



SOMALIA

July 2015

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with Somalia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 27, 2015 consideration of the staff report that concluded the Article IV consultation with Somalia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 27, 2015, following discussions that ended on June 18, 2015, with the officials of Somalia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 8, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Somalia.

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IMF Executive Board Concludes 2015 Article IV Consultation with Somalia

On July 27, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Somalia.¹

Since 1991, Somalis have suffered greatly from civil war. The economy deteriorated as the physical infrastructure was destroyed. In addition to the loss of lives, the war worsened the population's living conditions, now among the lowest in the world. Even though the political and security situations remain challenging, Somalia has made tremendous progress since resuming relations with the IMF on April 12, 2013. The IMF has been actively involved in providing technical assistance and policy advice in its key areas of expertise, which laid the groundwork for this Consultation. While Somalia has been welcomed back as an active member of the Fund, it remains ineligible for financial assistance pending the clearance of its longstanding arrears. Arrears clearance will be an important part of normalizing relations with the international community and establishing a roadmap to debt sustainability.

As a result of the civil war, all Somali state institutions are severely impaired. Improving governance in key state institutions is critical for progress on economic reconstruction and development. The federal government, working with the international community, has taken steps to improve governance based on the rule of law and the application of international good practices for fiscal and financial operations. IMF technical assistance is largely devoted to enhancing governance in the ministry of finance and the central bank. Rebuilding critical infrastructure and delivering basic social and economic services will be crucial for the new

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

government to gain the trust of the Somali people, advance the process of national reconciliation, and to extend federal government authority over all parts of the country.

Economic activity is estimated to have expanded by 3.7 percent in 2014, driven by growth in agriculture, construction, and telecommunications. Consumer price inflation was 1.3 percent. For 2015, real growth is projected at 2.7 and inflation should remain subdued at about 4 percent. With modest progress on the security front and an absence of drought, medium-term annual growth should be about 5 percent. Nevertheless, growth will remain inadequate to redress poverty and gender disparities.

Budget preparation and implementation is fraught with difficulty due to deficiencies in revenue mobilization and expenditure pressures that exceed available resources. The budget consists largely of salary and security expenditures contained by strict cash rationing. Deficits have been financed mostly through arrears accumulation. Similarly, the 2015 budget was prepared on a zero cash balance basis with optimistic revenue forecasts and weak commitment control, leading the federal government to ration cash and incur arrears to the defense forces, civil servants, and suppliers. On July 19, an extraordinary session of the Cabinet, chaired by the President, approved and sent to Parliament a revised budget for 2015.

The formal financial sector consists of the central bank, six banks with provisional licenses, and nine licensed money transfer firms. The sector is small and nascent while there is reportedly a large informal sector. The central bank of Somalia (CBS) faces challenges in building financial sector supervision due to technical and human resource constraints. The economy is predominantly dollarized and cash is scarce, particularly in lower denominations. Somali banknotes are not readily available, creating problems for the poorest.

The 2014 current account deficit is estimated at US\$644 million (11.3 percent of GDP). Trade consists mostly of exports of livestock to Gulf Cooperation Council countries and imports of foodstuffs from neighboring countries and the Indian subcontinent. The trade and income deficits were US\$2,663 million and US\$450 million, respectively, partially covered by remittances of US\$1,333 million and other transfers of US\$1,137 million. The deficit was financed by foreign direct investment of US\$434 million, especially in telecommunications, electricity, and hotels, and donor capital transfers of US\$150 million.

External debt was estimated at US\$5.3 billion (93 percent of GDP) at end-2014, preponderantly arrears. Debt data covers most creditors, excludes commercial debt, and shows obligations to: (i) multilaterals (US\$1.5 billion); (ii) Paris Club creditors (US\$2.3 billion); and, (iii) Non-Paris Club creditors (US\$1.5 billion). Based on a preliminary assessment, Somalia lacks the ability to service its debt in the medium term.

Executive Board Assessment²

Executive Directors welcomed Somalia's reengagement with the Fund, setting the stage for its first Article IV consultation since 1989. Directors agreed with the thrust of the staff appraisal. They noted that, following the protracted civil war, the country is facing daunting challenges. The first priority is to continue building institutions and administrative capacity, while undertaking key structural reforms to spur inclusive growth and reduce poverty. Directors underscored the importance of continued assistance from the international community to support the authorities' efforts. They welcomed the launch of the Trust Fund for Capacity Development, and highlighted the important role of Fund policy advice and technical assistance.

Directors stressed the need for decisive steps to build fiscal discipline, underpinned by realistic budgeting and effective implementation systems. They welcomed cabinet approval of a revised budget for 2015 that will avoid new arrears by raising revenues and rationalizing wages and services and other recurrent spending. Going forward, Directors stressed the importance of budgeting within a medium-term fiscal framework, based on sound fiscal principles and transparent reporting, and a public expenditure review to promote the allocation of resources towards investment in human capital and infrastructure.

Directors encouraged the adoption of sound mechanisms to ensure effective and transparent management of prospective natural resource wealth. They recommended building institutions consistent with international best practices to ensure that natural resource exploitation maximizes benefits for Somalis. They also stressed the need for clarity regarding the delineation of authority between the federal government and sub-national entities.

Directors supported ongoing efforts to strengthen the Central Bank of Somalia's capacity and governance structure, with support from the Fund and development partners. They cautioned that currency reform should not be implemented until all prerequisites are in place, in order to safeguard policy credibility.

Directors stressed that elaboration of a financial sector roadmap will be a critical first step to build credibility in licensing and supervising money transfer firms, in order to help channel remittances through the international banking system. They also recommended bringing the AML/CFT framework in line with international standards. Other priorities include preparing and approving additional prudential regulations, and strengthening compliance.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Directors encouraged the authorities to improve statistical capacity, in order to enhance the scope, quality and timeliness of economic data compilation, with technical assistance from the Fund and development partners.

Directors noted Somalia's longstanding arrears to the Fund and other creditors, and encouraged the authorities to continue to work towards a pathway for arrears clearance and eventual debt relief. They noted that, in due course, the establishment of a track record of cooperation with the Fund on policies and payments in the context of a well-designed staff-monitored program (SMP) would be a key step in the process of arrears clearance and normalization of relations with the international community as a whole. Directors stressed the need for sustained international support and cooperation, and welcomed the formation of the Technical Working Group on Somalia's Debt.

Selected Economic and Financial Indicators, 2013–17

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

	Estimated		Projected		2017
	2013	2014	2015	2016	
National income and prices					
Nominal GDP in millions of U.S. dollars	5,352	5,706	5,953	6,389	7,044
Real GDP, annual percentage change	...	3.7	2.7	3.4	4.3
Per capita GDP in U.S. dollars	402	418	425	445	479
Consumer Price Index (CPI), annual percentage change	4.5	1.3	4.0	3.2	2.9
(In percent of GDP)					
Central government finances 1/					
Revenue and grants, <i>of which</i> :	2.1	2.5	3.1	3.7	3.5
Grants 2/	0.8	1.1	1.4	1.6	1.4
Expenditure, <i>of which</i> :	2.2	2.6	3.1	3.7	3.5
Wages and salaries	0.9	1.4	1.4	1.7	1.5
Capital expenditures	0.0	0.0	0.2	0.3	0.3
Overall balance	-0.1	-0.1	0.0	0.0	0.0
Stock of domestic arrears	0.6	0.8	1.1	0.9	0.6
(In millions of U.S. Dollars)					
Central bank assets					
Total assets, <i>of which</i> :	158.5	151.1	...	...	...
Foreign assets, <i>of which</i> :	130.7	124.3	...	...	...
IMF	99.8	93.9			
Cash and cash equivalent including U.S. dollars in vault	7.4	6.2	...	...	...
(In millions of U.S. Dollars; unless otherwise specified)					
Balance of payments					
Exports of goods and services	779	819	861	924	1,019
Imports of goods and services	3,322	3,482	3,651	3,919	4,320
Net factor income	-425	-450	-467	-501	-553
Current transfers, <i>of which</i> :	2,312	2,469	2,531	2,696	2,902
Remittances 3/	1,300	1,333	1,366	1,400	1,435
Current account balance	-656	-644	-726	-800	-952
(In percent of GDP)	-12.3	-11.3	-12.2	-12.5	-13.5
Overall balance	0	0	0	0	0
External debt	5,259	5,294	...	...	...
Exchange rate					
Market exchange rate (SOS/USD, period average)	19,276	20,227	...	...	...
Market exchange rate (SOS/USD, end of period)	20,149	20,265	...	...	...

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

1/ Budget data for the federal government. GDP data covers the territory of Somalia.

2/ Includes only donor support provided through local treasury systems.

3/ 2013 data from Barclays Bank, PLC.



SOMALIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

July 8, 2015

KEY ISSUES

Context: Somalia is a fragile state emerging from a protracted civil war. In 1991, the government was toppled by armed opposition groups, leading to implosion of the central government and devolution of power to administrative regions. The Fund recognized the Federal Government of Somalia on April 12, 2013, paving the way for staff to provide policy advice and technical assistance. While Somalia has been welcomed back as an active member of the Fund, it remains ineligible for financial assistance pending the clearance of its longstanding arrears. The political and security situation remains challenging. Complex clan politics and high turnover in the members of the economic team have undermined policymaking. A new government took office on February 18, 2015, and presidential elections are planned for September 2016.

Key policy issues: The Article IV discussions focused on immediate and medium-term actions for building institutions and policy frameworks for fiscal and financial management. Specifically,

- **Capacity building and governance.** Concerted action is needed to build institutions and improve governance in order to support sustainable, inclusive growth, and poverty reduction. In particular, urgent efforts are required to set in place sound mechanisms and institutions to ensure that prospective natural resource wealth, notably hydrocarbons, is well managed. Considerable donor assistance is required for helping Somalia to meet these daunting challenges.
- **Fiscal.** Decisive steps are necessary to build fiscal discipline, underpinned by realistic budgeting and effective implementation systems, including commitment controls. The 2015 budget needs to be revised in light of revenue shortfalls. An emergency revenue mobilization plan and an expenditure review are warranted.
- **Financial sector.** Efforts are needed to develop the currently rudimentary financial system. Swift action is required so that remittances can be channeled through the international banking system. Currency reform should not be implemented until prerequisites are in place. Given the extent of dollarization and the absence of monetary policy instruments, the central bank is unable to conduct monetary policy.

Past IMF advice: The latest Article IV consultation was on November 13, 1989, and focused on the low priority attached by the government in place then on the need for better controlling unproductive spending, and on the need for better economic and social services.

Approved By
Adnan Mazarei (MCD)
and Ranil Salgado
(SPR)

Discussions were held in Nairobi during June 8–18, 2015. The staff team consisted of Mr. Zandamela (head), Ms. Castellanos, and Mr. Charap (all MCD), Mr. Dybczak (FAD), Mr. Csonto (SPR), Mr. Reinsdorf (STA), and Mr. Thiam (Resident Representative), supported by expert visits by Mr. Allen and Mr. Muir (FAD consultants) and Mr. Lönnberg (MCM consultant). Mr. Hickey and Ms. Ibrahim (both MCD) and Mr. Hinchcliffe (STA) assisted the mission from headquarters. Mr. Tlelima (OED) participated in some of the discussions. The mission met with Finance Minister Ibrahim, Deputy Planning and International Cooperation Minister Ali, Central Bank of Somalia Governor Ali, and other senior officials. Staff also met with key international partners based in Nairobi.

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CONTEXT AND RISKS

1. Somalia is a fragile state emerging from a protracted civil war. In 1991, the government was toppled by armed opposition groups, leading to implosion of the central government and devolution of power to administrative regions. In the 24 years since, the situation has been very difficult and volatile. A provisional constitution was adopted in August 2012 and a 275-member federal parliament was elected by 135 traditional elders from across Somalia. In September 2012, the parliament elected Mr. Hassan Sheikh Mohamud as president, leading to formation of a government in October. Consistent with broad international support of the Federal Government of Somalia (FGS), the IMF recognized the FGS on April 12, 2013. Institutions are very weak and lack of capacity impedes development.¹ While work to establish a federal constitutional framework is underway, the regions are fairly independent. Nevertheless, donor initiatives to channel earmarked resources through FGS treasury systems are helping reduce regional autonomy. The government has a poverty reduction strategy, but in the absence of adequate domestic resources, poverty reduction efforts are being undertaken mainly through off-budget donor support.

2. The Somali authorities have resumed active engagement with the Fund. Recognition of the FGS paved the way for staff to provide technical assistance (TA) and policy advice in key areas, including: (i) financial governance and accounting; (ii) currency reform; (iii) bank licensing and supervision; (iv) fiscal policy and budget preparation; and, (v) development of statistical systems. Reengagement has laid the groundwork for these discussions; milestones include: (i) national budget preparation; (ii) development of consumer price index, gross domestic product, and external sector data; and, (iii) preparation of the central bank balance sheet. While resources are available for TA and training, absorptive capacity and security issues are overarching constraints. Despite shortcomings in source data and coverage, core data were available for these discussions. Data deficiencies limited some standard elements of bilateral surveillance, such as medium-term projections, debt sustainability analysis, and an external stability assessment (Box 1).²

¹ The 2012 interim constitution underpins efforts to introduce a modernized legal system. However, implementation of laws on a nationwide scale continues to meet formidable challenges. Staff from the African Development Bank, IMF, and World Bank have been providing assistance.

² A debt sustainability assessment and external stability analysis were not possible because of data weaknesses, including the need to validate some figures on non-Paris Club debt and collect information on individual loans.

Box 1. Technical Assistance by IMF Staff

Staff TA aims to support building economic institutions and sound macroeconomic policies (see Table below and the Informational Annex for a list of individual TA missions). Somalia would benefit from TA in various areas. On February 6, 2015, the Fund launched the “Trust Fund for Capacity Development in Macroeconomic Policies and Statistics for Somalia,” to finance TA in: (i) developing macroeconomic frameworks and policies; (ii) establishing a functional central bank; (iii) modernizing tax and customs administration; (iv) strengthening public financial management; and, (v) improving statistics. The program coordinates activities with the authorities and other TA providers. Continued donor support will be critical for capacity building.

TA Activities	
Department	Activity
FAD	PFM reform Formulation of credible macro-fiscal policy objectives and aggregates Budget planning and preparation Expenditure control and cash management, including fiscal rules Budget accounting and reporting Application of international standards in budget management Modernization of chart of accounts Formulation and evaluation of tax policy and customs administration Fiscal decentralization and revenue sharing options Development of a framework for natural resource revenue management and taxation Development of long-term tax reform strategies for efficiency and equity Development of revenue raising measures legislated by the Parliament
MCM	Central bank organization, governance and accounting Monetary and exchange operations and payment systems Banking legislation, regulation and supervision Currency reform Reserve management Asset recovery
STA	Development and dissemination of national accounts Development and dissemination of external accounts (BOP and IIP) Development and dissemination of price statistics and consumer price index Development and dissemination of monetary and financial accounts Development and dissemination of government finance statistics (GFS) Collection of external debt data
LEG	Central bank legislation and by-laws Banking law and regulation Natural resources law and contracts Establishment of a legal department in the central bank

The trust fund is a US\$9.3 million multi-donor program covering 2014-17. Initial contributions were received from the Arab Fund for Economic and Social Development (US\$3 million), Canada (US\$2.5 million), and the UK (US\$1 million). The trust fund can be renewed. As of end-May 2015, US\$124,297 had been disbursed.

TA has been delivered in key areas of IMF expertise, namely: (i) fiscal issues; (ii) the monetary and banking sector; (iii) statistical systems; and, (iv) legal issues. In the fiscal area, TA has addressed: (i) budget accounting and reporting; (ii) budget preparation and execution; and, (iii) tax policy and customs administration. In the money and banking sector, TA has focused on: (i) the organization and governance structure of the central bank and its accounting systems; and, (ii) and licensing procedures and supervision of financial institutions. Regarding statistical systems, TA has addressed development, compilation and publication of national accounts, external sector statistics, and prices statistics. In the legal area, TA has focused on: (i) reviewing the

central bank law; (ii) establishing a legal department in the central bank; (iii) development of central bank by-laws and a code of ethics and conduct for the board; and, (iv) advice on banking legislation and regulations.

