November 18, 2021
Approval: 11/29/21

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 20/17-1

11:30 a.m., February 12, 2020

1. Somalia—Enhanced Initiative for Heavily Indebted Poor Countries (HIPC)—Preliminary Document

Documents: EBS/20/5 and Correction 1

Staff: Mumssen, FIN, Holland, MCD; Sun, SPR

Length: 1 hour, 19 minutes

Executive Board Attendance

K. Georgieva, Chairman

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
	F. Sylla (AF)
	D. Vogel (AG), Temporary
	N. Heo (AP)
	P. Fachada (BR)
	P. Sun (CC)
	A. Guerra (CE)
L. Levonian (CO)	
R. Kaya (EC)	
A. Buisse (FF)	
	K. Merk (GR)
	R. Goyal (IN), Temporary
D. Fanizza (IT)	
	K. Harada (JA), Temporary
	M. El Qorchi (MD)
H. Beblawi (MI)	
	J. Hanson (NE), Temporary
M. Poso (NO)	
	D. Shestakov (RU), Temporary
M. Mouminah (SA)	
A. Mahasandana (ST)	
	P. Trabinski (SZ)
S. Riach (UK)	
M. Rosen (US)	

S. Bhatia, Acting Secretary
H. Malothra, Summing Up Officer
A. Lalor / D. Al-Jarbou, Board Operations Officers
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Fiscal Affairs Department: G. Kalyandu. Finance Department: M. Acosta Hernandez, R. El Khechen Sab, G. Fernandez, C. Gumbanjera, C. Gust, I. Hakobyan, S. Matai, M. Mohlala, C. Mumssen, A. Tweedie. Legal Department: C. DeLong. Middle East and Central Asia Department: M. Appendino, J. Azour, P. de Imus, A. Holland, L. Kohler. Strategy, Policy, and Review Department: J. Gold, T. Orav, Y. Sun. World Bank Group: L.

Bandiera, P. Schuler. Executive Director: A. Mozhin (RU). Senior Advisors to Executive Directors: P. Braeuer (GR), L. Johnson (AP), Y.Liu (CC), M. Maidi (AE), C. Quaglierini (IT), T. Sitima-wina (AE), A. Tolstikov (RU). Advisors to Executive Directors: A. Abdullahi (AE), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), K. Badsi (MD), M. Bangrim Kibassim (AF), O. Bayar (EC), X. Cai (CC), J. Essuvi (AE), A. Grohovsky (US), M. Merhi (MI), H. Mori (JA), M. Mulas (CE), K. Nelson (UK), A. Olhaye (AF), K. Osei-Yeboah (MD), B. Rankin (CO), F. Rawah (SA), F. Antunes (BR), F. Bouvet (FF).

1. SOMALIA—ENHANCED INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES (HIPC)—PRELIMINARY DOCUMENT

Mr. Mahlinza and Mr. Abdullahi submitted the following statement:

Our Somali authorities thank staff for the constructive engagement and continued support in their efforts towards debt relief. They value Fund advice as well as the support from the international community and believe that reforms are key to the achievement of their national development goals.

Somalia has continued to make significant progress in efforts to rebuild key political, and economic institutions that are critical in efforts to place the economy onto a sustainable growth path. Despite the progress, the country remains fragile, constrained by low growth outcomes alongside widespread poverty. As a result, 69 percent of the population is estimated to live on less than $1.90 per day with deeper poverty levels among rural and internally displaced populations.

To tackle the social and economic challenges, the authorities launched an extensively consulted Ninth National Development Plan (NDP9) on September 2019. The plan, which outlines a comprehensive interim poverty reduction strategy, will guide the government's reform agenda. The NDP9 aims to promote inclusive and accountable politics, improve security and rule of law, enhance inclusive growth and social development.

Reform Implementation

Since the formation of the permanent government in 2012, Somalia has steadfastly implemented, transformative reforms with the support of international development partners. The comprehensive reforms were aimed at restoring macroeconomic stability, rebuilding policy and institutional infrastructure and improving security conditions. As a result, public finance management has improved together with the supervisory capacity of the Central Bank of Somalia (CBS). The financial sector continues to strengthen on the back of an enhanced regulatory regime and capacity to implement AMF/CFT framework.

Going forward, the authorities will remain steadfast in the implementation of reforms, in line with their development plan and the IMF supported program. They view reforms as essential to delivering long term growth and lifting citizens out of poverty. In this respect, they will further strengthen budget preparation and public finance management, significantly increase domestic revenue by expanding the tax base, restructure the central bank and strengthen its operational capacity, and improve compliance with AML/CFT framework. The authorities will also continue to put in place the building blocks for a workable and functional fiscal federalism framework through dialogue and cooperation with all federal member states.

Performance under the 4th UCT Staff Monitored Program

The authorities continue to post solid performance under the program. All indicative targets and structural benchmarks under the second review were met for the September/October 2019 test date. The program remains firmly on-track relative to the December 2019 and February 2020 targets. Accordingly, Somalia has stablished the six months track record of satisfactory performance under the UCT SMPIV, required for the HIPC Decision Point.

Eligibility for Assistance under enhanced HIPC Initiative

As noted by staff, Somalia's external public debt stood US$5.3 billion at end-2018 of which 95 percent was in arrears with no outstanding commercial debts. With an estimated NPV of debt to exports exceeding the benchmark of 150 percent, Somalia qualifies for debt relief under the HIPC Initiative's export window.

The authorities therefore seek the support of the Executive Directors in confirming Somalia's eligibility for assistance under the enhanced HIPC Imitative. The country is in a position to fulfill the conditions for arears clearance required for the Decision Point. In addition to the NPV measure, the country has established the six months performance track record and has completed an interim poverty reduction strategy.

In addition, the country's key multilateral creditors, World Bank and African Development Bank, have committed to clear Somalia's arrears by end-March 2020. Further, Paris Club is expected to provide their share of debt relief. Meanwhile, the authorities have also secured a preliminary offer of debt relief from some key non-Paris Club creditors, while efforts continue to reach out to the full set of non-Paris Club bilateral creditors.

Floating Completion Points

The authorities broadly agree with the proposed floating completion point triggers and believe that they are well balanced, structured, and aligned with reforms already underway. They view timely technical assistances from the Fund and other development partners as essential for the successfully implementation of the triggers.

Conclusion

The authorities reaffirm their continued commitment to reforms and meeting the triggers for the floating completion points in a timely manner. They view implementation of the reforms as necessary for emergence from fragility and uplifting the living standards of the population. In this regard, they look forward to continued support from the international community, including the Fund.

Mr. Bhalla and Mr. Goyal submitted the following statement:

We note that Somalia faced a long period of protracted conflict, the collapse of rule of law and institutions and impoverishment of its people. After the establishment of the federal political structure in 2012 and sustained reforms particularly since 2016, an opportunity has arisen to move away from fragility and state fragmentation and to attempt poverty reduction and inclusive growth. However, weak security, political tension and uncertain climate continue to be major downside risks to growth and stability.

Poverty in Somalia is pervasive, and economic growth is inadequate to keep up with population growth. So a solution must be found for its protracted debt problem. After considering traditional debt relief measures, the country's NPV of debt is estimated at US$3.5 billion at end-2018, equivalent to 328.9 percent of exports of goods and services. To bring down Somalia's NPV of debt-to-exports ratio to the HIPC threshold of 150 percent, debt needs to be reduced by 54.4 percent.

A coordinated approach is being attempted to bring about a solution to Somalia's debt problem. Somalia has reached an understanding with key creditors on arrears clearance. The debt relief being offered by multilateral institutions including IMF, World Bank, the African Development Bank, and Paris Club creditors and by bilateral creditors. Accordingly, Somalia is expected to reach Decision Point in March 2020 and its Completion point by March 2023. On reaching the Completion point, Somalia would receive MDRI debt relief from IDA and AfDF and beyond HIPC assistance from the IMF. At this stage, some Paris Club creditors would also provide further debt relief to Somalia.

We support these efforts as Somalia has demonstrated a sustained commitment to implementing economic and financial reforms under three staff monitored programs and progress under the fourth SMP has been satisfactory. Further, IMF and IDA Staff have discussed a set of completion point triggers with the authorities which we believe would place the economy on a stable growth path. Moreover, as per the debt sustainability analysis undertaken by the Staff, Somalia's debt would be firmly on a sustainable path.

We note that a fall in debt stock has been projected despite CAD on average expected to stay at an elevated level of 13 percent during the period reflecting continued debt relief extended by the international community.

Given that the sharp projected decline in Somalia's debt is essentially on account of major debt relief from all the creditors, it is required that we look beyond the debt relief and see whether Somalia stays on the sustainable path once these specific relief measures are no longer available.

We note that the long term growth rate is expected to settle around 4.8 percent after achieving a peak rate of 5.4 percent in 2027. Inflation is expected to range around 2.2 percent and CAD is expected to stay near 13 percent until 2029. It appears, once the proposed debt relief would have played out fully with MDRI relief from IDA and AfDF at the completion point by 2023, under above assumptions about growth and CAD, Somalia would again witness a sharp rise in its debt ratio and its ability to stay on the sustainable path would become tenuous. We would like Staff to comment.

Mr. El Qorchi and Mr. Osei Yeboah submitted the following statement:

We welcome staff's preliminary assessment of Somalia's eligibility for assistance under the enhanced Heavily Indebted Poor Countries (HIPC) initiative and thank Mr. Mahlinza and Mr. Abdullahi for their helpful buff statement. Following a long period of conflict and instability, Somalia has now a unique window of opportunity to cement recent gains and improve macroeconomic stability, reduce poverty, and boost inclusive growth. Recent track record is very encouraging and bodes well for improved prospects. Indeed, the Somali authorities have made notable progress in sustained political, economic, and institutional reforms, having successfully completed three Staff Monitored Programs (SMPs). In addition, the statement by staff offers further evidence of the authorities' strong commitment to reform and confirms that the positive momentum is continuing, thus allowing staff to be in a position to reach an agreement with the authorities on the completion of the second review under the fourth SMP. Against this background, we are pleased to indicate that we support staff preliminary assessment of Somalia's eligibility to debt relief under the HIPC and their recommendations on the timing of the Decision Point and the key policy measures that will be needed to reach the Completion Point.

Despite recent reform efforts, we agree with staff that Somalia will not achieve its development goals nor reduce poverty without debt relief. As detailed in the preliminary debt relief analysis (DRA), Somalia's NPV of debt at end-2018 is estimated at 328.9 percent of exports of goods and services, largely exceeding the HIPC eligibility benchmark of 150 percent. To this end, we welcome and broadly support the proposed external arrears strategy involving key multilateral and bilateral creditors, in particular IDA, the IMF, and the AfDB Group.

