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Report No: PP1323

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

FROM THE MULTI-PARTNER FUND

IN THE AMOUNT OF US\$28.5 MILLION

TO THE

FEDERAL REPUBLIC OF SOMALIA

FOR

THE SOMALI CORE ECONOMIC INSTITUTIONS AND OPPORTUNITIES PROGRAM

SERIES OF PROJECTS - 1

January 20, 2016

Trade and Competitiveness Global Practice, Finance and Markets Global Practice  
Somalia Country Department AFCE1,  
Africa Region

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FISCAL YEAR  
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFS	Annual Financial Statements
AGE	Anti-government Elements
AML/CFT	Anti-Money Laundering/Combatting the Financing of Terrorism
BCFI	Banking, Credit and Financial Institutions Bill
BDS	Business Development Service
BE	Bank-executed
BPA	Berbera Port Authority
CBS	Central Bank of Somalia
CBSL	Central Bank of Somaliland
CMU	Country Management Unit
CQS	Selection based on Consultant's qualifications
DA	Designated Account
E&S	Environmental and Social
EAFS	External Assistance Fiduciary System
EPAG	Empowerment of Adolescent Girls Project
ERP	Economic Recovery Plan, Federal Republic of Somalia
ERR	Economic Rate of Return
ESMF	Environmental and Social Management Framework
FAO	Food and Agriculture Organization of the United Nations
FBS	Fixed Budget Selection
FCA	Fragile and Conflict Affected
FGS	Federal Republic (Government) of Somalia
FM	Financial Management
FMIS	Financial Management Information System
FMU	Financial Management Unit
FY	Financial Year
GDP	Gross Domestic Product
GFMDR	Finance and Markets Global Practice, World Bank
GoPI	Government of Puntland
GoSI	Government of Somaliland
GRS	Grievance Redress Services
GSD	General Services Department, World Bank
GTCDR	Global Practice, Trade and Competitiveness
IC	Investment Climate
ICB	International Competitive Bidding
ICD	Inland Container Depot
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFR	Interim Financial Reports
IMF	International Monetary Fund

IPSAS	International Public Sector Accounting Standards
IRR	Internal Rate of Return
ISA	International Standards on Auditing
ISN	Interim Strategy Note, for Somalia
ISO	International Organization for Standardization
ISP	Implementation Support Plan
JNA	Joint Needs Assessment
KPI	Key Performance Indicators
LCS	Least Cost Selection
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments and Agencies
MFI	Micro-finance institutions
ML &TF	Money Laundering and Terrorist Financing
MoCI	Ministry of Commerce and Industry, Federal Republic of Somalia
MoF	Ministry of Finance
MPF	Multi-Partner Fund, for Somalia
MSME	Micro, Small and Medium-Sized Enterprises
MTB	Money Transfer Business
MTO	Money Transfer Operator(s)
MTR	Mid-term Review
NCB	National Competitive Bidding
NPV	Net Present Value
ODA	Overseas Development Assistance
OP	Operational Policy
OSBC	One Stop Business Facilitation Center
PAD	Project Appraisal Document
PDO	Program Development Objective
PFM	Public Financial Management
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PL-FMIS	Puntland Financial Management Information System
PPD	Public Private Dialogue
PPP	Public Private Partnership
PSC	Project Steering Committee
PSD	Private Sector Development
PSG	Peace and State-building Goal, Somalia Compact
QBS	Quality-Based Selection
QCBS	Quality and Cost Based Selection
RE	Recipient-Executed
RETF	Recipient-Executed Trust Fund
SAI	Supreme Audit Institution
SAP	SME Advisory Panel
SBCF	Somali Business Catalytic Fund
SBF/2	Somaliland Business Fund/ Somali Business Fund 2
SCI/P	Safer Corridor Initiative/Pilot

SCoA	Standard Chart of Accounts
SCORE	Somali Core Economic Institutions and Opportunities
SDRF	Somalia Development and Reconstruction Facility
SL/SFMIS	Somaliland/Somalia Financial Management Information System
SME	Small and Medium Sized Enterprises
SMEF	Small and Medium-Sized Enterprises Service Facility
SOE	Statement of Expenditures
SOMPREP2	Somalia Private Sector Development Re-engagement Phase II Project
SOP	Series of Projects
SORT	Systematic Operations Risk-Rating Tool
SPF	State and Peace-building Fund
SSS	Single Source Selection
STEP	Skills Training and Entrepreneurship Program
TA	Technical Assistance
TAP	Transparency, accountability and participation
TOR	Terms of Reference
TSA	Treasury Single Account
TTL	Task Team Leader
TTP	Trusted Third Party
TVET	Technical Vocational Education and Training
UAE	United Arab Emirates
UCS	Use of Country Systems
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
UNDSS	UN Department of Safety and Security
VC	Venture Capital
WB/WBG	World Bank/Group
WDR	World Development Report

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## SOMALIA

# Somali Core Economic Institutions and Opportunities Program

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## PAD DATA SHEET

*Somalia*

*Somali Core Economic Institutions and Opportunities Program (SCORE) (P152241)*

### PROJECT APPRAISAL DOCUMENT

*AFRICA*

*GTCDR*

Report No.: PP1323

Basic Information			
Project ID P152241	EA Category B - Partial Assessment	Team Leader(s) Suhail Kassim, Thilasoni Benjamin Musuku	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [X ]		
	Financial Intermediaries [ ]		
	Series of Projects [X ]		
Project Implementation Start Date 20-Jan-2016	Project Implementation End Date 31-Dec-2018		
Expected Effectiveness Date 15-Apr-2016	Expected Closing Date 30-Apr-2019		
Joint IFC No			
Practice Manager/Manager Catherine Masinde	Senior Global Practice Director Anabel Gonzalez	Country Director Bella Bird	Regional Vice President Makhtar Diop
Approval Authority			
Approval Authority RVP Decision			
Borrower: Ministry of Finance			
Responsible Agency: Somaliland Ministry of Planning and Development			
Contact: Telephone No.: 252634425833	Ali Hussein Ismail	Title: Email:	Minister of Planning and Development alijirdeh@gmail.com

Responsible Agency: Federal Republic of Somalia Ministry of Finance					
Contact:	Ahmed Dayib Nor		Title:	SCORE Project Focal Point	
Telephone No.:	25261277738		Email:	dayibpmo@gmail.com	
<b>Project Financing Data(in US\$, millions)</b>					
<input type="checkbox"/>	Loan	<input type="checkbox"/>	IDA Grant	<input type="checkbox"/>	Guarantee
<input type="checkbox"/>	Credit	<input checked="" type="checkbox"/>	Grant	<input type="checkbox"/>	Other
Total Project Cost:	28.50		Total Bank Financing:	0.00	
Financing Gap:	0.00				
<b>Financing Source</b>			<b>Amount</b>		
Borrower			0.00		
Somalia Multi-Partner Fund			28.50		
Total			28.50		
<b>Expected Disbursements (in US\$, millions)</b>					
Fiscal Year	2016	2017	2018	2019	
Annual	2.50	10.00	9.50	6.50	
Cumulative	2.50	12.50	22.00	28.50	
<b>Institutional Data</b>					
<b>Practice Area (Lead)</b>					
Trade & Competitiveness					
<b>Contributing Practice Areas</b>					
Finance & Markets					
<b>Cross Cutting Topics</b>					
<input type="checkbox"/>	Climate Change				
<input checked="" type="checkbox"/>	Fragile, Conflict & Violence				
<input checked="" type="checkbox"/>	Gender				
<input checked="" type="checkbox"/>	Jobs				
<input type="checkbox"/>	Public Private Partnership				
<b>Sectors / Climate Change</b>					
Sector (Maximum 5 and total % must equal 100)					
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %	
Industry and trade	General industry and trade sector	75			

Finance	General finance sector	25		
Total		100		
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
<b>Themes</b>				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Financial and private sector development	Other Private Sector Development	100		
Total		100		
<b>Proposed Development Objective(s)</b>				
The Project Development Objectives are to: (a) improve the enabling environment for private and financial sector development; and (b) catalyze private investment and job creation.				
<b>Components</b>				
<b>Component Name</b>		<b>Cost (US\$, millions)</b>		
Component 1: Strengthening Core Economic Institutions		8.00		
Component 2: Expanding Economic Opportunities		18.50		
Component 3: Program Management		2.00		
<b>Systematic Operations Risk- Rating Tool (SORT)</b>				
<b>Risk Category</b>		<b>Rating</b>		
1. Political and Governance		High		
2. Macroeconomic		High		
3. Sector Strategies and Policies		Moderate		
4. Technical Design of Project or Program		Substantial		
5. Institutional Capacity for Implementation and Sustainability		High		
6. Fiduciary		High		
7. Environment and Social		Moderate		
8. Stakeholders		Moderate		
9. Other		High		
<b>OVERALL</b>		High		
<b>Compliance</b>				
<b>Policy</b>				



Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]
Does the project require any waivers of Bank policies?	Yes [ X ]	No [ ]
Have these been approved by Bank management?	Yes [ X ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]
Explanation:		
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]
<b>Safeguard Policies Triggered by the Project</b>		
	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	<b>X</b>	
Natural Habitats OP/BP 4.04		<b>X</b>
Forests OP/BP 4.36		<b>X</b>
Pest Management OP 4.09		<b>X</b>
Physical Cultural Resources OP/BP 4.11		<b>X</b>
Indigenous Peoples OP/BP 4.10		<b>X</b>
Involuntary Resettlement OP/BP 4.12		<b>X</b>
Safety of Dams OP/BP 4.37		<b>X</b>
Projects on International Waterways OP/BP 7.50		<b>X</b>
Projects in Disputed Areas OP/BP 7.60		<b>X</b>
<b>Conditions</b>		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
SOMP	Federal Project Steering Committee established	Effectiveness
Evidence satisfactory to the World Bank has been furnished to the World Bank that the Recipient has established the Federal Project Steering Committee in accordance with the provisions of Section I.A of Schedule 2 of the Grant Agreement.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
SOMP	Federal Project Implementation Unit established	Effectiveness
Evidence satisfactory to the World Bank has been furnished to the World Bank that the Recipient has established the Federal Project Implementation Unit and has engaged the Project staff within the Federal Project Implementation Unit.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>

SOMP	Somaliland Project Steering Committee established	Effectiveness		
<b>Description of Condition</b>				
Evidence satisfactory to the World Bank has been furnished to the World Bank that the Recipient has established the Somaliland Project Steering Committee in accordance with the provisions of Section I.A of Schedule 2 of the Grant Agreement.				
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>		
SOMP	Somaliland Project Implementation Unit Established	Effectiveness		
Evidence satisfactory to the World Bank has been furnished to the World Bank that the Recipient has established the Somaliland Project Implementation Unit and has engaged the Project staff within the Federal Project Implementation Unit.				
<b>Team Composition</b>				
<b>Bank Staff</b>				
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
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Thilasoni Benjamin Musuku	Team Leader	Senior Financial Sector Specialist	Co-TTL	GFMDR
Michael Olavi Engman	Team Member	Senior Economist	Former TTL	GTCDR
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Adenike Sherifat Oyeyiola	Financial Management Specialist	Sr. Financial Management Specialist	Financial Management	GGODR
Christiaan Johannes Nieuwoudt	Finance Officer	Finance Officer	Loan Operations	WFALA
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Jade Elena Garza Ndiaye	Team Member	Operations Analyst	STEP Pilot	GTCDR
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Najeeb Hassan Hashi	Team Member	Project Coordinator	Project Coordination	GTC01
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Wolfhart Pohl	Safeguards Specialist	Adviser	Environmental and Social Safeguards	GCFDR

## I. STRATEGIC CONTEXT

### A. Country Context

1. Somalia is a country transitioning from more than two decades of civil strife and an absence of centralized government. Basic social and economic indicators illustrate that Somalia has low standards of living, a low level of human capital, and a severe lack of basic infrastructure and enabling services. An estimated 43 percent of Somalia's population is living in extreme poverty (Gross Domestic Product – GDP – per capita less than US\$1/day in purchasing power parity terms). The Gross National Income per capita of US\$284 is one of the lowest in the world<sup>1</sup>. Approximately 70 percent of Somalia's population has yet to reach the age of 30 and a large proportion of youth lack basic education and employment opportunities. A majority of the labor force is out of formal or informal work.

2. The Federal Republic of Somalia (herein after referred to as the Federal Government of Somalia) (FGS) was elected in the fall of 2012 following years of political turbulence. This gave rise to a sense of optimism that Somalia might have begun the slow process of recovery and some Somalis in the Diaspora have since then returned to Somalia and invested in particular in Mogadishu. The constitutionally mandated state formation process gave rise to strong regional administrations in addition to Puntland and Somaliland, semi-autonomous and self-declared independent administrations respectively. Some parts of the country are still under the control of Al Shabaab, a militant insurgency group, with ongoing joint African Union Mission in Somalia and Somali National Army operations to liberate these areas towards 2016. The ongoing political processes coupled with the security situation in particular in southern Somalia add complexity and risk to any World Bank Group (WBG) engagement. The Somalia Development and Reconstruction Facility (SDRF), formed out of the government's process of political reconstruction and reconfiguration of Somalia's development aid framework, serves as the primary governance platform for coordinating international assistance in line with the Somalia New Deal Compact Priorities.

3. Somalia has a dynamic and highly entrepreneurial private sector that has filled the void of government institutions. Private providers supply everything from basic utilities and security services to health and education services. The economy is dominated by the livestock sector, which generates trade worth an estimated 40 percent of Somalia's GDP, and over 50 percent of exports<sup>2</sup>. Nomadic and semi-nomadic pastoralists make up approximately 60 percent of Somalia's population<sup>3</sup>. Important sources of export earnings include charcoal and agricultural products. The Somali economy relies heavily on overseas development assistance (ODA, US\$0.75 billion) and even more on financial remittances from its sizeable Diaspora—estimates range from US\$1.0 billion up to US\$1.6 billion—that are sent via service providers, including money transfer businesses (MTBs) that lack appropriate regulation and supervision on the receiving side. The services MTBs provide include international money transfers for purposes of household consumption on which close to half of urban households in some parts of the region are estimated to depend. MTBs have also acted as quasi banks, providing a broader range of

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<sup>1</sup> UNDP, Somalia Human Development Report, 2012 pg. 25.

<sup>2</sup> Federal Government of Somalia, *Economic Recovery Plan*, 2013, pg. 71.

<sup>3</sup> Ibid

financial services to a significant proportion of the population.

## **B. Sectoral and Institutional Context**

4. Somalia has developed a dynamic and largely unregulated private sector. Businesses operate in a legal and regulatory vacuum with little or no formal government enforcement. The economy is largely informal and dependent on traditional/customary mechanisms for dispute resolution and means of contract enforcement. While the lack of regulation has limited development in some respects (for example, in Somaliland's financial sector which includes a limited range of financial products) the open economic environment has also provided opportunities for the private sector to prosper without most transaction costs associated with formality.

5. Key sectors in Somalia include livestock, agriculture, construction, telecommunications and trading. Rough estimates from Somaliland indicate a breakdown of GDP as follows: livestock (30 percent), wholesale and retail trade (20 percent), agriculture (8 percent), real estate activities (6 percent) and forestry (5 percent)<sup>4</sup>.

6. The Somali financial sector is also largely unregulated. There is a limited degree of confidence in Somali institutions of financial sector regulation and supervision, largely due to an absence of laws and enforcement capacity of regulatory frameworks, high informality and levels of insecurity. The financial sector has the potential to contribute to development finance mobilization in a way that strengthens state-building, and enhances government and national system credibility. The lack of regulatory and supervision capacity threatens access of the Somali financial institutions to the global network of correspondent banks needed to channel remittances and ODA. Informal and unregulated provision of money transfers and banking services continue due to the lack of implementation of central bank and financial institutions laws enacted in the country. Some of the financial institutions act as quasi-banking institutions facilitating the transfer of funds within the region, ensuring the transfer of funds for domestic and foreign trade, and offering deposit and credit facilities. Financial institutions operating in Somalia do not hold settlement accounts with central banks for settlement purposes and there are no modern payment systems or anti-money laundering/combating the financing of terrorism (AML/CFT) laws. Mobile network operators also offer unregulated and unsupervised mobile payment services.

7. A recent WBG Enterprise Survey of 500 firms in Somaliland concluded that the main obstacles to private sector development are poor access to finance, an inadequate land titling system, lack of infrastructure, high operating costs (low labor productivity, high utilities costs) and security considerations.<sup>5</sup> An emerging business class engaged in limited, small-scale business activities and operating small and medium-sized enterprises (SMEs) is adversely affected by the high cost of inputs (electricity, fuel, water) as well as additional costs for private security and high cost of labor and transport.

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<sup>4</sup> The World Bank. 2014. "GDP in Somaliland: A Preliminary Estimate for 2012." Unpublished note, World Bank, Washington, DC.

<sup>5</sup> Somaliland Enterprise Survey 2013, <http://slministryofplanning.org/images/HHSurvey/Somaliland%20formal%20enterprise%20survey%20technical%20note%204Feb14.pdf>

8. The WBG has worked closely with the Government of Somaliland (GoSI) to help develop the financial and private sector through the Somalia Private Sector Development Re-engagement Program (SOMPREP). Phase I (SOMPREP1) began in 2008 (US\$0.7 million) and closed in February 2011 and focused on strengthening public-private dialogue (PPD) and building public sector capacity to create an enabling environment for private and financial sector development. Phase II (SOMPREP2) was approved in 2011 and focused on improving the investment climate and capacity of key actors in: (a) two value chains (fisheries; gums and resins); (b) the Bank of Somaliland (banking supervision), and; (c) the sea port and solid waste sector through public private partnerships (PPPs). It also included a matching grant program (the Somaliland Business Fund, SBF) that provided financial incentives to investors on a competitive basis in productive sectors that drive job creation. Annex 6 provides further details on the results achieved under SOMPREP2.

9. This proposed program—the Somali Core Economic Institutions and Opportunities (SCORE) Program—will build upon the achievements and lessons learned of SOMPREP 1 and 2 and expand the geographic coverage of interventions to not only cover Somaliland but also Puntland and southern Somalia. The financial sector work will expand from a limited focus on the Bank of Somaliland to a strong capacity building effort primarily of the Central Bank of Somalia (CBS) and by extension to the State Bank of Puntland. The PPP advisory services provided to the Berbera Port Authority will be replicated in ports in Puntland and southern Somalia—particularly in Mogadishu Port, but also more broadly on a demand-driven basis in the country. The investment climate (IC) reform agenda of SOMPREP2 focused mainly on business registration but will under SCORE expand from the GoSI to the FGS and by extension to the Government of Puntland (GoPI). The matching grant program will be revised and implemented at the national level and the new SME Service Facility will help fill the gaps in terms of business development services (BDS) and technical and vocational education training (TVET) and render private investment-linked activities more sustainable.

### **C. Higher Level Objectives to which the Project Contributes**

10. The Interim Strategy Note (ISN) FY14–FY16 for Somalia identifies the foundations for poverty reduction and shared prosperity and stresses the need to deliver on the two key priorities of the Somalia Compact’s Peace and State Building goals: (a) strengthening core economic institutions; and (b) expanding economic activity. The SCORE program will directly contribute to these objectives by supporting a component for each of the two pillars. First, it will provide technical assistance (TA) to strengthen the legal, regulatory and policy frameworks that support core economic institutions linked to trade, financial and private sector development in order to catalyze private investment. Second, it will expand economic activity directly through a catalytic fund that will aim to incentivize private investment and job creation, and through an SME Service Facility that will provide market driven skills training and strengthen supply of BDS to increase the productivity of Somali businesses.

11. Somalia’s two-year (2014–15) Economic Recovery Plan (ERP) provides a roadmap for Somalia’s transition from emergency relief to economic recovery. The ERP prioritizes rapid upgrading of state capacity and rehabilitation of infrastructure, including ports, as well as strengthening of financial sector regulation and supervision. With regard to the private sector, the FGS’s vision focuses on the enabling business environment by providing basic infrastructure and

effective regulation. The SCORE program will support the ERP and the implementation approach is closely aligned with governance programs linked to public financial management (that is, effective public financial management (PFM) and procurement systems); recurrent cost (that is, efficient payment systems); capacity injection (that is, enhanced capacity of the civil service); and financial governance (that is, strengthened financial governance).

12. Weak governance in institutions responsible for financial market integrity, payment systems oversight and enforcement of financial sector rules and regulations pose serious risks and threats to inflows of remittances and ODA.<sup>6</sup> Furthermore, these weaknesses increase opportunity costs by limiting the extent to which national systems can be relied upon by development partners and preventing existing financial institutions to escape informality, expand, and develop a broad range of financial products and services facilitating private sector development and national reconstruction efforts.

13. Finally, the project is informed by lessons learned from the World Development Report (WDR) 2011 on Conflict, Security and Development. The WDR 2011 specifically stresses the need to meaningfully engage stakeholders and transform institutions that deliver citizen security, justice and jobs. Moreover, the WDR 2011 targets the alleviation of key bottlenecks by the private sector to restore confidence with an emphasis on simplifying business regulations, which is one of the main objectives of the program. The proposed program is hence firmly anchored in the FGS's ERP, the World Bank's ISN, and the lessons from previous work in Somalia and other fragile and conflict affected (FCA) contexts.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

14. The Project Development Objectives are to: (a) improve the enabling environment for private and financial sector development; and (b) catalyze private investment and job creation.

### **B. Project Beneficiaries**

15. The primary beneficiaries are the Central Banks, Ministries of Commerce and Industry, Ministries of Ports, Port Authorities, private entrepreneurs and their employees who will avail grants and access BDS under the SCORE program. These direct program beneficiaries may also collaborate and work with a number of other government ministries and agencies, as well as other private enterprises, which by extension become indirect beneficiaries. As indirect beneficiaries, Somali households are expected to benefit from increased private investments, entrepreneurial activity that supports job creation, and access to regulated and supervised financial services. Business associations and licensed financial institutions will also be indirect beneficiaries due to spillover effects resulting from improvements in public policy and the business environment.

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<sup>6</sup> In 2013, Barclays Bank issued a notice to terminate account relationships with money transfer businesses. Against the backdrop of tighter global financial regulation, this action precipitated the need for the Somali authorities to undertake comprehensive appraisal of Somalia-related remittance corridor regulatory and supervisory deficiencies and fill gaps in national systems.

### **C. PDO Level Results Indicators**

16. Achievement of the PDO will be measured by the following key performance indicators:
  - (a) Aggregate number of recommended laws/regulations/amendments/codes enacted or policies adopted supported by the Program;
  - (b) Private capital mobilized through copayments by Catalytic Fund recipients;
  - (c) Total number of direct jobs created in enterprises supported by the program.

## **III. PROJECT DESCRIPTION**

### **A. Project Components**

17. The SCORE Program consists of three components. The first component has three subcomponents that aim to strengthen critical institutions essential to foster financial sector development; formalization and adherence to a basic legal and regulatory framework for the private sector; and trade and logistics. The second component has two subcomponents that will boost private investment and raise the productivity of Somali firms. In short: the first component strengthens key public authorities whereas the second component provides a direct boost to the private sector and the local economy by promoting new investment and employment creation. The third component is for program management.

#### **Component 1: Strengthening Core Economic Institutions**

18. Component 1 will help strengthen economic institutions in three critical areas of the economy: (a) central banking, to advance financial system supervision and regulation, which will improve financial market integrity, payment and market infrastructure resulting in safe and affordable access to a range of financial services; (b) the Ministries of Commerce and Industry, to support the introduction of a basic and more modern legal and regulatory framework that would reduce transaction costs for starting and operating businesses; and (c) port and customs authorities, to leverage private capital, networks and expertise to improve performance of the port sector.

*Subcomponent 1A: Strengthening Central Bank Supervision and Regulation [FGS, GoPl, GoSl]  
(US\$4.0 million)*

19. This subcomponent will focus on an overarching and longer-term financial sector development agenda in Somalia aimed at building capacity at the central bank level to strengthen financial institution licensing, regulation and supervision. It will do so by supporting policy design, regulation and supervision capacity building including strengthening regulatory and supervisory practices that underlie effective regulatory policy delivery and financial institution supervision. The subcomponent will finance TA to formulate longer-term financial sector strategies and support to realize the planned reforms. It will finance limited procurement of information and communications technology (ICT) systems for office automation, equipment and capacity support to adjunct institutions and agencies that make part of the institutional framework for effective supervision and regulation of financial institutions in Somalia.



20. The activities proposed are designed to lay the foundations for financial sector development by supporting the central bank to undertake: (a) diagnostics of the legal, regulatory and institutional setting (comprehensive diagnostic of the legal, regulatory and institutional setting for effective regulation and supervision of financial institution supervision, including technical review of existing financial sector laws and draft bills); (b) legal drafting and adjunct regulatory reform support (drafting of the legal and regulatory instruments required for correcting identified deficiencies in legal, regulatory and institutional setting); (c) business process re-engineering and systems development (design and implementation of streamlined processes or routines required to support supervision of financial institutions, including office automation); and (d) capacity building and supervision training (induction training of existing and newly recruited staff/interns for the supervision function including on-the-job training.<sup>7</sup> These interventions are expected to advance regulation and supervision of financial institutions with a view to improve policies and supervisory practices; update financial institutions and other financial sector laws, central bank procedures and by-laws for supervision and regulation, including capacity support on drafting, implementation and enforcement of updated laws and procedures; develop an effective AML/CFT regulatory framework, including capacity support on implementation; as well as develop a national/regional payment systems strategy, and establish a modern payment systems law.

21. The activities proposed are also designed as a platform for policy dialogue and coordination, including around: (a) conventional and Islamic finance (in Somaliland); (b) ongoing appraisal of introductions or changes to prudential rules that might include prescriptions for capital requirements and performance security for money transfer businesses; permitted activities and operational requirements; risk management, management information and supervisory reporting (building on the World Bank drafted licensing and registration regulations for money transfer businesses in Mogadishu); (c) laying the foundations for inter-governmental cooperation regionally (initial focus will be on AML/CFT matters); (d) a consultation process on financial sector development to sensitize stakeholders as to the system-wide development needs and policy considerations/tradeoffs; and (e) engagement with other finance institutions and donor agencies promoting financial sector development in Somalia, including the articulation of financial sector strategies that might provide a planned basis for added international support.<sup>8</sup>

22. The subcomponent will be delivered in close collaboration with complementary World Bank programs, including the Somalia Public Financial Management Capacity Strengthening Project II (TF0A0388, TF0A0389, TF018536, TF0A0681) and the Public Sector Capacity Injection and Institutional Strengthening Project (TF018535, TF0A0415), described further in Annex 2. In Mogadishu, this subcomponent will focus on regulation and supervision of non-bank financial service providers, thereby complementing the International Monetary Fund's (IMF's)

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<sup>7</sup> Annex 2 provides more detailed indication of focus and context of the support under this sub-component including identification of an initial 18-month work plan

<sup>8</sup> For instance, the WBG Somalia ICT Project is expected to contribute to telecom sector reform and institutional rebuilding to result in stronger connectivity and greater MNO network links within states and the region. This industry-level reform provides basic building blocks supportive of effective use of mobile money for payments in a variety of applications including government payments. In this regard, articulation of financial sector strategies and/or planning focused on use of mobile payment will take into account initial progress made by the ICT Project with respect to telecom sector reform.

support to the Central Bank of Somalia focusing on bank supervision and regulation (see details in Box 2.3 in Annex 2) and the FGS's Remittances Action Plan (see details in Box 2.4 in Annex 2).

