September 21, 2018
Approval: 9/28/18

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 17/9-2

9:30 a.m., February 3, 2017

**2. Somalia—2016 Article IV Consultation; Review of Overdue Financial Obligations to the Fund and Further Review Following Declaration of Ineligibility**

Documents: EBS/17/3 and Correction 1, and Supplement 1; EBS/17/4

Staff: Elhage, MCD; Geiregat, FIN; Sun, SPR

Length: 52 minutes

**Executive Board Attendance**

T. Zhang, Acting Chair

| Executive Directors | Alternate Executive Directors |
| --- | --- |
| | D. Mahlinza (AE) |
| | M. Raghani (AF) |
| | B. Lischinsky (AG), Temporary |
| | N. Lelang (AP), Temporary |
| | P. Fachada (BR) |
| Z. Jin (CC) | |
| | T. Gonzalez (CE), Temporary |
| | L. Zorn (CO), Temporary |
| | C. Just (EC) |
| | S. Badirou-Gafari (FF) |
| | K. Merk (GR) |
| | R. Gunaratne (IN) |
| | G.Berardi (IT), Temporary |
| | H. Shoji (JA), Temporary |
| | A. Monajemi (MD), Temporary |
| | M. Merhi (MI), Temporary |
| | V. Volociuc (NE), Temporary |
| | K. Virolainen (NO) |
| | L. Palei (RU) |
| | S. Keshava (SA), Temporary |
| | T. Marcelo (ST) |
| | P. Inderbinen (SZ) |
| | V. White (UK) |
| | P. Pollard (US), Temporary |

H. Al-Atrash, Acting Secretary
H. Malothra, Summing Up Officer
L. Briamonte, Board Operations Officer
M. Yslas, Verbatim Reporting Officer

**Also Present**
World Bank Group: K. Carey. Fiscal Affairs Department: P. Dallari. Finance Department: G. Fernandez, M. Fisher, C. Geiregat. Legal Department: C. DeLong, N. Rendak. Middle East and Central Asia Department: M. Elhage, L. Kohler, I. Samake. Monetary and Capital Markets Department: M. Khan. Strategy, Policy, and Review Department: Y. Sun. Alternate Executive Director: A. Castets (FF), N. Tshazibana (AE). Senior Advisors to Executive

Directors: S. Rouai (SA), K. Sumawong (ST), A. Tivane (AE), T. Tlelima (AE), B. Varga (EC). Advisors to Executive Directors: A. Ahmadov (SZ), E. Anni (NO), M. Bangrim Kibassim (AF), Jia Chen (CC), M. Coronel (BR), M. Ismail (AE), B. Jappah (AE), W. Kuhles (GR), W. Nakunyada (AE), D. Vasilyev (RU).

## 2. SOMALIA—2016 ARTICLE IV CONSULTATION; REVIEW OF OVERDUE FINANCIAL OBLIGATIONS TO THE FUND AND FURTHER REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

Mr. Mkwezalamba, Mr. Mahlinza and Mr. Tlelima submitted the following statement:

> Our authorities highly appreciate Fund efforts towards normalization of Somalia's relations with the Fund, and other international financial institutions (IFIs). They thank staff for the constructive discussions during the Article IV consultation and SMP review mission and are broadly in agreement with staff's assessment and policy recommendations.
>
> Background and Context
>
> Somalia continues to face a difficult rebuilding process from two decades of civil conflict, which is further complicated by the fragile security situation. The civil war has not only destroyed the country's social and economic infrastructure but has also impaired the country's ability to service its debt, comprising mostly of arrears. As a result, Somalia's external debt burden, estimated at about 80 percent of GDP, remains a key binding constraint. In this context, approval by the Fund management of the Staff-Monitored Program (SMP) in May 2016 was a key milestone towards normalization of relations with the IFIs. The authorities are hopeful that their efforts will ultimately pave the way for debt relief.
>
> Since the approval of the SMP, the authorities have continued to rebuild their economic institutions. While significant progress has been achieved in building the institutional framework and preparing basic macroeconomic statistics, more is still needed in the form of human and technical capacity.
>
> Due to the protracted civil conflict, state institutions remain weak, the economy is severely underdeveloped, and poverty is pervasive. At the same time, the lack of consensus on the desired fiscal federalism poses challenges to revenue mobilization, and weaken the ability of the Federal Government of Somalia (FGS) to support economic activity.
>
> Against this background, our authorities will embark on policies and reforms to strengthen the fiscal framework, rebuild the financial system, and improve governance with the aim to facilitate economic recovery and improve livelihoods. Supported by the SMP, the authorities' program is aimed at

establishing a track record of policy implementation, which will serve as an important step towards an eventual Fund financing arrangement.

## Program Performance

Despite facing immense challenges, our Somali authorities remain committed to the SMP program objectives. All SMP indicative targets for end-June 2016 were met, including a structural benchmark (SB) requiring approval of the 2016–20 public financial management (PFM) reform action plan by the Minister of Finance. At the same time, six out of seven quantitative benchmarks set for the first review, end-September 2016, were met. The delayed disbursement of pledged budgetary grants resulted in accumulation of new budgetary arrears amounting to US$10 million through the end of September, but were nonetheless settled in November. In addition, the authorities have met all SBs set for the first review. Moreover, two out of three SBs for end-December 2016 have been completed.

Going forward, to avoid slippages and allow for timely remedial action when needed, the authorities have established a new committee to monitor progress in the implementation of planned reforms under the SMP. Meanwhile, to avoid accumulation of arrears in the future, the authorities will use conservative revenue and grant forecasts, and maintain tight controls on expenditure. In addition, they are confident that the measures outlined in their new arrears management plan will help avoid future buildup of arrears.

## Recent Economic Developments, Outlook, and Risks

The Somali economy continues to depend on donor grants, and remittances and investment by the Somali diaspora. Economic activity is projected to have decelerated from 3.6 percent in 2015 to 3.4 percent in 2016. Further deceleration to about 2.5 percent is projected in 2017. The slowdown in activity is attributed to the impact of drought on the agricultural sector. In contrast, economic activity is expected to be stronger in the construction, telecommunications, and service sectors. Meanwhile, inflation has remained under control, although higher food prices due to the drought are likely to exert upward inflationary pressure. At the same time, execution of the government budget was complicated by delays in pledged budget support, which resulted in cutting of non-priority spending and delays in salary payments. The trade deficit is projected to remain large and financed by remittances and grants.

The outlook for the Somali economy is subject to significant downside risks emanating from both global uncertainties and domestic factors. In particular, external risk factors have a potential to reduce donor support and remittances, which would have devastating effects on the economy. On the domestic side, the fragile security situation on account of terrorist attacks remains a major threat. However, the authorities are committed to improving national security, with the support of the international community.

Fiscal Policy and Reforms

To achieve the fiscal targets for 2017, the authorities intend to strengthen fiscal discipline and improve budget execution; continue to implement public financial management (PFM) reforms and improve revenue collection; and maintain expenditure prioritization rules. The budget process will be strengthened to ensure that expenditure commitments are in line with available resources. In this regard, a realistic budget, based on a broader revenue base, conservative grants, and prudent policy, consistent with a zero-cash balance, will be set. In addition, attempts will be made to avoid arrears' accumulation and any revenue windfalls will be utilized to build up buffers and paying down arrears

On the revenue side, the authorities will identify a set of realistic measures to replace negotiated tax arrangements, and anchor tax collection more closely to the tax base. To this end, they have commissioned a study, which has estimated up to US$119 million potential revenue from the telecommunications sector, compared to US$5 million in negotiated monthly fees and taxes currently collected. In this regard, the authorities intend to take the necessary steps to collect additional revenue from the telecommunication sector, in the form of corporate and sales taxes, departing from the current system of negotiated tax payments. However, the authorities understand that progress in this area will require significant improvements in revenue administration and tax collection, while improving security for telecommunication operators. As capacity of the key state institutions is being rebuilt, more progress will be possible.

On the expenditure side, the authorities are taking necessary actions to enforce stronger fiscal discipline. Among others, these include a cap on the number of civil servants, and a task force led by the Prime Minister to review the existing recruitment policies and disparities in compensation levels. In addition, to improve accountability and transparency, line ministries' spending will be aligned with the budget, while off-budget grants will be published in an addendum to the budget.

Strengthening Central Bank Capacity and Governance

Our Somali authorities have continued to make considerable progress in strengthening capacity and governance of the Central Bank of Somalia (CBS). Following an incident of theft in August 2016, the authorities have moved swiftly to take corrective measures. In particular, they are accelerating the reforms aimed at improving governance, transparency, and organizational guidelines at the CBS. Specifically, these measures include internal auditing, risk management, compliance, and oversight.

Notwithstanding progress made in the implementation of reforms, near-term challenges remain significant. One of the key priorities is currency reform, against the background of a predominantly dollarized environment as a legacy of the civil war. While there is considerable social and political pressure for the CBS to undertake urgent currency reforms, the authorities are convinced that credible and successful implementation of the currency reform hinges on careful preparation and planning. In addition, adequate donor financing would be needed for successful completion of currency reform.

Enhancing Inclusive Growth

The Somali authorities believe that bold action will be required to boost inclusive growth. In this context, the revised National Development Plan (NDP) 2017–19, which addresses the weaknesses identified by staff, will serve as the new vehicle for boosting growth and reducing poverty for the period 2017–19. In particular, the NDP will focus on, amongst others, the following key areas: how to absorb the return of Somali refugees from Kenya; remittances; and the impact of withdrawal of correspondent banking relationship (CBR).

The imminent return of Somali refugees from Kenya is expected to have a significant impact on the Somali economy and the authorities' capacity to provide basic social and economic services. As recently announced by the Kenyan authorities, the country's largest Somali refugee camp will be closed in May 2017, which will result in the repatriation of more 400,000 refugees. This raises concerns about potential risks including increased unemployment and poverty. To mitigate the associated risks, political consensus and support by the international community will be critical.

Remittances from the Somali diaspora, channeled through the money transfer businesses (MTBs), are a major source of funding for both households and businesses in Somalia. Over the past two years, the key correspondent banks have closed the accounts of some Somali remittance companies, citing legal and regulatory weaknesses, as well as risks of money laundering with possible financing of terrorism. In response, the authorities have stepped up efforts to improve access to the international financial system, including approval of the AML/CFT law on December 26, 2015. Implementation of the new law is expected to limit the threat of CBR withdrawal and closure of the accounts of Somali remittance companies by global banks. In addition, customer due diligence will be improved by recent efforts to involve a 'trusted third party agent' with the assistance of the World Bank working with the CBS to monitor transaction flows and provide independent third party audits of MTBs. Efforts are underway to introduce new CFT legislation consistent with the Financial Action Task Force standards.

Capacity Building and Governance

The Somali authorities continue to make progress towards restoring key economic and financial institutions with support from IMF TA, funded from the multi-donor trust fund. Capacity development activity has intensified in the past two years. However, the need for TA remains large. Increased Fund TA, in coordination with other TA providers, will be essential in further improving capacity and strengthening program monitoring. As part of an effort to enhance governance, the authorities are planning to reorganize the Ministry of Finance, Ministry of Planning and International Cooperation, and CBS, and strengthen key legislative and regulatory frameworks.

Conclusion

Our Somali authorities are firmly committed to implementing their reform program and advance the country's development agenda. This will not only create opportunity for the citizens, but will help in counteracting potential radicalization of the country's youth. The authorities are therefore determined to establish a sufficient track record of sound economic management, supported by successful completion of the current and subsequent SMPs. They, however, recognize the important role of the international community and continue to appeal for a speedy process towards debt relief.

Mr. De Lannoy and Ms. Volociuc submitted the following statement:

We thank staff for the insightful reports and Messrs. Mkwezalamba, Mahlinza and Tlelima for their buff statement. While the post-war social and economic conditions continue to put a drag on economic activity in Somalia in general, we recognize that proper policy actions by the authorities under the Staff-Monitored Program (SMP) have helped preserving macroeconomic stability. In particular, by implementing a number of structural reforms the authorities have addressed some of the most stringent vulnerabilities the country faces. We encourage the authorities to continue their strong ownership and successful performance under the SMP to promote private sector led growth and reduce poverty. A successful SMP implementation is also critical to build a constructive engagement during the transitional years ahead.

In light of the substantial near- and medium-term risks to the economy, the macroeconomic policy mix is appropriate. In particular, we support staff's emphasis on keeping the momentum with capacity building and governance, fostering the fiscal discipline and enhancing inclusive growth. Nevertheless, improving security and ensuring political stability will help rebuild confidence which is imperative for the implementation of the government's economic reform agenda. We also underscore the importance of enhancing the social safety net programs, especially given the need to accommodate the anticipated large inflow of refugees. Donor support in this regard will be critical.