We are hopeful that Somalia will reach the Decision Point by end-March 2020 and we welcome, in this regard, the indications that the country has already established the needed six months track record of satisfactory performance under a program of upper-credit tranche policy conditionality and has completed an interim poverty reduction strategy. On this latter point, we welcome the recent approval by the Cabinet of the new National Development Plan (NDP) with the strategic objective of reducing poverty and fostering inclusive growth. We also welcome the consultative process leading to the formulation of the NDP and hope that the inclusive process will foster a country-wide ownership of reform in the context of a fragile political and security environment.

In the same vein, we note with satisfaction that, as a result of the demonstrable commitment of the Somali authorities, the international community is willing to provide broad support for HIPC debt relief and other developmental assistance to ensure economic resilience going forward. Here, we are pleased to indicate that most of the countries in our constituency have consented to provide bilateral contributions to Somalia's debt relief. Continuing support and timeliness of the international community's assistance will remain critical to sustaining reforms toward achieving inclusive growth, creating meaningful jobs for the youth and women, and reducing poverty.

Notwithstanding the risks to the outlook, Somalia's macroeconomic prospects under the HIPC debt relief scenario are promising. We expect that the forthcoming 3-year Extended Credit Facility (ECF) and Extended Fund Facility (EFF) will contribute to further strengthen reform implementation during the period leading to the Completion Point. The emphasis on strengthening PFM, improving domestic revenue mobilization, enhancing governance are appropriate. In this regard, we take note of the list of "triggers" for the Floating Completion Point and note from Mr. Mahlinza and Mr. Abdullahi's statement that they are broadly accepted by the authorities. Some of the triggers involve reforms in areas where the Fund may lack the needed expertise like adopting a joint national health sector strategy and other specific measures in the education sector, and we would appreciate staff elaborations on how they will cooperate with other institutions in the selection of reforms and in the assessment of progress in these areas. That said, we think that flexibility should be applied to take into consideration the country's circumstances and we encourage the Fund and other development partners to provide Somalia with timely technical assistance to strengthen the country's administrative capacity to sustain structural and institutional reform implementation and provide adequate social safety net.

With the Somali economy still fragile and at risk of adverse shocks and with no sufficient buffers, continuing assistance beyond HIPC under the Multinational Debt Relief Initiative (MDRI) will be critical in helping the authorities to sustain reforms beyond the Completion Point and in freeing-up resources for critical spending on pro-poor projects which can catalyze poverty reduction.

With these comments, we wish the authorities all the success.

Ms. Mahasandana and Mr. Tan submitted the following statement:

We thank staff for the report and Mr. Mahlinza and Mr. Abdullahi for their buff statement. Somalia is at an important juncture to turn the page and move forward towards achieving the authorities' goals of poverty reduction and inclusive growth, and we support the initiative to provide debt relief to Somalia.

We support staff's assessment that Somalia is eligible for assistance under the enhanced HIPC Initiative. The Somali authorities have displayed strong commitments to the reform agenda as reflected in the sustained and satisfactory performance under four consecutive Staff Monitored Programs (SMPs).

We view that end-March 2020 seems like a sensible target to reach the HIPC Decision point. That said, we would appreciate staff's comment on the progress so far of securing financing assurances from members, as well as the implications of delays in reaching the HIPC Decision point?

We broadly support the key policy measures linked to the Floating Completion Point outlined in Box 2. We reiterate the importance of strong reform ownership to the success of the initiative and welcome the authorities' agreement to implement the needed reforms. That said, we encourage the Fund to support the authorities in overcoming implementation capacity constraints, including through provision of TA as required in collaboration with other development partners. We also underscore the need to be mindful of the broader impact of the reform measures on the poor and vulnerable group given Somalia's fragile situation. Therefore, while it is encouraging to note that the HIPC completion point may be achieved faster than average, the implementation of reforms should be well-paced to mitigate any unintended consequences.

Mr. Chodos and Mr. Vogel submitted the following statement:

We thank staff for the report and Mr. Mahlinza and Mr. Abdullahi for their helpful buff statement.

After decades of a deep social, institutional, and economic instability, the country has the willingness to leave behind the years of implosion and profound poverty. The staff report underscores that almost 70 percent of Somalis live on less than US$ 1.90 and Table 1 exhibits other problematic indicators such as adult literacy rate of 50 percent, female literacy rate of 41.7 percent, and life expectancy at birth of 56.7 years. Beyond all the other unsatisfactory economic indicators possible to cite, the above-referred examples illustrate an unacceptable situation from the human point of view that require not only efforts from Somalia itself but from the entire international community.

As noted, first of all the situation requires the willingness and efforts of Somalia and its authorities and, in this regard, we read in the staff report that the country has demonstrated sustained commitment to implementing economic and financial reform in the context of three consecutive Staff-Monitored Program (SMPs), and that satisfactory performance has continued under the fourth SMP. Meanwhile, we welcome the reform process which includes, as noted in the report, budget preparation and execution, public financial management, establishment of key institutions, and important steps aimed at strengthening governance and combating corruption. We are pleased to read from the buff statement from the Staff Representative that macroeconomic conditions are stable, that fiscal conditions are improving, and that most reforms are progressing as envisaged. All of this seems to reflect a clear commitment from the country.

We can go along with staff's indication that Somalia would qualify for debt relief under the enhanced HIPC Initiative's "export window". Footnote 19 indicates that the country is not eligible under the fiscal revenues-to-openness criterion; however, paragraph 29 underscores that Somalia would qualify for debt relief in case if considering the "export window". Maybe staff could elaborate further on the use of averages that are referred to in footnotes 19 and 20.

We agree that Somalia could reach the HIPC Decision Point by the end of March, based on the assumption established in paragraph 44 of the staff report. Regarding the Floating Completion Point, we take note that staff's baseline assumption is that it will be achieved by March 2023; however, we also take note of staff's indication that this would be somewhat faster than the average HIP experience (of over four years). Somalia's possible triggers seem to include appropriate policies and reforms, although we would be cautious regarding an overwhelming agenda of reforms that could overcome the country´s capacity as well as political and social constraints.

With these comments, we wish Somalia and its people every success in their future endeavors.

Mr. Buisse, Mr. De Lannoy, Mr. Fanizza, Ms. Levonian, Mr. Mozhin, Mr. Poso, Ms. Riach, Mr. Rosen, Mr. Tanaka, Mr. Heo, Mr. Merk and Mr. Trabinski submitted the following joint statement:

We thank the staff of the IMF and World Bank for their informative paper on Somalia – Enhanced Initiative for Heavily Indebted Poor Countries (HIPC) Preliminary Document. We also thank Mr. Mahlinza and Mr. Abdullahi for their helpful buff statement. As the staff paper highlights, Somalia has a historic opportunity to clear its arrears, receive debt relief and benefit from international financial assistance that will help the country move toward its goals of macroeconomic stability, inclusive growth and poverty reduction. We recognize that reaching this point has taken several years of challenging reforms and we commend the Somali authorities for their continued commitment to delivering results, including under successive SMPs. We also commend the international community for its continued support, both in Somalia and within the IMF, World Bank and African Development Bank for the arrear clearance process.

We thank the staff representative on Somalia for their informative statement. We are pleased to note that the recent mission reached a staff-level agreement on the completion of the second review of the SMP and we note that the outlook for the SMP remains positive.

Reflecting on the issues for discussion

Eligibility: We thank staff for the information on Somalia's debt situation and we agree that Somalia is eligible for assistance under the enhanced HIPC Initiative.

Timing of the Decision Point: We support the staffs' recommendation that Somalia could reach its Decision Point by end-March 2020, together with an approved ECF arrangement and subject to the additional conditions outlined in paragraph 51 of the paper. To achieve the end-March ambition, we continue to encourage broad participation from the Fund's membership to the financing package to clear Somalia's arrears to the IMF.

Floating Completion Point (CP): We agree with the broad outlines of the key policy measures linked to the floating CP (as set out in Box 2), though we would have liked a more thorough discussion of the floating CP triggers ahead of the negotiations with the authorities. In addition, we offer the following observations and requests:

Development Partner Coordination: We note that in addition to the floating CP triggers, Somalia will need to adhere to conditions under the IMF's ECF program, the World Bank's DPO prior actions, the World Bank's Turnaround Regime milestones and conditions from other development partners. We call on all partners to ensure that their conditions, and supportive capacity building efforts, are effectively coordinated and sequenced to support the authorities to deliver results.

New ECF Program: As the floating CP triggers are rather process-orientated, we expect the new ECF program conditionality to have a strong focus on the effective implementation of reforms. For the new program, we also expect to see further progress on themes from the SMPs, in particular conditions relating to strengthening PFM, including debt management; improving domestic revenue mobilization; and enhancing governance, including AML-CFT. Furthermore, since the floating CP triggers do not cover the issue of fiscal federalism and strengthened cooperation between the FGS and FMS (including in oil revenue allocation and security architecture), we expect the Fund to include measures to support this issue which remains critical for the success of the process. Improving financial sector oversight will also be necessary. Could staff comment on these issues?

Finally, we welcome the intention for ECF conditionality to be set on a rolling 12-month basis to allow for the program to adapt to Somalia's evolving context and capture emerging priorities.

Debt: We recognize that half of the countries that previously benefitted from the HIPC initiative now have worse debt dynamics than before receiving comprehensive debt relief. We encourage staff to learn from this experience and ensure that floating completion point triggers and ECF conditionality effectively promote long-term debt sustainability. Further staff comments are welcome.

Debt Relief: We note that Paris Club Creditors are expected to grant Somalia exceptional debt treatment. We strongly encourage all plurilateral and non-Paris Club bilateral creditors to contribute to Somalia's debt relief on a comparable basis. How will Fund policies and practices help ensure comparability of treatment between Paris Club, non-Paris Club and plurilateral creditors?

Mr. Kaya and Mr. Bayar submitted the following statement:

We thank staff for the well-written paper, and Messrs. Mahlinza and Abdullahi for their helpful buff statement. We welcome the Somali authorities' continued progress in reinstating political and economic order. We are encouraged to see that their reform efforts have translated into concrete economic results, as growth started to take hold, inflation eased to comfortable levels, and fiscal balances remained in check. We consider the current steps to galvanize the international community's support critical to reciprocate the good faith efforts of the Somali authorities, and to strengthen the emerging signs of stability in the country. Therefore, we reiterate our Chair's full support of Somalia's reform momentum, as well as the successful and timely completion of the HIPC process.

