



CENTRAL BANK OF SOMALIA

# ANNUAL REPORT

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2020



CENTRAL BANK OF SOMALIA  
Monetary, Financial & Regulatory  
Policy Group  
Research & Statistics Department

Annual Report

2020

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### **Part II section (5) of the central bank of Somalia Act 2012 the key mandate of the Central Bank of Somalia (CBS)**

The Bank shall:

- a) Formulate implement and be responsible for monetary policy and implement the foreign exchange policy.
- b) Hold and manage the foreign exchange reserves of Somalia.
- c) License, regulate and supervise all banks and financial institutions to foster the liquidity, solvency, and proper functioning of a stable financial system.
- d) Formulate and implement such policies as to best promote the establishment, regulation, and supervision of efficient and effective payment, clearing and settlement systems.
- e) Where appropriate, administer payment, clearing and settlement systems.
- f) Act as banker and adviser to, and as fiscal agent for the government and public entities.
- g) Act as sole issuer of legal tender Somali currency notes and coins; and
- h) Shall compile, analyze, and publish the monetary, financial balance of payments statistics and other statistics covering various sectors of the national economy.

### **OUR VISION**

The CBS vision is to contribute to the prosperity of the people of Somalia, through maintaining economic and price stability; and financial system stability to support sustainable growth through policy stimulus and advice. In doing so, the Bank would act with the highest degree of integrity and professionalism.

### **OUR MISSION**

The mission of the CBS is to fulfil its core objectives of maintaining price stability; and to build a robust, stable, up-to-date and sound financial system. This would enable the CBS to increase the provision of financial services with a wider choice of services geared to all levels of society which is essential for sustainable growth and the alleviation of poverty.

## CBS BOARD OF DIRECTORS



Mr Abdirahman M. Abdulahi  
**GOVERNOR / CHAIRMAN**



Ms. Maryam Abdullahi Yusuf  
**DEPUTY GOVERNOR**



Prof. Hussein Ahmed Warsame  
**Member**



Dr. Aues Abo Scek  
**Member**



Dr. Sakhawadin Mustapha Mohamed  
**Member**



Dr. Abdisamad Nur Loyan  
**Member**



Mr. Osman Salad Gabeyre  
**Member**

## SENIOR MANAGEMENT



Mr Abdirahman M. Abdulahi  
**GOVERNOR**



Ms. Maryam Abdullahi Yusuf  
**DEPUTY GOVERNOR**



Mr. Mohamed Abdi  
Mohamed  
**General Manager, Financial  
Administrative and Support  
Service**



Mr. Hundubey Ahmed Bashir  
**Executive Director,  
Currency, and Banking  
Operations**



Dr. Abdilahi Ali  
**Executive Director,  
Monetary Financial and  
Regulatory Policy**

## List of Acronyms

<b>AfDB</b>	African Development Bank
<b>AML/CFT</b>	Anti-money Laundering and Combating Financing of Terrorism
<b>BOD</b>	Board of Directors
<b>CBS</b>	Central Bank of Somalia
<b>CPI</b>	Consumer Price Index
<b>DMU</b>	Debt Management Unit
<b>FAO</b>	Food and Agriculture Organization
<b>FDI</b>	Foreign Direct Investment
<b>FGS</b>	Federal Government of Somalia
<b>FMS</b>	Federal Member States
<b>FSNAU</b>	Food Security and Nutrition Analysis Unit
<b>FY</b>	Fiscal Year
<b>GDP</b>	Gross Domestic Product
<b>HIPC</b>	Heavily Indebted Poor Countries
<b>IDA</b>	International Development Association
<b>IFIs</b>	International Financial Institutions
<b>IMF</b>	International Monetary Fund
<b>iPRS</b>	interim Poverty Reduction Strategy
<b>MoF</b>	Ministry of Finance
<b>MoFMR</b>	Ministry of Fishery and Marine Resources
<b>MTBS</b>	Money Transfer Businesses
<b>MoPIED</b>	Ministry of Planning, Investment and Economic Development
<b>NDP</b>	National Development Plan
<b>NPC-BC</b>	Non-Paris Club - Bilateral Creditors
<b>PC-BC</b>	Paris Club - Bilateral Creditors
<b>SMP</b>	Staff Monitored Program
<b>SOS</b>	Somalia Shilling
<b>UAE</b>	United Arab Emirates
<b>UCT</b>	Upper Credit Tranches
<b>UN</b>	United Nations
<b>US</b>	United States
<b>WEO</b>	World Economic Outlook



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# Governor's Message



Somalia has undergone significant reforms to achieve economic and financial development under successive IMF Staff Monitored Programs. These reforms have contributed to Somalia's reach of the Heavily Indebted Poor Countries (HIPC) initiative's Decision Point on March 25, 2020, regaining access to regular concessional financing for the country, as well as continuing the debt-relief procedure.

The 2020 fiscal year has been difficult, with the global COVID-19 pandemic posing the greatest obstacle. Nevertheless, the Central Bank of Somalia has been in the midst of undertaking critical reforms, guided by our Strategic Plan (2020-2024). We have adopted a new organizational structure and initiated the process of transforming CBS from being primarily a fiscal agent for the government into a modern, effective, and policy-oriented Central Bank. This, in turn, will enable us to achieve our strategic goals and execute our mandates more efficiently. The strategic goals include the establishment of monetary policy and regulatory frameworks that support financial sector reform and stability.

Since 2014, the Bank has issued nine (9) prudential regulations for commercial banks and seven (7) prudential regulations for non-banking sector including the recently issued regulations on AML/CFT for financial sector (2019), four (4) guidelines for the banking sector, including two recent guidelines, one for Shariah Governance Framework and one for Islamic Financial Reporting & accounting (2020).

There was also a review and amendment of the mobile money regulation in 2020, which was intended to regulate and supervise mobile service providers that handle a US\$2.7 billion transactions (37 percent of GDP) a month, and almost 73 percent of the Somalia population use mobile money services. To further strengthen this, a Memorandum of Understanding has been drafted between the National Telecommunications Authority (NCA) and the Central Bank of Somalia.

We have initiated a process of reviewing our policies and procedures. Our Board of Directors has approved a new and robust HR policy, a new foreign exchange reserve policy, a new financial management policy, a new procurement policy, communication strategy, and IT policy while other policies are in the pipeline.

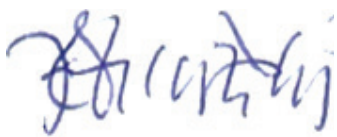
For the first time, the Central Bank of Somalia has acquired clean opinion for CBS financial statements as of 31<sup>st</sup> December 2020, it is an indication that the reforms have been undertaken in the past few years are bearing fruit. Combined with the institutional restructuring, we will continue to rebuild CBS as a policy-oriented regulator to support development and safeguarding of financial stability and growth.

The Somali economy contracted 0.3 percent in 2020 from 3.3 percent growth recorded in 2019, reflecting the effects of the flooding, locust infestation, and the COVID-19 pandemic. This is the lowest growth over the last decade. The triple crisis interrupted the emerging rebound in Somali's economy which began after the drought in 2017.

The total assets of commercial banks grew by 52 percent to US\$845.7 million at the end of the fiscal year 2020, compared to US\$556.2 million in 2019. Financing assets have declined by 6.3 percent, continuing the trend that began 2019 to record US\$145.7 million in 2020 from US\$155.6 million in 2019. The decline in financing assets can often be attributed to decrease in customer deposits and delays in loan repays that increased the default rate and disrupted the loan performance and contracting new loans because of the COVID-19 that affected the SME's ability the repay the loan contract. The Central Bank of Somalia advised the commercial banks to introduce loan moratorium to business to help the SMEs survive amid of COVID-19 economic downturn.

In 2020, Total remittances to Somalia reached US\$3,445.2 million, up from US\$2,794.16 million last year. This is due to the fact that Somali diaspora was supporting and providing additional emergency assistance to their families affected by the COVID-19 disaster in Somalia, this implies the countercyclicality of remittance which increases during the period of economic distress.

My team and I undoubtedly face some challenges, but we look forward to conquering these challenges. Despite the ongoing pandemic, I believe these are exciting times for CBS. We have a young, vibrant, and hardworking staff and visionary leadership within the senior management team and our Board of Directors. Their spirit of dedication and innovation to adapt to a challenging year has become exceptional. I am therefore optimistic that we will exceed our goals for the coming years as we remain committed to promote financial stability, economic development, and poverty reduction for the good of the Somali people.



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**Mr. Abdirahman Mohamed Abdullahi**  
**Governor**





# 1

## WORLD ECONOMY



The global economy was hit by COVID-19 pandemic in early 2020, slowing the growth momentums that sustained last ten years. Governments around the world introduced measures included quarantines and lockdowns. These measures led to disruptions in global supply chains, trade, travel and general lower Economic activities.

Global economic growth contracted in 2020 at lowest rate since the global financial crisis of 2008-2009. IMF estimated global growth to contract by 3.5 percent in 2020, a significant drop from the 2.8 percent growth in 2019 and expected to recover and grow at 5.5 percent in 2021. The world faced a persistent spread of the COVID-19 pandemic in the first half of 2020 and sharp contraction in global economy due to lockdown measures, but in the Second half of 2020, global economy started to recover from the COVID-19 crisis. The COVID-19 pandemic affected all sectors of the economy, from service (airlines and hospitality) to manufacturing sector. Many businesses around the world experienced a decline of demand for products & services, and shortages in supplies and inputs.

Advanced economies are estimated to contract by 4.9 percent in 2020 from a growth of 1.6 percent in 2019 and are expected to recover and grow at 4.3 percent in 2021. The Eurozone and the US economy are estimated to contract by 7.2 percent and 3.4 percent in 2020 from a growth of 1.3 percent and 2.2 percent, respectively. The UK economy is estimated to contract by 10.0 percent in 2020, compared with the growth of 1.4 percent in 2019, while Japan economy contracted by 5.1 percent in 2020 from a 0.3 percent growth in the previous year.

Growth in Emerging Markets are estimated to contract by 2.4 percent in 2020, compared to 3.6 percent growth in 2019 and is expected to recover and grow at 6.3 percent in 2021. China and Turkey are the only economies that recorded positive economic growth in 2020, with a rate of 2.3 percent and 1.8 percent respectively. India estimated a contraction of 8.0 percent in 2020 from a growth of 4.2 percent in 2019.

Sub-Saharan African economy is estimated to contract by 2.6 percent in 2020 compared to growth of 3.2 percent in 2019. South Africa is estimated to contract by 3.2 percent in 2020 from a growth of 2.2 percent in 2019, while Nigeria contracted by 7.5 percent in 2020 after growing by 0.2 percent in 2019.



...Global economic growth contracted in 2020 at lowest rate since the global financial crisis of 2008-2009...

Table 1: World Economic Outlook (Percent Changes)

World Economic Outlook (Percent Changes) Country/Region	Estimate		Projections	
	2019	2020	2021	2021
World Output	2.8	-3.5	5.5	3.4
Advanced Economies	1.6	-4.9	4.3	1.6
United States	2.2	-3.4	5.1	1.7
Euro area	1.3	-7.2	4.2	1.5
Germany	0.6	-5.4	3.5	1.4
France	1.5	-9.0	5.5	1.3
Italy	0.3	-9.2	3.0	0.7
Spain	2.0	-11.1	5.9	1.6
Japan	0.3	-5.1	3.1	0.5
United Kingdom	1.4	-10.0	4.5	1.5
Canada	1.9	-5.5	3.6	1.8
Other advanced Economies 3/	1.8	-2.5	3.6	2.4
Emerging Markets and Developing Economies	3.6	-2.4	6.3	4.6
Emerging and Developing Asia	5.4	-1.1	8.3	5.9
China	6.1	2.3	8.1	5.8
India	4.2	-8.0	11.5	6.5
ASEAN-55/	4.9	-3.7	5.2	5.1
Emerging and Developing Europe	2.2	-2.8	4.0	2.5
Russia	1.3	-3.6	3.0	2.0
Latin America Caribbean	0.2	-7.4	4.1	2.3
Brazil	1.4	-4.5	3.6	2.3
Mexico	-0.1	-8.5	4.3	1.6
Middle East and Central Asia	1.4	-3.2	3.0	3.2
Saudi Arabia	0.3	-3.9	2.6	2.2
Sub Saharan Africa	3.2	-2.6	3.2	3.5
South Africa	2.2	-3.2	1.5	1.0
Nigeria	0.2	-7.5	2.8	2.5
Memorandum				
Low-Income Developing Countries	5.3	-0.8	5.1	5.1
World Growth Based on Market Exchange Rates	2.4	-3.8	5.1	2.8
World Trade Volume (goods and services) 6/	1.0	-9.6	8.1	3.7
Advanced Economies	1.4	-10.1	7.5	3.1
Emerging Market and Developing Economies	0.3	-8.9	9.2	4.7
Commodity Prices (U.S. dollars)				
Oil 7/	-10.2	-32.7	21.2	-4.7
Nonfuel (average based on world commodity import weights)	0.8	6.7	12.8	0.6
Consumer Prices				
Advanced Economies	1.4	0.7	1.3	1.9
Emerging Market and Developing Economies 8/	5.1	5.0	4.2	4.5

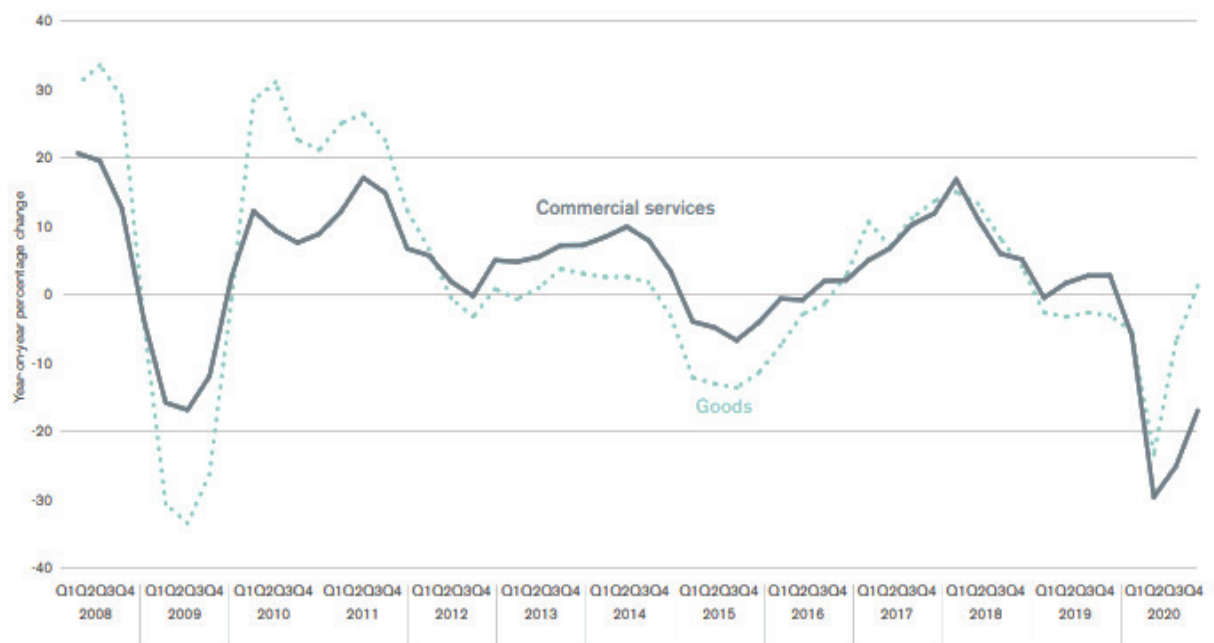
Source: IMF, 2020



## 1.1 Global Trade

Global trade sharply declined during 2020, global trade is expected to contract about 10 percent like the pace during the global financial crisis of 2009. As noted in the WTO world trade statistical review 2021, global trade in goods and services amounted to US\$22 trillion in 2020, a 12 percent decline compared to 2019. The effect of the COVID-19 pandemic on trade is different, merchandise trade contracted by about 8 percent and trade in commercial services declined by 21 percent in 2020. The crisis interrupted the recovery of trade tensions between China and the US as well as fear of a disorderly Brexit in Europe.

Figure 1: World Trade in Goods and Commercial Services, 2010-2020 (Percentage Change)



Source: WTO-UNCTAD-ITC, 2020

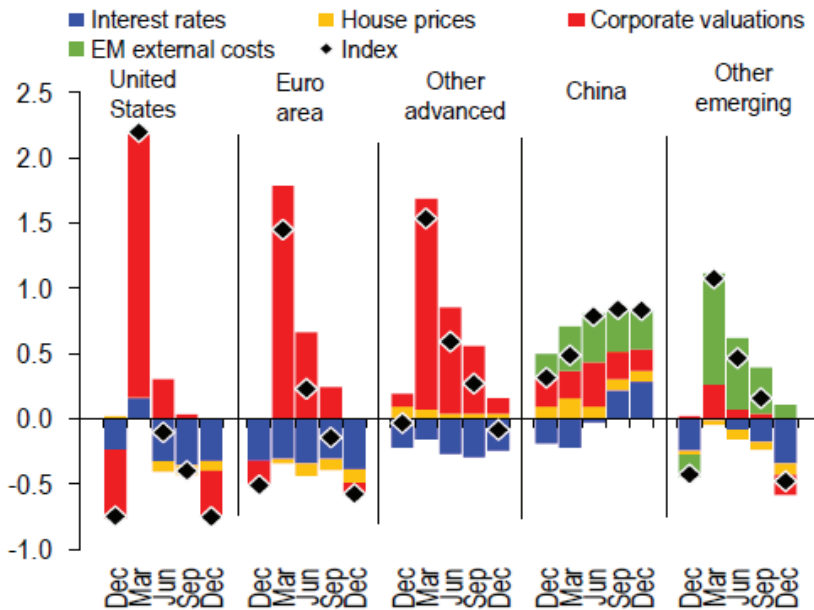
## 1.2 Global Inflation and Commodity Prices

The global inflation is relatively muted in 2020, reflecting subdued core inflation and the collapse in oil prices. The inflation rate in the advanced economies is estimated at 0.7 percent in 2020, and expected to rise at 1.3 percent next year. The inflation rate in the emerging and developing economies is estimated at 5.0 percent in 2020 and projected to decline to 4.2 percent in 2021. As noted in the Commodity Market Outlook report of WB in October 2020, oil prices are estimated to average US\$41 per barrel in 2020 and rise to US\$44 per barrel in 2021. Moreover, the decline of global oil prices in 2020 subdued the expected inflationary pressure brought by the COVID-19. Agricultural prices are estimated to increase by 3 percent in 2020. Metal prices are estimated slightly to fall in 2020, and expected to rise in 2021.

### 1.3 Global Financial Stability

The surge of the COVID-19 pandemic harmed financial markets in both advanced and emerging economies. The fear of worsening global economic and financial conditions fueled an increase in investors demand for safe assets and depressing sovereign yield in both developing and developed economies.

Figure 2: Key Drivers of Global Financial Conditions Indices (Standard deviations from mean)



Sources: Source: GFSR report, 2020

According to the IMF Global Financial Stability Report in January 2021, Investment-grade and high-yield corporate bond spreads tightened sharply close to or even below pre-February 2020 levels. The major central banks are estimated to maintain the current policy rate setting until the end of 2021. Financial conditions are expected to remain broadly at current levels in advanced economies while gradually improving in emerging markets and developing economies.

### 1.4 Implications for the Somali Economy

The domestic economic performance of the country is influenced by development in the global environment which affects trade and international capital flows. UAE, Oman, and Algeria are Somalia’s top three export destinations accounting for 60 percent of Somalia’s exports. Economic growth in UAE, Oman and Algeria are estimated to contract by 6.1 percent, 2.8 percent, and 4.9 percent respectively, in 2020.

On the other hand, China and Turkey represented more than 35 percent of the country’s total imports in 2020. The economic growth of China and Turkey recorded growth rate of 2.3 percent and 1.8 percent in 2020 respectively.

The negative and moderating growth momentum in the Somalia’s top export and import partners had adverse spillover effect into Somalia’s GDP growth estimation of 2020, which showed a contraction of 0.3 percent in 2020.



Domestic economic performance is influenced by development in the global environment which affects trade and international capital flows...









# 2

## DOMESTIC ECONOMY



The Somalia economy contracted in 2020, reflecting the effects of the flooding, locust invasion, and the COVID-19 pandemic. The economy contracted by 0.3 percent in 2020, compared to the 3.3 percent growth recorded in 2019. This is the lowest growth recorded over the last decade. Overall, economic activities slowed down during the first half of this year due to the government-mandated closure of airports to contain the COVID-19 outbreak. The triple crisis interrupted the emerging rebound in Somalia's economy that began in 2017 after the droughts (2016-2017).

The spread of COVID-19 has had a negative impact on the Somalia economy and has pushed the economy into contraction and worsening poverty profile for the country. Agricultural production is estimated to decline due to flooding and the second wave of locust infestation. Desert locusts have been at high risk of damaging crops and pastures throughout 2020.

In Somalia, the first COVID-19 case was confirmed on March 16, 2020, and the Ministry of Health launched a National Preparedness and Response Plan on March 26 to coordinate responses, as well as a multi-sectoral committee that included the United Nations and an Inter-Ministerial Nationwide Committee to mitigate the health effects of the pandemic.

Under the COVID-19 National Preparedness and Response Plan, at least 294,300 people received primary health care, 33,260 received case management services, and at least 690,000 people benefited from infection prevention and control activities. More than 40 metric tons of important medical supplies and hospital beds have been transferred to FMS, 2,000 personal protective equipment have been provided, and 20 Ventilators have been transported to in Mogadishu's De Martino Hospital.

Somalia's reforms on economic and financial sectors continue to gain momentum. In March 2020, IMF announced that Somalia became eligible for interim debt relief under the HIPC initiative, which set the country on a course to reduce its debt levels. Moreover, the Central Bank of Somalia (CBS) continues to enhance the prudential regulations for the financial sector. The CBS Board of Directors approved the first-ever Mobile Money Operator License on their meeting held in Dec 2020, bringing regulation to the widely used digital payment process for the first time.

