

Federal Republic of Somalia

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Impact of COVID-19: Policies to Manage the Crisis and Strengthen Economic Recovery

Impact of COVID-19

*Policies to Manage the Crisis and Strengthen
Economic Recovery*

Federal Republic of Somalia

SOMALIA ECONOMIC UPDATE

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ABBREVIATIONS

| | |
|-----------------|---|
| AMISOM | African Union Mission In Somalia |
| AML/CFT | Anti–Money Laundering/Combating the Financing of Terrorism |
| CBS | Central Bank of Somalia |
| COVID-19 | Coronavirus Disease |
| DSA | Debt Sustainability Analysis |
| FAO | Food and Agriculture Organization |
| FDI | Foreign Direct Investment |
| FGC | Financial Governance Committee |
| FGS | Federal Government of Somalia |
| FMIS | Financial Management Information System |
| FMS | Federal Member State |
| FSNAU | Food Security and Analysis Unit |
| GCC | Gulf Cooperation Council |
| HIPC | Heavily Indebted Poor Countries |
| HRMIS | Human Resource Management Information System |
| IDA | International Development Association |
| IDP | Internally Displaced Persons |
| IMF | International Monetary Fund |
| IFI | International Financial Institutions |
| MTBs | Mobile Transfer Bureaus |
| NDP9 | 9 th National Development Plan |
| NSArch | National Security Architecture |
| MDAs | Ministries, Departments, and Agencies |
| MIS | Management Information System |
| NGO | Nongovernmental Organization |
| NPV | Net Present Value |
| ODA | Official Development Assistance |
| PFM | Public Financial Management |
| SFMIS | Somalia Financial Management Information System |
| SHDS | Somalia Health and Demographic Survey |
| SJPER | Security and Justice Public Expenditure Review |
| SME | Small and Medium-Size Enterprise |
| SNA | Somalia National Army |
| SNHCP | Somalia Shock Responsive Safety Net for Human Capital Project |
| UNSOM | United Nations Assistance Mission in Somalia |
| WDI | World Development Indicators |
| WHO | World Health Organization |

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FOREWORD

In the wake of March 2020's milestone of HIPC Decision Point the country finds itself facing a "triple crisis". The COVID-19 global pandemic, the devastating flooding in parts of Hirshebelle, South West, Jubbaland and Puntland, and a new infestation of desert locust are combining to reduce growth forecast for this year from 3.2 percent to a 2.5 percent contraction. Vital pillars of Somalia's external and fiscal sectors – livestock exports, trade taxes and remittances – are all exposed, with direct impact on poor households, services and core government functions. Federal and state governments facing large declines in revenue at a time when they must launch a coordinated national response, the economy facing significant contraction in 2020 as business's profitability and jobs decline and household incomes reduce. In this context, I am pleased that our fifth edition of the World Bank Somalia Economic Update series is able to support the debate about economic recovery, based on real data. The report contains three main messages.

First, Somalia's healthcare system remains constrained by a lack of resources, medical equipment and staff, severely limiting their ability to detect and diagnose the virus and treat patients. Increasing both the budget and the capacity of the sector will be essential to fight this crisis – but is also a basic pre-condition for economic recovery.

Second, expanding safety nets programs to cushion the effects of multiple shocks on the poor and vulnerable. With high levels of food insecurity and widespread malnutrition among children, COVID-19 has made a bad situation worse, as 7 of out 10 people in Somalia are poor. The immediate task is to secure access to food and basic needs to the most vulnerable population. Working with partners, the government has taken the lead in designing a nationwide cash transfer program, the Baxnaano Program, with the use of a mobile platform for cash delivery. Scaling up existing cash transfer schemes to protect the poor and the most vulnerable households, including the urban poor, is a highly relevant and potentially impactful response to the "triple crisis" while also laying foundations for poverty reduction.

Lastly, wider reform efforts which the authorities have been implementing successfully in the last three years should continue. Revenue mobilization reforms including continued implementation of the Revenue Act and the Customs Reform Roadmap would increase domestic revenues as revenue collection needs to increase significantly and beyond the Benadir region. Efforts to harmonize taxes across the FGS and the FMSs, remove internal trade barriers, and clearly define revenue sharing and functional assignment would go a long way toward increasing the fiscal space of both the federal and state governments. Issuing regulations to support the newly enacted PFM Act would strengthen public financial management (PFM) across sectors and jurisdictions. Deepening the fiscal federalism agenda and dialogue—including by revising the current set of expenditure assignment guidelines as the authorities move forward with implementing the Revenue Act—is also key.



Hugh Riddell

Country Manager, World Bank Somalia

Kadib gaaritaankii Go'aankii Xasuusta Mudnaa ee HIPC (Wadamada Saboolka ah ee Daymaha ku Jira) ee Maarso 2020, dalku wuxuu is arkay asagoo wajahaya “dhibaato saddex jibbaaran”. COVID-19 oo ah cudur safmar ah, daadad roobeed wax baabi'inaya ee qeybo ka tirsan Hirshabeelle, Koofur Galbeed, Jubaland iyo Puntland, iyo faafitaan cusub oo ayaxa saxaraha ah, ayaa isubiirsaday inay dhimaan kobocii la saadaashay ee loogu talagalay sanadkaan oo ka soo dagay 3.2 boqolkiiba ilaa -2.5 boqolkiiba. Tiirarka ugu muhiimsan waaxyaha dibada iyo kuwa maaliyada ee Soomaaliya – dhoofinta xoolaha nool, canshuuraha ganacsiga iyo lacagaha lasoo xawilo – ayaa dhamaantood wax gaareen, waxayna saamaynta ugu badan gaartay qoysaska saboolka ah, adeegyada iyo shaqooyinka ugu muhiimsan ee dawlada. Dawlada federaalka ah iyo dawlad goboleedyadu waxay wajahayaan hoos u dhacyo ballaaran oo dhanka dakhliga ah mar ay qasab tahay inay daahfuraan waxqabad qaran oo abaabulan, iyadoo dhaqaalahu 2020 wajahayo hoos u dhac weyn maadaama faa'iidadii ganacsi iyo shaqooyinku hoos u dhacayaa, dakhliyadii qoysaskuna yaraanayaan. Xaaladaan markii lagu jiro, waxaan ku faraxsanahay in cadadkeena shanaad ee tixanaha Xogta Cusub ee Dhaqaalaha Soomaaliya ee Baanka Aduunka uu awoodo inuu taageero dooda ku saabsan soo kabashada dhaqaalaha, oo ku salaysan macluumaad dhab ah. Warbixintu waxay ku salaysan tahay saddex farriimood oo waaweyn.

Ugu horeyn, nidaamka daryeelka caafimaad ee Soomaaliya wuxuu wali yahay mid ay xumeeyeen qarash la'aan, la'aanta qalab caafimaad iyo shaqaale la'aan, taasi oo aad u xadiday awooddoodii ay ku ogaan lahaayeen, kuna aqoonsan lahaayeen fayriska iyo inay daaweeyaan bukaanada. Kordhinta miisaaniyada iyo awooda waaxda labaduba waxay aad muhiim ugu noqon doontaa in lala dagaalamo dhibaataadaan – laakiin sidoo kale waa shardi hore oo asaasi ah oo loogu talagalay soo kabashada dhaqaalaha.

Tan labaad, ballaarinta barnaamijyada daryeelka bulshada si dadka saboolka ah iyo kuwa nugul looga badbaadiyo saamaynta dhibaatooyinka kabadan. Ayadoo raashin yarida iyo nafaqo darro baahsan oo carruurta dhexdooda ah ay heerarkoodu sarreeyaan, ayaa COVID-19 uu ka yeelay xaalad xun mid inteedii hore kasii daran, maadaama gudaha Soomaaliya 10kii qofba 7 ay sabool yahiiin. Hawsha degdega ah waa xaqiijinta helitaanka raashinka iyo waxyaabaha aasaasiga ah ee dadka ugu nugul u baahan yihiin. Ayadoo la shaqeyneysa shiriigyo, dawladu waxay qabatay hoggaanka lagu dajinaayo barnaamij lagu xawilayo lacag caddaan ah oo dalka oo idil gaarsiisan, waa Barnaamijka Baxnaano, ayadoo la adeegsanayo taleefanada gacanta oo loogu talagalay in lacagta lagu gaarsiiyo meelihii la rabo. Sare u qaadidda qaababka xawilidda lacagta ee jira si loo badbaadiyo dadka saboolka ah, waa waxqabad aad munaasab u ah, saamaynta ku yeelan kara “dhibaataada saddex jibbaaran” ayadoo sidoo kale asaasyo u samaynaysa dhimidda faqriga.

Ugu dambeyn, dadaalo intii hore ka ballaaran oo isbaddal samayn ah oo hayadaha dawlaha ah ay si guul leh u hirgalinayeen saddexdii sano ee ugu dambeeyay waa inay sii socdaan. Abaabullada isku duwidda dakhliga oo ay kujiraan hirgalin sii socota oo lagu sameeyo Sharciga Dakhliga iyo Geedi Socodka Dib u Habanaynta Kastamada waxay kordhin karaan dakhliyada dalka gudihisa kasoo xarooda maadaama uruurinta dakhligu ay u baahan tahay inay aad u kororto lagana soo uruursho meelo ka baxsan gobolka Banaadir. Dadaallada lagu doonayo in lagu mideeyo canshuuraha Dawlada Federaalka ah iyo Dawlad Goboleedyada Xubnaha ka ah Federaalka waxaa ay meesha ka saarayaan caqabadaha ganacsiga ee gudaha dalka ka jira, waxayna si waadax ah u qeexayaan qeybsiga dakhliga; qaybsiga xilka ayaana wax badan u tari lahaa sidii loo kordhin lahaa baaxadda maaliyadeed ee dawlada federaalka ah iyo dawlad goboleedyadaba. Soo saaridda xeer-nidaamiyeyaal lagu taageerayo Sharciga Maareynta Maaliyada Dawlada ee dhawaan la meel mariyay waxay xoojin lahayd maareynta maaliyada dawladda (PFM) ee dhammaan waaxyaha iyo maamulada. Dheereynta qotada ajendaha maaliyada federaaliisimka iyo wadhadalka — oo ay kujirto ku noqoshada tilmaamaha hadda jira ee qarashka baxaya marka hayadaha dawlaha ah ay hirgalinayaan Sharciga Dakhliga — sidoo kale waa muhiim.



Hugh Riddell

Maareeyaha Dalka, ee Baanka Aduunka u qaabilsan Soomaaliya



EXECUTIVE SUMMARY

Before the COVID-19 pandemic, Somalia's economy was on an upward trajectory, recovering from the 2016/17 drought. The economy grew at an estimated rate of 2.9 percent in 2019, on par with population growth, and was projected to grow at 3.2 percent in 2020. Increased confidence in the economy; a higher than normal *Dyer* rainfall season, which facilitated a productive season in the agricultural sector; operationalization of reforms in the financial and telecommunication sectors; and small-scale investments and entrepreneurial activities in urban areas all contributed to a growth recovery before the COVID-19 crisis. Somalia also reached a milestone in March 2020 when the World Bank and the International Monetary Fund (IMF) announced that Somalia had reached the HIPC Decision Point, meaning that it could begin receiving debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The debt relief, when it reaches the Completion Point, will help Somalia make lasting change for its people by re-opening access to critical additional financial resources to strengthen the economy, help improve social conditions, raise millions out of poverty, and generate sustainable employment for Somalis.

The COVID-19 pandemic has interrupted Somalia's economic recovery. The crisis will have a large negative impact on real GDP growth in 2020, affecting the economy through a combination of supply and demand shocks. As a result of shutdowns, global supply chains have disrupted imports of consumption and capital goods from Somalia's trading partners (mainly China, the United Arab Emirates, India, Turkey, and Oman); cancellations of the 2020 *Hajj* and export bans by Saudi Arabia have tamped down demand for exports (mostly live animals); and the global recession and

travel restrictions/flight suspensions are limiting remittance flows into Somalia. The economy, which is driven mainly by the private sector, is exposed to increased business vulnerabilities, interruption of supply chains, decreased capital and venture inflows, diminished access to financing, and shortages of basic raw materials.

The pandemic is projected to push the economy into contraction, increase fiscal pressures, and deepen poverty in 2020.¹ The economy is projected to contract by 2.5 percent in 2020. A slowdown in economic activities, declining remittances, falling exports, and the government-mandated closures of airports and businesses to contain the spread of the virus are reducing household income. Household consumption will fall sharply and rapidly with supply disruptions. Panic buying led to an uptick in prices in an economy that depends on imports even for food products at the start of the pandemic, but this has eased.

“
The crisis will have a large negative impact on real GDP growth in 2020, affecting the economy through a combination of supply and demand shocks

Somalis have demonstrated remarkable resilience in the face of previous shocks—export bans, drought, famine, floods. The pandemic's reach has been wider, potentially impacting all sectors and all parts of the country. Federal and state governments face large declines in revenue at a time when they must launch a coordinated national response to the crisis.

Medium-Term Outlook and Risks

Somalia's growth prospects are severely impacted by the COVID-19 crisis, locust infestation and flooding. The World Bank's baseline forecast assumes that the negative impact of the pandemic lasts for six months from March 2020, with recovery beginning in the fourth quarter. This scenario takes account of COVID-19, flooding, and the second wave of locust infestation.

¹ Because of data limitations, this report does not estimate the impact of COVID-19 on poverty. However, loss of livelihood will increase poverty levels.

Following a contraction in 2020, which will reduce domestic revenue to 4.0 percent of GDP, it forecasts a moderate pick-up in the medium term (2021–23), with growth expected to recover to 2.9 percent in 2021 and 3.2 percent in 2022. Remittances and official development assistance will return to pre-crisis levels soon after the pandemic is contained. This scenario also assumes a favorable *Gu* rainy season. Agricultural production will nevertheless decline by 15–25 percent, as a result of flooding and the second wave of locust infestation.

A prolonged COVID-19 crisis could deepen the 2020 recession and slow medium-term recovery.

Considering the considerable uncertainty around COVID-19, a downside scenario assumes that the crisis is sustained and the partial shutdown extends until the end of the fourth quarter of 2020. It also assumes that the locust infestation will severely affect the agriculture sector. Delays in lifting restrictions could exacerbate the slowdown in consumption expenditures, making the damage from the second wave of locust infestation more severe than under the baseline scenario. In this downside scenario, the economy contracts by 3.0 percent in 2020. Growth resumes thereafter, at 1.9 percent in 2021 and 2.9 percent in 2022. Domestic revenue fall by US\$67 million, to 3.6 percent of GDP in 2020.

Several significant downside risks threaten economic activity in the short to medium term:

- Disagreement over the management and holding of national elections slated for early 2021 could undermine the steady progress that Somalia has demonstrated since the formation of the Federal Government in 2012 based on the Somali Provisional Constitution towards regular and elections with ever-expanding suffrage.
- Although Somalia's economy remains broadly stable, terrorist incidents continue threatening security and precluding a favourable climate for

domestic and foreign investment while crowding out fiscal space for basic service delivery.

- The worst desert locust upsurge in a generation now threatens to directly hit the country's food production systems. In recent months, locust swarms have spread across 44 Somali districts, affecting an estimated 180,000 hectares of rangelands and laying eggs along their path. The infestation could result in a *Gu* cereal production deficit and lower milk and livestock production.
- Climatic shocks and commodity prices could add more risks to the outlook by lowering agricultural output, exacerbating water stress, and increasing Somalia's humanitarian needs. These risks can dampen economic activity further and erode business confidence.

Policy Options for Strengthening the Crisis Response and Medium-Term Recovery

Policies for strengthening the short-term crisis response

Enhancing and promoting measures to prevent domestic contagion.

The rate of domestic transmission of COVID-19 in Somalia is higher than in neighboring countries. To flatten the curve, the government has banned large gatherings, closed schools and mosques, and implemented a partial domestic lockdown. Strengthening disease surveillance and health interventions is a high priority. Promoting social distancing and

preventive behaviors, even in rural areas, is crucial to reverse the rapid spread. For such measures to be effective, the government should consider providing information and essential items (food and water), especially to the poorest Somalis and people in internal displaced persons (IDP) camps.

Increasing the health sector budget to help fight the pandemic.

Somalia's healthcare system remains constrained by lack of resources. High-risk areas in the Benadir Regional Administration and other FMSs lack medical equipment and staff, severely limiting their ability to detect and diagnose the

“
Domestic revenue
to fall substantially
in 2020, to 3.6
percent of GDP.”

virus and treat patients. The limited fiscal space of both the Federal Government of Somalia (FGS) and the FMSs makes concessional financing and technical assistance from development partners to support the COVID-19 response critical. The government's supplementary budget for 2020 increases total spending on intergovernmental grants to US\$146.2 million (up from US\$42.6 million in approved estimates before the crisis) and social benefits to US\$93.4 million (up from the US\$25.0 million approved in January 2020).

Securing food availability and mitigating price increases during the pandemic.

Lockdowns, border closures, and social distancing led to localized supply disruptions and put pressure on food prices. Many traders report shortages of essential commodities, and food inflation has shot up, in part because of bottlenecks, as suppliers of essential goods grapple to cope with the sudden surge in demand. The government took measures to ease the cost of living for the vulnerable populations due to economic hardship sparked by measures introduced to contain the spread of the deadly virus. To encourage traders of essential goods to increase supply, the government provided tax incentives. In April 2020, it introduced tax exemptions on staples for three months and announced a 50 percent reduction in the consumption tax on some commodities (wheat flour and vegetable oils) and a 100 percent tax exemption on rice and dates, to discourage hoarding by suppliers and encourage traders to seek alternative routes to boost commodities' supply.

Expanding safety nets programs to cushion the effects of the shock on the poor and vulnerable.

With high levels of food insecurity and widespread malnutrition among children, COVID-19 threatens to make a bad situation worse, as 7 of out 10 people in Somalia are poor. The immediate task is to secure access to food and basic needs to the

most vulnerable population. The urban poor and people in IDP camps lack the resources to cope with the lockdowns and quarantines needed to contain the spread of the pandemic. About 30 percent of the population face the threat of losing remittances as a source of livelihood. Working with partners, the government has designed and launched a cash transfer program known as the Baxnaano Program—described in Box 1.1, with the use of a mobile platform for cash delivery. Scaling up existing cash transfer schemes to protect the poor and the most vulnerable households, including the urban poor, is desirable as a response to this shock and future ones.

Policies for strengthening medium-term economic recovery

Providing liquidity and trade financing for nascent small and medium-size enterprises (SMEs)

during the pandemic. SMEs are facing liquidity problems in their operations because of the challenges in the corresponding accounts and travel restrictions. Import and export firms are finding it hard to settle accounts in Dubai because of flight bans. The government, through the Central Bank of Somalia, can provide SMEs with access to emergency loans to

facilitate continued imports of basic foodstuff and medicine. It can also provide corridors for trade movements, especially for essentials such as food and medicine, to ease the travel restrictions.

Implementing revenue mobilization reforms.

Implementing the Revenue Act and the Customs Reform Roadmap would increase domestic revenues. Revenue collection needs to increase significantly and beyond the Benadir region. Efforts to harmonize taxes across the FGS and the FMSs, remove internal trade barriers, and clearly define revenue sharing and functional assignment would go a long way toward increasing the fiscal space of both the federal and state governments. Issuing

“Scaling up social safety nets programs to cushion the poor and the most vulnerable households is a highly relevant and potentially impactful response to the “triple crisis”

regulations to support the newly enacted PFM Act would strengthen public financial management (PFM). Deepening the fiscal federalism agenda and dialogue—including by revising the current set of expenditure assignment guidelines as the authorities move forward with implementing the Revenue Act—is also key.

Implementing financial sector reforms. Embedding and implementing the reforms outlined in the government’s Financial Sector Reform Roadmap are key to making a vibrant financial system an engine of economic growth, while also shoring up remittance flows. Reforms include improving core departments, deepening financial sector supervision, improving the payment system, strengthening the anti-money laundering/combating the financing of terrorism (AML/CFT) operational and legal framework, and developing the financial infrastructure to support efficient intermediation and support collateralized lending and mitigate credit risk.

Delivering a holistic medium-term growth. The country operationalizes its medium-term growth strategy as outlined in the National Development Plan (NDP9) to deliver quick, large, and sustainable production and productivity gains that promotes higher growth and enhances resilience. Diversifying economic growth sources and livelihoods is a low hanging fruit and involves improving agricultural productivity - both crops and livestock. In rural Somalia, this involves diversifying away from traditional livelihoods and production practices through improved soil & water management, improved production and marketing systems, adaptation to climate change and adoption of drought-resistance crops and seeds, improved

extension services, and value addition on primary products. This strategy requires complementary investments and reforms in transport infrastructure, financial services, energy, and digital connectivity to support increased productivity in agriculture and livestock. This will also present opportunities to absorb the rapidly increasing labor market entrants especially in urban areas.

The High Cost of Securing Somalia

Armed conflict has contributed to poor economic outcomes and the marked decline in quality of life

in Somalia. Hundreds of thousands of Somalis are refugees or internally displaced persons, unable to return home. Insecurity has been linked to deteriorating living standards and interruptions in public service provision, particularly in rural areas, where clean water, electricity, and paved roads are rare. Conflict and climatic conditions have destroyed infrastructure and heightened the risk for many Somalis of extreme poverty, poor health, and low literacy and numeracy.

“

FGS plans to implement a public finance roadmap to mobilize and harmonize efforts around the restoration of security to accelerate social and economic development

Securing the country has been expensive. Spending on security is estimated at about US\$1.5 billion a year, with the cost of maintaining the African Union Mission in Somalia (AMISOM) presence representing about half of the total cost (United Nations Assistance Mission in Somalia and World Bank 2017). International support is unlikely to be sustained at this level. Partners have urged the FGS to build its own capacity and financing strategy. Eight out of 10 government employees work in the security sector, which accounted for one-third (US\$107 million) of FGS expenditure in 2019, and 48 percent of the FGS wage bill. Personnel costs are the bulk of total spending; capital spending is minimal.

Since 2017 the government has made substantial efforts to strengthen the national forces.