We concur that with an estimated net present value of debt-to-exports exceeding the benchmark of 150 percent, Somalia qualifies for debt relief under the HIPC Initiative's export window.

We are encouraged by the successful track record under the fourth Staff-Monitored Program (SMP), as all indicative targets and structural benchmarks under the second review were met. We also agree that Somalia has established the six-month track record of satisfactory performance under the current SMP, which has been accepted by the Board to meet the policy standards associated with the arrangements in the upper credit tranches.

Therefore, in line with staff's recommendation, we concur that Somalia could reach the HIPC Decision Point by end-March 2020, provided that (i) the authorities' extend their successful program track record to that date; (ii) the Fund membership provides sufficient financing assurances to cover the IMF's share of debt relief; and (iii) Somalia embarks on a path to clear its arrears to other multilateral creditors. We would appreciate an update from staff about the latest state-of-play on the membership's financing pledges, including cash grants.

On the floating completion points, we agree that the proposed triggers for the HIPC Completion Point are appropriately aligned to support growth, fiscal sustainability, and poverty reduction in Somalia. We take note of the Fund and IDA staff's view that achieving the Completion Point by March 2023 appears feasible. We are also encouraged by the authorities' broad congruence with the proposed list of triggers and the associated timeframe. Nevertheless, we see this set of policies and measures somewhat ambitious; the implementation of which could prove to be quite challenging given the institutional capacity constraints, as well as the risks facing Somalia. Therefore, we underscore the importance of closely monitoring program developments, timely updates to the Board as such, as well as continued technical assistance by the Fund and other development partners.

Finally, we take positive note of the approval of the Ninth National Development Plan (NDP9) which serves as the authorities' interim poverty reduction strategy. The effective implementation of the NDP9 is absolutely critical to help address the daunting social and developmental challenges facing Somalia.

Mr. Jin, Mr. Sun and Ms. Liu submitted the following statement:

We thank staff for the comprehensive report and Mr. Mahlinza and Mr. Abdullahi for their helpful buff statement. Thanks to sustained political, economic and institutional reforms, Somalia has made significant progress in rebuilding its core state capabilities in recent years. Growth is estimated at 2.9 percent in 2019 and expected to gradually accelerate to 5.5 percent by 2027, and fiscal conditions continue to strengthen. Satisfactory performance has also been achieved under the fourth Staff-Monitored Program (SMP) which is important for economic growth and poverty reduction.

On eligibility, we agree that Somalia is eligible for assistance under the enhanced HIPC Initiative. Despite significant progress made in recent years, the economy remains fragile, poverty is pervasive, and the debt burden is huge. For international assistance to be effective, strong and concerted coordination among the international institutions and bilateral creditors are crucial. Meanwhile, the authorities need to significantly beef up the reforms and improve governance, supported by technical assistance by the international community.

On the timing of the Decision Point, we agree with staff's recommendation that Somalia could reach its Decision Point by end-March 2020, provided that conditions set out in the staff report are met. The authorities should remain steadfast in the implementation of the reforms, the Ninth National Development Plan (NDP9) in particular which will serve as a comprehensive and nationally owned strategy to reduce poverty and promote growth. We recognize the importance of the clearance of Somalia's arrears as a precondition for the country and the international community to move forward. Therefore, concerted efforts and constructive cooperation are needed to clear Somalia's arrears. Meanwhile, the authorities should carefully manage their debt service to avoid new arrears.

On the floating Completion Point, we agree that the triggers for the floating Completion Point as set out in Box 2 are broadly appropriate. However, security concerns remain an important challenge for development. Therefore, more efforts are needed to maintain social and economic stability. In this regard, the elections in Somalia in late 2020 can be a national reconciliation process for the much-needed stability of the country. Can staff assess the impact of the elections on Somalia's social and economic stability as well as the implementation of the ongoing reforms?

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

We thank staff for the preliminary document on Somalia's eligibility for assistance under the Enhanced Heavily Indebted Poor Countries Initiative (HIPC Initiative), which we fully support. We also thank Mr. Mahlinza and Mr. Abdullahi for their helpful buff statement.

Somalia is at cross-roads as its prospects are turning favorable after decades of conflicts which resulted in institutional fragility and large macroeconomic imbalances. To reverse this situation, the Somali authorities adopted in 2012 a Provisional Constitution that led to a nascent institutional framework, including the Federal Government of Somalia (FGS), and has paved the way to rebuilding the country and exiting the economic crisis. In addition, the authorities have shown strong commitment in implementing the fourth Staff Monitored Program (SMP) which resulted in satisfactory outcomes. Despite the good performance achieved under the SMPs, the fragile economic situation associated with high debt levels and dire humanitarian conditions remain significant impediments to progress. In this context, the eligibility of Somalia for debt relief under the HIPC Initiative would be a welcomed opportunity for further recovery that could catalyze progress towards enhancing macroeconomic stability, promoting higher growth and fighting poverty.

Considering the positive steps undertaken by the authorities and progress achieved, we share the view that Somalia is eligible for assistance under the enhanced HIPC Initiative. We commend the authorities for their continued efforts aimed at stabilizing the country and rebuilding institutional capacities and encourage them to maintain the reform momentum and close engagement with development partners. We also welcome the authorities' poverty reduction strategy, the Ninth National Development Plan (NDP9) that aims to tackle social and economic challenges through the promotion of the rule of law and inclusive growth. Given the country's vulnerability to shocks, including natural disasters, we agree that appropriate attention should be given to reinforcing federal institutions, implementing efficient public service delivery and carrying out well-designed social programs to protect women and youth, in particular.

Somalia could reach the Decision Point by end-March 2020 together with the approval of an ECF arrangement by the Board. In this regard, we encourage the authorities to continue demonstrating satisfactory performance under the current SMP while making progress in reaching understandings with key creditors on arrears clearance. We commend the Fund for the efforts made to garner adequate financing assurances from its membership for Somalia's arrears clearance. In this connection, we are pleased to inform that a large share of our constituency members have pledged to contribute to Somalia's debt relief efforts. Furthermore, the possibility of Somalia qualifying for access to the Multilateral Debt Relief Initiative (MDRI) upon its reaching of the Completion Point by end-2022, is encouraging.

The proposed preliminary Completion Point triggers are wide ranging, yet realistic and attentive of the country's implementation capacities. We are comforted in noting that the triggers were crafted taking into account reforms achieved to date, as well as the fact that the triggers were developed keeping in mind the authorities' abilities to deliver on them. Moreover, we appreciate the strong capacity development support offered by donors to Somalia throughout the process, which will also be instrumental in building and strengthening the country's institutions.

With these remarks, we look forward to Somalia reaching the Decision Point by March 2020 and attaining the Completion Point by end-2022. This should support the authorities' longer-term reform agenda towards achieving a more sustainable and inclusive growth, and accelerating poverty reduction.

Mr. Beblawi, Mr. Mouminah, Ms. Merhi and Mr. Rawah submitted the following statement:

We thank staff for the well-written report and Mr. Mahlinza and Mr. Abdullahi for their helpful buff statement. We broadly support the points raised in staff's report and would like to make the following points for emphasis.

The authorities deserve to be commended for their good progress on reform and policy implementation, especially given the challenging conditions. The authorities' strong commitment to implement economic and financial reforms were demonstrated under four Staff-Monitored Programs (SMPs). We are pleased that Somalia has a window of opportunity to advance its reform agenda, including the National Development Plan (NDP), to help address its longstanding fragilities and vulnerabilities and move towards higher and more inclusive growth and achieve its poverty reduction objective. Against this background and staff's useful debt relief analysis, we agree that Somalia is eligible for assistance under the enhanced HIPC initiative.

We also agree with staff recommendation that Somalia could reach its Decision Point by end-March 2020, together with the approval of an ECF arrangement. We concur that this is conditional on demonstrating continued satisfactory performance under the IMF Staff Monitored Program, securing financing assurances to cover the IMF's share of debt relief, completing arrears clearance to multilateral creditors or agreeing on a clearing strategy, and agreeing on appropriate Completion Point triggers. We look forward to an ECF-supported program which is well-sequenced, taking into account capacity constraints, with a strong emphasis on enhancing growth prospects and further fiscal and financial reforms.

Finally, we support the triggers for the floating completion point set forth in Box 2. Here, we are pleased by the ongoing coordinated support and intensive engagement with Somalia, including on capacity development. This will help Somalia in delivering on its structural reform agenda and achieving the completion point by March 2023. Therefore, we look forward to continued collaboration in this respect going forward. Also, we urge the authorities to continue their coordination with other creditors in a timely manner.

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

Mr. Guerra and Ms. Arevalo Arroyo submitted the following statement:

We thank staff for the report and Mr. Mahlinza and Mr. Abdullahi for their helpful buff statement. After a long history of instability and conflict, Somalia is at a decisive crossroads looking to secure recent gains from efforts to rebuild political and economic institutions and pave the path towards reducing pervasive poverty and boosting inclusive growth.

Along with the ongoing positive reform efforts, policies focused on inclusive growth and tackling poverty are crucial. Implementation of reforms since 2012 have allowed setting the foundations to restore core state capability, macroeconomic stability and to rebuild institutions. Nevertheless, deep social and economic challenges remain. Prevalent poverty is of paramount concern as it affects a considerable segment of the population both in monetary terms and deprivation of other essential welfare aspects. The Ninth National Development plan (NDP9) will play a key role to enact policies for poverty reduction. As stated by Ms. Mahasandana and Mr. Tan, we agree that the broader impact of the reform agenda on the most vulnerable must be taken into consideration. Moreover, the development agenda must also include measures to tackle the challenges posed by Somalia's high vulnerability to weather-related shocks and long-term displacement caused by droughts and conflict. Coordinated engagement of the IMF, the World Bank and other development partners will positively contribute to fruitful implementation of the reform agenda.

We support Somalia's eligibility for assistance under the enhanced HIPC initiative. In addition to the afore mentioned efforts, the authorities have shown sustained commitment to the implementation of economic and financial reforms under the past Staff Monitored Programs (SMPs). We welcome the solid performance under the fourth SMP and we are reassured that the program remains firmly on-track regarding the December 2019 and February 2020 targets, as noted on the buff statement.

We support staff's recommendation that Somalia may reach its Decision Point by end-March 2020, as well as the approval of an ECF/EFF fund arrangement. As presented in the staff representative’s statement, we take note that a staff level agreement has been reached on a potential new 3-year Extended Credit (ECF) and Extended Fund Facility (EFF). We concur that the program will be instrumental in guiding the structural reform process in Somalia. We emphasize the importance of enhancing governance, improving domestic revenue mobilization and deepening the central bank capacity for the success of the program. Moreover, in line with the NDP9 pillars, we look forward to actions focused on measures to tackle non-monetary poverty, build resilience to natural disasters and help women and the youth. In addition to the development of a social registry, does staff see scope to include further measures as program objectives to enhance resilience to natural disasters shocks?