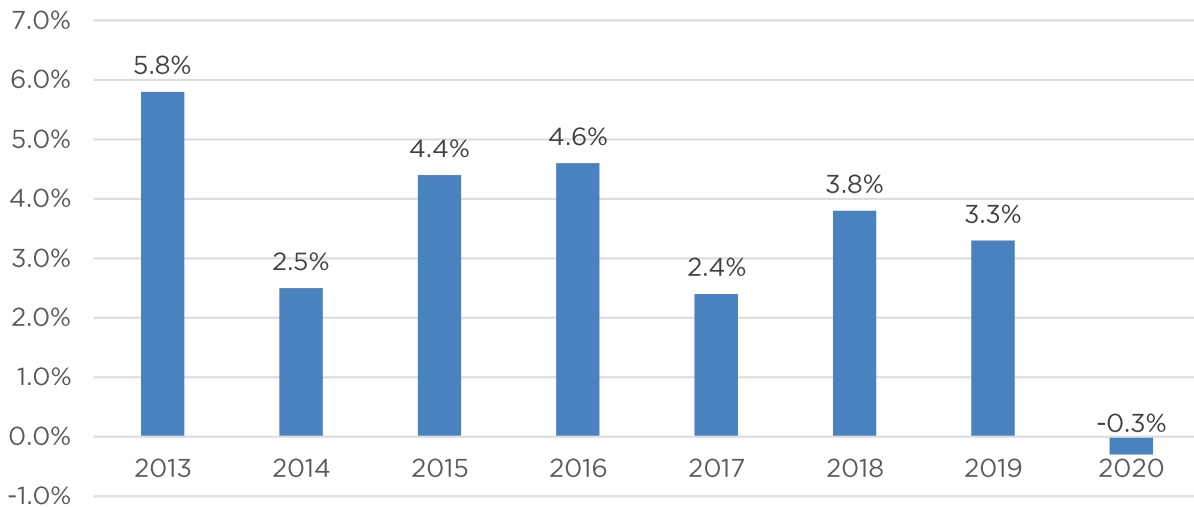
During the fiscal year of 2020, the Somalia economy recorded negative economic growth, meanwhile the headline inflation and exchange rates remained relatively stable. According to the Somalia National Bureau of Statistics (SNBS), Labor Force Survey Report in 2019, the unemployment rate is estimated to 21.4 percent with respective rates of 18.4 percent and 27.4 percent for males and females.



... The CBS Board of Directors approved the first-ever Mobile Money Operator License on their meeting held in Dec 2020...



Figure 3: Real GDP Growth Rate 2013-2020, Adjusted Data Since 2017



Source: SNBS, 2020

The real GDP growth rate contracted by 0.3 percent in 2020, this is the lowest growth rate over the last decade. The GDP is projected to grow at 2.9 percent in 2021 and consequently, growth is expected to recover and reach its pre-pandemic level by 2022.

Table 2: GDP by Expenditure, Current Prices in Million US Dollars, Adjusted Data Since 2017

Expenditure items	2017	2018	2019	2020
Household Final Consumption	7,968	8,497	9,267	10,009
Government Final Consumption	481	490	592	661
Gross Fixed Capital Formation	789	868	910	935
Exports of Goods and Services	994	1,119	1,131	1,178
Minus: Imports of Goods and Services	4,624	5,123	5,423	5,818
<b>GDP at Purchasers' Prices</b>	<b>5,609</b>	<b>5,850</b>	<b>6,477</b>	<b>6,965</b>
<b>GDP Per Capita, US Dollars</b>	<b>412</b>	<b>418</b>	<b>451</b>	<b>471</b>

Source: SNBS, 2021

As of 2020, Somalia's Gross Domestic Product is estimated at US\$6,965 million with GDP per capita estimated at US\$471. Household consumption is the largest element of expenditure across the economy, accounting for (143.7 percent of GDP) followed by imports of goods and services (83.5 percent of GDP).

**Household final consumption expenditure increased by 8 percent in 2020.** Somalia households spent US\$10,009 million in 2020 (equivalent to 144 percent of the GDP), up from US\$9,267 in 2019. Households in Somalia spent more on water, housing, electricity & gas and food & non-alcoholic beverages as the most significant expenditures in consumer baskets.

**Government final consumption expenditure increased by 12 percent**, reflecting the revised 2020 supplemental budget that reveals substantial donor support to respond to the triple crisis. Federal government expenditure is estimated to rise during FY 2020, to US\$485.3 million in 2020, up from US\$315.7 in 2019.

**Gross domestic fixed investment increased in 2020 compared to the previous year**, with domestic investment estimated at US\$935 million, an increase of 3 percent over the value recorded in 2019. The increase in domestic investment contributes to sustainable development and job creation.

**Exports of goods and services are estimated to increase slightly to US\$1,178 million in 2020, from US\$1,131 million in the previous year**, representing about 17 percent of GDP. The value of exported goods and services in 2020 showed an increase of 4 percent compared to the value recorded in 2019. The main sectors of Somalia's exports are livestock, crops, and forest products.

**In 2020, the total import value increased by 7 percent.** Imports of goods and services are estimated to increase slightly to US\$5,818 million in 2020 (equivalent to 85 percent of GDP), from US\$5,423 million in 2019, this reflects the increase in the value of imports of medical products. In terms of imports, Turkey, India and China remain the top import markets for Somalia. The GDP estimate suggests that the Somalia economy is driven by the household consumption, mainly consumption of imported goods. This makes the economy susceptible to fluctuations in international commodity and energy prices, as well as the vulnerability risk on domestic food insecurity.

Poverty remains pervasive in Somalia as GDP per capita is estimated at US\$471 in 2020, almost 70 percent of Somalis live in less than US\$1.90 a day in purchasing power parity terms, and economic growth is barely keeping up with population growth estimated at 2.8 percent per year. Almost nine out of 10 Somali households are deprived in at least one dimension of monetary poverty, electricity, education, or water and sanitation—and nearly seven out of 10 households suffer in two or more dimensions.

## 2.1 Agriculture

Agriculture plays a vital role in Somalia's economy. The agricultural sector has a crucial role in income generation, job creation, ensuring food security and foreign exchange earnings as well as, its performance is the major determinant of overall GDP growth rate. Agriculture accounts for about 65 percent of Somalia's Gross Domestic Product (GDP) and Agropastoral community account for roughly 23 percent of the total population.

Agricultural production is estimated to decline in 2020 compared to on average in the last decade, mainly due to erratic rainfall, and desert locusts. According to the Somalia economic update report in 2020, agricultural



Gross domestic fixed investment increased in 2020 compared to the previous year...



Agriculture accounts for about 65 percent of Somalia's Gross Domestic Product (GDP)...

production is estimated to decline between 15 to 25 percent. The desert locust infestation confined central and northern Somalia, causing damage to fruits, trees, crops, and pasture. The unfavorable weather and desert locust hazards have led to approximately 2.7 million people to face food consumption gaps or depletion of livelihood.

The major agricultural subsectors are crops, livestock, and fishing. Livestock export has always been a major factor in the country's economic growth. Crop production activities provide job opportunities and a source of income for people living in the agricultural regions of Somalia. The fishery sector is a lifeline source of income and food for coastal communities.

### 2.1.1 Crop Production

On average, Crop production experienced lower growth in 2020 compared to the last decade. Crop production activities (land preparation, dry planting, and ridging for rainwater harvesting) provide job opportunities and a source of income for people living in the agricultural regions of Somalia. The bimodal rainfall determines crop production performance and potential output; Gu' from April to June, and Deyr from October to December. The Deyr rains are usually less and shorter in quantity than Gu rains.

According to the Food Security and Nutrition Analysis Unit (FSNAU) Post-Deyr and Gu reports, Deyr season cereal production in the southern region is estimated at 106,917 tons which is below 20 percent of the 1995-2019 average. Gu'cereal production in the southern region is estimated at 80,374 tons which are 40 percent lower than the long-term average for 1995-2019. In the northern region, Gu' cereal production harvested is estimated at 17,100 tons which is 58 percent below the last ten years' average, mainly due to desert locusts, erratic rainfall, and conflict.

According to FAO, price crops (white maize, white sorghum and red sorghum) increased mainly due to flooding and the second wave of locust infestation that damaged the production of crops in 2020.

### 2.2 Livestock

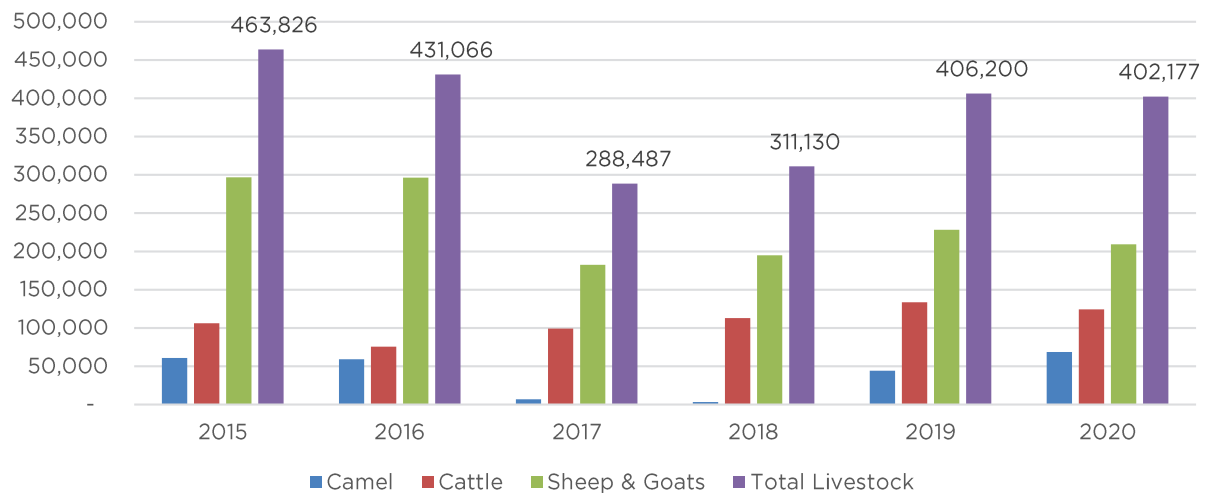
Livestock exports continue to remain vital to the Somalia economy and socio-economic development in 2020. It also plays important role in the rural economy supplementing family incomes and job creation in rural areas.

The value of livestock exports slightly declined in 2020, mainly on account of challenges posed by the pandemic on the cancelation of the hajj that substantially reduced annual livestock exports, as Somalia records its largest exports during the Hajj season. During 2020, Livestock exports contributed to the economy around US\$402 million in 2020, a decrease of 1 percent over the value recorded in 2019. The export of livestock accounted for 73.2 percent of total exports in 2020.



Crop production experienced lower growth in 2020 compared to the last decade...

Figure 4: Livestock Exports Value (Millions of US Dollars) 2015-2020



Source: MoF, FSNAU and CBS valuations and adjustments, 2020

Table 3: Livestock Export 2019-2020

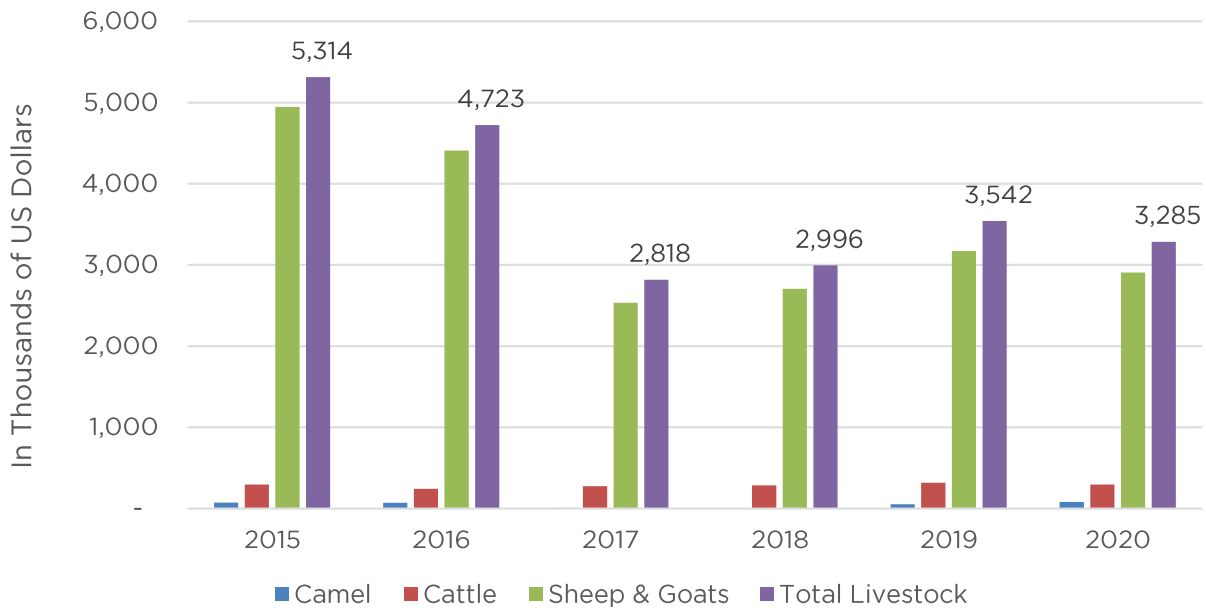
Type of Animal	Total Export (Heads)		Export Quality Price		Total Value in US dollar	
	2019	2020	2019	2020	2019	2020
Camel	52,680	81,634	700	700	36,876,000	57,143,800
Cattle	318,105	295,810	350	350	111,336,750	103,533,500
Shoats	3,171,458	2,907,840	60	60	190,287,480	174,470,400
<b>Total Head</b>	<b>3,542,243</b>	<b>3,285,284</b>	<b>Total Value</b>	<b>299,040,276</b>	<b>406,200,276</b>	<b>402,177,240</b>

Source: FAO-FSNAU & CBS estimates and valuations, 2020

The main exports of livestock are camel, cattle and Sheep & goat. In 2020, In terms of volume, Somalia exported 3.28 million heads of livestock of which 2.9 million of Goats & Sheep with the price of sixty dollars per head, followed by cattle export which is 295,810 with the price of three hundred and fifty dollars per head and camel export 81,634 with price of seven hundred US dollars per head. According to FAO, livestock prices of local quality of sheep & goats, cattle and camel remained relatively stable during 2020.

Most of the livestock are exported from Bossaso, Berbera and Mogadishu seaports. The main exports of livestock are Camels, Cattle, Sheep and Goats.

Figure 5: Total Heads of Livestock Export 2015-2020



Source: FAO-FSNAU & CBS estimates and valuations, 2020

### 2.3 Fishery

Fisheries play an important role in the economy of coastal communities in Somalia in expanding food supply, generating employment and rising nutrition level. Somalia's fisheries sector including small-scale and industrial fishers produces fresh fish for domestic and export markets. Generally, the marine fisheries of Somalia have an important position in the Somalia economy since the country has one of the longest coastlines in Africa, approximately 3,333 km western passage of Gulf of Aden to the Indian Ocean up to the border with Kenya. The Ministry of Fisheries and Marine Resources of the Federal Government issued 21 new licenses for fishing vessels in 2020.

Table 4: Annual Fish Production in Mogadishu and Nearby Shoreline (In US Dollar) in 2020

Type (KG)/Year	2020	
	Volume	Value
Bigeye tuna	2,269,078.00	22,910,393
Yellowfin tuna	1,988,638.00	14,576,810
Swordfish	1,183,792.00	3,800,310
Blue marlin	141,777.00	1,873,312
Striped marlin	159,915.00	1,343,080
Black marlin	45,760.00	583,968
Others	35,048.02	63,370
<b>Total</b>	<b>5,824,008.02</b>	<b>45,151,243</b>

Source: MOFMR, 2020



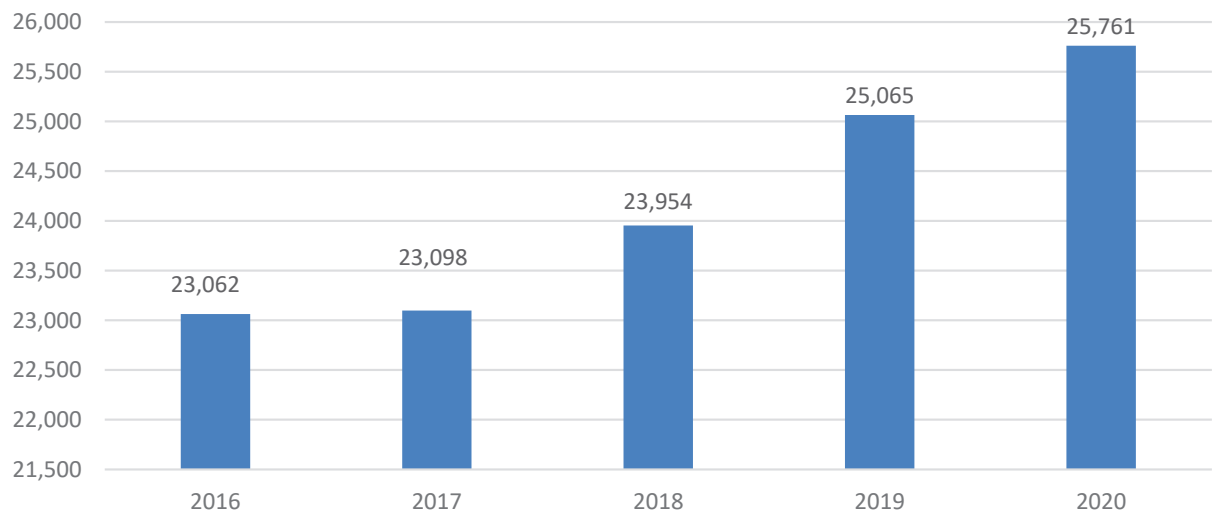
Realizing the sector's potential, the Federal Government of Somalia has committed to develop the fish industry in National Development Plan (NDP9) 2020-24 which will have positive impact on fishers. Domestic fish harvest in Mogadishu and nearby Shoreline in 2020 was 5,824 tons, worth of US\$45.2 million. Fishery production in Somalia's coastline is estimated at US\$112.8 million, an increase of 57.7 percent over the value recorded in 2019, mainly due to increase of demand in population, growth business in the fish industry and increased public awareness about the nutritional benefits of fish consumption.

## 2.4 Exchange Rate Development

The exchange rate remained relatively stable during 2020, although the Somalia shilling (SOS) depreciated against US dollar by 2.8 percent in 2020, from a depreciation of 4.6 percent in 2019, due to dollarized economy and widely use of mobile money transactions of which 73 percent of the Somalia population over the age of 16 years using mobile money services for their daily transactions.

For so long, the general trend of the Somalia Shilling continued to depreciate against the US Dollar. Compared to the five-year average, SOS depreciated against US Dollar at 3 percent on average. This rate of depreciation is in the line with Association of African Central Banks (AACB) convergence criteria of depreciation/appreciation in the nominal exchange rate not exceeding 10 percent.

Figure 6: Yearly Exchange Rates (Somali Shilling Per US Dollar, 2016-2020)



Source: CBS, 2020

The market exchange rate of the Somalia shilling was on average 25,761 SOS per US Dollar in 2020. Exchange rates of the East African currencies like Ethiopian birr, Kenya Shilling and Djibouti Franc were circulated in the border areas, where Euro, Pound Sterling, UAE Dirham and Saudi Riyal were also exchanged in foreign exchange markets.

Table 5: Exchange Rates (Somalia Shilling Per US Dollar)

Year/Month	2016	2017	2018	2019	2020
Jan	22,688	23,994	23,566	24,530	25,517
Feb	22,736	21,526	23,547	24,476	25,077
Mar	22,751	21,197	23,307	24,467	25,397
Apr	22,940	23,437	23,417	24,472	25,979
May	23,017	23,622	23,394	24,663	25,932
Jun	22,993	23,245	23,581	25,012	25,903
Jul	23,037	23,259	24,418	25,075	25,928
Aug	23,043	23,197	24,395	25,313	25,720
Sep	22,990	23,203	24,437	25,414	25,801
Oct	23,057	23,365	24,457	25,701	25,957
Nov	23,528	23,595	24,464	25,773	25,853
Dec	23,961	23,536	24,468	25,882	26,070
<b>Year Average</b>	<b>23,062</b>	<b>23,098</b>	<b>23,954</b>	<b>25,065</b>	<b>25,761</b>

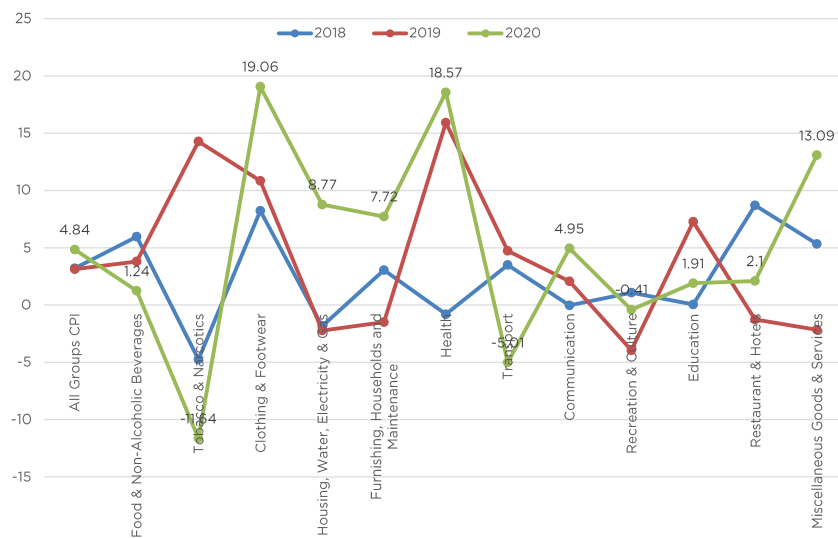
Source: CBS, 2020

The shilling is widely used in most states of the country including the capital city of Mogadishu but there are challenges to ascertaining the shilling transacting in a few cities including part of Hirshabelle State, Galmudug State and the Puntland State of Somalia.

