

**Statement by Mr. Mohieldin, Executive Director for Somalia, Mr. Alhosani, Alternate Executive Director, Ms. Choueiri, Senior Advisor to the Executive Director.
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The conclusion of parliamentary and presidential elections on May 15, 2022, followed by a peaceful transition of power, reinforced Somalia's commitment towards state-building and stability despite a fragile security situation and domestic and global challenges. The newly elected government is focused on addressing security risks, urgent climate change, and severe food insecurity, which are compounded by higher global food and fuel prices. Somalia is currently facing a severe and prolonged drought with potential for famine. With four failed rainy seasons and the fifth at risks of also being failed, 4.3 million people are currently facing acute food insecurity and that number is expected to rise to 6.7 million by the end of the year. Therefore, the Somali authorities continue to mobilize resources from international partners in coordination with UN agencies to avert famine. Despite the challenges, the authorities have made progress in economic reforms and reforms under the Ninth National Development Plan (NDP9) which is focused on rebuilding Somalia's economic institutions, improving public finance management, and achieving sustainable and equitable growth. The Somali authorities also continue to fully own their IMF-supported program, as reflected in strong performance under the program. This performance, together with the continued support from development partners will underpin Somalia's efforts towards reaching the Highly Indebted Poor Countries Completion Point (HIPC CP) by end-2023, which would be a notable achievement given the country's challenging circumstances and capacity constraints.

Introduction

- 1. The Somali authorities very much appreciated the constructive dialogue with the Fund staff** during the Article IV Consultation and Fourth Review Under the Extended Credit Facility Arrangement (ECF) mission. They also viewed the Selected Issues Paper on food insecurity and exposure to climate shocks as topical and timely.
- 2. Somalia continues to make notable strides in rebuilding policy and institutional capacity, benefitting from support from the IMF and other development partners.** The authorities are making concerted efforts to implement broader reforms articulated in the Ninth National Development Program (NDP9) and supported by the ECF program. They are also making progress in the implementation of the required floating triggers to reach the HIPC CP by end-2023. Despite the challenging domestic and external environment compounded by severe climate, pandemic, and geo-political shocks, the authorities have kept the ECF program firmly on track. Moreover, the country has shown remarkable resilience in maintaining macroeconomic stability and is benefiting from the successful conclusion of peaceful elections, which laid a solid

groundwork for coordinated reform efforts and strong ownership. Nonetheless, the country is facing a humanitarian crisis occasioned by successive and severe droughts and rising food and energy prices. Considering the acute food insecurity, the authorities seek continued generous and timely donor support to avert hunger and starvation, as well as medium-term help to build resilience

3. **Somalia continues to rely on extensive capacity development (CD) support.** In this regard, the authorities would be grateful for accelerated pledges by development partners to the Somalia Country Fund—largely the main vehicle for Fund CD delivery in Somalia—to support the goals of the ECF and HIPC process.

Program Performance

4. **Program Performance is strong.** All quantitative performance criteria and indicative targets for end-June and end-September have been met. Further, four out of the five structural benchmarks (SBs) that were due by end-October were met, albeit with delays on one SB. The missed SB (pay and grade policy) and delayed SB (tender protocol for the petroleum sector) reflect capacity and technical constraints. In view of the strong program performance, the authorities are requesting to reset the due date for these two benchmarks to end-December 2022. They also seek the support of the Executive Directors to complete the fourth review under the ECF arrangement and conclusion of the Article IV consultation.

Recent Economic Developments and Outlook

5. **Following a rebound to 2.9 percent in 2021, economic growth is expected to slow down to 1.9 percent in 2022 weighed by the multiple shocks.** It is expected to pick up to 3.1 percent in 2023, underpinned by higher exports, remittances, and investments. That said, the economic outlook remains clouded by adverse weather events culminating in the fifth consecutive drought season, as well as the adverse spillovers from geopolitical developments. Moreover, remittance flows are being affected by weaker growth in economic partner countries. In the medium term, growth is expected to accelerate, bolstered by deeper reforms in public finance, financial sector, and governance, as well as the development of the agriculture, fisheries, and petroleum sectors.

6. **The spillovers from geopolitical developments and drought are expected to push average inflation to 9 percent in 2022.** Considering that 75 percent of Somalia's consumption basket comprises of food items, higher food inflation will have disproportionate effects on the most vulnerable.

Fiscal Policy and Reforms

7. **The Somali authorities are committed to creating fiscal space to support increased priority spending through strong revenue mobilization and better expenditure management.** Revenue collection efforts have been challenged by multiple shocks including COVID-19, drought, desert locust, and political uncertainty. However, revenue has started to recover during the second half of the year and is expected to increase further in 2023, supported by the newly implemented spectrum license fee, higher collection of khat import taxes, and collection of administrative fees. A 2023 budget, consistent with program objectives, was approved by Cabinet on November 16, 2022. It promotes higher domestic revenues, while keeping domestically financed current expenditure under control and accommodating higher spending on drought response and security. The 2023 budget also incorporates higher externally financed projects in support of NDP9 priorities, including social spending. To strengthen revenues and improve transparency, the authorities are taking decisive actions to improve the efficiency of revenue administration, particularly customs administration, with a view to introduce ad valorem tariff structure by next year. The ad valorem schedule was completed, and work on regulations on customs valuations and declaration were issued in September 2022. Full implementation of the ad valorem tariff structure is expected to commence in the second half of 2023 or early 2024.