Public finance reform has focused on rebuilding management cadres with trained officers, building effective and accountable administrative and institutional structures, and providing tactical and operational training and development. The vanguard of the reform has been a slate of public finance reforms that seek to bring professionalism, fiscal accountability, transparency, and national leadership to the armed forces.

Since the 2018 Operational Readiness Assessment, the government has pursued a series of public finance reforms in the security sector, making it more accountable.

It has embarked on an ambitious reform program in the security sector to make it able, accountable, affordable, and acceptable to Somali society. Anchored in the National Security Architecture (NSArch), reform seeks to improve the security sector's capacity in order to ensure that it is fiscally sustainable and able to efficiently deliver security services. The reform is driven by the desire to gradually reallocate spending from personnel and security costs toward investments in human and physical capital.

The Impact of Security Reforms

Reforms have been implemented to restore public confidence in the security sector and reduce the cost of providing the existing level of security services. They have yielded savings, which the government plans to re-invest in improving the delivery of security services.

Salary payments have been improved through the biometric registration of all Somalia security forces, efforts have been made to build a coherent human resources management system, and internal

controls have been strengthened. Salary and some ration payments are now made directly to soldiers' bank accounts or mobile phones—a significant change from just a few years ago, when payments were occasional and distributed in cash through the command chain. Direct payment has reduced the opportunity for corruption and misappropriation. Coupled with biometric registration, it has enabled enhanced accountability in the system; removed local payments, duplicate payments, and payments to ghost workers; and increased the integrity of expenditures of key budget items.

Biometric registration allows for verification that payments are going to the right person. It has created a base for future integrity reforms.



Biometric registration process and direct payments has enabled strong accountability and increased integrity of expenditures of key budget items

Completion of the second phase of registration, in October 2019, provided the government with enough data to feed into the 2020 budget. The registration process also resulted in a modest pay increase for soldiers. This reform is critical not only for the professionalization of the security sector but also as a challenge to one of the key arguments used by the insurgents to recruit their own personnel. Reforms to the pay, structure, and entry and exit of the security sector are also being undertaken, to allow for regularization, including through demobilization. A key aspect of reform is the introduction of a security sector-wide pension through the Pensions and Gratuities Bill.

To complement improved controls, the government has installed central purchasing contracts for all major supplies to the Somalia National Army. Using the Procurement Act to set clear processes and practices for government procurement, this reform has reduced discretionary and unsupervised spending, yielding savings and reducing corruption risk.

The Way Forward

The FGS plans to draft a public finance roadmap that include the following ambitious reforms:

1. *Continue efforts to build systems and increase the transparency of PFM.* Efforts will include building the institutional capacity of the security institutions, strengthening PFM capacity, and increasing investment in developing the capabilities and capacities of key civilian governance institutions and people across government, based on FGC recommendations. Reforms will support strategic financial decision making and the delivery of the NSArch, the revised constitution, and the Ninth National Development Plan.
2. *Continue to develop laws, policies, and, regulations covering the main priorities of security sector reform and align them with existing PFM frameworks.* Areas covered will include general finance, human resources, logistics, pensions, and other procedures and business processes that provide a basis for oversight and audit
3. *Continue to strengthen procedures, financial management systems, and internal controls in the security sector, including robust human resources and payroll systems for delivering pay and rations consistently.* Efforts will include improving the security sector's capacity to manage contracts and verify the delivery of goods and services. The gains made in improving the tendering and implementation of rations contracts will be diminished if implementation is hampered by insufficient human capacity or supporting systems.
4. *Widen the focus of systems strengthening to improve internal controls and strengthen the internal audit functions in ministries and forces beyond the main expenditure categories in the security sector.* Efforts will include working with the Office of the Accountant General and the Office of the Auditor General to establish accountable and auditable expenditures in the security sector, expanding from progress in the main expenditure categories of salaries and rations to include logistics procedures, asset management, and operating costs.
5. *Create an affordable security sector in the long run.* Efforts will include using outputs from the SFMIS, the HRMIS, and the registration process to understand the drivers of cost, identify where there is scope for cost saving, reallocate resources, and analyze how spending is supporting key security objectives. Modelling of the impact of COVID-19 on public finances will highlight trade-offs and necessary prioritization for implementing the NSArch and sustainably delivering security services in Somalia.
6. *Implement fiscally sound measures to right-size the forces in light of the fiscal forecast and medium-term strategy, deploying various instruments, including pensions and the creation of a reserve force, to do so.* Efforts will include implementing the pensions law, supporting budget forecasting, and ensuring that payments are integrated into PFM systems.
7. *Continue to improve the government's communications on the objective of reforms, and coordinate communications efforts with international partners.* Efforts will reduce the uncertainty of prioritization, increase support, and address the gaps identified in the emerging medium-term financing strategy for the security forces.

Ka hor safmarka COVID-19, dhaqaalaha Soomaaliya waxaa uu ahaa mid sare u kacaya, asagoo kasoo kabanayay abaartii 2016/17.

Dhaqaaluhu wuxuu kobcay qiyaastii tiro dhan 2.9 boqolkiiba 2019, si la siman koboca dadka, waxaana la saadaaliyay inuu kobco 3.2 boqolkiiba 2020. Kalsooni korortay oo dhanka dhaqaalaha ah; xilli roobeedka Deyrta oo ka sare maray intii caadiga ahayd kaasi oo fududeeyay xilli waxsoosaar badan oo ah dhanka waaxda beerafalashada; hawlgalinta isbaddalada waaxyaha maaliyada iyo isgaarsiinta; iyo maalgalino yaryar iyo hawlo ganacsi oo ah gudaha magaalooyinka ayaa dhammaantood waxay gacan ka geysteen soo kabasho koboc ah ka hor dhibaataada COVID-19. Soomaaliya waxay sidoo kale Maarso 2020 gaartay tilaabo wax ku ool ah markii Bangiga Aduunka iyo Hay'adda Lacagta Dunidu ay ku dhawaaqeen in Soomaaliya gaartay Waqtigii Go'aaminta HPIC (Wadamada Saboolka ah ee Daymaha ku Jira), taas oo macnaheedu yahay inay Soomaaliya bilaabi karto inay dayn cafin ka hesho Qorshaha Wadamada Saboolka ah ee Daynta ku Jira (HPIC). Dayn Cafintu marka ay gaarto Waqtiga Dhamaystirka (Completion Point), waxay Soomaaliya ka caawinaysaa inay isbadal weyn ku samayso dadkeeda iyadoo bilaabaysa inay dib u hesho ilo dhaqaale dheeri oo muhiim ah, si ay ugu xoojiso dhaqaalaha, ay wax ka qabato xaaladaha bulshada, ayna malaayiin ka saarto saboolnimada, oo ay Soomaalida siiso shaqaalayn sii socon karta.

Cudurka safmarka ah ee COVID-19 waxaa uu carqaladeeyay soo kabashada dhaqaale ee Soomaaliya. Dhibaataadu waxay saamayn ballaaran oo xun ku lahaan doontaa wax soo saarka guud ee dalka ee dhabta ah ee 2020, ayadoo saamaynaysa dhaqaalaha adeegsanaysana isku darka carqaladda dhanka qeybinta iyo baahida badeecadaha. Xiritaannada magaalooyinka la kala xiray darteed, silsiladaha qeybinta badeecadaha ee caalamka ayaa carqaladeeyay soo dhoofinta badeecadaha

ugu dambeyn la isticmaalo iyo kuwa raasulmaalka ganacsiga ah ee ka imaan jiray shiriigyada ganacsi ee Soomaaliya (gaar ahaan Shiinaha, Midowga Imaaraatka Carabta, Hindiya, Turki iyo Cumaan); baajinta Xajkii 2020 iyo mamnuucidda ay dawlada Sacuudi Carabiya ay mamnuucday wixii loo dhoofin jiray ayaa hoos u dhigay baahidii loo qabay in wax la dhoofiyo (badi xoolaha nool); oo hoos u dhaca dhaqaalaha caalamka iyo xannibaadaha dhanka safarada ah/ama baajinta duulimaadyada diyaaradaha ayaa xadidaya qulqulka lacagaha loo soo xawilo Soomaaliya. Dhaqaalaha, oo aad uu u wado dhaqaalaha sida gaarka ah loo leeyahay ayaa waxaa saamayn badan ku yeeshay nugeyl ganacsi oo kordhaya, carqaladoobida silsiladaha qeybinta badeecadaha, qulqulka qarashka iyo ganacsiga oo isdhimay, helitaankii maalgalinta oo isdhintay, iyo qalabka asaasiga ah ee ceeriin oo yaraaday.

Cudurka safmarka ah waxaa la saadaaliyay inuu ku riixi doono dhaqaalaha hoos u dhac, inuu kordhin doono cadaadisayada maaliyadeed, uuna sii dheerayn doono qotada faqriga inta lagu jiro 2020.¹

Waxaa la saadaaliyay in dhaqaaluhu isdhimi doono 2.5 boqolkiiba inta lagu jiro 2020. Hoos u dhaca hawlaha dhaqaalaha, hoos u dhaca lacagaha lasoo xawilo, waxyaabihii la dhoofin jiray oo hoos u dhacaaya, iyo xiridda dawladu qasabtay ee dekedaha ama garoomada diyaaradaha iyo ganacsiyada si loo dhimo faafidda fayraska ayaa dhimaya dakhliga qoysaska. Waxyaabaha ay isticmaalaan qoysaska ayaa aad iyo si degdeg ah hoos ugu dhici doonaarintaasi oo la jirta carqalada ku timaaday qeybinta saadka. Argagax si uu ku jiro oo wax loo soo gatay (ayadoo laga baqayay in alaabtu dukaamada ka maraan) ayaa waxaa ay horseeday inay ascaartu sare u kacaan dhanka dhaqaalaha oo ku xiran waxyaabo dalal kale laga soo dhoofiyo oo ay xataa kujiraan waxyaabo cunno ah bilowgii cudurka safmarka ah, laakiin arintaan way isyara dhintay.

¹ Xadidaad dhanka macluumaadka ah darteed, warbixintaan qiimeyn kuma samayso saamaynta COVID-19 uu ku leeyahay faqriga. Si kastaba ha ahaatee, maciishada oo wixii laga heli jiray ay lumaan waxay kordhin doontaa heerarka faqriga.

Soomaalidu waxay muujiyeen dhabar adayg aan caadi ahayn markii ay wajahayeen dhibaatooyinkii hore — waxyaabaha la dhoofiyo oo la mamnuucay, abaar, macaluul, iyo daadad. Inta safmarku gaaray aad ayay u ballaaran tahay, isaga oo saamayn ku yeelan kara dhammaan waaxyaha iyo dhammaan qeybaha kala duwan ee dalka. Dawlada federaalka ah iyo dawlad goboleedyadu waxay wajahayaan hoos u dhacyo ballaaran oo dhanka dakhliga ah waqti ay qasab ahayd inay daahfuraan waxqabad qaran oo abaabulan oo ka dhan ah dhibaataada.

Saadaasha Mudada Dhexe iyo Halisyada

Rajooyinka koboca Soomaaliya laga qabo waxaa aad saamayn ugu yeeshay dhibaataada COVID-19, faafitaanka ayaxa iyo daadka. Baanka Aduunka saadaashiisii gundhigga ahayd waxuu qiyaasayaa in saamaynta xun ee safmarku ay sii jiri doonto lix bilood oo ka bilaabmaya Maarso 2020, ayadoo soo kabashadu bilaabanayso inta lagu jiro rubaca afaraad ee sanadka (Oktoobar, Nofeembar iyo Diseembar). Hannaankaan waxaa uu xisaabta ku darayaa COVID-19, daadka, iyo mawjada labaad ee faafitaanka ayaxa. Kadib hoos u dhaca 2020, oo dhimi doona dakhliga dalka gudahiisa ah ilaa 4.0 boqolkiiba wax soo saarka guud ee dalka gudahiisa ah, wuxuu saadaalinayaa sare u kac qunyar oo imaanaya mudada dhexe (2021–23), ayadoo la filayo koboc lagu soo helayo ilaa 2.9 boqolkiiba 2021 iyo 3.2 boqolkiiba 2022. Lacagihii lasoo xawili jiray iyo cawimaadii horumarka ee rasmiga ahayd waxay kusoo noqon doonaan heerkii dhibka ka horeeyay durba marka la dhimo safmarka. Hannaankaan ayaa sidoo kale qiyaasaya xili roobeedka Gu’gu inuu noqon doono mid wanaagsan. Wax soo saarka beeraha ayaa si kastaba ha ahaatee hoos u dhici doona 15–25 boqolkiiba, daadka iyo mawjada labaad ee faafitaanka ayaxa dartood.

Dhibaataada COVID-19 oo daba dheeraata waxay sii qoto dheereyn kartaa hoos u dhaca dhaqaalaha ee 2020 waxayna gaabis ka dhigi kartaa soo kabashada mudada dhexe. Ayadoo la tixgalinayo sugnaansho la’aanta badan ee ku hareereysan COVID-19, hannaan hoos u dhac ah wuxuu qiyaasayaa in

dhibaataadu sii soconayso, xirnaanta dhaqaale oo qeybta ahna ay sii soconayso ilaa dhammaadka rubuca afaraad ee 2020. Waxaa uu sidoo kale qiyaasayaa in faafitaanka ayaxu uu si xun u saamayn doono waaxda beeraha. Daahitaanka qaadidda xannibaadaha ayaa uga sii dari karta hoos u dhaca qarashaatka lagu bixiyo waxyaabaha la isticmaalo, taasi oo ka dhigaysa dhaawaca ka dhalanaya mawjadda labaad ee faafitaanka ayaxa mid aad uga xun sidii uu ahaa markii uu socday hannaanka gundhigga ahaa. Hannaanka hoos u dhaca ah intuu socdo, dhaqaaluhu wuxuu isdhimayaa 3.0 boqolkiiba 2020. Koboca ayaa kusii soconaya intaas kadib, 1.9 boqolkiiba 2021 iyo 2.9 boqolkiiba 2022. Dakhliga gudaha dalka kasoo xarooda ayaa hoos u dhacay US\$67 milyan oo gaaray 3.6 boqolkiiba marka loo eego wax soo saarka guud ee dalka gudahiisa ah (GDP) sanadka 2020.

Halisyo badan oo waaweyn oo hoos u dhac ah oo dhowr ah waxay dhibayaan hawsha dhaqaalaha mudada gaaban ilaa tan dhexe:

- Khilaaf ku saabsan maareynta iyo qabashada doorashada qaran oo dib loo dhigay ilaa horraanta 2021 waxay hoos u dhigi karaan horumarka adag ee Soomaaliya ay muujisay laga soo bilaabo markii la dhisay Dawlada Federaalka ah sanadkii 2012 taasi oo ku salaysan Dastuurka Kumeel Gaarka ah ee Soomaaliya oo ku wajahan doorashooyin joogto ah oo leh ka qeybgal waligii sii ballaaranaya.
- Inkastoo dhaqaalaha Soomaaliya uu wali yahay mid si aad ah u daggan, dhacdooyinka argagaxisada ayaa sii wada inay dhibaan ammaanka iyo inay hor istaagaan cimilo wanaagsan oo loogu talagalay maalgalin gudaha ah iyo mid dibada ka timaada ayadoo la buux dhaafinayo saaxada maaliyadeed ee loogu tala galay bixinta asaasiga ah ee adeegyada.
- Kor u kacii ugu xumaa ee ayaxa saxaraha muddo dheer ayaa iminka sigaya inuu si toos ah ugu dhufto nidaamyada soo saaridda cunnada ee dalka. Bilihii ugu dambeeyay, ayax raxanraxan ah ayaa ku faafay dagmooyin Soomaaliyeed

oo 44 ah, kaasi oo saameeyay in lagu qiyaasay 180,000 oo hektar oo ah dhul seereyaal daaqsin ah asagoo ayaxu uu ugxaan ku dhalay dariiqa uu maray. Faafitaanka ayaa keeni karay inuu yaraado wax soo saarkii badarka ee Gu'ga uuna dhimo soo saaridda caanaha iyo xoolaha nool.

- Dhibaatooyinka cimilada iyo ascaarta badeecada ayaa ku dari kara halisyo badan saadaasha ayagoo hoos u dhigi kara waxii kasoo bixi lahaa beeraha, ayagoo uga sii daraya walaaca ku saabsan helidda biyaha, oo kordhinaaya baahiyaha gargaarka bani'aadaniimo ee Soomaaliya. Halisyadaasi waxay sii dhimi karaan hawsha dhaqaalaha waxayna meesha ka saari karaan kalsoonidii lagu qabay ganacsiga.

Xulashooyinka Siyaasadda loogu talagalay Xoojinta Jawaabta laga Bixinayo Dhibaataada iyo Soo Kabashada Mudada Dhexe

Siyaasadaha loogu talagalay xoojinta jawaabta laga bixinayo dhibaataada mudada gaaban

Wanaajinta iyo kor u qaadida tillaabooyinka looga hortagayo faafitaan gudaha dalka ah. Heerka faafidda COVID-19 ee gudaha Soomaaliya waa ka sarreeyaa kan dalalka la jaarka ah. Si loo dhimo faafidda cudurka waqti kasta, dawladu waxay mamnuucday dadku inay meelo aad isugu soo xoomaan, waxay xirtay iskoolada iyo masaajida, waxayna hirgalisay xiritaanka qeybo dalka gudihiisa ah oo qeyb ah. Xoojinta lasocoshada xaalada cudurka iyo wax qabadka caafimaad waa arin mudnaan sare leh. Sare u qaadida kala fogaanta dadka iyo habdhaqanada ka hortagga ah, xataa gudaha meelaha miyiga ah, waa muhiim si dib loogu celiyo fiditaanka cudurka ee degdega ah. Si tillaabooyinkaasi wax ku ool u noqdaan, dawladu waa inay tixgaliso inay siiso xog iyo waxyaabaha lagama maarmaanka ah (cunno iyo biyo), gaar ahaan Soomaalida ugu saboolsan iyo dadka kujira xeryaha dadka gudaha dalka ku barakacay (IDP).

Kordhinta miisaaniyada waaxda caafimaadka si gacan looga geysto la dagaalanka safmarka. Nidaamka daryeelka caafimaad ee Soomaaliya waxaa uu wali yahay mid ay xumeysay dhaqaale

la'aan. Meelaha halistu ku badan tahay ee Maamulka Gobolka Banaadir iyo Dawlad Goboleedyada kale ee Federaalka ka tirsan waxay la' yihiin qalab caafimaad iyo shaqaale, taasi oo aad u xadidaysa awoodooda ay ku dareemayaan kuna aqoonsan lahaayeen in bukaano qabaan fayraska iyo in la daweeyo bukaanada. Saaxada maaliyadeed ee xadidan ee Dawlada Federaalka ah ee Soomaaliya iyo Dawlad Goboleedyada ka tirsan Federaalka intaba waxay ka dhigtaa maalgalinta tanaasulka ku dhisan iyo cawimaada farsamo ee ka timaada shiriigyada horumarinta si loo taageero jawaabta laga bixinaayo COVID-19 arin adag. Miisaaniyada dhammaystirka ah ee dawlada ee loogu talagalay 2020 waxaa ay kordhisaa qarash ku bixinta guud ee deeqaha dawladaha ka dhexeeya ayna gaarsiisaa US\$146.2 milyan (min US\$42.6 milyan dhanka qiimeynada la ansixiyay ka hor dhibaataada) iyo faaiidooyinka bulshada ilaa US\$93.4 milyan (min US\$25.0 milyan oo la ansixiyay Janaayo 2020).

Badbaadinta helidtaanka cunnada iyo dhimidda sare u kaca ascaarta inta safmarku socdo.

Xiritaanada dhaqaalaha, xiritaanada xaduudka, iyo kala fageynta bulshada ayaa horseeday carqaladoobida qeybinta badeecadaha maxaliga ah waxayna saareen cadaadis ascaarta cunnada. Ganacsato badan ayaa soo tebiya yaraanta badeecadaha lagama maarmaanka ah, sicir bararka cunnaduna sare ayuu u kacay, qeyb ahaan caqabado dartood, maadaama dadka qeybiya badeecadaha lagama maarmaanka ah ay la daalaa dhacayaan sidii ay ula qabsan lahaayeen kororka lama filaanka ah ee kuyimid baahida. Dowladdu waxay qaaday tillaabooyin ay ku khafiifinayso kharash nololeedka bulshada nugul maadaama dhibaatooyin dhaqaale ay ka dhasheen tillaabooyinka lagu joojinayo faafidda fayraska dilaaga ah. Si loo dhiirigaliyo ganacsatada badeecadaha lagama maarmaanka ah in ay kordhiyaan qeybinta, dawladu waxay bixisay waxyaabo dhiirigalin ah oo la xiriira canshuurta. Abriil 2020 waxay bilowday canshuur dhaafyo loo sameeyay cunnooyinka loogu isticmaal badan yahay dalka muddo saddex bilood ah waxayna shaacisay dhimid boqolkiiba 50 ah oo lagu sameeyay

canshuurta isticmaalka ee badeecadaha qaar (bur qamadiga iyo saliidaha cunnada lagu karsho) iyo canshuur cafin bariiska iyo timirta ah oo 100 boqolkiiba ah, si aan loo dhiirigalin in dadka qeybsha badeecadaha ay qarshaan cunnada looguna booriyo ganacsatada inay raadiyaan dariiqyo kale oo sare loogu qaado qeybinta badeecadaha.

