



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 17-Jan-2020 | Report No: PIDA28264



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Somalia	P171570	Somalia Reengagement and Reform Support Development Policy Financing (P171570)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	27-Feb-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Federal Government of Somalia	Ministry of Finance		

Proposed Development Objective(s)

Facilitate Somalia's full reengagement with the World Bank Group and support Somalia's economic recovery through policy reforms that strengthen fiscal management and promote inclusive private sector-led growth.

Financing (in US\$, Millions)

SUMMARY

Total Financing	420.00
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DETAILS

Total World Bank Group Financing	420.00
World Bank Lending	420.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

1. **Sustained political and economic reforms since 2012 are supporting Somalia’s transition out of fragility.** The adoption of the Provisional Constitution in 2012 established a federal political system, which comprises the Federal Government of Somalia (FGS) and five Federal Member States (FMSs). Legal and institutional reforms implemented since 2012 are rebuilding core public sector functionalities. Improved fiscal management capacity has enabled the FGS to more than double its revenue collection, absorption of external grants, and total spending between 2013 and 2019. The Central Bank of Somalia (CBS) is building its financial supervision capacity, enabling a significant expansion of the banking system.

2. **Poverty remains pervasive, underscoring the need to build economic resilience.** Almost 70 percent of Somalis live on less than US\$1.90 a day in purchasing power parity terms, and economic growth is barely keeping up with population growth, estimated at 2.8 percent per year.¹ Regional disparities are large, with the highest incidence of poverty among internally displaced people living in settlements, people living in rural communities, and nomads. Almost 9 in 10 Somali households are deprived in at least one dimension of poverty—monetary, electricity, education, or water and sanitation—and nearly 7 of 10 households suffer in two or more dimensions.

Relationship to CPF

3. **The proposed operation achieves the interim goal of Focus Area 1 in the FY19–FY22 Somalia CPF: “to secure normalization of Somalia’s relations through the HIPC process.”**² In addition, the reform program supported by the proposed operation complements the IPFs, ASA, and IFC Advisory Services identified in the CPF in achieving several of its major objectives:

- Prior actions on debt transparency, expenditure containment, and budget accountability are aligned with CPF objective 1.1 (“Improve public finance management and institutional effectiveness”).
- Prior actions on revenue mobilization and intergovernmental revenue sharing are aimed at CPF objective 1.2 (“Enhance domestic revenue mobilization and resource sharing”).
- Prior actions on the business environment and regulation of the telecommunications industry are aligned with CPF objective 2.1 (“Improve the business environment and lowering barriers to entry”).
- Prior actions on the financial sector are aligned with CPF objective 2.2 (“Access to finance to increase inclusion and digital development opportunities”).

4. **A Performance and Learning Review will guide the adjustment of the CPF program and guide the use of resources that will be available after arrears clearance.** An application for a country allocation under IDA18 and IDA19 turnaround facilities is under preparation. Somalia will also be eligible for other IDA facilities and for IFC investments upon normalization of relations.

5. **The proposed operation is an essential step towards realizing the World Bank Group strategy.** Normalization of relations with the IFIs is an eligibility requirement for HIPC debt relief and can help Somalia unlock additional and more predictable support from the international community. Somalia critically needs this support to implement its poverty reduction strategy (NDP9), increase the country’s resilience to climatic shocks, and foster inclusive economic growth.

C. Proposed Development Objective(s)

Facilitate Somalia's full reengagement with the World Bank Group and support Somalia’s economic recovery through

¹ World Bank, “Somalia Poverty and Vulnerability Assessment: Findings from Wave 2 of the Somalia High-Frequency Survey,” April 2019. The population growth rate estimate is from Federal Republic of Somalia and UNFPA, “Population Estimation Survey 2014,” October 2014.



policy reforms that strengthen fiscal management and promote inclusive private sector-led growth.

Key Results

6. **Expected outcomes include:** Increased transparency of public debt information, growth of FGS inland tax revenue, increased allocation of national revenue to Federal Member States, reduced time to register a business, increased number of mobile network operators that have entered into interconnection agreements, increased transparency of mobile money transaction information.

D. Project Description

7. The proposed operation is a single-tranche, standalone Development Policy Grant. Its program is rooted in Somalia's National Development Plan (NDP), which was developed through an extensive participatory process involving stakeholders from Somalia and the diaspora. Proposed prior actions aimed at strengthening fiscal management are aligned with NDP pillars on inclusive politics and the rule of law. Actions aimed at promoting inclusive private sector-led growth are aligned with the economic development NDP pillar.