We support the initial list of proposals for the key policy actions to determine how satisfactory performance towards completion point will be measured. As this timeframe could seem faster than the average HIPC experience, we need to be mindful of the challenges and restrictions that low institutional capacity could pose to the process. In this regard, we stress that full engagement of the IMF, in coordination with the World Bank, is key to secure the necessary technical assistance during the process.

The staff representative from the Middle East and Central Asia Department submitted the following statement:

This statement provides an update on recent developments in Somalia, including the outcome of the mission for the second review of Somalia’s Staff-Monitored Program and request for a new financing arrangement. The staff report for the second review and request for a new arrangement will be discussed with the Executive Board at the HIPC Decision Point.

Recent Developments and Performance Under SMP

Macroeconomic conditions are stable. Given the mitigating effects of the humanitarian response, real growth in 2019 is expected at 2.9 percent, despite Spring drought conditions and higher-than-normal rainfall in Autumn. However, these conditions have led to a slight deterioration of the current account deficit, with food imports increasing and agricultural exports declining. Inflation in Mogadishu for 2019 came in lower than projected at 3.1 percent, as increased food production in the latter part of the year, together with a reduction in food transportation costs as security conditions improved, reduced food prices. Looking ahead, staff project a slight recovery in growth in 2020 to 3.2 percent, in part reflecting stronger harvests.

Fiscal conditions continue to strengthen. Data for 2019 show a continued strong fiscal performance, with cumulative domestic revenue for the FGS reaching US$229.7 million (relative to the indicative target of US$196.3 million), a 25 percent increase over 2018. This reflected both an increase in tax revenues (of US$15.9 million or 11 percent), and a sharper increase in non-tax revenues (US$30.4 million or 68 percent), mostly due to the commencement of payments by International Air Transport Association of over-flight fees. Expenditures came in below projections (US$325 million relative to US$340.5 million), resulting in an estimated fiscal surplus for 2019 of US$13.3 million.

Quarterly reporting of fiscal outcomes across the FMS has begun and been sustained. While further work is needed to improve the quality, these preliminary figures suggest that domestic revenues for the FGS and FMS together could represent about 6 percent of GDP in 2019, relative to a projected 4 percent for the FGS alone.

The broader momentum on fiscal federalism is being maintained. Finance Ministers of the Federal Government (FGS) and Federal Member States (FMS) have met on two further occasions since September, while technical cooperation on customs modernization and public financing management has also strengthened. This has helped build consensus on some key fiscal issues, including principles governing inter-governmental transfers, the need for a common customs tariff, and the need to harmonize fiscal processes to enhance the quality of fiscal reporting. The fiscal federalism chapter of the Constitutional Review has also been discussed.

The mission reached a staff-level agreement on the completion of the 2nd review of the current Staff-Monitored Program (SMP). All structural benchmarks and ITs for September and October were met. In addition to the commencement of regular quarterly reporting of fiscal operations across FGS and FMS, the Revenue Act was enacted, and Finance Ministers of the FGS and FMS agreed some preliminary expenditure assignment guidelines on the allocation of “shared revenue”. These initial guidelines are primarily focused on the sharing of budget support grants—which comprise the largest portion of the current base of “shared revenues”. The guidelines are expected to evolve as the FGS begins to implement the Revenue Act and the base of “shared revenues” expands; they will hold until the formal model of fiscal federalism is confirmed in the updated Constitution.

All December 2019 ITs have been met and the outlook for the SBs is positive; February 2020 SBs are on track. Staff can confirm that the December SB on including goods inspection in the automated customs' processes has been met. The review on the use of commitment controls, is ongoing preliminary analysis suggests the SB will have been met or almost met, subject to final clarifications from the authorities. With respect to February 2020 SBs, amendments to the Procurement and Statistics Acts have been passed by the Senate and are now awaiting Presidential signature, and draft implementing regulations on procurement are ready to be issued. Progress on issuing licenses to mobile money operators is also well advanced.

Other critical reforms are progressing.

Legislation. In addition to the Revenue Law, the Public Financial Management Law, Companies Law (on corporate registration and governance) and Anti-Corruption Law were enacted.

Central Bank of Somalia (CBS). The CBS continues to make progress on its modernization agenda. The new organizational structure was approved by the CBS Board and work to recruit key staff (human resources manager, change management adviser, legal adviser) is progressing well. In addition, plans to recruit new executive directors to support the new functional organization are advancing. To support the implementation of the mobile money licensing and regulation regime, the CBS has strengthened its supervisory capacity. An IMF safeguards assessment was undertaken in the last week of January.

AML-CFT. AML-CFT regulations have been issued that cover all financial institutions and their incorporation into the annual re-licensing processes will support improved compliance. Although capacity remains low, the Financial Reporting Center's technical and physical infrastructure is building and interagency cooperation is deepening through the operation of the National Anti-Money Laundering Committee (NAMLC).

Governance and anti-corruption. The Audit Bill has passed the House of the People and is now in the Senate. The process for selecting the nine Commissioners for the Anti-corruption Commission is underway. In parallel, and the authorities are well advanced in developing a National Anti-Corruption Strategy and a program has been agreed with the UNDP to help operationalize it. Outreach is underway to raise public awareness on the importance of fighting and reporting corruption.

New 3-Year Extended Credit (ECF) And Extended Fund Facility (EFF)

A staff-level agreement on a new financing arrangement has been reached. Just prior to the HIPC Decision Point, the authorities will request Board approval of a new three-year SDR 291 million (178 percent of quota) blended ECF/EFF Fund arrangement. Access under the new arrangement will be heavily front-loaded, given the large up-front balance of payments needs. Staff understands that the authorities intend to use the proceeds of the first disbursement to repay the bridge financing required to clear Somalia's arrears to the IMF, while the additional access envisioned under the program is intended to be used to strengthen the central bank's reserves.

The program is intended to guide reforms during the interim period between the HIPC Decision (DP) and Completion points (CP). These will be anchored on further strengthening PFM, improving domestic revenue mobilization, continued deepening of central bank capacity, and enhancing governance. Reform commitments under the new program have been designed to complement the preliminary set of floating Completion Point triggers as discussed with the authorities.

May 2020 SBs will be carried forward into the new Fund arrangement, with some adjustment. Specifically, although work is advancing well, technical and capacity challenges are likely to lead to a short delay in implementation of HS codes and completion of work on modelling ad valorem tariffs. Enacting the Targeted Financial Sanctions Law will be more challenging, especially given the 2020 parliamentary schedule will likely be shortened by election preparations.

Risks around the outlook remain to the downside reflecting continuing security, political, and climate vulnerabilities. These risks are mitigated by national efforts and international support.

OTHER DEVELOPMENTS

Work is ongoing to prepare for the HIPC Decision Point. These include ongoing efforts to mobilize adequate assurances to finance the Fund's share of debt relief. Efforts are also ongoing on clarifying specific details around select claims in order to finalize the debt reconciliation. Any new information will be integrated into the debt relief analysis presented in the Decision Point document, but staff do not envisage any substantive changes. Staff is also planning, together with World Bank colleagues, to provide some debt management capacity building ahead of the expected negotiations on debt relief.

The Chair made the following statement:

We will now discuss a very important topic, Somalia, the Enhanced Heavily Indebted Poor Countries Initiative (HIPC), preliminary document. We have World Bank staff attending the meeting. I am grateful for your engagement in preparing for this meeting. We have ten grays with participation from 22 of our Directors. More importantly than the preparation we do here for the meeting, we have had very active engagement with your capitals on making progress for Somalia's journey towards debt relief. It is the very first thing I want to convey to you and through you to your authorities, a very big thank you.

We are operating on a tight time schedule, and yet we have received a significant number of pledges in response to the letter I sent on the 20th of December. More than 100 countries have already answered, and we have received pledges not only from advanced economies, but also from a majority of emerging markets and developing countries, including a large number of low-income African countries. I want to say this is how solidarity works. We are close to meeting our fundraising target of SDR 242 million, but we are not there yet. I want to encourage members who have already informally indicated their plans to contribute to follow up as quickly as possible with formal confirmation, even if there are some domestic processes that are to be completed. When there is certainty that they will be completed positively, please do communicate this certainty to us. Every member makes a difference. Everyone stepping in makes a difference and helps Somalia to emerge from decades of instability.

I want to recognize Italy. Italy is providing a bridge loan and a generous grant. There are a number of countries that are stepping up with grant resources. U.K. and Qatar are particularly significant in what they are providing; but everybody who is making a step. I want to say this is really, really important, and it is very valuable. China is among these countries that are moving in this direction. I think a little bit of competition, if you want to have it, would be a very good thing to do.

Once we have secured sufficient financing assurances, I will confirm so that the African Development Bank and the World Bank can move ahead with their planned arrears clearance operations. They are currently planned for

February 26 and 27 respectively. As you know, only once all the pledges have been formalized can we move with the arrears clearance here at the IMF.

This is the preliminary HIPC document. It provides exactly that, a preliminary assessment of Somalia's eligibility for debt relief under the HIPC initiative, and outlines the proposed set of floating completion point triggers, the set of structural reforms that will determine exactly when Somalia will actually receive the full amount of HIPC debt relief. I should note that this is a joint document of the Bank and the Fund, and in that sense, it is good we have a Bank representative here.

Staff has provided a written statement and written answers to Directors' technical questions. As staff has set out, the Somali authorities are performing very well on their current Staff Monitored Program (SMP). They are sustaining their reform commitment over four consecutive SMPs. We also heard that, as we are close to the financial assurances of the IMF, it means that we can talk about Decision Point. In our view, the HIPC Decision Point by the end of March is feasible. We are specifically planning for March 24 at the World Bank and March 25 at the IMF, and at that time the IMF Board will formally consider the authorities' request for a new program, a three-year blended arrangement under the Extended Credit (ECF) and Extended Fund Facilities (EFF), and the Board will then formally decide on HIPC Decision Point.

Our work today is concentrated on the preliminary assessment of Somalia's eligibility for debt relief under HIPC, the possible timing of the Decision Point, and the proposed set of floating completion point triggers.

Mr. Fachada made the following statement:

Our office is very pleased that most countries in our constituency were able to participate in Somalia’s financing package, and our contribution has been better than we initially expected.

In relation to the specific issue of the meeting, we commend the Somali authorities for their continued commitment to sound policies despite the difficult internal context and for their engagement with the Fund, including under successive Staff Monitored Programs. We are pleased that Somalia has an opportunity now to make a fresh start that if successful will bring peace, political and macroeconomic stability, and improved living conditions for its people.