Ballaarinta barnaamijyada daryeelka bulshada si looga badbaadiyo dadka saboolka ah iyo dadka nugul saamaynta dhibaataada. Ayadoo ay jiraan heerar sare oo raashin yari ah iyo nafaqo darro ku dhex baahsan carruurta, ayaa COVID-19 waxaa uu sigayaa inuu xaalad xun sii xumeeyo, maadaama 10kii qofbaay 7 sabool yihiin gudaha Soomaaliya. Hawsha degdega ah waa in la badbaadiyo helitaanka raashinka iyo waxyaabaha sida aasaasiga ah ay ugu baahan yihiin dadka ugu nugul. Dadka saboolka ah ee magaaloyinka iyo dadka kujira xeryaha barakacayaashu waxay la' yihiin dhaqaale ay kula qabsadaan xiritaanada magaaloyinka la xiray iyo karaantiilada loo baahan yahay in lagu dhimo faafitaanka cudurka safmarka ah. Qiyaastii 30 boqolkiiba dadku waxay wajahayaan dhibaataada ah in ay waayaan lacagihii loogu soo xawili jiray sidii isha maciishada. Ayadoo la shaqeyneysa shariigyo, dawladu waxay dajisay oo daah furtay barnaamij lacagaha dadka loogu xawilo oo loo yaqaano Barnaamijka Baxnaano — kaasi oo lagu xusay sanduuqa 1.1, isticmaalka taleefanada gacanta oo loogu tala galay gaarsiinta lacagta meeshii la doonayo. Sare u qaadida qaababka lacag xawilidda ah si loo badbaadiyo dadka saboolka ah iyo kuwa ugu nugul qoysaska, oo ay kujiraan dadka saboolka ah ee magaaloyinka, waxaa loo jecleysan karaa sidii jawaab laga bixinaayo dhibaataadaan iyo dhibaatooyinka mustaqbalka.

Siyaasadaha loogu talagalay xoojinta soo kabashada dhaqaalaha mudada dhexe

Bixinta lacag caddaan ah iyo maalgalintaganacsiga ee loogu talagalay ganacsiyada yaryar iyo kuwa heerka dhexe ee hada soo kacaya (SMEs)

inta safmarku socdo. SMEs waxay wajahayaan dhibaatooyin dhanka lacagta caddaankaah la'aanteed intay kujiraan hawlhooda maadaama ay jiraan caqabado kujira koontooyinka udhigma iyo xannibaado dhanka safarada ah. Shirkadaha wax soo dhoofinta iyo wax sii dhoofinta ayaa ay ku adkaanaysaa iminka inay fariisiyaan koontooyinka Dubai maadaama duulimaadyadii diyaaradaha la mamnuucay. Dawlada ayaa ayadoo adeegsanaysa Baanka Dhexe ee Soomaaliya waxay siin kartaa SMEs wadadii ay u mari lahaayeen deymo degdeg ah si ay u fududeeyaan wax soo dhoofin sii socota oo dalka lagu soo galinaayo cunnada aasaasiga ah iyo dawada. Waxay bixin kartaa dariiqyo loogu talagalay dhaqdhaqaaqa ganacsiga, gaar ahaana waxyaabaha daruuriga ah sida cunnada iyo dawada, si loo fududeeyo xannibaadaha safarada.

Hirgalinta dib u habaynta isku duwida dakhliga.

Hirgalinta Sharciga Dakhliga iyo Geedi-socodka Wax Kabaddalka Kastamyada waxay kordhin lahayd dakhliga kasoo xarooda gudaha dalka. Canshuururuurintu waxay u baahan tahay inay aad u kororto lagana soo uruursho meelo ka baxsan gobolka Banaadir. Dadaalada lagu doonayo in la isku habbooneysiiyo canshuuraha Dawlada Federaalka ah iyo Dawlad Goboleedyada Xubnaha ka ah Federaalka waxaa ay meesha ka saaraan caqabadaha ganacsiga ee gudaha dalka ka jira waxaana ay si waadax ah u qeexaan qeybsiga dakhliga oo xilsaarka shaqada ayaa wax badan u tari lahaa sidii loo kordhin lahaa saaxada maaliyadeed ee dawlada federaalka ah iyo dawlad goboleedyada intaba. Soo saaridda xeer-nidaamiyeyaal lagu taageero Sharciga Maareynta Maaliyada Dawlada ee dhawaan la meel mariyay waxay xoojin lahayd Maareynta Maaliyada Dawlada (PFM). Dheereynta qotada ajendaha maaliyada federaaliisimka iyo wadhadalka — oo ay kujirto naqtiimida tilmaameyaasha haatan jira ee xirmada qarashka la bixinayo ee la qoray marka hayadaha dawliga ah ay horay ugu dhaqaaqayaan hirgalinta Sharciga Dakhliga — sidoo kale waa muhiim.

Hirgalinta isbaddalada waaxda maaliyada. Ku dhajinta iyo hirgalinta dib u habaynada lasoo sharraxay Geedi-socodka Dib u Habaynta Waaxda Maaliyada ee dawlada waxay muhiim u yihiin ka dhigida nidaam maaliyadeed oo firfircoon mator loogu talagalay koboc dhaqaale, ayadoo sidoo kale la adkeynayo qulqulka lacagaha lasoo xawilo. Isbaddalada waxaa kujira horumarinta waaxyaha muhiimka ah, dheerynta qotada kormeerka waaxda maaliyada, horumarinta nidaamka qarash bixinta, xoojinta ka hortagga dhaqidda lacagaha sharci darrada ah/la dagaalanka maalgalinta argagaxisonimada (AML/CFT), qaabka shaqo ee shaqada ee sharciga ah, iyo horumarinta kaabayaasha maaliyadeed si loo taageero dhexdhexaad waxqabad fiican leh iyo in la taageero deymintan rahmaad sideed laga dhigay iyo in la dhimo halista deynta.

Keenidda Koror Waqti-dhexe oo Dhamaystiran. Wadanku waxuu howlgalinayaa istiraatiijiyaddiisa waqtiga-dhexe sida ku qeexan Qorshaha Horumarka Qaranka (NDP9) si loo sameeyo kor u qaadid wax soo saar iyo waxqabad dhaqso ah oo weyn oo sii jiri karta kaas oo dhiirigalinaya kobac sareeya oo kor u qaadaya adkaysiga. Balaadhinta ilaha kororka dhaqaalaha iyo habnololeedyadu waa mid la gaari karo waxayna tahay in kor loo qaado wax soo saarka beeraha – miraha iyo xoolahaba. Dhulalka magaalada ka baxsan tani micnaheedu waxuu yahay in habnololeedka dhaqameed iyo habka wax loo soo saaro lagu sii daro maarayn kor loogu qaadayo dhulka iyo biyaha, habab wax soo saar iyo suuqgayn kor loo qaaday, la qabsiga cimilada iyo la qabsiga miro iyo abuur abaarta u adkaysan kara, adeegyo kor loo qaaday oo kordhin ah, iyo qiimo u yeelid badeecadaha aasaasiga ah. Istiraatiijiyadan waxay u baahan tahay maalgalinno dhamaystira iyo wax ka badal lagu sameeyo kaabayaasha gaadiidka (transport), adeegyada dhaqaale, tamarta iyo ku xirnaanta dijitaalka si loo taageero wax soo saar kor u kaca ee beeraha iyo xoolaha.

Tani waxay sidoo kale keenaysaa fursado shaqo lagu siiyo dadka shaqodoonka ah ee gaar ahaan ku nool magaaloyinka.

Qiimaha Sareeya ee Badbaadinta Soomaaliya

Dagaallada hubeysan ee Soomaaliya ayaa saamayn ku yeeshay natiijooyinka dhaqaale oo liita iyo hoos u dhac la taaban karo oo tayada noloshu ku yimid.

Boqolaal kun oo Soomaali ah ayaa noqotay qaxooti ama barakacayaal gudaha ah, kuwaasi oo aan awoodin ama ka cabsi qaba inay deegaannadoodii ku laabtaan. Ammaan-darrada waxay xiriir la leedahay heerarka noloshu ee sii xumaanaya iyo hakadyada ku yimid bixinta adeegyada dawladda, gaar ahaan meelaha miyiga ah, halkaasi oo ay yaryahiin biyo nadiif ah, korontada, ama waddooyin dhisan. Colaad iyo xaalado cimilo ayaa burburiyay kaabayaashii, waxayna kor u qaadeen halista in jiilal badan oo Soomaali ah ay ku noolaadaan faqri daran, caafimaad liita, iyo aqoondaro dhanka qoraalka, akhrinta iyo xisaabta ah.

Badbaadinta dalku waxay noqotay qaali. Qarashka lagu bixiyo amaanka waxaa lagu qiyaasay US\$1.5 bilyan sanadkii, ayadoo cadadka dhaqaalaha ku baxa Hawlgalka Midowga Afrika ee Soomaaliya (AMISOM) uu u dhigmo qiyaastii kala bar kharashka guud (Taageerada Qaramada Midoobay ee Soomaaliya iyo Bangiga Aduunka 2017). Taageerada caalamiga ah ma aha mid lagu sii wadi karo heerkani. Taageerayaashu waxay soo jeediyeen in Dawladda Federaalka ah ee Soomaaliya ay dhisto awooddeeda ugaarka ah iyo istiraatiijiyaddeeda maalgalined. Sideed ka mid tobankii qof ee dowladda u shaqaysa, waxay ka shaqeeyaan waaxda amaanka, iyadoo Dowladda Federaalku ay sanadkii 2019 ku bixisay saddex meelood meel dakhligooda (US\$107 milyan) iyo 48 boqolkiiba biilasha mushaarka ee Dowladda Federaalka ah. Shaqaalaha ayaa qaata badi qarashka la bixinayo ee guud; qarashka ku baxa raasumaalka (hantida) aad ayuu u yar yahay.

Laga soo bilaabo 2017 dawladu waxay samaysay dadaallo badan oo lagu xoojinayo ciidamada qaranka. Dib u habaynta maaliyadda dowladdu waxay diiradda saartay dib u dhiska kooxo maaraynta qaabilsan oo leh madax tababaran, iyadoo la samaynayo qaab dhismeedyo maarayn iyo kuwo hay'adeed oo sidii la rabay wax u taraya, oo lala xisaabtami karo; iyadoo la samaynayo tababarro iyo horumarinta howlgalka iyo xeeladda. Laf-dhabarta dib u habayntu waxay ahayd isbadalka lagu samaynayo maaliyadda dowladeed oo ujeedkiisu ahaa inuu keeno xirfad, isla xisaabtan maaliyadeed, daah furnaan, iyo hoggaan qaran oo ay leeyihiin ciidamada qalabka sida.

Laga soo bilaabo Qiimeynta Udiyaar-sanaanta Shaqada ee 2018 (Operational Readiness Assessment), dawladu waxay sii waday dib u habaynta taxane ah ee maaliyadda dowladda ee lagu bixiyo waaxda amaanka, ayadoo ka dhigtay mid isla xisaabtamid badan. Dawladdu waxay bilowday barnaamij isbadal ah oo han-weyn kana dhigaya waaxda ammaanka mid awood leh, lala xisaabtami karo, la awoodo in qarashkeeda la bixiyo, ayna aqbali karto bulshada Soomaaliyeed. Isagoo ku salaysan Isbadalka Dhismaha Ammaanka Qaran (National Security Architecture ama NSArch), waxay ujeedada dib u habayntu tahay inay hormariso awoodda waaxda ammaanka si loo xaqiijiyo in maaliyad ahaan la sii wadi karo, oo ay waaxdu awooddo inay si waxtar leh u wadi karto adeegyada amaanka. Dib u habaynta waxaa riixaya doonitaanka in qarashka ku baxaya shaqaalaha iyo amaanka si aayar ah loogu wareejiyo in lagu maalgaliyo dadka iyo hantida raasumaalka ah.

Saamaynta ay Leedahay Isbadalka Lagu Samaynayo Amaanka

Dib u habaynta dhowr ah ayaa la hirgaliyay si dib loogu soo celiyo kalsoonidii lagu qabay waaxda amaanka, lana dhimo heerka kharashka lagu bixiyo adeegyada amniga ee hadda jira. Isbadalladan la sameeyay waxay dhaleen kayd, kuwaas oo ay dowladdu qorshaynayso inay ugu maalgaliso horumarinta bixinta adeegyada amaanka.

Bixinta mushaarka waxaa lagu horumariyay diiwaangalin ku salaysan aqoonsiga jirka oo lagu sameeya dhamaan ciidamada amaanka ee Soomaaliya, dadaalo ayaa la sameeyay si loo dhiso nidaamka maareynta shaqaalaha oo isku xiran, koontaroolo gudaha ah ayaa lagu xoojiyay. Mushaarka iyo qaar bixinta raashinka ka mid ah ayaa hadda si toos ah waxaa loogu bixiyaa akoonka ama mobaylka askarta—waa isbadal weyn marka loo eego sanado yar ka hor, iyada oo ay lacag bixintu ahayd mid marmar ay helaan, oo si toos ah ay uga qaadan jireen madaxdooda. Qarash bixinta tooska ahi waxay dhintay fursadii musuqa iyo si khaldan u isticmaalka qarashka. Iyada oo ku shaqaynaysa aqoonsiga jireed, waxay xoojisay in nidaamku yeesho isla-xisaabtan; waxayna meesha ka saartay lacag bixin hoosaad, in lagu celceliyo lacag bixinta, ama in lacag la siiyo shaqaale aan jirin; waxayna kor u qaaday daacadnimada lacagta lagu bixiyo waxyaalaha muhiimka ah.

Diiwaan galinta aqoonsiga jirka ku salaysan waxay suurtagalinaysaa xaqiijinta in qarashaatku gaaraan qofkii saxda ahaa ee loogu tala galay. Waxay abuurtay asaaska isbadallada daacadnimada ee mustaqbalka. Dhammaystirka wajiga labaad ee diiwaangalinta, ee Oktoobar 2019, waxaay dawladda siisay xog ku filan oo la galiyo miisaaniyada 2020. Hannaanka diiwaangalintu wuxuu sidoo kale keenay in qarash yar loo kordhiyo askarta. Dib u habayntaan waxay muhiim u tahay in waaxda amaanku ay si haboon u shaqayso; laakiin waxay sidoo kale caqabad ku tahay doodaha ay dagaalyahannadu isticmaalaan oo ay ku helaan dad iyaga ushaqeeya. Dib u habaynta lacag-bixinta, qaab-dhismeedka, soo-galinta iyo ka-saaridda ee waaxda amaanka ayaa la samaynayaa, si loo suurtagaliyo in la joogteeyo, oo ay ku jirto in la maro kala-dirid ciidan. Qayb weyn oo isbadalka ka mid ah waa in waaxda amaanka lagu soo kordhiyo – qarash hawlgab oo ballaaran ayadoo la adeegsanayo Hindise Sharciyeedka Hawlgabka iyo Mahadnaqyada (Pensions and Gratuities Bill).

Si loo dhammaystiro koontaroolo horumarsan, dawladdu waxay samaysay hal meel oo ay isagu yimaadaan qandaraas bixinta waaweyn ee Ciidanka Qaranka ee Soomaaliya (SNA), iyada oo la raacayo Xeerka Soo-iibsiga (Procurement Act), si loo dajiyo nidaam cad iyo hab-dhaqan la raaco ee soo-iibsiga dowladda, dib u habaynnadani waxay yareeyeen qarash-garaynta aan la ogayn oo la iska bixiyo, iyadoo dhashay kayd, hoosna u dhigtay halista musuq-maasuqa.

Waxa la Yeelayo Mustaqbalka

Dowladda Federaalka ah ee Soomaaliya waxay qorshaynaysaa inay dajiso geedi-socodka maaliyadda dowladda oo ay ku jiraan isbadallada hanka weyn ee soo socda:

1. ***Sii wadid dadaallada lagu dhisayo nidaamyada iyo kordhinta daahfurnaanta Maaraynta Maaliyadda Dowladda (Public Finance Management (PFM)).*** Dadaallada waxaa ku jiri doona dhisidda awoodda hay'adeed ee hay'adaha amaanka, xoojinta awoodda maaraynta maaliyadda dowladda, iyo kordhinta maalgalin lagu sameeyo horumarinta awoodaha hay'adaha muhiimka ah ee maamulka bulshada iyo dadka dowladda oo idil, iyada oo ku salaysan talabixinta Gudiga Maamulka Maaliyadda (Finance Governance Committee (FGC)). Dib u habaynnadu waxay taageeri doonaan go'aan gaarid maaliyadeed oo istaraateji ah, samaynta Dhismaha Amaanka Qaran (NSArch), wax ka badalka dastuurka, iyo Qorshaha Sagaalad ee Horumarinta Qaranka.
2. ***Sii wadid horumarinta sharuucda, siyaasadaha, iyo xeerarka hagaya ahmiyadaha waaweyn ee dib u habaynta waaxda amaanka iyo in lagu saleeyo qaab-dhismeedka jira ee maaraynta maaliyadda dowladda (PFM).*** Qaybaha ku jira waxaa ka mid ah maaliyadda guud, shaqaalaha, saadka, howlgabka, iyo hab-raacyo iyo nidaamyo kale oo aasaas u ah kormeerid iyo xisaabin.
3. ***Sii wadidda xoojinta habraacyada, nidaamyada maareynta maaliyada, iyo koontaroolada gudaha ee waaxda amaanka, oo ay kujiraan shaqaaleyn xooggan, abuuridda nidaam mushaar bixin ah oo si joogto ah qarashka iyo raashinka loogu bixiyo.*** Tillaabooyinka waxaa ku jiraya kordhinta awoodda waaxda amaanka, ee ay ku maaraynayso qandaraasyada, kuna xaqiijinayso bixinta badeecadaha iyo adeegyada. Horumarka laga gaaray hagaajinta qandaraas-bixinta iyo dhaqangalinta qandaraasyada raashinka dib ayuu u dhacayaa, haddii awoodda dadka iyo nidaamyada lagu maamulo ay hoos u dhacdo.
4. ***Ballaarin diiradda lagu saarayo nidaamyada si loo horumariyo koontaroolada gudaha, loona xoojiyo hawlaha la xisaabtanka gudaha ee wasaaradaha iyo ciidamada ee ka baxsan qaybaha qarashka ugu badan lagu bixiyo ee waaxda amaanka.*** Dadaalka waxaa ku jiraya la shaqaynta Xaafiiska Xisaabiyaha Guud iyo Xaafiiska Handti Dhowrka Guud, si loo xaqiijiyo qarash-garayn lagu xisaabtami karo ee waaxda amaanka, iyada oo horumarka laga gaaray qarash-bixinta qaybaha mushaarka iyo raashinka lagu sii kordhinayo qarashaadka saadka, maaraynta hantida rasumaalka, iyo qarashaadka howlgalka.
5. ***Abuuridda waaxda amaanka oo la awoodi karo mustaqbalka.*** Dadaallada waxaa ku jiraya isticmaalka macluumaadka kasoo baxa Nidaamka Xogta Maareynta Maaliyada Soomaaliya (SFMIS), Nidaamka Xogta Maareynta Shaqaalaha (HRMIS), iyo hannaanka diiwaangalinta, si loo fahmo meelaha qarashyadu ka imaanayaan, garashada meesha ay suurtagalka tahay in qarash laga dhimo, dib u qoondaynta khayraadka, iyo qiimaynta sida qarash-bixintu ay u taageerayso ujeedooyinka muhiimka ah ee amaanka. Tusaalayn lagu sameeyo saamaynta COVID-19 uu ku yeeshay maaliyadda dowladda, waxay muujinaysaa

isbadalka la samayn karo iyo kala horumarinta muhiimka ah ee dhaqangalinta Dhismaha Amaanka Qaranka (NSArch) iyo in si la awoodo loo sii bixin karo adeegyada amaanka ee Soomaaliya.

6. ***Dhaqangalinta tillaabooyin maaliyad ahaan wanaagsan, si qiyaas saxan loogu sameeyo ciidamada, ayadoo loo eegayo saadaalinta maaliyadda iyo istiraatiijiyada mudada dhexe, ayadoo la hawlgalinaayo aalado kala duwan, oo ay kujiraan qarashaadka hawlgabka iyo samaynta ciidan kayd ah.*** Dadaallada waxaa ku jira dhaqangalinta sharciga hawlgabka,

taageeridda saadaalinta miisaaniyadda, iyo xaqiijinta in qarash-bixinta lagu daray nidaamyada maaraynta maaliyadda dowladda (PFM).

7. ***Sii xoojinta xiriirrada dowladda dhexdeeda ee ku saabsan dib u habaynta, iyo isku-duwidda xiriirrada lala yeesho taageerayaasha caalamiga ah.*** Dadaalladu waxay hoos u dhigayaan inaan la ogayn kala horaynta ahmiyadaha, waxay kordhinayaan taageerada, waxayna wax ka qabanayaan nusqaanka lagu arko istiraatiijiyada maalgalinta mudada-dhexe ee ciidamada amaanka.



RECENT ECONOMIC DEVELOPMENTS



1. Recent Economic and Social Developments

1.1 The Global and Regional Context

The global economy is projected to contract because of the COVID-19 pandemic

The global economy is projected to contract sharply because of the economic and health crisis precipitated by the COVID-19 pandemic.

The containment and mitigation measures to combat the virus have led to global lockdowns and widespread closures of economic activities. As a result, the global economy is projected to contract by 4.9 percent in 2020, 7.4 percentage points lower than the January 2020 estimate of 2.5 percent growth before the COVID-19 pandemic (World Bank 2020a). The projection assumes that the pandemic will be contained this year and that normalization will return in 2021, when growth is projected to recover to 4.2 percent. The global contraction in 2020 reflects supply disruptions, the tightening of global financial market conditions, shifts in spending patterns, and volatile commodity prices.

Sub-Saharan Africa is facing its first recession in 25 years

The pandemic has frozen large parts of the domestic economy, slowed regional and international trade, shut down businesses, and weakened governments' balance sheets as they try to mitigate the negative consequences of the shock. Countries in the region will be affected differently, but the region as a whole is projected to contract by 2.8 percent in 2020, down from the January 2020 estimate of 2.9 percent growth (World Bank 2020a). The projected contraction reflects multiple shocks, including containment and mitigation measures put in place to limit the spread of COVID-19 that disrupted production, sharply reduced demand, disruption of supply chains, deterioration of both consumer and investor confidence, withdrawal of international capital, and

disruption of remittance inflows. Countries in the region that rely on commodities will face drastic fall in prices; countries that rely on services face steep declines in demand as a result of containment measures.

Countries in fragile situations will experience significant slowdowns in economic growth.

