

**Document of
The World Bank**

FOR OFFICIAL USE ONLY

Report No: 39951-SO

INTERNATIONAL DEVELOPMENT ASSOCIATION

THE INTERNATIONAL FINANCE CORPORATION

INTERIM STRATEGY NOTE

FOR

SOMALIA

FOR THE PERIOD FY08-09

June 21, 2007

**Eastern Africa Country Cluster 2
Africa Region**

**International Finance Corporation
Sub-Saharan Africa Department**

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without the World Bank's authorization.

The last Country Re-Engagement Note for Somalia (SecM2003-0136) was discussed on April 3, 2003.

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 31, 2007)

Currency Unit	Somali Shillings (So.Sh.)
US\$1.00	= 16,200 Somali Shillings
Somali Shillings 1.00	= US\$0.00006

Currency Unit	Somaliland Shillings (Sol.Sh.)
US\$1.00	= 6,275 Somaliland Shillings
Somaliland Shillings 1.00	= US\$0.00016

FISCAL YEAR

January 1 – December 31

WEIGHTS AND MEASURES

Metric System

Vice President:	Obiageli K. Ezekwesili
Country Director:	Colin Bruce
Country Manager:	James Christopher Lovelace
IFC Senior Manager:	Jean Philippe Prosper
Task Team Leader:	Kazuki Itaya

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
AU	African Union
CDRD	Community Driven Recovery and Development
CEM	Country Economic Memorandum
CISS	Coordination for International Support to Somalia
CPI	Consumer Price Index
CRN	Country Re-Engagement Note
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DFID	Department for International Development (UK)
DRC	Danish Refugee Council
EC	European Commission
ESW	Economic and Sector Work
EU	European Union
GDN	Gross National Product
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Heavily Indebted Poor Countries
ICU	Islamic Courts Union
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
ISN	Interim Strategy Note
JNA	Joint Needs Assessment
JSDF	Japan Social Development Fund
LICUS	Low Income Countries Under Stress
MDF	Multi-Donor Trust Fund
NGO	Non Governmental Organization
NPV	Net Present Value
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OP	Operational Policy
PCF	Post-Conflict Fund
PFM	Public Finance Management
PSD	Private Sector Development
PPP	Public Private Partnership
RDP	Reconstruction and Development Programme
TFG	Transitional Federal Government
TFIs	Transitional Federal Institutions
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development

INTERIM STRATEGY NOTE FOR SOMALIA
Table of Contents

EXECUTIVE SUMMARY	i
I. INTRODUCTION.....	1
II. COUNTRY CONTEXT.....	1
A. Governance Issues	1
B. Economic and Social Issues.....	3
C. World Bank Group’s Relationship with Somalia	5
III. EVOLVING SOMALI RECONSTRUCTION DEVELOPMENT FRAMEWORK. .	7
IV. WORLD BANK GROUP INTERIM STRATEGY FOR SOMALIA	9
A. Proposed Program by ISN Objectives	9
B. Resource Requirements	11
C. Implementation Issues	12
D. Scaling-up and Exit Strategy	13
V. RISKS AND RISK MANAGEMENT	14

TABLES:

Table 1: Summary of Different Sub-national Contexts	3
Table 2: Stock of Public and Publicly Guaranteed External Debt at April 2007	6
Table 3: ISN Objectives and their Relationships with the RDP Pillars	9
Table 4: Estimated Resource Requirements for the ISN: FY08-09.....	12

FIGURES:

Figure 1: Four Fragile State Contexts and Somalia’s Asymmetric Situation.....	3
Figure 2: Strategic Responses to the RDP by Development Partners	8

ANNEXES:

Annex A: Somalia - Social Indicators	16
Annex B: Somalia - Millennium Development Goals.....	17
Annex C: Somalia at a Glance	18
CAS Annex B4 – Summary of Nonlending Services	21
Annex D: Somalia Post-Conflict Performance Indicators (PCPI).....	22
Annex E: Preface of the RDP	23
Executive Summary of the RDP	25
Annex F: JNA and RDP Costing Table (US\$ Million)	30
Annex G: Indicative ISN Results Matrix.....	31
Annex H: Differentiated Approaches for Different Fragile State Contexts	36
Annex I: Summary of CRN-Based Activities 2003-2005	37
Annex J: Terms of Reference for A Study on Financing Options for the RDP.....	40

MAP:

MAP OF SOMALIA.....	47
----------------------------	-----------

EXECUTIVE SUMMARY

i. **Somalia has existed as a “failed and fractured state” for the past 16 years.** All the previous 13 attempts over the past 16 years to bring peace and stability to Somalia have failed. Notwithstanding the significant ongoing turmoil and difficulties, there is broad consensus within the international community that the current transitional process is the best opportunity since 1991 for making progress toward a stable Somalia. This new Interim Strategy Note (ISN) describes how the World Bank (the Bank) proposes to align its support for the transitional process over the next 23-month period with the Reconstruction and Development Programme (RDP) for Somalia. The RDP resulted from the Joint Needs Assessment (JNA) prepared jointly by the Bank and the United Nations (UN) in collaboration with bilateral donors and Somali partners over the past two years. All development partners are aligning and coordinating their support behind the RDP.

ii. **The ISN is based on lessons of engagement in Somalia and other fragile states (including Sudan).**¹ The lessons include: (a) taking the local context as a starting point, and understanding the political economy; (b) focusing on state building as the central objective; (c) agreeing on an appropriate division of labor based on comparative advantage, particularly with the UN; and (d) staying engaged long enough to give success a chance.

iii. **In line with such lessons and principles as comparative advantage and following extensive consultations, the ISN proposes four objectives:**

- a. **Building basic accountability in Somaliland and Puntland,** and more limitedly in south-central Somalia as circumstances permit, thereby assisting the authorities to use and account for donor and domestic resources. These efforts will be complemented by increased transparency in providing and accounting for resources – the absence of which contributed to state failure in the past.
- b. **Piloting Community Driven Development (CDD) service delivery in selected communities in Somaliland and Puntland.** This CDD approach involves addressing community needs, rebuilding social capital, and strengthening and empowering local level institutions through bottom-up participation. This approach will help meet real needs identified in the RDP but also increase the probability that such investments will be sustained even in the situation of renewed conflict.
- c. **Supporting the private sector in Somaliland and Puntland.** Somalia’s economy, which at present is entirely private-sector led, can potentially do far more to generate jobs and economic opportunities, particularly for the country’s large youth population, than all Official Development Assistance (ODA) combined. Bank/International Finance Corporation (IFC) collaboration will help the authorities develop a supportive enabling regulatory and legal framework – in areas such as business entry and exit, compliance with international standards, and microfinance.

¹ World Bank, *Engaging with Fragile States: An IEG Review of World Bank Support to Low-Income Countries Under Stress*, 2006.

- d. **Providing economic advisory services.** The fourth objective is ensuring that the economic agenda is in sync with progress on the political front. Building on the rich experience since 2004 of producing products such as the Country Economic Memorandum (CEM) and co-leading the preparation of the JNA and RDP, the Bank will support the international community and Somali partners by providing advisory notes on translating economic findings into practical actions.

iv. **During the ISN period, the Bank will also begin to lay the foundation for eventually normalizing its relationship with Somalia.** Efforts toward normalization will focus largely on further analysis of Somalia's external debt and arrears, and collaboration with the international community in exploring options for arrears clearance and triggers for such assistance. In keeping with Bank policy OP 2.30, our engagement in Somalia (including Puntland and Somaliland) will be based on an explicit request from the international community for Bank assistance (as properly represented) and with Board approval in each case (and other usual considerations such as our comparative advantage).

v. **The main risks associated with the ISN are lack of security, political stability and effective governance in Somalia as well as difficulty for the Bank to attract or to retain experienced and skilled staff to work on Somalia.** The ISN proposes to manage the risks by: (a) focusing on a small carefully selected number of activities in those parts of the country where enabling conditions are suitable; (b) selecting intervention tools that are sufficiently adaptable to a changing environment such as Technical Assistance (TA) and Analytical and Advisory Activities (AAA); (c) choosing areas of intervention that are less vulnerable to political changes; (d) targeting proposed interventions at basic levels that are needed for the country regardless of the status of transitional process, and (e) working with the rest of the Bank to tap skills from other Regions when needed, and to strengthen incentives for staff working on a fragile state.

vi. **Reflecting both risks and lessons of experience, considerable time and efforts have been invested in fostering a joint approach among key development partners as a way of reducing the potential risk for the Bank.** The proposed ISN is one of the three principal responses to the RDP, which are highly complementary in scope and timeline. The Country Strategy Paper (CSP) of the European Commission (EC), the European Union (EU) Member States, and Norway emphasizes support in political reconciliation and peace building, security and rule of law, health, education, water and sanitation, and cross cutting issues such as gender, HIV-AIDS and the environment. The UN's Transition Plan system will focus on livelihoods, displaced people, local government development, peace dividends and other quick wins, while providing direct support to the Somali authorities.

vii. **To effectively implement the four strategic objectives, the Bank expects to mobilize trust funds of about US\$6.5 million from the Post Conflict Fund/Low Income Countries Under Stress Trust Fund (PCF/LICUS).** In addition, to provide quality control on technical and fiduciary matters, and ensure timely response, Bank organization is evolving towards greater and more timely support for country-level implementation. For example, Management of the Somalia operations is already located in the field although not in Somalia itself at this stage. A Rapid Response Committee will also help to facilitate timely strategic and operational decisions that cannot be handled otherwise.

I. INTRODUCTION

1. **This Interim Strategy Note (ISN) presents the Bank's program of assistance to Somalia over the next 23 months (FY08-09).** The ISN follows a Country Re-engagement Note (CRN)² presented to the Board in April 2003 and the President's Memorandum "Somalia: Additional Activities"³ discussed by the Board in June 2005, in the context of an extension of the Bank activities set in motion by the CRN. The preparation of this strategy was postponed, however, until after military conflict between the Transitional Federal Government (TFG), supported by Ethiopian forces and the Islamic Courts Union (ICU), subsided over the course of 2006/early 2007.

2. **Notwithstanding the significant ongoing turmoil and difficulties, there is broad consensus in the international community that the current transitional process is the best opportunity since 1991 for making progress toward a stable Somalia.** This new ISN will support the transitional process by building on significant investments made since 2004 in analytic and strategic partnerships at the country and international levels, including the Reconstruction and Development Programme (RDP) for Somalia which resulted from a two-year long process of the Joint Needs Assessment (JNA). Since its re-engagement in 2003, the Bank has built up and maintained operational readiness through analytical work, trust funded support, staff presence in Nairobi, Kenya (where the donor community covering Somalia resides) and a broadly agreed and highly complementary division of labor with other development partners.

3. **This ISN was prepared as the Bank's response to the RDP and is based on further extensive consultation with international development partners.** In line with the Paris Declaration and the Development Assistance Committee (DAC) Principles for Good International Engagement in Fragile States, this ISN has been widely consulted on at the Nairobi and international levels. A joint review of the ISN, the Country Strategy Paper (CSP) of the European Commission (EC), European Union (EU) Member States and Norway, and the United Nations Transition Plan (UNTP) for Somalia was organized in Brussels in March 2007. Representatives of the Bank, the EC, EU Member States, Norway, the United States, Canada, and the United Nations (UN) participated. Such a joint approach among key development partners helps to better assess, share and manage the risk of Bank engagement in Somalia.

II. COUNTRY CONTEXT

A. Governance Issues

4. **Until 2004, the previous 13 attempts over the past 16 years to form a central government have been unsuccessful.** The memory of the failed international intervention between 1993 and 1995 made many members of the international community reluctant to engage in Somalia again, and those who did engage did not stay long enough to give success a chance. However, the international community has recognized the significant economic and social costs of fragile states, and the serious implications for international security. Thus it has endorsed the

² Somalia: Country Re-Engagement Note (IDA/SecM2003-0136), March 2003.

³ Somalia: Additional Activities (IDA/R2005-0205), October 2005.

Principles of Good International Engagement in Fragile States by OECD/DAC Development Ministers in March 2005, which encourage sustained engagement.

5. **A coherent and stable “unitary” state in Somalia seems unlikely in the near future.** In the medium term, an uneasy co-existence of three main political blocs in Somalia is likely to continue – the Transitional Federal Institutions (TFIs) in the south-central, the Somaliland authorities in the northwest, and an Islamic insurgency against the TFIs. Puntland’s interests, as a declared autonomous state within a Federal Somalia, tend to align with the TFG’s. Notwithstanding military success against the Islamic Courts Union (ICU) in end-2006/early 2007, insecurity and absence of core public services appear to make the TFIs unpopular with large segments of the population and unable so far to make noticeable progress toward a truly ‘unitary’ state.

6. **The transitional process faces considerable challenges.** Given the historical mistrust of central government, support by the Somali people for the transitional government or any other authorities will depend on the efforts made at reconciliation. It will also depend on progress toward the rule of law and provision of social services and other public goods. The challenges here are considerable, given recent military exercises, political infighting, rent-seeking behaviors (mainly through unregulated concessions on national or public assets by individual members of the TFIs), and almost no progress toward creating a civil service that provides core state functions, including donor coordination. Nonetheless, the international community continues to engage proactively with the TFIs, for example, on the draft RDP.

7. **There is an urgent need for inclusive dialogue aimed at ensuring a broad-based government on the basis of the Transitional Federal Charter.** To be effective, the leadership of TFIs has to reach out to all segments of the Somali society, including their current adversaries. At the writing of this ISN there is a plan to organize the National Reconciliation Congress in July 2007. Originally scheduled for May 2007, this event still requires considerable preparation and coalition-building if it is to succeed.

8. **The Bank faces three different operational environments within Somalia.** A region-by-region analysis according to the Bank’s four categories of fragile states⁴ shows that the current situation in the south-central region controlled by the TFIs falls somewhere between “Prolonged crisis/Impasse” and “Post-Conflict Transition”. The situation in the northern region controlled by the Puntland authorities can be classified as “Post-Conflict Transition” while the situation in the northwestern region controlled by the Somaliland authorities is that of “Gradual Improvement” (see Annex H for Bank’s four fragile state typologies).

9. **Somaliland is both an example of growing peace and stability, and a challenge to a unitary Somalia.** Since declaring independence unilaterally in May 1991, Somaliland has enjoyed relative peace and stability as a result of home-grown clan-based reconciliation process. Among key milestones in the process so far has been the adoption of the new Constitution in 2001, local elections in 2002, and presidential elections in 2003. The first multiparty parliamentary elections were held on September 29, 2005. Some 246 candidates participated and the opposition gained a majority in Parliament. Presidential elections are scheduled for 2008.