## 2.5 Inflation Dynamics

During 2020, the inflation rate remained relatively stable and in a single-digit where the annual inflation rate increased to 4.8 percent at the end-December 2020, from 3.1 percent at the end-December 2019, a 1.7 percentage point increase compared to the same period in 2019, due to the increase in food inflation attributed to panic buying episodes during the COVID-19, since the economy of the country mainly depends on imported food products and essential medical supplies. This inflation rate is also in the line with Association of African Central Banks (AACB) convergence criteria of not more than 7 percent and a range of 3-7 percent until 2038.

Figure 7: Inflation Dynamics (Percentage Change 2018-2020)



Source: SNBS, 2020

As noted in the Somalia National Bureau of Statistics' CPI monthly report water, housing, electricity & gas, and food & non-alcoholic beverages are the most significant expenditure in consumer baskets and have the greatest weighted influence on the All-group CPI in 2020 due to their importance in daily consumption. The inflation rate of Food and Non-Alcoholic Beverages elevated year on year at 1.24 percent in December 2020, this was due to an increase in prices of some foodstuffs. The price of housing, water, electricity & gas increased year on year by 8.77 percent in December 2020.

Table 6: Annual Percentage of Inflation, 2018-2020 , Percentage Change on Same Month of Previous Year (Year on Year)

	2018	2019	2020
<b>All Groups CPI</b>	<b>3.22</b>	<b>3.13</b>	<b>4.84</b>
<b>Food &amp; Non-Alcoholic Beverages</b>	5.97	3.8	1.24
<b>Tobacco &amp; Narcotics</b>	-4.75	14.28	-11.64
<b>Clothing &amp; Footwear</b>	8.23	10.84	19.06
<b>Housing, Water, Electricity &amp; Gas</b>	-1.84	-2.23	8.77
<b>Furnishing, Households and Maintenance</b>	3.05	-1.49	7.72
<b>Health</b>	-0.80	15.92	18.57
<b>Transport</b>	3.50	4.73	-5.01
<b>Communication</b>	-0.03	2.07	4.95
<b>Recreation &amp; Culture</b>	1.08	-3.95	-0.41
<b>Education</b>	0.050	7.27	1.91
<b>Restaurant &amp; Hotels</b>	8.71	-1.26	2.1
<b>Miscellaneous Goods &amp; Services</b>	5.33	-2.16	13.09

Source: SNBS, 2020



# 3

## PUBLIC FINANCE DEVELOPMENT

### 3.1 Implementation of Fiscal Policy

At the end of 2019, the two chambers of the parliament of the Federal Government of Somalia, the House of the People and the Upper House approved the FGS 2020 budget. The Upper House participated in approving the national budget for the first time since its formation. This year's budget focused on strengthening economic growth and security. The FGS budget for fiscal year 2020 is estimated to reach US\$466.2 million, which is in conformity with the fiscal framework.

The FGS faced urgent fiscal response to address the economic crisis brought by COVID-19 as well as strengthening the health sector demanding expenditure to combat the pandemic. As a result, at the beginning of the second half of the fiscal year of 2020, the FGS approved a revised budget to respond COVID-19 challenges and solicit more bilateral and external donor grants. Thus, the FGS budget was revised upward to record US\$578.1 million, up from US\$466.2 million, indicating a 24 percent increase in the original budget, equivalent to US\$111.9 million. Increasing the budget is crucial for health sector's capabilities in combating the crisis, as well as a prerequisite for economic recovery.

Though the revised budget increased the total fiscal receipts and expenditure targets by 24 percent and 44 percent respectively, the actual fiscal receipts and expenditure targets underperformed by 14 percent and 29 percent respectively over the revised budget in 2020. The actual fiscal receipts and expenditure targets outperformed the original program budget by 7 percent and 2 percent respectively.

The actual revenue for the fiscal year 2020 recorded US\$496.8 million, with domestic revenue accounting for 43 percent and donor grants accounting for 57 percent. The actual domestic revenue underperformed by 10 percent (equivalent to US\$23.2 million) against the budgeted amount of US\$234.4 million. Donor grants outperformed the programmed budget by 23 percent to record US\$285.6 million, equivalent to US\$53.8 million. The actual expenditure reached US\$485.3 million, which is 2 percent higher than the budget target of US\$476.3 million in the initial estimated expenditure budget.

Table 7: Summary of Revenue and Expenditure 2018-2020 (In Million US Dollars)

	Actual Budget 2018	Actual Budget 2019	Estimated Budget 2020	Revised Budget 2020	Actual Budget 2020	Actual VS Estimated Budget
<b>Total Revenue and Grants</b>	<b>295.3</b>	<b>338.9</b>	<b>466.2</b>	<b>578.1</b>	<b>496.8</b>	<b>7%</b>
<b>Total Domestic Revenue</b>	<b>183.4</b>	<b>230.3</b>	<b>234.4</b>	<b>167.5</b>	<b>211.2</b>	<b>-10%</b>
Tax revenue	138.9	155.3	155.5	107	139.5	-10%
Non-tax revenue	44.5	75	78.9	60.5	71.7	-9%
<b>Total External Grants</b>	<b>111.9</b>	<b>108.6</b>	<b>231.8</b>	<b>410.6</b>	<b>285.6</b>	<b>23%</b>
Current - Grants Bilateral	43.6	36.4	109.5	30	15	-86%
Current - Grants - Multilateral	68.3	72.2	122.3	368.6	270.6	121%
<b>Total Expenditure</b>	<b>268.5</b>	<b>315.7</b>	<b>476.3</b>	<b>685.2</b>	<b>485.3</b>	<b>2%</b>
<b>Total Recurrent Expenditure</b>	<b>258.7</b>	<b>300.9</b>	<b>435.6</b>	<b>643.3</b>	<b>466.7</b>	<b>7%</b>
Compensation of employees	143.1	162.9	220.3	235.3	227	3%
Use of goods and services	80.6	92.4	132.2	154	80.7	-39%
Interest Payment			0.3	14.6	1.8	
Loan repayments			2.5		12.7	
Subsidies			10.1	2.2	2.2	-78%
Grants	30.8	45	42.7	143	80.3	88%
Social benefits			25	93.4	62.1	148%
Other expenses	4.1	0.6	2.5	0.8		-100%
<b>Total Capital Expenditure</b>	<b>9.9</b>	<b>14.8</b>	<b>40.7</b>	<b>41.9</b>	<b>18.6</b>	<b>-54%</b>
Consumption of fixed capital	9.9	14.8	40.7	41.9	18.6	-54%
<b>Financing Gap / Surplus (-) or (+)</b>	<b>26.8</b>	<b>22.6</b>	<b>-10.1</b>	<b>-107.1</b>	<b>11.6</b>	<b>-215%</b>

Source: MoF, 2020

## 3.2 Domestic Revenue and Grants

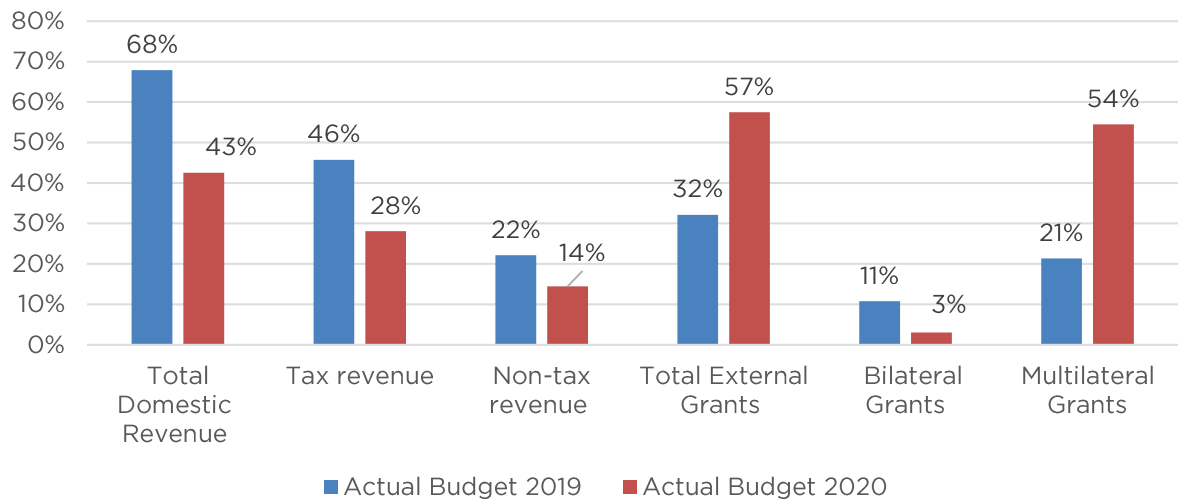
The actual revenue and grants collected by the Federal Government of Somalia for the fiscal year of 2020 amounted to US\$496.8 million, 7 percent higher than the estimated budget. Domestic fiscal receipts amounted US\$211.2 million, which is 10 percent lower than the budgeted fiscal receipts. External grants, in contrary, outperformed by 23 percent (equivalent to US\$53.8 million) over the planned grants to record US\$285.6 million.

### 3.2.1 Domestic Revenue

The Actual total domestic receipts of the Federal Government of Somalia in the fiscal year of 2020 underperformed by 8 percent to record US\$211.2 million, up from US\$230 million over 2019. The share of the domestic fiscal outturn declined by 25 percentage points, from a share of 68 percent in 2019 to 43 percent share of the total fiscal receipts in 2020.

The decline in domestic fiscal outturn is largely due to the negative economic impact of COVID-19 that weakened many sectors who were critical to government revenue collection as well as led an additional burden on the nation-building projects and overall performance of the economy.

Figure 8: Comparison of Fiscal Receipts (2019 and 2020)



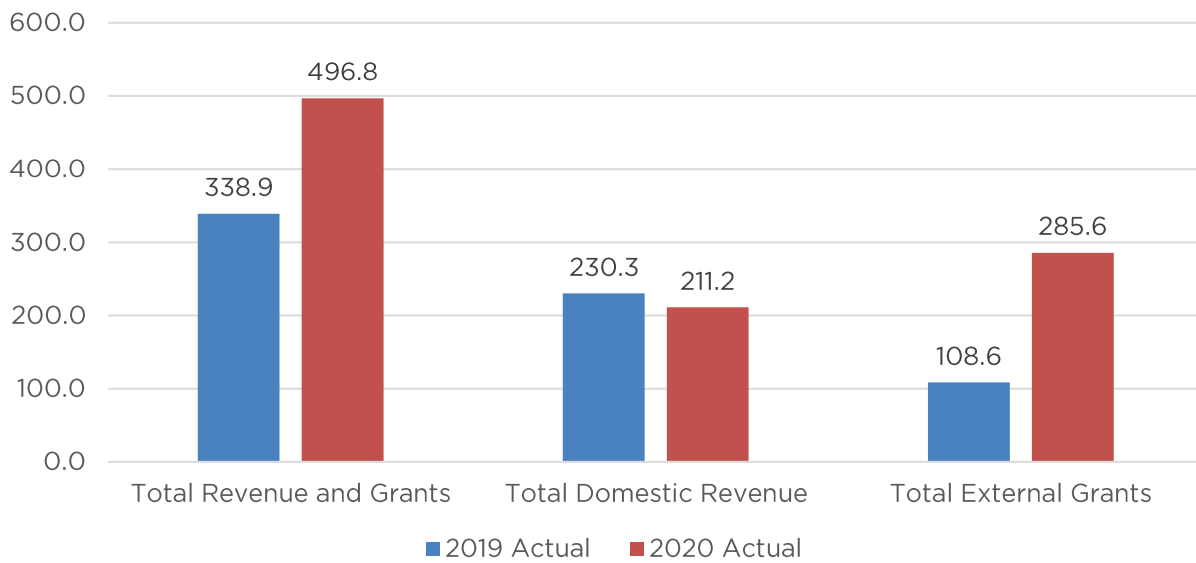
Source: MoF, 2020

Tax revenues collected in 2020 amounted to US\$139.5 million, representing 66 percent of the total domestic revenue. Tax revenues fell short of the anticipated budget of the fiscal year 2020 by 10 percent. Tax on international trade accounted for more than 65 percent of tax revenues, indicating that FGS generates 28 percent of its total fiscal receipts from taxes on international trade. Tax revenues collected in the fiscal year of 2020 showed a 10 percent shortfall compared to last year. The shortfall is largely due to losses caused by COVID 19 to the government's revenue-generating sectors. Additionally in April 2020, tax exemptions were introduced for essential items, and there were 50 percent reductions in tariff rates for certain goods such as wheat flour and vegetable oils, as well as complete tax exemptions for rice and dates, to discourage suppliers from hoarding and encourage traders to seek alternative routes to boost commodity supply.

Non-tax revenue for the fiscal year of 2020 stood at US\$71.7 million, accounting for 34 percent of the total revenue of the FGS. Non-tax revenue showed a shortfall of 4 percent compared to the amount recorded in fiscal year of 2019.



Figure 9: Comparisons of 2019 and 2020 Actual Revenue



Source: MoF, 2020



In 2020, the donor grants received performed by more than double compared to the amount received in 2019...

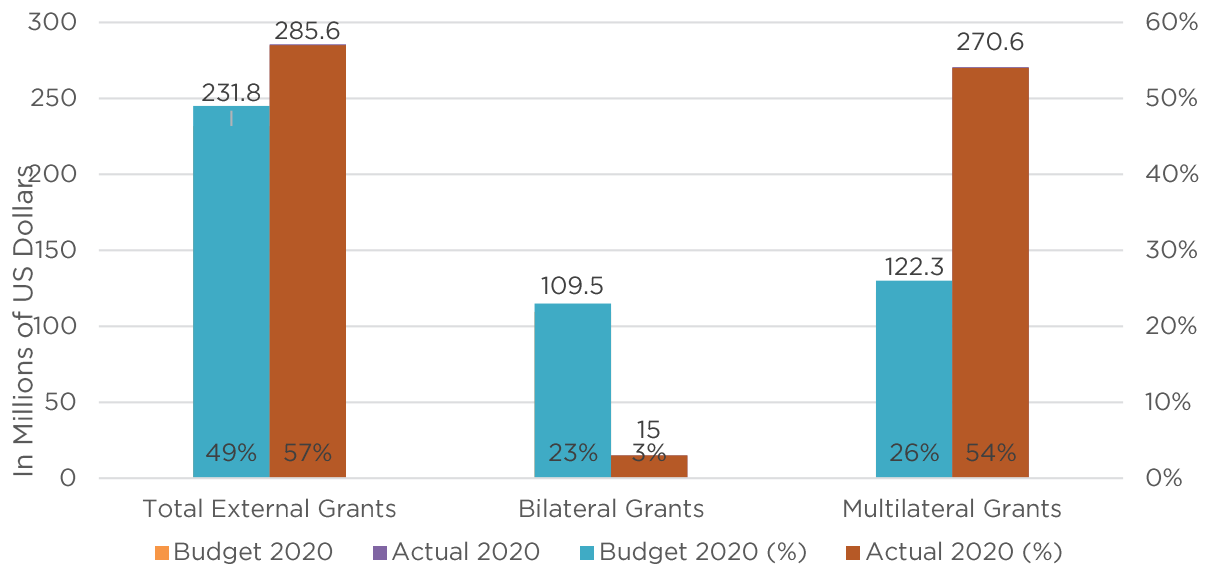
### 3.2.2 External Grants

The actual external grants for the fiscal year of 2020 represented the largest share (57 percent) of the total fiscal receipts. Donor grants turned out to be more than expected, outperforming by more than 23 percent over the programmed budget in fiscal year 2020. In 2020, the donor grants received performed by more than double compared to the amount received in 2019, reaching a total of US\$285.6 million, up from US\$108.6 million in 2019, equivalent to US\$177 million.

Bilateral grants received in 2020 amounted to US\$15 million, down from US\$36.4 million in 2019 representing a 59 percent shortfall. Multilateral grants are the most, and the major element in the external grants holding the highest share (95 percent) of the external grants in the fiscal year of 2020. Multilateral grants received in the fiscal year 2020 has more than doubled to register US\$270.6 against the budgeted amount of US\$122.3 million, this exceeds the budgeted amount by US\$148.3 million. Multilateral grants have seen a more than threefold increase compared to amount in 2019, reaching a new high of US\$270.6 million, up from US\$72.2 million in 2019.



Figure 10: Donor Grants 2020 (Budgeted and Actual)



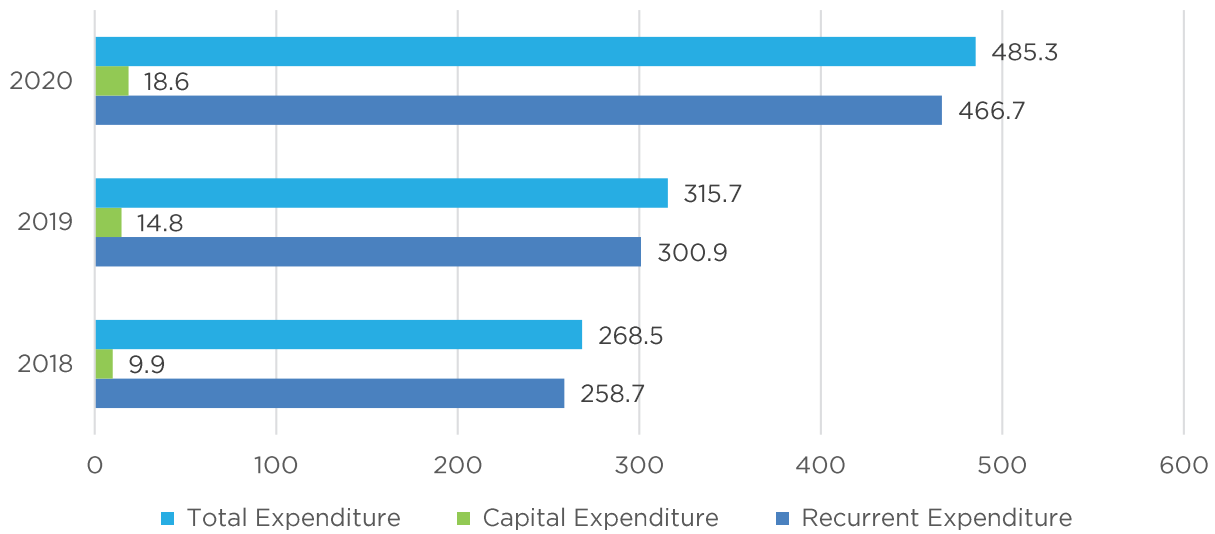
Source: MoF, 2020

### 3.3 Government Expenditure

The total expenditure of the Federal Government of Somalia for the fiscal year of 2020 reached US\$485.3 million, compared to the budgeted expenditure of US\$476.2 million. This demonstrates that government spending is 2 percent higher than the planned expenditure. Recurrent expenditures account for over 96 percent of government spending, whereas capital spending accounts for approximately 4 percent of the government expenditure.

The actual budget of the recurrent expenditure amounted to US\$466.7 million showing a 7 percent overspending against the budgeted recurrent expenditure for the fiscal year 2020. On the other hand, the actual recurrent expenditure of 2020 surpassed the actual spending of 2019 by 55 percent, from US\$300.9 million in 2019 to US\$466.8 million in 2020. This growth of actual recurrent expenditures of 2020 was resulted by the increase of the expenditures of the several components, most notably employee compensation (39 percent) and the increased expenses on the health sector due to the COVID-19 pandemic, mainly from donor grants.

Figure 11: Main Indicators of Public Expenditure (2018-2020)

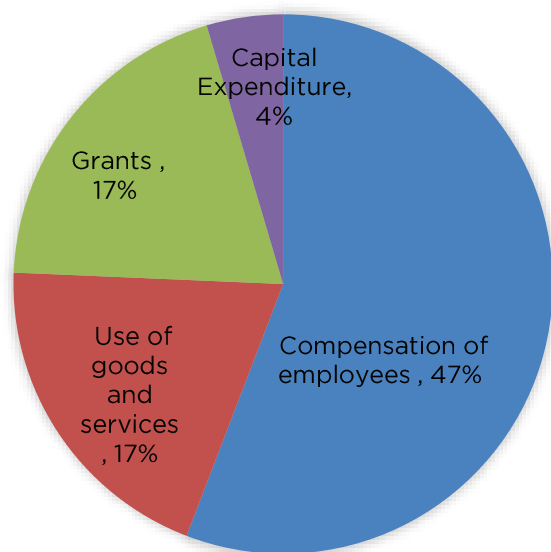


Source: MoF, 2020

Expenditures on compensation of employees amounted to US\$227 million, overspending of 3 percent of the spending target. Followed by FGS use of goods and services, which totaled US\$80.7 million against the budgeted of US\$132.2 million, representing an underspending of 39 percent over the programmed budget in the fiscal year 2020. The FGS grants to the Federal Member States were US\$80.3 million, which surpassed the planned budget by 88 percent, equivalent to US\$37.6 million.

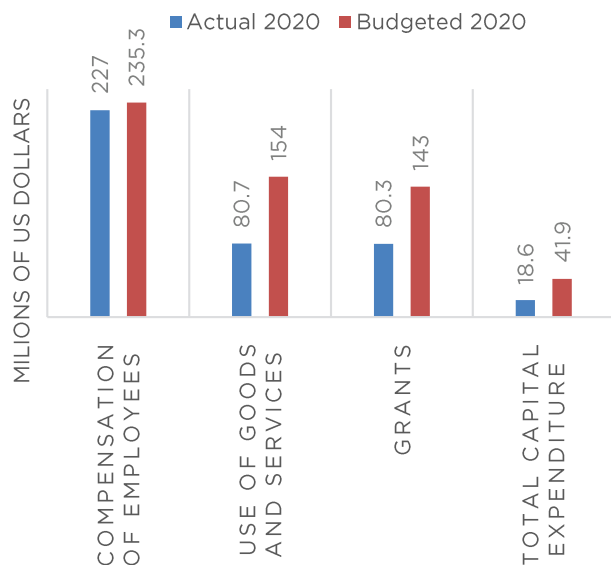
The capital expenditure of the FGS amounted to US\$18.6 million in 2020 against the budgeted amount of US\$9.8 million. The FGS capital expenditure for the fiscal year of 2020 was 26 percent (US\$3.8 million) higher than in the capital expenditures in 2019.