8. **The authorities are cognizant of the importance of post-HIPC CP fiscal sustainability when grant financing from the World Bank and other development partners is expected to substantially decline.** In this regard, they aim to increase the domestic revenue collection to 15 percent of GDP in the long term from the low base of three percent through a combination of new tax measures and improved tax collection efficiency. Towards this goal, the authorities aim to modernize the income and consumption tax by enacting a new Income Tax Law in 2023, issue the regulations for the Revenue Management Law, and develop an Integrated Tax Administration System.

9. **The authorities will continue to enhance public finance management and expenditure efficiency and transparency.** To improve the efficiency of budget execution and control, the authorities will introduce invoice tracking functionality to the Somali Financial Management Information System (SFMIS). As part of the efforts to improve fiscal transparency, the authorities will improve the budget execution and Treasury management process and expand the coverage of general government fiscal reports. Furthermore, they will introduce a new Pay and Grade policy and a roadmap to implement an integrated payroll system that covers all civilian public sector employees by the end of the year. Efforts are also underway for the effective implementation of the Public Procurement Law and regulations.

Financial Sector Policies and Reforms

10. **The authorities continue to make significant progress in strengthening the institutional framework and capacity of the Central Bank of Somalia (CBS).** The new function-based management structure is yielding results by improving decision making and operations of the CBS. The authorities are making substantial progress in implementing the IMF safeguards recommendations which have already made contributions to improving external audit, legal, reporting, internal audit, and controls. Further, the launch of the payments system has improved the efficiency of the payment structure and the currency reform will support financial deepening and financial inclusion. The authorities have finalized the National Payment Systems and Insurance draft law, which will be submitted to Parliament. They authorities are also developing a National Switch to support the national payment system. The authorities plan to issue regulations on capital adequacy and liquidity coverage ratios by end-September 2023. Moreover, staffing and capacity of the CBS Licensing and Supervision Department will continue to be strengthened to improve the quality of supervision. The CBS will also take steps to encourage the development of risk management and internal controls of financial institutions. The recent licensing of two foreign banks is expected to improve market competition, provide new financial products, and transfer knowledge and techniques.

11. **The authorities have taken concrete steps to build and operationalize the AML/CFT legal framework in an effort to support the establishment of formal correspondent banking relationships and promote the flow of remittances into Somalia.** The National AML/CFT Taskforce has been operational since February 2021 to support the National Anti-Money Laundering Committee. The National ML/FT Risk Assessment (NRA) was finalized. Key infrastructure and IT systems were acquired to support the Financial Reporting Center's capacity to review and assess suspicious transactions. Moreover, efforts have been made to improve the integrity of the financial sector through outreach and training

Structural Reforms and Climate Change

12. **The authorities are committed to advance structural reforms, notably enhancing the governance framework and intensifying the fight against corruption.** The authorities will take steps to review the existing laws to ensure compliance with the UNCAC. They plan to provide the necessary resources to improve the capacity to enable the newly established Independent Anti-Corruption Commission to effectively carry out its functions and continue the implementation of the action plan of the national Anti-Corruption Strategy. Somali authorities have made substantial progress in improving governance and rebuilding integrity institutions. Nevertheless, they feel that perception indices which slowly improves over time, do not accurately capture progress made and hard-won reforms.

13. **Progress is being made in enhancing the petroleum sector legal framework.** The authorities have revisited last week the tender protocol in line with IMF recommendations and

have completed the drafting of the Petroleum Law regulations. In addition, in October 2022, several production sharing agreements based on direct negotiations were signed with a private firm that holds a seismic option agreement from 2013. Moreover, the PFM regulations on natural resource revenue management were issued in May 2022.

14. Somalia remains one of the most vulnerable countries in the world to climate change, which highlights the need to improve the resilience to climate shocks. The severity and frequency of droughts and floods have been increasing in recent years with devastating implications for the poorest segments of the society and economic growth. The authorities are taking concrete actions to address both immediate consequences of climate change as well as taking steps on mitigation and adaptation. In this context, the new administration has created a new Ministry of Environment and Climate Change tasked to lead and coordinate Somalia's response to climate change and building of resilience. They are also promoting greater collaboration across agencies on disaster mitigation and preparedness. Given extremely limited fiscal space, Somalia is not able to make the required investment in infrastructure and social safety net to adequately adapt to climate change. In this regard, the authorities call on international development partners to continue their much-needed support to help the country to build resilience to climate shocks and food security.

HIPC Initiative

15. The Somali authorities are focused on reaching the HIPC CP in 2023. They very much welcome the assessment of the staffs of the IMF and World Bank that the HIPC Completion Point appears feasible in late 2023. To that effect, they are working tirelessly to implement all HIPC CP triggers in a timely manner, and very much hope for timely debt relief agreements with creditors. As part of this effort and to better target government services to most vulnerable households, the authorities will establish a national unified social registry (USR). The USR will support the registration and determination of potential eligibility for social programs. To ensure the functionality of the platform, the authorities will enact a Data Protection Law and issues the USR data protection operational guidelines.

Conclusion

16. Despite a challenging domestic and global environment, the Somali authorities remain committed to implementing the challenging reforms needed to reach the HIPC CP in 2023. They value their engagement with IMF staff and the substantial technical assistance and capacity development support they receive. They look forward to the support of Executive Directors towards the conclusion of the Article IV consultation and completion of the Fourth review under the ECF program.