

**Statement by Ms. Mannathoko, Executive Director,
and Mr. Abdullahi, Advisor to the Executive Director for Somalia
November 18, 2020**

I. Introduction

1. Our Somali authorities thank staff for the constructive engagement during the first review under the Extended Credit Facility (ECF). They appreciate the ongoing support from the Fund as they address the impacts of multiple shocks and the unprecedented global health crisis. Fund engagement will continue to be critical as they work to exit from fragility.
2. The Somali economy has been adversely affected by floods and desert locust infestation, as well as the fallout from the COVID-19 pandemic. Even before the current crisis, the country faced daunting challenges including frequent droughts which compounded the difficulties associated with fragility and weak institutions. Nevertheless, the authorities continue to make substantial progress in implementing important reforms that will enable the transition from the HIPC Decision Point, which was reached on March 2020, to the HIPC Completion Point, in the HIPC debt relief process. The continued support of the Fund and other development partners remains critical in helping the authorities implement key requirements that must be met to reach the Completion Point.
3. Based on the satisfactory performance under the ECF program, our Somali authorities request the Executive Board's support for the completion of the first review under the ECF arrangement. Given the impact of the COVID-19 crisis on revenues and the external sector, alongside uncertainty over the path of the crisis, they request a waiver of non-performance of the missed quantitative performance criterion (QPC) on the domestic revenue floor, and modifications to the program QPCs and indicative targets related to revenue collection and net foreign assets of the central bank.

II. Recent Developments

4. Recognizing the risks associated with poor health infrastructure and limited testing capacity, the authorities acted proactively with containment measures to curb the spread of the COVID-19 virus. However, given the high informality of the economy alongside increased unemployment and poverty, containment measures have been difficult to maintain. As a sign of possible resurgence of the spread of the virus, reported cases and fatalities have been increasing since late September.
5. Economic activity is expected to contract by 1.5 percent in 2020 compared to the pre-COVID-19 projection of 3.2 percent. Looking ahead, economic growth is projected to rebound to 3 percent in 2021 and converge to pre-COVID-19 long term average growth projections thereafter. However, the economic outlook is subject to considerable near-term uncertainties given the potential for a global and domestic resurgence of the virus.
6. On the political front, after an extensive dialogue, the federal government and regional leaders have agreed on election modalities and dates for the upcoming parliamentary and presidential elections scheduled for December 1-27, 2020 and February 8, 2021, respectively. This agreement and improved intergovernmental cooperation promise a better environment for the implementation of reforms.

III. RCF Program Performance

7. The authorities' strong commitment to reforms continues to lay the foundation for macroeconomic stability and growth. The authorities were resolute in implementing program targets and structural reform benchmarks. As a result, they met all structural benchmarks through October 2020, and all but one QPC and one IT. The latter two targets relate to domestic revenue collection which underperformed relative to the cumulative program floor, mainly due to the impact of the pandemic. Moving forward, to mitigate risks to revenue performance, the Cabinet-approved draft 2021 budget includes new growth and revenue measures aimed at bringing revenue back up to levels initially envisaged by the program.

IV. HIPC Debt Relief and the Completion Point

8. Following the March 2020 determination that Somalia has reached the HIPC Decision Point, the authorities have continued to engage actively with all creditors. They have reached out to all bilateral and multilateral creditors, with notable agreements reached with Spain and the United States, Somalia's largest bilateral creditor. The Somali authorities are grateful for the constructive engagement with all creditors thus far. Further, as highlighted by staff in Annex II, the authorities are diligently implementing the floating HIPC Completion Point triggers with a view to completing them by March 2023. Progress has already been made on all of them, including governance and anti-corruption reforms, revenue mobilization, and public finance management, among others. Furthermore, implementation of the poverty reduction strategy under the Ninth National Development Plan (NDP9), aimed at reducing the prevalence of poverty in the country, is also advancing well. The draft 2021 budget guided by the 2021-24 MTFP has carved out allowance for spending to support NDP9.
9. The authorities are of the view that the development of strong debt management capacity over the course of the program is a key objective essential to ensure debt sustainability beyond the completion point. Towards this end, they are receiving intensive capacity development and Fund TA, in addition to the necessary debt management IT infrastructure support from development partners. They will also seek additional support, where needed.

V. Policy Responses and Reforms

Fiscal Policy

10. Somalia's HIPC Decision Point in March 2020 and its normalization of relations with IFIs, came at an opportune time. Countering the substantial contraction in domestic revenue due to the shock induced by the pandemic, grants from the World Bank, African Development Bank, and the European Union provided critical on-budget resources to support higher expenditure, including elevated social spending under a new cash transfer-based social safety net program (Baxnaano) and a program that supports lending to micro, small and medium-sized enterprises (Gargaara). Guided by the Country Preparedness and Response Plan, UN agencies and other partners have taken actions to help mitigate immediate humanitarian and socio-economic consequence of the pandemic. The authorities also did what they could: early in the pandemic they had introduced targeted revenue-neutral temporary tax relief for imported basic food commodities; and they had a modest onetime health care allocation.

