



The World Bank

Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Program (SCALED-UP)
(P168115)

Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 26-Jan-2019 | Report No: PIDISDSA25252

BASIC INFORMATION

A. Basic Project Data

| | | | |
|--|---|--|---|
| Country Somalia | Project ID P168115 | Project Name Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Program (SCALED-UP) | Parent Project ID (if any) |
| Region AFRICA | Estimated Appraisal Date 28-Jan-2019 | Estimated Board Date 07-Mar-2019 | Practice Area (Lead) Finance, Competitiveness and Innovation |
| Financing Instrument Investment Project Financing | Borrower(s) Ministry of Finance, Federal Republic of Somalia | Implementing Agency Ministry of Finance, Federal Republic of Somalia | |

Proposed Development Objective(s)

The Project Development Objective (PDO) is to support progress toward increased access to basic digital financial and government services targeting entrepreneurship and employment, particularly for women.

Components

Strengthening Institutions
 Enabling Financial and Digital Services
 Project Management and Coordination

The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.

Yes

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

| | |
|---------------------------|-------|
| Total Project Cost | 31.00 |
| Total Financing | 31.00 |
| of which IBRD/IDA | 18.00 |
| Financing Gap | 0.00 |



DETAILS

World Bank Group Financing

| | |
|---|-------|
| International Development Association (IDA) | 18.00 |
| IDA Grant | 18.00 |

Non-World Bank Group Financing

| | |
|----------------------------|-------|
| Trust Funds | 13.00 |
| Somalia Multi-Partner Fund | 13.00 |

Environmental Assessment Category

B-Partial Assessment

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **Somalia remains a fragile country despite the substantial progress made in recent years to lay the foundations for stability and development.** Since 2011, Somalia has had a sustained period of political, economic, and security-related progress. Consequently, the country has a unique opportunity to escape from decades of conflict and fragility, and the government is demonstrating a strong commitment to wide-ranging institutional and economic reforms. Yet, substantial challenges remain, including economic isolation, reconciliation, security sector reform, widespread malnutrition, recurrent drought, and poverty. Limited fiscal space constrains service delivery by the Federal Government of Somalia (FGS) leading to low trust in the state. Somalia has a population of about 14 million, of which close to three fourths live in poverty and about 43 percent in extreme poverty. Nearly 60 percent of Somalis are nomadic and semi-nomadic pastoralists. Moreover, nearly 2.3 million Somalis live on the margins of food insecurity and 1.1 million are considered internally displaced persons (IDPs).

2. **Somalia’s economic development challenges are equally daunting, and growth remains insufficient for reducing vulnerability for a large segment of the population.** Between 2013 and 2017, Somali real gross domestic product (GDP) is estimated to have grown at an average of 2.5 percent per year while population grew by 2.9 percent per year. The result has been an annual contraction in per capita incomes of 0.4 percent during the same period, leaving GDP per capita at just over US\$500. Growth is mainly consumption-driven, enabled by large remittance and aid inflows (US\$1.4 billion and US\$1.75 billion respectively in 2017), while construction, telecommunications, and money transfer

services have been the key growth sectors. The diaspora remittances enable household consumption at 132 percent of GDP and represent an important component of income for the bottom 40 percent of households. Low electrification rates, especially in rural areas, including the high cost of energy, are one of the key constraints for economic growth in Somalia.

3. **Unemployment is widespread within Somalia's young population.** With 73 percent of the population below the age of 30, as of 2017 youth unemployment is at 74 percent and 61 percent for women and men, respectively. In this setting, remittances and humanitarian aid alone are not sufficient to support the development of sustainable livelihoods that are necessary for poverty reduction and mitigation of political, social, and economic vulnerability. The domestic economy and many local livelihoods are dependent on the livestock sector, which generates trade worth an estimated 40 percent of Somalia's GDP and represents over 50 percent of Somalia's exports, but which is itself highly vulnerable to drought and trade-related shocks.

4. **Weak access to tailored finance to women contributes to limiting female entrepreneurship.** An analysis of gender gaps in Somalia, in relation to financial and digital access, suggests that women face discrimination and considerable socioeconomic barriers to accessing jobs and livelihood opportunities. Traditional gender roles still limit women's employment opportunities, often excluding them from work within formal sectors, generating gender gaps in labor market participation. Gender gaps in education and basic literacy translate into weak digital and financial skills among women, which in turn limits their financial and digital services access. Nevertheless, Somali women are largely responsible for growth in microenterprise activity and yet are not supported to grow and expand their businesses. A recent review of the World Bank's Small and Medium-Size Enterprise Facility (SMEF), which provided business development services to small and medium enterprises (SMEs) in Somalia under Somali Core Economic Institutions and Opportunities Program (SCORE) (P152241), reiterates that women-led businesses struggle to access funding even though there is demand for financing among female-headed SMEs. This is partly because financial service providers do not necessarily offer financial products that target women, nor do they implement a cohesive policy that targets women in a way that removes barriers that currently restrict access. For example, women face discrimination in accessing credit due to existing collateral requirement. Even when women have the required collateral, banks typically ask for a male guarantor, and when women do receive loans, they are typically microcredit, that is, in the range of US\$1,000.

