

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA28303

Project Name	Somali Core Economic Institutions and Opportunities Program (SCORE) (P152241)
Region	AFRICA
Country	Somalia
Sector(s)	General industry and trade sector (75%), General finance sector (25%)
Theme(s)	Other Private Sector Development (100%)
Lending Instrument	Investment Project Financing
Project ID	P152241
Borrower(s)	Ministry of Finance
Implementing Agency	Government of Somaliland Ministry of Planning and Development, Federal Republic of Somalia Ministry of Finance
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	27-Nov-2015
Date PID Approved/Disclosed	12-Jan-2016
Estimated Date of Appraisal Completion	20-Nov-2015
Estimated Date of First Grant Approval	20-Jan-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Somalia is a fragile and conflict affected state that has suffered 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% of Somalia's population is living in extreme poverty (GDP per capita less than US\$1/day in PPP terms). The Gross National Income per capita of US\$284 is one of the lowest in the world. Approximately 70% 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.

The Federal Government of Somalia (FGS) was elected in the fall of 2012 following years of political turbulence. The internationally recognized elections gave rise to a sense of optimism that Somalia had begun the process of recovery and some Somalis in the Diaspora have since then returned to Somalia and invested in particular in Mogadishu. FGS's control of its territory is

limited, however, as conflict prevails in much of southern Somalia. Regional authorities control parts of the country, including in the semi-autonomous region of Puntland and the self-declared state of Somaliland. The fragmentation of authority coupled with ongoing conflict in particular in southern Somalia give rise to complexity and risk for any World Bank Group (WBG) engagement.

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% of Somalia's GDP, and over 50% of exports. Nomadic and semi-nomadic pastoralists make up approximately 60% of Somalia's population. Important sources of export earnings include charcoal and agricultural products. The Somali economy relies heavily on overseas development assistance (ODA, US\$0.75bn) and even more on financial remittances from its sizeable Diaspora—estimates range from US\$1.0bn up to US\$1.6bn—that are sent via service providers, including money transfer businesses that operate without appropriate regulation and supervision on the receiving side. Historically, the hawala network has provided vital services to quasi banks that in turn provide financial services to a significant proportion of the population. The services 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.

Sectoral and institutional Context

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 many respects, the open economic environment has also provided opportunities for the private sector to prosper without most transaction costs associated with formality.

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

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 laws. Mobile network operators also offer unregulated and unsupervised mobile payment services.

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. An emerging business class engaged in limited, small-scale business activities and operating micro, small and medium sized enterprises (SMEs) are 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.

The WBG has worked previously 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\$0.7mn) 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: (i) two value chains (fisheries; gums and resins); (ii) the Central Bank of Somaliland (banking supervision), and; (iii) the sea port and solid waste sector (through public private partnerships or 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.

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 be Somalia-wide.

II. Proposed Development Objectives

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

III. Project Description

Component Name

Component 1: Strengthening Core Economic Institutions

Comments (optional)

Component 1 will help strengthen economic institutions in three critical areas of the economy: (i) 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; (ii) the Ministries of Commerce 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 (iii) port and customs authorities, to leverage private capital, networks and expertise to improve performance of the port sector.

Component Name

Component 2: Expanding Economic Opportunities

Comments (optional)

Component 2 will expand economic opportunities in Somalia through two support mechanisms: one linked to skills formation and private sector capacity building (SME Service Facility - SMEF); and another one linked to direct financial incentives aimed at crowding in private investment in innovative and labor-intensive activities (the Somali Business Catalytic Fund - SBCF). The

Catalytic Fund will be open to all commercially-oriented sectors and is designed to support the recovery of the private sector by providing matching grants to support new investments by SMEs.

Component Name

Component 3: Program Management

Comments (optional)

This component will provide support for project implementation

IV. Financing (in USD Million)

Total Project Cost:	28.50	Total Bank Financing:	0.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
Somalia Multi-Partner Fund			28.50
Total			28.50

V. Implementation

The project will operate under the Somalia Multi Partner Fund administered by the World Bank Country Management Unit.

Component 1 will be implemented by the FGS, the Government of Puntland and the GoSI 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 GoPI to share PIU procurement and financial management staff. The PIUs will be anchored: (i) in the Ministry of Finance in Mogadishu (FGS), (ii) the Puntland President Office in Garowe (GoPI), and (iii) the Ministry of Planning and Development in Hargeisa (GoSI). The PIUs will be supported by the WBG task team.

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. Advantage will be taken of the Subsidiary Agreement between FGS and GoPI 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.

Three Project Steering Committees (PSC) – one each for FGS, GoPI and GoSI – 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.

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 international

competitive bids who will report to the FGS, GoSI and GoPI as well as the task team. Bank-execution on behalf of the recipient is expected to reduce governance challenges, including regional dynamics, which need to be navigated for the successful operation of the SBCF and SMEF.

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.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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