INTERNATIONAL MONETARY FUND

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SOMALIA

July 2018

SECOND AND FINAL REVIEW UNDER THE STAFF MONITORED PROGRAM AND REQUEST FOR A NEW STAFF MONITORED PROGRAM—PRESS RELEASE AND STAFF REPORT

In the context of the Second and Final Review Under the Staff Monitored Program and Request for a New Staff Monitored Program, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's information on June 27, 2018, following discussions that ended on May 14, 2018, with the officials of Somalia on economic developments and policies underpinning the IMF arrangement under the Stand Monitored Program. Based on information available at the time of these discussions, the staff report was completed on June 26, 2018.

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 Management Completes the Second and Final Review under the Staff-Monitored Program for Somalia and IMF Managing Director Approves a Third Staff-Monitored Program

- IMF staff commends the Somali authorities for implementing important reforms in challenging conditions.
- IMF staff encourages the Somali authorities to stay the course of reform implementation under the SMP, particularly on public financial management, revenue administration and policy, and monetary and financial sector.
- The IMF supports the authorities' ongoing efforts to launch a new national currency.

On June 20, the management of the IMF completed the second and final review under the second 12-month Staff-Monitored Program (SMP II) with Somalia, and the Managing Director of the IMF approved a third 12-month SMP (SMP III) covering the period May 2018–April 2019. The SMPs for Somalia are designed to help maintain macroeconomic stability, rebuild key economic institutions, and build track record on policy and reform implementation.

Recent developments are broadly favorable despite difficult political and security environment. Economic activity is rebounding from the effects of the drought in 2017. Reflecting a strong rainy season, sustained remittances and grant inflows, growth in 2018 is projected to increase to 3.1 percent from an estimated 2.3 percent in 2017, and inflation is expected to ease to under 3 percent from about 5.1 in 2017.

Reflecting ongoing reforms, the fiscal position has improved since December 2017. The federal government of Somalia (FGS) recorded a small fiscal surplus in 2017 as a result of higher-than-programmed domestic revenue mobilization and budgetary grant disbursements. The strong fiscal performance continued through March 2018 due, in part, to lower-than-projected expenditure and slightly higher domestic revenue.

Program implementation under SMP II has been satisfactory. For December 2017, all indicative targets (ITs) and all but one structural benchmark (SB) were met. Also, the two SBs and all ITs set for March 2018 were met. Considering the satisfactory performance under SMP II and the authorities' strong commitment to accelerate and broaden the reform agenda, staff supports the completion of the second and final review under SMP II and the authorities' request for SMP III.

Staff also supports the authorities' ongoing efforts to launch a new national currency. After nearly two years of the IMF's technical assistance support, the pre-conditions for the launch of the new Somali Shilling have been nearly completed. In March 2018, IMF staff prepared an assessment letter supporting the CBS's initiative to issue a new national currency. Staff encourages the authorities to continue to reach out to donors to raise the needed funds for this operation, finalize the establishment of the accountability framework, and to fully staff the team that will manage the process.

SMP III will build on achievements under the previous two SMPs and will continue to lay the foundation so that Somalia will eventually have a SMP that meets the IMF Upper Credit Tranche (UCT) conditionality which is one of the key requirements for Somalia to reach the Decision Point under the Heavily Indebted Poor Countries (HIPC) initiative. SMP III will focus on broadening and deepening reform implementation to maintain macroeconomic stability and to continue rebuilding institutions and capacity to improve macroeconomic management and governance.

Risks to the program are elevated. Nonetheless, continued commitment to the reform measures under the SMP; and with sustained donors support, particularly on technical assistance, peace and state building, resilience and humanitarian aid, will help mitigate these risks.

Somalia: Selected Economic and Financial Indicators, 2015–20

(IMF Quota = SDR 44.20 million; Population: 13 million, 2015 estimate)
(Poverty Rate: n.a.; Main Export: Livestock)

	Est.			Proj.		
	2015	2016	2017	2018	2019	2020
National income and prices						
Nominal GDP in millions of U.S. dollars	6,659	6,767	7,052	7,405	7,822	8,256
Real GDP, annual percentage change	3.9	4.4	2.3	3.1	3.5	3.5
Per capita GDP in U.S. dollars	511	504	511	521	535	549
Consumer prices (e.o.p., percent change)	-1.2	0.0	5.3	2.8	2.5	2.5
			(Percent of GDP)			
Central government finances 1/						
Revenue and grants	2.1	2.5	3.5	3.5	3.7	3.8
of which:						
Grants	0.4	0.9	1.5	1.3	1.3	1.3
Expenditure, *of which:*	2.0	2.5	3.5	3.5	3.7	3.8
Compensation of employees	0.8	0.8	1.8	1.8	1.8	1.8
Purchase of non-financial assets	0.0	0.1	0.1	0.1	0.2	0.2
Overall balance	0.1	0.0	0.0	0.0	0.0	0.1
Stock of domestic arrears	1.0	1.1	1.0	0.9	0.7	0.5
			(Millions of U.S. Dollars)			
Central bank summary balances						
Foreign assets (gross)	68.6	60.9	89.2	…	…	…
Net foreign assets, excl. IMF 2/	21.6	21.6	24.0	…	…	…
FGS, total deposits 3/	19.1	12.1	33.6	…	…	…
			(Percent of GDP)			
Balance of payments						
Current account balance	-4.7	-6.3	-6.6	-6.3	-5.7	-5.6
Trade balance	-45.1	-46.8	-55.2	-48.3	-46.8	-46.4
Exports of goods and services	15.6	15.1	11.5	14.6	15.0	14.8
Imports of goods and services	60.6	61.8	66.7	62.9	61.8	61.2
Remittances	19.5	19.7	23.5	20.4	20.5	20.7
Grants	21.2	21.1	25.6	22.0	21.0	20.6
Foreign Direct Investment	4.5	4.9	5.2	5.5	5.7	5.6
External debt	66.3	64.7	65.0	…	…	…
Market exchange rate (SOS/USD, e.o.p.)	22,285	24,005	23,605	…	…	…

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/ Program definition. Excludes position in the SDR Department and obligations to the IMF.
3/ Includes Treasury deposits at the CBS and grants held in external accounts on behalf of the Ministry of Finance.

INTERNATIONAL MONETARY FUND

SOMALIA

June 21, 2018

SECOND AND FINAL REVIEW UNDER THE STAFF-MONITORED PROGRAM AND REQUEST FOR A NEW STAFF-MONITORED PROGRAM

KEY ISSUES

Background and context. Recent developments are broadly favorable and policies are aligned with staff recommendations and program priorities. Reflecting the favorable rainy season, economic activities are recovering from the 2016–17 drought and inflation is easing. The authorities remain strongly committed to policy implementation under the second Staff-Monitored Program (SMP II) which expired in April 2018, and have requested a follow-up 12-month SMP.

Performance under the program. Program implementation since December 2017 was satisfactory. For December 2017, all indicative targets (ITs) were met, and all but one structural benchmark (SB) were met. Also, the two SBs and all ITs set for March 2018 were met. The authorities are taking appropriate measures to address the root causes of the missed SBs.

Second review of SMP II and new 12-month SMP (May 2018–April 2019) (SMP III). Considering the satisfactory performance under SMP II and the authorities' strong commitment to accelerate and broaden the reform agenda, staff supports the completion of the second and final review under SMP II and the authorities' request for SMP III covering May 2018–April 2019.

Program objectives and near-term priorities. SMP III will build on achievements under the previous two SMPs and will continue to lay the foundation so that Somalia eventually achieves a SMP that meets the standards of the IMF's Upper Credit Tranche conditionality, which is one of the key requirements for Somalia to reach the Decision Point under the Heavily Indebted Poor Countries initiative. SMP III will focus on broadening reform implementation to maintain macroeconomic stability and continue to rebuild institutions and capacity to improve macroeconomic management and governance.

Program risks. Program risks are elevated, but a continued commitment to engage with donors will help ensure sustained international support.

Approved By
Adnan Mazarei (MCD) and Nathan Porter (SPR)

Prepared By
Middle East and Central Asia Department

Discussions were held in Nairobi, Kenya, during May 7–14, 2018. The staff team consisted of Messrs. Elhage (Head), Kohler, de Imus (both MCD), Walker (FAD), Wang (SPR), and Muir (FAD consultant), as well as Mr. Samake (Resident Representative) and Mr. Irungu (local Economist, IMF Office). Mr. Li, and Mss. De Mesa and Panagiotakopoulou (all MCD) assisted in the preparation of this report. Mr. Abdullahi (Advisor to the Executive Director) participated in key policy meetings. The mission met with the Finance Minister, Mr. Abdirahman Duale Beileh; the Minister of Fisheries and Marine Resources, Mr. Abdirahman M. Abdi Hashi; Central Bank Governor, Mr. Bashir Issa Ali; Assistant to the President and Special Advisor, Mr. Hussein A. Gendisch; Representative of the Prime Minister's office, Mr. Abdi Abdullahi; and other officials. The mission also met with representatives of bilateral and multilateral donors and civil society.

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APPENDIX

BACKGROUND AND CONTEXT

1. **Political developments and security situation.** Political conditions remain challenging from both internal and external perspectives. The political standoff over a no-confidence motion against the Speaker of the Lower House of Parliament ended upon his resignation on April 9. However, on the external front, recent tensions between Somalia and the United Arab Emirates could weaken their relationship.[1] In addition, recent armed conflict between Somaliland and Puntland (a member state of the Federal Government of Somalia (FGS)) could pose a risk to regional stability.[2] Also, sporadic attacks from terrorist groups remain a threat, despite mounting pressure on those groups including through increased airstrikes.

2. **Economic situation.** Despite recent progress on state and peace building and economic reform, Somalia continues to face significant development and social challenges. The economy is vulnerable to natural disasters; the 2016–17 drought, the second since 2012, heightened the country's humanitarian needs. While the ongoing favorable rainy season will support economic recovery, recent floods in central and southern Somalia could lead to food insecurity in some areas. The authorities are developing programs, with the help of donors, to improve economic and social resilience.

3. **Fund relations.** The FGS successfully completed the first 12-month SMP (SMP I) with the IMF in April 2017, and subsequently entered a second SMP (SMP II) covering May 2017–April 2018. The 2017 Article IV consultation discussions with Somalia were completed in February 2018 together with the first review under SMP II. Somalia is among the largest beneficiaries of IMF technical assistance (TA). Since mid-2013, the country has received 94 TA and training missions. Somalia's overdue obligation to the IMF reached $339.9 million (541.9 percent of quota) at end-May 2018.

4. **New 12-month SMP.** The authorities have requested a third SMP (SMP III) to build on achievements under the previous two SMPs and to continue to lay the foundation so that Somalia eventually achieves a SMP that meets the standards of the IMF's upper credit tranche (UCT) conditionality, which is one of the key requirements for Somalia to reach the Decision Point under the Heavily Indebted Poor Countries (HIPC) initiative. Staff supports the completion of the second review under SMP II and approval of a new 12-month follow-up SMP (May 2018–April 2019) in view of satisfactory performance in very challenging conditions.

5. **SMP III.** It will mainly focus on (1) continuing to enhance public financial management (PFM) and revenue mobilization; (2) completing Phase I of the currency reform; (3) starting broad-based financial sector reforms to foster financial development while continuing to strengthen compliance with the anti-money laundering and combating the financing of terrorism (AML/CFT)

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[1] In April 2018, the UAE announced the end of its military training program for the FGS and its assistance program for a hospital in Somalia. This support is off budget and no bilateral grants from the UAE are included in the 2018–20 fiscal framework.

[2] Somaliland is not part of the Federal Member States (FMS) that constitute the FGS.

regulations; and (4) improving data reporting. Strengthening the procurement framework and improving governance and transparency are also important features of SMP III.

RECENT ECONOMIC DEVELOPMENTS

Economic activity is expected to recover in 2018, and fiscal performance to continue to improve, due in part to reforms under SMP II.

6. Economic activity is rebounding from the effects of the drought in 2017 (Text Table 1 and Table 3). For 2018, reflecting a strong rainy season and continued strong performance in the telecommunication, construction and service sectors, growth is projected to increase to 3.1 percent from an estimated 2.3 percent in 2017.[3] However, recent floods in central and southern Somalia could lead to food insecurity in some areas. As a result of the recovery in agriculture sector, inflation is expected to ease to under 3 percent in 2018 from about 5.3 in 2017 (Text Figure 1).[4] On the external side, the 2017 drought resulted in a widening of the trade deficit, which was financed through humanitarian relief and increased remittances from the Somali diaspora. However, in 2018–19, the recovery in agricultural exports and easing of humanitarian assistance are expected to narrow the trade deficit. Public external debt, which remains high at 65 percent of GDP in 2017, is expected to stay broadly stable as the country has no capacity to repay its external debt service obligation and no access to international credit.

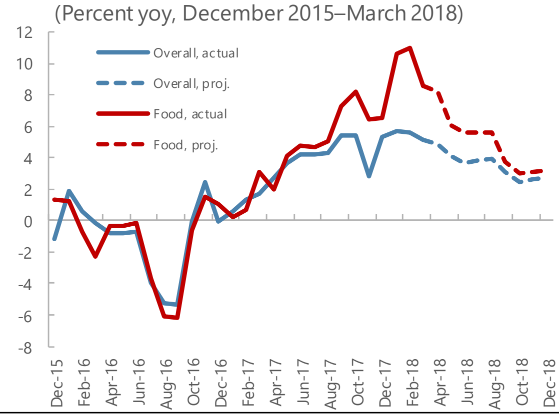
7. The fiscal position has improved since December 2017 (Tables 4a and 4b). The FGS had a fiscal surplus in 2017 as a result of higher-than-programmed domestic revenue mobilization and budgetary grant disbursements.

Text Table 1. Somalia: Selected Economic Indicators, 2016–19
(Percent of GDP, unless otherwise indicated)

	Est.		Proj.	
	2016	2017	2018	2019
National income and CPI	(Percent)			
Real GDP growth	4.4	2.3	3.1	3.5
Inflation (CPI, e.o.p.)	0.0	5.3	2.8	2.5
Fiscal 1/				
Revenue and grants	2.5	3.5	3.5	3.7
of which: grants 2/	0.9	1.5	1.3	1.3
Total expenditure	2.5	3.5	3.5	3.7
of which: Comp. of employees	0.8	1.8	1.8	1.8
Overall balance	0.0	0.0	0.0	0.0
External sector and debt				
Current account balance	-6.3	-6.6	-6.3	-5.7
Trade balance	-46.8	-55.2	-48.3	-46.8
Remittances	19.7	23.5	20.4	20.5
Grants	21.1	25.6	22.0	21.0
External debt	64.7	65.0	…	…
Memorandum items	(U.S. dollar, million)			
Treasury deposits at the CBS 3/	12.1	33.6	…	…
Stock of arrears	76.5	68.8	65.4	55.7

Sources: Somali authorities; and IMF staff estimates.
1/ Cash basis. Budget data for the Federal Government of Somalia (FGS); GDP data covers all of Somalia.
2/ Includes only support provided to FGS through treasury accounts at the Central Bank of Somalia.
3/ Includes Treasury deposits, donor grants, and assets recovery.

Text Figure 1. CPI-Based Inflation
(Percent yoy, December 2015–March 2018)



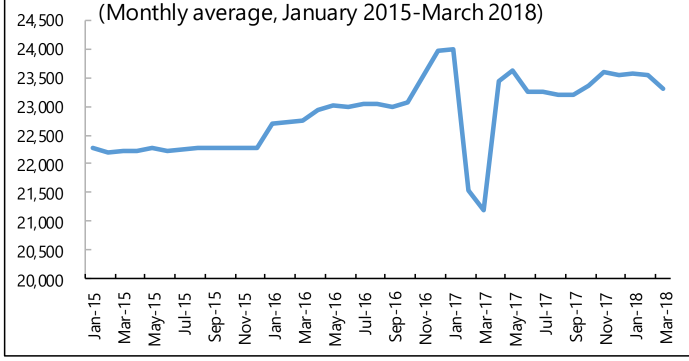
[3] The share of agriculture and livestock is more than 25 percent of GDP. This sector was hit hard during the 2016–17 drought.

[4] The share of food items in the CPI basket is 44.5 percent.

The strong fiscal performance continued through March 2018 due in part to lower-than-projected expenditure and slightly higher domestic revenue.

8. The Central Bank of Somalia (CBS) balance sheet improved slightly through March 2018 (Table 5). CBS's foreign assets holding increased to $105.5 million in March 2018 (from $89.2 million in December 2017) on account of higher FGS and commercial bank deposits. Meanwhile, the Somali shilling exchange rate has remained stable at about 23,000 shillings per U.S. dollar as of March 2018 (Text Figure 2).

