

**LAPSE OF
TIME**

EBS/23/26

March 22, 2023

To: Members of the Executive Board

From: The Secretary

Subject: **Somalia—Enhanced Heavily Indebted Poor Countries Initiative—Request for Augmentation of the Third Interim HIPC Assistance**

Board Action: Executive Directors' **consideration** on a lapse of time basis. Executive Directors agreed to provide interim assistance through the interim period at Somalia's HIPC Decision Point on March 25, 2020. Three tranches of interim HIPC assistance have been approved since then. The third interim assistance in the amount of SDR 0.680 million was approved by the Board on June 17, 2022 to cover 100 percent of eligible debt service obligations to the Fund for the period June 17, 2022 through June 16, 2023. However, due to the faster than expected rise of the SDR interest rate, it is highly likely that the third interim assistance approved will not be sufficient to cover 100 percent of Somalia's eligible debt service obligations falling due through June 16, 2023. This paper supports the authorities request for an increase of the third tranche of the HIPC interim assistance by SDR 0.130 million to fully cover eligible debt service obligations to the Fund falling due through June 16, 2023.

Deadline to Request Board Meeting: **Monday, April 3, 2023
12:00 (noon)**

Proposed Decision Deemed Approved: Wednesday, April 5, 2023

Provisional Board Meeting Date: (if requested) Wednesday, April 5, 2023

Proposed Decision: Page 4

Publication:	Yes*
Questions:	Ms. Jaramillo Mayor, MCD (ext. 39946) Ms. Yang, MCD (ext. 38123) Mr. Kularatne, MCD (ext. 37795)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Arab Monetary Fund, African Development Bank, Islamic Development Bank, World Trade Organization



SOMALIA

March 21, 2023

ENHANCED HEAVILY INDEBTED POOR COUNTRIES INITIATIVE—REQUEST FOR AUGMENTATION OF THE THIRD INTERIM HIPC ASSISTANCE

Approved By
**Thanos Arvanitis (MCD) and
Mark Flanagan (SPR)**

Prepared by the Middle East and Central Asia Department (in consultation with the Legal, Strategy, Policy and Review, and Finance Departments).

1. On March 25, 2020, the Executive Board approved Somalia’s HIPC Initiative Decision Point¹ and three-year blended arrangements under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF).² Three tranches of interim HIPC assistance have been approved since then. On March 25, 2020, the Executive Board committed to provide interim assistance in the amount of SDR 1.111 million to cover Somalia’s eligible debt service payments to the Fund due over the twelve-month period from March 25, 2020 through March 24, 2021. On March 24, 2021, the Executive Board granted the second interim assistance in the amount of SDR 0.680 million to cover Somalia’s eligible debt service obligations to the Fund for the period March 25, 2021 through March 24, 2022.³ The third interim assistance in the amount of SDR 0.680 million was approved by the Board on June 17, 2022 to cover 100 percent of eligible debt service obligations to the Fund for the period June 17, 2022 through June 16, 2023.^{4,5}

2. Due to the faster than expected rise of the SDR interest rate, it is highly likely that the third interim assistance approved will not be sufficient to cover 100 percent of Somalia’s eligible debt service obligations falling due for the 12-month period June 17, 2022 through June 16, 2023. At the time the third interim assistance was approved by the Board, the SDR interest rate was 0.789 percent per annum.

¹ [EBS/20/20](#).

² [EBS/20/17](#).

³ [EBS/21/19](#).

⁴ [EBS/22/43](#).

⁵ For IMF interim HIPC assistance to be disbursed, it is required that the Fund-supported program remain on track. Somalia had no program reviews approved between November 2020 and June 2022—because of election delays and lack of political and financing assurances for the program during this period—and therefore no new requests for interim assistance could be processed during this time. Somalia’s ECF arrangement came back on track with the approval of the 2nd and 3rd reviews on June 17, 2022, at which time the third HIPC assistance was approved to cover June 17, 2022 to June 16, 2023.

The SDR interest rate has been increasing rapidly since then. As of March 20, 2023, the SDR interest rate was 3.363 percent.