5. **Somalia has a vibrant private sector, a networked business community and a desire for international trade and investment.** Agriculture sector, mainly livestock, remains the backbone of the Somali economy. Preliminary gross production estimates for the agriculture sector show that the sector account for the largest share of GDP since the pre-war period – 62 percent in 1986-88 to an average estimate of about 70 percent in 2013-16 (World and FAO, 2018).¹ Somalia's *Doing Business* ranking is the lowest at 190 out of 190 (Doing Business 2019). Somalia has one of the most expensive electricity rates, at almost US\$1 per kilowatt, and correspondingly lowest rates of electricity usage in the world. Moreover, informality dominates the private sector, making market-based financial intermediation challenging particularly in key sectors of the real economy such as energy and livestock. In addition, regulatory and institutional capacity gaps – in key enabling sectors such as financial and ICT – result in an uneven playing field undermining economic growth and potential. The development of the manufacturing sector is limited by the harsh business environment, high electricity and transport costs. This, combined with economic isolation – compounded by fears of money laundering and terrorist financing, as well as weak banking relationships between domestic and international banks – creates unpredictability of remittance channels and connectedness of the country to international capital sources, deterring

¹ It is difficult to determine sectoral contribution to GDP in Somalia due to lack of national accounts data. New GDP estimates by World Bank and IMF staff are used to compute the sector shares post 2013.



large scale private and public investment. The decrease in remittance channels in recent years and the continued vulnerability of existing ones extremely problematic for Somalia, where international remittances are critical for sustaining local livelihoods. The domestic economy and local population are very vulnerable to any factors that threaten Somalia's links with the global financial system and thus worsen its economic isolation. Economic isolation may, in turn, exacerbate political tensions and result in the development of parallel underground 'shadow markets.' Thus, to support livelihoods and inclusive growth, there is a pressing need to stabilize core institutions offering basic services enabling economic opportunities for individuals and businesses.

6. **The lack of a robust and inclusive foundational ID system limits financial access and poses challenges for broader service delivery and economic growth.** Over 77 percent of Somalia's population, or close to 12 million people, are estimated to lack an official proof of identity. Although data on ID coverage is scarce, recent surveys indicate that women are more likely than men to lack an ID, with an estimated gender gap of at least nine percentage points. Existing ID systems are fragmented and designed to meet specific program needs rather than to serve as a foundational, multi-purpose identification for the entire population. Moreover, there are no reliable and broadly accessible ID verification or authentication mechanisms, further compounding challenges for accessing crucial financial and government services. In particular, the lack of a robust and inclusive foundational ID system makes it difficult for financial service providers to fulfill international customer due diligence (CDD) requirements. Failure to adequately comply with international AML/CFT requirements, due, in part, to a lack of robust Know Your Customer (KYC) verification mechanisms, have resulted in many Somali remittance providers and other financial institutions losing their correspondent banking relationships in recent years, posing a threat to the livelihood of millions of Somalis and further impeding financial access and entrepreneurship.

7. **Somalia's security situation hampers development initiatives and freedom of movement in the country.** All development initiatives and staff movements within Somalia are continuously analyzed for security threats. If security restrictions are put in place for certain locations, then staff movements are limited, potentially excluding those locations from development activities. Alternately, initiatives may be redirected when possible to other appropriate locations, delayed, or altogether cancelled. All existing and newly designed World Bank Group operations must be flexible to adapt to the changing security context affecting the whole economy in Somalia.

8. **Somalia has achieved significant progress in laying the foundations for stability and development; however, political and institutional gains must have tangible benefits for people if Somalia's transition is to hold.** The Country Partnership Framework (CPF) for the period FY19-FY22 will increase citizen's access to services and help restore economic resilience – laying the foundations for longer-term poverty reduction and inclusive growth. The CPF is based on an analytical framework elaborated in the recently-concluded Systematic Country Diagnostic as well as the outcome of country level dialogue between the World Bank Group, its Somali partners and the international community. With debt arrears outstanding, Somalia is ineligible for assistance from International Development Association (IDA) and other International Finance Institutions (IFIs) – but the Bank Group's re-engagement in 2012 funded by the Multi Partner Fund (MPF) has helped stabilize institutions and initiate IFI normalization. With support of eight key donors, the MPF has enabled the World Bank Group to strengthen federal institutions and establish basic economic regulatory foundations. The MPF will remain the core financing vehicle for the CPF – but will be complemented in FY19 by IDA Pre-Arrears Clearance grants of \$140 million targeting the key milestones to reach Decision Point under the Heavily Indebted Poor Country (HIPC) Initiative. Provided its reform momentum continues, Decision Point is feasible within the CPF period, allowing Somalia access to concessional resources from IDA and other IFIs, together with investment of private capital from the International Finance Corporation (IFC).

9. **This project builds on the foundations laid by predecessor projects' early successes i.e. SCORE (P152241) and ICT Sector Support (P152358) programs.** With financing from IDA's Pre-Arrears Clearance Grant (PACG) facility as well as the MPF, the project proposes to further support reforms associated with stabilizing core government functions that will help Somali communities overcome economic isolation. The supported government institutions are those considered key to enabling access to basic financial and government services that offer economic opportunities for individuals and businesses. In so doing, the project initiates the development of sustainable mechanisms for government service delivery, financial intermediation and inclusive growth. These foundational activities are central to breaking the cycles of violence and setting Somalia on the path towards economic development. The project is initially designed as a four-year program, which if successful in its first phase, additional financing maybe considered.