Text Figure 2. Somali Shilling Per U.S. Dollar
(Monthly average, January 2015-March 2018)



9. Commercial banks remained well capitalized and their activities are expanding (Table 6 and Figure 3). Reflecting mainly a surge in banks' assets, their capital-to-assets ratio declined to 16 percent in March 2018 from 20 percent in March 2017. Meanwhile, banks' loans to the private sector continue to increase rapidly from a low base and are concentrated in trade financing and construction sectors.

PERFORMANCE UNDER THE SMP II

Reflecting the authorities' strong commitment, program implementation has been satisfactory despite a difficult political and security environment. Staff supports the completion of the second and final review under SMP II.

10. Program implementation with regards to the December 2017 and March 2018 benchmarks was satisfactory (Memorandum of Economic and Financial Policies—MEFP ¶4). For December 2017, all indicative targets (ITs) were met, and all but one structural benchmark (SB) (Tables 1 and 2, SB#4) were met. Also, the two SBs and all ITs set for March 2018 were met.

11. The authorities have stepped up efforts to address the two remaining SBs under SMP II that were missed in September and December 2017, respectively (Table 2, SB#4 and SB#6). To address the missed SB in September 2017 (SB#6), the authorities are completing the renegotiation of the two contracts (out of five) with private companies that collect fees on behalf the government at the Mogadishu airport and port.[5] Despite the authorities' efforts during the last quarter of 2017, they missed SB#4 to "*Meet the eligibility criteria required to achieve 100 percent of non-salary of the recurrent cost and reform financing (RCRF) budget*".[6] This was due, for the most part, to weak procurement and commitment control. The authorities have agreed to address these issues under SMP III.

[5] This action will be a SB under the follow up SMP (¶22, bullet 4).

[6] According to the World Bank's monitoring agent, who independently evaluates the authorities' performance under this reform, significant progress was made with respect to expenditure control to be in line with budget allocation, transaction classifications and verifications, and payments processing through banks.

12. Based on the above, staff supports the completion of the second and final review under SMP II. Staff also notes the strong reform measures implemented under SMPs I and II which are helping to broaden the tax base and increase revenue mobilization; enhancing PFM and budget execution; and improving the functioning of the monetary, financial and statistical institutions.

OUTLOOK AND RISKS

In the medium term, the recovery is expected to gain momentum and the fiscal outlook to continue to improve gradually. However, risks to the outlook remain significant and are titled to the downside.

13. The economic recovery which started in 2018 is expected to continue and fiscal performance is projected to improve through the medium term. Overall security is improving, and the 2016–17 drought is receding. Given these developments and with the favorable rainy season in 2018, growth is projected to recover gradually in 2019–20 and stabilize at around 3.0-3.5 percent. Inflation is expected to ease in the medium term and the fiscal framework to continue to improve as reform implementation continues.

14. Downside risks are significant. They stem from a number of factors: fragile security; continued vulnerability to droughts; weak institutional capacity that could result in poor fiscal management and new domestic arrears accumulation; slow reform implementation; and volatility in donor support. Also, an increasing risk of regional conflict and a lack of political consensus among the FGS and the federal member states (FMS) could slow critical reform measures. The authorities' continued engagement with donors—including on security, peace, and capacity building, and implementation of reforms under SMP III—should help mitigate these risks.

SMP III AND POLICY DISCUSSIONS

Policy discussions focused on the program objectives, modalities, monitoring, risks and macroeconomic policies and reforms for 2018–20 to (1) improve public financial management and revenue mobilization; (2) finalize the currency reform; (3) revive the financial sector, including improving AML/CFT compliance; and, (4) promote economic recovery and resilience programs.

A. SMP III

15. The authorities believe that SMP III comes at a critical juncture for the country. They noted that despite important measures implemented under SMP I and II, the challenges ahead are large, and intensified efforts would be required to implement stronger and more broad-based reforms to meet Somalia's urgent economic growth and development needs, including their social and distributional objectives. The authorities also underscored that continued reform implementation through SMP III will be critical for reaching an UCT type of arrangement with the IMF, which is needed to pave the way for an eventual external public debt relief and arrears clearance (Letter of Intent, LOI).

Table 1. Somalia: Indicative Targets under the Staff-Monitored Program, May 2017–April 2018 1/

(Millions of U.S. dollars)

	2017									2018		
	June			Sept. 2/			Dec.			March 3/		
	Prog.	Est.	Status	Prog.	Est.	Status	Prog.	Est.	Status	Prog.	Prel.	Status
Fiscal												
Fiscal balance (cash basis; floor)	0.0	-1.8	Not Met	0.0	3.8	Met	0.0	3.1	Met	0.0	2.6	Met
Revenue (floor)	61.7	61.0	Not Met	97.4	96.9	Not Met	137.6	142.6	Met	41.2	42.2	Met
Accumulation of new domestic expenditure arrears (ceiling) 4/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Contracting of new domestic debt (ceiling) 4/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Contracting or guaranteeing of new nominal external non-concessional borrowing (ceiling) 4/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Central Bank of Somalia (CBS)												
Net foreign assets of the CBS (floor) 4/ 5/	23.1	23.3	Met	23.1	23.9	Met	23.1	24.0	Met	23.1	24.1	Met
Memorandum item												
Debt contracting or guaranteeing of nominal external concessional borrowing (ceiling).	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	

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

1/ Based on preliminary data. Cumulative from the beginning of the year.

2/ Test date for the first review of the SMP.

3/ Test date for the second review of the SMP.

4/ Continuous indicative target.

5/ Calculated using program exchange rates. See Technical Memorandum of Understanding (Attachment II) for definitions of the program targets.

Table 2. Somalia: Structural Benchmarks under the Staff-Monitored Program, May 2017–April 2018

	Benchmarks	Target dates	Macroeconomic Rationale	Status
Public Financial Management (PFM)				
1	Initiate the plan endorsed by the Minister of Finance to establish cash management functions, starting with establishment of the Cash Management Committee	Jun-17	Improve cash management	Met
2	Adopt a Minister of Finance order to form and empower the DAMC to begin monitoring arrears and to finalize arrears stocktaking for 2015 and 2016	Jun-17	Improve PFM	Not met 1/
3	Update and adopt the PFM Bill by the Cabinet, and introduce a clause in the revised PFM Bill that vest the power to grant tax exemptions solely to the Ministry of Finance	Sep-17	Improve PFM through budget preparation and execution; treasury and arrears managements; and revenue forecast	Met
4	Meet the eligibility criteria required to achieve 100 percent of non-salary of the RCRF budget	Dec-17	Improve PFM and transparency	Not met
5	Achieve a target of 50 percent in number of transactions of electronic vendor payments to be processed through the purchasing module of the SFMIS	Dec-17	Improve PFM and transparency	Met
Tax Administration–Inland Revenue Department				
6	The FGS will conclude the renegotiation of all five existing revenue-collection contracts	Sep-17	Strengthen oversight of the FGS revenue streams, and re-enforce and improve revenue collections	Not met
7	Prepare and adopt an order by the Ministry of Finance to establish and make fully operational a large-and-medium-taxpayer office (LMTO) in Mogadishu, and assign experienced manager and staff	Dec-17	Administer the 25 largest taxpayers and assign the most experienced manager and staff	Met
Tax Administration–Customs Department				
8	The Ministry of Finance to issue an order to undertake in 2018 a review of: (1) the front-end import declaration process; and (2) the physical examination function, to identify weaknesses that could lead to revenue leakage	Dec-17	Reduce tax loopholes, and to improve and speed up the import declaration process at the customs	Met
9	Develop an audit program to review and revamp business processes in preparation for automated processing	Mar-18	Provide a more effective audit program	Met
Currency reform				
10	Establish a National Anti- Counterfeit Center	Sep-17	Complete the “Anti-counterfeiting” strategy	Met
11	Adoption by the CBS of regulations on 1) denominations of the SOS notes to be issued; 2) design and security features; and 3) volume of banknotes	Dec-17	Conclude the “scope of exchange” under the roadmap.	Met
Financial sector and AML/CFT				
12	Submit to Parliament the Communication Act to license mobile network operators	Sep-17	Support mobil money activity	Met
13	Develop a roadmap for financial sector development	Dec-17	Develop the financial sector	Met
14	Develop a plan to improve the renewal of MTBs' licenses and enhance compliance with existing regulations	Mar-18	Improve MTBs regulation, supervision, and compliance	Met
Macroeconomic statistics				
15	Submit to parliament the new Statistical Law	Sep-17	Complete the passage of the law	Met

1/ Due to a small delay (order adopted on July 11).

16. SMP III will build on achievements of the past two years under SMP I and II, and is in line with the 2017 Article IV recommendations (Annex I, and MEFP Tables 1 and 2). It will be anchored on: (1) achieving a zero-cash balance, while avoiding the accumulation of new domestic arrears; (2) ensuring that fiscal revenue is maintained above a floor; and (3) maintaining central bank net foreign assets above a floor.

17. SMP III is designed with two key reform features.

- **Deepening and broadening structural reform measures.** The key pillars of the reforms include: (1) enhancing public financial management, fiscal transparency and accountability, and revenue mobilization; (2) strengthening the procurement framework and improving governance; (3) completing Phase I of the currency reform, which consists of exchanging all Somali Shilling currently in circulation with the new national currency; (4) starting broad-based reforms to spur financial sector development, while strengthening compliance with the AML/CFT; and (5) improving data reporting.

- **Accelerating critical reform implementation while maintaining the "Quick Win" approach (Annex I).** Compared with SMP I (11 SBs, of which 8 met) and SMP II (15 SBs, of which 12 met), SMP III includes 18 SBs focusing on PFM (7 SBs), tax policy and tax administration (8 SBs), growth and poverty reduction (1 SB), and financial sector development (2 SBs) spread over the year (June 2018, 3 SBs; September 2018, 5 SBs; December 2018, 5 SBs; and March 2019, 5 SBs). All the proposed reforms are backed by IMF TA and advice and have been discussed with the authorities to account for their policy commitment and capacity to implement the agreed-on reforms. Staff believes that with continued policy commitment and the improved capacity built under SMP II, the proposed SBs for SMP III are well aligned with the authorities' capacity to implement them.[7]

18. SMP III will be monitored based on quarterly ITs and SBs (MEFP Tables 1 and 2). It will have two reviews based on September 30, 2018 and March 31, 2019 test dates. The June and December 2018 targets will be assessed during the first and second reviews, respectively. The program's ITs are defined in the Technical Memorandum of Understanding (TMU, Attachment II).

19. To mitigate risks to the outlook and the program, the authorities intend to remain engaged with donors to help ensure sustained international support— including with regards to security, peace, and capacity building. With donors' support, they intend to speed up the establishment of the resilience program against drought and flooding, and to develop programs to address issues related to internally displaced and refugees' return. They also underscored that staying within the program framework and implementing the agreed measures under SMP III will remain essential for building a track record of policy implementation and reform.

[7] In addition to IMF TA recommendations, staff consulted with IMF Fiscal Affairs Department (FAD), IMF Monetary and Capital Market experts, and World Bank staff on the realism and appropriateness of the new SBs. Also, many of the SBs will not require intensive resources for implementation (four SBs will only require the FGS authorities to just issue orders).

B. Improving Fiscal Discipline and Revenue Collections

20. The authorities are preparing a supplementary budget, which will be submitted to Parliament by the end of June 2018 (MEFP ¶7, bullet 2). The revised budget is expected to be in line with SMP III and will include revised yields from ongoing and new tax measures. Overall, the 2018 total revenue (domestic revenue and grants) is revised up to $261.9 from $250.7 million in the program due mainly to an upward revision of domestic revenue by $7.5 million.[8] They plan to introduce two new revenue measures on annual fisheries licensing and telecommunications licensing, spectrum and other fees, which together are projected to yield $5 million in 2018.[9]

21. Somalia is in debt distress and has not serviced its external public debt in over 27 years.[10] Despite projected steady improvement, the fiscal position is under strain and the authorities have no capacity to repay or service their external public debt. Nearly all of Somalia's external public debt is in arrears, including to the IMF, World Bank, and AfDB.[11] The authorities recognize that successful implementation of reforms under SMPs are needed to pave the way for eventual arrears clearance, IMF financing, and debt relief.[12] In addition, the authorities recognize the need to secure broad-based support from creditors to finance debt relief under the HIPC initiative. They agreed to step up efforts to improve the domestic Debt Management Unit (DMU) management and debt monitoring capacity (MEFP ¶15).[13]

22. To solidify the fiscal framework and fiscal institutions in the medium term, the authorities reiterated their commitment to adopt several critical measures supported by SMP III and outlined in the MEFP. The revenue mobilization measures are particularly important given Somalia's large social and infrastructure rebuilding needs that the FGS has limited fiscal space to currently fund.

- **Expenditure measures (MEFP ¶7, bullet 4).** The authorities are taking steps to improve expenditure control as well as the functionality of the Somali Financial Management Information System (SFMIS) (MEFP Table 2, SB#1). In this regard, they are advancing on biometric

[8] In addition, in late May, the EU approved budgetary support grants to FGS amounting to €92 million over three and a half years (2018–21) with possible disbursement of €10 million in October/November 2018. However, given that the discussions with the EU are at an early stage and to avoid expenditure pressures, the authorities intend to treat the 2018 disbursement as a fiscal buffer when it is received. Hence, given the uncertainties regarding the timing of these grants, they are not included in staff projections for the time being.

[9] The agreed-on domestic revenue target under SMP III is not dependent on the adoption of the supplementary budget.

[10] Somalia's external public debt stock at the end of 2017 stood at 65 percent of GDP, of which 32.8 percent and 53.8 percent represent the shares of multilateral and Paris Club creditors' outstanding debt, respectively, and 92.1 percent of the country's external debt stock is in arrears.

[11] See *Somalia—2018—Review of Overdue Financial Obligations to the Fund and Further Review Following Declaration of Ineligibility* (February 8, 2018).

[12] At the 2018 Spring Meetings Roundtable on Somalia, World Bank staff stated that the process for Somalia to receive pre-arrears clearance grants from the Bank had already started.

[13] The authorities have reached out to creditors to reconcile and validate the external public debt data and, so far, 15 out of the 21 creditors have responded.

registration of SNA personnel which is expected to be completed for all FMS and the Banadir region by end of June 2019.

- **Fiscal transparency and accountability (MEFP ¶7, bullet 4).** The authorities agreed on the need to improve fiscal transparency and accountability and to further empower the FGS (SB#2).

- **PFM measures (MEFP ¶7, bullet 5).** The authorities plan to consolidate the cash management and payment system (SB#3) and to improve governance and develop a transparent processing of domestic arrears repayment (SB#4). Also, they plan to design and set up a cash-forecasting framework (SB#5) and advance rapidly on developing a treasury single account (TSA) (SB#7).

- **Procurement and concessions (MEFP ¶7, bullet 10).** As a follow-up to the missed SB in September 2017, the authorities have advanced on the re-negotiation of the port and airport contracts (SB#6). More generally, the authorities will order all ministries, departments, and agencies (MDAs) to observe current regulations and will take steps to complete the procurement framework, in line with the 2015 Procurement Act.

- **Inland revenue measures (MEFP ¶7, bullet 6).** Following on progress made under SMP II, the large-and-medium-taxpayer office (LMTO) will be made fully operational (SB#8) and its scope will be expanded to at least 50 taxpayers (SB#10). Furthermore, to expand and better control the FGS revenue streams, the Ministry of Finance will take over all non-tax revenue collections from MDAs (SB#13) and will condition business license renewal on demonstrating proof of tax payment (SB#9). The Ministers of Finance and of Post and Telecommunication will develop a plan to enforce regulations associated with the fees to be levied on the telecommunication companies (SB#12).

- **Customs measures (MEFP ¶7, bullet 7).** With assistance from the World Bank and DFID, the authorities are implementing a Customs Reform Roadmap (SB#15). In the near term, the focus will be on strengthening business practices and adopting a common classification of goods by all ports.

- **Fiscal federalism (MEFP ¶7, bullet 8).** The authorities, in cooperation with the FMSs, are preparing a National Revenue Bill (SB#11). They also agreed to finalize a framework to license and share revenue from petroleum and offshore fishing between the FGS and FMS (SB#14).

C. Accelerating Financial Sector Reform

23. The authorities reiterated their strong commitment to implementing critical reforms to strengthen the functioning of the CBS and its governance and to promoting financial sector development.

- **Currency reform (MEFP ¶8).** The preparatory work to launch the new national currency is in its final stages. Following an endorsement letter received from the IMF in early March 2018, the authorities have been reaching out to donors to mobilize the needed funding for this project. Meanwhile, they are establishing an accountability framework and preparing to test their readiness to issue the new national currency.[14] The authorities and staff agreed that the launch of the new national currency will consist only of Phase I, which will be limited to exchanging all currencies currently in circulation, including counterfeit, with new national currency. The injection of new Somali shilling banknotes beyond Phase I will only take place during Phase II of the reform. The latter will require significant preparatory work, including strengthening the CBS's institutional capacity and developing independent monetary policy instruments and reserve management guidelines.

