



CENTRAL BANK OF SOMALIA

# ANNUAL REPORT



2019



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

Annual Report

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2019

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## 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**



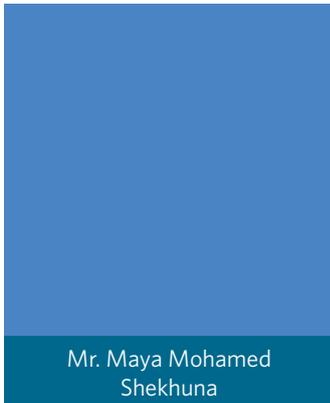
Ms. Maryam Abdullahi Yusuf  
**DEPUTY GOVERNOR**



Dr. Omar Ibrahim Hussein



Mr. Abdirashid M Siraji



Mr. Maya Mohamed  
Shekhuna



Dr. Hodan Said Isse



Mr. Yusuf Mohamed

## 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 Shillings
<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 achieved significant and steady progress in rebuilding its economy after more than two decades of civil war. With continuous support from international partners, Somalia has undertaken reforms aimed at sustainable economic recovery as well institutional capacity development.

The Central Bank of Somalia has implemented significant reform pillars set out in the Financial Sector Development Roadmap. Though reforms require sequencing and targeting with foundational reforms, improving the CBS capacity and governance to adopt its core functions appears an urgent short-term priority. In this regard, the Board of Directors of the CBS had adopted a two-year (2020-2020) restructuring and transition plan and revisited the organizational structure, which required modernization to move towards a function-based decision structure.

There has been a great need to regulate the mobile money sector, which handles huge transactions worth US\$2.7 billion, equivalent to (40 percent of GDP) a month, and almost 73 percent of the Somalia population aged 16 years and above use mobile money services for the purpose of saving, remittance, retail, and salary payments as well as the purchase of airtime.

For that purpose, the Bank issued Mobile Money Regulation and established a clear timeline to bring the Mobile Money Service Providers under the CBS regulatory and supervisory umbrella within a period of two years to mitigate possible systemic risks to the financial sector and help drive efficient intermediation and to achieve domestic and international payment system objectives.

To address the AML/CFT framework gaps, the Bank issued an AML/CFT regulation for Financial Institutions. This regulation is critical in fostering financial market integrity and international financial linkages in a sector that currently faces de-risking and a lack of correspondent banking relationships. It is also essential to secure inward remittance transfers, which are critical to the livelihoods of Somalia households and contribute significantly to the country's balance of payments.

Somalia's macroeconomic performance had shown a positive growth momentum and economic stability. The growth rate of real GDP was 4.5 percent in 2019. The inflation rate remained in a single digit where the annual inflation rate declined to 3.1 percent in 2019, down from 3.2 percent in 2018 due to improved food supply as well decreased transportation costs and stability on food prices. The Real GDP growth forecast in 2020 is 3.2 percent and 3.0 percent for end-year inflation.

The Central Bank of Somalia has issued prudential regulations and new guidelines to achieve its objective of enhancing financial stability by strengthening its regulatory and supervisory framework. In that regard, the financial sector is moving towards a process of formalization with new banks entering the system to contribute the ever-expanding credit to the private sector, contributing significantly to sustained growth.

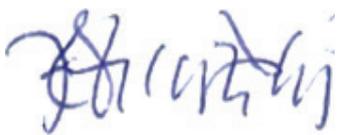
Total assets of the banking sector increased three-fold in five (5) years from the first quarter of 2015 to the last quarter of 2019. The consolidated assets of the banking sector increased by 34 percent over 2018 to register US\$556.2 million (8 percent of GDP) by the end of 2019. Capital adequacy as well as average liquidity ratios were kept above the minimum regulatory prudential requirements.

CBS will continue working with the international financial institutions and will continue to engage bilateral and multilateral relations with regional and international organizations to build the capacity of the Bank and its staff, which is a key in the achievement of the strategic goals.

I would like to acknowledge the role of the CBS Board of Directors whose timely and effective guidance has strengthened the governance of the Central Bank of Somalia.

I believe that a committed and motivated staff is a critical success factor in achieving the Bank's objectives and harnessing reform momentum. I would also acknowledge the dedication of CBS staff and continued hard work, which has helped CBS enhance its performance across the board.

Finally, I urge the CBS employees to continue their efforts to take the CBS to new heights.



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



# 1

## WORLD ECONOMY



Though the global economy in 2019 grew by 2.9 percent, the world economy experienced three major risks; the trade war from the US, growth slowdown of major economies and Euro Zone politics, Brexit in particular.

In addition, the global economy is heading towards a decelerating trend as the April forecast of the IMF suggests a slip to 3.3 percent growth from a 20-year average of 3.8 percent by 2018 especially in the sectors of manufacturing and exports due to uncertainty around the ongoing trade war.

Since the beginning of 2018, growth in global industrial production and merchandise trade volumes have been contracting. This contraction is seen especially in trade-intensive capital and intermediate goods sectors while leading indicators point to some softening in economic momentum in many countries in 2019, amid increasing trade disputes, risks of financial stress and volatility, and an undercurrent of geopolitical tensions (UN, 2019).

The World Economic Situation and Prospects of the UN also predicts that several developed economies will, the same time, face capacity constraints.

In **Advanced Economies**, the overall output shown a slight decline from 2.2 in 2018 to 1.7 this year. With the United States leading the group with a growth rate of 2.3 percent (2019), down from 2.9 percent in 2018 while the Euro Area exhibited a growth rate of 1.4 percent declining from 2.4 percent in the last year 2018 (WEO, 2020).

Growth in **Emerging Markets** is predicted to increase to 4.4 and 4.6 percent in 2020 & 2021, respectively, reflecting primarily a projected improvement in economic performance in several countries in Latin America, the Middle East, and emerging and developing Europe that are under macroeconomic strain.

In **Sub-Saharan Africa**, the output rate stood at 3.3 percent this year from 3.2 percent in 2018 (see Table 1 below). However, the World Bank predicted that the Economic growth in Africa is expected to contract from 2.4 percent in 2019 to between -2.1 and -5.1 percent in 2020, showing the region's first recession in 25 years.

In addition, while the Sub-Saharan Growth is expected to marginally increase to 3.5 percent in 2020 from 3.3 percent in 2019, such growth in the region remains insufficient to reduce poverty significantly.



...the World Bank predicted that the Economic growth in Africa is expected to contract from 2.4 percent in 2019 to between -2.1 and -5.1 percent in 2020...

Table 1: World Economic Outlook (2018-2021)

World Economic Outlook (Percent Changes)	Estimate		Projections	
	2018	2019	2020	2021
Country/Region				
<b>World Output</b>	<b>3.6</b>	<b>2.9</b>	<b>3.3</b>	<b>3.4</b>
<b>Advanced Economies</b>	<b>2.2</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>
United States	2.9	2.3	2.0	1.7
Euro area	2.4	1.8	1.3	1.5
Germany	1.5	0.5	1.1	1.4
France	1.7	1.3	1.3	1.3
Italy	0.8	0.2	0.5	0.7
Spain	2.4	2.0	1.6	1.6
Japan	0.3	1.0	0.7	0.5
United Kingdom	1.3	1.3	1.4	1.5
Canada	1.9	1.5	1.8	1.8
other advanced Economies 3/	2.6	1.5	1.9	2.4
<b>Emerging Markets and Developing Economies</b>	<b>4.5</b>	<b>3.7</b>	<b>4.4</b>	<b>4.6</b>
Emerging and Developing Asia	6.4	5.6	5.8	5.9
China	6.6	6.1	6.0	5.8
India	6.8	4.8	5.8	6.5
ASEAN-55/	5.2	4.7	4.8	5.1
Emerging and Developing Europe	3.1	1.8	2.6	2.5
Russia	2.3	1.1	1.9	2.0
Latin America Caribbean	1.1	0.1	1.6	2.3
Brazil	1.3	1.2	2.2	2.3
Mexico	2.1	0.0	1.0	1.6
Middle East and Central Asia	1.9	0.8	2.8	3.2
Saudi Arabia	2.4	0.2	1.9	2.2
<b>Sub Saharan Africa</b>	<b>3.2</b>	<b>3.3</b>	<b>3.5</b>	<b>3.5</b>
South Africa	0.8	0.4	0.8	1.0
Nigeria	1.9	2.3	2.5	2.5
Memorandum				
Low-Income Developing Countries	5.0	5.0	5.1	5.1
World Growth Based on Market Exchange Rates	3.0	2.4	2.7	2.8
World Trade Volume (goods and services) 6/	3.7	1.0	2.9	3.7
Advanced Economies	3.2	1.3	2.2	3.1
Emerging Market and Developing Economies	4.6	0.4	4.2	4.7
Commodity Prices (U.S. dollars)				
Oil 7/	29.4	-11.3	-4.3	-4.7
Nonfuel (average based on world commodity import weights)	1.6	0.9	1.7	0.6
Consumer Prices				
Advanced Economies	2.0	1.4	1.7	1.9
Emerging Market and Developing Economies 8/	4.8	5.1	4.6	4.5

Source: IMF World Economic Outlook, Jan, 2020

## 1.1 World Commodity Prices and Inflation

Due to the continued trade tensions and fears of a global economic downturn, primary commodity prices sharply declined during 2019, with energy prices falling by 13 percent followed by 1.2 decrease in food prices while base metals decreased by 0.9 percent. Oil prices, however, have remained relatively stable despite heightened geopolitical uncertainty. (WEO, Oct 2019).

Changes in consumer prices is an important indicator as it reflects price stability; it captures the prices consumers face when purchasing goods and services. In the past couple of years, advanced economies were better off than emerging economies.

As the above table indicates, consumer prices of advanced economies stood at 1.4 percent in 2019 compared to 2.0 percent in the preceding year. Furthermore, emerging market and developing economies have shown an increase in their consumer prices in 2019 (5.1 percent) up from 4.8 percent in 2018.



...consumer prices of advanced economies stood at 1.4 percent in 2019 compared to 2.0 percent in the preceding year...





# 2

## DOMESTIC ECONOMY



Somalia is making significant progress in re-building its economy. In recent years, economic sectors such as construction, agriculture and telecommunication experienced steady growth. The Federal Government of Somalia began ambitious reforms to reinstate and strengthen institutional economic structure.

The reforms include enacting key legislations including Public Financial Management Law, Company Law, and Revenue Law, while the Customs Bill has been submitted to the Parliament. FGS will continue rebuilding the economy by issuing core regulations and policies to support the implementation of the enacted laws.

Furthermore, the National Development Plan (NDP9) was approved by FGS Cabinet on Oct 26, 2019. NDP9 (2020-24) is critical anchor for the prospective debt relieve for Somalia and meets the conditionality standards associated with SMPIV program which requires satisfying the criteria for interim Poverty Reduction Strategy (iPRS), and hence paves the way for a financial arrangement with the fund.

The NDP9, which outlines the country's national priorities, is expected to provide a blueprint on the development direction of the country and to focus on medium-term economic development strategy that leads to country in a state of self-sufficiency. With the limited available resources to implement the NDP9, FGS aims to undertake efforts to advance fiscal federalism, accelerate economic growth, address multi-dimensional aspects of poverty, strengthen security, transparency, and governance, improve access to social services, encourage private investment and manage resources in efficient and equitable manner.

Moreover, the Central Bank Somalia (CBS) has initiated regulatory reform in the area of anti-money laundering and combating the financing of terrorism (AML/CFT) to aid sustainable development of the financial sector. All these economic and financial reforms started to reconstruct Somalia's economy to achieve stability and modest growth.

During the fiscal year of 2019, the , Somalia's macroeconomic performance was moderately stable. Inflation rate remained relatively stable; the headline inflation rate remained in the single digits. Fluctuation of exchange rate of Somali shilling against other foreign currencies was relatively stable.

Somalia's economy is estimated to grow in 2019, mainly due to increasing marginal positive output growth, although the Somalia economy is characterized by a large trade deficit. Additionally, Somalia's financial sector is significantly growing. Fiscal performance remained positive through enhancing domestic revenue (Tax and Non-tax) and efficient government expenditure which resulted fiscal surplus in 2019.



..CBS has initiated regulatory reform in the area of anti-money laundering and combating the financing of terrorism...

Table 2: GDP by Expenditure, Current Prices, Million US Dollars

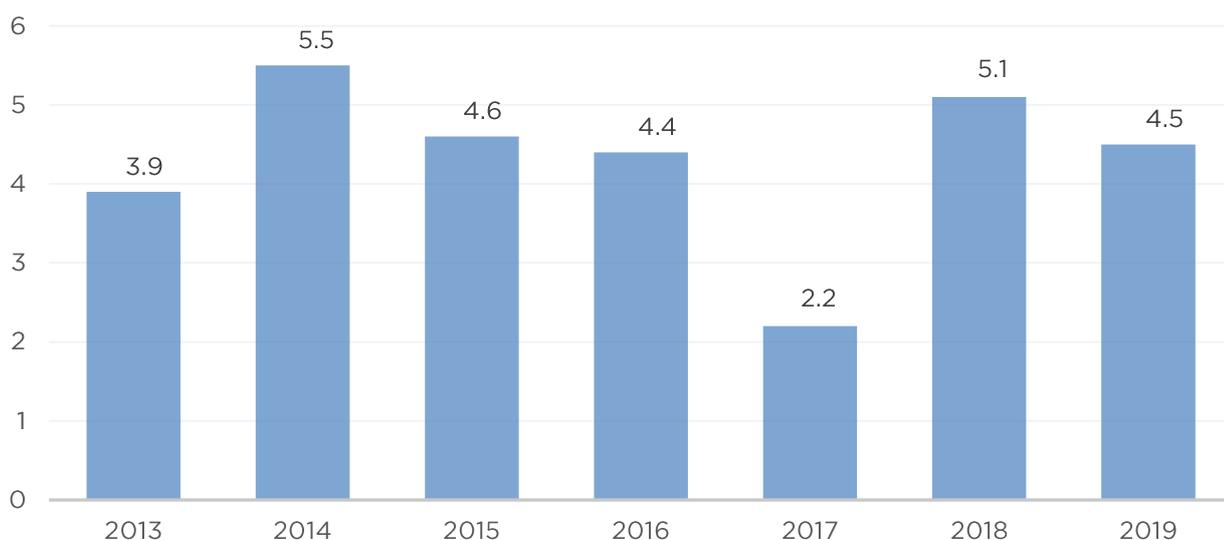
Expenditure items	2012	2013	2014	2015	2016	2017	2018	2019
Household final consumption	5,520	5,865	6,934	7,313	7,537	7,968	8,471	9,476
Government final consumption	173	269	316	324	387	481	492	542
Gross fixed capital formation	577	610	642	675	707	789	868	957
Exports of goods and services	868	943	1,051	1,038	1,067	994	1,067	1,131
of which: livestock	491	538	600	558	455	268	299	406
Minus: Imports of goods and services	3,274	3,561	3,904	3,987	4,194	4,624	4,909	5,423
GDP at purchasers' prices	3,864	4,125	5,039	5,362	5,504	5,609	5,989	6,683
GDP per capita, US Dollars	326	339	403	417	416	412	428	465

Source: MoPIED, 2019

As of 2019, Somalia's gross domestic product is estimated at US\$6,683 million with GDP per capita estimated at US\$465. The main supply-side contributors were agriculture, telecommunications, and financial services, while the main demand-side contributors were public and private consumption mainly driven by remittance, foreign direct investment and foreign aid (see table 2).