⁴ IDA 15 Paper, “Operational Approaches and Financing in Fragile States”, OPCS and FRM, June 2007.

Unlike many other parts of Somalia, the adequate conditions for development and limited reform activities exist in Somaliland.

Figure 1: Four Fragile State Contexts and Somalia's Asymmetric Situation

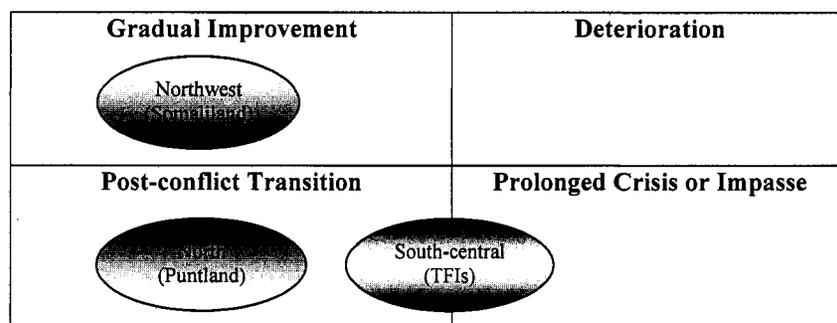


Table 1: Summary of Different Sub-national Contexts*

	Transitional Federal Institutions (TFIs)	Somaliland Authorities	Puntland Authorities
Status	It has international support as "transitional" authorities representing Somalia, but limited formal recognition.	It has claimed independence from the rest of Somalia since 1991, but the claim is not internationally recognized.	It considers itself as an autonomous regional government of a federated State of Somalia.
Security and Operational Environment	South-central region continues to be unstable and insecure.	Northwestern region remains calm and stable, and conditions for development and limited reform activities exist. A territorial dispute with Puntland threatens its calm and stability.	Northern region is relatively stable, and conditions for some development activities exist. A territorial dispute with Somaliland threatens its relative stability.
Public Finance Management	There are no institutions and no civil service. No PFM or internal control systems exist. Proliferation of ministries with duplicated and unclear mandates. There is no budget preparation. Plans and expenditures are determined on an ad-hoc basis.	There are some governance institutions, limited PFM and internal control systems exist. There is no consultative process to prepare the budget. There is little link between plans and budgets.	Limited governance institutions exist, but no PFM and internal control systems. There is no established budget preparation process. There is no link between plans and budgets.
Transparency and Accountability	There is very low transparency and accountability.	There is limited accountability but no transparency.	There is low transparency and accountability.
Core State Capacity	There is no civil service. There is very low capacity.	There is some civil service. There is some capacity.	There is limited civil service. There is low capacity.
Representation	Officials are appointed or selected through a clan-based system. Suffers from low credibility and popularity among the population.	President and members of the Parliamentary House of Representatives are democratically elected. A traditional clan-based Council of Elders functions as the Upper House of the Parliament.	Officials are appointed or selected through a clan-based system.
Predominant Activity Phase	Humanitarian.	Early reconstruction to development. Possibility for first generation reform exists.	Recovery

* Based on Post-Conflict Performance Indicators (PCPI) and observation and assessment by Bank staff. See Annex D for the PCPI.

B. Economic and Social Issues

10. **Economic data is of variable quality and reliability.** Since the onset of civil war in 1991, no aggregate data on macroeconomic trends has been collected. While a large quantity of

statistical data has been collected over the years by various organizations, the methodologies used are inconsistent and incompatible, and the quality varies significantly. Nonetheless, the economic data collected by the Bank for the Country Economic Memorandum (CEM) and ISN represents the best available data that is used by other development partners including the International Monetary Fund (IMF).

11. **Fragility has exacted significant economic and social costs.** Somalia has existed as a “failed and fractured state” since the last central government was overthrown in 1991. Decades of prolonged conflict and cyclical famine caused by recurrent drought and flood have displaced an estimated 370,000 Somalis and resulted in the exile of another one million. The economic and social costs of State failure have been substantial. One indicator is that Somalia’s estimated population of 8 million in 2005 had an income per capita of US\$226 (compared to a sub-Saharan average of US\$515). Somalia was also ranked 161 out of 163 countries in the 2001 UNDP Human Development Index. In 2004, the country had an infant mortality rate of 133 per 1,000 births (compared to 100 per 1,000 birth in sub-Saharan Africa), and 1 in 7 children is likely to die before his or her fifth birthday. The maternal mortality rate is estimated at 1,013 per 100,000 births. Less than 1 in 3 Somalis have access to clean water. The incidence of poverty is very high, with 43 percent of the population living below the extreme poverty line of US\$1 per day. The Bank estimates that Somalia’s income per capita could have been a third higher than the US\$226 estimated for 2002 had the country not had the civil war.⁵

12. **Somalia’s “lost generations” are a significant issue for the country’s long-term recovery and development.** Fewer than 1 in 5 children are enrolled in primary school. Of the very few children who complete primary school, only 1 in 8 is a girl. The disparity between girls and boys enrollment is significant. The education and health sectors in Somalia are faced with poor quality of and limited access to services. Public funding in the two sectors is minimal in Somaliland and Puntland. In the TFI-controlled area, it is non-existent. Humanitarian organizations and the private sector continue as the principal service providers for education and health services. Rampant unemployment, inadequate social services, appalling level of illiteracy, widespread poverty and lack of opportunities provide a fertile ground for radicalism, particularly among the youth. The abundance of small arms makes the society continuously vulnerable to crime, violence, and conflict.

13. **The private sector and remittances have sustained Somalia in absence of central government.** Since 1991 there have been significant (but unmeasured) private investments in commercial ventures largely funded by large remittances from the diaspora. Today, remittances amount to approximately US\$1 billion per year, accounting for about 70 percent of Gross National Product (GNP). A strong private sector has emerged in Somalia, particularly in Somaliland, as a result of the prolonged peace and achievement of relative security. Indeed, the private sector is generating a wide range of economic activities such as the provision of some basic social services and other services such as electricity, telecommunications, domestic water supply, and urban waste disposal. However the cost of doing business is extremely high. One reason is that Somalilanders at the moment do not have access to regular bank financing and cannot borrow at international market rates. Import and export activity also faces large

⁵ A Country Economic Memorandum (CEM) for Somalia, January 2006, World Bank.

constraints, as traders cannot obtain international insurance or guarantees. There has been very little foreign direct investment in recent years.

14. **Trade is the growth engine of the Somali economy.** Cross-border trade has been growing steadily over past six years. Aggregate trade data reported by partner countries to the IMF shows that imports have almost doubled in the period 2000-05, reaching a historical record in 2005 at US\$626 million. Similarly, exports have quadrupled in six years, reaching US\$250.9 million in 2004. Livestock continues to dominate exports despite the Saudi ban on Somali livestock, followed by charcoal, fish, hides, and skins. The largest recorded imports through Berbera (Somaliland) and Bosasso (Puntland) ports are food, building materials, and fuel. Khat, a narcotic, is exported mainly from Ethiopia and Kenya, and is the second top import product after sugar. The khat trade is a significant business, with annual imports value estimated between US\$30-50 million. However, it has devastating economic and social costs on the Somali society as it makes the user highly unproductive and aggressive.

15. **Somaliland and Puntland have limited fiscal management capacity while the Transitional Federal Government (TFG) still has none.** Fiscal management in both Somaliland and Puntland suffers from low revenue collections, expenditures mostly for security and general administration, and poor planning and management of development projects. Trade taxes, mostly specific rather than ad valorem including export taxes, have been the source of more than 80 percent of annual revenue. Compared to the pre-civil war period, deficit financing is limited to semi-voluntary loans from major businesses that are repaid through tax exemptions rather than central bank inflationary financing. In 2006, Somaliland had a budget of US\$23 million, of which only 7.6 percent was devoted to health and education expenditures. The security forces and the police receive 46 percent of budgetary allocations. The Puntland government had a budget of US\$16 million in 2006. Military and police force constitute 45 percent of budgetary expenditure while less than 3 percent is spent on social services.

16. **Clan and sub-clan systems dominate the Somali economic, social and political life.** While clan/sub-clan affiliations have strengthened their capacity to exploit resources and protect common interests, they have virtually destroyed much of the larger group identities that are fundamental for a coherent society. A further complication is that clan alliances are also fragmented and fluid, as exemplified by frequent fighting within the clans and sub-clans. It would, therefore, be misleading to characterize all Somali conflict as being merely clan-related as the conflict increasingly has ideological and geopolitical dimensions.

C. World Bank Group's Relationship with Somalia

17. **The Bank has not had an active portfolio in Somalia since 1991.** The normalization of the relationship with the Bank and the resumption of regular lending and other financial services to Somalia require the fulfillment of certain requirements based on the Bank's Articles of Agreement and operational policies. These include but are not limited to: (a) the government's international standing as well as its ability to enter into, and perform obligations under, agreements with the Bank; (b) the government's willingness to recognize Somalia's past obligations to the Bank; (c) the clearance of arrears owed by Somalia to the Bank; and (d) the Bank's operational ability to efficiently undertake project identification, preparation, appraisal, or supervision in Somalia. The Bank's relationship with Somalia is guided by Bank/Operational

Policy 2.30 regarding Development Assistance and Conflict as well as by BP/OP 7.30 on Dealing with De Facto Government.

18. **Now and in the foreseeable future, the Bank's engagement in Somalia is based on an explicit request from the international community.** In June 2003, the President of the Bank issued a memorandum on the matter of the Bank's role in a country where there was no government in power.⁶ It noted that, under OP 2.30 if there was no government in power in a member country, the Bank's assistance could be initiated by requests from the international community, as properly represented, and with Board approval in each case⁷. Until now, the Bank remains engaged in Somalia based on an explicit request from the international community. The Bank's normalization with Somalia itself is a significant potential leverage in promoting governance reforms in Somalia. Therefore the timing of normalization must be carefully and strategically determined.

19. **As of June 2007, Somalia is in arrears of approximately US\$163 million (nominal stock) in total with IDA, and approximately US\$874 million (nominal stock) in total with all the multilateral financial institutions.** Since 1991, Somalia has neither borrowed nor serviced its public debt. Somalia's total external debt (public and publicly guaranteed) is estimated at US\$3.3 billion in April 2007, of which an estimated US\$2.6 billion is in arrears (see Table 1). Of this debt, 41 percent is owed to multilateral creditors, 45 percent to Paris Club bilateral creditors, and 14 percent to non-Paris Club bilateral and commercial creditors. Somalia remains at pre-decision point for the Highly Indebted Poor Countries (HIPC) Initiative.

**Table 2: Stock of Public and Publicly Guaranteed External Debt at April 2007
(in US\$ million)**

Creditor	Nominal Stock				
	Total		Arrears 1/		
	Stock	(%)	Principal	Interest	Total
1. Multilaterals	1,325	40.7	530	344	874
World Bank – IDA 2/	527	16.2	117	46	163
IMF	353	10.8	182	171	353
AfDB Group	134	4.1	44	21	65
Others	310	9.5	187	106	293
2. Bilateral & commercial	1,935	59.4	924	833	1,757
Paris Club creditors	1,472	45.2	573	740	1,314
Non Paris Club & commercial creditors	462	14.2	351	93	444
Total Debt (1+2)	3,258	100.0	1,454	1,177	2,631

Sources: Creditor Statements and World Bank Global Development Finance.

1/ Includes principal and interest arrears as well as penalty charges.

2/ IDA interest amounts, which represent overdue service charge to IDA, are as of June 2007.

20. **During a three-year period between 2003 and 2005, the Bank made modest contribution of US\$6.09 million (or approximately US\$2 million per year) from the Post-Conflict Fund (PCF) and Low Income Countries Under Stress Fund (LICUS).** Those activities under the CRN supported macro data collection and analysis, HIV/AIDS prevention, livestock strategy, community health, distance learning, and local area development. During this period, the Bank also produced Economic and Sector Work (ESW) that significantly contributed

⁶ See Memorandum of the President of the International Development Association to the Executive Directors on a Country Re-engagement Note and Post-Conflict Fund for Somalia, IDA/R2003-0146, June 2003.

⁷ Ibid. at paragraph 2.

to the formulation of donor programs. These included a CEM, a Conflict Analysis Note, and work on a Report on Female Genital Mutilation/Cutting. In October 2005, the Bank allocated an additional US\$2 million for the health and fishery sectors in Puntland from the special “Tsunami recovery” window of the Japan Social Development Fund (JSDF).

21. **Lessons learned from the 2003-2005 Country Re-engagement Note are valuable inputs for the ISN.** The impact of CRN-based activities was modest due to a number of factors (see Annex I). These include: (a) weak Somali ownership in some areas and the allocation of scarce resources to some sectors that were institutional priorities for the Bank but were not necessarily considered high country priorities; (b) high transaction costs caused by too many small activities in a high operating cost environment; and (c) significant delay in the implementation caused by the complex inter-UN agency financial transfer agreements. For example, UNDP delegated the implementation responsibility for the CRN to other UN agencies, and this had the unfortunate consequence of compromising lines of communication and accountability. In addition, the absence of Bank’s presence in the country made it necessary to work through a line of intermediaries; however, this “diffusion” of responsibility severely limited Bank’s ability to exercise its prudential obligation to monitor financial management and results on the ground.

III. EVOLVING SOMALI RECONSTRUCTION DEVELOPMENT FRAMEWORK

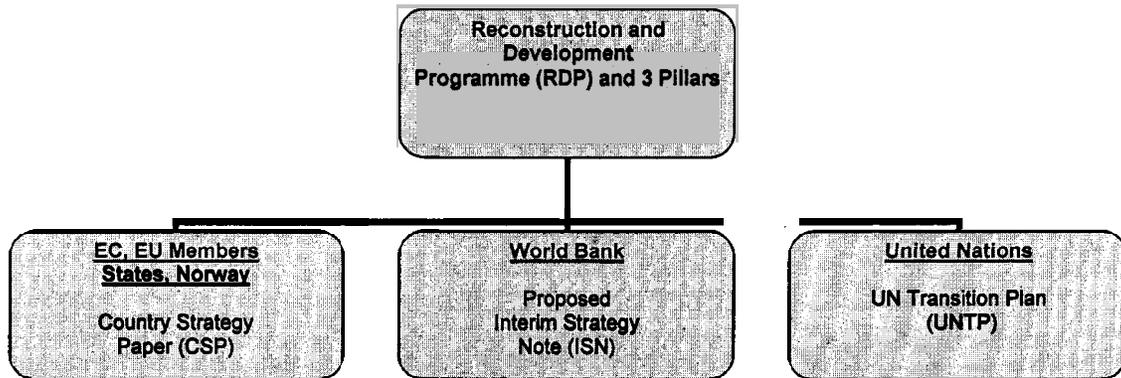
22. **The CEM for Somalia, prepared by the Bank in 2005, has provided the analytical basis for various pre-RDP donor development strategies and the JNA.** Since its publication, the CEM has been widely used as a resource for Somali partners and the international community. The CEM emphasized the importance of the private sector and significant remittance flows from the diaspora in mitigating the social and economic costs of a protracted conflict and failed state. The CEM therefore promoted a private sector-led growth accompanied by a “minimalist” state structure that is lean. But the structure must also be responsive and accountable, and capable of leveraging the private sector’s and civil society’s potential for service delivery to the Somali people in creative ways.