*Subcomponent 1B: Improving the Investment Climate [FGS, GoSI] (US\$1.5 million)*

23. This subcomponent will finance TA, training and equipment to improve the business environment by reducing transaction costs associated with operating a formal business and putting in place a basic legislative framework for contractual arrangements and licensing. It will facilitate formalization, improve service delivery and provide the private sector and the regulators (Ministry of Commerce and Industry – MoCI- Tax Authority) with reliable registry and licensing tools and information. It will also seek to improve government-to-business services to local SMEs and introduce basic economy-wide business environment and investment climate frameworks.

24. This subcomponent will be implemented in parallel in Mogadishu and Hargeisa. In Mogadishu this will be a new engagement whereas in Hargeisa the support activities will be a continuation of support provided under SOMPREP2, including the official launch of the three One Stop Business Facilitation Centers (OSBC) completed in Hargeisa, Berbera and Burao, and the outstanding legal framework and bylaws. Based on the experience in SOMPREP2, the support will be strictly sequenced with legal and regulatory support first and training and systems support second. The work under SCORE will inform the design of, and in part be supported by, the complementary WBG Somali Investment Climate Reform Program.

25. In **Mogadishu**: SCORE will finance: (a) TA provided to MoCI to update the basic legal and regulatory framework in which private enterprises operate. In particular, it will support a modernization and revision of the Companies Act, the Licensing Act and related bylaws; (b) training, peer-to-peer learning and activities linked to build capacity will mainly target MoCI staff and aim to increase regulatory and enforcement capacity; and (c) equipment, ICT systems and associated training to empower MoCI staff to monitor and enforce basic business regulations and improve government-to-business service delivery.

26. In **Hargeisa**: SCORE will finance TA and training to support the implementation of the new Companies Act, outstanding bylaws and regulations, which are currently being reviewed by the Cabinet, and the launch of the three fully equipped OSBCs in Hargeisa, Berbera and Burao. The OSBCs will link the databases of the GoSI MoCI for business registration and licensing with the tax registration database and be used by other licensing authorities such as line ministries and municipalities.

*Subcomponent 1C: Developing the Port Sector [FGS, GoPI] (US\$2.5 million)*

27. This subcomponent will finance TA, training and small equipment to build capacity in selected Somali ports. Efforts will focus initially on the Port of Mogadishu with opportunistic expansion to other ports (Kismayo, Bosaso) as the program progresses.<sup>9</sup> The objective is to strengthen the management capacity of public authorities for strategic planning and improve the

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<sup>9</sup> Berbera Port is currently being supported through TA and equipment financed by SOMPREP2.

institutional structure of port sector management and the customs authority through provision of services in partnership with the private sector.

28. In particular, the subcomponent will: (a) review the sector strategy, objectives and roles of the port sector and sub-sectors; (b) review the regulatory framework, including customs and port services; (c) support the introduction of international conventions for safety, security and environmental protection; (d) assess Mogadishu Port and possibly other ports to evaluate options for private sector participation and prevailing arrangements; and (e) propose optimal institutional arrangements and options for private participation, with the aim of advising on prospective PPP transactions. The first phase of the support will need to address information gaps, present in-depth technical and economic assessments of key ports and trade flows, and start implementing basic strategies for the strengthening of customs and port authorities. The main counterparts are the Mogadishu Port Authority, Bosaso Port Authority, and the Ministry of Ports and Marine Transport.

## **Component 2: Expanding Economic Opportunities**

29. Component two will provide direct support to the private sector—through technical assistance and grants—to expand economic and investment opportunities in the country. The catalytic fund will build upon mostly positive experiences of a similar fund established in Somaliland (the SBF). The SME Service Facility (SMEF) is a direct outcome of the lessons learned and public and private sector requests to complement matching grants with more extensive TA to the private sector. Both the SBCF and SMEF will cover all areas of Somalia in which the Bank can securely operate.

### *Subcomponent 2A: Catalytic Fund [FGS, GoPl, GoSl] (US\$13 million)*

30. A Catalytic Fund (here provisionally referred to as the ‘Somali Business Catalytic Fund (SBCF)’<sup>10</sup>) will incentivize and crowd in domestic and foreign (especially Diaspora) private investment. This subcomponent will finance: (a) grants; (b) service fees for the fund management company; (c) service fees for an independent inspection firm; and (d) a rapid ex-post impact assessment of the SBF. The initial budget for SBCF is projected to be US\$13 million of which provisional estimates for fund management and independent inspection will be in the order of US\$3 million over 30 months.<sup>11</sup>

31. SBCF will build upon the experiences of the SBF (see lessons learned), which provided matching grants and some TA of nearly US\$10 million to 174 investment projects in 2012–14. SBCF is designed to support the recovery of the private sector by providing matching grants to support new investments by SMEs. Its purpose is to catalyze private investment and incentivize productivity increasing activities and services. The SBCF will operate two separate windows: (a) a small grants window (US\$10,000–US\$50,000); and (b) a large grants window (US\$50,000–US\$150,000) and will be open to all commercially-oriented sectors.<sup>12</sup> Small grants will be

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<sup>10</sup> The name of the Fund will finally be decided by the Fund Manager and participating governments

<sup>11</sup> See Landell Mills (2015), *Final Report: Somaliland Business Fund*.

<sup>12</sup> Barring those excluded under World Bank guidelines (e.g. tobacco and explosives); companies engaged in illicit activities; and projects that could damage the environment.

processed on an accelerated basis using more streamlined appraisal procedures. Large grants will face a more rigorous due diligence process. There will be no prior allocation between small and large grants.

32. An independent inspection firm will be hired on a competitive basis to physically monitor the flow and use of grant funds and submit periodic inspection reports. This firm will primarily assume the burden of safeguarding the reputation of the Fund and will also act as an “early warning” whistleblower in case governance issues are detected.

*Subcomponent 2B: SME Service Facility [FGS, GoPl, GoSl] (US\$5.5 million)*

33. This subcomponent will finance TA, training and some small equipment to private entrepreneurs and their staff to promote the development of SMEs. While the Catalytic Fund will promote business services through matching grant funding, the experience of SOMPREP2 shows that direct business support beyond funding is often needed to increase the likely success of the investment projects in a fragile (post conflict) economy where market and promotional institutions are weak or absent. The SMEF will be established by a private service provider selected through international competitive bidding (ICB) and it will offer support that to the extent possible is provided through local public and private service providers. Some of the services rendered will be on a cost-recovery and/or partial cost-recovery basis in order to ensure that the TA is demand driven and that the SMEF has as much impact as possible.

34. The SMEF will provide TA, training and coaching services to: (a) entrepreneurs and investors, including prospective and selected applicants to the Catalytic Fund and other sources of commercial market finance; and (b) BDS providers and TVET providers. Services will, among others, consist of onsite advisory services, coaching services, classroom-based training, ‘town hall’ training and demonstration events, mentoring and coaching, business plan competitions, specialized training programs on demand (for example, for individual subsectors), advanced seminars and workshops (for example, training of trainers and consultants) and promotion of business linkages through ‘matchmaking’ services. The authorities in Puntland and Somaliland have requested SMEF support for the gums and resins sector that may be addressed in a pilot sector support program.

35. The SMEF will also manage a pilot - the Skills Training and Entrepreneurship Project (STEP) - which seeks to develop sustainable self-employment and market access for female youth. Following the success of the Adolescent Girls Initiative Pilots (specifically the Empowerment of Adolescent Girls Project in Liberia), this program will be modeled similarly by targeting women (age 16–24) who meet select criteria, including basic literacy and numeracy. The pilot program will initially target a smaller group of women (150–200 students), specific to Somaliland, with the aim of scaling up if successful in the second phase of the program to cover more participants and regions. STEP will include two separate 7-month training tracks—one which will focus on skills training for eventual job placement and another one which will focus on entrepreneurship for existing small-scale businesses.

**Component 3: Project Management**

36. This component will finance support for project implementation. Component 1 will be

implemented by the FGS, GoPl and GoSl with small Project Implementation Units (PIUs) established and embedded within the administrations in Mogadishu, Garowe and Hargeisa. A Subsidiary Agreement will be signed between FGS and GoPl to share PIU staff and resources. The PIU will be anchored in the Ministry of Finance in Mogadishu (FGS), the Puntland President Office in Garowe (GoPl), and the Ministry of Planning and Development in Hargeisa (GoSl). Three Project Steering Committees (PSCs)—one each for FGS, GoPl and GoSl—will be set up to oversee the implementation of the SCORE program. There will also be an SME Advisory Panel (SAP) covering the SBCF and the SMEF which will advise on operating policy and strategy. There will be separate SAPs in Mogadishu, Garowe and Hargeisa. Financing to be provided for the PIU may, among others, include: equipment, consultant compensation, operating costs, organizational and systems development, training, capacity building and technical assistance. Further details are provided in Section IV.A. on Institutional and Implementation Arrangements and Annex 3 on Implementation Arrangements.

## B. Project Financing

37. The proposed program will be funded by a US\$28.5 million grant from the Somalia Multi-Partner Fund (MPF). The grant instrument is chosen as the most appropriate vehicle to finance the program given Somalia’s ineligibility to access development financing from the International Development Association (IDA). The MPF is a multi-donor trust fund administered by the World Bank in Somalia and it plays a role in coordinating financing for sustainable reconstruction under the SDRF. Within this broader structure, the MPF delivers support for economic foundations. Project costs and financing are detailed in Tables 1 and 2 below.

### Project Costs and Financing

Table 1. Puntland and Southern Somalia

Project Component	Project Cost/ Grant Financing (US\$, millions)	Finan -cing (%)	Of which Recipient-executed (US\$, millions)	Of which Bank-executed on Behalf of Recipient (US\$, millions)
<b>COMPONENT 1: STRENGTHENING CORE ECONOMIC INSTITUTIONS</b>	<b>5.92</b>	<b>100</b>	<b>5.33</b>	<b>0.58</b>
<i>1A. Strengthening Central Bank Supervision and Regulation</i>	<i>2.67</i>	<i>100</i>	<i>2.33</i>	<i>0.33</i>
<i>1B. Improving the Investment Climate</i>	<i>0.75</i>	<i>100</i>	<i>0.70</i>	<i>0.05</i>
<i>1C. Developing the Port Sector</i>	<i>2.50</i>	<i>100</i>	<i>2.30</i>	<i>0.20</i>
<b>COMPONENT 2: EXPANDING ECONOMIC OPPORTUNITIES</b>	<b>12.34</b>	<b>100</b>	<b>0.00</b>	<b>12.33</b>
<i>2A. Catalytic Fund</i>	<i>8.67</i>	<i>100</i>	<i>0.00</i>	<i>8.67</i>
<i>2B. SME Service Facility</i>	<i>3.67</i>	<i>100</i>	<i>0.00</i>	<i>3.67</i>
<b>COMPONENT 3: PROJECT MANAGEMENT</b>	<b>1.33</b>	<b>100</b>	<b>1.33</b>	<b>0.00</b>
<b>Total</b>	<b>19.59</b>	<b>100</b>	<b>6.67</b>	<b>12.92</b>

**Table 2. Somaliland**

<b>Project Component</b>	<b>Project Cost/ Grant Financing (US\$, millions)</b>	<b>Financing (%)</b>	<b>Of which Recipient-executed (US\$, millions)</b>	<b>Of which Bank-executed on Behalf of Recipient (US\$, millions)</b>
<b>COMPONENT 1: STRENGTHENING CORE ECONOMIC INSTITUTIONS</b>	<b>2.08</b>	<b>100</b>	<b>1.87</b>	<b>0.21</b>
<i>1A. Strengthening Central Bank Supervision and Regulation</i>	<i>1.33</i>	<i>100</i>	<i>1.17</i>	<i>0.16</i>
<i>1B. Improving the Investment Climate</i>	<i>0.75</i>	<i>100</i>	<i>0.70</i>	<i>0.05</i>
<i>1C.. Developing the Port Sector</i>	<i>0.00</i>	<i>100</i>	<i>0.00</i>	<i>0.00</i>
<b>COMPONENT 2: EXPANDING ECONOMIC OPPORTUNITIES</b>	<b>6.16</b>	<b>100</b>	<b>0.00</b>	<b>6.17</b>
<i>2A. Catalytic Fund</i>	<i>4.33</i>	<i>100</i>	<i>0.00</i>	<i>4.33</i>
<i>2B. SME Service Facility</i>	<i>1.83</i>	<i>100</i>	<i>0.00</i>	<i>1.83</i>
<b>COMPONENT 3: PROJECT MANAGEMENT</b>	<b>0.67</b>	<b>100</b>	<b>0.67</b>	<b>0.00</b>
<b>Total</b>	<b>8.91</b>	<b>100</b>	<b>2.53</b>	<b>6.38</b>

### **C. Series of Project Objective and Phases**

38. The SCORE program is a two-phased Series of Projects (SOP) initiative. The SOP approach will allow for adjustment to the program design as needed, taking into consideration developments in the project’s operating environment. The first phase (SOP-1), implemented from FY16Q1–FY19Q2, is designed to strengthen the capacity of central banks, MoCIs and port and customs authorities, and to deliver direct support to the private sector through matching grants and TA. It focuses on building capacities in select public institutions to implement a broader program in the second phase and gaining operational experience to make use of lessons learned in the program’s initial three years of implementation. SOP-2 would expand geographic coverage of SOP-1 (to potentially include emerging states beyond Puntland) and could commence as early as FY18 depending on the disbursement rate and successful implementation of agreed activities under SOP-1. Table 3 details the activities envisioned under SOP-2 by component. SOP-2 would commence following consultations with the World Bank, Country Management Unit (CMU) and FGS. The SOP approach does not entail defined triggers or conditions for the graduation and appraisal of the second phase.

**Table 3. Proposed Activities for SOP-2**

<b>Component</b>	<b>SOP-2 Envisioned Activities</b>
<b>Subcomponent 1A: Strengthening Central</b>	This phase would finance and support a broader and sustained long-term TA program focused on institutional strengthening and financial sector development.

<b>Bank Supervision and Regulation</b>	TA efforts would be directed at advising on changing the landscape of the Somali financial sector, targeting licensed financial service providers and gaps in critical technical and regulatory infrastructure. This would aim to create a safe and regulated business environment for financial service provision, in lieu of the existing situation where financial institutions provide a set of services and products under weak supervision and regulation including gaps in financial market infrastructure. TA efforts would also advise on improving access to safe and affordable financial products and services provided by supervised and regulated financial service providers, for example financial inclusion and microfinance products and services, as gaps in technical and regulatory infrastructures are filled. SOP-2 would include TA support on modernization of legal and regulatory frameworks to fill identified gaps in institutional arrangements by supporting needed amendments to current laws and regulations, as well as replacing transitional or intermediate improvements introduced under SOP-1, such as guidelines or procedural/operational changes with final forms of regulatory instruments. TA would also be provided on regulatory practice and policy delivery (implementation) to ensure that central bank supervisory actions are consistent, predictable, and non-discriminatory and keeps pace with improvements in enforcement capability of financial sector laws and regulations.
<b>Subcomponent 1B: Improving the Investment Climate</b>	Expansion of the scope of the business regulation program management by MoCI including, among others: (a) relevant pending legal reforms, introduction of new bylaws and procedures, (b) training and set-up of hardware and software in Mogadishu and (c) continued maintenance of the OSBC and on-the-job-training for Hargeisa, Berbera and Burao and expanding the outreach of the OSBC services to other line ministries, municipalities and regulators.
<b>Subcomponent 1C: Developing the Port Sector</b>	SOP-2 could cover transaction advisory services for private sector participation; rehabilitation of fencing and perimeter walls of the port; port security improvement (for example, International Ship and Port Facility Security Code compliance) training, equipment installation, rehabilitation of aids to navigation of the port; activation of radar and communication equipment for the marine control tower of the Port; and installation of firefighting equipment.
<b>Subcomponent 2A: Catalytic Fund</b>	SOP-2 would consider extending the reach of the SBCF contingent on a satisfactory rate of disbursement and other performance factors.
<b>Subcomponent 2B: SME Service Facility</b>	SOP-2 would consider extending the reach of the SMEF; and scaling-up of STEP program and sector support pilots.

**D. Lessons Learned Reflected in the Project Design**

39. The SCORE program builds on the experience and lessons learned from SOMPREP1 (US\$0.7 million implemented in 2009–2011) and SOMPREP2 (US\$30 million implemented in 2011–2015) as well as WBG operations in other FCA contexts. SOMPREP2 was the WBG’s first sizeable operation in Somalia since the outbreak of the civil war in 1991. The task team has remained intact during the transition from SOMPREP2 to SCORE and it brings insights of the particular challenges of working in Somalia.

40. Arguably the most critical lessons for SCORE are linked to the operational modalities of the Catalytic Fund. SBCF will be Bank-executed on behalf of the recipient<sup>13</sup> and there are several reasons to support this approach: (a) it greatly reduces fund management transaction

<sup>13</sup> The SBF1 was also Bank-executed, however it operated under a Bank-executed rather than Recipient-executed trust fund

costs since a single firm can be hired; (b) the quality of the fund manager is enhanced due to the size of a single contract; (c) the risks linked to weaknesses in terms of capacity and governance are mitigated; and (d) competition and possible tensions between clans are minimized. Notwithstanding the Bank's role in executing the fund, participation by the government can still be ensured. The SBCF will cover all areas of Somalia in which the Fund Management Company can operate. Table 2.4 in Annex 2 summarizes how lessons learned have been integrated in SCORE's project design. Some elements of the design have been reconsidered for SCORE, including the allocation of funds, more sensitivity to regional/clan dynamics, a communications strategy to include public media outreach, and a strategy to limit ineligible applications to the SBCF.

41. In addition to specific lessons from the SBF, SCORE incorporates lessons and generalized experience of the task team working in Somalia. These lessons relate to the design, implementation and operation of grants in the FCA context, private sector engagement as well as social and cultural aspects of interacting with Somali counterparts and stakeholders. Some of these lessons are summarized in Box 1.

### **Box 1. Lessons learned from SOMPREP2 and integrated in SCORE**

#### **Project Design**

**Incorporate sufficient flexibility in program design to account for the highly unpredictable nature of local events.** Regular cabinet reshuffles and changes of key administrative personnel, frequent attacks resulting in mission cancellations, illustrate the need for patience and occasionally changing priorities. For example, the Governor of the Central Bank of Somalia changed thrice within less than a year in 2013. At least five SOMPREP2 missions were cancelled due to travel warnings. Some elements of design which facilitated program flexibility included: (a) the use of implementing partners (internationally recruited firms with local partners) to carry out activities; (b) formalized methods for communication and feedback (for example, semi-annual project reviews, local staff, open lines of communication) to take stock of project progress and make adjustments as needed; (c) the use of Bank-execution modalities to implement activities and ring fence high-risk tools such as the catalytic fund.

**Start small for new activities and scale them up if successful.** SOMPREP2 was relatively successful in part because the program was phased and scaled up from an initially modest intervention. Two rounds of additional financing from the State and Peace Building Fund and two rounds by UK Aid allowed the task team to boost activities such as the SBF and the PPP agenda. The SCORE program includes elements of program piloting, where the task team will test interventions on a small scale and expand if successful. The SOP approach is a useful framework to implement an initial set of activities before expanding or changing direction in subsequent phases.

**Include sufficient budget for program management and administrative costs as implementation support will be substantial.** SOMPREP2 had a "child" trust fund set-up for program management, which covered the costs of a regional coordinator, operational staff/consultants and other overhead charges, including lease costs. The administrative charge for trust fund management was also substantial for SOMPREP2. Program management and administrative costs have been reflected and taken into consideration in the overall budget for SCORE. Embedding local project coordinators is critical to have a bridge between the task team and the public and private sector counterparts. SCORE will plan to have project coordinators permanently based in Hargeisa and Mogadishu.

#### **Implementation**

**Limitations to travel and movement are common. Security considerations may frustrate implementation**



**progress but must be followed.** The task team narrowly avoided two bomb attacks. In Hargeisa, the entrance to the United Nations (UN) was blown up 15 minutes after the task team exited the building. In Mogadishu, the office in which the first scoping mission meetings were organized in June 2013 was attacked and 15 people killed two days after the meetings took place. This situation has several implications. First, overhead costs for security arrangements must be accepted and factored in when required. Consultants and contractors will be hired either directly by the governments or through third party agents approved by the Bank. Security-related costs in Somaliland included off-site security trainings, required security briefings in Nairobi, travel on UN flights and costs for armored convoys/security personnel. Second, procurement documentation for consultants and contractors must leave sufficient flexibility to allow these service providers to make their own security judgments and allow for flexibility in implementation arrangements.

**Rely on a mix of local staff and Somali expatriates who are present on the ground for implementation support and monitoring of activities.** Without permanent local presence little can be achieved in Somalia. Senior policy makers who are responsible for implementation often lack sufficient support staff. Locally recruited staff will be viewed, rightly or wrongly, as ‘gatekeepers’ to the program, and therefore need to be chosen with care. The Subcomponents under the SCORE program will rely on government and WBG recruited support staff that helps implement and build local capacity within the public administration.

**Be cautious of implementing international best practices given the modest local capacity and governance constraints.** International best practice models are not always suitable in the local context where public capacity is weak; traditional forms of justice are commonly practiced; tribal politics and customs dictate business and resource allocation; and documentation, data and baselines are entirely missing. Solutions should to the extent possible be adapted to suit the local context and implementers must be realistic about what can be achieved. The pacing and sequencing of reforms must also be carefully considered to account for counterpart capacity.

**Be aware of the operational challenges since Bank policies may not lend themselves to easy solutions.** Working in the region means venturing into unknown territory, with few if any precedents, including for WBG staff (procurement, legal and financial management). A strong project management team with good knowledge of WBG operational policies as well as list of ‘go to’ contacts for procurement, trust fund or other operational issues helped to navigate challenges under SOMPREP2. However, in many instances there is no clear guidance available. Several years of operational experience in Somalia as well as established points of contact will benefit the task team in its future operations under SCORE.

**Donor coordination is essential as there are often overlapping areas of work and few formal channels within government to organize and disseminate knowledge from donor groups.** The task team benefited from a self-led private sector development (PSD) donor working group to maintain coordination around the PSD agenda. The MPF has been designed to ensure coordination by channeling donor funds through one instrument. Regular, timely communication with donors contributing to the PSD agenda in Somalia will be included as part of the implementation plan for SCORE. The PSG IV Steering Committee has an important role in providing guidance. Donor coordination should also be used to avoid the poaching of project staff.

**Managing expectations related to Recipient-execution and the processes and procedures attached to procurement will be essential to maintain a constructive dialogue.** SOMPREP2 was entirely Bank-executed. SCORE’s first component is mainly Recipient-executed. This may put stress on the counterpart ministries: and the FGS, GoSI and GoPI have little, if any, experience of working through their own country systems adapted to WBG procedures. Building recipient capacity through PIUs with the support of the task team will be a priority at the beginning.

## **Social and Cultural**

**Show sensitivity to the social, religious and cultural context, including the clan-based organization of society.** Clan affiliations cut across all sectors of Somali society, including in the private sector and the political spheres. Knowledge of the rules, norms and practices is essential for navigating the complex web of social organization. “Fairness” often implies an allocation of resources according to tribal affiliation rather than merit, efficiency and economic returns. Religious and cultural practices should also be taken into consideration (for example, fasting during Ramadan and dressing in appropriate attire while on mission). Future programs,

including SCORE, will take into account the sensitivities of operating in this environment, with consideration of appropriate and balanced local staffing, as well as thoughtful attention to how clan-based divisions can pose project implementation risks.

**Invest in media communication and public relations since rumors spread easily in an environment with few central data sources, limited literacy and modest English proficiency, and a general lack of objective media and reporting.** WBG projects are high-profile in Somalia and task teams and contractors are sometimes exposed to explicit or implicit pressures to favor individuals or clans. The rumor mill in social media can be malicious and individuals of significant political and social influence sometimes use it to direct attacks on WBG projects, staff and contractors in order to seek advantages. A comprehensive communication strategy will be one of the first activities that the SCORE program will develop upon effectiveness.

#### **Working with Private Sector and Government Counterparts**

**Be aware of the government's vulnerability to capture by private sector interest.** The private sector in Somalia is powerful and the boundary between business and politics is often blurred. Capacity constraints, low salaries and a largely unregulated private sector create conditions whereby decisions supporting the public good may take a backseat to private interests. Solutions aimed at influencing policy makers must take into consideration the interests of all stakeholders, including "shadow" stakeholders who might wield power and influence behind the scenes.

**Somalis have a strong oral tradition; attempts to encourage face-to-face dialogue are essential for maintaining trust.** Open dialogue established through a physical presence is needed on a consistent basis. SOMPREP2 benefitted from the use of workshops, conferences and other public events to encourage consultation and to reach consensus with government counterparts. For example, SOMPREP2's political economy study benefitted from workshops, several high-level meetings and outreach events to share and verify information throughout the process of drafting the report. Regular, face-to-face communication is key and frequent supervision missions will be planned under SCORE, security permitting.

42. SCORE benefits from the experience of other WBG projects implemented in FCA countries including Iraq, Yemen and Afghanistan among other countries. Prior to initiating the design of SCORE the Task Team consulted with WBG projects under implementation in FCA contexts to better understand how to design SCORE bearing in mind security risks, implementation restrictions, capacity restraints as well as ethnic-based divisions. Knowledge exchanges took place, including a workshop with FCA task team leaders and joint participation in missions by the teams in Afghanistan, Iraq and Somalia to extract lessons relevant to conducting project operations in Somalia. Some lessons assembled and applied in the design of SCORE include: (a) keeping activities focused around a few priorities rather than spreading resources; (b) considering high turn-over of government staff in capacity building efforts; (c) considering high turnover within the broader task team and providing the right incentives to dedicated team members working as part of the project team; and (d) incorporating fiduciary monitoring agents to monitor financial and procurement arrangement in high-risk security zones. These crucial elements have been considered and adapted to the Somali context, contributing to the overall design and readiness of the task team.

## **IV. IMPLEMENTATION**

### **A. Institutional and Implementation Arrangements**

43. The project will operate under the MPF administered by the World Bank CMU.

## **Component 1: Strengthening Core Economic Institutions**

44. Component 1 will be implemented by the FGS, the GoPl and the GoSl with small PIUs established and embedded within the administrations in Mogadishu, Garowe and Hargeisa. A Subsidiary Agreement will be signed between FGS and GoPl to share PIU procurement and financial management staff. The PIUs will be anchored: (a) in the Ministry of Finance in Mogadishu (FGS), (b) the Puntland President Office in Garowe (GoPl), and (c) the Ministry of Planning and Development in Hargeisa (GoSl). The PIUs will be supported by the WBG task team, which will include project coordinators in Hargeisa and Mogadishu/Garowe plus technical consultants based in Somalia, Nairobi, Washington, D.C. and elsewhere. The PIUs will consist of a PIU Coordinator and include capacity and expertise for procurement, financial management, safeguards, M&E and technical expertise, as needed. The PIU staff may be from the government or recruited externally depending on skills, needs and availability.

45. Three PSCs – one each for FGS, GoPl and GoSl – will be set up to oversee the implementation of Component 1 of the SCORE program. Each PSC will meet twice annually as well as on an ad hoc basis as needed. Minutes of the meetings will be shared with the WBG task team. The PIUs and the task team will submit an implementation status report to each PSC following regular implementation support missions. The PIUs will also serve as secretariats for the PSCs. Further details, including composition of the PIU and PSC are provided in Annex 3.