Somalia's prospects in receiving financial assistance depends highly on the clearance of its longstanding arrears. This is in particular important for the bilateral and multilateral creditors, including the Fund. Establishing a roadmap to public debt sustainability, including through reconciling the external debt, refraining from new external borrowing and avoiding selective debt servicing of bilateral lenders, alongside building a track record under the SMP, would represent the key steps to enhance the prospects for eventual financial support and debt relief.

Broadening the tax base is crucial for development. In order to achieve the fiscal target for 2017 it is imperative to ensure strong revenue collection and enforcement. Nevertheless, the fiscal position remains strained. We also note that according to the fiscal projections for 2017, out of 3.8 percent of GDP representing revenue and grants, 2.8 percent of GDP are derived from trade taxes and grants (table 2b). Therefore, looking at a longer-term fiscal perspective and considering the increasing financing needs for development, it becomes evident that the tax policy and reforms should focus on gradually improving the revenue-to GDP ratio, with a focus on the increased and formalized revenues from the domestic sources.

Improving statistics should remain a priority. Severe data deficiencies represent an important impediment in conducting surveillance and designing adequate policies. It is unfortunate that, since the last Article IV consultation progress has been very slow in this area, in particular with enhancing the national accounts, price statistics, and balance of payments. We call on the authorities to expedite the approval of the long-standing new statistical law and take full advantage of the requested Fund technical assistance.

Given the need for multidimensional reforms, continued technical support from development partners, including the Fund, is crucial. We note that since resuming its relationship with the Fund, Somalia has benefited from impressive Fund Technical Assistance (TA), and equally valuable TA was provided by other development partners. While acknowledging the importance of TA for the implementation of the development agenda, we underscore the need for better prioritization and greater collaboration among the TA providers in the provision of technical assistance. We would appreciate staff's comments on the authorities' absorption capacity regarding the planned TA.

Mr. Fachada and Mr. Coronel submitted the following statement:

We thank staff for the reports and Messrs. Mkwezalamba, Mahlinza, and Tlelima for their statement. We commend the Somali authorities for their policy and reform implementation, supported by the Staff-Monitored Program (SMP). We note that ownership and commitment towards the SMP remain strong. We call on staff to intensify technical assistance and policy advice to Somalia, particularly on the fiscal and financial fronts.

Somalia's economy continues to be impaired by challenges common to fragile states. In the case of Somalia, these obstacles are aggravated by decades of civil war, the autonomy of regional governments, a large number of internally and externally-displaced persons, absence of a de facto domestic currency and external arrears with international financial institutions and bilateral creditors.

Moreover, some of the specific challenges facing Somalia will take a long time to overcome. Apart from looming security concerns, these include state building and institutional capacity development, engendering political stability and establishing a well-functioning legal framework. Despite the progress since the formation of the federal government in 2012, policy and reform implementation have been slow, and the fiscal position has remained extremely weak. To accelerate the pace of policy implementation, Somalia requires the support of the international community, including to help strengthen security, mitigate the effects of extreme poverty, address the refugee situation and provide debt relief.

We welcome the 2017 fiscal framework, which includes the commitment to zero-cash balance, revenue mobilization and improved budget execution, while avoiding further arrears accumulation. We commend the recent establishment of the domestic arrears management committee and debt management unit, as well as plans to reorganize customs, revenue administration and the Treasury.

The Central Bank of Somalia (CBS) must swiftly strengthen its capacity. Given its role to ensure macroeconomic and financial stability, the technical and human resource constraints of the CBS must be addressed promptly. We welcome progress with the roadmap for currency reform and note that CBS credibility is key for the effective introduction of a new currency and for the development of the financial sector. As we have stressed in our statement for the 2015 Article IV consultation, there may be no alternative to Somalia's de facto dollarization in the short-run. However, de jure dollarization should be very carefully evaluated given its irreversible nature.

Restoring access to external financing is crucial to Somalia's economic development. Progress towards arrears clearance and debt relief should be intensified to enable full reengagement with international financial institutions. In this regard, we support staff's proposal concerning Somalia's overdue obligations to the Fund.

Mr. Alogeel and Mr. Keshava submitted the following statement:

We thank staff for a well-focused set of reports and Mr. Mkwezalamba, Mr. Mahlinza, and Mr. Tlelima for their helpful buff statement. We broadly agree with the thrust of the staff appraisal and would like to focus our remarks on a few issues.

Somalia is making progress in rebuilding its economy and normalizing its relationship with the Fund and other international financial institutions amid challenging political and security situation. In this connection, we are pleased that performance under the SMP, approved in May 2016, is broadly satisfactory and we welcome the authorities' corrective measures to address the missed target and contingent plans to mitigate risks. Sustaining progress in strengthening institutions and governance, and improving the capacity for sound macroeconomic management will be essential to maintain stability and pave the way for more inclusive growth that is crucial to improve social conditions. Here, we welcome the revised National Development Plan, which will serve as the new vehicle for boosting growth and reducing poverty for the period 2017-19.

Accelerating efforts to mobilize tax revenue, strengthening fiscal discipline, and improving budget execution are crucial for achieving the fiscal targets. In this context, we are reassured to note in the buff statement that the authorities will strive to avoid further accumulation of arrears and to utilize any revenue windfalls to build up buffers and pay down arrears. That said, financial support from the international community is vital to support rebuilding of critical infrastructure and provision of basic social and economic services. Here, we take note of staff's statement that successful completion of this, and subsequent SMPs and the clearance of arrears to the Fund will make Somalia eligible for an Upper Credit Tranche facility.

We encourage the authorities to continue their efforts to strengthen capacity and governance of the Central Bank of Somalia (CBS). In this connection, we regret the incidence of theft in August 2016 in the CBS and hope that the tightening of internal procedures and adoption of other measures will prevent occurrence of such incidents in the future. On currency reform, we echo staff comments that careful preparation and planning will be essential and, in this context, we encourage the authorities to implement the currency reform roadmap agreed with staff.

Finally, we welcome the stress placed by the authorities on financial sector development and improving access to credit as well as ensuring the flow of remittances through Money Transfer Businesses (MTBs). In particular, given the critical importance of remittances for both households and businesses in Somalia, efforts to improve the regulatory environment should continue in order to limit the threat of CBR withdrawal and closure of the accounts of Somali remittance companies by global banks. In this connection, we would welcome staff comments on the experience of involving of a "trusted third party agent" with the assistance of the World Bank to supervise MTBs and improve customer due diligence."

With these remarks, we wish the authorities further success in their policy efforts.

Mr. Daïri and Mr. Monajemi submitted the following statement:

We thank staff for the informative set of papers and Mr. Mkwezalamba, Mr. Mahlinza, and Mr. Tlelima for their candid buff statement.

Somalia remains in a fragile situation with challenging political and security situation. Nevertheless, the Federal Government of Somalia (FGS), with assistance from the international community, continues the process of rebuilding institutions, infrastructure and human resource capacity after two decades of civil conflict, in an effort to revive Somalia's economy and improve the lives of Somali nationals. We commend the authorities for normalizing relations with the IFIs and continued cooperation with the Fund under the SMP, which should help build a track record toward arrears clearance. Performance under the program has been broadly satisfactory; all the structural benchmarks and six out of seven quantitative performance targets for the first review of the SMP were met. Although domestic government arrears were accumulated as a result of a delay in grant disbursement, the authorities, as highlighted by Messrs. Mkwezalamba, Mahlinza, and Tlelima, were able to settle these arrears following a recent disbursement of donors' grants, and have taken corrective measures to avoid the occurrence of future arrears. Given high external debt burden, continued support by the international community remains critical. We concur with the thrust of staff appraisal, and support the proposed decision on review of overdue obligations to the Fund and further review following declaration of ineligibility.

Real GDP growth, estimated at 3.4 percent in 2016, should decelerate further this year, as a result of the drought, which should also impact the still low inflation. The current account deficit has declined significantly from over 9 percent of GDP in 2015 to an estimated 6½ percent in 2016, and should increase slightly to 7 percent this year, with significant and stable remittances and grants, and FDI contributing increasingly to the financing of the deficit to reach 80 percent. We are pleased to note that the authorities agree with staff on the main risks facing Somalia, and welcome in particular their commitment to improve the security situation with donor support, as indicated Messrs. Mkwezalamba, Mahlinza, and Tlelima.

Decisive steps should be taken to strengthen fiscal discipline, underpinned by realistic budgeting and effective implementation systems. We commend the authorities for adopting an Appropriation Bill consistent with a zero-cash balance, an arrears-management strategy, as part of their PFM reform plan, and strengthening fiscal data reporting. We are pleased to note that they recognize the need for further strengthening Somalia's fiscal policy framework, including revenue administration and mobilization, treasury management, and fiscal federalism. We join staff in encouraging the authorities to continue to refrain from external and domestic borrowing, and welcome their efforts to strengthen the Debt Management Unit's capacity and improve debt database.

Currency reform is an essential component of Somalia's economic recovery and should pave the way to more effective monetary policy. While commendable steps are being taken to this end, to safeguard policy credibility, this reform should only be implemented when all prerequisites are in place. We welcome the recent reforms in the central bank governance and structure, and encourage the authorities to further improve its safeguard procedures. The financial sector needs to be revived and access to credit improved. Moreover, the adoption of the AML/CFT law is commendable, and its effective implementation should help mitigate correspondent banking relationship withdrawal and sustain the inflows of remittances. We look forward to the revised CFT legislation in line with FATF standards.

Developing domestic capacity and continuing to rebuild the economic and financial data system would help to revitalize Somalia's economy and improve social conditions. The forthcoming NDP will provide a framework through which the authorities and foreign donors can coordinate their efforts to boost growth and reduce poverty. In this regard, the envisaged revision of the NDP should strengthen inclusion. The Fund should continue to intensify its capacity development activities in Somalia under the SMP, using the multi-donor trust fund to help rebuild and economic and financial infrastructure. The FGS's strategy in designing a voluntary repatriation program for its refugees in the revised NDP in close cooperation with donors is praiseworthy. In view of the authorities' good performance under the SPM so far, and like Messrs. Mkwezalamba, Mahlinza, and Tlelima, we look forward to a speedy process for moving toward debt relief for Somalia. Could staff indicate the prospects in this regard?

We wish the FGS authorities further success in their challenging endeavors.

Mr. Johnston and Ms. Lelang submitted the following statement:

We thank staff for their comprehensive report and Mr. Mkwezalamba, Mr. Mahlinza and Mr. Tlelima for their insightful buff statement. We commend the Somalian authorities for taking important initial steps in reconstructing the economy after a prolonged civil war. Many difficult challenges remain. We welcome the country's renewed relations with the Fund and its good performance under the Staff Monitored Program. A concerted effort will be required to make incremental gains and begin to build a history of positive economic management. Continued technical assistance will be hugely important to achieving this. We encourage Somalia to work towards clearing its arrears which is key to receiving financial support in the future.

Somalian authorities should set a foundation for medium-term fiscal sustainability and revise the country's National Development Plan. We note the progress made by authorities in fostering fiscal discipline and rebuilding institutions and support efforts to raise revenue through improved tax administration and collection as well as new tax policy measures. In addition, we encourage authorities to formulate realistic revenue and grant forecasts. We welcome Somalia's efforts to rebuild the capacity of its central bank and revive the financial sector to support macroeconomic stability. We agree that priority should be given to updating and establishing appropriate financial sector laws, establishing a functional payment system, and ensuring consistent central bank and commercial bank accounting and reporting systems. With regards to currency reform, adequate donor financing will be critical for a successful completion. Finally, we also encourage Somalia to improve its macroeconomic statistics which are essential for conducting surveillance and for sound macroeconomic management in Somalia.

Mr. Jin and Ms. Chen submitted the following statement:

We thank staff for the informative reports and Messrs. Mkwezalamba, Mahlinza and Tlelima for the helpful buff statement. Despite the very difficult environment, Somalia has made important progress in rebuilding the economy, enhancing security, and improving the social conditions with donors' support. Risks to the outlook, including fragile security, high external debt, and weak administrative capacity are tilted to the downside. In light of the broadly satisfactory program implementation so far and the authorities' strong commitment, we support the completion of the first review of the Staff-Monitored Program, as well as no further escalation of remedial measures at this time.

Taking into account the high fiscal risks, we welcome the authorities' efforts to strengthen the fiscal framework. In particular, we see merit in improving revenue mobilization by lifting the tax level, which is among the lowest in the world. In the same vein, we also encourage the authorities to further promote revenue administration by introducing a modern system of taxpayer registration. In addition, we underline the importance of arrears clearance, which would also be helpful to strengthen debt sustainability and enhance the prospects for financial support and debt relief.

As tangible steps have already been taken, currency reform through technical assistance from the Fund and other donors could be accelerated to ensure a successful launch of the new currency. Going forward, we encourage the authorities to develop monetary policy instruments and deepen the financial market. In view of the theft incident in last August, we see merit in improving central bank governance in terms of internal auditing, risk management, compliance, and oversight.