23. **The RDP is pro-poor and provides the overall framework for international support.** The main objective of the JNA was to guide the development of the RDP as the overall framework for mobilizing international assistance for Somalia. The RDP lays out the prioritized needs and broad costing for reconstruction and recovery of Somalia during the five-year transitional period. The RDP is a pro-poor framework premised on three mutually reinforcing pillars of priority needs, covering: (a) deepening peace, improving security and establishing good governance; (b) strengthening essential basic services and social protection; and (c) creating an enabling environment for private sector-led growth to expand employment and reduce poverty. All three pillars are interdependent on each other for success, and for each, specific attention has been paid to defining a strategy, related initiatives and priority outcomes. The rationale behind the RDP’s three inter-dependent pillars is that peace, security and good governance are foundations for all reconstruction and development initiatives. Sustained peace and security depend on the creation of alternative livelihoods and sustained poverty reducing economic growth and investments in people. In turn, the economic growth that is necessary for sustained

poverty reduction depends on investments in people, peace, and security and other actions to reduce the cost of doing business. The JNA/RDP will be finalized in July 2007 (see Annex E: RDP Preface and Executive Summary as well as Annex F: JNA/RDP Costing Table).

24. In responding to the RDP, the Bank is incorporating key lessons drawn from the Independent Evaluation Group (IEG) review on Bank support to fragile states⁸, OECD-DAC work on fragile states, and Bank’s recent experience in Somalia, Sudan and other fragile states. Those include: (a) taking the local context as a starting point, and understanding the political economy; (b) focusing on state building as the central objective; (c) agreeing on an appropriate division of labor based on comparative advantage, particularly with the UN; (d) acting quickly while managing expectations vis-à-vis the clients and partners; (e) transferring knowledge and expertise from one fragile state engagement to another within the Bank in order to reduce the risk of repeating the same mistake; and (f) staying engaged long enough to give success a chance. Development partners have demonstrated a strong commitment to coordinating their overall responses to the RDP. In addition to the Bank’s ISN, there are currently two other strategic documents that have been prepared in response to the RDP, which are the CSP by the EC, EU member states and Norway, and the UNTP (see Figure 2).

Figure 2: Strategic Responses to the RDP by Development Partners



25. Development partners generally share a common view of challenges and opportunities ahead. Those challenges include: (a) lack of security, political stability and effective governance in Somalia; and (b) the need to respond appropriately to the different demands and opportunities within TFIs, Somaliland and Puntland. Additionally for the Bank, these challenges include: (a) ensuring that the engagement with Somalia is timely, sustained and led by staff with appropriate skills and commitment; and (b) ensuring that our operational policies (including new OP 8.00 Rapid Response to Crisis and Emergencies), procedures and instruments for fragile state engagement – particularly procurement – provide both fiduciary assurance and flexibility to meet the unique circumstance in fragile state contexts. Regarding opportunities, development partners also agree that notwithstanding the current difficulties, this is the best opportunity since 1991 for making progress toward a stable Somalia. The proposals

⁸ World Bank, Engaging with Fragile States: An IEG Review of World Bank Support to Low-Income Countries Under Stress, 2006.

in the Bank’s ISN reflect the lessons of experience and these broad views within the development community.

IV. WORLD BANK GROUP INTERIM STRATEGY FOR SOMALIA

26. In accordance with OP 2.30, proposed Bank interventions will be based on an explicit request of the international community for Bank assistance, as properly represented, and with Board approval. While the current country environment make it necessary to sequence Bank engagement in Somalia by focusing on the Somaliland and Puntland regions, every effort will be made to ensure harmonized policy and regulatory approaches across all three regions.

27. The ISN objectives come from: (a) the pillars of the RDP; (b) the Bank’s comparative advantage and technical competency; and (c) the division of labor supported by other development partners during a series of joint reviews in Nairobi and key donor capitals. There are four ISN objectives. Their relationships with the RDP pillars are summarized below.

Table 3: ISN Objectives and their Relationships with the RDP Pillars

RDP Pillar	RDP Sub-pillar Corresponding to Bank’s Comparative Advantage	ISN Objective	Primary Focus Area
Pillar One: Deepening peace, improving security and establishing good governance.	Public finance management	Strengthening accountability and transparency by building basic PFM capacity and other minimum accountability mechanisms.	Somaliland and Puntland (and more limitedly in south-central as circumstances permit).
Pillar Two: Strengthening essential basic services and social protection.	Social service delivery	Strengthening decentralized service delivery through community-driven interventions.	Somaliland and Puntland
Pillar Three: Creating an enabling environment for private sector-led growth to expand employment and reduce poverty.	Private sector development	Generating economic opportunities by improving enabling business environment and investment climate.	Somaliland and Puntland
Paris Declaration and DAC Principles for Good International Engagement in Fragile States.	Donor coordination and harmonization	Contributing to the collective international efforts to support the transitional process by providing timely economic analysis and policy recommendations.	Somalia

A. PROPOSED PROGRAM BY ISN OBJECTIVES

Objective One: Strengthening accountability and transparency by building basic Public Finance Management (PFM) capacity and other minimum accountability mechanisms.

28. **The main focus of PFM activities will be, but not limited to, Somaliland and Puntland.** Given a wide regional diversity of administrative conditions and capacity to perform core state functions (see Table 1), Bank intervention in PFM must be carefully tailor-made to meet the needs and conditions of each region. Bank activities in this area of strategic intervention may include: the provision of technical assistance and training on economic management, treasury operations, accounting and auditing, budget formation, revenue

mobilization and public procurement. In July 2006 the Bank organized a post-conflict leadership seminar including the central role of transparent and accountable PFM in transition for cabinet members, parliamentarians and senior civil servants of the TFIs. Similar events were also organized separately for Somaliland and Puntland in December 2006. Following the seminar, Somaliland has produced a PFM work plan, which will be the basis for Bank assistance. As and when the TFIs and Puntland prepare their own PFM work plans, the Bank will assist them in their endeavors provided that there are sufficient financial and human resources available to do so.

Objective Two: Strengthening service delivery through community-driven interventions.

29. **The main focus of pilot Community Driven Development (CDD) activities will be selected communities in Somaliland and Puntland.** Bank activities for the second objective may include but are not limited to piloting of an inter-agency community-driven recovery and development project. Community-Driven Recovery and Development (CDRD) entails the articulation of the community's self-perception and future vision and a development plan to realize that vision. The plan generally comprises a series of prioritized actions beginning with specific tangible projects. Through the community-driven process, community members review and analyze their resources and needs, prioritize their requirements, develop a plan of action, organize into a decision-making body (or refine an existing one), receive and manage resources, carry out the project, and ensure quality and accountability. By directly relying on poor people to drive development activities, CDRD has the potential to make poverty reduction efforts more responsive to demands, more inclusive, more sustainable, and more cost-effective than traditional community-based assistance projects. External partners typically and only facilitate the process, including ensuring inclusive and participatory consultations with the community and looking into issues of technical design, feasibility, sustainability and implementation arrangements, rather than selecting or implementing the projects for the community.

Objective Three: Generating economic opportunities by improving enabling business environment and investment climate.

30. **The main focus of Private Sector Development (PSD) activities will be Somaliland and Puntland.** Somalia's economy is almost entirely private-sector led, and this feature can be exploited as part of the recovery effort. If the business environment and investment climate can be improved in a way that fosters its constructive and positive development, the Somali private sector can potentially do far more in terms of generating jobs and economic opportunities, particularly for the country's large youth population, than all the Official Development Assistance (ODA) combined. It can also play a significant role in infrastructure service provision.⁹ Based on the recommendations from the CEM, the objective of Bank intervention together with the International Finance Corporation (IFC) in this area is to help the authorities develop a "light" but effective regulatory framework that serves as the foundation for building an

⁹ Some good examples of PPP exist in Somalia such as water supply in Boroma (northwest) and Jowhar (south-central). They could serve as a model for expansion to other places.

enabling environment for business development as well as investments and complements the demonstrated dynamism of the Somali private sector. Bank Group activities in this area of strategic intervention may include providing advisory services and technical assistance on:

- **Legal and Regulatory Framework:** Improvements in key areas impacting transaction costs and investment decisions of private sector including: (a) trade facilitation – ports and customs; export and import licensing and quality standards of key merchandise trade; (b) microfinance and credit – establishment of policy framework to support development of sustainable microfinance services; (c) contract enforcement - formal and informal, including industry-based commercial dispute resolution mechanisms; and (d) property titling for commercial use.
- **Public-Private Dialogue:** Capacity building to support key business and industry groups contribute effectively to the national policy and programming dialogue, to support membership voice private sector concerns, and obtain selected key services that will assist in business growth and employment.
- **Public-Private Partnerships (PPP):** Further development of public-private partnerships in infrastructure and social service delivery will be a priority. In addition to extending the reach and raising the quality of such services, PPPs also have the potential to increase social inclusion and cohesion.

Objective Four: Contributing to the collective international efforts to support the transitional process in Somalia by providing timely economic analysis and policy recommendations.

31. **The Bank’s advisory services in a fragile state context can have a positive impact on the direction of such dialogue and can also serve as useful inputs to the transitional process as economic and development issues are often at the heart of peace and reconciliation discussions.** One of the best and most appreciated contributions the Bank makes in a fragile state context is its high quality analytical work (and timely dissemination) that can promote substantive and balanced dialogue among key stakeholders. The Bank will support the international community by providing macro-strategic and other technical advisory notes on translating economic findings into practical policy guidance and recommendations for the RDP implementation phase. Bank activities in this area of strategic intervention may include: (a) policy advice on sectoral policies, financing and implementation options for the RDP, fragile state engagement; (b) transfer of relevant experience and knowledge on reconstruction and development from other post-conflict transitional processes; and (c) advocacy and promotion of good practice and principles that are consistent with the Paris Declaration and DAC Fragile State Principles.

B. RESOURCE REQUIREMENTS

32. **An estimated resource requirement for the two-year period covered by this ISN is US\$6.5 million.**

Table 4: Estimated Resource Requirements for the ISN: FY08-09

	FY08	FY09	Total
ISN Objective One	US\$1,000,000	US\$600,000	US\$1,600,000*
ISN Objective Two	US\$1,400,000	US\$1,400,000	US\$2,800,000**
ISN Objective Three	US\$1,000,000	US\$500,000	US\$1,500,000
ISN Objective Four	US\$300,000	US\$300,000	US\$600,000
Total	US\$3,700,000	US\$2,800,000	US\$6,500,000

*Additional contributions expected from DFID

**Additional contributions expected from DFID

C. IMPLEMENTATION ISSUES

33. The implementation and partnership arrangements for the ISN activities will be inclusive and flexible based on partners' comparative advantages and competencies, and will vary from one objective to another:

- Objective One: Strengthening accountability and transparency by building PFM capacity, will be executed by the Bank in partnership with the **U.K. Department for International Development (DFID)**.
- Objective Two: Strengthening decentralized service delivery and local governance through community-driven interventions, will likely take the form of a joint initiative involving the Bank, **DFID, United Nations Children's Fund (UNICEF), and Danish Refugee Council (DRC)**. The joint initiative will be funded by the Bank and DFID, and implementing partners will include UNICEF, DRC and possibly other agencies with a good track record in this area.
- Objective Three: Generating economic opportunities by improving enabling business environment and investment climate will be executed by the Bank with **the IFC**.
- Objective Four: Contributing to the collective international efforts to support the transitional process in Somalia by providing timely analysis and policy recommendations, the Bank will work with **Denmark, Italy, Norway, Sweden, United Kingdom, United States, EC, IMF, and the Somali Donor Group (SDG)**.

34. **Under the proposed flow of funds and other fiduciary arrangements, no funds under the ISN will be directly channeled through or disbursed to any Somali authorities.** Instead, funds will be disbursed through reputable consultancy services and international NGOs. The SDG has commissioned a consultancy study to explore appropriate financing options for the RDP (see Terms of Reference in Annex J).

35. **Somalia aid coordination capacity and efforts will have to be enhanced considerably.** TFIs' interaction with the international community has tended to be ad-hoc and bilateral. Lack of human capacity is a major contributor to this mode of operation. The international community has asked the Bank to serve as co-chair of the SDG with DFID. The Bank also serves as co-chair of the Coordination for International Support to Somalia (CISS) with the UN. The CISS is

currently overseeing the establishment of a decentralized coordination structure for Somaliland in Hargeisa in cooperation with the Somaliland Ministry of Planning and International Cooperation.

36. **Results monitoring and measurement will be very critical and very difficult.** The nonlinear nature of progress in a volatile fragile state environment requires close tracking of performance. However, lack of field presence and access to project sites caused by insecurity makes it very difficult to do so. Nonetheless, the ISN proposes a set of performance indicators to measure the outcome of Bank support that focuses on types of interventions that promote good governance. Those performance indicators are modest and grounded in the realities of the current country situation (including the country's absorptive capacity) as well as the Bank's own capacity to provide assistance (see Annex G). These indicators include the establishment of basic and minimum internal financial control mechanisms such as a rudimentary Accountant General's Office or Auditor General's Office, local government acceptance of action plans prepared by the communities themselves as the basis for its development plan, and creation of an inclusive and transparent national PPP forum. Satisfactory and steady progress along them will help the country strengthen the legitimacy and credibility of its public institutions, economic performance, access to services, and donor support over the two-year period. The Bank will assess progress against these indicators on an ongoing basis.