In the period ahead, extensive TA is planned. In the fiscal area, TA will assist with: (i) preparation of the 2016 budget; (ii) tax policy; and, (iii) public financial management. In the monetary and banking sector, TA will support: (i) central bank governance; (ii) currency reform; and, (iii) bank licensing and supervision. TA for statistical systems will assist with: (i) balance of payments compilation; (ii) the consumer price index; and, (iii) monetary aggregates. Legal assistance will help with the preparation of central bank by-laws.

TA has been delivered through different modalities. Staff has developed capacity building plans and is providing TA through deployment of advisors, staff-led missions, expert visits, and training.

TA has built capacity and allowed staff to begin carrying out surveillance. TA has helped build capacity in key government institutions and allowed the authorities to provide basic data for surveillance.

3. While Somalia has been welcomed back as an active member of the Fund, it remains ineligible for financial assistance pending the clearance of its longstanding arrears. Arrears clearance will be an important part of normalizing relations with the international community and establishing a roadmap to debt sustainability. The process will involve: (i) establishing a track record of cooperation with the Fund on policies and payments, including in the context of a Staff Monitored Program; (ii) reconciling external debt; (iii) preparing a poverty reduction strategy; and, (iv) mobilizing donor resources to finance debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. As of end-May 2015, arrears to the IMF were US\$328 million, while arrears to the World Bank and the African Development Bank (AfDB) were US\$283 million and US\$94 million, respectively.

4. The political and security situation remains very challenging. Complex clan politics and high turnover in the members of the economic team have undermined policymaking and limited TA and surveillance effectiveness: since September 2013, there have been three central bank governors and three ministers of finance. A new government took office on February 18, 2015 and presidential elections are planned for September 2016.

5. As a result of the civil war, all Somali state institutions are severely impaired. Improving governance in key state institutions is critical for progress on economic reconstruction and development. The FGS, working with the international community, has taken steps to improve governance based on the rule of law and the application of international good practices for fiscal and financial operations. IMF TA is largely devoted to enhancing governance in the ministry of finance and the Central Bank of Somalia (CBS). Rebuilding critical infrastructure and delivering basic social and economic services will be crucial for the new government to gain the trust of the Somali people, advance the process of national reconciliation, and to extend FGS authority over all parts of the country.

6. Global and regional risks arise from slower global growth and spillovers from Middle East unrest. These risks could lower demand for exports, reduce donor support, decrease remittance inflows, and prompt an influx of refugees (see RAM). The policy response should be perseverance with the reform agenda in light of the highly constrained room for maneuver.

7. Somalia-specific risks arise from tightening international regulatory and supervisory frameworks, insecurity, weak institutions, and the availability of data for economic management, as well as low revenue, lack of control over the national currency, and poorly developed financial system supervision. The protracted civil war has left institutions in disarray with few qualified staff. Capacity for data collection, compilation, analysis, and dissemination is limited. Poor revenue performance—against the backdrop of large expenditure commitments—is leading to further arrears accumulation. Credibility would be damaged if a currency reform were launched without adequate preparation. Delays in developing supervisory capacity could exacerbate problems linked to global de-risking, impeding remittances that support livelihoods.

Somalia: Risk Assessment Matrix³

Nature/Source of Main Threats	Overall Level of Concern	
	Relative Likelihood	Impact if Realized
Global Risks		
Structurally weak growth in key advanced and emerging economies (the “new mediocre”)	High	Medium Channel of transmission would be lower demand for exports and possible reduction in donor support.
Heightened risk of fragmentation/state failure/security dislocation in the Middle East and some countries in Africa	Medium	Medium Channel of transmission is reduction of remittances and influx of refugees.
Country specific risks		
Tightening regulatory and supervisory frameworks in advanced and emerging markets	High	High Channel of transmission is derisking, prompting banks to forego money transfer business and leading to lower remittances.
Institutional risk Protracted insecurity, weak institutions, and poor data availability	High	High Data compilation, analysis, and dissemination remain problematic
Fiscal risks Low revenue and weak expenditure control	High	High Lack of revenue against the backdrop of large expenditure commitments would lead to further arrears accumulation.
Failed currency reform The CBS launches a currency reform without adequate preparation	Medium	High The introduction of a new currency or new banknotes without proper systems in place would damage credibility.
Poor financial system supervision Lack of credible supervision and AML/CFT	High	High Delays in strengthening supervisory capacity lead to a reduction in remittance inflows, which support the livelihood of many Somalis.

³ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of Fund staff). The relative likelihood of risks listed is the staff’s subjective assessment of the risks surrounding the baseline. The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with authorities.

BACKGROUND AND RECENT DEVELOPMENTS

A. Real Growth and Inflation

8. Humanitarian and social conditions in Somali are among the most daunting in the world. Close to 4 million people—around a third of the population—are in need of food assistance; infant mortality is more than one in ten; and, life expectancy is about 51 years.

9. Based on rudimentary data, the economy is growing while consumer price inflation remains moderate. Anecdotal evidence suggests that economic conditions improved rapidly in 2012-13, following years of disruption from war and internal strife. The recovery was led by growth in livestock and fisheries, and a very active private sector resurgence of the services industry, notably communications, construction, and money transfer services, mainly associated with the return of diaspora Somalis.

10. Economic activity is estimated to have expanded with real GDP rising by 3.7 percent during 2014. In nominal terms, GDP increased in 2014 by 6.6 percent to US\$5.7 billion with the CPI rising by 1.3 percent (Figure 1 and Table 1). The most significant industries are: (i) agriculture, livestock, and fisheries; (ii) information and communications; (iii) wholesale and retail trade; and, (iv) financial services. For 2015, growth is projected at 2.7 percent with CPI inflation of 4.0 percent.

B. Fiscal and Financial Governance

11. While governance of key state institutions has improved, considerable strengthening is required. Inland revenue collection is stymied by insecurity and the war-induced destruction of a compliance culture. Accounting and reporting operations will be strengthened by completing implementation of the Somalia Financial Management Information System (SFMIS). Much of the work aimed at strengthening the operations of the ministry of finance are fundamentally focused on improving the governance of public financial management (PFM) operations. Progress has also been made in establishing the offices of an accountant general and an auditor general to underpin financial governance for Somalia.

12. At time of restoration of contacts between Somalia and the Fund in 2013, the CBS no longer carried out traditional central banking operations. It had few staff of which merely a handful had a professional background in central banking. While recruitment of qualified staff from the diaspora remains challenging, several highly competent individuals with appropriate training have been appointed. These new staff are underpinning work on a new central bank organization. Key new units under construction are departments for: (i) accounting and finance; (ii) economics and statistics; (iii) internal audit; and; (iv) licensing and supervision. The near-term agenda also includes setting up units for management of international official reserves and for handling cash currency.

13. A Financial Governance Committee (FGC) was established on April 23, 2014 in response to worrisome governance developments. The FGC is a committee of the FGS with the

objective of enhancing financial governance by monitoring, advising and assisting government in matters related to CBS governance, public sector contracting, procurement and commercial concessions, PFM, asset recovery, and fiscal federalism. The FGC is chaired by the minister of finance and consists of Somali and external partner representatives. Fund staff has appointed a technical expert in an advisory capacity.

14. Issues related to public sector contracting have attracted particular attention. Public procurement and the granting of commercial concessions were initially carried out in a nontransparent manner. Through the FGC, reviews are now made of all such contract over US\$5 million. The FGC has recommended that certain contracts be renegotiated, amended, or cancelled. Furthermore, an interim regime has been adopted that will operate until specialized legislation, in line with international good practice, is in effect.

C. Fiscal

15. Fiscal policy is geared toward delivery of basic services in the context of a zero cash balance budget. Considerable expenditure pressure, deficiencies in revenue mobilization, unfulfilled donor pledges, and nascent political processes have produced unrealistic budgets. The funding shortfall has led the FGS to incur liabilities to local money transfer firms (MTFs), reduce assets, ration cash, and incur arrears to the defense forces, civil servants, and suppliers.

16. The federal budget for 2013 was the first post-conflict budget. The 2013 budget consisted primarily of salary and security expenditures. Cash was limited due to revenue shortfalls, leading to arrears accumulation of US\$30.4 million, almost 26 percent of expenditure.

17. The budget outcome for 2014 underscores deficiencies in revenue mobilization (Table 2). Revenue (including grants) in 2014 of US\$145.3 million underperformed the budgeted US\$188.5 million. International assistance outside the budget is significantly higher than direct assistance (Table 3).⁴ Trade taxes and foreign grants remain the largest sources of revenue. Through strict cash rationing, expenditure was limited to US\$151.1 million—30 percent less than the budgeted US\$216.2 million. Financing of US\$22.9 million (equivalent to 27.2 percent of domestic revenue) was through arrears accumulation and liquidation of recovered government assets.

18. On December 31, 2014, parliament approved a 2015 budget of US\$239.9 million with a highly optimistic revenue forecast, setting the expenditure ceiling 58.8 percent over the 2014 outcome of US\$151.1 million. The expenditure envelope was not underpinned by prudent budgeting. Infrastructure investment and social spending are crowded out by wages (Box 2). Analysis of five months of budget data points to a revenue shortfall of US\$56.3 million for the year, underscoring the need to adjust expenditure in a revised budget.

⁴ Donor support was provided predominantly off budget, directly financing large infrastructure and capital projects, humanitarian assistance, and the wages of some military and security personnel.

Box 2. Public Expenditure

Expenditure is concentrated on wages and goods and services. The share of wage compensation is about half of expenditure while goods and services are a third. This concentration crowds out resources for interest payments, subsidies, social benefits and capital.

Infrastructure investment is crowded out by spending on wages. Investment in schools, hospitals, and clinics is vital for the government to meet its obligation to provide essential goods and services, while investment in roads, bridges, ports, and airports supports economic growth.

The share of wages—about 45 percent—is higher than in comparable countries. Wages as a share of expenditure are about 30 percent in Africa and in low income countries. Accordingly, the FGS should focus on containing the wage bill.

Box 2. Table 1. Composition of Public Expenditure

	Millions of U.S. Dollars			Percent of spending		
	2013 Actual	2014 Actual	2015 Budget	2013 Actual	2014 Actual	2015 Budget
Total expenditure	117.4	151.1	239.9	100.0	100.0	100.0
Current	117.4	150.9	226.0	100.0	99.9	94.2
Wages and salaries	50.4	77.2	108.3	42.9	51.1	45.2
Goods and services	56.0	57.6	82.7	47.7	38.1	34.5
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national government	7.5	10.1	14.8	6.4	6.7	6.2
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0
Contingency	3.5	3.8	3.2	3.0	2.5	1.3
Repayment of arrears and advances	0.0	2.2	17.0	0.0	1.5	7.1
Capital	0.0	0.2	13.9	0.0	0.1	5.8

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

Box 2. Table 2. Public Wage Bill International Comparison

	Wage bill, as percent of:		
	Spending	Revenue	GDP
Somalia	45.0	60.0	0.9
Kenya	37.7	38.4	8.1
Burundi	25.4	60.2	11.2
Tanzania	23.3	37.5	6.5
Eritrea	23.1	51.0	10.0
Malawi	16.0	17.8	5.8
Rwanda	13.0	12.7	3.5
Uganda	12.5	11.8	1.7
<i>Africa</i>	30.4	29.5	6.5
<i>Low-Income Countries</i>	28.6	27.9	5.2

Note: General government, consolidated central government or budgetary central government, annual averages for 2000-08 depending on data availability. For Somalia data correspond to 2014 actual budget.

Source: IMF.

D. Financial Sector

Structure and development of the financial sector

19. At end-June 2015, the formal financial sector consisted of the central bank, six banks with provisional licenses, and nine licensed money transfer firms (MTFs). The formal financial sector (outside that under the control of the Bank of Somaliland) is small and nascent while there is reportedly a large informal sector.⁵ Each bank maintains one office, four of which are in Mogadishu, and one each in Somaliland and Puntland. As of end-June 2015, thirteen MTFs had pending applications for banking licenses. The MTFs provide fund transfer services throughout the country and internationally via Dubai. Balance sheets and financial statements for banks and MTFs are not available.

⁵ With one exception, financial institutions operating in Somaliland are licensed and supervised by the Bank of Somaliland, none of which are recognized by the CBS.

20. The CBS is responsible for: (i) the national currency; (ii) the payments system, including as the fiscal agent of government; (iii) management of official international reserves; and, (iv) licensing and supervision of banks.

21. The Central Bank of Somalia (CBS) faces challenges in building financial sector supervision due to technical and human resource constraints. In addition, oversight of anti-money laundering and combating the financing of terrorism is not in line with international standards. Recently, a number of international banks have closed their correspondent accounts with Somali MTFs, threatening the inflow of remittances.

Monetary policy and national currency

22. Monetary policy instruments do not exist, the exchange rate of the Somali shilling is freely floating, and the de facto exchange regime is free of restrictions or multiple currency practices. The status of the national currency is complex (Box 3). The economy is predominantly dollarized in an unregulated environment. Cash currency is scarce, particularly in lower denominations, and Somali banknotes issued by the CBS are not readily available, creating problems for the poorest. With a general lack of technical, human, and financial resources, the CBS needs considerable assistance to change the *status quo*. Political pressure is mounting for an early currency reform.

Box 3. National Currency

The *de jure* currency for all of Somalia is the Somali shilling (SOS). According to Somali law, the CBS is in charge, and the sole supplier, of the national currency. However, since 1991, no banknotes have been issued by the CBS. Instead, a single denomination—the SOS 1,000 (value about US\$0.05)—has been widely distributed in different forms of counterfeit notes estimated to account for about 95 percent of SOS notes in circulation. Some versions were printed abroad, others in Somalia, typically funded by local businesses. Virtually all SOS notes in circulation are *de facto* accepted as a means of payment although counterfeits are readily identifiable.

The *de facto* currency in Somalia (excluding Somaliland) is the U.S. dollar estimated to account for about 95 percent of currency in circulation. Dollar banknotes are used as cash currency and neighboring country currencies are used in border areas. Mobile phone payments, with air time transactions denominated in U.S. dollars, are also widely used. Air time also serves as a transactional sub-denomination of the U.S. dollar, as do SOS notes, but to a more limited extent. In Somaliland, the *de facto* monetary authority—the Bank of Somaliland, an institution not recognized in the rest of Somalia—has issued its own currency, the Somaliland shilling, since 1994. That currency is neither recognized nor co-circulating in the rest of Somalia.

Central bank modernization

23. Against the backdrop of many years of challenging conditions, the CBS is not yet in a position to operate as a modern central bank. The CBS board of directors was established, and started operations, only in April 2014. As of end-June 2015, the board had had five meetings and had approved and implemented a first set of by-laws for the CBS. Work on a new organizational structure and human resource practices are underway at the CBS and the ministry of finance. The CBS has also started to implement a memorandum of understanding that clarifies the roles and obligations of the CBS as the fiscal and financial agent of the state.

24. The CBS has prepared financial statements for 2014 (Table 4). The preliminary balance sheet shows assets of US\$57.3 million, primarily gold, foreign exchange assets, and property and equipment. The nominal exchange rate of the SOS has remained broadly stable in recent years.⁶ Since the value of SOS in circulation is unknown, this liability was not included. The residual CBS equity and reserves was US\$49.7 million.

E. External

25. The 2014 current account deficit is estimated at US\$644 million (11.3 percent of GDP) (Table 5). Trade consists mostly of exports of livestock to GCC countries and imports of foodstuffs from neighboring countries and the Indian subcontinent. The trade and income deficits were US\$2,663 million and US\$450 million, respectively, partially covered by remittances of US\$1,333 million and other transfers of US\$1,137 million. The deficit was financed by foreign direct investment of US\$434 million, especially in telecommunications, electricity, and hotels, and donor capital transfers of US\$150 million.

26. External debt was estimated at US\$5.3 billion (93 percent of GDP) at end-2014, preponderantly arrears (Table 6). Debt data cover most creditors, exclude commercial debt, and show obligations to: (i) multilaterals (US\$1.5 billion); (ii) Paris Club creditors (US\$2.3 billion); and, (iii) Non-Paris Club creditors (US\$1.5 billion). Data are compiled and validated by a dedicated finance ministry unit, with TA from multilaterals, which maintains a dialog with creditors and is redressing data gaps including loan size validation and bilateral loan terms.⁷ Based on a preliminary assessment, Somalia lacks the ability to service its debt in the medium term.

