FINANCING AGREEMENT

(Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Program (Scaled-UP) Project)

between

FEDERAL REPUBLIC OF SOMALIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between FEDERAL REPUBLIC OF SOMALIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association").

WHEREAS (A) the Recipient is implementing a program of actions, objectives and policies designed respectively to assist the Recipient to meet its commitment in an effort towards clearing its arrears to the Association;

(B) the Recipient having satisfied itself as to the feasibility and priority of the project described in Schedule 1 to this Agreement (the "Project"), has requested the Association to assist in the financing of the Project;

(C) the Recipient intends to obtain from the Somalia Multi-Partner Fund Trust Fund (the "SMPF") a grant in an amount of thirteen million United States Dollars ($13,000,000) to assist in the financing of the Project, on terms and conditions set forth in an agreement (the "SMPF Grant Agreement") to be entered into between the Recipient and the Association (as administrator of the SMPF); and

WHEREAS the Association has agreed on the basis of, inter alia, the foregoing, to extend the grant to the Recipient upon the terms and conditions set forth in this Agreement;

The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to twelve million nine hundred thousand Special Drawing Rights (SDR 12,900,000) ("Financing"), to assist in financing the Project described in Schedule 1 to this Agreement.
2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

2.04. The Payment Dates are April 15 and October 15 in each year.

2.05. The Payment Currency is Dollar.

**ARTICLE III — PROJECT**

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall: (a) carry out Parts A, B.2, B.3, B.4 and C of the Project through the Ministry of Finance; and (b) cause the MSME Financing Facility to carry out Part B.1 of the Project, all in accordance with the provisions of Article V of the General Conditions and, Schedule 2 to this Agreement, the Project Agreement and the Subsidiary Agreement.

**ARTICLE IV — REMEDIES OF THE ASSOCIATION**

4.01. The Additional Events of Suspension consist of the following:

(a) the law of the Recipient or other documents establishing the MSME Financing Facility shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the carrying out of the Project; or

(b) the Technical Agreement between the International Finance Corporation (IFC) and the MSME Financing Facility, shall have failed to enter into effect within nine (9) months upon signature of said Technical Agreement; and

(c) the SMPF Grant has been cancelled or suspended for any reason whatsoever.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) the Recipient shall have (i) established the MSME Financing Facility, in form and substance satisfactory to the Association; and (ii) appointed to said MSME Financing Facility a governing board consisting of members drawn from the private and public sector, all with qualifications, terms of reference and functions, acceptable to the Association; and (iii) recruited
to said MSME Financing Facility adequate staff in accordance with the provisions of the Procurement Regulations.

(b) the Subsidiary Agreement, acceptable to the Association, shall have been duly executed and delivered on behalf of the Recipient and the MSME Financing Facility and shall have become effective and binding upon such parties in accordance with its respective terms;

(c) the Recipient has submitted, in form and substance satisfactory to the Association, its policy statement regarding its digital identity system, including data protection;

(d) the Recipient has prepared and adopted, in form and substance satisfactory to the Association, the Project Operational Manual; and

(e) the SMPF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

5.02. The Additional Legal Matters consists of the following, namely, that the Subsidiary Agreement has been duly authorized by or ratified by, and executed and delivered on behalf of parties thereto, and is legally binding upon such parties in accordance with its terms.

5.03. The Effectiveness Deadline is the date one hundred twenty (120) days after the Signature Date.

5.04. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is the minister responsible for finance.

6.02. For purposes of Section 11.01 of the General Conditions: (a) the Recipient’s address is:

   Ministry of Finance
   Ministry of Finance Building
   Shanganni District
   Mogadishu
6.03. For purposes of Section 11.01 of the General Conditions: (a) The Association’s address is:

   International Development Association
   1818 H Street, N.W.
   Washington, D.C. 20433
   United States of America; and

   (b) the Association’s Electronic Address is:

   Telex: Facsimile:
   248423 (MCI) 1-202-477-6391
AGREED as of the Signature Date.

FEDERAL REPUBLIC OF SOMALIA

By

[Signature]

Authorized Representative

Name: ABDIRAHMAN DUALE BEILEH
Title: Minister of Finance
Date: April 10, 2019

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: BELLA BIRD
Title: Country Director
Date: April 10, 2019
SCHEDULE 1

Project Description

The objective of the Project is to support progress towards increased access to basic digital financial and government services targeting entrepreneurship and employment, particularly for women.