## **Component 2: Expanding Economic Opportunities**

46. Component 2 will be Bank-executed on behalf of the recipient due to capacity constraints, governance and fairness challenges inherent to the large financial subsidies involved. Bank-execution on behalf of the recipient will cover the recruitment of consulting firm(s) on ICB who will report to the FGS, GoSl and GoPl as well as the task team. Bank-execution on behalf of the recipient is expected to reduce governance challenges, including regional and clan dynamics, which need to be navigated for the successful operation of the SBCF and SMEF. The SBCF and SMEF may be managed by separate international consulting firms, each with expertise in grant fund management and in delivering technical assistance to the private sector. The activities will be implemented partly through local firms, non-governmental organizations and/or academic institutions. The rationale for hiring two separate international consulting firms is to leverage specific expertise for the management of each subcomponent, simplify project implementation/supervision modalities and mitigate risk(s) linked to firm performance: however, the bid process will permit the same firm to apply individually and separately to both contracts. Once selected, the firm(s) will be expected to coordinate as needed to facilitate project implementation (this may, among others, include sharing premises, equipment, field travel and/or security arrangements, and staying up-to-date on project activities through regular coordination meetings). An important aspect of the implementation arrangements will be to share the same consulting firm for the SBCF between FGS, GoPl and GoSl; and the same arrangement for the SMEF. This is intended to reduce transaction costs associated with managing multiple individual consulting firms as well as increase synergies.

47. An SME Advisory Panel (SAP) will be established to provide guidance and oversight to Component 2, as well as for advising on operating policy and strategy. The SAP will meet on a quarterly basis, as well as on an *ad hoc* basis as needed, and the meeting minutes will be shared

with the Bank and the recruited international consulting firm(s). The SAP will have clearly defined terms of reference and authority. The international consulting firm(s) will provide SAP secretarial services as pertaining to SCORE component 2.

## **B. Results Monitoring and Evaluation**

48. The Monitoring and Evaluation (M&E) of Component 1 will be carried out by the PIUs and the WBG task team in line with the PDO and results indicators established for the project. Local capacity to conduct M&E is limited and there is no statistics office with relevant time series for baseline data. The PIUs will be assisted by M&E specialists who will provide capacity support and training as needed. The PIUs will be responsible for coordinating with relevant ministries to ensure adequate collection and reporting of data. Implementation Support Missions will be conducted at least on a semi-annual basis to track and assess the status of project results and completion. Technical missions will also be conducted as required on a regular basis.

49. Given that Component 2 will be Bank-executed on behalf of the recipient, the task team will have the overall responsibility for tracking and evaluating the progress of results achieved. The task team will rely upon its implementation partners to collect data as well as fiduciary monitoring agents to conduct assessments in areas where Bank staff cannot travel due to security restrictions. The Fund Manager's Terms of Reference will include a requirement to collect 'counterfactual' data.

50. A mid-term review (MTR) will take place approximately 18 months after the effectiveness of SOP-1. The MTR will include an assessment of the progress achieved in implementing the project objectives and intermediate outcomes established in the results framework. The MTR will inform the Somalia Country Management Unit when the task team can appraise SOP-2.

51. Relevant tasks for collection of data for the PIU and task team will include: (a) preparing semi-annual and annual project monitoring reports, containing summary data on overall performance against targets; (b) organizing annual and semi-annual M&E reviews to ensure the M&E function enhances the ability to increase project outcomes; and (c) development of the Impact Evaluation Design and Implementation Plan and compilation of baseline data requirements as determined in the design framework for SBCF.

## **C. Sustainability**

52. The first component of the Program will enhance the management and regulatory capacity of core economic institutions. Thus, sustainability is at the heart of the regulatory and supervisory functions, including on-the-job training, implementing tools for tracking and monitoring regulations for better enforcement, procurement of basic ICT equipment to improve efficiency and introducing international conventions for improved safety and performance among other measures. Furthermore, the proposed interventions under Component 1 are strongly anchored in reforms led by the governments and continuous high-level political support needed for long-term achievement of project objectives is likely. The proposed activities have been requested by the counterparts and designed through multiple meetings and exchanges.

53. Component 2 will encourage partnerships between the Catalytic Fund and the Service

Facility on the one side and local providers on the other side to ensure sustainable outcomes. For example, the SMEF will provide training to local business service providers (focusing on ‘training of trainers’) and seek opportunities to collaborate with universities and existing organizations and institutions as part of the overall program design. Furthermore, the inclusion of local personnel as well as association with local firms will be considered an advantage in the bidding process. The Catalytic Fund is a temporary vehicle to provide a financial incentive for productive investments. The SMEF, however, is a market maker mainly for the provision of BDS and TVET, and this support vehicle could over time be turned into a more permanent institution if the governments consider it a priority which they are willing and able to finance themselves.

## V. KEY RISKS AND MITIGATION MEASURES

54. Overall risk for the project is assessed to be “HIGH” based on political and governance risks, Somalia’s macroeconomic environment, which is vulnerable to economic shocks, limited institutional capacity of the government, fiduciary risks as well as security-related risks. Table 4 summarizes the full Systematic Operations Risk–Rating Tool (SORT) that is presented in Annex 5 (including descriptions and mitigation measures for risks which are ranked Substantial or High).

**Table 4. Summary of Risk Ratings**

<b>Risk Category</b>	<b>Rating</b>
1. Political and Governance	High
2. Macroeconomic	High
3. Sector strategies and policies	Moderate
4. Technical design of project	Substantial
5. Institutional capacity for implementation and sustainability	High
6. Fiduciary	High
7. Environmental and social	Moderate
8. Stakeholder	Moderate
9. Other (security)	High
<b>Overall</b>	<b>High</b>

55. Somalia is still recovering from conflict which has had severe consequences for human capital and political development. Changes in political leadership are common and competition for resources is high. Furthermore, fraud and corruption are commonplace and transparency is low, resulting in governance challenges at all levels of government. Component 2 will, therefore, be Bank-executed on behalf of the recipient. The new management of the catalytic fund will be able to draw upon the task team and the GoSI’s experience of bank-execution under SOMPREP2 in addition to the services of an inspection firm that will be responsible for monitoring the operations of the Catalytic Fund. Recipient-executed project components will benefit from controls, including the fulfillment of audit requirements in addition to regular inspection as required under the Somalia MPF. While the government lacks experience implementing World Bank funded operations, the External Assistance Fiduciary System (EAFS) (discussed further in Section VI) will help mitigate this risk; as will training and broader capacity development support provided to the Ministries under SCORE.

56. Macroeconomic risks in Somalia are high due to weak economic institutions and there are few safeguard policies in place to mitigate risks. Changes in the trade policy of trade partners

can have a significant impact on the overall economy. The project is designed as an SOP in order to adjust the activities and/or the project approach in the event of an external shock that would impact achievement of the PDO. Furthermore, several project interventions are phased, with the goal of starting activities on a small-scale and then expanding over time. Lastly, the project is designed to strengthen core economic institutions (financial sector, commerce and industry, and trade) that would help safeguard against domestic and external shocks in the medium- to long-term.

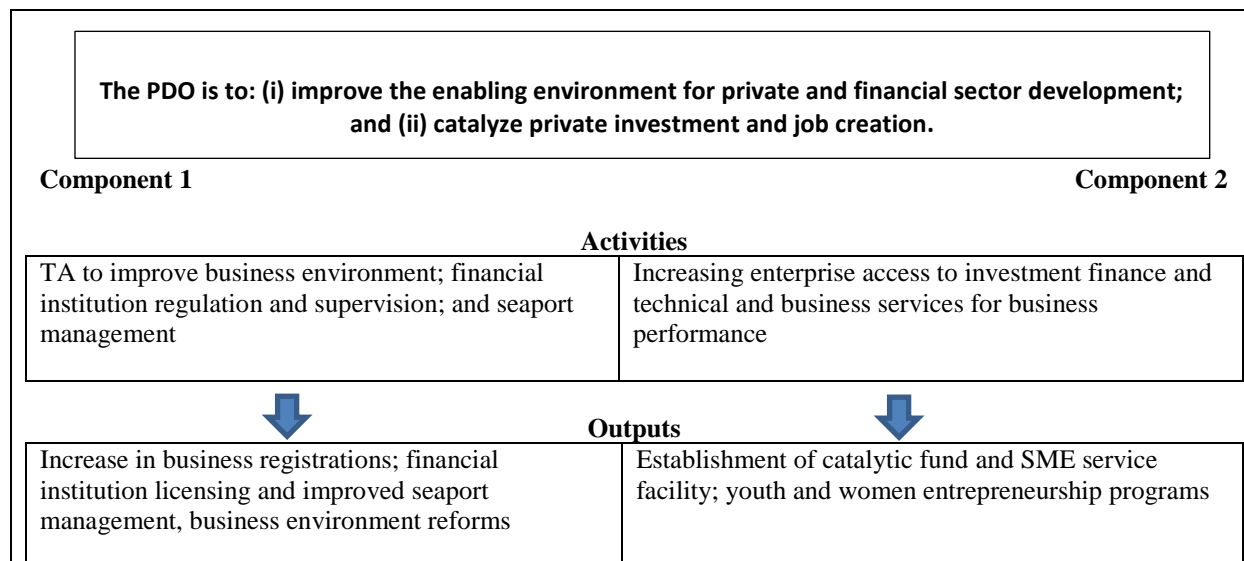
57. The security situation in Somalia remains fragile, with insecurity posing a risk to staff as well as project implementation and sustainability. Insecurity creates severe limitations on access to the operating environment, which in turn raises a number of additional project risks, creating challenges for project design, implementation and monitoring. The task team continues to operate under the UN umbrella, with security operations conducted by the UN Department of Safety and Security (UNDSS). Furthermore, the World Bank CMU for Somalia regularly monitors the political and security environment in collaboration with UNDSS. Appropriate security measures are also expected to be taken for World Bank implementing agents (that is, internationally recruited firms) who will engage in high-risk operations in Mogadishu and other cities.


## VI. APPRAISAL SUMMARY

### A. Economic and Financial Analysis

58. The nature of SCORE program activities (that is, largely technical advisory services, analytics and institutional capacity building under Component 1) makes direct attribution of economic and financial benefits resulting from supporting institutions linked to trade and financial sector and private sector development challenging. However, the results chain (Figure 1) illustrates how activities related to improved capacity for business environment reforms, financial institution regulation and supervision, and seaport management contribute to the objectives of increasing private investment and job creation.

Figure 1. SCORE Results Chain



 <b>Outcomes</b>	
<p>Improved business conduct of enterprises; continuous improvement in financial institutions operations and compliance with rules and regulations; improved seaport performance and efficiency</p>	<p>Jobs created in supported enterprises; increase in revenue/turnover in supported enterprises; private sector investment mobilized through matching grant co-financiers (banks, micro-finance institutions (MFIs), angels, diaspora, VC funds)</p>
<p><b>Factors influencing achievement of outputs and outcomes include:</b> High-level political support / Client ownership, support/cooperation from the private sector, government capacity to enforce laws, regulations and policies, sufficient absorptive capacity to learn new models, processes and tools, sufficient budget to carry out activities beyond the life of the grant, transparency and access to information.</p>	

59. In the case of Component 2, between 200 and 250 projects are expected to be financed under SBCF generating at least 2,000 direct jobs in supported enterprises. The SMEF will support the grant beneficiaries and outcomes are therefore expected to be more positive than under a grant program without TA. Based on the experience of SBF, which awarded US\$10 million in 2013–14 and taking into account the large number of potentially eligible projects that did not get funding,<sup>14</sup> and the larger demand in the Somali economy based on urban and population size, and level of entrepreneurship, a conservative estimate of eligible demand for grant funds from viable enterprises over a two year period is US\$10 million in the ‘untapped’ market of southern Somalia and Puntland, plus Somaliland, with significant unfulfilled eligible demand available for stage two.<sup>15</sup>

60. In the medium term, the project is expected to contribute positively to economic reconstruction by facilitating entrepreneurship and increasing private investment. In the short term, the impact of project activities will be on the emergence of a modern environment for business registration and licensing, financial institution regulation and supervision and seaport management.

61. Security remains a critical constraint that could potentially hold back program delivery and results. Recent attacks in particular in Mogadishu targeting government officials and foreigners is likely to have the effect of increasing security costs in Somalia and in turn overall cost of program supervision and management. Territorial coverage under the SCORE program greatly expands beyond the reach of SOMPREP2 (that is, Somaliland) to include all of Somalia. In addition, market outreach is a key feature under the SCORE program; for instance, the SMEF is intended to be a “mobile facility” and security constraints impacting travel may reduce the effectiveness of the services. Further, travel by the SBCF fund management unit relating to outreach and promotion activities as well as beneficiary due diligence and verification exercises will be impacted by security constraints and program results. Security concerns are likely to discourage high-quality international consultants/firms from participating in tendering processes, failing to take-up contracts when offered, and/or charging security premiums for consultancies and services rendered.

<sup>14</sup> Less than five percent of original applications and about 50 percent of initial shortlists received grant awards, with the result that there remains significant potential eligible demand for funds.

<sup>15</sup> For fuller discussion see: Review of Private Sector Development in Somalia, and Projections for Grant Funding. David Phillips (draft sector paper), World Bank, February 20, 2014.

## *Rationale for Public Sector Financing and Value Added of Bank Group Support*

62. SCORE combines both public and private provision in order to maximize the use of public funds as well as manage implementation capacity and social/political concerns. Component 1C focuses on identifying opportunities for PPPs with the goal of supporting future PPP transactions and Component 2 will leverage private provision of TA services to SMEs. Component 1 will focus on alleviating some of the binding constraints to public sector performance through a package of capacity building, legislative/policy reform, business licensing and general TA, all activities that are inherently public-sector. The Bank's added value in the implementation and supervision of SCORE lies in over eight years of operational experience delivering Bank programs with the Client and Somali private sector as well as the depth of international technical expertise to support capacity development during implementation in areas including financial sector regulation and supervision, investment climate and ports.

### *Economic Analysis of Component 2A: Catalytic Fund*

63. For a project of this type, the focus of analysis is on estimating the economic benefits and costs rather than financial analysis. A conventional methodology is used to carry out the economic analysis of the matching grant by estimating future stream of costs and benefits and deriving net benefits to calculate the net present value (NPV) and economic rate of return (ERR) in a "with" and "without" project framework based on a 5-year time horizon. To address the data problems in using this approach, a conservative set of assumptions is used and sensitivity (scenario) analysis has also been conducted to assess the robustness of results.

64. Based on lessons from similar projects in other countries, the following assumptions were made:

- Of the US\$13 million allocated to this subcomponent, US\$3 million will be used for management and overheads, leaving US\$10 million for enterprise support;
- The discount rate used for the economic analysis is 12 percent in the base case. Given the economic environment in Somalia, this is slightly more conservative than the standard assumption in most of World Bank Projects, which is that the opportunity cost of capital is 10 percent<sup>16</sup>. In the scenario analysis below, discount rate of 8 percent and 16 percent have also been used;
- The project impact is expected to start materializing during project implementation starting in 2016 and continuing through 2018. The maximum impact will be reached once the relevant capacity and institutions are strengthened;
- In the base case, it is assumed that 200 clients would be supported by the matching grant fund: (a) 150 small grants at average grant size of US\$40,000 each; and (b) 50

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<sup>16</sup> Handbook on Economic Analysis of Investment Operations, OPR, May 2006



large grants at average grant size of US\$100,000 each. The number of 200 clients has been arrived at by extrapolating the experience of SBF;

- Further it is assumed that as a result of increased efficiency and capacity utilization (both through provision of grant financing under SBCF as well as complementary TA through SMEF), the supported firms would yield an increase in output (“benefits multiplier”) at a multiple of 4 times (4x) the support provided with a lag of 2 years. This is much more conservative than in other (non-FCA) countries such as Benin, Burkina Faso and Niger in which a multiple of 10 times the grant was used, while in Kenya and East Asian countries a multiple of 15 times is the norm. In the scenario analysis below, benefits multiplier of 2x and 6x have also been used;
- In addition, grant financing and TA support to these enterprises would also result in direct and indirect job creation: however, due to difficulty in accurately estimating this variable, the secondary impacts in terms of increased employment income have not been included in the calculation of economic NPV and ERR.

65. Base Case Results: for a 12 percent discount rate and 4x output, the economic NPV for the matching grant is estimated at US\$17.5 million. In order to capture all economic costs using the principle of conservatism, from the economic NPV can be deducted the US\$3 million management fee, as well as the US\$2 million (approximate estimate) from the SMEF (Component 2B) that would be used to provide TA to the selected firms. This yields a net economic NPV of US\$12.5 million. The ERR is estimated at 100 percent, much higher than the discount rate of 12 percent.

66. Sensitivity analysis reveals that the most important input variable is the benefits multiplier (that is, the direct impact on SME sales / output growth as a multiple of grant support received). In addition, the discount rate – another important input variable – has also been varied. Table 5 shows both the base case and various other scenarios by varying the benefits multiplier and discount rate.

**Table 5. Sensitivity Analysis of Catalytic Fund**

*(Economic NPV in US\$ million)*

<b>Benefits Multiplier</b>		<b>Low 2x</b>	<b>Base 4x</b>	<b>High 6x</b>
<b>Discount Rate</b>				
Low	8%	1.1	15.6	30.6
Base	12%	(0.25)	12.5	25.3
High	16%	(1.37)	9.7	20.8
<b>IRR</b>		41%	100%	145%

## **B. Technical**

67. The program is based on lessons learned from, and a simplified technical design compared to, SOMPREP2. It takes into account Somalia’s institutional capacity challenges, and balances Bank and Recipient-executed modalities in order to sensibly shore-up national systems

and institutional capacity; thereby enhancing sustainability. The technical design includes phasing and prioritization which emphasize a graduated approach to the delivery of TA and sets up a feedback or learning-by-doing mechanism under the SOP approach that can influence the path of planned activities in subsequent phases.

### **C. Financial Management**

68. The financial management risk is assessed as **High** as there are financial management capacity challenges that will affect the project. These include a lack of financial management competence and internal controls; limited accessibility due to insecurity; over reliance on consultants to provide technical assistance; a weak and unregulated banking sector to support the project banking arrangements; and a lack of regulatory framework for key Public Financial Management (PFM) aspects. Given the consideration for Use of Country Systems (UCS), the project will adopt the UCS in various aspects of the projects financial management, including financial planning, budgeting, funds flow arrangements, banking, internal control framework, accounting, reporting, internal and external audits, staffing and capacity building. Various mitigating measures will be designed both specific to the project and as part of other Bank/Donor engagements in the country. The financial management function of the project will be centralized within the EAFS Units in the Ministry of Finance at federal and regional levels. Experienced TA Financial Management Specialists (FMS) will be hired to support the project implementation units in FGS, Puntland and Somaliland. The services of the FMS will mitigate any financial management related risks and will also enhance capacity of the government to conduct such financial management activities in the future. The necessary TA will be identified and put in place with a clear requirement for knowledge transfer incorporated in the consultants' Terms of Reference (TOR). The project will also focus on developing targeted financial management capacity as part of project activities.

### **D. Procurement**

69. **FGS's** public procurement legal framework and institutions are not yet in place. The country has neither an institutional capacity nor legislative framework to handle robust public procurement. The private sector and civil society have limited capacity or functionality due to the lack of regulatory law and business norms.

70. In **Somaliland** the current procurement framework is based on the provisions in the financial and accounting procedure of the state, law no 79/96 (a.d. 2011). The Somaliland administration has finalized the drafting of a bill to regulate the public procurement environment and it is to be presented to Cabinet for review and approval. The public procurement bill will repeal all the procurement provisions in the financial and accounting procedure of the state, law no 79/96 (a.d. 2011). It is anticipated that the draft bill, one of the five bills under the country's PFM reform initiative will be tabled to parliament shortly.

71. **Puntland** has neither the institutional capacity nor a legislative framework to handle robust public procurement. The draft Procurement Bill has been presented to the Cabinet for review and it will after enactment replace all the procurement provisions in the financial and accounting procedure of the state. The proposed bill further provides for an independent oversight body to formulate policy and regulate public procurement, concessions and disposal of

assets practices in the country.

72. Procurement for the proposed project will be carried out in accordance with the latest revision of the World Bank’s “Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grant by the World Bank Borrowers” dated January 2011 (revised July 2014); and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grant by the World Bank Borrowers” dated January 2011 (revised July 2014), that facilitates dealing with the emergency and fragile situations in Bank-financed projects and Recipient –Executed Trust Funds (RETFs). “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, (the Anti-Corruption Guidelines)” dated October 15, 2006 and revised in January 2011, and the provisions stipulated in the Legal Agreement will be applied. Somalia being an FCS country, procurement will use the process under special procurement arrangements referred to in paragraph 20 of OP 11.00.

73. Regarding Bank execution on behalf of recipient, procurement of consultants would follow AMS 15.01 and all other procurements would follow AMS 15.10.

74. The primary program beneficiaries are the Central Bank, the Ministry of Commerce and Industry, the port authority and enterprises receiving matching grants and BDS. The beneficiary institutions do not have established procurement units to handle procurement independently. Experienced TA Procurement Specialists will be hired to support the project implementation units in FGS, Puntland and Somaliland. These Procurement Specialists will be recruited on a retainer contract basis, each for a maximum of 180 days spread over two full years. The services of the procurement specialists will mitigate any procurement-related risks and will also enhance capacity of the government to conduct such procurement in the future. As the result of the overall operational challenge and weak institutional capacity, the project procurement risk is rated as **HIGH**.

#### **E. Environment and Social (including Safeguards)**

75. Component 1 is expected to have no or negligible negative environmental and social (E&S) impacts, which does not warrant planning resources and measures for risk mitigation. However, the component offers opportunities for integrating E&S performance enhancements, which will be pursued during project implementation. On the project level, key enhancement measures would include the introduction of modern E&S standards and management processes in Components 1(b) and 1(c). On a higher regulatory level it will likely be extremely difficult to establish or significantly improve national environmental legislation during the project lifetime, but the project will advocate the adaptation of project level E&S standards for both management systems (for example, ISO 14,001) and performance standards (for example, IFC’s ESPSS).

76. A similar opportunity for E&S performance enhancement exists for Component 2(b), where part of the training, coaching and capacity building activities for SME will be directed at basic principles of environmental management, and workplace and community health and safety. Again, in the absence of national higher-level legislation and specific regulations, existing models for environmental management systems and specific performance standards will be used. These will be adapted to relevant project-level content (SME scale) and Somali conditions

(keeping in mind the prevailing E&S baseline conditions, the capacity of the environmental service sector, and management capacity). This will contribute to the coupling of SME support with enhanced practices in E&S management and sustainability.

77. Subcomponent 2A: This subcomponent will directly fund a wide scope of economic activities, some of which could have relevant E&S impacts that would have to be managed and mitigated. An E&S due diligence mechanism has, thus, been designed and implemented, which screens for possible impacts, offers guidance on assessment, provides management and mitigation requirements, and provides boundaries for the scope of financing (for example, in form of a negative list of environmentally risky entrepreneurial activities). The focus of the catalytic financial support on existing SMEs rather than startups and business ideas will make the screening, assessment and management process easier: the E&S track record of an SME applicant will be captured and evaluated / categorized, and used for: (a) decision on eligibility; (b) formulation of specific E&S conditions for financial support; and (c) integration of E&S compliance assistance into TA, training and advisory activities delivered to SMEs.

78. There are specific E&S risks resulting from the project's objective of catalyzing economic development via mobilization of individual entrepreneurship: (a) the absence of national environmental and social regulations (and largely legislation); and (b) the absence of, or only rudimentary functioning of the environmental service sector (for example, water and electricity supply, sewage disposal, waste disposal). Thus the project will be conscientious of environmental issues that could arise from the lack of water supply (for example, private wells/boreholes outside anyone's knowledge or control), electricity supply (private generators producing noise and diesel fumes) and the treatment and disposal of chemicals, pharmaceutical, gaseous emissions, effluents and solid waste (unregulated emissions, pollution of air and surface water/groundwater, unregulated/unmanaged waste disposal). To underscore this issue, none of the Somali territorial capitals has a waste management facility designed to modern standards and operated to acceptable practice, neither a functioning wastewater treatment plant, thus a rapid expansion of for example manufacturing, processing or small industry could result in serious bottlenecks for environmental services.

79. To mitigate and manage the above described risks the project has produced an environmental and social management framework (ESMF), which addresses the required screening, assessment and management processes and measures for a wide scope of support activities directed at the private sector. In addition, a close dialogue with utilities and municipal authorities, as well as cooperation and alignment with the Somalia Urban Development Project and Somalia Urban Investment Preparation Project will help to identify concrete risks and design measures to avoid, minimize and mitigate them.

### **World Bank Grievance Redress**

80. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-

compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## Annex 1: Results Framework and Monitoring

**Country: Somalia**

**Project Name: Somali Core Economic Institutions and Opportunities Program (SCORE) (P152241)**

### Results Framework

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#### Project Development Objectives

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PDO Statement

The Project Development Objective is to: (a) improve the enabling environment for private and financial sector development; and (b) catalyze private investment and job creation.