We commend the authorities' structural reform efforts aiming to enhance inclusive growth. As the main vehicle for boosting growth and reducing poverty for the next few years, the National Development Plan is essential for implementing the authorities' development strategy and garnering international partners' support. We also agree that strengthening institutional capacity and enhancing governance—including through establishing the anti-corruption commission—are critical to improve the business environment and promote strong private sector-led growth.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Virolainen and Ms. Anni submitted the following statement:

We thank staff for the comprehensive set of papers and Messrs. Mkwezalamba, Mahlinza and Tlelima for their informative buff statement. We share the views in staff's assessment and offer the following remarks for emphasis.

Somalia is making progress in rebuilding the state and its institutions but the reform efforts often remain constrained by financing shortfalls and significant institutional incapacity, highlighting the need for deeper involvement of multilateral donors and increased engagement by the Fund. We fully support Somalia's reform efforts and a number of our constituency member countries continue to provide timely and predictable aid aligned to Somali priorities.

Strengthening public financial management, improving budget execution and developing fiscal federalism are critical in achieving fiscal effectiveness. We underscore the urgency of stepping up tax revenue mobilization and take positive note of the soon to be passed Appropriation Bill broadening the tax base and improving revenue collection. These measures must be supported by efforts to ensure that tax collection enforcement meets the willingness to pay via sufficient incentives of public goods and services.

While recognizing the challenges of Somalia's significant reliance on the largely off-budget support of irregular disbursement of donors' grants, we join staff in calling for the prioritization of arrears management and settling of outstanding arrears. We are encouraged by staff's assessment that the authorities' most recent measures outlined in their new arrears management plan will solidify efforts to prevent new arrears and limit delayed payments.

Currency reform is both urgent and essential given the largely dollarized and counterfeit cash-based national currency system and absence of monetary control. The Fund's near-term TA to support Somalia's comprehensive currency reform is a positive development and we are encouraged by the authorities' commitment to strict adherence to the currency reform roadmap with concrete milestones. The financing aspect of the implementation of the reform needs clarification and staff's update on this would be appreciated.

Given the vital role diaspora remittances play in sustaining the Somali economy and supporting household incomes, we stress the particular importance of sustaining access to the international financial system. The perceived risk exposure of the Somali money transfer businesses (MTBs) to terrorist financing jeopardizes this crucial source of finance and the authorities need to urgently address obstacles to remittance flows and speed up the reforms needed to develop effective AML/CTF measures to create confidence among international banks.

Mr. Gokarn and Mrs. Roy submitted the following statement:

We thank staff for the comprehensive reports on Somalia and Mr. Mkwezalamba, Mr. Mahlinza and Mr. Tlelima for the informative buff statement. Somalia has been in continuous arrears to the Fund and other multilateral/bilateral lenders since 1987 due to its difficult economic, political and security situation arising from a two-decade long civil war and domestic insurgency. The economy is mainly based on livestock, remittances from

Somalis working abroad, and telecommunications, and it continues to face risks from fragile security, expenditure over-runs in the forthcoming Presidential election, weak revenue collection and administrative capacity and repeated delays of the electoral process which could weaken donors' support to the country. Authorities need to make efforts towards improving economic conditions, reducing fiscal and trade deficits and carefully managing external debt.

Performance under the Staff Monitoring Program (SMP) initiated in May 2016 through the end of September 2016 has been broadly satisfactory. Six out of seven quantitative benchmarks and all the structural benchmarks for the first review were met. However, mainly due to the delayed disbursement of budgetary grants by two bilateral donors, new budgetary arrears were accumulated but settled by November. Given that these recent arrears arose due to a reason beyond the control of the authorities who have reiterated their commitment to the SMP through various policy measures and adoption of a draft National Development Plan, we support the completion of the first review of the SMP.

Growth should be re-oriented to reduce dependence on imports. The Somalian economy grew at 3.6 percent in 2015 which is expected to decelerate to 3.4 percent and 2.5 percent in 2016 and 2017, respectively, reflecting the impact of drought on agricultural sector which will be partially offset by growing activity in construction, telecommunications and service sectors. Could staff comment on the reliability of the estimates of GDP in the current situation? Due to limited production of goods, imports far outpace exports (mainly, livestock, fish and fruits) leading to a large projected trade deficit 2017 onwards of above 55 percent, financed largely by remittances and grants. Somalia needs to accelerate its economic growth in order to overcome fragility and to achieve a meaningful reduction in poverty. This acceleration could be aided by employing FDI from diaspora in various sectors to improve the productive capacity of the economy. Since the economy is dependent, to a large extent, on remittances for meeting the current account deficit, could the staff give an idea of the economic impact of any reduction in size of Somalian diaspora?

Financial stability risks need to be guarded against. The staff report states that there has been a 22 percent increase in bank credit growth in 2015-16. However, the health of the banking sector does not appear to be robust enough to handle such a fast pace of growth. Two of the six commercial banks have reported negative incomes signifying vulnerability. Given the reduction in correspondent banking relationships (CBR), the liquidity of the banking sector also may get further attenuated. Are any macroprudential policies in place to reduce credit flow to over-heating sectors? Also, has there been any effect of the reduction in CBR on the flow of remittances?

Assumptions underlying forthcoming financial obligations to the Fund may merit a re-look. Somalia's debt burden is large and unsustainable. While the staff have urged authorities to avoid external borrowing, going ahead, the staff report mentions that obligations are likely to increase if interest rates rose from current levels. However, the projections of various charges and interest up to 2021 in Table 2 of the document 'Somalia–Review of Overdue Financial Obligations to the Fund and Further Review following Declaration of Ineligibility' reflect no increases over the years. Given the recent policy rate normalization by the U.S. Federal Reserve and further increases expected in 2017, what changes would the staff need to make in its projections on various charges and interest in Table 2?

External public debt movement may be re-examined. It is stated in the document mentioned in paragraph 5 above, that Somalia has been in continuous arrears to the Fund and other multilateral/bilateral lenders since 1987 and aspires for a comprehensive debt relief. However, in Table 3 of the document, the figures for total stock outstanding record an overall dip in 2014, 2015 and 2016 for multilateral creditors, including the Fund, and in 2015 for bilateral creditors. If the country has been in continuous arrears, how do the staff account for the fall in total stock of debt outstanding in these years, especially for the multilateral creditors?

Financing prospects for Somalia. Somalia is ineligible for financial assistance from the IMF, pending the clearance of its longstanding arrears and the country cannot meaningfully repay its debt through its inflows which mostly serve to cover its large trade deficit. In this situation, debt relief may become necessary. The staff report states that the clearance of arrears will be an important part of normalizing relations with the international community and establishing a roadmap to debt sustainability. The process will involve: (1) establishing a track record of cooperation with the Fund on policies and payments, including in the context of SMPs; (2) reconciling external debt; (3) preparing a poverty reduction strategy; and (4) mobilizing donor resources to finance debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Given the urgency of meeting Somalia's social and reconstruction needs, can the staff give an idea about when Somalia can move towards debt relief under the HIPC Initiative before it can get financial support?

Mr. Mozhin and Mr. Vasilyev submitted the following statement:

We thank staff for a well-written report and Mr. Mkwezalamba, Mr. Mahlinza, and Mr. Tlelima for their helpful buff statement. Somalia has been striving to rebuild the state and the economy after a prolonged civil war that significantly damaged all aspects of economic and social life. The continuing uncertainty regarding presidential elections is worrisome. As we know from the press, elections have been rescheduled for the fourth time. On the positive side, we note that the Fund's engagement with the authorities is developing and the performance under the Staff-Monitored Program through the end of September 2016 was broadly satisfactory. Below we would like to comment on some issues that staff have discussed in the report.

We welcome the authorities' achievements under the SMP. Although the important quantitative benchmark on accumulation of new domestic expenditure arrears was met only with a delay, the corrective measures to avoid new arrears outlined on page 12 of the report are appropriate. On structural reforms, the authorities have achieved significant progress, as they met all end-September structural benchmarks.

We welcome the continuous work on the currency reform. As Box 2 on page 10 of the report outlines it, a possible failure of the currency reform would have a high adverse impact on the Somali economy. The first risk to the currency reform stems from counterfeiting, as it may undermine the basis of currency credibility. We welcome the already prepared draft of the anti-counterfeit strategy and the new structural benchmark under the SMP to finalize this strategy by March 2017. The next risk to the currency reform stems from the credibility of monetary framework. We note that the authorities and staff have agreed that the Central Bank of Somalia will soon need to decide on the exchange rate regime. Could staff share their view on the appropriate exchange rate regime for Somalia?

Continuing efforts are essential for achieving fiscal sustainability. The postponement of the presidential elections and associated uncertainty resulted in the delay of budgetary grants disbursements and lower tax collection. The projected December 2016 level of revenue and grants was at US$190.2 million vis-à-vis the programmed level of US$246.3 million. With lower capital expenditure and postponed salary payments, the overall fiscal balance remained at zero. We welcome the new structural benchmark under the SMP on passing the 2017 Appropriation Bill, as this measure should help enforce tax laws and endorse the tax code rates for income and sales taxes. The staff expect that this measure will help achieve the projected tax revenue of 2 percent of GDP in 2017 vis-à-vis 1.4 percent of GDP in 2016. We support staff recommendation to strengthen public financial management by improving treasury single account, cash management, and arrears management.

We thank staff for their analysis of the refugees' issues provided in the report. While we note that there are contingent fiscal costs stemming from the refugee inflows after the closure of the Somali refugee camp in Kenya, the downside risks, as mentioned in Box 6 of the report, are more complex. Does anybody advise the Somali authorities on handling this process?

Mr. Hiroshima and Mr. Shoji submitted the following statement:

We thank staff for a comprehensive report and Mr. Mkwezalamba, Mr. Mahlinza, and Mr. Tlelima for their informative statement. We welcome that the authorities have accelerated the reform momentum supported by the Staff Monitoring Program (SMP). Given the satisfactory performance, we support the completion of the first review under the SMP. Meanwhile, we note that Somalia still faces significant risks and challenges, and has a long way to go for reconstruction after the long and devastated civil war. We would like to highlight the following points:

We encourage the authorities to maintain zero-cash balance and no accumulation of new domestic arrears, based on a conservative and realistic budget. In this regard, we welcome the authorities' commitment for revenue and expenditure reforms. We would like to highlight that raising revenues to GDP ratio through expanded tax base and improved PFM is particularly important to increase priority spending. In addition, effective fiscal federalism could reduce inter-regional inequality.

It is commendable that the Central Bank of Somalia (CBS) is gradually resuming its activities. Having said that, we are concerned about the CBS's governance, due to the theft incident in August 2016, and therefore, we request the authorities to strengthen internal procedures. It is also important that the authorities introduce the necessary financial sector laws and financial infrastructure in a timely manner. Going forward, we hope a successful implementation of the currency reform with adequate preparation.

A new National Development Plan (NDP) should lay the groundwork for inclusive and sustainable growth. In this regard, the authorities should make their best effort to build a basic infrastructure and institutional framework within an available financing. We also emphasize that refugees from Kenya should be smoothly accommodated. In this context, does refugee's repatriation cost at US$200 million, shown in Box 6, include not only physical cost but also social services cost such as health and education? If not, we would appreciate staff's clarification.

We find great value in the Fund's TA to Somalia, which has been a growing trend since 2013. We believe that the Fund's TA should support the SMP's objectives of better policy making and institutional capacity. At the same time, we urge staff to coordinate with other donors in order to maximize synergies.

Mr. Marcelo, Mr. Sumawong and Ms. Sitpraxay submitted the following statement:

We thank staff for a comprehensive set of reports and Messrs. Mkwezalamba, Mahlinza and Tlelima for their informative buff statement.

The authorities are to be commended for their strong commitment to program implementation with significant progress made in rebuilding the Somali economy and its institutional frameworks under the Staff-Monitored Program (SMP). Nonetheless, we agree with staff's assessment that the fragile security situation, weak institutional capacity, and adverse weather conditions pose risks to the economic outlook and successful implementation of the SMP. Strong and concerted policy efforts will be needed in the near term to strengthen institutions and foster economic development. We therefore support the completion of the first review under the SMP. We broadly agree with staff's appraisal and limit our comments to the following comments for emphasis.

Improving revenue mobilization is essential to achieve the fiscal targets of 2017. We welcome the authorities' commitment to maintaining zero-cash balance while avoiding accumulation of arrears under the 2017 fiscal framework. In addition to enforcing stronger fiscal discipline, revenue mobilization should be improved in light of volatile grants. The authorities' plan to replace negotiated tax arrangements with more realistic revenue measures for the telecommunications sector, as highlighted in the buff statement, is a welcome first step to increase revenue. Public spending should also be prioritized towards social sectors and restoration of economic infrastructure, which are crucial to Somalia's long-term prospects.