37. **Bank organization is evolving towards more timely and appropriate support for country-level implementation.** Within the Bank, the new Sustainable Development Department of the Africa Region can help facilitate a more holistic and integrated approach to the conflict for better results, particularly in the context of sub-Saharan Africa where social issues, environmental degradation, livestock and natural resources management, access to water and infrastructure are often at the heart of conflict. The establishment of the Fragile State and Post-Conflict Unit in the Africa Region can facilitate transfer of knowledge and expertise from one fragile state engagement to another in Africa in order to reduce the risk of repeating the same mistake and to mainstream conflict sensitivity in Bank operations across the region. Management of the Somalia operations is already located in the field, although not in Somalia itself at this stage, and discussions are taking place on how best to attract and maintain highly motivated staff to work on fragile states like Somalia.¹⁰

D. SCALING-UP AND EXIT STRATEGY

38. **The Bank remains committed to staying engaged in Somalia in the long run, but scaling-up in the Somali context will imply the extension of ISN activities to the south-central region of Somalia.** Bank activities under this ISN will focus largely on Somaliland and Puntland where the relatively secure and conducive environments for development activities exist and are expected to remain so. Though there will be some limited support for south-central under this ISN, particularly in PFM, given the fragility and volatility of the political and security situation in that part of the country and limitations on the amount of assistance the Bank will be

¹⁰ An IEG Review of World Bank Support to Low-Income Countries Under Stress, 2006.

able to provide, the benchmarks for scaled-up assistance in the south-central region of Somalia will be:

- **Cease-fire and reconciliation:** Effective and sustainable cessation of hostilities on the ground, and meaningful efforts at reconciliation (e.g., through an inclusive National Reconciliation Congress).
- **International Obligations:** Upholding the internationally accepted principle of unhindered humanitarian access.
- **Coordination:** Establishment of a broadly accepted donor coordination structure for the south-central region with the TFG.
- **Good Governance:** Demonstrated and sustained commitment toward making progress in the public financial management framework.
- **International Support:** Organization of an international donor conference.
- **Security and Staff Safety:** A secure environment for staff to carry out dialogue, project preparation, and supervision.

39. If these benchmarks are met and ISN activities are extended to cover the south-central region of Somalia, the Africa Region will come back to the Board to discuss financial and human resources implications of the scaling-up with an ISN Update.

V. RISKS AND RISK MANAGEMENT

40. **The Somalia country context is a high risk venture, and will remain so in the foreseeable future. Risks in Somalia include:**

- **Absence of core state functions and lack of realism on the part of the Somali authorities** will continue to discourage the increase of international assistance.
- **Overwhelming the country capacity with too many reform agendas.** In a fragile state context where virtually every economic and social sector requires reform but the country's capacity is weak, selectivity, prioritization, and sequencing of reform agendas are critical.
- **Challenging environment for results monitoring and measurement.** While the nonlinear nature of progress in a volatile fragile state environment requires close tracking of performance, lack of field presence and access to project sites caused by insecurity will make it very difficult to do so.
- **Significant deterioration in the situation in part or all of the country** is a major concern. While this cannot be entirely mitigated, the flexible response proposed in this ISN would allow the World Bank to manage the situation appropriately.
- **Difficult environment to secure full compliance of fiduciary requirements** is a major concern. The Bank will strive to mitigate fiduciary risks and possible delays resulting

from fiduciary concerns for its future operations by focusing on building core PFM functions.

- **Another risk for the Bank is to attract and retain competent and experienced staff to work on a fragile state** due to insufficient incentives and recognition of their work as pointed out by the 2006 IEG report on Bank operations in LICUS countries.

41. Even though Somalia is a high risk country, by focusing on a small number of carefully selected activities in certain parts of the country, the overall risk for this ISN can be reduced to moderate. The Bank's engagement in Somalia needs to strike a realistic and delicate balance between, on one hand, doing all it can where the Bank can bring added-value and, on the other hand, protecting the Bank from overexposure and unmanageable risks in a difficult and challenging operational environment. The Bank will manage the risks of proposed Bank interventions by: (a) selecting intervention tools that are sufficiently flexible and adaptable such as TA and AAA; (b) choosing areas of interventions that are less vulnerable to political changes; (c) targeting interventions at basic levels that are needed for the country regardless of the status of the transitional process; and (d) using reputable intermediaries (e.g., consultancy firms and international NGOs) as the implementing agency (in case of ISN objectives 1 and 3) and the financial agent (in case of ISN objective 2). Furthermore, in accordance with the Paris Declaration and the DAC Principles for Good International Engagement in Fragile States, considerable efforts have been devoted to harmonize the ISN with other development partners' strategy documents. Such a joint approach among key development partners will further reduce the potential risk for the Bank. The deployment to the field and retention of experienced operational staff, particularly those staff with fragile state experience and expertise, is another important risk. Management is exploring ways to strengthen incentives and recognition for staff working on fragile states by using Somalia as a pilot.

Annex A: Somalia - Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	2001-2006	Sub-Saharan Africa	Low-income
POPULATION					
Total population, mid-year (millions)	4.5	6.0	6.9	719.0	2,338.1
Growth rate (% annual average for period)	8.7	1.0	3.3	2.2	1.8
Urban population (% of population)	26.3	28.7	33.7	36.7	30.7
Total fertility rate (births per woman)	7.25 (1977)	7.25 (1987)	6.95 (2003)	5.2	3.6
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	43.2 (2002)	..	..
Urban headcount index	..	..	23.5 (2002)	..	..
Rural headcount index	..	..	53.4 (2002)	..	..
INCOME					
GNI per capita (US\$)	137	150	226 (2003)	600	510
Consumer price index (1995=100)	..	..	..	..	..
Food price index (1995=100)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	39.7 (2002)	..	..
Lowest quintile (% of income or consumption)	..	..	4.1 (2002)	..	..
Highest quintile (% of income or consumption)	..	..	35.6 (2002)	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	..	2.6	1.5
Education (% of GDP)	..	..	..	3.4	3.2
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	..	19 (2006)	64	78
Male	..	..	21(2006)	68	82
Female	..	..	17(2006)	60	76
Access to an improved water source					
<i>(% of population)</i>					
Total	..	..	29 (2006)	58	75
Urban	..	..	58.4(2006)	82	89
Rural	..	..	13.7(2006)	45	69
Nomadic	..	..	3.8(2006)	..	..
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	9	30	19(2006)	61	66
DPT	..	19	20(2006)	59	67
Child malnutrition (% under 5 years)	..	..	35(2006)	..	44
Life expectancy at birth					
<i>(years)</i>					
Total	42	42	47	46	58
Male	40	40	46	45	57
Female	44	43	49	46	59
Mortality					
Infant (per 1,000 live births)	133	133	96(2006)	101	79
Under 5 (per 1,000 live births)	225	225	156(2006)	171	122
Adult (15-59)	..	..	..	..	..
Male (per 1,000 population)	500	..	516	519	317
Female (per 1,000 population)	412	..	452	461	266
Maternal (modeled, per 100,000 live births)	..	..	1,013(2006)	24	538
Births attended by skilled health staff (%)	..	..	33 (2006)	39	38

Source: World Development Indicators database, World Bank – 04/05/06.

Note: Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97.

Immunization refers to children ages 12-23 months who received vaccinations before one year of age.

Annex B: Somalia - Millennium Development Goals

	Somalia	Somaliland	Puntland	South-Central	Target for 2015
Eradicate extreme poverty and hunger					
Population living below \$1/day	43% (2002)	..	..	..	22%
Poverty gap ratio at \$1/day	18.3%(2002)	..	..	..	9%
Share of poorest quintile in national consumption	4.1% (2002)	..	..	..	2%
Children underweight for age (% of children under 5)	35% (2006)	19.6%(2006)	26.2%(2006)	39.7%(2006)	18%
Achieve universal primary education					
Net primary enrollment ratio (% of school age population)	19% (2006)	39.7%(2006)	27.7% (2006)	10.4%(2006)	100%
Youth literacy rate (% ages 15-24)	20% (2004)	..	..	..	100%
Promote gender equality and empower women					
Ratio of girls to boys in primary & secondary education	0.55 (2000)	0.44 (2004)	..	..	1.0
Ratio of literate females to males (ages 15-24)	0.52 (2002)	..	..	..	1.0
Proportion of seats in parliament held by women	25/275(2003)	0/82 (2003)	5/68 (2003)	..	1.0
Reduce child mortality					
Under-five mortality rate (per 1,000)	156 (2006)	116 (2006)	115 (2006)	173 (2006)	78
Infant mortality rate (per 1,000 live births)	96 (2006)	73 (2006)	73 (2006)	105 (2006)	48
One-year-olds immunized against measles (%)	19% (2006)	..	..	..
Improve maternal health					
Maternal mortality rate (per 100,000 live births)	1,013 (2006)	1,600 (2005)	..	..	275
Births attended by skilled health staff (%)	33% (2006)	41.3%(2006)	36.8% (2006)	29.7% (2006)	
Combat HIV/AIDS, malaria, and other diseases					
HIV Prevalence (% adults ages 15-49)	0.9% (2004)	..	..	..	Halt and begin to reverse spread of HIV/AIDS, incidence of malaria and other major diseases.
HIV Prevalence (% females ages 15-24)	0.9% (2004)	..	..	..
HIV prevalence among 15-24 yr old pregnant women	0.9% (2004)	..	..	..
Contraceptive prevalence (% of women ages 15-49)	15% (2006)	26% (2006)	12% (2006)	12% (2006)	
Prevalence associated with malaria (per 100,000)	118 (2000)	..	113 (2005)	..	
Death rates associated with malaria	82 (2000)	..	..	..
Incidence of TB (per 100,000)	412 (2003)	460 (2000)	..	..
TB cases detected under DOTS (%)	23% (2003)	..	..	..
%age of children under 5 treated with anti-malarials (within 24 hours)	3% (2006)	1.6% (2006)	4.9%(2006)	2.8% (2006)	
Ensure environmental sustainability: land, air and water					
Proportion of land area covered by forest	12% (2002)	..	..	..	Integrate principles of sustainable development into policies; reverse loss of environmental resources.
Ratio of area protected to maintain biological diversity to surface area	0.01% (2002)	..	..	..
Energy use per unit of GDP	50.43 kg p.a. (2000-02)	..	..	..
Proportion of population using solid fuels (%)	99.6%(2006)	98.9%(2006)	99.4%(2006)	99.9%(2006)	
Access to an improved water source (% of population)	29% (2006)	40.5%(2006)	25%(2006)	25.5% (2006)	64.5%
Access to improved sanitation (% of population)	37% (2006)	40%(2006)	43.7 (2006)	35.3% (2006)	68.5%
Develop a global partnership for development					
Fixed line and mobile phones (per 1,000 people)	15 (2002)	20 (2004)	..	..	With the private sector, make available benefits of new technologies.
Personal computers in use per 1,000 people	0.5 (2002)	0.5 (2004)	..	..
Internet users per 1,000 people	9 (2003)	6.7 (2003)	..	..

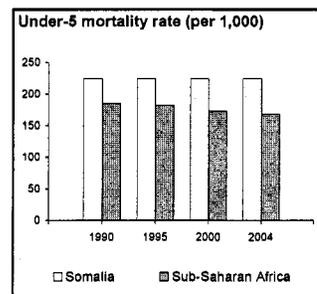
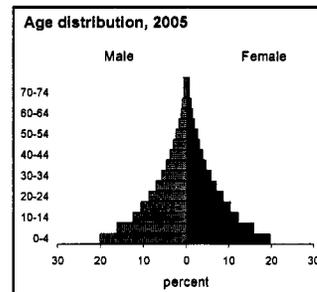
Source: WB World Development Indicators 2006, UNDP MDG Report Somalia, 2004; UNDP and the WB, Somalia Socio-Economic Survey 2002; UNDP Somalia Human Development Report, 2001; Multiple Indicator Cluster Survey, 1999; Conflict Analysis Regional Report: Puntland, 2004; UNICEF Primary School Survey 2004/05; UNICEF, The State of the World's Children, 2004; Ministry of Planning of Puntland, Facts and Figures 2004; WHO Annual World Health Report, 2004.

Annex C: Somalia at a Glance

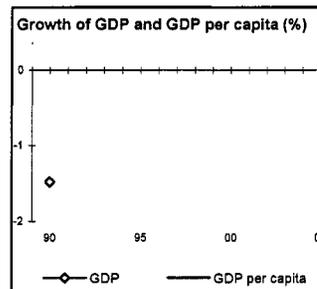
Somalia at a glance

9/14/06

Key Development Indicators	Somalia	Sub-Saharan Africa	Low income
(2005)			
Population, mid-year (millions)	8.2	741	2,353
Surface area (thousand sq. km)	638	24,265	29,265
Population growth (%)	3.3	2.1	1.8
Urban population (% of total population)	35	35	30
GNI (Atlas method, US\$ billions)	..	552	1,364
GNI per capita (Atlas method, US\$)	..	745	580
GNI per capita (PPP, international \$)	..	1,981	2,486
GDP growth (%)	..	5.3	7.5
GDP per capita growth (%)	..	3.1	5.6
(most recent estimate, 2000–2005)			
Poverty headcount ratio at \$1 a day (PPP, %)	..	44	..
Poverty headcount ratio at \$2 a day (PPP, %)	..	75	..
Life expectancy at birth (years)	47	46	59
Infant mortality (per 1,000 live births)	133	100	80
Child malnutrition (% of children under 5)	26	29	39
Adult literacy, male (% of ages 15 and older)	..	..	73
Adult literacy, female (% of ages 15 and older)	..	..	50
Gross primary enrollment, male (% of age group)	..	99	110
Gross primary enrollment, female (% of age group)	..	87	99
Access to an improved water source (% of population)	29	56	75
Access to improved sanitation facilities (% of population)	26	37	38



Net Aid Flows	1980	1990	2000	2005 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	433	494	104	191
<i>Top 3 donors (in 2004):</i>				
Norway	1	1	20	34
United States	60	72	10	32
Netherlands	3	0	6	19
Aid (% of GNI)	71.9	59.1	..	..
Aid per capita (US\$)	67	74	15	24



Long-Term Economic Trends	1980	1990	2000	2005 ^a
Consumer prices (annual % change)	..	..	..	..
GDP implicit deflator (annual % change)	100.9	215.5	..	..
Exchange rate (annual average, local per US\$)	28.8	1,896.1	..	..
Terms of trade index (2000 = 100)	..	..	..	..
<i>(% of GDP)</i>				
Population, mid-year (millions)	6.5	6.7	7.0	8.2
GDP (US\$ millions)	604	917	..	..
Agriculture	68.4	65.5	..	..
Industry	8.0	..	..	..
Manufacturing	4.7	4.6	..	..
Services	23.6	..	..	..
Household final consumption expenditure	97.3	..	..	..
General gov't final consumption expenditure	15.6	..	..	..
Gross capital formation	42.4	15.5	..	..
Exports of goods and services	33.2	9.8	..	..
Imports of goods and services	88.5	37.7	..	..
Gross savings	-5.8	17.0	..	..