Part A: Strengthening Institutions

Carrying out a program of activities to stabilize core government functions enabling access to services and businesses including, strengthening governance and institutional effectiveness, in particular:

1. Strengthening the capacity of the Central Bank of Somalia (CBS) to improve its role in financial institutions regulations and supervision, promoting efficient financial intermediation; and strengthening policies and strategies for digital financial services and expanding financial access.

2. Strengthening the operational capacity of the Financial Reporting Center to enhance FRC's understanding of Somalia’s Anti-Money Laundering and Countering Financing of Terrorism risks, analyzing financial intelligence, and effective reporting to the law enforcement agency as appropriate.

3. Strengthening regulatory technology solutions for financial institutions and mobile network operators to regulatory agencies, including strengthening management information systems used by regulators for collecting, managing, and analyzing financial data from regulated entities.

4. Building a robust identity (ID) enabling environment, including: (a) adoption of a comprehensive policy and legislative frameworks; and (b) establishing and operationalizing a competent and well-governed ID authority identity administration to provide identification services.

5. Strengthening the capacity of relevant ministries, departments and agencies (MDAs) including the Ministry of Posts, Telecommunications and Technology (MPTT), Ministry of Interior, Federal Affairs and Reconciliation (MoI FAR), National Communications Authority (NCA) to, inter alia: (a) develop and implement effective sector policies and strategies and legal and regulatory frameworks; (b) strengthen regulatory reporting, compliance, and transaction monitoring through the use of regulatory technology tools; (c) implement shared information technology systems and related utility services for identification verification as well as fraud detection and control; and (d) improve business processes and streamline workflows across the relevant MDAs and institutions.
Part B: Enabling Financial and Digital Services

Carrying out a program of activities to increase individuals' and businesses' access to services that expand economic opportunities and help restore resilience in a gender-sensitive manner, in particular:

1. Facilitating the development of financial intermediations, including:
   
   (a) Establishing a financial intermediary facility for micro, small, and medium enterprises (MSME Financing Facility), as a dedicated mechanism for financing a line of credit (Line of Credit) to eligible banks and other financial institutions (Eligible PFIs) to finance an eligible proposal (MSME Subprojects);
   
   (b) developing the institutional capacity of said MSME Facility to screen, appraise and supervise the MSME Subprojects; and
   
   (c) developing the technical capacity of the MSME Facility to manage and operate two SMEs financing windows, including: (i) a large loans window; and (ii) a micro and small loans window.

2. Facilitating digital ID enrollment for at least the first one (1) million registrants including, outreach to poorer and marginalized groups, and use of digital ID for increased financial access for accurate identity verification and authentication by service providers such as mobile money companies, banks and money transfer business.

3. Facilitating government digital payments, construction of interoperable retail payments services, and integrating government digital services to strengthen systems for revenue mobilization and expenditure management.

4. Strengthening e-business registration services for SMEs, including operationalization of one-stop shop.

Part C: Project Management

1. Strengthening the capacity of the Project Implementation Unit (PIU) for Project management and implementation, including coordination of respective MDAs and institutions, monitoring and evaluation, acquisition of goods, employment of Project staff in such numbers as may be approved by the Association specifically to manage fiduciary aspects (i.e. procurement and financial management), and environmental and social safeguards, through the provision of technical advisory services, provision of training to Project staff, and approved workshops.
2. Recruiting an independent verifier as a monitoring agent for the operations of the MSME Financing Facility, and physical monitoring of the use of the proceeds of the Financing; and establishing a project-level grievance redress mechanism.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Ministry of Finance

The Ministry of Finance shall be responsible for overall coordination and implementation of the Project.

2. Project Steering Committee

(a) The Recipient shall not later than thirty (30) days after the Effective Date, establish and thereafter, maintain throughout the project implementation, the Project Steering Committee with a mandate, resources, terms of reference and functions, satisfactory to the Association.

(b) Without limitation to the provisions of paragraph 2(a) immediately above, the Project Steering Committee shall be responsible for (i) approval of annual work plans and budgets, and Project Reports, including Financial Management Reports; and (ii) provide overall policy and strategic guidance for the Project.