The growth rate of real GDP is 4.5 percent in 2019. Household final consumption expenditure is considerably larger than GDP. Household final consumption expenditure grew by 11.9 percent in 2019 followed by imports of good and service, which has a negative effect on GDP, increased by 10.5 percent in 2019 (see figure 1). The Real GDP growth forecast in 2020 is 3.2 percent, and 3.0 percent for end-year inflation.

Figure 1: Real GDP Growth Rate 2013 - 2019



MoPIED, 2019

**The expenditure of household final consumption grew up to 11.9 percent in 2019.** Households in Somalia spent US\$9,476 million in 2019, up from US\$8,471 in 2018. Food and Non-Alcoholic Beverages as well as Water, Housing, Electricity and Gas were the most significant expenditure categories in the consumer baskets.

**Security, rebuilding government institutions and administration services accounted the major components of government expenditure.** Federal government expenditure is estimated to rise during FY 2019, government final consumption increased by 10.2 percent in 2019, mainly reflecting an increase in operational budget and rebuilding of state institutions. FGS public spending was driven by year-on-year increase in domestic revenue.

**Somalia's gross domestic fixed investment increased by 10 percent in 2019.** Domestic investment at current price is estimated to increase slightly to US\$967 million in 2019, from US\$868 million in the previous year, representing about 14 percent of GDP. Increasing domestic investment contributes to sustainable development and job creation.

**In 2019, exports of goods and services accounted 16.9 percent of GDP.** The value of goods and services exported for the year is estimated at US\$1,131 million, an increase of 6 percent over the value recorded in 2018. The main categories of Somalia's exports are livestock, crop and forest products. The export of livestock accounted for 61 percent of total export, followed by forest product 17.4 percent.

**Imports of goods and services remained high, amounting to about 81 percent of GDP.** The value of goods and services imported for the year is estimated at US\$5,423 million. The increase in imports hurt growth as it widened to an estimated 10.5 percent in 2019, driven by higher of imported inputs in domestic products and imported food due to persistent drought.

**Somalia's GDP per capita remained low; GDP per capita is estimated at US\$465.** According to Somalia Poverty and Vulnerability Assessment report of the World Bank in 2019, the poverty gap in Somalia is 29 percent, implying that Somalia's average consumption level to record 71 percent of the international poverty line. Nearly 9 out of 10 Somalia's households suffer in at least one dimension.

**International aid, remittances and foreign direct inflows remained central to Somalia's economy.** Remittances are estimated at US\$1,339.2 million, equivalent to 20 percent of GDP. The total aid Somalia received in 2019 is US\$1,858.4 million (27.8 percent of GDP), comprising of humanitarian (50.3 percent) and development (49.7 percent). Foreign direct investment (FDI) inflows increased; however, the FDI to GDP ratio remained low at 7 percent in 2019.



Somalia's gross domestic fixed investment increased by 10 percent in 2019.



Somalia's GDP per capita remained low; GDP per capita is estimated at US\$465.

## 2.1 Agriculture

Agriculture remains a major driver of growth in Somalia's economy and the largest source of income, employment and exports. According to Somalia Poverty and Vulnerability Assessment report of World Bank in 2019, Agriculture accounts about 65 percent of Somalia's Gross Domestic Product (GDP) and 82 percent of total exports in 2019.

Agropastoralists account for roughly 23 percent of the total population. Nearly, 70 percent of Somalis live in rural areas and actively engaged in the processing, production and marketing of livestock, crop, forest products and fish.

The agricultural sector is important to the country's effort on poverty reduction and improved food security, as agricultural holders provide a livelihood for the vast majority of the population in Somalia; Hence, increasing agricultural productivity, can contribute to achieving food security, ending hunger, promote sustainable agriculture and economic growth. The sector is also important for the country to achieve the Sustainable Development Goals in the Global Vision 2030.

However, the sector is highly dependent on climate conditions. According to Somalia Poverty and Vulnerability Assessment report of World Bank in 2019, pastoralists lost around 70 percent of their average annual cash incomes due to the drought in 2017, while agropastoralists lost around 30 percent. Droughts resulted in a loss of crop production due to reduced cultivated land area and yields.

The livestock sector also suffered as a result of a severe drought which impacted on pasture for livestock and lack of water. It also disrupted pastoralist households' normal migration patterns, which are driven by the need for grazing land and water for their livestock.

### 2.1.1 Crop Production

Crop production has grown steadily in 2019. The Agriculture in Somalia is mostly small-scale, the average farm sizes are 0.2 to 4 hectares. The bimodal rainfall determines crop production performance and potential. 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 FSNAU report, the southern Somalia cereal production for the 2019 Deyr season was estimated 113,800 tons, with 9,100 tons of off-season harvests expected in late March/early April in 2020. Sorghum accounts for nearly three-quarters 73 percent of the 2019 Deyr cereal production, while maize accounts for the remaining 27 percent. Gu cereal production is estimated to total 41,000 tons in southern Somalia.

According to FAO market update 2019, prices of crops (maize and sorghum) remained relative stable during the year due to stable supply of local food items although the delay of Gu rainfall in the first half in 2019 resulted in a rise of local food prices.



The livestock sector also suffered as a result of a severe adverse impact on pasture for livestock and lack of water.

### 2.1.2 Livestock

Livestock production plays an important role in the economy and culture in many areas across Somalia. The livestock is a subsector of agriculture. Over 60 percent of the country's population relies on the sector for food and income. Sheep and Goat, Cattle and Camels are the most important livestock subsectors.

The largest livestock markets in the Horn of Africa are the Galkayo and Burao, the two markets are important reference markets for the central and northeast. Beledweyne connects the country's central and southern regions as well as a supply source of cattle export through the Basasso seaport. The majority of livestock is exported through the seaports of Bosasso and Berbera, while Kismayo and Mogadishu occasionally facilitate export of both chilled and live animals.

Table 3: Livestock Export 2018-19

Type of Animal	Total Export (Heads)		Export Quality Price		Total Value in US dollar	
	2018	2019	2018	2019	2018	2019
Camel	3,847.00	52,680.00	700.00	700.00	3,231,480.00	44,251,200.00
Cattle	285,381.00	318,105.00	330.00	350.00	113,010,876.00	133,604,100.00
Sheep & Goat	2,706,774.00	3,171,458.00	60.00	60.00	194,887,728.00	228,344,976.00
<b>Total Head</b>	<b>2,996,002.00</b>	<b>3,542,243.00</b>	<b>Total Value</b>		<b>311,130,084.00</b>	<b>406,200,276.00</b>

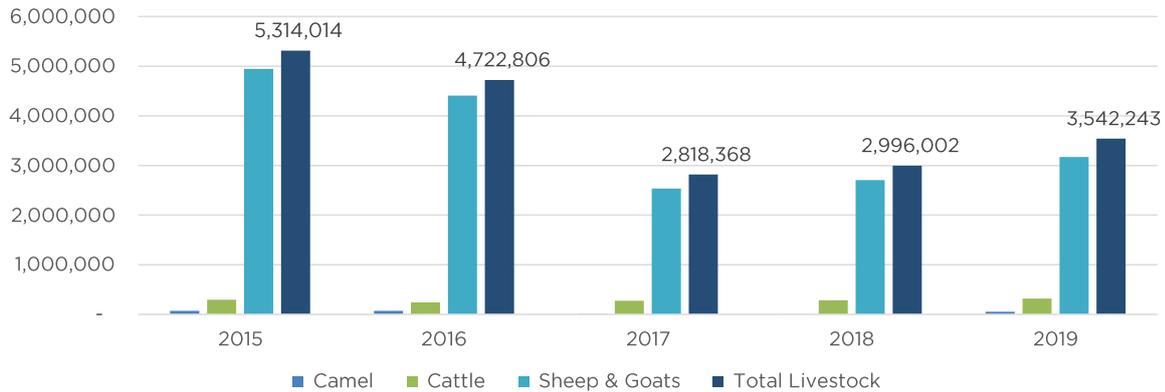
Source: FAO-FSNAU & CBS estimates and valuations, 2019

In Somalia, livestock remains a key source of exports. The export livestock accounted for 61 percent of export. Livestock exports contributed to the economy around US\$406 million in 2019, an increase of 31 percent over the value recorded in 2018 (see table 3). The sharp increase in camel export in 2019 is associated with fewer export of camel in Berbera port, as well lower than expected camel export in Bossaso port in 2018.

The main export of livestock is Camel, Cattle and Sheep and Goat. In 2019, Somalia exported 3.2 million Goats and Sheep with the price of sixty dollars per head, followed by Cattle export around 318 thousand with the price of three hundred and fifty dollars per head and Camel export (52 thousand) with price of seven hundred US dollars per head (see figure 2 & 3).

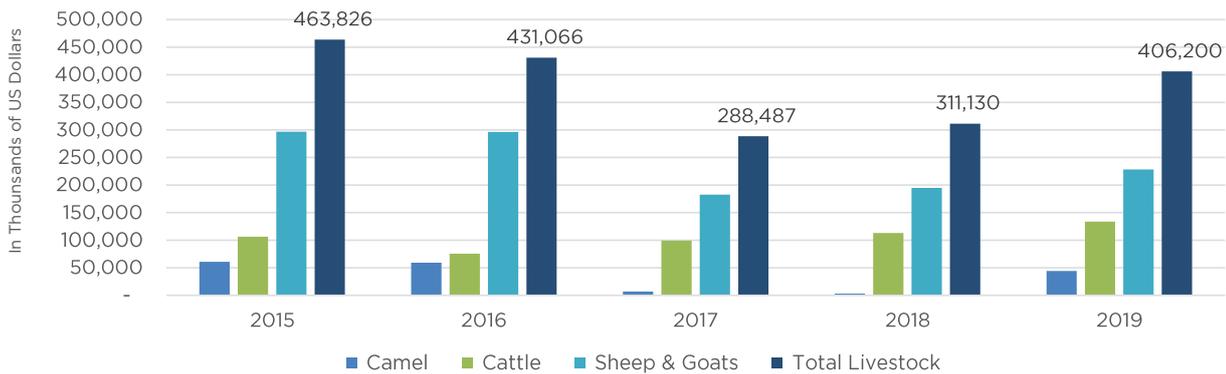
In 2019, livestock prices for local quality of Sheep and Goats, Cattle and Camel mostly exhibited monthly changes of less than +/-10 percent in terms of domestic currency 2019 across Somalia, mainly due to improved livestock body conditions as a result of increased water and pasture availability. In the northern and central regions, livestock prices increased slightly compared to their five-year averages.

Figure 2: Total Head of Livestock Export 2016-2019



Source: FAO-FSNAU & CBS estimates and valuations, 2019

Figure 3: Total Value of Livestock Export 2016-2019



Source: FAO-FSNAU & CBS estimates and valuations, 2019

### 2.1.3 Fishery

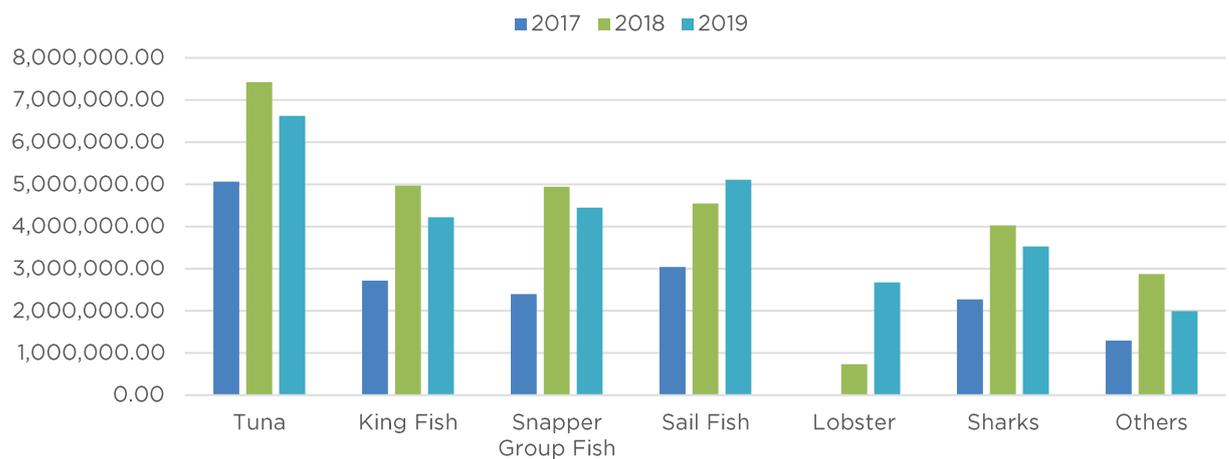
Somalia’s domestic fishery sector remained modest in size since the onset of civil war in the 1990s. Fish is increasingly becoming an important source of income and food for coastal communities. The Federal Government of Somalia began ambitious reforms in regulating its marine resource. For the first time in over two decades, the Ministry of Fisheries and Marine Resources of the Federal Government issued offshore fishing licenses. This reform is expected to promote sustainable development of the fishing sector.

Table 4: Annual Fish Production in Mogadishu and Nearby Shoreline (Value in US\$) in 2019

Type (KG)/Year	2017	2018	2019
Tuna	5,064,857.60	7,423,031.70	6,623,127.00
King Fish	2,717,976.80	4,967,622.20	4,219,148.50
Snapper Group Fish	2,396,926.40	4,941,286.70	4,445,988.00
Sail Fish	3,040,884.00	4,548,446.40	5,107,788.10
Lobster	15,100.80	733,805.00	2,674,650.00
Sharks	2,271,350.40	4,025,907.40	3,526,617.90
Others	1,295,932.00	2,874,245.80	1,993,330.00
<b>Total</b>	<b>16,803,028.00</b>	<b>29,514,345.20</b>	<b>28,590,649.50</b>

Source: MOFMR, 2019

Figure 4: Fishery Production in Mogadishu and Nearby Shorelines in US\$ (2017-19)



Source: MOFMR, 2019

According to the Ministry of Fisheries and Marine Resources, domestic fish harvest in 2019 was 2,992.6 tons, equivalent to US\$28.6 million. National estimates of overall fishery production in Somalia's coastline are estimated to be around 7,500,000 Kg, worth around US\$71.5 million. Fishing sector output is estimated to decrease in 2019 than in the previous year mainly due to lower fishery harvest coupled with the fact that most of Somali communities are still rooted in their pastoralist traditions and have a strong preference for meat, implying lower fish demand.



Gross domestic investment at the current price estimated to increase slightly up to US\$967 million in 2019, from US\$868 million in the previous year and represent about 14 percent of GDP

## 2.2 Domestic Production

Somalia's domestic production increased slightly year on year and is built on a strong international trading relationships as well as favourable liberal investment policies that welcome all investors to contributing to private sector development. In recent years, Domestic production enjoyed healthy growth and sustainable production.

The domestic production was observed to be positive based on improving consumer sentiment and continued recovery in private sector growth since 1991. The Federal government of Somalia attempted to improve Somali's legal and regulatory systems to encourage investment and therefore, enacted the Company Law in 2019.

Gross domestic investment at current prices estimated to increase slightly up to US\$967 million in 2019, from US\$868 million in the previous year, representing about 14 percent of GDP.

The manufacturing industries play a key role in domestic revenue mobilization efforts and future growth. According to the Ministry of Commerce and Industry, the growth of the manufacturing industry is estimated to be around 1.94 percent in 2019, reflecting a good performance of manufacturing sector, though, manufacturing industry to GDP ratio remains low.

Moreover, foam, construction and mineral water industries represent about 60 percent of the domestic production reaching US\$256 million in 2019. The ministry registered 12 new manufacturing industries in 2019.

This is an example of how the number of registered manufacturing industries are increasing to respond to the rising domestic demand. The increasing of domestic investment points to extensive production and job opportunities, alleviating poverty and unemployment rate in Somalia. Also, Somalia diaspora play a vital role in domestic investment facilitation.