1980–90 1990–2000 2000–05
(average annual growth %)

Population, mid-year (millions)	0.3	0.5	3.2
GDP (US\$ millions)	2.1	..	..
Agriculture	3.3	..	..
Industry	1.0	..	..
Manufacturing	-1.7	..	..
Services	0.9	..	..
Household final consumption expenditure	0.8	..	..
General gov't final consumption expenditure	7.0	..	..
Gross capital formation	-2.6	..	..
Exports of goods and services	-12.2	..	..
Imports of goods and services	-6.2	..	..
Gross savings	..	..	..

Note: Figures in italics are for years other than those specified. 2005 data are preliminary estimates. .. indicates data are not available.
a. Aid data are for 2004.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade 2000 2005*(US\$ millions)*

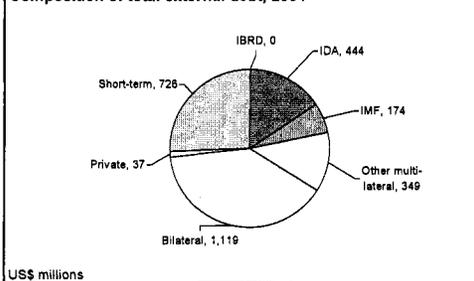
Total merchandise exports (fob)	..	..
Total merchandise imports (cif)	..	..
Net trade in goods and services	..	..
Workers' remittances and compensation of employees (receipts)	..	..
Current account balance as a % of GDP	..	..
Reserves, including gold	..	..

Central Government Finance*(% of GDP)*

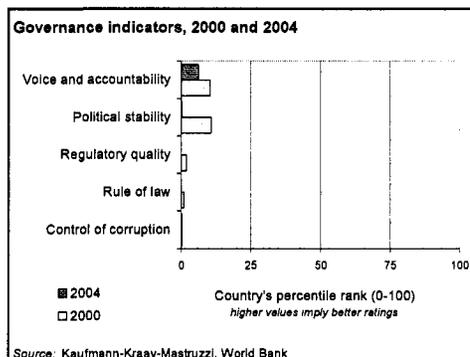
Revenue	..	..
Tax revenue	..	..
Expense	..	..
Cash surplus/deficit	..	..
Highest marginal tax rate (%)	..	..
Individual	..	..
Corporate	..	..

External Debt and Resource Flows*(US\$ millions)*

Total debt outstanding and disbursed	2,562	2,849
Total debt service	0	0
HIPC and MDRI debt relief (expected; flow)	-	-
Total debt (% of GDP)	..	..
Total debt service (% of exports)	..	..
Foreign direct investment (net inflows)	0	9
Portfolio equity (net inflows)	0	0

Composition of total external debt, 2004**Private Sector Development** 2000 2005

Time required to start a business (days)	-	..
Cost to start a business (% of GNI per capita)	-	..
Time required to register property (days)	-	..
Ranked as a major constraint to business (% of managers surveyed who agreed)	..	..
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank branches (per 100,000 people)	..	..

**Technology and Infrastructure** 2000 2004

Paved roads (% of total)	11.8	..
Fixed line and mobile phone subscribers (per 1,000 people)	15	88
High technology exports (% of manufactured exports)	..	..

Environment

Agricultural land (% of land area)	70	70
Forest area (% of land area, 2000 and 2005)	12.0	11.4
Nationally protected areas (% of land area)	..	0.8
Freshwater resources per capita (cu. meters)	..	753
Freshwater withdrawal (% of internal resources)	..	54.8
CO2 emissions per capita (mt)	0.00	..
GDP per unit of energy use (2000 PPP \$ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

World Bank Group portfolio 2000 2005*(US\$ millions)*

IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	396	422
Disbursements	0	0
Total debt service	0	0
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	0	0
Disbursements for IFC own account	0	0
Portfolio sales, prepayments and repayments for IFC own account	0	0
MIGA		
Gross exposure	-	-
New guarantees	-	-

Note: Figures in italics are for years other than those specified. 2005 data are preliminary estimates.
 .. indicates data are not available. - indicates observation is not applicable.

8/13/06

Development Economics, Development Data Group (DECDG).

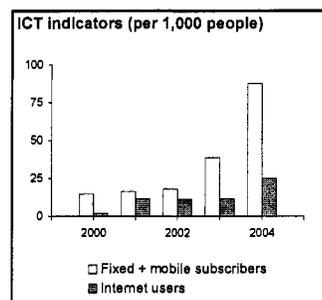
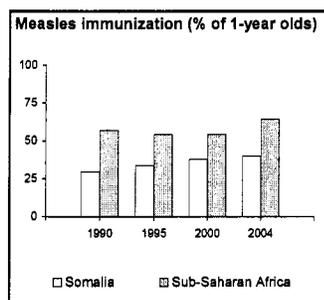
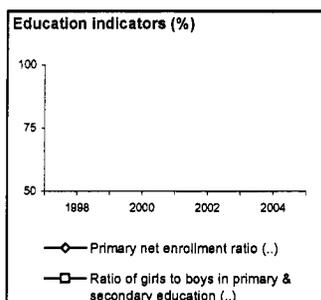
Millennium Development Goals

Somalia

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

Somalia

	1990	1995	2000	2004
Goal 1: halve the rates for \$1 a day poverty and malnutrition				
Poverty headcount ratio at \$1 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest quintile (%)	..	..	..	..
Prevalence of malnutrition (% of children under 5)	..	18	26	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	9	..	..	..
Primary completion rate (% of relevant age group)	..	..	..	..
Secondary school enrollment (gross, %)	..	..	..	..
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	..	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	22	..	..	..
Proportion of seats held by women in national parliament (%)	4	..	..	8
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	225	225	225	225
Infant mortality rate (per 1,000 live births)	133	133	133	133
Measles immunization (proportion of one-year olds immunized, %)	30	34	38	40
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	1,100	..
Births attended by skilled health staff (% of total)	..	..	34	25
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	0.9
Contraceptive prevalence (% of women ages 15-49)	1	..	..	..
Incidence of tuberculosis (per 100,000 people)	341	..	..	411
Tuberculosis cases detected under DOTS (%)	..	22	31	44
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	..	..	29
Access to improved sanitation facilities (% of population)	..	..	..	26
Forest area (% of total land area)	13.2	..	12.0	11.4
Nationally protected areas (% of total land area)	..	..	..	0.8
CO2 emissions (metric tons per capita)	0.0	0.0	0.0	..
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	2	2	15	88
Internet users (per 1,000 people)	0	0	2	25
Personal computers (per 1,000 people)	..	..	..	6
Youth unemployment (% of total labor force ages 15-24)	..	..	..	..



Note: Figures in italics are for years other than those specified. .. Indicates data are not available.

8/13/06

Development Economics, Development Data Group (DECDG).

CAS Annex B4 – Summary of Nonlending Services

As of 4/13/2007

<i>Product</i>	<i>Completion FY Cost (US\$000)</i>		<i>Audience^a</i>	<i>Objective^b</i>
Recent completions				
Demobilization and Reintegration Strategy (TA)	2006	129	Government	Problem Solving
Country Economic Report (ESV)	2006	548	All	Knowledge Generation
Somalia Debt Note (ESV)	2006	14	Bank	Knowledge Generation
Underway				
Community Driven Recovery and Development (TA)	2008	140	Government	Knowledge Generation
Institutional and Policy Development in Support of the Peace Process (TA)	2008	0	Government	Public Debate
Somalia Public Finance Management (TA)	2008	249	Government	Knowledge Generation
Somalia JNA Phase II (TA)	2008	0	Government, Donors	Knowledge Generation
Financial Sector Dialogue (TA)	2007	4	Government	Knowledge Generation
Review of the Financial Aid to the Health Sector in Somalia (TA)	2007	16	Public Dissemination	Knowledge Generation
Livestock/Fisheries Strategy (TA)	2007	195	Government	Knowledge Generation
Capacity Building (TA)	2006	44	Government	Problem Solving
HIV/AIDS Program Support (TA)	2007	84	Government	Problem Solving
Needs Assessment	2007	1,420	Government, Bank, Donors	Knowledge Generation
Planned				
Tsunami Livelihood Recovery (TA)	..	..		Knowledge Generation
Puntland Primary Health Services (TA)	..	..		Knowledge Generation

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

**Annex D: Somalia Post-Conflict Performance Indicators (PCPI)
(Disaggregated Averages)**

	2005	2006			
		South-Central	Puntland	Somaliland	Average
<i>A. Security and Reconciliation</i>					
1. Security	1.0	1.0	2.0	3.0	2.0
2. Reconciliation	1.5	1.0	1.0	1.0	1.0
3. Demilitarization	1.5	1.0	1.5	2.0	1.5
A) Average for Security and Reconciliation	1.3	1.0	1.5	2.0	1.5
<i>B. Economic Recovery</i>					
4. Fiscal and Monetary Policies, Debt and Inflation	2.0	1.0	1.5	2.0	1.5
5. Trade and Foreign Exchange Policies and Private Sector Environment	2.0	1.0	2.0	2.0	1.7
6. Management and Sustainability of National Recovery Program	2.0	2.0	3.0	3.0	2.7
B) Average for Economic Recovery	2.0	1.3	2.2	2.3	1.9
<i>C. Social Inclusion and Social Sector Development</i>					
7. Reintegration of Displaced Population	1.5	1.0	1.0	2.0	1.3
8. Building Human Resources	1.8	1.5	2.0	2.0	1.8
9. Social Cohesion, Non-Discrimination and Human Rights		1.0	1.5	1.5	1.3
C) Average for Social Inclusion and Social Sector Development	1.7	1.2	1.5	1.8	1.5
<i>D. Public Sector Management and Institutions</i>					
10. Fiscal and Budgetary Management and Efficiency of Revenue Mobilization	2.0	1.0	1.5	2.0	1.5
11. Re-establishing Public Administration and Rule-Based Governance	2.0	1.0	2.0	2.0	1.7
12. Transparency, Accountability and Corruption in the Public Sector	2.0	1.0	2.0	2.0	1.7
D) Average for Public Sector Management and Institutions	2.0	1.0	1.8	2.0	1.6
<i>Average PCPI:</i>					
	1.8	1.1	1.8	2.2	1.7

Annex E: Preface of the RDP
As of October 30, 2006

This Reconstruction and Development Programme (RDP) has been produced by an integrated team of Somali and other technical experts drawing on information from (a) existing sources, (b) consultation workshops, (c) selected field visits and meetings with a wide array of Somali groups and individuals, (d) consultations with aid agencies working in Somalia, and (e) questionnaire-based fieldwork undertaken by Somali experts in all regions, to review priority needs and develop reconstruction and development proposals to address those needs. It responds to specific local needs by providing differentiated suggestions for South-Central Somalia, Puntland and Somaliland. Moreover, it reflects the importance of three key cross-cutting issues – peace-building and conflict prevention, capacity building and institution development, and human rights and gender by addressing them as an integral part of the proposed initiatives to achieve desired reconstruction and development objectives.

The Joint Needs Assessment (JNA) which underpins this RDP has been undertaken in a very participatory manner, reaching all parts of the country and involving extensive consultations with many Somali groups including, local authorities, parliamentarians, traditional authorities, women’s groups, youth groups, civil society organizations, non-governmental organizations, private sector business, and religious leaders in various locations. After agreement was reached on a concept paper in mid 2005, blended teams of international experts (two from the Diaspora plus others) together with local Somali experts were assembled for each of the following six clusters:

- I Governance, Security and the Rule of Law
- II Macroeconomic Policy Framework and Data Development
- III Infrastructure
- IV Social Services and Protection of Vulnerable Groups
- V Productive Sectors and the Environment
- VI Livelihoods and Solutions for the Displaced

Three of these cluster teams were led by the World Bank (the Bank) (Macroeconomic Policy Framework and Data Development; Productive Sectors and the Environment; and Infrastructure) and three were led the UN (Governance, Safety and Rule of Law; Social Services and Protection of Vulnerable Groups; and Livelihoods and Solutions for the Displaced).

Cluster teams held in-depth discussions with key representatives from donors, international Non-Governmental Organizations (NGOs), as well as with the Bank and UN agencies. To ensure ownership and participation of Somali stakeholders, workshops were organized in collaboration with Bank/UN to identify and discuss the JNA methodology, priority needs and proposed areas of interventions. Bilateral development partners and regional institutions – the African Union (AU), the Intergovernmental Authority on Development (IGAD) and the League of Arab States (LAS) - have been consulted and involved in the assessment process. The Bank-UN-led technical needs assessment team has worked under the guidance and support of a Coordination Support Group (CSG) consisting of the key supporting donors (EC as chair, Italy, Norway, Sweden and the UK); the Transitional Federal Government (TFG), IGAD, International Finance

Corporation (IFC), the NGO Consortium, and the Bank and UN. In addition, the Puntland Authorities and the Somaliland Authorities, which are not members of the CSG, also provided invaluable input into the process.

In 2005, the TFG and the international community asked the Bank and the United Nations Development Groups (UNDG) to co-lead a post conflict needs assessment for Somalia, the JNA. ***The main objective of the JNA process has been to assess needs and develop a prioritized set of reconstruction and development initiatives to support Somali-led efforts to deepen peace and reduce poverty.*** The implementation of proposals resulting from this comprehensive needs assessment is expected to lay solid foundations for the establishment of an effective, participatory and transparent system of governance, and the achievement of sustainable recovery, reconstruction and development, thus reversing regression from the Millennium Development Goals (MDGs), and advancing socioeconomic development for all Somalis.

The Somali RDP results from the priority needs, key strategies and priority actions and recommendations of the JNA. The RDP is a pro-poor instrument premised on three pillars of priority needs, covering:

- Deepening peace, improving security and establishing good governance
- Strengthening essential basic services and social protection
- Creating an enabling environment for private sector-led growth to expand employment and reduce poverty.

All three pillars are interdependent on each other for success, and for each, specific attention has been paid to defining a strategy and priority outcomes and related initiatives. For each area of intervention, the implementation and absorptive capacity, as well as detailed Results-Based Matrices (RBM's) can be found in the Cluster Reports, which are available at www.somali-jna.com.

To respond to the different situations of South-Central Somalia, Puntland and Somaliland, the RDP included not only a synthesis report (Volume I) but three geographic focused programmatic volumes, one for each of these three geographic areas. A fifth volume includes the six cluster reports. The geographic volumes (II-IV) represent contextualized presentations of priority needs and actions that, together with the synthesis report, could be used for programming assistance.

This Synthesis RDP has five parts. The political, security and socioeconomic context of this JNA are reviewed in Section I. Key needs together with a vision are given in Section II. Key prioritizing criteria and principles underpinning the reconstruction and development strategy are given in Section III together with a three part strategy focusing on deepening peace and security, improving social services, and achieving rapid poverty reducing development. Key aspects of phasing, a financing framework and coordination arrangements are discussed in Section IV. Finally, a detailed RBM is given in Section V.

