



SOMALIA

March 2020

SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM AND REQUEST FOR THREE-YEAR ARRANGEMENTS UNDER THE EXTENDED CREDIT AND THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

In the context of the Second Review Under the Staff-Monitored Program and Request for Three-Year Arrangements Under the Extended Credit and The Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 24, 2020, following discussions that ended on January 16, 2020, with the officials of Somalia on economic developments and policies underpinning the IMF arrangements. Based on information available at the time of these discussions, the staff report was completed on March 9, 2020.
- A **Statement by the Executive Director** for Somalia.
 - Letter of Intent sent to the IMF by the authorities of Somalia*
 - Memorandum of Economic and Financial Policies by the authorities of Somalia*
 - Technical Memorandum of Understanding*
 - *Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.



IMF Executive Board Approves 3-Year ECF and EFF Arrangements for Somalia

FOR IMMEDIATE RELEASE

- IMF Board approves SDR 292.4 million (about US\$395.5 million) ECF and EFF arrangements for Somalia.
- The three-year financing package will support the implementation of the authorities' National Development Plan and anchor reforms between the HIPC Decision and Completion Points.
- Reforms will focus on a continued strengthening of public finances to meet Somalia's development needs in a sustainable manner; a deepening of central bank capacity; improvement of the business environment and governance; and enhancing statistics.

WASHINGTON, DC – March 25, 2020 the Executive Board of the International Monetary Fund (IMF) approved three-year arrangements under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) for Somalia in the amount of SDR 292.4 million (about US\$395.5 million or around 179 percent of quota). The program will support the authorities' implementation of their ambitious reform agenda and catalyze concessional donor financing. This will help the country implement its National Development Plan to build greater economic resilience, promote higher and more inclusive growth, and reduce poverty.

At the conclusion of the Executive Board's discussion, Ms. Kristalina Georgieva, Managing Director and Acting Chair, stated:

"Somalia has reached the HIPC Decision Point given the authorities' sustained commitment to reform in a challenging political, security and climate environment. The second review of the staff-monitored program, which has been endorsed as meeting the standards of upper credit tranche conditionality, has been completed. The authorities' strong policy commitment has helped strengthen public financial management and the financial sector, improve governance, and enhance macroeconomic stability.

"The authorities' new three-year economic program is an ambitious and appropriate response to Somalia's macroeconomic challenges. Continued reform commitment, together with the necessary technical assistance, will be critical to achieve the program's objectives, as well as to secure higher and more inclusive growth. The authorities need to continue strengthening the cooperation between the Federal Government of Somalia and Federal Member States.

"The medium-term fiscal framework under the program appropriately balances the need to contain recurrent spending while channeling new resources toward Somalia's development plan. Continued efforts to strengthen fiscal federalism, enhance revenue mobilization and build social protection mechanisms will be important as Somalia moves forward. Swift implementation of Somalia's comprehensive public financial management law is needed, together with efforts to strengthen debt management and ensure a conservative approach to any future borrowing to minimize the risk of falling back into debt distress.

“The central bank’s efforts to strengthen its organizational capacity and enhance regulation and supervision will be critical for the robust and sustainable development of the financial sector. Continued capacity building is needed to improve AML/CFT compliance and the national risk assessment should be completed as quickly as possible. Advancing reforms to promote good governance are also important.

“Improving macroeconomic statistics is important, particularly GDP and balance of payments data. In this regard, the authorities should support the creation of the independent national statistics office and implement the macroeconomic statistics action plan.

“The consultative process that accompanied the drafting of the Ninth National Development Plan (NDP9) is commendable. It is important that the authorities update the underlying macroeconomic policy framework and complete the costing exercise. Financial and technical support from the international community is important to support the authorities’ reforms and the implementation of the NDP9.

“Somalia’s request for interim assistance under the HIPC Initiative on the debt service falling due to the Fund over the next 12 months has been approved. The progress made in securing commitments from other creditors to provide debt relief in the context of the HIPC Initiative is welcome, as there is a need for equitable burden-sharing across all creditors. The coverage and content of the HIPC floating Completion Point triggers, which focus on growth, public financial management, debt management, governance, domestic revenue mobilization, and statistics, is appropriate.

“The global COVID-19 pandemic and regional desert locust swarm pose new risks to the outlook and program. In this regard, strong support from the international community remains critical.”

Annex

Recent Economic Developments

Despite a challenging security, political, and climate environment, Somalia has remained steadfast in implementing economic reforms. This has brought them to the Decision Point for debt relief under the [Heavily Indebted Poor Country \(HIPC\) Initiative](#). Economic growth and inflation have been relatively stable, but growth has been too low to significantly tackle widespread poverty. In 2019, real gross domestic product (GDP) is estimated to have grown by 2.9 percent. However, the impact of the recent desert locust swarm and the global coronavirus pandemic makes the near-term outlook less certain. Fiscal data reflects continued strong performance in 2019, with domestic revenues outturns outpacing the indicative targets set in Somalia’s Staff Monitored Program (SMP). As a result, there was a small fiscal surplus at the end of the year. The current account deficit, which is primarily financed by grants, remained close to 12 percent of GDP.

