

**Statement by Mr. Mahlinza, Executive Director,
and Mr. Abdullahi, Advisor on Somalia
March 24, 2020**

Somalia declared its first case of COVID-19 on Saturday, March 14, 2020. The authorities immediately took action to contain the virus by banning all international flights and closing all schools and universities as well as suspending all sporting events for 15 days. The authorities believe that containment is the best option as the country lacks effective public health systems and infrastructure to carry out widespread testing and care for the sick. Economic growth could be impacted, and government revenues and remittances will decline as the health crisis continues to impact Somalia's trading partners.

Introduction

1. Our Somali authorities wish to thank staff for continued Fund support in the implementation of reforms that have helped in the advancement of the arrears clearance and debt relief processes. They also wish to thank staff for the constructive engagement during the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) negotiations. They broadly agree with staff assessment and policy recommendations.
2. Over the last few years, Somalia has made steady progress in rebuilding the core political, institutional and economic capabilities of a viable state, supported by the steadfast implementation of successive staff monitored programs (SMPs). Security condition have improved, and macroeconomic stability is beginning to emerge. Nevertheless, social and economic fragilities remain, while the pace of economic growth has been inadequate to meaningfully improve living standards. In addition, the high debt overhang has continued to prevent Somalia from accessing needed development finances.
3. To address these long-standing challenges the authorities have fulfilled the necessary conditions to reach the HIPC Decision Point. In this regard, the authorities have established a satisfactory track record of strong policy implementation under the current UCT quality SMP. On September 26, 2019, the Somali Cabinet approved a comprehensive and widely consulted 9th National Development Plan. Somalia also cleared arrears to the World Bank and the African Development Bank, early March 2020, and secured adequate assurances to clear IMF arrears.
4. Against this background, the authorities seek Executive Directors' support towards their request for cancellation of the current SMP; and request for a three-year arrangement under the blended Extended Credit Facility (ECF) and Extended Fund Facility (EFF) program. This new program will anchor policy reforms between the HIPC Decision Point and the HIPC Completion Point. This program is expected to build and deepen past reforms by strengthening public finance management, upscaling financial sector development, enhancing institutional capacity of the Central Bank of Somalia (CBS), and improving governance.

Performance Under the Staff Monitored Program

5. To establish a track record of strong policy implementation that meets the requirements for HIPC qualification, the authorities have continued to post solid performance under the UCT quality SMP program. All end September and December indicative target were met including all

structural benchmarks, except one relating to the use of commitment controls. Consequently, the IMF management approved the completion of the second review of the SMP program, confirming that Somalia has established the six months track record of satisfactory performance, required for the HIPC Decision Point.

6. Throughout implementation of the four SMPs, the authorities have made determined efforts to successfully implement reforms and meet the required targets. To this end, they established a monitoring structure that reports directly to the Prime Minister. Going forward, the authorities are committed to maintaining the same momentum in implementing policies and reforms in the period leading up to the HIPC Completion Point. They view reforms as essential to delivering long term growth and lifting the citizens out of poverty.

Fiscal and debt management reforms

7. The authorities remain committed to strengthening their fiscal framework to support priority development needs. Over the years, efficiency of tax collection has improved, new tax measures have been introduced and large businesses have begun to make regular tax payments. As a result, domestic revenue doubled from \$112.7 million in 2016 to estimated \$229.7 million in 2019. Moving forward, the Somali authorities are committed to sustaining revenue growth by deepening reforms and implementing new tax measures. In this regard, they plan to operationalize the recently approved *Revenue Act*, implement a tax audit strategy and continue with the customs reforms currently underway. In the medium term, the implementation of the Revenue Act will be extended to all Federal Member States with a high priority to broaden the coverage and collection of customs and sales tax.

8. The authorities plan to maintain focus on achieving expenditure efficiencies and aligning their expenditures with the overall size of the resource envelope. In this respect, they recently concluded an audit of public servants to better contain the wage bill. Concurrently, they plan to maintain a cap on compensation and use of goods and services. Going forward, they intend to introduce a formal civil service grading structure and modern human resources management practices, with the support of the World Bank.

9. To strengthen public finance management, the authorities have implemented several measures including the introduction of Somalia Financial Management Information System (SFMIS) which has automated government transactions and reduced errors and opportunities for corruption. Moreover, improved cash forecasting and stronger use of commitment controls enhanced efficiency in the management of government finances. To further improve PFM, the recently enacted PFM Act will be operationalized, once the new regulations have been developed. At the same time, a comprehensive review of current business practices to improve the efficiency of the expenditure approval process will be undertaken. The authorities also plan to improve budget preparation and execution by rolling out the budget module in the SFMIS. They are committed to prioritizing implementation of the customs reform roadmap focusing on the introduction of the harmonized HS codes at the three regional ports, development of a guidance manual training, and installation of a common IT system with the support of development partners.

