

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC46303

<b>Project Name</b>	Supporting remittance flows to Somalia
<b>Region</b>	AFRICA
<b>Country</b>	Somalia
<b>Sector(s)</b>	Payments, settlements, and remittance systems (100%)
<b>Theme(s)</b>	Anti-Money Laundering and Combating the Financing of Terrorism (100%)
<b>Lending Instrument</b>	Lending Instrument
<b>Project ID</b>	P158235
<b>Borrower Name</b>	Central Bank of Somalia
<b>Implementing Agency</b>	Federal Ministry of Finance
<b>Environment Category</b>	C - Not Required
<b>Date PID Prepared</b>	16-Nov-2015
<b>Estimated Date of Approval</b>	29-Jan-2016
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

**I. Introduction and Context**

**Country Context**

The regulated financial sector of Somalia is limited in size, simple in structure, and is extremely isolated from the global financial infrastructure. Between 1991 and 2009, Somalia had no central monetary authority and hence no regulated financial sector. In 2011 the government passed the Central Bank of Somalia Act, which re-instated the Central Bank of Somalia (CBS). In 2012 the government passed a Financial Institutions Act (FIA 2012) which created a national framework for financial institutions to operate in Somalia, supervised by the CBS. The Somali Parliament has not yet passed a draft AML/CFT law, though Somalia's Council of Ministers has approved it. During the period prior to 2012 and in the absence of a domestic banking system linked to the global financial infrastructure, an extensive network of money transfer operators (MTOs) developed in order to facilitate international remittance flows, domestic financial transactions, and trade with Somalia. That network of MTOs still exists, and is in the process of becoming regulated and supervised under the FIA 2012. Registration regulations and licensing regulations for MTOs were also issued by the CBS in 2015.

A unique characteristic of the Somali economy is its isolation from the global financial infrastructure. While the CBS maintained a number of correspondent accounts in the past, those accounts are no longer active. The CBS currently maintains an active client account with a Turkish state-owned bank (Ziraat Bankasi). The CBS has provisionally licensed 6 domestic banks to operate in Somalia as at March 2015, but it is unclear if these banks have so far been able to establish cross border correspondent accounts. MTOs are the primary financial institutions

operating in Somalia. MTOs do not maintain correspondent banking relationships – they operate via recirculation of cash in the Somali economy, settled with trade transaction clearing and settling with their corresponding MTOs operating in a third country, primarily the UAE

### **Sectoral and Institutional Context**

The World Bank is working alongside the Central Bank of Somalia (CBS) to implement a number of activities aimed at tackling key deficiencies affecting remittance flows to Somalia, until a sounder financial system is in place in Somalia, and to accelerate and support the development of that financial system. The Federal Government of Somalia (FGS) has taken the lead in establishing a plan to support the flow of remittances to Somalia. The current World Bank activities, backed by funding from the United Kingdom, will support the FGS plan and complement the World Bank's longer-term financial sector development work in Somalia. These activities are also complementary to the actions being undertaken by the UK authorities, focusing more specifically on the UK-Somalia remittance corridor. At the request of the UK authorities in early 2014, the World Bank started developing proposals, previously referenced as the "Safer Corridor Initiative" (focusing on the UK-Somalia remittance corridor). While these proposals were initially geared towards developing contingency mechanisms in case of severe disruption of remittance flows between the UK and Somalia, they have evolved towards tackling the more structural issues impacting remittance flows to Somalia in general. The current activities include measures to improve the formalization, transparency and compliance of the remittance providers in Somalia. The World Bank activities will contribute to developing the regulatory framework and building supervisory capacity in Somalia, pertaining to the money transfer business (MTBs) sector in Somalia, through the following activities:

- **Drafting of MTB Sectoral Regulations:** In order to facilitate the immediate strengthening of the regulatory framework for the MTB sector, the World Bank is working with the CBS to draft MTB Regulations. The regulations will focus on two key areas: (i) Regulations for operational purposes, including provisions for, among others, customer due diligence, recordkeeping, ongoing monitoring, reporting, internal controls, consumer protection and risk management, which would apply to all registered and licensed MTBs operating in Somalia. (ii) Regulations for customer registration, which would apply to customers (individuals and businesses) of all MTBs to ensure a level playing field.
- **Placement of a Trusted Agent (TA) within the CBS:** While the CBS already has a supervision department, this activity would focus on bolstering capacity of that department to conduct on-site and off-site supervision of MTBs. The World Bank has agreed to procure an external firm, to work alongside the Central Bank to establish on-site and off-site supervision of MTBs, as well as to build capacity of the supervisors at the CBS. The TA would administer on behalf of and in coordination with the CBS supervisory activities to ensure that the MTBs and their agents comply with the regulations mentioned above and meet the requirements on an on-going basis.

