

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC22461

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	26-Nov-2015
Date PID Approved/ Disclosed	12-Jan-2016
Estimated Date of Appraisal Completion	20-Nov-2015
Estimated Date of Board Approval	20-Jan-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Somalia is a fragile and conflict affected state that has suffered from more than two decades of civil strife, occasional droughts 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 finally might have turned the corner 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 (MTBs) 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. 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.

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 (MSMEs) 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.

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\$0.7mn) 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 Somalia 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 Central Bank of Somaliland to a strong capacity building effort primarily of the Central Bank of Somalia (CBS). 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 autonomous GoSI to the FGS and by extension to GoPl. The matching grant program will be revised and implemented at the national level and the new MSME 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.

Relationship to CAS

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: (i) strengthening core economic institutions; and (ii) 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 MSME Service Facility that will provide market driven skills training and strengthen supply of BDS to increase the productivity of Somali businesses.

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 (i.e. effective public financial management (PFM) and procurement systems); recurrent cost (i.e. efficient payment systems); capacity injection (i.e. enhanced capacity of the civil service); and financial governance (i.e. strengthened financial governance).

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. 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.

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 project. The proposed project 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 situations.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

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

Key Results (From PCN)

Achievement of the PDO will be measured by the following key performance indicators:

- i. Aggregate number of new financial institution related laws/regulations supported by the program approved by the Central Bank in Mogadishu and Hargeisa;
- ii. Private sector investment generated through copayments by Catalytic Fund recipients;
- iii. Total number of direct jobs created in enterprises supported by the program.

III. Preliminary Description

Concept Description

The Somalia Core Economic Institutions and Opportunities Program (SCORE) would build on the activities and lessons learned in Som-PREP II and cover areas of Somalia that are secure to operate in. The geographic coverage would include metropolitan Mogadishu, Puntland and Somaliland in the first phase. Security permitting, the project interventions supporting the private sector would then be rolled out in more areas of the country. Phase I would cover 39 months of implementation and be expected to be effective in April 2015. Phase II would cover 24 months and the Project mid-term review would inform the Somalia Country Management Unit when the Task Team can appraise Phase II. Depending on the disbursement and implementation progress of Component 2 the

two phases could overlap by up to a year.

The Project would be jointly led by co-TTLs from the Trade & Competitiveness and Finance & Markets Global Practices and provide technical assistance to support solutions to specific constraints holding back financial and private sector formalization, skills formation, private investment, including in the seaport sector, and job creation. Some of the key constraints include weak enforcement capacity of key government agencies, operational inefficiencies, limited mobilization of the private capital to stimulate investments and jobs, an unsupportive business environment and missing markets for business services, finance and skills development.

These constraints and connected solutions cut across a number of sectors, and some require a regional dimension in order for the proposed solutions to work effectively. Based on an assessment of opportunities, risks and the opportunity costs of inaction, legal and regulatory reforms are classified into three categories: (i) legislative change; (ii) regulatory reform, and; (iii) procedural/operational changes. The legislative process is time-consuming with an approval process that often takes years. Regulatory and procedural/operational changes take less time to take effect, however, and reforms which can be implemented without legislative change would be targeted whenever feasible.

IV. Safeguard Policies that might apply

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

V. Financing (in USD Million)

Total Project Cost:	28.50	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		0.00	
Somalia Multi-Partner Fund		28.50	
Total		28.50	

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