Figure 12: Categories of Government Expenditure



Source: MoF, 2020

Figure 13: Comparison of Actual and Budgeted Expenditure of 2020



Source: MoF, 2020

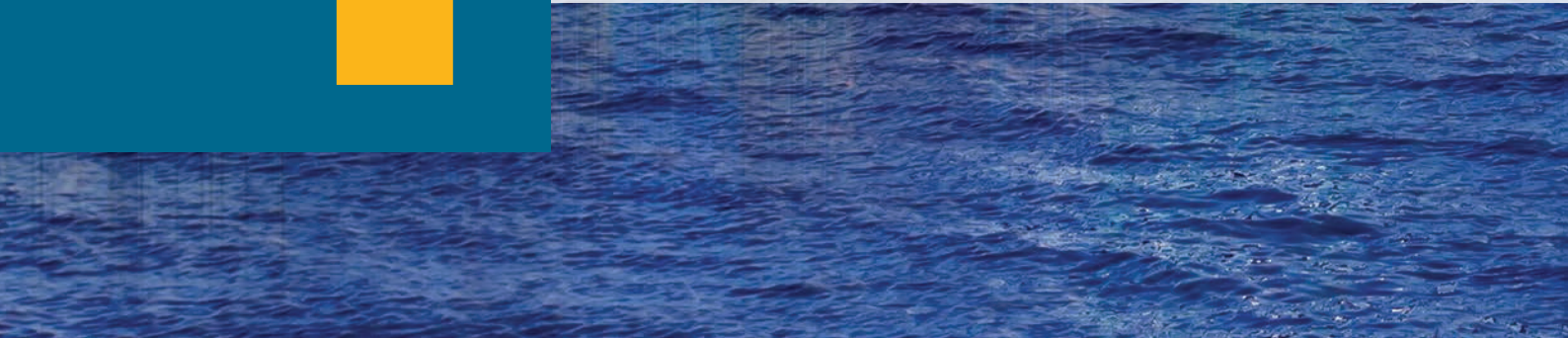






# 4

## EXTERNAL SECTOR



## 4.1 Balance of Payments

The COVID-19 Pandemic has caused unprecedented health crisis that led to a human and economic crisis. It created a situation of uncertainty to not only specific geographical location but to the whole world with its economic and financial systems. The international trade has once again collapsed after that of 2008-09 crises. In comparing the two crises, research documents that the world trade volumes decreased by 21 percent between March and April 2020 while the highest monthly drop in the 2008-09 crises was 18 percent between September-October 2008.

The Pandemic had led to a global macroeconomic shock of unprecedented magnitude minting the year 2020 with the theme of a “Year Like No Other”. With the sharp increase in market volatility and the speed of the economic deterioration, the central banks were suddenly challenged to respond to the shocks in early 2020. This is because, as being observed, it was not a standard recession but rather an induced economic coma, thus, a different recession required a different response (CEPR, 2021).

However, the critical lesson that Africa has learned from the COVID-19, if any, is the need to invest in building its own capacity and capability in manufacturing of medical equipment & producing the vaccinations for any unprecedented epidemics.

Almost all the regions reported a year-on-year decline in the volume of commodity trade in the second quarter of 2020, North American exports were the lowest (-25.5 percent), followed by Africa (-21.7 percent), Europe (-20.4 percent) and the Middle East (-19.7 percent). A slight decline was observed in South and Central America (-9.0 percent) and Asia (-7.1 percent).

### 4.1.1 Current Account

Somalia has experienced a lower trade flows this year, though both exports and imports are expected to recover in the next year, to a level about 5 percent lower than previously, and remaining so into the future. The current account deficit remains large, financed by foreign grants, FDIs and remittances.

The country's current account deficit widened by 8 percent in 2020 to a deficit of US\$641 million from a deficit of US\$592 million last year. Due to the decline in the value of exported goods and services, the trade deficit of Somalia has also widened by 8 percent in 2020 recording a deficit of US\$4,639 million from US\$4,292 million in 2019.

Compared to 2019, the goods account's deficit balance has shown a deterioration of 3 percent to US\$3,328 million in 2020 from US\$3,243 million last year representing 48 percent of the GDP.

The decline in exports was due to a sharp decline in forest products this year by 88 percent to US\$12.7 million, from US\$110 million in 2019, as well as animal skin products by 33 percent. Livestock exports have also declined slightly, but even a slight decline is leading to a decline in exports as livestock exports account for more than 70 percent of the country's



The decline in exports was due to a sharp decline in forest products...



exports. Apparently, livestock exports have not decreased significantly despite Saudi Arabia's suspension of the annual hajj, as Somalia has recently been exporting livestock to other international markets such as Oman. Although livestock exports from Somalia are high during the Hajj season.

Furthermore, the country's imported goods valued US\$3,878 million while exporting a total value of US\$549 million registering a deficit of US\$3,328 million (48 percent of GDP). Main exports of Somalia include livestock, crops & vegetable oil and forest products while imports are composed of consumer goods dominated by foodstuffs including sugar, pasta, wheat flour, rice, as well as Khat followed by petroleum and manufactured goods.

The current account deficit, which is primarily financed by remittance, grants and FDI, represents 9 percent of GDP in 2020, showing no change compared to the figures of the last year.

#### 4.1.2 Capital Account

Compared to 2019, the country's capital account showed 9 percent growth in 2020 standing at US\$659 million (9 percent of GDP) up from US\$605 million in the last year. Foreign direct investment represented US\$464 million (9 percent of GDP) up from US\$447 million in 2019. The following two tables illustrate the balance of payment in millions of US dollars and in percentage of the GDP, respectively.

Table 8: Balance of Payment, 2019-2020 (Millions of US of Dollars)

	2019	2020
<b>Current account balance</b>	<b>-592</b>	<b>-641</b>
<b>Overall trade balance Goods balance</b>	<b>-4,292</b>	<b>-4,639</b>
<b>Goods balance</b>	<b>-3,243</b>	<b>-3,328</b>
Exports of goods, f.o.b.	662	549
Imports of goods, f.o.b.	-3,905	-3,878
<b>Services, net</b>	<b>-1,049</b>	<b>-1,311</b>
Service credits	469	629
Service debit	-1,518	-1,940
<b>Income (net)</b>	<b>-36</b>	<b>-37</b>
Receipts	46	49
Payments	-82	-86
<b>Current transfers (net)</b>	<b>3,736</b>	<b>4,035</b>
Private (net), including remittances	1,580	1,690
Official	2,156	2,345
<b>Capital account and financial account</b>	<b>605</b>	<b>659</b>
<i>of which:</i>		
Foreign direct investment	447	464
<b>Overall balance and error and omissions</b>	<b>13</b>	<b>18</b>
<b>Change in central bank reserves (- = increase)</b>	<b>-13</b>	<b>-17</b>
<b>Memorandum items:</b>		
Nominal GDP	6,683	6,965
External public debt	5311	4,529

Source: UN comtrade, IMF and CBS estimates, 2020

Table 9: Balance of Payment, 2019-2020 (Percent of GDP, unless otherwise indicated)

	2019	2020
<b>Current account balance</b>	<b>-9</b>	<b>-9</b>
<b>Overall trade balance Goods balance</b>	<b>-66</b>	<b>-67</b>
<b>Goods balance</b>	<b>-50</b>	<b>-48</b>
Exports of goods, f.o.b.	10	8
Imports of goods, f.o.b.	-60	-56
<b>Services, net</b>	<b>-16</b>	<b>-19</b>
Service credits	7	9
Service debit	-23	-28
<b>Income (net)</b>	<b>-1</b>	<b>-1</b>
Receipts	1	1
Payments	-1	-1
<b>Current transfers (net)</b>	<b>58</b>	<b>58</b>
Private (net), including remittances	24	24
Official	33	34
<b>Capital account and financial account</b>	<b>9</b>	<b>9</b>
<i>of which:</i>		
Foreign direct investment	7	7
<b>Overall balance and error and omissions</b>	<b>-0.2</b>	<b>0</b>
<b>Change in central bank reserves (- = increase)</b>	<b>0</b>	<b>0</b>
<b>Memorandum items:</b>		
Nominal GDP (Millions of U.S. dollars)	6,683	6,965
External public debt	82	65

Source: UN comtrade, IMF and CBS estimates, 2020

## 4.2 External Public Debt

Somalia has embarked on a long journey of economic reforms since 2016, which has pushed the FGS and the public to realize the difficult reality of debt and the exclusion of global economic resources. Since then, Somalia has undergone significant reforms to achieve economic and financial development under successive IMF Staff Monitored Programs. The IMF's debt relief program is designed to support Somalia reach the completion point, which will ultimately make eligible to debt relief under the HIPC Initiative.

The implementation of the debt forgiveness program was subject to almost 20 conditions that the Federal Government of Somalia has met. These included the implementation of the National Army's payroll accounts, the development of Poverty Reduction Strategy Paper (PRSP), the increase in domestic revenue which is mostly focuses on efforts to mobilization of government revenues, including across the Federal Member States, strengthen public financial management, enhance financial sector stability, and strengthen compliance with the framework for anti-money laundering/ combatting the financing of terrorism.

In terms of domestic revenue collections, the FGS has focused on a strong revenue mobilization plan considering debt relief requirements, and commitment to enhance its financial systems, as a result, the domestic revenue has increased by 25 percent and 29 percent in 2018 and 2019 respectively, but revenues in 2020 fell slightly (8 percent) to US\$211.2 million, as 2020 was the year COVID-19 hit the world in terms of health and economy and for Somalia, this is coupled by droughts, locusts, and recurrent floods.

These reforms have contributed to Somalia's opportunity to reach the Heavily Indebted Poor Countries (HIPC) initiative's Decision Point on March 25, 2020, regaining access to regular concessional financing for the country, as well as starting the debt-relief procedure. The debt relief is a sign that the country is taking steps towards stability and development. At the beginning of the HIPC process, Somalia's public debt was estimated at US\$5,311 million in Net Present Value (NPV). Somalia has made significant progress in dealing with its creditors and other international financial institutions, in that effort, Somalia has cleared its arrears to the IMF on March 25, 2020, and other International Financial Institutions (IFIs) such as the AFDB and the International Development Association on March 5, 2020, bringing its total external debt to US\$4,529 million. Somalia also reached an agreement with the Paris Club on debt relief on March 31, 2020, where Somalia's total debt of more than US\$3 billion decreased by US\$ 379 million. and it is working with the non-Paris club creditors, who owe Somalia more than US\$700 million, to reach similar agreements.

Somalia's achievement of reaching the Decision Point was significant and it is historic event which has aided the FGS in normalizing relations with international financial institutions, including traditional bilateral and multilateral donors, and will now facilitate additional development funding through much needed grant resources.

Table 10: External Public Debt (2013-2020) in Millions of US Dollars

Creditors	Prel. 2013	Prel. 2014	Prel. 2015	Prel. 2016	Prel. 2017	Prel. 2018	Prel. 2019	Prel. 2020	2020%	2020 % of GDP
<b>Total Outstanding Stock</b>	<b>4,394</b>	<b>4,394</b>	<b>4,414</b>	<b>4,377</b>	<b>4,585</b>	<b>5,235</b>	<b>5,311</b>	<b>4,529</b>	<b>(15)</b>	<b>65%</b>
Multilateral	1,556	1,507	1,468	1,442	1,504	1,520	1,530	1,114	(27)	16
Bilateral creditors	3,566	2,887	2,946	2,935	3,081	3,714	3,781	3,413	(10)	49
Paris Club bilateral creditors	2,244	2,249	2,332	2,320	2,464	3,022	3,072	2,693	(12)	39
Non-Paris Club creditors	1,322	638	614	615	617	692	709	719	(1)	10

Source: MoF. 2020

The table above shows that the ratio of public debt to GDP decreased by 17 percentage points over 2019 to record 65 percent of GDP by the end of the FY 2020.

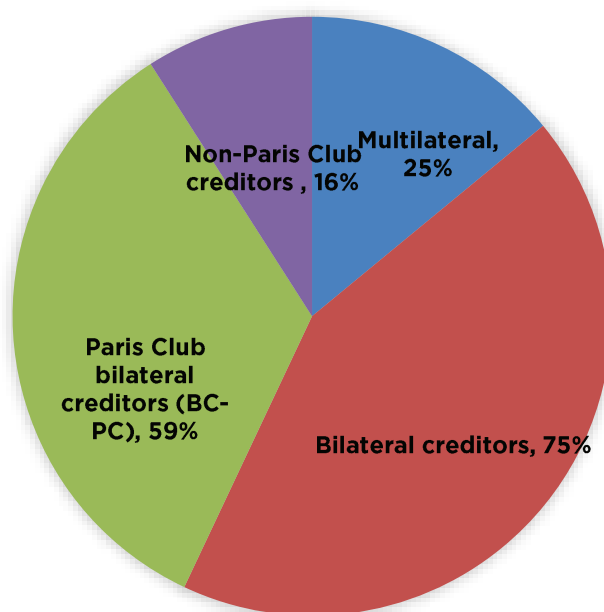
#### 4.2.1 Debt Composition

Somalia's current foreign debt owed to Multilateral and bilateral creditors. The largest debt (equivalent to 75 percent of Somalia's debt) is owed to Bilateral creditors of Paris club and non-Paris club creditors.

At the end of December 2020, the overall stock of debt stood US\$4,529 million, with multilateral accounting for US\$1,114 million. The IMF, AMF, AFESD, and IDA, in that order, are the largest multilateral creditors. Bilateral debt recorded US\$3,413 million, with Paris Club creditors accounting for about 80 percent of the total bilateral creditors. The United States, Russia, Italy, and France are the primary Paris club creditors, in that order. The non-Paris club debt totals US\$719 million, with Arab creditors, primarily the Abu Dhabi Fund, Iraq, the Kingdom of Saudi Arabia, and Kuwait Funds, as the primary creditors.

As part of Somalia's IMF-supported program, during 2020, Government prioritized debt service payments to the AfDB, and IDA as shown in the figure below. With regards to the Paris Club, all debt service due as a result of the Paris Club agreement has been deferred until 2023 and Somalia is committed to secure the same treatment from Non-Paris Club creditors. Separate negotiations are being carried out with the other multilateral creditors that will provide the necessary HIPC debt relief as determined in the enhance HIPC Initiative Decision Point Document and would minimize the fiscal impact. If Somalia sticks to its determination to reform all its sectors, its debt will be cleared in three years (March 2020-March 2023) and will lead Somalia have access to new resources from development partners and International Financial Institutions (IFIs) to start a prosperous future for its people.

Figure 14: External Public Debt (As of 2020)



Source: MoF, 2020



# 5

## FINANCIAL SECTOR DEVELOPMENT



In Somalia, the financial system consists of the Central Bank of Somalia (CBS) as the highest authority in the sector, commercial banks (CBs), money transfer businesses (MTBs), and mobile money operators (MMOs). Additionally, there are growing sectors such as microfinance institutions (MFIs) and Islamic insurance companies.

The Banks' efforts to strengthen its organizational capacity and improvement of its regulatory and oversight power are crucial for the sustainable development and overall economic growth. Based on this, the Bank has issued new guidelines and regulations for the financial institutions in 2020. These regulations and guidelines include the amended mobile money regulation, the new guidelines on Operational Risk Guideline (2020), Shariah Governance Framework (2020), and the Islamic Financial Reporting & Accounting Guideline (2020).

The Bank has made significant progress in licensing commercial banks and Money Transfer Businesses as well as supervising them through regular offsite and onsite examinations to ensure the smooth running of the country's financial system. The licensed financial institutions by the central bank of Somalia as of December 2020 constitute 13 commercial banks and 10 Money Transfer Businesses (MTBs), under the CBS's Banking and MTB regulations, respectively.

The Central Bank of Somalia has made progress in increasing the public and international community's confidence in Somalia's financial system. This policy action helped CBS maintain good relations with the international community. On the other hand, many efforts have been made, some of which have made progress in restoring and rebuilding international confidence in the country's financial sector. Among the developments is the normalization of financial relations with the World Bank. In February 2020, after thirty years, the World Bank Group Board of Executive Directors took step to normalize relations with the Federal Government of Somalia (FGS). This have paved the way for Somalia to receive funds from the International Development Association (IDA) and to collaborate closely with the World Bank's various groups in order to attract investment that will help the country's stability and development.

At the onset of the COVID-19 pandemic in 2020, the outbreak of the virus become unstoppable although most of the countries put in place proactive measures to combat and contain the severe impact of the pandemic. Some of the emphatic actions was the implementation of the lockdown and restriction of flow of people and trade in goods. The immediate



The Central Bank of Somalia has made progress in increasing the public and international community's confidence in Somalia's financial system...

implication was that the Coronavirus left major airports deserted, as a remittance-reliant nation, there was rising concerns on the country's ability to sustain growth if this crises last long, and also there was a strong fear that the impact would be even greater as MTBs relied on physical money transfers from Europe and the North America coupled with commercial banks already struggling to sustain correspondent banking relations with international financial institutions. The total amount of blocked funds in US and Europe surpassed US\$56 million, the MTBs become hardly facilitate fund transfer and introduced caps on inflows and outflows to US\$800 to limit large payment transactions for the sake of sustaining clients across the country, while commercial banks introduced moratorium on loan repayment to the SMEs for the sake of reducing stress in debt repayment and help business liquidity in the mid of the crises. The decline in the inward fund transfer were noticed in April 2020, just few weeks when the lockdown policy was adopted in remittance source countries starting from March 10 to March 26, 2020. The decline of remittance inflow was consistent till end of July 2020 when MTBs started to employ private couriers to supply funds from Europe to Somalia. Despite these challenges brought about by the pandemic, there was an indication that some businesses to shift their fund transfer to the banking sector.

With very tight hands, the Bank has implemented proactive measures that support the limited, but available, prudential measures and engaged frequently on a weekly basis the executives of commercial banks, MTBs, MMOs and other organizations to take informed decisions and to call national COVID-19 committees to undertake informative policy decisions that mitigate the risk of the pandemic to the financial sector and the economy at large.

The following are the policy interventions that CBS has taken to monitor and combat the risk of the pandemic to sector.

- Introduction of weekly liquidity monitoring to control the capital adequacy compliance of the licensed commercial banks.
- The change of the reporting frequency from quarterly to monthly basis as to navigate the potential risks related to the pandemic on the financial sector, with the view to consider interventions within CBS's limited policy space.
- Reactivation of CBS bank account with Federal Reserve Bank of New York.
- Reaching out international partners to establish a safer corridor for Somalia remittance flow to sustain livelihood and economic resilience to the shock.
- Support the Somalia commercial banks to get correspondent banking, so that they can facilitate remittances through formal banking.
- Approaching the Remittance Advisory Council of World Bank to support finding short/medium-term solution to the remittance flow to Somalia.

- Releasing small sum of US\$2.9 million microfinance fund for five banks (each US\$580,000). This slightly eases the loan burden to MSMEs impacted by unavoidable lockdowns and disruptions along supply chains to protect jobs and livelihoods of ordinary Somalis.
- Encouraging the brave initiatives taken by the commercial banks, namely, Agro-Bank to release US\$1 million loan to small farmers that produce domestic cereals.
- Praising the intervention made by Gargaara with WB support to release much needed loan to three commercial banks to ensure access to finance, especially for SMEs.

The total assets of commercial banks grew by 52 percent to US\$845.7 million at the end of the financial year 2020, compared to US\$556.2 million in 2019. The increase in bank assets is mainly due to the increase in public confidence in the banking systems as well as the prudential rules adopted by the Central Bank of Somalia to regulate and supervise the industry and maintain financial stability.

It has been predicted that restrictions due to the COVID-19 pandemic and declining growth momentum of the global economy to have a negative impact on the inflows to Somalia, and more specifically on remittances, but on the contrary, the remittances, which works in a countercyclical manner, recorded an increase of 23 percent to record US\$3,445.2 million in 2020, from US\$2,794.2 million in 2019.

Table 11: Consolidated Balance Sheet for Commercial Banks (2018 - 2020) in Millions of US Dollars

	2018				2019				2020			
	March	June	Sep	Dec	March	June	Sep	Dec	March	June	Sep	Dec
<b>Total Assets</b>	<b>347.0</b>	<b>351.3</b>	<b>377.3</b>	<b>414.9</b>	<b>426.1</b>	<b>470.1</b>	<b>504.4</b>	<b>556.2</b>	<b>563.3</b>	<b>572.7</b>	<b>615.1</b>	<b>845.7</b>
Financing Assets	154.5	146.8	149.0	161.4	174.3	165.9	154.5	155.6	162.9	139.4	138.3	145.8
Investment Assets	34.9	49.7	46.6	53.5	55.0	72.6	90.6	109.7	112.5	111.6	120.5	134.6
Other Assets	10.2	13.9	13.4	8.0	14.5	24.7	26.9	32.9	33.6	58.3	44.8	59.4
<b>Total Liabilities</b>	<b>297.0</b>	<b>299.2</b>	<b>322.2</b>	<b>361.0</b>	<b>370.8</b>	<b>387.5</b>	<b>406.3</b>	<b>459.2</b>	<b>455.5</b>	<b>462.7</b>	<b>502.9</b>	<b>712.3</b>
Customer Deposits	272.6	276.9	296.0	332.4	343.9	362.6	382.2	430.1	413.1	424.7	460.7	667.2
Microfinance Loan	1.0	1.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5	2.9	2.9	2.9
Other Liabilities	23.4	21.4	24.6	27.1	25.5	21.6	21.8	27.2	34.2	21.7	29.4	32.2
Total Shareholder's Equity	50.0	52.1	55.1	53.9	55.2	71.8	98.1	97.0	107.8	110.0	112.2	133.4

Source: CBS, 2020

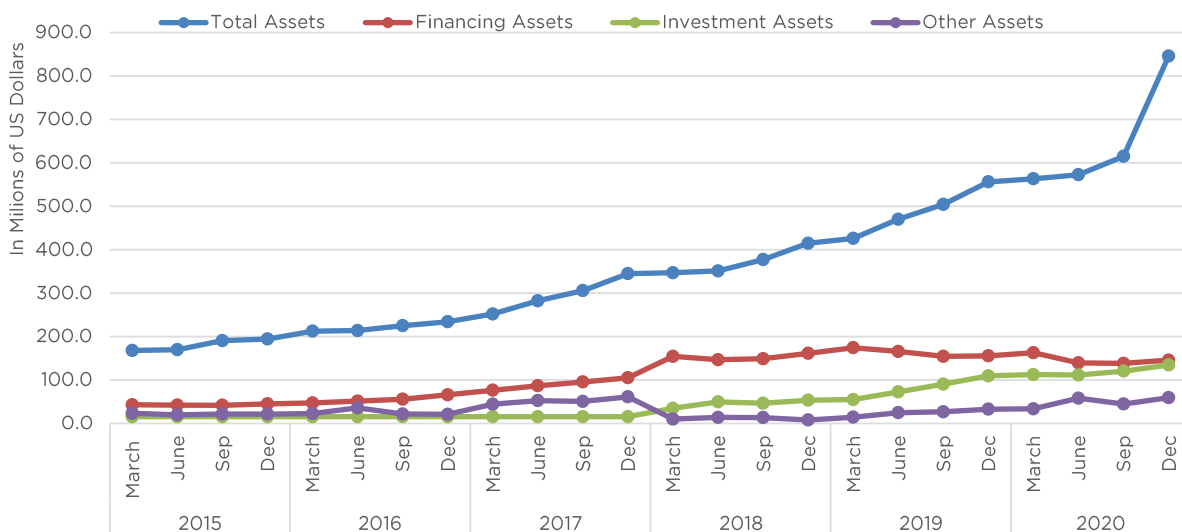
## 5.1 Banking Sector

The banking sector is essential to Somalia's financial growth and prosperity. The total assets as well customer deposits have grown steadily in Somalia's banking sector, showing a solid financial position and financial competence.