Sectoral and Institutional Context

10. **Somalia's financial sector is limited in size, simple in structure, and extremely isolated from the global financial system.** Access to global banking systems remains uncertain. Over the past three years, banks in international jurisdictions such as Australia, the United Kingdom, and the United States have closed accounts of some Somali remittance companies due to risks related to money laundering, as well as legal and regulatory weaknesses. This makes it essential to enhance the Financial Reporting Center's (FRC) understanding of AML/CFT risks, and to strengthen its institutional capability and core systems to receive and analyze financial intelligence on AML/CFT and disseminate this intelligence to law enforcement agencies (LEAs), as appropriate. In this setting, the impetus for institutional reform is driven by external pressures on Somali policy makers and financial institutions to improve governance and institutional effectiveness.

11. **Overall, there is meagre intermediation taking place in the Somali credit market, which meets only seven percent of the current demand.** Lending is heavily concentrated on short-term trade finance, which makes up approximately 85 percent of the total portfolio of financial institutions leaving a large unmet market demand in the real economy. This lack of progress to expand access to finance in underserved economic segments is partly explained by slow progress in elaborating a financial inclusion strategy to underpin public and private sector commitments to address some key institutional and structural challenges. In addition, Somali financial institutions are not experienced in lending outside trade finance, have weak pipeline of bankable Micro, Small and Medium Enterprises (MSMEs) operating in productive sectors of the economy and limited understanding of what constitutes a well-prepared sub-loan application for MSMEs operating in productive sectors resulting in some delays in provision of credit to businesses and weak credit quality.

12. **The financial system comprises central banks (including in Somaliland), banks, microfinance institutions (MFIs), money transfer businesses (MTBs), and mobile network operators (MNOs) providing mobile money services.** As of December 2018, five banks and 12 MTBs licensed by the Central Bank of Somalia (CBS) were operating in the country. Most banks met the minimum capital requirement of US\$7 million. In 2015, the mobile phone penetration rate stood at 59 percent, and in 2017, some 70 percent of Somalis with a mobile phone regularly used mobile money services, transacting for approximately US\$2.7 billion per month—yet, mobile money remains unregulated. In 2011, the FGS passed the Central Bank of Somalia Act, which reinstated the CBS. In 2012, the FGS passed the Financial Institutions Law (FIL), which created a national framework for financial institution regulation and supervision by the CBS. However, the FIL only covered banks and MTBs, and there are plans currently underway to modernize the FIL.

13. **An emerging trend in the sector is the consolidation of financial service operators into a few large companies, which deters competition from prospective entrants.** Somali money transfer and mobile network operators (MNOs) have always been intertwined, but the rapid growth of mobile money has forced key players in the strategic sectors of banking and money transfer services to not only protect their market niche but also occupy new ones as well. They do so largely through mergers and alliances. There is also a growing trend of partnerships to facilitate international remittances directly to customers, resulting in large conglomerates and the crowding out of smaller MTBs. As a result, there are overlapping business interest ownership in the financial sector covering banking, microfinance, and mobile money.

14. **Limitations exist in financial, technical, and managerial capacity to implement targeted interventions to enhance provision of and access to basic financial and government services by individuals and businesses.** Missing financial infrastructure and rules affecting the coverage, scope, and accessibility of credit information such as credit referencing or moveable collateral registries limit expansion of financial access. Capacity improvements will take time to overcome, while the urgency of expanding access to basic services is increasing.

15. **Providing a robust and verifiable government-recognized ID is among the most pressing priorities in Somalia at this time.** Being able to verify individuals' identities and company beneficial ownership will make it easier for financial service providers to meet international AML/CFT requirements and, with a unique identifier linked to each transaction account, will help ensure that financial transactions can be more accurately tracked. This will enable a scale-up of access to finance and other basic services for Somalis, including for women and vulnerable people in rural areas, and promote safe and orderly migration within and across Somalia's borders. A robust digital ID system is also instrumental for improving the robustness of business registration and access to finance for MSMEs as implementation of a central registry for companies offers access to information ensuring transparency around who really owns and controls Somali companies which is useful in tackling AML/CFT risks.

16. **The FGS has already taken steps to enable the implementation of a digital ID system, although large gaps remain in the enabling environment and several risks will need to be addressed.** A memorandum of understanding (MOU) dated May 23, 2018, was signed between the FGS Ministry of Interior, Federal Affairs and Reconciliation acting through the Office of the President and National Database and Registration Authority (NADRA)² of Pakistan for the development of a national ID system, including the design and installation of data management systems for multiple foundational and functional IDs, skills and knowledge transfer, and maintenance and support for one year. However, for the digital ID system to achieve its full potential, risks associated with, inter alia, exclusion, vendor lock-in, and potential misuse of the system will need to be appropriately addressed. In addition, Somalia currently lacks a robust legislative and regulatory framework to govern the implementation of a robust, inclusive, and responsible foundational ID system and has not yet set up a dedicated entity to oversee and manage the proposed digital ID system. Ensuring that the ID system rests on solid legal and institutional foundations will be critical for its ability to ensure that IDs are accessible for all, to protect users' data and privacy, to build and maintain trust in the system, and to ensure its long-term sustainability.