⁶ The SOS exchange rate has remained broadly stable in recent years at US\$1 equaling SOS 20,000. During May 2015, the rate depreciated briefly to SOS 23,500 in response to a sudden influx of new, counterfeit notes.

⁷ In the dialogue with creditors, a second meeting of the technical working group took place on the sidelines of the 2015 IMF-World Bank Spring Meetings.

OUTLOOK

27. Despite daunting challenges and risks, the outlook remains broadly favorable. Diaspora Somalis are driving growth, largely in communications, construction, and money transfers. With progress on the security front, and in the absence of drought, modest growth is expected. Nevertheless, growth will remain inadequate to redress poverty and gender disparities.⁸ Should security worsen or drought return, growth will be at risk. The 2016 presidential elections could set the stage for normalization of the political process, or they could disrupt reform efforts.

POLICY DISCUSSIONS

Discussions focused on immediate and medium-term issues, including possible quick wins. In the short run, improving fiscal management will be critical, including raising revenue and grants and prioritizing expenditures, as well as technical issues of budget control. Looking forward, the discussions explored the key building blocks for stability and growth, mostly related to setting in place institutions, managing public resources, and facilitating financial sector development.

A. Strengthening Governance and Institutions

Institutions

Background

28. Continued progress in building sound and accountable institutions is critical for the restoration of public confidence in government and the CBS, and for poverty reduction, inclusive growth and addressing gender disparities. Institutions need strengthening through phased adoption of international standards and codes, and improved systems for transparency and accountability. Staff will continue to provide TA in key areas of IMF expertise (see Box 1). Discussions focused on key institutions in economic, financial, and monetary areas, to: (i) improve legal and regulatory frameworks; (ii) strengthen procurement systems; (iii) bolster expenditure control; and, (iv) enhance revenue administration.

29. Statistical system development is a priority. The statistics law enacted in 1970 provides for establishment of a statistical office and protects data confidentiality. Nevertheless, the lack of statistical capacity, combined with fragmented administration, impedes development of basic economic statistics. The statistics law is being updated, and priorities are being set for development of the statistical system and dissemination of statistics.

⁸ Preliminary data indicate significant income inequality. Consumption in nomadic households is 28 percent of that in urban households.

30. Data provision has significant shortcomings that hamper surveillance. Source data are limited for national accounts, the fiscal and external sectors, and the banking system. TA to redress these deficiencies is supported by the recently launched trust fund. Identified measures include updating the statistics law and strengthening institutions and staff.

Staff's views

31. Staff emphasized the need for improved accounting systems and better regulatory practices. The ministry of finance should enhance its capacity to prepare and manage the annual budget, and improve communication with ministries, departments, agencies, parliament, and citizens.

32. Staff recommended that responsibility for statistical activity be clearly defined among stakeholders in the national statistical system. Responsibility for preparing national accounts, price indexes, and balance of payments must be allocated across institutions. The role of state and regional governments in the statistical system should be specified. Procedures must be established to collect source data for compilation of economic statistics.

Authorities' views

33. The authorities supported of these recommendations, indicating a desire for demand-driven TA from the international community. Areas of future demand would be identified as strategic priorities. They welcomed the continued role of TA from the staff.

Natural resource management

Background

34. Somalia has large potential for revenue from natural resources, particularly hydrocarbons, so effective concession management and a suitable fiscal regime are critical. Preliminary seismic survey results are promising. The FGS has signed several concession contracts to initiate resource exploitation and raise revenue despite the absence of a clear legal and regulatory framework. While transparency is paramount, sound institutions are required to manage natural resources and specialized expertise is needed to negotiate contracts effectively. A draft Public Procurement, Disposal, and Concessions Act has been before parliament since April 2014.

35. Resource sharing between the center and the regions, as well as the authority of the regions to make concession agreements, need to be clarified. Work is underway on agreement between the FGS and sub-national entities on resource sharing.

Staff's views

36. Staff stressed the importance of having institutions, policies and legislation for effective and transparent management of natural resources. Staff urged the authorities to develop capabilities in negotiating resource management contracts and to establish an appropriate

fiscal regime. Staff discussed the steps necessary to build institutions for managing natural resources and making contracts for their exploitation in a manner consistent with welfare maximization. Staff encouraged the authorities to incorporate best practices in their resource management strategy, which should facilitate private sector participation and ensure transparency.

37. The mission urged the authorities to seek consensus regarding fiscal federalism, including responsibilities for service delivery, and revenue collection and sharing. Planning frameworks for federal and sub-national entities are required. Plans need to be linked to the budget and a harmonized revenue strategy, and reflect realistic forecasts.

Authorities' views

38. The authorities agreed that their natural resource management framework needs improvement and recognized the importance of delineating responsibilities between the FGS and sub-national entities. The authorities confirmed that agreement on fiscal federalism is essential. Delineation of responsibilities within the FGS will also be important. Policies and procedures are being established for the department of national assets within the ministry of finance.

39. The authorities informed staff of plans to strengthen the concession management framework. Under the donor-supported financial governance program, a strategy for capacity building in concession management is being developed, including the legal and regulatory framework. Work on this agenda is supported by the FGC and the World Bank.

40. The authorities welcomed the review of concession contracts by the FGC, which resulted in the termination and renegotiation of some contracts. Legal support for contract review has been financed by the AfDB.

B. Fiscal

Background

41. Staff and donors have been providing technical assistance in fiscal areas ranging from budget preparation to tax policy. Urgent efforts are needed to strengthen budget credibility by limiting expenditure commitments to available resources. While staff has initiated discussion of the fiscal regime, policy advice requires clarity regarding the nature of the federation, particularly fiscal relations between the center and the regions. Staff will continue to provide TA in key areas of IMF expertise (see Box 1).

42. The budget outcome for 2014 and indications to May 2015 point toward significant underperformance in domestic revenue and grants. Tax collection was below target due to delays in implementation of measures to raise revenue. Dependence on grants is large, exposing the budget to uncertainties in donor disbursements. All capital spending is donor funded.

43. Despite the implementation of stricter expenditure rules (including sequestration rules), arrears will rise if the revenue target is not achieved. The expansion in the number of ministries and government entities has left Somalia with a payroll-centric budget. Investment and social spending are crowded out by spending on wages, which are about 45 percent of expenditure in 2015. Revenue has been revised downward substantially. As of mid-June, the government was preparing a revision of the 2015 budget in response to revenue shortfalls.

Staff's views

44. Staff stressed the importance of revising the 2015 budget, adopting a strategy to avoid arrears, and eliminating existing arrears. Staff underscored the need to provide for arrears repayment in future budgets and strengthen controls to prevent arrears accumulation. Staff welcomed the arrears management plan, while noting that implementation will be challenging.

45. Staff recommended that the authorities develop and implement an emergency revenue mobilization plan and conduct an expenditure review. Revenue options include taxing hotels, telecommunications companies, and large employer payrolls. Staff urged: (i) designing laws and regulations to support revenue initiatives; (ii) implementing plans for tax administration and collection improvement; and, (iii) enhancing efforts to identify and secure reliable and timely budget support from the international community. A review of expenditure is needed to identify options to rebalance the composition of the budget and contain spending in light of anticipated revenue expansion in the near term, improve efficiency, and help better focus spending on poverty reduction.

46. Regarding budget formulation in the years ahead, staff stressed the need to adopt policies to address important vulnerabilities. Fiscal rules, such as targets for the share of wages or capital, can help ensure fiscal sustainability and a desirable composition of spending, and should be accompanied by a medium-term fiscal framework to guide their realization.⁹ To improve accountability, staff recommended that line ministry budgets reflect resources disbursed from the contingency reserve. Staff encouraged publication of data on off-budget assistance in an addendum to the budget.

47. Staff stressed that Somalia should eschew external borrowing (especially on nonconcessional terms), as this would complicate a debt workout. Staff urged continued avoidance of selective debt servicing of bilateral creditors, as this would complicate eventual normalization of financial relations with creditors.

Authorities' views

48. The authorities informed staff about their plan to strengthen revenue and prioritize expenditures in a supplementary budget for 2015. An amended spending plan was discussed

⁹ In conjunction with an annual budget, a medium-term fiscal framework typically sets out a three-year plan.

with the Council of Ministers in June. The authorities confirmed the need for plans aimed at emergency revenue mobilization and expenditure review, noting that political support is required for expenditure reductions.

49. The authorities presented an arrears management strategy to eliminate domestic arrears, which are estimated to have increased by US\$14.9 million during 2014 to US\$45.3 million at end-2014. The strategy includes steps to perform a stock-take, verification, assessment, and clearance for existing arrears. Moreover, it designs policies to avoid further arrears, strengthen commitment controls, improve cash management, and prioritize repayments.

Public financial management

Background

50. Although considerable progress has been made in laying the foundation for PFM, significant reform is required to bring PFM systems closer to international standards. Improvement in budget credibility—consistent with absorptive capacity—is required to assist fiscal discipline and improve the efficacy of public spending.

Staff's views

51. Staff identified multilateral and bilateral donors providing TA and recommended a PFM agenda for 2016-20 to guide engagement with the international community. Staff focused on the reform agenda and implementation modalities to identify and address gaps in policy, processes, and capacity. Identified weaknesses include: (i) budget credibility and sustainability; (ii) cash management and commitment controls; (iii) IT systems; (iv) payroll management; (v) accounting and reporting; and, (vi) executive and legislative oversight. Staff also emphasized the need to adopt comprehensive and properly sequenced budget preparation and execution reforms, including arrears management.

52. Staff welcomed the significant progress toward implementation of an effective SFMIS, which would allow comprehensive *ex ante* recording of liabilities, as well as strengthened control of spending and timely and accurate financial reporting. Staff recommended that SFMIS development be reinforced with relevant procedures and practices including full implementation of the treasury single account. Commitment controls need to be incorporated in the SFMIS to identify arrears. Rules and procedures underpinning controls should be institutionalized.

Authorities' views

53. The authorities reaffirmed their commitment to leading and implementing PFM reforms. They welcomed the PFM review and suggestions for a new reform plan for 2016-20, and acknowledged the imperative of placing public finances on a sustainable path and closing the gap with international standards. A fully functional SFMIS is being rolled out and PFM procedures and practices will be institutionalized across government. The authorities observed that their 2013-16

PFM reform action plan is optimistic, and that future reform plans should be more focused, prioritized, and sequenced.

C. Financial Sector

54. With the economy largely dollarized and in the absence of policy instruments, the CBS is unable to conduct monetary policy. The preliminary step toward developing a monetary policy framework would be to compile a monetary survey, underpinned by development of the CBS's institutional capacity.

55. Staff reviewed financial sector developments focusing on: (i) preparing monthly financial statements; (ii) strengthening the organizational and governance structure of the CBS; (iii) implementing accounting and financial reporting systems and practices; and, (iv) establishing a robust licensing and supervision process. Internal and external auditors have been appointed. The authorities have requested TA to develop strategies to address dollarization, payment systems limitations, and monetary policy constraints.

56. The CBS balance sheet should remain broadly stable. The lack of financial intermediation, inability of the government to accumulate financial assets, and limited role of the shilling should preclude major changes to CBS balances.

Financial governance

Staff's views

57. Strengthening CBS organization is essential and steps are required to address the lack of appropriate regulations. Establishment of an executive committee is important to bolster governance and a legal unit is needed. The CBS board should approve regulations to ensure consistent implementation of the CBS act. Areas that deserve special attention include: (i) accounting and financial reporting; (ii) auditing; (iii) collecting and handling information from supervised institutions; and, (iv) establishing a robust licensing and supervision process.

58. Action is needed to strengthen the role of the CBS as sole manager of international reserves. The CBS should: (i) establish a reserves management unit; (ii) approve by-laws for foreign reserve management; and, (iii) utilize World Bank expertise to bolster knowledge and capacity. Efforts to recover missing, lost, or stolen financial assets should be intensified under the leadership of the CBS.

Authorities' views

59. The authorities stressed their commitment to enhancing governance at all levels with the aim of being in line with international best practice. The CBS agreed that establishment of an executive committee would bolster governance. They informed staff of potential donor resources

available to support this endeavor, and the need for review of the allocation of responsibilities. They underscored the importance of TA and training.

Monetary and exchange rate policy framework

Background

60. Current monetary conditions do not serve the country well and need to be addressed.

The monetary regime and the situation with respect to currencies in actual circulation are not the results of specific policy choices, but the outcome of chaotic conditions since the early 1990s combined with the operational weakness of the CBS. Moreover, the policy framework and regime have not been determined by the authorities. The absence of exchange restrictions supports trade and the vibrant expansion of the private sector.

Staff's views

61. Staff noted that the choice of an appropriate monetary policy framework and exchange rate regime contains several options. Options range from dollarization or a currency board-type arrangement to a freely floating exchange rate. In the short run, staff sees no alternatives to *de facto* dollarization.

62. Introduction of a new currency is complex and costly. Staff reiterated that currency reform must be prepared properly. Staff discussed prerequisites and modalities for successful currency reform: (i) building technical capacity; (ii) mobilizing financial resources; (iii) planning and conducting currency conversion; and, (iv) ensuring policy consensus and broad-based political support. Staff also discussed Article VIII obligations and exchange restrictions (see the Informational Annex).

63. At this time, the CBS lacks the capacity and resources for undertaking a comprehensive currency reform. International experience shows that the direct costs of an ill-prepared currency reform are large and reputational losses can be considerable. Accordingly, staff recommended that priority be given to an agreed framework for the preparation, with extensive international support, of a roadmap that would provide options for the authorities' eventual decision on a currency reform.

Authorities' views

64. The authorities welcomed a discussion on options for a monetary policy and exchange rate framework, including the identifying modalities for successful currency reform. Although there is no consensus on the currency reform, they initially stressed the importance that successive governments have attached to the role of the national currency. Since May 2015, parliament has escalated pressure on the CBS to issue new Somali banknotes.

65. The CBS governor underscored the importance of a currency reform strategy and consensus on key reform measures before proceeding. The authorities are discussing options

including issuing the lowest denomination banknote, which they believe is important for the poor and those living in remote areas.

66. The authorities confirmed that the *de facto* currency is the U.S. dollar and that they enforce no restrictions on transfers. Accordingly, the making of payments for all international transactions is free of restrictions. The *de jure* regime is under discussion.

67. The authorities highlighted the importance of external advice and financing for a successful currency reform. Extensive TA from staff and collaborating central banks will be requested. In addition, substantial financial support from donors will be required.

Financial sector developments

68. While the CBS has insufficient capacity to license and supervise financial institutions, they are taking steps to address the threat to remittance flows. Prudent growth of financial intermediation requires bolstering capacity in critical areas including bank licensing and supervision, anti-money laundering and combating the financing of terrorism. Recently, a number of international banks have closed their correspondent accounts with Somali MTFs, threatening the inflow of remittances. In response, the authorities have launched a multi-agency task force on remittances. Moreover, the authorities, in collaboration with donors, have established an advisory council to facilitate remittances to Somalia. The CBS and the World Bank have agreed on the appointment of a "Trusted Agent" to supervise MTFs and help build capacity in licensing and supervision.

Staff's views

69. The CBS has taken welcome steps to establish a formal financial sector. Staff agreed with the CBS that the number of licensed banks should not be increased until the supervisory capabilities of the CBS have been enhanced. Nevertheless, the practice of awarding provisional banking licenses should cease, as it has no legal basis in the CBS act or the financial institutions law.

70. Decisive action is needed to address capacity weaknesses in licensing and supervision. Elaboration of a financial sector roadmap will be a critical first step. Preparing and approving additional prudential regulations and ensuring compliance, as well as strengthening the AML/CFT framework, are also priorities. Staff is providing advice in these areas, supported by collaborating central banks.

71. International remittances to Somalia must not be jeopardized. Staff urged the authorities to move swiftly to build credibility in licensing and supervision. The initiative to establish a trusted agent may mitigate the threat to remittance flows.