As figure 16 shows the total assets of commercial banks grew by 52 percent to reach US\$845.7 million at the end of the fiscal year 2020, compared to US\$556.2 million at the same period in 2019. The increase in assets is mostly due to increase of investment assets and foreign assets by 50 percent and 44 percent respectively. Financing assets have declined by 6 percent reflecting the difficult in financing due to the increase of non-performing loans by the individuals and SMEs to record US\$145.7 million in 2020 from US\$155.6 million in 2019. The decline in financing assets can often be attributed to commercial banks being cautious during the COVID 19 pandemic. Financial services declined sharply by 98 percent, followed by manufacturing loan recording a decline of 52 percent, while real estate financing and trade financing shown a decline of 16 percent ,5 percent, respectively. But surprisingly, agriculture financing has more than quadrupled, from US\$817,000 in 2019 to US\$4.3 million at the end of 2020. This is largely due to the fact that the flow of goods around the world has become more restricted due to COVID 19 and knowing that Somalia's food is heavenly dependent on imports, this has encouraged to invest in agriculture to cover up food shortages, and thanks to Agro-Bank which has taken the initiative to release US\$1 million loan to small farmers that produce domestic cereals. As a move towards digital platform, the loan to communication sector increased by 61 percent by the end of Dec 2020 to record US\$2.1 million, up from US\$1.3 million.

Furthermore, investment assets at the end of December 2020 reached US\$134.6 million, up from US\$109.7 million in 2019, suggesting a 23 percent increase.

Figure15: Consolidated Commercial Banks Data (Assets) from (2015-2020)

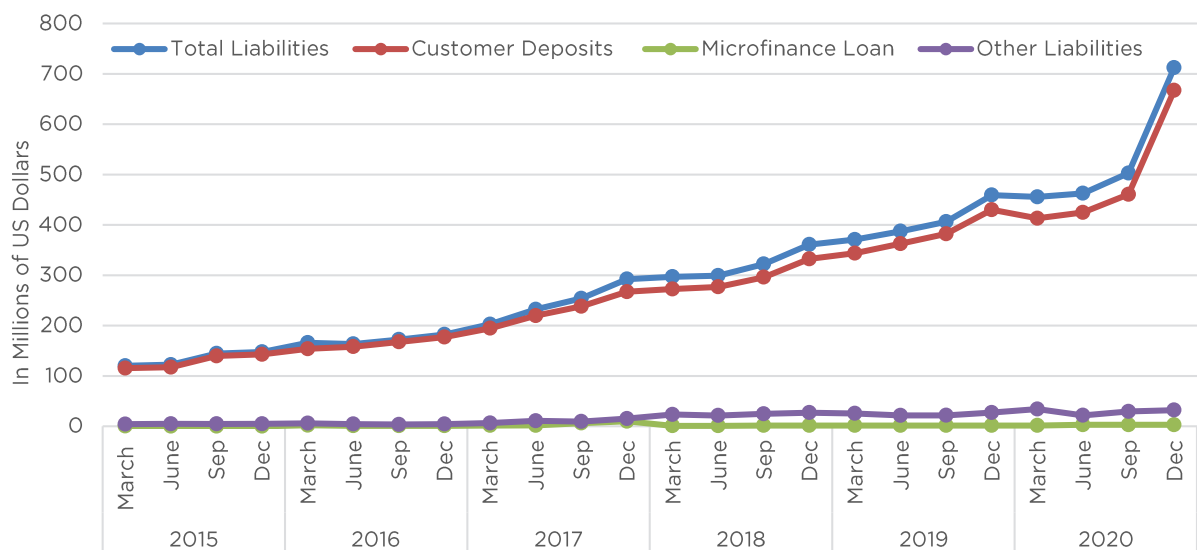


Source: CBS, 2020



As shown in figure 17, the liabilities of the commercial banks have been steadily increasing over the past six years. Commercial bank liabilities increased by 55 percent at the end of 2020 to record US\$712.3 million up from US\$459.2 million at the end of 2019. Customer deposits grew by 55 percent up from US\$430.1 million at the end of 2019 to record US\$667.2 million at the end of 2020. Customer deposits represent 79 percent of the total liabilities and equities; mainly demand deposits from individuals and commercial entities. The increase in customer deposits is mainly due to the increase in public confidence in the banking sector as the CBS regularly supervises and issues regulations and guidelines to maintain the smooth running of the country's financial system.

Figure 16: Consolidated Commercial Banks Data (Liabilities) from (2015-2020)



Source: CBS, 2020

## 5.2 Money Transfer Businesses

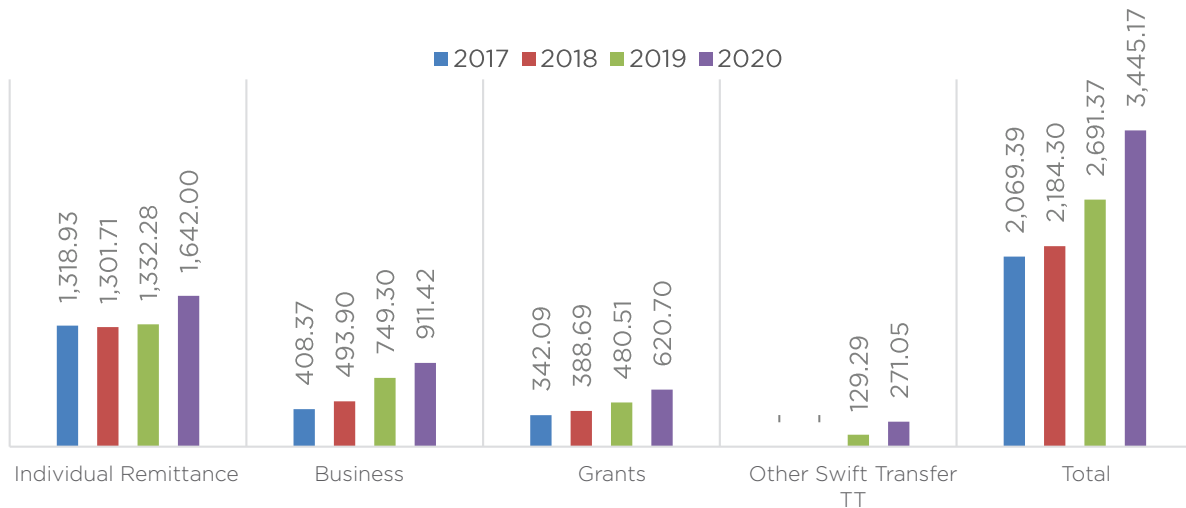
Somalia relies largely on MTBs, total inward transfers to Somalia in 2020 is equivalent to almost 50 percent of GDP. As wider international de-risking exercise, Somalia is a remittance reliant country which still lacks access to correspondent banking arrangements, in contrast, physical money transfers are used. It was projected that the start of the COVID-19 Pandemic, which resulted in international restrictions and limitations, to cause a decrease in total inward transfer to Somalia, especially of main remittance sources in western Europe and North America. On the contrary remittance inflows to Somalia remained resilient during the pandemic and increased by 23 percent over 2019.

Total amount of inward transfers to Somalia by 2020 reached US\$3,445.2 million from US\$2,794.16 million last year. This is due to the fact that Somali diaspora was supporting and providing additional emergency assistance to their families affected by the COVID 19 pandemic in Somalia.

Money Transfer Businesses (MTBs) in the country play a very important role in transferring remittances which is very important in the lives of many families, and businesses, and it also contributes investments and the overall economy of Somalia. Every year MTBs facilitate the transfer of millions of dollars for Somali families, businesses, and donor funding. When introduced lockdowns, the transfer of fund through physical cash was disrupted, MTBs rented out private couriers to continue sending money back home against the backdrop of the lockdown.

Additionally, by the end of December 2020, the total amount of individual remittances transferred to Somalia recorded US\$1,642 million, up from US\$1,339.3 million representing a 23 percent increase in 2020 compared to the previous year (equivalent to 24 percent of GDP and pays more than 28 percent of country's import bills). Followed by remittances for businesses which accounted for US\$911.42 million in 2020, up from US\$779.75 million, indicating 16.9 percent increase over the year of 2019 and remittance for NGOs recorded US\$620.70 million, up from US\$502.74 million, showing 23.5 percent growth over the previous year. Finally, the amounts of other TT transfers recorded at the end of December 2020 were US\$283.87 million, up from US\$172.38 million, showing an increase of 64.7 percent over the previous year of 2019.

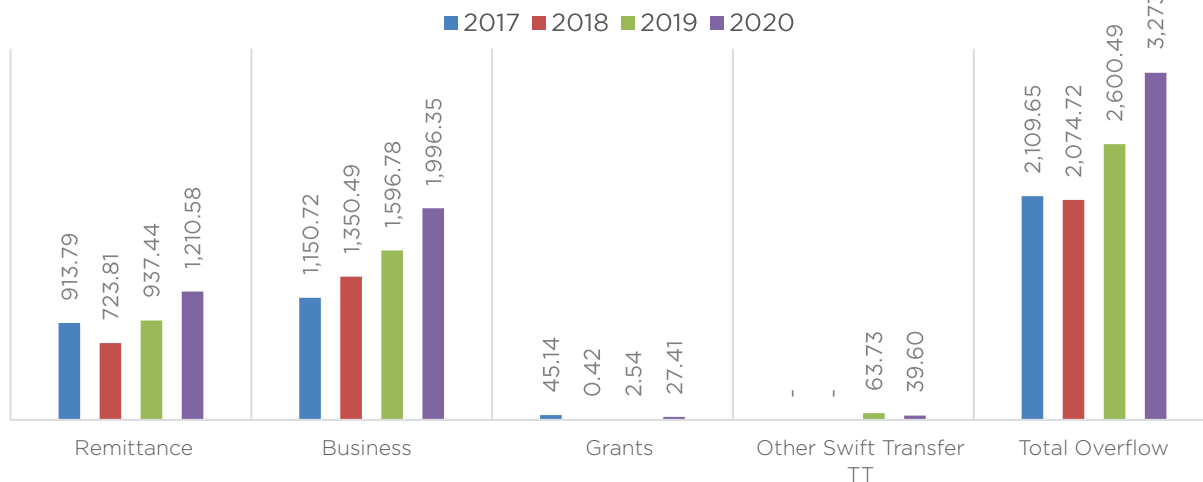
Figure 17: Remittance Inflows



Source: CBS, 2020

As The figure below shows that the remittance outflows from Somalia reached US\$3,273.94 million in 2020, from US\$2600.49 million in 2019. This indicating that remittance outflows increased by 26 percent over 2019.

Figure 18: Remittance Outflows



Source: CBS, 2020



# 6

## MONETARY POLICY

The problem of lack of credibility of the monetary systems in developing countries has long remained under the focus of policy advisors. Pegged exchange rates, currency boards and dollarization were often the prescribed solution for the problem of designing monetary policies in these economies. However, the suggested solutions are typically not optimal for countries with serious corruption which results from and/or leads into the existence of weak public institutions (Huang & Wei, 2003). For various reasons ranging from political mismanagement to civil war, to economic sanctions, such countries are and will remain unable to maintain a stable domestic currency.

Most economic objectives pursued by monetary authorities in developing countries in containing inflation through maintaining stable prices, low unemployment rates, stable currency and economic growth are rarely achieved. (Kamiru, 2010).

According to IMF Survey (2015) on Evolving Monetary Policy Frameworks in Low-Income and other Developing Countries, many countries (low and middle income) are seeking to implement modern monetary policy frameworks that better anchor inflation and promote macroeconomic stability and growth.

The new study of the IMF report articulated the principles that characterize effective monetary policy frameworks by central banks, among these principles are the following:

- A clear mandate and operational independence to pursue its goals.
- Price stability as the primary objective of monetary policy over the medium term.
- A medium-term inflation objective that guides monetary policy actions and communications.
- Macroeconomic and financial stability considerations when determining policy.
- Clear and effective operational framework aligned with market conditions and policy stance.
- Transparent forward-looking policy strategy; and
- Clear communications, which enhances the overall effectiveness of monetary policy.

Though a significant progress is made toward the liberalization and deepening of financial markets over the past three decades, however, greater central bank independence, reduced fiscal dominance, and increased exposure to global capital markets have put pressure on an increasing number of lower income countries to modernize their policy frameworks.



Like many developing countries, the economy of Somalia is vulnerable to inflationary pressures, currency instability and balance of payment challenges. On that basis, the Central Bank of Somalia has made steady progress in implementing foundational reforms, improving its capacity and governance to adopt with the core functions aimed at attaining a sustainable economic recovery for the country. The key priority and focus were the restructuring of the bank's management. In this regard, a new leadership structure came into force this year where a merit based new board of directors appointed and three senior directors hired for a two-year (2020-2022) restructuring and transition plan. This came because of the need to move towards a function-based decision structure that timely addresses the financial and economic policies needed for the country.

However, and due to the fact that the economy remains largely dollarized, the introduction of a new Somali shilling, thus, will remain a priority for the Central Bank of Somalia to replace the counterfeit shilling in the market, to stabilize prices, exchange rates, and overall to develop effective monitoring policy as well as financial inclusion of the poor people. With the support of the World Bank, progress is being made in the currency reforms under the currency exchange project.

Before fully implementing the currency reform, it was deemed necessary to strengthen the central bank's balance sheet and, more importantly, build the capacity for developing monetary policy and its instruments.

## **6.1 Currency Reform and the Way Forward**

The Central Bank of Somalia has made developments in implementing its restructuring plan through the appointment of a new Board of Directors, three new senior managers, a Human Resource Advisor, and a Legal Advisor as well as the establishment of a transition team.

In December 2017, a financial sector roadmap has been developed to guide future progress by strengthening the financial sector supervision, including deepening the licensing and supervision processes, and more recently, by the extension of oversight to mobile money services providers.

Though the way is too long but there has been some progress, so far, on the currency exchange project. The World Bank has supported an updated survey to estimate the Shillings in circulation that would be eligible for exchange. The authorities have developed a plan for the project's oversight and its coordination with all levels of government, and actively engaged with donors close the project financing gap. Measures will also be needed to strengthen the CBS balance sheet and ensure sufficient assets are available to backstop the new currency before the exchange can be implemented. Financial reforms including introduction of AML/CFT regulation were developed in line with the Financial Sector Reform Road Map.

As the delays in issuing the underlying telecommunications licenses are being resolved, the licensing of mobile money operators (MMOs) is beginning. The CBS Board of Directors approved the first-ever Mobile Money Operator License at end of the 2020 meeting, bringing regulation to the widely used digital payment process for the first time.

The authorities plan to sign an MOU with the National Communications Authority (NCA) and the Financial Reporting Center (FRC) to support greater coordination across the CBS, FRC, and NCA in the oversight of the sector, and facilitate adequate data sharing and a timely licensing process.

The adoption of new printed currency is the rage, to the extent that even the lay person in Somalia constantly holds forth about the importance of making such monetary reform as the priority and question the CBS about it. No one, of course, would deny the value of bringing new currency into the economic system of the country, as long as it is understood in a broad sense and does not become the sole arbiter of the success of the CBS without taking the critical political situation of the country into account.

However, the CBS has long ago started initiatives to align the currency reform roadmap with what actually works on the ground. Any policy advises, as matter of fact, gets reduced to find out 'what works, and then 'scale up' whatever works. Thus, a sound policy requires not only broadly understood evidence of its value but also a good understanding of the issues, considered value judgments, and inclusive reflection of all stakeholders of the country.

The CBS is observing the depreciation of the shilling against major trading currencies and wider use of dollar denominated Mobile Money since the revival of the CBS in 2007. It will probably take a couple of years for the CBS to pave the way for the national currency change project and introduce monetary policy framework and transmission mechanisms.



# 7

## CORPORATE GOVERNANCE

## 7.1 Board of Directors

The Central Bank of Somalia Act of 2012 established a framework for ensuring that the Bank's Board of Directors, committees, and management adhere to corporate governance principles and best practices while managing the Bank's day-to-day operations.

The Board of Directors of the Central Bank of Somalia consists of seven members, including the Governor, the Deputy Governor and five non-executive members. The Governor of the Central Bank of Somalia is the Bank's Chief Executive Officer, while the Deputy Governor is the Deputy Chairperson. The CBS board of directors currently has two committees: the Audit Committee and Human resource committee. Usually, the board and its committees meet to discuss and decide on various business activities. Board Committees recommend important business decisions to the board for approval.

The CBS Board of Directors is the sole body responsible for setting the bank's policies and is also responsible for approving the CBS's budget in accordance with the article 12.

The following are the Board Members of the Central Bank of Somalia:

Figure 19: Board Members of the Central Bank of Somalia

<b>Board of Directors</b>	Abdirahman Mohamed Abdullahi	Governor, Chairman of the Board
	Maryam Abdullahi Yusuf	Deputy Governor, Deputy Chairperson
	Prof. Hussein Ahmed Warsame	Board Member
	Dr. Aues Abo Scek	Board Member
	Dr. Abdisamad Nur Loyan	Board Member
	Dr. Sakhawadin Mustafa Mohamed	Board Member
	Osman Salad Gabeyre	Board Member

Source: CBS, 2020

## 7.2. Board Meetings

The board of directors held nine meetings this year ending 31 December 2020. In addition, there were several meetings of the committee members. All board members were able to attend on board and board committee meetings in person or online. The committee and its board meet once a month and additional meetings are organized when needed.

The following were some of the major issues discussed at board meetings during the fiscal year that ended on December 31, 2020:

- Memorandum of Understanding with the Ministry of Finance
- Regulations of the Financial Institutions
- Bank's Human Resource Plan
- Reviewing the Supervision Department Regulations
- Bank Licensing Regulation, Capital Adequacy Regulation, Liquidity Regulation
- MTB Registration and Licensing Regulation



Table 13: The Attendance of the Board of Directors for the Year 2020

Board Member	Date of Appointment	Board (9 Meetings)
Abdirahman M. Abdullahi	April 2019	(9/9)
Maryam Abdullahi Yusuf	April 2014	(9/9)
Prof. Hussein Ahmed Warsame	Feb 2020	(8/9)
Dr. Aues Abo Sceek	Feb 2020	(8/9)
Dr. Abdisamad Nur Loyan	Feb 2020	(8/9)
Dr. Sakhawadin Mustafa Mohamed	Feb 2020	(8/9)
Osman Salad Gabeyre	Feb 2020	(8/9)

Source: CBS, 2020



The five non-executive members of the board were appointed in February 2020 by the FGS president through cabinet proposal, so that the new board attended the second meeting of the financial year 2020.

### 7.3 Governance and Reform Roadmap

CBS is currently in the midst of a major reforms, guided by the Strategic Plan (2020-2024). A new organizational structure has been adopted and CBS has begun the process of transforming from being only a physical agent to the Government into a modern, efficient, and policy-oriented central bank. This, in turn, enables to achieve the strategic goals.

During the 2020, Board of Directors approved new guidelines, and policies and, they reviewed some of the existing regulations and policies. The key guideline approved are Operational Risk Guidelines 2020, Shariah Governance Framework (2020), and Islamic Financial Reporting & accounting Guideline (2020). Moreover, Board of directors has approved internal policies used to strengthen its governance gaps including the introduction of a new HR policy, a new foreign exchange reserve policy, a new financial management policy, and a new procurement policy.

There was also a review and amendment of the mobile money regulation issued in 2019, which was intended to regulate and supervise mobile service providers that handles a US\$2.7 billion transactions (37 percent of GDP) a month, and almost 73 percent of the Somalia's population use mobile money services. To further strengthen this, a Memorandum of Understanding to be signed with the National Communications Authority (NCA) to enhance the oversight capacity of the CBS when examining the mobile money sector.

With the help of the World Bank, the CBS has made great improvements in modernizing its financial system. As part of this effort, CBS developed core banking system, and now close to launch a new payment system for the licensed financial institutions, this marks a beginning of the establishment of interbank payment transactions and deposit among commercial banks.

The CBS has also acquired clean opinion status for the 2020 financial statements. It reflects determination of the staff and their leadership to reform the CBS and regain credibility and public confidence. This is a great achievement for the entire CBS team.

The International Monetary Fund's (IMF) Executive Board authorized three-year arrangements for Somalia under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) in the amount of SDR 292.4 million (about US\$395.5 million or 179 percent of quota) on March 25, 2020.

Between the HIPC Decision and Completion Points, the three-year financial package will support the FGSs' National Development Plan and reforms. The focus of reforms will be on continuing to boost public finances in order to satisfy Somalia's long-term development needs; building CBS capabilities; improving the business environment and governance; and improving statistics.