As the report indicates, the path forward is not easy. We note that, for instance, under the baseline scenario, it is projected that GDP per capita will increase just around 2 percent per year over the long run, which although positive and much better than the recent track record, will be insufficient to catch up with other low-income countries in the region and effectively bring prosperity to the Somali people.

On the specific issues for today's discussion proposed by staff, we agree that Somalia is eligible for assistance under the enhanced HIPC initiative. Further, we support staff's assessment that Somalia could reach the Decision Point by end of March 2020 and look forward to the discussion of the ECF program at that time.

We are also pleased that the authorities agreed that the floating completion point triggers that they consider well balanced and aligned with ongoing reforms. Finally, we fully support the views expressed by Mr. Mahlinza and Mr. Abdullahi that technical assistance (TA) from the Fund and other development partners will be essential for the successful implementation of the triggers.

Mr. Beblawi made the following statement:

We commend the Somalian authorities for the significant progress made to rebuild key political and economic institutions as well as the successful track record under the Staff Monitored Program, as all indicative targets and structural benchmarks under the second review were met.

We also agree with staff that Somalia has established the six months track record of staff's useful HIPC debt relief analysis. We agree that Somalia is eligible for assistance under the enhanced HIPC initiative. We agree with the staff that Somalia will not achieve its redevelopment goals nor reduce poverty without debt relief. Continued support from the international community will be crucial in this regard. We also agree with the proposed triggers for the HIPC completion point and stress the importance of support of capacity building efforts given institutional capacity constraints. Moreover, continued coordination with other development partners like the World Bank, EU, and the DFID, is also important, especially with regard to the reforms related to the health and education sector.

I would like to associate myself with Directors who called for a careful consideration of the impact of the reform under the proposed ECF/EFF arrangement on the poor and vulnerable groups, especially given the fragility of the current situation and widespread poverty. With these remarks, I wish the Somali authorities all the best in their stabilizing efforts.

Mr. Rosen made the following statement:

We signed on to the joint gray and agree with the questions in the paper regarding Somalia's eligibility for assistance under HIPC and the timing of the Decision Point, provided certain actions are taken. We also think the proposed triggers for the floating completion point are generally headed in the right direction.

Looking ahead, we hope the ECF conditionality will be complementary to the completion point triggers. We think maintaining the focus of the previous SMPs is important, notably on public financial management (PFM) and strengthening the fiscal and governance relationships between the Federal Government (FGS) and states, and we would welcome confirmation from staff that the ECF will have some fiscal federalism measures and also that the current conditions will be well coordinated with conditionality from other institutions and notably the World Bank.

On debt relief, first we welcome all of the countries who have committed their Special Contingent Account (SCA-1) and deferred charges distributions thus far, and we are encouraged by the indication that many countries are still considering doing so. These commitments will help ensure that this is a truly global effort.

Secondly, we wanted to emphasize a point from the joint gray on bilateral debt relief and the Paris Club. As the Paris Club is expected to grant Somalia exceptional debt treatment, we strongly encourage all plurilateral and non-Paris Club bilateral creditors to contribute to Somalia's debt relief on a comparable basis. This participation is necessary to lower the risk of debt distress in Somalia. Debt relief for Somalia is a joint effort, and our goals cannot be achieved without comparable treatment from all parties.

Going forward, it will be important for lender countries to provide grant financing, and both creditors and the Somali authorities should adhere to the IMF's Debt Limits Policy and the World Bank Sustainable Development Financing Policies (SDFP). Thank you, Chair.

The Chair made the following statement:

I could not agree with you more that we want to clear up space for the country to recover and grow, not to build in a way that might be not so productive; so, yes, that is our intention, and so far, the Somali authorities have demonstrated that they fully understand the importance to be prudent with resources that they would receive.

Ms. Levonian made the following statement:

I want to agree with many of the points that Mr. Rosen has just made, and I will be echoing some of them as well.

First, on timing, our gray supported the ambition of a March 2020 Decision Point; however, I would stress, as the Managing Director did at the beginning, that this timeline will only be possible if the membership comes together to help cover the IMF's share of the debt relief. As far as my constituency goes, nine out of twelve we have heard back from positively, and we are expecting more letters any day. It is a testament to this process that small states who are facing their own debt vulnerabilities have stepped up as part of this global effort. We should truly aim for 100 percent response rate, even if some of the poorest and most vulnerable countries will not be able to contribute financial resources of their own.

Second, on the floating completion point triggers, we are broadly comfortable with the policy measures outlined in Box 2. However, one key issue we would like to further emphasize is the importance of public financial management and debt management. Half of the countries that benefited from the HIPC initiative now are in worse debt dynamics than before receiving comprehensive debt relief, and this is obviously very troubling. For this reason, it will be crucial that staff do not simply dust off the old HIPC playbook. Instead, we would expect staff to learn from this experience and ensure that going forward, program design more effectively promotes long-term debt sustainability.

I understand that the proposed completion point triggers only tell part of the story and that these triggers would be supported by additional conditionality embedded in the new ECF program, the World Bank's loans, as well as conditions from other development partners. While this is certainly encouraging, it would have been helpful to get a summary at the outset of how this conditionality fits together, and so perhaps staff could put together a box in the coming ECF paper that summarizes proposed conditionality in a more holistic manner.

Finally, and related to the subject of debt sustainability, we would like to stress the principle of comparability of treatment among creditors. It will be critical that all of Somalia's creditors do their fair share in providing debt relief. We encourage Somalia's plurilateral and non-Paris Club creditors to contribute to Somalia's debt relief on a comparable basis to the Paris Club creditors, echoing what Mr. Rosen said. Coordinated and comprehensive debt relief will play a critical role in stabilizing Somalia's economy and laying the foundation for inclusive growth. To the extent possible, IMF policies and practices should support this outcome.

With that, let me finish by recognizing that this is truly a historical moment for Somalia, as well as for the IMF and its membership, so we wish the authorities and everyone at this table well.

Ms. Riach made the following statement:

We welcome the authorities' commitment, as set out by Mr. Mahlinza and Mr. Abdullahi in their buff statement, to implementing reforms in line with the National Development Plan (NDP) and the IMF-supported program.

We also welcome the progress that has been made in securing the necessary financing commitments from a broad base of IMF members. We recognize that this has required significant outreach effort from IMF staff and from Executive Directors' offices, and that effort is to be commended. We hope that Executive Directors' offices will continue to engage proactively with the authorities who have not yet confirmed their commitments.

As the largest contributor of new grant financing, the U.K. is proud to play a part in supporting Somalia's efforts. The U.K. will remain heavily engaged in supporting Somalia, working to promote prosperity, security, and stability, and to proactively address critical demographic and climate change trends. As the Managing Director talked about a potential competition between grant financing, and if anyone wants to knock the U.K. off the top spot, we would be nothing but delighted.

Turning to the detail in the documents, we are somewhat out of the habit of looking at the HIPC process, and I have to admit that when we first looked at the document, we had some concerns about the triggers and particularly about whether they needed to be more specific and more challenging; but we had a really useful discussion with staff, who assured us that this is typical for the HIPC process and that how they look is very much in line with previous countries who have gone through the process. As Ms. Levonian said, they also reminded us that this is only one part of the bigger picture, including conditions which were set out in the new IMF arrangement and in World Bank programs. So as we said in the joint gray, we are very happy to sign off the proposed triggers, but we do see design of the new arrangement as being a crucial part of the picture. I agree with Mr. Rosen that the new arrangement should be focused on the key themes from the previous SMPs.

We also expect the new program to support fiscal federalism and strengthen cooperation between the Federal Government of Somalia (FGS) and the federal member states (FMS), including oil revenue allocation and security architecture. It is very positive that the Federal Government of Somalia and federal member state finance ministers have continued to meet since September, and we hope it will be possible to build on that to ensure strong cooperation, including on fiscal matters.

I also agree with Mr. Rosen and Ms. Levonian on the importance of comparability between all bilateral and plurilateral creditors. Reaching Decision Point in March now looks realistic, and we look forward to further discussions in support of that process.

Mr. Kaya made the following statement:

Our position to support the Somali authorities' reform momentum, as well as the successful and timely completion of the HIPC process, is very well-known, and we have reiterated this in our gray. I have the following remarks.

First, as you mentioned in your opening remarks, Madam Chair, we are very much encouraged to see that we have gone a long way to secure the required financing assurances for the debt relief operation. The Fund membership collective support will not only make this process happen but also make a very strong statement that the international community is not leaving Somali authorities alone in their steadfast efforts to break from the past and reinstate law, order, and economic stability in their country.

Second, like many Directors, we would like to see that Somalia's fiscal sustainability is safeguarded beyond the HIPC completion point. In this regard, we are comforted by staff's responses to technical questions that the proposed point triggers and conditionality of the upcoming ECF and EFF management would ensure the authorities' strong commitment to address debt sustainability. We also appreciate that the authorities intend to persevere with their efforts to deepen the FGS and FMS relations, taking into account the ongoing constitutional review process.

Finally, on the HIPC completion point triggers, we appreciate the solid list of actions, which if delivered, will go a long way to entrench the stability of the Somali economy. Nevertheless, we would like to remind once again the daunting capacity constraints on the ground, as well as the significance of the risks facing Somalia, which could complicate the authorities' policy and reform efforts down the road. We therefore reiterate the critical importance of continued capacity development support by the Fund and other development partners and encourage staff to take a measured approach in the program negotiations. With these remarks, we wish the Somali authorities all the best in their policy endeavors.

Mr. Merk made the following statement:

First, Germany pledged firmly to contribute an equivalent amount to its SCA-1 and deferred charges distribution plus an additional grant subject to budgetary procedures and parliamentary approval.

Second, it will be essential that the HIPC process is used to lay the foundations for sustainable growth. The governance reforms and improving public financial management are particularly important. Against this backdrop, improved data coverage and statistics will be essential to enable an effective management of scarce financial resources. Experience from other country cases shows that there is a risk of falling back into an unsustainable debt situation after receiving HIPC debt relief. We encourage staff and the authorities to learn from these experiences and effectively promote long-term debt sustainability.

On the macroeconomic assumptions underlying the debt relief analysis, we would welcome additional comments on staff's growth assumptions. We note the assumptions of a long-run growth rate of 4.8 percent, which would be significantly above the historical average. Also, our authorities would be interested as well in an assessment of the adverse effects of the recent locust infestation in Somalia.

Mr. Sylla made the following statement:

Like other Directors we agree that Somalia is eligible for assistance under the enhanced HIPC initiative.