Currency reform is crucial to promote monetary and financial stability. We agree with the authorities and staff that currency reform should be pursued in light of the highly dollarized and largely cash-based economy and high prevalence of counterfeiting. The successful implementation of the currency reform hinges not only on careful preparation and planning but also on adequate resource mobilization and effective implementation. We therefore look forward to the provision of Fund and donor assistance to Somalia in carrying out this important reform, which would pave the way to the adoption of an appropriate monetary policy.

We welcome the revised National Development Plan, which will serve as an important roadmap for Somalia's sustainable and inclusive growth and poverty reduction. As envisaged under the development plan sustained assistance from international development partners will be critical for Somalia's efforts to provide social safety nets and reintegration programs to support refugees returning from Kenya. Since the return of refugees could start as early as May 2017, could staff elaborate on the authorities' planned measures for addressing this daunting challenge? In addition, we support the effective implementation of the AML/CFT law in line with the Financial Action Task Force standards to improve Somalia's access to the international financial system and ensure the smooth flow of formal remittances, which is vital to the Somali economy.

With these comments, we wish the authorities success in their future endeavors.

Mr. Raghani and Mr. Bangrim Kibassim submitted the following statement:

We thank the staff for the comprehensive reports and Messrs. Mkwezalamba, Mahlinza and Tlelima for their insightful buff statement.

We commend the authorities of the Federal Government of Somalia (FGS) for their continued efforts aimed at rebuilding their economy and institutions and improving social conditions. Amid a challenging environment, the authorities have maintained their commitment to the reform efforts and have implemented a number of important policy measures. Performance under the SMP has been satisfactory. We, therefore, support the completion of the first review of the SMP.

The path forward remains difficult, with risks still tilted to the downside. In the event, the authorities will need to strengthen their reform efforts and use efficiently the assistance being provided by donors and development partners. We broadly share staff's policy advice going forward, in particular on measures to foster fiscal discipline, strengthen the capacity of the central bank, and on measures to enhance inclusive economic growth.

Fiscal Policy

We welcome the authorities' fiscal reforms and their commitment to strong fiscal discipline. In particular, we encourage authorities to continue improving fiscal management and to take measures to avoid the incurrence of arrears and delayed payments. While improving budget execution will strengthen the fiscal policy framework, an agreement between federal and sub-national governments on fiscal federalism and the payment of salaries should remain a priority. Moreover, in view of the country's aspiration for a comprehensive debt relief, we invite authorities to carefully manage external borrowing.

On tax revenue mobilization, we believe that significant results could materialize if the new tax measures in 2017 are implemented and the Appropriation Bill to endorse the tax code is adopted. Finally, we see the authorities' plans to strengthen the TSA System, improve cash management and modernize revenue and customs administration as a step in the right direction. However, efforts to improve the Debt Management Unit's monitoring capacity and management should be pursued, with appropriate TA.

Monetary and Financial Sector

The staff highlights some critical governance issues at the CBS, which requires urgent attention. While we welcome the measures taken, we agree that currency reform is a priority. In this sense, we encourage the strengthening of CBS safeguards, governance, regulatory environment and monetary data by addressing shortcomings stemming from weak data sources, insufficient coverage and capacity constraints. Therefore, we support the currency road map that includes the anti-counterfeit strategy.

Moreover, in view of the important role of the Financial Sector in support of economic growth and inclusion, we agree with staff that improving access to the international financial system while securing the inflows of remittances to Somalia is critical. In our view, an overhaul of the sector through a roadmap represents an opportunity for its revival. We also commend the authorities for the recent approval of the AML/CFT Law by the Somali Parliament given its implication in limiting the threat of

Correspondent Banking Relationship (CBR) withdrawal and its adverse impact on remittance inflows.

Structural Reforms

We welcome the authorities' plan to revise their National Development Plan (NDP) with more focus on institution building, governance, social safety net, capacity development and humanitarian needs. However, this is not an easy task given the limited resources available to the authorities, and the fragile state of the economy, we, therefore, encourage the authorities to continue working closely with development partners and to implement steadfastly the program in their NDP.

Mr. Inderbinen and Mr. Ahmadov submitted the following statement:

We thank staff for the detailed and thorough documentation and Messrs. Mkwezalamba, Mahlinza and Tlelima for their informative buff statement. We welcome Somalia's ongoing efforts to rebuild its economy and normalize relations with creditors and the international financial institutions. In general, we acknowledge that the performance under the SMP was broadly satisfactory. Also, we encourage the authorities to maintain the momentum toward the finalization of their NDP.

We continue to support the Fund's engagement, with the policy dialogue based on the SMP and the provision of extensive technical assistance. A well-designed institutional and legal framework to develop a stable and prosperous federal state over the longer term will be critical. Further delays in the electoral process should be avoided. These would create additional strains to the budget and increase the risk of policy slippages. The prolonged uncertainty also risks compromising donor support.

We welcome the authorities' ongoing efforts to strengthen fiscal discipline. Structural reforms to improve public financial management and measures aimed at increasing revenue collection are particularly important. A well-designed framework for fiscal federalism with clearly outlined transfer mechanisms—although an additional challenge—will be necessary to ensure a stable and sustainable system. We also concur with staff that the FGS should remain focused on the receipt of grants and refrain from contracting additional external debt. Given the critical budget situation, expenditure should also be prioritized adequately.

Central bank capacity and governance need to be further strengthened. An effective legal framework for the financial sector should be put in place as soon as feasible. A functional, stable and reliable financial system will be key to provide finance to the real economy. The intended focus of the second review on the financial sector measures is thus welcome. Also, bringing the AML/CFT law into line with the FATF standards will be necessary to maintain the flow of remittances.

We encourage the FGS to improve the data collection needed to better inform policy decisions. The swift adoption of the new statistical law would be a welcome first step, and should help generate much needed technical assistance in this area.

We are hopeful that continued progress under the current and subsequent SMPs, paired with a sound strategy to clear existing arrears, will enable Somalia to normalize its relations with the Fund and external creditors in the foreseeable future.

Mr. Geadah and Ms. Merhi submitted the following statement:

Despite progress towards normalization following decades of conflict, Somalia faces tremendous humanitarian and economic challenges. Among the most urgent are food security and the displacement of a large share of the population, which have led to a protracted humanitarian crisis. Moreover, capacity development and improvements in governance and policy frameworks are needed to support growth and poverty reduction. Normalizing relations with the international community is also needed, and arrears clearance will be an important step in this regard. We would like to highlight the following issues:

Fiscal Policy. Stronger fiscal management is needed to avoid arrears. The budget is highly dependent on grants, which makes budget execution difficult, especially when there are delays in pledged donor support. We see merit in staff’s recommendations to ramp up revenue mobilization by expanding the tax base and improving the tax administration. Potential revenues from the telecommunication sector can be sizeable, and we look forward to the enactment of the 2017 Appropriations bill as elaborated in Box 3. Regarding external debt which is now estimated at 80 percent of GDP, we welcome the authorities’ efforts towards clearing arrears and eventual debt relief with the assistance of the Technical Working Group. Since Somalia is eligible to be HIPC beneficiary, could staff indicate if there are any ongoing discussions in this regard?

Management of Natural Resources. It will be important to ensure natural resources are managed with a view towards achieving sustainable and inclusive growth. Consensus will be needed to agree on fiscal federalism issues and revenue-sharing between the FGS and the sub-national entities. Reaching consensus could be complicated in areas rich in natural resources, such as Puntland, for example, where exploration rights were granted to international oil companies without the consent of the federal authorities. We look forward to a coverage of this issue in future staff reports.

Monetary Policy. We are pleased to note that the authorities have continued to make considerable progress in strengthening the capacity and governance of the Central Bank of Somalia (CBS) as elaborated in the buff. Currency reform cannot take place as long as the CBS lacks capacity and resources and will require careful preparation and planning. It will also be important to define the monetary responsibilities of regional central banks vis-à-vis the federal central bank.

Remittances. Somalia is heavily dependent on remittances, which were estimated at least about US$1.4 billion per year and equivalent to about one quarter of GDP (average, 2013-15). Given the importance of remittances, we are concerned about the effect of the withdrawal of correspondent bank relationships. We would be interested to learn from staff about updates regarding the initiative in collaboration with the World Bank to establish a trusted agent to supervise Money Transfer Businesses and to help build capacity in licensing and supervision.

Technical Assistance. We are pleased to note that TA is being delivered in many areas through a multi-donor trust fund for Somalia, which will run through 2017. How does staff assess their experience with the Trust Fund, and are there plans to extend it beyond 2017 given the large TA needs? Finally, it is important to address data shortcomings in order to improve surveillance and policy making.

With these remarks, we wish the authorities the best in their reform efforts.

Mr. Lischinsky submitted the following statement:

We thank the staff for their set of papers, and Messrs. Mkwezalamba, Mahlinza, and Tlelima for their informative buff statement. We also praise the vital and timely 66 Technical Assistance (TA) missions in the last 3.5 years, including training and support to the Financial Governance Committee. These are invaluable efforts to transfer knowledge in the interest of reestablishing Somalia's key economic and financial institutions. We encourage the staff to continue providing TA and training to the country.

Five years after more than two decades of fierce civil war, Somalia is continuing to build, reconstruct, and develop the country and its institutions. The most immense task for a country whose GDP PPP per capita is so low, is to enhance capacity building, i.e., to develop and enhance the knowledge and capabilities of its people to transform their fragile situation. GDP PPP per capita in Somalia is equivalent to less than 3 percent of the global average. The GDP growth rate was estimated at 3.6 percent for 2014 and 2015 and projections for 2016 and 2017 are 3.4 and 2.5 respectively. The economy is sustained by donors' grants, remittances, and investments by the Somali diaspora, which for 2016 are projected to be, as a percent of GDP, 25.6, 23.5, and 21.6 respectively.

Article IV discussions were focused on the main challenges the country faces in the short term and how to avoid the related risks. These internal risks, with a high livelihood of occurrence, would have a high impact if realized, such as the destruction of economic infrastructure, reduced donor support, expected growth not being achieved, an increase in counterfeit money, and the accumulation of arrears. The risk of drought and hence a shortage of water and food, plus the death and migration of livestock can only be alleviated through humanitarian aid concentrated on the affected regions. To decrease the political risk of continuing to postpone the presidential election and the uncertainty this creates, major efforts must be made to achieve a broad-based political consensus.

Huge efforts continue to be oriented to improve fiscal policies and reforms. Revenues and expenditures are below 3 percent of GDP and are projected to increase to close to 5 percent in 2019. We commend the authorities for their intention to strengthen fiscal policies and budget execution while maintaining a zero-cash balance. At the same time, they are implementing reforms to public financial management (PFM), improving revenues, prioritizing rules for expenditures, and avoiding the accumulation of arrears. In this regard, analysis has to be carried out on how debt relief can be provided to the country. While we recognize the advances made in governance and data provision, we believe that efforts must continue to solve these shortcomings. Wages and salaries for 2016 account for 1.2 percent of GDP; we wonder how education, health, and military and security forces are paid. The staff's response is welcome.

Progress has been made to enhance the capacity and governance of the Central Bank of Somalia. This progress includes measures to improve internal auditing, risk management, oversight, and compliance. As a key measure, a prudent preparation and planning of the currency reform to introduce a new national currency is underway. Not less important is the authorities' plan to reestablish the financial sector and improve its accounting procedures and reporting to better support inclusion and economic activity. With regards to remittances activities and money transfer businesses, the report mentions the high cost of transfers. Does the staff have any figures on the cost of these transactions and how can these costs be reduced?

We support the authorities' plan to revisit the NDP to be the key development policy tool and to reinforce inclusive growth and the social safety net. This is an important step towards complying with the Poverty Reduction Strategy and advancing towards the Sustainable Development Goals(SDGs). In this regard, we believe that the plan should be divided into sectors and projects with social cost-benefit analyses and a potential impact on the population as a way to prioritize and help the funding process.

The issue of refugees and internally displaced persons (IDPs) continues to be a challenge to the authorities. According to the UNHCR, there were around 1 million Somalis registered as refugees in neighboring states, the Horn of Africa, Kenya, and the Yemen region as of 2016. Additionally, 1.1 million people were classed as IDPs. Political consensus and donor support is needed so that the refugees can successfully return and the displaced population can be adequately resettled. On a related note, how might the country be affected by the immigration measures recently seen in the United States? The staff's response is welcome.

We support the completion of the first review under the Staff-Monitored Program based on the broadly acceptable implementation of the benchmarks and the authorities' commitment. All structural benchmarks and all-but-one quantitative benchmarks were met. Remedial measures were taken to fulfill the missed benchmark, which has since been completed. Two new structural benchmarks were also introduced after an agreement between the authorities and staff that will enhance the program.

With these comments, we wish the Somali authorities and people the best in their efforts to build, reconstruct, and develop their country and its institutions.