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**These results are at** | Project Level

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#### Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values			
		YR 1	YR 2	YR 3	End Target
Aggregate number of recommended laws/regulations/amendments/codes enacted or policies adopted (Number)	0	3	9	15	15
Aggregate number of recommended laws/regulations/amendments/codes enacted in Somaliland (Number - Sub-Type: Breakdown)	0	2	6	9	9
Private Capital Mobilized (Amount(US\$)) - (Core)	0	1,000,000	4,000,000	10,000,000	10,000,000
Total number of direct jobs created in enterprises supported by the project	0	100	500	2000	2000

(Number)					
Total number of direct jobs for women (Number - Sub-Type: Breakdown)	0	30	150	650	650
Total number of direct jobs for youth (Number - Sub-Type: Breakdown)	0	40	200	800	800

<b>Intermediate Results Indicators</b>					
		Cumulative Target Values			
<b>Indicator Name</b>	Baseline	YR 1	YR 2	YR 3	End Target
Total annual number of actionable on-site and off-site examination reports issued (Number)	0	1	4	8	8
Total annual number of actionable on-site and off-site examination reports issued by the Bank of Somaliland (Number - Sub-Type: Breakdown)	0	0	2	4	4
Annual number of diagnostic reports on legal, regulatory, institutional and infrastructure setting aimed at supporting orderly financial sector development (Number)	0	4	8	12	12
Annual number of diagnostic reports on legal, regulatory, institutional and infrastructure setting aimed at supporting orderly financial sector development issued by Bank of Somaliland (Number - Sub-Type: Breakdown)	0	2	4	6	6

Number of new business licenses issued under the Licensing Act during the Project (Number)	0	100	300	400	400
Number of new business licenses issued under the Licensing Act in Somaliland during the Project (Number - Sub-Type: Breakdown)	0	100	200	200	200
Implementation of a Management Information System in Mogadishu Port (Yes/No)	No	No	No	Yes	Yes
Total annual increase in revenue of firms supported by SBCF and SMEF that received training and advisory services (Percentage)	0	5	15	25	25
Number of individuals receiving subsidized BDS or advice financed by the SMEF (Number)	0	100	500	1,000	1,000
Number of individuals receiving subsidized TVET or other forms of training financed by the SMEF (Number)	0	200	800	1,500	1,500
Citizen engagement: Proportion of STEP beneficiaries who consider that design and/or implementation of project subjected to consultation is responsive to their view (Number)	0	40	50	60	60



### Indicator Description

#### Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Number of recommended laws/regulations/amendments/codes enacted or policies adopted	Total number of laws/regulations/amendments/codes enacted as a result of private and financial sector project interventions. For the financial sector, adopted refers to approval by the Central Bank and includes regulations/rules/guidelines covering MTBs and other non-bank financial institutions. This figure is an aggregate for Mogadishu and Somaliland	Semiannually	Central Bank of Somalia, Bank of Somaliland, Ministries of Commerce	Project Implementation Unit
Number of recommended laws/regulations/amendments/codes enacted in Hargeisa	Total number of laws/regulations/amendments/codes enacted as a result of private and financial sector project interventions in Somaliland	Semiannually	Bank of Somaliland, Ministry of Commerce	Project Implementation Unit
Private Capital Mobilized	The core indicator tracks the amount of direct financing (in the form of equity and/or debt) mobilized by private entities, using private funding, to finance investments within an IBRD/IDA operation or investments (PE, GE, RE, SF, and GU) directly linked to that operation.	Semiannually	Firm recruited for the Somalia Business Catalytic Fund	Task team in consultation with implementation partners who will collect the data
Total number of direct jobs created in enterprises supported by the project	Direct jobs created by SBCF, SMEF and STEP pilot (to be tracked individually and aggregated for this indicator).	Semiannually	Firms recruited for the SBCF and SMEF (including STEP pilot)	Task team in consultation with implementation partners who will collect the data

Total number of direct jobs for women	N/A	Semiannually	Firms recruited for the SBCF and SMEF (including STEP pilot)	Task team in consultation with implementation partners who will collect the data
Total number of direct jobs for youth	Youth defined as under the age of 30	Semiannually	Firms recruited for the SBCF and SMEF (including STEP pilot)	Task team in consultation with implementation partners who will collect the data

#### Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Total annual number of actionable on-site and off-site examination reports issued by Central Bank	Annual number of actionable on-site and off-site examination reports issued by the Central Bank. In Mogadishu: Examination reports covering MTBs and other non-bank financial institutions. In Hargeisa: Examination reports covering bank and other financial institutions.	Semiannually	Central Bank of Somalia	Project Implementation Unit
Total annual number of actionable on-site and off-site examination reports issued by the Bank of Somaliland (Number - Sub-Type: Breakdown)	Examination reports covering bank and other financial institutions	Semiannually	Bank of Somaliland	Project Implementation Unit
Annual number of diagnostic reports on legal, regulatory, institutional and infrastructure setting aimed at supporting orderly financial sector development	Diagnostic reports covering aspects related to MTBs, other non-bank financial institutions, and other financial institutions	Semiannually	Central Bank of Somalia	Project Implementation Unit

Annual number of diagnostic reports on legal, regulatory, institutional and infrastructure setting aimed at supporting orderly financial sector development issued by Bank of Somaliland (Number - Sub-Type: Breakdown)	Diagnostic reports covering aspects related to MTBs, other non-bank financial institutions, and other financial institutions	Semiannually	Bank of Somaliland	Project Implementation Unit
Number of new business licenses issued under the Licensing Act	n.a.	Semiannually	Ministry of Commerce	Project Implementation Unit
Number of new business licenses issued under the Licensing Act in Somaliland (Number - Sub-Type: Breakdown)	n.a.	Semiannually	Ministry of Commerce and Investment	Project Implementation Unit
Implementation of a Management Information System in Mogadishu Port	The completed MIS will support short, medium- and long-term planning for the port sector and include the following: (a) selection of port operational equipment for cargo handling and marine service, (b) planning and preparation of human resources required by the different activities and areas of the port (c) information on financial policy including tariff setting for services provided (d) required technical, financial, legal and administrative framework required for the development of private sector participation in the port sector.	Semiannually	Port Authority	Project Implementation Unit

Annual increase in revenue of firms that received training and advisory services	n.a.	Semiannually	SMEF	Task Team in consultation with the firm recruited to undertake the assignment
Number of individuals receiving subsidized BDS or advice financed by the SMEF	n.a.	Semiannually	SMEF	Task Team in consultation with the firm recruited to undertake the assignment
Number of individuals receiving subsidized TVET or other forms of training financed by the SMEF	n.a.	Semiannually	SMEF	Task Team in consultation with the firm recruited to undertake the assignment
Citizen engagement: Proportion of STEP beneficiaries who consider that design and/or implementation of project subjected to consultation is responsive to their view (Number)	Proportion of beneficiaries participating in the STEP pilot who consider the design is responsive to their view	Semiannually	SMEF	Task Team in consultation with the firm recruited to undertake the assignment

## Annex 2: Detailed Project Description

### Program Design

1. SCORE’s SOP-1 continues several activities commenced in SOMPREP2 and covers all areas of Somalia that are sufficiently secure to operate in. SOP-1 will cover approximately 40 months of implementation and is expected to be effective by April 2016. SOP-2 (Phase II) is proposed to cover an additional 27 months: the mid-term review of SOP-1 will inform if and when SOP-2 can be appraised. Depending on the disbursement rate and implementation progress of Component 2, SOP-1 and SOP-2 could overlap by up to one year.

2. The Program will be jointly led by the WBG Trade and Competitiveness Global Practice and the Finance and Markets Global Practice. It will provide technical assistance to support solutions to specific constraints to investment and job creations such as financial and private sector informality, underdeveloped markets for skills formation and business development services, a disorganized port sector, and a lack of finance for productive investment. The majority of the resources will be used to provide direct support to private enterprises and this support will be made available in all areas of the country that can allow service contractors to operate in a sufficiently safe environment. Table 2.1 below displays the geographic coverage of SOP-1 and Box 2.1 describes Somalia’s political economy.

**Table 2.1. Geographic coverage in SOP-1**

	Mogadishu	Garowe/Bosaso	Hargeisa
1A. Strengthening Central Bank Supervision and Regulation	X	*	X
1B. Improving the Investment Climate	X	–	X
1C. Developing the Port Sector	X	*	**
2A. Catalytic Fund***	X	X	X
2B. SME Service Facility	X	X	X

*Note:* \* Indirectly through support to FGS.

\*\* SOMPREP2 is scheduled to close on June 30, 2017, and it includes a support activity for Berbera Port.

\*\*\* The Catalytic Fund will cover all territories in which there is sufficient security to operate.

#### **Box 2.1. Somalia’s Political Economy**

Somalia hosts mainly nomadic groups and agricultural communities with a growing number of citizens engaged in trade, services and fisheries due to rapid urbanization. Clan cleavages are a source of conflict that fuel competition for resources and power. Tensions between clans make broad-based peacebuilding and reconciliation difficult. However, traditional clan elders are a primary source of conflict mediation. Clan-based customary law serves as the basis for negotiated settlements. The perception of the state among the Somalis is mixed; it is viewed both as a source of rule of law and peaceful allocation of resources and occasionally as a source of violence and predation. Economic interests are linked to Somalia’s conflicts in different ways: they sometimes support war economies that perpetuate violence and lawlessness while in other instances business interests are the driving force for peace, stability and the rule of law.

The modest record of growth in the country is largely attributed to the large inflows of remittances and ODA. With the exception of a few dynamic sectors, such as (informal) finance, telecommunications and livestock, the economy is atrophied and has remained mostly informal. In broad terms, the economy is divided into a small corporate sector, often benefiting from monopolistic control, and survival entrepreneurs (the coping sector).

Several important sectors (for example, finance) are designed as opaque systems with heavy reliance on family and clan patronage. In all regions, primary infrastructure (for example, ports) and industry are controlled by a small elite and related clan systems. In southern Somalia, valuable agricultural land, urban real estate and seaports, have been taken over by armed clans for economic gains. The competition for the control of power and resources is changing clan boundaries with new clans consolidating their position on occupied lands. One of the difficult challenges to build institutions is the impact of the changed structure of clan distribution on state and societal relations. This dynamic fuels new forms of vested interest and conflict.

The design of the SCORE program is informed by this political economy context and proposed activities have been carefully selected and are directly derived from lessons gained in SOMPREP2. The activities place importance on strengthening sources of demand for greater public accountability and focusing support on issues where political economy analysis points to greater likelihood of reform. The SCORE program will work with governments that have shown ownership, commitment and some capacity, while also supporting micro-level development outcomes through catalytic fund and SME service facility.

3. The SCORE program will consist of two main components: the first one will help strengthen core economic institutions; and the second one will help increase private economic opportunities. Given the diversity of project operations in Somalia, SCORE will be carefully coordinated with other ongoing and planned activities in other units, in particular focusing on the projects in the Table 2.2 below.

**Table 2.2. WBG and IMF Intra-Coordination**

Project Component	WBG and IMF Intra-coordination						Youth Employment
	FGS Remittance Action Plan (GFMDR)	Investment Climate Reform Program (GTCDR)	Horn of Africa Initiative (IFC)	Public Financial Management Project (GGODR)	ICT Sector Support in Somalia (GTIDR)	IMF	
<b>COMPONENT 1: STRENGTHENING CORE ECONOMIC INSTITUTIONS</b>							
<i>1A. Strengthening Central Bank Supervision and Regulation</i>	X	–	–	X	X	X	–
<i>1B. Improving the Investment Climate</i>	–	X	–	X	X	–	–
<i>1C. Developing the Port Sector</i>	–	–	X	X	–	–	–
<b>COMPONENT 2: EXPANDING ECONOMIC OPPORTUNITIES</b>							
<i>2A. Catalytic Fund</i>	–	–	–	–	–	–	X
<i>2B. SME Service Facility</i>	–	–	–	–	–	–	X
<b>COMPONENT 3: PROJECT MANAGEMENT</b>							
	–	–	–	X	–	–	–

### **Component 1: Strengthening Core Economic Institutions**

#### *Subcomponent 1A: Strengthening Central Bank Supervision and Regulation (US\$4.0 million)*

4. The Somali financial sector is largely unregulated and unsupervised and recently has come under an unyielding threat of being cut off from the global financial system. Legal and regulatory weaknesses limit the institutional effectiveness of the central banks to regulate and supervise financial institutions. The financial sector's contribution to economic and social

reconstruction is therefore suboptimal. Financial market integrity, legal and regulatory limitations and gaps in payment and market infrastructure impose transaction costs and constrain global connectivity of the Somali financial system needed to support financial flows for remittances, trade and ODA.

5. Although the authorities in Mogadishu and Hargeisa have enacted central banking acts and financial institutions laws, the Somali financial sector remains unsupervised. Informal and unregulated provision of financial services is the norm in Somalia. Some of these financial institutions also act as quasi-banking institutions facilitating the transfer of funds within the region, ensuring the transfer of funds for domestic and foreign trade and offering deposit and credit facilities. For this reason, the formalization approach for Somali financial institutions (that is, regulation and supervision) will need to be graduated and well-ordered taking into consideration needs for orderly entry and exist in a formal and regulated business environment for financial services, including proper unwinding of problematic and unfit activities by financial institutions.

6. There have been false starts regarding licensing of financial institutions. The authorities almost uniformly have resorted to issuance of legally unwarranted “provisional licenses” to financial institutions thereby undermining their own longer-term legitimacy and relevance. As of June 2015, the CBS had “provisionally licensed” six banks and nine money transfer businesses.<sup>17</sup> As at end-February 2015, the Central Bank of Somaliland (CBSL) has “licensed” two Islamic finance banks; however, the licensing due diligence process followed was considered substandard by a World Bank mission in January 2014. Currently, CBSL is drafting a bill focused on regulation and supervision of money transfer businesses. Both CBS and CBSL have been working on drafting AML/CFT bills that are yet to reach their respective parliaments.

7. Given the risk of sustained informality, the authorities need to carefully consider the potential impact of the formalization process. The lack of regulation and supervision of financial institutions presents a formidable barrier for financial institutions to improve operations and compliance. In the Somali context, it will be important that key financial institutions are engaged in structuring the transitional arrangements from informality (unregulated and unsupervised provision of financial services) to a formal business environment. For instance, the central bank needs to begin to provide inter-bank payment and settlement services to financial institutions and the government by acting as the banker of banks and cashier of the government and ensuring that the discharge of inter-bank payment obligations takes place across the settlement accounts of financial institutions maintained with the central bank in order to ensure settlement finality. However, it can only do this working with licensed financial institutions so as not to compromise financial integrity and safety of the nascent financial system.

8. Complementary capacity injection delivered through other World Bank programs such as Somalia Public Financial Management Capacity Strengthening Project II (TF0A0388,

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<sup>17</sup> CBS is yet to disclose the due process followed for the issuance of licenses to money transfer business under the recently drafted Financial Institutions (Money Transfer Business Licensing) Regulations, 2014. As of March 2015, CBS had registered 15 MTBs; Dahabshiil was the largest money transfer business. Others include Qaran Express, Mustaqbal, Amal Express, Kaah Express, Hodan Global, Olympic, Amana Express, Ifin Express, Sahal, and Tawakal Express. Information from interviews with central bank officials. June 2015

TF0A0389, TF018536, TF0A0681) which is partly focusing on strengthening core banking operations and accounting systems, and the Public Sector Capacity Injection and Institutional Strengthening Project (TF0A0415, TF018535), which is partly focusing on filling critical positions in the central bank in order to strengthen the capacity of selected departments to perform their core central banking functions, will contribute to strengthening institutional effectiveness of the central bank (see Box 2.2 below). Moreover, in Mogadishu SCORE will complement the IMF’s support to the Central Bank of Somalia focusing on bank supervision and regulation (See Box 2.3 below). In addition to the FGS Remittances Action Plan, which tackles deficiencies related to Somali financial sector integration with the global infrastructure and seeks to strengthen money transfer business regulation and supervision, SCORE adds a more sustained and longer-term dimension focused on Somali related institutional strengthening and overall financial sector development (see Box 2.4 below).

**Box 2.2. SCORE and Governance Programs**

*Somalia Public Financial Management Reform Project:* The objective of the Somalia PFM Project is “to establish institutional capacity for the management of public funds”. Efforts target:

- Macro-fiscal policy formulation, revenue mobilization, planning and budget preparation
- Treasury management, budget execution, procurement, accounting and financial reporting
- Strengthening the integrity pillars
- PFM professionalism
- Project oversight, coordination and management
- Analytics and advisory services

With regard to treasury management, budget execution, procurement, accounting and financial reporting, the PFM project is supporting the Central Bank of Somalia (CBS) implement a core banking and accounting system. Currently, core banking operations and accounting systems at CBS are manual with no written procedures and incomplete records. Detailed accounting procedures covering relevant aspects of the central bank’s financial operations are missing. CBS will need to operate settlement accounts for financial institutions and construct an inter-bank funds transfer system in Somalia linked to the core banking and accounting system.

The proposed core banking and accounting system will need to be scalable to allow CBS meet current and perceptible future needs. The procurement strategy for the core banking and accounting system will respond to the context of significant CBS resource and capacity constraints in the short term.

In preparation for the implementation of the core banking and accounting system, CBS has established an organization structure that includes Banking Operations and Accounting and Finance units that is yet to be presented to the Board of Directors for approval. The proposed organizational structure for these two units will be subject to further refinement under the Public Sector Capacity Injection and Institutional Strengthening Project in order to maximize the benefit of the core banking system platform implementation. The refined organizational structure will be consistent with the central bank functions stipulated in the Central Bank of Somalia Act of 2011 and Financial Institutions Law of 2012. In this way, the central bank will be able to demonstrate operational proficiency and effectiveness in carrying out its fiscal agency role utilizing improved systems, processes and procedures that are consistent with international standards and accepted practice.

*Public Sector Capacity Injection and Institutional Strengthening Project:* This project’s development objective is “filling critical positions in the civil service and to strengthen the capacity of selected line ministries and central agencies to perform core government functions”. The CBS is one of the targeted beneficiary institutions. Generally, efforts focus on the following:

- Developing capacity for key cross-cutting government functions: This includes supporting harmonized and government-led capacity injection in priority institutions as well as providing specialized training and coaching support for new recruits and their teams
- Strengthening Policy Management, Coordination and Monitoring Capabilities at the Centre of



government: This involves strengthening capacity for aid coordination and monitoring and evaluation of the Somali Compact, including developing basic policy management capabilities

- Strengthening the frameworks and procedures for civil service management: Supporting priority ministries in re-organization and change management and strengthening basic frameworks for civil service management – pay/grading and pension policy and civil service work force management
- Project Management, Coordination, Impact Evaluation and Demonstrating Results: focuses on effective project management and demonstrating results (monitoring and evaluation)

### **Box 2.3. IMF Support to Central Bank of Somalia**

IMF capacity development focuses on the CBS in Mogadishu. Efforts target:

- Building capacity for the production of macroeconomic statistics
- Developing an adequate macroeconomic framework for monetary and fiscal policy formulation and implementation
- Setting up a functioning central bank in two main areas (a) central banking and (b) banking supervision and regulation
- Improving tax and customs policy and administration
- Strengthening public financial management

With regard to central banking and bank supervision, IMF capacity development focuses on two main areas to enable the CBS become fully functional. The primary goal is to provide technical guidance and to advise the Central Bank of Somalia for establishing its basic institutional and governance structure, and building capacity of CBS in bank supervision and regulation.

Key elements of the technical assistance in central bank operations include: (a) accounting, financial reporting and ICT; (b) central bank governance, structure, and organization; (c) monetary and exchange rate policy and operations; (d) foreign reserve management; (e) internal audit and risk management, and; (f) possible currency reform.

The main components for bank supervision and regulation are: (a) developing legal and regulatory frameworks; (b) establishing supervision systems, and; (c) building capacity in all these areas.

IMF support include a long-term general advisor to CBS management on monetary and financial issues. The advisor will assist in the implementation of the strategic organizational plan, and help strengthen central bank functions and operations, including bank supervision and monetary operations.

*Source:* IMF “Somalia Trust Fund for Capacity Development in Macroeconomic Policies and Statistics: Program Document” February 26, 2014

### **Box 2.4. SCORE and FGS Remittances Action Plan**

WBG support to the FGS Remittances Action Plan aims to tackle key deficiencies related to Somali financial sector integration with the global infrastructure, and to accelerate implementation of corrective interventions.

This support will include both shorter-term and longer-term elements to strengthen the systems supporting the flow of remittances to Somalia. The SCORE program adds a more sustained and longer-term dimension focused on Somali related institutional strengthening and financial sector development.

**In-scope (WBG support to FGS Remittance Action Plan):** The support fittingly addresses urgent Somalia-based remittance corridor deficiencies, as follows:

**MTB Regulatory Framework:** The support aims to develop two sets of regulations including: (a) MTB Customer Registration Regulations; and (b) Money Transfer Operator (MTO) Operational Regulations. The first set of regulations will introduce customer registration requirements, for all customers of MTBs (recipients and traders) and would apply to all MTBs to ensure a level playing field in the sector. The second set will address customer and recipient due diligence, selection of agents by MTBs, record keeping, monitoring, reporting, and internal controls.

**Supervision of MTBs:** The support aims to support Central Bank of Somalia (CBS) undertake and phase-in on-site and off-site supervision of MTBs via delegation of supervisory authority from the CBS to a trusted agent.

The trusted agent would implement on and off-site supervision and also train CBS staff to be able to take on this role in the future.

**Out-of-scope (the SCORE program):** The SCORE program will not address non-Somalia remittance corridor deficiencies identified under the FGS Remittance Action Plan.

9. Attaining meaningful engagement of key financial institutions by the authorities will be central to effective supervision and regulation. Financial institution engagement will aim to produce ownership of program outcomes. This will increase the likelihood that agreed arrangements will be used and acted upon. The goal would be to gather stakeholder views and arrive at consensual positions on the pacing, prioritization and sequencing of reforms.<sup>18</sup> The formalization of the Somali financial sector needs to be undertaken as a co-operative responsibility with the commitment and active participation of key stakeholders ensured. Key stakeholders will be encouraged to actively participate to achieve the objectives and goals of the program.

10. A special role in this process will be played by the current community of quasi banks and money transfer businesses due to their central role as financial service providers albeit informally. Given their natural responsibility and central role in the financial sector, the central banks in Mogadishu, Hargeisa and Garowe will take the leadership role in convening stakeholders, facilitating policy dialogue and establishing appropriate stakeholder engagement structures to ensure that key stakeholders are involved in financial sector reform preparation and implementation.

11. Considering that financial institutions will need to improve their operations and compliance, effort to formalize the sector will need to be accompanied by strong measures that enhance capacity of Somali institutions and national systems. This program's implementation approach is closely aligned with other World Bank governance projects seeking to strengthen capacity and public financial management as well as the multi-donor financial governance program.<sup>19</sup> Governance weaknesses in institutions responsible for financial market integrity, payment systems oversight and enforcement of financial sector rules and regulation, pose serious risks and threats to remittances and ODA financial flows in Somalia.<sup>20</sup>

12. Further, this state of affairs imposes opportunity costs by limiting the capacity of existing financial institutions to escape informality, expand, and develop a broad range of financial

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<sup>18</sup> Stakeholder consultation process will be deliberative and comprise various forms such as face-to-face interviews, conferencing, study tours, discussions or regular round-table exchange of views as well as via structured questionnaires to ensure that the preferences, priorities, strategic interests and perspectives of different stakeholders are given systematic consideration.

<sup>19</sup> Under the financial governance program, the authorities are committed to improve central bank governance at a macro-level focused on improving CBS board operations and procedures, including HR policies for employee recruitment, retention and motivation; code of conduct for employees; establishment of an internal audit function including a financial reporting framework; auditing and production of a complete package of financial statements by CBS prepared in accordance with accepted international standards.

<sup>20</sup> This case of "de-risking" drivers was brought to prominence when Barclays Bank issued a notice to terminate account relationships with UK money transfer businesses on the Somali corridor in 2013. The largest Somali money transfer business (Dahabshiil) requested and won a court injunction to prevent Barclays from terminating its accounts. Barclays delayed termination of financial relations until this matter was eventually settled outside the courts sometime in 2014.

products and services thereby limiting private enterprise development and contributions to national reconstruction efforts. Whilst this unregulated state has not hindered private and ODA financial flows in the past, sustainability and availability of existing transmittal channels in future is unlikely if capacity improvement are not delivered.

13. An ample scope for substantially strengthening the existing legal and regulatory framework exists. In both Mogadishu and Hargeisa, a fundamental aspect of pressing need is to update, harmonize and ensure consistency between the various pieces of financial sector legislation and to follow up with capacity building to ensure actual implementation of the new legal and regulatory framework including enforcement of actions connected to financial sector law and regulations. Accordingly, this subcomponent will focus on prioritized activities initiated under SOMPREP2 in five sub-parts as follows:

- (a) TA, training and capacity building to support continued implementation of the work program in Somaliland that was disrupted by the delay to enact the Banking, Credit and Financial Institutions (BCFI) Bill by the authorities. The assignments disrupted were dependent on the enactment of the BCFI which is yet to be enacted. Support will be provided to frame a new agenda and draw on global and regional experts to facilitate an inclusive policy dialogue process, technical advice and analytical work.
  - The priority for the authorities is on charting the financial landscape; creating an enabling environment that facilitates orderly transition from unregulated and unsupervised provision of financial services to fully functional financial institution licensing, supervision and regulation framework. In part, the goal is to form a holistic understanding of the landscape of financial services and the scope for transitioning from informal to formal business environment. For private sector participants, this transition implies compliance to a new set of rules and regulations, and adjusting operating standards to conform to safety and soundness standards delivered under new central bank regulations. For the authorities, it means making sure that data, records, research, analysis and other information about the financial sector are fully tracked; acting as catalysts or facilitators, meeting and communicating with financial sector participants and the public in general for the identification and implementation of a coherent financial sector development initiative.
  - The policy dialogue will anchor implementation support of the work program in Somaliland under the SCORE program; the dialogue will provide a forum for Islamic finance specialists, religious scholars, practitioners and policy-makers to identify and exchange views and perspectives on the key challenges that underlie conventional and Islamic finance development in the territory.
  - TA will be provided to evaluate the current legal, regulatory and institutional setting and impact on financial sector development in Somaliland relative to other comparator territories, including Islamic and conventional finance territories; considerations for policy approaches/tradeoffs and conditions for orderly financial sector development; identification of risk factors that will need to be addressed in order for this vision of financial sector development to be

realized. Based on the analysis undertaken, identify short and medium terms actions that need to be undertaken.

- TA will also be provided to draft a strategic roadmap for financial sector development that is cognizant of the low institutional capacity and nascent nature of the financial sector in Somaliland and the need to provide a broad range of safe and affordable financial products and services to households and small businesses, and around which added international support can be mobilized to support implementation.
- (b) TA, training and capacity building to gradually enhancing institutional capability at central bank level and expanding the regulatory rulebook for financial institutions in order to shore-up the quality of central bank supervisory and regulatory practice, and operational effectiveness. Specifically, the subcomponent will support the following:
- TA to evaluate the legal, regulatory and institutional framework for financial sector regulation and supervision including consideration of broader legal and regulatory environment connected to enforcement actions for financial sector law and regulations in Somalia; identify and understand functioning of alternative “informal” mechanisms and advise on future work and initiatives including design of study tours to assist the authorities examine and decide on policy approaches/tradeoffs to strengthening the legal and regulatory infrastructure to the context of a broader financial sector development agenda.
  - TA to analyze the legal, regulatory, institutional, procedural and capacity bottlenecks at central bank level (that is, bottlenecks to regulatory and supervisory policy delivery and practice) and regulated financial institutions level (that is, bottlenecks to continuous improvement in operations and compliance to rules and regulations); assess and identify professional and technical skills gaps that exist in the central bank and financial services sector and conduct an analysis of feasible options of filling the identified gaps.
  - TA and capacity building to improve existing rules, regulations and procedures by re-engineering business processes and other necessary changes at central bank level regarding document management in the supervision and licensing units (financial institutions documentation and record management); evaluate ICT readiness of the supervision units in the central banks with a view to improving office automation and the state of privacy and confidentiality of financial institutions information; and prepare training plans for officials. It is anticipated that this intervention will comprise significant handholding during implementation.
  - TA to draft amendments to existing laws and implementing regulations key to closing gaps in the legal and regulatory infrastructure relevant for financial sector development; facilitate workshops, roundtables and other similar events to discuss aspects of the draft amendments to existing laws and regulations and gather views of stakeholders.