Authorities' views

72. The authorities were in broad agreement with staff regarding capacity building. They emphasized the need for external technical support for human capacity building and drafting regulations.

73. The CBS board has decided to halt issuance of additional bank licenses until applicants fulfill basic requirements. Consequently, nine licensing requests are on hold pending compliance with the following requirements: (i) adequate capital; (ii) an established board of directors; (iii) proper accounting systems; (iv) internal auditing; (v) non-concentrated shareholding; (vi) ownership of a national (non clan-based) character; and, (vii) an approved business plan. Furthermore, the CBS informed staff that licensed banks will also have to meet these requirements, and have until the end of the year to comply.

STAFF APPRAISAL

74. Somalia is recovering from decades of conflict. Protracted civil war has left weak institutions and sparse human capital. The government in Mogadishu is broadening its domain while building institutions that could lead toward prosperity. The FGS has garnered broad international support and Somalia has been welcomed back as an active member of the Fund.

75. Despite tremendous progress, challenges remain daunting and risks are ubiquitous. Complex politics and nascent political institutions continue to undermine policymaking. Slower global growth could lower demand for exports, reduce donor support, and decrease remittance inflows. Remittance inflows are also at risk due to heightened global concerns about terrorist financing coupled with weak Somali bank supervision.

76. Economic activity is picking up while consumer price inflation remains low. Real growth in 2014 was 3.7 percent and medium-term growth should be modest, supported by security improvements. Inflation has been and should remain in low single digits.

77. Concerted action is needed to build institutions for sustainable, inclusive growth and to reduce poverty and address gender disparities. Sound and accountable economic and financial governance and an enabling environment for the private sector are critical for the restoration of public confidence in government. Data provision has serious shortcomings that significantly hamper surveillance. Data weaknesses preclude a debt sustainability assessment and external stability analysis. Remedial measures needed to lay the foundation for improved data provision and surveillance would entail gradual adoption of international standards and codes, measures to implement accounting systems and better regulatory practices, and clarity regarding delineation of authority between the FGS and sub-national entities. Clarity is needed regarding delineation of authority between the FGS and sub-national entities.

78. Urgent efforts are required to set in place sound mechanisms and institutions to ensure that prospective natural resource wealth is well managed. Effective and transparent

concession management will require building institutions to ensure that natural resource exploitation maximizes benefits for Somalis. International best practices must be integral to the resource management strategy.

79. Decisive steps are necessary to build fiscal discipline, underpinned by realistic budgeting and effective implementation systems. Emergency revenue mobilization and an arrears strategy will tackle immediate problems, supported by expenditure rationalization. Realistic budgeting within a medium-term fiscal framework, supported by fiscal rules and reliable, transparent reporting, is urgently required.

80. Currency reform should be postponed until prerequisites are in place. Failed efforts would create significant direct losses as well as reputational costs. Currency reform should adhere to a well-designed roadmap, including building adequate technical and human capacity.

81. Swift action is required so that remittances can be channeled through the international banking system. Elaboration of a financial sector roadmap will be a critical first step to build credibility in licensing and supervision. Other priorities include preparing and approving additional prudential regulations and ensuring compliance.

82. It is recommended that the next Article IV consultation with Somalia be held on the standard 12-month cycle.

Figure 1. Recent Developments



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

Table 1. Selected Economic and Financial Indicators, 2013-17

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

	Estimated		Projected		
	2013	2014	2015	2016	2017
National income and prices					
Nominal GDP in millions of U.S. dollars	5,352	5,706	5,953	6,389	7,044
Real GDP, annual percentage change	...	3.7	2.7	3.4	4.3
Per capita GDP in U.S. dollars	402	418	425	445	479
Consumer Price Index (CPI), annual percentage change	4.5	1.3	4.0	3.2	2.9
(In percent of GDP)					
Central government finances 1/					
Revenue and grants, <i>of which</i> :	2.1	2.5	3.1	3.7	3.5
Grants 2/	0.8	1.1	1.4	1.6	1.4
Expenditure, <i>of which</i> :	2.2	2.6	3.1	3.7	3.5
Wages and salaries	0.9	1.4	1.4	1.7	1.5
Capital expenditures	0.0	0.0	0.2	0.3	0.3
Overall balance	-0.1	-0.1	0.0	0.0	0.0
Stock of domestic arrears	0.6	0.8	1.1	0.9	0.6
(In millions of U.S. Dollars)					
Central bank assets					
Total assets, <i>of which</i> :	58.8	57.3	...	...	...
Foreign assets	31.0	30.4	...	...	...
Cash and cash equivalent including U.S. dollars in vault	7.4	6.2	...	...	...
(In millions of U.S. Dollars; unless otherwise specified)					
Balance of payments					
Exports of goods and services	779	819	861	1,023	1,145
Imports of goods and services	3,322	3,482	3,651	4,337	4,855
Net factor income	-425	-450	-467	-555	-621
Current transfers, <i>of which</i> :	2,312	2,469	2,531	2,984	3,261
Remittances 3/	1,300	1,333	1,366	1,400	1,435
Current account balance	-656	-644	-726	-885	-1,070
(In percent of GDP)	-12.3	-11.3	-12.2	-13.9	-15.2
Overall balance	0	0	0	0	0
External debt	5,259	5,294	...	...	...
Exchange rate					
Market exchange rate (SOS/USD, period average)	19,276	20,227	...	...	...
Market exchange rate (SOS/USD, end of period)	20,149	20,265	...	...	...

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

1/ Budget data for the federal government. GDP data covers the territory of Somalia.

2/ Includes only donor support provided through local treasury systems.

3/ 2013 data from Barclays Bank, PLC.

Table 2. Federal Budget, 2013-17
(Millions of U.S. Dollars)

	2013	2014		2015		2016	2017
	Actual	Budget	Actual	Budget	Proj.	Proj.	Proj.
1. Revenues and grants	110.8	188.5	145.3	239.9	183.7	238.3	247.0
Revenue	69.2	115.3	84.3	123.4	100.4	133.4	150.5
Tax revenue	65.1	108.0	73.8	103.1	77.9	108.7	123.4
Tax on income, profit and capital gains	0.7	5.1	1.1	4.6	2.1	5.0	6.0
Taxes on goods and services	5.6	34.0	8.5	25.8	9.9	30.0	33.0
Trade taxes	58.7	69.0	64.3	72.7	66.0	73.7	84.4
Non-tax revenue	4.1	7.3	10.5	20.3	22.5	24.7	27.2
Grants 1/	41.7	73.2	61.0	116.5	83.3	104.9	96.4
2. Total expenditure	117.4	216.2	151.1	239.9	183.7	238.3	247.0
Current	117.4	203.8	150.9	226.0	169.7	219.3	226.3
Wages and salaries	50.4	94.3	77.2	108.3	81.9	108.3	108.3
Goods and services	56.0	68.8	57.6	82.7	58.4	82.7	84.3
Transfers to sub-national government 2/	7.5	10.1	10.1	14.8	15.2	16.0	17.9
Contingency	3.5	3.8	3.8	3.2	2.9	3.0	3.0
Repayment of arrears and advances	0.0	26.8	2.2	17.0	11.3	9.3	12.8
Capital 2/	0.0	12.4	0.2	13.9	13.9	19.0	20.6
3. Overall balance (1 - 2)	-6.6	-27.7	-5.8	0.0	0.0	0.0	0.0
4. Liquidation of recovered government assets	...	...	5.8	...	0.0	0.0	0.0
5. Accumulation of new arrears	...	...	17.1	...	32.9	0.0	0.0
Financing (4 + 5)	...	...	22.9	...	32.9	0.0	0.0
Memorandum items:							
Repayment of arrears (from expenditure)	0.0	26.8	2.2	17.0	11.3	9.3	12.8
Stock of domestic arrears (end of year)	30.4	...	45.3	28.3	67.0	57.7	44.9

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

1/ Includes only donor support provided through local treasury systems.

2/ Expenditures from hypothecated revenue in 2015.

Table 3. Total Planned Aid Disbursements, 2014-15

(Millions of U.S. Dollars)

	2014	2015
Institutional Capacity Development (ICD)	14	16
Peace and Statebuilding Goals (PSG)	818	478
Inclusive Politics	58	75
Security	161	26
Justice	24	9
Economic Foundations	261	160
Revenue and Services	314	208
Total planned aid disbursement = ICD + PSG 1/	832	494
Total planned federal budget expenditure	216	240
Ratio of total planned aid disbursement to federal budget planned expenditure	3.9	2.1

Source: ACU Aid Flow Mapping, October 2014.

1/ Includes some budget support.

Table 4. Summary Accounts of The Central Bank of Somalia, 2013-14

(Thousands of U.S. Dollars)

	Preliminary 2013	Preliminary 2014
Foreign assets	30,964	30,448
Gold ¹	19,540	19,551
Foreign exchange	11,425	10,897
Cash and cash equivalent	7,409	6,206
Somali shillings	389	11
US dollars	7,020	6,195
Claims on government	900	0
Claims on treasury	900	0
Claims on deposit money banks	0	0
Other assets	19,479	20,621
Property and equipment	19,474	20,618
Other assets	5	2
Assets	58,752	57,274
Liabilities	58,752	57,274
Reserve money²	1,446	1,683
Currency outside CBS	...	...
Currency with DMBs	...	...
Currency outside DMBs	...	...
Commercial banks' reserves with CBS	...	...
Demand deposits ¹	1,446	1,683
Time and savings deposits, <i>of which:</i>	...	...
Commercial banks	...	...
Government deposits	14,393	2,783
Government deposits, <i>of which:</i> ³	5,392	2,783
Treasury single account	1	2
Asset recovery proceeds	9,001	0
Other liabilities	120	3,120
MTB deposits	120	120
Earmarked donor funds	...	3,000
Other	0	0
Equity and reserves	42,792	49,687
Memorandum items:		
Somali shillings per US dollar, end-period	20,149	20,265

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

1/ Gold valued at market price.

2/ Deposits by Parliamentarians are estimated.

3/ Includes Treasury and Development Bank deposits.

Table 5. Balance of Payments, 2013-17
(Millions of U.S. Dollars)

	Preliminary		Projected		
	2013	2014	2015	2016	2017
Current account balance	-656	-644	-726	-885	-1,070
Trade balance	-2,543	-2,663	-2,790	-3,314	-3,710
Exports, f.o.b.	779	819	861	1,023	1,145
Imports, f.o.b.	-3,322	-3,482	-3,651	-4,337	-4,855
Income (net)	-425	-450	-467	-555	-621
Receipts	35	36	38	45	50
Payments	-460	-486	-505	-600	-671
Current transfers (net)	2,312	2,469	2,531	2,984	3,261
Private, <i>of which:</i>	2,270	2,416	2,414	2,846	3,106
Remittances 1/	1,300	1,333	1,366	1,400	1,435
Official 2/	42	53	117	138	155
Capital account and financial account	656	644	726	885	1,070
Capital account	150	150	150	178	199
Financial account (net)	506	494	576	707	871
Foreign direct investment (net)	446	434	516	636	792
Other net capital flows 3/	60	60	60	71	79
Errors and omissions	0	0	0	0	0
Overall balance	0	0	0	0	0
Memorandum items:					
Nominal GDP	5,352	5,706	5,953	7,071	7,916
Current account (percent of GDP)	-12.3	-11.3	-12.2	-12.5	-13.5
External public debt	5,259	5,294	...	...	...

Sources: UN Comtrade; FGS estimates; and Fund staff estimates and projections.

1/ 2013 data from Barclays Bank, PLC.

2/ Includes direct budget support.

3/ Insurance and technical reserves.

Table 6. External Public Debt, 2014
(Millions of U.S. Dollars)

Total stock outstanding	5,294
Multilateral creditors	1,518
International Monetary Fund	341
World Bank	500
AfDB Group	135
Arab Fund for Economic and Social Development	181
International Fund for Agricultural Development	31
OPEC Fund for International Development	35
Arab Monetary Fund	285
Islamic Development Bank	11
Bilateral creditors	3,776
Paris Club creditors 1/	2,304
Denmark	2
France	401
Italy	590
Japan	122
Netherlands	7
Norway	2
Spain	38
United Kingdom	82
United States	918
Russia	141
Non-Paris Club creditors	1,472
Algeria	2
Bulgaria	9
Iraq	66
Kuwait 2/	176
Libya	5
Romania	6
Saudi Arabia	375
Serbia	2
United Arab Emirates	832

Notes:

The table contains preliminary figures.

China cancelled its debt in 2005.

Loan claims were converted using the U.S. dollar year-end exchange rates. The rates for end-2014 are: USD/SDR 1.45 and USD/EUR 1.21.

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

1/ For Paris Club creditors, extrapolations of known penalty interest rates were applied.

The average penalty interest rate is about 3.4%. For Non-Paris Club creditors, late interest rate is only known for Kuwait. No penalty interest has been included for 2014.

2/ Data includes the loans from the Kuwaiti Development Fund. Additional loans from the Kuwaiti Central Bank need to be verified.



SOMALIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 8, 2015

Prepared By

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

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IMF RELATIONS

(As of May 31, 2015)

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

General Resources Account:	SDR Million	% Quota
Quota	44.20	100.00
IMF holdings of currency (exchange rate)	140.45	317.77
Reserve Tranche Position	0.00	0.00

SDR Department:	SDR Million	% Allocation
Net cumulative allocation ¹	46.46	100.00
Holdings	18.30	39.39

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

Latest Financial Arrangements:

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

Projected Payments to the IMF (SDR Million):²

	Overdue		Forthcoming			
	May 31, 2015	2015	2016	2017	2018	2019
Principal	111.55					
Charges/Interest	124.39	0.59	1.10	1.10	1.10	1.10
Total	235.94	0.59	1.10	1.10	1.10	1.10

Implementation of HIPC Initiative: Not yet reached decision point.

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

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

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

² Projections based on existing use of resources and present holdings of SDRs. The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

Exchange Rate Arrangement

The currency of Somalia is the Somali shilling (SOS). However, the *de facto* currency is the U.S. dollar. Dollar banknotes are used as cash currency with Somali banknotes serving as a sub-denomination. Neighboring country currencies are used in border areas. Mobile phone payments, with transactions denominated in U.S. dollars, are widely used. Most transactions are settled in U.S. dollars. The SOS exchange rate has remained broadly stable in recent years at USD1 = SOS 20,000. During May 2015, the rate depreciated briefly to SOS 23,500 in response to an influx of new, counterfeit notes. The *de jure* exchange rate arrangement is undetermined. Due to the absence of administrative measures controlling the level of the exchange rate, and the inoperative status of the CBS in the foreign exchange market, the *de facto* exchange rate arrangement is classified as a free floating arrangement.

As part of its ongoing reengagement with the authorities, staff continues to assess the jurisdictional implications of the existing exchange regime. Somalia still avails itself of the transitional arrangements of Article XIV, however it no longer maintains restrictions under Article XIV. At the time of Somalia's last Article IV consultation in 1989, Somalia maintained the following Article VIII restrictions: (i) a multiple currency practice and exchange restricting arising from the imposition of a ten percent levy on all applications for purchases of foreign exchange under the commodity import program, (ii) a multiple currency practice arising from different exchange rates applicable to official transactions and to transactions in external accounts and to import/export accounts, and (iii) an exchange restriction evidenced by some external payments arrears. As part of its ongoing reengagement with the authorities, staff continues to assess the existing exchange regime.

Article IV Consultation

Although Somalia is on the standard 12-month Article IV consultation cycle, civil war led to the postponement of discussions for 26 years. The last Article IV consultation discussions were conducted on July 9-23, 1989 in Mogadishu. The Executive Board concluded the 1989 Article IV consultation on November 13, 1989.