- **Financial sector development (MEFP ¶9).** The authorities, together with the World Bank and the IMF, are developing a comprehensive financial development roadmap built on four pillars (Annex II): CBS capacity; payment system; legal and regulatory reforms; and strengthening financial intermediation. On prudential and operational issues, the authorities will expand financial reporting requirements and issue regulations on credit classification by March 2019 (SB#18). Also, the regulation and supervision of mobile money service providers represents an urgent priority which the authorities intend to address with TA from the IMF and the World Bank.

- **AML/CFT and Correspondent Banking Relationships (CBRs) (MEFP ¶10).** The loss of another correspondent banking relationship earlier this year illustrates the urgency of addressing gaps in the AML/CFT framework and improving compliance with existing regulations. To safeguard remittance inflows critical to the Somali economy, the FGS will submit the Targeted Financial Sanctions Law to the Parliament by September 2018 (SB#17) and accelerate the implementation of regulations to comply with Financial Action Task Force (FATF) standards and UNSC Resolutions 1267 and 1373. The CBS is also implementing a plan to improve MTB compliance with AML/CFT regulations to ensure proper reporting to the Financial Reporting Center (FRC). They are also committed to improving the capacity of the FRC in coordination with international partners.

D. Laying the Foundations for Inclusive Growth

24. The authorities are determined to implement the needed measures to tackle bottlenecks to sustained growth and address the country's large social and humanitarian needs, and high youth unemployment.

- **Anti-corruption.** The authorities are committed to fighting corruption and improving governance which are critical to enhancing the business environment and supporting higher and more inclusive growth (MEFP ¶12, bullets 1 and 2).

- **Business climate.** The authorities are determined to improve the business environment (MEFP ¶12, bullet 3), and Somalia's ranking in Doing Business Surveys by addressing weaknesses

[14] The authorities, with the help of the IMF, are preparing a workshop on operational aspects of the currency reform in early July, which will be attended by officials from different ministries and agencies involved in this project.

identified in previous surveys. They are also developing a new five-year national development plan (NDP) (SB#16; MEFP ¶12, bullet 4) and started the process to develop a "Vision 2040" plan.

- **Social spending.** The authorities also plan to include social safety net programs in future budgets and improve social spending (MEFP ¶12, bullet 5). This will be followed by increasing budgetary allocations on social spending, including education, health, and humanitarian support. The humanitarian component will also include managing and facilitating the return of refugees to Somalia which is also supported by the United Nations Refugee Return and Reintegration Project.

- **Macroeconomic and financial data.** Continued efforts to reconstitute economic data will remain essential in guiding policies (MEFP ¶13, bullet 2). Despite important progress recorded under SMP I and II in economic data reconstitution, the authorities recognize that challenges ahead remain significant and their plan to develop a roadmap for statistical data production and dissemination by end of September 2018 is timely.

- **Development program.** The authorities are taking steps to develop an ambitious long-term economic development program broken into 5-year periods. (MEFP, ¶12, bullet 4). The 2020 to 2024 part of the "Vision 2040" plan will be the basis for the authorities' Poverty Reduction Strategy Paper (PRSP). They intend to improve the realism of the social program targets in their National Development Plan (NDP), including poverty incidence, job creation, and capacity and resilience program in response to drought, flooding, and other social safety net programs.

STAFF APPRAISAL

25. Somalia's economy has remained broadly stable despite a difficult environment. In 2017, Somalia was hit by sporadic terrorist attacks and a severe drought. However, the authorities navigated through these challenges, and with sustained support from the international community, the country avoided a humanitarian crisis and significant economic slowdown. Economic activities have remained stable and the exchange rate and inflation have stayed at manageable levels.

26. The third SMP (SMP III) builds on the achievements of the previous two SMPs (SMP I and II). It accelerates critical reform implementation while maintaining a "Quick Win" approach. It also deepens and broadens structural reform measures focusing on (1) enhancing public financial management, fiscal transparency and accountability, and revenue mobilization; (2) strengthening the procurement framework and improving governance; (3) completing Phase I of the currency reform, which consists of exchanging all Somali Shilling currently in circulation with the new national currency; (4) starting broad-based reforms to spur financial sector development, while strengthening compliance with the AML/CFT; and (5) improving macroeconomic and financial data. The program indicative targets and structural benchmarks take into consideration the country's fragility, political economy conditions, and the authorities' absorptive capacity. Intensive IMF technical assistance and training delivery will continue to support the program implementation and to develop capacity.

27. Progress on PFM continues to be made. Starting from a very weak PFM framework in 2012–13, key PFM functions have been established since SMP I at the Ministry of Finance with clear roles and responsibilities. Additionally, since the preparation of the first annual budget in 2013, in over two decades, the authorities have prepared subsequent annual budgets, improved their budget executions over time, and implemented monthly fiscal operations reporting.

28. The authorities' resolve to broaden the tax base and improve domestic revenue mobilization is timely. Given the reliance on grants and the large social and infrastructure building needs, the authorities economic reform agenda, endorsing by SMP II and III, includes a floor on domestic revenue and important structural tax measures to broaden and improve domestic revenue mobilization. To that end, staff commends the authorities for establishing the large-and-medium-taxpayer office, re-enforcing existing tax laws, commencing customs reforms, and adopting several tax measures.

29. Staff supports the authorities' ongoing efforts to launch a new national currency. In March 2018, IMF staff prepared an assessment letter supporting the CBS's initiative to issue a new national currency. Staff encourages the authorities to continue to reach out to donors to raise the needed funds for this operation, finalize the establishment of the accountability framework, and to fully staff the team that will manage the process.

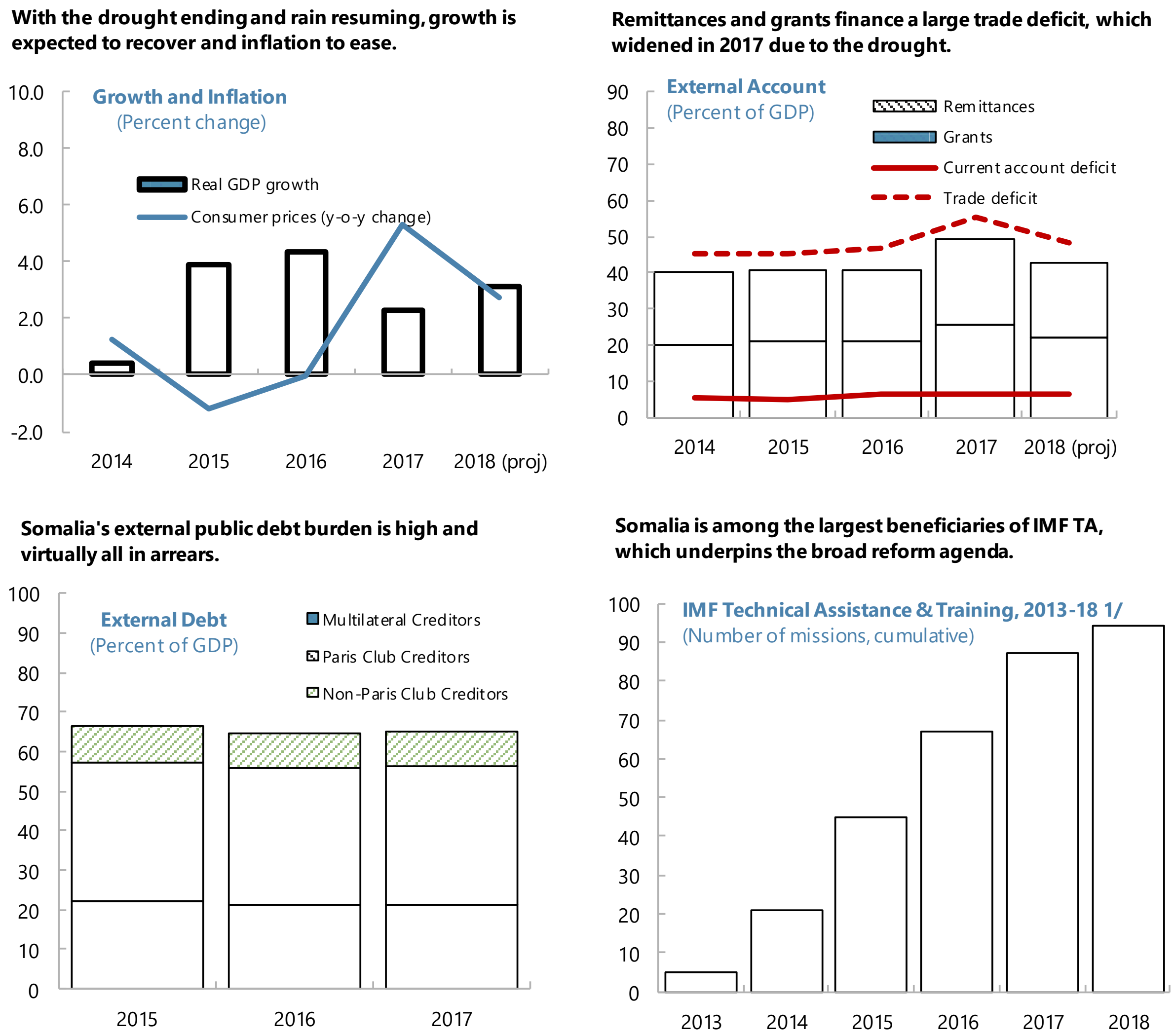
30. The authorities' step-up efforts to develop the financial sector is welcome. Following a comprehensive diagnostic study, the authorities, with the help of the IMF and the World Bank, are developing an operational roadmap for financial sector development and intermediation. The roadmap includes critical pillars to overhaul the financial sector, enhance monetary and financial institutions operations, and improve the prudential norms. SMP III will focus on the governance and operations of the central bank, improving the AML/CFT framework to safeguard the important inflows of remittances to the country, and regulating the mobile money sector.

31. Despite progress achieved thus far, challenges ahead are significant. Somalia faces widespread poverty, vulnerability to climatic events, and weak political and economic institutions. Unemployment and social spending needs are very high. The FGS fiscal position is still weak and it relies heavily on volatile grant funding and has a heavy external debt burden, with no capacity to repay. Both the central bank and the financial sector are nascent, constraining financial intermediation.

32. Staff supports the completion of the second and final review under SMP II. Thanks to the authorities' strong commitment, program implementation has been satisfactory despite difficult political and security environment. Staff also welcomes the authorities' remedial actions to address the root causes of the two missed structural benchmarks in September and December 2017.

33. Considering the satisfactory progress under SMP I and II, and the authorities continued strong commitment to reform implementation, staff supports their request for SMP III. SMP III comes at an important juncture for Somalia given the significant challenges ahead to attain a SMP that meets the IMF's Upper Credit Tranche type of arrangement which would pave the way for eventual arrears clearance and external public debt relief.

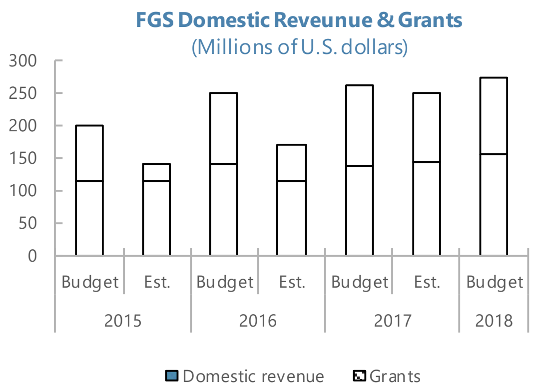
Figure 1. Somalia: Macroeconomic Developments, 2014–18



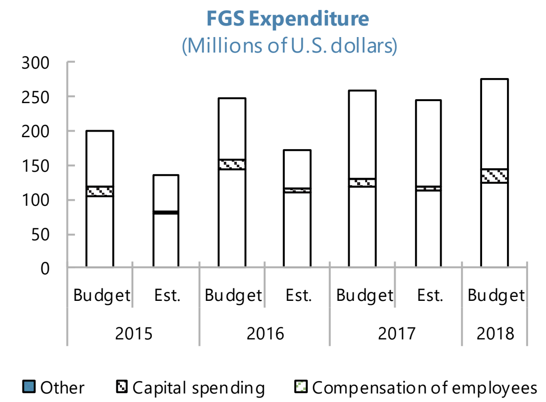
Sources: Somali authorities; and IMF staff estimates.
1/ Through end-May 2018.

Figure 2. Somalia: Fiscal Developments, 2014–18

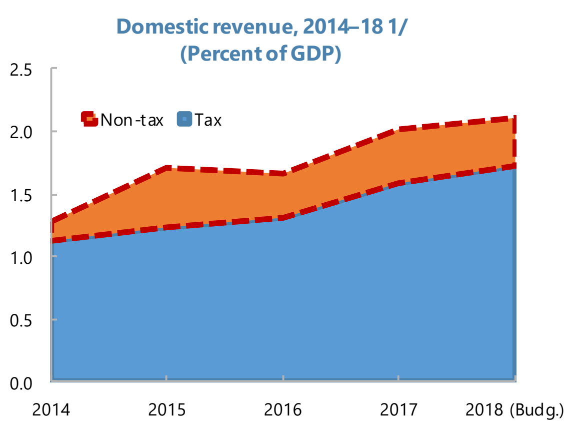
With a small tax base, the government relies heavily on volatile grants…



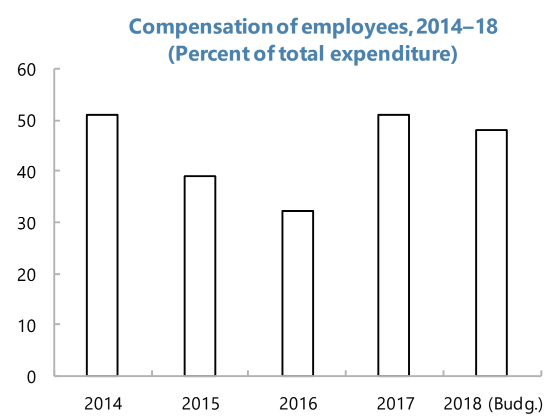
…making budget execution difficult, but improvements are evident more recently.



Domestic revenue remains very low but progress is being made.



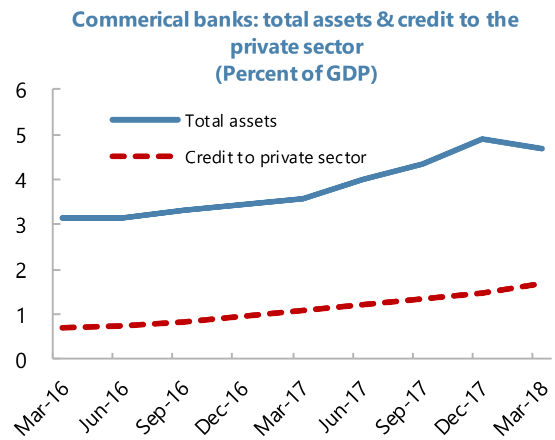
A significant share of total expenditure is absorbed by compensation of employees.



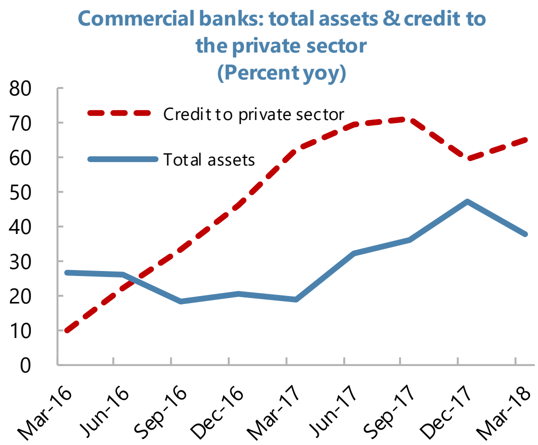
Sources: Somali authorites and IMF staff estimates.
1/ Reflects only tax revenue of the Federal Government of Somalia (collected mainly in Mogadishu). The GDP series cover the entire country (i.e., the Federal state, the Federal Member States, as well as Somaliland).

Figure 3. Somalia: Financial Sector Developments, March 2016–March 2018

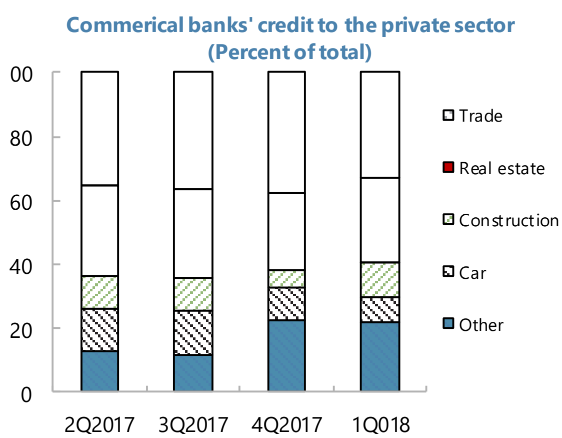
The banking sector is relatively small...