Madam Chair, talking about the solidarity, in our constituency, 19 countries out of 23 have made a firm commitment, and the 4 remaining countries will follow. We strongly support this process.

We found the wide-ranging completion point triggers achievable. That said, like Mr. El Qorchi, flexibility should be applied taking into consideration the country circumstances. Like Mr. Kaya, we agree that a cautious approach should be taken as to not create an overwhelming agenda of reform that will strain the country's limited capacity. Furthermore, like Ms. Mahasandana, reform measures will be mindful of the impact on the vulnerable and the poor.

There is also a need to take into consideration the significant risks faced by Somalia, among which are the risks associated with its vulnerability to climate shocks. We agree with Mr. Guerra and others that measures to build resilience against natural disasters is critical. In this respect, access to climate mitigation and other adaptation funds will be instrumental. Can staff comment on steps that are envisaged to enhance Somalia's access to such financing?

Mr. Poso made the following statement:

We welcome the efforts of the Somali authorities in rebuilding core state capabilities and making concrete progress towards reaching the HIPC Decision Point. We note that in order to finance poverty reduction and development needs, Somalia needs a solution to its unsustainable debt situation. The Nordic-Baltic constituency stands ready to support Somalia in striving towards poverty reduction and inclusive growth. At the same time, we should not overlook the fragile political, security, and macroeconomic environment, made even more precarious by unfortunate weather conditions and natural events that are impossible to predict. We also recognize that Somalia will require support from the international community going forward.

We agree that Somalia is eligible for assistance under the enhanced HIPC initiative. We note that the macroeconomic assumptions underlying the debt relief analysis hinge on a positive economic outlook, and we welcome the sensitivity analysis. Given that Somalia is quite vulnerable to natural disasters, has staff analyzed the potential effects of a climate-related shock?

We find the preliminary set of triggers for the floating completion point exhaustive and sufficiently ambitious. The triggers are concrete, making progress possible to monitor. We welcome that the list covers triggers that are instrumental in promoting debt sustainability and inclusive growth, such as debt management, domestic revenue mobilization, and enhancing governance. Moreover, and referring to the remarks made by Mr. Merk, given the importance of reliable statistics for engagement with multilateral partners, addressing data gaps could be stressed perhaps even more. Could staff elaborate on the most pressing needs regarding statistics and data gaps?

Mr. Buisse made the following statement:

Given the satisfactory performance of the country under the current Staff Monitored Program and the good progress made on the arrears clearance fronts at the IMF and the World Bank, reaching the Decision Point by end of March 2020 seems realistic to me, and we should collectively keep the momentum to achieve this objective. This really is a landmark moment for the country, and I am glad to see that the international financial institutions (IFIs) and bilateral partners aligned themselves with the objective to support the Somali people.

In this regard, France is currently getting ready internally to refund its full share of the SCA-1 and deferred charges and to provide 8 million dollars cash grants. Certainly, less than the U.S., but if you add the debt relief expected, then I think that could be comparable.

On the floating completion point triggers, I would like to make the following comments, which are a little more specific. First, on the process, the Board is expected to provide its view of the proposed triggers. These measures will allow for the provision of debt relief by creditors. Therefore, I think that we should have been associated to the formulation a little bit ahead of time. Indeed, the stakes here would have warranted authorities' discussion on the choice of the completion point triggers and their level of ambition, which is not fully possible here since I understand--and, frankly, I understand also the constraint of time--I understand that the triggers have actually already been negotiated and agreed with the authorities.

Second, on substance, because if I had no issue on substance, frankly the point would be moot. We would have liked a trigger to put more emphasis on measures aimed at strengthening fiscal federalism in Somalia, enhancing cooperation of the Federal Government with federal states, and improving control of the territory bodies of the Federal Government. These issues are key for the stabilization of the country and to make sure that the efforts of the international community will be sustainable over time and benefit all parts of Somalia and not only the region of Mogadishu. We understand that the proposed trigger has been benchmarked under previous HIPC cases, but we would like to stress that each case is specific and merits a specific assessment of the conditionality, and we would be glad to hear from staff how other examples of similar cases where there are difficulties between the central government and local government have been treated in previous HIPC cases.

A solution that Mr. Rosen already hinted at, if it is not possible to have more conditionality on this specific issue in the HIPC triggers, we would expect the future IMF programs for Somalia to reflect the expectation I just raised and that have not been covered in the completion point triggers. In addition, other triggers are of a rather formal nature, for example, the enactment of specific pieces of legislation. We expect the program's conditionality to be placed on effective implementation.

I will join a previous speaker, and Mr. Rosen and Ms. Levonian, for example, on the comparability of treatment for non-Paris Club members. This will be key to ensure the sustainability of the whole process and of the debt level at the end. I wish staff and the Somali authorities all the best in the future next steps, and we look forward to future discussions on the progress.

Mr. Trabinski made the following statement:

First, on the ECF program, given the heavy frontloading needed to meet the large balance of payments needs, we stress the need for appropriate safeguards through monitoring and conditionality; thus, we look forward to thoroughly reviewing the program before the Decision Point.

Second, we welcome the broader momentum, and fiscal federalism seems to be maintained. At the same time, we stress the need for further improvement in relations between the Federal Government and federal member states. To this end, as Ms. Riach, we take positive note that the fiscal federalism had been discussed as part of the broader constitutional review. Having said this, could staff provide more details on completion of this review process and the deepening of federalism in Somalia?

Third, on TA, we highlight the importance of intensive and targeted TA going forward, not least given the significant capacity constraints. With states' structure, institutions, frameworks, and policy practices still relatively new, TA activities should be well coordinated and cognizant of the limited absorption capacity. Moreover, TA will be critical to complement the new financing arrangement to help the authorities with the implementation of an ambitious reform agenda.

Staff mentions TA in the area of public expenditure in the report, but we would be interested if staff could elaborate in more detail on the country TA strategy and priorities more broadly. Within this context, we would also support Mr. Poso's and Mr. Merk's point on the need for improved provision of statistical data, possibly with the IMF support.

Mr. Harada made the following statement:

We commend the Somali authorities for their continued efforts and commitment under the successor SMPs and the outcomes. As we issued a gray with other Directors, we would like to make a brief statement.

Firstly, it is important to ensure that floating completion point triggers effectively ensure long-term debt sustainability. We should bear in mind that many countries would benefit from the past HIPC initiatives currently assessed at high risk of debt distress or in debt distress. In this context, we expect the new ECF under the program should be constructed based on lessons from the past cases and should include effective conditionality of debt management with necessary TA support. We request of staff a complete explanation on this point at the time of the coming Board discussion.

Secondly, we encourage staff in communication with other development partners such as the World Bank to achieve its goals of macroeconomic stability, growth, and poverty reduction.

Finally, in order to achieve the end-March Decision Point, broad participation is crucial, so like other Directors, we encourage members who have not submitted a written commitment to consider a contribution.

Mr. Mouminah made the following statement:

Saudi is among the countries that agreed to refund the full share of SCA-1 and deferred charges and responded accordingly. We issued a joint gray with Mr. Beblawi in which we commended the authorities for the good progress made on reform and policy implementation and expressed broad concurrence with the staff assessment.

On eligibility, we agree with the staff statement that Somalia is eligible for assistance under the enhanced HIPC initiative. It is clear based on staff analysis that Somalia's external debt burden is unsustainable and that comprehensive debt relief is required to help them move forward with financing development needs while ensuring macroeconomic stability.

On the triggers for the floating completion point, we support the triggers for the floating completion point set forth in Box 2. Here I would like to emphasize that building on the necessary capacity, along with the firm ownership of the triggers by the authorities, will help achieve a successful outcome. To this end, continued engagement, including in capacity development by the Fund, the World Bank, and other development partners, are important to help Somalia maintain their course in implementing its reform agenda, which is quite heavy; and this point has been raised by multiple Directors before me.

On plurilateral and bilateral creditors, we agree that this is a joint effort, but we need to be cognizant and recognize efforts done in the past to support Somalia. Going forward, all creditors and donors should contribute with their own modality that suits them and in joint support for Somalia, again, overall. On this, we also urge staff and the authorities to ensure strong coordination with all creditors to reach successful outcomes.

We thank staff for expediting this process, and we would urge them to learn from this improved and expedited process to see if we can replicate some of it on Sudan once it is ready for that discussion. With these remarks, we wish the Somali authorities all the success.

Ms. Mahasandana made the following statement: .

Like other Directors, we support the initiative to provide debt relief for Somalia. We are pleased to see the international community coming forward to help Somalia. We also would like to thank Madam Chair and staff for working very hard in trying to secure enough financing assurance to reach the HIPC Decision Point. We issued a gray, so I would like to only bring up one point with regard to the design of the ECF and EFF program for emphasis.

Given the still-fragile situation in Somalia, support from Fund and other development partners will be critical to success of the reform program. Looking ahead, the design of the ECF and EFF program for Somalia should be realistic. It should take into account possible capacity constraints faced by authorities and the potential social and political impact of the reform. To put

Somalia's debt firmly on a sustainable path, we echo the point made by many Directors on the importance of improving debt management, revenue mobilization, and government statistical data. With this, we wish the Somali authorities every success in their reform agenda.

Mr. Fanizza made the following statement:

I want to stress that the effort made by staff and management was remarkable. A couple of months back we would have not thought that that would be possible, so it is really something that struck me, and I think it is important to acknowledge it, and we are very happy about it.

Also, I must say I would ask Mr. Mahlinza to transmit to the authorities congratulations for the progress made and wish them the best for their reform efforts. I think that is the main thing that I wanted to say and stress it strongly.

This issue of the completion points, yes, I understand everybody wants more, more reform, more effective reforms, and that is better. Now, something we need to understand is reform efforts are never a linear process. If you look at what was done in Somalia under the previous three or four Staff Monitored Programs, actually I was surprised how things went so well. It is not going to be always like that. There will be a step forward, some more significant. So when we think about the program and interaction with the authorities, we should not focus on the benchmarks, which are a minimal part of that, but actually in ensuring that the reform process moves forward. Most of the time our concern with the benchmarks requires our accounting, making clear to our capitals what we have done with the country. The important thing is to understand whether policy promotes changes, structural transformation, so I think it is very important to maintain some flexibility on what we set as benchmarks.

Mr. Goyal made the following statement:

Regarding the HIPC document, we agree and fully support the plan and the timeline proposed for the debt relief for Somalia, and we also agree with the trigger points which have been proposed for reaching the completion point.

Regarding the participation of the countries in our constituency, Bangladesh and India have already formally communicated their commitment, and I would like to inform that Sri Lanka has also indicated that they will be contributing 100 percent of their share. They are in the process of obtaining the approval.