17. **Addressing the multi-faceted challenges of lack of access to basic services and enabling economic opportunities for individuals and businesses requires approaches that are both innovative and flexible.** First,

² <https://www.nadra.gov.pk/>

lack of reliable identity documents and identity verification mechanisms, compounded by a lack of connectivity are important barriers to the efficient delivery of basic services by government and private sector service providers. The design and implementation strategy of the ID system will draw on, and adapt to the Somali context as needed, the latest international good practices and lessons learnt from digital ID systems all around the globe. For example, to enable rapid take-up of the ID credentials and to make registration accessible for members of vulnerable populations, the project proposes to follow an ‘ecosystem’ approach for enrollment, leveraging private sector entities and local non-governmental organizations as enrollment agents. Second, there are spatial and gender disparities in access to basic financial and government services making credible demand assessments from final beneficiaries essential to ensure appropriateness of products or services and sustainability of investments. Addressing these specificities, as well as the challenges posed by the operating environment and all-round capacity weaknesses, the project proposes to set up a dedicated entity to operate a sustainable MSME Financing Facility. This entity – based on the government’s policy commitments – will be highly agile and use private sector governance principles in constructing efficient and effective service delivery mechanisms supported by appropriate governance and reporting tools.

18. Digital technologies will remain critical in Somalia for the foreseeable future to help curb economic isolation and rapidly transform the way people, businesses, and the FGS communicates, transacts, and accesses information and services. The World Bank, in partnership with public and private digital stakeholders, launched the Digital Economy for Africa (DE4A) Initiative in April 2018³. DE4A recognizes that traditional economic sectors of Africa are paving the way to new growth models with rising mobile phone penetration, improving broadband Internet, and growing use of mobile money—unleashing new opportunities for people, businesses, and governments. As such, the proposed project aims to build on the DE4A codified pillars for the development of an inclusive digital economy in Africa⁴ by making steady and incremental improvements on accomplishments delivered under the SCORE (P152241) and ICT Sector Support in Somalia (P152358) programs. The project achieves this by enhancing the linkage and synergy between digital developments and digitization of finance to support entrepreneurship and livelihoods. The project leverages technology as an enabler and anchor to build and strengthen key institutions, financial market infrastructure and support efficient financial intermediation. The preceding programs set up the foundational infrastructure and platforms to kick start the process of enabling economic opportunities and expanding access to basic financial and government services to support entrepreneurship and sustainable jobs.

19. To respond to the development challenges, effective coordination mechanisms among institutions are needed to improve performance and delivery of the most crucial services to overcome economic isolation and expand economic opportunities for individual and businesses. Several institutions and stakeholders are to be involved if a harmonized policy framework and agenda to offer economic opportunities and enhance access to basic financial and government services is to be pursued. However, unclear mandates and structures, overlap of responsibilities, and lack of a shared strategy remain as key challenges, creating tensions and delaying the decision-making process. In this regard, the proposed project proposes to update and fill gaps in existing government policy frameworks and strategies pertaining to the financial and ICT sectors, particularly addressing gender gaps in sectoral strategies as well as those related to direct project interventions on digital ID enrollment,

³ <http://live.worldbank.org/digital-economy-africa>

⁴ The DE4A conceptual framework includes the basic elements of the digital economy as a whole (a) a highly efficient digital infrastructure, (b) public digital platforms, (c) digital finance services, (d) digital and innovative entrepreneurship, and (e) digital skills. Progress must be made in each of these elements to develop relevant digital services for the growth of various sectors of the economy.

access to financial services and operation of the MSME Financing Facility. This will include development of eligibility criteria for bank participation in the MSME Financing Facility involving holistic assessments of participating banks and non-bank financial institutions to credibly serve underfunded and underserved market segments and sectors including women and female owned MSMEs. This may also include specific targeting of women by banks accessing the MSME Financing Facility, dedicated strategies to improve enrollment of women in the digital ID system, and a special focus on improving the capacity of core government institutions and financial institutions to enable improved female access to basic financial and government services.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective (PDO) is to support progress toward increased access to basic digital financial and government services targeting entrepreneurship and employment, particularly for women.

Key Results

Achievement of PDOs will be measured by the following indicators:

- Number of people who have received their unique ID number or ID card, of which (%) are female
- Number of people accessing financial services using their digital ID, of which (%) are female
- Number of firms that benefit from reformed business registration requirements, of which (%) are female owned
- Value of MSME loans from the MSME Financing Facility (USD), of which (%) are female owned⁵
- Jobs created by firms that access the MSME Financing Facility, of which (%) are for females, and of which (%) sustainable jobs⁶

⁵ The MSME Financing Facility refers to the Financing Facility set up under the project and used by qualified financial institutions as a line of credit to rapidly scale-up MSME lending to underfunded sectors and segments of the population.

⁶ Sustainable jobs are referred to as paid direct full-time equivalent (FTE) lasting a minimum of six months created by SMEs who have accessed the credit line (microloans are assumed to support livelihoods of final beneficiaries and not generate new jobs). Jobs lasting less than one month (or less than 20 days excluding weekends) are not counted in order to emphasize those jobs that provide more stability through length. Jobs should be converted to full-time equivalents (FTE). One FTE equals 260 days (excluding weekends) or 12 months. Thus, a job that lasts 4 months should be counted as 1/3 FTE and a job that lasts for 130 days (excluding weekends) should be counted as 1/2 FTE. Number of hours worked per day or per week is not restricted as work hours may vary greatly. Furthermore, Jobs must be formalized with a written employment contract. Lastly, relevance is not placed on remuneration scale for jobs created as there is no regulated minimum wage in Somalia. (For the definition of sustainable jobs, SCALED-UP has chosen to employ a tested model utilized by USAID for its ongoing GEEL project in Somalia).