Technical Assistance (TA) 2013–15

Topic	Date
<i>Fiscal Affairs Department</i>	
Budget diagnostics (w/ MCD staff visit)	10/22/2013
Budget preparation and execution (w/MCD staff visit)	2/17/2014
Budget preparation and execution (w/MCD staff visit)	4/28/2014
Budget preparation and execution (w/MCD staff visit)	9/9/2014
Public financial management	1/26/2015
General tax policy	3/30/2015
Budget preparation and execution (w/ MCD staff visit)	4/30/2015

Public financial management	6/8/2015
Budget preparation and execution (w/ MCD staff visit)	6/8/2015
Legal Department	
CBS board of directors meetings procedures	2/11/2014
CBS conduct and ethics rules	3/1/2014
CBS and the MOF MoU on the CBS as a financial and fiscal agent	3/11/2014
Monetary and Capital Markets Department	
Currency reform	8/26/2013
CBS accounting and financial reporting workshop	10/27/2013
Support to financial governance committee	12/9/2013
Support to financial governance committee	12/10/2013
Support to financial governance committee	1/20/2014
Support to financial governance committee	2/23/2014
Advice to financial governance committee	4/22/2014
Support to financial governance committee	5/28/2014
Support to financial governance committee	7/29/2014
Banking supervision and regulation	9/1/2014
Support to financial governance committee	9/8/2014
Central bank governance	9/15/2014
Support to financial governance committee	10/27/2014
Banking supervision and regulation	11/10/2014
Support to financial governance committee	12/2/2014
CBS Board orientation course	12/2/2014
Participation in the FGC meeting	1/26/2015
Central bank governance	5/10/2015
Central bank governance	6/18/2015
Statistics Department	
Real sector statistics training	1/27/2014
Consumer price index	1/12/2015
Multisector statistics training	4/29/2015
Real sector statistics (w/ MCD staff visit)	6/7/2015

Resident Representative

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

IMF-WORLD BANK COLLABORATION

(As of June 30, 2015)

The IMF and the World Bank Group country teams for Somalia maintain close working relations and dialogue on macroeconomic and structural issues. Collaboration is becoming more regular as both institutions scale up their engagement with the Somalia. The following are notable areas of collaboration:

- **Fiscal:** The IMF and the World Bank have collaborated closely on fiscal policy matters. There is an agreement on fiscal priorities and policies between the two institutions. Specifically, both teams have urged the authorities to: (i) prepare and execute a realistic budget; (ii) develop an emergency revenue mobilization plan; and, (iii) find agreement between federal and sub-national governments on fiscal federalism. There has been extensive collaboration on public finance management issues, particularly, on: (i) the design of the Treasury Single Account; (ii) improvements to the Chart of Accounts; and, (iii) the implementation of the Financial Management Information System. More recently, the IMF and World Bank teams initiated preparatory work on developing a macro-fiscal framework and conducting a debt sustainability analysis. Additionally, the teams have collaborated closely in assisting the authorities with the preparation and management of the 2015 budget. The assistance was provided by an IMF's Fiscal Affairs Department public financial management expert who joined several missions of the IMF's Middle East and Central Asia Department, and subsequently travelled to Mogadishu under a World Bank-funded contract to operationalize fiscal issues discussed and agreed with the authorities.
- **External debt statistics:** In 2014, the IMF and the World Bank collaborated in the establishment of the Technical Working Group on Somalia's Debt. The group has met twice since the 2014 Spring Meetings.
- **Macroeconomic statistics:** Somalia's macroeconomic statistics depend upon collaboration between the IMF and the World Bank. At present, there are two significant examples: (i) a World Bank funded household survey has been conducted in Somaliland, with enumeration of Mogadishu scheduled for late 2015. The results of the World Bank household survey will enable the IMF to provide assistance in delivering: (a) objective estimates for household final consumption expenditure to derive GDP; and, (b) appropriate expenditure patterns for estimating the Consumer Price Index; and, (ii) the recently implemented Somali Financial Management Information System which provides revenue and expenditure data for most of the activities conducted by the Federal Government of Somalia.

RELATIONS WITH THE WORLD BANK GROUP³

(As of June 30, 2015)

1. **The Somalia Interim Strategy Note (ISN) was endorsed by the World Bank Board in December 2013.** Its objective is to lay the foundations for a solid poverty reduction strategy and shared prosperity. These goals will be reached by delivering on selected priorities under the Peace and State-building Goals (PSGs) of the Somali Compact, a high level mutual accountability framework endorsed at the Brussels Conference in September 2013. The ISN is structured around two priorities: (i) strengthening core economic institutions; and, (ii) expanding economic opportunity.
2. **Under Priority I (Strengthening Core Economic Institutions),** the World Bank is focusing on improving economic governance, including macro-fiscal and public finance management, as well as statistical capacity and supporting the establishment and implementation of a sound regulatory framework in strategic economic sectors. Key trust-funded activities under this area include: (i) a set of core systems strengthening projects (the Recurrent Cost and Reform Financing, Public Financial Management Strengthening, and Capacity Injection); (ii) a financial governance program; (iii) an information and communications technology (ICT) regulatory support project; and, (iv) a petroleum sector program. Policy dialogue and economic and sector work focuses inter alia on macro- and fiscal planning, revenue mobilization, inter-governmental fiscal relations, and statistical strengthening and socio-economic data collection.
3. **Under Priority 2 (Expanding Economic Opportunity),** the World Bank is focusing on supporting job creation through private sector investment through public-private partnerships (PPPs), public private dialogue, and targeted financial support; as well as financing basic rehabilitation of infrastructure for employment generation and productivity. Key activities under this priority include: (i) a private and financial sector development project; (ii) an urban development project; and, (iii) an energy sector support project. While the UN leads assistance in both the health and education sectors, the World Bank is preparing the ground programming with analytical work.

Active Projects and Pipeline

4. **As Somalia is in arrears to the World Bank, the World Bank project portfolio is primarily supported by three trust funds:** (i) the Somalia Multi-Partner Fund (MPF), a multi-donor trust fund (MDTF) launched in August 2014 with approximately US\$175 million in contributions from six donors and expected to grow to US\$250 million over the next two years;⁴ (ii) the State- and Peace-Building Fund (SPF), a World Bank-administered global MDTF has contributed US\$28.9 million to Somalia since 2012;⁵ and, (iii) Som-PREP II, a US\$24.7 million MDTF focused on

³ Prepared by the World Bank.

⁴ Current and incoming donors are: Denmark, the European Union, Sweden, Switzerland, United Kingdom, and World Bank State- and Peace-Building Fund. Germany, Italy, and Norway are expected to provide additional contributions in the near-term.

⁵ Including transfers to the MPF and Som-PREP II.

private sector development supported by Denmark, the United Kingdom, the World Bank and the SPF. The active portfolio consists of 6 projects totaling US\$39.7 million. 72 percent of the funding has been disbursed.

Active Portfolio

Project	Appraised (US\$M)	Disbursed (US\$M)
Somalia Private Sector Re-Engagement Project Phase II (Som-PREP II)	24.7	22.3
Petroleum Sector Inclusive Development	4.0	0.4
Financial Governance Policy Dialogue	2.0	0.6
Knowledge for Operations & Political Economy (SKOPE)	2.5	1.3
Somalia PFM Capacity Strengthening Project	4.5	2.8
Support to the ICT Sector	2.0	1.2
Total	39.7	28.6

5. **Somalia Private Sector Development Re-engagement Program Phase II (Som-PREP II):**

Som-PREP II, has been primarily focused on Somaliland. Its activities are mostly complete. Its objective was to improve access to markets and generate employment in key productive and service sectors. The component-level objectives of the program focused on: (i) improving the investment climate and strengthening public-private dialogue; (ii) strengthening banking supervision and legal frameworks; (iii) promoting value chain development; (iv) supporting PPPs in ports and solid waste; (v) providing MSME financing to the private sector; and, (iv) identifying economic sector work constraints to private sector-led growth and job creation with a particular focus on key economic sectors.

6. Petroleum Sector Inclusive Development: Funded by the MFP, the objectives of this project are to: (i) facilitate a process to harmonize issues of ownership, control and revenue sharing in the petroleum sector; (ii) support the development of a petroleum strategy and a policy, legal and fiscal framework; and, (iii) build government capacity to negotiate and manage petroleum contracts.

7. Financial Governance Policy Dialogue: Funded by the MPF, the objective of this program is to provide technical advice and facilitate policy dialogue to strengthen transparency and accountability in the areas of strategic public procurement and concessions, asset recovery, and other selected areas of financial governance. In 2014 the FGS and the international community established the Financial Governance Committee (FGC), a high-level institution to help the Somali authorities improve governance. This project will provide assistance to the FGC with: (i) predictable and reliable funding for its basic operations; and, (ii) technical assistance to help advance its work program during the FGC's second year.

8. Somalia Knowledge for Operations and Political Economy (SKOPE): Funded by the SPF, the objectives of this program are to: (i) enhance the development impact of domestic policies and development partner interventions through better knowledge of socio-economic realities as well as political economy constraints; (ii) promote basic accountability through better information on

availability and use of public resources; and, (iii) revitalize the strategic planning process. SKOPE activities fall under three broad components: (i) collecting and analyzing data, as well as developing TA-related activities; (ii) understanding political economy constraints; and (iii) supporting strategic planning at federal and regional levels.

9. Public Financial Management Capacity Strengthening, Phase I: Funded by the SPF, the objective of this project is to establish systems for more transparent and accountable management and use of public funds in Somalia. Effective since early 2014, the project was launched as a pilot to lay the foundations for a larger scale public financial management program supported through the MPF. The project focuses on public financial management reform oversight, piloting one Financial Management Information System, and establishing expenditure control, procurement, accounting, and reporting systems.

10. ICT Sector Support, Phase I: Funded by the SPF, the objective of this pilot project is to: (i) lay foundations for a larger scale program under the MP; and, (ii) contribute towards the process of developing a regulatory framework for the telecommunications sector and building an ICT infrastructure in Somalia. The project focuses on supporting open access to international bandwidth and setting up communication rooms and facilities for government.

Pipeline

There is a significant pipeline of activities, many of which are nearing effectiveness, totaling over US\$255 million.

Pipeline (including Pending Effectiveness)

Project	Appraised Amount (US\$M)
Recurrent Cost and Reform Financing Program, Phase II*	144.0
Somalia Core Economic Institutions (SCORE) Program	30.0
Somalia Capacity Injection Program*	20.0
Somalia PFM Strengthening Project II*	20.0
ICT Sector Support in Somalia Phase II*	14.0
Somali Urban Development Project Feasibility Study	4.98
Somalia Power Sector Development Master Plan**	1.55
Somali Urban Development Project	TBD
Somalia Towage Services in Berbera Port	4.9
Water for Agro-Pastoral Livelihoods Pilot Project	2.0
Total	255.4

* Pending Effectiveness

11. Recurrent Cost and Reform Financing (RCRF) Program, Phase II: The objective of the RCRF is to support the government to provide credible and sustainable payroll and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the FGS and eligible sub-national authorities. Phase II, starting in 2015, will consolidate the gains made

under the recently closed Phase I project, and will strengthen macro-fiscal management, central bank reform, and potential target support to expanded social service delivery. Phase II will also explore options for the expansion of recurrent cost support to regional governments.

12. The Somali Core Economic Institutions and Opportunities (SCORE) Program: The objective of the SCORE program, which expands work previously undertaken through Som-PREP II, is to support select core economic institutions linked to trade, financial sector, and private sector development in order to catalyze inward investment and job creation. The project components are: strengthening core institutions in three critical areas of the economy (central banking, the Ministries of Commerce and Industry, and local port and customs authorities). The second component will focus on expanding economic opportunities by providing direct support to the private sector—through technical assistance and grants—to expand economic opportunities in the country.

13. Capacity Injection Project: The objective of this project is to enable the government fill critical capacity gaps in the civil service, and strengthen the capacity of key ministries and agencies to perform core government functions. Project components cover: (i) developing capacity for key cross-cutting government functions; (ii) strengthening the policies and procedures for civil service management; and, (iii) aiding policy management, coordination and monitoring capabilities at the center of government.

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

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

16. Somali Urban Investment Planning Project (SUIPP) and Somalia Urban Development Project (SUDP): The objective of SUIPP is to support feasibility studies and preliminary design work for a MPF-funded operation targeted at urban infrastructure investment and institutional strengthening in southern Somalia, Puntland and Somaliland, as well as the provision of technical assistance to government agencies to assist them prepare and implement these activities.

17. Somalia Power Sector Development Master Plan: The objective of the program is to support the building blocks for the establishment of a modern energy sector in Somalia. The

components of the program are: (i) developing a master plan that sets out priorities and investment sequencing in generation, transmission and generation over a 20-year period, and delivers detailed electrical infrastructure development plans for a number of urban areas; (ii) preparing a “Lighting Africa Somalia” investment; and, (iii) developing a renewable energy resource map for Somalia.

18. Somalia Towage Services in Berbera Port: The objective of the project is to support the development of the Berbera Port by improving throughput, towage capacity and reliability of towage services.

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

Economic and Sector Work

20. Statistical Strengthening and Socio-Economic Data Collection: The last nationally representative household surveys providing information on household income, consumption and poverty were conducted in 1985. The World Bank program has worked to address these data gaps in Somaliland, Puntland and Mogadishu. The 2012 Somaliland Enterprise and Household Surveys provided data to produce a poverty assessment; private sector studies; and a CPI base weights and estimates of GDP. In Mogadishu, the World Bank and the Somali Department of Statistics (under the Ministry of Planning and International Cooperation), have successfully implemented the first set of an innovative high-frequency computer assisted household survey that will provide vital household expenditure, socioeconomic and peace and state-building goal data. The instrument is tailored to collect data quickly, in highly insecure settings, and is designed to work in tandem with new econometric techniques to produce a reliable poverty profile and CPI base weights. The World Bank will support the roll-out throughout Somalia of household surveys—combining high frequency surveys and more standard household surveys—to provide regular poverty, social and process data, as well as other relevant information that can be gathered through that instruments. This work will also support poverty assessments and other poverty analytical studies made possible by the data collection exercises.

21. Policies and Institutions for Economic Growth: The World Bank is conducting a source of growth study, with a view to establish a consensus between the government and its partners on priority policies and public investment to enable strong inclusive growth. The work will also support analysis and technical assistance in areas related to private investment, trade, and sectors contributing to growth. This work will also support the building of core capacity of government to design and implement economic development polices.

22. Macroeconomic and Fiscal Planning: The World Bank is working with relevant ministries to support the development of a simple macro-fiscal framework with clear linkages to the annual planning and budgeting process, as well as a simple public investment management framework

covering financing modalities and time horizons, that would inform national planning and enable the FGS to improve the appraisal and evaluation of capital investments.

23. Policy Engagement on Revenue Mobilization, Natural Resource Management and Inter-governmental Fiscal Relations: The World Bank plans to undertake an analysis to generate a better understanding of the Somali economy and potential sources for maximizing revenue generation. The work will focus on policy related issues and areas for advisory work, including supporting licensing and regulatory frameworks for telecommunications, ports management, ICT and the extractive industries. This will also include technical support on revenue management options for natural resource revenues. Inter-governmental fiscal relations engagement initially focuses on sharing relevant international experience with the government.

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

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK⁶

(As of June 30, 2015)

25. The 2013-15 Somalia Country Brief (CB) was approved by the African Development Bank's (AfDB) board of directors in April 2013. The CB laid out a scaled-up program reengagement with Somalia. The strategic areas of reengagement include: (i) strengthening governance and institutional capacity; (ii) supporting the re-engagement process of Somalia with the international financial community, through a comprehensive program of arrears clearance and debt relief; (iii) including Somalia in the AfDB's regional "Drought Resilience and Sustainable Livelihood Programme" (DRSLP); and, (iv) developing infrastructure planning to support the recovery process.

26. The AfDB Somalia Infrastructure Trust Fund (SITF) is currently being prepared. Following the AfDB's board approval, the trust fund is expected to be operational by the fourth quarter of 2015. The SITF has a medium to longer-term perspective and will focus on infrastructure reconstruction and development, which is aligned with the Peace and State Building Goal 4 (or PSG 4).⁷ The bulk of activities financed by the SITF will be core infrastructure investment projects in the energy, transport, water, sanitation and ICT sectors. The SITF will also support capacity building, as well as financing and governance activities related to the infrastructure reconstruction program.