- Capacity building for central bank officials participating in financial institutions supervision and regulation; identify training programs and provide training to key central bank officials on regulatory and supervisory practice in order to improve their effectiveness. TA will also help develop financial institutions supervision plans stipulating priorities, objectives and means of ensuring continuous improvement in financial institutions operations and compliance with rules and regulations. This will include development of a multi-year work plan together with a human resource and training plan.
  - TA to the central banks to develop a management information system to be used by supervision units to report to executive-level officials on findings from on-site and off-site examinations and for following up supervisory corrective actions and directives, including periodic progress reports on managing problem financial institutions.
  - TA to the central banks for outreach and information campaigns on the evolving legal and regulatory reforms throughout the program lifecycle. This will focus on informing the public in general about central bank regulatory and supervisory policy changes which will include a communications strategy, supporting roadshows and facilitating interaction by the authorities with regional and foreign financial institutions seeking to expand business services to Somalia.
- (c) TA, training and capacity building to supplement intermediate improvements attained under SOMPREP2 and other World Bank governance programs through replacements or up-scaling. The intermediate solutions and tools targeted include those that influence the overall functioning of the financial system, that is, operation of central bank functions (banking operations and accounting); regulatory reporting for licensed financial institutions; and central bank AML/CFT procedures. Specifically, the subcomponent will support the following:
- AML/CFT: Assess the status and effectiveness of implementation activities started under SOMPREP2 establishing the essential building blocks for a national AML/CFT system (principally high-level commitment, technical working groups, AMF/CFT law development, and ratification of international protocols and standards); diagnostics assessing money laundering and terrorist financing (ML & TF) risk in Somalia to inform AML/CFT policy development, strategy formulation, action plan implementation support and M&E systems. Support will include training of key stakeholders (intermediaries, that is, bankers, lawyers, accountants);
  - Payment Systems: Conduct stocktaking to identify payment needs of all users and cultivate holistic understanding of national/regional development needs for payment systems in Somalia to inform policy, strategy formulation, and implementation support; development of a modern payment systems law and finance investment in platforms;

- (d) TA and training to elaborate and implement medium- to long-term strategic roadmaps for financial sector development. The financial sector development roadmaps will build on the foundations laid during Phase I and II of the SCORE program, subsequent outcomes, and emerging government priorities in the intervening period aimed at supporting financial sector development.
- TA for workshops and roundtables to elaborate and agree upon development plans and gather inputs from stakeholders.
- (e) TA and analytical work to be executed by the task team on behalf of the beneficiary central banks due to insufficient capacity by the central banks to undertake such technical work and analytics.<sup>21</sup>
- There is growing demand from stakeholders within and outside Somalia for financial sector data collection and analysis and to use this to formulate or evaluate policy. This includes the need to examine the scope of leveraging ODA and remittances to increase access to finance and enable innovative financing solutions such as trade finance, insurance and other private sector flows.
  - This subcomponent will support limited surveys of households and enterprises with a view to developing a baseline (and panel data as needed) on the nature of access and use of financial services; understand extent of constraints, nature of opportunities and unmet demand for financial services by households, small businesses and government. This will be useful to a rigorous tracking of changes in financial sector development and evaluation of impact on small businesses and households.
  - It will also support initial stages of pre-feasibility study for microfinance focused on identifying demand for services, microfinance institutions operating in Somalia and their services, key features of effective design and confidence building among stakeholders for successful implementation and operation of microfinance services in Somalia.
  - During implementation, policy-level and technical-level working groups will be established to stimulate policy dialogue and continuing collaboration and cooperation on financial sector development.

14. Under the first phase of the SCORE Program, a comprehensive diagnostic of the legal, regulatory and institutional setting for financial institution supervision and regulation will be conducted, including technical review of existing financial sector laws and draft bills. These efforts are aimed at establishing the basic foundations and building up institutional setting for effective supervisory and regulatory functions at the central banks and also general modernization of processes and procedures related to policy design and delivery and supervisory

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<sup>21</sup> In all cases under this sub-component of the SCORE program, the Bank-executed component will follow applicable internal World Bank procurement rules and will be limited to provision of technical work and analytics.

practice; all of which require sustained investments over the longer-term.

15. The work plan identified for the first 18-months of SCORE Program implementation include review of the enabling legal framework for the establishment of Islamic, commercial and microfinance banking including an evaluation of the enabling environment connected to enforcement of supervisory actions by central banks; assessment of the effectiveness of implementation activities already started aiming at establishing national AML/CFT systems including diagnostics assessing ML & TF risk in Somalia so as to appropriately inform AML/CFT policy.

16. In order to establish foundations for effective supervisory capacity at the central banks, SCORE will initially focus efforts to: (a) establish a strong financial institution licensing frameworks (orderly entry and exit); and (b) progressively strengthen the capacity of central banks to supervise and regulate financial institutions, as measured by key institutional performance indicators (gradual development of prudential rule book that is consistent with international standards, financial reporting and monitoring, financial institution examinations).

17. The modules and activities to be developed and implemented are shown in Box 2.5.

**Box 2.5. Modules and Activities Planned for Component 1A**

**Module 1: Diagnostics of the legal, regulatory and institutional setting**

**Activity 1:** Comprehensive diagnostic of the legal, regulatory and institutional setting for effective regulation and supervision of financial institution supervision, including technical review of existing financial sector laws and draft bills.

**Activity 2:** Review of the enabling legal framework and market infrastructure for the establishment of Islamic, commercial and microfinance banking. Includes an evaluation of the enabling environment connected to enforcement of supervisory actions by central banks.

**Activity 3:** Assessment of the effectiveness of implementation activities seeking to establish national AML/CFT systems. Includes diagnostics assessing ML & TF risk in Somalia so as to inform AML/CFT policy development.

**Module 2: Legal drafting and adjunct regulatory reform support**

**Activity 1:** Drafting of the legal and regulatory instruments required for correcting identified deficiencies in legal, regulatory and institutional setting and necessary for effective implementation of the Banking and Financial Institutions Act and the Banking, Credit and Financial Institutions (BCFI) Bill (in Hargeisa) and the Financial Institutions Law (in Mogadishu). Includes drafting regulations on licensing (entry/exit), operations (governance, accounting manual or chart of accounts, financial reporting) and safety and soundness condition (liquidity management, capital adequacy, credit risk management, external auditors, AML/CFT). Other regulations to be further developed once the legal framework is in place.

**Activity 2:** Support to the central banks in dissemination and discussion of the draft legislation and regulations with stakeholders, and obtaining final approval from the central banks' boards of directors.

**Activity 3:** Support to the central banks in public dissemination and training.

**Module 3: Business process re-engineering and systems development**

**Activity 1:** Design and implementation of streamlined processes or routines required to support supervision of financial institutions, improving office automation and the state of privacy and confidentiality of financial institutions information. Includes design and implementation of key statistical, early warning and rating reports.

**Activity 2:** Drafting of operational manuals for fully functional licensing and supervision framework including governance arrangements at central bank level, financial institution supervision. Includes definition of supervisory approach, activities and procedures, formats and sample reports, sample enforcement action,

management of the supervisory cycle.

**Activity 3:** Acquisition of computer and communications hardware for office automation for the supervision function, including submission of prudential reports by supervised financial institutions.

#### **Module 4 Capacity building and supervision training**

**Activity 1:** Induction training of existing and newly recruited staff/interns for the supervision function.

**Activity 2:** On-the-job training during licensing (orderly entry and exit), dissemination of draft regulations to stakeholders during “notice and comment” period, and executive level reporting on findings from financial institutions examinations (learning by doing).

**Activity 3:** Facilitation of inter-governmental cooperation; consultation process on cross-border activities of supervised financial institutions; “sensitizing” stakeholders as to the system-wide development needs and policy considerations/tradeoffs.

**Activity 4:** Study tours for financial institution examiners.

18. The subcomponent is aligned with the authorities’ policies and priorities, and takes into account lessons learned during SOMPREP2 implementation on: (a) making graduated “stepwise” improvements in capacity and operational effectiveness by prioritizing establishment of basic foundations for longer-term financial sector development; and (b) shoring-up and strengthening central banks’ policy dialogue on regulation and supervision with existing yet informal financial institutions (unregulated and unsupervised). The aim of this intervention is to ensure that both the existing market players and the central banks come to see policy dialogue in the financial sector development process as an indispensable tool to strengthening institutional effectiveness of the central banks and building up credibility of institutional arrangements and capacity building efforts. This approach, based on lessons gleaned from SOMPREP2, provides an opportunity to work with the existing players to resolve legal and regulatory deficiencies, and commit to prompt corrective actions. As such, the subcomponent adds to the FGS’s own interventions on remittances and complements forthcoming WBG support for the FGS’s Special Task Force on Remittances (STFR) in implementing their plan for “Formalizing the Financial Sector in Somalia – enabling safer flows of remittances and building foundations for the sector”. The FGS Remittances Action Plan is designed to address urgent Somali related “de-risking” drivers<sup>22</sup> and deficiencies in remittance corridors upsetting access of Somali financial institutions to the global financial system due to inadequate rules, regulations and limited central bank supervisory capacity, by constructing a more sustained longer-term intervention focused on institutional strengthening and financial sector development.

19. The support activities will be implemented in two phases with phase I financing and supporting short- to medium-term interventions designed to address institutional capacity deficiencies in financial regulation and supervision by providing technical assistance (TA) aimed at strengthening regulation and supervision as well as in-house central bank operational rules and procedures.

20. TA will not only help revise the legal and regulatory environment but also build capacity to support implementation and enforcement of the new mechanisms. TA will cover three types: (a) legislative changes; (b) regulatory reforms, and; (c) procedural/operational changes. TA

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<sup>22</sup> The closure of Somali financial institutions’ bank accounts with foreign banks is part of a broader trend in the global financial system referred to as “de-risking” – this is a situation where commercial banks either terminate or restrict business relationships with clients that they consider to present an unacceptable or unmanageable level of risk to the institution.



support linked to the legislative approval process is time-consuming with an approval process often taking years. Regulatory and procedural/operational changes take less time to take effect, however, and reforms which can be implemented without legislative change will be prioritized in Phase I. A more effective Central Bank will allow financial institutions to formalize, expand and develop a broad range of financial products and services facilitating private sector development. Strengthening financial market integrity, legal and regulatory frameworks, including payment and market infrastructure improves global connectivity of the Somali financial system, which is needed to support financial flows for remittances, trade and ODA.

**Subcomponent 1B: Improving the Investment Climate (US\$1.5 million)**

21. This subcomponent will finance TA, training and equipment to improve the business environment by reducing transaction costs associated with operating a formal business and putting in place a basic legislative framework for contractual arrangements and licensing. It will facilitate formalization, improve service delivery and provide the private sector and the regulators (MoCI, Tax Authority) with reliable registry and licensing tools and information. It will also seek to improve government-to-business services to local SMEs and introduce basic economy-wide business environment and investment climate frameworks.

22. This subcomponent will be implemented in parallel in Mogadishu and Hargeisa. In Mogadishu this will be a new engagement whereas in Hargeisa the support activities will be a continuation of support provided under SOMPREP2, including the official launch of the three One Stop Business Facilitation Centers (OSBC) completed in Hargeisa, Berbera and Burao, and the outstanding legal framework and bylaws. Based on the experience in SOMPREP2, the support will be strictly sequenced with legal and regulatory support first and training and systems second. The work under SCORE will inform the design of, and in part be supported by, the complementary WBG Somali Investment Climate Reform Program.

23. A breakdown of the proposed activities is provided in the Table 2.3 below.

**Table 2.3. Proposed Activities for Improving the Investment Climate**

Activity	Mogadishu	Hargeisa
<b>(a) Legal Diagnostic and Drafting</b>		
	- Companies Act - Sole Proprietorship and Partnerships Act - Licensing Act	- Regulations, Forms, Tariffs
<b>(b) Training</b>		
MoCI/Registrar General	Companies Act, Sole Proprietorship Act – Business Registration	Companies Act, Sole Proprietorship and Partnership Act – Business Registration
Tax Office, Attorney General	Companies Act, Licensing Law – Licensing and Inspections	Companies Act, Licensing Law – Licensing and Inspections
<b>(c) ICT Systems Procurement</b>		

MoCI	ICT system for business registration and licensing	Maintenance and service-level agreement of existing ICT systems
Tax Office, Attorney General/Registrar General	Expand the system to exchange data with the registry, tax, line ministries and municipalities	Expand the system to exchange data with the registry, tax, line ministries and municipalities

*Subcomponent 1C: Developing the Port Sector (US\$2.5 million)*

24. Customs duties collected in seaports are the main sources of revenue for the FGS as well as GoSI and GoPI. The Somali population is dependent on seaborne imports of food, energy and goods as very little is manufactured locally. The livestock sector and other nascent export industries are also dependent on the efficiency of seaports and local customs offices. The main challenges facing the port sector in Somalia are linked to: (a) weak governance capacity; (b) poor security situation inside and outside of the ports; (c) inefficient, unsafe and largely manual operations; (d) partly obsolete port infrastructure; (e) ad hoc implementation of fees and customs duties without relevant documentation; (f) outdated tariff structures which require updating and harmonization with central taxation systems. In the medium- and long-term, private sector participation is essential to upgrade infrastructure and improve the efficiency of the ports. Stronger port authorities will help improve security and willingness of foreign freight vessels to call on Somali ports. There is currently little data or information available on the port sector in Puntland and Somalia.

25. This subcomponent will finance TA, training and small equipment to build capacity in selected Somali ports. The support activities will help improve the regulatory framework and its enforcement; and facilitate private sector participation in the commercial management of port facilities, which by extension would improve operational performance and efficiency. Frequent government requests of port concession proposals in Somalia highlight the urgent need for impartial TA to manage private participation in an orderly, strategic and competitive process.

26. The main counterparts for this subcomponent are the Mogadishu Port Authority, Bosaso Port Authority, and the Ministry of Ports and Marine Transport. Expected outcomes are: (a) increased transparency; joint local visions for port development, and better planning; (b) improvements in operational capacity of the port(s); (c) consensus regarding priorities for the seaport sector and an understanding of the scope to bring in private participation; (d) presentation of optimal institutional structures and business plans for the sector, and if buy-in, support for reform and implementation; and (e) capacity enhancements linked to basic financial management and use of management information systems. The task team will work closely and jointly with the IMO (a specialized UN organization relevant for safety, security of port facilities and ships).

**Component 2: Expanding Economic Opportunities**

27. Component 2 will help expand economic opportunities in Somalia through two support mechanisms directly targeting entrepreneurship and investment: one linked to direct financial incentives aimed at stimulating private investment, especially in innovative and labor-intensive activities, and another linked to skills formation and private business capacity building. The proposed Catalytic Fund and SME Service Facility will be provided in Hargeisa, Bosaso and Mogadishu.

*Subcomponent 2A: Catalytic Fund (US\$13.0 million)*

28. The Somali Business Fund (SBCF) will support the recovery of the private sector by providing matching grants to SMEs. Its purpose is to incentivize local and foreign (mainly Diaspora) investment in productivity increasing services and fixed investment in Somalia. It has taken into account numerous lessons from the experience of the SBF (see Table 2.4 below). By December 31, 2014, the SBF had catalyzed US\$16.2 million of private investment, generated >1,900 jobs (of which 690 women; 1135 young adults) and contributed to the introduction of 82 new products and services. As some of these new investment projects expand over time the positive effects of the support should also increase.

**Table 2.4. Summary of the Lessons from SBF**

Issue	Action needed to address issue in SBCF
Effective oversight/governance	The Fund Manager reports to the SME Advisory Panel made up of select line ministers, the Chambers of Commerce and civil society. The SAP's role will include policy, strategy and dispute resolution. It will have specific voting power in grant decisions.
Broad and sustained outreach	The communication strategy will target public media, 'town halls', training, advisory 'clinics' provided as widely as possible, covering the application and grant award process, fund management and implementation of projects.
Role of government vs. independence of grant decisions	Grant awards will be the responsibility of the Fund Manager. Independence will be ensured by internationally hired management. Local Fund Management staff and SAP members and their families will not be allowed to have any interests in any investment proposals. Decision making will be transparent and based on published eligibility criteria.
Limit to number of applications	To control the possibility of very large numbers of grant applications the Fund will focus on existing enterprises (preferably with at least one year's operation including a financial statement). It will only consider startups if they are clearly ready to enter the market with a fully developed product or service (that is, no speculative projects that exist only on paper). Eligibility criteria must be very clear. Ineligible applications excluded at 'capability statement' stage.
Rigorous evaluation and due diligence	Evaluation, verification and completion reporting based on systematic due diligence procedures. Applicant enterprises required to locate in areas (see eligibility conditions in Annex 2) secure enough to allow site visits.
Security	Applicants only eligible from sufficiently secure areas. Background check procedure to be put in place and transparent ownership of applicant enterprises required.
Effective dispute resolution	A transparent grievance procedure agreed and managed jointly with the governments/SAPs will be established.
Assistance for implementation	Limited assistance for implementation to be provided by Fund Management Unit during application and implementation. Additional, broader, implementation support for grantees to be provided by proposed SMEF.
Balanced Regional access	Fund Management Offices will be established in the federal and two regional capitals. Fund staff to include representation of clans/regions.

29. SBCF will create additionality by supporting projects which generate both commercial profit and "public good" benefits, developmental, benefits such as: (a) technical/productivity spillovers to linked enterprises; (b) employment of and ownership by priority groups in the economy (such as youth and women); and, (c) new establishment/recovery of linked markets (for example, business services and finance). In Somalia, four decades of economic disruption through excessive state regulation of business followed by destruction of infrastructure and dismantling of virtually all regulation during the civil conflict have resulted in an urgent need to improve the effectiveness of market institutions and create sustainable employment

opportunities, especially for youth.

30. The SBCF is designed to complement (crowd-in) rather than to replace or crowd out market finance. It does this by incentivizing investment in developmental projects (reducing their cost relative to their expected return) which will reduce perceived risk and increase opportunities for co-finance through bank lending as it develops, and other market-based financial sources such as Diaspora investment and angel equity investors.

31. Applications will be focused on increasing business output and employment, mobilizing private co-finance, improving products or processes, and/or developing new products or markets.

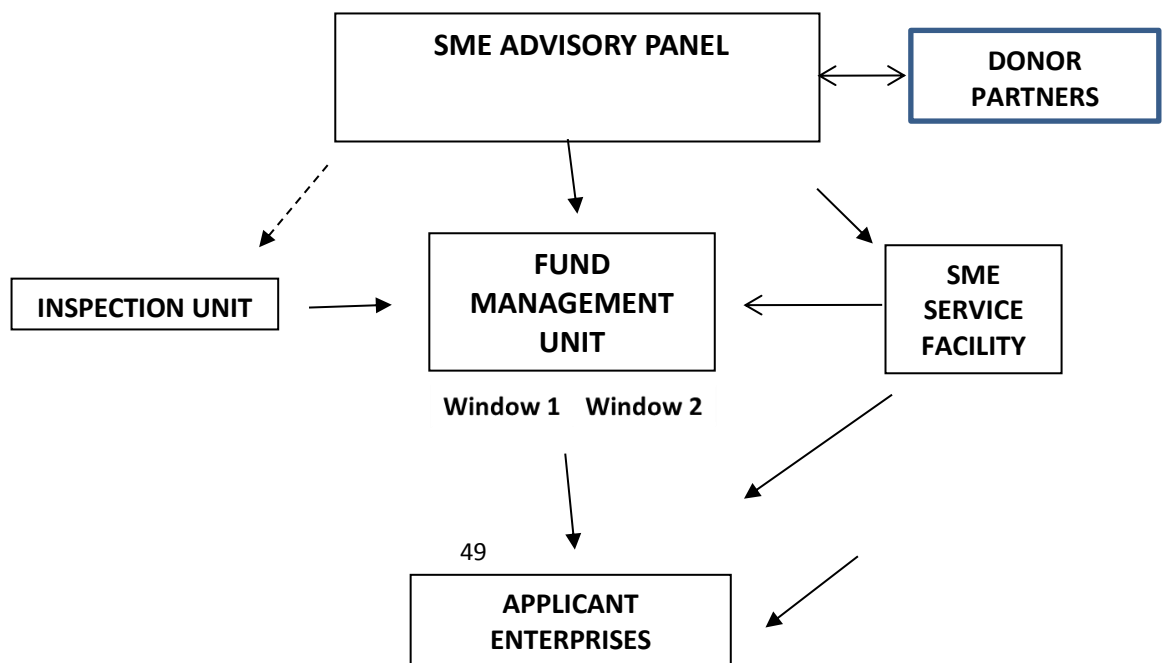
32. The role of the financial sector will be supported through the crowding-in effect of grants through reduced perceived risk on the part of financiers. This process is expected to provide expanded opportunities for commercial financing (especially short term) as financial institutions emerge from their current weak state. Part of the preparation and implementation of a grantee project will consist of learning to design financing packages including the grant element, co-payment by the investor, parallel equity finance by angel/patient investors, and debt financing from financial institutions (such as MTOs) as it becomes available.

33. The SBCF will integrate the following design principles from the outset: (a) incorporate effective governance practices including independent, eligibility-based, project approvals, and a substantive government advisory role, on the basis of a policy and procedures manual; (b) maintain a demand-driven approach while at the same time stimulate both the supply and demand side through targeted TA assisted by the SMEF (component 2b); (c) build strong M&E systems that measure outcomes; (d) keep the scheme as simple and flexible as possible for effective implementation purposes, having regard to due diligence; (e) maintain the security of the selection process and project operations; and (f) set up an independent inspection unit to safeguard the integrity of the fund.

### Governance, oversight and management

34. The following diagram (Figure 2.1) sets out the structure of the SBCF, including oversight and cooperating entities, and fund management.

Figure 2.1. Governance, Oversight and Management of the SBCF



<b>COFINANCIERS: BANKS, MFIs, ANGELS, DIASPORA, VC FUNDS</b>
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35. The SBCF will (as did SBF) have oversight from an SME Advisory Panel (SAP). The Panel composition will consist of senior government officials, representatives (non-conflicted) of the private sector, and other non-government institutions.<sup>23</sup> The advisory nature of the SAP will ensure that grant decisions are taken outside the political process and are based on objective developmental and commercial criteria. The role of the SAP will be to monitor SBCF policy, dispute resolution and strategic issues such as sector, location, gender or youth focus. Compared to SBF, SBCF will include a mechanism that factors in SAP advice in grant decisions (through a specific weight in the decision) and the SAP will be expected to take a more active dispute resolution role. To compensate for the significant time input, there will be some funding linked to participation in SAP evaluation meetings and workshops. There will be three separate SAPs in Hargeisa, Bosaso/Garowe and Mogadishu. Each will consist of a similar diversity of members.

36. To provide a safeguard to the integrity of the Fund it is proposed to recruit an independent inspection firm on a competitive basis. This firm will physically monitor the flow and use of grant funds and submit periodic verification reports. It will assume responsibilities such as to allow the Fund Manager to concentrate on Grant processing and management, but will also act as an “early warning” whistleblower in case governance issues are detected. This is aimed at significantly strengthening the governance and oversight mechanisms to minimize the risk of fraud and corruption.

### **Partner Organizations**

37. Partner organizations will include: (a) the participating donor group who will support the funding of the SBCF; (b) the proposed SME Service Facility which is Component 2B of the project, and is discussed in detail below; and, more indirectly (c) licensed financial institutions operating in Somalia may also be active stakeholders and could participate in the SAP.

38. The role of the donor partners will be twofold. First, they will contribute to the funding of the SBCF. Second, they will be invited to participate in developing broad policy and will participate in formulating the support measures that will determine the eventual exit strategy of the Fund.

39. The role of the financial sector will develop through the crowding-in effect of grants which will tend to provide expanded opportunities for both equity investors and lenders. Part of the preparation and implementation of a grantee project will consist of learning to design

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<sup>23</sup> SBF did not have private business representatives on the advisory committee because of possible conflict of interest. Discussions following project completion have however suggested that a way should be found to include representation of individuals with business experience.

financial packages including the grant, copayment by the investor, parallel equity finance by Angel/Patient investors, and commercial bank lending as it increasingly becomes available.

## **Management**

40. The Fund will be managed by an external and internationally recruited fund management company responding to a detailed scope of work. The fund management will prepare and follow the provisions of a policy and procedures manual which will be updated on an ongoing basis. The scope of work of the Fund Manager will cover: (a) Fund policy and strategy; (b) Fund operations; and (c) Fund reporting requirements. The management team will be expected to combine outreach and communication skills, proactive relations with all stakeholders including the SME Service Facility, participating donors, and financial institutions. While emphasizing public benefits from grantee projects, the Fund Manager should also adopt an entrepreneurial approach and incorporate strong management, financial, M&E and reporting expertise. Among other responsibilities, the Fund Manager will hold, in combination with the SME Service Facility, annual investment conferences for seed and patient fund managers linking successful businesses to private capital and business networks.<sup>24</sup>

41. There will be a central Fund Management Unit (FMU) and two satellite units, covering southern Somalia, Puntland and Somaliland. The provisional staffing of the central office will include up to three international fund specialists, five locally hired fund officers, and support staff. This group will be complemented by sector specialists on an as-needed basis. The satellite offices will be staffed by a fund manager, administrative officer and support. While the central office will be responsible for the full SBCF agenda of work, the role of the satellites will be for outreach/promotion, initial processing of applications, and assisting main office staff with due diligence and verification.

## **Phasing, Duration and Size of the Fund**

42. A catalytic fund is generally a temporary mechanism intended to address transitional market failure problems. In the case of a post-conflict, fragile economy with major continuing institutional and infrastructural challenges, the transition will be longer than in an economy with a higher degree of political stability and institutional development. Accordingly a grant fund in Somalia is likely to provide additionality and development impact over a period beyond 2–3 years.

43. The Fund will be in two phases. Phase 1 will be initiated within about 6 months of effectiveness of the SCORE program and will continue until the end of year 3. Phase 2 (SOP-2) of the SBCF would proceed contingent on availability of additional funding, a satisfactory rate of disbursement of SBCF, and other performance factors.

44. Based on the experience of SBF, which made awards of US\$9.2 million over two years (2013–14), and taking into account the large number of potentially eligible projects that did not

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<sup>24</sup> This latter activity could be organized jointly with external financial partners in the venture/ risk capital area, such as Shuraako.

get funding,<sup>25</sup> and the larger demand in the Somali economy based on population size, and level of entrepreneurship, a conservative estimate of eligible demand for grant funds from viable enterprises over a two-year period is US\$10 million in the ‘untapped’ market of southern Somalia and Puntland, plus Somaliland, with significant unfulfilled eligible demand available for stage two.<sup>26</sup> At this level of funding on the average grant size awarded under SBCF it is likely that 200 to 250 projects would be funded under SBCF.

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<sup>25</sup> Less than 5 percent of original applications and about 50 percent of initial shortlists received grant awards, with the result that there remains significant potential eligible demand for funds.

<sup>26</sup> See *Review Of Private Sector Development In Somalia, And Projections For Grant Funding*. David Phillips draft sector paper, World Bank, 20 February, 2014.

## **Grant Windows and Grant Features**

45. The Grant Fund will have two separate ‘windows’- for small (US\$10,000–US\$49,999) and large (US\$50,000–US\$150,000) grants. Small grants will be processed on an accelerated basis using a simpler appraisal procedure, while larger grants will face an overall more rigorous process. However there will be no prior allocation between small and large grants.

46. The maximum size of grant in either case will be complementary with the grant sizes of other funds (such as the African Enterprise Challenge Fund). Minimum grants will be in the region of US\$10,000. The grant percent of the value of a proposal will be fixed (indicatively at 66 percent for the first round with a reduction to 50 percent for the second round to reflect reduction in investment risk)<sup>27</sup> in the case of fast-processed small grants and variable (up to a 50 percent maximum possibly based on a financing gap assessment) in the case of large grants.<sup>28</sup> The fixed formula is for administrative simplicity while the variable formula responds to the desirability of prioritizing larger amounts within the available budget.

## **Key Operational Aspects**

47. The following is a brief summary of key operational features. The full operations of the fund will be set out in a policy and procedures Manual. The Catalytic Fund Operating Manual may be developed as part of the SCORE Project Implementation Manual to highlight the operating principles and procedures of the scheme, as well as the governance and internal control mechanisms.

## **Sectoral/Gender Focus**

48. The Fund will be open to all sectors (barring those excluded under World Bank guidelines, for example, tobacco and explosives; companies engaged in illicit or criminal activities; and projects that could damage the environment). However special calls for proposals may be made for sectors and categories considered to have important “public good” (developmental) benefits. These may, among others, include gender (for example, women owners), and youth ownership (to address youth unemployment).

