



# Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 14-Jun-2022 | Report No: PIDA34016



## BASIC INFORMATION

### A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Somalia	P174889	Somalia Inclusive Growth DPO Series (P174889)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
Eastern and Southern Africa	19-Jul-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Federal Republic of Somalia	Ministry of Finance, Federal Government of Somalia		

### Proposed Development Objective(s)

Promote inclusive growth by strengthening intergovernmental fiscal relations and transparency; and enhancing economic resilience and investment.

### Financing (in US\$, Millions)

#### SUMMARY

Total Financing	100.00
-----------------	--------

#### DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

### B. Introduction and Context

1. **Somalia's economy has been subject to various shocks related to climate change, the COVID-19 pandemic, and rising commodity prices due to the war in Ukraine.** Following multiple shocks, between 2014 and 2021 real per capita growth rates averaged zero percent. Upon reaching the HIPC Decision Point milestone in March 2020, Somalia's economy was expected to grow by 3.2 percent and by 3.5-4.0 percent over the medium term. These growth projections were interrupted by a triple crisis of the COVID-19 pandemic, locust's infestation, and floods which caused the economy to contract by an estimated 0.3 percent in 2020. Although there was a modest economic recovery in 2021, worsening drought conditions are affecting livelihoods and contributing to internal displacement, while rising commodity prices are placing a strain on household expenditures. Almost 40 percent of the population is projected to be food insecure



between April and May 2022.<sup>1</sup> These recent shocks, including the impacts of the war in Ukraine, are likely to place additional pressures on the poor in a country where almost 70 percent of the population are estimated to live on less than US\$1.90 a day.<sup>2</sup> The Somali economy is experiencing these challenges following a prolonged electoral period, reflecting efforts to work towards state-building objectives in a context of fragility, conflict and violence.

**2. Despite the challenging circumstances, the Somali authorities have maintained progress in advancing the economic reform agenda anchored in the Heavily Indebted Poor Countries (HIPC) initiative.** Somalia reached the HIPC Decision Point milestone in March 2020 and is making solid progress towards reaching the HIPC Completion Point milestone when the country will be eligible for full and irrevocable debt relief. The implementation of HIPC Completion Point triggers, many of which are supported by this proposed operation, are advancing structural reforms in areas such as the harmonization of customs regimes, enhancing the governance of public resources, developing social sectors including the Baxnaano cash transfer program, and supporting private sector growth through increasing access to electricity and establishing an enabling business environment. The Somali authorities have negotiated debt relief agreements with all Paris Club creditors except Russia. Discussions with non-Paris Club creditors have reached an advanced stage, and an agreement was signed with the Kuwait Fund for Arab Economic Development in April 2022. Commendable progress has been made to keep the IMF's Extended Credit Facility (ECF) program on track.<sup>3</sup> The second and third reviews of the ECF arrangement will be considered by the IMF's Executive Board on June 17, 2022.

#### Relationship to CPF

**3. The proposed operation supports the objectives of the World Bank's Country Partnership Framework (CPF) (FY19-22), discussed by the Board of Executive Directors in August 2018, complements World Bank Investment Project Financing (IPF) operations, IFC advisory, and supports efforts to reach the HIPC Completion Point.** The CPF has two focus areas which are to strengthen institutions to deliver services, and to restore economic resilience and opportunities. A Performance and Learning Review will be delivered in quarter 4, FY22 to guide the adjustment of the CPF program as Somalia has qualified for the turnaround facility, IDA facilities and IFC investments.<sup>4</sup> A new CPF will be prepared in FY23, which is expected to continue supporting the implementation of current priorities and expand areas of focus given the rapidly evolving program.