3. The authorities are requesting an increase of the third tranche of the HIPC interim assistance by SDR 0.130 million to fully cover their debt service obligations on eligible debt falling due to the Fund by June 16, 2023.⁶ During the period between June 17, 2022 and March 20, 2023, 100 percent of Somalia's eligible debt service to the Fund totaling SDR 0.853 million was covered by the third tranche of interim HIPC assistance (SDR 0.680 million) approved by the Board on June 17, 2022 and by the resources available in the Somalia's HIPC Umbrella Account ("the Umbrella Account") of the PRG-HIPC Trust from the previously Board approved two tranches of interim assistance (SDR 0.173 million). As of March 20, 2023, the remaining balance in the Umbrella Account stood at SDR 0.421 million, including interest earned through January 31, 2023, compared to the projected GRA charges to the Fund falling due on May 1, 2023, estimated to be around SDR 0.525 million. Therefore, it is expected that there could be a shortfall of about SDR 0.104 million to cover the remaining eligible debt service obligations falling due by June 16, 2023. Once approved by the Board, the requested additional interim assistance in the amount of SDR 0.130 million (which includes a buffer of SDR 0.026 million to account for the possibility of the SDR interest rate being higher than anticipated) will be transferred from the PRG-HIPC Trust in the form of a grant to the Somalia's HIPC Umbrella Account and would be expected to cover 100 percent of eligible debt service obligations falling due on May 1, 2023. Any excess amount after coverage of the GRA charges due on May 1, 2023 will remain in Somalia's HIPC Umbrella Account and will be available to Somalia for the debt relief at the HIPC Completion Point. With the requested increase, the third tranche of interim HIPC assistance for the period of June 17, 2022 through June 16, 2023 would represent 0.6 percent of the total HIPC assistance committed by the Fund at the HIPC Decision Point, well below the annual limit of 20 percent.

4. The Fund-supported ECF program is on track. The fourth review of the ECF arrangement was completed on December 5, 2022.⁷ At the fourth review, program performance was strong, with all performance criteria at end-June and end-September 2022 met and firm implementation of structural reforms. Preliminary information suggests that the program remains on track. A mission to conduct the fifth review of the ECF arrangement took place March 7-13, 2023, and the review is expected to be brought to the Executive Board for consideration in May 2023.

5. The staffs of the IMF and IDA consider that the HIPC Completion Point (CP) could be reached by late 2023. Considerable progress has been made on the HIPC CP triggers, including two new laws that were enacted on March 8, 2023 and a third that is expected to be enacted by the end of the Parliamentary session in end-March 2023. The remaining triggers are expected to be finalized by July 2023. As of end-January 2023, debt relief agreements have

⁶ Debt service obligation during this period represent quarterly GRA charges.

⁷ [EBS/22/104](#).

been signed with creditors representing 68.4 percent of the NPV of debt after traditional debt relief, compared to a threshold of 80 percent needed for the HIPC Completion Point. The debt reconciliation exercise needed for Completion Point has been launched.

6. Staff supports the authorities' request for an augmentation of the third tranche of interim HIPC assistance in the amount of SDR 0.130 million. The attached decision is proposed for adoption by the Executive Board on a lapse-of-time basis.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Fund as Trustee (the "Trustee") of the Trust for Special Poverty Reduction and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations (the "Trust") established by Decision No. 11436-(97/10), February 4, 1997, as amended, decides that:

(a) satisfactory assurances regarding the exceptional assistance to be provided under the enhanced HIPC Initiative by Somalia's other creditors continue to be in place, and

(b) the Trustee shall disburse to Somalia as additional interim assistance the equivalent of SDR 130,000, which shall be made available by the Trustee to Somalia in the form of a grant that shall be paid no later than three business days after the adoption of this decision to an account for the benefit of Somalia established and administered by the Trustee in accordance with Section III, paragraph 5 of the Trust Instrument; the proceeds of the grant shall be used by the Trustee to meet Somalia's debt service payments on its existing debt to the Fund as they fall due, in accordance with the following schedule: 100 percent of eligible debt obligations falling due between May 1, 2023 and June 16, 2023, and,

(c) for the purposes of Section III, paragraph 3(d) of the Trust Instrument, the conditions for disbursements under 1(b) above are that, on the basis of the information provided by Somalia, Somalia has met: (i) all of the performance criteria that have been found to have been met with respect to the fifth disbursement under the arrangement for Somalia under the Extended Credit Facility (EBS/22/104, 11/21/2022) ("ECF Arrangement"); and (ii) the condition specified in paragraph 4 of the decision completing the fourth review under Somalia's ECF Arrangement, as set forth in EBS/22/104.

Appendix I. Letter Requesting Augmentation of the Third Interim Assistance Under the Enhanced Heavily Indebted Poor Country Initiative

Mogadishu, Somalia
March 21, 2023

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.,
Washington, DC 20431

Dear Ms. Georgieva,

On March 25, 2020 the IMF's Executive Board approved three-year arrangements for Somalia under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF). Four reviews of the ECF arrangement have been successfully concluded so far. The Executive Board of the IMF also approved three tranches of interim assistance under the HIPC initiative to cover Somalia's eligible debt service obligations to the Fund. Due to the sharp increase of SDR interest rate since mid-2022, it is highly likely that the third interim assistance approved by the Board on June 17, 2022 will not be sufficient to cover our eligible obligations falling due for the period of June 17, 2022 through June 16, 2023. We therefore request an augmentation of the third interim assistance in the amount of SDR 0.130 million.

We remain fully committed to implementing our ECF-supported economic program and continue to make progress on structural reforms to achieve the program objectives and the HIPC Completion Point.

Sincerely yours,

/s/

Dr. Elmi Mohamud Noor
Minister of Finance of Somalia

/s/

Abdirahman M. Abdullahi
Governor of the Central Bank of Somalia