Mr. Merk and Mr. Psalidopoulos submitted the following joint statement:

We thank staff for the comprehensive report and Mr. Mkwezalamba, Mr. Mahlinza, and Mr. Tlelima for their candid buff statement. In light of the broadly satisfactory program implementation and the Somali authorities' strong commitment to policy implementation under the Staff-Monitored Program (SMP), we support the completion of the first review of the SMP and the introduction of two new structural benchmarks. We commend the authorities for their efforts to keep the program on track, strengthening macroeconomic management, rebuilding institutions and improving governance. We encourage them to keep up reform ownership and momentum, in particular as regards fiscal policy, the currency reform, the financial sector and the finalization of the National Development Plan (NDP).

On fiscal policy, we share the conclusions outlined in the staff report, namely that greater fiscal discipline and enhancing budget execution are essential, not least to avoid the accumulation of further arrears. We welcome the authorities' efforts in taking the appropriate steps to achieve the fiscal targets for 2017. The approval of the 2017 Appropriations Bill will be critical. We agree with staff that the whole fiscal policy framework needs to be underpinned by a broader revenue base and additional tax revenues with the goal of progressively increasing revenues-to-GDP. Grants for budgetary support should be used to build up buffers and reduce arrears. The projections illustrated in Text Table 3 are very encouraging and ambitious. In this regard, we noted that the authorities are planning to collect a main portion in additional taxes from the telecommunications sector. Could staff elaborate on the potential risks of relying mainly on this sector? To what extent have potential contributions of other sectors been considered in order to better balance the tax revenue collection? For the credibility of the fiscal framework, we welcome the intention of the Somali authorities to improve treasury management, strengthening the TSA system and improving cash management.

We are deeply convinced that one of the main areas to enhance the development in Somalia is to foster sustained and inclusive growth and social justice. We acknowledge the authorities' strong commitment to revise and finalize the NDP 2017-2019, which rightly focuses on poverty reduction to make progress toward the SDGs, on strengthening the rule of law, on building institutions and on restoring strategic infrastructure. On a related point, measures to absorb the return of Somali refugees and safeguard remittances will also be critical. We support staff's view that it will be important to set appropriate procedures to ensure the monitoring and assessment of the NDP. The successful implementation of the NDP 2017-2019 will be an integral part of the FGS development strategy and essential for building confidence and gathering the support of the international donors.

A successful currency reform and the revival of the financial sector in line with international standards are critical for restoring trust in the national currency and supporting the economic recovery. In particular, we encourage the authorities to implement the new roadmap for currency reform, including the anti-counterfeit strategy. We agree that such a reform must be carefully prepared, and therefore welcome that the Fund stands ready to continue providing technical assistance to ensure a successful implementation. Moreover, credibility of the Central Bank of Somalia (CBS) is indispensable for restoring trust in the new national currency and for developing the financial sector. We thus welcome the authorities' efforts to improve the governance, transparency and accounting of the CBS. Apart from that, bringing the AML/CFT law in line with FATF standards and ensuring its effective implementation is also important, not least to improve access to the international financial system and safeguard remittances inflows to Somalia; we take positive note of recent authorities' efforts in this regard.

Clearing Somalia's long-standing arrears and establishing a sound SMP implementation track record are key for normalizing relations with the IMF and the international community as a whole. As regards Somalia's overdue financial obligations to the Fund, we can go along with staff's proposal to refrain from further remedial measures, given the broadly satisfactory performance under the SMP. However, as staff, we strongly encourage the authorities to make regular and timely payments to the IMF in line with its capacity to pay and to increase them as Somalia's payment capacity improves. Also, we join staff in its call that the authorities should refrain from incurring new external debt—in particular on non-concessional terms—and from the selective debt servicing of bilateral creditors. We take positive note of the authorities' recent endeavors to rebuild Somalia's external debt statistics and of their corrective measures to prevent new arrears and delayed payments. In this context, we would like to highlight, once more, the importance of strengthening fiscal policy by improving domestic revenue mobilization and keeping expenditures in check. This could also help reduce Somalia's dependence on volatile donor grants.

Mr. Hurtado and Mr. Gonzalez submitted the following statement:

We would like to thank staff for their insightful report and Messrs. Mkwezalamba, Mahlinza, and Tlelima for a valuable buff statement. It is hard to overstate the magnitude of the challenges Somalia faces in transitioning to peace after two decades of a civil conflict that devastated the economy and crippled its institutions.

The report correctly highlights some of the most relevant policy issues faced by the Somali authorities. But more than policy implications, the ongoing threats to territorial integrity, the absence of a constitution and the inability to carry out elections, pose serious challenges for the country to fully function as a state. Yet, the December elections deadline was moved, progress has been slow and political disputes among opposing factions seem to be continuing. What is staff's view on the prospects for implementing the electoral system developed in 2016 and for having a functioning government that can carry out the policy agenda? When can this be expected to take place?

As important as the institutional building effort is work with donors to ensure appropriate funding and the right incentive structure for development. Macroeconomic stability and government spending rely, to a large part, on the commitment and timely disbursements of aid. To what extent do the mentioned political delays pose a risk to the fulfilment of these commitments? Does staff see today any changes in U.S. commitments that are critical to ensuring financing? Could AMISOM be expected to continue having the required resources to play its role in enforcing security?

Turning to policy, we welcome progress made under the SMP to meet the majority of targets despite the challenging circumstances, as well as the commitments made to continue their implementation and ensure full compliance. We see the NDP as a critical tool to ensure coordination between authorities and donors and as a credible plan that could bring legitimacy and regional cohesion to the government. Unfortunately, there have been delays in this area as well. When does staff estimate a finalized NDP will be available and to what extent will it be able to fulfil these roles?

Finally, regarding fiscal policy, there is an ambitious plan to ensure essential spending, avoid increases in arrears and strengthen revenue. There seems to be substantial spending off-budget done directly by donors and at the regional level. To what extent is this spending being coordinated with authorities to ensure the adequate emphasis in terms of both timing and impact? Also, there seems to be a very strong reliance on taxing the telecoms sector. Given current institutional capacity, what is the feasibility of turning to other sectors like fuels or the financial sector for revenues, or using other taxes such as income taxes?

Mr. Just and Mr. Varga submitted the following statement:

We thank staff for the informative reports, and Messrs. Mkwezalamba, Mahlinza, and Tlelima for their buff statement. Somalia will be confronted with the enormous array of legacies from the two-decade-long civil war for a very long time. We acknowledge the international community's instrumental role in assisting the authorities in their Herculean tasks of building a nation and providing basic functions of the state to its population. We commend the International Financial Institutions (IFIs) for their crucial role in this endeavor, as well as the Fund's continued engagement. We broadly share staff's appraisal and, in view of the satisfactory program performance, support the completion of the first review under the Staff-Monitored Program. In this vein, while we can go along with staff's proposal to refrain from further remedial measures at this time, we expect that the authorities regard the normalization of its relations with the Fund as a policy priority. Regular and timely repayments to the IMF that increase in line with Somalia's repayment capacity are a vital part to achieve this priority. The authorities should also refrain from both non-concessional borrowing, as well as selective debt service. This should be accompanied by regular outreach to Somalia's main bilateral creditors.

Revenue mobilization and expenditure control should be the top priorities in the medium-term. Somalia's tax revenues and grants were 3 percent of GDP in 2016; less than one-fifth of the average revenue of other low-income developing countries. As revenue mobilization is essential to financing the rebuilding of the country and maintaining security, we support the authorities' aim to raise tax revenue. We see merit in staff and the authorities' proposal to first increase tax revenue from the telecommunications sector, as it has significant revenue which can be taxed relatively easily, but call for prudent assumptions of how much revenue can actually be raised. Has staff considered recommending new taxes on Money Transfer Businesses (MTB), which also have significant revenue?

We encourage the authorities to focus their efforts for the Central Bank of Somalia (CBS) in the provision of essential services in line with the country's needs. We therefore hold that the further prioritization of the reforms may be needed. CBS' governance, transparency, and organizational guidelines must be improved in order to prevent incidents of theft and build up its credibility. We agree with staff that issuing a new currency has not only symbolic value for statehood, but for payments systems and the development of a financial sector. The staff's comments would be appreciated on whether the Somali authorities have the minimum safeguards and policies in place so that a new Somali currency can support the rebuilding efforts. In this context, we wonder why the use of the U.S. currency was chosen for accounting purposes and whether this is simply an intermittent step.

We call on the authorities to make more decisive progress in building an effective AML/CFT framework and banking supervision. As the CBS was unable to function for years, commercial banks and MTBs continue to operate largely without supervision. The weak regulatory environment can jeopardize Somalia's long-term growth, and undermine financial stability and inclusion. The withdrawal of large global banks from correspondent banking relationships (CBRs) with MTBs appears to be influenced heavily by the absence of effective AML/CFT regulations. Given the key role remittances play in the Somali economy, we encourage the authorities to implement the AML/CFT laws, which were already approved over a year ago, without delay. Since mobile banking can play an instrumental role for financial inclusion, staff may elaborate whether mobile banking is used in Somalia and whether adequate safeguards are in place to safeguard financial stability.

We welcome the Fund's strong engagement in capacity-building and encourage staff to take the authorities' absorption capacity into account in planning future engagement. The Fund alone has conducted 66 TA missions during the last three years, against the backdrop of strong engagement by other IFIs and donors. Going forward, the Fund's continued involvement remains necessary to rebuild the authorities' capacity. Nonetheless, reflecting weak institutions and limited absorption capacity, we urge staff to focus TA missions on the most critical issues so that the money is well spent with the clear objective of sustainably increasing the Somali authorities' capacities. We also encourage staff to coordinate their capacity-building with other IFIs.

Ms. White and Mr. de Villeroché submitted the following joint statement:

We thank staff for this comprehensive report, and the informative buff statement from Mr. Mkwezalamba, Mr. Mahlinza, and Mr. Tlelima. As we concur with the thrust of their appraisal, we will limit our comments to the following elements:

In the context of a still volatile security situation, we commend the outgoing government's achievements and strong commitment to reforms in key economic and financial institutions and hope that the delayed, upcoming elections are concluded swiftly and the new government continues to support this work. The IMF's comprehensive support to the government's macroeconomic policy management, economic governance and institutional capacity, has been vital as demonstrated by the ongoing and upgraded request for technical assistance (TA).

The Federal Government of Somalia's (FGS) progress during the Staff Monitored Program (SMP) is heartening, and we are supportive of the goal of arrears clearance and the normalization of relations with the international community. In order to get there, we urge the FGS to reaffirm and increase the pace of reforms to successfully complete the Program in March and move onto a second, more ambitious SMP2. We also concur with staff on the fact that Somalia should avoid external borrowing—especially on non-concessional terms—and abstain from selective debt servicing of bilateral creditors. We would welcome clarity on the progress towards a potential (milestone based) roadmap for arrears clearance and eventual debt relief. Did authorities start preparing a clearance arrears strategy?

We concur with staff concerns about the use of delayed payments to manage liquidity, and are supportive of their recommendations to improve fiscal discipline by setting realistic and prioritized expenditure policy, and using revenue windfalls to build up buffers. Enhanced domestic revenue mobilization, notably through the taxation of the telecommunication sector as mentioned in the buff statement, is warranted to gradually reduce the dependency toward external financing. We also encourage FGS to continue the work on its National Development Plan, and ensure the final strategy represents the needs of all parts of the population. We would welcome staff views on how effectively planning for refugee reintegration is integrated into current fiscal and development thinking.

We note staff concerns about the significant remaining challenges on currency reform and rebuilding Somalia's financial sector, and are supportive of ongoing technical assistance as the FGS develops improved governance for the central bank, a finalized anti-counterfeit strategy, and a roadmap towards an inclusive financial sector. We welcome the authorities' stepped-up efforts to implement AML-CFT standards and encourage them to make sure that Money Transfer Businesses (MTB) are adequately regulated and supervised.

Somalia is one of the largest recipients of IMF TA, and is likely is continue to seek this support in the future. While we are strongly supportive of ongoing IMF engagement, it is vital that future TA is scaled according to the FGS' ability to absorb this expertise as they contend with immediate fiscal and economic challenges. We would welcome staff views on how coordination between the numerous TA providers to FGS could be improved, and if the recent U.S. executive order on immigration could hamper IFIs' engagement and work with the Somalian authorities.

Ms. Horsman and Mr. Feerick submitted the following statement:

We thank staff for their report and Messrs. Mkwezalamba, Mahlinza, and Tlelima for their useful buff statement. In the face of enormous political, institutional and security challenges, we welcome the progress made by Somalia under the Staff Monitored Program (SMP), which is evidenced by meeting all structural benchmarks and six of seven quantitative benchmarks under the first review. Given the scale of the fundamental institutional reforms needed, we limit our contribution to recent and proposed structural reforms within the staff report.