## 2.3 Exchange Rate Development

The Somalia shilling (SOS) is the official currency of Somalia. The foreign exchange market operates free from the influences of regulatory monetary authority. During 2019, the exchange rate between SOS and USD was relatively stable compared to other currencies in the East African countries. The annual comparison reveals that domestic currency lost value in the main trading currency, the U.S. Dollar, with depreciation of 4.6 percent recorded during 2019 due to the effect of increasing negative trade balance in the dollarized economy as well as the widely use of mobile money transfer.

The market exchange rate of the Somalia shilling was on average 25,065 SOS per US Dollar in 2019. Exchange rates of other East African currencies like Ethiopian birr, Kenya Shilling and Djibouti Franc which circulate in the border area. Euro, Pound Sterling, UAE Dirham and Saudi Riyal were also exchanged in foreign exchange markets. Overall, considering the last five years, the fluctuation of exchange rate of Somalia Shilling against other foreign currencies was relatively stable.

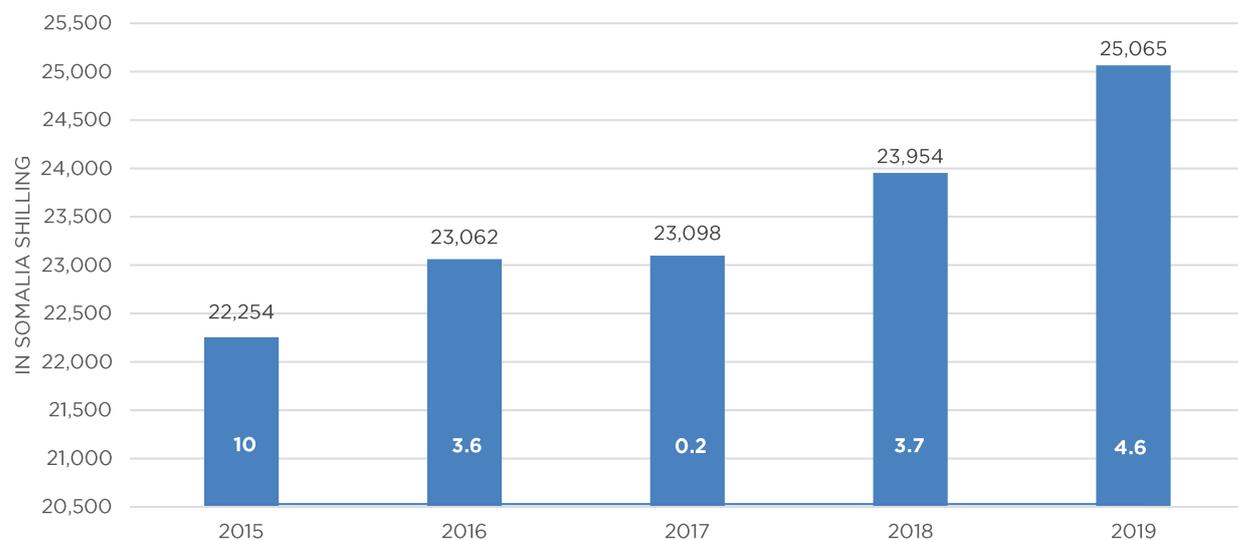
The revived CBS has not issued any new currency notes since 1991, making the economy largely dollarized. The CBS has set currency reform as one of its highest priorities. The process of reforming the country's currency was stipulated in the National Development Plan NDP9 as a key aspect of financial sector reform.

Table 5: Exchange Rates (Somalia Shillings per US \$)

Year/Month	2015	2016	2017	2018	2019
Jan	22,285	22,688	23,994	23,566	24,530
Feb	22,196	22,736	21,526	23,547	24,476
Mar	22,211	22,751	21,197	23,307	24,467
Apr	22,232	22,940	23,437	23,417	24,472
May	22,265	23,017	23,622	23,394	4,663
Jun	22,212	22,993	23,245	23,581	25,012
Jul	22,263	23,037	23,259	24,418	25,075
Aug	22,273	23,043	23,197	24,395	25,313
Sep	22,269	22,990	23,203	4,437	25,414
Oct	22,284	23,057	23,365	24,457	25,701
Nov	22,275	23,528	23,595	24,464	25,773
Dec	22,286	23,961	23,536	24,468	25,882
<b>Year Average</b>	<b>22,254</b>	<b>23,062</b>	<b>23,098</b>	<b>23,954</b>	<b>25,065</b>

Source: CBS, 2019

Figure 5: Yearly Exchange Rates (Somali Shillings per US \$) (2015-19)



Source: CBS, 2019

The formation of Somalia currency reform plan is a positive step. The introduction of the new Somalia Shilling for the first time since 1991 will help the CBS to bring an end to the prevalent counterfeits in the country.

## 2.4 Inflation Dynamics

In 2019, the inflation rate remained relatively stable, the headline inflation rate remained in the single digits. Annual inflation rate marginally declined to 3.1 percent at the end-December 2019, down from 3.2 percent at end-December 2018 (see figure 6). This is due to improved food supply as well as decreasing transportation costs which relieved pressure on food prices.

The weight of consumer price index of food and non-food at end-December 2019 was -1.27 percent compared to -0.12 percent for the previous month. The different underlying measures of inflation remained well-contained. During the review year, food and Non-Alcoholic Beverages, Water, Housing as well as Electricity items continued to be the main drivers of inflation (see table 6).

Table 6: Monthly and Annual Percentage of Inflation, 2016-2019

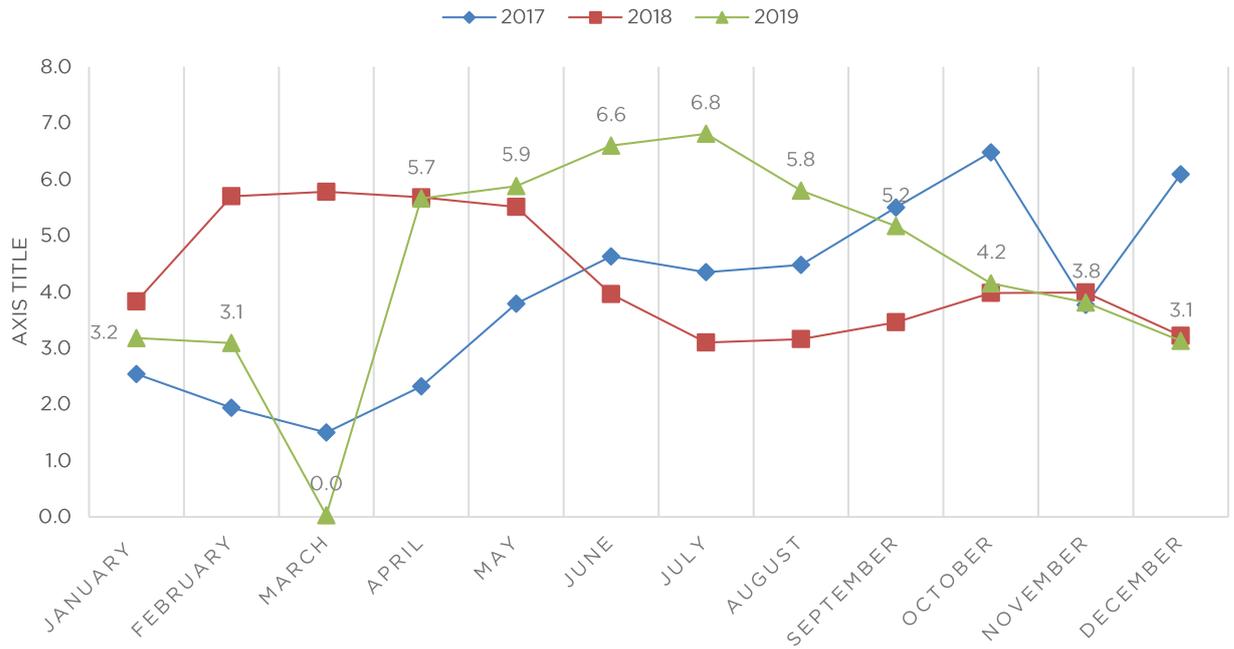
Monthly / Annual	2016		2017		2018		2019	
	Monthly % Change	Annual % Change						
January	-0.51	2.25	0.79	2.54	-1.35	3.83	-1.39	3.18
February	-0.08	1.29	-0.66	1.94	1.12	5.70	1.03	3.09
March	0.32	0.27	-0.12	1.50	-3.00	5.78	0.00	0.03
April	0.54	0.52	1.35	2.32	1.25	5.68	3.70	5.66
May	0.18	0.75	1.62	3.79	1.46	5.51	1.67	5.88
June	0.17	0.89	0.98	4.63	-0.50	3.96	0.17	6.60
July	0.34	-2.62	0.08	4.35	-0.75	3.10	-0.55	6.81
August	-0.05	-3.88	0.08	4.48	0.14	3.16	-0.81	5.80
September	-0.10	-4.00	0.87	5.50	1.17	3.46	0.57	5.17
October	-0.29	0.68	0.63	6.48	1.14	3.98	0.15	4.15
November	2.81	3.51	0.19	3.77	0.21	3.99	-0.12	3.81
December	-2.06	1.21	0.13	6.09	-0.62	3.22	-1.27	3.13

Source: MoPIED, 2019

According to FAO market update 2019, prices of local food (white maize, white sorghum and red sorghum) remained relatively stable during the year due to additional supply of domestic cereals arriving the market, although the delay of Gu rainfall in the first half of 2019 resulted in a rise of local food prices.

Inflationary pressures subsided in the second half of 2019 as a result of strong rainfall, which resulted in a good cereals harvest and pastures for livestock. Range of consumer foods including rice, wheat flour, vegetable oil, sugar and pasta prices mostly exhibited monthly changes less than +/-10 percent in term of domestic currency in 2019.

Figure 6: Monthly Inflation (% Change 2017-2019)



Source: MoPIED, 2019





# 3

## PUBLIC FINANCE DEVELOPMENT

### 3.1 Implementation of Fiscal Policy

The House of the People of the Federal Government of Somalia approved the budget of the 2019 in December 2018. The Appropriation Act was projected to guide the expenditure ceiling for the fiscal year of 2019 starting from 1st January to 31st December 2019. Table 7 shows the budgeted, the revised budget, and the actual budget of Federal Government of Somalia in the fiscal year 2019.

Table 7: Summary of Revenue and Expenditure 2018-2019 (In Million US Dollars)

	2018 Actual	2019 Budgeted	2019 Revised	2019 Actual	Change over 2019 Budget	%
<b>1. REVENUE</b>	<b>295.3</b>	<b>344.2</b>	<b>390.2</b>	<b>338.9</b>	<b>(5.3)</b>	<b>-2</b>
(A) DOMESTIC REVENUE	183.4	189.9	221.4	230.3	40.4	21
Tax Revenue	138.9	135.2	146.1	155.3	20.1	15
Tax on Income, Profit and Capital Gains	8.6	9.1	9.8	11.7	2.6	29
Taxes on Goods and Services	22.1	22.0	22.8	25.0	3.0	14
Taxes on international trade	100.3	97.0	103.4	107.5	10.5	11
Other taxes	7.9	7.1	10.1	11.1	4.0	56
Non-Tax Revenue	44.5	54.7	75	75.0	20.3	37
(B) DONOR FUNDED	111.9	154.3	168.8	108.6	(45.7)	-30
Bilateral Assistance	43.6	30.0	35.1	36.4	6.4	21
Multilateral	68.3	124.3	133.7	72.2	(52.1)	-42
<b>2. EXPENDITURE</b>	<b>268.5</b>	<b>344.2</b>	<b>390.2</b>	<b>315.7</b>	<b>(28.5)</b>	<b>-8</b>
(C) OPERATIONAL EXPENDITURE	249.5	295.5	326.4	298.4	2.9	1
Compensation of employees	142.4	155.3	164.8	162.4	7.1	5
Use of goods and services	69.8	89.9	94.0	82.2	(7.7)	-9
Consumption of fixed capital	2.5	9.5	20.6	8.6	(0.9)	-9
Grants	30.7	35.8	43.0	44.8	9.0	25
Contingency	4.1	2.5	1.4	0.4	(2.1)	-84
Repayment of arrears and advances	-	2.5	2.6	-	-	0
(D) PROJECT EXPENDITURE	19.0	48.7	63.8	17.3	(31.4)	-64
Compensation of employees	0.3	0.5	0.5	0.4	(0.1)	-13
Use of goods and services	10.8	29.6	43.2	10.5	(19.1)	-64
Purchase of non-financial assets	7.5	18.1	17.8	6.2	(11.9)	-66
Grants	0.1	0.2	0.3	0.2	-	0
Social Benefits	0.3	0.4		-	(0.4)	
Subsidies	-	-	2.0	-	-	
<b>3. BALANCE</b>	<b>26.8</b>	<b>0.0</b>	<b>0.0</b>	<b>23.2</b>		

Source: MoF, 2019

The overall FGS budget envelope for the fiscal year 2019 was estimated to be **US\$344.2 million** in line with the fiscal framework which instructs the government to present its fiscal spending on balanced budget.

The FGS Cabinet approved a revised budget in the second half of the fiscal year to accommodate the projected domestic receipt increase and expected upsurge in donor grants. The budget was therefore revised upward to reach US\$390.2 million against the budgeted US\$344.2 million, representing a 13 percent increase in the budgeted amount equivalent to US\$46 million. The actual budget of the current fiscal year highlights that the revised budget expectations in the domestic receipt were above the target; however, there was a sharp decline in the projected donor grant which makes the increments in the revised budget almost unachievable (see figure 8).

The actual revenue of the fiscal year accounted US\$338.9 million, which is only 2 percent short of the budgeted amount, reflecting a good revenue forecast, especially on the domestic fiscal receipts. Actual expenditure of the fiscal year registered US\$315.7 million, representing a spending gap of 8 percent relative to the budgeted US\$344.2 million. The estimated donor grants have shown a shortfall of 30 percent in the fiscal year to register US\$108.6 million against the budgeted US\$154.3 million, undermining donor commitments as pledges became uncertain, thus, making the execution of the budget difficult. The overall fiscal balance was in surplus of US\$23.2 million due to mainly undisbursed expenditure projects during the fiscal year.

Figure 7 compares 2018 and 2019 actual fiscal receipts. The domestic revenue to total fiscal receipt increased from 62 percent in 2018 to 68 percent in 2019. Though, the actual tax revenue to domestic receipt was relatively lower in 2019, however, non-tax revenue has shown positive performance from 15 percent to 22 percent in 2019. The share of donor funds within the budget envelope have declined from 38 percent in 2018 to 32 percent in 2019, implying a good performance in domestic receipts. Bilateral assistance declined from 15 percent in 2018 to 11 percent, while multilateral donor funds have shown a shortfall, from 23 percent in 2018 to account 21 percent in 2019.