- The reforms in the first pillar of this proposed operation directly contribute to the CPF focus area on strengthening institutions to deliver services through enhancing intergovernmental fiscal relations and improving the transparency and accountability of public resources. These actions are supported by the World Bank's Recurrent Cost and Reform Financing Project (P173731), the Somalia Enhancing Public Resource Management Project (SERP), Advisory Support to Customs (P172650), and have been informed by the Somalia Public Expenditure Review (P160458).
- The reforms in the second pillar of this proposed operation supports the CPF objective to enhance access to inclusive social services and the CPF focus area to restore economic resilience and opportunities. Improving the targeting of beneficiaries of the Baxnaano program should enhance access to services for the poorest and most vulnerable and is supported by the Somalia Shock Responsive Safety Net for Human Capital Project (P178730). Reforms that support access to finance through advancing the anti-money laundering / combatting of financing for terrorism (AML/CFT) agenda are supported by the Somalia Capacity Advancement, Livelihoods and Entrepreneurship through Digital Uplift Project (SCALED-UP) (P168115). The expansion of renewable energy is

<sup>1</sup> Joint FAO-OCHA-UNICEF-WFP Statement on the Drought Emergency in Somalia, April 2022 <https://www.wfp.org/news/joint-fao-ocha-unicef-wfp-press-release-drought-emergency-somalia>

<sup>2</sup> Measured at [2011] prices adjusted for purchasing power parity. Somali High Frequency Survey (SHFS), World Bank, 2017

<sup>3</sup> <https://www.imf.org/en/News/Articles/2022/03/07/pr2262-imf-staff-completes-mission-to-discuss-reviews-of-extended-credit-facility-to-somalia>

<sup>4</sup> Major facilities include IDA's Crisis Response Window, Regional Window, and Window for Host Communities and Refugees.



supported by the Somali Electricity Sector Recovery Project (P173088) and IFC Advisory Services. The development of sustainable fishing is supported by the pipeline Somali Sustainable Fisheries and Blue Economy Development Project (P178032). Reforms to support the private sector are benefiting from IFC Advisory Services.

### C. Proposed Development Objective(s)

To promote inclusive growth by strengthening intergovernmental fiscal relations and transparency and enhancing economic resilience and investment.

**4.Strengthening intergovernmental fiscal relations to support state-building and enhancing economic resilience by addressing structural barriers to growth are prerequisites for stimulating growth and creating jobs.** Strengthening intergovernmental fiscal relations is critical for addressing the drivers of state fragility and providing a predictable environment for private sector growth. Enhancing economic resilience is an urgent priority given Somalia's susceptibility to shocks including increasingly frequent climate-related disasters.<sup>5</sup> Adapting to climate change requires developing coping mechanisms for the most vulnerable and diversifying sources of livelihoods. Climate mitigation can be supported through following a low-emissions pathway for future growth, for example by encouraging investment for electricity generation from renewable sources. Providing opportunities for Somalis to access jobs and obtain a meaningful income to escape poverty requires alleviating structural constraints through supporting financial inclusion, expanding access to affordable and renewable energy supply, and developing the formal private sector. The proposed operation would be the first in a programmatic series of two operations, which supports Somalia's progress in reaching the HIPC Completion Point milestone at which point the country will be eligible for full and irrevocable debt relief.

#### Key Results

**5. Reforms aim to strengthen intergovernmental cooperation to enhance stability as well as promote economic resilience that can support climate adaptation and mitigation.** Harmonizing customs regimes and sharing data can help to build trust and encourage dialogue between the Federal Government of Somalia (FGS) and the Federal Member States (FMS). The availability of audits on health and education expenditures can inform the dialogue with government, civil society and development partners on how public resources are used to support service delivery. Reforms to enhance economic resilience and investment are expected to contribute to both climate adaptation and mitigation. Improved targeting of households that receive cash transfers from the government's Baxnaano safety net program is expected to enhance coping mechanisms to shocks including climate-related disasters and reduce the gender gap as women are disproportionately affected by multiple crises and food insecurity. Enhancing the enabling environment of the fisheries sector is expected to support sustainable fishing, while also contributing to climate adaptation and mitigation through the protection of healthy fish stocks and the critical marine habitats on which they rely, enhanced resilience of marine resources to the effects of increasing sea temperatures and acidity, as well as improving carbon sequestration in coastal habitats. Supporting renewable energy generation through developing the enabling environment is expected to harness Somalia's substantial solar and wind energy potential; and facilitate a low-emissions pathway for future growth. Reforms to advance the AML/CFT agenda and improvements to the business environment are expected to enhance access to finance and encourage investments which will benefit sectors such as fisheries and energy, as well as support the growth of firms and formal wage employment.