11. Looking ahead, the authorities are focused on maintaining momentum in fiscal reforms. They remain committed to implementing domestic resource mobilization reforms that will boost revenues, under the Fund supported program. The 2021 budget underpinned by the 2021-24 medium-term fiscal framework (MTFF) will advance significant reforms, including new tax and non-tax measures and actions to strengthen revenue administration. Guided by the customs reform road map and key agreements with the regions, the authorities will introduce, over the course of the program, a single ad valorem customs tariff across three major ports, in an important milestone that will also enhance revenue collection in the future. In addition, the authorities plan to improve revenue administration and compliance, implement a tax audit strategy and hire more tax auditors.
12. The authorities recognize that a cooperative fiscal federalism will be key to maintaining the current reform momentum; facilitating the rolling out to regions, of reforms needed for better macroeconomic management and revenue collection. The relationship between federal member states and the federal government continues to improve, reflecting concerted efforts by the federal leadership. Frequent meetings between regional and federal finance ministers have resulted in strong commitments to support key economic reforms, and the signing of a memorandum of understanding to facilitate sharing and reporting of fiscal data, which will enhance intergovernmental fiscal relations and transparency.
13. On debt, notwithstanding the availability of financing options from the Fund, the authorities would like to avoid contracting additional debt as much as possible, in favor of seeking grants resources to meet their current and near-term financing needs. Nevertheless, should conditions deteriorate due to a resurgence of the virus, a failure of committed grants to materialize, or occurrence of another climate-related shock, they may be forced to reconsider this position. In the meantime, fiscal discipline supported by a sequestration rule that prioritizes critical expenditures alongside modest fiscal buffers should continue to mitigate financing risks to the program.

Monetary Policy and Financial Sector Reforms

14. Although the economy remains largely dollarized, in the medium term, the introduction of a new Somali currency remains a priority for the authorities as this could boost financial inclusion for the poor. Progress is being made with support from the World Bank, to advance the first phase of the necessary currency reforms under the currency exchange project. The authorities are also taking steps to strengthen the central bank balance sheet before the first phase of the currency exchange is implemented. They are also taking steps to build the CBS' monetary policy instruments and capacity, before implementation of the currency reform.
15. The restructuring of the Central Bank of Somalia (CBS) is a key priority and focus of the central bank's management. With the merit-based appointment of a new competent Board of Directors and the hiring of three senior directors over the summer, the formation of the bank's leadership is now complete. The implementation of a complex transformative transition plan will now begin. The CBS has also made steady progress in implementing recommendations from the safeguards assessment and is committed to implementing the remaining recommendations.
16. Reforms aimed at supporting a strong and well-regulated financial sector are also progressing on multiple fronts in accordance with the Financial Sector Reform Road Map, developed with

support from the Fund. In this regard, the CBS will refrain from issuing additional licenses to banks while building the capacity of its supervision department. Similarly, the CBS will strengthen the regulatory environment by enacting a National Payment System Law, Insurance Law, and an amendment to the 2011 Financial Institutions Law. The CBS is also taking concrete steps to regulate mobile money operators in coordination with the National Communications Authority and Financial Reporting Centre.

17. The authorities recognize that building a robust AML/CFT regime is critical to maintaining the flow of remittances and FDI into the country, and to the establishment of correspondent banking relationships. Accordingly, they have made tangible progress in creating the necessary operational and regulatory framework. On November 4, the House of the People passed the National ID Authority Law, the absence of which had been a key deficiency identified in the AML/CFT framework. In addition, the Financial Reporting Centre (FRC) is building its human and IT capacity while also completing the building blocks of a robust AML/CFT regulatory framework. To promote cooperation and coordination of all agencies involved in implementing the AML/CFT framework, the authorities are planning to reinvigorate the National Anti-Money Laundering Committee (NAMLC) task force chaired by the Minister of Finance.

VI. Structural Reforms

18. The authorities continue to prioritize governance reforms and the fight against corruption, as evidenced by ongoing improvements in fiscal and financial governance, the AML/CFT framework and recent legislative changes. Recent high-profile court cases and convictions of senior public officials on charges of corruption and misuse of public funds, send a strong signal that corrupt practices by government officials will no longer be tolerated. The authorities are committed to implementing the recently enacted Anti-Corruption Law, and the new Prime Minister has publicly committed to focus on the fight against corruption, building on past achievements. Cabinet approved the new National Anti-Corruption Strategy and endorsed and submitted to the parliament for approval, the nominations of nine highly respected and qualified anti-corruption commissioners. Cabinet also endorsed the United Nations, African Union, and Arab League conventions on combating corruption, which will be submitted to parliament for ratification. In addition, a program with UNDP to improve the integrity system has been signed, and a draft action plan has been started.
19. Concrete actions are being taken to improve data collection and dissemination. Substantial progress was made by the Department of National Statistics, with support and training from several international development partners including the Fund, and as a result the quality of data collection and analysis have improved overtime. With the establishment and operationalization of the autonomous Somali National Bureau of Statistics (SNBS), the development of an institutional framework to collect and disseminate high quality and reliable economic data will be accelerated. A needs assessment has been conducted and the human resources necessary to deliver the mandate and objectives of the new Bureau have been identified. At the same time, a five-year strategic plan and necessary regulations are being developed.
20. Finally, the Fund's capacity development (CD) and technical assistance (TA) support has been extremely important and especially beneficial in building the government's capacity to manage the economy while strengthening its macro-fiscal institutions. Fund TA has been instrumental in advancing reforms in public finance management, revenue mobilization and modernizing and building the central bank capacity among other things. Somali authorities believe that continued

and enhanced IMF capacity development and TA support remain critical to reaching the HIPC completion point and meeting challenges ahead. They are however concerned that the slower than expected replenishment of the Somalia Trust Fund may lead to gaps in capacity support, impacting delivery on some critical CD and TA projects. Therefore, the authorities join staff in encouraging Somalia's development partners to contribute generously to Phase II of the Somalia Trust Fund.

VII. Conclusion

21. Our Somali authorities remain committed to the reform agenda under the ECF arrangement aimed at building strong institutional capacity to implement prudent macroeconomic policies that will spur durable and inclusive growth. They look forward to Executive Directors' support towards the completion of the first review under the ECF arrangement. They also look forward to enhanced staff capacity development and TA support as they work towards reaching the HIPC completion point.