27. The AfDB has had 12 operations in Somalia since 2013. Of these, two operations are now finished, nine are national operations, and one is a regional project. The current net commitment is UA 21.7 million, equivalent to about US\$33 million. The AfDB's ongoing portfolio in Somalia comprises many small sized operations, with an average project size of UA 2.17 million. The portfolios average age is 1 year, with a cumulative disbursement rate of 3.75 percent. A brief description of the projects is provided below:

- The AfDB (in partnership with a host of UN agencies and bilateral donors, and through UNFPA implementation), contributed about US\$ 0.5million (of a total cost of US\$6.18million) to fund the **Population Estimation Survey for Somalia (PESS)** project. In May 2015, the official findings from the PESS were released (e.g. 75 percent and 46 percent of Somalis are below the ages of 30 and 15 respectively). The PESS is supposed to assist the FGS and donors in establishing a platform for compiling data and information on Somalia's socio-economic and poverty baselines; pave the way for an official Census in 2016; and, support the monitoring of progress towards attaining the MDGs.
- The AfDB has played a key role in supporting Somalia's re-engagement with international financial institutions (IFIs), particularly through the preparation for arrears clearance, access to

⁶ Prepared by the African Development Bank.

⁷ The Somali New Deal Compact (2014-2016) including the Somaliland Special Arrangement¹, outlines Somalia's key government priorities within five Peace and State Building Goals (PSGs). These are: PSG 1 (Inclusive Politics); PSG 2: (security); PSG 3 (justice), PSG 4 (economic foundations); and PSG 5 (revenue and services).

HIPC/MDRI debt relief, and building debt management capacity. AfDB's TA has supported the reconstruction of Somalia's external debt data, including the setting up and initial capacity (including systems and staff) of a debt management unit in the ministry of finance; and, initial work in developing a strategy for arrears clearance and access to HIPC/MDRI debt relief. The AfDB is currently in Phase 2 of this program.

- The AfDB is supporting the development of statistical capacity in all regions of Somalia. The UA 0.35 million **Somaliland Statistical Capacity Building Project**, is currently ongoing. A similar project has also been designed for Puntland. Discussions are being held to develop a comparable project with the FGS. The AfDB is also represented on the **High Level Task Force (HLTF)** for Statistics in Somalia.⁸ The HLTF focuses on statistical capacity building and data gathering for the development of an **Interim Poverty Reduction Strategy Paper (I-PRSP)**, establishment of an IMF Staff-Monitored Program (SMP), and monitoring of the **Peace and State Building Goals (PSGs)** under the Somali Compact. Through its participation in the HLTF, the AfDB is assessing further options to provide statistical capacity building support in Somalia.
- Through the **Economic and Financial Governance Institutional Support Project (EFGISP)**, the AfDB is helping strengthen macroeconomic and financial management in Somalia. By setting up an improved macroeconomic and budget framework, the AfDB intends to enhance fiscal discipline of the FGS, and, ultimately, the strategic and efficient allocation and use of public resources. Furthermore, the AfDB is playing a lead role through the FGC in implementing the Financial Governance Program. The AfDB has also provided TA to the ministry of finance in building capacity for aid coordination.
- Since September 1, 2014, the AfDB's African Legal Support Facility placed a senior legal expert in the FGS to provide legal advisory services to the government in connection to complex commercial negotiations relating to, inter alia, infrastructure, loans, and natural resources. This support will include placing systems, providing capacity building services to government officials, and working on the negotiations of government contracts.
- The Somalia **Drought Resilience and Sustainable Livelihoods Programme (DRSLP)** is part of Phase II of the AfDB's broader initiative to provide support to the drought and famine stricken countries in the Horn of Africa, and build their sustained and long-term resilience. The main components of the DRSLP are: (i) water and natural resource development and management; (ii) livestock infrastructure for market access; and, (iii) capacity building. Funds for the Somalia DRSLP are grants from the *Transition Support Department Pillar I* (UA 5 million) and the *Regional Operations (RO)* window (UA 10 million) for a total project of UA 15 million. In view of Somalia's external debt arrears situation, the FGS cannot administer resources from the RO window and, thus, requires a third party to administer the resources on its behalf (as per AfDB's rules and

⁸ The HLTF is chaired by the Ministry of Planning and International Cooperation and includes the participation of development partners and relevant Somali institutions.

regulations). Thus, the FGS, with the endorsement of Puntland and Somaliland, have selected IGAD to administer the RO resources.

- On the knowledge front, the AfDB conducted the ***Infrastructure Needs Assessments (INA)*** in the energy, transport, water and sanitation and ICT sectors. These assessments are key deliverables in the government's ***Economic Recovery Plan 2014-15***. The ultimate goal is to develop a ***Somalia Infrastructure Action Plan***, which will: (i) assist the government in building an initial project pipeline for the proposed ***AfDB Multi-Partner Somalia Infrastructure Trust Fund***; (ii) provide input into the preparation of Somalia's i-PRSP; and, (iii) assist in the broad planning, prioritization and resource mobilization for infrastructure interventions. The *ICT assessment* has been completed and validated. The *water and sanitation assessment* is expected to be validated in the second quarter of 2015. A final draft of the *energy assessment* has been distributed to the FGS, and will be validated at a workshop in August 2015. The *transport assessment* is expected to be completed in the third quarter of 2015. The AfDb continues to play a leadership role in the infrastructure sector by chairing the *PSG 4 Sub-working Group on Infrastructure*, and engaging with federal and regional governments to rationalise priority infrastructure projects. This has allowed the AfDB to take a leadership role in guiding the reconstruction and development of Somalia's infrastructure.

STATISTICAL ISSUES

(As of June 30, 2015)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has serious shortcomings that significantly hamper surveillance caused by institutional weaknesses, lack of source data, and agencies having unclear and overlapping responsibilities. Somalia is rebuilding its macroeconomic statistics after several decades of civil war. The *Statistics Law* from 1970 remains in effect and is being updated to reflect current conditions and requirements. An impressive achievement is a time series of average monthly prices for several markets in Mogadishu covering several years. State and local authorities also independently produce some statistics for their region while coordination arrangements are being established. A multisector mission was conducted in May 2015 to assess the status and development plans for macro economic statistics. It affirmed work begun by the authorities to develop a strategic plan to guide development of the national statistical system and identified technical assistance requirements over the coming years. Somalia intends to commence reporting of basic IFS data to the IMF as they become available.

National Accounts: A modeled time series for annual GDP has been compiled since 2012. Results are largely dependent upon qualitative assessments of the authorities and broad assumptions applied to limited data. Estimates for government final consumption expenditure are derived from the FGS accounts and assumptions regarding the relative size of the general government sector. Estimates for capital formation are based upon product detail within counterparty data, assumptions about undercoverage, and value added by Somali resident units. A household expenditure survey has been conducted in Somaliland and used to estimate average daily household final consumption expenditure of US\$1.60 per day. A household survey in Mogadishu will begin in late 2015 and may result in substantial revisions.

Price Statistics: The FGS began to compile a new experimental Consumer Price Index (CPI) following an IMF mission in January 2015. An expanded basket of 312 items with weights based on expenditure shares derived from other African countries was introduced. When results from the household expenditure survey for Mogadishu are finalized (which should occur in 2016) TA will be provided to introduce new weights and to improve price collection procedures. Somalia does not have a producer price index (PPI).

Government Finance Statistics: FGS commenced use of an automated financial management information system during 2015 to replace the previous manual recording. A mapping between the underlying chart of accounts and GFS items is being developed and is expected to enable production of preliminary GFS estimates for budgetary central government during 2015. The authorities have commenced negotiations to obtain appropriate financial data from state/local units to produce comprehensive estimates for Somalia's general government sector. Somalia does not currently have any significant public trading enterprises.

Monetary and Financial Statistics: The significance of monetary statistics is limited by the ambiguous status of the Somali shilling. The CBS is currently finalizing the relationship between its accounts and the MFS aggregates and expected to produce monetary statistics for this subsector by the end of 2015. Statistics for the remaining subsectors will be produced as regulatory and reporting arrangements for Somalia's financial institutions are established over coming months.

Financial sector surveillance: Negligible data will be available for financial sector surveillance until regulatory arrangements are implemented. The authorities are beginning to collect basic balance sheet data from several financial institutions.

External sector statistics: A modeled time series for annual Balance of Payments has been compiled since 2013. Results are largely dependent upon qualitative assessments of the authorities and broad assumptions applied to existing data. Estimates for imports and exports of goods and services are based upon counterparty data and assumptions about undercoverage. The Somalia's Customs Directorate has agreed to start to collect data on the value of exports and imports that can be used to estimate values of trade in goods. Model-based estimates for remittances and foreign direct investment will be replaced by source data as regulatory and reporting arrangements are established. While Somalia does not compile comprehensive estimates for International Investment Position, data are compiled by the World Bank on the liabilities of Somalia's general government to the rest of the world. An estimate of Somalia's reserves will be available when balance sheet data from the CBS are audited and published.

I. Data Standards and Quality

Somalia does not participate in the General Data Dissemination System (GDDS).

No data ROSC is available.

II. Reporting to STA

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

Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶	Memo Items: ⁷	
						Data Quality – Methodological Soundness	Data Quality – Accuracy and Reliability
Exchange Rates ¹	n.a.	n.a.	D	n.a.	n.a.	n.a.	n.a.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	12/2014	6/2015	M	n.a.	n.a.	n.a.	n.a.
Reserve/Base Money ¹	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Broad Money ¹	n.a.	n.a.	n.a.	n.a.	n.a.		
Central Bank Balance Sheet ²	12/2014	1/2015	M	n.a.	n.a.		
Consolidated Balance Sheet of the Banking System	n.a.	n.a.	n.a.	n.a.	n.a.		
Interest Rates	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Consumer Price Index ³	03/2015	6/2015	M	n.a.	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing – General Government	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing – Central Government ⁴	n.a.	n.a.	M	n.a.	n.a.		
Stocks of Central Government and Central Government-Guaranteed Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
External Current Account Balance ⁵	12/2014	6/2015	A	n.a.	n.a.	n.a.	n.a.
Exports and Imports of Goods and Services ⁵	12/2014	6/2015	A	n.a.	n.a.		
GDP/GNP ⁵	12/2014	6/2015	A	n.a.	n.a.	n.a.	n.a.
Gross External Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
International Investment Position	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Note:							
The Somali authorities have provided fiscal, exchange rates, and public external debt data to the mission team during staff visits and this consultation.							
¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.							
² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.							
³ Foreign, domestic bank, and domestic nonbank financing.							
⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.							

Table of Common Indicators Required for Surveillance (concluded)

⁵ Including currency and maturity composition.

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

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

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

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

¹⁰ Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.



SOMALIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 8, 2015

Prepared By

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

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IMF RELATIONS

(As of May 31, 2015)

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

General Resources Account:	SDR Million	% Quota
Quota	44.20	100.00
IMF holdings of currency (exchange rate)	140.45	317.77
Reserve Tranche Position	0.00	0.00

SDR Department:	SDR Million	% Allocation
Net cumulative allocation ¹	46.46	100.00
Holdings	18.30	39.39

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

Latest Financial Arrangements:

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

Projected Payments to the IMF (SDR Million):²

	Overdue		Forthcoming			
	May 31, 2015	2015	2016	2017	2018	2019
Principal	111.55					
Charges/Interest	124.39	0.59	1.10	1.10	1.10	1.10
Total	235.94	0.59	1.10	1.10	1.10	1.10

Implementation of HIPC Initiative: Not yet reached decision point.

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

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

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

² Projections based on existing use of resources and present holdings of SDRs. The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

Exchange Rate Arrangement

The currency of Somalia is the Somali shilling (SOS). However, the *de facto* currency is the U.S. dollar. Dollar banknotes are used as cash currency with Somali banknotes serving as a sub-denomination. Neighboring country currencies are used in border areas. Mobile phone payments, with transactions denominated in U.S. dollars, are widely used. Most transactions are settled in U.S. dollars. The SOS exchange rate has remained broadly stable in recent years at USD1 = SOS 20,000. During May 2015, the rate depreciated briefly to SOS 23,500 in response to an influx of new, counterfeit notes. The *de jure* exchange rate arrangement is undetermined. Due to the absence of administrative measures controlling the level of the exchange rate, and the inoperative status of the CBS in the foreign exchange market, the *de facto* exchange rate arrangement is classified as a free floating arrangement.

As part of its ongoing reengagement with the authorities, staff continues to assess the jurisdictional implications of the existing exchange regime. Somalia still avails itself of the transitional arrangements of Article XIV, however it no longer maintains restrictions under Article XIV. At the time of Somalia's last Article IV consultation in 1989, Somalia maintained the following Article VIII restrictions: (i) a multiple currency practice and exchange restricting arising from the imposition of a ten percent levy on all applications for purchases of foreign exchange under the commodity import program, (ii) a multiple currency practice arising from different exchange rates applicable to official transactions and to transactions in external accounts and to import/export accounts, and (iii) an exchange restriction evidenced by some external payments arrears. As part of its ongoing reengagement with the authorities, staff continues to assess the existing exchange regime.

Article IV Consultation

Although Somalia is on the standard 12-month Article IV consultation cycle, civil war led to the postponement of discussions for 26 years. The last Article IV consultation discussions were conducted on July 9-23, 1989 in Mogadishu. The Executive Board concluded the 1989 Article IV consultation on November 13, 1989.

Technical Assistance (TA) 2013–15

Topic	Date
<i>Fiscal Affairs Department</i>	
Budget diagnostics (w/ MCD staff visit)	10/22/2013
Budget preparation and execution (w/MCD staff visit)	2/17/2014
Budget preparation and execution (w/MCD staff visit)	4/28/2014
Budget preparation and execution (w/MCD staff visit)	9/9/2014
Public financial management	1/26/2015
General tax policy	3/30/2015
Budget preparation and execution (w/ MCD staff visit)	4/30/2015

Public financial management	6/8/2015
Budget preparation and execution (w/ MCD staff visit)	6/8/2015
Legal Department	
CBS board of directors meetings procedures	2/11/2014
CBS conduct and ethics rules	3/1/2014
CBS and the MOF MoU on the CBS as a financial and fiscal agent	3/11/2014
Monetary and Capital Markets Department	
Currency reform	8/26/2013
CBS accounting and financial reporting workshop	10/27/2013
Support to financial governance committee	12/9/2013
Support to financial governance committee	12/10/2013
Support to financial governance committee	1/20/2014
Support to financial governance committee	2/23/2014
Advice to financial governance committee	4/22/2014
Support to financial governance committee	5/28/2014
Support to financial governance committee	7/29/2014
Banking supervision and regulation	9/1/2014
Support to financial governance committee	9/8/2014
Central bank governance	9/15/2014
Support to financial governance committee	10/27/2014
Banking supervision and regulation	11/10/2014
Support to financial governance committee	12/2/2014
CBS Board orientation course	12/2/2014
Participation in the FGC meeting	1/26/2015
Central bank governance	5/10/2015
Central bank governance	6/18/2015
Statistics Department	
Real sector statistics training	1/27/2014
Consumer price index	1/12/2015
Multisector statistics training	4/29/2015
Real sector statistics (w/ MCD staff visit)	6/7/2015

Resident Representative

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

IMF-WORLD BANK COLLABORATION

(As of June 30, 2015)

The IMF and the World Bank Group country teams for Somalia maintain close working relations and dialogue on macroeconomic and structural issues. Collaboration is becoming more regular as both institutions scale up their engagement with the Somalia. The following are notable areas of collaboration:

- **Fiscal:** The IMF and the World Bank have collaborated closely on fiscal policy matters. There is an agreement on fiscal priorities and policies between the two institutions. Specifically, both teams have urged the authorities to: (i) prepare and execute a realistic budget; (ii) develop an emergency revenue mobilization plan; and, (iii) find agreement between federal and sub-national governments on fiscal federalism. There has been extensive collaboration on public finance management issues, particularly, on: (i) the design of the Treasury Single Account; (ii) improvements to the Chart of Accounts; and, (iii) the implementation of the Financial Management Information System. More recently, the IMF and World Bank teams initiated preparatory work on developing a macro-fiscal framework and conducting a debt sustainability analysis. Additionally, the teams have collaborated closely in assisting the authorities with the preparation and management of the 2015 budget. The assistance was provided by an IMF's Fiscal Affairs Department public financial management expert who joined several missions of the IMF's Middle East and Central Asia Department, and subsequently travelled to Mogadishu under a World Bank-funded contract to operationalize fiscal issues discussed and agreed with the authorities.
- **External debt statistics:** In 2014, the IMF and the World Bank collaborated in the establishment of the Technical Working Group on Somalia's Debt. The group has met twice since the 2014 Spring Meetings.
- **Macroeconomic statistics:** Somalia's macroeconomic statistics depend upon collaboration between the IMF and the World Bank. At present, there are two significant examples: (i) a World Bank funded household survey has been conducted in Somaliland, with enumeration of Mogadishu scheduled for late 2015. The results of the World Bank household survey will enable the IMF to provide assistance in delivering: (a) objective estimates for household final consumption expenditure to derive GDP; and, (b) appropriate expenditure patterns for estimating the Consumer Price Index; and, (ii) the recently implemented Somali Financial Management Information System which provides revenue and expenditure data for most of the activities conducted by the Federal Government of Somalia.