As the pandemic causes declines in remittances, foreign direct investment (FDI), and official grants, it will test these countries' healthcare infrastructure and adherence to health measures necessary to stop the spread. Growth in fragile states in Africa is expected to decline to 0.3 percent in 2020, down from 3.8 percent in 2019. These countries tend to have a disproportionate number of poor people, who are more likely to become infected with the coronavirus, as social distancing is difficult to implement, and they have limited access to healthcare services.

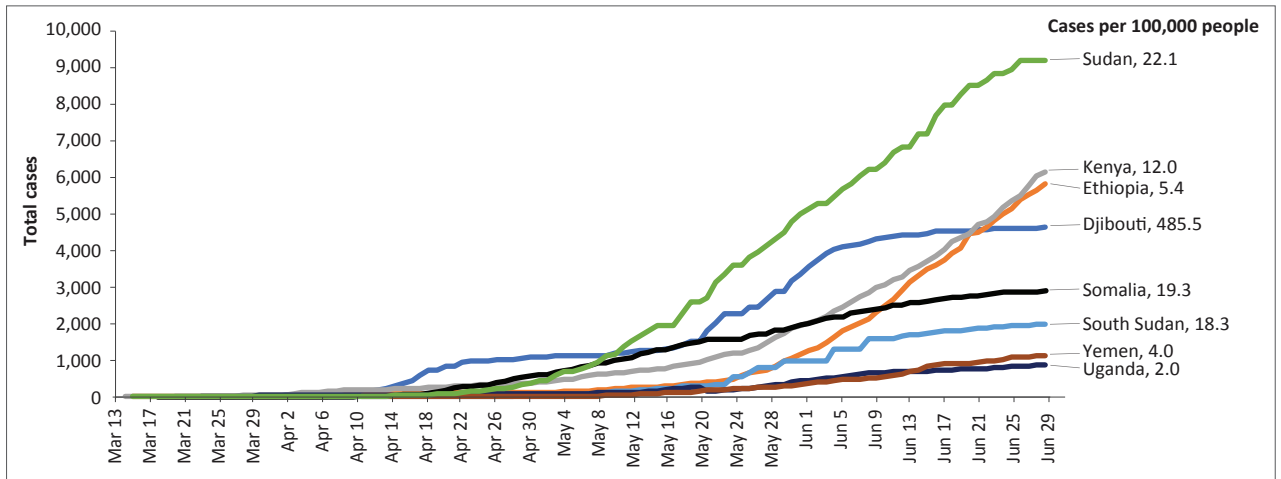
1.2 Recent Economic and Social Developments in Somalia

COVID-19 is spreading rapidly—and the health system is unprepared to deal with it

Since recording its first case, on March 16, Somalia has seen a rapid spread of COVID-19. By June 30, 2020, Somalia reported 2,904 confirmed cases, 90 deaths, and 932 recoveries. The rate of spread has been much faster in Somalia than in other countries in the region (Figure 1.1). The exponential rate of community transmission in Somalia threatens the already weak healthcare infrastructure. If transmission is not slowed, the patient surge and increasing demand for healthcare will overwhelm the country's fragile health system.

The government has responded rapidly to the crisis, but the challenge is daunting. Since the first case of coronavirus was recorded, the government



Figure 1.1: The number of cases of COVID-19 per capita is higher in Somalia than in some neighboring countries

Source: <https://ourworldindata.org/covid-cases> (accessed July 1, 2020) and World Development Indicators database.

has scrambled to put measures in place to slow its spread. In introduced a curfew from 8 p.m. to 5 a.m., imposed social distancing measures, closed international borders except for returning Somalis, banned large gatherings and subsequently implemented a partial to full domestic lockdown, allocated additional government resources to the health sector, built in-country diagnostic capacity, strengthened surveillance and contact tracing per the World Health Organization (WHO) protocol, and increased public education and outreach.

Despite the measures put in place, the virus has continued to spread. Conflict in Somalia has pushed millions of people to migrate to urban areas for safety, increasing the number of people living in internally displaced persons (IDP) camps. Nearly 70 percent of Somalia's total estimated population of 15 million people are poor. Most have limited to no education, making it challenging to communicate preventive and health/hygiene guidelines. Even if communication were possible, millions of Somalis have limited or no access to essential services, including healthcare, running water (including soap), and sanitation, and social distancing is not an option for poor people and people in IDP camps, whose communities depend on shared resources and spaces. IDPs and the poor have larger than average households. They tend to be unemployed

and particularly vulnerable to market shocks such as spikes in food prices. Vulnerable groups, especially IDPs, are therefore more likely than the average Somali to contract the coronavirus.

Throughout the country, overcrowding and lack of sufficient amenities and resources make mitigation difficult. The average household size in Somalia is 6.2 people (6.6 in urban areas, 5.7 in rural households, and 5.3 in nomadic households). Densely populated urban areas may be the main driver of COVID-19 cases in Somalia. Most of them have limited access to essential services including healthcare, running water (including soap), sanitation.

Public information on how to avoid infection may not be reaching most of the population. Most people lack access to radio, TV, or newspapers, according to the 2020 Somalia Health and Demographic Survey 2020. Most of the citizens have limited-to-no education, giving authorities the challenge of communicating the required COVID-19 preventive and health/hygiene guidelines. The government is struggling to implement the dusk-to-dawn curfew in the capital and the ban on public gatherings, as some Somalis insist on going to the mosque and do not practice social distancing.

Lack of access to healthcare has contributed to poor health outcomes creating vulnerability to COVID-19. According to the Somalia Health and Demographic Survey, 6 percent of the population is suffering from chronic diseases, such as high blood pressure (33 percent), diabetes (20 percent), asthma (6 percent), and heart disease (5 percent), which are important co-morbidity conditions for COVID-19.

The health sector is unprepared to handle the COVID-19 pandemic. It faces shortages of medical equipment (including sanitizer, masks, and ventilators) and most imported medical products. Somalia ranked 194th out of 195 countries on the Johns Hopkins Global Health Security Index in 2019, scoring zero on several indicators, including emergency preparedness, emergency response, infection control practices, and healthcare access. Decades of conflict and the ongoing security challenges have left Somalia's health system infrastructure broken and unable to respond to any health crisis. The sector is underfunded, facilities are inadequate and dilapidated, and bed capacity ranges from few (in the main densely populated urban centers) to none (in rural areas). Somalia has just 2 healthcare workers per 100,000 people (the global standard is 25) and only received testing equipment for the national laboratory facilities to

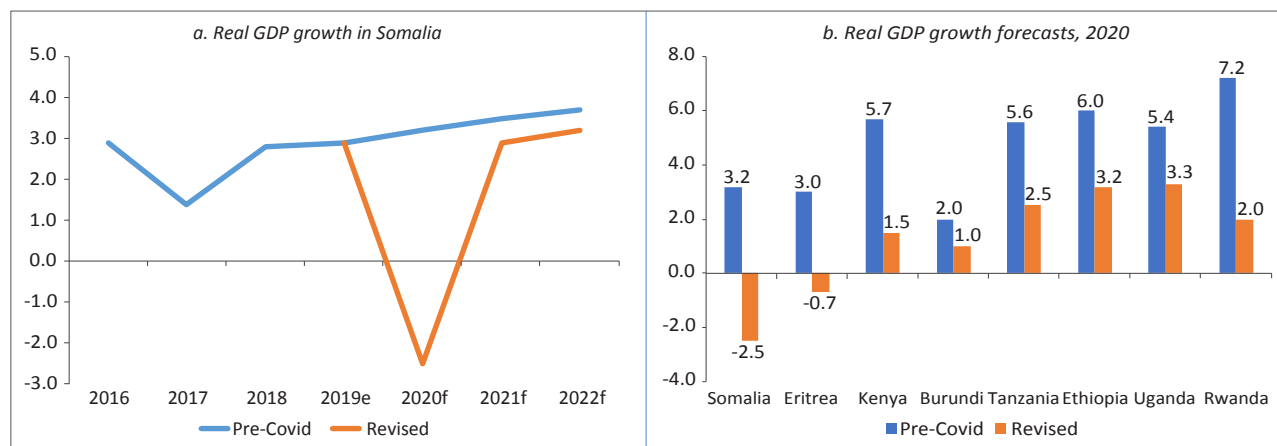
test and confirm cases of COVID-19 in April 2020. All of these challenges make it difficult for Somalia to mount an adequate, timely, and effective response to the COVID-19 crisis.

COVID-19 has interrupted Somalia's economic recovery

The COVID-19 global pandemic has interrupted Somalia's growth trajectory. Before March, 2020, Somalia's economy was on an upward trajectory, recovering from the 2016/17 drought (Figure 1.2). The economy grew at an estimated rate of 2.9 percent in 2019, on par with population growth. Before the pandemic, the economy was projected to grow by 3.2 percent in 2020. Increased confidence in the economy; higher than normal *Dyer* rainfall season, which facilitated a productive season in the agricultural sector; operationalization of reforms in the financial and telecommunication sectors; and small-scale investments and entrepreneurial activities in urban areas all contributed to the growth recovery before the pandemic.²

Economic activities in the services sector were strong in 2019. In the financial sector, private sector credit, a key indicator of appetite for risk, grew 11.8 percent in 2019, up from 9.2 percent in 2018, driven by funding needs to finance opportunities in import and export business, trade,

Figure 1.2: COVID-19 has caused a much larger drop in economic growth in Somalia than in its neighbors



Sources: IMF and World Bank staff estimates and World Bank, *Global Economic Prospects*. Note: GDP growth rates for Ethiopia and Uganda are on a fiscal year basis.

² Somalia has four distinct seasons: The rainy seasons are *Gu* (April–June) and *Dyer* (October–November); the dry seasons are *Hagaa* (July–September) and *Jiilaal* (December–March).

telecommunication, transport, manufacturing, infrastructure, and SMEs. The improved business environment was enhanced by an improved economic outlook. The increase in private credit points to the uptake in finance consumption and investment by both firms and households to undertake opportunities offered by the economic environment. Demand for private sector credit contributed to economic growth.

The COVID-19 pandemic has significantly changed the economic outlook for 2020. The economy is now projected to contract 2.5 percent in 2020. Slowdown in economic activities, declining remittances, falling exports, and the government-mandated closures of airports and businesses to contain the spread of the virus are slashing household income. Consumption of households will fall sharply, with supply disruptions and panic buying likely to lead to an uptick in prices in an economy that depends on imports even for food products. Previous shocks—export bans, drought, famine, floods—affected just a few sectors and/or Federal Member States (FMSs). This pandemic has brought all sectors to a standstill. Federal and state governments face large declines in revenues at the very time they must launch a coordinated national response to the crisis.

The agriculture sector is suffering from both the locust invasion and COVID-19

Even before the locust and COVID-19 shocks, agriculture production was suffering from delayed *Gu* season rain in 2019. The rains started late and were significantly below average in most of Somalia. Rainfall in most of central and southern Somalia was 25–40 percent below average, and the levels of the Shabelle and Juba rivers remained very low, causing moderate to severe drought conditions to persist through mid-May. As a result, by September 2019, up to 2.2 million people across Somalia faced food consumption gaps and acute malnutrition. Insufficient rains led to significant reductions in the area planted and the yields of cereal crops. *Gu* cereal production in southern Somalia was estimated at

41,000 tons, including 6,900 tons of off-season harvests expected in late August/September. This *Gu* harvest was the lowest since 1995, 68 percent lower than the long-term average for 1995–2018. As a result of late and insufficient rains, the *Gu* cereal harvest failed in most regions, leaving most poor agro-pastoral and riverine households unable to meet their minimum food needs. In pastoral areas, poor pasture conditions were evident in Mudug, Galgadud, Bakool, Bay, Gedo, and Middle Juba. The availability of saleable animals was low, constraining the ability of poor households to feed their families and purchase water for their animals. Milk availability was below average to poor.

In the last quarter of 2019, came the first wave of desert locusts, which caused moderate damage.

The presence of mature desert locusts in Somalia was broadly limited to pastoral areas on the border with Ethiopia and Kenya. The upsurge spread to northern Somalia in mid- to late 2019, facilitated by above-average *Deyr* rainfall in October–December and Cyclone Pawan. As swarms moved to central and southern Somalia, abundant rainfall permitted the regeneration of pasture and offset losses in pastoral areas (FEW and FSNAU 2020). By the time swarms reached southern agro-pastoral areas, most crops had already reached maturation stages or had been harvested. According to Somalia’s Food Security and Analysis Unit (FSNAU), desert locusts caused main season *Deyr* crop losses of about 2 percent.

The *Deyr* rainfall season boosted agricultural production toward the end of 2019, facilitating the most productive *Deyr* season since the 2016/17 drought.

Farmers in most agro-pastoral areas realized above-average sorghum and maize yields (FAO 2020). Sorghum and maize production in southern Somalia was 111 percent of the 2010–18 and 126 percent of the 2014–18 five-year averages. The regions of Bay and Lower Shabelle accounted for nearly 75 percent of the total sorghum and maize harvest, producing 23 percent and 12 percent above their respective regional postwar

averages. For the livestock sector, the *Dyer* rains increased the availability of pasture and water, leading to increases in the restocking of animals and milk production.

The heavy rains also caused floods, however, displacing people and destroying irrigation infrastructure. Severe flooding to riverine areas in the south affected 570,000 people and displaced up to 363,000, according to the United Nations High Commissioner for Refugees (UNHCR, 2020). River water levels caused damaged along the Juba and Shabelle rivers (FAO SWALIM 2020), causing significant crop losses and damaging irrigation infrastructure in riverine areas, which produce primarily maize, sesame, and horticultural crops. According to FSNAU crop production data, 20 percent of the 252,720 hectares planted with sorghum and maize were damaged, including 2 percent attributed to locust damage.

The COVID-19 pandemic and the second wave of desert locust invasion pose a massive threat to agricultural production. They hit Somalia just as crops were being planted for the *Gu* season, threatening the livelihoods of a majority of the Somali population. Farm inputs for crop production have been severely affected by measures to limit the spread of COVID-19 in Mogadishu. The movement of farms inputs and fresh produce to markets is also being affected.

The second wave of desert locusts pose a massive threat to Somalia's food security and livelihoods in 2020. According to the Food and Agriculture Organization (FAO 2020), an estimated 4.5 million people in Somalia are at risk of hunger and livelihood losses. Locust swarms are destroying swathes of farm and grazing land; ravaging crops and pastures; and destroying the livelihoods of hundreds of thousands of people, including riverine farmers, agro-pastoralists, pastoralists, and people already displaced by the locust infestation. Somalia declared the infestation a national emergency on February 2, 2020. Insecurity, the remoteness of

some locations, and a lack of resources has made it difficult to control the swarms.

COVID-19 has hit the services sector hard

Service sectors are hardest hit by the COVID-19 pandemic. To contain the pandemic, the government has ordered shops and restaurants to close; local markets and demand for transport services have all but disappeared. Commercial banks loans to trade, real estate, and hotels declined by 17.3, 25.6, and 17.5 percent, respectively year on year growth in March 2020. The decline in services is particularly challenging because many workers in the retail trade, hospitality, and transport subsectors are poor and informal.

Services sector performance in the first quarter of 2020 (before the effects of the pandemic were felt) was mixed. In the financial sector, commercial banks' external cash and domestic cash increased by 7.2 and 22.7 percent respectively year on year in March 2020 while as external payments declined. Deposits were lower by 4 percent. Loans to construction, vehicles, and households increased by 14.5, 7.8 and 27.9 percent, respectively year on year in March 2020. Data from mobile transfer bureaus indicate that remittances grew 4 percent and foreign direct investment (FDI) declined 24 percent in the first quarter. In the trade subsector, imports fell 25 percent in first quarter year on year in March 2020, mainly because of the bumper harvest of the *Dyer* rainy season in 2019. Imports of oil grew 45 percent, as Somalia took advantage of lower oil prices. Imports of clothes and footwear increased by 56 percent in preparation for *Ramadhan* festivities. Imports of medical products rose 329 percent in March 2020 year on year.

Remittances are projected to decline by 2.5 percentage points of GDP in 2020. The projected drop will slow activities in the industrial and services sectors, as consumers' ability to pay declines. The significant drop in international oil prices will reduce production costs.



Table 1.1: Selected economic and financial indicators in Somalia, 2018–22

| Item | 2018e | 2019e | Before COVID-19 | | Since COVID-19 | | 2022f |
|--|--------|--------|-----------------|--------|----------------|--------|--------|
| | | | 2020f | 2021f | 2020f | 2021f | |
| GDP and poverty | | | | | | | |
| Nominal GDP (millions of US\$) | 4,721 | 4,942 | 5,218 | 5,507 | 4,632 | 5,070 | 5,340 |
| Real annual GDP growth (percent) | 2.8 | 2.9 | 3.2 | 3.5 | -2.5 | 2.9 | 3.2 |
| Nominal per capita GDP (US\$) | 332 | 338 | 347 | 357 | 331 | 335 | 344 |
| Poverty incidence (at US\$1.90/day PPP) | 69 | ... | .. | .. | .. | .. | .. |
| Money and prices | | | | | | | |
| CPI inflation rate (eop) | 3.2 | 3.1 | 3.0 | 2.5 | 3.0 | 2.5 | 2.2 |
| Annual growth in private credit (percent) | 9.2 | 11.8 | 12.6 | 15.9 | 12.6 | 16.1 | 19.6 |
| Private credit as percent of GDP | 2.3 | 3.9 | 4.4 | 4.9 | 4.2 | 4.7 | 5.2 |
| Central government fiscal accounts (percent of GDP) | | | | | | | |
| Total revenue and grants | 5.7 | 6.8 | 9.5 | 10.8 | 12.0 | 11.0 | 12.5 |
| of which external grants | 1.8 | 2.2 | 5.0 | 6.0 | 8.0 | 6.5 | 7.8 |
| Total expenditure | 5.7 | 6.3 | 9.1 | 9.5 | 12.4 | 10.7 | 12.1 |
| of which compensation of employees | 3.0 | 3.3 | 4.2 | 4.3 | 4.9 | 5.0 | 5.4 |
| of which intergovernmental grants | 0.6 | 0.9 | 0.8 | 0.8 | 2.1 | 1.3 | 1.6 |
| Overall balance, net | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 |
| Central government external accounts (percent of GDP) | | | | | | | |
| Current account balance | (10.3) | (13.7) | (2.3) | (12.5) | (12.7) | (11.6) | (10.9) |
| Trade balance | (84.8) | (88.7) | (88.9) | (89.3) | (96.4) | (90.7) | (85.8) |
| Exports of goods and services | 23.7 | 22.7 | 22.6 | 22.3 | 15.2 | 23.1 | 21.6 |
| Imports of goods and services | 108.5 | 111.3 | 111.5 | 111.6 | 111.6 | 113.8 | 107.5 |
| Remittances, private transfers | 31.4 | 31.9 | 32.4 | 32.7 | 30.2 | 31.2 | 29.4 |
| Official grants | 43.9 | 43.7 | 44.9 | 44.9 | 53.7 | 48.7 | 46.2 |
| Foreign direct investment | 8.6 | 9.1 | 8.9 | 9.0 | 9.1 | 9.4 | 9.1 |
| External debt | 111.3 | 106.4 | 73.3 | 70.1 | 84.1 | 77.4 | 74.1 |
| Exchange rate (shilling/dollar) | 24,475 | 26,015 | | | | | |

Source: FGS, IMF, and World Bank estimates.

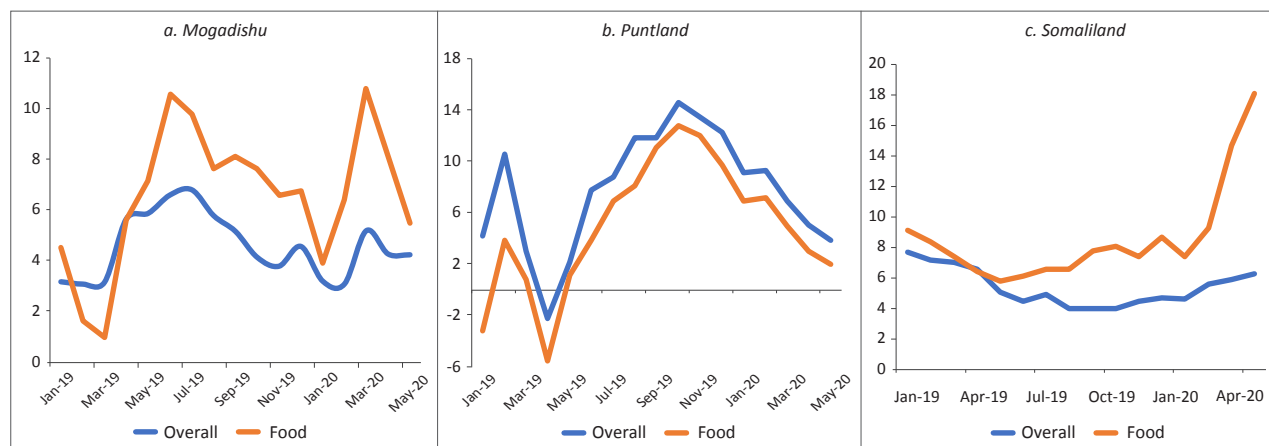
Note: e = estimated; f = forecast; eop = end of period; PPP = purchasing power parity.

Inflation will remain moderate, despite the impact of COVID-19

Inflation remained low in 2019. The weight of food in Somalia's consumer price index (CPI) basket is 46 percent; food prices are therefore a driver of overall inflation. The delay in *Gu* rains in the first half of 2019 led to food price increases of 1.0 percent

(in March 2019) to 10.6 percent (in July 2019). However, because of the heavy rains, which led to good harvests of cereals and pastures for livestock, inflationary pressure dissipated in the second half of 2019. Year-on-year overall inflation declined to 4.6 percent, driven by food prices, which declined 6.8 percent.

Figure 1.3: Inflation remained in single digits through March 2020, although it rose in Mogadishu and Somaliland



Source: MOPIED, DNS (2020).

Source: Puntland authorities.

Source: Somaliland authorities.

The COVID-19 pandemic will increase inflationary pressures in 2020 as supply chains are disrupted.