With regard to fiscal policy, staff note that the authorities have a 'more realistic budget' for 2017. However, the overall fiscal outlook will be determined by the ability of the authorities to mobilize stronger tax revenues. The key pillar of this is the estimated quintupling of revenues from the telecommunications sector. While we note that this is a result of moving from a negotiated tax agreement to taxing economic performance, we ask staff the feasibility of achieving these projections and whether there has been pushback from industry. Over the medium term, with continued Fund TA, broadening the revenue base and enhancing revenue collection will support the country's development needs and contribute to the building up of buffers. We note that the accumulation of arrears in late 2016 was attributable to delayed receipt of grants from donors. In effect, the authorities were delaying payments and accumulating arrears as a mechanism to manage liquidity. We agree with staff that authorities should endeavor, insofar as possible, to avoid this in FY 2017.

There are a plethora of issues facing the Central Bank including improvement of governance, currency and financial reforms. Focusing on currency reforms, we agree with the authorities that a credible and successful implementation will depend on careful preparation and planning. This is not something to be rushed, and we note positively that authorities have taken some positive steps in this regard over the last year.

Remittances are vitally important for the Somalian economy and all efforts should be made to facilitate the continued flow of these funds. Remittances, which are a multiple of government revenues at 23 percent of GDP, are a crucial vehicle for the transfer of income to the local populace, supporting about 40 percent of households. The staff note that some international banks handling transactions from the Money-Transfer-Business have closed the accounts of some Somali remittance companies, citing legal and regulatory weaknesses, as well as risks of money laundering with possible financing of terrorism. As such, while acknowledging the imposition posed by limited resources, the authorities should focus on strengthening financial sector regulation and supervision as well as its AML/CFT framework to ensure that this essential vehicle of income transfer is not further impeded or eliminated. The Fund and other partners should continue to prioritize technical assistance in this regard.

Given the enormous list of reforms necessary, prioritization and sequencing of these reforms will be key. The resolve of authorities to continue strengthening capacity, governance and the development of a National Development Plan is very admirable, and we wish the authorities well in their endeavors.

Ms. Pollard submitted the following statement:

Somalia has made significant progress since re-engaging with the IMF in restoring its economic and financial institutions. The authorities remain committed to the reform agenda, focusing on priority areas recommended in the 2015 Article IV and the SMP. Nevertheless, significant challenges remain and the outlook is subject to substantial downside risks as enumerated in the Risk Assessment Matrix.

Somalia is still in the process of institution building and this is rightly a key focus of the National Development Plan. As noted in the staff paper, the absence of a functioning central bank has led to a lack of supervision of money transfer businesses, leading to the closure of accounts of these firms by international banks in several countries. Somalia lacks any monetary policy and fiscal policy is limited due to institutional constraints and the absence of basic statistics, among other things. In addition, governance and corruption need to be addressed. The theft of about 5 percent of the cash at the Central Bank of Somalia by high and mid-level staff is indicative of the problems facing the authorities. We welcome the corrective actions taken in this regard and the recognition of the extent of the challenges, as noted by Messrs. Mkwezalamba, Mahlinza and Tlelima in their buff.

We recognize the authorities goal of a speedy process toward debt relief. We need to see a sustained track record on policy implementation and reform, including from the government that will be in place after elections, before discussing debt relief. Given the substantial institutional constraints and difficulties facing the Somalian authorities, we strongly support staff’s view that Somalia will need to successfully complete the current and subsequent SMPs before consideration could be given to eligibility for an Upper Credit Tranche (UCT) facility. In light of the progress made to date, we support the proposed decision to not escalate remedial measures despite Somalia's protracted arrears.

We are encouraged that staff feels positive about the prospects for another SMP. Broadly speaking, the current SMP focused on development of plans, strategies, and roadmaps. The next SMP should focus much more on implementation and execution of these plans, such as the PFM Reform Action Plan, anti-counterfeit strategy, and currency reform roadmap. In doing so, the FGS can truly start to build a track record of policy/reform implementation and continue on the path of normalizing relations with the IFIs and donors. Could staff explain its early views on the key policy objectives should be in the next SMP? Also, how will the next SMP be more ambitious?

Finally, regarding remittances, our analysis of World Bank data shows a small increase from the third to the fourth quarter of 2016 in the costs of transferring cash to Somalia, but this increase was consistent with normal fluctuations. Further, based on past experience the switch to movement mainly via cash courier does not consistently correlate with price increases. Can staff provide more detail about the evidence on which they are basing concerns of increasing costs of cash transfers? Additionally, can staff provide support for the argument that the use of a cash courier results in price increases.

Mr. Inderbinen made the following statement:

We welcome the progress achieved so far by the authorities of Somalia and their reengagement with the Fund and the international community more broadly. The policy dialogue is an important element of this reengagement with the Fund in the context of the Staff-Monitored Program (SMP) and the subsequently planned SMP.

We would like to associate ourselves with one element of the collaboration with the Fund that we did not mention in our gray statement, which was mentioned by Mr. Merk and Mr. Psalidopoulos, and also by Mr. Just and Mr. Varga. That one element is the repayments to the Fund if and when the country is able to make such payments. This would also constitute an element of this collaboration and we hope the continued reengagement with the Fund is leading up to the clearance of arrears in the foreseeable future if conditions allow.

Ms. Pollard remarked that a recent executive order on immigration from the Trump Administration had not changed the U.S. commitment to technical assistance (TA) and capacity building for Somalia. Two missions were planned for February. The U.S. Secret Service was working with Fund staff on an anti-counterfeiting mission in mid-February, and the U.S. Treasury was working with the Central Bank of Somalia on a capacity-building mission scheduled for late February.

Mr. Gonzalez thanked the staff for its work and for supporting Somalia rigorously in the face of such difficult and dire circumstances. He remarked that many issues hinged on the upcoming presidential election, including donor support, a functioning government, and a national development plan. He asked if the staff had any updates on what could be expected in the election.

Mr. Just associated himself with Ms. Pollard's statement on the next SMP and agreed that it should focus on the implementation and execution of plans. He remarked that Somalia could start building a track record on policy reform and implementation, and he asked the staff to comment on the issue.

The staff representative from the Middle East and Central Asia Department (Mr. Elhage), in response to questions and comments from Executive Directors, made the following statement:[1]

> I thank Directors for their helpful comments. In addition to the answers we provided to the technical questions, I would like to update Directors on developments since the circulation of the staff report before I respond to the questions raised in the Board and the policy questions raised in the gray statements. The information we are going to share with Directors will not change the thrust of the staff appraisal.
>
> On political developments, the date of the presidential election is now set for February 8, after being postponed four times since August 2016. The presidential election was delayed because the election of the Lower and Upper Houses had been delayed, but those elections have since been completed in January.
>
> The international community and the United Nations Security Council welcomed the successful completion of the elections of the Upper and Lower Houses, and the peaceful and inclusive process of the election. However, they called on the authorities to adhere to the February 8 date for the presidential

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annexto these minutes.

election. Repeated delays of the election affected the 2017 budget, which we received this week. Here are a few takeaways from the information we received.

We were informed by the authorities that the draft 2017 budget will be submitted to the cabinet this month for approval. This allows enough time for the new parliament to analyze and pass a budget by March. The draft budget is in line with the fiscal framework recommended by the staff.

Regarding progress under the program, the program remains on track. All structural benchmark targets for end-2016 have been met. The authorities have already started implementing some measures, particularly on the revenue side, including the new tax measures on the telecommunications sector. The two remaining structural benchmarks set for March are on track and are expected to be completed by the time of the next review.

I will now address issues that were raised in the gray statements for discussion. On fiscal policy and reforms, some Directors asked questions about potential risks of relying mainly on additional taxes from the telecommunications sector and possible alternative revenue measures.

The risks associated with the collection of revenue from the telecommunications sector mainly stem from the stiff resistance from the telecommunications industry. The telecommunications sector is one of the most dynamic sectors in the economy and is generating revenues and profits that could be monitored.

As indicated in the staff report, a number of revenue measures in other sectors have also been discussed with the authorities and their implementation is planned in 2017. These include improved collections from companies operating in the water and electricity sectors and hotels, and higher tax rates on petroleum products, tobacco, and khat. In the period ahead, as capacity strengthens, a more balanced contribution of the different economic sectors and revenue categories will emerge.

On external debt and arrears clearance, several Directors inquired about the prospects of possible debt relief, including from the Fund, and others asked about progress toward a potential roadmap for arrears clearance. The staff believes that the prospects toward debt relief will, for the most part, hinge on the authorities' capacity and the extent of their commitment to policy and reform implementation. In this regard, Somalia will need to establish a track record of implementing economic policies under an SMP of a quality equivalent to that under a Fund upper credit tranche arrangement, which could be endorsed as such by the Fund's Executive Board.

This would require Somalia to first develop capacity to implement such a program, which could take some time. Somalia would also need to clear its arrears to the Fund and other international financial institutions, and normalize relations with the international community.

The process will also involve reconciling external debt, preparing a Poverty Reduction Strategy, and mobilizing donor resources to finance debt under the Heavily Indebted Poor Countries Initiative. That being said, as we indicated in the staff's written answers, Fund staff, the authorities, and other donors are discussing the concrete steps and the process necessary for arrears clearance and debt relief.

On monetary policy and national currency, Directors asked about the staff's views on the appropriate exchange rate policy for Somalia, including the pros and cons of the different exchange rate regimes. The staff has been discussing with the authorities the pros and cons of various exchange rate regimes for Somalia.

Taking into consideration the current low capacity in the country and the economy's high degree of dollarization, currently the central bank does not have any monetary instrument and has weak capacity. For years to come, the economy will continue to depend heavily on grants and capital inflows. The exchange rate system has to be easy to manage. To ensure confidence in the system, it is important that large fluctuations in the rate are avoided.

All these issues will be taken into account when the staff recommends the exchange rate regime to Somalia. However, in the transition period, the staff sees no alternatives to the current de facto dollarized system. At this point, no decision has been made on the exchange rate system, and this issue will be discussed with departments at the Fund before any recommendation is made to the authorities.

On the financial sector, Directors sought the staff's comments on the impact of the withdrawal correspondent banking relationships (CBRs). Remittance inflows play a critical role in Somalia's economic activities and social stability. Money transfer businesses channel their remittances to the wider population of Somalia and are key players in the financial sector industry. They represent more than 45 percent of financial sector assets.

Although available data are limited, anecdotal evidence suggests that withdrawal of Somalia's CBRs could disrupt the country's formal remittance inflows as well as the balance sheets of the money transfer businesses. For example, the staff was informed that CBR withdrawals have constrained some financial inflows to NGOs operating on Somalia.

On the other hand, the impact of the CBRs on inflows from the United Kingdom to Somalia has been limited following the shutdown in 2015 of accounts of Somali money transfer businesses by the only U.K. bank operating in Somalia. The U.K. government set up a Somalia-U.K. Safer Corridor Pilot to be monitored in the event of significant disruptions in remittances.

Its main idea was to create a more transparent and safer system for the Somali community's remittances by addressing banks' Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) compliance concerns, helping to provide assurances to banks that the risks can be managed effectively, and supporting the Somali authorities to build a regulated financial sector. Another example is, since 2015, transfers from the United States to Somalia have mostly been channeled through the United Arab Emirates in the form of cash, in coordination with the authorities.

On the CBR issues, the Fund, through the Legal Department, is supporting the Somali authorities' efforts at strengthening their AML/CFT framework, in particular by providing capacity-building assistance in drafting the counterterrorist financing law in compliance with international standards.

On capacity building, Directors asked the staff to elaborate on Somalia's TA absorptive capacity, on coordination among TA providers, and on plans for the future. It is important to stress that despite significant improvements made since late 2013, absorptive capacity in Somalia is still low. Technical assistance plans are well sequenced and prioritized, designed to address weak capacity and support policymaking in critical areas where capacity development needs stronger focus, such as public financial management, tax administration and tax policy, statistics, legal reform, currency reform and central bank accounting.

Directors asked about the authorities' plans to address the refugee crisis. While we have provided detailed written answers on this issue, I would like to highlight that management of the refugee crisis is coordinated jointly between the Federal Government of Somalia and the United Nations agencies.

The short-term fiscal impact is limited, thanks to donors' continued support, including humanitarian needs.

On the Fund's relations with Somalia, Directors asked to outline and discuss some key policy objectives for the next SMP. This SMP will end in April 2017 and the staff has already discussed the key components of a successor SMP.

On fiscal policy and reform, efforts will continue to strengthen the fiscal policy framework, with specific focus on improving revenue administration and mobilization, improving Treasury management, and strengthening fiscal federalism.

On financial sector policy and reform, the focus will be on the implementation of the currency reform roadmap, completing the central and commercial banks' accounting and reporting systems, and developing a roadmap to revamp the financial sector while ensuring financial inclusion. Also, we will intensify and broaden the provision of TA and training—particularly in critical areas of the Fund's expertise—at the Ministry of Finance and central bank.

Mr. Mahlinza made the following concluding statement:

On behalf of my Somali authorities, I thank Directors for their support in the completion of the 2016 Article IV consultation for Somalia. Their valuable comments and recommendations are highly appreciated.