Table 14: List of Structural Benchmarks that CBS Achieved in the SMP Program 2016 -2020

SMP	Benchmark	Program Period	Due Date	Status
i	Approve a roadmap for currency reform by the Board of Directors of the Central Bank of Somalia (CBS)	Prior Actions		Met
	Require approval by the Board of Directors of the CBS to issue commercial bank and MTB licenses	May 2016-April 2017	End-Dec-2016	Met
	Finalize the anti-counterfeit strategy		End-Mar-2017	Met
ii	Establish a National Anti- Counterfeit Centre	May 2017-April 2018	End-Sep-2017	Met
	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		End-Dec-2017	Met
	Develop a roadmap for financial sector development		End-Dec-2017	Met
	Develop a plan to improve the renewal of MTBs' licenses and enhance compliance with existing regulations		End-Mar-2018	Met
iii	Submit to Parliament the draft Targeted Financial Sanctions Act	May 2018-April 2019	End-Sep-2018	Met
	CBS to issue regulation on credit classification and provision, and review reporting requirement for banks.		End-March 2019	Met
iv	CBS to issue Mobile Money Regulations	May 2019 - July 2020	End-July 2019	Met
	Adopt updated CBS Strategic Plan and transition toward updated organizational Structure (as approved by the CBS Board November 2018)		End-October 2019	Met
	MOF to issue AML/CFT regulations that apply to all financial institutions		End-October 2019	Met
	Implement Mobile Money Regulations		End-February 2020	Not met
<b>1. Extended Credit Facility (IMF ECF 2020-2023)</b>				
ECF	Benchmark	Program Period	Due Date	Status
	Issue guidance for (1) financial reporting and accounting standards and (2) Shariah governance framework for Somali banks	March 2020-March 2023	End-Dec-2020	Met
	Enhance transparency in the regulatory process of the Telecommunications and Mobile Money Sectors	March 2020-March 2023	End- Mar -2021	Met





# 8

## FINANCIAL PERFORMANCE



**CENTRAL BANK OF SOMALIA**

**REPORTS AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2020**



## CENTRAL BANK OF SOMALIA

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020

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## CENTRAL BANK OF SOMALIA

## CORPORATE INFORMATION

BOARD OF DIRECTORS	<p>Abdirahman M. Abdullahi - (Governor)</p> <p>Maryama Abdullahi Yusuf - (Deputy Governor)</p> <p>Dr. Aues Abo Sceek</p> <p>Dr. Abdisamad Nur Loyan</p> <p>Sakhawadin Mustafa Mohamed</p> <p>Osman Salad Gabeyre</p> <p>Prof. Hussein A. Warsame</p>
REGISTERED OFFICE	<p>Central Bank of Somalia</p> <p>P O Box 11</p> <p>55 Corso Somalia</p> <p>Mogadishu, Somalia</p>
LAWYERS	<p>State Attorney General</p> <p>Villa Somalia,</p> <p>Mogadishu, Somalia</p>
AUDITORS	<p>Deloitte &amp; Touche LLP</p> <p>Certified Public Accountants (Kenya)</p> <p>Deloitte Place</p> <p>Waiyaki Way, Muthangari</p> <p>P O Box 40092 - 00100 GPO</p> <p>Nairobi, Kenya</p>

## CENTRAL BANK OF SOMALIA

### STATEMENT FROM THE GOVERNOR

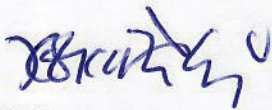
The 2020 financial year has been a challenging one with the global Covid-19 pandemic posing the biggest challenge. I want to begin by recognising the hard work of all staff of the Central Bank of Somalia (CBS) in their determination to ensure the bank meets its mandates despite these unforeseen challenges.

It is this determination and hard work that has led to CBS attaining clean opinion for the financial statements of 2020. I am delighted that our external auditor, Deloitte and Touche LLP, has determined that the financial records of CBS are free of any misrepresentations and have been maintained in accordance with International Financial Reporting Standard (IFRS).

The successful delivery of the unqualified opinion of CBS financial statements as at 31 December 2020 is an indication that the reforms we have been undertaking in the past few years are bearing fruit. Combined with the institutional restructuring, we will continue to rebuild CBS as a policy-oriented regulator to support development and safeguarding of financial stability and growth.

These reforms are laying the foundations of further economic development whilst deepening cultural change within our institution and the wider financial sector by choosing transparency, inclusion and tighter regulations.

Despite the ongoing pandemic, I believe these are exciting times for CBS. We have a young, vibrant and hardworking staff and visionary leadership within the senior management team and our Board of Directors. Their spirit of dedication and innovation to adapt to a challenging year has been exceptional. I am therefore optimistic that we will exceed our goals for the coming years as we remain committed to promote financial stability, economic development and poverty reduction for the good of the Somali people.



CBS Governor

Abdirahman M. Abdullahi

## CENTRAL BANK OF SOMALIA

### REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements of Central Bank of Somalia (the “bank”) for the year ended 31 December 2020, which disclose the bank’s state of financial affairs.

#### 1. ESTABLISHMENT

The Central Bank of Somalia was established under the Central Bank of Somalia Act, 1962. The Bank currently operates under the Central Bank of Somalia Act, 2012.

##### **Bank's vision**

The vision of the Bank is: “To be the region’s leading Central Bank in fostering economic growth through maintaining price and financial stability.”

##### **Bank's mission**

The Bank’s mission is: “To conduct monetary policy directed towards maintaining price stability and to promote integrity and stability of the financial system conducive to sustainable growth of the national economy”.

#### 2. STATUTE AND PRINCIPAL ACTIVITIES

Central Bank of Somalia (CBS) is the Central Bank of the Federal Republic of Somalia. The Bank is a body corporate with legal entity, with perpetual succession and common seal, with power to acquire, own, possess and dispose of common seal, and of property, and to contract, to sue and to be sued in its own name. The Bank has the ability to exercise any type of central banking function unless specifically excluded under The Central Bank Act 2012, and will enjoy all the prerogatives of a central bank.

A summary of functions and objectives of the Bank are to:

- Formulate, implement and be responsible for monetary policy, including foreign exchange rate policy, issue currency, regulate and supervise banks and financial institutions including mortgage financing, development financing, lease financing, licensing and revocation of licenses and to deal, hold and manage gold and foreign exchange reserves of Somalia;
- Compile, analyse, and publish the monetary, financial, balance of payments statistics and other statistics covering various sectors of the national economy;
- Regulate, monitor and supervise the payment, clearing and settlement systems;
- Ensure the integrity of the financial system and support the general economic policies of the Government and promote sound monetary, credit and banking conditions conducive to the development of the national economy.

#### 3. RESOURCES AND STRENGTH

Resources and strengths that facilitate the Bank’s endeavor in achieving its strategic objectives include human, financial and technological resources.

In terms of human capital, the Bank has well-qualified and committed staff dedicated to a long-term career in the Bank. Likewise, the management adheres to good governance and promotes labour relations. From its strategic perspective, the Bank enhances its financial sufficiency by improving management of its resources through prioritization of initiatives, implementing initiatives within the available financial envelope and prudently managing its sources of income.

The Bank has also undertaken various reforms that contribute to the attainment of its objectives. For example, the on-going modernization of the monetary policy framework is expected to improve the efficiency and effectiveness of the monetary policy implementation.

## CENTRAL BANK OF SOMALIA

## REPORT OF THE DIRECTORS (Continued)

## 4. REVIEW OF THE BANK'S PERFORMANCE AND BROAD GOALS

During the year, the Bank's Corporate Plan continued to focus on attaining three broad goals that translate its primary mandates. These are:

- Maintaining price stability;
- Promoting integrity and stability of the financial system; and
- Strengthening corporate governance.

Basing on the three broad goals, the Bank's performance revealed the following:

**Maintaining price stability:**

Foreign reserves were managed consistent with the strategic objective of capital preservation, adequate liquidity, and maximizing return on investments.

**Promoting integrity and stability of the financial system**

Financial stability is the smooth operation of the system of financial intermediation within Government through a range of financial institutions. Stability in the financial system is evidenced by an effective regulatory infrastructure, effective and well-developed financial markets, and effective and sound financial institutions.

**Strengthening corporate governance**

To strengthen the bank's corporate governance the board focused on building the capacity of its human capital, ensuring compliance with legislation and the overall engagement with external stakeholders. The outcome of each of these steps taken are explained below;

*Staffing, Capacity Building and Work Environment*

The Bank was adequately staffed with the right capabilities to accomplish its strategic and operational objectives. This position was a result of implementation of Human resource plans and strategies that enabled the Bank to fill vacant positions in time. To improve knowledge and skills of employees, the Bank continued to address skills requirements through donor support and funding. The Bank continued to have a safe and healthy working environment. All office facilities and working tools operated smoothly. Employees' benefits and welfare services were delivered as planned and staff well-being and morale was maintained.

*Enhance Compliance with Legislation, Regulations, Policies and Standards*

During the year, the Bank continued to put emphasis on compliance with the Central Bank of Somalia Act, 2012; and other legislations, regulations and policies in executing its mandate. Further, the Bank continued to adhere to Anti-Money Laundering (AML) and the Combating Financing of Terrorism Units (CFT) by continuing coordination of Anti-Money Laundering (AML)/Combating Financing of Terrorism (CFT) activities as an effort to ensure that the Bank adhered to legislation, regulations and policies. The Bank spearheaded coordination of AML/CFT initiatives within the Bank and among stakeholders in the country.

During the period under review, the Bank continued to maintain its properties and facilities including buildings, machinery, equipment and motor vehicles in order to ensure that they are always in good working condition.

*The Central Bank's Engagement with External Stakeholders*

The Bank continued to nurture its relationship with external stakeholders, seeking to gain confidence and trust in protecting the Bank's reputation. In order to improve its reputation, the Bank continued to address stakeholders' needs, expectations and providing timely responses to stakeholders' inquiries.



## CENTRAL BANK OF SOMALIA

### REPORT OF THE DIRECTORS (Continued)

#### 5. CAPITAL STRUCTURES

Article 9 of the Central Bank of Somalia Act, 2012 notes that the authorized capital of the Bank may be increased by such amounts as may be proposed by the Board and approved by the Ministry of Finance.

#### 6. RELATIONSHIP WITH STAKEHOLDERS

The Central Bank of Somalia recognizes the importance of its key stakeholders including the government and banking institutions in adding value and ensuring that the needs and expectations to fulfill its mission and vision. The bank continues to hold good working relationships with its stakeholders and maintains a regular update with all those involved.

The Bank ensures it meets all its obligations with stakeholders by:

- (a) **Price Stability:** The Bank formulates and executes monetary policy that leads to stable domestic prices; provide policy advice to the governments; disseminate economic reports and ensures stable exchange rates.
- (b) **Financial Stability:** The Bank promotes the stability of the financial system through effective regulation and supervision of banking system; provide safe and efficient payment systems; and promote public access to the financial services.
- (c) **Internal requirements:** The Bank attracts and retains high caliber staff with integrity, competency and accountability and provides conducive working environment and career development opportunities to its staff.

#### 7. MANAGEMENT

The Governor is required to discharge such functions and direction, in conformity with the policies and other decisions made by the Board.

The law further provides that the Governor to be assisted by the Deputy Governor. The Deputy Governor, in the order determined by the governor, shall act for the governor, shall exercise all the powers, and shall perform all the functions conferred on the governor under this act whenever the governor is temporarily absent or incapacitated, and shall perform such other functions as the governor may from time to time assign to him/her.

#### 8. FUTURE DEVELOPMENT PLANS

To ensure integrity and stability of the financial system, the Bank puts emphasis on ensuring that the financial sector remains on a sound footing to serve the broader needs of the Somalia economy. Accordingly, special focus will be placed on surveillance of CBS financial system and putting in place elaborate crisis management and resolution framework.

On strengthening corporate governance, the Bank will take deliberate measures to create broad awareness and capacity building among staff to strengthen internal controls and formulate frameworks in adherence with International standards.

In addition, the Bank will focus on enhancing application of modern technologies; improve its work processes and compliance with laws and regulation in order to improve operational efficiency in all its undertakings. Further, the Bank will focus on service excellence in attending to CBS internal and external stakeholders. Like any other central bank, the Bank is dedicated to continue advising the governments on economic policy related matters and serving the general public as our ultimate customers.

## CENTRAL BANK OF SOMALIA

## REPORT OF THE DIRECTORS (Continued)

## 9. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for risk management and internal control systems of the Bank. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Bank's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system, of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that procedures in place are operating effectively. The Bank ensures that existing and emerging risks are identified and managed within acceptable risk tolerances.

**Key risks and uncertainties**

The key risks that may significantly affect the Bank's strategies and development are mainly financial, operational and strategic. Below we provide a description of the operational and strategic risks facing the Bank. The risks related to financial instruments have been disclosed under Note 3 of the financial statements:

## (a) Operational Risk

This is the risk of CBS financial and non-financial resulting from inadequate human resource and systems, management failures, ineffective internal control processes, non-compliance, inadequate security and adverse legal judgements. The main operational risks of the Bank were:

- Human Resource Risk

The particular nature of the activities of the Bank necessitates specialized knowledge in many areas. The Bank ensures that there is an adequate knowledge base for all specialized job requirements by investing significantly in human resource development in terms of capacity building and practical exposure. The Bank also organizes workshops, seminars, conferences and job attachments to its staff to improve its human resource requirements. It also revises its staff retention scheme to compete with the prevailing labour market.

- Business Disruption and Security risks

Risks related to failure to execute business processes and events that compromise the assets, operations and objectives of the Bank. The risks might be due to lack of business continuity management, lack of good practices or controls on the Bank's activities.

The Bank addresses these risks inter alia through ensuring existence of Business Continuity Management (BCM) and sound internal control system which includes: operational and procedural manuals, ICT security policies, back up facilities, contingency planning, and independent internal audit function. Managing operational risk in the Bank is an integral part of day-to-day operations by the management. Management, Internal Audit Function, Audit Committee and the Board, closely monitors this risk.

- Legal Risk

Legal risk arises from any uncertainty of enforceability, whether through legal or judicial processes, of the obligations of the Bank's clients and counter parties. The Bank aims at minimizing such uncertainties through continuous consultations with all relevant parties.

The Bank has in place a clear procedure of the delegation of authorities. Also strict code of conduct and ethics is used to minimize chances of causing legal disputes between the Bank and its counterparts.

## CENTRAL BANK OF SOMALIA

## REPORT OF THE DIRECTORS (Continued)

## 9. RISK MANAGEMENT AND INTERNAL CONTROL

**Key risks and uncertainties (continued)**

## (b) Strategic Risk

This risk covers analytical and policy risk which is associated with economic and monetary policy formulation; business risk which refers to the probability of loss inherent in the Bank's operations and environment; performance risk which is associated with formulation and execution of business plans and strategies; and external risks which refer to threats from the external environment such as infrastructure disruption, financial crime and computer viruses, political, social and economic changes. Similar to operational risk, strategic risk may result into damage on the Bank's reputation.

The Bank has an obligation to ensure that it performs its functions and maintains its reputation as a Central Bank in line with requirements of the Central Bank of Somalia Act, 2012.

In view of the above, the Bank's management ensures that it fulfils its fiduciary responsibilities. The Bank adheres to the best practices and applies principle of sound corporate governance. It also ensures that all relevant employees have clear understanding of the appropriate processes in respect of the best practices and principles of good governance.

The Bank therefore, sets out policies and guidelines that govern sound functional operations within the Bank. The performance of these policies and guidelines are periodically reported to different levels of the Bank's management for control and compliance monitoring.

The top management of the Bank has the necessary freedom and discretion to exercise central banking functions. However, this freedom is exercised within the context of good governance and having regard to a proper balance between accountability and the best interests of the Bank and its various stakeholders.

The function of the Bank of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The Bank adheres to international best practice and, to this end, maintains close liaison with international donors. The Bank strives towards full compliance with the principles for effective banking supervision as well as the core principles for systemically important payment systems.

## 10. SOLVENCY

The Board of Directors confirms that International Financial Reporting Standards (IFRS) applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the Central Bank of Somalia has adequate resources to continue carrying out its statutory activities for the foreseeable future.

## 11. EMPLOYEES WELFARE

## (a) Management and employees relationship

The relationship between the Bank and its employees continued to be good. Employees complaints raised during the year were resolved mainly through the use of consultative meetings/forums involving the management. As a result, healthy relationship continued to exist between management and the trade union.

Complaints are resolved through meetings and discussions. Work morale is good and there were no unresolved complaints from employees. The Bank provides a number of facilities aiming at improving the working environment and living standards of its employees. Such facilities include medical services, house allowance, employee training and development and leave travel assistance as well as any other allowances stipulated within the staff by-laws.



## CENTRAL BANK OF SOMALIA

## REPORT OF THE DIRECTORS (Continued)

## 11. EMPLOYEES WELFARE (Continued)

## (c) Health and safety

Effective health, safety and risk management is a priority for the Bank. The Bank provides staff training on health and safety as well providing the necessary measures to protecting its working environment and team members.

## 12. CORPORATE SOCIAL RESPONSIBILITY

The Bank is committed to fulfilling part of its Corporate Social Responsibility (CSR) through supporting national activities and other areas of interest to the Bank in the Federal Republic of Somalia.

## 13. COMPLIANCE WITH LAWS AND REGULATIONS

In performing the activities of the Bank, various laws and regulations having the impact on the Banks operations were observed.

## 14. STATEMENT OF COMPLIANCE

The Directors' Report has been prepared in full compliance with requirements of the Central Bank of Somalia Act, 2012 (Directors' Report).

## 15. STATEMENT OF GRATITUDE TO INTERNATIONAL DONORS

The Central Bank of Somalia continues to engage with its international partners i.e. IMF, World Bank, African Development Bank and other stakeholders in its continued effort to reforming its financial systems and ensuring that it meets its obligations. The Bank has remained a key development partner of the Government in the provision of financial support to ongoing rebuilding of the country after more than two decades of civil war.

## 16. PRINCIPAL ACTIVITIES

The bank is primarily responsible for providing payments and banking services to the government and other stakeholders.

## 17. RESULTS FOR THE YEAR

	2020 USD	2019 USD
Surplus for the year	3,093,010	1,271,057

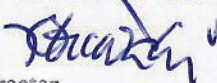
## 18. DIRECTORS

The present members of the board of directors are shown on page 2.

## 19. AUDITORS

Deloitte & Touche LLP served as the auditors during the year and have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

  
Director

Mogadishu

05/03/2022

## CENTRAL BANK OF SOMALIA

### STATEMENT ON CORPORATE GOVERNANCE

Directors and Management upholds and practices and the principles of sound corporate governance.

To this end, the Central Bank of Somalia Act, 2012, has provided a framework for ensuring application of sound corporate governance principles and best practices by the Bank's Board of Directors and its Committees and Management in the course of managing the day-to-day affairs/operations of the Bank as summarized below:

- In terms of the provisions of Article 12 of the Central Bank of Somalia Act, 2012, the Bank's Board of Directors is the supreme policy making body in the Bank, and apart from its specified function of approving the budget of the Bank.
- Two Committees are currently assisting the Bank's Board of Directors in the discharge of its functions. These are the Audit Committee and Human resource committee.

#### **Board composition**

The Board shall be charged with the formulation and the supervision of the implementation of the policies, and the supervision of the administration and the operations of the Bank.

#### **The Board shall consist of:**

- a) The Governor, who shall be the Chairman;
- b) The Deputy Governor, who shall be the chairman of the Board when the Governor is absent; and five other non-executive directors.

#### **Board responsibilities**

The Board may, by resolution either generally or in any particular case, delegate to any committee of the Board, or to any member thereof, or to any officer, employee or agent of the Bank the exercise of any powers or the performance of any functions or duties of the Board under this Act or any other written law, except for the following: Formulate and adopt the monetary policy of the Bank including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in Somalia and to adopt internal rules for their implementation.

The governor, as chairman of the board of the Bank, shall convene meetings of the board not less than once in every two months, or whenever the business of the Bank so requires or whenever he is so requested in writing by at least three directors.

The board will Formulate and adopt other policies of the Bank regarding the execution of its functions, and to adopt, as appropriate, internal rules for their implementation and decide upon the application of the foreign exchange regime as well as supervise the implementation of the policies and the execution of the functions of the Bank.

#### **Board Meetings**

The Board held 9 meetings during the year ended 31 December 2020. In addition there were various meetings of the Board Committees. All members of the Board were able to devote their time required for the Board and Committee meetings either physically or through an online platform.

The Board and its committee's meet once every month with additional meetings convened as and when necessary. During the year, the Board and its committees met to discuss and decide on various business activities. The Board Committees recommend key business decisions to the Board for approval. Major issues raised at the board meetings during the year ended 31 December 2020 included



## STATEMENT ON CORPORATE GOVERNANCE (Continued)

## Board Meetings (Continued)

Memorandum of Understanding with the Ministry of Finance  
 Regulations of the Financial Institutions  
 Bank's Human Resource Plan  
 Reviewing the Supervision Department Regulations  
 Bank Licensing Regulation, Capital Adequacy Regulation, Liquidity Regulation  
 MTB Registration and Licensing Regulation

During the year, the Board members attended the Board meetings as follows;

Date of meeting	Jan 29	April 26	Jul 12	Aug 23	Oct 4	Oct 11	Oct 30	Nov 22	Dec 13
Abdirahman M. Abdillahi	✓	✓	✓	✓	✓	✓	✓	✓	✓
Maryam A. Yusuf	✓	✓	✓	✓	✓	✓	✓	✓	✓
Abdulrashid M. Siraj	✓	X	X	X	X	X	X	X	X
Dr. Omar I. Hussein	✓	X	X	X	X	X	X	X	X
Maye Mohamed Sheekhuna	✓	X	X	X	X	X	X	X	X
Musuf Mohamed Ali	✓	X	X	X	X	X	X	X	X
Dr. Hodan Said Isse	X	X	X	X	X	X	X	X	X
Prof. Hussein Ahmed Warsame	X	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Aues Abo Scek	X	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Abdisamad Nur Loyan	X	✓	✓	✓	✓	✓	✓	✓	✓
Makhawadin Mustafa Mohamed	X	✓	✓	✓	✓	✓	✓	✓	✓
Osman Salad Gabeyre	X	✓	✓	✓	✓	✓	✓	✓	✓

The directors who had terms expired during the year did not attend meetings. Similarly, those who had not been appointed on the respective board meeting dates did not attend the meetings.