The lockdowns, border closures, and social distancing measures caused localized supply disruptions and panic buying, resulting in food price surges (Figure 1.3). Year-on-year inflation rose from 3.1 percent in February 2020 (before the pandemic) to 5.2 percent in March 2020 (after the pandemic reached Somalia's shores). Policy actions by the government, including tax exemptions on basic commodities, may have eased shortages.

Somalia depends on imports for a wide range of consumer goods, including basic goods such as rice, flour, pasta, oils, sugar, and pharmaceuticals.

Prices of these commodities may be seriously affected by the disruption in world trade. Even before the pandemic, consumer price inflation had risen in Mogadishu, and Somaliland (see Figure 1.3). If these disruptions are sustained, food prices will increase, disproportionately affecting low-income households, which are already suffering the most from the impact of COVID-19.

The second wave of desert locust infestation is destroying crops and putting additional pressure on food prices.

Swarms have infested southern Somalia and could destroy crops and grazing pastures during the 2020 *Gu* rainy season. Prices of cereals are likely to rise, as the locust infestation hits cereal production and lowers milk and

livestock production, reducing the ability of poor households in locust-affected areas to cope with the loss of agricultural output and labor income.

Despite these shocks, overall inflation is projected to reach just 3.0 percent in 2020.

This moderate inflation masks the considerable variability of food prices across regions and states. Prices in Puntland and Somaliland tend to be higher than prices in southern Somalia. Prices of cowpeas are almost twice as high as prices in Jubaland and Southwest; goat prices are almost 2.5 times higher in Puntland than in Jubaland (US\$87 versus US\$36). Variations in agricultural production and exposure to weather shocks are among the principal factors explaining such differences.

Fiscal pressures are mounting because of the COVID-19 pandemic

The COVID-19 pandemic poses the gravest fiscal challenge to Somalia since the formation of the federal political system.

Federal, state, and local governments are experiencing large shortfalls in revenues, reversing years of steadily improving domestic revenue mobilization, which resulted from improvements in tax administration and policy. Domestic revenue increased 25 percent in 2019 to reach 4.6 percent of GDP, enabling the FGS to close 2019 with a fiscal surplus of 0.5 percent of GDP (Table 1.2).

Table 1.2: Fiscal operations of the Federal Government of Somalia, 2018–20 (Percent of GDP)

| Item | 2018 | 2019e | 2020 budgets | | | 2020f | 2021f |
|---------------------------------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|
| | | | Approved | Revised | Difference | | |
| Revenue and grants | 5.7 | 6.8 | 10.1 | 12.5 | +2.4 | 12.0 | 10.4 |
| Revenue | 3.9 | 4.6 | 5.1 | 3.6 | -1.4 | 4.0 | 4.3 |
| Tax revenue | 2.9 | 3.1 | 3.4 | 2.3 | -1.0 | 2.5 | 2.8 |
| Tax on income and profits | 0.2 | 0.2 | 0.2 | 0.2 | -0.1 | 0.2 | 0.2 |
| Taxes on goods and services | 0.5 | 0.5 | 0.6 | 0.4 | -0.2 | 0.4 | 0.4 |
| Taxes on international trade | 2.1 | 2.2 | 2.3 | 1.6 | -0.7 | 1.8 | 2.0 |
| Other taxes | 0.2 | 0.2 | 0.2 | 0.1 | -0.1 | 0.2 | 0.2 |
| Non-tax revenue | 0.9 | 1.5 | 1.7 | 1.3 | -0.4 | 1.5 | 1.5 |
| Grants | 1.8 | 2.2 | 5.0 | 8.9 | +3.9 | 8.0 | 6.1 |
| Bilateral | 0.5 | 0.7 | 0.6 | 0.6 | +0.0 | 0.6 | 0.6 |
| Multilateral | 1.3 | 1.5 | 4.4 | 8.2 | +3.9 | 7.4 | 5.5 |
| Total expenditure | 5.7 | 6.3 | 10.2 | 14.7 | +4.5 | 12.4 | 10.1 |
| Current | 5.5 | 6.1 | 9.4 | 13.8 | +4.4 | 11.4 | 9.5 |
| Compensation of employees | 3.0 | 3.3 | 4.8 | 5.0 | +0.2 | 4.9 | 4.7 |
| Use of goods and services | 1.7 | 1.9 | 2.9 | 3.3 | +0.4 | 3.1 | 2.8 |
| Interest and other charges | 0.0 | 0.0 | 0.0 | 0.1 | +0.1 | 0.0 | 0.0 |
| Intergovernmental grants | 0.6 | 0.9 | 0.9 | 3.3 | +2.4 | 1.9 | 1.2 |
| Social benefits | 0.0 | 0.0 | 0.5 | 2.0 | +1.5 | 1.3 | 0.6 |
| Contingency and other expenses | 0.1 | 0.0 | 0.3 | 0.1 | -0.2 | 0.1 | 0.1 |
| Purchase of non-financial assets | 0.2 | 0.3 | 0.9 | 1.0 | +0.1 | 1.0 | 0.6 |
| Overall fiscal balance | 0.1 | 0.5 | -0.2 | -2.3 | -2.1 | -0.4 | 0.3 |
| Financing sources | -0.1 | -0.5 | 0.2 | -0.1 | -0.3 | 0.4 | -0.3 |
| Net use of cash balances | -0.1 | -0.5 | 0.2 | 0.2 | +0.0 | 0.7 | 0.0 |
| Net change in arrears (- = reduction) | 0.0 | 0.0 | -0.1 | -0.1 | +0.0 | 0.0 | 0.0 |
| Net new debt (- = payment) | 0.0 | 0.0 | 0.0 | -0.3 | -0.3 | -0.3 | -0.3 |
| Overall fiscal balance, net | 0.0 | 0.0 | 0.0 | -2.4 | -2.4 | 0.0 | 0.0 |

Source: FGS Ministry of Finance, IMF, and World Bank estimates.

Notes: Figures for the approved January budget are scaled by the revised (post-COVID-19) GDP, June estimates. Figures for 2020f are World Bank projections aligned with the baseline GDP growth scenario. e = estimated; f = forecast. .. = Negligible.

In its baseline outlook, the World Bank projects that revenue will fall 20 percent in 2020, but losses could be higher if the pandemic is more severe than expected. Unlike most other national governments, the FGS is not able to use fiscal policy to help the economy respond to shocks. It cannot run a budget deficit to provide counter-cyclical stimulus, because it is in external debt distress and has no sources of domestic credit. Federal and state

governments alike face difficulties adjusting the composition of spending to meet changing needs, because so much of their budgets is allocated to employee compensation, critical security needs, and basic public administration. The FGS must therefore mobilize external grants to make up for domestic revenue shortfalls and to finance spending on new initiatives.

The Somali authorities are taking steps to use this crisis to strengthen intergovernmental collaboration and mount a coordinated national response to COVID-19. Federal and state finance ministers are meeting regularly. They have agreed to increase the frequency, scope, and granularity of fiscal data sharing to inform a shared understanding of the severity of the crisis. Taking advantage of the restoration of Somalia’s regular access to concessional financing from international financial institutions (IFIs) that occurred when the country reached the Heavily Indebted Poor Country (HIPC) Decision Point, the FGS has moved quickly to seek new external grants for general budget support and the financing of projects that will deliver social benefits to households, restore the livelihoods of people affected by the crisis, improve health systems, and increase resilience to flooding and other natural hazards. The FGS has prepared a revised 2020 budget that provides for spending up to US\$146.2 million in intergovernmental grants, which would enable Somaliland, Benadir, and the FMSs to overcome the shortfalls in revenue collection they are experiencing and meet increased spending needs.³

This section of the *Somalia Economic Update* first reviews the first quarter fiscal outturn. It then analyzes the channels through which the crisis

is affecting FGS revenue and the FGS’s response. It closes by summarizing developments at the state level.

Revenue and spending were on track in the first quarter of 2020

Revenue mobilization was on an upward trajectory before the onset of the crisis. This reflects gains from previously implemented tax policy reforms and stronger economic activity just before the first COVID-19 case in Somalia. Domestic revenue increased 10 percent in the first quarter of 2020 compared with the same period in 2019 (Table 1.3). Licenses, fees, and other nontax revenue—mainly from new fishery license and overflight fees—accounted for most of the increased collection of domestic revenue. Trade, income, and corporate taxes recorded marginal growth during this period. Taxes on goods and services declined 16 percent; other taxes, mainly stamp duties (notary), declined 9 percent compared with the same period in 2019. The reduction suggests possible delayed collections/deferrals, as the first case of the COVID-19 outbreak in Somalia was reported in late March 2020, resulting in travel restrictions, implementation of social distancing measures, and uncertainty in the business sector. The surge in donor grants in the first quarter of 2020 was driven by a US\$45.1 million disbursement of budget

Table 1.3: Revenue collection by the Federal Government of Somalia, first quarter 2019 and 2020

| Item | 2019 Q1 (millions of US\$) | 2020 Q1 (millions of US\$) | Percentage change (year on year) |
|----------------------------|-------------------------------|-------------------------------|--|
| Total revenue and grants | 58.5 | 122.4 ^a | 109 |
| Domestic revenue | 54.0 | 59.5 | 10 |
| Tax revenue | 36.2 | 36.1 | 0 |
| Income and corporate taxes | 2.1 | 2.4 | 13 |
| Taxes on goods & services | 5.9 | 5.0 | (16) |
| Trade taxes | 25.3 | 26.1 | 3 |
| Other taxes | 2.9 | 2.6 | (9) |
| Nontax revenue | 17.8 | 23.4 | 31 |
| Grants ^a | 4.5 | 62.9 | 1,302 |

Source: FGS Ministry of Finance.

Note: ^a Includes budget support from the International Development Association (IDA) of US\$45.1 million.

³ The information on the FGS 2020 revised budget presented in this Economic Update is drawn from the approved budget by the Cabinet in August.

support in from the World Bank Reengagement and Reform Development Policy Financing operation in March 2020.

FGS spending during the first quarter of 2020 was well above its 2019 level, although well within targets set in the approved 2020 budget (Table 1.4).

The 46 percent increase in spending on compensation of employees reflects both the pay raise given to security personnel and a change in the way in which compensation of security personnel is recorded (allowances received by the Somalia National Army (SNA) are now recorded with compensation of employees instead of as procurement of goods and services). An 88 percent year-on-year increase in intergovernmental grants also contributed to the rise in spending in the first quarter. One consequence of Somalia normalizing relations with IFIs and reaching the HIPC Decision Point is that the government has resumed servicing its outstanding debt to the African Development Bank and the World Bank.

The revised 2020 FGS budget and outlook for 2020 assumes a worst-case scenario

The FGS prepared a revised 2020 budget in June, based on a worst-case scenario of the pandemic's impact; it was approved in August. Because of challenges associated with revising the annual budget, the Ministry of Finance had been preparing supplemental budgets no more than once per

year, usually in the third quarter. This year it began preparing a revised budget in March—as soon as the global pandemic reached Somalia but long before the severity of the crisis could be forecast with much certainty. The Ministry of Finance assumed a worst-case scenario for the fiscal impact of the crisis, in which disruptions extend into the fourth quarter. This assumption resulted in a forecast that FGS domestic revenue could fall to 3.6 percent of GDP in 2020 (the pre-COVID expectation was that it would reach 5.1 percent). In contrast, the World Bank's baseline scenario assumes that the recovery begins in the fourth quarter and that domestic revenue falls to 4.0 percent of GDP. State governments' revenue shortfalls are deeper in the downside scenario. The revised budget therefore contains provisions to increase intergovernmental grants to up to 3.4 percent of GDP.

Although the budget presents proposed spending in excess of expected revenue, the FGS will not run a budget deficit.

Based on this downside scenario of revenue shortfalls and without making optimistic assumptions about future external grants, the revised budget shows a deficit of 2.3 percent of GDP (see Table 1.2). Even if the FGS exhausted its cash savings carried over from 2019, the financing gap would be 2.4 percent of GDP, because of planned repayment of previous years' domestic arrears and the need to repay external debt to IFIs.

Table 1.4: Spending by the Federal Government of Somalia, first quarter 2019 and 2020

| Item | 2019 Q1 (millions of US\$) | 2020 Q1 (millions of US\$) | Percentage change (year on year) |
|----------------------------|-------------------------------|-------------------------------|--|
| Total expenditures | 48.4 | 67.4 | 39 |
| Current spending | 46.7 | 65.8 | 41 |
| Compensation of employees | 29.2 | 42.7 | 46 |
| Use of goods and services | 10.6 | 8.8 | (17) |
| Interest and other charges | 0.0 | 1.5 | .. |
| Intergovernmental grants | 6.8 | 12.9 | 88 |
| Social benefits | 0.0 | 0.0 | 0.0 |
| Contingency | 0.04 | 0.0 | (100) |
| Capital spending | 1.7 | 1.5 | (11) |

Source: FGS Ministry of Finance.

In practice, the FGS will not face a financing gap, as the Appropriation Act prevents it from entering into new spending commitments when cash balances are insufficient. When revenue falls short, the sequestration rules in the Appropriation Act require the Ministry of Finance to postpone discretionary spending.⁴ If revenue is not available, the Ministry of Finance envisions forgoing its plan to pay US\$2.5 million toward previous years' arrears, deferring some planned capital spending, and spending less than the full increase in intergovernmental grants that the revised budget provides for.⁵

Governments will reassess the fiscal outlook as new data become available. If economic disruptions prove to be less severe than expected, the FGS revenue shortfall will be less than projected in the revised budget, as will the need to increase spending on grants to cushion revenue shortfalls experienced at the state and local levels. If conditions are as bad or worse than projected in the downside scenario, the FGS will need to redouble its efforts to mobilize additional external grants and forgo some of the additional spending included in the revised budget.

Domestic revenue will fall substantially in 2020

The COVID-19 pandemic will reverse the trend of steadily improving revenue mobilization. The World

Bank projects that domestic revenue will fall short of the 2020 budget by around US\$50 million (a 25 percent shortfall) in a scenario where disruptions from the pandemic are felt mainly in the second and third quarters, and the economy begins to recover in the fourth quarter. Domestic revenue is projected to fall to 3.6 percent of GDP in 2020 from 4.6 percent in 2019—well below the 5.1 percent of GDP envisioned in the approved 2020 budget (Table 1.2). Taking a precautionary stance, the FGS has prepared a revised budget built on a downside scenario where disruptions extend into the fourth quarter, resulting in a projection that domestic revenue will fall by US\$67 million to 3.6 percent of GDP in 2020.

Declining revenue associated with international trade and travel accounts for most of the shortfall.

Travel restrictions, flight suspensions, airport and border closures, and social distancing measures will lead to declines across the major domestic revenue streams (trade taxes, nontax revenue, and taxes on goods and services), which account for 78 percent of the revenue shortfall in the revised 2020 budget (Table 1.5). Somalia will experience import compression because of slowdowns in its main trading partners (the Gulf Cooperation Council countries, China, India, and Turkey). Customs and other import duties and harbor fees will fall as a result. The closure of airports halted the legal

Table 1.5: Main contributors to projected revenue shortfall in Somalia in 2020

| Revenue instrument | Shortfall (millions of US\$) | Share of total shortfall (percent) |
|---|------------------------------|------------------------------------|
| Sources related to international trade and travel | 52.3 | 78 |
| Customs and sales taxes on imports | 36.3 | 54 |
| of which import tax on <i>khat</i> | 9.0 | 13 |
| Harbor and overflight fees, stamp duty | 4.8 | 7 |
| Sales taxes on airline tickets and hotels | 2.3 | 3 |
| Taxes and fees paid by businesses (excluding international trade) | 6.1 | 9 |
| Corporate profit tax | 1.5 | 2 |
| Stamp duties (excluding customs), road taxes | 4.6 | 7 |

Source: World Bank staff estimates using FGS 2020 revised budget projections.

⁴ In the event that cash balances are insufficient to meet expenditure commitments, the Appropriation Act's sequestration clause requires the Ministry of Finance to pay commitments in the following order: (1) compensation and rations for security personnel; (2) finance costs; (3) civilian compensation; (4) allowances for political appointees; (5) nondiscretionary goods, services, and intergovernmental grants; (6) wages and allowances included in discretionary expenditure from last year's budget; and (7) discretionary expenditure, arrears, and advances.

⁵ The Revised Budget Policy Framework Paper suggests that spending on grants would rise to US\$90.3 million instead of to US\$154.9 million.

importation of *khat* (mainly from neighboring Kenya and Ethiopia) and therefore tax revenue from this stream. The airport closure is severely reducing revenue from overflight fees, visa charges, passport fees, and administrative charges.

The FGS is also providing temporary tax relief to ease the impact of the crisis on households.

Tax exemptions on staples (a three-month tax holiday effective from April 15, 2020) and a 50 percent reduction in consumption tax for some commodities (wheat flour and vegetable oils) are expected to discourage hoarding by suppliers and encourage traders to seek alternative routes to boost commodities' supply. To offset revenue losses from these measures, the government introduced permanent tax and customs duty increases on tobacco, beauty products, and plastic bags.

Declines in revenue from other taxes and fees paid by businesses are also substantial.

Lower collection of corporate profit taxes, stamp duties, and road taxes account for 9 percent of the revenue shortfall expected in the revised 2020 budget. Mobility restrictions have reduced domestic commerce and therefore firm profitability. Social distancing and movement restrictions also contribute to revenue losses, because some tax instruments continue to be collected in person and have not yet been automated.

Reaching the HIPC Decision Point is enabling the FGS to mobilize additional grants to finance its response to the COVID-19 crisis.

External grants are projected to rise to 8.9 percent of GDP in 2020, up from 5.0 percent in the approved 2020 budget and 2.2 percent in the 2019 outturn. On-budget external grants are estimated to increase by 3.9 percentage points of GDP above the estimates presented in the January 2020 approved budget. Multilateral grants account for over 90 percent of the total commitments and are dominated by the World Bank and the European Union. Turkey was

the sole provider of bilateral grants in 2020. No new bilateral commitments are expected in the revised budget.

Expenditure will increase as Somalia tries to contain the rapid spread of COVID-19

The FGS is providing cash transfers to households and increased intergovernmental grants to address the crisis.

The World Bank projects that total spending will rise to 12.4 percent of GDP in 2020, up from 10.2 percent in the 2020 budget approved in January and 6.3 percent in the 2019 outturn (see Table 1.2). Additional cash transfers to households delivered through the national Baxnaano Program (Box 1.1), which was launched in April 2020, and increased grants to subnational jurisdictions to address their revenue shortfalls account for over 70 percent of this projected increase. The launch of the Baxnaano Program marks a fundamental change in the composition of FGS spending. It marks the first time the FGS is providing social benefits directly to households to increase their resilience to shocks and avoid food insecurity. The value of these transfers is projected to reach 1.3 percent of GDP in 2020.

Grants to subnational jurisdictions are another core element of the FGS response to the crisis.

In its revised budget, the FGS proposes to increase these grants by up to US\$104 million—an increase of 244 percent over 2019—to help them cover their revenue shortfalls and address the crisis (Figure 1.4).⁶ The proposed size of grants to each jurisdiction is calibrated to the revenue shortfalls and spending needs they discussed with the FGS as part of the dialogue on a national response to the crisis.⁷ They reflect factors such as the jurisdiction's reliance on revenue from international trade and travel. Needs will be reassessed in the coming months as new economic and fiscal data become available, with the size of transfers reduced if revenue shortfalls are not as severe as currently projected.

⁶ This figure excludes the allocation of fishing license revenue under the March 2019 Fisheries Agreement. These funds are recorded in the budget as intergovernmental grants.

⁷ Discussions between the FGS and the FMSs continue to progress through the Intergovernmental Fiscal Forum. Meetings held in April and May 2020 emphasized the need for a nationwide and collective response to COVID-19.

>> Box 1.1: Supporting poor and vulnerable households through the Baxnaano Program

The Somalia Shock Responsive Safety Net for Human Capital Project (SNHCP)—known as the Baxnaano Program—provides cash transfers to targeted poor and vulnerable households and establishes the building blocks of a national shock-responsive safety net system in Somalia. Launched in April 2020, the three-year program is expected to enhance resilience by investing in the ability of communities and households to cope with shocks and crises and protect their human capital. With a view toward longer-term development, the program is also supporting efforts by the FGS to strengthen institutional resilience and establish the basic delivery mechanisms of a national social safety net system.

The program, which is financed through a grant from the International Development Association, is guided by the principles of government ownership and capacity strengthening, collaboration with partners, and complementarity with humanitarian assistance. It expects to provide 200,000 poor and vulnerable households (about 1.2 million individuals) across Somalia with nutrition-linked cash transfer.

The program includes three components:

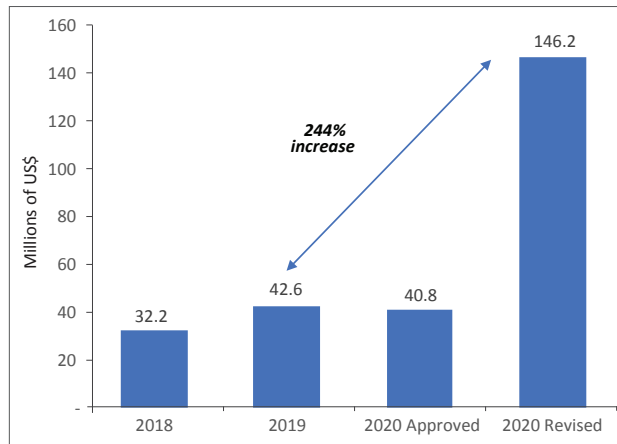
- The Nutrition-Linked Cash Transfer component seeks to provide unconditional cash transfers to households that are chronically poor and vulnerable to drought and malnutrition and to link them to complementary nutritional support programs (where they exist). This component covers 21 districts across Somalia and focuses primarily on rural areas (which are often in the “Stressed” category and are underserved by humanitarian assistance programs) with a targeting methodology established to identify beneficiaries.
- The Delivery Systems and Institutional Capacity Building component aims to establish the building blocks of a social protection delivery system, advance policy development, and strengthen the institutional capacity of relevant ministries in the FGS and the FMSs to gradually take over full management and implementation of the program. It hopes to establish a foundation for a more comprehensive social protection system in Somalia.
- The Project Management, Monitoring and Evaluation, and Knowledge Management component constitutes a Project Implementation Unit (PIU) at the FGS level and Liaison Officers at the FMS level in order to strengthen coordination between the Ministry of Labor and Social Affairs and other ministries and stakeholders at the federal and FMS level. This component also supports knowledge management and learning activities, including documenting the lessons and experiences of implementation, in an effort to (a) promote learning by doing and adjustments to project design and knowledge dissemination and (b) contribute to global knowledge on designing and implementing social protection interventions in fragile contexts.