Executive Summary of the RDP

As of October 30, 2006

Background. Somalis have experienced decades of conflict and persistent high levels of poverty. Some 43 percent of Somalis live on less than US\$1 per day and 73 percent live on less than US\$2 per day. Somalia was ranked 161 out of 163 countries on the 2001 UN Human Development Report. Only 22 percent of primary school age children are in school and 22 percent of children die in the first five years of their life. Following civil war and the final downfall of the central government in 1991, much of the public infrastructure was destroyed in the early 1990s, social services collapsed, livelihoods were disrupted and large numbers of people were displaced. Despite this, Somali resilience has led to civil society, NGOs, religious groups and the private sector doing an impressive job in maintaining some services such as education, health and water. Though these services fall well short of what is needed and many of them are focused on urban areas and hence do not reach the rural poor, the situation would have been even worse without them. Moreover, Somali ingenuity, together with large remittances have been instrumental in creating new private sector initiatives in this uncertain situation and preventing even deeper poverty.

Despite numerous mediation attempts, conflict with widespread intermittent violence persists in the central and southern parts of Somalia to this day. In contrast, Puntland and Somaliland have managed to limit violence and have re-established basic public institutions. Following the Somali National Reconciliation Conference in 2004 a 275-member Federal Transitional Parliament was established, Abdullahi Yussuf Ahmed was elected interim President, the Transitional Federal Government (TFG) was formed with Ali Mohammed Ghedi as Prime Minister, and Parliament was finally convened in Somalia in February 2006. Impressive though these achievements are, the Somali peace agreement is founded on a delicate power-sharing formula, which itself is indicative of the reality that reconciliation, and the settlement of key divisive issues have not yet been achieved. In June 2006 there was the worst outbreak of violence in Mogadishu since 1991, and the Islamic Courts Union (ICU) now not only controls Mogadishu, but also most of South-Central Somalia. Talks between the TFG and ICU were held in Khartoum in June and September and more are planned.

Objective. This report – a framework for deepening peace and reducing poverty – presents an assessment of priority needs and then outlines reconstruction and development initiatives to address these needs. It is designed to: (a) support the Somali people in their ongoing efforts to deepen peace (achieve reconciliation, peace and security in South-Central Somalia as well as further strengthening it in Puntland and Somaliland) and reduce poverty (by expanding and improving social services and by expanding economic opportunities, employment and incomes); and (b) support the international community in their efforts to help Somali society achieve this objective. These proposed reconstruction and development initiatives promote and reinforce peace building, address the causes of conflict, and are responsive to the current situation by incorporating needed capacity building and human development. Moreover, they draw on the following three key features of the Somali situation: (i) the people are remarkably resilient and resourceful and have created a vibrant and engaged private sector and civil society which can

contribute much; (ii) there is general scepticism regarding government institutions after decades of either oppressive or non-existent government; and (iii) the experiences of Somaliland and Puntland provide a useful source of positive experiences with regard to reconciliation, peace building, reconstruction and renewed development to draw upon.

Key Needs. Drawing on existing research, the outcome of workshops held with a wide range of Somali stakeholders from all parts of the country, information gathered from selective field visits, and the results of questionnaire-based fieldwork to gather information on local perceptions of priority needs and how to best address them in South-Central Somalia, Puntland and Somaliland, this assessment identified three broad groups of needs as the highest priority:

- *Deepen peace, improve security and establish good governance;*
- *Strengthen basic social services (especially education, health and water supply); and*
- *Rebuild infrastructure, together with other actions, to sustainably expand economic opportunities, employment and incomes.*

As expected, the emphasis in and between these three key needs varied somewhat from location to location due to their differing stages of reconciliation, peace building, recovery and reconstruction. Moreover, the different situations in South-Central Somalia, Puntland and Somaliland create different challenges and opportunities with regard to the current possibilities for effective implementation of sustained reconstruction and development initiatives. However, in all locations, the underlying vision is to deepen peace and reduce poverty for the Somali people. This involves achieving reconciliation, peace and security at all levels of Somali society; developing effective, transparent and accountable institutions at all levels; sharply increasing school enrolments and reducing gender imbalance; improving health services with special attention to women, children and communicable diseases; and achieving rapid poverty reducing private sector development.

In keeping with the basic objective of this Somali JNA, together with global experience with post conflict reconstruction and development initiatives, the four core criteria for selecting proposed priority initiatives from alternatives to compiling specific initiatives under these three pillars are: (a) impact of peace building, (b) contribution to sustained equitable poverty reduction, (c) opportunity for effective implementation and capacity transfer, and (d) cost effectiveness.

The Reconstruction and Development Framework. To respond to the three key groups of needs and pursue the basic objective of deepening peace and reducing poverty, a three-pronged Reconstruction and Development Programme (RDP) is proposed, composed of the following pillars:

- (i) *Deepening peace, improving security and establishing good governance through disarmament, demobilization and reintegration (DDR), the establishment and strengthening of core public and private sector institutions (including security institutions), decentralization, and conflict resolution mechanisms;*

- (ii) *Investing in people through improved social services (especially education, health and water supply) to raise human skills, and actions to address the needs of specific vulnerable groups such as internally displaced persons (IDPs); and*
- (iii) *Establishing a sustainable enabling environment for rapid poverty-reducing development, to expand employment and reduce poverty. This includes infrastructure, policies and actions to overcome constraints facing the livestock and agriculture sectors and to ensure protection of the environment and sustainable use of natural resources.*

The **three pillars** of this strategy are all necessary to address the priority needs and sustainably deepen peace and reduce poverty. No two would be sufficient by themselves. Peace, security and good governance are foundations for success with all reconstruction and development initiatives. But sustained peace and security depends on the creation of alternative livelihoods and hence sustained poverty reducing economic growth and investments in people. In turn, the economic growth that is so necessary for sustained poverty reduction depends on investments in people, peace and security and other actions to reduce the cost of doing business.

Pillar I: Deepening peace, improving security and establishing good governance. This is necessary to go beyond the coping strategies supported by humanitarian assistance of the past 15 years. First, this involves strengthening initiatives at all levels to achieve reconciliation and complementing this with needed constitutional review and democratization. This is most urgent and most challenging in South-Central Somalia and can draw on the experience with progress already made with reconciliation in Somaliland, and to a lesser extent Puntland. Particular problems such as land tenure and access to water that are a source of conflict and inhibit the recovery of economic activities need to be urgently addressed through transparent, participatory and widely supported dispute resolution mechanisms. Second, in South-Central Somalia this includes the demobilization, disarmament and reintegration of some fifty thousand combatants and the establishment of a police force. Some of the combatants can be absorbed into the new security forces while others need to have alternative livelihoods. In Puntland and Somaliland, this involves reintegrating and finding alternative livelihoods for about 6,000 and 5,000 ex-combatants respectively, and it also involves improving the police forces. Then establishing the rule of law necessitates initiatives to establish well trained civilian police forces and well coordinated and accessible judicial services drawing on the strengths of the existing traditional, shari'a and secular systems.

Third, this necessitates the establishment of lean, efficient government institutions embodying good governance processes of transparency, accountability and participation, with extensive decentralization of services and responsibilities. In South-Central Somalia this involves building these institutions from scratch, while in Puntland and Somaliland it involves rightsizing the existing civil services and deepening the decentralization process. Building on existing strengths, the delivery of services such as education, health and water needs to draw on public-private partnerships. In all locations and at all levels of government civil society and the media will need to help ensure accountability. Part of this building of needed government institutions will involve sound public finance management that over time attracts both local and donor confidence. Also, this capacity building needs to make provision for conducting a census and

establishing systems to provide basic timely data needed to develop and monitor policies. To ensure macroeconomic stability it is important that there be fiscal balance to avoid deficit financing.

Pillar II: Investing in people. As the majority of an entire generation have not received basic education and a large number of qualified Somalis have left and joined the Diaspora there is an urgent need to expand education at all levels. This involves the combined efforts of existing private sector providers plus public initiatives to address everything from training teachers, providing materials, rebuilding education infrastructure, reviewing curriculum and finding ways to ensure much greater gender balance by increasing the number of girls attending school and to reach the children of nomads. Second, improving health indicators (such as infant and maternal mortality) and fighting common diseases calls for a range of initiatives including consolidating and expanding basic health services (training of health workers, providing additional equipment and materials, and rehabilitating/expanding facilities), improving public awareness and prevention of common diseases and the importance of nutrition, and improving access to safe water and sanitary services. In improving education, health and water supply services, it will be necessary to build on existing experience and strengths of private supplies (civil society organizations (CSOs), NGOs, religious groups and the private sector) and build private-public partnerships to achieve results as quickly as possible. In addition, the special needs of IDPs, refugees and disadvantaged groups have to be addressed to avoid them becoming a future source of conflict and to involve them in recovery and renewed development and thus achieve an improvement in their social indicators and reduce the very high incidence of poverty amongst them.

Pillar III: Establishing a sustainable enabling environment for rapid poverty-reducing development. The rebuilding of infrastructure and other initiatives to reduce the cost of doing business and facilitate the recovery of key traditional productive sectors (especially livestock and agriculture) and to expand economic options and diversify livelihoods is critical for sustained employment creation and poverty reduction. During reconstruction, there will be employment opportunities created through labour intensive works programmes and community driven development initiatives but the only long term solution to the need for expanding employment, economic opportunities and incomes is sustained and sustainable private sector development.

Key infrastructure initiatives comprising this third pillar include the rehabilitation of transport facilities (primary and secondary roads, bridges, ports and airports), expanding power generation and distribution networks, further rehabilitation of irrigation systems, and the expansion of human water supply and sanitary services. In all these areas, drawing on the energy and capacity of the private sector will be a key to success. This pillar also includes actions to expand financial services by building on the strengths of existing *hawala* companies. To directly support livestock activities it includes the expansion of veterinary services to improve livestock health and to establish a livestock export inspection system that is accepted by destination countries. Reducing the cost of doing business naturally depends heavily on the maintenance of peace and security, but it also depends on the establishment of a simple, transparent and stable market-friendly regulatory environment for private sector business, and a continued commitment not to have public sector enterprises re-enter productive sector activities as was the pre-civil war situation. In terms of support to productive sectors to overcome impediments to their sustained expansion it includes improvements in veterinary services, agricultural services and the

expansion of financial services. Ensuring the environmental sustainability of economic activities calls for effective licensing and regulation of fishing, plus controls on charcoal exports, the development of alternative energy options, and better management of grazing to halt deforestation.

Options in the face of ongoing uncertainty in South-Central Somalia. Ongoing uncertainties make immediate implementation of many of the elements of this framework problematic, especially in South-Central Somalia. Progress already made by Somaliland, and to a lesser extent Puntland, makes it possible to implement programmes to improve governance and social services there, and facilitate private sector-led economic development. These include administrative governance (especially at the district level), deepening the rule of law (policing and the judiciary), the reintegration of demobilized militia, and strengthening fiscal policy and public finance management. However, little of this can be implemented yet in South-Central Somalia. Possible exceptions include some core capacity building components, such as policing, and capacity building for some parts of a future civil service (e.g. the Civil Service Commission (CSC), and public finance management).

More could be done now to implement components of the second pillar - investing in people through improved social services - though this too will inevitably be constrained in South-Central Somalia until ongoing uncertainties are resolved. Existing education, health and water supply services could be expanded and built upon with NGOs, religious groups, and private sector partners. Community driven initiatives could help expand services and foster community dialogue by demonstrating the benefits of collaboration. However, this would be more cost effective and generate better results in the context of improved security and basic public institutions.

Finally, some components of the third pillar - establishing an environment for rapid poverty-reducing development - could also be implemented. These include the expansion of microfinance, and building on ongoing efforts to improve livestock health. But the resolution of land and water disputes that are so important for the full recovery of crop production, especially in the Shabelle and Juba valleys, necessitates the foundations of reconciliation and dispute resolution mechanisms that are not yet present in South-Central Somalia. Similarly, large infrastructure initiatives cannot be cost effective without peace and security. Indeed, attempting to implement such projects without first establishing basic peace and security risks exacerbating tensions. Similarly, ensuring sustainable use of natural resources requires collective action and hence the existence of institutional capacity to monitor and enforce such action.

Annex F: JNA and RDP Costing Table (US\$ Million)

RDP Pillar One: Deeping Peace, Improving Security and Establishing Good Governance

	<u>Year 1</u>	<u>Year 2</u>	<u>Years 3-5</u>	<u>Total</u>
Conflict Resolution & Peace Building	8.1	8.9	9.5	26.5
Security and Rule of Law	56.7	47.7	78.6	183.0
Administrative Governance	19.0	48.1	84.6	151.7
Macroeconomic Stability	17.2	20.6	50.1	87.9
Public Finance Management	5.1	3.8	3.9	12.8
Sub-Total				461.9

RDP Pillar Two: Investing in People through Improved Social Services

	<u>Year 1</u>	<u>Year 2</u>	<u>Years 3-5</u>	<u>Total</u>
Education	58.0	58.8	206.0	322.8
Health	24.3	37.5	91.8	153.6
Water and Sanitation	12.1	13.2	27.1	52.4
Return and Settlement	24.8	19.7	86.6	131.1
Protecting Vulnerable & Disadvantaged	1.6	1.4	3.1	6.1
Sub-Total				666.0

RDP Pillar Three: Establishing a Sustainable Enabling Environment for Rapid Poverty Reducing Development

	<u>Year 1</u>	<u>Year 2</u>	<u>Years 3-5</u>	<u>Total</u>
Infrastructure	91.2	131.8	570.6	793.6
Financial Services	0.8	4.0	16.1	20.9
Productive Sector	25.4	41.6	97.7	164.7
Private Sector Development	7.4	6.4	16.1	29.9
Environment Sustainability	9.3	16.1	16.7	42.1
Improving Livelihood & Food Security	12.3	6.6	22.5	41.4
Sub-Total				1,092.6
TOTAL	373.3	466.2	1381.0	2,220.5

Annex G: Indicative ISN Results Matrix

RDP Pillar Corresponding ISN Objectives Target Areas Primary Instruments	Diagnosis – Issues and Obstacles	Activities based on Bank's core competencies (but not limited to)	Milestones/Performance Indicators	Partnership Arrangements (but not limited to)
<p>RDP Pillar: No. 1 - Deepening peace, improving security and establishing good governance.</p> <p>RDP sub-pillar corresponding to Bank's comparative advantage: Public Finance Management.</p> <p>Corresponding ISN Objective One: Strengthening accountability and transparency by building basic public finance management (PFM) capacity and other minimum accountability mechanisms.</p> <p>Target Areas: Somaliland and south- (Puntland and south-central depending on</p>	<ul style="list-style-type: none"> • Lack of vision and focus, misguided sense of priorities. • Corruption and low confidence of public in government. • Outdated understanding and knowledge of PFM and economic/fiscal management. • Reflective resistance to transparency and accountability. • Inability to articulate their own capacity building needs. • Recruitment of civil service staff based on clan-affiliation rather than technical merits and qualifications. • Absence of professional civil service and lack of qualified technical staff in government and parliament. • Lack of ability to formulate policies and to sequence them in a strategic manner. • Non-participatory budget preparation process with limited perspective and classification. • Absence of internal control systems. • Manual accounting systems are duplicative, inefficient and subject to high data input and processing error risk. • Unclear division of labour between economic ministries as well as between various tiers of government. • Lack of/inadequate data to inform policy formulation. • Weak revenue generation and mobilization capacity. 	<p>Activities based on Bank's core competencies (but not limited to)</p> <ul style="list-style-type: none"> • Leadership seminars. • Helping the Somali authorities develop realistic costed PFM work plans. • Technical assistance and basic management, treasury operations, accounting, auditing, budget formation, revenue mobilization, and public procurement. 	<p>Somaliland Only</p> <ul style="list-style-type: none"> • Institutional development plans and capacity building needs of the Ministry of Finance and other relevant economic institutions identified and articulated. • Basic but independent Accountant General's Office and/or Auditor-General's Office established. • Basic macro-policy unit responsible for preparing budget established. • Revenue mobilization systems and plans developed. • Basic and rudimentary public procurement systems established. 	<p>Partnership Arrangements (but not limited to)</p> <ul style="list-style-type: none"> • The Bank in partnership with, but not limited to, DFID.