I also thank management for the invaluable support extended to Somalia since the resumption of relations with the Fund in 2013. This support gives comfort to the efforts that the Somali authorities are making in rebuilding and reforming their economy.

I thank Directors for all the issues raised and the policy proposals made in their gray statements as well as the oral comments made during the deliberations today. Directors' invaluable advice will be conveyed to the authorities for due consideration. Since we have issued a comprehensive buff statement, I would like to take this opportunity to emphasize only a few issues.

Following more than two decades of civil war that caused irreparable damage to Somalia's economy, the political transformation that started in 2012 with the support of the international community has presented the government and the people of Somalia with a chance to reconstruct their economy. Considerable progress has been made and continues to be made in several areas, including developing human resource capacity and institutions in order to enable the federal government to deliver basic public services and improve the welfare of the Somali people. However, significant challenges remain, and the Somali authorities are determined to forge ahead with their development agenda with support from development partners.

I have also noted that some Directors raised concerns about the repeated delays in the presidential elections. The staff has responded that the date has been set for next Wednesday, February 8. This will pave the way for the appointment of a cabinet by April. With the formation of the new government, the country will be ready to advance the rebuilding and reform process. This process has experienced many challenges, especially with regard to consensus-building. However, I am happy to confirm that the government and the people of Somalia are determined to succeed.

In their gray statements, Directors have correctly noted the insecurity caused by the ongoing threat of terrorism and the negative impact of the impending return of refugees from Kenya. These and other challenges further complicate the authorities' task of rebuilding the economy. I would like to confirm that the authorities are receiving valuable advice on reintegrating the refugees into the social fabric.

Notwithstanding the numerous challenges, my authorities remain optimistic that successful implementation of their reform program supported by the current and subsequent SMP will lead to an eventual Fund financing arrangement and debt relief. With continued support from the international community, this ambition is achievable.

To conclude, I thank the mission Chief, Mr. Elhage, and his team for their candid and constructive dialogue with the authorities. I also thank them for their comprehensive responses and clarifications to the issues raised by Directors. My authorities value and appreciate their continued arrangement with the Fund.

The Acting Chair (Mr. Zhang) noted that Somalia is an Article XIV member and no longer maintained restrictions under Article XIV or Article VIII. No decision was proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the significant progress made in rebuilding the economy and restoring key economic and financial institutions in a difficult political and security environment. Directors emphasized that strong policy implementation is necessary to address the challenges ahead, boost economic activity, and improve livelihoods. Continued support by the donor community would also be vital in this regard.

Directors noted that budget execution remains difficult because of weak tax collection, poor public financial management, and delays in grant disbursements. They stressed that greater fiscal discipline and stronger budget execution would improve fiscal performance. Directors welcomed the authorities' continued efforts to improve public financial management and contingent measures to deal with domestic arrears and limit delayed payments.

Directors underscored that steady improvement in tax collection would help mitigate the impact from volatility of grants and meet security and social spending needs. To broaden the tax base, they encouraged the authorities to swiftly adopt the Appropriation Bill to endorse the tax code.

Directors supported the authorities' currency reform strategy. They noted that this reform would limit counterfeiting, restore credibility of the national currency, and allow the central bank to conduct monetary policy. Directors concurred that sound and successful implementation of the currency reform hinges on careful preparation and planning. They advised the authorities to follow through on the currency reform roadmap as agreed with the staff.

Directors welcomed the plan to overhaul the financial sector and improve the operations of the central bank, as well as commercial bank accounting and reporting standards. They stressed that jump starting financial intermediation is critical to enhancing Somalia's economic growth. Directors welcomed the progress in advancing financial sector reform, including efforts to bring banks into compliance with prudential norms, and combating the financing of terrorism (AML/CFT). They stressed that aligning the AML/CFT law with international standards and ensuring an effective risk-based implementation would safeguard the flow of remittances into Somalia.

Directors welcomed the authorities' plan to continue to improve the national development plan (NDP). They emphasized that the NDP should give priority to social safety net and pressing humanitarian conditions.

Directors agreed that a steadfast effort to rebuild Somalia's key institutions and governance remains critical. They were encouraged by the increasing focus of the Financial Governance Committee (FGC) on institution building, governance, and reorganization of the Ministry of Finance and the central bank. Noting the significant shortcomings in economic data provision, they called for swift adoption of the long-delayed statistical law.

Directors urged continued strong policy implementation under the Staff-Monitored Program (SMP) and subsequent SMPs. This would help establish a durable economic track record as a basis for future program engagement with the Fund and eventual debt relief.

It is expected that the next Article IV Consultation with Somalia be held on the standard 12-month consultation cycle.

The Executive Board took the following decision:

1. In accordance with Decision No. 15902-(15/116) adopted on a lapse of time basis on December 11, 2015, as amended by Decision No. 16095-(16/108) adopted November 30, 2016, the Fund has reviewed Somalia's overdue financial obligations to the Fund.

2. Directors note that, since the previous review, the authorities have continued to make progress in strengthening policies and governance, supported by the staff-monitored program which aims to strengthen macroeconomic management, rebuild institutions, and improve governance and economic statistics. Going forward, Directors encourage the authorities to keep up the pace of policy and reform implementation, particularly in fiscal and financial sectors and in preparing the National Development Plan, along with a productive dialogue with the creditor community. In this context and to facilitate future fund-raising efforts to clear arrears and secure debt relief, the Fund strongly encourages the authorities to refrain from new external borrowing and to seek external financing only in the form of grants.

3. Somalia has been in continuous arrears to the Fund since 1987 and no payments to the Fund have been made since December 1990. While recognizing Somalia's difficult economic, political, and security situation, the Fund strongly encourages Somalia to make regular and timely payments to the

Fund in line with its capacity to pay and to increase them as Somalia's payment capacity improves.

4. The Fund will again consider Somalia's overdue financial obligations to the Fund within one year of the date of this decision. (EBS/17/4, 1/23/17).

Decision No. 16137-(17/9), adopted
February 3, 2017

APPROVAL: September 28, 2018

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

**Economic Growth, Outlook, and Risks**

**1.** ***Could staff comment on the reliability of the estimates of GDP in the current situation?***

- The current GDP data are based on the World Bank Household Survey preliminary results published in October 2016. While these figures have improved relative to the 2015 data, the IMF and World Bank staff are coordinating efforts to firm up the quality of GDP and CPI data by the end 2017. The process will start in February with workshops and training of the Somali authorities, as well as the completion of the Household Survey.

**2.** ***This acceleration could be aided by employing FDI from diaspora in various sectors to improve the productive capacity of the economy. Since the economy is dependent, to a large extent, on remittances for meeting the current account deficit, could the staff give an idea of the economic impact of any reduction in size of Somalian diaspora?***

- Any reduction in the size of Somali diaspora would lead to a reduction in remittances and since Somalis do not have access to external market financing, any reduction in remittances would reduce imports.

**Fiscal Policy and Reforms**

**3.** ***There seems to be a very strong reliance on taxing the telecoms sector. Given current institutional capacity, what is the feasibility of turning to other sectors like fuels or the financial sector for revenues, or using other taxes such as income taxes?***

- An increase in the tax of petroleum products is part of the revenue measures envisaged in the 2017 budget. The income tax on wages of public sector employees is already in place, and the introduction of the income tax in selected sectors (hotels and electricity companies) is envisaged in 2017. The extension of the income tax to other sectors, and, more generally, the enforcement of a tax system will take time, as capacity, processes, and a tax-compliant culture need to be re-built after about three decades of conflict.

**4.** ***The key pillar of this is the estimated quintupling of revenues from the telecommunications sector. While we note that this is a result of moving from a negotiated tax agreement to taxing economic performance, we ask staff the feasibility of achieving these projections and whether there has been pushback from industry.***

- Revenue collection fell short of expectations in the past, partly as a result of pushback from the industry. For 2017, the authorities renewed their commitment to implement the agreed revenue measures. Both staff and the authorities believe that political support will be essential for the passage and enforcement of laws and regulations that will allow to meet the budget revenue targets.

**5.** ***Has staff considered recommending new taxes on Money Transfer Businesses (MTB), which also have significant revenue?***

- Taxes on MTBs have been part of previous years' budgets, but no revenue was collected. In 2017, staff and the authorities agreed to focus their efforts on selected sectors where tax can be collected. The introduction of taxes on MTBs and other sectors of the economy will be considered again in the future as capacity, compliance, security, and political support strengthen.

**6.** ***There seems to be substantial spending off-budget done directly by donors and at the regional level. To what extent is this spending being coordinated with authorities to ensure the adequate emphasis in terms of both timing and impact?***

- There is close coordination between donors, the FGS, and regional governments.

**7.** ***Wages and salaries for 2016 account for 1.2 percent of GDP; we wonder how education, health, and military and security forces are paid. The staff's response is welcome.***

- The ratio of 1.2 percent of GDP can be misleading, since the GDP number is estimated for the entire country, while the budget covers the Federal Government of Somalia, which comprises the city of Mogadishu. Wages and salaries represent a considerable part of the FGS budget, approximately 40 percent of budgeted expenditures consists of compensation of employees. Except for few donors financed projects, health and education costs are not provided for in the budget. The bulk of aid in these areas is channeled off-budget.

**External Sector, Debt Relief and Arrears Clearance**

**8.** ***We look forward to a speedy process for moving toward debt relief for Somalia. Could staff indicate the prospects in this regard? Since Somalia is eligible to be HIPC beneficiary, could staff indicate if there are any ongoing discussions in this regard? Given the urgency of meeting Somalia's social and reconstruction needs, can the staff give an idea about when Somalia can move towards debt relief under the HIPC Initiative before it can get financial support?***

- At this early stage, it is difficult to detail the prospects or a timeline for arrears clearance and debt relief. The process and requirements were detailed by staff at the Board discussion of the 2015 Article IV consultation (EBM/15/77, 07/27/2015). As noted in paragraph 14 and footnote 22 of the staff report, the process would involve: (i) establishing a satisfactory track record of cooperation with the Fund on policies and payments; (ii) reconciling external debt and confirming that debt sustainability indicators are above the relevant HIPC initiative thresholds; (iii) Somalia normalizing relations with creditors, including to mobilize donor agreement and resources to finance debt relief; and (iv) preparing a poverty reduction strategy. Importantly, establishing a satisfactory track record requires Somalia to implement economic policies under an SMP of a quality equivalent to those under a Fund upper-credit tranche (or UCT) arrangement. That said, IMF staff, the authorities and other donors are discussing the concrete steps and process necessary for arrears clearance and debt relief, though a specific timeline cannot be committed to.

**9.** ***We would welcome clarity on the progress towards a potential (milestone based) roadmap for arrears clearance and eventual debt relief. Did authorities start preparing a clearance arrears strategy?***

- Please see response above. The authorities, facing substantial capacity issues in all sectors and have not yet prepared an arrears clearance strategy.

**10.** ***In Table 3 of the document, the figures for total stock outstanding record an overall dip in 2014, 2015 and 2016 for multilateral creditors, including the Fund, and in 2015 for bilateral creditors. If the country has been in continuous arrears, how do the staff account for the fall in total stock of debt outstanding in these years, especially for the multilateral creditors?***

- The principal in original currency is increasing as arrears on interest accumulate. However, the dip in the U.S. dollar value of Somalia's debt is due to exchange rate movements. For example, between end-2013 and end-2016, the U.S. dollar appreciated by about 14 percent against the SDR. This movement reduced the U.S. dollar value of debt originated in SDRs. We confirmed this with World Bank and assume that much of the bilateral debt could be in the creditors' currency, against which the U.S. dollar may also have appreciated.

**11.** ***The staff report mentions that obligations are likely to increase if interest rates rose from current levels. However, the projections of various charges and interest up to 2021 in Table 2 of the document 'Somalia–Review of Overdue Financial Obligations to the Fund and Further Review following Declaration of Ineligibility' reflect no increases over the years. Given the recent policy rate normalization by the U.S. Federal Reserve and further increases expected in 2017, what changes would the staff need to make in its projections on various charges and interest in Table 2?***

- As noted in Footnote 1 of Table 2, the convention used for the projections in the table is to use the current rate of charge (SDR rate plus 100 basis points), as of end December 2016. Consequently, to the extent that the rate of charge will be higher (lower), forthcoming charges and interest will be higher (lower).

**Exchange Rate Policy and Currency Reform**

**12.** ***The staff's comments would be appreciated on whether the Somali authorities have the minimum safeguards and policies in place so that a new Somali currency can support the rebuilding efforts. In this context, we wonder why the use of the U.S. currency was chosen for accounting purposes and whether this is simply an intermittent step.***

- The currency reform process entails three main risks: (1) counterfeiting; (2) security; and (3) political support. The staff believe that sufficient measures are being put in place to ensure credible currency reform. Under the agreed roadmap greater attention is being paid to anti-counterfeit strategy and security. The latter is critical given the security situation in Somalia. Strategies have been developed with the participation of stakeholders for the storage, distribution, and collection stages. Significant progress is being made on the anti-counterfeiting. A draft has been prepared. Training on anti-counterfeiting have been scheduled (the first is starting in February) with the support of MCM and LEG and other U.S. authorities. The currency reform is supported by all states and regions of Somalia.