10. The authorities are determined to maintain debt sustainability beyond the HIPC Completion Point. In this regard, they are building the necessary institutional structure to manage the country's debt with support from the Fund and other partners. Further, the authorities have already conducted a debt reconciliation exercise and have established a computerized debt management system at the Ministry of Finance' Debt Management Unit. In addition, they plan to compile and timely report comprehensive external debt data. Going forward, they will maintain a zero limit on new debt accumulation and plan to remain current on debt service obligations.

Monetary and financial sector reforms

11. The authorities' medium-term objective is to develop monetary and exchange rate policy capacity within the Central Bank of Somalia (CBS). To this end, recruitment to support the reorganization and new functions of the central bank is largely on track. This is being supported by intensive capacity development including in bank supervision, conducting self-assessment of on-site inspection, analytical capacity and data reporting, development of frameworks for dealing with problematic institutions, and development of prudential tools, such as reserve requirements.

12. While the economy remains dollarized, the authorities intend to introduce a new currency, the Somalia Shilling. The first phase of the two-phase currency reform is aimed at facilitating small transactions for the vulnerable citizens. In the interim, the authorities are building human and institutional capacity required to effectively execute the country's monetary and exchange rate policies.

13. To strengthen and deepen the financial system, the authorities are updating the legal framework, starting with the amendment of the Financial Institutions Law. In parallel, the CBS continues to improve its regulatory regime and capacity to effectively supervise the mobile money market and support the strong mobile money sector. In this context, mobile money regulations have been approved, and the payment system will be operationalized early 2021.

Structural Reforms

14. As part of effort to improve governance and the fight against corruption, the President signed the Anti-Corruption Law on September 21, 2019, which creates the Anti-Corruption Commission. At the same time, the authorities are developing a robust National Anti-Corruption Strategy (NACS) and plan to ratify the UN Convention Against Corruption. Over the course of the program, the authorities will rectify the African Union and Arab Conventions Against Corruption as well as develop and implement an action plan that will operationalize the NACS. To strengthen accountability, the authorities will enact an Audit bill that encompasses international best practice and complete an inventory of Federal Government public sector non-financial assets.

15. The authorities will build on the progress made thus far in creating a workable fiscal federalism framework. Supported by a technical committee, the Intergovernmental Fiscal Forum will continue to hold regular meetings to strengthen fiscal cooperation. The forum will refine agreements on an expenditure assignment guideline to align it with the new Revenue Act and work towards a single import duty tariff schedule. Further, the constitutional review process

currently underway will clarify the relative roles and responsibility of different levels of government. In this context, the authorities are committed to maintaining an open dialogue at the highest level of government to collectively address challenges facing the country and create a comprehensive fiscal federalism framework.

16. The authorities consider building resilience to climate shocks and social protection mechanisms as a priority. The country faces persistent climate related shocks without adequate social protection. With the help of development partners, the authorities are advancing efforts to strengthen Disaster Risk Management and early warning systems. In addition, they are placing importance on building social safety net levers including a cash transfer system and establishing a national social registry to facilitate the targeting of vulnerable members of the society.

17. The authorities continue to strengthen the Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) operational and legal framework. Following the enactment of the 2016 AML/CFT law, the Financial Reporting Centre was created and continues to make steady improvements in supporting compliance with the framework, as its capacity becomes stronger. Going forward, new guidelines will be issued to help banks comply with the AML/CFT regulations. In addition, the authorities are committed to enact the Targeted Financial Sanctions Law aimed to improve AML/CFT compliance. In the medium term, a new national AML/CFT strategy will be developed following a National Risk Assessment exercise. This strategy will address any AML/CFT shortcomings before the next MENA-FATF Mutual Evaluation assessment in 2024.

Conclusion

18. The authorities consider reaching the HIPC Decision Point as an important milestone in Somalia's development agenda. They are mindful of the challenges ahead and remain committed to implementing reforms with the same determination demonstrated during the implementation of the SMP. They wish to thank all the members for their contributions of the SCA-1 and Deferred Charges Accounts and additional cash grants provided to clear Somalia's arrears to the Fund. They look forward to continued support in implementing reforms as well as support from the international community.