The program is being scaled up in anticipation of a larger locust infestation in 2020. Households already benefiting from the Baxnaano Program and residing in locust-affected areas will receive a temporary top-up of US\$40 per household per month, in addition to their regular US\$20 benefit. Households that are not regular Baxnaano beneficiaries will be paid US\$60 per household per month. These benefits will be provided for six months.

The composition of FGS spending remains difficult to adjust, apart from externally financed activities, because almost all expenditures are recurrent and nondiscretionary. The wage bill and the use of goods and services account for nearly 60 percent of total expenditures; these

items are estimated to cost 8.3 percent of GDP in 2020. Somewhat paradoxically, the FGS arguably spends both too much and too little on personnel: The wage bill is exceptionally high as a share of total spending compared with other countries but exceptionally small as a share of GDP or per capita.⁸

⁸ For discussion of the wage bill, see World Bank (2020b).

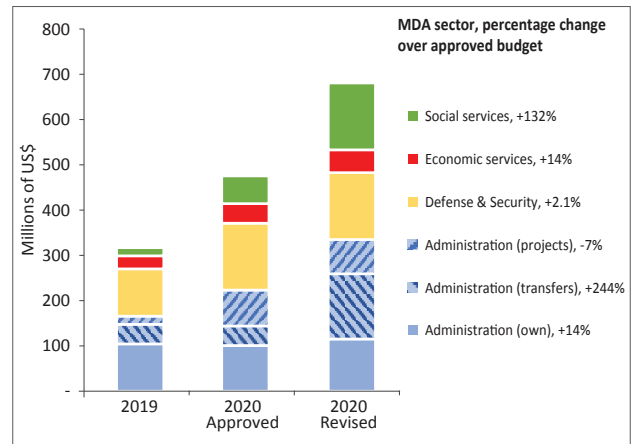
Figure 1.4: Intergovernmental grants will rise dramatically in 2020

Source: World Bank staff estimates based on Ministry of Finance budget documents.

Note: Amounts do not include fishing license revenue to FMSs or grants to the Somalia Chamber of Commerce and the Development Bank of Somalia.

Capital spending is expected to grow to 1.0 percent of GDP in 2020, up from 0.3 percent in 2019. Donor-financed capital spending is projected to increase almost fourfold—from the low base of US\$6.2 million in 2019—and to account for 84 percent of the projected increase.

Administration and security sector MDAs continue to dominate FGS budgets, although spending on projects and intergovernmental grants accounts for most of the growth in spending. Since its creation in 2013, the FGS has allocated most of its budget to security and general administration, reflecting the demands posed by security conditions and the need to rebuild state institutions as the country progresses out of fragility.⁹ A noteworthy development in 2020—especially in the revised budget—is the large increase in spending on intergovernmental grants (244 percent increase from the 2020 budget approved in January), social (132 percent) and economic services (14 percent) over the budget approved in January 2020 (Figure 1.5). The intergovernmental grants and projects' activities are overseen mainly by the Ministry of

Figure 1.5: Changes in the FGS sectoral composition of spending, 2019–20

Source: FGS Ministry of Finance and World Bank staff estimates.

Notes: The revised figures for 2020 show the percentage change over the approved budget. Intergovernmental grants are recorded in the budget as spending by the Ministry of Finance and, to a lesser extent, the Ministry of Interior, which are classified under the administration sector. Multisectoral donor-funded projects are presented in the FGS budget as spending by the Ministry of Finance.

Finance, which is classified as an administration sector. Other spending by administration sector MDAs is projected to increase by a modest 14 percent; spending by defense and security MDAs is also projected to increase slightly by 2 percent.

Spending by social services MDAs has also increased in respond to the crisis. The ministries of health, education, labor, and social services and other social services MDAs received larger allocations in the January 2020 budget, and the revised budget allocates an additional 132 percent to these MDAs. The health sector which has more tripled compared to the approved estimates, accounts for 25 percent of this increase. The cash transfers provided through the Baxnaano Program account for 72 percent of the projected additional spending by social services MDAs in 2020, while the education sector account for the remainder 3 percent. Increased spending on procurement of goods and services by these sector ministries' account for 22 percent of the increase in 2020. Social benefits and capital spending accounted for 72 and 5 percent of the increase respectively.

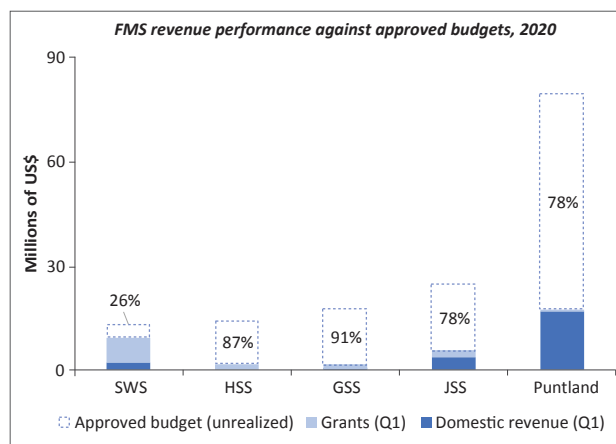
⁹ Broad sectoral groups of MDAs are used here, as the FGS does not organize budget data using a functional classification (see World Bank 2020b).

The COVID-19 pandemic is causing revenue shortfalls at the state level

Subnational governments face an array of revenue mobilization challenges, including a narrow tax base, underdeveloped legal frameworks for tax policy and administration, and weak administration capacity. Most rely mainly on one or two revenue sources to finance their operations. Trade taxes account for most domestic revenue in jurisdictions with ports (Somaliland, Puntland, and Jubaland). These revenues have declined because of lockdowns and closures, restrictions, and reduced imports. Taxes on goods and services, which also raise substantial revenue in these states, are also affected by the slowdown in economic activities, reduction in consumption, and travel restrictions/social distancing measures. States with no ports (South West, Galmudug, and HirShabelle) are overly reliant on grants (from both the FGS and external sources). These states will face heightened budget implementation challenges because of the COVID-19 crisis if donor finances do not increase their support.

Jubaland and Puntland recorded stronger revenue performance in the first quarter of 2020, but revenues are expected to deteriorate as the COVID-19 crisis continues to escalate. In the first quarter of the year, domestic revenue collection performance was 88 percent in Puntland and 76 percent in Jubaland. This revenue performance represented a 22 percent execution rate of their respective approved budgets (Figure 1.6). In South West, HirShabelle, and Galmudug, grants drove revenue collection. They covered over 70 percent of the overall budget in South West. Revenue collection in HirShabelle and Galmudug represented just 13 percent and 9 percent, respectively, of their 2020 approved budgets.

Figure 1.6: States will rely on intergovernmental transfers for their fiscal operations and COVID-19 crisis response



Source: FGS and FMS ministries of finance.

The initial impacts of the COVID-19 pandemic were already being felt toward the end of the first quarter, with some tax revenue streams, such those related to importation of goods and the aviation sector, beginning to decline. For example, the declining port operations in Jubaland and Puntland are expected to reduce customs revenue. The restrictions on importing *khat* will also result in reduced revenues across the FMS. With fiscal performance expected to deteriorate, subnational jurisdictions are banking on intergovernmental transfers to materialize to provide the much-needed support for the COVID-19 crisis response and offset revenue shortfalls. The fiscal impact vary across the FMSs, with Puntland estimating this at US\$51.46 million, which is over 80 percent of domestic revenues. Somaliland estimates revenue shortfall of US\$36.6 million, but this figure could increase if the crisis does not abate in the short term, as customs revenue accounts for over three-quarters of its total revenue. Reports that Somaliland has revoked its ban on *khat* and that Puntland has eased restrictions on interregional commerce provide some grounds for optimism that their domestic revenue shortfalls will not be as severe as anticipated.

>> Box 1.2: Moving the Fiscal Federalism Agenda Forward – A Spotlight on Security and Sharing Revenues

Somalia is emerging from decades of conflict, where the Provisional Constitution marked substantial progress in state-building. The ‘government’ consists of Five Federal Member States (FMS), a Federal Government of Somalia (FGS), and the self-declared Republic of Somaliland. The Provisional Constitution assigns four functions to the FGS, which includes foreign affairs, national defense, citizenship and immigration and monetary policy, while the assignment of responsibilities for a wide range of other functions still need to be defined.’ Likewise, the Provisional Constitution does not provide for a division of resources or a system of intergovernmental transfers, stating only that the distribution of resources should be ‘fair’, and that responsibility for the raising of revenues shall be given to the level of government ‘where it is likely to be most effectively exercised’. The ongoing Constitutional Review Process provides a framework to discuss and agree the division of functional and revenue assignments.

The Provisional Constitution acknowledges that internal security is a shared function between the FGS and the FMS. It is explicitly stated that the ‘Federal Government shall guarantee the peace and ... national security of the Republic through its security services, including the armed forces and the police force.’ At the same time, the Provisional Constitution acknowledges that the FMSs may have their own police forces, stating that the ‘police forces established by the FMS have the mandate to protect lives and property and preserve peace and security locally, alone or in cooperation with the federal police force.’ In this respect, an agreement to share responsibilities for internal security between the FGS and FMS levels would draw similarities with the constitutions of other federal countries such as Brazil and Ethiopia.

Going forward, a priority issue is to specify the extent of federal involvement in the internal security of each state. In 2017, an agreement was reached on Somalia’s national security architecture, which calls for a Somali National Army (SNA) charged with safeguarding and defending national interests and a Somali police force, divided into Federal and State Police forces. While the agreement limits the size of the federal army and the number of personnel in the police force, it does not specify how numbers should be divided between the FGS and FMS levels. The respective responsibilities of the FGS and FMS levels are also not defined, and whether the state (FMS) level forces are expected to ensure security within the FMS solely or with the support of the Somalia National Army (SNA). Under the London agreement, the federal government would be responsible for the salaries and support requirements of the SNA. The member states would be responsible for the salaries and support requirements of the state-level police. Internationally mobilized resources (donor support) for the security sector would be ‘equitably distributed across the Federal and FMS level’. As security-related expenditures are likely to continue being a substantial portion of public spending, it will be important to reach agreements on the extent of federal involvement in the internal security of each state.

Discussions on the assignment of functions should be accompanied by dialogue on how these responsibilities will be financed. The FGS and the FMS are largely dependent on taxes on international trade (particularly for the FMS with major ports) and Official Development Assistance, which supports the financing of transfers. Currently, the different jurisdictions collect and administer taxes on international trade on an autonomous basis. However, there is a strong economic rationale for the FGS to have exclusive power to impose trade-related taxes, as this would support the implementation of a common tariff policy (a prerequisite for entering various trade-related agreements), remove the random element of geography from the determination of each state’s tax revenues, and eliminate the practice of tax exporting. However, if steps are taken to centralize taxes on international trade, this expanded revenue base for the FGS could be used to finance a federal transfer, which could help to compensate states for lost revenues. Individual states could be further authorized to impose direct taxes, such as the personal income tax and a retail sales tax.

The ongoing discussions on the Provisional Constitution provide opportunities to address the structure of the federal system, accompanied by smaller agreements that build trust. Apart from establishing the structure of the state (the organization of Parliament, the role of the head of state, the federal election system), a federal constitution typically provides the broad outlines of the relationship between the central government and the states. These provisions are intended to be permanent—or at least difficult to change. As discussions on the Provisional Constitution continue, there is also a case for pursuing more modest targets, where rapid, concrete results that clearly benefit the participants can be achieved. Such measures will not create a federal Somalia. But they can build trust among the federal government and the members states, which could be the basis for more comprehensive agreements later on.

The national response to the COVID-19 crisis highlights the importance of furthering intergovernmental relations dialogue.

Government authorities are taking concerted efforts to deepen and sustain fiscal federalism agenda, albeit challenges.¹⁰ Some of the progress made so far include attempts on the division of functions and assignment of revenues between the FGS and FMSs (Box 1.2). Furthermore, the COVID-19 crisis is testing the role of the FGS in responding to the pandemic across the country. In the early stage of COVID-19 in Somalia (end of March 2020), the FGS shared a socio-economic assessment of the pandemic, which covered the expected losses across all the jurisdictions. As discussed earlier in this section, the draft 2020 FGS revised budget contains a huge increase in inter-governmental transfers, aimed mainly towards offsetting the revenue losses and meeting the increased spending needs at the subnational level. This is likely to heighten pressure towards deepened fiscal federalism efforts as well as for more integrated PFM reforms across jurisdictions. While challenges remain, notable progress in PFM has been achieved at both the FGS and FMS levels with strong support from partners including establishment of FMIS systems and good financial reporting, establishment of external audit institutions, and reduced cash advances. Continued implementation of PFM reforms is expected to yield efficiency gains, accountability, and sustainability in the use of public finances.¹¹ Such reforms are underway in the security sector (see Part 2 of the report).

March 2020 marked a huge milestone for Somalia's public debt

Somalia reached a milestone in March 2020 – it reached the HIPC Decision Point and the IMF and World Bank approved its qualification to receive assistance under the HIPC Initiative. This decision followed Somalia's clearance of arrears to AfDB, IDA and IMF, thus restoring the country's access to regular concessional financing from these institutions. Reaching the Decision Point

places Somalia on a path to receive irrevocable debt relief from its external creditors (Box 1.3). The government is presently negotiating terms of debt relief with bilateral and multilateral creditors. Meanwhile it is implementing measures, known as “floating Completion Point triggers,” that promote stronger public financial management, improved governance, enhanced delivery of social programs, private sector-led growth and resilience (listed in box 1.3 below). The irrevocable debt relief that Somalia receives when it reaches the HIPC Completion Point will provide fiscal space for much needed investments in poverty reduction and inclusive growth.

However, the country remains in arrears to most of its creditors, and the March 2020 IMF-World Bank Debt Sustainability Analysis (DSA) accordingly confirms that Somalia is still in debt distress.

Although clearing arrears to IFIs has reduced the present value of external debt to 41 percent of GDP, this remains well above the 30 percent threshold for countries with weak capacity to manage debt. The DSA finds that the stock of outstanding debt will remain unsustainably high until Somalia reaches the HIPC Completion Point, under the assumption that Somalia receives expanded relief under the Multilateral Debt Relief Initiative (from AfDB and IDA) and Beyond HIPC relief from other creditors. At the Completion Point, the present value of any remaining debt is projected to fall to around 8 percent of GDP and 35 percent of exports.

The financial sector remains stable, but the COVID-19 crisis will increase risks

Somalia's banking sector remains healthy (Table 1.6). Banks remain well capitalized, with core capital standing at US\$96 million and total net assets of US\$551 million in March 2020. Share capital increased 94.2 percent year on year in March, and banks' total income increased 23.2 percent. Customer deposits grew 20.0 percent year on year, driven by growth of individual deposits,

¹⁰ World Bank. 2020. Somalia: “Moving the Federalism Agenda Forward.” Washington, DC: World Bank.

¹¹ World Bank. (forthcoming). Somalia PFM Assessment. Washington, DC: World Bank.

>> Box 1.3: Somalia has reached the HIPC Decision Point: What does it mean?

Reaching the HIPC Decision Point normalizes Somalia’s relations with the international financial community and reopens access to critical funding. As the country continues on its path toward stability and development after 30 years outside the international financial system, the immediate normalization of its relations with the international community reopens access to critical financial resources to strengthen the economy, help improve social conditions, revamp poverty reduction efforts, and generate sustainable employment opportunities for Somalis.

Somalia will receive irrevocable debt relief when it implements the measures listed below—known as “floating Completion Point Trigger”—and thereby reaches the HIPC Completion Point:

1. Poverty reduction strategy implementation
 - Satisfactorily implement Somalia’s full poverty reduction strategy for at least one year, as evidenced by an annual progress report submitted by the government to IDA and the IMF.
2. Macroeconomic stability
 - Maintain macroeconomic stability, as evidenced by satisfactory implementation of the three-year program supported by the Extended Credit Facility (ECF).
3. Public financial and expenditure management
 - Publish at least two years of the audited financial accounts of the FGS.
 - Issue regulations to implement the Public Financial Management Act’s provisions on debt, public investment, and natural resource revenue management.
4. Domestic revenue mobilization
 - Adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia (to foster greater trade integration).
5. Governance, anti-corruption, and natural resource management
 - Enact the Extractive Industry Income Tax Law.
 - Ratify the United Nations Convention against Corruption (UNCAC).
6. Debt management
 - Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12 months ahead; annual principal payment projections (for at least the next five years); and key portfolio risk indicators (including the proportion of debt falling due in the next 12 months, the proportion of variable rate debt, and projected debt service-to-revenue and debt service-to-exports ratios for the next five years).
7. Social sectors
 - Establish a national unified social registry as a functional platform that supports registration and the determination of potential eligibility for social programs.
 - Have FGS and FMS ministers of health adopt a joint national health sector strategy.
 - Have FGS and FMS ministers of education adopt an agreement defining their respective roles and responsibilities on curriculum and examinations.
8. Growth/structural
 - Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.
 - Issue Company Act implementing regulations on minority shareholder protection (to encourage private sector investment).
9. Statistics
 - Publish at least two editions of the Somalia Annual Fact Book.

IFIs provided a measure of debt relief in March 2020, when Somalia cleared its arrears with the three institutions – IMF, World Bank, and African Development Bank. When Somalia reaches the Completion Point, they will provide irrevocable relief on all remaining debt Somalia owes them. At the start of the HIPC process, Somalia’s public and publicly guaranteed external debt was estimated at US\$5.3 billion in NPV terms. Application of traditional debt relief mechanisms reduces this debt to US\$3.7 billion. Additional debt relief under the enhanced HIPC Initiative is estimated at US\$2.1 billion in NPV terms. Of this amount, US\$843 and US\$1,225 million is projected to be provided by official multilateral and bilateral creditors, respectively.

Source: IMF (2020) and World Bank (2020).

Table 1.6: Banking sector performance in Somalia, 2019 and 2020

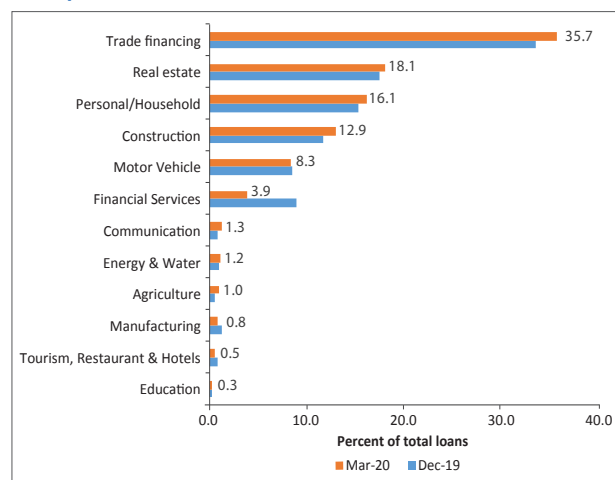
| Item | March 2019 | March 2020 | Percentage change (year on year) |
|--|------------|------------|----------------------------------|
| Balance sheet items (US\$ millions) | | | |
| Loans | 197.1 | 215.3 | 9.2 |
| Total net assets | 417.0 | 550.9 | 32.1 |
| Gross total assets | 426.1 | 562.9 | 32.1 |
| Customer deposits | 343.9 | 412.8 | 20.1 |
| Total capital (CBS/BS/REG/02) | 52.2 | 96.7 | 85.0 |
| Net profit after tax | 0.9 | -0.3 | -130.3 |
| Nonperforming financial assets | 5.1 | 8.6 | 67.7 |
| Total shareholder's equity | 55.2 | 107.3 | 94.2 |
| Ratios (percent) | | | |
| Nonperforming loans/gross loans | 1.2 | 1.5 | |
| Profit/equity | 1.7 | -0.3 | |
| Capital/assets | 12.3 | 17.2 | |
| Loans/deposits | 46.3 | 38.2 | |

Source: Central Bank of Somalia.

which rose 12.5 percent. Deposits by commercial entities grew 40.1 percent. Total loans grew 9.2 and assets of commercial banks 32.1 percent year on year. As of December 31, 2019, consolidated commercial banks' customer deposits were US\$ 430 million (8.7 percent of GDP), up 29.5 percent over 2018. Total assets of commercial banks grew 34.0 percent in 2019, after increasing 20.3 percent in 2018. Consolidated lending by commercial banks to the private sector was US\$206 million (4.2 percent of GDP) as of December 31, 2019.

Lending patterns by commercial banks remained largely unchanged in the first quarter of 2020.

Lending to the top four subsectors remained the same in the first quarter of 2020 as in the fourth quarter of 2019 (Figure 1.7). The main subsectors enjoying commercial bank lending were trade (36 percent), real estate (18 percent), households (16 percent), and construction (13 percent). These subsectors increased their share of lending in the first quarter, suggesting that the impact of the COVID-19 crisis was not yet felt.

Figure 1.7: Lending behavior showed no major shifts in the first quarter of 2020

Source: Data from the Central Bank of Somalia.

Somalia has no monetary policy levers for dealing with the current crisis. Unlike other countries with their own local currency, Somalia's economy is majorly dollarized. As such, it has no monetary policy capability. In addition, domestic money markets are in their infancy, and the central bank has few assets and cannot provide liquidity to the market. The main function of the Central Bank of Somalia is prudential supervision.

In 2019, the Central Bank of Somalia implemented several reforms. They included issuing mobile money regulation to support the stability of the financial system; issuing new regulations to boost the AML-CFT framework by covering all financial institutions and broadening enforcement of AML-CFT provisions to support a greater flow of international payments; and creating a payments system unit to work with the private sector to establish a national payments system. These reforms increased market confidence, enabling the financial sector to grow. They should provide some support to the financial system during the current crisis.