RELATIONS WITH THE WORLD BANK GROUP³

(As of June 30, 2015)

1. **The Somalia Interim Strategy Note (ISN) was endorsed by the World Bank Board in December 2013.** Its objective is to lay the foundations for a solid poverty reduction strategy and shared prosperity. These goals will be reached by delivering on selected priorities under the Peace and State-building Goals (PSGs) of the Somali Compact, a high level mutual accountability framework endorsed at the Brussels Conference in September 2013. The ISN is structured around two priorities: (i) strengthening core economic institutions; and, (ii) expanding economic opportunity.
2. **Under Priority I (Strengthening Core Economic Institutions),** the World Bank is focusing on improving economic governance, including macro-fiscal and public finance management, as well as statistical capacity and supporting the establishment and implementation of a sound regulatory framework in strategic economic sectors. Key trust-funded activities under this area include: (i) a set of core systems strengthening projects (the Recurrent Cost and Reform Financing, Public Financial Management Strengthening, and Capacity Injection); (ii) a financial governance program; (iii) an information and communications technology (ICT) regulatory support project; and, (iv) a petroleum sector program. Policy dialogue and economic and sector work focuses inter alia on macro- and fiscal planning, revenue mobilization, inter-governmental fiscal relations, and statistical strengthening and socio-economic data collection.
3. **Under Priority 2 (Expanding Economic Opportunity),** the World Bank is focusing on supporting job creation through private sector investment through public-private partnerships (PPPs), public private dialogue, and targeted financial support; as well as financing basic rehabilitation of infrastructure for employment generation and productivity. Key activities under this priority include: (i) a private and financial sector development project; (ii) an urban development project; and, (iii) an energy sector support project. While the UN leads assistance in both the health and education sectors, the World Bank is preparing the ground programming with analytical work.

Active Projects and Pipeline

4. **As Somalia is in arrears to the World Bank, the World Bank project portfolio is primarily supported by three trust funds:** (i) the Somalia Multi-Partner Fund (MPF), a multi-donor trust fund (MDTF) launched in August 2014 with approximately US\$175 million in contributions from six donors and expected to grow to US\$250 million over the next two years;⁴ (ii) the State- and Peace-Building Fund (SPF), a World Bank-administered global MDTF has contributed US\$28.9 million to Somalia since 2012;⁵ and, (iii) Som-PREP II, a US\$24.7 million MDTF focused on

³ Prepared by the World Bank.

⁴ Current and incoming donors are: Denmark, the European Union, Sweden, Switzerland, United Kingdom, and World Bank State- and Peace-Building Fund. Germany, Italy, and Norway are expected to provide additional contributions in the near-term.

⁵ Including transfers to the MPF and Som-PREP II.

private sector development supported by Denmark, the United Kingdom, the World Bank and the SPF. The active portfolio consists of 6 projects totaling US\$39.7 million. 72 percent of the funding has been disbursed.

Active Portfolio

Project	Appraised (US\$M)	Disbursed (US\$M)
Somalia Private Sector Re-Engagement Project Phase II (Som-PREP II)	24.7	22.3
Petroleum Sector Inclusive Development	4.0	0.4
Financial Governance Policy Dialogue	2.0	0.6
Knowledge for Operations & Political Economy (SKOPE)	2.5	1.3
Somalia PFM Capacity Strengthening Project	4.5	2.8
Support to the ICT Sector	2.0	1.2
Total	39.7	28.6

5. **Somalia Private Sector Development Re-engagement Program Phase II (Som-PREP II):**

Som-PREP II, has been primarily focused on Somaliland. Its activities are mostly complete. Its objective was to improve access to markets and generate employment in key productive and service sectors. The component-level objectives of the program focused on: (i) improving the investment climate and strengthening public-private dialogue; (ii) strengthening banking supervision and legal frameworks; (iii) promoting value chain development; (iv) supporting PPPs in ports and solid waste; (v) providing MSME financing to the private sector; and, (iv) identifying economic sector work constraints to private sector-led growth and job creation with a particular focus on key economic sectors.

6. Petroleum Sector Inclusive Development: Funded by the MFP, the objectives of this project are to: (i) facilitate a process to harmonize issues of ownership, control and revenue sharing in the petroleum sector; (ii) support the development of a petroleum strategy and a policy, legal and fiscal framework; and, (iii) build government capacity to negotiate and manage petroleum contracts.

7. Financial Governance Policy Dialogue: Funded by the MPF, the objective of this program is to provide technical advice and facilitate policy dialogue to strengthen transparency and accountability in the areas of strategic public procurement and concessions, asset recovery, and other selected areas of financial governance. In 2014 the FGS and the international community established the Financial Governance Committee (FGC), a high-level institution to help the Somali authorities improve governance. This project will provide assistance to the FGC with: (i) predictable and reliable funding for its basic operations; and, (ii) technical assistance to help advance its work program during the FGC's second year.

8. Somalia Knowledge for Operations and Political Economy (SKOPE): Funded by the SPF, the objectives of this program are to: (i) enhance the development impact of domestic policies and development partner interventions through better knowledge of socio-economic realities as well as political economy constraints; (ii) promote basic accountability through better information on

availability and use of public resources; and, (iii) revitalize the strategic planning process. SKOPE activities fall under three broad components: (i) collecting and analyzing data, as well as developing TA-related activities; (ii) understanding political economy constraints; and (iii) supporting strategic planning at federal and regional levels.

9. Public Financial Management Capacity Strengthening, Phase I: Funded by the SPF, the objective of this project is to establish systems for more transparent and accountable management and use of public funds in Somalia. Effective since early 2014, the project was launched as a pilot to lay the foundations for a larger scale public financial management program supported through the MPF. The project focuses on public financial management reform oversight, piloting one Financial Management Information System, and establishing expenditure control, procurement, accounting, and reporting systems.

10. ICT Sector Support, Phase I: Funded by the SPF, the objective of this pilot project is to: (i) lay foundations for a larger scale program under the MP; and, (ii) contribute towards the process of developing a regulatory framework for the telecommunications sector and building an ICT infrastructure in Somalia. The project focuses on supporting open access to international bandwidth and setting up communication rooms and facilities for government.

Pipeline

There is a significant pipeline of activities, many of which are nearing effectiveness, totaling over US\$255 million.

Pipeline (including Pending Effectiveness)

Project	Appraised Amount (US\$M)
Recurrent Cost and Reform Financing Program, Phase II*	144.0
Somalia Core Economic Institutions (SCORE) Program	30.0
Somalia Capacity Injection Program*	20.0
Somalia PFM Strengthening Project II*	20.0
ICT Sector Support in Somalia Phase II*	14.0
Somali Urban Development Project Feasibility Study	4.98
Somalia Power Sector Development Master Plan**	1.55
Somali Urban Development Project	TBD
Somalia Towage Services in Berbera Port	4.9
Water for Agro-Pastoral Livelihoods Pilot Project	2.0
Total	255.4

* Pending Effectiveness

11. Recurrent Cost and Reform Financing (RCRF) Program, Phase II: The objective of the RCRF is to support the government to provide credible and sustainable payroll and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the FGS and eligible sub-national authorities. Phase II, starting in 2015, will consolidate the gains made

under the recently closed Phase I project, and will strengthen macro-fiscal management, central bank reform, and potential target support to expanded social service delivery. Phase II will also explore options for the expansion of recurrent cost support to regional governments.

12. The Somali Core Economic Institutions and Opportunities (SCORE) Program: The objective of the SCORE program, which expands work previously undertaken through Som-PREP II, is to support select core economic institutions linked to trade, financial sector, and private sector development in order to catalyze inward investment and job creation. The project components are: strengthening core institutions in three critical areas of the economy (central banking, the Ministries of Commerce and Industry, and local port and customs authorities). The second component will focus on expanding economic opportunities by providing direct support to the private sector—through technical assistance and grants—to expand economic opportunities in the country.

13. Capacity Injection Project: The objective of this project is to enable the government fill critical capacity gaps in the civil service, and strengthen the capacity of key ministries and agencies to perform core government functions. Project components cover: (i) developing capacity for key cross-cutting government functions; (ii) strengthening the policies and procedures for civil service management; and, (iii) aiding policy management, coordination and monitoring capabilities at the center of government.

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

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

16. Somali Urban Investment Planning Project (SUIPP) and Somalia Urban Development Project (SUDP): The objective of SUIPP is to support feasibility studies and preliminary design work for a MPF-funded operation targeted at urban infrastructure investment and institutional strengthening in southern Somalia, Puntland and Somaliland, as well as the provision of technical assistance to government agencies to assist them prepare and implement these activities.

17. Somalia Power Sector Development Master Plan: The objective of the program is to support the building blocks for the establishment of a modern energy sector in Somalia. The

components of the program are: (i) developing a master plan that sets out priorities and investment sequencing in generation, transmission and generation over a 20-year period, and delivers detailed electrical infrastructure development plans for a number of urban areas; (ii) preparing a “Lighting Africa Somalia” investment; and, (iii) developing a renewable energy resource map for Somalia.

18. Somalia Towage Services in Berbera Port: The objective of the project is to support the development of the Berbera Port by improving throughput, towage capacity and reliability of towage services.

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

Economic and Sector Work

20. Statistical Strengthening and Socio-Economic Data Collection: The last nationally representative household surveys providing information on household income, consumption and poverty were conducted in 1985. The World Bank program has worked to address these data gaps in Somaliland, Puntland and Mogadishu. The 2012 Somaliland Enterprise and Household Surveys provided data to produce a poverty assessment; private sector studies; and a CPI base weights and estimates of GDP. In Mogadishu, the World Bank and the Somali Department of Statistics (under the Ministry of Planning and International Cooperation), have successfully implemented the first set of an innovative high-frequency computer assisted household survey that will provide vital household expenditure, socioeconomic and peace and state-building goal data. The instrument is tailored to collect data quickly, in highly insecure settings, and is designed to work in tandem with new econometric techniques to produce a reliable poverty profile and CPI base weights. The World Bank will support the roll-out throughout Somalia of household surveys—combining high frequency surveys and more standard household surveys—to provide regular poverty, social and process data, as well as other relevant information that can be gathered through that instruments. This work will also support poverty assessments and other poverty analytical studies made possible by the data collection exercises.

21. Policies and Institutions for Economic Growth: The World Bank is conducting a source of growth study, with a view to establish a consensus between the government and its partners on priority policies and public investment to enable strong inclusive growth. The work will also support analysis and technical assistance in areas related to private investment, trade, and sectors contributing to growth. This work will also support the building of core capacity of government to design and implement economic development polices.

22. Macroeconomic and Fiscal Planning: The World Bank is working with relevant ministries to support the development of a simple macro-fiscal framework with clear linkages to the annual planning and budgeting process, as well as a simple public investment management framework

covering financing modalities and time horizons, that would inform national planning and enable the FGS to improve the appraisal and evaluation of capital investments.

23. Policy Engagement on Revenue Mobilization, Natural Resource Management and Inter-governmental Fiscal Relations: The World Bank plans to undertake an analysis to generate a better understanding of the Somali economy and potential sources for maximizing revenue generation. The work will focus on policy related issues and areas for advisory work, including supporting licensing and regulatory frameworks for telecommunications, ports management, ICT and the extractive industries. This will also include technical support on revenue management options for natural resource revenues. Inter-governmental fiscal relations engagement initially focuses on sharing relevant international experience with the government.

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

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK⁶

(As of June 30, 2015)

25. The 2013-15 Somalia Country Brief (CB) was approved by the African Development Bank's (AfDB) board of directors in April 2013. The CB laid out a scaled-up program reengagement with Somalia. The strategic areas of reengagement include: (i) strengthening governance and institutional capacity; (ii) supporting the re-engagement process of Somalia with the international financial community, through a comprehensive program of arrears clearance and debt relief; (iii) including Somalia in the AfDB's regional "Drought Resilience and Sustainable Livelihood Programme" (DRSLP); and, (iv) developing infrastructure planning to support the recovery process.

26. The AfDB Somalia Infrastructure Trust Fund (SITF) is currently being prepared. Following the AfDB's board approval, the trust fund is expected to be operational by the fourth quarter of 2015. The SITF has a medium to longer-term perspective and will focus on infrastructure reconstruction and development, which is aligned with the Peace and State Building Goal 4 (or PSG 4).⁷ The bulk of activities financed by the SITF will be core infrastructure investment projects in the energy, transport, water, sanitation and ICT sectors. The SITF will also support capacity building, as well as financing and governance activities related to the infrastructure reconstruction program.

27. The AfDB has had 12 operations in Somalia since 2013. Of these, two operations are now finished, nine are national operations, and one is a regional project. The current net commitment is UA 21.7 million, equivalent to about US\$33 million. The AfDB's ongoing portfolio in Somalia comprises many small sized operations, with an average project size of UA 2.17 million. The portfolios average age is 1 year, with a cumulative disbursement rate of 3.75 percent. A brief description of the projects is provided below:

- The AfDB (in partnership with a host of UN agencies and bilateral donors, and through UNFPA implementation), contributed about US\$ 0.5million (of a total cost of US\$6.18million) to fund the **Population Estimation Survey for Somalia (PESS)** project. In May 2015, the official findings from the PESS were released (e.g. 75 percent and 46 percent of Somalis are below the ages of 30 and 15 respectively). The PESS is supposed to assist the FGS and donors in establishing a platform for compiling data and information on Somalia's socio-economic and poverty baselines; pave the way for an official Census in 2016; and, support the monitoring of progress towards attaining the MDGs.
- The AfDB has played a key role in supporting Somalia's re-engagement with international financial institutions (IFIs), particularly through the preparation for arrears clearance, access to

⁶ Prepared by the African Development Bank.

⁷ The Somali New Deal Compact (2014-2016) including the Somaliland Special Arrangement¹, outlines Somalia's key government priorities within five Peace and State Building Goals (PSGs). These are: PSG 1 (Inclusive Politics); PSG 2: (security); PSG 3 (justice), PSG 4 (economic foundations); and PSG 5 (revenue and services).

HIPC/MDRI debt relief, and building debt management capacity. AfDB's TA has supported the reconstruction of Somalia's external debt data, including the setting up and initial capacity (including systems and staff) of a debt management unit in the ministry of finance; and, initial work in developing a strategy for arrears clearance and access to HIPC/MDRI debt relief. The AfDB is currently in Phase 2 of this program.