Finally, we have some concerns about the debt sustainability of Somalia. As we mentioned in our gray, and the staff has already responded to that, but we would like some more elaboration on that. Our concern has been that during the post-debt relief period, as per the assumptions taken by the staff, the current account deficit would remain at an elevated level of 13 percent. We feel that such a high CAD may lead to a rise in, net external leverage to GDP ratio. Although the staff has indicated that they have assumed a 2 percent concessional borrowing, 2 percent of GDP throughout the forecast period, but we feel that just 2 percent of that may not offset the 13 percent so they may like to have some elaboration.

Mr. Guerra made the following statement:

We issued a gray where we support the Somalia eligibility for assistance on the HIPC initiative as reported in the staff paper. We wanted to make emphasis on something that also Mr. Sylla remarked. The Development Agenda must also include measures to tackle the challenges posed by Somalia's high vulnerability to weather-related shocks and long-term displacement caused by droughts. In this regard, we look forward to focus on measures to tackle nonmonetary poverty, build resilience to natural disasters, and help women and the youth.

My second point is that we join other Directors in calling for non-Paris Club bilateral and multilateral members to provide comparable debt relief in comparison from Club members.

Mr. Mozhin made the following statement:

We have cosigned a joint statement with other Paris Club members, and we needed to reconfirm our commitment to contribute to the financing package for Somalia. We have yet to finalize some of our domestic procedures, but we are working on that, and we will make progress, hopefully quickly.

The only other point I would want to make is that this whole arrangement and the Somalia program is very important in the sense that stakes are very high. The hope is that stabilization and hopefully eventual normalization of Somalia will have a very strong positive impact on the whole region, which has been fragile and volatile for so many years.

The Chair made the following statement:

Very good point to actually land on as we turn to staff. It is about Somalia, but it is also for the Horn of Africa. It is also, beyond Somalia, an important stabilization factor.

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

I want to confirm that in line with their commitments, the authorities have successfully made their first token payment of $10,000 on their arrears to the Fund. That was not in our staff statement, but I just wanted to confirm that.

Let me begin with a comment on the need for TA. This is something that staff very much recognizes is going to be critical to support the program implementation in the period ahead. As Directors know, Somalia is one of the biggest recipients of TA from the IMF that is supported by a multi-donor trust fund. Phase 1 of that trust fund expires at the end of this fiscal year. We have begun fundraising for Phase 2 of the trust fund. That is proceeding but not as quickly as we would like. We have approached many of your capitals seeking support for Phase 2 of the trust fund, and we welcome and would like to thank those members that have already indicated their intention to support that. If other members would be interested in supporting that initiative, please let us know, and we can talk you through the arrangements there.

With respect to statistics specifically and the priorities in terms of addressing data gaps, that is an issue we have highlighted as of continuing importance, and we will highlight it in the forthcoming arrangement. The priorities there are to continue to work to enhance balance of payments statistics and government finance statistics, and that is being done with the support of the IMF as well as other partners. The other key priority would be the development of a production side measure of GDP, and that is underway with World Bank support.

There was a question about the growth assumptions that we have in our framework. So staff took a careful look at the potential growth dividend of

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

previous HIPC cases, so we looked at all the previous HIPC cases and how growth had evolved in the period following the Decision Point, and we also took a very specific look at the subset of those cases that were fragile countries. We used that to sort of calibrate whether we were being too optimistic or not in our growth assumptions, and we basically have pitched the uptick in Somalia's growth projections to be in line with or to be a little bit higher than the median fragile country but lower than the median HIPC country, so that both balances the fact that Somalia remains fragile but also recognizes their past success in implementing reforms, so we are positive there. We do see upside potential as well as downside risk around that.

There was a question about the impact of climate shocks on growth and debt sustainability. There we would urge Directors to consider what is described as the lower export shock as being broadly equivalent in nature to a climate shock. What we have observed is that in the past when Somalia has been hit by a climate shock, there has been a very strong response from the international community to provide humanitarian aid, and that effectively mitigates a lot of the impact on GDP and the external sector as well. We see this really as a temporary shock.

With respect to the locust infestation, it is too early to assess right now the actual impact on GDP. However, we are aware that this is likely to affect crop production and food security in the near future. Again, it is likely that the humanitarian response might mitigate the worst impact of that.

With respect to climate-related support and support for climate-related adaptation, enhancing resilience is a core part of NDP9, and so therefore reaching the Decision Point and having increased access to development spending that will support the authorities as they try to implement their recovery resilience framework, which will again help address some of the worst impacts going forward.

There was a question on the progress on the constitutional review process, so this review of the constitution will formalize the power-sharing agreements and will set out the formal model of fiscal federalism to be adopted once it is completed. We understand that the technical work, which is the lawyers and the officials, is by and large completed. The authorities have actually been undertaking a stakeholder consultation exercise, and inviting many representatives of the Somali population to engage in that process going forward; and the authorities' goal is for that work to be fully completed sometime in 2020. There are some very difficult political decisions that still remain outstanding, and given the ramp-up in activity around the forthcoming elections, it may not be feasible to complete the constitutional review this year.

There were questions on the completion point triggers. Just to clarify that these have not yet been finalized. What we shared in the document was a preliminary set of triggers. These triggers have been discussed with the authorities in order to ensure country ownership. However, we have taken note of Directors' comments on the triggers today. Following tomorrow's discussion with the World Bank Board, we will then actually work to finalize the completion point triggers with the authorities. We have sought to balance the set of completion point triggers with the proposed conditionality and commitment in the forthcoming IMF arrangement. We have taken good note of Directors' comments of the need to reflect the fragility of Somalia, their capacity constraints, and the political and social context. It is a difficult balancing act here, but we are confident that across both the program and the completion point triggers, there will be an adequate set of commitments that address the areas of Directors' focus, including public financial management, debt sustainability, governance, financial stability, and that, indeed, do support a move to greater fiscal federalism. I think with that, I will close my remarks.

Mr. Mahlinza made the following concluding statement:

I would like to thank Executive Directors for supporting the preliminary assessment of Somalia's eligibility for assistance under the enhanced HIPC initiative and their thoughtful comments, which I will promptly convey to my authorities. Let me also thank Executive Directors for their support in obtaining assurances from their capitals towards the clearance of Somalia's arrears to the Fund. Working under a very tight time schedule, we have been able to make great strides. My authorities are truly grateful. I also wish to emphasize that achieving a broad membership participation, as was the case in past arrears clearance processes, remains important. In this regard, I would like to encourage members who have not yet made a final determination on their participation in Somalia's arrears clearance to do so.

My authorities wish to also thank the international development partners for their support throughout the reform journey and recognize that the recent reform successes would not have been possible without their support. Going forward, Somalia continues to view support from the international community as indispensable for exiting fragility, reducing poverty, and achieving sustainable growth. My authorities wish to assure Directors of their commitment towards the implementation of reforms going forward. The road will be challenging but not insurmountable. They are committed to sustain reforms because they see them as the only option to deliver on the promises made to their citizens. My authorities broadly agree with the proposed floating trigger points. They want to underscore the importance of supportive capacity building given the capacity constraints. They wish to thank development partners for the well-coordinated technical support thus far and hope that this will continue going forward.

We have also had heard Executive Directors' comments on fiscal federalism. Our authorities agree that creating a stable, workable fiscal federal framework is critical for growth. In addition to the recent progress in reaching key milestones on revenue sharing and customs harmonization, there is concurrent work to entrench federalism, including the constitutional review process supported by the UN agencies. The authorities plan to continue to push for full fiscal federalism, as well as improvements in security conditions.

In conclusion, Chair, I would like to thank staff for their support and constructive engagement with the authorities and with our office. I also want to thank them for their responses to technical questions raised by Directors in their grays, as well as their tireless efforts in ensuring realization of the Decision Point in March.

The Chair made the following statement:

Thank you very much, Mr. Mahlinza, and many thanks to all who have engaged so constructively today. We are away down the road to reach the decision point, and that would be a momentous day. It would be almost ten years since the last country, the Union of the Comoros, reached its HIPC decision point.

On a somewhat related matter from yesterday's discussion, on the mission chiefs in fragile states and small countries, I think you will agree with me to say we have a good practice example right in front of us, and I want to recognize the leadership of the department. I visited them, and that issue of assigning highly capable, committed mission chiefs in the most difficult places came from staff as one that they are truly, truly keen to do.

The following summing up was issued:

Executive Directors agreed that Somalia is eligible for debt relief under the Enhanced HIPC Initiative in view of its status as a PRGT eligible and IDA only country. They also agreed that the country’s external debt burden is unsustainable and that it has demonstrated strong performance under the current Fund's staff monitored program (SMP), which meets the standards of an Upper Credit Tranche arrangement.

Directors commended the authorities for their continued strong record in reform implementation. They recognized the continuing security, political, and climate challenges, and welcomed the authorities' ongoing efforts to progress on political reforms, and to increase economic resilience and inclusive growth.

Directors noted the progress in securing the necessary resources to finance the IMF's share of debt relief to Somalia and encouraged timely and broad participation from the membership in this exercise. They also noted plans to clear arrears to the International Development Association, and the African Development Bank. Directors encouraged the authorities to continue efforts to regularize relations with their remaining multilateral and bilateral creditors consistent with appropriate burden sharing in the context of the HIPC Initiative. They acknowledged that restoring Somalia's debt sustainability would require significant debt relief by all creditors on a comparable basis, including beyond HIPC relief.

Directors agreed that Somalia could reach its HIPC Decision Point in late March 2020, together with the approval of an ECF/EFF supported program, provided that (i) performance under the second review of the current SMP is confirmed as satisfactory by IMF Management; (ii) the authorities clear their arrears to multilateral creditors or agree on a strategy to clear them; and (iii) agreement is reached with the authorities on appropriate completion point triggers. Directors also noted that sufficient financing assurances to cover the costs of IMF's share of HIPC debt relief would be needed before the Decision Point.

Directors broadly agreed with the suggested triggers for the floating completion point, noting that they strike an appropriate balance between credible reforms and achievable objectives. They encouraged all partners to ensure that their conditions, and supportive capacity building efforts, are effectively coordinated and sequenced. Directors emphasized that effective implementation of triggers in the areas of governance, revenue mobilization, public financial management, social sectors, and public debt is important.

Directors emphasized that the Fund's program design should incorporate lessons learned from previous HIPC cases, and promote long term debt sustainability. They also emphasized that the new program should support greater cooperation between the Federal Government of Somalia and the Federal Member States on fiscal issues.