- The Central Bank of Somalia (CBS) ceased printing the Somalia Shilling (SOS) in 1989. Hence, very few legitimate SOS remain in circulation. Meanwhile, the economy has been dollarized (at over 92 percent) and counterfeiting of SOS has increased. Up to now, most transactions are done through U.S. dollar or mobile money. Transactions using SOS are done in remote areas (at small scale). All banks and other financial institutions use the U.S. dollar. However, with credible currency reform and the steady restoration of the CBS the new SOS is expected to become the main currency for accounting and transactions.

**13.** ***The Fund's near-term TA to support Somalia's comprehensive currency reform is a positive development and we are encouraged by the authorities' commitment to strict adherence to the currency reform roadmap with concrete milestones. The financing aspect of the implementation of the reform needs clarification and staff's update on this would be appreciated.***

- The costing of all steps of the currency reform has been completed. The latter has been discussed with donors. The staff agreed with the authorities that they need to move forward with the implementation of the measures in the roadmap before they approach donors on the needed funding for the currency reform.

**Financial Sector Reform and Policy, and Remittances**

**14.** ***Are any macroprudential policies in place to reduce credit flow to over-heating sectors? Also, has there been any effect of the reduction in CBR on the flow of remittances?***

- The Somalia financial sector is nascent and currently there are no macro prudential polices in place.

**15.** ***We are concerned about the effect of the withdrawal of correspondent bank relationships. We would be interested to learn from staff about updates regarding the initiative in collaboration with the World Bank to establish a trusted agent to supervise Money Transfer Businesses and to help build capacity in licensing and supervision.***

**16.** ***We would welcome staff comments on the experience of involving of a "trusted third party agent" with the assistance of the World Bank to supervise MTBs and improve customer due diligence."***

- A Trusted Agent was recruited (in April 2017) by the World Bank to help the Central Bank develop regulatory, supervisory, and enforcement capacity in dealing with the money transfer businesses (MTBs), including supervision, training, and production of guidance note and semi-annual reports.

- With the Trusted Agent assistance, progress is being made on renewal of the licensing process, development of documentation process, and training to both at the CBS and MTBs.

- The Trusted Agent efforts are expected to bear fruit with improved compliance; practices consistent with international regulations, and safeguard remittance inflows to Somalia.

**17.** ***With regards to remittances activities and money transfer businesses, the report mentions the high cost of transfers. Does the staff have any figures on the cost of these transactions and how can these costs be reduced?***

- The staff do not have data on the volume or cost of remittances from the authorities or from money transfer businesses (MTBs). However, staff were told by the authorities that based on anecdotal evidence transfers have become more expensive and more complicated. It is also an issue that the authorities are concerned about and remedial measures to address this issue are part of the SMP. Specifically, the recruitment of a Trusted Agent, commitment to bringing the AML/CFT law in line with international standards, and strengthening the CBS supervision of the MTBs.

**18.** ***Since mobile banking can play an instrumental role for financial inclusion, staff may elaborate whether mobile banking is used in Somalia and whether adequate safeguards are in place to safeguard financial stability.***

- Mobile payment services are widely used in Somalia and there is significant potential for growth, including in the information and communication technology sector. Mobile phone penetration rates are higher and prices lower relative to Somalia neighboring countries There are indications that the sector is attracting investors among Somali diaspora. The sector, however, suffers from lack of regulations and taxation. This affects confidence in the sector and reduces incentive for investment and innovations (in terms of advanced applications).

**National Development Plan and Capacity Building**

**19.** ***When does staff estimate a finalized NDP will be available and to what extent will it be able to fulfil these roles?***

- The revised NDP has been completed on December 14, 2016, and posted on the Ministry of Planning and International Cooperation website. The NDP covers three fiscal years (2017-2019) and is compliant with both the Sustainable Development Goals (SDGs) and the Interim Poverty Reduction Strategy Paper (iPRSP). In recent discussions with the authorities they indicated that they stand ready to revise the NDP to address additional staff comments.

**20.** ***To what extent do the mentioned political delays pose a risk to the fulfilment of these commitments?***

- International community has advocated for strict adherence to the 8th February 2017 date for the presidential elections as further delays could compromise donor's support to the FGS. Also it has stressed the importance of keeping the elections transparent and credible since any legitimacy concerns might affect the international community's willingness to work with the new regime. This will be particularly important as a major donor conference sponsored by the United Kingdom is due to take place in May to consider the new government's request for financial support. If the electoral process is not completed by that deadline, this could pose a major risk to mobilizing needed resources for the NDP, the currency reform and other major programs.

**21.** ***Does staff see today any changes in U.S. commitments that are critical to ensuring financing?***

- So far there are no sign of such changes. USAID commitment is unchanged and the support by the United States to Somalia on payment of security salaries/stipends has not been put into question.

**22.** ***Could AMISOM be expected to continue having the required resources to play its role in enforcing security?***

- Al-Shabaab continues to be a major threat to the Somali peace process and its recent allegiance to ISIL has heightened this threat. The more than 20,000 African Union Mission to Somalia (AMISOM) troops will continue to be present in Somalia for the near future, despite some concerns over few countries which expressed their intent to withdraw. The African Union Peace and Security Council's (PSC) request for the UN Security Council to authorize an AMISOM troop surge of 4,500 for a non-renewable six-month period, will be a key factor to reinforcing its presence in Somalia. This request will enable AMISOM to undertake mandated tasks set out in its 2016 Concept of Operations. However, while funding is still available, there are concerns on the future of the force financing, particularly in light of the EU's cutting of funds to AMISOM by 20 percent last April. The PSC communiqué requested the AU Commission Chairperson to urgently undertake strategic consultations to explore various funding options for AMISOM, including through the convening of a high-level tripartite meeting of the AU, the EU and the UN. Going forward, the AU and the UN are expected to step in and cover the funding gap.

**23.** ***How does staff assess their experience with the Trust Fund, and are there plans to extend it beyond 2017 given the large TA needs?***

- The TF experience has been very positive. IMF TA has helped achieve meaningful progress in institution building and in producing key macroeconomic indicators, most notably: (1) preparation of the FGS annual budget since 2014, including the 2017 draft budget; (2) initiate the development of consumer price index, gross domestic product, and external sector statistics; (3) preparation of central bank financial statements; (4) strengthening bank regulations and licensing; and (5) preparation for the introduction of the new currency. Based on information through December 2016, during FY2013/14-2016/17, the IMF has completed 66 TA missions (including training and workshops), of which 53 percent on monetary and financial sector, 26 percent of fiscal and 15 percent on statistics.

- It will most probably be necessary to extend activities beyond the current cycle to ensure that programs as designed can be fully implemented.

**24.** ***We would welcome staff views on how coordination between the numerous TA providers to FGS could be improved, and if the recent U.S. executive order on immigration could hamper IFIs' engagement and work with the Somalian authorities.***

- To avoid overlaps, the IMF staff are stressing that TA delivery is both closely coordinated among development partners and able to adjust to Somalia's changing priorities and needs. To improve coordination, donors have set up a number of sub-committees including on revenue, PFM, remittances etc. to provide an overview of partners' TA activities. In addition, the UN and AU are providing technical assistance, mainly on security. Several bilateral partners are providing technical assistance on economic and social capacity building, peace keeping and state building.

- On the IMF side, staff's general views on capacity development are: (1) Fund TA will continue to be aligned with Somalia's absorptive capacity, the authorities' program priorities, and the SMP's objectives; (2) better coordination among the different TA providers to Somalia is needed, including a more concerted, demand-approach to improve the effectiveness of TA delivery; (3) drawing lessons from past experience and good practice would help; and (4) plans should be developed for each area of TA delivery and priorities should be identified and well sequenced over time.

- The inability of officials to meet their counterparts in the United States (IMF, WB) could have an impact on how we conduct our work with Somalia. But IFIs can still continue to work with the Somali officials outside the United States.

**Refugees Crisis**

**25.** ***While we note that there are contingent fiscal costs stemming from the refugee inflows after the closure of the Somali refugee camp in Kenya, the downside risks, as mentioned in Box 6 of the report, are more complex. Does anybody advise the Somali authorities on handling this process?***

**26.** ***Since the return of refugees could start as early as May 2017, could staff elaborate on the authorities' planned measures for addressing this daunting challenge?***

- As indicated in Box 6 of the staff report, a tripartite commission comprising the UNHCR, the governments of Kenya, and FGS has been set-up to carry out the voluntary repatriation of some 425,000 Somali refugees over a five-year period. To address the refugees challenges ahead, the FGS is reaching out to its partners who are providing advice on reintegrating the refugees in the social network (WB, AfDB and some bilateral donors), but also on financing the repatriation cost estimated at $200 million. This task is under the oversight of the Somali National Task Force on Repatriation. The IMF has also in the context of the Article IV advised the authorities on the fiscal implications and impact of the refugees on the economy. However, given the limited fiscal space facing the FGS, staff calls for the need for the authorities to address this in the revised NDP for adequate planning purposes, greater co-ordination among donors and stronger political consensus for the orderly resettlement of the returning refugees.

**27.** ***Does refugee's repatriation cost at US$200 million, shown in Box 6, include not only physical cost but also social services cost such as health and education? If not, we would appreciate staff's clarification.***

- The repatriation program foresaw a process that would ensure a reduction of the refugee population in the Daddab camps by some 150,000 individuals (out of the nearly 400,000) by the end of 2016, and is founded on three main pillars: (1) verification of the population in Dadaab, including a return intention survey, in order to clearly identify the actual population of expected returnees to Somalia and therefore better structure the process; (2) provision of substantial enhanced individual return packages on both sides of the border; and (3) provision of community-based support in return areas in Somalia.

**28.** ***We would welcome staff views on how effectively planning for refugee reintegration is integrated into current fiscal and development thinking?***

- With regards to refugees the FGS has focused on five intertwined developmental priorities in their NDP, which need to factored in the budget and with the assistance of donors:

- **Rule of law and Governance:** The responsibility to assist and protect the displaced citizens, has been made a priority by the Government of Somalia at the federal, regional and municipal levels. Enhanced governance and rule of law at all levels of the Federal State, including at the municipal level, is required to ensure safety and security and freedom of movement the internal displaced populations (IDPs) and returnees, as well as increased access to basic services, Labor markets and documentation.

- **Access to Land and tenure security and inclusive development:** In order to allow for local integration in urban environments, inclusive urban planning that considers IDPs and refugee returnees is being defined.

- **Individual documentation, social inclusion and participation:** Displacement results in social marginalization and exclusion. Most displaced face discrimination and have limited opportunities to participate in public affairs because of lack of personal identification document which is being addressed.

- **Access to services and Labor markets:** Access to employment sectors and Labor markets is very constrained and most livelihoods accessible to IDPs are precarious and unsustainable. Limited education, un-employability and poverty of the majority of youth make them vulnerable to forced recruitment. Prevention of and protection against forced recruitment need to include vocational skills and employment opportunities.

- **Rural reintegration capacity:** Ensuring that returnees, IDPs and refugees, can benefit from a safe and dignified standard of living and are able to participate in the overall resilience and development initiatives of Somalia is essential for the sustainability of returns through effective reintegration [Samba]

**Other Issues**

***31. What is staff's view on the prospects for implementing the electoral system developed in 2016 and for having a functioning government that can carry out the policy agenda? When can this be expected to take place?***

- Despite numerous delays and reported intimidation of delegates and corruption, the current elections were more peaceful and far more inclusive than the electoral exercise of 2012.

- Following the leadership forum held on 8th August 2016 in Mogadishu, the authorities agreed on the 2016 election dates and process. A Federal Indirect Electoral Implementation Team was set up and given responsibility for the oversight and overall planning of the electoral process. This body consists of 22 members who are professionals from a range of backgrounds, 10 of whom were appointed by the federal government while 12 were appointed by the federal states; 7 of the 22 members, 32 percent, are women.

- The conference attended by heads of federal states and the Federal Government of Somalia (FGS) President had agreed on the election timetable presented to them by the election commission. The 275-member lower house was to hold elections between September 24th to 10th October, the upper house election was to be completed by September 25th, while the presidential election was to be held on October 30th 2016. Given that the leaders agreed on the current cabinet staying put until the next regime takes over, the government functions have been ongoing during this period.

- By the end of 2016, 43 members of the 54-seat upper house and 258 members of the 275-seat lower house had been elected, and the new Federal Parliament was inaugurated on 27 December in a joint session of the two houses.

- The last round of the presidential elections is now set for February 8th and international observers expect the presidential elections to carry on without any further delays. If the elections unfold without delay, a new prime minister could be appointed by March and a cabinet by April.