3. Project Implementation Unit (PIU)

(a) The Recipient shall throughout the Project implementation maintain the Project Implementation Unit established for Somali Core Economic Institutions and Opportunities Project within the Ministry of Finance with resources, terms of reference, staffing, and other resources, satisfactory to the Association.

(b) Without limitation to paragraph 3(a) immediately above, the PIU shall be responsible for day-to-day management and administration of the Project, preparation of annual work plans and budgets, fiduciary aspects (financial management and procurement), environmental and social safeguards management, coordination of MDAs and institutions, communication of Project activities, and monitoring and evaluation.

B. Subsidiary Agreement

1. To facilitate the carrying out of Part B.1 of the Project, the Recipient shall make the portion of the Financing allocated to Part B.1 of the Project available to the MSME Financing Facility through a Subsidiary Agreement between the Recipient
and the MSME Financing Facility as a sub-loan, under terms and conditions acceptable to the Recipient and the Association.

C. Project Operations Manual

1. The Recipient shall carry out the Project in accordance with the Project Implementation Manual containing detailed guidelines and procedures for the implementation of the Project, including monitoring and evaluation, procurement, coordination, financial, administrative and accounting procedures, corruption and fraud mitigation measures, criteria for selection, measures for management of the environmental and social aspects of the Project and compliance with environmental and social guidelines; and an annex to said Project Operations Manual in the terms of an MSME Subproject Manual, including among other details, the MSME Sub-project eligibility criteria, due diligence and selection criteria, implementation requirements, and terms and conditions for MSME Sub-Project Agreements, and except as the Association shall otherwise agree in writing, not amend or waive, or permit to be amended or waived any provision of thereof.

2. In case of a conflict between the provisions of the Project Operations Manual and this Agreement, the provisions of this Agreement shall prevail.

D. Annual Work Plan and Budget

1. The Recipient shall, not later than October 31 of each year prepare and furnish to the Association, a consolidated annual program of activities proposed for implementation under the Project during the following Fiscal Year, together with a proposed budget for the purpose.

2. The Recipient shall exchange views with the Association on each such proposed consolidated annual work plan, and shall thereafter adopt, and carry out such program of activities for such following Fiscal Year as shall have been agreed with the Association, as such plan may be subsequently revised during such following Fiscal Year with the prior written agreement of the Association (Annual Work Plan and Budget).

E. Eligibility Criteria, Terms and Conditions of the MSME Subprojects

1. The Recipient shall cause the MSME Financing Facility to ensure that each Eligible PFI shall appraise, approve, monitor and evaluate respective MSME Subprojects to be financed under Part B.1 of the Project, and administer credits or loans to the respective MSME Beneficiaries, in accordance with the terms and conditions of the pertinent Subproject Agreement between the Recipient and the Eligible PFI, the guidelines and procedures set forth in the SME Subproject Manual contained in the Project Operational Manual.
F. PFI Financing.

1. The Recipient shall cause MSME Financing Facility to provide financing to the pertinent PFI in accordance with the Project Operations Manual (including the MSME Subproject Manual) through a PFI Agreement on terms and conditions which shall include:

(a) that the MSME Financing Facility shall obtain rights adequate to protect its interests and those of the Recipient and the Association, including the right of the MSME Financing Facility to suspend or terminate the right of the PFI to use the proceeds of the PFI Agreement and the obligation of the PFI to refund all or any part of the amount of the financing provided to the PFI upon such PFI's failure to perform any of its obligations under the pertinent PFI Agreement or under the SME Subproject Manual;

(b) the requirement of each PFI to:

(i) carry out Part B.1 of the Project in accordance with the Operations Manual (including the MSME Subprojects Manual);

(ii) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards adequate to reflect its operations, resources and expenditures in respect of the pertinent MSME Subproject; and (B) at the Association’s and Recipient’s request, have such financial statements audited (annual audit) by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association;

(iii) prepare and furnish to the Recipient and the Association all such information as the Recipient and the Association shall reasonably request relating to the foregoing; and

(c) that the MSME Financing Facility shall exercise its rights under each MSME Subproject Agreement in such manner as to ensure that the MSME Subproject is carried out in accordance with the SME Subproject Manual and to protect the interests of the Recipient and the Association.