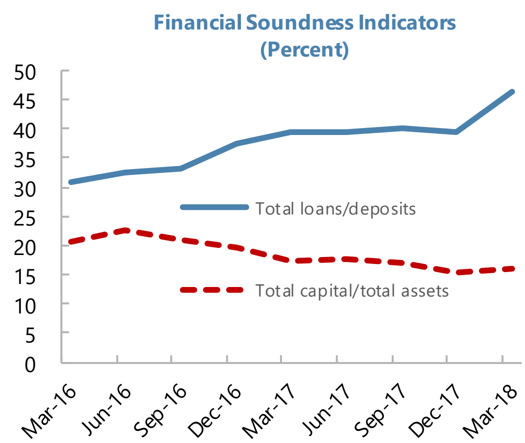
...but activity is increasing rapidly, especially credit to the private sector...



...which is focused in key economic areas - trade and real estate, followed by car loans and construction.



The sector is highly liquid and it is adequately capitalized.



Sources: Somali authorites and IMF staff estimates.

Table 3. Somalia: Selected Economic and Financial Indicators, 2015–20

(IMF Quota = SDR 44.20 million; Population: 13 million, 2015 estimate)
(Poverty Rate: n.a.; Main Export: Livestock)

	Est.			Proj.		
	2015	2016	2017	2018	2019	2020
National income and prices						
Nominal GDP in millions of U.S. dollars	6,659	6,767	7,052	7,405	7,822	8,256
Real GDP, annual percentage change	3.9	4.4	2.3	3.1	3.5	3.5
Per capita GDP in U.S. dollars	511	504	511	521	535	549
Consumer prices (e.o.p., percent change)	-1.2	0.0	5.3	2.8	2.5	2.5
			(Percent of GDP)			
Central government finances 1/						
Revenue and grants	2.1	2.5	3.5	3.5	3.7	3.8
of which:						
Grants	0.4	0.9	1.5	1.3	1.3	1.3
Expenditure, *of which:*	2.0	2.5	3.5	3.5	3.7	3.8
Compensation of employees	0.8	0.8	1.8	1.8	1.8	1.8
Purchase of non-financial assets	0.0	0.1	0.1	0.1	0.2	0.2
Overall balance	0.1	0.0	0.0	0.0	0.0	0.1
Stock of domestic arrears	1.0	1.1	1.0	0.9	0.7	0.5
			(Millions of U.S. Dollars)			
Central bank summary balances						
Foreign assets (gross)	68.6	60.9	89.2	…	…	…
Net foreign assets, excl. IMF 2/	21.6	21.6	24.0	…	…	…
FGS, total deposits 3/	19.1	12.1	33.6	…	…	…
			(Percent of GDP)			
Balance of payments						
Current account balance	-4.7	-6.3	-6.6	-6.3	-5.7	-5.6
Trade balance	-45.1	-46.8	-55.2	-48.3	-46.8	-46.4
Exports of goods and services	15.6	15.1	11.5	14.6	15.0	14.8
Imports of goods and services	60.6	61.8	66.7	62.9	61.8	61.2
Remittances	19.5	19.7	23.5	20.4	20.5	20.7
Grants	21.2	21.1	25.6	22.0	21.0	20.6
Foreign Direct Investment	4.5	4.9	5.2	5.5	5.7	5.6
External debt	66.3	64.7	65.0	…	…	…
Market exchange rate (SOS/USD, e.o.p.)	22,285	24,005	23,605	…	…	…

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/ Program definition. Excludes position in the SDR Department and obligations to the IMF.

3/ Includes Treasury deposits at the CBS and grants held in external accounts on behalf of the Ministry of Finance.

Table 4a. Somalia: Federal Government Operations, 2016–20 1/

(Millions of U.S. dollars)

	2016	2017		2018						2019		2020
				March	June	Sept.	Dec.			March	Dec.	
	Est.	Prog.	Est.	Est.	Proj.	Proj.	Budg.	Prog. 2/	Proj.	Proj.	Proj.	Proj.
Revenue and grants	171.1	232.1	248.5	54.2	114.2	183.7	274.6	250.7	261.9	72.1	288.3	317.7
Revenue	112.7	137.6	142.6	42.2	75.7	116.1	156.0	157.5	165.0	47.0	188.1	214.2
Tax revenue	88.6	108.5	112.0	30.3	59.1	89.9	127.2	126.8	124.6	35.5	142.0	161.7
Tax on income, profit, and capital gains	2.4	3.2	3.4	2.1	3.1	4.2	6.9	5.4	5.4	1.5	6.1	7.0
Taxes on goods and services 3/	2.9	4.8	8.9	3.9	8.0	13.2	17.6	21.5	18.5	5.3	21.1	24.0
Taxes on international trade and transactions	76.3	94.3	92.8	22.6	44.5	67.3	97.0	93.5	94.0	26.8	107.2	122.0
Other taxes	7.0	6.3	6.9	1.8	3.5	5.1	5.7	6.4	6.7	1.9	7.6	8.7
Non-tax revenue	24.1	29.1	30.6	12.0	16.7	26.2	28.8	30.7	40.4	11.5	46.1	52.5
Grants 4/	58.4	94.5	105.9	11.9	38.4	67.7	118.6	93.2	96.9	25.0	100.2	103.5
Bilateral	31.3	56.8	61.8	8.5	17.4	30.7	61.1	45.7	44.1	11.4	45.6	47.1
Multilateral	27.1	37.7	44.1	3.5	21.1	36.9	57.5	47.6	52.8	13.6	54.6	56.4
Total expenditure	171.1	230.3	245.4	51.6	108.0	179.0	274.6	250.7	261.9	69.0	285.6	313.0
Current	165.1	224.9	239.1	50.7	104.4	171.7	259.1	241.1	250.9	66.1	273.9	300.3
Compensation of employees	55.1	119.7	125.4	31.8	58.3	94.7	131.2	128.5	131.2	35.0	140.0	151.4
Use of goods and services	64.4	72.8	79.0	11.6	33.4	58.6	93.3	84.5	93.3	24.9	99.5	107.7
Transfers to sub-national governments	9.4	20.8	22.9	6.7	11.6	16.1	23.7	21.0	20.6	5.5	22.0	23.8
Contingency	2.1	3.8	4.0	0.6	1.1	1.8	2.5	2.5	2.5	0.7	2.7	2.9
Repayment of arrears and advances	34.1	7.8	7.8	0.0	0.1	0.4	8.4	4.6	3.3	0.1	9.7	14.5
Purchase of non-financial assets	5.9	5.4	6.3	0.9	3.5	7.3	15.6	9.6	11.0	2.9	11.7	12.7
Overall fiscal balance	0.0	1.8	3.1	2.6	6.2	4.8	0.0	0.0	0.0	3.0	2.6	4.7
Memorandum items												
Accumulation of domestic arrears 5/	42.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears 5/	76.5	68.8	68.8	68.8	68.7	68.4	60.4	64.2	65.4	65.4	55.7	41.2

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

1/ The fiscal operations are recorded on a cash basis.

2/ As in the 2017 Article IV Consultation and First Review of the SMP.

3/ 2017 includes a payment of $3.6 million by an airline company to clear the bulk of its tax and fees arrears, with the remainder paid in March 2018.

4/ Includes only donors' support provided to the Federal government through treasury accounts at the Central Bank of Somalia.

5/ The figure includes only wages, salaries, and allowances.

Table 4b. Somalia: Federal Government Operations, 2016–20 1/

(Percent of GDP)

	2016	2017		2018			2019	2020
	Est.	Prog.	Est.	Budg.	Prog. 2/	Proj.	Proj.	Proj.
Revenue and grants	2.5	3.3	3.5	3.7	3.4	3.5	3.7	3.8
Revenue	1.7	2.0	2.0	2.1	2.1	2.2	2.4	2.6
Tax revenue	1.3	1.5	1.6	1.7	1.7	1.7	1.8	2.0
Tax on income, profit, and capital gains	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	0.0	0.1	0.1	0.2	0.3	0.2	0.3	0.3
Taxes on international trade and transactions	1.1	1.3	1.3	1.3	1.3	1.3	1.4	1.5
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Non-tax revenue	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.6
Grants 3/	0.9	1.3	1.5	1.6	1.3	1.3	1.3	1.3
Bilateral	0.5	0.8	0.9	0.8	0.6	0.6	0.6	0.6
Multilateral	0.4	0.5	0.6	0.8	0.6	0.7	0.7	0.7
Total expenditure	2.5	3.3	3.5	3.7	3.4	3.5	3.7	3.8
Current	2.4	3.2	3.4	3.5	3.3	3.4	3.5	3.6
Compensation of employees	0.8	1.7	1.8	1.8	1.7	1.8	1.8	1.8
Use of goods and services	1.0	1.0	1.1	1.3	1.1	1.3	1.3	1.3
Transfers to sub-national governments	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Contingency	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Repayment of arrears and advances	0.5	0.1	0.1	0.1	0.1	0.0	0.1	0.2
Purchase of non-financial assets	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.2
Overall fiscal balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Memorandum items								
Accumulation of domestic arrears 4/	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears. 4/	1.1	1.0	1.0	0.8	0.9	0.9	0.7	0.5

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

1/ The fiscal operations are recorded on a cash basis. All ratios are calculated based on current GDP estimates and projections. GDP data are for the entire territory of Somalia while fiscal data are for the central government alone.

2/ As in the 2017 Article IV Consultation and First Review of the SMP.

3/ Includes only donors' support provided to the Federal government through treasury accounts at the Central Bank of Somalia.

4/ The figure includes only wages, salaries, and allowances.

Table 5. Somalia: Summary of the Accounts of the Central Bank, 2014–2018 1/

(Millions of U.S. dollars)

	2014	2015	2016	2017	2018
	Dec.	Dec.	Dec.	Dec.	March
	Est.	Est.	Est.	Est.	Prel.
Net Foreign Assets (NFA)	(345.3)	(323.5)	(321.0)	(317.4)	(310.3)
Foreign assets	63.2	68.6	60.9	89.2	105.5
SDR holdings	26.5	25.3	24.6	25.8	26.3
Gold 2/	19.6	17.2	17.2	18.8	18.8
Foreign exchange	10.9	12.7	10.8	33.9	30.1
of which:		5.4	(7.7)	28.4	
Grants	5.4	5.4	3.5	28.2	26.5
Cash and cash equivalent (US$)	6.2	13.3	8.2	10.7	28.1
Foreign liabilities	408.4	392.1	381.9	406.6	415.8
IMF obligations	341.1	327.7	319.4	340.4	348.2
SDR allocations	67.3	64.4	62.5	66.2	67.6
Net Domestic Assets	385.3	365.4	361.0	381.3	378.8
Domestice assets	402.5	388.7	379.2	424.1	434.0
of which:					
Claims on government (net IMF position) 3/	381.9	366.7	357.3	380.8	389.5
Domestic liabilities	17.2	23.4	18.1	42.8	55.2
Government	11.7	19.1	12.1	33.6	42.9
of which:					
Treasury deposits	4.5	11.9	6.7	4.3	15.3
Grants	5.4	5.4	3.5	28.2	26.5
Other domestic liabilities	4.8	3.7	5.6	8.7	11.9
of which:					
Commercial bank reserves 4/	…	…	…	…	6.5
Commercal bank deposits	…	…	1.9	6.0	3.0
MTB deposits	0.1	0.7	0.7	0.8	0.8
Equity and reserves	40.1	41.9	40.1	63.9	68.5
of which:					
Property and equipment	20.6	21.4	21.7	42.9	43.1
Memorandum items:					
NFA (program definition) 5/	…	21.6	21.6	24.0	24.1
Somali shillings per US dollar (eop)	20,265	22,285	24,005	23,605	23,405

Sources: Central Bank of Somalia (CBS); and Fund staff estimates.

1/ Based on CBS financial statements and balance sheet data, which are incomplete.

2/ Gold price is set as defined in the TMU, paragraph 10.

3/ Assumes a claim on the Somali treasury composed of (1) the IMF obligations ($348.2 million, March 2018) for which the government was the original benficiary of budget support and will be the eventual beneficiary of HIPC assistance and (2) the net negative SDR position ($41.2 million, March 2018) as SDRs were used to service the obligations to the Fund.

4/ Prudential regulations require that commcercial banks hold $1.5 of the minimum $7 million capital requirement at the CBS; MTBs must hold $60,000 each at the CBS.

5/ Program definition. Excludes position in the SDR department and obligations to the IMF.

Table 6. Somalia: Consolidated Commercial Banks Balance Sheet, 2015Q1–2018Q1 1/

(Millions of U.S. dollars)

	2015				2016				2017				2018
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March
	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Prel.	Prel.	Prel.	Prel.	Prel.
Total assets	168.1	169.9	190.8	194.4	212.5	214.0	225.1	234.2	252.1	282.4	305.8	345.0	347.0
Cash on Hand	52.9	56.6	72.9	63.9	100.6	64.4	60.7	62.8	65.2	70.5	71.2	71.0	82.4
Balances with Central Bank	0.0	0.0	0.1	0.4	1.3	1.2	1.1	1.5	3.1	3.1	5.4	6.7	9.8
Deposits with other banks 2/	12.0	13.5	16.1	32.8	9.7	24.1	47.6	41.5	20.5	24.7	44.4	58.4	25.3
Credit to private sector	43.0	42.2	42.0	45.2	47.3	51.4	55.8	66.1	76.6	86.9	95.5	105.2	126.0
Investment 3/	15.6	15.8	15.7	9.6	8.9	9.5	9.4	12.7	14.7	15.9	8.8	8.8	10.4
Other Assets 4/	44.7	41.8	44.0	42.3	44.8	63.4	50.5	49.7	72.0	81.3	80.5	94.9	93.1
Total liability	120.2	122.3	144.6	147.8	165.9	163.4	172.2	182.4	202.7	232.2	254.0	292.4	297.0
Customer Deposits	115.5	117.3	139.7	142.8	153.8	158.1	167.6	177.1	194.6	219.7	238.3	267.2	272.6
Financing Liabilities	0.4	0.1	0.2	0.1	2.0	0.9	1.0	0.9	1.6	1.6	6.3	9.9	1.0
Other Liabilities	4.2	4.8	4.7	4.9	5.9	4.4	3.6	4.4	6.5	10.9	9.4	15.2	23.4
Equity	48.0	47.6	46.2	46.6	46.6	50.6	52.9	51.8	49.4	50.2	51.8	52.7	50.0
Memorandum items:													
Credit to private sector													
share of total assets (percent)	...	...	...	...	22.2	24.0	24.8	28.2	30.4	30.8	31.2	30.5	36.3
share of GDP (percent)													
y-o-y changes (percent)	...	...	...	...	9.9	21.9	33.0	46.1	61.9	69.1	71.2	59.3	64.6
Total capital to assets (percent	...	...	...	...	22	24	24	22	20	18	17	15	16.1
Loan to deposits (percent)	...	...	...	...	30.7	32.5	33.3	37.3	39.3	39.5	40.1	39.4	46.2

Sources: Central Bank of Somalia; and Fund staff estimates.

1/ Quarterly financial data has been reported since March 2015 and is incomplete.

2/ Primarily deposits and placements with non-resident banks and other financial institutions.

3/ Securities, associations and joint ventures, and property.

4/ Fixed, intangible and other assets.

Table 7a. Somalia: Balance of Payments, 2015–20

(Millions of U.S. dollars)

	Prel.			Proj.		
	2015	2016	2017	2018	2019	2020
Current account balance	-314	-427	-464	-468	-443	-463
Goods balance	-2,026	-2,206	-2,841	-2,495	-2,506	-2,600
Exports of goods, f.o.b.	683	647	418	675	761	798
Imports of goods, f.o.b.	2,710	2,852	3,259	3,170	3,266	3,398
Services, net	-974	-958	-1,051	-1,085	-1,154	-1,232
Service credits	355	373	393	404	414	425
Service debit	-1,328	-1,331	-1,444	-1,489	-1,568	-1,657
Income (net)	-29	-30	-31	-33	-34	-36
Receipts	38	38	40	42	44	47
Payments	-67	-68	-71	-75	-79	-83
Current transfers (net)	2,715	2,767	3,459	3,144	3,251	3,406
Private (net), including remittances	1,301	1,335	1,657	1,513	1,607	1,707
Official	1,414	1,431	1,802	1,631	1,644	1,699
Capital account and financial account	323	420	489	468	443	463
of which:						
Foreign direct investment	300	328	367	406	445	461
Overall balance and error and omissions	9	-7	25	0	0	0
Change in the CBS's net foreign assets (- = increase)	-9	7	-25	0	0	0
Memorandum items:						
Nominal GDP	6,659	6,767	7,052	7,405	7,822	8,256
External public debt	4,414	4,377	4,585	…	…	…

Sources: Authorities, Direction of Trade Statistics, UN Comtrade, and Fund staff estimates and projections.