<sup>5</sup> Somalia has endured multiple droughts since 1965. The 2011 drought led to the demise of 260,000 people. The 2016/17 drought left over 6 million people food insecure. The current drought is contributing to internal displacement and widespread food insecurity. Somalia is also vulnerable to severe flooding. In 2019-20, floods displaced more than a million people, and following high precipitation and abnormal vegetation growth, the desert locust outbreak decimated crops and affected more than 2.6 million people. It is expected that incidences of droughts and flooding will increase, as indicated by the IPCC Working Group I report, [https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC\\_AR6\\_WGI\\_SPM\\_final.pdf](https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM_final.pdf)



## D. Project Description

**6. A series of two Development Policy Operations is proposed to support inclusive growth in the Federal Republic of Somalia.** The proposed operation is rooted in Somalia's ninth National Development Plan (NDP9), which was developed through an extensive participatory process. The first pillar aims to strengthen intergovernmental fiscal relations and transparency as building blocks towards advancing the state-building agenda. The second pillar aims to enhance economic resilience and investment, as Somalia works towards climate adaptation and mitigation.

**7. Actions in the first pillar strengthens intergovernmental fiscal relations.** The harmonization of import duties in the main ports of Somalia is supported in the first year, and the reform is extended in the trigger which focuses on the issuance of regulations on Customs Reference Values and Customs Declarations. As fiscal space expands and transfers to the FMS are anticipated to increase, the issuance of regulations to the Public Financial Management (PFM) Act of 2019 detail the requirements for the requisition, transfer, monitoring and reporting of intergovernmental transfers. As a trigger, special audits are planned, to inform an understanding of how resources support service delivery at both the FGS and the FMS level. The harmonization of customs duties and the issuance of PFM regulations are HIPC Completion Point triggers.

**8. Actions in the second pillar aim to support the resilience of the Somali economy and people.** In the first year of the operation, it is proposed that the Ministry of Labor and Social Affairs will issue a decree to adopt the household welfare scoring system of the unified social registry to improve the targeting of beneficiary households. As a trigger, a Data Protection and Data Privacy Bill should be enacted to facilitate adequate safeguards concerning the public use of private data. The Data Protection and Data Privacy Bill is expected to support the enabling environment for the government's AML/CFT reforms which include the publication of a National Risk Assessment and the enactment of the Digital Identification Bill which is a trigger. To support the availability of affordable energy from renewable sources, a prior action is included to submit the Electricity Bill to parliament, which is also a HIPC CP trigger, followed by regulations to the Electricity Act as a trigger. A prior action is included to submit the Federal Law on Fisheries to parliament to support sustainable fishing, with regulations to the law to be issued as a trigger. Finally, under this pillar there are actions to support the development of the formal private sector through the issuance of regulations to the Company Act of 2019 and as a trigger, the enactment of a new law that will improve the environment for foreign investment, which can help to attract private financing to develop sectors such as renewable energy and fisheries.

## E. Implementation

### Institutional and Implementation Arrangements

**8. The Ministry of Finance has the lead responsibility for the coordination, monitoring, and ensuring ultimate completion of the prior actions.** Monitoring of results from the proposed operation will build on mechanisms that the ministry has developed for managing the IMF ECF arrangement and the HIPC Completion Point commitments. Recognizing the government's capacity constraints, prior actions for the proposed operation were selected to complement the ongoing support provided under WB, IMF, and EU projects to minimize the additional workload associated with monitoring the actions in this proposed operation.

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

**9. Many of the actions supported by the proposed operation are expected to have significant positive poverty reduction and welfare enhancement impacts.** Reforms are expected to speed the pace of poverty reduction by enhancing the stability of the state and increasing economic resilience. Actions under pillar 1 are expected to enhance intergovernmental fiscal relations, which can provide a foundation for inclusive growth. The special audit on the social



sectors is expected to enhance the dialogue on how public resources are used to support service delivery. Reforms under pillar 2 are expected to enhance resilience, spur growth, and help to create jobs. Improving the targeting of beneficiaries for the Baxnaano program can help to ensure that the poorest and most vulnerable receive cash transfers to mitigate shocks, including women, which can have broader benefits for social inclusion. Reforms to enhance access to finance (through advancing the AML/CFT agenda) and support to the enabling environment in sectors such as fisheries, electricity as well as the development of the broader private sector can strengthen Somalia's tradition of entrepreneurship, help to create formal wage employment, and enhance resilience. Furthermore, lowering the cost of electricity is expected to increase access to energy for the poor.