D. Project Description

The project has three components, which are summarized in this section.

Component 1: Strengthening Institutions (US\$7 million equivalent)

This component is focused on stabilizing core government functions enabling access to services for individuals and businesses. This is a reform area requiring progress across multiple ministries, departments and agencies (MDAs) in several areas. This is intended to strengthen governance and institutional effectiveness thereby contributing to building state legitimacy and improving citizens' trust in institutions. The key areas covered by this component are as follows: (a) support to the CBS on improving financial institutions regulations and supervision, promoting efficient financial intermediation and strengthening policies and strategies for digital financial services and expanding financial access; (b) support the FRC on enhancing its understanding of Somalia's AML/CFT risks, analyzing financial intelligence, and disseminating reports to LEAs as appropriate; (c) support to the Ministry of Posts, Telecommunications and Technology (MPTT)/NCA, including mobile network operator licensing by the NCA; and (d) support for the legislative and institutional enabling environment for the digital ID system, including the set-up and operationalization of the new ID authority.

Activities to be financed will include provision of goods, consultancy services, capacity building, training, and workshops for carrying out implementation activities supporting policy makers, regulators, and supervisors, and other beneficiaries and stakeholders to (a) develop and implement effective sector policies and strategies and legal and regulatory frameworks; (b) strengthen regulatory reporting, compliance, and transaction monitoring; (c) implement shared IT systems and related utility services for identification verification as well as fraud detection and control; and (d) improve business processes and streamline workflows.

Component 2: Enabling Financial and Digital Services (US\$20 million equivalent)

This component focuses on increasing individuals' and businesses' access to services that expand economic opportunities and help restore resilience in a gender-sensitive manner. Under this component, the project will support sustainable mechanisms for service delivery. The project will encourage a gender-sensitive approach to the delivery of targeted services and promote the development of gender-sensitive sector policies and strategies to help address the gender gaps identified. Areas covered by the component are as follows: (a) setting up a dedicated entity to manage and operate a financial intermediary MSME Financing Facility; (b) digital ID enrollment for at least the first 1 million registrants; (c) Government digital payments and construction of interoperable retail payments services, and; (d) e-business registration services for SMEs through operationalization of one-stop-shop (OSS) Activities to be financed will include provision of goods, capacity building, training, workshops, and consultancy services to support stocktaking exercises, implementation of interoperability measures including data exchange protocols, scheme regulations and rules; procedural reforms, process reengineering, simplified forms and documentation, digital ID enrollment services; and citizen engagement, consultation, and communication campaigns on delivery of robust and sustainable financial and digital services.

Component 3: Project Management and Coordination (US\$4 million equivalent)



20. **The component will fund project management and coordination activities.** The project will be implemented by FGS using a single Project Implementation Unit (PIU) anchored in the Ministry of Finance in Mogadishu, with a multilayer implementation structure. The PIU will be responsible for day-to-day project management and will coordinate closely with MDAs covering the project target areas. The PIU will also coordinate activities across FGS including Federal Member States (FMS). Project focal persons will be appointed and embedded within MDAs covering project target areas (Ministry of Finance; Ministry of Commerce and Industry; Ministry of Posts, Telecommunications and Technology; Ministry of Interior; Central Bank of Somalia, Financial Reporting Center; and National Communications Authority). The project will set up a single Project Steering Committee (PSC) comprising the key MDAs to coordinate and oversee the implementation of activities, with attention to sequencing and timing issues, as well as ensuring effective stakeholder consultations and engagements. The project will also fund an independent monitoring agent (MA) to provide an added layer of physically monitoring the flow and use of project funds, including the MSME Financing Facility. In addition, funding will be allocated to establish a project-level grievance redress mechanism (GRM). Activities to be financed by this component will include provision of goods, consulting services, training, and operating costs of the PIU to support project coordination, implementation, monitoring and evaluation (M&E), and management.

E. Implementation

Institutional and Implementation Arrangements

21. **The project will adopt a layered and inclusive project oversight structure to ensure coordination among different participating government stakeholders.** The MoF will be the executing agency of the proposed project. The project will set up a single Project Steering Committee (PSC). The PSC, headed by the Minister of Finance with representatives from the MoCI, MPTT, MoIFAR, CBS, FRC, and NCA, will provide policy guidance and monitor the progress through the Secretariat, represented by the Director General in the MoF. The FGS can make changes in the membership composition of the PSC or its terms of reference in consultation with IDA. Furthermore, MoF will appoint an independent board of directors in accordance with the charter of the MSME Financing Facility. In turn, the board of directors will appoint a competent management and investment committee selected through a clearly defined TORs and criterion which are set out on the Project Implementation Manual (PIM). FGS will submit to IDA for review and clearance the proposed charter of the MSME Financing Facility, ToRs for the board of directors and management, and directors/staff proposed to be recruited.