RDP Pillar Corresponding ISN Objectives Target Areas Primary Instruments	Diagnosis – Issues and Obstacles	Activities based on Bank's core competencies (but not limited to)	Milestones/Performance Indicators	Partnership Arrangements (but not limited to)
<p>circumstances, preparedness and additional resources)</p> <p>Primary Instruments: TA and AAA</p>				
<p>RDP Pillar: No. 2 - Strengthening essential basic services and social protection.</p> <p>RDP sub-pillar corresponding to Bank's comparative advantage: social service delivery.</p> <p>Corresponding ISN Objective Two: Strengthening service delivery through community-driven interventions.</p> <p>Target Areas: Selected communities</p>	<p>Diagnosis – Issues and Obstacles</p> <ul style="list-style-type: none"> • Appalling social and human development indicators. • Lack of/inadequate data at the household-level. • Limited and low quality services, and where existent, inability of poor families to pay for the services. • Social capital and social cohesion severely eroded. • Weak sense of public goods and community. • Passivity and disempowerment of local population. • Social exclusion of vulnerable groups. • Mistrust of government by the population. • Elite capture by clans and elders in determining local development agenda and priority. • Lack of qualified teachers and medical staff. • Lack of qualified local government and staff. • Lack of accountability and transparency of local government towards local population. • Lack of resources for development at local government and community. • Unwillingness and inability of central and local governments to assume the responsibility for recurrent and maintenance costs. • Absence of participatory planning process to determine 	<ul style="list-style-type: none"> • Piloting of inter-agency community-driven recovery and development project with a built-in community bloc grant fund and a social access fund. 	<ul style="list-style-type: none"> • Inclusive and participatory community consultative process established. • Participatory Community Action Plans (CAPs) prepared. • M&E framework and baseline survey system established to measure changes in access to social services and community infrastructure resulted from the pilot project. 	<ul style="list-style-type: none"> • Joint initiative, but not limited to, between the Bank, DFID, UNICEF, and DRC.

RDP Pillar Corresponding ISN Objectives Target Areas Primary Instruments in Somaliland and Puntland	Diagnosis – Issues and Obstacles	Activities based on Bank’s core competencies (but not limited to)	Milestones/Performance Indicators	Partnership Arrangements (but not limited to)
<p><u>Primary Instrument:</u> Pilot Project</p>	<p>local/community development needs.</p> <ul style="list-style-type: none"> Unclear division of labour and financial relationships between various tiers of government. Insufficient level of budgetary allocation for social sectors by all tiers of government. Unpredictable, non-transparent and insufficient revenue transfer to local government from central government. Too many on going “supply-driven” interventions by NGOs and international agencies. Absence of formal banking sector which prevents more direct transfer of resources to communities. Clan-based system that discourages transparent and competitive local procurement. 			
<p><u>RDP Pillar:</u> No. 3 - Creating an enabling environment for private sector-led growth to expand employment and reduce poverty.</p> <p><u>RDP sub-pillar corresponding to Bank’s corresponding comparative advantage: private sector development.</u></p> <p><u>Corresponding ISN</u></p>	<ul style="list-style-type: none"> High cost of doing business due to persistent insecurity and deterioration of infrastructure. Absence of basic laws and regulatory frameworks. Weak contract enforcement and dispute settlement mechanism that do not meet international standards. Absence of formal financial/banking/insurance services. Difficulty of access to credit. Absence of formal mechanisms for land and other property ownership. Arbitrary and unpredictable taxation. Rent seeking behaviour of the authorities. Difficulty of access to new technology, knowledge and business practices. Weak PSD support institutions and services. Low investment, stagnant production, and no manufacturing. Lack of environment standards and safeguard 	<ul style="list-style-type: none"> Providing technical assistance advisory services in the following three areas: <ul style="list-style-type: none"> Legislative and Regulatory <ul style="list-style-type: none"> (1) Detailed diagnostic and benchmarking of current selected key investment climate constraints; (2) Advisory service and technical assistance on preparation of selective legislations and development of relevant regulatory frameworks; (3) Regulatory and 	<ul style="list-style-type: none"> Development of inclusive and transparent national PPP forum supported. Clear and transparent administrative requirements for business entry and exit developed. Legal and regulatory framework for formal banking and microfinance developed. Legal and regulatory framework for compliance with international market standards, technical regulations, conformity assessment and inspection developed. 	<ul style="list-style-type: none"> The Bank with, the IFC.

RDP Pillar Corresponding ISN Objectives Target Areas Primary Instruments	Diagnosis – Issues and Obstacles	Activities based on Bank’s core competencies (but not limited to)	Milestones/Performance Indicators	Partnership Arrangements (but not limited to)
<p>Objective Three: Generating economic opportunities by improving business environment and investment climate.</p> <p>Target Areas: Somaliland and Puntland</p> <p>Primary Instruments: TA and AAA</p>	<p>Diagnosis – Issues and Obstacles</p> <p>provisions.</p> <ul style="list-style-type: none"> • Absence of clear and transparent rules and procedures for awarding of public contracts and concessions. • Lack of clear administrative rules and procedures, and where existent, bureaucratic processes excessively lengthy and non-transparent. • Absence of transparent, inclusive and structured dialogues between the private and public sector. • Low skill-level of workforce and inadequate education. • Absence of clear regulations for foreign investment. • Lack of compliance with international market standards, technical regulations, conformity assessment and inspection. • Double exchange rates between official and real. • Inter- and intra-clan rivalry and conflict over business. • Unsustainable and destructive exploitation of natural resources through partnership between some public officials and foreign companies. 	<p>investment climate pilot reform initiatives measured against established benchmarks;</p> <p>b. Public-Private Dialogue</p> <p>(4) Detailed diagnostic and benchmarking of current selected key investment climate constraints;</p> <p>(5) Strengthening selected business membership organizations with focus on organizational capacity and membership services;</p> <p>(6) Development of policy advocacy and dialogue processes with government and private sector;</p> <p>c. Public-Private Partnerships</p> <p>(7) Establishment of a framework for contracting of private delivery of key public services in selected sectors;</p> <p>(8) Mechanism established for ongoing dialogue with private sector on PPP opportunities.</p>		

<p>RDP Pillar Corresponding ISN Objectives Target Areas Primary Instruments</p> <p>RDP Pillar: Paris Declaration and DAC Principles for Good International Engagement in Fragile States.</p> <p>Corresponding ISN Objective Four: Contributing to the collective international efforts to support the transitional process in Somalia by providing timely economic analysis and policy recommendations</p> <p>Target Area: N/A</p> <p>Primary Instruments: AAA and ESW</p>	<p>Diagnosis – Issues and Obstacles</p> <ul style="list-style-type: none"> • Difficulty of articulating and adopting common positions on key issues among development partners. • Incoherent and contradictory allocation of resources that is often agency-driven rather than strategy driven within the donor community. • Absence of structured and collective engagement with the Somali counterparts. • Lack of medium- and longer-term perspectives. • Lack of communications between the political, aid/development, immigration, and security groups supporting Somalia. 	<p>Activities based on Bank's core competencies (but not limited to)</p> <ul style="list-style-type: none"> • Policy advice on sectoral policies, financing and implementation options for reconstruction and development activities, fragile state engagement. • Transfer of relevant experience and knowledge on reconstruction and development from other post-conflict transitional processes, and fragile state engagement. • Advocacy and promotion of good practice and principles that is consistent with the Paris Declaration and DAC Fragile State Principles. 	<p>Milestones/Performance Indicators</p> <ul style="list-style-type: none"> • DAC Principles for Fragile States formally adopted. • Common set of result matrices for monitoring progress adopted. • Consensus on conditions and requirements for organizing a donor conference achieved. • Financing modalities and coordination mechanism for the RDP agreed. 	<p>Partnership Arrangements (but not limited to)</p> <ul style="list-style-type: none"> • Carried out by the Bank in consultation with relevant agencies and groups such as UK, Italy, Sweden, Denmark, Norway, EC, USA, IMF and the Somali Donor Group.
---	--	---	--	--

Annex H: Differentiated Approaches for Different Fragile State Contexts

<p>Deterioration <i>Deterioration in CPIA or rising conflict risk. Often no consensus between donors and government on development strategy.</i></p> <ul style="list-style-type: none"> • Interim Strategy Note, focusing on stemming the decline in governance and social indicators and preventing an escalation of conflict. Limited new financing; focus on project restructuring. • Increased use of CDD, private sector, NGO and ring-fenced mechanisms (including service delivery and local economic development in areas of insecurity). • State capacity and accountability: focus on transparency, dialogue, civil society capacity and maintaining institutional capital to facilitate eventual turnaround. • Contributing to community level conflict prevention, and to multi-donor efforts for peace-building or governance reform at a national level. 	<p>Prolonged Crisis or Impasse <i>Prolonged conflict or domestic political impasse. No consensus between donors and government on development strategy.</i></p> <ul style="list-style-type: none"> • Interim Strategy Note, focusing on maintaining operational readiness for re-engagement and providing economic inputs to early peace or reconciliation dialogue. • Small grant-based finance, aiming at local economic development and protection of human capital, generally through non-government recipients (including service delivery and local economic development in areas of insecurity). • Capacity and accountability: focus on institutional analysis, dialogue, and counterpart training. • Use of socio-economic issues for restoration of dialogue/identification of entry points for change.
<p>Post-Conflict or Political Transition <i>High fluidity in the policy environment and opportunities for rapid reform due to the successful conclusion of a peace or national reconciliation process or renewed international engagement.</i></p> <ul style="list-style-type: none"> • Interim Strategy Note, focusing on re-building state capacity and accountability and delivering rapid visible results in support of peace-building. • Exceptional IDA allocation. • Joint Needs Assessment/recovery planning, linking political, security, economic, and social recovery. • State capacity and accountability: support for a broad state-building agenda, through institution-building and, where appropriate, development policy operations with robust oversight mechanisms and sector programs (including transitional projects working through CDD or NGO mechanisms). Leadership and civil society support. • Public administration, service delivery and economic development to address areas with crime, insecurity, or conflict. 	<p>Gradual Improvement <i>Presence of some government reform leadership, but facing entrenched systems where change is often difficult, slow and liable to periodic setbacks. Includes some of the “post-post-conflict” countries.</i></p> <ul style="list-style-type: none"> • Country Assistance Strategy focusing on building state capacity and accountability to achieve selective development results, supported by moderate IDA allocation. • Activities to boost domestic reform currents, including leadership support, communications initiatives, training and capacity-building. • State capacity and accountability: development policy operations (in non-resource rich countries) restricted in volume, supported by sector and capacity-building projects and with strong oversight mechanisms. Asymmetric reforms. • Public administration, service delivery and economic development to address areas with crime, insecurity, or conflict.

Annex I: Summary of CRN-Based Activities 2003-2005

1. Support to Macro-Economic Analysis and Dialogue

Project component	Funds disbursed	Implementing agency
Macro Economic Analysis & Dialogue	US\$1,123,750	UNDP
Population Quick Count	US\$420,222	UNFPA

Strategic Entry Point	Objectives	Results
Support to Macro-economic Data Analysis and Dialogue	Watching Brief	Achieved
	Establishment of database for key macro-economic and socio-economic data.	Partially achieved
	Promoting national/regional dialogue and consensus building on key macro-economic issues.	Not achieved
	Capacity building to rebuild Somali economic analysis skills.	Not achieved
	Strengthening local capacity for data collection and analysis.	Partially achieved
	Production of relevant sectoral studies to examine potential sources of economic growth.	Partially achieved
	Production of baseline population data.	Dropped

2. Creating an Enabling Environment for the Livestock and Meat Industry

Project component	Funds disbursed	Implementing agency
Support to Somali Livestock Boards	\$ 810,627	FAO
Puntland Pastoralists Program	\$ 489,555	Care Somalia/VSF-Suisse

Strategic Entry Point	Objectives	Results
Creating an enabling environment for the livestock and meat industry	Elaboration of a Somali livestock strategy.	Achieved
	Establishment of livestock boards	Partially achieved but unsustainable
	Establishment of certification body for livestock and livestock products.	Dropped
	Improved capacity for diagnostics and disease control.	Not achieved
	Establish a centre of training for livestock health and research	Not achieved

3. Coordinated Action Plan to Address HIV/AIDS Issues

Project component	Funds disbursed	Implementing agency
Sero-prevalence study; capacity building to nursing schools	US\$640,685	WHO
National & regional strategy framework & action plan	US\$276,481	UNDP

Strategic Entry Point	Objectives	Results
Coordinated action plan	Support to formulation of national/regional HIV/AIDS strategy.	Achieved

to address HIV/ AIDS issues	Dimensional analysis on perceived impacts of HIV/AIDS.	Partially achieved
	Epidemiological assessment/ monitoring of HIV prevalence.	Partially achieved
	Advocacy and awareness on HIV/AIDS.	Achieved
	Establish a centre of training for health professionals	Not achieved

4. Post Conflict Rehabilitation of the Health Sector in Somalia

Project component	Funds disbursed	Implementing agency
Rehabilitation of Health Sector	US\$308,151	IFRC/SRCS

