



SOMALIA

July 2022

SECOND AND THIRD REVIEWS UNDER THE ECF ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, INTERIM ASSISTANCE, AND REPHASING OF ACCESS AND EXTENSION OF THE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

In the context of the Second and Third Reviews Under the ECF, 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 June 17, 2022, following discussions that ended on May 19, 2022, with the officials of Somalia on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 3, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- 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*

*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 Completes the Second and Third Reviews of the Extended Credit Facility for Somalia

FOR IMMEDIATE RELEASE

- *Notwithstanding the challenges over the past 18 months, Somalia's IMF-supported program remains on track, with continued progress on key reforms, including on domestic revenue mobilization, strengthening public financial management, deepening of CBS capacity, and enhancing governance.*
- *Support from development partners, both on financing and capacity development, is essential for the successful implementation of the authorities' economic and structural reform strategy.*

Washington, DC – June 17, 2022: The Executive Board of the International Monetary Fund (IMF) today completed the second and third reviews of the Extended Credit Facility (ECF) arrangement for Somalia. The Board's decision enables the immediate disbursement of SDR 14 million (about US\$ 18.8 million), bringing Somalia's total disbursement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) to SDR 271.4 million (about US\$ 384.3 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.

Following the Executive Board discussion, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, made the following statement:

"The Somali authorities have preserved macroeconomic stability and maintained the reform momentum, notwithstanding multiple shocks. In addition to the challenges from Covid-19 and the protracted elections process, food security and economic activity are under strain because of severe drought conditions, compounded by rising global food and energy prices. The authorities' have made skillful efforts to navigate these challenges, supported by the international community, including the 2021 General SDR allocation.

"The authorities maintain a steadfast commitment to the reform agenda under the ECF-supported program and the HIPC process, which is critical to build resilience, promote inclusive growth, and reduce poverty. The authorities' ongoing efforts to strengthen

domestic revenue mobilization and public financial management are commendable. Continued improvements in the institutional capacity of the Central Bank of Somalia are welcome. It will be important to continue to advance reforms to improve AML/CFT and governance. Sustained efforts are needed to finalize the HIPC completion point triggers and achieve debt relief agreements with all creditors.

“Support from development partners, both on financing and capacity development, is important for the successful implementation of the authorities’ reform strategy. Contributions from Somalia’s partners to the Somalia Country Fund are also needed to ensure smooth delivery of IMF technical assistance to support the goals of the ECF-supported program and the HIPC Initiative.”

Table 1. Somalia: Selected Economic Indicators, 2019–2027

	Population: 15.2 million, 2021 estimate									
	Est.			Proj.						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	
National income and prices										
Nominal GDP in millions of U.S. dollars	6,477	6,965	7,373	8,202	8,839	9,621	10,498	11,461	12,485	
Real GDP in millions of U.S. dollars	6,016	5,996	6,115	6,281	6,507	6,747	7,011	7,291	7,590	
Real GDP, annual percentage change	3.3	-0.3	2.0	2.7	3.6	3.7	3.9	4.0	4.1	
Real GDP per capita in U.S. dollars	419	406	403	402	405	409	413	418	425	
CPI (period average, percent change)	4.5	4.3	4.6	8.5	3.6	3.8	3.7	3.5	3.3	
CPI (e.o.p., percent change)	3.1	4.8	5.7	7.8	3.5	3.7	3.6	3.4	3.2	
Central government finances 1/										
Revenue and grants	5.2	7.1	5.1	6.7	6.7	4.2	4.6	5.0	5.3	
<i>of which:</i>										
Tax	2.4	2.0	2.2	2.1	2.4	2.7	3.1	3.4	3.7	
Grants 2/	1.7	4.1	2.0	3.6	3.3	0.5	0.5	0.5	0.4	
Expenditure (FGS)	4.9	6.8	6.2	7.0	6.8	6.1	6.4	6.7	6.8	
Compensation of employees 3/	2.5	3.3	3.4	3.2	3.1	2.9	3.1	3.2	3.3	
Purchase of non-financial assets	0.2	0.3	0.2	0.3	0.3	0.5	0.5	0.6	0.7	
Overall balance	0.4	0.4	-1.1	-0.3	-0.1	-1.9	-1.8	-1.7	-1.5	
Net change in the stock of cash	0.4	0.2	-0.3	0.1	-0.2	0.0	0.0	0.0	0.0	
Stock of domestic arrears	1.0	1.0	0.9	0.8	0.8	0.7	0.6	0.5	0.4	
Public debt 4/, 5/	83.0	57.1	47.5	43.8	7.3	9.7	10.6	11.3	11.8	
Monetary Sector										
Net Foreign Assets	1.9	-2.7	-3.3	-4.3	-0.1	-0.3	-0.2	-0.1	-0.1	
Central Bank claims on non-residents 6/	2.3	2.8	3.0	3.3	3.0	2.5	2.3	2.1	1.9	
Net Domestic Assets	6.2	13.9	14.9	14.3	10.3	10.9	11.6	12.7	13.3	
Credit to the private Sector	3.2	3.1	3.5	3.9	4.5	5.4	6.6	8.2	9.7	
Broad Money 7/	8.1	11.1	11.6	10.0	10.2	10.6	11.4	12.6	13.3	
Net Foreign Assets (Program Definition, in millions of U.S. dollars)	25	80	175	
Balance of payments										
Current account balance	-10.4	-10.8	-15.0	-14.3	-12.4	-12.6	-13.6	-13.5	-13.5	
Trade balance	-63.7	-63.4	-70.7	-71.0	-69.5	-68.0	-67.9	-67.8	-67.8	
Exports of goods and services	17.3	13.9	17.4	16.9	16.9	17.2	17.2	17.2	17.2	
Imports of goods and services	81.0	77.3	88.1	87.9	86.5	85.2	85.1	85.0	85.0	
Remittances	24.4	23.2	28.2	29.1	28.9	28.9	28.4	28.4	28.4	
Grants	29.4	29.9	28.0	28.2	28.7	26.9	26.3	26.3	26.3	
Foreign Direct Investment	6.9	7.7	7.9	7.8	7.8	7.8	7.8	8.0	8.0	
External debt 8/	82.0	56.5	46.8	42.3	6.5	9.1	10.1	10.8	11.4	

Sources: Somali authorities; and Fund staff estimates and projections.