## Board Committees

The Committee is currently assisting the Bank's Board of Directors in the discharge of its functions. This is the Audit Committee

## The Audit Committee

The Audit Committee is largely composed of Non-executive Directors. The Chairman of the Committee is a Non-executive Director. The Terms of Reference for the Audit Committee cover four major areas, namely, Internal Control, Financial Reporting, Internal Audit and External Audit.

The Audit Committee's mandate under Internal Control covers evaluation of control environment and culture; the adequacy of the internal control systems and compliance with IFRS in the preparation of financial statements; the overall effectiveness of the internal control and risk management framework; The Committee also reviews requests for write off/back of items from the books of accounts and reviews the effectiveness of the system for monitoring compliance with laws and regulations.

The mandate relating to Financial Reporting requires the Audit Committee to review significant accounting and reporting issues and their impact on the financial reports and ensure current financial risk areas are being managed appropriately. The Committee also ensures the adequacy of the financial reporting process and reviews the Bank's annual accounts before approval and adoption by the Board.

## CENTRAL BANK OF SOMALIA

## STATEMENT ON CORPORATE GOVERNANCE (Continued)

**Board Committees (Continued)**

About External Audit, the Audit Committee reviews and approves the external auditors' proposed audit scope, approach and audit deliverables, draft financial statements before submission to the External Auditors for audit; and also reviews and approves the proposed audit fee.

The Committee's mandate on Internal Audit covers review of the activities and resources of the internal audit function; effectiveness, standing and independence of internal audit function within the Bank; review of the internal audit plan; and follow up on implementation of internal audit findings and recommendations. The Audit Committee reports to the Board of Directors

**Directors' remuneration**

The remuneration received by the Governor and the Deputy Governor shall be in line with that received by persons holding similar executive positions with large financial institutions and be disclosed in the annual report.

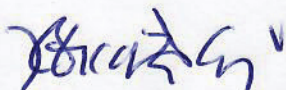
**Conflicts of interest**

Directors have a statutory obligation to avoid situations in which they have or may have interests that conflict with those of the bank.

**Independence**

All Non-executive Directors are considered by the Board to be independent in character, judgment and free of relationships or circumstances, which could affect their judgment.

Approved by the Board of Directors on .....30/01/2022, and signed on its behalf by:



Abdirahman M. Abdullahi  
The Governor and Chairman of the Board

## CENTRAL BANK OF SOMALIA

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

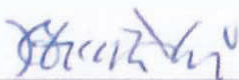
The Central Bank of Somalia Act, 2012 requires management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank as at the end of the financial year and of its operating results for that year. It also requires management to ensure that they keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the bank. They are also responsible for safeguarding the assets of the bank.

Management have delegated responsibility for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Central Bank of Somalia Act, 2012 and for such internal controls as management determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls and exercises this responsibility through the Audit and Committee (the Committee) of the Board. The Committee is composed of members who are neither officers nor employees of the Bank and who are financially literate. The Committee is therefore qualified to review the Bank's annual financial statements and to recommend their approval by the Board of Directors.

The management accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Central Bank of Somalia. Management are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of its operating results. The management further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of management to indicate that the bank will not remain a going concern for at least the next twelve months from the date of this statement.

  
Governor

  
General manager, Finance and administration

31/01/2022



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## INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOMALIA

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of Central Bank of Somalia (the "Bank"), set out on pages 17 to 47, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information

Management are responsible for the other information, which comprises the report of directors and the statement of corporate governance. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOMALIA (Continued)

### Report on the Audit of the Financial Statements (Continued)

#### Responsibilities of the Directors for the financial statements

Management have delegated responsibility for the preparation and fair presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Central Bank of Somalia Act, 2012 and for such internal controls as Management determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

#### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.



INDEPENDENT AUDITORS' REPORT  
TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOMALIA (Continued)

**Report on Other Legal Requirements**

As required by the Central Bank of Somalia Act, 2012, we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- ii) in our opinion, proper books of account have been kept by the bank, so far as appears from our examination of those books; and
- iii) the bank's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is **CPA Fredrick Okwiri** – P/No 1699.



**For and on behalf of Deloitte & Touche LLP**

**Certified Public Accountants (Kenya)**

**Nairobi**

**19 March 2022**

## CENTRAL BANK OF SOMALIA

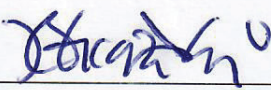
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2020

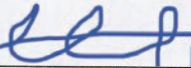
	Notes	2020 USD	2019 USD
REVENUE	4	9,142,126	7,807,687
OPERATING EXPENDITURE	5	(7,387,371)	(6,529,975)
OTHER INCOME	7	1,283,150	88,657
NET FOREIGN EXCHANGE GAINS /(LOSSES)		55,105	(95,313)
		<u>3,093,010</u>	<u>1,271,056</u>
SURPLUS BEFORE TAXATION		3,093,010	1,271,056
TAXATION	8	-	-
		<u>3,093,010</u>	<u>1,271,056</u>
SURPLUS FOR THE YEAR		<u>3,093,010</u>	<u>1,271,056</u>
OTHER COMPREHENSIVE INCOME:			
REVALUATION GAIN ON GOLD BULLION	13	6,121,144	3,922,875
		<u>6,121,144</u>	<u>3,922,875</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>9,214,154</u>	<u>5,193,931</u>

CENTRAL BANK OF SOMALIA  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2020

	Notes	2020 USD	2019 USD
<b>ASSETS</b>			
Cash balances	9	74,156,438	45,153,943
Deposits and balances due from banking institutions	10	43,185,701	55,720,407
Receivables	11	134,241	188,122
Loans and advances	12	2,910,000	1,500,000
Gold bullion	13	30,830,455	24,709,311
Property and equipment	14	129,666,526	128,539,329
Intangible assets	15	108,200	115,766
Due from the Government of Somalia	16	392,420,520	376,429,273
IMF grant	17	614,341	-
Due from International Monetary Fund (IMF)	18	286,719,946	85,490,135
<b>TOTAL ASSETS</b>		<b>960,746,368</b>	<b>717,846,286</b>
<b>LIABILITIES</b>			
Due to International Monetary Fund (IMF)	18	679,140,466	461,919,408
Treasury deposits	19	69,438,559	64,729,690
Deposits from banks	20	18,234,625	11,011,742
Security deposits	21	20,220,000	14,970,000
Microfinance grant	22	3,000,000	3,000,000
Other payables	23	2,392,373	3,109,255
<b>TOTAL LIABILITIES</b>		<b>792,426,023</b>	<b>558,740,095</b>
<b>RESERVES</b>			
Revenue reserve	24(a)	12,310,839	9,217,829
Revaluation reserve	24(b)	136,692,088	130,570,944
Gold reserve	24(c)	19,317,418	19,317,418
<b>TOTAL RESERVES</b>		<b>168,320,345</b>	<b>159,106,191</b>
<b>TOTAL LIABILITIES AND RESERVES</b>		<b>960,746,368</b>	<b>717,846,286</b>

The financial statements on pages 17 to 47 were approved and authorised for issue by the board of directors on 30/01/2022 and were signed on its behalf by:

  
\_\_\_\_\_  
Director

Hussein Warsame   
\_\_\_\_\_  
Director

## CENTRAL BANK OF SOMALIA

STATEMENT OF CHANGES IN RESERVES  
FOR THE YEAR ENDED 31 DECEMBER 2020

	Revenue Reserve USD	Revaluation Reserve USD	Gold Reserve USD	Total USD
At 1 January 2019	7,946,773	126,648,069	19,317,418	153,912,260
Total comprehensive income for the year	1,271,056	3,922,875	-	5,193,931
At 31 December 2019	9,217,829	130,570,944	19,317,418	159,106,191
At 1 January 2020	9,217,829	130,570,944	19,317,418	159,106,191
Total comprehensive income for the year	3,093,010	6,121,144	-	9,214,154
At 31 December 2020	12,310,839	136,692,088	19,317,418	168,320,345

## CENTRAL BANK OF SOMALIA

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 USD	2019 USD
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	25 (a)	17,819,945	28,775,437
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	14	(1,329,156)	(799,683)
Purchase of intangible assets	15	(23,000)	(7,000)
Net cash used in investing activities		(1,352,156)	(806,683)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		16,467,789	27,968,754
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		100,874,350	72,905,596
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	25 (b)	117,342,139	100,874,350



## CENTRAL BANK OF SOMALIA

### NOTES TO THE FINANCIAL STATEMENTS

#### 1 ACCOUNTING POLICIES

##### **Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

##### **Significant accounting policies**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been applied consistently.

##### **Application of new and revised International Financial Reporting Standards (IFRSs)**

###### **(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2020***

The following new and revised IFRSs were effective in the current year but had no material impact on the amounts reported in these financial statements.

##### **Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16**

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- c) There is no substantive change to other terms and conditions of the lease

The adoption of the amendment has not had a material impact on the amounts reported in these financial statements or the accompanying disclosures.

##### **Amendments to References to the Conceptual Framework in IFRS Standards**

The Bank has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 ACCOUNTING POLICIES (continued)

**Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)****(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2020 (Continued)****Amendments to References to the Conceptual Framework in IFRS Standards (Continued)**

The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**Amendments to IAS 1 and IAS 8 Definition of material**

The Bank has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2020**

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	<i>Insurance Contracts</i>
IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>
Amendments to IFRS 3	<i>Reference to Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards 2018 – 2020 Cycle	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture</i>

The Management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted below:

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 ACCOUNTING POLICIES (continued)

**Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)****ii) *New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2020 (Continued)*****Amendments to IAS 1 – Classification of liabilities as Current or Non-current**

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

**Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract**

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

**Annual Improvements to IFRS Standards 2018–2020**

The annual improvements include amendments to the following standards relevant to the Bank:

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 ACCOUNTING POLICIES (continued)

**Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)****ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2020 (Continued)*****IFRS 9 Financial Instruments***

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

***IFRS 16 Leases***

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

**Significant accounting policies**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been applied consistently.

**Basis of preparation**

The bank prepares its financial statements under the historical cost convention, modified to include the revaluation of certain assets.

**Fees and commission income**

In the normal course of business, the bank earns fees and commission income from a diverse range of services to its customers. Fees and commissions are generally recognised in profit or loss on an accrual basis when the service has been provided.

Other fees relate mainly to transaction and service fees, which are recognized as the services are rendered.

**Property and equipment**

Land and buildings are stated at cost or as professionally revalued less accumulated depreciation and accumulated impairment losses where applicable. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period. Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income

Other categories of property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis at annual rates estimated to write off the cost of the property and equipment over their expected useful lives. The rates generally in use are:

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 ACCOUNTING POLICIES (continued)

**Property and equipment (continued)**

Leasehold Land	Over the lease period
Buildings	40 years
Furniture, Fixtures and fittings	8 years
Motor vehicles	5 years
Computers and equipment	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Leasehold land**

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease. When a lease includes land and buildings elements, the bank assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life.

**Intangible assets - computer software costs**

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding 5 years.

**Impairment of tangible and intangible assets**

At the end of each reporting period, the bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 ACCOUNTING POLICIES (continued)

**Provisions**

Provisions are recognized when the bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

**Gold**

Gold is held by the Central Bank of Somalia as part of its foreign reserves. Gold is initially recorded at the prevailing rates at initial recognition, including transaction costs. Subsequent to initial measurement, it is valued at the prevailing market rates.

Gold reserves are held to support the national currency (Gold Bullion) and as such are classified as non-current assets, and accounted for using either cost model or the revaluation model. Such reserves are not traded and the levels frequently do not change from one year to the next.

**Funds held at / due to International Monetary Fund (IMF)**

Somalia is a member of the International Monetary Funds (IMF). Central Bank of Somalia is the designated depository for the IMF holdings of the Federal Government of Somalia's currency. IMF currency are held in the No. 1 and No. 2 Accounts, which are deposit account of the IMF with the Bank.

Borrowings from and repayment to the IMF are denominated in Special Drawings Rights (SDRs). The SDR balances in IMF accounts are translated into United States Dollars at the prevailing exchange rates and any unrealized gains or losses are accounted for in accordance with accounting policy for foreign currencies.

On custodial basis, the Bank holds a non-interest bearing and cashable on demand security issued by the Treasury of IMF in its capacity as the IMF's depository. The security issued is in part payment of Somali's quota of IMF shares

**Currency in circulation**

Notes and coins in circulation are measured at fair value. Currency in circulation represents the nominal value of all bank notes and coins held by the public and commercial banks. The bank has not been able to measure the value of the currency in circulation after its reconstruction in 2013 following its collapse in 1992. Consequently, the values have not been included in this financial statements.

**Foreign currencies**

Transactions in foreign currencies during the year are translated at the rates ruling at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars at the rates of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated. Gains and losses on exchange of monetary items are dealt with in the profit or loss in the period in which it arises.

**Taxation**

Article 8 of the Central Bank of Somalia Act, 2012 exempts the Bank from all:

- a) taxes on its income and all duties, excise and other taxes and levies on the import and domestic supply of gold, banknotes and coins.
- b) other taxes duties and levies from which Government ministries and other public agencies are exempted by law.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 ACCOUNTING POLICIES (continued)

**Financial instruments**

The Bank applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

*Recognition*

The Bank recognises financial assets and liabilities when it becomes a party to the terms of the contract. Trade date or settlement date accounting is applied depending on the classification of the financial asset.

**Financial Assets***Classification*

The bank classifies its financial assets as subsequently measured at either amortised cost or fair value on the basis of both the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortised cost if both of the following conditions are met (and is not designated as at FVTPL):

- (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if both of the following conditions are met (and is not designated as at FVTPL):

- i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The bank's receivables, cash at bank, deposits with financial institutions, Loans and advances and balances due from the Government and International Monetary Fund IMF are held are classified at amortised cost.

*Recognition and de-recognition of financial instruments*

Financial assets are recognised when the bank becomes a party to the contractual provisions of the asset. Initial recognition of financial asset is at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)****Financial assets (Continued)***Impairment of financial assets*

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Financial assets where credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

*i) Significant increase in credit risk*

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the bank considers quantitative and qualitative information, based on the bank's historical experience, credit assessment and including forward-looking information. The bank's assessment of a significant increase in credit risk from initial recognition consists of a primary and secondary risk drivers as follows:

- The primary risk driver aligns to the quantitative credit risk assessments performed, such as the credit score, credit rating, probability of default or arrears aging of a financial instrument; and
- The secondary risk assessment considers a broad range of qualitative risk factors based on a forward looking view such as economic and sector outlooks.

These primary and secondary risk drivers are included by the bank as part of the ongoing credit.

When making a quantitative assessment, the bank uses the change in the probability of default occurring over the expected life of the financial instrument. This requires a measurement of the probability of default at initial recognition and at the reporting date.

A rebuttable assumption is that the credit risk since initial recognition has increased significantly if a financial instrument is 30 days past due on any payments or is one payment in arrears. It is not anticipated that this assumption will be rebutted.

The maximum period considered when estimating ECLs is the maximum contractual period over which the bank is exposed to credit risk. The ECL calculation of a financial instrument takes into account both the contractual and available behavioural repayment patterns over the relevant estimation period.

The bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

*ii) Write-off policy*

The bank writes off a financial asset when there is information indicating that there is no reasonable expectation of recovery of the financial instrument, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. A write off does not constitute a derecognition per IFRS 9. Financial assets written off may still be subject to enforcement activities under the bank's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 ACCOUNTING POLICIES (Continued)

**Financial liabilities**

After initial recognition, the bank measures all financial liabilities including customer deposits other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

**Derecognition of financial liabilities**

Financial liabilities are derecognised when and only when the bank obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**The bank as a lessee**

Assets held under finance leases are recognised as assets of the bank at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant leases.

**Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank of Somalia (CBS), items in the course of collection from other banks, deposits held at call with banks and treasury bills with original maturities of less than three months. Such assets are generally subject to insignificant risk of changes in their fair value, and are used by the bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

**Fiduciary activities**

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the bank acts in a fiduciary capacity such as nominee, trustee or agent.

**Contingent liabilities**

Letters of credit, acceptances, guarantees and performance bonds are generally written by the bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

**(i) Critical accounting judgements in applying the bank's policies***Measurement of the expected credit loss*

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring expected credit losses (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The impairment loss on loans and advances is disclosed in note 12

**(ii) Key sources of estimation uncertainty***Property and equipment*

Critical estimates are made by Management in determining the useful lives and residual values for property and equipment and intangible assets based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

## 3 RISK MANAGEMENT POLICIES AND OBJECTIVES

## A. OVERVIEW OF RISK MANAGEMENT

The bank has exposure to the following financial risks from its use of financial instruments:

- Credit risk
- Liquidity risk

*Risk Management Framework*

The Board of Management has overall responsibility for the establishment and oversight of the bank's risk management framework.

**(a) Credit risk**

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally in lending to customers and other banks and investment activities. The Central Bank of Somalia does not provide loans to third parties and therefore the bank is not significantly exposed to any credit risk



## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

## A. OVERVIEW OF RISK MANAGEMENT (Continued)

## (a) Credit risk (Continued)

**Credit risk on financial assets other than loans**

The bank is exposed to credit risk arising on other financial assets as included in the statement of financial position. As part of the credit risk management, the bank's management reviews information on significant amounts. The bank's management assess the credit quality of each counterparty, taking into accounts its financial position, past experience and other factors.

The credit risk on amounts due from banking institutions is limited because the counterparties are banks with high credit ratings.

Maximum exposure to credit risk before collateral held

Assets	External credit rating	12-month or lifetime ECL	Gross carrying amount USD	Loss allowance USD	Net carrying amount USD
<b>2020</b>					
Deposits and balances from bank institutions	B- to A+	12	46,879,664	(3,693,963)	43,185,701
Loans and advances	None	12	2,999,940	(89,940)	2,910,000
Receivables	None	12	134,241	-	134,241
Due from the government of Somalia	None	12	392,420,520	-	392,420,520
Due from International Monetary Fund (IMF)	None	12	286,719,946	-	286,719,946
IMF Grant	None	12	614,341	-	614,341
<b>Total</b>			<b>729,768,652</b>	<b>(3,783,903)</b>	<b>725,984,749</b>
<b>2019</b>					
Deposits and balances from bank institutions	B- to A+	12	59,414,370	(3,693,963)	55,720,407
Loans and Advances	None	12	1,589,940	(89,940)	1,500,000
Receivables	None	12	188,122	-	188,122
Due from the government of Somalia	None	12	376,429,273	-	376,429,273
Due from International Monetary Fund (IMF)	None	12	85,490,135	-	85,490,135
<b>Total</b>			<b>523,111,840</b>	<b>(3,783,903)</b>	<b>519,327,937</b>

## (b) Liquidity risk

The bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measure

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

## A. OVERVIEW OF RISK MANAGEMENT (Continued)

## (b) Liquidity risk

**Management of liquidity risk**

The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under CBS normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation. The Board of Directors, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered.

**Source of funding**

The bank's source of funding is mostly from charging an agreed upon fees to all income received the Federal and Regional governments which are deposited into their respective Central Bank of Somalia operational accounts.

The table below analyses the Bank's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	On demand USD	1 – 3 months USD	3-12 months USD	1 - 5 years USD	Over 5 years USD	Total USD
At 31 December 2020						
Due to International Monetary Fund (IMF)	-	-	-	-	679,140,466	679,140,466
Treasury deposits	69,438,559	-	-	-	-	69,438,559
Deposits from banks	18,234,625	-	-	-	-	18,234,625
Security Deposits	20,220,000	-	-	-	-	20,220,000
Micro finance grant	3,000,000	-	-	-	-	3,000,000
Other payables	2,392,373	-	-	-	-	2,392,373
<b>Total financial liabilities</b>	<b>110,285,557</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>679,140,466</b>	<b>789,426,023</b>
At 31 December 2019						
Due to International Monetary Fund (IMF)	-	-	-	-	461,919,408	461,919,408
Treasury deposits	64,729,690	-	-	-	-	64,729,690
Deposits from banks	11,011,742	-	-	-	-	11,011,742
Security Deposits	14,970,000	-	-	-	-	14,970,000
Microfinance grant	3,000,000	-	-	-	-	-
Other payables	3,109,255	-	-	-	-	3,109,255
<b>Total financial liabilities</b>	<b>96,820,687</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>461,919,408</b>	<b>555,740,095</b>

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

## B. CAPITAL MANAGEMENT

The Central Bank of Somalia sets and monitors capital requirements for the bank as a whole.

The bank's accounting reserve position at 31 December was as follows:

**Reserves**

	2020 USD	2019 USD
Retained earnings	12,310,839	9,217,829
Revaluation reserve	136,692,088	130,570,944
Gold reserve	19,317,418	19,317,418
	<u>168,320,345</u>	<u>159,106,191</u>
	=====	=====

## (i) FAIR VALUE HIERARCHY

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Details of the fair value hierarchy for the Bank's property plant and equipment carried at fair value as at 31 December 2020 are as follows:

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
<b>31 December 2020</b>				
Gold Bullion	30,830,455	-	-	30,830,455
	<u>30,830,455</u>	<u>-</u>	<u>-</u>	<u>30,830,455</u>
	=====	=====	=====	=====
<b>31 December 2019</b>				
Gold Bullion	24,709,311	-	-	24,709,311
	<u>24,709,311</u>	<u>-</u>	<u>-</u>	<u>24,709,311</u>
	=====	=====	=====	=====

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

## C) OTHER RISK DISCLOSURES

**STRATEGIC RISK**

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. It is a risk that may significantly impact on the achievement of the institution's vision and strategic objectives as documented in the strategic plan.

**Who manages strategic risk**

The Board of Directors is responsible for the preparation and implementation of the bank's strategy. The board delegates implementation to the Governor and the senior management team who execute strategy. The Board works together with senior management to ensure that the bank meets its strategic goals and objectives.

**How we manage strategic risk**

The bank sets strategic goals and objectives, evaluates its strategic position and develops appropriate strategies and then translates those strategies into a Strategic plan.

Each department is responsible for directing strategies in their respective units and ensures that such strategies are aligned to the overall strategy of the Bank. Regular comparison of actual performance to desired outcomes serves as an important check on the success of implementing approved strategies, and allows management to take timely remedial actions to address significant deviations from set targets.