G. Environmental and Social Safeguards for Part B.1 of the Project

1. The Recipient shall ensure, and cause the MSME Financing Facility to ensure that:
(a) the Project is carried out with due regard to appropriate health, safety, social, and environmental practices and standards, and in accordance with the provisions of the Environmental and Social Management Framework (ESMF);

(b) for each MSME Subproject for which the ESMF provides for the preparation of an environmental and social impact assessment, and/or an environmental and social management plan:

(i) proceed to have such environmental and social impact assessment, and/or environmental and social management plan as appropriate: (A) prepared and disclosed in accordance with the ESMF; (B) consulted upon adequately with people affected by the Project as per the ESMF, and submitted to the Association for review and approval; and (C) thereafter adopted, prior to implementation of the activity; and

(ii) take such measures as shall be necessary or appropriate to ensure compliance with the requirements of such environmental and social impact assessment, and/or environmental and social management plan in a manner satisfactory to the Association;

2. The Recipient and the MSME Financing Facility shall ensure that the MSME Subprojects do not include any activities or expenditures on the negative list set forth in the ESMF.

3. Except as the Association shall otherwise agree in writing, the Recipient shall ensure, and cause to ensure, that none of the provisions of the ESMF or any environmental and social impact assessment, or any environmental and social management plan be abrogated, amended, repealed, suspended or waived. In case of any inconsistencies between the provisions of any of the ESMF or any environmental and social impact assessment, or any environmental and social management plan and the provisions of this Agreement, the provisions of this Agreement shall prevail.

H. Grievance Redress Mechanism

1. The Recipient shall throughout Project implementation, and publicize the availability of a grievance redress mechanism, in form and substance satisfactory to the Association, to hear and determine fairly and in good faith all complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.
Section II.  **Project Monitoring, Reporting and Evaluation**

The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

Section III.  **Withdrawal of the Proceeds of the Financing**

A.  **General**

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods and services, consultants' services, Training and Operating Costs under Parts A, B and C (except Part B.1 of the Project)</td>
<td>3,540,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Line of Credit: PFI financing under Part B.1 of the Project:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) large loans window for MSMEs</td>
<td>2,160,000</td>
<td>100%</td>
</tr>
<tr>
<td>(b) micro and small loans window for MSMEs</td>
<td>7,200,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>12,900,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

B.  **Withdrawal Conditions; Withdrawal Period**

1.  Notwithstanding the provisions of Part A above, no withdrawal shall be made:
(a) for payments made prior to the date of this Agreement; or

(b) payments under Category (2) unless:

(i) a technical and fiduciary (procurement and financial management) assessment of MSME Financing Facility (as an implementing entity for Part B.1 of the Project) has been carried out, in a manner acceptable to the Association;

(ii) a Project Agreement has been executed between the Association and the MSME Financing Facility; and

(iii) the MSME Subproject Manual (forming an annex or schedule to the Project Operations Manual) has been prepared and submitted, in form and substance satisfactory to the Association; or

(c) for payments under Component (2) (a) of the Project unless the Technical Agreement has been executed between the IFC and the MSME Financing Facility.

2. The Closing Date is June 30, 2023.
APPENDIX

Definitions

1. “Annual Work Plans and Budget” means a consolidated annual plan and budget referred to in Section I.D of Schedule 2 to this Agreement, to be prepared by the Recipient.

2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.


4. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.


6. “Eligible PFI” means an approved bank, or financial institution, which is registered as a bank or financial institution pursuant to the laws of the Recipient and approved to participate through the Line of Credit as a financier of MSME Subprojects.

7. “Environmental and Social Management Framework” or “ESMF” means the framework dated January 2019, prepared by the Recipient, satisfactory to the Association, and disclosed on the Recipient on January 25, 2019, and by the Association on January 24, 2019, setting out the principles, rules, guidelines and procedures to screen and assess the environmental and social impacts (including health and safety issues) of the MSME Subprojects activities which will be identified and appraised during Project implementation, and containing measures and plans to avoid, minimize, mitigate and/or offset adverse impacts and/or reduce said adverse impacts to acceptable levels, and enhance positive impacts, provisions for estimating and budgeting the costs of such measures, and information on the agency or agencies responsible for addressing project impacts, as said instrument may be amended from time to time with the Association’s prior written agreement.
8. “Financial Reporting Center” means the center established and operating pursuant to the Anti-Money Laundering and Countering the Financing of Terrorism Law 2016, of the laws of the Recipient.