22. **The existing SCORE (P152241) PIU in the MoF, created in 2016, will implement the project.** An effective management structure is in place, and the PIU had demonstrated its capacity to deliver results efficiently. It has established a strong track record of performance, has familiarity with the World Bank's fiduciary guidelines, as well as functional Management Information Systems (MIS) and M&E systems. Lessons learned from the implementation arrangements for the predecessor SCORE and ICT Sector Support programs have been considered when designing implementation arrangements for this project.

23. **The PIU will coordinate activities across the FGS where necessary at the FMS level, making it unnecessary to establish subsidiary implementation arrangements with the FMS.** The PIU will include focal persons from MDAs to coordinate and oversee the implementation of activities at sponsoring MDAs, with attention to sequencing and timing issues, as well as ensuring effective stakeholder consultations and

engagements. As such, the project would enable delivery of support across the FMS depending on the readiness of the states.

The duties and functions of the PIU will include (a) providing assistance to MDAs (including the FMS depending on the readiness of the states) and initial support to the MSME Financing Facility in preparing priority investment programs; (b) appointing consultants and stakeholders for specific assignments, including participation in the supervision of technical solutions requiring stakeholder participation; (c) monitoring quality and costs of executed assignments; (d) validating results on the ground through stakeholders and third parties, as needed; (e) establishing proactive communications and consultations with project stakeholders; (f) coordination with MDAs, the MSME Financing Facility and the private sector; and (g) revising and updating documents governing PIU staffing hiring. To facilitate early project readiness, the PIU will support the MSME Financing Facility in the initial setting-up period. As a condition of project effectiveness, the PIU will submit to IDA a satisfactory Project Implementation Manual (PIM) that the PIU would follow in helping MDAs and others to prepare and implement project activities. The PIM would specify the managerial, financial, administrative, procurement, environmental, and social safeguard policies and procedures for the execution of the project and the eligibility criteria for the selection of participating banks and final beneficiaries of IDA. Similarly, as a condition of project effectiveness the PIU will submit to IDA a satisfactory charter of the MSME Financing Facility including the operational manual.

24. **The FGS will establish the MSME Financing Facility and provide funding and capacity support to the PFIs.** For the dedicated entity to have credibility in the market, the newly established institution must quickly demonstrate that it has the capacity to appraise projects on technical and financial merits, and that it will be allowed to operate as an independent institution with the mandate for appraisal of all participating financial institutions (PFIs) requiring access to the MSME Financing Facility. It will take some time for the entity to develop full in-house capacity to appraise projects. In addition, there is a need for the entity to demonstrate that its appraisal standards are not only sound, but that they will also stand the test of time and occasional pressure when the institution is forced to reject popular projects which are not financially or technically viable. Supported activities would cover areas such as decision making on all aspects related to business development/transaction origination including negotiating lending terms and conditions; undertaking due-diligence including environmental and social safeguards assessments, corporate governance, integrity due-diligence, as well as credit appraisals. Other responsibilities might include mandate to legally close transactions; perform portfolio management of all credits, and; provide advisory services to individual PFIs and final beneficiaries. Further, the project will support efforts to build a local staff team that can implement part of the lending initially and all the lending once internal capability of the MSME Financing Facility has been built out.

25. **The MSME Financing Facility will be managed by a board of directors and a competent management team.** That will involve (a) setting up of an independent board of directors (majority private sector) and assigned oversight responsibility for the MSME Financing Facility, (b) hiring of a professional management team which will include competency in environment and social safeguards assessment and other technical areas to support effective management of the MSME Financing Facility, and (c) setting up of an external advisory board to provide specialists' advice on specific topics to the board of directors and management.

26. **Under the project, the identification of the PFIs will be done by the MSME Financing Facility without undue outside interference.** The environmental and social management consultant will be involved in the identification exercises undertaken by this entity. The participation of banks or non-bank financial institutions in the MSME Financing Facility will be based on criteria (that will require the bank to demonstrate E&S capacity)

to ensure their capacity to implement as well as comply with the World Bank Directive on Investment Policy Financing. The criteria related to the World Bank Directive focuses on adherence to prudential regulatory ratios, minimum capital and operational standards, appropriate governance, policies, and risk management functions. PFIs will be subjected to fit and proper tests, AML/CFT controls and reporting obligations to the FRC, and will fall under the supervision of the CBS, as per FATF standards and the Somali AML/CFT legal framework, according to their risk. Additional requirements may be set out in the Operations Manual (OM). Segregation of duties and responsibilities will ensure that all MSME funding requests are assessed by the PFIs and not the MSME Financing Facility. The MSME Financing Facility will assess PFIs eligibility to participate against well-established selection criteria set out in the OM to avoid possible undue political interference. The MSME Financing Facility will submit once each quarter ‘MSME Financing Facility Quarterly Progress Reports (QPRs)’, no later than one month after the end of that quarter, to its board of directors and IDA for review and clearance.