The bank has internal control systems which are subject to internal audit reviews to ensure that it is not unduly exposed to strategic risks. The results of such audit reviews, including any issues and weaknesses identified are reported to the Board and senior management directly. CBS Board and senior management are engaged in the process to determine whether such reviews and audits are effectively performed and identified issues are addressed.

**OPERATIONAL RISK**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks that arise in the normal course of business.

**Who manages operational risk?**

Senior management is responsible for consistently implementing and maintaining throughout the institution, policies, processes and systems for managing operational risk in all of the institution's material products, services and activities, consistent with the bank's risk appetite and tolerance.

**How we manage operational risk?**

Internal operational loss data such as loss arising from fraud, forgeries, robbery and system downtime provides meaningful information for assessing a bank's exposure to operational risk and the effectiveness of internal controls. External data elements consist of gross operational loss amounts, dates, recoveries, and relevant causal information for operational loss events occurring at organizations other than the bank.

Internal controls are designed to provide reasonable assurance that the bank has efficient and effective operations; safeguard its assets; produce reliable financial reports; and comply with applicable laws and regulations.

The bank has established risk management and internal control procedures to address operational risks including code of conduct, delegation of authority, segregation of duties, audit coverage, compliance, mandatory leave, staff compensation, recruitment and training, and physical controls.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

## C) OTHER RISK DISCLOSURES (Continued)

**REPUTATIONAL RISK**

Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

**Who manages reputational risk?**

Ultimate accountability for reputational risk management rests with the board of directors and senior management by addressing explicitly reputational risk as a distinct and controllable risk to the institution's safety and soundness.

Nonetheless, every employee and representative of the bank has a responsibility to contribute positively to our reputation.

**How we manage reputational risk?**

Under the corporate governance principles matters such as management integrity, staff competence, code of conduct, support and corporate culture are incorporated all of which aim to reduce reputational risk.

Every employee and representative of the bank has a responsibility to contribute in a positive way towards our reputation. This is through ensuring ethical practices are always adhered to, interactions with all stakeholders are positive, and we comply with applicable policies, legislation, and regulations.

**COMPLIANCE RISK**

Compliance risk is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from the possibility of incorrect interpretation of effective laws or regulations.

**Who manages compliance risk**

The ultimate accountability for compliance risk management rests with the board, which is aware of the major aspects of the institution's compliance risk.

**How we manage compliance risk**

Department heads manage day to day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls already in place.

4 REVENUE	2020 USD	2019 USD
Cash handling fees and commissions	6,906,442	5,891,462
Interest on Government of Somalia Promissory Note (Note 16)	355,126	1,013,565
Utilisation of the grant assistance - IMF PRG-HIPC Trust (Note 17)	943,469	-
Investment income from grant assistance - IMF PRG-HIPC Trust (Note 17)	399	-
License fees	657,000	544,500
Rental income	241,600	331,200
Registration fee	36,000	24,000
Sundry revenue	2,090	2,960
	<u>9,142,126</u>	<u>7,807,687</u>



## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020 USD	2019 USD
5 OPERATING EXPENDITURE		
Staff costs (note 6)	3,066,954	2,574,439
Travel expense*	78,307	117,056
Security	281,452	416,074
Asset recovery expenses	45,090	238,450
Repair and maintenance	30,774	41,236
Auditors fees	90,000	90,000
Hospitality	74,106	59,980
Depreciation	201,959	370,844
Amortisation	30,566	29,533
Fuel	7,734	6,506
Miscellaneous office expenses	9,282	9,109
Hotel	55,281	56,539
Medical expenses	16,985	20,752
Internet expenses**	130,512	49,497
Rent	30,500	39,000
Board of Directors expenses	226,192	336,882
Printing, Publications and Subscriptions	74,908	20,413
Tuition fees (kaalmo waxbarasho)	5,892	17,424
Miscellaneous vehicle expenses	14,178	12,576
Electricity	68,240	67,262
Telephone, Fax, and Telegraph	19,894	7,286
Office supplies stationaries	50,116	55,656
Water	1,868	2,187
Legal expense	6,450	-
Cleaning	6,518	35,063
Bank charges	53,567	28,545
Oil expenses	1,359	731
Donations	26,399	121,000
Consultant fees	152,395	61,260
Mission allowance	57,490	168,485
Professional subscriptions	9,442	63,880
Irrecoverable debt	-	39,085
Cash impairment	2,193	100
Health Insurance	182,324	184,447
System License	979,450	175,113
Interest expense and other charges on IMF loans (Note 16)	355,126	1,013,565
Utilisation of the grant assistance - IMF PRG-HIPC Trust (Note 17)	943,469	-
Interest expense from Grant assistance - IMF PRG-HIPC Trust (Note 17)	399	-
	<u>7,387,371</u>	<u>6,529,975</u>
	=====	=====

\*Travel expenses are made up of per diem, travel and other related expenses.

\*\*Internet expense has increased significantly due to cost incurred by CBS to upgrade the internet wiring in its headquarter.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020 USD	2019 USD
6	STAFF COSTS	
	1,935,405	1,925,371
	959,957	483,913
	142,931	133,894
	28,661	31,261
	<u>3,066,954</u>	<u>2,574,439</u>
	=====	=====
7	OTHER INCOME	
	6,804	50,303
	398,755	38,354
	877,591	-
	<u>1,283,150</u>	<u>88,657</u>
	=====	=====
8	TAXATION	
	Article 8 of the Central Bank of Somalia Act Law no. 130 of 22 April 2012 exempts the Central Bank of Somalia from taxes on its income and all duties, excise and other taxes and levies on the import and domestic supply of gold, banknotes and coins, and other taxes duties and levies from which Government ministries and other public agencies are exempted by Law.	
	2020 USD	2019 USD
9	CASH BALANCES	
	57,749	112,775
	74,098,689	45,041,168
	<u>74,156,438</u>	<u>45,153,943</u>
	=====	=====
10	DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	
	46,879,664	59,414,370
	(3,693,963)	(3,693,963)
	<u>43,185,701</u>	<u>55,720,407</u>

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 10 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS (Continued)

Movement in provision for impairment is as follows;

	2020 USD	2019 USD
At 1 January	(3,693,963)	(3,693,963)
Impairment adjustment during the year	-	-
	<u>                    </u>	<u>                    </u>
At end of the year	<u>(3,693,963)</u>	<u>(3,693,963)</u>

The weighted average effective interest rate on balances and deposits due from banking institutions at 31 December 2020 was Nil (2019 - Nil).

	2020 USD	2019 USD
<b>11 RECEIVABLES</b>		
Prepayments	42,694	82,985
Sundry debtors	91,547	105,136
	<u>                    </u>	<u>                    </u>
	<u>134,241</u>	<u>188,122</u>

## 12 LOANS AND ADVANCES

As at 1 January - Gross	1,589,940	1,589,940
Loans advanced	1,410,000	-
ECL impairment provision	(89,940)	(89,940)
	<u>                    </u>	<u>                    </u>
As at 31 December - Net	<u>2,910,000</u>	<u>1,500,000</u>

The micro finance loans are loans which the Bank issued to 6 commercial banks from the funds received from Kuwait Fund for Arab Development (Note 22). The commercial banks are supposed to utilize the loans for provision of micro finance loans to small business traders. These loans are interest free and the banks are not required to make periodic payments. However, the banks are required to repay the loans fully by 31 December 2021.

	2020 USD	2019 USD
<b>13 GOLD BULLION</b>		
At 1 January	24,709,311	20,786,436
Valuation gain through other comprehensive income	6,121,144	3,922,875
	<u>                    </u>	<u>                    </u>
At 31 December	<u>30,830,455</u>	<u>24,709,311</u>

Gold bullion consists of 16,261 fine troy ounces of gold at the market price of United States Dollar (USD) 1,519.50 per ounce (2019: 16,261 fine troy ounces at USD 1,278.30 per ounce).

These Gold bullions are held at the Federal Reserve Bank of New York. The assets are carried at fair value through other comprehensive income.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 14 PROPERTY AND EQUIPMENT

COST	Freehold Land USD	Buildings USD	Furniture and fixtures USD	Vehicles USD	Equipment USD	Other equipment USD	Total USD
At 1 January 2019	122,194,400	5,777,214	207,287	237,750	470,568	9,628	128,896,847
Additions	-	673,740	45,120	35,000	27,814	18,009	799,683
At 31 December 2019	122,194,400	6,450,954	252,407	272,750	498,382	27,637	129,696,530
At 1 January 2020	122,194,400	6,450,954	252,407	272,750	498,382	27,637	129,696,530
Additions	-	980,679	800	280,300	32,720	34,657	1,329,156
At 31 December 2020	122,194,400	7,431,633	253,207	553,050	531,102	62,294	131,025,686
DEPRECIATION							
At 1 January 2019	-	158,854	75,250	237,750	304,875	9,628	786,357
Charge for the year	-	179,539	31,551	2,188	152,039	5,527	370,844
At 31 December 2019	-	338,393	106,801	239,938	456,914	15,155	1,157,201

**CENTRAL BANK OF SOMALIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**14 PROPERTY AND EQUIPMENT (Continued)**

	Freehold Land USD	Buildings USD	Furniture and fixtures USD	Vehicles USD	Equipment USD	Other equipment USD	Total USD
At 1 January 2020	-	338,393	106,801	239,938	456,914	15,155	1,157,201
Charge for the year	-	161,278	27,322	27,608	(24,782)	10,533	201,959
At 31 December 2020	-	499,671	134,123	267,546	432,132	25,688	1,359,160
<b>NET BOOK VALUE</b>							
At 31 December 2020	122,194,400	6,931,962	119,084	285,504	98,970	36,606	129,666,526
At 31 December 2019	122,194,400	6,112,561	145,606	32,812	41,468	12,482	128,539,329



CENTRAL BANK OF SOMALIA  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2020 USD	2019 USD
<b>COST</b>		
At 1 January	151,165	144,165
Additions	23,000	7,000
	<u>          </u>	<u>          </u>
At 31 December	174,165	151,165
	<u>          </u>	<u>          </u>
<b>AMORTISATION</b>		
At 1 January	35,399	5,866
Charge for the year	30,566	29,533
	<u>          </u>	<u>          </u>
At 31 December	65,965	35,399
	<u>          </u>	<u>          </u>
<b>NET BOOK VALUE</b>		
At 31 December	108,200	115,766
	<u>          </u>	<u>          </u>

16 DUE FROM THE GOVERNMENT OF SOMALIA

	2020 SDR	2020 USD	2019 SDR	2019 USD
Ministry of Finance Promissory Note to settle debt owed to International Monetary Fund	272,463,163	392,420,520	272,216,594	376,429,273
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>

Movement in the government promissory note is as follows:

	2020 USD	2019 USD
At 1 January	376,429,273	375,415,708
Net foreign exchange gains	15,636,121	(2,166,844)
Interest charged	355,126	3,180,409
	<u>          </u>	<u>          </u>
At end of the year	392,420,520	376,429,273
	<u>                  </u>	<u>                  </u>

This Promissory Note was issued by the Ministry of Finance (MOF) pursuant to the Somali Public Finance and Management Act, in consideration to the Central Bank of Somalia (CBS) assuming the debt owed to the IMF as disclosed in note 18 of these financial statements. The promissory note was effective from 31 December 2019 and the maturity date is on 18 March 2024.

The promissory note accrues interest on the unpaid principal balance of the Promissory Note at the applicable rate as determined by the International Monetary Fund (IMF). The accrued interest and the principal are payable only on the Maturity Date. This Promissory Note, is governed by the Federal Government Somali Constitution and construed and enforced in accordance and with the Somali Public Finance and Management Act

CENTRAL BANK OF SOMALIA  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 17 IMF GRANT

	2020 SDR	2020 USD
At 1 January	-	-
IMF Grant Assistance PRG-HIPC received during the year	1,111,000	1,502,783
Investment income	284	399
Grant assistance utilised	(684,738)	(943,469)
Net exchange rate gain	-	54,628
	<u>          </u>	<u>          </u>
At 31 December	426,546	614,341
	=====	=====

In March 24, 2020, The IMF Executive Board determined that Somalia is eligible and qualifies for Grant Assistance under the Enhanced highly indebted poor countries (HIPC) Initiative as defined in the PRG-HIPC trust instruments. The Ministry of Finance received Grant assistance of SDR 1,111,000. During the period, the Ministry of Finance utilised SDR 684,738 and applied it to the debt service payments on its existing debt to the IMF. There was no cash exchange and all remains in IMF accounts.

## 18 FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF)

	2020 SDR	2020 USD	2019 SDR	2019 USD
(a) Assets				
IMF balances (SDR asset account)	35,667,946	51,371,473	17,599,711	24,337,408
Accrued interest on SDR Holdings	5,801	8,355	22,881	31,641
Quota	163,400,000	235,340,118	44,200,000	61,121,086
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total SDR holdings	199,073,747	286,719,946	61,822,592	85,490,135
	=====	=====	=====	=====
(b) Liabilities				
IMF holdings	202,974,125	292,337,543	140,452,557	194,222,010
International Monetary Fund – Borrowings	217,862,000	313,780,103	15,303,010	21,161,461
Accrued interest and charges	81,577	117,493	131,820,726	182,285,655
SDR Allocations	50,619,208	72,905,327	46,462,893	64,250,282
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities due to IMF	471,536,910	679,140,466	334,039,186	461,919,408
	=====	=====	=====	=====

CENTRAL BANK OF SOMALIA  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF) – (Continued)

IMF funds (Asset Movement)	2020 SDR	2020 USD	2019 SDR	2019 USD
At 1 January	61,822,592	85,490,135	62,132,048	86,412,631
Bridge SDR Loan received from Govt of Italy	273,229,780	369,581,530	-	-
Refund of the Bridge SDR loan to the Govt of Italy	(273,229,780)	(369,581,530)	-	-
Clearing of previous SDR holdings	(243,429,780)	(329,272,858)	-	-
Additional quota given to Somalia and new GRA loan by IMF	158,767,780	214,755,650	-	-
SDR allocation to Somalia by IMF under the fourth amendment	4,156,315	5,621,998	-	-
Additional PRGT: ECF loan	217,862,000	295,088,416	-	-
Accrued interest charges on Allocations	(105,160)	(144,527)	(309,456)	(440,196)
Exchange gain/ (loss) on assets	-	15,181,132	-	(482,300)
	=====	=====	=====	=====
At 31 December	199,073,747	286,719,946	61,822,592	85,490,135
	=====	=====	=====	=====
IMF funds (Liability Movement)	2020 SDR	2020 USD	2019 SDR	2019 USD
At 1 January	334,039,186	461,919,408	332,061,878	461,828,339
Clearance of all the GRA balance	(243,498,513)	(329,365,828)	-	-
IMF Additional SDR allocation	4,156,315	5,621,998	-	-
Accrued Charges on Allocations	8,775	12,638	(71,437)	(98,785)
Accrued charges on fund credit account (GRA)	72,802	104,855	2,046,726	2,836,979
Additional PRGT: ECF loan	217,862,000	295,088,416	-	-
New SDR promissory note from IMF	158,896,345	214,929,552	-	-
Exchange rate gains/losses on loans	-	30,829,427	-	(2,649,144)
	=====	=====	=====	=====
At 31 December	471,536,910	679,140,466	334,039,186	461,919,408
	=====	=====	=====	=====

In 2018 the bank assumed and recognized Somalia government's IMF (International Monetary Fund) position on its statement of financial position. This is because the Central Bank of Somalia acts as Somalia's "Fiscal Agent" and "Depository" with the IMF. Therefore, the bank agreed with the Ministry of Finance to recognize and reflect the amounts due by the Government of Somalia to IMF on the bank's statement of financial position. These debts related to historical sovereign loans owed by the Government and which were obtained from IMF before the collapse of the Somalia government in 1992. In compensation, the Central Bank of Somalia obtained a promissory note (see Note 16) in consideration of the bank assuming the debt owed to IMF.

CENTRAL BANK OF SOMALIA  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF) (Continued)

IMF currency are held in the No. 1 and No. 2 Accounts, which are deposit account of the IMF with the Bank.

Borrowings from and repayment to the IMF are denominated in Special Drawings Rights (SDRs). The SDR balances in IMF accounts are translated into United States Dollars at the prevailing exchange rates and any unrealized gains or losses are accounted for in accordance with accounting policy.

On custodial basis, the Bank holds a non-interest bearing and cashable on demand security issued by the Treasury of IMF in its capacity as the IMF's depository. The security issued is in part payment of Somali's quota of IMF shares.

	2020 USD	2019 USD
19 TREASURY DEPOSITS		
Denominated in Somali Shillings	58,277	107,023
Denominated in United States Dollars	69,380,282	64,622,667
	<u>69,438,559</u>	<u>64,729,690</u>
	=====	=====

The bank holds accounts for and on behalf of the Government in accordance with the Central Bank of Somalia Act, 2012. Government includes the Federal Government of Somalia, selected regional authorities and salary payment accounts for current and former employees and parliamentarians.

20 DEPOSITS FROM BANKS

	2020 USD	2019 USD
Demand deposits	18,234,625	11,011,742
	<u>18,234,625</u>	<u>11,011,742</u>
	=====	=====

Commercial banks hold demand deposit accounts with the Bank to facilitate settlement of inter-bank transactions

21 SECURITY DEPOSITS

	2020 USD	2019 USD
Performance security to undertake banking and forex business in Somalia	20,220,000	14,970,000
	<u>20,220,000</u>	<u>14,970,000</u>
	=====	=====

All money transfers bureaus that are licensed to carry on money remittance business are required to maintain with the Central Bank, a security deposit in the sum of USD 60,000 or its equivalent in Somali currency

As of 31 March 2018, the bank also requested all commercial banks that have been licensed by the bank to carry banking activities to maintain with the Central Bank, security deposit in the sum of USD 1,500,000. In 2020, there were a total of 13 (2019:10) licensed commercial banks and 12 (2019:12) money transfers bureaus who maintained security deposits with the bank.

These deposits are non-interest bearing and repayable on demand

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 22 MICROFINANCE GRANT

	2020 USD	2019 USD
Microfinance Grant – Kuwait Fund for the Arab Economics Development	3,000,000 =====	3,000,000 =====

In September 2014, the Federal government of Somalia received a USD 3,000,000 interest free grant from the Kuwait Fund for the Arab Economic Development. The purpose of the fund is to provide micro-finance funding to small business in Mogadishu in order to support the growth of the Somali private sector. Part of the grant has been disbursed to Commercial banks as loans (Note 12). This is a revolving fund.

## 23 OTHER PAYABLES

	2020 USD	2019 USD
Sundry creditors	1,385,110	1,552,921
Audit fees	180,000	135,000
Deferred rent income	213,000	170,000
Uncredited cash recovered	(78)	1,251,334
IMF Grant (Note 17)	614,431	-
	<hr/>	<hr/>
Other payables and accruals	2,392,373 =====	3,109,255 =====

## 24 CAPITAL REQUIREMENTS AND RESERVES

The authorized capital of the Bank is determined in accordance with Law no. 130 of the Central Bank of Somalia Act of 22 April 2012 that prescribes that the ownership of the entire paid up capital of the Bank shall be vested in the Ministry of Finance. The paid up capital of the Bank shall not be reduced at any time. The authorized capital of the Bank may be increased by such amounts as may be proposed by the Board and approved by the Ministry of Finance.

As at year end, this section of the Act had not been implemented hence the prescribed capital for the bank had not been set.

## Reserves

As at the end of the year, the bank had the following reserves which represent its net assets.

## (a) Revenue reserve

*Revenue reserve represents net cumulative profits/ (losses) from the banks' operations. This is subject to distribution in accordance with the provisions of the CBS Act.*

## (b) Revaluation Reserves

*Revaluation reserve relates to revaluation surplus on land and buildings owned by the bank and gains/losses on the revaluation of the Gold bullion.*

## (c) Gold reserve

*Gold reserve represents the value of bullions that the bank recovered through its asset recovery exercise. The reserve balance has been maintained at the value of initial recognition as at 31 December 2014 with all subsequent gains/losses going through the revaluation reserve*



## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 25 NOTES TO THE CASH FLOW STATEMENT

## (a) Reconciliation of surplus before taxation to cash generated from operations

	2020 USD	2019 USD
Surplus before taxation	3,093,010	1,271,056
<i>Adjustments for:</i>		
Depreciation (note 14)	201,959	370,844
Amortisation (note 15)	30,566	29,533
<i>Working capital changes:</i>		
Increase in receivables	(217,781,518)	(248,240)
Increase in loan advances	(1,410,000)	-
Increase in deposits from banks and treasury	17,181,752	28,065,695
Increase/ (decrease) in other payables	216,504,176	(713,451)
	<u>17,819,945</u>	<u>28,775,437</u>
	=====	=====

## (b) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes

	2020 USD	2019 USD
Cash balances (Note 9)	74,156,438	45,153,943
Deposits and balances due from banking institutions (Note 10)	43,185,701	55,720,407
	<u>117,342,139</u>	<u>100,874,350</u>
	=====	=====

## 26 CONTINGENCIES AND COMMITMENTS

Given the development and security situation in Somalia, as well as difficulties in obtaining all relevant historical transaction data and relevant entity accounting documentation and agreements, contingent assets and liabilities may exist. The bank still has some land and buildings which it owns but has not been able to regain control after the collapse of the bank in 1992. Also the bank has not been able to reliably measure the value of these land and buildings. However, the directors have ensured that all assets which the bank controls and all known liabilities have been included in these financial statements. Other than the above, there were no other material off balance sheet items that require disclosures.

## 27 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank acts as fiscal agent to the Government in accordance with the Central Bank of Somalia Act. Government includes the Federal Government of Somalia, selected regional authorities and salary payment accounts for Parliamentarians. Other than transactions and balances in the normal course of business with the Government, there have been no significant transactions with related parties during 2020, nor are there known significant assets or liabilities with related parties as at 31 December 2020 (2019 – Nil).

## CENTRAL BANK OF SOMALIA

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 INCORPORATION

The Bank is incorporated under the Central Bank of Somalia Act, 2012 (the Act).

29 CURRENCY

The financial statements have been prepared in the United States Dollars (USD), which has been determined to be the functional currency.

30 EVENTS AFTER THE REPORTING DATE

No significant events occurred after year end that require to be disclosed in these financial statements.





CENTRAL BANK OF SOMALIA

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