APPROVAL: November 29, 2021

CEDA OGADA
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:

Financing assurances

1. **We view that end-March 2020 seems like a sensible target to reach the HIPC Decision Point.** ***That said, we would appreciate staff's comment on the progress so far of securing financing assurances from members, as well as the implications of delays in reaching the HIPC Decision Point?***

- Staff will respond to this question during the Board meeting.

2. **We concur that Somalia could reach the HIPC Decision Point by end-March 2020, provided that (i) the authorities' extend their successful program track record to that date; (ii) the Fund membership provides sufficient financing assurances to cover the IMF's share of debt relief; and (iii) Somalia embarks on a path to clear its arrears to other multilateral creditors.** ***We would appreciate an update from staff about the latest state-of-play on the membership's financing pledges, including cash grants.***

- Staff will respond to this question during the Board meeting.

Debt relief and debt sustainability

3. **We note that Paris Club Creditors are expected to grant Somalia exceptional debt treatment. We strongly encourage all plurilateral and non-Paris Club bilateral creditors to contribute to Somalia's debt relief on a comparable basis.** ***How will Fund policies and practices help ensure comparability of treatment between Paris Club, non-Paris Club and plurilateral creditors?***

- Under the HIPC Trust Instrument, the specific amount of assistance committed by the Fund at Decision Point is based on (i) the Fund's share in the present value of Somalia's multilateral debt and (ii) the assistance to be provided by multilateral creditors, taking into account the exceptional assistance to be provided by Paris Club creditors and at least comparable action by other official bilateral and commercial creditors.
- Prior to approval of a Fund financing arrangement at the Decision Point, arrears towards multilaterals must be cleared or an agreement must be reached for their clearance. While such agreements need not be formal or final, we would expect such multilateral/plurilateral creditors to indicate that they intend to agree with a plan with

the authorities to clear arrears in the context of the IMF-supported arrangement. Debt relief from such creditors would then be expected to be delivered at the time of the Completion Point.

- With respect to non-Paris Club bilateral creditors, which represent about 18 ½ percent of the official bilateral debt, the financing assumptions under the IMF-supported program will assume that similar treatment will be delivered, and any arrears related to such debt will be deemed away for the purposes of the program as long as the authorities continue to make best efforts to resolve them. In terms of process, we understand that the Paris Club secretariat is planning to invite some the larger non-Paris Club creditors to participate in the debt restructuring alongside its regular members.

4. We note that the long-term growth rate is expected to settle around 4.8 percent after achieving a peak rate of 5.4 percent in 2027. Inflation is expected to range around 2.2 percent and CAD is expected to stay near 13 percent until 2029. It appears, once the proposed debt relief would have played out fully with MDRI relief from IDA and AfDF at the completion point by 2023, under above assumptions about growth and CAD, Somalia would again witness a sharp rise in its debt ratio and its ability to stay on the sustainable path would become tenuous. ***We would like Staff to comment.***

- Assuming full delivery of HIPC, MDRI and beyond-HIPC assistance as expected at the Completion Point, all debt burden indicators would be significantly below their respective thresholds in 2023. The post-HIPC long-run macro-economic scenario incorporates moderate fiscal deficits and related concessional borrowing of around 2 percent of GDP per annum throughout the forecast period. Under these assumptions, all Somalia's debt burden indicators would remain below the indicative thresholds employed by the LIC-DSF, consistent with achieving at least a moderate risk rating at the Completion Point. Specifically, as shown in Table 8, panel VI, the NPV of debt-to-GDP ratio increases by less than 2 percentage points relative to its low point at the Completion Point.

5. We recognize that half of the countries that previously benefitted from the HIPC initiative now have worse debt dynamics than before receiving comprehensive debt relief. We encourage staff to learn from this experience and ensure that floating completion point triggers and ECF conditionality effectively promote long-term debt sustainability. ***Further staff comments are welcome.***

- Staff has taken account of these experiences and the importance of ensuring long-term debt sustainability in both the design of the floating Completion Point (CP) triggers and the planned conditionality of the new program. The proposed set of triggers, as well as conditionality under the proposed IMF arrangement, take account of the objectives of the enhanced HIPC Initiative, notably strong linkages between debt relief, poverty reduction, and social policies. The proposed program also takes account of current Fund policies on debt limits and related program conditionality.

- More broadly, the HIPC process and related Fund and Bank programs and operations will continue to focus on helping Somalia develop stronger policy frameworks and institutions to support growth and enhance fiscal sustainability. The aim is for Somalia to exit this process at a moderate risk of debt distress.
- A number of the proposed CP-triggers directly and indirectly aim to improve debt sustainability by enhancing growth, promoting fiscal sustainability, and improving debt management. For instance, those triggers that target public financial and expenditure management, together with those aimed at governance and anti-corruption, will help ensure the effective management of scarce financial resources, while the trigger on debt management reform will help to support better financing strategies to ensure that debt contracting is in line with debt carrying capacity.
- The authorities will need technical assistance to strengthen their debt management capacity in line with the proposed Completion Point trigger. The Fund and Bank are planning related support and have discussed the scope for complementary support with other development partners.
- Note that, while there has been a rapid increase in the number of LICs that are considered to be at high risk of debt distress since 2013, less than one in five HIPC recipients have debt levels exceeding pre-HIPC levels. Nevertheless, as countries gained access to previously unavailable commercial financing and increased their reliance on domestic financing, interest-to-revenue ratios have risen, adversely affecting debt vulnerabilities, with half of the HIPC countries now having debt-to-revenue ratios that exceed pre-HIPC levels.

Floating Completion Point triggers

6. In this regard, we take note of the list of "triggers" for the Floating Completion Point and note from Mr. Mahlinza and Mr. Abdullahi's statement that they are broadly accepted by the authorities. Some of the triggers involve reforms in areas where the Fund may lack the needed expertise like adopting a joint national health sector strategy and other specific measures in the education sector, and *we would appreciate staff elaborations on how they will cooperate with other institutions in the selection of reforms and in the assessment of progress in these areas*.

- Fund and Bank staff coordinated closely on developing the proposed CP triggers, cognizant of their respective expertise. All triggers are associated with either IMF and WB programs and related provision of technical assistance. The social and educational triggers specifically noted above will be supported by WB projects that staff expected to be approved in 2020.

7. **Furthermore, since the floating CP triggers do not cover the issue of fiscal federalism and strengthened cooperation between the FGS and FMS (including in oil revenue allocation and security architecture), we expect the Fund to include measures to support this issue which remains critical for the success of the process. Improving financial sector oversight will also be necessary. *Could staff comment on these issues?***

- In developing the CP triggers, Fund and Bank staff sought to take account of the guidance that triggers be critical, actionable, and measurable, and that their objective is to ensure the effective use of the resources generated by the debt relief process to promote growth and reduce poverty.
- Staff also sought to take account of the authorities' likely implementation capacity and the fluid context given Somalia's continued fragility and vulnerability to security, political and climate shocks. Therefore, the proposed CP-triggers reflect staff's confidence that they can be achieved within that context, while recognizing that the rolling nature of conditionality under both the IMF program and likely future WB operations provides greater flexibility to adapt conditions to evolving needs and priorities.
- The proposed ECF/EFF program will include commitments from the authorities with respect to continued efforts to deepen FGS and FMS relations (including further PFM strengthening and Revenue Act implementation), taking due account of the ongoing Constitutional review process. The program also includes strong commitments with respect to the ongoing strengthening of financial sector oversight and continuing to enhance the AML/CFT framework, including through undertaking a national risk assessment within the program period. These elements have been closely coordinated with WB projects, and related UK DFID and EU support.
- Several of the proposed CP-triggers will support stronger FGS-FMS relations, including those related to the adoption of the single import tariff, establishment of the social registry, and the adoption of joint health and education strategies, together with any reforms requiring the engagement of Parliament (such as the ratification of the UN CAC and enactment of the Extractive Industry Tax and Electricity Acts).

Eligibility for HIPC debt relief

8. **We can go along with staff's indication that Somalia would qualify for debt relief under the enhanced HIPC Initiative's "export window". Footnote 19 indicates that the country is not eligible under the fiscal revenues-to-openness criterion; however, paragraph 29 underscores that Somalia would qualify for debt relief in**

case if considering the "export window". ***Maybe staff could elaborate further on the use of averages that are referred to in footnotes 19 and 20.***

- The guidance on the application of enhanced HIPC relief identifies two possible qualification criteria—the export and fiscal criteria. Under the export window, debt relief is delivered to reduce a country's debt-to-export ratio to 150 percent. Under the fiscal window, debt relief is delivered to reduce debt-to-revenues to 250 percent. However, to be eligible for relief under the fiscal window, a country must meet two additional criteria: central government revenue collection of at least 15 percent of GDP, and debt-to-exports of at least 30 percent. However, with FGS revenue at about 4.5 percent of GDP, Somalia does not meet the threshold for revenue collection and so is not eligible for relief under the fiscal window.
- A three-year average is used to evaluate eligibility in order to eliminate the effects of transitory factors. In Somalia's case, with the debt stock measured as of end-2018, the relevant three-year backward-looking average covers 2016-18.

Other issues

9. In this regard, the elections in Somalia in late 2020 can be a national reconciliation process for the much-needed stability of the country. ***Can staff assess the impact of the elections on Somalia's social and economic stability as well as the implementation of the ongoing reforms?***

- The electoral process is at the heart of Somalia's inclusive politics strategy, included as the first pillar of the NDP9. Successful 2020/21 national election are considered essential for social cohesion and improving security. Progress is ongoing with the recent enactment of the Electoral Law, adoption of the National Reconciliation Framework, and the technical review of the Provisional Constitution close to completion. Progress on voter registration is also encouraging. In this context, the benefits of the HIPC process and its conditionality provide an important stabilizing framework to further encourage progress on political and economic reforms, which must go hand in hand.

10. We look forward to actions focused on measures to tackle non-monetary poverty, build resilience to natural disasters and help women and the youth. ***In addition to the development of a social registry, does staff see scope to include further measures as program objectives to enhance resilience to natural disasters shocks?***

- A key element of the priorities of NDP9 is operationalizing the authorities' Recovery and Resilience Framework, which reflects a comprehensive UN-supported Drought

Impact Needs Assessment. The proposed CP-trigger on implementation of NDP9 will implicitly support a focus on enhancing resilience.

- These efforts are being supported by development partners' projects. These include the ongoing World Bank projects related to Rural Water for Agro-Pastoral Productivity and Resilience, and the Shock Safety Net for Resilience and Human Capital. And Bank staff are also working with the authorities to explore the scope to access additional support under the IDA's Crisis Response Window that will support other efforts to strengthen resilience.