### 3.2 Revenue and Grants

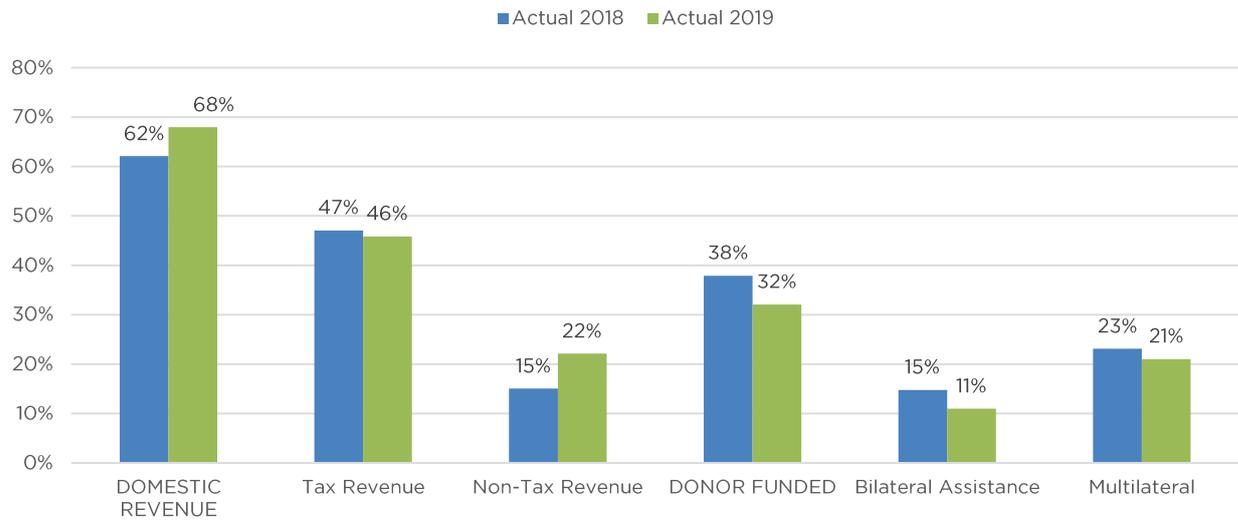
As in the figures 8 & 9, the actual revenue and grants of the Federal Republic of Somalia in 2019 recorded US\$338.9 million, slightly lower (2 percent) than the budgeted revenue and grants US\$344.2 million, reflecting a good revenue forecast in the budget preparation.

Domestic revenue surpassed the targeted budget by 21 percent to account US\$230.3 million against the budgeted US\$189.9 million. Donor contribution has been uncertain in the fiscal year and registered US\$108.6 million against the budgeted US\$154 million, reflecting a shortfall of 30 percent, equivalent to US\$46 million, which is almost the increment revenue target on the revised budget.



... The overall fiscal balance was in surplus of US\$23.2 million due to mainly undisbursed expenditure projects during the fiscal year.

Figure 7: Comparison of Fiscal Receipts (2018 &amp; 2019)



Source: MoF, 2019

### 3.2.1 Domestic Revenues

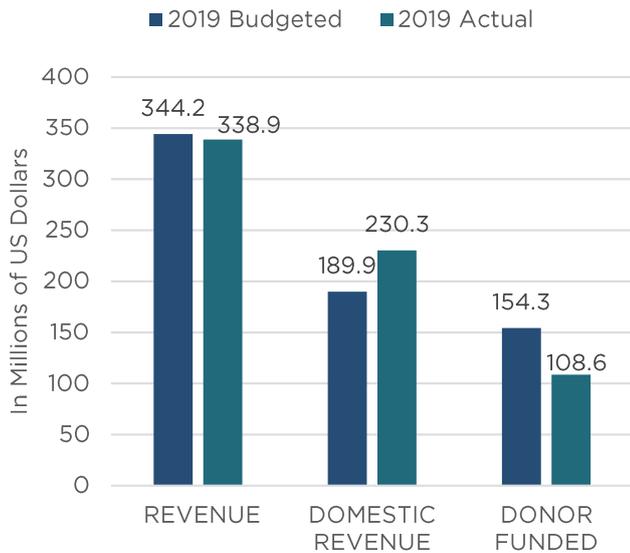
The Federal Government of Somalia collected US\$230.3 million worth of domestic revenue in the year 2019. The actual domestic revenue surpassed the budgeted domestic revenues of US\$189.9 million by 21 percent, indicating a surplus of US\$40.4 million. In nominal terms, domestic revenue increased by 26 percent, this is up from US\$183.4 million in 2018.

Tax revenues account 67 percent of the collected domestic revenue, of which tax on international trade, represents almost 69 percent of tax revenue (32 percent of total fiscal receipts), which is similar to donor contribution to the budget. This is followed by tax on goods and services (16 percent) and tax on income, profit, and capital gain (8 percent).

Non-tax revenue accounts 33 percent of domestic fiscal receipt. Out of the government fiscal receipts, non-tax revenue has shown positive performance from 15 percent in 2018 to 22 percent in 2019, which is equivalent to 69 percent increase over 2018.

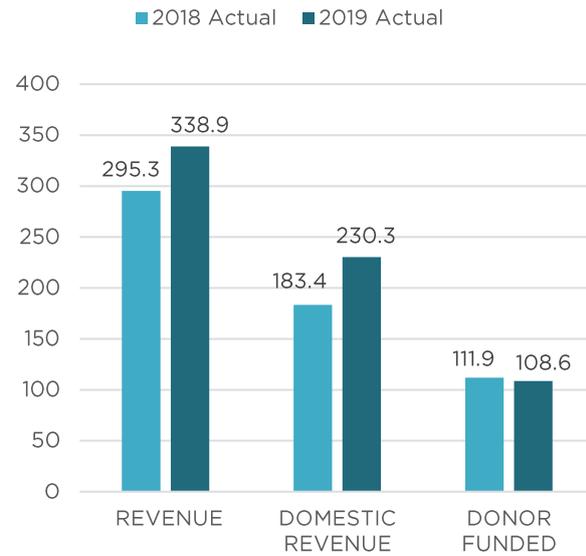


Figure 8: Revenue and grants 2019



Source: MoF, 2019

Figure 9: Comparisons of 2018 and 2019 Actual Revenue



Source: MoF, 2019

### 3.2.2 Donor Grants

Donor grants have shown a shortfall of 30 percent in the fiscal year to register US\$108.6 million (down from US\$111.9 million in 2018) against the budgeted US\$154.3 million, equivalent to US\$46 million, which is almost equivalent to the increment revenue target on the revised budget in the fiscal year 2019. The decline in donor budget support is associated with delays in disbursements; two thirds of the pledged fund was received on the second half of the fiscal year. Donor commitments seems uncertain, thus, making the execution of budget difficult (see figure 10).

Bilateral grants have surpassed the fiscal target to account US\$36.4 million (down from US\$43.6 million in 2018) against the budgeted US\$30 million. The share of bilateral assistance to the fiscal receipt have increased from the budgeted 9 percent to actual 11 percent, which is equivalent to US\$6.4 million. However, the share of bilateral assistance to fiscal receipt declined from 15 percent in 2018 to 11 percent in 2019.

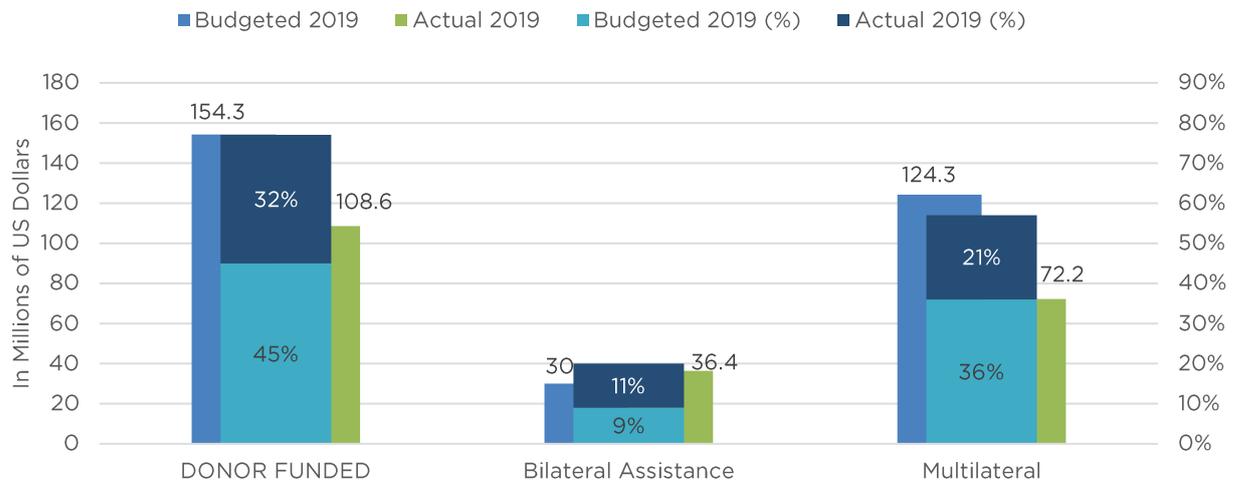
The actual multilateral assistant stood at US\$72.2 million (up from US\$68.3 million in 2018) against the budgeted US\$124.3 million. The government received only 58 percent of its multilateral budget for the fiscal year.

The share of multilateral assistance to the fiscal receipts have dropped from the budgeted 36 percent to account 21 percent on the actual budget, representing a shortfall of US\$52.1 million, while multilateral donor funds to fiscal receipts shown a decline from 23 percent in 2018 to account 21 percent in 2019.



The decline in donor budget support is associated with delays in disbursements...

Figure 10: Donor Grants 2019 (Budgeted &amp; Actual)



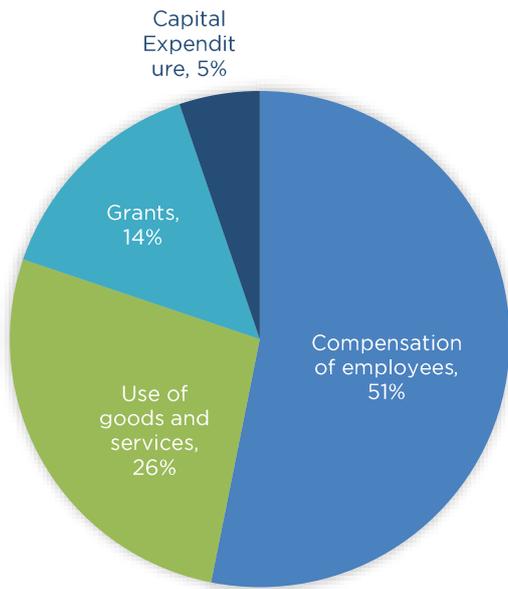
Source: MoF, 2019

### 3.3 Government Expenditure

The actual budget expenditure of the Federal Government of Somalia in the fiscal year 2019 amounted to US\$315.7 million, against the budgeted US\$344.2 million, underperforming by 8 percent, which is equivalent to US\$28.5 million. Recurrent (operational) expenditure represents almost 95 percent of the government spending, while capital spending account only 5 percent, crowding out the investment on social services including education and health. Compensation of employee represents 51 percent of the total expenditure, followed by expenditure on goods and services which amounted to 26 percent and FGS budget support to FMS which was 14 percent (figure 11).

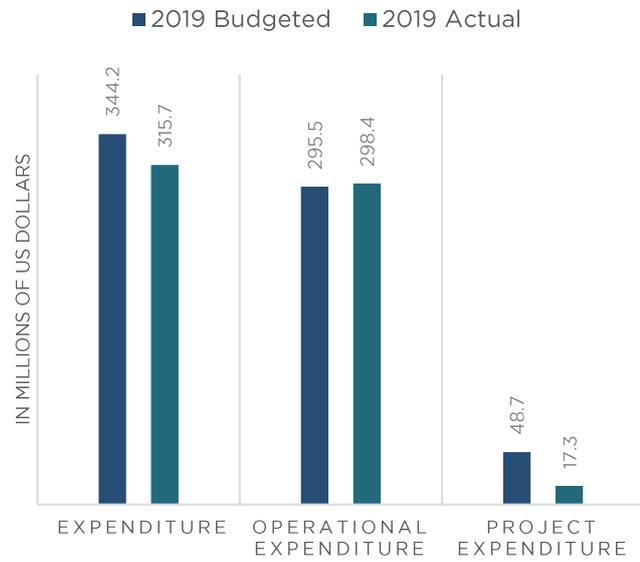
Salary spending of civil and security personnel recorded US\$162.4 million against the budgeted US\$155.5 million reflecting overspending of 5 percent to the budgeted amount, equivalent to US\$7.1 million. Underspending of 9 percent is observed on the consumption of goods and services by the FGS totalling US\$82.2 against the budgeted US\$89.9 million. Government transfers to FMS recorded US\$44.8 million, surpassing the budgeted amount US\$35.8 million, which is almost 25 percent overspending to the budgeted amount, equivalent to US\$9 million. Capital expenditure underperformed by 46 percent to account US\$14.8 million, against the budgeted US\$27.6 million.

Figure 11: Categories of Government Expenditure



Source: MoF, 2019

Figure 12 : FGS Expenditure



Source: MoF, 2019

Fiscal data reveals a continued strong performance in 2019; with domestic revenues out-turn surpassing the fiscal target as well exceeding the targets set in Somalia’s Staff Monitored Program (SMP). The overall government fiscal budget was in surplus of US\$23.2 million, mainly due to overspending on civil and security payroll as well on FMS transfers. As a result, the Government faced underspending on project expenditure and use of goods and services against the fiscal target.







# 4

## EXTERNAL SECTOR



## 4.1 Balance of Payments

The global current account balances stood at about 3 percent of global GDP, while net credit and debtor positions were at historical peaks and about four times larger than in the early 1990s (IMF, 2019). The consequences of the global financial crisis were marked by a rise in capital flows from developed to developing world where liquidity conditions made borrowing in foreign currency attractive and resulted in an accumulation of significant external debt in many emerging economies since 2010.

Africa's external imbalances have this year led to deterioration in growth and weaker financial and monetary performances. However, the economy of Somalia, has remained at a positive trajectory relying mainly on the sectors of livestock, remittances, foreign aid, foreign direct investment, and advancement in local telecommunication industries.

### 4.1.1 Current Account

In the case of Somalia's balance of payments, the country experienced unfavourable balance of payments on current accounts due to deficits in trade transactions. The economy was and remains highly dependent on imports. Since 2013, Somalia ran a trade deficit of about 64 percent of GDP.

The current account deficit of Somalia expanded by 22 percent this year to stand at US\$592 million from US\$486 million in 2018 (See table 8 below). On the other hand, Somalia continues to experience large deficit in the merchandise trade (goods), a situation which is mostly unfavorable to domestic producers who are competing against large volume of importers.

Compared to the same period of 2018, the trade deficit of Somalia widened by 7 percent in 2019, amounting to US\$4,292 from a deficit of US\$4,003 in 2018. This was due to an increase in imports of goods and services outweighing the growth in value of export of goods and services where its share is gradually declining. The major categories of export were Camel, Cattle, Sheep & Goats, animal hides and skins, dry Fish, and Sesame.

Moreover, the goods accounts has shown deterioration of 8 percent to US\$3,243 million in 2019, up from US\$3,003 million last year. This weakening in trade balance is driven by the continuous increase in the country's imports.

In 2019, the country imported goods were valued at US\$3,905 million while the country exported a total value of US\$662.2 million registering a deficit of US\$3,243 million (49 percent of GDP). This is because domestic companies are unable to meet the demand of local consumers. Imports of Somalia are composed of consumer goods dominated by foodstuffs



...trade deficit of Somalia widened by 7 percent in 2019, amounting to US\$4,292 from a deficit of US\$4,003 in 2018...

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, increased to 9 percent of GDP.

#### 4.1.2 Capital Account

The country's capital account recorded a significant increase of 33 percent in 2019 where it stood at US\$605 million (9 percent of GDP) compared to US\$456 million in the last year. Foreign direct investment registered US\$447 million, this is up from US\$408 million, representing 9 percent increase over 2018 (7 percent of GDP).