1/ Budget data for the Federal Government of Somalia. Fiscal operations are recorded on a cash basis. GDP data cover the entire territory of Somalia.

2/ A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress. Lower grants would result in deficits of 1.5 to 2.0 percent of GDP, higher than the ones projected under the alternative before this policy change. The difference with previous deficit projections would dissipate over time as the previous deficit projections already incorporated a gradual shift away from grants to loans.

3/ The increase in compensation of employees in 2020 reflects a reallocation of allowances from G&S to compensation in the context of Somali National Army reform.

4/ Assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDRI and "beyond-HIPC" relief at Completion Point in 2023.

5/ Public debt includes arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Consistent with the public debt definition in the DSA. It includes net SDR position of the FGS.

6/ Includes FGS grants held abroad.

7/ Primarily deposits at commercial banks. Data before 2020 does not yet include balances held with MMOs.

8/ Consistent with the DSA external debt definition, which reflects the external debt of the country as a whole. Includes the total net SDR position of the central bank. This differs from public external debt reported in Tables 2A, 2B, and 10.



SOMALIA

June 3, 2022

SECOND AND THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, INTERIM ASSISTANCE, AND A REPHASING OF ACCESS AND EXTENSION OF THE ARRANGEMENT

EXECUTIVE SUMMARY

Context. Notwithstanding multiple shocks—including COVID-19, drought, and surge in commodity prices—the Somali authorities have preserved macroeconomic stability and maintained the reform momentum, supported by use of the SDR allocation and cash balances. After some considerable delay, Parliamentary and Presidential elections were successfully completed, and President Mohamud was sworn in on May 15, 2022. The authorities have affirmed their commitment to the objectives and policies underpinning the program supported by the Extended Credit Facility and the HIPC process.

Reform priorities. The authorities will continue strengthening domestic revenue mobilization, including customs modernization and increasing revenue collection from the telecom sector. Key reforms on public financial management (PFM) include issuance of the PFM regulations and payroll integration. The authorities are also working towards harmonizing the legal framework for the extractive industries. The central bank will continue to enhance its capacity and monitor the financial system closely. Key actions on AML/CFT include enactment of the Targeted Financial Sanctions Law and development of the national action plan.

Program issues. Notwithstanding the multiple challenges, the authorities have met most of the conditionality established at the first review. Since then, they have also taken steps to preserve macroeconomic stability and continued to implement policies in line with the objectives of the program, in close collaboration with staff. All quantitative performance criteria (QPC) and all indicative targets (IT) from December 2020 to September 2021 were met except for the June and September 2021 targets on domestic revenue and the fiscal balance due to revenue underperformance linked to the impact of COVID-19 and pause in budget grants until elections were completed. The authorities are requesting a waiver for the missed June 2021 QPC

on domestic revenue based on corrective actions in the 2022 budget and new structural benchmarks that support a recovery in domestic revenues. All structural benchmarks were met with the exception of enacting the Targeted Financial Sanctions Law, for which the authorities are requesting a new target date of December 2022 to allow sufficient time for consideration by the new Parliament. Given the uncertainty around the timing of budget support disbursements, the authorities are requesting the introduction of an adjustor on the floor for the fiscal balance by any delays or shortfalls in budget support grants as compared to the budget estimate. They are also requesting that the definition of the domestic revenue floor exclude the CBS distributable earnings. In addition, the authorities are requesting to include a floor on net international reserves of the CBS, in place of the floor on net foreign assets. Due to the delays in the second and third reviews, the authorities are requesting the rephrasing of access and the extension of the ECF arrangement to end-2023. The authorities are also requesting a disbursement of a third interim HIPC assistance in the amount of SDR 680,000 to cover all of Somalia's eligible debt service to the IMF that falls due between June 17, 2022 and June 16, 2023.

Program and other risks. Somalia's vulnerabilities remain elevated. Risks include prolonged drought and new climate shocks, additional pressures on international food and energy prices, a resurgence of desert locust infestation, security risks, and delays in grant disbursements. Continued program ownership, capacity development, and sustained support from development partners remain key for success.

Approved By

**Thanos Arvanitis
(MCD) and Gavin
Gray (SPR)**

Discussions were held virtually from February 22 - March 7 and May 17–19, 2022. The staff team comprised of Ms. L. Jaramillo (Head), Ms. F. Yang, Mr. C. Kularatne (all MCD), Mr. Y. Koshima (FAD), Mr. J. Arze del Granado (SPR), Mr. J.B. Le Hen (Resident Representative), Mr. W. Irungu (Resident Representative Office), and Mr. P. Muir (FAD consultant). Ms. I. Mannathoko and Mr. A. Abdullahi (both OEDAE) participated in key policy meetings. Ms. L. Agoumi and Mr. M. De Asis (both MCD) supported the preparation of this report. The mission met with the President of the Federal Republic of Somalia Mr. Hassan Sheikh Mohamud, former President of the Federal Republic of Somalia Mr. Mohamed Abdullahi Mohamed, Finance Minister Beileh, Central Bank Governor Abdullahi, and other senior officials. The mission also met with development partners, and representatives from private sector and civil society.

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