27. **The QPRs are to be provided to the board of directors, World Bank, and other stakeholders.** These reports will be reviewed by World Bank and commented upon, as necessary. Biannual reviews based on quarterly reports prepared by the MSME Financing Facility will form the basis of at least two implementation support reviews per year. An independent monitoring agent (MA) hired under the project will provide an added layer of physically monitoring the flow and use of MSME Financing Facility by PFIs and final beneficiaries and submit periodic inspection reports covering standard audits of PFIs and sample checks of the MSME facility’s compliance in line with the OM. This could be submitted to the board of directors, MoF and other participating investors as well as IDA for review and clearance. The MA will complement the safeguards responsibility of the MSME Financing Facility and will also act as an ‘early warning’ whistleblower in case governance issues are detected. The QPRs and MA periodic inspection reports will inform, among other issues, on (a) performance indicators, (b) compliance with remedial actions to be taken for environmental and social safeguards, (c) implementation progress of activities, and (d) status of funds. At the end of the second year, the FGS and World Bank will carry out a joint midterm review of progress made in carrying out the project.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The specific locations of all SCALE-UP related activities are not known at this time. However, it is expected that the projects related activities will be implemented in urban, peri-urban and rural areas of Somalia.

G. Environmental and Social Safeguards Specialists on the Team

Tracy Hart, Environmental Specialist
Haroub Ahmed Haroub, Social Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

| Safeguard Policies | Triggered? | Explanation (Optional) |
|--|------------|---|
| Environmental Assessment OP/BP 4.01 | Yes | The World Bank Group has screened the proposed project components and has determined that this project is categorized as a B according to OP4.01. Each Potential financial intermediary will be required to undertake an Environmental and Social Screening process which allows SCALED-UP activities to be classified according to their potential impacts and appropriate mitigation/rehabilitation measures required, according to the Somalia Environmental Law and the World Bank's Operational Policy 4.01 on Environmental Assessment. As the sub-projects are expected to be in the livestock and off-grid renewable energy sub-sectors, environmental impacts will be limited to those which are relevant to those sub-sectors. These potential adverse impacts are detailed in Question 1 of the Key Safeguard Policy Issues and Their Management Section of this PID-ISDS. |
| Performance Standards for Private Sector Activities OP/BP 4.03 | No | This policy is not applicable, as the Ministry of Finance as well as the Central Bank of Somalia, are responsible for screening, monitoring, and reporting on safeguards compliance of individual sub-projects. However, the ESMF does include provisions to build capacity of Financial Intermediaries (FIs) to initiate the process of developing their own ESMS to assist in managing environmental and social risks of FI operations.. |
| Natural Habitats OP/BP 4.04 | No | Sub-project screening will identify and exclude any transactions which merit the application of this policy. |
| Forests OP/BP 4.36 | No | Sub-project screening will identify and exclude any transactions which merit the application of this policy. |
| Pest Management OP 4.09 | No | Sub-project screening will identify and exclude any transactions which merit the application of this policy. |
| Physical Cultural Resources OP/BP 4.11 | No | Sub-project screening will identify and exclude any transactions which merit the application of this policy. |
| Indigenous Peoples OP/BP 4.10 | No | This policy is not applicable. |

| | | |
|--|----|---|
| Involuntary Resettlement OP/BP 4.12 | No | The subproject involving physical relocation of households or land acquisition is not eligible. Financial institutions (FIs) will verify that the transactions proposed for financing will be carried out within the land to which applicants have legal tiles and no competing claims or legacy exists. These FIs will file the result of verification for record and review by the World Bank before sub-project loan approval. |
| Safety of Dams OP/BP 4.37 | No | This policy is not applicable due to the nature of the sub-projects. |
| Projects on International Waterways OP/BP 7.50 | No | This policy is not applicable due to the nature of the sub-projects. |
| Projects in Disputed Areas OP/BP 7.60 | No | This policy is not applicable |

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

It is anticipated that the majority of sub-project investments supported in this Project will be in the livestock and off-grid renewable energy sub-sectors of the agriculture and energy sectors. Applicants must be engaged in business activities in key sectors of the economy (e.g. activities that strengthen value chains, such as energy, livestock, dairy including processing and distribution activities based on these value chains as well as manufacturing, technical and business services.)

Environmental and social risks may be identified in some of this activities, as follows:

With regards to the livestock sub-sector: (1) direct discharge or run-off of inadequately treated wastewater may cause contamination and eutrophication decline of aquatic resources; (2) proper siting of animal sheds/pens regarding drinking water supply, homestead health issues related to animals; (3) carrying capacity; (4) resilience of the area; (5) risk of livestock falling in a dug soil and water conservation structure; (6) inequality issues on resource accessibility and use; (7) potential health issues associated with common animal diseases like foot and mouth etc.; (8) proper siting of animal sheds/pens regarding drinking water supply, homestead health issues related to animal; and (9) general good housekeeping standards and EMS program, product contamination, worker safety, proper emissions and discharge control, potential air, surface and groundwater contamination, processing and solid waste disposal, odours, etc.

With regards to the off-grid renewable energy sub-sector: battery life-cycle, specifically disposal or recycling.

Additional risks would include weak labor practices among the potential MSMEs, such as possible use of child or forced labor, or inadequate occupational health and safety (OHS) practices.