## **Application Process**

49. SBCF will limit applicants to those that satisfy relatively tight eligibility conditions. These will include a minimum one-year business track record and current business licenses or incorporation documents.<sup>29</sup> This will help to reduce the ‘funneling effect’ experienced in SBF whereby a very large number (95 percent) of initial applications, many from startups with no

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<sup>27</sup> The justification for phasing down the grant percentage derives from the transitional nature of grant support.

<sup>28</sup> The more rigorous approach for larger grants reflects the need to allocate larger fund amounts with greater focus on precise return on investment and financing gaps, while at the same time the larger overhead costs of grant processing will be spread more efficiently. On the experience of SBF the realized grant share for large grant awards has averaged about 40 percent of the total eligible costs of the project.

<sup>29</sup> Exceptions will be made on a case by case basis for projects not yet in production but considered to have very high potential for successful commercial implementation. There was some concern from Government sources about the de-emphasis on startups in SBCF, and efforts will be made to arrive at a satisfactory policy on these.



track record, had to be rejected on budgetary as well as eligibility grounds, increasing the chances of time-consuming appeals and protests. The SBCF will use a streamlined application procedure based on a ‘capability statement’ at stage 1, avoiding more detailed and time-consuming Concept Papers, followed by the comprehensive proposal or Business Plan for shortlisted enterprises at stage 2. This approach is expected to alleviate the potentially adverse consequences of funneling by excluding applicants before they have invested significant time in the application process.

## **Eligibility and Selection**

50. The projects that are selected will be expected to provide developmental impact beyond the commercial benefits to a business. The fund aims not only to increase direct benefits in terms of employment and production, but to fund businesses which generate technological externalities (spillovers), address clearly identified market failures where domestic technical capacity and knowhow is likely to be generated, and indirectly contribute to the recovery of markets while helping partially bridge the existing gaps in enterprise-level financing. In the Somali context where business service and financial markets are just beginning to recover or emerge, there is potential for high economic returns (as evidenced by the economic analysis in Section VI.A).

51. Enterprise eligibility will be according to the following indicative criteria:

- Small or medium scale enterprises (SMEs), majority privately owned with clearly defined ownership (may be either individual or group represented by Association or value chain lead enterprise);
- Enterprise located in a sufficiently secure area to allow on-site due diligence and verification by the FMU;<sup>30</sup>
- Public ownership allowable as exception if there is private control (license, lease, contract);
- Preference will be given to applicant enterprises that are registered and licensed to pay taxes by applicable municipality or Ministry. For larger grant applicants, enterprises must be in process of incorporation with Attorney General’s office;
- Applicant enterprises should usually have been in operation for at least one full financial year, and can provide satisfactory financial statements and tax compliance evidence<sup>31</sup>

52. In addition to the above criteria, a key criterion for eligibility of the project will be that it is subject to a satisfactory environmental assessment procedure according to the World Bank’s environmental requirements for Category B.

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<sup>30</sup> The rule will be that actual production or service facilities, not simply administration offices, should be located in a secure area.

<sup>31</sup> Startups would need to be clearly ready for implementation under the control of the investor – to include both physical resource mobilization and financing.

53. The procedure for selection of projects for grants are clearly differentiated from commercial finance procedures in accordance with World Bank OP 8.30. An appropriate procedure uses a Business Plan Competition type of approach for selection of winners. To simulate this, the projects will be funded by the SBCF on a grouped basis following calls for proposals and allowing a competition to take place within each cohort of applicant enterprises. Such competitions will be held for each batch of shortlisted applications under two or more calls for proposals over the life of the Fund. The SAP will provide advice on grant decisions which will be given a specific weight in the final decision that determines the winning applications.

54. Eligible activities for grants would include both acquisition of capital equipment and materials, and operational assistance to enterprises to raise productivity/reduce costs. The latter group of activities could, among others, include:

- Specific trade skills training
- Business management and technical training
- Advisory services/ training in key requirements for project implementation
- Equipment and materials search and selection
- Equipment procurement, shipment, insurance, delivery
- Equipment installation, testing, commissioning
- Product design and prototype development
- Production and efficiency diagnostics
- Domestic and international market research, market intelligence services
- Marketing campaigns, sales promotion materials, events (for example, trade fairs) and missions
- Diversification and promotion strategies for firm sales in domestic and/or foreign markets
- Establishment of sales representation and distribution in export markets
- IT systems for business and financial management, e-business, lab analysis and certification
- Software purchase, installation and related training
- Product testing (internal lab and external) and certification services
- Securing trademarks

- Quality management systems development, inspection, testing and certification
- Labeling and packaging design

### **Carrying Out Due Diligence**

55. A high level of due diligence on applications and careful verification of expenditures are required in the Somali environment. The unstable security situation and high travel costs will be mitigated through location of offices and projects in secure areas and an eligibility condition that the location of applicant projects is adequately secure to allow on-site visits. Upcountry travel in Puntland and within/outside Mogadishu will be undertaken largely by Somalis. In addition aspects of local verification may be outsourced to local Somali firms or business-related organizations including business and/or commercial schools if appropriate and feasible, who are able to travel relatively freely within the project area.

### **Grant Agreements and Dispute Resolution**

56. The Grant Agreements set out the terms of the grant relating to performance requirements of the recipient and responsibility for disbursement from the Fund, and are signed by the FMU and the Grantee enterprise, having legal force. An important safeguard for the Fund is that disbursements are on an instalment and reimbursement basis dependent on the achievement of milestones subject to on-site verification. There will be a force majeure clause in the Agreement allowing grants to be cancellable in the event of a deterioration in the security situation which prevents effective on-site due diligence. The monetary value of grants committed under each call for applicants must be aligned to the World Bank's incremental disbursement procedure.<sup>32</sup>

57. A transparent grievance procedure will be in place and clearly publicized up-front. The procedure will provide an escalation process starting with the Fund Manager who is the Grant Agreement signatory. The SAP will have a strong dispute resolution role. Further escalation will not generally be entertained.<sup>33</sup> Ultimately the Grant Agreements will specify a Court of Jurisdiction in the event that mediation fails.

### **Evaluation: Costs and Benefits**

58. A monitoring and evaluation function will be built into the scope of work of the SBCF and would be finalized at the end of the project. An impact assessment will also be conducted separately by the World Bank, and the FMU will be expected to collect enterprise data indicative of a 'counterfactual'.

59. The initial budget for the SBCF is projected as US\$13 million. Of this, provisional estimates show the cost of managing the fund will be of the order of US\$3 million over 2 years or approximately 25 percent of the total initial budget, which conforms to a reasonable level of

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<sup>32</sup> This is important because otherwise advance grant commitments based on a notional total availability could exceed the credit amount finally allocated to the SBCF.

<sup>33</sup> This includes direct approaches by aggrieved grant seekers to the World Bank, and beyond, as was attempted in the case of SBF.

overheads by international standards. The cost is inflated by the need for three offices, located in Somaliland, Puntland and southern Somalia, and by the extra costs of security. In addition, the inspection unit – which will act as a safeguard managing governance risks - will incur a cost of approximately US\$0.5 million. This would leave approximately US\$9.5 to US\$10.0 million for enterprise financing.

60. On the benefits side, the projects that receive awards would be selected to provide developmental impact beyond the commercial benefits to the applicant business. The Grant Fund will aim to increase employment and business output, and to fund businesses which, among others, generate technological externalities (spillovers), address market failures in the business services market where domestic technical capacity and knowhow is likely to be generated, and/or indirectly facilitate the recovery of the financial market while bridging the gap in financing of enterprises. In the Somali context, where recovery of markets is just beginning, there is potential for high economic returns. The risks are also high in the fragile political and business environment but the project makes a major effort to reduce them to a manageable level.

*Subcomponent 2B: SME Service Facility (US\$5.5 million)*

61. The goal of this subcomponent is to establish a Small, and Medium Enterprise Service Facility (SMEF) which provides services designed to assist Somali entrepreneurs to launch, manage, and grow successful businesses.

62. Somalia is characterized by recurring cycle of disenchantment and violence, particularly among youth, that compromises the recovery and long-term stability. The growing youth populations in all regions of Somalia are often disconnected from educational and employment opportunities, leaving them susceptible to recruitment and participation in armed conflict. While providing education and training in this setting presents numerous challenges, it is essential for the recovery and long-term stability of Somalia. It is important to note that the scarcity of program experience and long-term data makes it difficult to know which skills and training approaches are most effective in Somalia context.

63. There is a significant mismatch between the demand and supply of skills in the Somali labor market. The relatively weak institutional link between training institutes and industry leaves most graduates unable to find a job and the private sector struggling to find adequately skilled staff. Most youth do not have the attributes required by the market and lack relevant work experience. This subcomponent will seek to enhance employment prospects for youth by strengthening links with the private sector to articulate the demand for marketable skills. The overarching goal of this subcomponent is to increase job placements and self-employment opportunities for youth through the provision of market driven skills training and strengthening of the strategic linkages among business education providers with the public and private sectors.

64. Implementation of the SBF provided insights into the challenges faced by Somali investors and entrepreneurs, which include a severe lack of business development services and professional/skilled labor. One of the single biggest challenges facing Somali investors and entrepreneurs is an acute lack of BDS and technical / professional skills, including: (a) professionals such as lawyers, accountants, electrical, mechanical and allied engineers and; (b) trades such as plumbers, carpenters, mechanics and electricians. To address the skill gaps, the

SMEF is designed to support SMEs through direct and indirect capacity building in business and technical services by, among others, offering:

- On-site advisory services;
- Coaching services in SMEF offices;
- Classroom-based training;
- ‘Town hall’ training and demonstration events;
- Mentoring and coaching (for example, in the case of young entrepreneurs);
- Business plan competitions;
- Specialized training programs on demand (for example, from individual subsectors);
- Advanced seminars and workshops (for example, training of trainers and consultants); and
- Promotion of business linkages through ‘matchmaking’ services.

65. These offerings will be utilized to develop specialized services in two core areas: business services and technical/job skills services. The facility will provide a learning system in which both “soft” and “hard” skills are developed within a “joined-up”, integrated development and delivery framework that seeks to improve livelihoods, promote inclusion into the world of work and in the longer-term support the development of robust labor markets in Somalia.

66. **Business services.** Startup and business management expertise such as business planning, financing, company formation and licensing, equipment procurement, and strategic operational skills such as accounting and financial management, use of management and ICT systems, inventory and quality control, marketing and branding, insurance, shipping and forwarding, and others.

67. **Technical services.** Specific industry and trade focus in the agro-business, manufacturing and services sectors including plant and equipment selection/installation, production planning, electrical and mechanical repair and maintenance, as well as basic trade skills such as electrician, plumber and carpenter.

68. An issue to be decided during the course of SCORE implementation will be the eligibility of the training programs for ‘credits’ which can be applied to outside academic and vocational courses, to provide an incentive for short-term training by integrating it into the broader TVET system in Somalia.

69. **Linking skills to economic opportunities.** The disconnect between training and employment opportunities is perhaps the most significant failure of existing skills development initiatives in Somalia. To ensure positive impact for the technical services, a market analysis and close examination of local needs and capabilities, in alliance with local authorities and local

communities will be conducted. To ensure links to economic opportunities, local businesses will be involved to fund skills training according to their needs and to provide apprenticeship opportunities and employment after training ends. This ensures the skills and trainings are adapted to local context and needs.

## **Opportunities**

70. Specialized services under the SMEF will comprise business services—consisting of startup and business management expertise and strategic operational skills—and technical and vocational services—consisting of specific industry and trade focused skills. To maximize its effectiveness, the SMEF will adopt a tiered approach to first support targeted populations of entrepreneurs and investors, with particular focus on the launch of the SBCF, and second, moving into a broader strategic focus on entrepreneurship and skills with targeted focus on training for women and youth owned enterprises, particularly at the ‘wholesale’ level (that is, providing capacity building to training and consultant services organizations) rather than risking crowding out those services by providing ‘retail’ services itself.

71. The first tier of focus for the SMEF would be aligned with the pipeline of demand for SBCF applicants, as a readily available population of entrepreneurs and investors. The next tier of services—developed in parallel to the first tier—will focus on a diversity of generic services available broadly to entrepreneurs, workers and investors. In addition to its tiered focus, there may be opportunities to identify segmented populations to target outreach and services. Specifically, an assessment across regions of Somalia would identify the need to develop industry specific business development services (that is, mining, fisheries and agriculture). Gums and resins could constitute a potentially early pilot sector for which a tailored program could be developed given requests in both Somaliland and Puntland and the opportunity to increase local value addition.

72. The SMEF will have a strategic focus on entrepreneurship and skills training for women and youth owned enterprises. There will be an intensive mentoring and coaching approach, and also a component for job placement assistance.

## **Location**

73. SMEF services will be established in Mogadishu, Bosaso and Hargeisa; however, it is not intended to operate out of a single address. The SMEF will operate as a mobile facility, and devise a strategy to provide assistance in field locations to meet the needs of entrepreneurs and investors outside regional capitals. With respect to Puntland and Mogadishu, security and lessons from the SBF will need to be taken into consideration to ensure the safe and most optimal delivery of services.

74. Also, there may be the possibility to co-locate the SMEF and SBCF to maximize the benefits of each. Specific to Hargeisa, there may be an optimal location of the SMEF with the proposed One Stop Business Center where business registration and commercial licensing activities will be headquartered.

## **Partnerships**

75. Key to the long-term success of the SMEF is the ability to assess, leverage, and build the capacity of retail business service providers. The SMEF is not designed to directly supply and be a competitor in the marketplace, but as a platform designed to crowd-in investment and build the capacity of the business development field. While the need to provide direct services in the short-term are critical due to the lack of existing services, the long-term strategy is for the SMEF to help build a marketplace of partnerships where entrepreneurs and investors can get the services they need to be successful. Greater impact is achieved by using local knowledge and capacity, building on local structures and organizations, and ensuring support of local and national institutions.

### **Governance and organization**

76. The SMEF will have oversight from the SME Advisory Panel (SAP) that also oversees the Catalytic Fund. The SAP will be responsible for advising on operating policy and strategy. The membership of the SAP will consist of senior public, private and NGO representatives.

77. The management team of the SMEF locations will indicatively consist of a Facility Manager and business advisers hired internationally or regionally, supported by local business advisory and training staff and sector training and development specialists. There will be provision for extensive travel and accompanying security measures, as required by a mobile advisory/training service.

78. The SMEF will carry out several targeted support programs of which one—on skills training and entrepreneurship for young women is a significant one (more below). Sector specific programs will also be important and gums and resins could be an early pilot given government interest in both Somaliland and Puntland. Building capacity of the sector could cover TA and training targeting collectors as well as firms involved in sorting, packaging, processing and exporting. Private sector capacity to improve export quality, consistency and packaging at both the supply chain and the firm levels could be integrated in the support functions that will be agreed between the SMEF, its steering committee and explicit private sector demand and commitment.

### **Skills Training and Entrepreneurship Project (STEP) for Young Women**

79. To address the limitations in performance of female headed businesses as well as the challenges of unemployment in Somalia, this subcomponent of the SMEF will focus on entrepreneurship and skills training for women in Somalia. The objectives of the skills training and entrepreneurship project (STEP) are to encourage sustainable self-employment, facilitate market access for women and improve performance of female headed businesses. The expected outcomes of entrepreneurship and skills training services for women will be: (a) an increase in employment, including self-employment, for women who complete the training program; (b) improved business management skills of women entrepreneurs; and (c) an increase in market access for women entrepreneurs.

80. The entrepreneurship and skills training component will focus on business development skills with possible training in topics such as market analysis, recordkeeping, business management, customer service as well as other demand-driven skills and job placement

assistance. Following the success of the Adolescent Girls Initiative Pilots (specifically the Empowerment of Adolescent Girls Project – EPAG - in Liberia), the program will be modeled in a similar fashion by targeting young women (16–24) who meet selected criteria (including literacy and numeracy among other factors). The sub-project will initially target a pilot group of women (150–200 students) with the objective of scaling up in subsequent phases to other regions if the pilot shows initial success. Results for the EPAG initiative’s impact evaluation in Liberia were very positive with 47 percent increase in employment and increased earnings by US\$32 per month for the 2,500 women who received training and job placement support in 2010.<sup>34</sup> The pilot will seek to learn from previous economic empowerment initiatives in the region and will avoid well-known pitfalls including clan-based selection of beneficiaries, offering training programs that are too short (less than six months), lack of coordination with government agencies and lack of monitoring and follow-up.<sup>35</sup> Box 2.6 below covers lessons learned in further detail.

#### **Box 2.6. Lessons Learned from Implementation of Adolescent Girls Initiative Pilots**

**Life Skills Training** – Training programs should include general life skills training sessions which differ depending on the environment and demand. For example, in Uganda the Empowerment and Livelihood for Adolescents Program included courses on sexual and reproductive health, family planning, management skills, negotiation as well as legal issues affecting women such as bride price, child marriage and violence against women. Combined training has shown to be more successful than interventions which exclusively target either life skills or livelihoods.

**Performance-based contracting to incentivize results** – The EPAG project provided performance bonuses for training providers who were able to successfully place students in jobs. Moreover, the project used a “Withheld Incentive Payment” (WIP) approach, stipulating that 10 percent of total contract value be withheld until six months after the classroom training ended. Of this withheld amount, the training provider received an amount proportional to the number of graduates employed, relative to a preset target (for example, if 90 percent of target was met, the provider received 90 percent of their withheld amount).

**Follow-up is just as important as training:** Following-up with trainees is just as important as actual training. The young women who completed training in the EPAG program had access to services following training (mentoring, help with finding employment opportunities and follow-up with trainees on the job). Furthermore, mentorship and networking as part of a broader program of support to women’s entrepreneurship is likely to improve the overall success of entrepreneurship programs.

**Define target group so that is not too narrow or impractically broad:** It is critical to determine the target group for the program as there are important differences among adolescent girls, especially with respect to age, level of education, whether they are married/mothers, whether they live in an urban area or rural one. Targeting young women can require more time and resources than other types of beneficiaries. Recruiting strategies to target girls include word of mouth, messaging through community leaders, partnering with youth centers and local NGOs, talking to girls who have been identified as leaders, door-to-door mobilization, fliers, radio announcements and TV commercials.

**Prioritize female classroom trainers:** The EPAG program required that 65 percent or more of trainers be female. All male trainers were required to be paired with a female trainer or coach.

### **Training Components**

81. STEP will include two separate 7- to 8-month training tracks – one which will focus on

<sup>34</sup> World Bank Adolescent Girls Initiative, “Can skills training increase employment for young women? The Case of Liberia.” 2014 (Washington, DC)

<sup>35</sup> UNDP, The Role of Somali Women in the Private Sector pg. 9 see “common mistakes when implementing women’s economic empowerment programs”



skills training for eventual job placement and another which will focus on entrepreneurship for young women who already manage or who are interested in running their own business. The skills training offered through Track 1 will be based on a detailed market assessment of what opportunities exist in the labor market for women's employment in Somaliland and what specific skill sets are required. Track 1 will also include some generic skills training, including basic skills for operating in a professional environment. Track 2 will focus on entrepreneurial and business skills such as bookkeeping, market analysis, business management, customer service and raising capital. Specific guidance will be provided on accessing funds through the business fund (preparing a business plan, submitting a competitive application). Both training tracks will be complemented by basic life skills training which will be designed according to demand. Some potential topics to be considered are reproductive health, child marriage and domestic violence.

### **Component 3: Program Management**

82. Component 3 will finance support for project implementation, including the set-up of PIUs embedded within the FGS, GoPl and GoSl. Financing will also include: equipment, consultant compensation, operating costs, organizational and systems development, training, capacity building and technical assistance. Further details are provided in Annex 3 under Implementation Arrangements.

### Annex 3: Implementation Arrangements

#### Project administration mechanisms

1. Three Project Implementation Units (PIUs) – one each for FGS, GoPl and GoSl – will be set-up to oversee the implementation of Component 1 of the SCORE program. The anticipated staffing for each PIU is depicted in Table 3.1 below. Advantage will be taken of the Subsidiary Agreement between FGS and GoPl to keep the PIUs lean and nimble. In addition, the PIUs will have representation from other designated participating ministries in the form of ‘focal points’ situated in those ministries. These focal points will be existing full-time staff members of the government and/or civil service in order to enhance government ownership and build sustainable in-house capacity beyond the life of the project. The focal points will be designated by the government. The staffing of the PIUs will depend on the content of the procurement and work plans.

**Table 3.1. Anticipated PIU Staffing**

	<b>FGS PIU *</b>	<b>GoPl PIU *</b>	<b>GoSl PIU</b>
Anchor	Ministry of Finance in Mogadishu	Puntland President Office in Garowe	Ministry of Planning and Development in Hargeisa
PIU Coordinator	1 in Anchor	1 in Anchor	1 in Anchor
Financial Management	1 FM specialist	1 FM specialist	1 FM specialist
Procurement	1 procurement specialist (part time)	1 procurement specialist (part time)	1 procurement specialist (part time)
Other experts/consultants	Experts/consultants on call (part time) for Central Bank, Business Environment/Investment Climate, Port Sector, Environmental and Social Safeguards, Monitoring and Evaluation		
Support staff	Minimal support staff needed since PIU will be housed in existing Ministry premises		
<b>TOTAL</b>	<b>3 + experts on demand</b>	<b>3 + experts on demand</b>	<b>3 + experts on demand</b>
Focal points	1 in Ministry of Finance 1 in CBS Mogadishu 1 in Ministry of Commerce and Industry 1 in Ministry of Ports and Marine Transport	1 in Puntland President Office 1 in Puntland Ministry of Ports 1 in Bosaso Port Authority 1 in State Bank of Puntland	1 in Ministry of Planning and Development 1 in CBSL Hargeisa 1 in Ministry of Commerce and Investment

2. Three Project Steering Committees (PSC) – one each for FGS, GoPl and GoSl – will be set up to oversee the implementation of Component 1 of the SCORE program. The composition of the PSCs is shown is depicted in Table 3.2 below (this is indicative at this stage and could change over the life of the project if necessary).

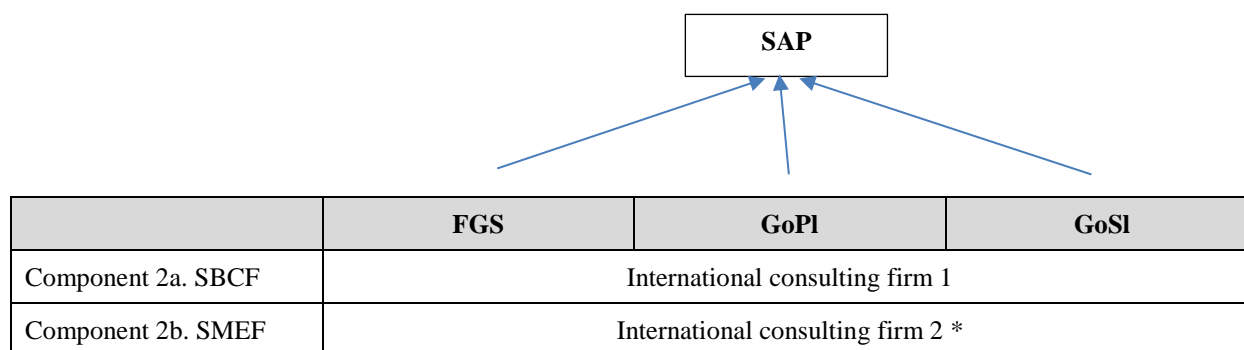
**Table 3.2. Proposed Composition of Project Steering Committee**

<b>Mogadishu</b>	<b>Garowe</b>	<b>Hargeisa</b>
Minister/State Minister of Finance ( <i>Chair</i> )	Puntland President Office ( <i>Chair</i> )	Minister of Planning and Development ( <i>Chair</i> )
Minister of Ports and Maritime Transport	Puntland Minister of Ports	–
Minister of Commerce and Industry	–	Minister of Commerce and Investment
Governor of Central Bank of Somalia	Director General of State Bank of	Governor of Bank of Somaliland

Mogadishu	Garowe	Hargeisa
	Puntland	
Director of Mogadishu Port Authority	Director of Bosaso Port Authority	–
Head of Chamber(s) of Commerce	–	Head of Chamber(s) of Commerce

3. Component 2 will be Bank-executed on behalf of the recipient due to capacity constraints. The anticipated implementation structure for Component 2 is depicted in Figure 3.1.

**Figure 3.1. Implementation Structure for Component 2**



Note:\* may be the same as, or different from, international consulting firm 1.

4. An SME Advisory Panel (SAP) will be established to provide guidance and oversight to Component 2, as well as for advising on operating policy and strategy. Table 3.3 shows the proposed composition of the project oversight arrangements – this is indicative at this stage and could change over the life of the project if necessary.

**Table 3.3. Proposed Composition of SME Advisory Panel**

Mogadishu	Garowe	Hargeisa
Minister/State Minister of Finance ( <i>Chair</i> )	Puntland President Office ( <i>Chair</i> )	Minister of Planning and Development ( <i>Chair</i> )
Minister of Commerce and Industry	Minister of Commerce and Industry	Minister of Commerce and Investment ( <i>co-Chair</i> )
Minister of Livestock	Minister of Livestock	Minister of Livestock
Minister of Agriculture	Minister of Agriculture	Minister of Agriculture
Minister of Fisheries	Minister of Fisheries	Minister of Fisheries
Head Chamber(s) of Commerce	Head Chamber(s) of Commerce	Head Chamber(s) of Commerce
Civil Society (2)	Civil Society (2)	Civil Society (2)
Representation from other regional provinces (optional)	–	–

## Financial Management and Disbursements

### Country Issues

5. A key PFM conclusion of the 2006–2007 Joint Needs Assessment (JNA) of PFM systems in Puntland, Somaliland and Southern Regions<sup>36</sup> was that ‘systems that manage public resources are weak’. Similarly, the April 2013 PFM self-assessment that focused mainly on the central government PFM activities revealed serious capacity weaknesses similar to those identified by the JNA. However, in furtherance to the Paris Declaration on Aid Effectiveness (2005), the Principles for Good International Engagement in Fragile States and Situations (2007), the Accra Agenda for Action (2008), and the Busan Partnership for Effective Development Co-operation (July 2012), there is deliberate effort as part of the New Deal ‘FOCUS’ and ‘TRUST’ principles to use country systems. The underlying principle is ‘*country-ownership*’ anchored in the “strengthened PFM approach” – a common framework that has been widely agreed among the Bank and development partners, and is in line with the Bank’s overall approach to strengthening its PFM work.

#### *Project Financial Management System*

6. An EAFS was established at the Federal Ministry of Finance<sup>37</sup> and has been operational for more than one year. With an increase in the number of externally financed projects, the FGS EAFS Unit is being reorganized to make it more effective and responsive. In Puntland and Somaliland, plans are at an advanced stage to establish similar units, draft EAFS Manuals and staff the EAFS Units. The EAFS Units will be charged with the responsibility of overseeing the financial management function of all the donor funded projects. In particular, ensure harmonization of external assistance financial management, donor co-ordination, reduce duplication and fragmentation and proliferation of donor-specific financial management units. The Units will form part of the project financial management team with responsibilities for day-to-day financial management of the project funds. The project financial management function will be carried out in line with the provisions of the respective EAFS Manuals. The organizational structure of the units takes into consideration the key areas of authority, responsibility and appropriate lines of reporting. The basic functions of the EAFS will be planning, budgeting, and maintaining internal control systems, accounting, reporting and liaison with external auditors on Recipient-executed external assistance. The EAFS units will be supported by technical assistants who will provide targeted TA and on the job capacity building support. The recommended organizational structures of the respective EAFS Units are depicted in Figure 3.2.

