

# **Somalia: 2022 Article IV Consultation and Fourth Review under the Extended Credit Facility-Press Release; and Staff Report**



# SOMALIA

December 2022

## 2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY— PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

In the context of the 2022 Article IV consultation and Fourth Review under the Extended Credit Facility, 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 December 5, 2022 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 5, 2022, following discussions that ended on October 7, 2022, 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 November 18, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Somalia.

The documents listed below have been or will be separately released.

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\*  
Selected Issues  
\*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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## IMF Executive Board Concludes 2022 Article IV Consultation and Fourth Review of the Extended Credit Facility for Somalia

### FOR IMMEDIATE RELEASE

- Somalia is currently facing a severe food crisis. Sustained support from international partners is needed for the immediate humanitarian response and to build resilience over time to climate shocks in order to prevent food crises in the future.
- Program performance has been strong, and the reform momentum has been maintained. Steady progress under the HIPC process would lay the ground for the Completion Point to be achieved in late 2023.
- To promote inclusive growth, further efforts are needed to build resilience to climate shocks, advance implementation of the national development plan, and promote financial deepening, while maintaining fiscal sustainability.

**Washington, DC – December 7, 2022:** On December 5, 2022, the Executive Board of the International Monetary Fund (IMF) completed the fourth review of the Extended Credit Facility (ECF) arrangement for Somalia. The Board's decision enables the immediate disbursement of SDR 7 million (about US\$ 8.9 million), bringing Somalia's total disbursement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) to SDR 278.4 million (about US\$ 393.2 million).

Somalia's ECF arrangement was originally approved by the Executive Board on March 25, 2020 (see Press Release No. 20/105) as part of a three-year blended arrangement under the ECF and the EFF, which involved access of SDR 252.86 million (155 percent of quota) under the ECF and SDR 39.57 million (24 percent of quota) under the EFF. As the full amount of the EFF arrangement was made available on approval and drawn at the first purchase, the EFF arrangement lapsed immediately. The ECF arrangement supports the implementation of the authorities' National Development Plan and anchors reforms between the HIPC Decision and Completion Points.

### Executive Board Assessment<sup>1</sup>

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the Somali authorities' commitment to economic reforms and the HIPC process, notwithstanding the challenges arising from an acute food crisis. They called for continued efforts by the authorities and sustained support from international partners to address the humanitarian crisis and reduce climate vulnerability to prevent food crises in the future.

<sup>1</sup> 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 positively noted that performance under the program has been strong and commended the authorities' steady progress under the HIPC process that is laying the ground for the Completion Point to be achieved in late 2023. They encouraged the authorities to continue with the timely implementation of the remaining HIPC Completion Point Triggers and to finalize debt relief agreements with all creditors.

Directors praised the implementation of reforms to raise domestic revenues and called for further efforts on tax policy and administration reforms, including customs modernization and the new income tax law. Directors commended the improvement in public financial management and encouraged further progress on payroll integration and fiscal transparency. Such efforts are needed to ensure medium-term fiscal sustainability given Somalia's very low tax ratio amid large development needs, and the expected shift to concessional financing at the Completion Point.

Directors appreciated the continued reforms to strengthen the central bank's governance and legal frameworks, including implementation of IMF Safeguards recommendations. They recommended further bolstering the central bank's financial regulation and supervision capacity.

Directors noted that important steps have been taken on governance. They encouraged continued efforts to address ML/FT risks and ensure the enactment of the Targeted Financial Sanctions Law. Directors stressed the importance of finalizing the legal framework for the extractive industries, developing better control of government lands and real estate, and implementing the National Anti-Corruption Strategy.

Beyond the HIPC Completion Point, Directors stressed the need for further reforms to promote inclusive growth. These include building resilience to climate shocks, advancing implementation of the national development plan, and promoting financial deepening and inclusion, while maintaining fiscal sustainability. Directors noted that support from development partners is important for the successful implementation of the authorities' reform strategy, including continued IMF CD support and financing from partners for the Somalia Country Fund.