Somalia's external position will improve, but remittances and FDI will decline

The drop in international trade will improve Somalia's external position. The current account position is expected to improve by 1 percentage

point, to -12.7 percent of GDP in 2020, as imports of goods and services drop to 111.1 percent of GDP and exports to 115.2 percent (Table 1.7). The improvement reflects the global disruption in the supply lines because of COVID-19 crisis and the decline in both remittances and official grants. The disruption of supply lines is expected to lead to import compression; the fall in remittances and official grants will lower the demand for imports. At the same time, exports are expected to decline, as a result of reduced demand, mainly for livestock because of the cancelled *Hajj*.

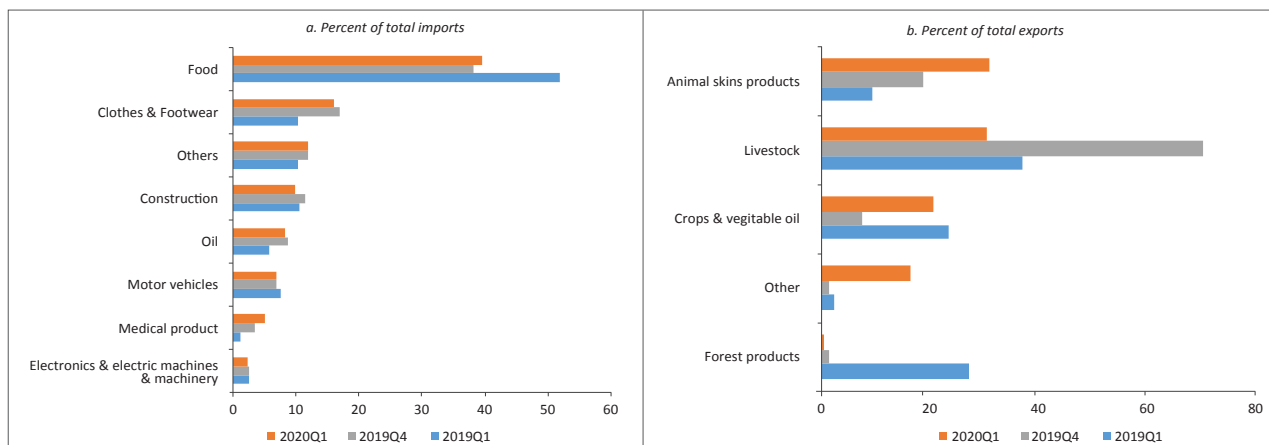
The COVID-19 pandemic did not affect trading activities in Somalia in the first quarter of 2020 (Figure 1.8).¹² During the first quarter, the value of oil imports increased 45 percent year on year, because of the decline in international oil prices and the uptick in demand. The 329 percent increase

Table 1.7: Somalia's external position, 2016–20 (percent of GDP)

| Item | 2016 | 2017 | 2018 | 2019e | 2020f |
|--|--------|--------|--------|--------|--------|
| Current account balance | (9.3) | (9.7) | (10.3) | (13.7) | (12.7) |
| Overall trade balance | (74.4) | (86.7) | (84.8) | (88.7) | (95.9) |
| Exports of goods and services, f.o.b. | 25.2 | 22.6 | 23.7 | 22.7 | 15.2 |
| Imports of goods and services, f.o.b. | 99.6 | 109.2 | 108.5 | 111.3 | 111.1 |
| Private transfers (net), including remittances | 32.3 | 31.6 | 31.4 | 31.9 | 30.2 |
| Official grants | 33.3 | 46.1 | 43.9 | 43.7 | 53.7 |
| Foreign direct investment | 7.9 | 8.2 | 8.6 | 9.1 | 9.1 |

Source: IMF staff reports.
Note: e = estimated; f = forecast.

Figure 1.8: The COVID-19 crisis did not affect trading activities in Somalia in the first quarter of 2020



Source: Central Bank of Somalia and IMF.

¹² The analysis for this report was based on data available through the first quarter 2020, including high-frequency commodity price data and international trade statistics reported by Somalia's trade partners (e.g., China's data on its exports to Somalia). Measures taken by Somali authorities to prevent the spread of the disease were largely introduced in late March and April, and as such their impact on the economy is expected in second and third quarter data.

in the value of imports of medical products reflects purchases by several new hospitals built by bilateral partners. The value of food imports declined 24 percent as the economy realized a bumper harvest in the 2019 *Gu* season.

Poor weather conditions and external factors affected export performance in the first quarter of 2020.

Livestock dominated 2019 exports, accounting for 61 percent of exports, followed by forest products (17 percent) and crops and vegetable oil (14 percent). As a result of poor pasture because of delayed *Gu* rains and the Saudi Arabia export ban, livestock exports dropped 53 percent year on year and 43 percent quarter on quarter in the first quarter of 2020. Crops and vegetable oil declined 50 percent year on year but increased 260 percent quarter on quarter as a result of bumper rains during the 2019 *Dyer* season. The increase in animal skins products as share of total exports is attributable to drought and a dramatic decline in forest products exports in the first quarter of the 2020.

The COVID-19 crisis will affect commodity and services exports from Somalia.

The main merchandise exports are live animals and precious stones. Cancellation of the 2020 *Hajj* will substantially reduce annual livestock exports. Somalia records its largest exports during the *Hajj* season, when it exports about 2 million herd of cattle to Saudi Arabia. Saudi Arabia's temporary lifting of the ban on imports outside the *Hajj* will mitigate the deleterious consequences on Somalia exports, but export earnings will still be affected. Travel receipts will also decline because of travel restrictions resulting to reduction in services' exports earnings.

Remittance and grants face headwinds in 2020.

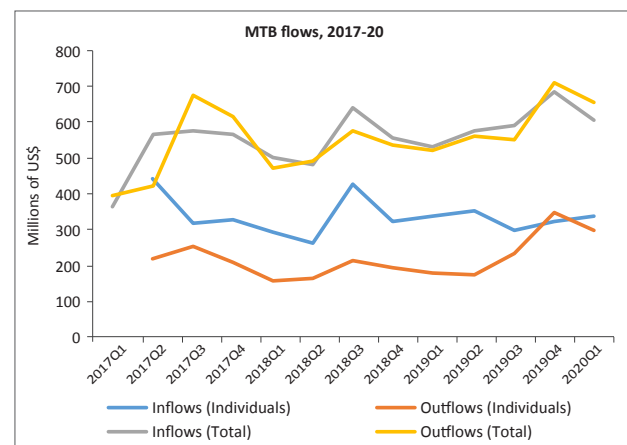
Remittances are estimated at US\$1.3–US\$2 billion a year. They are expected to decline in 2020 because of travel restrictions and the global slowdown

in economic activities and lockdowns, which will cause many Somalis in the diaspora to lose some or all of their income. In addition, physical cash movements to Dubai, which is a settlement center, have been disrupted by the flight restriction from major markets in the United States, Europe, and Somalia, limiting the physical flow of funds from money transfer businesses. Official grants are projected to increase to 53.7 percent of GDP in 2020, up from 43.7 percent in 2019.¹³

Mobile transfer bureau flows were stable in the first quarter of 2020 (Figure 1.9).

Inflows to individuals rose 5 percent quarter on quarter, after increasing 17 percent in 2019. Total inflows increased 15 percent year on year (declining 11 percent quarter on quarter), driven by inflows by NGOs. Outflows for individuals increased 67 percent year on year (declining 15 percent quarter on quarter); total inflows increased 26 percent year on year (declining 8 percent quarter on quarter).

Figure 1.9: Mobile transfer bureaus' financial flows were stable in the first quarter of 2020



Source: Central Bank of Somalia.

COVID-19 will exacerbate already dire poverty and social conditions

Somalis are vulnerable to various covariate and idiosyncratic shocks, which contribute to poverty, vulnerability, and displacement (World Bank 2020). Households that have experienced a shock report higher food insecurity, lower wealth, fewer

¹³ This growth reflects both the large increase in on-budget disbursements to the FGS from IFIs and the decline in nominal GDP. It should be noted that the level of humanitarian and other assistance to Somalia is less certain given the global nature of the pandemic.

savings, and lower access to coping mechanisms; they are also more likely to resort to negative coping strategies.

Somalia has experienced four shocks since 2019:

- **Drought, 2019:** The delayed *Gu* rains in 2019 led to moderate to severe drought conditions that persisted through mid-May; by September, up to 2.2 million people faced food consumption gaps and acute malnutrition as a result. The cereal harvest failed in most regions, leaving most poor agro-pastoral and riverine households unable to meet their minimum food needs. Poor pasture conditions were evident in Mudug, Galgadud, Bakool, Bay, Gedo, and Middle Juba. The limited availability of saleable animals reduced poor households' incomes.
- **Flooding, 2019/20:** Substantial flooding along the Shabelle and Juba rivers in October and November 2019 devastated large areas. It caused loss of life and significant damage to infrastructure, crops, property, and livestock. More than half a million people were affected across 17 districts in the states of Jubaland, HirShabelle, and Southwest, with an estimated 370,000 people displaced from their homes.
- **Desert locust infestation, 2019/20:** Severe desert locust infestations—the worst Somalia has experienced in 25 years—affected tens of thousands of hectares of land and caused an estimated 2 percent reduction of *Deyr* season crop losses (FSNAU 2020). The second wave of desert locusts poses a massive threat to Somalia's food security and livelihoods in 2020. Locust swarms are destroying swathes of farm and grazing land, ravaging crops and pastures, and destroying the livelihoods of hundreds of thousands of people, including riverine farmers, agro-pastoralists, pastoralists, and people already displaced by the infestation. The infestation will put an estimated

4.5 million people in Somalia at risk of hunger and livelihood losses, according to the Food and Agriculture Organization.

- **The COVID-19 global pandemic (2020):** The COVID-19 crisis will have significant economic and social impacts across the country. The effects will be particularly severe on the poor, because of the effects of the illness, transmission control policies, and containment measures, which will result in lost earnings; increased food and nutrition insecurity, especially among self-sufficient agricultural producers; reduced human capital accumulation; and potential social exclusion brought about by fear and anxiety about the disease. Somalia's large IDP population is at very high risk of infection, because it is already highly vulnerable; because access to basic services (healthcare, water, sanitation) is limited; and because crowding makes implementing containment measures in poor, dense areas, including IDP camps and urban and peri-urban areas, difficult. As a result, the pandemic can spread rapidly in such areas.

The quadruple shocks have made the Somali population more vulnerable. As a result of them, about 5.2 million people in Somalia need humanitarian assistance. According to the FSNAU, high levels of chronic malnutrition persist across Somalia because of food insecurity, high morbidity, low immunization, the lack of vitamin A supplementation, and poor healthcare practices. Food security trends have deteriorated since 2019, with an estimated 2.1 million Somalis, including 1 million children, facing severe hunger (IPC 3 and 4) and 4.2 million people experiencing "stress" (IPC 2).¹⁴ An estimated 6.3 million people—nearly half the country's population—are acutely food insecure (FEWS NET 2020).

¹⁴ The Integrated Phase Classification (IPC) is a landmark in the fight against food insecurity and it describes the severity of food emergencies. IPC is intended to help governments and other humanitarian actors quickly understand a crisis (or potential crisis) and take action.

- IPC2 (stressed): Households have minimally adequate food consumption but are unable to afford some essential non-food expenditures without engaging in stress-coping strategies.
- IPC3 (crisis): Households either have food consumption gaps that are reflected by high or above-usual acute malnutrition; or are marginally able to meet minimum food needs but only by depleting essential livelihood assets or through crisis-coping strategies.
- IPC4 (emergency): Households either: Have large food consumption gaps which are reflected in very high acute malnutrition and excess mortality; or are able to mitigate large food consumption gaps but only by employing emergency livelihood strategies and asset liquidation.

1.3 Medium-Term Outlook, Risks, and Challenges

COVID-19 has dampened Somalia's medium-term growth prospects

Real GDP is estimated to contract sharply by 2.5 percent in 2020 as a result of the Covid-19 global pandemic. The baseline forecast considers the impact of COVID-19 crisis as well as spillovers from the global economic recession on Somalia. The economy is expected pick up moderately in the medium term (2021–23) with growth expected to recover quickly at 2.9 percent 2021 as economic activities resume and its estimated to reach pre-Covid-19 levels of 3.2 percent in 2022. The baseline scenario assumes that the negative impact of the pandemic lasts for six months from March 2020 and recovery expected to begin in last quarter. The projected drop in remittances and weak flows in official grants will be restored soon after the pandemic is contained. It also assumes no further climatic shocks affecting mainly the agricultural sector during this period.

In the baseline scenario, private consumption, the biggest component of Somalia's GDP, contracts as a result of lower remittances and other shocks. Increased job losses, the slowdown in economic activities, and the decline in remittances reduce private demand, as income falls, and floods and locust infestation reduce agriculture production. However, government spending increases, as a result of reform dividends after Somalia reached the HPIC Decision Point. Budget development grants increase by about US\$100 million a year, creating space for a significant increase in physical and social investments. These resources are used to meet additional spending in the health and social sectors. The contraction of imports and exports in 2020 reflect the dire conditions in international markets.

The baseline scenario assumes that inflation remains low, because the economy is dollarized.

Inflation rises to 3.0 percent in 2020 before falling to about 2.5 percent a year post–COVID-19. Domestic inflation is linked to US inflation, given dollarization and the large import component of the consumption basket. De facto dollarization continues to provide relative price stability, particularly given Somalia's dependence on imports. The baseline scenario also assume that growth of the agriculture sector is moderate, reducing domestic inflationary pressure.

In the downside scenario, prolonged pandemic, severe locusts infestations and floods, growth contracts by 3.0 percent in 2020 and grows by just 1.9 percent in 2021. The COVID-19 crisis lasts longer than six months, the partial shutdown to contain the spread lasts nine months, and the locust infestation severely affects the agricultural sector. Delays in lifting restrictions exacerbate the slowdown in consumption expenditures, and the damage from the second wave of locust infestation is more severe than in the base scenario.

Somalia's medium-term outlook is positive and predicated largely on reform momentum, support from the international community, and improvements in security. The outlook critically depends on political stability and continued improvement in deepening a federal political system that serves the needs of poor Somalis throughout the country. It assumes rising domestic demand, higher official donor inflows, and consolidation of peace and security. It also assumes that the government continues on its reform trajectory, strengthening the regulatory capacity of the Central Bank of Somalia to build trust in financial system, forging interconnection arrangements among mobile network operators to promote growth of the digital economy, and supporting robust activity in the construction and trade sector.

The current account deficit is forecast at 12.7 percent of GDP in 2020 and projected to steadily narrow over the medium term. It is projected to

remain elevated, averaging about 12.0 percent between 2020 and 2022, driven by Somalia's high import needs and reflecting the high level of grants and remittances. The composition of imports gradually transitions from basic to investment goods as recovery picks up. The trade deficit continues to be financed by grants and remittances (estimated at 54 and 49 percent of GDP, respectively, in 2020, as shown in Table 1.1). In the framework, remittances and grants gradually decline as a percent of GDP over the long term, as FDI and concessional borrowing increase. As a result, the current account deficit begins to decline, reflecting stronger export growth amid better economic activity and an improved business environment.

Government spending remains constrained by domestic revenue and external grants, due to the inability to borrow. Domestic revenue of the FGS gradually increases over the medium term to 4.6 percent of GDP in 2021 and 5.0 percent in 2022, as the FGS implements the 2019 Revenue Administration Act and works with FMSs to improve customs administration. This is insufficient to finance operating expenditure and implement the National Development Plan, however, and the FGS will continue to depend on external grants over the medium term. Somalia's normalization of relations with IFIs in March 2020 restored the country's access to regular concessional financing. External grants are expected to reach 6.1 percent of GDP in 2021 and 7.4 percent in 2022—well above the average of 2.0 percent in 2018–19.

The composition of spending over the medium-term is expected to remain focused on state development. Total spending is expected to grow to 12.4 percent of GDP by 2020 and remain concentrated on administration and security, although their share will decline as new donor-financed projects are scaled up. Capital spending (largely donor-financed) is projected to rise to 1.0

percent of GDP, bringing it to 7 percent of total FGS spending. The wage bill is expected to continue growing in 2021–22 at annual rates similar to the past.¹⁵ Consequently, the wage bill's share of spending falls to 47 percent of total spending in 2021–22 from 53 percent in 2017–19. Over time as economic conditions improve, further efforts are required to increase expenditures on the social sectors to support poverty reduction, and a stronger health system, in line with improvements in capacity to deliver.

Risks to the outlook are mainly on the downside

In the short to medium term, economic activity is likely to be exposed to significant downside risks.

These include: political uncertainty related to the upcoming elections, deterioration of the security situation, the second wave of desert locusts, and climate-related shocks. These risks can impede economic activity and erode business confidence.

The first one-man-one-vote presidential and parliamentary elections in Somalia's history are poised to be held early 2021, in accordance with the Provisional Federal Constitution.

Disagreement over the management and holding of national elections slated for early 2021 could undermine the steady progress that Somalia has demonstrated since the formation of the Federal Government in 2012 based on the Somali Provisional Constitution towards regular and elections with ever-expanding suffrage.

The ongoing insurgency in Somalia is delaying and dampening growth prospects. Although Somalia's economy remains stable, simmering conflict continues to pose an important risk to economic activity in the medium term. Al Shabaab terrorists continue to threaten Somalia's security. Terrorist activities have scared away both domestic and foreign potential investors and tilted FGS priority spending toward security.

¹⁵ Since post-crisis nominal GDP is expected to grow along a lower trajectory than before the crisis, the wage bill will be higher as a share of GDP.

The invasion of desert locusts poses a significant risk of food insecurity. Crop losses and destruction of grazing pastures from the second wave could result in a *Gu* cereal production deficit and lower milk and livestock production. The worst desert locust upsurge in a generation now threatens a direct hit on the country's food production systems. In recent months, locust swarms have spread across 44 Somali districts, affecting an estimated 180,000 hectares of rangelands and laying eggs along their path. A whole new generation of locusts—20 times larger in population than the last—will be emerging at the start of the main growing season. The timing could not be worse: The locusts will arrive just as grasses and other fresh vegetation for livestock and tender shoots of maize, sorghum, cowpeas, and other staple crops—a favorite food of nymphs, young voracious hopper bands, and airborne swarms—are pushing up from the soil. The COVID-19 pandemic has taken away attention from the fight against the desert locusts, as resources are diverted and the lockdown slows response efforts.

Climatic shocks and commodity prices could add more risks to the outlook. Weather and climatic shocks could lower agricultural output (both crops and livestock), exacerbate water stress, and increase Somalia's humanitarian needs. Higher oil prices could hurt Somalia's economic prospects by increasing its import bill and worsening its already precarious external balance.

1.4 Policy Options for Strengthening Somalia's Crisis Response and Recovery

Policies for strengthening the short-term crisis response

Enhancing and promoting measures to prevent domestic contagion. Early on, the Somali authorities took measures to mitigate community transmission—banning large gatherings, closing schools and mosques, encouraging people to wear masks, and implementing a partial domestic lockdown—in order to slow domestic transmission

and flatten the pandemic curve. Strengthening disease surveillance and health interventions has also been a high priority. Promoting social distancing and preventive behaviors even in rural areas is crucial to this fight. To be effective, the government should consider providing information and essential items (food and water), especially to the poor and people in IDP camps. In addition to these measures, the authorities, with the support of the international community, are ramping up investment in hospital infrastructure—creating temporary isolation facilities, adding intensive care beds, obtaining ventilators, and procuring testing kits and other personal protective equipment.

Increasing the health sector budget to help fight the pandemic. The COVID-19 pandemic has exposed Somalia's inadequate investment in the social sectors, particularly health. Somalia's healthcare system lacks the ability to cope with the COVID-19 crisis. Investing in and increasing the capacity of physical and human health infrastructure is key. The government is addressing the problem through its supplementary budget 2020, which has added resources to the health sector budget. These resources should be used to purchase medical equipment and pay staff in high-risk areas in the Benadir Regional Administration and other FMSs. Concessional financing and technical assistance from development partners should be sought to help Somalia deal with the crisis.

Securing food availability and mitigating price increases during pandemic

Lockdowns, border closures, and social distancing measures are leading to localized supply disruptions and putting pressure on food prices. Many traders report shortages of essential commodities, and food inflation has shot up, in part because of bottlenecks as suppliers of essential goods grapple to cope with the sudden surge in demand. To encourage traders to increase supply of essential goods, the government provided tax incentives. In April 2020 it announced a three-month tax holiday on staples and a 50

percent reduction in the consumption tax on some commodities (wheat flour and vegetable oils). The measures were adopted in an effort to discourage hoarding by suppliers and encourage traders to seek alternative routes to boost commodities' supply.

Expanding safety nets programs to cushion the effects on the poor and vulnerable. Seven out of 10 people in Somalia are poor. Malnutrition among children and food insecurity are widespread. The urban poor and people in IDP camps lack the resources to cope with the lockdowns and quarantines needed to contain the spread of the pandemic. In addition, about 30 percent of the population faces the prospect that remittances will dry up as a source of livelihood.

The immediate task is to secure access to food and basic services by the most vulnerable populations. To help do so, the government, working with partners, designed and launched a cash transfer program. The Baxnaano Program, described in Box 1.1, uses a mobile platform to quickly deliver emergency funds to the neediest individuals. Scaling up existing cash transfer schemes to protect the poor and the most vulnerable households, including the urban poor, is desirable to buffer this shock and future ones.

Policies for strengthening medium-term economic recovery

Providing liquidity and trade financing for SMEs during the pandemic. SMEs are facing liquidity problems in their operations because of the challenges in the corresponding accounts and travel restrictions. Import and export firms are finding it hard to settle accounts in Dubai because of flight bans. The government, through the Central Bank of Somalia, can provide SMEs with access to emergency loans to facilitate continued imports of basic foodstuff and medicine. The government safe could also provide corridors for trade movements, especially for food and medicine.