Table 7b. Somalia: Balance of Payments, 2015–20

(Percent of GDP, unless otherwise indicated)

	Prel.			Proj.		
	2015	2016	2017	2018	2019	2020
Current account balance	-4.7	-6.3	-6.6	-6.3	-5.7	-5.6
Goods balance	-30.4	-32.6	-40.3	-33.7	-32.0	-31.5
Exports of goods, f.o.b.	10.3	9.6	5.9	9.1	9.7	9.7
Imports of goods, f.o.b.	-40.7	-42.2	-46.2	-42.8	-41.8	-41.2
Services, net	-14.6	-14.2	-14.9	-14.6	-14.8	-14.9
Service credits	5.3	5.5	5.6	5.5	5.3	5.1
Service debit	-19.9	-19.7	-20.5	-20.1	-20.0	-20.1
Income (net)	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Receipts	0.6	0.6	0.6	0.6	0.6	0.6
Payments	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Current transfers (net)	40.8	40.9	49.1	42.5	41.6	41.2
Private (net), including remittances	19.5	19.7	23.5	20.4	20.5	20.7
Official	21.2	21.1	25.6	22.0	21.0	20.6
Capital account and financial account	4.7	6.3	6.6	6.3	5.7	5.6
of which:						
Foreign direct investment	4.5	4.9	5.2	5.5	5.7	5.6
Overall balance and error and omissions	0.1	-0.1	0.4	0.0	0.0	0.0
Change in the CBS's net foreign assets (- = increase)	-0.1	0.1	-0.4	0.0	0.0	0.0
Memorandum items:						
Nominal GDP (Million of U.S. dollars)	6,659	6,767	7,052	7,405	7,822	8,256
External public debt	66.3	64.7	65.0	…	…	…

Sources: Authorities, Direction of Trade Statistics, UN Comtrade, and Fund staff estimates and projections.

Table 8a. Somalia: External Public Debt, 2014–17 1/

(Millions of U.S. dollars)

		Prel.		
	2014	2015	2016	2017
Total stock outstanding	4,394	4,414	4,377	4,585
of which: in arrears 2/	4,066	4,184	4,081	4,223
Multilateral creditors	1,507	1,468	1,442	1,504
International Monetary Fund	341	328	319	340
World Bank	502	491	484	506
AfDB Group	135	130	133	138
AfDB	21	22	22	24
African Development Fund (AfDF)	111	106	108	111
Nigerian Trust Fund	2	3	3	3
Arab Fund for Economic and Social Development	181	171	150	155
International Fund for Agricultural Development	31	30	29	30
OPEC Fund for International Development	35	35	35	35
Arab Monetary Fund	271	270	280	286
Islamic Development Bank	11	13	13	13
Bilateral creditors	2,887	2,946	2,935	3,081
Paris Club creditors	2,249	2,332	2,320	2,464
Denmark	2	2	2	2
France	424	476	425	484
Italy	571	571	582	600
Japan	99	96	96	96
Netherlands	6	6	6	6
Norway	2	2	2	2
Spain	38	38	39	40
United Kingdom	82	82	81	81
United States	884	916	941	1,004
Russia	141	144	145	148
Non-Paris Club creditors 3/	638	614	615	617
Algeria	2	2	2	2
Bulgaria	11	11	11	11
Iraq	58	58	58	58
Kuwait Fund and Central Bank 4/	194	173	171	171
Libya	5	5	5	5
Romania	6	3	3	3
Saudi Arabia	105	105	108	109
Serbia	2	2	2	2
United Arab Emirates 4/	256	256	256	256

Sources: Somalia Debt Management Unit; IMF; World Bank; and

1/ All non-US$ claims are converted at period-end exchange rates. The external debt database is under construction and undergoing a reconcilliation process. The current figures reflect a revision of obligations due to Kuwait and the United Arab Emirates.
2/ Based on current data from the authorities and creditors, a portion of Somalia's external debt is not in arrears.
3/ Data obtained from several non-Paris Club members. Other figures are estimated from World Bank debt database (WBXD).
4/ End-2017 claims have been revised based on data from the authorities; 2013–2016 data have been extrapolated and revised accordingly.

Table 8b. Somalia: External Public Debt, 2014–17 1/

(Percent of GDP, unless otherwise indicated)

			Prel.	
	2014	2015	2016	2017
Total stock outstanding	66.9	66.3	64.7	65.0
of which: in arrears 2/	61.9	62.8	60.3	59.9
Multilateral creditors	23.0	22.0	21.3	21.3
International Monetary Fund	5.2	4.9	4.7	4.8
World Bank	7.6	7.4	7.1	7.2
AfDB Group	2.0	2.0	2.0	2.0
Arab Fund for Economic and Social Development	2.8	2.6	2.2	2.2
International Fund for Agricultural Development	0.5	0.4	0.4	0.4
OPEC Fund for International Development	0.5	0.5	0.5	0.5
Arab Monetary Fund	4.1	4.1	4.1	4.0
Islamic Development Bank	0.2	0.2	0.2	0.2
Bilateral creditors	44.0	44.2	43.4	43.7
Paris Club creditors	34.3	35.0	34.3	34.9
Denmark	0.03	0.03	0.03	0.03
France	6.5	7.2	6.3	6.9
Italy	8.7	8.6	8.6	8.5
Japan	1.5	1.4	1.4	1.4
Netherlands	0.1	0.1	0.1	0.1
Norway	0.0	0.0	0.0	0.0
Spain	0.6	0.6	0.6	0.6
United Kingdom	1.2	1.2	1.2	1.2
United States	13.5	13.8	13.9	14.2
Russia	2.1	2.2	2.1	2.1
Non-Paris Club creditors 3/	9.7	9.2	9.1	8.7
Algeria	0.02	0.02	0.02	0.02
Bulgaria	0.2	0.2	0.2	0.2
Iraq	0.9	0.9	0.9	0.8
Kuwait Fund and Central Bank 4/	2.9	2.6	2.5	2.4
Libya	0.1	0.1	0.1	0.1
Romania	0.1	0.0	0.0	0.0
Saudi Arabia	1.6	1.6	1.6	1.5
Serbia	0.03	0.03	0.03	0.03
United Arab Emirates 4/	3.9	3.8	3.8	3.6

Sources: Somalia Debt Management Unit; IMF; World Bank; and AfDB.

1/ All non-US$ claims are converted at period-end exchange rates. The external debt database is under construction and undergoing a reconcilliation process. The current figures reflect a revision of obligations due to Kuwait and the United Arab Emirates.

2/ Based on current data from the authorities and creditors, a portion of Somalia's external debt is not in arrears.

3/ Data obtained from several non-Paris Club members. Other figures are estimated from World Bank debt database (WBXD).

4/ End-2017 claims have been revised based on data from the authorities; 2013–2016 data have been extrapolated and revised accordingly.

Table 9. Somalia: Off-Budget Aid, 2014–18

(Millions of U.S. dollars)

	2014 Act.	2015 Act.	2016 Act.	2017 Act.	2018 Proj.
Total estimated grants	1,657	1,741	1,731	2,147	1,789
Total Official Development Assistance (ODA) aid 1/	1,218	1,172	1,231	1,647	1,289
Humanitarian aid	672	588	613	1,011	613
Developmental aid	546	584	618	636	676
Support for peacekeeping 2/	439	569	500	500	500
Memorandum items:					
FGS budgetary grants 3/	61.0	26.9	58.4	105.9	96.9
FGS budgetary grants, as perecnt of ODA	5.0	2.3	4.7	6.4	7.5

Sources: Authorities and ACU Aid Flow Mapping.
1/ Excludes on-budget grants.
2/ Bilateral military aid is not captured in the table.
3/ Federal Government of Somalia budgetary grants.

Annex I. Strategy and Progression of SMPs Since May 2016

Somalia's third Staff-Monitored Program (SMP) builds on the foundation laid by—and lessons learned from—the first two SMPs. It is guided by an overall strategy that takes into consideration the country's fragile conditions as well as its weak administrative and institutional capacity and governance. The Fund's engagement and coordination with other donors is guided by a broad roadmap for economic reconstruction aimed at supporting the authorities' policy and reform agenda and establishing a track record of policy implementation and coordination, which would be an important step toward eventually achieving the Decision Point under the HIPC Initiative as soon as feasible under established procedures, including meeting Upper Credit Tranche (UCT) conditionality. This Annex discusses the diagnosis of Somalia's condition and the subsequent strategy for the sequence of SMPs.

1. **Somalia's successive SMPs supported the authorities' economic and financial programs and took into consideration the country's fragility and capacity constraints.** Emerging from decades of war, Somalia faces widespread poverty, vulnerability to climatic events, and weak political and economic institutions. Unemployment and social spending needs are very high. The country has been hit by devastating droughts and, more recently, by extreme flooding. The Federal Government's (FGS) fiscal position is weak. It relies heavily on volatile grant funding and has a heavy external debt burden, with no capacity to repay. Both the central bank and the financial sector are nascent, constraining financial intermediation. Widespread counterfeiting has eroded confidence in the national currency. Consensus on political and fiscal federalism is still developing. The lack of internal security threatens to undermine progress.

2. **The program design considered political economy conditions and authorities' absorptive capacity.** Reform priorities were sequenced in a way that the four key interlocutors— Budget and Treasury; Inland and Customs Departments at the Ministry of Finance (MoF); the Central Bank of Somalia (CBS); and the Ministry of Planning, Investment and Economic Development—should not be overstretched. While this limits the number of structural benchmarks (SB) per year, the number has nevertheless increased during each successive SMP as authorities' capacity gradually ramped up. Technical assistance (TA) and training delivery were planned to support the authorities' efforts at successfully implementing the SBs. The IMF, through a multi-donor Trust Fund, has been providing extensive TA to Somalia. Since 2013, 94 TA and training missions have been delivered.

Number of Structural Benchmarks Under the SMPs

	SMP I (May 2016-April 2017)		SMP II (May 2017-April 2018)		SMP III (May 2018-April 2019)
	Total	Met	**Total**	Met	**Total**
June	**1**	1	**2**	1	**3**
September	**2**	2	**5**	4	**5**
December	**3**	2	**6**	5	**5**
March	**5**	3	**2**	2	**5**
Total	**11**	**8**	**15**	**12**	**18**

Source: IMF Staff

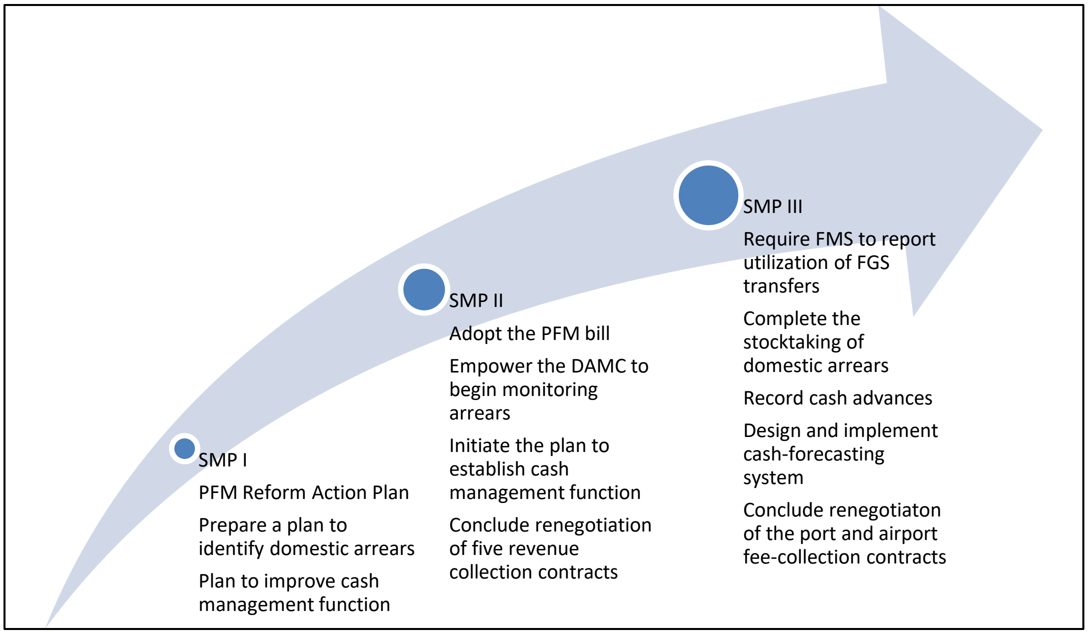
3. The overall strategy underpinning the SMPs is to reestablish macroeconomic stability, build core macroeconomic institutions, and catalyze donor support. The programs centered on near-term vital areas and those where delivering early successes could bolster public and official support for reform. The SMPs' design and monitoring focused on (1) economic and financial data development; (2) the building up and enhancement of fiscal and monetary institutions; (3) Public financial management (PFM) reform; (4) domestic revenue mobilization; (5) strengthening the banking system; (6) AML/CFT framework; and (7) currency reform. The programs are also anchored on (1) a floor for the fiscal balance (zero cash balance); (2) non-accumulation of new domestic arrears; (3) a domestic revenue floor; and (4) a floor on the Central Bank net foreign assets. These would instill fiscal discipline, given the government's cash constraints and preserve macroeconomic stability.

4. Each SMP builds on the achievements of the previous SMP while continuing to address gaps and previous shortcomings (see table of SBs below). The initial SMP has rudimentary targets and benchmarks that are broadened and deepened in SMP II and III. The ITs and SBs are meant to accelerate the reform agenda, as well continue to show a track record of reform and policy implementation that could eventually support UCT conditionality and the HIPC initiative under the current guidelines. At the same time, it will continue to support improved macroeconomic management and governance, and rebuilding critical institutions.

- **Rebuilding economic and financial data.** Starting with limited data in SMP I, there was extensive IMF TA and coordination with donors and the World Bank to address shortcomings in the CPI and GDP time series. Efforts to complete the debt database and enhance balance of payments and monetary statistics, which began during SMP II, are continuing. Improving fiscal reporting is part of SMP III. The reconciliation of Somalia's external debt and improved statistics are key inputs into developing a debt sustainability analysis that would be one of the requirements for the HIPC initiative.

- **Revenue mobilization.** Given the reliance on grants, the large social and infrastructure building priorities, and the need to build support for fledgling federal government, policies and operations aimed at mobilizing revenues are critical. A domestic revenue floor was introduced in SMP II and has been increased, reflecting the new revenue measures implemented through March 2018 and other potential revenues from airspace, telecommunications, and fisheries fees. There are also SBs aimed at continuing improvements to revenue administration—for example those related to the large-and-medium-taxpayer office and the customs department.

- **Fiscal policy focused on improving budget execution and avoiding accumulation of domestic arrears; gradually broadening the tax base; and improving PFM (Text Figure).** Key departments at the MoF—including revenue collection departments, the Budget Department, the Accountant General's Office, and the Debt Management Unit—with clear roles and responsibilities have been established in the PFM Reform Action Plan that was part of SMP I. The figure below illustrates some of the progression of PFM reforms from SMP I to III. The authorities have submitted a PFM Bill and established a Cash Management Unit and Domestic Arrears Management Committee (DAMC). SMP III will push for a deepening of these PFM measures with the ultimate goals of reducing cash advances, improving cash management, and accelerating progress on the Treasury single account. They have made progress toward rationalizing the Chart of Accounts and have implemented commitment controls across ministries, departments, and agencies. Additionally, the authorities prepared their first annual budget in 2013, and, since then, they have produced regular annual budgets together with the FGS monthly fiscal operations reporting.



- **National currency reform and strengthening the monetary and financial institutions.** The SMPs have focused on three critical areas: currency reform; broadening financial sector legislation, regulation, and supervision; and the AML/CFT framework. After nearly two years of the IMF's TA support, the pre-conditions for the launch of the new Somali Shilling have been completed, with SMP III focused on achieving Phase I of the currency reform. A key emphasis of financial sector reform in SMP III will focus on the governance and operations of the central bank. Additionally, the SMPs focused on the need to improve the AML/CFT framework to safeguard the important inflows of remittances to the country.

- **Making progress on banking legislation, regulation and supervision.** The authorities have been able to take the following steps: (1) develop a bank licensing framework, and methods for commercial bank periodic reporting, financial analysis, and an on-site bank examination supervisory scoring system; (2) complete on-site examinations of two commercial banks in 2017; and (3) produce a complete manual on on-site banking supervision.

- **Update the National Development Plan.** SMP III includes an SB to update the national development plan using a bottom-up, consultative approach. This effort will form the basis for a Poverty Reduction Strategy Paper that is a requirement for the HIPC initiative.

- **Intensifying coordination efforts with Somalia's international partners.** Staff has maintained regular briefings to donors on program performance, economic developments, and technical assistance needs and coordination efforts. The IMF, together with the United Kingdom's Department for International Development (DFID) and the World Bank, organized a roundtable on Somalia's near-term reform needs at the 2017 and 2018 Spring Meetings; the IMF also participated in the May 2017 London conference. At the technical level, the IMF and the World Bank have collaborated on issues such as central banking activity and organization, and basic statistical rebuilding process. The coordination is gaining momentum, and the World Bank and IMF teams have agreed to expand the joint work to new areas, including the financial sector and AML/CFT. Coordination among TA providers remains key to ensuring the effective delivery of TA to meet Somalia's capacity development needs.