Table 8: Balance of Payments, 2018-2019

(Millions of US. dollars)	2018	2019
<b>Current account balance</b>	<b>-486</b>	<b>-592</b>
<b>Overall trade balance Goods balance</b>	<b>-4,003</b>	<b>-4,292</b>
<b>Goods balance</b>	<b>-3,003</b>	<b>-3,243</b>
Exports of goods, f.o.b.	570	662
Imports of goods, f.o.b.	-3,573	-3,905
<b>Services, net</b>	<b>-1,000</b>	<b>-1,049</b>
Service credits	549	469
Service debit	-1,549	-1,518
<b>Income (net)</b>	<b>-34</b>	<b>-36</b>
Receipts	44	46
Payments	-78	-82
<b>Current transfers (net)</b>	<b>3,551</b>	<b>3,736</b>
Private (net), including remittances	1,479	1,580
Official	2,072	2,156
<b>Capital account and financial account</b>	<b>456</b>	<b>605</b>
<i>of which:</i>		
Foreign direct investment	408	447
<b>Overall balance and error and omissions</b>	<b>-30</b>	<b>13</b>
<b>Change in central bank reserves (- = increase)</b>	<b>30</b>	<b>-13</b>
<b>Memorandum items:</b>		
Nominal GDP	5,989	6,683
External public debt	5,235	5,310

Source: UN comtrade, IMF estimates and CBS estimates, 2019

Table 9: Balance of Payments, 2018-2019 (Percent of GDP)

(Millions of US. dollars)	2018	2019
<b>Current account balance</b>	<b>-8</b>	<b>-9</b>
<b>Overall trade balance Goods balance</b>	<b>-67</b>	<b>-64</b>
<b>Goods balance</b>	<b>-50</b>	<b>-49</b>
Exports of goods, f.o.b.	10	10
Imports of goods, f.o.b.	-60	-58
<b>Services, net</b>	<b>-17</b>	<b>-16</b>
Service credits	9	7
Service debit	-26	-23
<b>Income (net)</b>	<b>-1</b>	<b>-1</b>
Receipts	1	1
Payments	-1	-1
<b>Current transfers (net)</b>	<b>59</b>	<b>56</b>
Private (net), including remittances	25	24
Official	35	32
<b>Capital account and financial account</b>	<b>8</b>	<b>9</b>
<i>of which:</i>		
Foreign direct investment	7	7
<b>Overall balance and error and omissions</b>	<b>-1</b>	<b>0</b>
<b>Change in central bank reserves (- = increase)</b>	<b>1</b>	<b>0</b>
<b>Memorandum items:</b>		
Nominal GDP (Millions of U.S. dollars)	5,989	6,683
External public debt	87	79

Source: UN comtrade, IMF estimates and CBS estimates, 2019

## 4.2 External Public Debt

Though Somalia has made notable progress in engaging with its creditors and other international financial institutions, it is yet to resolve its debt problems in order to receive debt forgiveness under the initiative of the Heavily Indebted Poor Countries.

Debt, though in itself, is not bad if used efficiently in growth-enhancing activities. Somalia's debt servicing is halted by the decades of civil war; this forces the country to approach to IMF to find debt relief under the Heavily Indebted Poor Countries initiative. IMF (2019) notes that a high debt is not necessarily a cause for alarm even though what a government owes matters as much as what it owns.

With the process of debt relief program in the country, the Fund- supported program is expected to facilitate a comprehensive debt relief, which will be critical to place Somalia's external debt on a sustainable path.

In the last year, the country's total external debt was estimated to be above US\$5 billion representing 79 percent of the GDP. In 2019, the total outstanding stock was US\$5,310, slightly increasing by less than 2 percent compared to US\$5,235 in the previous year of 2018 (see table 10).

Table 10: External Public Debt (2013-2019) In Millions of US Dollars

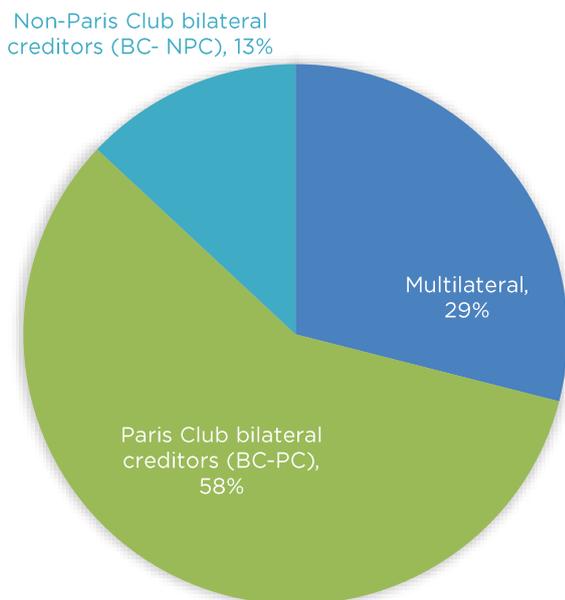
Creditors	Prel. 2013	Prel. 2014	Prel. 2015	Prel. 2016	Prel. 2017	Prel. 2018	Prel. 2019	2019 % of GDP
<b>Total Stock Outstanding</b>	<b>4,394</b>	<b>4,394</b>	<b>4,414</b>	<b>4,377</b>	<b>4,585</b>	<b>5,235</b>	<b>5,310.85</b>	<b>79</b>
Multilateral	1,556	1,507	1,468	1,442	1,504	1,520	1,529.62	23
Bilateral creditors	3,566	2,887	2,946	2,935	3,081	3,714	3,781.23	57
Paris Club bilateral creditors (BC-PC)	2,244	2,249	2,332	2,320	2,464	3,022	3,072.20	46
Non-Paris Club bilateral creditors (BC- NPC)	1,322	638	614	615	617	692	709.03	11

Source: IMF, MoF, 2019

#### 4.2.1 Debt Composition

As in figure 13, the debt composition of Somalia remained stable over the past few years. As of 2019, the country owes US\$3,072 million (58 percent) of the outstanding debts to Paris Club Bilateral Creditors (PC-BC) while liabilities to Multilateral Creditors constitute a total amount of US\$1,529.62, representing 29 percent of the total external debt. The remaining 13 percent (US\$709.03 million) is from Non-Paris Club Bilateral to Creditors (NPC-BC).

Figure 13: External Public Debt (As of 2019)



Source: IMF, MoF, 2019

In line with the reforms achieved by the CBS and other FGS agencies, among which was the completion of the SMP III (May 2018-April 2019), the IMF Executive Board approved the SMPIV (May 2019 – July 2020).

This came after meeting the conditionalities associated with the arrangements in the Upper Credit Tranches (UCT) which will help Somalia get closer to fulfil the truck-record required for the Decision Point under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative. Likewise, the CBS, in collaboration with MoF, FRC and other FGS agencies, contributed to the completion of the Targeted Financial Sanction Bill which was submitted to parliament. In the same period, CBS issued regulation on credit classification and provision, and reviewed reporting requirement for commercial banks.

Furthermore, the National Development Plan (NDP9) was approved by FGS Cabinet on Oct 26, 2019, satisfying the criteria for interim Poverty Reduction Strategy (iPRS). To reach the Decisions Point, the FGS needed with donors to make the financial assurance for the clearance of the arrears to international financial organizations. In this regard, Norway provided the necessary bridge loan on the WB arrears of Somalia in October 2019. FGS also expects similar support from other donors within the first six months of program monitoring.





# 5

## FINANCIAL SECTOR DEVELOPMENT

In recent years, the CBS carried out series of reforms with especial emphasis on the financial sector. This came as part of efforts taken by the Federal Government Somalia to facilitate the economic recovery of the country. The Bank, moreover, aims to develop and strengthen the financial sector, by issuing effective policies and guidelines needed to achieve a formal, sound, and stable financial sector in the country.

Though the formalization of the sector began in late 2015 with the adaption of the first round of structured licensing and supervising the banks, MTBs, and MMOs. The process of formulizing and supervising the financial institutions of the country have undergone through several regulatory intervals. In 2018, CBS successfully issued a regulation on credit classification and provision and reviewed the reporting requirements for banks. In addition, the board of directors of CBS approved a new mobile money regulation on the 25th of July 2019. In line with these reforms, the Ministry of Finance issued AML/CFT regulations that apply to all financial institutions in Oct 2019.

As of 2019, the commercial banks in the country expanded to constitute a total of 10 banks compared to only 7 licensed banks in 2018; while Money Transfer Business comprised a total of 11 MTBs compared to 12 MTBs in last year. The decline in licensed MTBs is the fact of moving towards formal business. The recorded numbers here, as a matter of fact, only comprise those financial institutions officially licensed by the CBS.

Total assets of the banking sector increased three-fold in five (5) years from the first quarter of 2015 to the last quarter of 2019. Over the past year, the consolidated assets of the banking sector increased by 34 percent to register US\$556.2 million (8 percent of GDP in 2019). Capital adequacy as well as average liquidity ratios were kept above the minimum regulatory prudential requirements. Despite the ongoing challenges of correspondent banking relationships in the local economy, coupled with the global economic fluctuations, the CBS continues to adopt a sound and stable financial sector in the country.

## 5.1 Banking Sector

During 2019, the total assets of the banking sector increased by 34 percent to reach US\$556.2 million, up from US\$414.9 million in 2018. Financing assets of the banking sector represented 28 percent of the total assets, followed by investment in property and real state 11 percent; while only 7 percent of the total assets are deposited on the foreign banks to facilitate correspondent banking transactions (see figure 14).

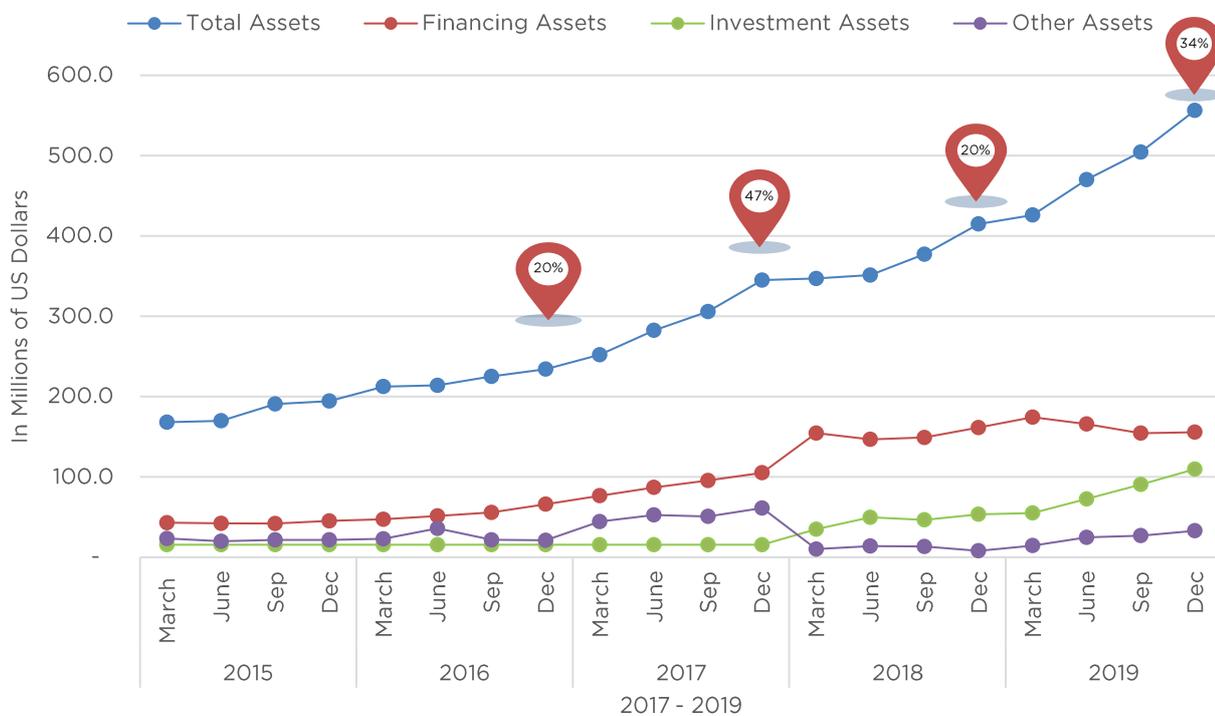


During 2019 the total assets of the banking sector have increased by 34 percent to reach US\$556.2 million, up from US\$414.9 million in 2018.

Financing assets have decreased by 4 percent to record US\$155.6 million, down from US\$161.4 million in 2018. Trade financing represents 34 percent of the total financing assets to account for US\$52.2 million (down from US\$64 million in 2018); this is followed by the financing of real estate (18 percent), accounting for US\$27.2 million (up from US\$35.9 million). Trade financing and real estate loans have declined by 18 percent and 24 percent, respectively over 2018.

Loans to tourism, restaurant, and hotels increased by 164 percent to record US\$1,225 million, up from US\$464 million; this is followed by loans to energy and water 61 percent, loans to financial services 57 percent, education 33 percent, loans to household 20 percent. Loans extended to the construction and automobile industry increased by 21 and 15 percent, respectively.

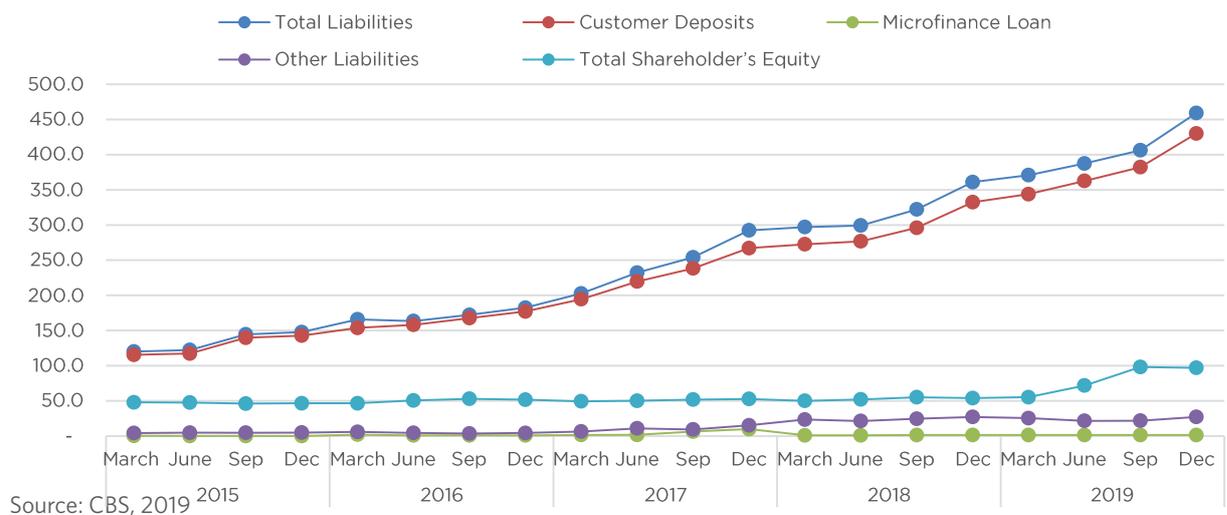
Figure 14: Consolidated Commercial Bank Data (Assets)



Source: CBS, 2019

As figure 15 below indicates, the total liability of the year 2019 increased 27 percent to reach US\$459.24 million, up from US\$361 million in 2018, due to the increase of customer deposits by 29 percent over 2018. Saving deposits increased by 88 percent, followed by demand deposits by commercial entities by 64 percent, saving deposits by 60 percent, while individual demand deposits increased by only 12 percent.