- The AfDB is supporting the development of statistical capacity in all regions of Somalia. The UA 0.35 million **Somaliland Statistical Capacity Building Project**, is currently ongoing. A similar project has also been designed for Puntland. Discussions are being held to develop a comparable project with the FGS. The AfDB is also represented on the **High Level Task Force (HLTF)** for Statistics in Somalia.⁸ The HLTF focuses on statistical capacity building and data gathering for the development of an **Interim Poverty Reduction Strategy Paper (I-PRSP)**, establishment of an IMF Staff-Monitored Program (SMP), and monitoring of the **Peace and State Building Goals (PSGs)** under the Somali Compact. Through its participation in the HLTF, the AfDB is assessing further options to provide statistical capacity building support in Somalia.
- Through the **Economic and Financial Governance Institutional Support Project (EFGISP)**, the AfDB is helping strengthen macroeconomic and financial management in Somalia. By setting up an improved macroeconomic and budget framework, the AfDB intends to enhance fiscal discipline of the FGS, and, ultimately, the strategic and efficient allocation and use of public resources. Furthermore, the AfDB is playing a lead role through the FGC in implementing the Financial Governance Program. The AfDB has also provided TA to the ministry of finance in building capacity for aid coordination.
- Since September 1, 2014, the AfDB's African Legal Support Facility placed a senior legal expert in the FGS to provide legal advisory services to the government in connection to complex commercial negotiations relating to, inter alia, infrastructure, loans, and natural resources. This support will include placing systems, providing capacity building services to government officials, and working on the negotiations of government contracts.
- The Somalia **Drought Resilience and Sustainable Livelihoods Programme (DRSLP)** is part of Phase II of the AfDB's broader initiative to provide support to the drought and famine stricken countries in the Horn of Africa, and build their sustained and long-term resilience. The main components of the DRSLP are: (i) water and natural resource development and management; (ii) livestock infrastructure for market access; and, (iii) capacity building. Funds for the Somalia DRSLP are grants from the *Transition Support Department Pillar I* (UA 5 million) and the *Regional Operations (RO)* window (UA 10 million) for a total project of UA 15 million. In view of Somalia's external debt arrears situation, the FGS cannot administer resources from the RO window and, thus, requires a third party to administer the resources on its behalf (as per AfDB's rules and

⁸ The HLTF is chaired by the Ministry of Planning and International Cooperation and includes the participation of development partners and relevant Somali institutions.

regulations). Thus, the FGS, with the endorsement of Puntland and Somaliland, have selected IGAD to administer the RO resources.

- On the knowledge front, the AfDB conducted the ***Infrastructure Needs Assessments (INA)*** in the energy, transport, water and sanitation and ICT sectors. These assessments are key deliverables in the government's ***Economic Recovery Plan 2014-15***. The ultimate goal is to develop a ***Somalia Infrastructure Action Plan***, which will: (i) assist the government in building an initial project pipeline for the proposed ***AfDB Multi-Partner Somalia Infrastructure Trust Fund***; (ii) provide input into the preparation of Somalia's i-PRSP; and, (iii) assist in the broad planning, prioritization and resource mobilization for infrastructure interventions. The *ICT assessment* has been completed and validated. The *water and sanitation assessment* is expected to be validated in the second quarter of 2015. A final draft of the *energy assessment* has been distributed to the FGS, and will be validated at a workshop in August 2015. The *transport assessment* is expected to be completed in the third quarter of 2015. The AfDb continues to play a leadership role in the infrastructure sector by chairing the *PSG 4 Sub-working Group on Infrastructure*, and engaging with federal and regional governments to rationalise priority infrastructure projects. This has allowed the AfDB to take a leadership role in guiding the reconstruction and development of Somalia's infrastructure.

STATISTICAL ISSUES

(As of June 30, 2015)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has serious shortcomings that significantly hamper surveillance caused by institutional weaknesses, lack of source data, and agencies having unclear and overlapping responsibilities. Somalia is rebuilding its macroeconomic statistics after several decades of civil war. The *Statistics Law* from 1970 remains in effect and is being updated to reflect current conditions and requirements. An impressive achievement is a time series of average monthly prices for several markets in Mogadishu covering several years. State and local authorities also independently produce some statistics for their region while coordination arrangements are being established. A multisector mission was conducted in May 2015 to assess the status and development plans for macro economic statistics. It affirmed work begun by the authorities to develop a strategic plan to guide development of the national statistical system and identified technical assistance requirements over the coming years. Somalia intends to commence reporting of basic IFS data to the IMF as they become available.

National Accounts: A modeled time series for annual GDP has been compiled since 2012. Results are largely dependent upon qualitative assessments of the authorities and broad assumptions applied to limited data. Estimates for government final consumption expenditure are derived from the FGS accounts and assumptions regarding the relative size of the general government sector. Estimates for capital formation are based upon product detail within counterparty data, assumptions about undercoverage, and value added by Somali resident units. A household expenditure survey has been conducted in Somaliland and used to estimate average daily household final consumption expenditure of US\$1.60 per day. A household survey in Mogadishu will begin in late 2015 and may result in substantial revisions.

Price Statistics: The FGS began to compile a new experimental Consumer Price Index (CPI) following an IMF mission in January 2015. An expanded basket of 312 items with weights based on expenditure shares derived from other African countries was introduced. When results from the household expenditure survey for Mogadishu are finalized (which should occur in 2016) TA will be provided to introduce new weights and to improve price collection procedures. Somalia does not have a producer price index (PPI).

Government Finance Statistics: FGS commenced use of an automated financial management information system during 2015 to replace the previous manual recording. A mapping between the underlying chart of accounts and GFS items is being developed and is expected to enable production of preliminary GFS estimates for budgetary central government during 2015. The authorities have commenced negotiations to obtain appropriate financial data from state/local units to produce comprehensive estimates for Somalia's general government sector. Somalia does not currently have any significant public trading enterprises.

Monetary and Financial Statistics: The significance of monetary statistics is limited by the ambiguous status of the Somali shilling. The CBS is currently finalizing the relationship between its accounts and the MFS aggregates and expected to produce monetary statistics for this subsector by the end of 2015. Statistics for the remaining subsectors will be produced as regulatory and reporting arrangements for Somalia's financial institutions are established over coming months.

Financial sector surveillance: Negligible data will be available for financial sector surveillance until regulatory arrangements are implemented. The authorities are beginning to collect basic balance sheet data from several financial institutions.

External sector statistics: A modeled time series for annual Balance of Payments has been compiled since 2013. Results are largely dependent upon qualitative assessments of the authorities and broad assumptions applied to existing data. Estimates for imports and exports of goods and services are based upon counterparty data and assumptions about undercoverage. The Somalia's Customs Directorate has agreed to start to collect data on the value of exports and imports that can be used to estimate values of trade in goods. Model-based estimates for remittances and foreign direct investment will be replaced by source data as regulatory and reporting arrangements are established. While Somalia does not compile comprehensive estimates for International Investment Position, data are compiled by the World Bank on the liabilities of Somalia's general government to the rest of the world. An estimate of Somalia's reserves will be available when balance sheet data from the CBS are audited and published.

I. Data Standards and Quality

Somalia does not participate in the General Data Dissemination System (GDDS).

No data ROSC is available.

II. Reporting to STA

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

Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶	Memo Items: ⁷	
						Data Quality – Methodological Soundness	Data Quality – Accuracy and Reliability
Exchange Rates ¹	n.a.	n.a.	D	n.a.	n.a.	n.a.	n.a.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	12/2014	6/2015	M	n.a.	n.a.	n.a.	n.a.
Reserve/Base Money ¹	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Broad Money ¹	n.a.	n.a.	n.a.	n.a.	n.a.		
Central Bank Balance Sheet ²	12/2014	1/2015	M	n.a.	n.a.		
Consolidated Balance Sheet of the Banking System	n.a.	n.a.	n.a.	n.a.	n.a.		
Interest Rates	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Consumer Price Index ³	03/2015	6/2015	M	n.a.	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing – General Government	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing – Central Government ⁴	n.a.	n.a.	M	n.a.	n.a.		
Stocks of Central Government and Central Government-Guaranteed Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
External Current Account Balance ⁵	12/2014	6/2015	A	n.a.	n.a.	n.a.	n.a.
Exports and Imports of Goods and Services ⁵	12/2014	6/2015	A	n.a.	n.a.		
GDP/GNP ⁵	12/2014	6/2015	A	n.a.	n.a.	n.a.	n.a.
Gross External Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
International Investment Position	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Note:							
The Somali authorities have provided fiscal, exchange rates, and public external debt data to the mission team during staff visits and this consultation.							
¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.							
² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.							
³ Foreign, domestic bank, and domestic nonbank financing.							
⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.							

Table of Common Indicators Required for Surveillance (concluded)

⁵ Including currency and maturity composition.

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

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

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

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

¹⁰ Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.



SOMALIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION— SUPPLEMENTARY INFORMATION

July 23, 2015

Approved By: Prepared by MCD

**Adnan Mazarei
(MCD) and Ranil
Salgado (SPR)**

1. Staff wishes to highlight developments since the staff report was circulated to the Executive Board on July 8, 2015. This information does not alter the thrust of the staff appraisal.
2. The authorities have produced a revised budget for 2015 that will avoid new arrears. On July 19, an extraordinary session of the Cabinet, chaired by the President, approved and sent to Parliament a revised budget for 2015. The budget revision contains significant measures to reduce spending and raise taxes. Our preliminary analysis is that these measures should yield \$66 million on a full-year basis, equivalent to 33 percent of revised expenditure for 2015. The key measures are: (i) a sharp reduction in allowances for the military and police; (ii) cuts in spending on goods and services; (iii) a significant reduction in civil service salaries and allowances; and, (iv) substantial new taxes on allowances for parliamentarians. With these strengthening of revenue efforts, staff believes that the revised budget for 2015 could be implemented without incurring new arrears.

Table 2. Federal Budget, 2013–17
(Millions of U.S. Dollars)

	2013		2014		2015		2016	2017
	Actual	Budget	Actual	Budget	Proj.	Rev. Budget	Proj.	Proj.
1. Revenues and grants	110.8	188.5	145.3	239.9	183.7	198.8	238.3	247.0
Revenue	69.2	115.3	84.3	123.4	100.4	113.6	133.4	150.5
Tax revenue	65.1	108.0	73.8	103.1	77.9	85.9	108.7	123.4
Tax on income, profit and capital gains	0.7	5.1	1.1	4.6	2.1	5.1	5.0	6.0
Taxes on goods and services	5.6	34.0	8.5	25.8	9.9	10.6	30.0	33.0
Trade taxes	58.7	69.0	64.3	72.7	66.0	70.3	73.7	84.4
Non-tax revenue	4.1	7.3	10.5	20.3	22.5	27.7	24.7	27.2
Grants 1/	41.7	73.2	61.0	116.5	83.3	85.2	104.9	96.4
2. Total expenditure	117.4	216.2	151.1	239.9	183.7	198.8	238.3	247.0
Current	117.4	203.8	150.9	226.0	169.7	184.8	219.3	226.3
Wages and salaries	50.4	94.3	77.2	108.3	81.9	86.5	108.3	108.3
Goods and services	56.0	68.8	57.6	82.7	58.4	68.9	82.7	84.3
Transfers to sub-national government 2/	7.5	10.1	10.1	14.8	15.2	15.2	16.0	17.9
Contingency	3.5	3.8	3.8	3.2	2.9	2.9	3.0	3.0
Repayment of arrears and advances	0.0	26.8	2.2	17.0	11.3	11.3	9.3	12.8
Capital 2/	0.0	12.4	0.2	13.9	13.9	13.9	19.0	20.6
3. Overall balance (1 - 2)	-6.6	-27.7	-5.8	0.0	0.0	0.0	0.0	0.0
4. Liquidation of recovered government assets	...	...	5.8	...	0.0	...	0.0	0.0
5. Accumulation of new arrears	...	...	17.1	...	32.9	...	0.0	0.0
Financing (4 + 5)	...	...	22.9	...	32.9	...	0.0	0.0
Memorandum items:								
Repayment of arrears (from expenditure)	0.0	26.8	2.2	17.0	11.3	11.3	9.3	12.8
Stock of domestic arrears (end of year)	30.4	...	45.3	28.3	67.0	34.0	24.8	12.0

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

1/ Includes only donor support provided through local treasury systems.

2/ Expenditures from hypothecated revenue in 2015.

**Statement by Ms. Kapwepwe, Executive Director for Somalia,
and Mr. Tlelima, Advisor to the Executive Director
July 27, 2015**

Context

Somalia is a country in a fragile situation as a result of years of civil war, coupled with the still challenging political and security situation. The government and the people of Somalia have started a rebuilding process, with invaluable support by the international community. Against this backdrop, the authorities view the reengagement with the Fund as a pivotal aspect of their efforts to rebuild their institutions, infrastructure and the human resource capacity, to give the Somali people hope for a better future.

While Somalia's relations with the IMF have been restored, the country is still facing tremendous challenges. Arrears accumulated during years of conflict have impaired Somalia's ability to service its external debt, while rendering the country ineligible for the much needed IMF financial assistance. In addition, the political and security environment has slowed the rebuilding progress. As a result, the country's recovery process is not expected to be easy. However, with support from the international community, our Somali authorities are determined to forge ahead with the necessary reforms.

Against this background, the Somali authorities highly appreciate the Fund's efforts in the form of technical assistance (TA) and policy advice extended to Somalia since 2013. In the context of the current Article IV Consultation, the first since 1989, the authorities welcome the constructive dialogue with the Fund staff. They remain hopeful that this marks the beginning of increased engagement that would culminate in arrears' clearance and, ultimately debt relief. They see a Staff Monitored Program (SMP) as a possible avenue, not only to give hope to the Somali people but also help to change perceptions about the country; and demonstrate the authorities' commitment to address the challenges they are facing.

Recent Developments

Analysis of economic activity remains severely constrained by lack of data. However, this area is receiving due attention through TA by the Fund under the "Trust Fund for Capacity Development in Macroeconomic Policies and Statistics for Somalia" that was launched in February 2015. In the meantime, the authorities appreciate staff's assessment of the Somali economic developments based on incomplete information, indicating some expansion in real GDP and low inflation.

Policy Issues and Challenges

Given the unique challenges facing Somalia, the authorities share the staff's assessment that concerted efforts are needed to build capacity and institutions for sustainable and inclusive growth. Despite improvements in some of the state institutions, more still needs to be done, especially, to strengthen capacity in the key macroeconomic areas including fiscal and public financial management; central banking, and financial sector regulation and supervision; and statistics. The authorities remain committed to changing Somalia's fortunes. With the support they are receiving from the international development partners, including the African Development Bank, the IMF, and the World Bank, they are confident of achieving their goal.

Fiscal policy: The authorities acknowledge the importance of strengthening the budget process by ensuring that expenditure commitments are in line with available resources. However, it is important to note that while the authorities engage in rebuilding their capacity to mobilize domestic revenues, Somalia continues to rely crucially on donor funding. In this context, the authorities and the development partners have expressed the need to improve coordination, to ensure that all financial assistance is channeled through the Ministry of Finance. In the meantime, Somalia is receiving invaluable TA support from the IMF and the World Bank in public financial management and various aspects of fiscal policy, including budget preparation and execution, and tax policy, which are expected to provide a lasting solution in this area.

Monetary and exchange rate policy framework: The Somali authorities agree that, despite progress made through previous TA and training, more needs to be done to capacitate the Central Bank of Somalia to carry out its mandate. One of the key critical areas is currency issuance. Although the CBS is by law responsible for issuing the national currency, no bank notes have been issued since 1991, leaving the economy predominantly dollarized and in an unregulated environment as a legacy of the decades' long civil conflict. This has created a shortage of currency, to the detriment of the majority of Somalis. In turn, it is increasing pressure for the CBS to undertake currency reforms, despite capacity constraints that are being addressed with IMF TA support. In this context, the Fund has an important role to play in assisting the CBS to develop a roadmap towards reforms, in addition to the ongoing training and capacity building.

External Debt: Somalia's external debt, estimated at more than 90 percent of GDP at end-2014, has become a binding constraint to the country's development agenda. The authorities agree with the staff's assessment that Somalia lacks the ability to service its debt in the medium term. With the help of the Technical Working Group (TWG) on Somalia's Debt, the Somali authorities are working towards a pathway to arrears' clearance and eventual debt relief. The TWG on Somalia's Debt was established after the Federal Government of Somalia agreed with the international partners at the Brussels Conference in 2013 to create a forum to discuss issues related to Somalia's debt. It is open to all major official creditors to Somalia and is co-chaired by the IMF mission Chief, the World Bank's Country Director, and Somalia's Minister of Finance.

Conclusions

The Somali authorities remain committed to changing Somalia's fortunes. They have earnestly started the process of rebuilding their institutions, infrastructure and the human resource capacity, in an effort to revive Somalia's economy and improve the lives of its nationals. With the highly appreciated assistance from the international community, notably, the African Development Bank, the IMF and the World Bank, much progress has been achieved to date. However, more still needs to be done. In this context, continued support by the international community remains critical.