Implementing revenue mobilization reforms. Implementing the Revenue Act and the Customs Reform Roadmap would increase domestic revenues. Revenue collection needs to increase significantly and beyond the Benadir Regional Administration. Efforts to harmonize taxes across the FGS and the FMSs, remove internal trade barriers across FMS lines, and clearly define revenue sharing and functional assignment would go a long way in increasing the fiscal space of both the federal and state governments. Issuing regulations to support the newly enacted PFM Act would strengthen PFM. Also critical is deepening the fiscal federalism agenda and dialogue, including by revising the expenditure assignment guidelines as the authorities move forward in implementing the Revenue Act.

Implementing financial sector reforms. The government has developed the Financial Sector Reform Roadmap. Embedding and implementing the reforms it outlines—improving core departments, deepening financial sector supervision, improving the payment system, strengthening the AML/CFT operational and legal framework, and developing the financial infrastructure to support efficient intermediation and collateralized lending and mitigate credit risk—are key to creating a vibrant financial system that can be an engine of economic growth.

Delivering a holistic medium-term growth. The country operationalizes its medium-term growth strategy as outlined in the National Development Plan (NDP9) to deliver quick, large, and sustainable production and productivity gains that promotes higher growth and enhances resilience. Diversifying economic growth sources and livelihoods is a low hanging fruit and involves improving agricultural productivity in both crops and livestock. In rural Somalia, this involves diversifying away from traditional livelihoods (pastoralism) and production practices through improved soil & water management, improved production and

marketing systems, adaptation to climate change and adoption of drought-resistance crops and seeds, improved extension services, and value addition on primary products. This strategy requires complementary investments and reforms in transport infrastructure, financial services, energy, and digital connectivity to support increased agricultural productivity. This will also present opportunities to absorb the rapidly increasing labor market entrants especially in urban areas.



SPECIAL FOCUS

SECURITY SECTOR REFORM IN SOMALIA



2. Security Sector Reform in Somalia

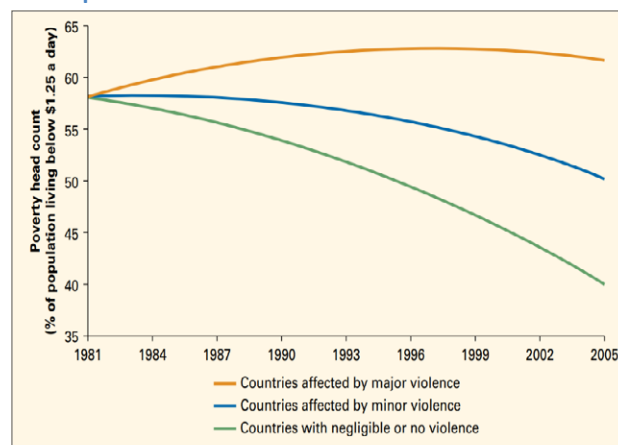
Reform of the public finance of the security sector in Somalia has been a collaborative effort by key stakeholders in government, mainly the Federal Government of Somalia (FGS) ministries of finance, internal security, and defense, following the FGS Roadmap for Security and Justice Reform, and main development partners. The World Bank started to engage in the security sector in Somalia in response to a request from the FGS in late 2013. In collaboration with the United Nations Assistance Mission in Somalia (UNSOM), it initiated a Security and Justice Public Expenditure Review, which was finalized in January 2017 (Zacchia et al 2017). The Bank team provided the government with technical assistance and analytic support on the findings of the report.

Following the drafting of the Security and Justice Roadmap, in 2017/2018, led by the Office of the Prime Minister, the FGS requested follow-on work from the World Bank to inform sector dialogue, particularly the understanding of fiscal trade-offs and options for strengthening integrity systems in the security sector. Discussions between the Bank team and the government were open and frank. High-level ownership of the reforms throughout government provided a robust foundation for discussing and supporting public financial management (PFM) reforms in Somalia.

2.1 The Need for Security Sector Reform in Somalia

The World Bank's *World Development Report 2011* and the 2020 World Bank Group Strategy for Fragility Conflict and Violence highlight the importance of strong accountable institutions in helping countries transition out of fragility. Such reforms are critical, because lack of security stymies development (Figure 1.10)

Figure 1.10: Global impact of insecurity on economic development



Source: World Bank 2011b, using calculations based on 2008 poverty data in Shaohua, Ravallion, and Sangraula 2008.

Since its independence, in 1960, Somalia has enjoyed barely 17 years of meaningful peace.

Since 1991, recurrent external shocks, civil war, and insurgency have reversed development progress in the country repeatedly.

Conflict has contributed to poor economic outcomes and a marked decline in the quality of life for Somalis.

Together with climatic changes, it has destroyed infrastructure and increased the risk of extreme poverty, poor health, and low literacy and numeracy for many Somalis. Hundreds of thousands of Somalis are still refugees or internally displaced people, unable or afraid to return home—despite a modest expansion of economic opportunities over the last years. Insecurity is also linked to deteriorating living standards and interruptions in public service provision, especially in rural areas, where most of the population lacks access to clean water, electricity, paved roads, and other types of basic infrastructure. With full capacity of national forces still emerging, the security threat from insurgents remains real, especially in Mogadishu.

Political stabilization is key to Somalia’s security reform efforts. Although key constitutional questions remain, including agreement on the status of Somaliland, the emerging federal system set out in the provisional constitution offers a framework for the FGS and Federal Members States (FMS) to negotiate power- and resource-sharing among Somalia’s leading political stakeholders.

An ambitious reform program has been initiated in the security sector. Anchored in the National Security Architecture (NSArch), it incorporates mechanisms for improved governance and PFM. Following the 2017 elections, the FGS identified security as a priority area and adopted a new NSArch outlining the structure and composition of forces at the FGS and FMS levels. Endorsed within six months of the elections by both representatives of international partners and the FMS, in the London Security Pact of May 2017, the pact stipulates that Somalia’s NSArch must be “able, accountable, affordable, and acceptable” to Somali society and emphasizes effective administrative and institutional structures.

Since 2017, the FGS has taken action to improve the accountability and effectiveness of the security sector’s public finance systems and realize efficiency improvements to support improved security spending. Following the 2018 Operational Readiness Assessment, the government pursued a series of public finance reforms in the security sector. In line with best practices set out in multiple reviews of fragile state recovery,¹⁶ these reforms seek to build a more accountable sector, with greater control and accountability for expenditure, and to realize efficiencies and improve processes around allocations. The FGS has started developing laws, regulations, and policies covering the main priorities of security sector public finance reforms and aligning them with existing PFM frameworks. Major priorities are general finance, human

resources, logistics, pensions, and other procedures and business processes that provide a basis for oversight and audit.

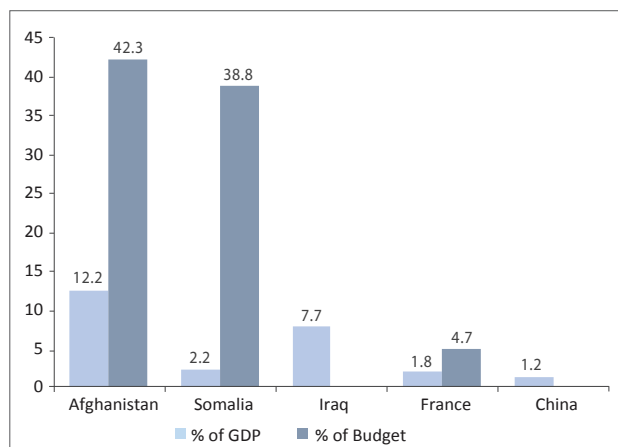
The Ninth National Development Plan (2020-2024) includes an ambitious domestic spending agenda, with pillars on security and the rule of law, economic development, and social development, all of which require increased financial resources.

The government recognizes the need to improve sector capacity, in order to ensure fiscal sustainability and efficiency in delivering security services to the citizens. The government will need to gradually reallocate spending away from security toward investments in human and physical capital.

2.2 Security Spending and the Somali Budget

Support and financing to Somalia’s security sector remains fragmented and dominated by external partners. Security spending by the federal and state governments constitutes a smaller share of GDP than it does in most other countries (Figure 1.11). Security spending through the FGS or FMS budgets represents only a fraction of the total cost of security operations in Somalia. Most spending comes from international partners.¹⁷ Other non-

Figure 1.11: Security spending in Somalia and selected other countries, 2018



Source: ACLED, Military Balance, World Bank database.

¹⁶ See the World Development Report 2011, the draft World Bank Group Strategy for Fragility Conflict and Violence 2020–2025 and *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict* (World Bank 2018c).

¹⁷ These have included over the last years: the United States, the European Union, the United Kingdom, Germany, Italy, Turkey, the United Arab Emirates, Qatar, the African Union, and the United Nations, and others.

traditional donors cooperate with the federal and state administrations on an ad hoc basis, leaving cooperation and collaboration fragmented and opaque. Total security spending by these actors is estimated at about US\$1.5 billion a year, with the cost of maintaining the AMISOM presence representing about half of the total cost.¹⁸ These figures cannot be disaggregated by source or type (official development assistance versus other types of assistance), making analysis of a transition to domestically mobilized and managed resources contingent on broad assumptions for now. International support is unlikely to be sustained at this level. Partners have therefore urged the FGS to build its own capacity and developing a financing strategy.

The sector will continue to need significant external and domestic resources to implement the ambitious NSArch agreed to by the international community and the federal government in 2017.¹⁹

Spending on security in the budget is already about twice that of economic and social sectors.²⁰ Further increases in security spending will need to go hand in hand with the raising of increased domestic resources.

Security expenditures steadily increased between 2017 and 2020, both in absolute terms and as a share of GDP. Budget allocations to the security sector grew slowly over the period, rising from 2.0 percent of GDP in 2017 to 2.4 percent in 2019. They are projected to rise to 2.8 percent in 2020, although the full fiscal and economic impact of COVID-19 crisis is still to be determined. Between 2017 and 2020, the security sector budget rose 64 percent, from US\$89.7 million to US\$146.8 million. Increases in expenditures for security were broadly similar to the growth of government overall total revenue growth.

The security sector employs 8 of 10 FGS employees (about 35,000 personnel) and one-third of the expenditure of the FSG (US\$107 million). Security (48 percent) and administration (33 percent) constitute most of the FGS wage bill, with the monthly security wage bill approaching US\$10 million. Personnel costs account for the bulk of total spending; capital spending is almost zero, and most operational costs are classified as general expenses. The security sector was the largest contributor to wage bill growth in 2015–18: Wage expenditures rose 183 percent in 2017 and almost 19 percent in 2018, mainly thanks to higher police salaries. New and harmonized salary grids were established for both the Somalia National Army and the Somalia Police Force at the beginning of 2020, increasing pay in both forces.

Security sector rations are another large expenditure item in the budget, accounting for about 41 percent of the sector's operational expenditure and 25 percent (US\$26 million) of total security expenditures in 2019. They represent the single largest goods items in the FGS budget. Together salary and rations account for 90 percent of expenditure in the FGS security sector budget. Improved transparency and competition in the award of rations contracts was a high priority for the international community.

The fact that security sector expenditures remain concentrated in a few categories increases fiduciary risk but also means that focused reform efforts can improve resource management. Initial reform efforts have focused on salaries and rations, in an attempt to increase both the integrity and the regularity of budget execution, increasing the confidence of citizens and international partners regarding the delivery of security sector financing.

¹⁸ See United Nations Assistance Mission in Somalia and the World Bank (2017).

¹⁹ The personnel cost of the NSArch was originally projected to reach US\$158.7 million when fully deployed, in 2027; it may have exceeded that amount in 2020. The Somalia National Army is projected to cost US\$81.3 million, the Somalia Police Force US\$24.9 million, and the FMS state police US\$52.5 million. Somali domestic revenue would have to exceed US\$529 million to maintain security expenditure at about 30 percent of the 2027 budget (PER Public Service and Wage Bill Management 2020) [World Bank, 2020].

²⁰ World Bank analysis of public FGS fiscal data for 2020.

2.3 Impact of Security Sector Reforms

The government has made considerable efforts since 2017 to strengthen the national forces.

The reform progress has focused on (a) rebuilding management cadres with trained officers, (b) building effective and accountable administrative and institutional structures, and (c) improving tactical and operational training and development. The vanguard of the reform has been a slate of public finance reforms in the sector that seek to bring professionalism, fiscal accountability, transparency, and national leadership to the armed forces.

Until recently, salaries and ration payments were paid in cash through the chain of command.²¹

In a major reform, almost all salaries and some ration payments are now paid directly to soldiers' bank or mobile money accounts. The reform, which stemmed from the Audit Report of the Office of Auditor General, adds accountability and transparency to the system. About 87 percent of personnel costs are now on formalized payroll management systems and paid directly to individuals' accounts. The reform now encompasses most of the wage bill. The Human Resources Management Information System (HRMIS) connects the Somalia National Army payroll into the Ministry of Finance Financial Management Information System (SFMIS). It has clear processes and accountabilities for authorizing payments within the system. Direct payment reduces the opportunity for corruption and misappropriation. Coupled with the biometric registration process, it enables very strong accountability and increases the integrity of expenditures. Soldiers and police officers across the country have been registered, and ghost or duplicate enlisted personnel have been removed from the payroll.

Biometric registration allows for verification that payments are going to the right person and allows Somalia to build a base for future integrity reforms.

Completion of the second phase of registration, in October 2019, provided the government with data to feed into the 2020 budget. Registration also resulted in a modest pay increase for soldiers. Change is critical for the professionalization of the security.

The FGS plans to improve internal controls to cover logistics procedures (including fuel, rations, ammunition, clothing, and equipment).

Strengthening internal controls will help reduce waste and increase efficiency by formalizing approval for spending and allowing better tracking of assets. The SFMIS system supports this strengthening by providing regular and consistent expenditure reports, supporting transparency in measuring spending and providing a platform for further efficiencies. Lessons from other countries could help guide future reforms (Box 1.4).

To complement improved controls, the government has created central purchasing contracts for major supplies to the Somalia National Army.

The reform has yielded savings, by reducing discretionary and unsupervised spending and corruption. This work has been supported by the Financial Governance Committee, which reviews and advises on all contracts and concessions above US\$5 million across government.

As a result of the competitive tender process, reduction of quantities to align with troop numbers, and improvement in usage, the cost of providing rations has fallen by an estimated 50 percent

—a saving of US\$7.6 million, or more than 5 percent of total security spending. The savings were supported by wider reforms. Better data from the biometric registration improved the estimation of the quantity of rations required, and competition and contract scrutiny by Financial Governance Committee delivered lower unit prices for key goods. These improved practices set the stage for further reforms by demonstrating the extent of fiscal savings.

²¹ The Report of the Monitoring Group on Somalia and Eritrea Pursuant to Security Council Resolution 2244 (2015) (S/2016/919, October 31, 2016) noted that payments were made from officers' duffel bags.

>> Box 1.4: Lessons for Somalia from the World Bank's experience with public financial management reform

The World Bank has provided technical assistance and financial support to improve financial systems, accountability, and procurement in countries around the world. Its work in Afghanistan highlights why building a strong baseline is important.

The PFM Reform II program transitioned from strengthening systems to improving outcomes delivered as a result of stronger systems. One outcome included building on work to improve procurement practices and enable line ministries, with support of a national procurement council, to manage procurement processes in line with best practice. A second outcome, which could be relevant for future PFM support in Somalia, measured the transition from off-budget official development assistance (ODA) to on-budget support. The program (and wider activities) enabled 65 percent of ODA to be moved on-budget.

Global experience from security sector public expenditure reviews yields several lessons for Somalia:

- Engaging stakeholders is critical to securing their buy-in from stakeholders and leaders involved in reforms towards access to the right and most relevant counterparts and data.
- The sharing of data can be challenging, particularly because data may be sensitive if not confidential; in some contexts, there may be very little data to share due to a lack of systems.
- Ensuring the continuity of support and staying engaged are critical, as many activities represent the start of a process of engagement on public finance and the security sector, not one-off events or deliverables.

Source: World Bank 2010, World Bank 2018a, World Bank 2018b; Harborne et al. (2017).

Reforms to the pay, structure, entry, and exit of the security sector are being undertaken.

A key aspect of these reforms is the introduction of a security sector-wide pension through the Pensions and Gratuities Bill. The pension scheme serves three purposes: It enables an exit route for soldiers too old to continue active service (about 10 percent of the current workforce is over the retirement ages specified in the bill, according to biometric registration data); it provides a modest social safety net for retirees and their families (including through death-in-service and injury benefits); and it reduces the immediate salary cost associated with people over retirement age, potentially reducing salary costs by more than US\$4 million a year (albeit adding some new long-term liabilities).²²

Collectively, these reforms are restoring public confidence in the security sector and reducing the cost of providing the existing level of security services. They could allow for savings to be reinvested in improving the delivery of security services. The reform process has also made it easier

to understand security expenditures in Somalia and make better-informed choices about how to target limited resources to priority areas. These reforms set an accountable baseline for spending that can inform spending plans in the Ninth National Development Plan or any emerging medium-term expenditure framework (MTEF).

2.4 The Remaining Agenda and the Way Forward

The FGS has demonstrated that it is committed to security sector reforms and improving outcomes to facilitate wider improvements. This foundation could help shape the Ninth National Development Plan and the agreement and delivery of a Heavily Indebted Poor Countries (HIPC) program towards Completion Point with a strong pro-poor spending focus.²³

More remains to be done to integrate PFM reforms into day-to-day business processes and to continue to drive efficiency and support the

²² An exercise supported by the World Bank in Guinea-Bissau found that about 25 percent of the workforce was over retirement age. It revealed that a gradual retirement schedule would reduce the government wage bill by US\$46.3 million over five years (World Bank 2019).

²³ The government will also need to consider a broader agenda related to the security sector—one that would cover the assignment of responsibilities at the FGS/FMS levels and right-sizing, for example.

effective delivery of security services. The FGS plans to draft a public finance roadmap that include the following ambitious reforms:

1. ***Continue efforts to build systems and increase the transparency of PFM.*** Efforts will include building the institutional capacity of the security institutions, strengthening PFM capacity, and increasing investment in developing the capabilities and capacities of key civilian governance institutions and people across government, based on FGC recommendations. Reforms will support strategic financial decision making and the delivery of the NSArch, the revised constitution, and the Ninth National Development Plan.
2. ***Continue to develop laws, policies, and, regulations covering the main priorities of security sector reform and align them with existing PFM frameworks.*** Areas covered will include general finance, human resources, logistics, pensions, and other procedures and business processes that provide a basis for oversight and audit
3. ***Continue to strengthen procedures, financial management systems, and internal controls in the security sector, including robust human resources and payroll systems for delivering pay and rations consistently.*** Efforts will include improving the security sector's capacity to manage contracts and verify the delivery of goods and services. The gains made in improving the tendering and implementation of rations contracts will be diminished if implementation is hampered by insufficient human capacity or supporting systems.
4. ***Widen the focus of systems strengthening to improve internal controls and strengthen the internal audit functions in ministries and forces beyond the main expenditure categories in the security sector.*** Efforts will include working with the Office of the Accountant General and the Office of the Auditor General to establish accountable and auditable expenditures in the security sector, expanding from progress in the main expenditure categories of salaries and rations to include logistics procedures, asset management, and operating costs.
5. ***Create an affordable security sector in the long run.*** Efforts will include using outputs from the SFMIS, the HRMIS, and the registration process to understand the drivers of cost, identify where there is scope for cost saving, reallocate resources, and analyze how spending is supporting key security objectives. Modelling of the impact of COVID-19 on public finances will highlight trade-offs and necessary prioritization for implementing the NSArch and sustainably delivering security services in Somalia.
6. ***Implement fiscally sound measures to right-size the forces in light of the fiscal forecast and medium-term strategy, deploying various instruments, including pensions and the creation of a reserve force, to do so.*** Efforts will include implementing the pensions law, supporting budget forecasting, and ensuring that payments are integrated into PFM systems.
7. ***Continue to improve the government's communications on the objective of reforms, and coordinate communications efforts with international partners.*** Efforts will reduce the uncertainty of prioritization, increase support, and address the gaps identified in the emerging medium-term financing strategy for the security forces.

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Impact of COVID-19: Policies to Manage the Crisis and Strengthen Economic Recovery

In the wake of March 2020's milestone of HIPC Decision Point, Somalia finds itself facing a "triple crisis". The COVID-19 global pandemic, the devastating flooding in parts of Hirshabelle, South West, Jubbaland and Puntland, and a new infestation of desert locust are combining to reduce growth forecast for this year from 3.2 percent to a -2.5 percent. Vital pillars of Somalia's external and fiscal sectors – livestock exports, trade taxes and remittances – are all exposed, with direct impact on poor households, services and core government functions. Federal and state governments facing large declines in revenue at a time when they must launch a coordinated national response, the economy facing significant contraction in 2020 as business's profitability and jobs decline and household incomes reduce. In this context, the fifth edition of the World Bank Somalia Economic Update series distills available data to provide a detailed update of the recent economic developments and outlook in light of the COVID-19 crisis and discusses policy options to manage the crisis and strengthen economic recovery.

The country's healthcare system remains constrained by a lack of resources, medical equipment and staff, severely limiting their ability to detect and diagnose the virus and treat patients. Increasing both the budget and the capacity of the sector will be essential to fight the COVID-19 crisis – but is also a basic pre-condition for economic recovery.

Expanding safety nets programs is critical to cushion the effects of multiple shocks on the poor and vulnerable. With high levels of food insecurity and widespread malnutrition among children, COVID-19 has made a bad situation worse, as 7 of out 10 people in Somalia are poor. The immediate task is to secure access to food and basic needs to the most vulnerable population. Working with partners, the government has taken the lead in designing a nationwide cash transfer program, the Baxnaano Program, with the use of a mobile platform for cash delivery. Scaling up existing cash transfer schemes to protect the poor and the most vulnerable households, including the urban poor, is a highly relevant and potentially impactful response to the "triple crisis" while also laying foundations for poverty reduction.

Wider reform efforts which the authorities have been implementing successfully in the last three years should continue. Some of the reforms include revenue mobilization, tax harmonization, defining revenue sharing and functional assignment, strengthening public financial management (PFM) across sectors and jurisdictions, and deepening the fiscal federalism agenda and dialogue, among others.

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