It is expected that the next Article IV consultation with Somalia will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.



# SOMALIA

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

November 18, 2022

### EXECUTIVE SUMMARY

**Context.** Somalia is facing a severe drought and acute food insecurity, aggravated by higher global food and fuel prices. Sustained efforts from the authorities and support from international partners are needed for immediate humanitarian assistance and to build resilience over time to climate shocks. Notwithstanding the current challenges, including a fragile security situation, the authorities continue to deliver on their commitments under the IMF supported program and have maintained the reform momentum. Program and Article IV discussions were informed by the Country Engagement Strategy.

**Reform priorities.** The authorities are committed to strengthening domestic revenue mobilization, including customs modernization, increasing revenue collection from large businesses (in particular the telecom sector), a new turnover tax, and publication of tax exemptions. At the same time, they are moving ahead with reforms on public financial management, including full payroll integration. To support governance, the authorities plan to enhance management of non-financial assets and work towards finalizing the legal framework for the extractive industries. The central bank will continue to enhance its capacity, including financial regulation and supervision. Key actions on AML/CFT include enactment of the Targeted Financial Sanctions Law and development of the national AML/CFT action plan. In the context of the currency reform, the CBS needs to develop exchange rate and monetary policy frameworks and capacity. To support progress in key policy areas, the program includes new indicative targets and structural benchmarks through end-December 2023.

**Program performance.** All quantitative performance criteria (QPC) and indicative targets (ITs) for end-June and end-September 2022 have been met. The authorities have implemented three structural benchmarks to support stronger domestic revenues and reporting and transparency of the central bank. In view of capacity constraints, the authorities are requesting new target dates for two structural benchmarks: (1) to finalize the tender protocol by end-December 2022 in order to incorporate additional revisions needed to align with best practices; and (2) to approve the pay and grade policy and road map to implement the integrated payroll by end-December 2022 to allow sufficient time for discussion with stakeholders. The program is fully financed for the next 12 months.

**HIPC Initiative.** The staffs of the IMF and World Bank assess that the HIPC Completion Point appears feasible in late 2023. Timing will depend on finalizing the completion point triggers and the debt relief agreements with creditors.

**Article IV discussions.** To promote inclusive growth, policy priorities include building resilience to climate shocks (also in support of food security), advancing the implementation of the national development plan to reduce poverty and boost job creation, and promoting financial deepening and financial inclusion (including the currency exchange project). Debt relief at the HIPC Completion Point will facilitate Somalia's access to new sources of financing, but at the same time there will be a shift from grants to concessional financing. Ensuring fiscal sustainability calls for raising domestic revenue to expand public services over time, maintaining a prudent fiscal deficit, and only accessing concessional financing.

**Program and other risks.** Risks include prolonged drought, additional pressures on international food and energy prices, and security risks. Risks to the program are mitigated by continued program ownership, capacity development (CD), and sustained support from development partners. Somalia continues to need extensive IMF CD support and financing for Somalia Country Fund is critical.

Approved By  
**Thanos Arvanitis**  
**(MCD) and Mark**  
**Flanagan (SPR)**

Discussions were held in Nairobi from September 26 – October 7, 2022. The staff team comprised of Ms. Jaramillo (Head), Ms. Yang, Mr. Kularatne (all MCD), Mr. Nguyen (FAD), Mr. Leon (SPR), Mr. Le Hen (Resident Representative), Mr. Irungu, Mr. Osman (Resident Representative Office), and Mr. Muir (FAD expert). Mr. Abdullahi (OEDAE) participated in key policy meetings. Ms. Gupta, Mr. De Asis, and Ms. De Mesa (all MCD) supported the preparation of this report. The mission met with Finance Minister Nur, Minister of Planning Beenebeene, Central Bank Governor Abdullahi, and other senior officials. The mission also met with development partners, and representatives from the private sector.

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