9. “Fiscal Year” or “FY” means the Recipient’s fiscal year commencing on January 1 of each year and ending on December 31 of the same year.


11. “Line of Credit” means a revolving facility managed and operated by the MSME Financing Facility to provide financing (out of the proceeds of the Financing) to respective PFIs for financing MSME Subprojects.

12. “MDA” means Ministries Departments and Agencies

13. “Ministry of Finance” means the Recipient’s ministry at the time responsible for finance, or any successor thereto.

14. “Ministry of Interior, Federal Affairs and Reconciliation” and “MoIFAR” mean the Recipient’s ministry responsible for information and communications, or any successor thereto.

15. “MSME Financing Facility” means an autonomous entity to be established by the Ministry of Finance as a dedicated apex institution to provide Line of Credit to PFIs.

16. “MSME Subproject” means an eligible MSME activity proposed to be financed or financed under Part B.1 of the Project.

17. “MSME Subproject Agreement” means any agreement to be executed between an Eligible PFI and an MSME Beneficiary for an MSME Subproject, as such agreement may be amended from time to time, with the agreement of the Recipient and the Association, and such term includes all appendices, schedules and agreements supplemental to the MSME Subproject Agreement.

18. “MSME Subproject Manual” means the manual referred to in Section I.C.1 of Schedule 2 to this Agreement, as said manual may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.

19. “National Communications Authority” and “NCA” mean the national communications authority established and operating pursuant to the Communications Law 2017, of the laws of the Recipient.
20. “Operating Costs” means the incremental cost arising on account of Project implementation, based on Annual Work Plans and Budgets, approved by the Association pursuant to Section I.D of Schedule 2 to this Agreement, including office supplies, vehicle operation and maintenance, maintenance of office equipment, communication, advertisement and insurance costs, office administration costs, bank charges, costs associated with translation of documents, utilities, rental, consumables, accommodation, travel and *per diem* of Project staff on official travel, salaries of Project staff.

21. “PFI Agreement” means the agreement between the MSME Financing Facility and an Eligible PFI.

22. “PFI Financing” means a sub-financing to be made by the MSME Financing Facility to an Eligible PFI pursuant to a PFI Agreement.

23. “Project Operations Manual” means the Recipient’s manual referred to in Section 5.01(d) and in Section I.C.1 of Schedule 2 to this Agreement, as said manual may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.


25. “Project Steering Committee” means a committee of the Recipient referred to in Section I.A.2 of Schedule 2 to this Agreement.

26. “Project Implementation Unit” means the unit referred to Section I.A.3 of Schedule 2 to this Agreement.

27. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.

28. “SMPF Grant Agreement” means the SMPF Trust Fund agreement for the Project between the Recipient and the Association (acting as an administrator of the Somalia Multi-Donor Partner Fund Trust Fund), dated the same date as this Agreement, as such SMPF Grant agreement may be amended from time to time, and such terms includes all appendices, schedules and agreements supplemental to the SMPF Grant.

29. “Somali Core Economic Institutions and Opportunities Project” means the project described in SMPF Trust Fund Grant Agreement for Somali Core Economic Institutions and Opportunities Project, between the Recipient and the Association
(acting as an administrator of the Somalia Multi-Donor Partner Fund Trust Fund), dated February 15, 2016 (SMPF Trust Fund Number TF0A1698, as amended.

30. "Technical Agreement" means an agreement to be executed between the IFC and the MSME facility setting forth, inter alia, the scope of IFC advisory services, and the terms and conditions for provision of such services, such term includes all appendices, schedules and agreements supplemental to the Technical Agreement.

31. "Training" means the costs arising under the Project on account of training, workshops, study tours, exchange programs, seminars, and conferences, based on the Annual Work Plans and Budgets, approved by the Association, and referred to in Section 1.D of Schedule 2 to this Agreement, and such costs include associated travel, accommodation and subsistence allowances for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.