Somalia: Structural Benchmarks under the Staff-Monitored Program (SMP) I, II, and III; May 2016–April 2019

SMP I	SMP II	SMP III
1/ Public Financial Management		
Minister of Finance to approve the 2016–20 PFM Reform Action Plan	Update and adopt the PFM Bill by the Cabinet, and introduce a clause in the revised PFM Bill that vest the power to grant tax exemptions solely to the Ministry of Finance	
		A Minister of Finance order to require that all Federal Member States and the Banadir region, to report on the utilization of any FGS budgetary transfer at end-Q1 and end-Q3
Issue a Prime Ministerial decree to endorse the Minister of Finance to cosign all foreign grant agreements		
Prepare a plan to identify existing domestic arrears and repayment schedule.	Adopt a Minister of Finance order to form and empower the DAMC to begin monitoring arrears and to finalize arrears stocktaking for 2015 and 2016	Complete the stocktaking and recording of all payroll and goods & services vouchers that are in arrears into SFMIS
Complete an action plan to improve the policy and processes for cash management function	Initiate the plan endorsed by the Minister of Finance to establish cash management functions, starting with establishment of the Cash Management Committee	Record cash advances in SFMIS and process them in accordance with the Appropriations Act. Design and implement a cash-forecasting system to inform allotments which are issued prior to commitment, in accordance with the Appropriations Act.
		The Minister of Finance to issue an order: (1) to identify Ministries, Departments, and Agencies (MDAs) accounts at commercial banks and the CBS, close unnecessary accounts, and move active accounts to CBS; and, (2) to require that all active MDA accounts be mapped to the SFMIS.
Complete a report on the process and design of an electronic payment system for the Somali National Army and Police with biometric screening		A Minister of Finance order to require that all salaries provided in cash be paid directly to individuals' bank accounts and record/register all Somali National Army payroll and non-payroll into the SFMIS payroll module.
Achieve 100 percent of non-salary Recurrent Cost and Reform Financing reimbursement.	Meet the eligibility criteria required to achieve 100 percent of non-salary recurrent cost of the RCRF budget	
	Achieve a target of 50 percent in number of transactions of electronic vendor payments to be processed through the purchasing module of the SFMIS	
	The FGS will conclude the renegotiation of all five existing revenue-collection contracts	Conclude the renegotiation of the Mogadishu port and airport fee-collection contracts.
2/ Tax Administration and Tax Policy		
Complete a plan to modernize the revenue and customs administration	The Ministry of Finance to issue an order to undertake in 2018 a review of: (1) the front-end import declaration process; and (2) the physical examination function, to identify weaknesses that could lead to revenue leakage	Submit an amended National Customs Act to Parliament, and the Ministry of Finance to implement a common classification of goods based on HS codes and a front-end customs declaration process.
	Develop an audit program to review and revamp business processes in preparation for automated processing	
	Prepare and adopt an order by the Ministry of Finance to establish and make fully operational a large-and-medium-taxpayer office (LMTO) in Mogadishu, and assign experienced manager and staff	Ensure that the large-and-medium-taxpayer office (LMTO) is fully operational and share its organizational structure and staffing status.

Somalia: Structural Benchmarks under the Staff-Monitored Program (SMP) I, II, and III; May 2016–April 2019 (concluded)

SMP I	SMP II	SMP III
Pass the 2017 Appropriation Bill to endorse the tax code rates for Income and Sales Taxes		Minister of Finance to issue order to make the renewal of all licenses by Ministries, Departments, and Agencies (MDAs) conditional on presenting a tax clearance certificate (TCC) from the Ministry of Finance.
		The Ministry of Finance to take over all non-tax revenue collections from at least 5 of the remaining MDAs which are currently collecting theses revenues.
		The LMTO to increase the number of registered large and medium taxpayers from 25 to at least 50, evaluate all potential tax arrears for 2017 in Mogadishu, and collect the corresponding tax obligations due.
		The Minister of Post and Telecommunication (MPT) and the Minister of Finance to develop a plan to enforce regulations associated with the fees to be levied (licensing, spectrum, etc.).
		Submit the Revenue Bill to Parliament
		Finalize petroleum and fisheries operational revenue-sharing mechanisms between the FGS and FMS.
3/ Statistics and National Development Plan		
Establish and maintain a business registry to support the collection of macroeconomic statistics	Submit to parliament the new Statistical Law	
		Prepare an update of National Development Plan 2020–24.
4/ Currency Reform and Financial Sector Development		
Finalize the anti-counterfeit strategy	Establish a National Anti- Counterfeit Center	
	Adoption by the CBS of regulations on 1) denominations of the SOS notes to be issued; 2) design and security features; and 3) volume of banknotes	
	Submit to Parliament the Communication Act to license mobile network operators	
Require approval by the Board of Directors of the CBS to issue commercial bank and MTB licenses	Develop a plan to improve the renewal of MTBs' licenses and enhance compliance with existing regulations	Submit to Parliament the draft Targeted Financial Sanctions Act.
	Develop a roadmap for financial sector development	
		CBS to issue regulation on credit classification and provision, and review reporting requirement for banks

Annex II. Financial Sector Development Roadmap

Pillars	*FGS Institution*	*Objective, improve/build:*	*Approximate Timeline* 3 months Aug-18	6 months Nov-18	12 months May-19	18 months Aug-19	2 years Sep-19	Medium-term
Pillar 1: CBS Capacity	CBS	Organizational structure	TA gap analysis	Dev strategy	Start implementing new structure			
Pillar 1: CBS Capacity	CBS, Operations Dept	Internal audit	Risk assessment methodology, dev. audit plan	Appoint Director, draft Audit manual, and dev. Audit plan		Complete first audit		
Pillar 1: CBS Capacity	CBS, Operations Dept	Financial reporting/accounting	2015 & 2016 audited financial statements	Dev. IFRS manual & procedures, asset registry, & IFRS transition plan with gap analysis	Accrual acct., prepare 2017 Financial Statement	2018 fin. Statement IFRS compliant		
Pillar 1: CBS Capacity	CBS (LSD); FRC	Banks *(in addition to ongoing capacity building)*	Dev. org. & resource plan	Expand fin. reporting & dev. internal supervision manuals	Dev. on-site inspection manuals			
Pillar 1: CBS Capacity	CBS (LSD); FRC	MTBs	Support for 2018 MTB compliance plan	Implement compliance plan; framework gap analysis	FRC capacity building			
Pillar 1: CBS Capacity; Pillar 2: Payments system	CBS (LSD); FRC	Mobile money		Implement MM supervision				
Pillar 2: Payments system; Pillar 3: Legal/regulatory reforms	CBS/private	Clearing/settlement system		Dev. inter-bank payment/clearing system		Payment Sys Law		
Pillar 2: Payments system; Pillar 3: Legal/regulatory reforms	CBS & MIS	Mobile money	Dev new MM regulations	Issue new MM regulations		Adress gaps in the FIL		
Pillar 3: Legal/regulatory reforms	MIS/FRC/CBS	AML-CFT framework	TA gap analysis	Address regs & processes				
Pillar 3: Legal/regulatory reforms; Pillar 4: Strengthen intermediation	MIS	Digital ID	Dev. Strategy	Implement strategy				
Pillar 3: Legal/regulatory reforms; Pillar 4: Strengthen intermediation	Private institutions	Financial reporting/accounting standards			TA gap analysis	Develop regulations		
Pillar 3: Legal/regulatory reforms; Pillar 4: Strengthen intermediation	MIS	Judicial system/contract enforcement				TA gap analysis	Dev. Strategy	
Pillar 3: Legal/regulatory reforms; Pillar 4: Strengthen intermediation	MIS	Property rights				TA gap analysis	Dev. Strategy	
Pillar 4: Strengthen intermediation	Private institutions	Credit bureau					TA gap analysis	Dev. Strategy
Pillar 4: Strengthen intermediation	MIS	Dispute resolution/bankruptcy					TA gap analysis	Dev. Strategy

Appendix I. Letter of Intent

Mogadishu, Somalia

June 15, 2018

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.,
Washington, D.C. 20431, U.S.A.

Dear Ms. Lagarde:

The Federal Government of Somalia (FGS) continues to advance on reform and policy implementation supported by the IMF Staff-Monitored Program (SMP). Reforms implemented under the first 12-month SMP (SMP I, May 2016–April 2017) and the second SMP (SMP II, May 2017–April 2018) are bearing fruit. Our fiscal and monetary institutions, as well as our capacity, are improving. Reform efforts are strengthening budget execution, broadening the revenue base, and improving tax collection and public financial management (PFM). Progress on currency reform is encouraging and preparatory work to launch the new national currency is progressing well. We are grateful to the IMF for its continued support.

The economy in 2018 is showing signs of recovering from the severe drought in 2017. We have been able to weather this shock thanks to increased inflows of remittances from the diaspora and the appropriate responses by the FGS and the support of the international community. Strong coordination with the Federal Member States (FMS) played an important role in easing the impact at the regional level.

Despite the difficult environment, our performance under the SMP has been satisfactory. Since the last quarter of 2017, domestic revenue mobilization is exceeding the program targets and all indicative targets (ITs) for December 2017 and March 2018 were met and all but one (out of six) structural benchmarks (SBs) for December 2017 were met. The two SBs set for March 2018 were also met. We have taken appropriate actions to address two missed SBs under the SMP. The supplementary MEFP, which is attached, describes the progress made under the economic and financial program supported by the SMP (¶1-3). In view of this progress, we are requesting the completion of the second review of the current SMP.

Our challenges ahead remain significant. Growth is too low to make a significant dent in our country's widespread poverty, high youth unemployment, and large social needs. The external public debt is high, and we do not have the capacity to service our debt obligations. Despite our recent efforts on anti-money laundering and combating the financing of terrorism we continue to suffer from pressures related to a reduction of correspondent banking relationships. This could result in lower and volatile remittances inflows, which are Somalia's lifeline. To maintain and broaden the reform agenda; and to continue to build a track record of economic performance we are requesting a third 12-month SMP (SMP III) covering the period May 2018–April 2019.

SMP III will build on achievements under the previous two SMPs and will continue to lay the foundation so that eventually we have an SMP that meets the standards of Upper Credit Tranche conditionality. The latter is a key priority for us to reach the Decision Point under the HIPC initiative. The attached MEFP describes the key objectives and features of SMP III (¶5-15). This SMP will focus on the following priorities: (1) enhancing PFM reform, expenditure control, and revenue mobilization; (2) completing Phase I of the currency reform, which consists of exchanging all Somali Shilling currently in circulation with a new national currency; (3) developing the financial sector; and, (4) improving macroeconomic and financial data reporting.

The FGS remains convinced that the policies and measures set forth in the MEFP are appropriate for meeting the objectives of SMP III. We remain committed to implementing these policies and reforms and stand ready to adopt any additional measures that may become necessary to keep the SMP on track. We will remain in close consultation with IMF staff on the adoption of such measures and in advance of any revisions to the policies contained in the MEFP. To that end, we seek continued and accelerated support from the IMF and our international partners. To facilitate the monitoring of the performance of the program, the FGS will regularly provide IMF staff with all necessary information within the deadlines specified in the attached Technical Memorandum of Understanding (TMU, Attachment II).

In line with our commitment to transparency, the FGS authorizes the IMF to publish this letter, the attached MEFP, and TMU, and the related staff report, including the placement of these documents on the IMF website, subject to the removal of market-sensitive information.

Sincerely yours,

/s/	/s/
Abdirahman Duale Beileh	Bashir Issa Ali
Minister of Finance of Somalia	Governor of the Central Bank of Somalia

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) reviews economic developments, assesses performance under the second 12-month Staff-Monitored Program (SMP) (SMP II), requests a third 12-month SMP (SMP III) (May 2018–April 2019), and describes policies that the Federal Government of Somalia (FGS) plans to implement in 2018–20.

A. Background and Context

1. **Economic activity is rebounding from the effects of the drought in 2017.** The drought hurt economic activity, particularly in the north of the country and rural areas. However, swift policy responses by the government and international support mitigated the negative effects of the drought. For 2018, reflecting strong rainy season, growth is projected to increase to 3.1 percent from an estimated 2.3 percent in 2017, and inflation is expected to ease to under 3 percent from about 5.1 and 4.6 percent in 2017 and April 2018, respectively. However, recent floods in central and southern Somalia could lead to food insecurity in some areas.

2. **The Federal Government of Somalia (FGS) remains committed to reforms.** This is evidenced by the important reforms implemented over the past two years under SMPs. We overcame strong protests to levy the sales tax on imported goods, and we are collecting revenues at the port and airport in Mogadishu. We are slowly starting to change the tax evasion culture, illustrated by the payment of sales tax by the telecommunication companies, hotels, and other businesses. We continued to improve key areas in PFM including treasury authorization and bank payments. Cooperation with the federal members states (FMS) on tax and customs harmonization and revenue sharing is well advanced. During the Spring Meetings Somalia Roundtable in Washington, DC, our international partners welcomed the significant reforms implemented thus far and re-emphasized their support for Somalia.

3. **This third SMP comes at an important juncture for Somalia.** Despite recent advances on reform and policy implementation, the development challenges ahead are daunting. Somalia's economic institutions are still weak, and poverty remains widespread. The security situation remains fragile and aggravated by high youth unemployment. Our external debt burden is heavy, and we have no capacity to service debt obligations falling due. It is in this context that the reform measures under SMP III are designed to help continue to lay the foundation to eventually have a SMP that meets the conditionality of an Upper Credit Tranche arrangement. SMP III will help us strengthen institutions and economic policies, pave the way for higher and more inclusive economic growth, continue to catalyze donor grants, and help Somalia achieve debt relief under the HIPC Initiative as soon as feasible.

B. Program Performance

4. Performance under SMP II has been satisfactory.

- **For June 2017, one out of the two structural benchmarks (SBs) was not met due to a small technical delay and two out of six indicative targets (ITs) were not met—**the cash fiscal balance and the revenue floor.
- **For September 2017, all but one (out of six) ITs and all but one (out of five) SBs were met.** We have advanced toward addressing the root causes of the missed SB— namely, completing the renegotiation of the port and airport fee collection contracts. The two separate memoranda of understanding (MOU) have been drafted; the one for the airport was signed, and the one for the port is under review. The two contracts are already under negotiation, and we are confident that the SB that targets the completion of these two contracts by December 2018 (SB#4) under SMP III will be completed on time.
- **For December 2017, all indicative targets were met, and all but one SBs were met.** On the missed SB, despite our efforts during the last quarter of 2017 to accelerate payments directly to vendors, we were not able to "*Meet the eligibility criteria required to achieve 100 percent of non-salary recurrent cost of the recurrent cost and reform financing (RCRF) budget*." We have agreed to include procurement and commitment control issues as SBs in SMP III, in part because they were among the root causes of the missed SB in December 2017.
- **For March 2018, the two SBs and all ITs were met.**

C. Economic and Financial Policies for 2018–20

5. The economic recovery currently underway will gain momentum in 2019. Grants, and remittance and FDI inflows are expected to remain strong, structural reforms to accelerate, fiscal performance to continue to improve, and both fiscal and financial institutions will continue to improve. Growth is expected to reach 3.5 and inflation to stabilize at around 2.5 percent.

6. The SMP III will be aligned with our medium-term policies and strategies and will build on the achievements over the past two years. Our broad fiscal policy will continue to be anchored on: (1) maintaining a zero-cash fiscal balance; (2) avoiding any new domestic arrears accumulation; and (3) continuing to improve domestic revenue mobilization as committed to under the SMP. On the monetary policy side, we will not allow the net foreign assets of the Central Bank of Somalia (CBS), as defined in the Technical Memorandum of Understanding (TMU) to fall below a continuous floor. The SMP III will particularly focus on: (1) deepening progress achieved on enhancing public financial management (PFM) reform, including expenditure control; and revenue mobilization; (2) completing Phase I of the currency reform, which consists of exchanging all Somali Shilling currently in circulation with a new national currency; (3) starting broad-based financial sector reforms to foster financial development, inclusion, and stability, while strengthening compliance with the anti-money laundering and combating the financing of terrorism (AML/CFT) standards; and

(4) upgrading our data production and reporting system. Many elements of the program are also intended to reduce the vulnerabilities to governance and improve transparency that are most relevant to economic activity, particularly those related to fiscal governance, financial sector oversight, central bank governance and operations, and AML/CFT.

Fiscal Policy and Reforms

7. Our 2018 budget remains aligned with the SMP, but we plan to adopt a revised budget in June to account for new developments, particularly on the revenue side.