Figure 15: Consolidated Commercial Banka Data (Liabilities)



## 5.2 Money Transfer Businesses

Remittance is the lifeline of the economy. The Somalia Diaspora is estimated to have sent more than US\$1,339 million home in 2019, almost three times greater than the Country's foreign direct investment (see table 11). As indicated in figure 16, the total inward transfers to Somalia in 2019 has amounted to US\$2,794 million; these estimations have indicated a 28 percent increase over 2018 - nearly three-fold of the level of development aid (US\$924.1 million) and the level of humanitarian aid (US\$934.3 million).

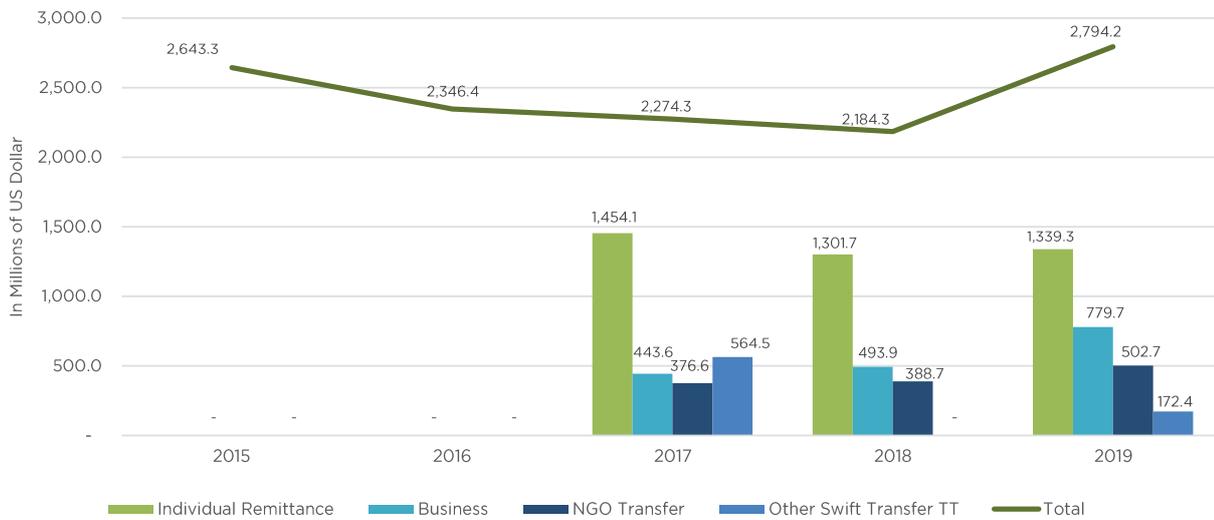
Table 11: Total Transfers (MTBS &amp; Banks 2019)

	Inward	% GDP	Outward	% GDP
Remittance	1,339.30	20	937.44	14
Business	779.75	12	1,596.78	24
NGOs	502.74	8	2.54	0
Other TT	172.38	3	63.73	1
<b>Total</b>	<b>2,794.16</b>		<b>2,600.49</b>	

Source: CBS, 2019

Thus, remittance is a crucial component of the Somalia economy, representing more than 20 percent of the nation's gross national income, far outweighing government revenues. Remittance support livelihoods for an estimated 15 percent of the population. Remittances help finance Somalia's large trade deficit of more than 64 percent of GDP, paying for about 37 percent of total imports.

Figure 16: Total Inward Transfers to Somalia including Remittance (2015-19)

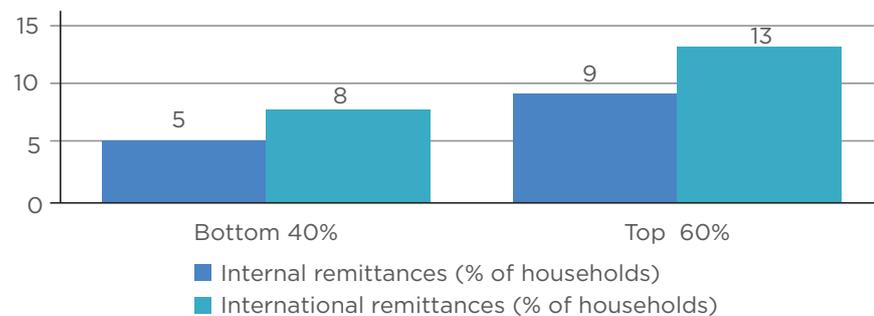


Source: CBS, 2019

According to Somalia Poverty and Vulnerability Assessment report of World Bank (2019), Urban households are more likely to receive international remittances, while IDPs living outside settlements are more likely to receive internal remittances. International remittances range on average, from US\$505 to US\$876, and domestic remittances range on average, from US\$138 to US\$525 received once per month. Domestic and international remittances are important for recipient-receiving households, particularly among the urban, non- settlement IDPs, rural households, and nomads. While it appears that IDPs inside settlements receive large sums of remittances, the share of households receiving remittances is very low.

As shown in figure 17 below, almost 13 percent of Somalia households receiving international remittances are in the top 60 percent of the consumption distribution, while only 5 percent of Somalia households receiving international remittances are in the bottom 40 percent of the consumption distribution.

Figure 17: Remittance Recipients as percentage of HH Consumption



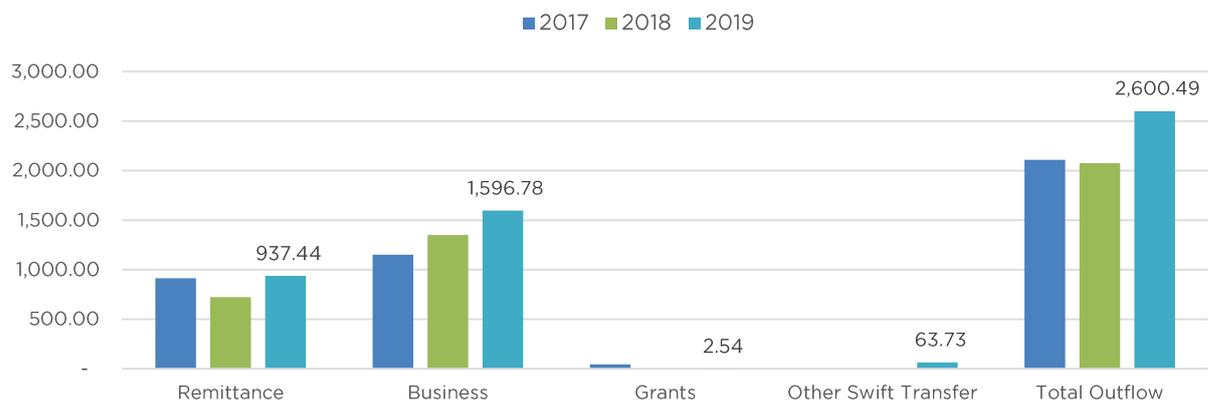
Source: SHFS wave-2 2017-18

Though there is a link between remittance and poverty, the number of remittance recipients is very small relative to the total population. Thus, efforts to wider accessibility on the financial sector through remittance is a necessary condition for poverty intervention but not sufficient. Thus, optimal policy for poverty alleviation is needed.

Somalia MTBs were increasingly facing difficulty in retaining direct access to the international correspondent banking services. In addition, many foreign banks have closed MTB accounts, and these de-risking measures against commercial banks and MTBs operating in Somalia will put continuous pressure to sustain the inflow of inward transfers, which is critical to the livelihoods and BOP of the economy.

As figure 18 below indicates, the total outward transfer from Somalia in 2019 amounted to US\$2,600 million; the analyses showed a 25 percent increase of outward transfer from Somalia when compared to 2018.

Figure 18: Total Outward Transfers from Somalia (Banks and MTBs) 2017-19



Source: CBS, 2019



# 6

## MONETARY POLICY

With its vision of maintaining economic and price stability and financial system stability to support sustainable growth through policy stimulus and advice, the CBS continues to contribute to the financial and economic policies of the country. However, the country remains susceptible to domestic and external risks. Without deep reforms to deeply address these vulnerabilities, prospects for effective monetary policy credibility over the short and medium terms look very challenging.

Generally, monetary shocks largely affect economic activity of any country. The case in Somalia was not as bad as feared. According to AfDB Somalia's Economic Outlook, inflation peaked at 5.1 percent in 2018 and declined to an estimated 4.4 percent in 2019 as food prices adjusted downward and IMF expected Inflation at 3.0 percent in 2019 following 3.2 percent in the previous year of 2018 (IMF Country Report No. 19/256), the rate was relatively stable and remained in the single digits of 3.1 percent. (MoPIED, 2019).

Managing inflation expectations is critical for a country like Somalia where a currency reform planning framework is under process. The CBS is carrying out a survey to calculate the amount of Somalia currency currently circulating throughout the country. The aim is to pave way to the process of reforming the monetary system by introducing a new currency into the country. While it is a matter of fact that any country's economic activities are largely affected by the monetary shocks, some may imagine that CBS could provide an immediate and extremely effective solution to both current monetary problems (in particular) and (other) economic difficulties in the country at large. The reality is that there is no "Silver Bullet" that will solve the current monetary challenges but coordinated multisectoral activities will facilitate the Bank's ability to maintain stable monetary environment, including the introduction of new currency. Though some projects are already under process, future progress requires strong engagement with all stakeholders at federal and state levels.



Though some projects are already under process, future progress requires strong engagement with all stakeholders at federal and state levels.

## 6.1 The Process of Currency Reform

Within the recent years, Somalia has achieved important steps in rebuilding the economy after having the needed technical support from development partners. The process of reforming the country's currency is set as one of the highest priorities for Somalia Government in restructuring the economy. From 2017, the CBS completed the assessment of its readiness to issue new national currency notes.

Currently, with the focus of monetary and financial reforms, the CBS is in the process of establishing a more modern organizational structure, including strengthening its accounting, audit and governance processes.

In addition, there has been significant progress in strengthening financial sector supervision, including deepening the licensing and supervision processes, and, more recently, by the extension of oversight to mobile money services providers. A financial sector roadmap has been developed to guide future progress.

The Central Bank of Somalia completed the following critical actions/benchmarks under the process of currency reform roadmap.

- (1) Develop the anti-counterfeit strategy. From this benchmark, the CBS
  - Finalized the anti- counterfeit strategy.
  - Hired qualified staff and developed training plan on anti- counterfeiting.
  - Adopted the legal framework to cooperate with the Somali Law Enforcement agencies.
  - Finalized CBS regulation to establish the National Anti-Counterfeit Centre.
  - Concluded an agreement with regional leaders/ministers of finance to combat counterfeiting activities.
- (2) Prepare an Accounting & Reporting Modules
  - The CBS designed special accounting and reporting system modules to form the key information management system to the entire program.
- (3) Management Function
  - CBS established a task force of high-level staff to manage the command and control of the currency reform evolves.
- (4) Scope of Exchange/Conversion
  - CBS discussed with Minister of Finance decisions on conversion rate, denominations, design and security features and the volume.
- (5) Storage, Distribution, Collection, Invalidation, and Destruction
  - CBS strengthened the capacity of the cash department.
  - Distribution and Storage requirements are developed.
  - The required minimum standards of cash handling machines and their procedures for Money Transfer Businesses (MTBs) to detect counterfeits.

With the issuance of fiat Somalia Shilling Banknotes of appropriate denominations, CBS aims to replace the counterfeit Somalia Shilling Notes currently in circulation. If the introduction of these new banknotes succeeds, it will mark an important milestone of its kind for the CBS.





# 7

## CORPORATE GOVERNANCE

## 7.1 Board of Directors

The Central Bank Act Law no. 130 of 22 April 2012 states the composition and role of the Board of the Central Bank of Somalia.

The Board of Directors of the Central Bank of Somalia consists of seven (7) members, including the Governor, the Deputy Governor and five (5) non-executive members.

The Governor of the Central Bank of Somalia is the Chief Executive Officer of the Bank, and the chair of the Board and Deputy Governor is the Deputy Chairperson. During the financial year 2019, the Board of Directors approved several regulations to support the regulatory responsibilities of the Bank. Some of the Key regulations issued include the Mobile Money Regulation and the AML/CFT regulation for the Financial Institution.

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>	Bashir Isse Ali/Abdirahman M. Abdullahi	Governor, Chairman of the Board
	Maryam Abdullahi Yusuf	Deputy Governor, Deputy Chairperson
	Abdulrashid M. Siraj	Board Member
	Dr. Omar Ibrahim Hussein	Board Member
	Maye Mohamed Sheekhuna	Board Member
	Dr. Hodan Isse	Board Member
	Yusuf Mohamed Ali	Board Member

Source: CBS, 2019

## 7.2. Board Meetings

Over the reporting period, the Board of Directors of CBS held 12 ordinary meetings. Through the Board and its committee meeting, the Directors exercised the formulation and the supervision of the implementation of the policies, and the oversight of the administration and the operations of the Bank. The Board also addressed organizational issues by approving the new structure of the Bank and enhanced the corporate governance standards stipulated in the Financial Sector Development Roadmap.



Table 12: The attendance of the Board of Directors for the Year 2019

Board Member	Date of Appointment	Board (12 Meetings)
Bashir Isse Ali/Abdirahman M. Abdullahi	April 2014/April 2019	(12/12)
Maryam Abdullahi Yusuf	April 2014	(12/12)
Dr. Hodan Isse	April 2014	(10/12)
Dr. Omar Ibrahim Hussein	April 2014	(10/12)
Maye Mohamed Sheekhuna	April 2014	(12/12)
Abdulrashid M. Siraj	Feb 2016	(12/12)
Yusuf Mohamed Ali	Feb 2016	(12/12)

Source: CBS, 2019

## Organization Structure of the Central Bank of Somalia

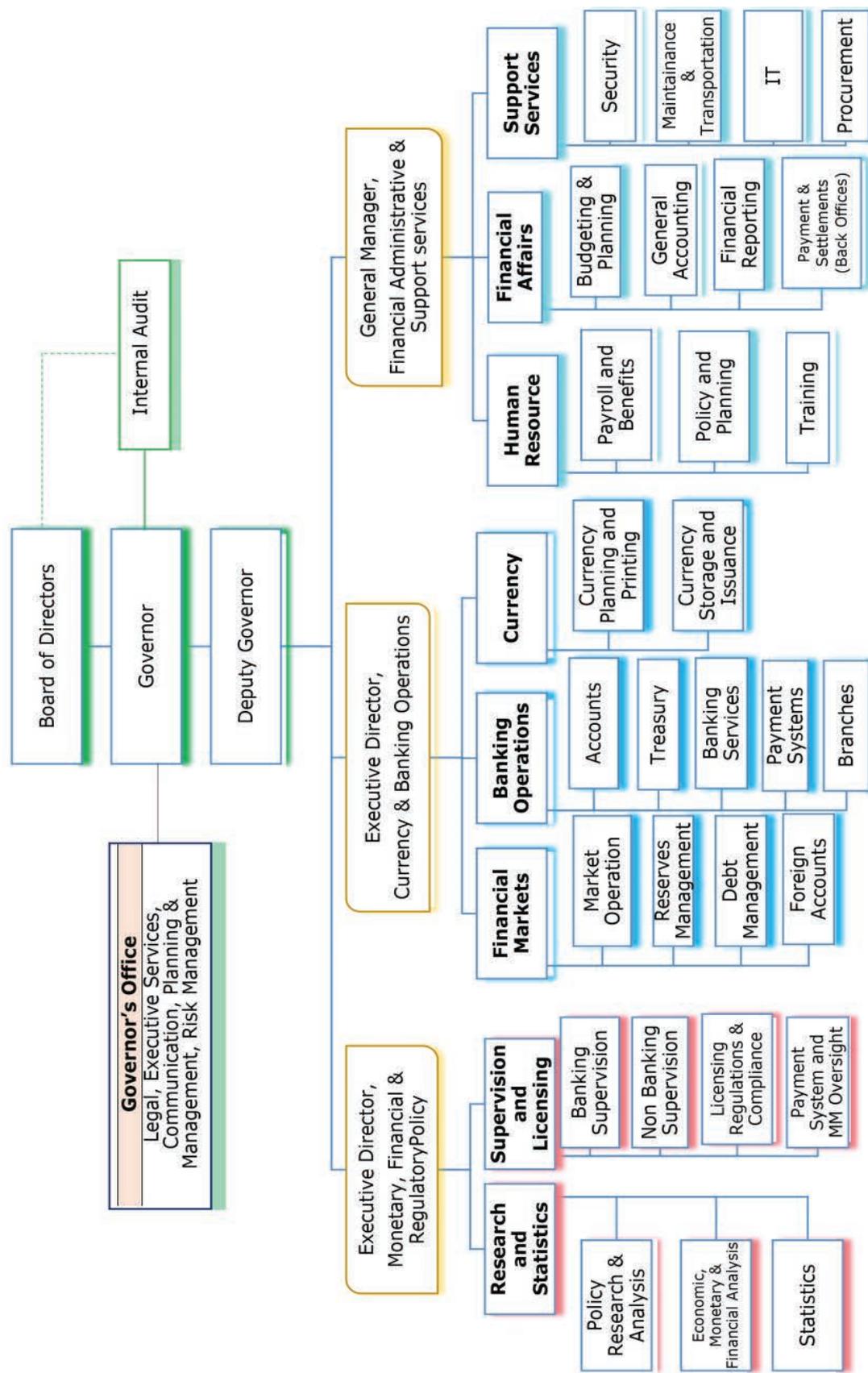


Figure 20: CBS Organizational Structure, 2019

Source: CBS, 2019

### 7.3 Governance and Reform Roadmap

The CBS has implemented significant reform pillars set out in the Financial Sector Development Roadmap. Though, reforms require sequencing and targeting with foundational reforms, improving the CBS capacity and governance to adopt its core functions appears an urgent short-term priority. In this regard, the Board of Directors of the CBS had adopted a two-year restructuring and transition plan and revisited the organizational structure which required modernization to move towards functional based decision structure.