Strategic Entry Point	Objectives	Results
Post Conflict Rehabilitation of the Health Sector In Somalia	Funding for 14 clinics in Puntland with increased community involvement and support for the reconstruction of a centrally administered health service in the area.	Achieved
	Conducting a study of the SRCS integrated health care program, examining the role of international organizations in supporting local NGOs on community involvement and governance development.	Partially achieved

5. Capacity Building for Skills Development/Training Centers

Project component	Funds disbursed	Implementing agency
Distance learning	US\$873,207	UNDP
Capacity building for financial planners	US\$383,000	UNDP

Strategic Entry Point	Objectives	Results
Capacity building for skills development/ training centers	Establishment of centre of training for livestock health and research.	Not achieved
	Establishment of a centre of training for health professionals	Not achieved
	Establishing VISA connections at 6 universities.	Achieved
	Capacity building of the Somali universities to manage their own DL facility and program	Not achieved
	Developing and delivering a DL course for financial planners.	Achieved

6. Community-Driven Development

Project component	Funds disbursed	Implementing agency
Piloting of community-based intervention support in the south-central region	\$ 200,000	UNDP
Local government training in Somaliland and Puntland	\$ 190,000	UN-Habitat

Strategic Entry Point	Objectives	Results
Piloting CDD-type intervention in the south-	Community-based support in order to strengthen legitimacy and credibility of the Bay District Administration	Not achieved

central region		
Training and capacity building of municipal and local authorities	Training of municipal and local government officials on consultation, participatory planning and budgeting	Achieved

7. UNDP Overhead Charge//Administrative Fees for Managing the LICUS Fund

Project component	Funds disbursed	Implementing agency
Administrative charges	US\$373,778	UNDP

**Annex J: Terms of Reference for A Study on Financing Options for the RDP
Consultancy to Design Financing Options for Reconstruction and Development in Somalia**

Proposal from Scanteam, Development Initiatives and Oxford Policy Management

Scanteam, Development Initiatives (DI) and Oxford Policy Management (OPM) present the following proposal in response to the Somalia Donor Financing Options Working Group's call for a group of consultants to examine financing options for the Reconstruction and Development Programme (RDP) for Somalia. The consultancy is to prepare a synthesis report with options and recommendations regarding possible financing mechanisms and how they can be applied.

1.0 Introduction

The consultancy distinguishes between the range of funding options (described as 'supply') and how they should be applied ('demand'). Detailed procedural issues can easily obstruct progress and prevent financing mechanisms from working quickly or optimally. To avoid this, the synthesis report must show how these two sides of the equation can best be linked to ensure that the financing mechanisms are tailored to the situations in Somalia. While the three consulting organizations have divided up the tasks as described below, they will be exchanging information regularly and working together in the field.

2.0 Key elements of TOR

The TOR suggests several sources of financing for the RDP:

- (i) Official ODA – channeled in different ways
- (ii) Private Somali financing from abroad – both household transfers and private sector investments and
- (iii) Public funds mobilized internally.

The second source of funding is seen as the largest, where household transfers are estimated at around US\$1 billion per year. Local public funds are by far the smallest.

The main task on the 'supply' side of the equation involves an analysis of the strengths, weaknesses, opportunities and constraints of the alternative financing mechanisms and assessing the levels of resources likely to be channeled through different mechanisms from various sources. On the 'demand' side, the consultants are expected to assess how the funds can most effectively be used.

The synthesis paper is expected to cover the following issues:

- a. Mechanisms for supporting financing options
- b. Likely outcomes (e.g. contributions to trust funds, support to Diaspora Funds, challenge funds?)
- c. Policy needs to ensure effective implementation
- d. Social and economic issues – gender concerns and financing options
- e. Social impacts – for example through changing the ways by which remittances are delivered
- f. Risks – e.g. of undermining traditional coping strategies
- g. Understanding the potential and complementarities between different sectors and mechanisms

However, it is unlikely to be possible to cover all the elements listed above, given the time constraints.

3.0 Range of funding options

3.1 Channeling ODA

Scanteam will focus on the channeling of ODA, whatever the channel and implementation modality. DI would expect to contribute to this section from its experience of mechanisms like the Common Humanitarian Funds.

It recommends beginning with a "mapping exercise": looking at how the international community intends to mobilize funds, the likely size over the next five years, and the channels the different actors are considering. This mapping should cover a range of actors:

- Bilateral donors (the DAC donor group),
- Non-traditional donors – other Islamic countries, fellow African countries, other donors that may be identified,
- UN agencies in terms of what they already have mobilized and what they believe they will in addition be able to allocate from own (core) funds or future co-financing and other contributions (outside of a formal Somalia-fund),
- Lending institutions in terms of possible grants and concessional "soft" credits,
- Existing funds that are either involved or interested in becoming engaged in Somalia (global funds such as the health funds etc),
- Larger international NGOs that may have own funds they are interested in applying in some coordinated fashion with the IC.

Regarding the bilateral donors, key issues will be what kinds of constraints may exist on the funding being made available. One donor may have funding from different budget

lines – for example general un-tied ODA, a UN allocation, a humanitarian or transitional or post-conflict allocation, a region-specific allocation, etc. The idea is to see how flexible funding can be (if funds are earmarked for humanitarian needs, can they be channeled through a Multi-donor Trust Fund (MDTF) or not? If they are allocated for the UN, does it have to be earmarked or can it go to an UN-managed MDTF and from there channeled to an NGO?)

What share of the funds they make available do the donors wish to direct – either to a sector, or to a channel (for example through own national NGOs), or to one or more of the three main regions? How much are they willing to channel through freely programmable channels like MDTFs? What would make them willing to channel a higher share of their funds through MDTFs? What would make them willing to increase their absolute contributions to Somalia, and in particular through flexible channels like MDTFs?

3.1.1 Structuring Joint Mechanisms

There are two sets of instruments they IC probably wants to have in place. The first is an oversight and reporting system on overall resource mobilization, allocation, application and results. The other is one or more instruments for multi-donor management of funds, presumably one or two MDTFs. The two of them may be linked (the MDTF/s taking on the coordination and reporting role), but not necessarily – it depends what the actors believe is most effective.

On the coordination side, the experience is that it is extremely time intensive (costly) to try to track resource flows. It is also, with hindsight, extremely expensive *not* to have done so. The lack of coordination and overview of what is happening is always a problem – but there do not seem to be many examples of successful coordination systems. Scanteam would assume that what we should look into is how this task can be addressed at a level and with resources that are acceptable in terms of costing and results. One logical solution is to link this up with whatever overarching resource management system may otherwise be designed, but this is one issue to be looked into.

MDTFs have so far proven to be the most flexible, efficient and effective instrument for managing and applying donor funds in high-risk low-information situations, such as the one Somalia is facing. There are, however, a number of considerations that need to be taken into account when designing the actual system.

One choice has to do with whether the international community wants one or two administrators of MDTFs – in practice, whether there should be one UN managed and one World Bank managed MDTF. If only one fund is chosen, the implications of this in terms of disbursement need to be assessed. If two funds are chosen, the coordination mechanisms need to be designed.

Whether one or two funds are chosen, the principles for setting policy and allocating funds need to be agreed to, and in particular the role of national authorities. Concerns of equity – across regions, across sectors and needs, etc – need to be balanced against capacity to implement. If imbalances arise (one region is able to move resources much

faster than the others, for example), how can they be addressed in the short and the long run, and what kinds of mechanisms can be in place that will ensure speedy decisions while maintaining/developing trust?

3.1.2 Designing Flexibility in Disbursement of Funds

A key challenge for the IC has been flexible disbursement arrangements that can adjust as funding opportunities open up and other channels turn out to be more difficult than foreseen. MDTFs have proven to be flexible in principle, but in practice have at times not performed as expected.

A system that ensures design of good projects and the timely disbursement of funds to implementers has been a major challenge for MDTFs. A robust yet quality appraisal and approval system must be put in place and then speedy disbursement mechanisms. Taking a pro-active risk-management approach means that as many alternative legitimate implementers as possible must have as direct access to funding as possible, and this may be the greatest single design challenge for the MDTFs.

Scanteam would put considerable effort into ensuring that the two potential administrators are fully on board and would begin reviewing whatever procedures and rules that need to be taken into consideration for ensuring that more open and speedy access to funds is ensured (for this reason the UNDG and World Bank have already been contacted and agreed to make available two of their experienced staff in MDTF issues).

What is overall level of risk that donors are willing to take regarding the application of the funds? Would they be willing to sign risk-sharing clauses with MDTF administrators that would make procurement easier? Would they accept simplified verifications ("due diligence") of potential implementing partners (NGOs, local community based organizations), and take some risk with public sector entities? What degrees of freedom would an MDTF administrator, in sum, have? What would be the trade-offs in terms of funding levels from the donors?

One real difficulty is making funding access easier for legitimate non-public and non-UN agencies – NGOs, community organizations, religious groups, etc. Finding clearance and quality oversight mechanisms that are acceptable to both the administrators – with their fiduciary responsibilities to their Boards and the donors – that can also address the implementers' needs for speed and flexibility will be a serious concern. This is where the "supply and demand" equation has to be resolved, but where the "supply side" has a responsibility for designing options that will enable "demand agents" to hook up to them. Scanteam will pay particular attention to this issue.

In practical terms, how easy would it be for NGOs to compete for funds? Should it be the case that NGOs should have equal access to funding as a UN agency, for example? What are the implications for an UN-administered fund if this is what the donors want? How can project selection committees ensure unbiased appraisals and approvals? What are the criteria for being eligible for MDTF funding? Or is the simplest solution still to have a UN agency as Partner and they then "contract" NGOs etc as implementers? Or can there

be a mix, where the larger international NGOs can access funds directly while others may need a UN agency as partner agency?

This disbursement approach may have implications. One is that donors need to reduce their earmarking when providing funds through the UN (in the UN-managed MDTF in Iraq, nearly 90 percent of donor funds were earmarked by sector or UN agency). One option is moving to the World Bank approach of providing a *preference* for a sector rather than absolute earmarking. Other similar issues need to be considered.

Would such an MDTF be able to accept resources from pooled funds, such as GAVI or others that may want to contribute to Somalia but may not want to set up their own system, but could “preference” or perhaps earmark to sectors? That is, could the MDTF/s represent an overall efficient channeling instrument FROM donors and international funds TO all available and eligible implementers? How would this affect staffing, structuring, rules for the funds for this to work?

3.2 Other funding sources

OPM will focus on private sector funding options as follows. It will be necessary to look at the private sector from both the supply of funds and demand for funds (needs). OPM will have to address a variety of agents and issues:

- Needs and use of private funds by Somali community in Somalia, distinguishing between immediate needs for consumption and possible early requirements for investment and working capital for trade and eventually production (particularly for MSMEs) as the economy begins to move towards more normal functioning (hard to estimate but maybe Dahabshiil can help);
- A view on whether the private sector in Somalia is (or is likely in a short time to become) capable of using such funds effectively for investment and working capital, and to what extent, and if not, what can be done rapidly to build such capacity.
- The extent to which private funds might be used to supplement/compliment public funds in financing the activities of the voluntary sector (community organizations and self-help groups, national and local NGOs, etc), and the possibility of using a form of challenge fund to facilitate the combination of public and private funds in support of such organizations.
- Assess the level of remittances by Somali community outside (Diaspora), their views on the needs of relatives in Somalia and the likely level of interest in a Diaspora Bond.
- A view on the possibility of using other mechanisms to stimulate private sector financing in Somalia, such as infrastructure challenge funds, PPPs or other mechanisms;
- Assess the status of the financial sector infrastructure (status of the banking system, the channels for fund transmission, access to finance), and the possibility of legitimizing certain *hawala* channels without falling

foul of the FATF principles for Anti-Money Laundering and Combating the Financing of Terrorism

4.0 How funds can be used

DI will focus mainly on the application of the funding options and on ensuring that the design of the funding mechanisms is based on robust information on how they are likely to be applied by Somali stakeholders. DI would expect to work in collaboration with the other consultants on a day to day basis.

In order to understand how funding options can be used most effectively, DI will start by building a comprehensive outline of the provision of basic services in Somalia – what is covered by UN agencies and NGOs, government as well as the private sector to determine where the perceived gaps are in service provision and what are they key priorities. This will involve building on the JNA and work that has already been done and also obtaining further information from UN agencies, NGOs (both international and Somali), private providers and service users. One key issue will be to understand the extent to which services funded by the international community through UN agencies and international NGOs are actually delivered by Somali NGOs because of the security situation. Another will be to examine the extent to which service providers can scale up, under what circumstances and in what time-frame.

These consultations will also enable DI to compare the legal and accountability requirements for funding options such as MDTFs, global funds, Diaspora/challenge funds with the status and capacity of delivery organizations to avoid developing funding options that do not match the reality on the ground. This will require information and input from Scanteam and OPM on the requirements for the different options, as well as discussion with the UN and WB advisors on the requirements/flexibility of their institutions.

With regard to the aspects of funding options to be covered in the synthesis paper, DI proposes to focus on:

- Policy needs to ensure effective implementation
- Risks – e.g. of undermining traditional coping strategies and, as with all involved,
- Understanding the potential and complementarities between different sectors and mechanisms.

With regards to the **policy needs** of funding options, DI will:

- Explore the extent to which local delivery organizations, like religious organizations and Somali NGOs, meet criteria to receive international funding or whether special mechanisms need to be developed.
- Examine whether some provision currently funded by the international community, such as the work of local NGOs, could be funded through

alternative means such as user fees or Islamic charitable giving in collaboration with OPM or other consultants working on this issue.

- Shed light on how funding options can best try to support services for the poorest, since the JNA has highlighted the fact that the poor have substantially less access to services like health and education – and how social protection and safety net programmes could be implemented in Somalia
- Arising from these issues DI will expect to contribute to recommendations on the provision for recurrent costs, the scope and mandate of different financing mechanisms, procedural issues of the transfer of funding, the criteria for non-government funding, the governance of financing mechanisms and the issue of differentiation of funding mechanisms by region or sector.

Under **risks**, DI will examine a range of issues such as:

- The potential for excluding certain service providers from access to international funding, such as community-based or religious organizations.
- The extent to which lack of capacity is likely to affect the ability to use different types of funding effectively and how this should be addressed
- The extent to which the terms and conditions of funding mechanisms can enable the implementation of the RDP under changing and volatile domestic conditions in Somalia

DI will actively take account of gender issues and access for women in the above, but is not proposing to major on this area.

SOMALIA

- SELECTED CITIES AND TOWNS
- ⊙ REGION CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- REGION BOUNDARIES
- INTERNATIONAL BOUNDARIES



This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.