- **Developments through March 2018.** The strong fiscal performance recorded in the fourth quarter of 2017 has continued through March 2018, and the fiscal balance registered another surplus. This was due in part to higher than programmed domestic revenue mobilization. This revenue performance is coming mainly from: (1) continued yields from tax measures implemented in late 2017, in particular, sales tax on telecommunication companies; (2) sales taxes on imported goods, which are now collected at the seaport and airport; and (3) gains from in-housing revenue collection.

- **Fiscal strategy for the remainder of 2018.** We are committed to greater fiscal discipline and to improving the fiscal framework. We will: (1) refrain from any expenditures that are not fully covered by realistic revenue and pledged grants projections; (2) remain current on our obligations, and in the event of revenue or grant shortfalls, we will cut spending in line with the rules for sequestering (prioritizing) expenditures; (3) ensure that, where possible, revenue windfalls (including additional grants for budgetary support) are used to build up fiscal buffers and pay down domestic arrears in line with the procedures established by the Domestic Arrears Management Committee (DAMC); and (4) cut non-priority spending in the event that revenue falls short of projections.

- **Revenue policy.** The new revenue measures implemented through March 2018 are expected to continue generating important yields. In addition, as outlined in the 2018 budget, we are collecting new revenues from the assessment of wages and corporate taxes, as well as sales taxes from telecommunications companies. There are possible sources of new revenues, if a number of legal and technical issues could be resolved. Following the takeover of the management of Somali Airspace from the International Civil Aviation Organization (ICAO), we can generate revenue from collecting airspace fees. Also, if technical issues could be addressed we expect to raise new revenues from annual fishing licensing fees and telecommunications licensing and spectrum fees.

- **Accountability, fiscal transparency, and expenditure measures.** We will require that all FMS report on the utilization of any FGS budgetary transfer on a semi-annual basis (SB#2). To improve expenditure control and the functionality of the SFMIS, we will require that all salaries for the Somali National Army (SNA) be paid directly to individuals' bank accounts and that all SNA payroll and non-payroll salary payments are registered into the SFMIS payroll module (SB#1). We have made encouraging progress on biometric registration of SNA personnel (over 5,000 have been registered, all in Mogadishu) followed by direct payments to individual bank accounts. Next steps would focus on the rest of the country, as we are aiming to register all SNA personnel and complete the entire process by June 2019. The FGS is of the view that our civil service needs restructuring to ensure an increase in staff productivity and to contain the public wage bill; the World Bank is assisting in the implementation of this reform. In this context, and in coordination with the National Civil Service Commission, a pilot program to identify and remove absentee staff and underperformers after due diligence and proper assessments at the Ministry of Finance will be expanded to all MDAs.

- **PFM measures.** Building on recent progress, we will:
  - Record all cash advances in the SFMIS and process them in accordance with the Appropriations Act (SB#3) to reduce cash advances to the absolute minimum and increase compliance with purchasing policy. This SB implies that cash advances are recorded as advances in SFMIS (using Asset code) and that they are acquitted with expenditures recorded to appropriate expense codes.
  - Complete the stocktaking and recording of all payroll and goods and services vouchers that are in arrears into the SFMIS (SB#4) to create an accurate and verified compilation of domestic arrears, to allow a transparent process of repayment to begin.
  - Design and implement a cash-forecasting framework to inform allotments which will be issued prior to approval of commitments (SB#5) in order to improve cash management and avoid new arrears. This SB implies that the "allow to exceed" overriding function will be used only exceptionally.
  - Accelerate progress toward a treasury single account. In this regard, we will issue an order to (1) identify MDAs' accounts at commercial banks and the CBS excluding off-budget accounts, close unnecessary accounts, and move active accounts to CBS; and (2) require that all active MDAs accounts be mapped to the SFMIS (SB#7) with the objective of improving our cash management capabilities. Meanwhile, we will step up efforts to update the legal framework under the PFM Law to ensure that the Minister of Finance will continue to be the sole legal authority for opening and closing government bank accounts.

- **Inland revenue measures.** A significant increase in domestic revenue remains an important target under the program. We are pressing ahead with full implementation of agreed-upon tax measures as well as improving compliance with tax laws. We will ensure that the large-and-medium-taxpayer office (LMTO) is fully operational (SB#8) and that its organizational structure and staffing are aligned; we have so far deployed 16 staff, and appointed an experienced manager to start work on June 1. We will also step up efforts to expand the coverage of large and medium taxpayers from 25 to at least 50, evaluate all potential tax arrears for 2017 in Mogadishu, and collect the corresponding tax obligations due (SB#10). To further increase domestic revenues, we will work to ensure that at least five of the remaining MDAs still collecting non-tax revenues will hand over collection of these revenues to the Ministry of Finance (SB#13). In addition, the Minister of Finance will issue and order to make the renewal of all licenses by MDAs conditional on presenting a tax clearance certificate (TCC) from the Ministry of Finance. (SB#9). Finally, the Ministry of Post and Telecommunication and the Ministry of

Finance will determine regulatory requirements and develop a plan to enforce regulations associated with fees to be levied, including licensing and spectrum fees (SB#12).

- **Customs measures.** We are committed to start implementing our Customs Roadmap with assistance from the World Bank and DFID. The roadmap is initially geared toward basic reforms to support discussions with the FMS, and then to move rapidly toward achieving a modern, nationwide customs system with harmonized rates based on value, a declarative customs process, and modern business processes and audits. The reform will include the submission of an amended National Customs Act to Parliament, and the Ministry of Finance's implementation of a common classification of goods based on HS codes and a front-end customs declaration process (SB#15). We will also reactivate Somalia's membership in the World Customs Organization to further support a broad range of customs functions.

- **Fiscal federalism.** Progressing toward fiscal federalism is a critical political and economic objective for the FGS which will help foster higher and more inclusive growth. We have held several fiscal federalism meetings with the FMS and agreed to take steps to harmonize tax rates and on licensing for off-shore fishing, starting with tuna (season 2018). We will finalize a revenue-sharing agreement on petroleum and fisheries by March 2019 (SB#14). We have also made good progress on a text for the Revenue Bill and will submit it to Parliament by December 2018 (SB#11) to update our tax laws.

- **Budgetary and off-budget grants.** To improve the FGS oversight of budgetary and off-budget grants to Somalia, we will write to donors and recommend that all grants to Somalia be reported to the CBS and MoF.

- **Procurement and concessions.**

  - **Port and airport contracts.** We will have these new contracts signed by December 2018 (SB#6). Significant progress is being made on the Al Bayrak port and Favori airport contract concession renegotiations. The two MOUs have been drafted; the one for Favori was signed, and the MOU with Al Bayrak is under review.

  - **General procurement and concession issues.** We are aware that the lack of a proper procurement authority, guidelines, and framework hampers the effectiveness of procurement and contract concessions processes. This is critical as we currently have in the pipeline over 30 FGS contracts (each exceeding $5 million in value) that require review and renegotiation, where necessary. In the meantime, we will empower the Interim National Procurement Board in line with the Procurement Act to review the contracts, and enforce current regulations and complete the procurement framework.

Financial Sector Reforms

8. We plan to launch Phase I of currency reform this year. Following the endorsement letter received from the IMF in early March, we have started reaching out to donors for their financial support for the currency reform. We have received positive feedback from some donors. The accountability framework associated with Phase I was endorsed by the CBS Board of Directors, and it is expected to be staffed by end of June 2018 to support the preparatory work for the launch of the new currency. We will develop and test a comprehensive plan to operationalize Phase I. We will also proceed soon with a transparent bidding selection of a printing company and consult with the IMF prior to the launch of the new currency.

9. We will start implementing the financial sector development roadmap. The roadmap highlights key bottlenecks for financial development and inclusion, and outlines the reforms to improve financial intermediation and stability. Our priorities over the next twelve months are outlined below:

- **CBS organization.** To support the core functions of the CBS, we will take steps to reassess the current organizational structure of the CBS with the objective to focus on operational functions and efficiency. We have already initiated consultations with the World Bank and the IMF in this regard.

- **Prudential supervision.** We will continue to improve capacity of the Licensing and Supervision Department (LSD):

    - **For commercial banks,** we will expand financial reporting requirements, develop on-site inspection and supervisorial manuals, and will issue regulations on credit classification (SB#18). One small bank license was revoked in 2018 and we are working towards an orderly resolution of that bank.

    - **On money transfer businesses (MTBs),** we will improve the MTBs licensing process and enhance compliance with existing regulations. We will also develop standards for disclosing Inspection Reports to MTBs and improve communication. With World Bank support, we are developing an automated transfer system and national switch, which are tentatively planned to be operational in early 2019.

    - **Mobile money** has grown rapidly in the past years and is also an important element in Somalia’s payment system. We will prioritize the proper regulation and supervision of the mobile money services as soon as possible. Hence, we will pursue two parallel tracks. In the near term, with support from the IMF and World Bank, the CBS will issue necessary regulations to license and supervise mobile money providers under the current legal framework. In the context of CBS reorganization and ongoing capacity building, we will build these operational requirements into the LSD structure. At the same time, the National Communications Authority (NCA) will build licensing and reporting requirements necessary for proper regulation of the telecommunications sector and mobile network operators (MNOs). Importantly, these future regulations will require MNOs, that provide mobile money services, to fulfill reporting requirements— and cooperate with— the CBS in order to receive and maintain a license to operate telecommunications and mobile money services in Somalia. In coordination with international partners, we will look to update the Financial Institutions Act to address legal gaps.

- **CBS accounting and audit.** We will appoint a Director of Internal Audit, develop an Audit Manual, and detail an IFRS transition plan to start accrual accounting for the 2018 financial statement and aim to begin implementing IFRS in 2019.

- **Financial infrastructure.** With assistance from the World Bank, we are developing a plan to issue a digital identification to Somalis to support collateral based lending and KYC objectives. In addition, we are starting to explore options for developing a collateral registry.

10. Improving the AML/CFT framework and increasing compliance with regulations is a priority. To comply with Financial Task Force (FATF) standards and UNSC Resolutions 1267 and 1373, we will submit the Targeted Financial Sanctions Regulation Law to the Parliament for approval by September 2018 (SB#17). Upon its passage, we will move quickly to issue regulations to implement these targeted sanctions. We will also improve the MTBs' compliance with the AML/CFT regulations and the reporting of suspicious transactions to the Financial Reporting Center (FRC) by implementing the MTB plan to improve compliance and licensing. We will expand the capacity of the FRC, in cooperation with international partners, by addressing personnel and IT gaps. Finally, we will resolve any overlaps and inconsistencies between the Article 14 of the AML/CFT Law and Article 9 of Regulation CBS/NBS/REG/05 which obligate MTBs to report suspicious transactions.

Policies for Accelerating Economic Recovery and Social Inclusion

11. We are advancing a broad-based reform agenda to strengthen economic resilience and bolster the foundations for sustained inclusive growth. The development challenges for Somalia, after decades of civil war, are significant. The risk of humanitarian crisis due to droughts and flooding are elevated. In this context, progress on reform implementation under the mutual accountability framework (MAF) has been broad-based and covers all critical areas for Somalia, including (1) political settlement; (2) security; (3) rule of law; (4) human rights and gender; (5) youth empowerment; (6) financial and economic management; (7) growth, economic recovery, and resilience; and (8) social inclusion.

12. We have identified several priority areas for accelerating economic recovery and social inclusion.

- **Combating corruption and improving governance will remain essential for the FGS.** We are taking steps to combat corruption and improve governance. These include (1) the passage of the Anti-Corruption Bill which is in line with international best practices; (2) the establishment of a Reform Implementation Unit ("Delivery Unit") to monitor the performance of all government reform priorities; (3) issuing of orders by all ministers to fight against civil servant workers' absenteeism; (4) continued efforts to improve transparency on monetary and fiscal reporting, including, where possible, on the off-budget support; and (5) strengthening the MoF website including Budget information. The anti-corruption law has been approved by the House of the

People and is awaiting the approval of the Senate. Once the Bill is approved by the Parliament and signed by the President, we will quickly move to the formation of the Anti-Corruption Commission. To improve governance and combat mismanagement and malpractice.

- **The FGS is committed to fighting corruption, establishing the foundation for good governance, and protecting public property and assets.** Since the collapse of the state, many of the public assets and properties have been expropriated illegally and leases awarded without due process. In this regard, the FGS will set up a Public Property Protection Committee (PPPC) under the Office of the Prime Minister. The PPPC will be tasked to compile statistics of all public assets, develop appropriate policies and regulations required to protect and safeguard public assets. In addition, this committee will be empowered to investigate and evaluate all leases and contracts implicating public assets awarded since 2012, and make recommendations to the leadership on their validity, fairness, and actions to resolve problematic contracts and leases.

- **We will continue to improve the business environment.** We have already stepped up efforts to increase the private sector's role in the economy. We passed a foreign direct investment (FDI) law and adopted a procurement bill. We will continue to enhance the business environment through public-private sector dialogue, improved financial governance and intermediation, and new business regulations, as well as improve access to finance. Access to financial services will be achieved by following through with the Financial Sector Development Roadmap, including better AML/CFT compliance. We are pleased that Somalia entered the Global Doing Business Survey for the first time in 2017. We will work on areas identified in the report to raise the position of Somalia in subsequent surveys.

- **We will update our NDP (SB#16).** We are developing a long-term "Vision 2040" plan that will be broken down into 5-year blocks with the support of a group of multilateral institutions. The 2020 to 2024 portion of the plan will be used to meet SB#16. The plan will be developed through a consultative process with participation from all stakeholders across the country, including the National Development Council. We aim to use it as a basis for the Poverty Reduction Strategy Paper (PRSP) that is a requirement for the HIPC initiative. We will start preparing a medium-term fiscal framework and link it to the NDP. We will also improve the realism of the social program targets, including poverty incidence, job creation, and capacity and resilience program in response to drought, flooding, and other social safety net programs. Finally, we will identify and ensure adequate financing of the revised NDP.

- **Developing social safety net programs in the budget and improving social spending will remain critical for developing resilience and supporting poverty reduction.** We have made progress on managing and facilitating the return of refugees to Somalia. Also, under the United Nations Refugee Return and Reintegration project, an increasing number of refugees are being placed in training institutions (mainly in Kenya), where they are trained in peace-building and conflict-resolution. We will develop and include social safety net programs in our future budgets and increase budgetary allocations on social spending, including education, health, and humanitarian support.

D. Institutions and Statistics

13. Our efforts to empower the government and institutions will be essential for sustained growth and social cohesion.

- **Natural resource management and transparency.** We remain committed to transparent and equitable management of natural resources. The draft PFM Bill includes a clause that sets out the principles of governing natural resource revenue management as it relates to fiscal policy. Also, discussions with the FMS in the Intergovernmental Finance Ministers meetings on natural resource management and revenue sharing are well advanced. Many of these issues are addressed in the National Revenue Bill which is being finalized.

- **Economic and financial data.** Despite important progress to reconstitute our economic data in the past three years, the challenges ahead are significant. We will press on the Parliament to adopt the long-awaited Statistical Law which was submitted in September 2017. The Ministry of Finance, MOPIED, and CBS will jointly develop a roadmap for statistical data production and dissemination by end of September 2018. In this regard, we have identified the following critical tasks: (1) estimate the national account aggregates on the demand side (consumption, gross capital formation, and exports and imports of goods and non-factor services) and the GDP (for 2013–17) at both current and constant prices; (2) complete the reconstitution of the public debt database; (3) update, on a regular basis, the statistical business register across FGS and FMS; (4) launch a capital expenditure survey based on the existing one and strengthen Somalia's export and import data by collecting trade in goods data by value and volume; (5) implement IFRS-based accounting at the CBS; (6) improve remittance data mainly with the MTB survey; (7) start conducting surveys on travel, primary current transfers related to embassies and NGOs; (8) finalize the survey form for foreign direct investment and coordinate with the Ministry of Trade and Commerce to begin surveying the 20 largest companies; and (8) complete a civil service database. Meanwhile, we are taking steps to compile and review GFSM2014-based annual data for the budget for the period of 2015–18 and the draft 2019 budget. Separately, the CBS will implement the action plan for improving source data for the CBS and for collecting financial and non-financial data**.**

E. Relations with International Creditors and Debt Relief

14. We will continue to make efforts to normalize relations with international creditors. This should, in due course, help address the burden of external debt and arrears, and facilitate access to concessional financing. Given the urgency of meeting Somalia's social and reconstruction needs, a substantial reduction in the debt burden is an essential element of our economic strategy. We understand that qualifying for the HIPC Initiative requires (1) establishing a satisfactory track record of cooperation with the Fund on policies; (2) normalizing relations with creditors, including to mobilize donor agreement and resources to finance debt relief; and, (3) preparing a poverty reduction strategy. We seek to reach a decision point as soon as feasible under established HIPC policies.