There has been a great need to regulate the mobile money sector which handles a US\$2.7 billion transactions (36 percent of GDP) a month, and almost 73 percent of the Somalia population aged 16 years and above use mobile money services for the purpose of saving, remittance, retail, and salary payments as well purchase of airtime.

In that essence, the Bank has issued Mobile Money Regulation and established a clear timeline to bring the Mobile Money Service Providers under the CBS regulatory and supervisory umbrella within a period of two years to mitigate possible systemic risks to the financial sector and help drive efficient intermediation and to achieve domestic and international payment system objectives.

To address the gaps in the AML/CFT framework, the Bank has issued an AML/CFT regulation for Financial Institutions. This regulation is critical in fostering financial market integrity and international financial linkages, in a sector that currently face de-risking and lack of correspondent banking relationships, and to secure inward remittance transfers which is very critical to the livelihoods of Somalia households and to contribute significantly to the country's' balance of payments.

Over the period of 2019, CBS has contributed to the successful completion of the SMP III (May 2018-April 2019). In collaboration with MOF, FRC and other FGS agencies, CBS significantly contributed the completion of the Targeted Financial Sanction Act which was submitted to the parliament. In the same period, CBS issued regulation on credit classification and provision, and review reporting requirement for banks.

In reflection to the reform momentum achieved by the Bank and other FGS counterpart, the IMF Executive Board approved in July 2019 the SMPIV (May 2019 - July 2020) which meets the conditionality standards associated with the arrangements in the Upper Credit Tranches (UCT). This paves the way for Somalia to fulfil the truck-record required for the Decision Point under the Enhanced Highly Indebted Poor Countries (HIPC) initiative.

To reach the Decisions Point, FGS Cabinet approved the National Development Plan (NDP9) on Oct 26, 2019, which satisfied the criteria for interim Poverty Reduction Strategy (iPRS). FGS as well reached with donors to make a financial assurance for the clearance of the arrears to international financial organization. Norway has provided a bridge loan on the WB arrears to Somalia in October 2019. FGS expects similar support to other donors within the first six months of program monitoring.



In collaboration with MOF, FRC and other FGS agencies, CBS significantly contributed the completion of the Targeted Financial Sanction Act which was submitted to the parliament.

CBS has issued Mobile Money Regulation, AML/CFT regulation that apply to the entire financial institutions, as well adopted the updated CBS Strategic Plan for 2020 – 2024 and Transition Plan to achieve the requirements under the new structure which targets a shift towards a modern functional based decision-making structure. These reforms, among others, will lay the fundamental aspect to reach the Decision Point under the SMPIV which demands meeting UCT standards.

Table 13: List of Structural Benchmarks that CBS achieved in the SMP Program 2016 -2019

SMP	Benchmark	Program Period	Due Date	Status
<b>i</b>	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
<b>ii</b>	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
<b>iii</b>	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
<b>iv</b>	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	Due

Source: CBS, 2019



8

# FINANCIAL PERFORMANCE



**CENTRAL BANK OF SOMALIA**

**REPORTS AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2019**

## CENTRAL BANK OF SOMALIA

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

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## CENTRAL BANK OF SOMALIA

## CORPORATE INFORMATION

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

## 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 2019, 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.

## (b) Medical Assistance

Members of staff are provided with medical support by the Bank should they require it. The bank covers both medical costs and travel costs in adherence with the Board of directors' resolution.

## 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

	2019	2018
	USD	USD
Surplus for the year	1,271,056	1,270,872

## 18. DIRECTORS

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

## 19. APPOINTMENT OF NEW GOVERNOR

The bank appointed new governor (Abdirahman Mohamed Abdullahi) in April 2019.

## 20. AUDITORS

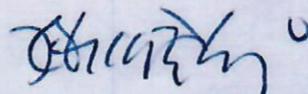
Deloitte & Touche served as the auditors during the year and have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

Director

Mogadishu

14<sup>th</sup> March 2021



## CENTRAL BANK OF SOMALIA

### STATEMENT ON CORPORATE GOVERNANCE

Central Bank of Somalia ascribes to the highest standards of corporate governance. The Bank through the Board of Directors and Management upholds and practices 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 Banking Supervision 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 12 meetings during the year ended 31 December 2019. 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<sup>st</sup> December 2019 included;

## CENTRAL BANK OF SOMALIA

## 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 24	Feb 25	Mar 25	April 13	May 25	Jun 27	Jul 25	Aug 27	Sep 30	Oct 28	Nov 25	Dec 21
Bashir Isse Ali/Abdirahman M. Abdillahi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Maryam A. Yusuf	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓□	✓
Abdulrashid M. Siraj	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓□	✓
Dr. Omar I. Hussein	✓	✓	✓	✓	X	✓	✓	✓	✓	X	✓□	✓
Maye Mohamed Sheekhuna	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓□	✓
Yusuf Mohamed Ali	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓□	✓
Dr. Hodan Said Isse	X	✓	✓	X	✓	✓	✓	✓	✓	✓	✓□	✓

**Board Committees**

One 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.

With regard to 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.

CENTRAL BANK OF SOMALIA

STATEMENT ON CORPORATE GOVERNANCE (Continued)

**Board Committees (Continued)**

**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.

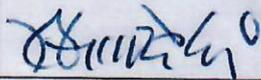
**Conflicts of interest**

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

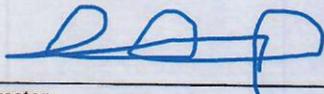
**Independence**

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.

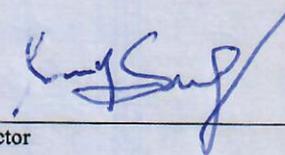
Approved by the Board of Directors on 14<sup>th</sup> March.....2021, and signed on its behalf by:



Abdirahman M. Abdullahi  
The Governor and Chairman of the Board



Director



Director

## CENTRAL BANK OF SOMALIA

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

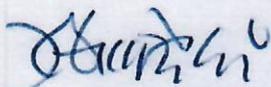
The Central Bank of Somalia Act, 2012 requires management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank as at the end of the financial year and of its operating results for that year. It also requires management to ensure that 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.



Director

14<sup>th</sup>/March

2021



Director



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 Certified Public Accountants (Kenya)  
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 www.deloitte.com

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

### Report on the Audit of the Financial Statements

#### Qualified Opinion

We have audited the accompanying financial statements of Central Bank of Somalia (the "Bank"), set out on pages 16 to 47, which comprise the statement of financial position as at 31 December 2019, 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, except for the effects of the matter described in the Basis for Qualified Opinion section below, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### Basis for Qualified Opinion

##### *Opening balances*

We were appointed as auditors of the bank in the financial year ended 31 December 2014 but were unable to obtain sufficient appropriate audit evidence on the opening balances. The bank did not undertake an audit of the financial year ended 31 December 2013 and preceding periods. In attempt to address the difficulties in obtaining historical transaction data at the bank, management embarked on a process of reconciling the opening balances including reconfirming completeness and accuracy of the bank's assets and liabilities in the previous years. This process had not been fully concluded by the time of completing our audit. We were therefore unable to determine whether any misstatement in the unaudited opening balances could have a material impact on the opening balances of the bank as at 1 January 2018 and 2019 and to the statements of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2019, as well as the financial statements of financial position at the end of 2018 and 2019.

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

The directors 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.

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

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

#### Other information (Continued)

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

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

The directors are responsible 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 directors 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 directors 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 directors.
- Conclude on the appropriateness of the directors' 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.

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

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

#### Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

- 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

#### Report on Other Legal Requirements

Except for the matter described in the Basis for Qualified Opinion section of our report, 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.

**Certified Public Accountants (Kenya)**  
**Nairobi**

2 May 2021

**CPA F Okwiri - P/No 1699**  
*Signing partner responsible for the independent audit*

## CENTRAL BANK OF SOMALIA

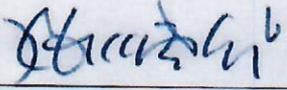
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 USD	2018 USD
REVENUE	4	7,807,687	5,488,735
OPERATING EXPENDITURE	5	(6,529,975)	(4,400,680)
OTHER INCOME	7	88,657	78,327
NET FOREIGN EXCHANGE (LOSSES)/GAINS		(95,313)	104,490
		<u>1,271,056</u>	<u>1,270,872</u>
SURPLUS BEFORE TAXATION		1,271,056	1,270,872
TAXATION	8	-	-
		<u>1,271,056</u>	<u>1,270,872</u>
SURPLUS FOR THE YEAR		1,271,056	1,270,872
OTHER COMPREHENSIVE INCOME:			
CHANGES ARISING ON VALUATION OF RECOVERED PROPERTY		-	22,668,550
REVALUATION GAIN / (LOSS) ON GOLD BULLION		3,922,875	(352,864)
		<u>3,922,875</u>	<u>22,315,686</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>5,193,931</u>	<u>23,586,558</u>

CENTRAL BANK OF SOMALIA  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2019

	Notes	2019 USD	2018 USD
<b>ASSETS</b>			
Cash balances	9	45,153,943	46,788,763
Deposits and balances due from banking institutions	10	55,720,407	26,116,833
Receivables	11	188,122	30,951
Loans and advances	12	1,500,000	1,500,000
Gold bullion	13	24,709,311	20,786,436
Property and equipment	14	128,539,329	128,110,490
Intangible assets	15	115,766	138,299
Due from the Government of Somalia	16	376,429,273	375,415,708
Due from International Monetary Fund (IMF)	17	85,490,135	86,412,631
<b>TOTAL ASSETS</b>		<b>717,846,286</b>	<b>685,300,111</b>
<b>LIABILITIES</b>			
Due to International Monetary Fund (IMF)	17	461,919,408	461,828,339
Treasury deposits	18	64,729,690	37,839,502
Deposits from banks	19	11,011,742	13,586,235
Security deposits	20	14,970,000	11,220,000
Microfinance grant	21	3,000,000	3,000,000
Other payables	22	3,109,255	3,913,775
<b>TOTAL LIABILITIES</b>		<b>558,740,095</b>	<b>531,387,851</b>
<b>RESERVES</b>			
Revenue reserve	23(a)	9,217,829	7,946,773
Revaluation reserve	23(b)	130,570,944	126,648,069
Gold reserve	23(c)	19,317,418	19,317,418
<b>TOTAL RESERVES</b>		<b>159,106,191</b>	<b>153,912,260</b>
<b>TOTAL LIABILITIES AND RESERVES</b>		<b>717,846,286</b>	<b>685,300,111</b>

The financial statements on pages 16 to 47 were approved and authorised for issue by the board of directors on 14<sup>th</sup> March 2021 and were signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

## CENTRAL BANK OF SOMALIA

STATEMENT OF CHANGES IN RESERVES  
FOR THE YEAR ENDED 31 DECEMBER 2019

	Revenue Reserve USD	Revaluation Reserve USD	Gold Reserve USD	Total USD
At 1 January 2018 - as previously reported	6,777,595	104,332,383	19,317,418	130,427,396
Day one adjustment on first time adoption of IFRS 9 (Note 10)	(101,694)	-	-	(101,694)
At 1 January 2018 – as was restated	6,675,901	104,332,383	19,317,418	130,325,702
Total comprehensive income for the year	1,270,872	22,315,686	-	23,586,558
At 31 December 2018	7,946,773	126,648,069	19,317,418	153,912,260
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

## CENTRAL BANK OF SOMALIA

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 USD	2018 USD
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	24 (a)	28,775,437	26,103,817
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	14	(799,683)	(1,388,840)
Purchase of intangible assets	15	(7,000)	(138,299)
Net cash used in investing activities		(806,683)	(1,527,139)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		27,968,754	24,576,678
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		72,905,596	48,328,918
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	24 (b)	100,874,350	72,905,596

## CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

## 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.

**Basis of preparation**

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

**Adoption of new and revised International Financial Reporting Standards (IFRS)**

- i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 and adopted during the year*

The following new and revised IFRSs were effective in the current year and the bank has adopted them with the initial application being 1 January 2019.

<b>New standard or amendments</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over income tax treatments	1 January 2019
IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual improvements cycle (2015-2017)	1 January 2019
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

The nature and effects of the changes are as explained here in.

**IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 has supersede the current guidance including IAS 17 *Leases* and the related interpretations.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right of use asset and a corresponding liability be recognized for all lessees (i.e. on balance sheet) except for short term leases and leases of low value assets.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 1 ACCOUNTING POLICIES (Continued)

- i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 and adopted during the year (Continued)*

**IFRS 16 Leases (Continued)**

The right of use is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others.

Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into principal and interest portions, which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward lessor accounting treatment in IAS 17 and continues to require a lessor to classify a lease as either an operating lease or a finance lease. Furthermore, IFRS 16 requires extensive disclosures.

The adoption of this standard did not have an impact on the financial statements of the bank.

**IFRIC 23 Clarification on accounting for Income tax exposures**

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

- (a) judgments made;
- (b) assumptions and other estimates used; and
- (c) potential impact of uncertainties not reflected.

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The adoption of this standard did not have an impact on the financial statements of the bank.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 1 ACCOUNTING POLICIES (Continued)

- i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 and adopted during the year (Continued)*

**Prepayment Features with Negative Compensation (Amendments to IFRS 9)**

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortized cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

The adoption of these amendments did not have an impact on the financial statements of the bank.

**Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)**

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

The adoption of these amendments did not have an impact on the financial statements of the bank.

**IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.

Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The adoption of this standard did not have an impact on the financial statements of the bank.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 1 ACCOUNTING POLICIES (Continued)

- i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 and adopted during the year (Continued)*

**Annual improvement cycle (2015 – 2017) – various standards**

Standards	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a Company accounts for increasing its interest in a joint operation that meets the definition of a business: <ul style="list-style-type: none"> <li>• If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.</li> <li>• If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.</li> </ul>
IAS 12 <i>Income taxes</i>	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
IAS 23 <i>Borrowing costs</i>	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The adoption of these amendments did not affect the amounts and disclosures of the Bank's financial statements.

- ii) *Relevant new standards and amendments to published standards in issue but not yet effective for the year ended 31 December 2019*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019 and have not been applied in preparing these financial statements.

The bank does not plan to adopt these standards early. These are summarized below;

Standards	Effective date
IFRS 3 Definition of a Business	1 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
IFRS 17 Insurance Contracts	1 January 2022

**IFRS 3 Definition of a Business**

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 1 ACCOUNTING POLICIES (Continued)

- ii) *Relevant new standards and amendments to published standards in issue but not yet effective for the year ended 31 December 2019 (Continued)*

**IFRS 3 Definition of a Business (continued)**

- Optional concentration test

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

- Substantive process

If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The definition of a business is now narrower and could result in fewer business combinations being recognised.

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The adoption of this standard will not have an impact on the financial statements of the Bank.

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

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASB's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010.

Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes will not affect the amounts and disclosures of the Bank's financial statements.

**IAS 1 and IAS 8 Definition of Material**

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also add the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 1 ACCOUNTING POLICIES (Continued)

- ii) *Relevant new standards and amendments to published standards in issue but not yet effective for the year ended 31 December 2019 (Continued)*

**IAS 1 and IAS 8 Definition of Material (Continued)**

*“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”*

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Bank is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality

**IFRS 17 Insurance Contracts**

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2022, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The directors do not expect that the adoption of the Standard will have a material impact on the financial statements of the Bank.

- iii) *Early adoption of standards*

The Bank did not early adopt new or amended standards in 2019.

**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.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 1 ACCOUNTING POLICIES (Continued)

**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:

Leasehold Land	Over the lease year.
Freehold Land	0%
Buildings	2.5%
Furniture, Fixtures and fittings	12.5%
Motor vehicles	20%
Computers and equipment	20%

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.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 ACCOUNTING POLICIES (continued)

**Impairment of tangible and intangible assets (continued)**

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 recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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.

**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 or 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 date. 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.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 ACCOUNTING POLICIES (continued)

**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.

**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 Company'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 directors 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 Directors 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

## A. OVERVIEW OF RISK MANAGEMENT

## (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>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>Assets</b>	<b>External credit rating</b>	<b>12-month or lifetime ECL</b>	<b>Gross carrying amount USD</b>	<b>Loss allowance USD</b>	<b>Net carrying amount USD</b>
<b>2018</b>					
Deposits and balances from bank institutions	B- to A+	12	29,810,796	(3,683,963)	26,116,833
Loans and Advances	None	12	1,589,940	(89,940)	1,500,000
Receivables	None	12	30,971	-	30,971
Due from the government of Somalia	None	12	375,415,708	-	375,415,708
Due from International Monetary Fund (IMF)	None	12	86,412,631	-	86,412,631
<b>Total</b>			<b>493,260,046</b>	<b>(3,773,903)</b>	<b>489,476,143</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 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
Other payables	3,109,255	-	-	-	-	3,109,255
<b>Total financial liabilities</b>	<b>93,820,687</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>461,919,408</b>	<b>555,740,095</b>
	On demand USD	1 – 3 months USD	3-12 months USD	1 - 5 years USD	Over 5 years USD	Total USD
At 31 December 2018						
Due to International Monetary Fund (IMF)	-	-	-	-	461,828,339	461,828,339
Treasury deposits	37,839,502	-	-	-	-	37,839,502
Deposits from banks	13,586,235	-	-	-	-	13,586,235
Security Deposits	11,220,000	-	-	-	-	11,220,000
Other payables	3,913,775	-	-	-	-	3,913,775
<b>Total financial liabilities</b>	<b>66,559,512</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>461,828,339</b>	<b>528,387,851</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**

	2019 USD	2018 USD
Retained earnings	9,217,829	7,946,773
Revaluation reserve	130,570,944	126,648,069
Gold reserve	19,317,418	19,317,418
	-----	-----
	159,106,191	153,912,260
	=====	=====

## (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 2019 are as follows:

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
<b>31 December 2019</b>				
Gold Bullion	24,709,311	-	-	24,709,311
	-----	-----	-----	-----
	24,709,311	-	-	24,709,311
	=====	=====	=====	=====
<b>31 December 2018</b>				
Gold Bullion	20,786,436	-	-	20,786,436
	-----	-----	-----	-----
	20,786,436	-	-	20,786,436
	=====	=====	=====	=====

## 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	2019 USD	2018 USD
Cash handling fees and commissions	5,891,462	4,680,245
Interest on Government of Somalia Promissory Note (Note 16)	1,013,565	-
License fees	544,500	372,000
Rental income	331,200	429,500
Registration fee	24,000	3,000
Sundry revenue	2,960	3,990
	-----	-----
	7,807,687	5,488,735
	=====	=====

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 USD	2018 USD
5 OPERATING EXPENDITURE		
Staff costs (note 6)	2,574,439	2,091,612
Travel expense*	117,056	98,291
Security	416,074	258,268
Asset recovery expenses	238,450	104,950
Repair and maintenance	41,236	68,975
Auditors fees	90,000	90,000
Hospitality	59,980	82,938
Depreciation	370,844	313,994
Amortisation	29,533	347
Fuel	6,506	6,344
Miscellaneous office expenses	9,109	50,030
Hotel	56,539	74,487
Medical expenses	20,752	24,663
Internet expenses	49,497	47,723
Rent	39,000	61,928
Board of Directors expenses	336,882	367,338
Printing, Publications & Subscriptions	20,413	37,431
Tuition fees (kaalmo waxbarasho)	17,424	21,591
Miscellaneous vehicle expenses	12,576	7,549
Electricity	67,262	67,320
Tel, Fax, and Telegraph	7,286	17,771
Office supplies stationaries	55,656	29,114
Water	2,187	2,628
Cleaning	35,063	21,289
Bank charges	28,545	28,325
Oil expenses	731	-
Donations	121,000	41,440
Consultant fees	61,260	61,230
Mission allowance	168,485	176,500
Professional subscriptions	63,880	58,765
Irrecoverable debt	39,085	-
Cash impairment	100	9,550
Impairment write back on deposits with financial institutions (Note 10)	-	(11,651)
Impairment charge on loans and advances (Note 12)	-	89,940
Health Insurance	184,447	-
System License	175,113	-
Interest expense and other charges on IMF loans	1,013,565	-
	<u>6,529,975</u>	<u>4,400,680</u>
	=====	=====

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

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 USD	2018 USD
6	STAFF COSTS	
	1,925,371	1,628,837
	483,913	253,223
	133,894	186,600
	31,261	22,952
	<u>2,574,439</u>	<u>2,091,612</u>
	=====	=====
7	OTHER INCOME	
	50,303	40,734
	38,354	37,593
	<u>88,657</u>	<u>78,327</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.	
	2019 USD	2018 USD
9	CASH BALANCES	
	112,775	33,515
	45,041,168	46,755,248
	<u>45,153,943</u>	<u>46,788,763</u>
	=====	=====
10	DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	
	2019 USD	2018 USD
	59,414,370	29,810,796
	(3,693,963)	(3,693,963)
	<u>55,720,407</u>	<u>26,116,833</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;

	2019 USD	2018 USD
At 1 January	(3,693,963)	(3,603,920)
Day one adjustment on IFRS 9 adoption	-	(101,694)
Impairment write back during the year	-	11,651
	<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 2019 was Nil (2018 - Nil).

	2019 USD	2018 USD
11 RECEIVABLES		
Sundry debtors	188,122	30,951
	<u>                    </u>	<u>                    </u>
12 LOANS AND ADVANCES		
As at 1 January	1,500,000	1,200,000
Loans advanced	-	500,000
Repayments	-	(110,060)
ECL Impairment provision	-	(89,940)
	<u>                    </u>	<u>                    </u>
As at 31 December	<u>1,500,000</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 21). 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 loan fully after 18 months.

	2019 USD	2018 USD
13 GOLD BULLION		
At 1 January	20,786,436	21,139,300
Valuation (loss)/gain through other comprehensive income	3,922,875	(352,864)
	<u>                    </u>	<u>                    </u>
At 31 December	<u>24,709,311</u>	<u>20,786,436</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 (2018: 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 2018	99,349,550	4,743,805	106,696	237,750	392,028	9,628	104,839,457
Additions	330,000	879,709	100,591	-	78,540	-	1,388,840
Recovered assets	22,514,850	153,700	-	-	-	-	22,668,550
At 31 December 2018	122,194,400	5,777,214	207,287	237,750	470,568	9,628	128,896,847
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
<b>DEPRECIATION</b>							
At 1 January 2018	-	-	49,339	204,119	210,761	8,144	472,363
Charge for the year	-	158,854	25,911	33,631	94,114	1,484	313,994
At 31 December 2018	-	158,854	75,250	237,750	304,875	9,628	786,357

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 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
<b>NET BOOK VALUE</b>							
At 31 December 2019	122,194,400	6,112,561	145,606	32,813	41,468	12,482	128,539,329
At 31 December 2018	122,194,400	5,618,360	132,037	-	165,693	-	128,110,490

\* The bank has land and buildings which it had owned from its inception since 1962. However, due to insecurity issues and the war that took place, the bank lost control of some of its properties. Since 2014, the bank has been undertaking an exercise to recover these assets. In prior period, the bank recovered land and building with a market price USD 22,514,850 and USD 153,700 respectively. The valuation of land and buildings was last carried out by GIMCO Limited, registered valuers, on a Market Value basis as at 31<sup>st</sup> December 2018.

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

15 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2019 USD	2018 USD
<b>COST</b>		
At 1 January	144,165	5,866
Additions	7,000	138,299
	<u>151,165</u>	<u>144,165</u>
<b>AMORTISATION</b>		
At 1 January	5,866	5,519
Charge for the year	29,533	347
	<u>35,399</u>	<u>5,866</u>
<b>NET BOOK VALUE</b>		
At 31 December	<u>115,766</u>	<u>138,299</u>

16 **Due from the Government of Somalia**

	2019 SDR	2019 USD	2018 SDR	2018 USD
Ministry of Finance Promissory Note to settle debt owed to International Monetary Fund	272,216,594	376,429,273	269,929,830	375,415,708
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

Movement in the government promissory note is as follows:

	2019 USD	2018 USD
At 1 January	375,415,708	-
Promissory note issued	-	375,415,708
Principal repayment	-	-
Interest charged	1,013,565	-
	<u>376,429,273</u>	<u>375,415,708</u>
At end of the year	<u>376,429,273</u>	<u>375,415,708</u>

This Promissory Note has been 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 17 of these financial statements. The promissory note was effective from 31 December 2018 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 FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF)

	2019 SDR	2019 USD	2018 SDR	2018 USD
(a) Assets				
IMF balances (SDR asset account)	17,599,711	24,337,408	17,899,938	24,895,055
Accrued Interest on SDR Holdings	22,881	31,641	32,110	44,658
Quota	44,200,000	61,121,086	44,200,000	61,472,918
	<hr/>	<hr/>	<hr/>	<hr/>
Total SDR holdings	61,822,592	85,490,135	62,132,048	86,412,631
	<hr/>	<hr/>	<hr/>	<hr/>
(b) Liabilities				
International Monetary Fund Account No. 2	140,452,557	194,222,010	140,452,557	195,340,012
International Monetary Fund – Borrowings	15,303,010	21,161,461	15,303,010	21,283,273
Accrued interest and charges	131,820,726	182,285,655	129,843,418	180,584,927
SDR Allocations	46,462,893	64,250,282	46,462,893	64,620,127
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities due to IMF	334,039,186	461,919,408	332,061,878	461,828,339
	<hr/>	<hr/>	<hr/>	<hr/>

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.

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.

	2019 USD	2018 USD
18 TREASURY DEPOSITS		
Denominated in Somali Shillings	107,023	42,641
Denominated in United States Dollars	64,622,667	37,796,861
	<hr/>	<hr/>
	64,729,690	37,839,502
	<hr/>	<hr/>

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.

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 19 DEPOSITS FROM BANKS

	2019 USD	2018 USD
Demand deposits	11,011,742	13,586,235

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

## 20 SECURITY DEPOSITS

	2019 USD	2018 USD
Performance security to undertake banking and forex business in Somalia	14,970,000	11,220,000

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 2019, there were a total of 10 licensed commercial banks and 12 money transfers bureaus who maintained security deposits with the bank.

These deposits are non-interest bearing and repayable on demand

## 21 MICROFINANCE GRANT

	2019 USD	2018 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 was disbursed to Commercial banks as loans (Note 12).

## 22 OTHER PAYABLES

	2019 USD	2018 USD
Sundry creditors	1,552,921	2,618,464
Audit fees	135,000	90,000
Deferred rent income	170,000	48,000
Uncredited cash recovered	1,251,334	1,157,311
Other payables and accruals	3,109,255	3,913,775

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 23 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.

## 24 NOTES TO THE CASH FLOW STATEMENT

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

	2019 USD	2018 USD
Surplus before taxation	1,271,056	1,270,872
<i>Adjustments for:</i>		
Depreciation (note 14)	370,844	313,994
Amortisation (note 15)	29,533	347
<i>Working capital changes:</i>		
Increase in receivables	(248,240)	(400,361,372)
Increase in loan advances	-	(300,000)
Increase in deposits from banks and treasury	28,065,695	22,775,502
Increase/ (Decrease) in other payables	(713,451)	402,506,168
IFRS 9 Day 1 Impairment adjustment	-	(101,694)
	<hr/>	<hr/>
Cash generated from operations	28,775,437	26,103,817
	=====	=====

## CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 24 NOTES TO THE CASH FLOW STATEMENT(Continued)

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

	2019 USD	2018 USD
Cash balances (Note 9)	45,153,943	46,788,763
Deposits and balances due from banking institutions (Note 10)	55,720,407	26,116,833
	100,874,350	72,905,596
	=====	=====

## 25 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.

## 26 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 2019, nor are there known significant assets or liabilities with related parties as at 31 December 2019 (2018 – Nil).

## 27 INCORPORATION

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

## 28 CURRENCY

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

## 29 EVENTS AFTER THE REPORTING DATE

On December 18, 2019, the IMF Executive Board approved a financing package for Somalia's arrears clearance and subsequent debt relief. On 25th of March 2020 Somalia received bridge financing from the government of Italy. The IMF arrears clearance and 25 percent of the quota increase were paid by the Federal Government of Somalia using proceeds from the bridge loan, and the remaining 75 percent of the quota increase would be paid through the issuance of a promissory note by Somalia Government to IMF.

The outbreak of COVID-19 virus which is ongoing pandemic has been major destabilising threat to the global economy. The COVID-19 pandemic was confirmed to have reached Somalia on 16 March 2020 and the following impacts are likely to be experienced in the economy in year 2020.

- A rapid reduction in remittances transferred into the country from abroad
- Falling commodity prices and restricted export markets

There has been no significant impact on the operations of the bank arising from the conditions and events associated with measures to contain the virus.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 EVENTS AFTER THE REPORTING DATE (Continued)

The directors are unable to quantify/estimate the effects of COVID 19 on the amounts reported in the financial statements as at 31 December 2019. However, the events giving rise to any changes are considered to be post balance sheet events and therefore do not affect the figures as reported in these financial statements.





CENTRAL BANK OF SOMALIA

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