for a joint national health strategy.</p>

HIPC Completion Point Triggers	Progress
Growth/structural	
Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.	The Somalia Electricity Bill was enacted on March 8, 2023.
Issue Company Act implementing regulations on minority shareholder protection to encourage private sector investment	The regulations to the Company Act were issued in January 2021. A second set of Regulations to the Company Act were issued in May 2022 specifically covering the issue of minority shareholder protection.
Statistical capacity	
Publish at least two editions of the <i>Somalia Annual Fact Book</i> .	The Facts and Figures of Somalia has been published for 2018 , 2019 , 2020 , and 2021 .