7. Project Implementation Units (PIUs) will be formed in the Ministry of Finance of the FGS, under the Puntland President Office, and in the Ministry of Planning and Economic Development in Hargeisa. Three TA Financial Management Specialists (FMS) will be embedded under the respective PIUs provide the necessary technical capacity for financial management processing. The FMS will be recruited competitively and will ensure that financial management capacity is built and knowledge is transferred. The FMSs will work in close consultation with the staff, other consultants within the PIU, the task team and the respective EAFS Units. The TOR of the FMS will be aligned to the EAFS structure and will have clear provision on time bound capacity building interventions and knowledge transfer. In addition, up to two FM officers each for FGS, Puntland and Somaliland will be seconded to the PIUs to understudy the FMS. It is

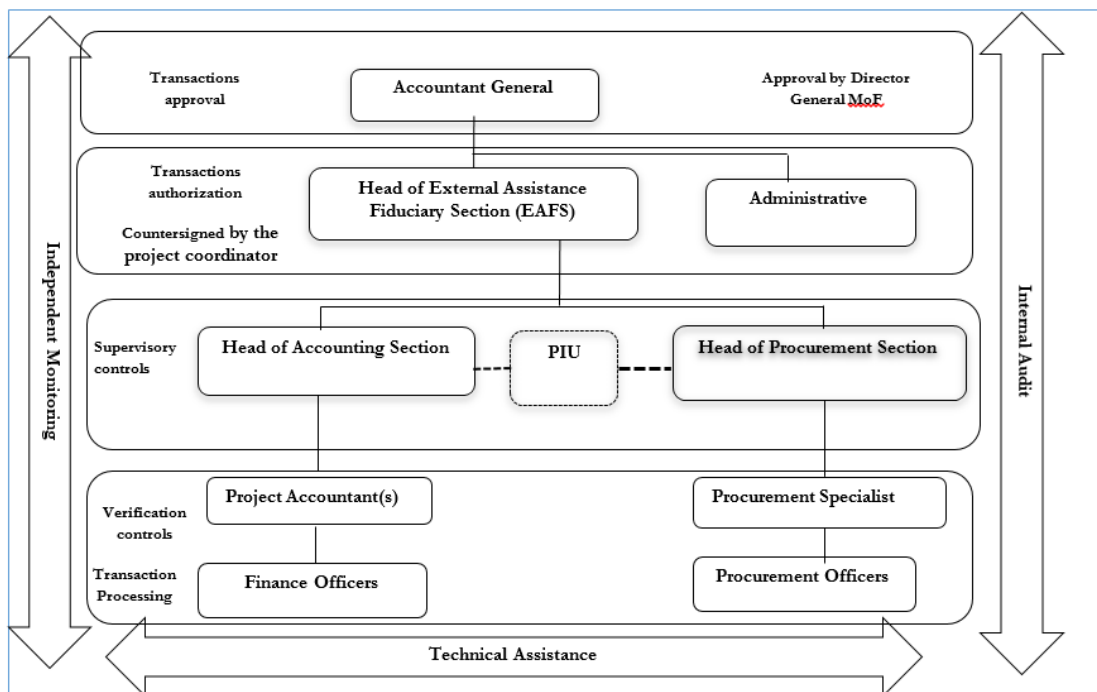
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<sup>36</sup> Jointly carried out by the Transitional Federal Government, the United Nations and the World Bank

<sup>37</sup> Office of the Accountant General

hoped that these officers will be part of the civil service and will subsequently constitute the FM units for the respective Ministries.

**Figure 3.2. EAFS Approval Hierarchy**



### *Budgeting Arrangements*

8. The FY 2015 annual budgets for the FGS, Somaliland and Puntland have been prepared, endorsed by the Council of Ministers and appropriated by parliaments in the respective authorities. The intergovernmental fiscal relations between FGS and the States are weak. As a result, neither of the States' government budgets estimates are consolidated and included into the FGS annual budget estimates. Under the project, each of the EAFS Units working closely with the respective PIU<sup>38</sup> will prepare the project annual work plans, and budget and detailed cash flow forecast for the necessary review and approval. For FGS and Puntland, the work plans, cash flow projections and budget shall include consolidated figures for the year delineated into FGS and Puntland State government. For Somaliland, work plans, projections and budgets will not be integrated into FGS budgets and will be reported separately in line with the special arrangements provided for in the Somali Compact. The respective budgets, work plans and cash projections will reflect the detailed specifications for project activities to be undertaken, schedules (including procurement plan) and projected expenditures under the project activities. All budgets, annual work plans and cash flow forecasts will be send to the TTL at least two months before the beginning of the fiscal year (or effectiveness as applicable) for review and approval. The project

<sup>38</sup> PIUs will be anchored in the Ministry of Finance in the FGS; the Office of the Presidency in Puntland; and the Ministry of Planning and Development in Somaliland

estimated annual disbursements for each of the project components will be integrated and aligned into the FGS<sup>39</sup> and States budget calendars ('on-budget) and will form part of the appropriated budget. Budget utilization reports shall be prepared from the financial management systems as part of the periodic quarterly reports submitted to the World Bank.

### *Accounting Arrangements*

9. With support from the WBG's PFM Project, FGS has developed a comprehensive Standard Chart of Accounts (SCoA<sup>40</sup>), implemented Bespoke Somalia Financial Management Information System (SFMIS), established SFMIS data entry kiosk as the Ministry of Finance, strengthened procedures to support the use of the Treasury Single Account (TSA). The use of the SFMIS has further been strengthened through the FY15 Appropriation Act that requires all revenue and payment transactions to be processed through the SFMIS and reconciled with the bank statement from the Central Bank. Through support from UNDP, Puntland has developed a SCoA, initiated roll out of the SCoA across all the Ministries, Departments and Agencies (MDAs) and developed and agreed formats to prepare the FY15 Annual Financial Statement (AFS) using the International Public Sector Accounting Standards (IPSAS) Cash Basis of Accounting. The development and roll out of FMIS for Puntland has been planned for under the Bank supported PFM project. In Puntland, the project financial management function shall be migrated to FMIS once the Puntland FMIS is operational. Somaliland has also developed a comprehensive SCoA, developed hardware and software requirements for the implementation of the Somaliland Financial Management Information System (SL-FMIS) with support from UN-Habitat. The implementation and roll out of the SL-FMIS is planned for under the Bank scaled up PFM project. The Bank LICUS TF094672 which closed in November 2011 supported GoSI to develop a number of PFM related guidelines and manuals.<sup>41</sup>

10. The project financial transactions will be captured, recorded, analyzed, summarized and reported in line with the provisions of the IPSAS Cash Basis of accounting. These will be supported by appropriate records and documentation to track commitments and to safeguard assets. To facilitate preparation of the relevant reports and annual financial statements, the project budgets and expenditures will be recorded and classified according to the approved SCoA at the FGS, Somaliland and Puntland. The project will be required to provide periodic and annual reports covering total project expenditures; total expenditure on each project component/activity, and analysis of that total expenditure into various categories of goods, training, consultants and other procurement and disbursement categories. The project financial management arrangements will be spelled out in the respective EAFS Manuals and will include all the relevant accounting procedures. The project financial transactions reported will cover all

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<sup>39</sup> FGS budget will include the projected annual disbursement for FGS and Puntland but will exclude the Somaliland estimates. For Somaliland estimates will be posted exclusively under the Somaliland budget and will not be reflected on FGS budget.

<sup>40</sup> Compliant with the Government Financial Statistics (GFS) and Classification of Functions of Government (COFOG).

<sup>41</sup> External Audit Manual, Internal Audit Manual (English and Somali version), Public Procurement General Manual, Procurement Regulations, Accounting & Financial Reporting Policies and Guidelines, Customs Regulations, Tax Manual, Public Accounts Committee Guidelines for reviewing Auditor-General's Reports, Public Accounts Committee Rules of Procedure for House of Representatives, and Budget Rules of Procedure for House of Representatives.

project funds from World Bank and any other contributions under the project. Eligibility of expenditures will be based on the actual amount incurred and supported by appropriate documentation. Accounting records will be maintained in the United States of America Dollars (US\$). The EAFS Units, will ensure the following:

- All important project business and financial processes are adhered to;
- Adequate internal controls and procedures are in place;
- Accounting records and requisite supporting documents are maintained;
- Interim un-audited Financial Reports (IFRs) are prepared on a timely basis;
- The financial statements are prepared on a timely basis and in accordance with International Public Sector Accounting Standards (IPSAS *cash-basis*);
- The external audit is completed on time and audit findings and recommendations/ issues raised in the management letter are resolved judiciously.

#### *Internal Control and Internal Auditing*

11. The EAFS Manuals will be reviewed periodically and updated to ensure they incorporate relevant emerging internal control procedures and acceptable control procedures for approval and payment processes. In addition, the project will prepare a detailed Project Implementation Manual (PIM). The PIM will outline the key aspects of the project operations, technical and financial management arrangements. The project will institute controls and procedures to ensure goods and services are verified and certified before release of payments. The EAFS Units will ensure invoices and payment request are consistent with signed contracts before processing and release of payments. They will also monitor and report on the utilization of project funds, including the fiduciary standards and the reliability of the FM systems. Project Fixed Assets Register will be prepared, regularly updated and physical verification of assets routinely carried out. The Fixed Assets Register will reflect details of suppliers, description and location of goods, original cost, disposal of assets, assets reference (identification) numbers; serial or registration numbers; date of purchase, assets additions; condition of assets, assets useful life and residual value. Contracts Registers will also be maintained in respect of all contracts with consultants, contractors and suppliers. The EAFS units will prepare Contract Status Reports quarterly as part of the IFRs. Control procedures over fixed assets and contract management will be the responsibility of the implementing ministries.

12. Internal Audit functions once established will be mainstreamed into the project activities. The project will liaise with the internal audit units to ensure the project internal audit reviews are included in the annual work plans. The internal audit reports shall be prepared and shared with the PIUs and the PSC and made available to the World Bank team during project supervision. It is however important for the internal audit capacity to be strengthened and linked with other governments and development partners capacity building interventions. In particular the internal audit function will be required to carry out risk-based systems audits to strengthen the project internal control systems.

## *Financial Reporting Arrangements*

13. FGS annual financial statements for the FY14 were prepared directly from the SFMIS. The system has been configured to accommodate existing and pipeline projects. In Puntland, government financial reports are prepared manually on hard copies ledgers and in some cases summarized using Microsoft excel sheets. In Somaliland, timeliness in preparing financial reports is improving both accuracy and completeness is lacking. Good quality in-year financial reports and annual financial statements are not consistently produced. A detailed needs assessment has been undertaken for a *'fit-for-purpose'* bespoke SL- FMIS. In Puntland, the Joint Programme on Local Governance through UN-HABITAT is providing the ICT - *"infrastructure as a Service"* a virtual cloud system. Initially Garowe, Qardo, and Bosaso will be connected to the Puntland FMIS (PL-FMIS) once it goes live to replace the districts' current accounting and billing system.

14. The Puntland EAFS Unit will prepare and submit approved copies of IFR to FGS not later than 30 days after the end of the calendar quarter. The FGS EAFS Unit will prepare and submit approved consolidated IFRs not later than 45 days after the end of the quarter. The reports shall be consolidated and reported according to each of the Designated Accounts (DAs). The EAFS Unit and the PIUs at the Federal and Puntland States will be charged with the overall responsibility on the project financial reporting. Somaliland EAFS on the other hand will prepare and submit directly to the World Bank. The quarterly IFRs will be prepared by the EAFS units and will cover all project funds for the purpose of monitoring the implementation of the project and submitted to the Bank within 45 days of the end of each fiscal quarter. The IFRs shall cover all project funds received for the project as a whole as well as counterpart or government funds received under the project if any. They will include a statement showing: period and cumulative inflows by sources and outflows by main expenditure classifications; beginning and ending cash balances of the project; and supporting schedules comparing actual and planned expenditures. Expenditures would be classified by component and by category. Semi-annual cash forecast statement should also be included. The IFRs shall be prepared in the content and format agreed between the Bank and the government.

15. The accounting system to be put in place will ensure that financial reports will be designed to provide relevant and timely information to the project management, implementing agencies, and various stakeholders monitoring the project's performance. It is expected that all levels of implementation will maintain adequate filing and archival system of all accounting and relevant supporting documents for review by the Bank's FM team during supervision mission and also for audit purposes. The EAFS will also prepare annual financial statements (AFS) for the entire project. The AFS will be prepared in accordance with Cash Basis International Public Sector Accounting Standards (IPSAS). The AFS shall include adequate notes and disclosures consistent with the cash basis of financial reporting under the IPSAS. Puntland will prepare AFS and submit an approved copy of the statements to FGS not later than two months after the end of the financial year. FGS will consolidate the Puntland and FGS AFS and prepare a consolidated set of AFS for the FGS and Puntland component. Somaliland will prepare a separate set of AFS for the project Somaliland component. The project signed AFS at FGS<sup>42</sup>, Puntland and

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<sup>42</sup> Consolidated AFS for FGS and Puntland



Somaliland shall be submitted for external audit not later than three months after the end of the financial year. The AFS shall be prepared in the format and content agreed with the World Bank. Reporting due dates are shown in Table 3.4 below.

**Table 3.4. Reporting Due Dates**

<b>Report</b>	<b>Due Date (Not later than)</b>
Q1 Interim unaudited Financial Reports (IFR)	15-May
Q2 Interim unaudited Financial Reports (IFR)	15-Aug
Q3 Interim unaudited Financial Reports (IFR)	15-Nov
Q4 Interim unaudited Financial Reports (IFR)	15-Feb
Preparation and submission of the Annual Financial Statements for External Audit	31-Mar
Submission of Audited Financial Statements (Together with Audit Opinion and Management Letter)	30-Jun

### *Auditing*

16. Article 1 of Law 34 of 1972, the Somali Law on the Magistrate of Accounts creates the office of the Auditor General. This law provides that the Auditor General shall be appointed by the President and is placed under the Presidency. Article 10 of Law 34 of 1972, the Law on the Magistrate of Accounts require that no later than 31st May each year, reports on the annual accounts shall be transmitted to the secretary of state for finance. These provisions of the law practically weaken the independence and effectiveness of the Office Auditor General to function as a Supreme Audit Institution (SAI). KPMG contracted by the UN-SIDP provided support to the Auditor General’s Office in Puntland and the Federal in the development of Regularity Audit manual (Draft 12.01.2014) with the necessary working papers, templates and tools. In 2011 through LICUS, Somaliland drafted Audit Bill, PAC guidelines for reviewing audit reports. Public Accounts Committees (PAC) exists and its success require three basic conditions: proper staffing and information, nonpartisan functioning of the committee, and media coverage (electronic, print and broadcast). A number of activities have been lined up for support to the FGS and Puntland Offices of the Auditor General (Supreme Audit Institutions – SAI) under the Bank supported PFM project. These include Amendment and translation of the Audit Bills, development of strategy and action plans benchmarked with international best practices<sup>43</sup>, International Standards of Supreme Audit Institutions, development of Risk-Based Auditing procedures manuals, supporting intra-regional/sub-regional peer learning events as well as participatory diagnostic assessments.

17. The Office of the Auditor General at the Federal and the State levels have the constitutional responsibility to carry out independent audit of all public entities. The FGS Office of the Auditor General will provide a consolidated project external audit report for the FGS and Puntland Component. Similarly the Somaliland Auditor General will carry out external audit for

<sup>43</sup> AFROSAI-E SAI Institutional Capacity Building Framework and the INTOSAI SAI Performance Measurement Framework

the Somaliland project component. In carrying out the external audit, the FGS Office of the Auditor General will work in close collaboration with Puntland Auditor General. In an effort to guarantee quality and timely audits, the project financial audit shall be carried out with support from technical assistance by a qualified and certified auditor(s) from a recognized professional auditing association. The project will support the financing of the technical assistance and related expenses incurred by the Offices of the Auditor General in conducting the project external audit. The project shall ensure adequate budgetary provisions to finance external audit costs are provided for under the project. The audited project annual financial statements together with any additional information required will be submitted to the Bank not later than six months after the end of the fiscal year (or the closure of the project as may be applicable). The audit will be carried out in conformity with the Bank's audit requirements and in accordance with internationally recognized auditing standards. The auditor will express an opinion on the AFS in compliance with International Standards on Auditing (ISA). In addition to the audited financial statements, the auditor will prepare a management letter with observations and recommendations for improvement in accounting, recording, systems and compliance with the financial covenants in the grant agreement. The external auditors will pay special attention to the risks of material misstatement of the financial statements due to fraud, in line with ISA 240: "The auditor's responsibilities relating to fraud in an audit of financial statements").

#### *Fraud and Corruption*

18. Possibility of circumventing the internal control system such as colluding practices, bribes, abuse of administrative positions, mis-procurement among other considerations are critical risks that may arise. Other internal control incidences that may expose the project to fraud and corruption include but are not limited to: (a) late submission of supporting documents; (b) poor filing and records; (c) inherent risks resulting from inadequate systems integration; (d) lack of work plans and/or budget discipline; (e) unauthorized commitments to suppliers; (f) bypassing budget and expenses vetting procedures; (g) unsecured safekeeping and transportation of funds; and (h) denial of access or restricting the scope and the role of the monitoring agent among other eventualities. The project shall mitigate these potential fraud and corruption related risks through: (a) specific aspects on corruption auditing will be included in the TORs for the external audit; (b) targeted FM Procedures and internal control mechanisms across the project activities shall be detailed in the project operations manual; (c) strong FM staffing arrangements (including qualified Project Accountants in the PIU and the EAFSSs; (d) periodic FM supervisions; (e) IFRs reviews and monitoring; and (f) measures to improve social accountability and transparency shall be integrated into the project design for instance ensuring that project reports are available to the public.

#### *Flow of Funds and Banking Arrangements*

19. There is a Central Bank of Somalia Act 2011 and a Financial Institutions Law No. 130 of April 22, 2012, that provide for the licensing, regulation and supervision of the business of entities taking deposits from the public. The CBS seeks to make intermediate improvements to the way government payments are made in order to decongest the banking hall at the central bank. Six provisional licenses have been granted to banks. One and a half percent is deducted from all revenue deposited in CBS to fund its operations. Puntland had established banking operations with First Community Bank in Kenya. However, this banking corridor has faced

uncertainties following suspension and freeze of bank accounts of money transfer companies in Kenya most of which have been providing intermediary banking services into Puntland and by extension Somalia.

20. The banking sector in Somalia is underdeveloped and largely characterized by informal money transfer networks. The banking framework at the federal and state levels is at different stages of development. Despite these developments, the capacity of federal and states banks in providing appropriate banking regulatory framework is very weak or nonexistent. In particular: (a) focusing on provision of rudimentary commercial banking services as opposed to regulatory function; (b) highly manual transactions and records management information systems; (c) inadequate staffing; (d) weak regulatory framework; and (e) inadequate liquidity among others. To mitigate the risks inherent with the existing inadequate banking arrangements, the project will: (a) limit high value US\$ transactions and bulk of the project payments through direct payments from the World Bank directly to the third parties with accounts outside Somalia; (b) ensure close coordination in leveraging other World Bank supported initiatives; (c) liaise with the selected banking institutions to negotiate reasonable transaction charges; (d) negotiate with the Federal government and CBS to innovatively extend banking services to other regions in Somalia; and (e) ring fence the agreed Puntland funding allocations.

21. At Central Bank of Somalia, the project will open two DAs: one for FGS (DA1) and the second account (DA2) for the project proceeds allocated for Puntland. Disbursements earmarked for the FGS will be disbursed through DA1 while allocations for Puntland shall be disbursed through the second (DA2). DA1 and DA2 funds shall not be commingled. Somaliland will open and operate a separate Designated Account (DA3) in a Financial Institution Acceptable to the World Bank. Puntland will open and operate a dedicated project Bank Account in a financial institution within Puntland as shall be discussed and agreed between Puntland and World Bank. Transfers from the DA2 to the Puntland State Project Account shall be effected based on an agreed cash flow projections. All the expenditures incurred through the PAs and DAs as well as those submitted to the World Bank for direct payments will be justified, supported and eligible as shall be defined in the Project Appraisal Document (PAD) and the Grant Agreement(s). All project withdrawal applications to the Bank will be made in US\$ and will be submitted online through the client connection. Designated staff within FGS and Somaliland EAFS will have requisite access to the client connection while those in Puntland EAFS will have view (read only access). Replenishment and reimbursement Withdrawal Applications will be accompanied by Statement of Expenditures (SOEs) in accordance with the procedures established in the disbursement Letter and the Bank's Disbursement Guidelines. Detailed disbursement arrangements will be documented in the Disbursement Letters. The project will liaise with the institutions hosting the Bank Accounts to discuss and agree on reasonable and agreeable charges and or commissions on the project transactions. The EAFS Units will institute adequate controls in the management of the DAs as well as the Project Accounts. The signatories to the DAs (Treasury Cheques/Payment Instructions/Electronic Funds Transfer) and Withdrawal Applications will include at least two bank account signatories' categories (either from each panel must sign):

**FGS Managed Designated Accounts (DA1 and DA2):**

- Panel A: Director General of Ministry of Finance (MoF) (with Director of Administration as alternate)
- Panel B: Accountant General (with Deputy Accountant General as alternate)

**Puntland Project Account**

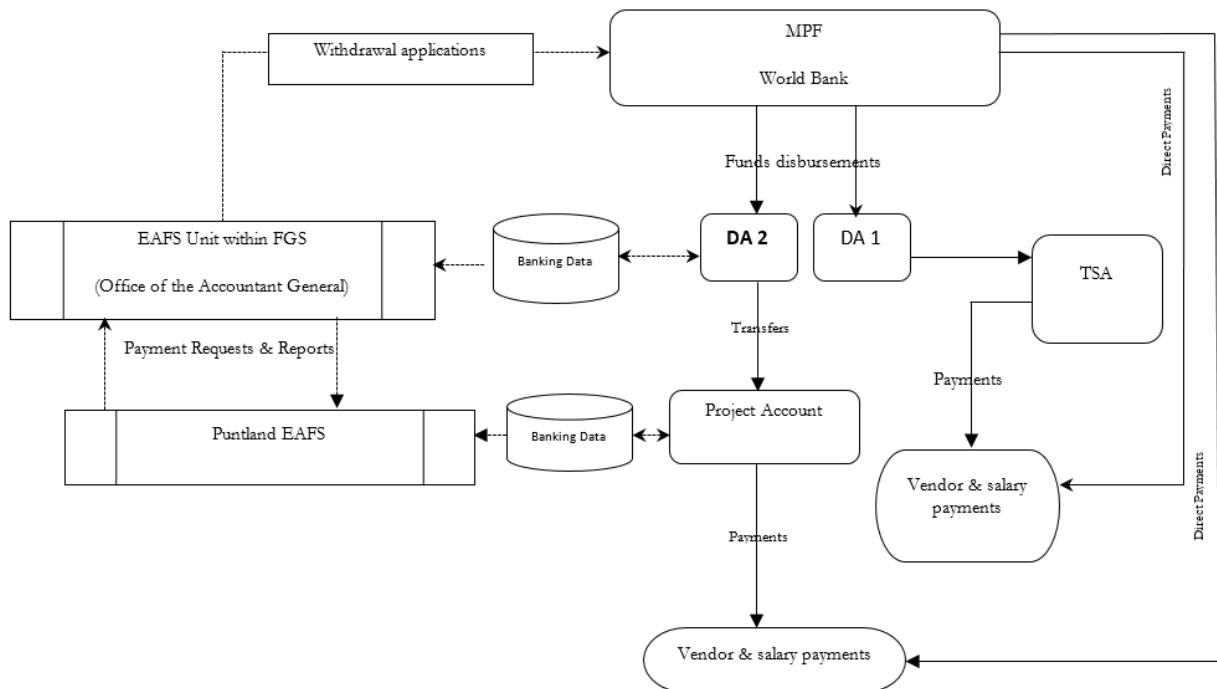
- Panel A: Director General of Expenditure (with Director General Inland Revenue as alternate)
- Panel B: Accountant General (with Deputy Accountant General as alternate)

**Somaliland Designated Accounts (DA3):**

- Panel A: Director General of MoF (with Director of Administration as alternate)
- Panel B: Accountant General (with Deputy Accountant General as alternate)

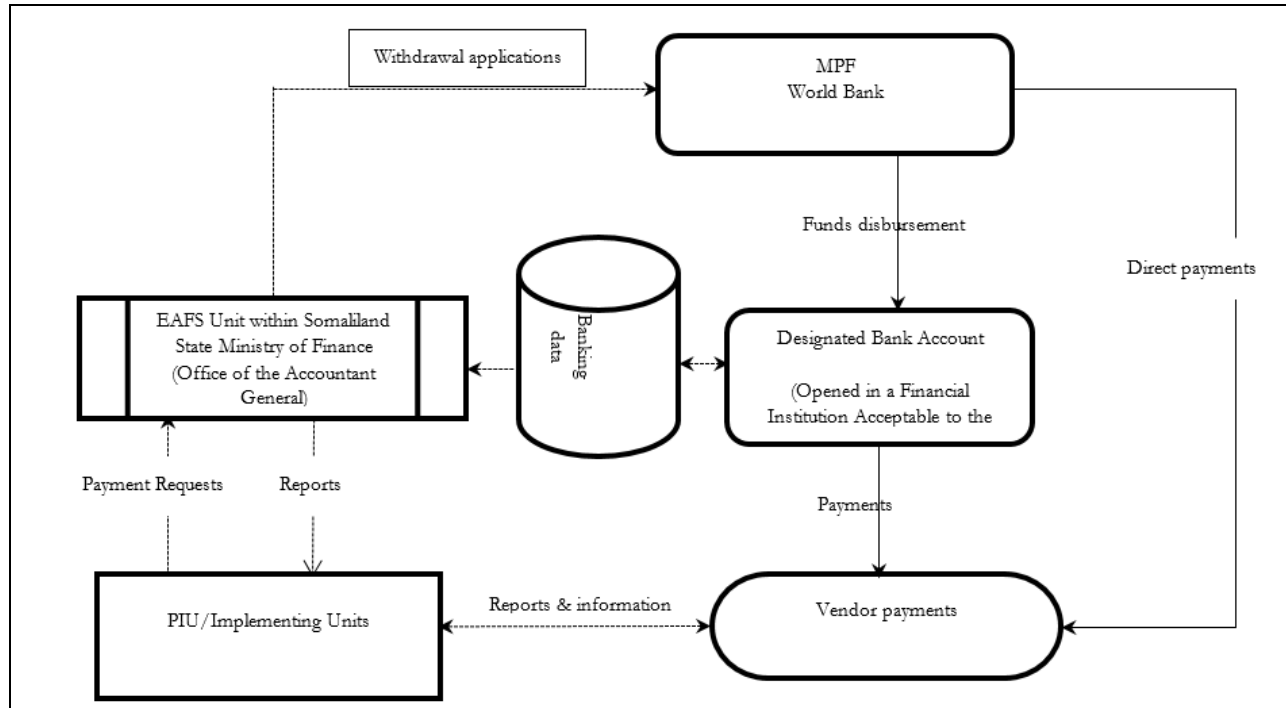
22. The ceiling of the DA will be based on the projected cash flow projections as discussed and agreed between the Bank and the government. Subsequent withdrawal applications will be based on SOEs reviewed and cleared by the Reviewer. All ineligible expenditures based on review and any additional due diligence will be deducted from subsequent Withdrawal Applications and the project will be required to reimburse the applicable ineligible amounts. The funds flow processes for FGS and States are outlined in Figures 3.3 and 3.4. The Financial Management Action Plan is depicted in Table 3.5.