2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

The core issue in regard to increasing the uptake of solar home systems (SHS) is the long-term implication of the increased number of battery energy storage systems (BESS). This impact requires a strategic solution through a program for battery disposal/recycling, in which SHS distributors play a role. The entire management process including manufacturing, collection, storage, recycling, transport and disposal may present a challenge

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Some transactions will not be eligible under SCALED-UP for financing because of higher costs and time associated with preparation of impact assessment and development of mitigation measures and given the limited capacity of financial intermediaries in managing such impacts in line and World Bank safeguard policies. The list of these transactions include those transactions typically prohibited by international environmental agreements or where the World Bank Group considers direct financing inappropriate because of the significance of associated environmental and social risks. It also includes:

- Transactions that fit the classification of category A;
- Transactions that will require the acquisition of private land or physical relocation of households;
- Activities based on or directly linked to land/ natural resource-based productions such as food productions and processing, and other transactions of which the scale of impact exceeds the cost and time to address them given the scale of project benefits and the capacity of project stakeholders;
- Activities involving child labor and activities involving forced labor;
- Industrial-scale activities involving significant conversion or degradation of natural and/or critical habitats and/ or any activities in legally protected or internationally recognized areas;
- Industrial-scale activities involving production, harvesting, or trade in wood or other forestry products from plantation and natural forests other than from legal and sustainable origin;
- Industrial-scale activities involving harvesting of wild fish populations or other aquatic species other than from legal and sustainable origin;
- Activities, including relocation, that have adverse impacts on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by Indigenous Peoples; and
- Activities involving significant alteration, damage, or removal of any critical cultural heritage.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

It is expected that most of the beneficiary micro, small, and medium scale enterprises (MSMEs) will not have adequate capacity in managing even minor environmental or social impacts. This ESMF is therefore developed to ensure that such impacts are identified, avoided, minimized and adequately mitigated. ESMF also includes the list of those transactions that are not eligible for project support. Participating Financial Intermediaries (PFIs) will be required to screen transactions with MSMEs for environment and social impacts and integrate into their lending program the requirements of environmentally and socially sound and sustainable development in line with this ESMF.

More specifically, in order to address the aforementioned potential adverse impacts, an environmental and social screening process has been proposed under this ESMF and will be applied in such a way as to ensure that potential negative impacts of the project are prevented and/or mitigated appropriately, and positive impacts are enhanced.

SCALED-UP Project Implementation Unit (PIU) will make sure that implementation of this ESMF becomes a standard



investment review procedure within potential financial intermediary. It should form part of the Participation Agreement signed between the SCALED-UP and each potential financial intermediary.

For the activities under energy sector, all products to be procured by the SMEs under the line of credit must adhere to the quality standards and testing methods developed by Lighting Africa/Global . The criteria and compliance to Lighting Africa/Global quality assurance frameworks will form the Environmental and Social requirements to be established by the Environmental and social Management consultant who will be recruited under the project.

The Environmental and Social Management Consultant will ensure beneficiary SMEs companies sell and/or install SHS as per the credit agreement and will be required to have an ESMS that will focus on key risks (labor issues, battery/waste management, and OHS issues).

The project will also be monitored to ensure that it puts adequate safeguards in place to address governance issues. The project's Task Teams will be required to consider as best practice, putting in place transparent and accessible selection criteria that will ensure that companies owned by women, youth and people with disabilities, have equal chance for consideration for accessing credit under the project.

The ESMF incorporates aspects related to solid waste from solar PV systems and a project-specific environmental code of practice (ECoP) has been developed as a guidance on approach for the collection, transport, storage and disposal of spent batteries, with the aim of ensuring that risks to the environment and human health are prevented or mitigated. Apart from providing approaches to the management of spent PV batteries, the ECOP also seeks to inform discussion and build awareness of all stakeholders, including rural community members, vendors/suppliers of products and service providers, around safe management of used batteries.

The ESMF has been prepared in compliance with OP 4.01 (Environmental Assessment) and includes relevant stakeholder consultations. The ESMF has been disclosed on the World Bank external web site on January 24, 2019, and in-country on January 25, 2019.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Direct beneficiaries of the Project will be the residents as well as owners of micro, small, and medium scale enterprises (MSMEs) that will benefit from improved access to basic financial and digital services. Female and female owned MSMEs will derive direct benefit from improved access to finance through transaction accounts linked to the digital identification (ID) system and the MSME financing facility. Other beneficiaries of this project will be the key institutions responsible for delivery of services. These include the Central Bank of Somalia (CBS), the Financial Reporting Center (FRC), Ministry of Commerce and Industry (MoCI), Ministry of Post, Telecom, and Technology (MPTT), National Communications Authority (NCA), Ministry of Interior, Federal Affairs and Reconciliation (MoIFAR) and the new ID Authority.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

| | | |
|-----------------------------|-----------------------------------|--|
| Date of receipt by the Bank | Date of submission for disclosure | For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors |
| 01-Nov-2018 | 24-Jan-2019 | |

"In country" Disclosure

Somalia
 25-Jan-2019
 Comments

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
 Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
 Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
 Yes

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
 Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
 Yes



All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

CONTACT POINT

World Bank

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Young Professional

Borrower/Client/Recipient

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The World Bank

Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Program (SCALED-UP)
(P168115)

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APPROVAL

| | |
|----------------------|---|
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|----------------------|---|

Approved By

| | | |
|---------------------------|----------------------|-------------|
| Safeguards Advisor: | Nathalie S. Munzberg | 26-Jan-2019 |
| Practice Manager/Manager: | Steven R. Dimitriyev | 26-Jan-2019 |
| Country Director: | Hugh Riddell | 27-Jan-2019 |