15. Meanwhile, we will step up efforts to complete our debt database and improve capacity at the Debt Management Unit (DMU). Reconciling external debt and confirming that debt sustainability indicators are above the relevant HIPC initiative thresholds is a technical prerequisite for HIPC. Hence, we have reached out to 21 bilateral creditors, representing nearly 80 percent of Somalia's external debt, to confirm the loan-by-loan terms, principals, interest and outstanding penalties (the remaining 20 percent of external debt are primarily with multilateral creditors). As of today, 12 bilateral creditors have responded to the validation exercise; once the remaining 9 bilateral creditors respond, we would have nearly all of Somalia's external debt confirmed. The DMU is coordinating with the IMF in following up with 9 creditors who have not responded to the debt validation exercise. We are also supporting the IMF and World Bank in developing Somalia's first debt sustainability analysis (DSA).

Technical Assistance

16. During the program period, we are requesting IMF TA in: (1) tax policy, revenue, and customs administration; (2) budget preparation and execution; (3) reforms in cash management and forecasting, and the TSA; (4) planning and implementing Treasury management and reforms, including a GFS-compliant Chart of Accounts; (5) internal controls; (6) natural resources sharing; (7) licensing, supervision, and regulation of banks; (8) currency reform; (9) central banking operations and governance structure; (10) CBS accounting and internal audit; (11) macroeconomic statistics; and, (12) Debt Sustainability Analysis.

F. Program Monitoring

17. Our standing SMP Monitoring Committee will continue to monitor the implementation of our program by preparing and assessing the quarterly indicative targets (Table 1) and SBs (Table 2). The program will have two reviews to assess its performance based on the test dates of September 30, 2018, and March 31, 2019. The indicative targets are defined in the TMU (Attachment II).

Table 1. Somalia: Indicative Targets under the Staff-Monitored Program, 2018–19 1/

(Millions of U.S. dollars)

	2018			2019
	June	Sept. 2/	Dec.	March 3/
	Prog.	Prog.	Prog.	Prog.
Fiscal				
Fiscal balance (cash basis; floor)	0.0	0.0	0.0	0.0
Revenue (floor)	75.7	116.1	165.0	47.0
Accumulation of new domestic expenditure arrears (ceiling) 4/	0.0	0.0	0.0	0.0
Contracting of new domestic debt (ceiling) 4/	0.0	0.0	0.0	0.0
Contracting or guaranteeing of new nominal external non-concessional borrowing (ceiling) 4/	0.0	0.0	0.0	0.0
Central Bank of Somalia (CBS)				
Net foreign assets of the CBS (floor) 4/ 5/	24.0	24.0	24.0	24.0
Memorandum item				
Debt contracting or guaranteeing of nominal external concessional borrowing (ceiling).	0.0	0.0	0.0	0.0

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

1/ Based on preliminary data. Cumulative from the beginning of the year.

2/ Test date for the first review of the SMP.

3/ Test date for the second review of the SMP.

4/ Continuous indicative target.

5/ Calculated using program exchange rates. See Technical Memorandum of Understanding (Attachment II) for definitions of the program targets.

Table 2. Somalia: Structural Benchmarks under the Staff-Monitored Program, May 2018–April 2019

	Benchmarks	Target dates	Rationale and Monitoring 1/
Public Financial Management			
1	A Minister of Finance order to require that all salaries provided in cash be paid directly to individuals' bank accounts and record/register all Somali National Army payroll and non-payroll into the SFMIS payroll module.	Jun-18	Improve PFM and fiscal reporting.
2	A Minister of Finance order to require all Federal Member States (FMS) and the Banadir region to report at end-Q1 and end-Q3 on the utilization of any FGS budgetary transfer.	Sep-18	Improve fiscal transparency, accountability, FGS leadership and oversight over the FMS.
3	Record cash advances in SFMIS and process them in accordance with the Appropriations Act.	Sep-18	Improve cash management and payment processes.
4	Complete the stocktaking and recording of all payroll and goods & services vouchers to December 31, 2017 which are in arrears into SFMIS.	Sep-18	Create an accurate and verified complilation of domestic arrears, to improve governance, and to allow a transparent process of repayment to begin.
5	Design and implement a cash-forecasting system to inform allotments which are issued prior to commitment, in accordance with the Appropriations Act.	Dec-18	Provide effective use of the purchasing module in SFMIS, improve cash management, and limits/avoid new arrears.
6	Conclude the renegotiation of the Mogadishu port and airport fee-collection contracts.	Dec-18	Strengthen PFM and broaden FGS revenue base. Provide concluded and signed Mogadishu port and airport fee-collection contracts
7	The Minister of Finance to issue an order: (1) to identify Ministries, Departments, and Agencies (MDAs) accounts at commercial banks and the CBS, close unnecessary accounts, and move active accounts to CBS; and, (2) to require that all active MDA accounts be mapped to the SFMIS.	Mar-19	Make progress towards developing the Treasury Single Account. Will require that: (1) the ministry will establish a list of all MDA bank accounts respective signatories and operating mandates; (2) all MDA bank accounts be opened upon express issuance of formal authorization by the Accountant General; and, (3) CBS will report monthly bank balances of Treasury accounts.
Tax Administration and Tax Policy			
8	Ensure that the large-and-medium-taxpayer office (LMTO) is fully operational and share its organizational structure and staffing status.	Jun-18	Enhance the Inland Revenue Department, expand the revenue base and increase domestic tax collection.
9	Minister of Finance to issue order to make the renewal of all licenses by Ministries, Departments, and Agencies (MDAs) conditional on presenting a tax clearance certificate (TCC) from the Ministry of Finance.	Jun-18	Expand the revenue base and increase domestic tax collection.
10	The LMTO to increase the number of registered large and medium taxpayers from 25 to at least 50, evaluate all potential tax arrears for 2017 in Mogadishu, and collect the corresponding tax obligations due.	Sep-18	Expand the revenue base and increase domestic tax collection. This follows the establishment of the LMTO. LMTO staff will determine which of these arrears are considered potentially recoverable and record needed information. Provide new registration list of large- and medium taxpayers.

1/ To be provided within four weeks of the respective structural benchmark's due date.

Table 2. Somalia: Structural Benchmarks under the Staff-Monitored Program, May 2018–April 2019 (concluded)

Benchmarks	Target dates	Rationale and Monitoring 1/
Tax Administration and Tax Policy (continued)		
11 Submit the Revenue Bill to Parliament.	Dec-18	Update the tax law by also correcting deficiencies of the old tax laws
12 The Minister of Post and Telecommunication (MPT) and the Minister of Finance to develop a plan to enforce regulations-associated with the fees to be levied (licensing, spectrum, etc.).	Dec-18	Improve revenue collection. Communications Act, which would provide considerably broader powers to MPT to regulate the sector, including the ability to set appropriate fees and regulatory requirements. Provide the agreed fee structure and the plan for collection.
13 The Ministry of Finance to take over all non-tax revenue collections from at least 5 of the remaining MDAs which are currently collecting theses revenues.	Dec-18	Improve revenue collection. FGS to provide SFMIS report showing non-tax revenue collections from the regulatory and operational activities of all MDAs.
14 Finalize petroleum and fisheries operational revenue-sharing mechanisms between the FGS and FMS.	Mar-19	Operational step toward fiscal federalism. Adopting a petroleum and fisheries revenue sharing mechanisms will advance the tax harmonization process, contribute to national unity, and promote equity and accountability.
15 Submit an amended National Customs Act to Parliament, and the Ministry of Finance to implement a common classification of goods based on HS codes and a front-end customs declaration process.	Mar-19	It will provide the foundation for a new tariff while improving coordination and efficiency. It will focus on HS classifications of goods. Provide common nomenclature of goods by HS code and a report detailing the progress of implementing the customs declaration process.
MOPIED–National Development Plan		
16 Prepare an update of National Development Plan 2020-24.	Mar-19	Prepare for the interim PRSP document. The draft NDP will include (1) links to the fiscal and macroeconomic framework; (2) costing and critical financing identified; and, (3) a social program and protection framework.
CBS–Financial Sector Development		
17 Submit to Parliament the draft Targeted Financial Sanctions Act.	Sep-18	Strengthen the AML/CFT framework to address terrorist financing risks and correspondent banking relationships (CBR) pressures.
18 CBS to issue regulation on credit classification and provision, and review reporting requirement for banks.	Mar-19	Improve financial intermediation, banking supervision, legislation, and supervision. This action will include update on reporting requirements for banks to include data relevant to the classification of credit and extent of provisioning. It will also include identification of gaps that would be filed by reporting requirement.

1/ To be provided within four weeks of the respective structural benchmark's due date.

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) sets out the understanding between the Somali authorities and the International Monetary Fund (IMF) regarding the definitions of the indicative targets for the 12-month Staff-Monitored Program (SMP) spanning May 2018–April 2019. It specifies the indicative targets on which the implementation of the SMP will be monitored. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable IMF staff to assess program implementation and performance. The definitions are valid at the start of the program but may need to be revisited during the program reviews to ensure that the memorandum continues to reflect the best understanding of the Somali authorities and IMF staff in monitoring the program.

A. Indicative Targets

1. The indicative targets have been set for the end of June 2018, end of September 2018, end of December 2018, and end of March 2019. Unless otherwise specified, all indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year. Indicative targets are specified in Table 1 of the Memorandum of Economic Financial and Policies and they are:

- Floor on the fiscal balance (on a cash basis).
- Ceiling on accumulation of new domestic expenditure arrears of the Federal Government of Somalia (FGS).
- Floor on FGS revenue.
- Ceiling on new domestic debt contracted by the FGS.
- Ceiling on new external debt contracted or guaranteed by the FGS or the Central Bank of Somalia (CBS).
- Floor on CBS's net foreign assets.

Definitions and Computation

2. For the purposes of the SMP, the government is defined as the FGS. This definition excludes public entities with autonomous legal personalities whose budgets are not included in the federal government budget. The general government includes the FGS and the federal member states (Galmudug, Hirsabelle, Jubaland, Puntland, and South West State).

3. Government revenue includes all tax and nontax receipts transferred into the FGS general accounts at the CBS and excludes grants. It is measured on a cash basis, and cumulative from the beginning of the fiscal year (which coincides with the calendar year). Revenues of the government, which are defined in line with the Government Financial Statistics Manual (GFSM 2001) on a cash-accounting basis, excluding grants.

- Revenues of the central government include taxes and other compulsory transfers imposed by the government, property income derived from the ownership of assets, sales of goods and services, penalties and forfeits and voluntary transfers received from nongovernment other than grants. The definition for program monitoring excludes grants and other noncompulsory contributions received from foreign governments and international organizations; such transfers between the government units would be eliminated in the consolidation of the fiscal reports and not recorded as revenue. Receipts from the sale of nonfinancial assets (for example, the sale of physical assets) and future signing bonuses from natural resource contracts, transactions in financial assets and liabilities, such as borrowing but excepting interest payments, are also excluded from the definition of revenue.

- Revenues should be recognized on a cash basis and flows should be recorded when cash is received. The Government SFMIS reports will be used as the basis for program monitoring of revenues and expenditures; supplemented by the monthly financial statements prepared by the Minister of Finance.

4. The fiscal balance, on a cash basis, is defined as the difference between (1) the sum of government revenue (as defined in paragraph 3) and budget grants; and (2) total current expenditure plus capital expenditure (excluding foreign-financed off budget investment).

5. New domestic expenditure arrears of the government are defined as budgeted federal government payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which payments are due according to the relevant contractual agreement, considering any contractual grace periods. Government payment include all expenditure for which vouchers have been approved by the Budget Department/Accountant General Office, expenditures that are automatically approved by legislation, debt payments to CBS and commercial banks, and transfers to regional governments.

6. Debt is defined for program purposes in accordance with Executive Board Decision No. 15688 (14/107), Point 8(a) and 8(b), adopted on December 5, 2014.

- For program monitoring purpose, the term “debt” will be understood to mean a current (that is, not contingent) liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

    - Loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

  - o Suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
  - o Leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

- Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt.

7. Domestic debt is defined as short-term and medium-to-long-term borrowing from residents of Somalia, including the CBS. The definition of domestic debt excludes temporary advances for liquidity management from the CBS, and domestic expenditure arrears as defined in paragraph 6. Temporary advances will be fully repaid within 90 days.

8. Benchmarks for external debt are cumulative ceilings on contracting or guaranteeing of new nominal external non-concessional borrowing by the government from the beginning of the calendar year. External debt is defined by the residency of the creditor.

9. The CBS's net foreign assets are defined as the difference between the CBS's gross foreign assets and gross foreign liabilities. Gross foreign assets are defined as (1) gold valued, over the program period, at the market price of December 31, 2017 ($1,302.80 per ounce); plus (2) foreign exchange (including recovered CBS assets, non-earmarked budget, and earmarked donor grants); minus (3) government budget grant deposits at the CBS in foreign currency; minus (4) other earmarked foreign currency deposits by residents of Somalia. Somalia's net position to the IMF is excluded from the definition of net foreign assets. Relevant exchange rates against the U.S. dollar on December 31, 2017 will be used to convert foreign assets and liabilities denominated in currencies other than U.S. dollars.

B. Program Monitoring

Program-Monitoring Committee

10. The Somali authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the Central Bank of Somalia, and the Ministry of Planning, Investment and Economic Development. The IMF Resident Representative will have observer status on this committee. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the Fund regularly on program performance, and transmitting the supporting materials necessary for the evaluation of benchmarks. The committee shall provide the Fund with a monthly progress report on the program within four weeks of the end of each month, using the latest available data.

Data Reporting to the Fund

11. To allow monitoring of developments under the program, the Ministry of Finance, the CBS and the Ministry of Planning, Investment, and Economic Development will provide to the Resident Representative's office of the IMF the following information contained in the data reporting table below.

Somalia: SMP Data Reporting, May 2018–April 2019				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
Central Bank of Somalia	Monetary survey	Detailed balance sheet data of the CBS submitted in the reporting template.	Monthly	3 weeks after the end of each month
		Consolidated commercial banks' balance sheet data by residency submitted in the reporting template.	Quarterly	4 weeks after the end of each quarter
	Other financial indicators	Prudential data as per associated CBS regulations (total capital, core capital, total net assets, high quality liquid assets, and 30-day funding requirement), and average interest and maturity information for private sector loans.	Quarterly	4 weeks after the end of each quarter
	Balance of payments	Trade in goods data by value for the port of Mogadishu; petroleum imports to Mogadishu; travel data from the Immigration Department; and MTB survey on cross-border transfers.	Quarterly	4 weeks after the end of each quarter
	CBS temporary advances to the FGS	Provide monthly amounts and terms of the temporary advances to the Ministry of Finance.	Monthly	1 week after the end of each month
	Budget grants	Provide data on the amounts of on-budget grants, including transfers to the government's accounts from the government's external accounts at the CBS.	Monthly	3 weeks after the end of each month
Ministry of Finance	FGS budget operations	The detailed revenue and expenditure by budget line and a comprehensive table summarizing Government operations including TSA balances.	Monthly	4 weeks after the end of each month
		The outstanding appropriation, allotment, commitment, vendor purchasing/payments, cash advances, and bank balances (including for all MDA accounts) since the beginning of the calendar year.	Monthly	4 weeks after the end of the month
		A report on all the fees collected by the MOF from MDAs, disaggregated by MDA.	Monthly	4 weeks after the end of the month
		Monitoring Agent reports for Recurrent Cost and Reform Financing non-salary reimbursement eligibility.	Monthly	4 weeks after the end of the month
		SFMIS audit report recording use of the allotment "allow to exceed" control override function.	Monthly	4 weeks after the end of the month

Somalia: SMP Data Reporting, May 2018–April 2019				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
		The monthly cash plan.	Monthly	4 weeks after the end of each month
		A report of all payment requests by MDAs awaiting payment since the beginning of the calendar year where the commitments exceed the agreed payment terms (in SFMIS/Excel).	Monthly	4 weeks after the end of the month
		Payroll and non-payroll salary and allowance payments made by MDAs and individual embassies (in Excel).	Monthly	4 weeks after the end of the month
	Regional Member States' budget operations	Reports from all Federal Member States (FMS) and the Banadir region on the utilization of any FGS budgetary transfers.	Semi-annually	4 weeks after the end of Q1 (March) and Q3 (September)
	Domestic arrears	A table providing the end-of-period stock of domestic arrears accumulated during the year by MDA and 4-digit Object Code.	Annually	4 weeks after the end of the year
	Domestic debt	The amount of new domestic debt contracted by Government.	Monthly	4 weeks after the end of the month
	External debt	End of year external debt in U.S. dollars, by creditor, and origination currency. The amount of new external debt contracted or guaranteed by Government.	Monthly	4 weeks after the end of the month
		Disbursements and repayments: (1) scheduled; and (2) actual interest and principal on debt of the Government and the CBS, by creditor.	Monthly	30 days after the end of each month
	Structural benchmarks	A table with a description of the status of implementation of the structural benchmarks in Table 2 of the MEFP.	Monthly	4 weeks after the end of the month
National Statistics Bureau	CPI and other economic indicators	Indicators to assess overall economic trends, such as the consumer price index.	Monthly	6 weeks after the end of each month
		Production data.	Annually	6 months after the end of each year