**Figure 3.3. FGS/Puntland Banking and Funds Flow Arrangements**





**Figure 3.4. Somaliland Banking and Funds Flow Arrangements**



23. Each of the EAFS Unit ensure:

- (a) DAs and Project Accounts shall be in US Dollar (US\$) and opened financial institution acceptable to the Bank<sup>44</sup> (as discussed and agreed) and managed in line with the provisions of the PAD and legal agreements.
- (b) Project component funds are transferred into the DA and Project Accounts against an approved Withdrawal Applications.
- (c) Subsequent withdrawals are supported by SOEs and the requisite supporting documentation.
- (d) Disbursement arrangements as documented in the Disbursement Letter are adhered to.
- (e) Once the vendor registration data base and payment systems are established all third party payments and project staffs salaries are processed directly into the vendors and employees accounts.

**Table 3.5. Financial Management Action Plan**

	<b>Action</b>	<b>FGS</b>	<b>Somaliland</b>
1	Project Implementation Manual	60 days after effectiveness	60 days after effectiveness

<sup>44</sup> On terms and conditions in the World Bank Disbursement Guidelines for Projects (May 1, 2006:11).

2	Configuration of the FMIS to accommodate the project reporting requirements.	15 days after effectiveness	60 days after the rollout of the SFMIS
3	Review and alignment of existing SCoA to accommodate the SCORE Project specific requirements (FGS and COFOG)	15 days after effectiveness	60 days after the rollout of the SFMIS
4	Configuration of the FMIS to generate the required IFR reports	15 days after effectiveness	60 days after the rollout of the SFMIS
5	Annual Financial Statements (AFS) content and formats	December 31, 2016	December 31, 2016
6	External Audit arrangements and TOR	December 31, 2016	December 31, 2016
7	Open FGS and SL DAs and Puntland Project Account	5 days after Grant Agreement signing	5 days after Grant Agreement signing

## Procurement

24. **The FGS** public procurement legal framework and institutions are not yet in place. The Country has neither an institutional capacity nor legislative framework to handle robust public procurement. The private sector and civil society have limited capacity or functionality (due to total lack of regulatory law and business norms). A new Public Procurement, Concessions and Disposal Bill has been approved by the Council of Ministers and is now in the Somalia National Parliament for discussion. If enacted, the new Act foresees a decentralized system of procurement. The proposed bill further provides for an independent oversight body that will foster the regulatory and the policy framework of public procurement in the country.

25. **Somaliland:** The administration does have the institutional capacity and a legislative framework to handle robust public procurement. In order to strengthen the government procurement system, a *Public Procurement Bill*, one of the five PFM bills, was prepared and tabled before Parliament. The private sector is also underdeveloped and remains at its infancy. The lack of private sector regulation further compounds the challenges of limited capacity or functionality, and it is still susceptible to the insecure and fragile environment.

26. At Entity level, MDAs do not have any designated procurement cadre. The institutional and managerial capacity remains very weak and poorly staffed. The designated officers at Ministry of Environment like all the other ministries do not have the desired skills and experience to handle public procurement. Although the Ministry is currently implementing some projects financed and jointly implemented by United Nations Office for Project Services (UNOPS)<sup>45</sup>, United Nations Development Program, Food and Agriculture Organization (FAO) and UN-Habitat, the expected transfer of skills did not take place and procurements were not integrated into the sub-national system.

27. **Puntland:** Puntland has neither the institutional capacity nor a legislative framework to handle robust public procurement. The Puntland administration commissioned a consultant to

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<sup>45</sup> United Nations Joint Local Governance Program,

draft a bill to regulate the public procurement environment. The draft Bill has been presented to Cabinet for review. The public procurement bill will after enactment replace all the procurement provisions in the financial and accounting procedure of the state. The Act further provides for an independent oversight body to formulate policy and regulate public procurement, concessions and disposal of assets practices in the country. The private sector is also yet at its infancy. The less regulated private sector and civil society have limited capacity or functionality. It operates without any business regulation and it is still susceptible to the insecure and fragile environment.

28. Procurement for the proposed project will be carried out in accordance with the latest revision of the World Bank’s “Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grant by the World Bank Borrowers” dated January 2011 (revised July 2014); and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grant by the World Bank Borrowers” dated January 2011 (revised July 2014), that facilitates dealing with the emergency and fragile situations in Bank-financed projects and RETFs. “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, (the Anti-Corruption Guidelines)” dated October 15, 2006 and revised in January 2011, and the provisions stipulated in the Legal Agreement will be applied. Somalia being a FCS country, Procurement under the projects will be processed under special procurement arrangements referred to in paragraph 20 of OP 11.00.

29. PIUs will be formed in FGS anchored to the Ministry of Finance and in Garowe under the Puntland President Office and in Somaliland under the Ministry of Planning and Economic Development. Three TA Procurement Specialists will be embedded under the respective PIUs provide the necessary technical capacity for procurement processing. The TA Procurement Specialists will be recruited competitively and will ensure that procurement capacity is built and knowledge is transferred. These Procurement Specialists will be recruited on a retainer contract basis, each for a maximum of 180 days spread over two full years. Two procurement officers each for FGS, Puntland and Somaliland will be seconded to the PIUs to understudy the Procurement Specialists. It is hoped that these officers will be part of the civil service and will subsequently constitute the procurement units for the respective Ministries.

30. As the result of the overall operational challenge and weak institutional capacity, the project procurement risk is rated as **HIGH**. The major challenges related to the overall procurement environment and institutional capacity aspects and possible risk mitigation measures have been identified as below (see Table 3.6):

**Table 3.6. Challenges Related to Overall Procurement Environment, Institutional Capacity Aspects, and Possible Risk Mitigation Measures**

Sr. No.	Issue	Risk Mitigation Action Plan	Responsibility and Time frame to Implement the Actions
1	Lack of public procurement legal and institutional framework (including procurement regulations, Procurement manual)	Procurement in FGS, Puntland and Somaliland will be guided by the EAFS Manual to be developed and the Project Implementation Manual. Any deviations in these Manuals will be highlighted in the Project Implementation Manual	PIUs/After project effectiveness



Sr. No.	Issue	Risk Mitigation Action Plan	Responsibility and Time frame to Implement the Actions
		(PIM).	
2	The Procurement Units is limited in experience and skills.	The Procurement Units will be established in the respective ministries but will function under the PIUs and supported by TA Procurement Specialists and two (02) procurement officers locally recruited or seconded by governments. The PS will train the local staff in the PUs to enable them to gradually take over the procurement activity of the project.	PIU/Procurement Specialists and Counterpart staff to be recruited immediately after the project 's effectiveness
3	Lack of procurement oversight and monitoring arrangement for the project procurement	The PIUs will have a management structure to supervise and monitor and approve the implementation of the planned procurement activities, supported by the EAFS unit in the Ministry of Finance responsible for procurement monitoring and reporting.	PIUs/After project effectiveness
4	Absence of defined procurement complaints' handling mechanism	As the Procurement Law in the respective regions are not yet in place, any procurement complaints by dissatisfied bidders or stakeholders may be lodged to the Accounting Officers of the implementing ministries through the Coordinator who will respond to complaints within a reasonable time.	PIUs/After project effectiveness
5	Security challenges and weak public sector functionality, the private sector participation and efficiency will be limited and this affects the supply market functionality	All bidding opportunities will be advertised on the available website and posted on widely circulated national gazette. If the contract is ICB or if the assignment includes international firms, it has to be advertised on UNDB online in addition to the local posting;  Private Sector orientation and outreach seminar will be conducted on the project opportunity.	PIUs/After project effectiveness

31. *Specific Procurements under the Project:* Procurement under the project includes a number of consultancy services assignments (both firms and individual consultants), highly specialized ICT equipment, acquisition of bandwidth, and smaller goods, and equipment and office supplies. These are elaborated in the procurement plan.

32. *Procurement and Selection Methods:* The procurement of Goods and non-consulting services where applicable will utilize methods such as International competitive Bidding (ICB), National Competitive Bidding (NCB), Limited International Bidding, procurement from UN agencies, Shopping, and direct contracting. Procurement from UN Agencies such as UNOPS will be used for procurement of vehicles. Selection of Consultants will follow Quality and Cost

Based Selection (QCBS), Quality-Based Selection (QBS), Selection based on Consultant’s qualifications (CQS), Least Cost Selection (LCS), Fixed Budget Selection (FBS), Selection of individual Consultants, and Single Source Selection (SSS).

33. *Workshops, conference attendance and Study Tours:* These will be carried out on the basis of approved annual work plans that would identify the general framework of training or similar activities, including the nature of training/study tours/workshops, number of participants, and estimated cost.

34. *Operating costs, excluding salaries, bonuses, and fees* for government civil servants, would be incurred using procedures acceptable to the Bank and described in the Operation manual.

35. *Procurement Plan.* The borrower has prepared an initial Procurement Plan which has been reviewed and approved by the Bank. The Procurement Plan includes all the contracts to be financed by the project. The plan will be updated at least annually over the lifetime of the project. Any revision of the procurement plan will be subject to Prior review by the Bank.

36. *Threshold for each method of Procurement/Selection and Prior Review:* Tables 3.7 through 3.10 present the recommended methods of Procurement/Selection and the Prior review threshold requirements. Guidance to the Bank prior review requirements is found in Appendix 1 to the Guidelines for procurement and Appendix 1 to Guidelines for Selection and Employment of the Consultants. All TOR regardless of the contract amount shall be subjected to the Bank’s Prior review.

**Table 3.7. Procurement methods and Thresholds for Goods, Works and Non-consulting Services**

	<b>Procurement Method</b>	<b>Threshold (US\$)</b>	<b>Comment</b>
1	ICB (Works)	5,000,000	Equivalent or More
2	ICB (Goods and non-consulting services)	500,000	Equivalent or More
3	NCB (Works)	5,000,000	Less than
4	NCB (Goods and non-consulting services)	500,000	Less than
5	Shopping (Works)	300,000	Equivalent or less
6	Shopping (Goods and non-consulting services)	100,000	Equivalent or less
7	Direct Contracting	Any value	
8	UN Agencies	Any value	

**Table 3.8. Prior Review Thresholds for Goods and Non-consulting Services**

	<b>Procurement Method</b>	<b>Prior Review Threshold (US\$)</b>	<b>Comment</b>
1	ICB (Goods, works and non-consulting services)	All contracts	
2	NCB (Goods, and non-consulting Services)	500,000	Equivalent or more (The first NCB under each category will be under prior review)
3	NCB (Works)	5,000,000	Equivalent or More (The first NCB will be under prior review)
4	Direct Contracting (Goods, works and non-consulting services)	All contracts	
5	UN Agencies	All contracts	

6	Shopping (Goods and Works and non-consultancy services)	None (See comment)	The First shopping under each category will be under prior review.
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**Table 3.9. Selection Methods and Thresholds for Consultants**

	<b>Selection Method</b>	<b>Threshold (US\$)</b>	<b>Comment</b>
1	QCBS, QBS, FBS and LCS	Any value	Selection method shall depend on nature and complexity of assignment.
2	CQS	300,000	Equivalent or less generally, however, may be permitted for higher value in appropriate cases as identified in Procurement Plan
3	Individual Consultant	Any value	–
4	SSS (for individual/ firm)	Any value	–

**Table 3.10. Prior Review Threshold for Consultants**

	<b>Selection Method</b>	<b>Threshold (US\$)</b>	<b>Comment</b>
1	Competitive Methods (Firms)	200,000	Equivalent or More
2	Individual Consultant Selection	200,000	Equivalent or more
3	Single Source Selection (Firms/Individuals)	Any value	Equivalent or more

37. **Short list comprising entirely of national consultants:** Short lists of consultants for Engineering and Contract Supervision assignment estimated to cost equal or less than US\$200,000 equivalent and for all other consultancy assignments estimated to cost equal or less than US\$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

38. **Frequency of Procurement Supervision:** In addition to the Prior review supervision to be carried out by the WBG, annual post procurement reviews of sample of about 20 percent of all contracts finalized by the project shall be carried out.

39. **Environmental and Social (including safeguards):** Somalia is a fragile and conflict affected country emerging from a 20 year long conflict and the recipient’s institutional capacity for safeguard policies is low. Furthermore, national legislation for environmental assessment and management currently exists only in limited forms, necessitating the adoption of external policies and standards, such as the WBG’s safeguards policies and performance standards.

40. The main potentially adverse environmental and social impacts are associated with Component 2(a) (the SBCF). This sub-component would directly fund a wide scope of economic activities, some of which could have relevant E&S impacts that would have to be managed and mitigated. An E&S due diligence mechanism (an ESMF) has thus been designed and implemented, which ensures screening for possible impacts, offers guidance on assessment, management and mitigation requirements, and provides boundaries for the scope of financing (in the form of a negative list of undesirable entrepreneurial activities). The ESMF lays out the environmental and social baseline conditions, identifies the main risks and potential adverse

impacts, and addresses the required screening, assessment and management processes and measures. The ESMF also helps to identify the appropriate instruments for assessment and management of the anticipated adverse impacts, along a hierarchy of avoidance, minimization, mitigation and compensation/ offset. This ESMF covers the anticipated scope of financial support activities (grants) directed at SMEs of the private sector, Project-level E&S screening, assignment of environmental and social instruments and grievance mechanisms to allow affected groups or stakeholders to engage with the project implementers.

41. **Project monitoring and evaluation:** M&E will be carried out jointly by the PIUs (for Component 1) and the WBG task team (for Component 2). Local capacity to conduct M&E is limited, therefore, experienced M&E Specialists will be embedded within the PIUs with the task of establishing an indicator-based M&E plan and institutional framework. The M&E framework will include systems and operations of the M&E function, including detailed design of data collection, analysis, reporting plan for each indicator, M&E implementation arrangements, roles and responsibilities, a work plan and budget. The M&E for Component 2 will be carried out by the task team in collaboration with implementation partners who will collect the relevant data. The firms recruited under the SMEF and SBCF will be responsible for developing an information system to capture data on the portfolio of investments and beneficiaries (to include, for example, number of beneficiaries, disbursements, job impacts) to be elaborated in the consulting firm TOR and M&E Plan.

42. **Role of Partners:** The MPF provides a platform for coordinated financing with donor partners and international agencies within the overall context of the SDRF. Current donors to the MPF include the Department for International Development, Norway, Sweden, the European Union, the Swiss Agency for Development, Italy and Denmark. The Somalia CMU is the administrator and main coordinator of the MPF and ensures that MPF funds are used in accordance with donor grant agreements.

#### Annex 4: Implementation Support Plan

Project implementation will be supported by the Somalia MPF in the form of a Bank-executed supervision grant in the approximate amount of US\$1.2 million over three and a half years. These funds will be allocated by the MPF Program Manager separately from the financing made available for SCORE.

**Table 4.1. Staff Skills and Resource Estimates**

<b>Time</b>	<b>Focus</b>	<b>Skills Needed</b>	<b>Number of Trips</b>	<b>Resource Estimate (staff weeks)</b>
<b>Year 1</b>	Task Team Leadership	Program management and supervision	4	52
	Coordination	Regional Coordinators	on-site	80
	Technical	Financial Sector Specialist(s), Private Sector Development Specialist(s), Port Specialist	3	80
	Procurement Supervision	Procurement Specialist	2	4
	FM supervision	FM Specialist	2	4
<b>Year 2–4</b>	Task Team Leadership	Program management and supervision	3	52
	Coordination	Regional Coordinators	on-site	80
	Technical	Financial Sector Specialist(s), Private Sector Development Specialist(s), Port Specialist, Safeguards Specialist, M&E Specialist	2–3	25
	Procurement specialist	Procurement Specialist	2	4
	FM supervision	FM Specialist	2	4

**Table 4.2. Partners (Component 2)**

<b>Name/Institution</b>	<b>Role</b>
TBD	SBCF Fund Management Company
TBD	SME Service Facility Operator



## Annex 5: Project Sort

Risk Categories <sup>46</sup>	Rating (H, S, M or L)
1. Political & governance	<p>Risks to the development objective stemming from the country’s political situation and governance context.</p> <p><b>Rating: High</b></p> <p><b>Changes in leadership/upcoming elections (high)</b></p> <p>Changes in political leadership/appointees are common and could undermine government ownership of the project and gains in capacity development. Furthermore, general elections are scheduled or expected during the course of SOP-1. The elections may result in a change of political parties and as well as re-shuffling of the cabinet.</p> <p><i>Risk mitigation.</i> The project team will engage with multiple levels of leadership within targeted Ministries to ensure broad, institutional ownership, mitigating the risks posed by turnover of appointed leaders.</p> <p><b>Political competition for project resources (high)</b></p> <p>Project staff may face difficulties achieving agreement between key government stakeholders on overall allocation of resources and implementation modalities for the project. Given the high levels of political and clan-based competition within government, procurement and consultancy selections for technical assistance hold the potential to be divisive and lead to competition within government.</p> <p><i>Risk mitigation.</i> The Project team will engage in transparent dialogue with stakeholders regarding the allocation of resources (including consideration of allocation on a regional basis. Strategic focus and objectives will be clearly defined to resist pressures to spread support too thinly.</p> <p><b>Governance Risk</b></p> <p><b>Low transparency and accountability (high)</b></p> <p>Governance risks in Somalia are high due to low transparency and low levels of accountability. Somalia is ranked at the bottom (174 out of 175 countries) of Transparency International’s corruption perception index. Information is often not available, inaccurate or inaccessible, making it difficult to establish accountability. Fraud and corruption are commonplace resulting in governance failures at all levels.</p> <p><i>Risk mitigation:</i> Due to capacity and governance constraints Component 2 will be Bank-executed on behalf of the government, which will minimize risks due to corruption and misappropriation. The Task Team will hire an inspection firm that will be responsible for reviewing the operations of the SBCF and ensuring compliance with principals of fairness and transparency. Component 1 will be Recipient-executed with appropriate controls integrated at the level of the MPF to ensure funds are appropriately managed (this includes requirements for audits in addition to monitoring agents who will monitor transactions). Furthermore, the government will benefit from training and TA embedded within the PIUs.</p>
2. Macro-economic	<p>External and domestic economic risks that may derail proper preparation, implementation and achievement of results.</p> <p><b>Rating: High</b></p> <p>Somalia’s economy is vulnerable to domestic and external shocks. The country’s economic policies and institutions are weak and there are minimal economic policies in place to safeguard against risks. Economic downturns and changes in trade policies by trade partners can have a significant impact on the overall economy.</p> <p><i>Risk mitigation.</i> The project is designed as a SOP in order to adjust the activities and/or approach in the event of an external shock that would impact achievement of the PDO. Furthermore, several project interventions are phased, with the goal of starting activities on a small-scale and then scaling</p>

<sup>46</sup> In all risk categories the assessment is of the risk to PDO or the risk of unintended consequences associated with the operational engagement, and does not refer to “country level” risk in and of itself.

	<p>up over time. Lastly, the project is designed to strengthen the core institutions (financial sector, industry and trade) that would help safeguard against domestic and external shocks in the medium- to long-term.</p>
3. Technical design of project or program	<p>Risks related to the technical design of the project</p> <p><b>Rating: Substantial</b></p> <p>There is a substantial likelihood that the achievement of the PDO is adversely affected by factors related to the technical design of the program. While the rationale for the program is strong, the client and the Bank have limited experience with recipient-execution and the design incorporates implementation in different regions of Somalia, which could pose political as well as operational challenges. Furthermore, although the task team has benefitted from experience conducting project implementation under SOMPREP2, the team lacks extensive experience working outside of Somaliland. As a result, the technical design of the project may require adjustment as the team adapts the program to different security and political contexts within Somalia.</p> <p><i>Risk mitigation.</i> The most complex aspects of the project implementation are executed by the Bank on behalf of the recipient. Furthermore, the scope of activities under recipient-execution are relatively narrow (focusing on procurement of advisory assistance and small goods). The project will not require the recipient to engage in complex procurement processes or technical activities. The team will seek to recruit experienced consultants, including consultants with prior experience implementing projects within different regions in Somalia.</p>
4. Institutional capacity for implementation and sustainability	<p>Risks related to the capacity of the government to implement activities, taking into account the institutional capacity of the implementing agencies, implementation arrangements (including PIUs), and monitoring and evaluation arrangements.</p> <p><b>Rating: High</b></p> <p>The capacity in the public service sector, including the Central Bank, Ministry of Commerce, Ministry of Finance and Port Authority is limited. Many Ministries lack familiarity with World Bank procedures in addition to modern technology (secure email systems, reliable internet and electricity, videoconferencing services) to maintain adequate communication.</p> <p><b>Lack of familiarity with WB procedures (substantial)</b></p> <p>The client lacks familiarity with WB procedures and this may lead to delays in implementation.</p> <p><i>Risk mitigation.</i> The PFM project – already underway - is working to use and strengthen the country systems through the EAFS arrangements. The World Bank will provide expanded support to the client through an implementation support team. Moreover, the team will hold regular dialogue with the client to explain procedures and provide support. Project design focuses heavily on training and technical assistance in key areas in the early stages of project implementation.</p> <p><b>Capacity constraints within Ministries (high)</b></p> <p>Targeted government institutions are staffed with unskilled, aged or absentee employees. Therefore, the project may struggle to achieve the critical mass of capacity necessary to strengthen institutional capacity and implement reform.</p> <p><i>Risk mitigation.</i> The government will benefit from technical assistance offered by the project. Furthermore, local consultants will be hired and advisors embedded by the project to support and guide the Ministries through the process of implementation.</p>
5. Fiduciary	<p>Risks that funds will not be used to achieve value for money with integrity in delivering sustainable development</p> <p><b>Rating: High</b></p> <p><b>Limited FM and procurement capacity (high)</b></p> <p>There is a lack of key financial management competencies, weak internal controls and oversight, rudimentary accounting and reporting systems, over-reliance on external technical assistance, nonexistent banking arrangements and inadequate internal and external audit arrangements. The government also lacks public procurement guidelines and regulations, as well as experience and skills, which could slow implementation and create opportunities for corruption and fraud.</p> <p><i>Risk Mitigation:</i> Each PIU will be supported by a procurement specialist. The government will not be required to engage in complex procurement processes for large goods or services.</p>



	<p><b>Fraud / corruption (high)</b></p> <p>Given the absence of a robust public financial legal framework and the nascent rudimentary banking systems, the potential risk of fraud and corruption related cases are high. Other internal control incidences that may expose the project to fraud and corruption include but not limited to (a) late submission of the required supporting documents; (b) poor filing and absence of minimum standards in the maintenance of the project accounting records; (c) noncompliance to the approved project work plans and or budget discipline; (d) unauthorized commitment to suppliers (e) bypassing agreed internal control oversight arrangements particularly in expenditure management expenses (f) high risks in cash handling inherent with the existing cash driven dollarized economy (g) denial of access to information and or limiting the scope of agreed external monitoring and capacity development arrangements.</p> <p><i>Risk mitigation:</i> Approximately one-third of project funds (US\$9.2 million) will be Recipient-executed under SOP-1, with the remaining project funds being managed by the World Bank. Adequate controls will be put in place, including careful monitoring and evaluation in addition to compliance with audit requirements.</p>
6. Other (Security)	<p>Security</p> <p><b>Rating: High</b></p> <p><b>Insecurity (high)</b></p> <p>Insecurity poses a risk to human security (WB staff and client) and project implementation and sustainability. It creates severe limitations on access to the operating environment, which in turn elicits a number of additional project risks, creating challenges for project design, implementation and monitoring.</p> <p><i>Risk mitigation.</i> The Bank team will operate in close consultation with the corporate security department in the Bank’s General and Services Department (GSD) and under the UN umbrella provided by the Department of Safety and Security. GSD has already undertaken assessment missions to the three regions and has issued advice which is being implemented and a follow-up mission is under preparation by GSD to update the information, review what other agencies are doing and assess prospects for longer-term presence on the ground. An arrangement is under discussion with a third party firm to which risk can be transferred when hiring Bank consultants. These arrangements are widely in place for other UN agencies.</p> <p><b>Political crisis / breakdown (high)</b></p> <p>Challenges to state authority by anti-government elements (AGEs) could delay or block project implementation. Moreover, it runs the risk of undoing progress achieved through the project.</p> <p><i>Risk mitigation.</i> The CMU will monitor the political and security environment, in collaboration with UNDSS. In the case of acute political crisis or breakdown, the project will need to be put on hold and potentially discontinued, based on the severity of the situation.</p>
<b>Overall</b>	<p><b>High</b> - The overall risk rating for the project is <b>high</b>. The government counterparts are unfamiliar with the World Bank operating and fiduciary requirements and have limited capacity to manage projects. The track record of poor governance resulting in misappropriation and corruption risk is high. Furthermore, insecurity in Somalia poses significant risks to the Task Team and the client.</p>

## **Annex 6: Results Achieved From Implementation of SOMPREP2**

1. SOMPREP2 (US\$30 million) was implemented over four years (2011–2014) in Somaliland with the objective to improve access to markets and generate employment in key productive and service sectors. SOMPREP2 included a broad set of activities to directly support the private sector and help build capacity in the government. It was one of the first comprehensive World Bank projects to be implemented in Somalia following the collapse of the government in 1991. The activities covered: (a) investment climate reforms, the establishment of three One-Stop Business Start-up Centers (OSBCs), and the preparation of a *Doing Business in Hargeisa* report and an enterprise survey; (b) financial sector development aimed at strengthening banking supervision and the legal framework; (c) value chain support in the fisheries and gums/resins sectors; (d) PPP support in the Port of Berbera (+port equipment upgrading) and solid waste management; (e) matching grants provided through catalytic fund; and (f) economic sector work. All activities under SOMPREP2 closed on December 31, 2014, except the work in the port sector, which received additional financing, and will continue in the coming year.

2. Some of SOMPREP2's main results include: (a) the number of registered firms increased from 400 in 2011 to 939 in 2014; (b) three OSBCs established, equipped and with staff trained; (c) more than 300 gums/resins collectors and 270 fishermen are now applying improved harvesting methods/fishing techniques; (d) all exported gums conforming to a grading and classification system (up from 0 percent); (e) fish sales up by 290 percent during the course of the project and 40 percent of the sales are now in accordance with new hygienic standards; (f) two business units in Berbera Port—marine services and cargo handling operations—are now going through a competitive process for private sector participation; (g) the number of solid waste collection companies serving the Municipality of Hargeisa doubled (to four); (h) 1,900 new direct jobs created through the catalytic fund of which 650 were for women; US\$26 million catalyzed in private investment through the catalytic fund; and (i) an average sales increase by 107 percent between 2011 and 2014 of firms supported by the catalytic fund.

3. The relatively slow progress of two major pieces of legislation—the Companies Act and the Banking Credit and Financial Institutions (BCFI) Bill—significantly reduced the expected outcomes during the course of the project linked to financial sector development and formalization. Once enacted, however, the new Companies Act will significantly reduce the number of steps, time and cost association with registration. Persistent delays in passage of the Banking Credit and Financial Institutions Bill eventually halted progress of the financial sector component in Somaliland although supervision reports training was undertaken and licensing guidelines prepared.