### **Relationship to CAS/CPS/CPF**

This project is being developed in close coordination and as a complement to the longer-term World Bank FMGP/TCGP project with Somalia, Somali Core Economic Institutions and Opportunities Program (SCORE) being led by co-TTLs Ben Musuku (Senior Financial Sector Specialist, GFMDR) and Suhail Kassim (Senior Private Sector Development Specialist, GTCDR).

This project was initiated as a technical assistance project - P156469. A concept review was completed for P156469. As a result of that review it was suggested that a memo to RVP be submitted for a waiver to OP14.40 footnote 7 (Bank-Execution on Behalf of the Recipient). As a

result of that memo, the Africa Front Office requested that a RE code be created for this project. The Africa Front Office agreed that the concept review process that was conducted for P156469 would not need to be repeated for the creation of the RE code, now P158235.

## II. Project Development Objective(s)

### Proposed Development Objective(s)

The project aims to tackle key challenges with the UK-Somalia remittance corridor until a sounder financial system is in place in Somalia, and to accelerate and support the development of that financial system. More specifically, this project is intended as an interim set of activities to support the supervisory role of the Central Bank of Somalia. The activities will also support the Somali Government's plan on the formalization of the Somali financial sector. Over time, the project has evolved to include both shorter-term and longer-term elements to strengthen the systems supporting the flow of remittances to Somalia.

### Key Results

1. Drafting and enactment of regulations and guidelines - MTO Customer Registration Regulations, and Guidelines on AML/CFT and Operational Issues.
2. Procurement of a "Trusted Agent" to work with the Central Bank of Somalia
3. Commencement of on-site and off-site supervision of MTOs by the "Trusted Agent"
4. Transfer of expertise from the "Trusted Agent" to the staff of the CBS

## III. Preliminary Description

### Concept Description

The project aims to tackle key challenges with the UK-Somalia remittance corridor until a sounder financial system is in place in Somalia, and to accelerate and support the development of that financial system. More specifically, this project is intended as an interim set of activities to support the supervisory role of the Central Bank of Somalia. The activities will also support the Somali Government's plan on the formalization of the Somali financial sector. Over time, the project has evolved to include both shorter-term and longer-term elements to strengthen the systems supporting the flow of remittances to Somalia. The proposed solution is to be dealt with in two phases:

1. Drafting and procurement phase: This phase will first involve technical assistance to the Somali government for the drafting of regulations for the MTO sector and the procurement of the Trusted Agent. As mentioned above, the World Bank will undertake the procurement of the TA (Bank Execution on behalf of the Recipient) as opposed to a Trusted Agent hired by the FGS (Recipient Executed procurement).
2. Implementation phase: The implementation phase can only be achieved once the drafting and procurement phases have been completed. The key component in the implementation phase is the work conducted by the Trusted Agent. In Somalia, this phase would focus on the MTOs that are currently registered and/or licensed by the CBS.

## IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	

Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

## V. Financing (in USD Million)

Total Project Cost:	3.134	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
Somalia Multi-Partner Fund			3.134

## VI. Contact point

### World Bank

Contact: Marco Nicoli  
 Title: Financial Sector Specialist  
 Tel: 473-4453  
 Email: mnicoli1@worldbank.org

Contact: Emily Rose Adeleke  
 Title: Financial Sector Specialist  
 Tel: 473-6902  
 Email: eadeleke@worldbank.org

### Borrower/Client/Recipient

Name: Central Bank of Somalia  
 Contact: Bashir Issa  
 Title: Govenor  
 Tel:  
 Email: governor@centralbank.gov.so

### Implementing Agencies

Name: Federal Ministry of Finance  
 Contact:  
 Title:  
 Tel:  
 Email:

**VII. For more information contact:**

The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Web: <http://www.worldbank.org/infoshop>