#### Environmental, Forests, and Other Natural Resource Aspects

**10. The institutional basis for improving environmental management is being established.** In November 2020, the Somali cabinet approved the Environmental Management and Coordination Bill, which will be considered by the incoming parliament. Once enacted, the Environmental Management and Coordination Bill is expected to improve environmental governance and intergovernmental cooperation. The Directorate of Environment and Climate Change (DoECC) has commenced negotiations with departments in charge of the environment from the various Federal Member States. These improvements to environmental institutions and laws have been supported by the Somalia Country Environmental Analysis (CEA), which was published in June 2020, and was developed through a collaborative engagement with Somali stakeholders across the federation.<sup>6</sup>

**11. Four actions in this proposed operation are expected to substantially contribute to three key climate objectives under Somalia's Nationally Determined Contribution (NDC).** Prior action 3 on adaptive social safety nets is expected to support poor and vulnerable households cope with the effects of climate change. Prior action 5 on the new fisheries law seeks to strengthen the status of fish stocks and marine ecosystems through enhanced regulation and implementation monitoring. Supporting healthy marine ecosystems is the most effective single measure for countering the impacts of climate change on coastal resources. Furthermore, the development of the fisheries sector presents an alternative source of income and nutrition. Prior action 6 on the enabling environment in the energy sector, combined with prior action 7 on investor protection, is expected to contribute to higher investment levels in least cost renewable energy generation, harnessing Somalia's substantial wind and solar power potentials to address its acute affordable energy challenges.

#### G. Risks and Mitigation

**12. Overall risks to this operation are high.** In May 2022, Somalia elected its tenth President, which marks an important milestone in the country's state-building process. However, intensified efforts will be needed to promote dialogue, cooperation, and trust-building between the regions. The newly elected President has committed to Somalia's reform agenda, anchored in the HIPC initiative, and has expressed support for advancing intergovernmental relations. The Finance Ministers Fiscal Forum, supported by the World Bank, provides an important channel for dialogue between the regions and building consensus on key reform areas, which can help mitigate to political and governance risks. The HIPC initiative is a broader framework for risk mitigation by providing incentives for political leaders to collaborate around breaking the vicious circle of weak state capacity, conflict, and persistent vulnerability. High macroeconomic risks reflect the government's limited policy options to respond to multiple shocks such as extreme climatic events, the COVID-19 pandemic, the impacts of the war in Ukraine and regular security incidences. Strengthening the capacity of the state and enhancing fiscal sustainability through implementing reforms anchored in the HIPC initiative can help to maintain macroeconomic stability. The government's engagement in the IMF's ECF arrangement as well as WB IPFs and advisory

<sup>6</sup> The Somalia CEA extends the analysis in the NDP9 to evaluate the environment and natural resources sector and identifies opportunities for managing natural resources to deliver improvements for livelihoods, reducing poverty and building climate resilience.



support are helping to strengthen the mobilization of domestic revenues and improve expenditure controls. Strengthening fiduciary systems remains an ongoing government priority. The new PFM regulations will contribute to a reduction of fiduciary risk, as will continued support from the WB Somalia Enhancing Public Resource Management Project (SERP) P177298 which is under preparation. Institutional and capacity risks are substantial. Somalia's policy agenda is crowded and competing demands from domestic and external stakeholders could overwhelm the authorities' limited capacity to implement the reforms needed to achieve the operation's expected results. Risks are mitigated by extensive financial and technical support from international partners, including the World Bank Group.

## CONTACT POINT

### World Bank

Natasha Sharma  
Senior Economist

### Borrower/Client/Recipient

Federal Republic of Somalia  
H.E. Abdirahman Duale Beileh  
Minister of Finance  
abdirahmanbeileh010114@gmail.com

### Implementing Agencies

Ministry of Finance, Federal Government of Somalia  
H.E. Abdirahman Duale Beileh  
Minister of Finance  
abdirahmanbeileh010114@gmail.com

## FOR MORE INFORMATION CONTACT

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: <http://www.worldbank.org/projects>

## APPROVAL

Task Team Leader(s):

Natasha Sharma



**Approved By**

APPROVED BY

Country Director:

Kristina Svensson

16-May-2022