8. **Pillar 1:** The proposed operation would strengthen fiscal management in Somalia by supporting FGS reforms in areas of debt management, revenue mobilization, public expenditure containment, budget accountability, and intergovernmental fiscal arrangements. The authorities are working to enact foundational laws in these areas (e.g., a Public Financial Management Law) and implement other measures that will improve their capacity to manage fiscal operations.

9. **Pillar 2:** The proposed operation would promote inclusive private sector-led growth by supporting FGS reforms aimed at improving the business and investment climate in general as well as targeted sectoral regulations. For example, the Company Law provides a crucial legal and operational foundation for a well-functioning market economy. The operation would also support the authorities in establishing sectoral regulations that ensure fair competition and stability in the fast-growing telecommunications and mobile money sectors.

10. **Reforms to fiscal management and private sector-led growth are important underpinnings for addressing Somalia's development challenges, complementing well the overall World Bank Group program and efforts of development partners.** The World Bank Group's broader program is focused on enhancing the basic functions of public institutions in a federal system, building greater resilience through better water management and developing social protection systems, with pipeline efforts to support the renewable energy sector and human capital. The reforms in this proposed operation and the overall Bank program complement the efforts of the broader development community, including reforms developed under the Resilience and Recovery Framework and those implemented through a series of IMF Staff-Monitored Programs.

E. Implementation

Institutional and Implementation Arrangements

11. **The federal Ministry of Finance holds responsibility for overall implementation of the proposed operation** and for reporting progress and coordinating actions among other concerned ministries and agencies. Monitoring of results from the proposed operation will build on mechanisms that the ministry has developed for managing the SMPs, which it intends to broaden for monitoring implementation of HIPC Completion Point commitments. Recognizing the government's capacity constraints, prior actions for the proposed operation were selected to complement the ongoing support provided

² The Board of Executive Directors discussed the Joint IDA/IFC/MIGA Country Partnership Framework for Somalia for the Period FY19-FY22 (IDA/R2018-0291, IFC/R2018-0280, MIGA/R2018-0128) on September 25, 2018.



under World Bank and EU projects. This is expected to minimize the additional workload associated with DPG monitoring as well.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

12. **Prior actions under Pillar 1 are expected to have direct and indirect positive effects on poverty alleviation and increasing resilience of the Somali population.** The positive effects are expected as actions create fiscal space that can be directed to improving public service delivery, robust safety nets and ultimately contribute to poverty reduction. Overall, the prior actions under Pillar I support the government's efforts to strengthen fiscal management by establishing a framework that creates transparency and accountability in spending and improves the potential for revenue mobilization. In addition, greater transparency and accountability provides a critical foundation for protecting the poor and vulnerable from abuses and unfair treatments.

13. **Prior actions under Pillar 2 are expected to have a positive impact on poverty by expanding financial inclusion and digital economy over the medium term.** The Somali private sector is dominated by micro, small and medium-sized enterprises, many of which are informal and unregistered. Low-income individuals in Somalia tend to be self-employed or own a small business and have little access to the formal banking systems. Mobile money usage is very high in Somalia, even among the poor, and is an important channel for means of exchange and domestic remittance flows. The regulation of the mobile money market effected through Prior Action 7 will reduce system vulnerabilities and help to safeguard consumer funds, which the poor cannot afford to lose. Regulation of mobile money can contribute to financial inclusion, equity, and resilience, especially within a context where access to banking services are limited.

Environmental, Forests, and Other Natural Resource Aspects

14. **Prior actions in the proposed operation are not expected to have direct effects on the environment, forests, or other natural resources in Somalia in the short term. However, they will create conditions that are more conducive to strengthening environmental management in the long term.** The demands of security and state-building currently consume essentially all fiscal space in Somalia. Prior actions aimed at strengthening fiscal management are expected to create the fiscal space that the authorities can use to safeguard natural resources. Prior actions aimed at promoting private sector-led growth are expected to help the economy to create new jobs and other economic activities that provide alternatives to activities that are harmful to Somalia's environment.

G. Risks and Mitigation

15. **Overall risks to this operation are high.** The enduring legacies of conflict and state collapse pose risks to policy reform in general. The principal risks to the proposed operation are political and governance (high), macroeconomic (high), fiduciary (substantial), and institutional and capacity (high). Normalization of relations with international financial institutions (including through this proposed operation) and assistance from the international community provided through the Heavily-Indebted Poor Countries Initiative mitigate risks by providing a strong framework for depoliticizing economic policy reforms, supporting macroeconomic stability, and moving Somalia to a trajectory towards poverty reduction and inclusive growth.



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APPROVAL

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Approved By

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