Program Summary

The new three-year IMF financing arrangements aim to anchor medium-term policies during the period between the HIPC Decision and Completion Points. These policies build on the 2019 Article IV recommendations and reforms underpinning Somalia’s fourth SMP. Reforms will focus on a continued strengthening of public finances to meet Somalia’s development needs while balancing fiscal sustainability considerations; a continued deepening of central

bank capacity; efforts to improve the business environment and governance; and enhancing statistics.

The program will:

- **Guide fiscal policy via a robust medium-term fiscal framework (MTFF)** and balance Somalia's development priorities and fiscal sustainability. In the context of HIPC and NDP9 implementation, staff envisages a substantial increase in expenditures. The program will also further mobilize domestic revenue to support self-sufficiency, provision of public services, and social stability. Nevertheless, fiscal space will remain constrained. To ensure sufficient resources are available for critical development expenditure a ceiling on expenditures on compensation and the use of goods and services has been put in place. Expenditures will continue to be capped by the overall size of the revenue envelope, with a zero limit on new debt accumulation. Additionally, the program places critical importance on sustaining and deepening inter-governmental fiscal relations.
- **Deepen and broaden on-going public financing management (PFM) reforms** which hinge on implementing aspects of the new PFM Act. In particular, strengthening budget preparation and execution, enhancing oversight, institutionalizing recent improvements in budget processes, and enhancing the quality of general government fiscal reporting.
- **Improve the capacity of the central bank.** The program will support the implementation of the central bank's new organizational structure and develop a medium-term vision to guide future policy priorities.
- **Reinforce the supervisory framework and improve AML-CFT compliance.** Further progress in strengthening regulatory and supervisory standards will contribute to continued financial stability. These efforts will include the expansion of supervision to the whole financial sector, especially the mobile money sector. The program will support improvements in AML/CFT capacity, including the deepening of capacity of the Financial Reporting Center, and enhancing inter-agency cooperation through the National Anti-Money Laundering Committee.
- **Support efforts to improve governance.** The program will support the completion of the authorities' National Anti-Corruption Strategy and the related workplan to implement the strategy.
- **Support long-term growth and poverty reduction.** The program will support these goals through fiscal conditionality and reforms, and the complementary floating Completion Point triggers, along with other conditionality in World Bank operations, which are expected to address growth, water management, poverty, gender, and improving the ease of doing business. Additionally, the program will continue to support improvements in the production and dissemination of macroeconomic statistics. Along with other technical assistance providers, staff will monitor and provide capacity development support to the authorities' macroeconomic statistics action plan.

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SOMALIA

March 9, 2020

SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM AND REQUEST FOR THREE-YEAR ARRANGEMENTS UNDER THE EXTENDED CREDIT AND THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Background and context. The Somalia authorities have fulfilled the necessary conditions to reach the HIPC Decision Point (DP), despite continuing challenges. This is a historic achievement and means Somalia has now cleared its arrears and normalized relations with the IMF and other international financial institutions. This will unlock Somalia's access to new financial resources to fund much needed development and social spending.

Staff-Monitored Program (SMP) performance. Program implementation has been satisfactory, and Management has approved the completion of the second review of SMP IV. Domestic revenues exceed the target by a notable amount.

Policies under the ECF/EFF arrangements. The authorities are cancelling the SMP and requesting three-year financing arrangements under blended Extended Credit and Extended Fund Facilities (ECF/EFF) in the total amount of SDR 291 million (178 percent of quota; SDR 253 million under the PRGT and SDR 38 million under the GRA). The program will anchor the authorities' policies and reforms between the HIPC DP and Completion Point (CP). Reforms will focus on a continued strengthening of public finances to meet Somalia's development needs while balancing fiscal sustainability considerations; a continued deepening of central bank capacity; efforts to improve the business environment and governance; and enhancing statistics. Access will be heavily front-loaded and require exceptional access under the PRGT. The full amount of the EFF arrangement will be available in the first purchase. Access under the ECF arrangement will be evenly phased and is intended to be used for CBS reserves accumulation. This level of access is consistent with Somalia's balance of payments needs.

Program and other risks. Risks to the program and outlook remain elevated, although there is also upside potential. The immediate political risks concern the upcoming elections, while frequent climate shocks continue to contribute to agricultural loss and human displacement. On the upside, greater-than-expected impact from reforms under the program and additional development financing, together with the development of new industries, could lead to higher and more inclusive growth than the baseline.

Approved By
Thanos Arvinitis
(MCD) and Maria
Gonzalez (SPR)

Discussions were held in Addis Ababa, Ethiopia during January 6–16, 2020. The staff team consisted of A. Holland (Head), P. de Imus, L. Kohler (all MCD), G. Kalyandu (FAD), T. Orav (SPR), I. Samake (Resident Representative), W. Irungu (Economist, IMF Office, Somalia) and P. Muir (FAD consultant). The mission met with the Finance Minister Dr. Abdirahman Beileh; Minister of Planning, Investment and Economic Development, Mr. Gamal Hassan; the Central Bank Governor, Mr. Abdirahman Abdullahi; Ms. Hodan Mohamoud Osman, Secretary of the Senate Finance Committee; Mr. Mohamud Abdirahman Sheikh Farah, Chairman of the House of the People Commerce Committee and other officials. Mr. Abdulqafar Abdullahi, (OED) participated in key policy meetings. The mission also met with representatives of bilateral and multilateral donors.

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