PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA17391

Project Name	ICT Sector Support in Somalia Phase II (P152358)
Region	AFRICA
Country	Somalia
Sector(s)	General information and communications sector (40%), Telecommunications (30%), Tertiary education (20%), Law and justice (10%)
Theme(s)	Infrastructure services for private sector development (50%), e-Government (20%), Other Financial Sector Development (10%), Public e xpenditure, financial management and procurement (10%), Conflict prevention and post-conflict reconstruction (10%)
Lending Instrument	Investment Project Financing
Project ID	P152358
Borrower(s)	Ministry of Finance, Ministry of Posts and Telecom
Implementing Agency	Ministry of Posts and Telecoms
Environmental Category	C-Not Required
Date PID Prepared/Updated	19-Jan-2015
Date PID Approved/Disclosed	29-Jan-2015
Estimated Date of Appraisal Completion	15-Dec-2014
Estimated Date of First Grant Approval	16-Mar-2015
Decision	After PCN review meeting held on September 30th and chaired by the Country Director Bella Bird, the team was given the go ahead to prepare the appraisal package (including PAD, ISDS, PID and Grant Agreements) for consideration by a decision meeting, held on January 15, 2015, and to appraise the full amount requested (US $14m) with the understanding that it may only be available in tranches. The project will be financed by the Somalia Multi-Partner Fund (TF072283) that has been designed to “provide a financing platform to support a coordinated international approach to promoting stability and the sustainable reconstruction and development of Somalia, including in core state functions and socio-economic recovery” (MPF Board Document, December 17, 2013). Considering the dynamic operating environment, a Program Document for $14m will be appraised to provide the broad

	objectives and related components and activities with the key results to be achieved to lock-in the funds. The Grant Agreements will be signed based on available funding according to the project phasing that will ensure proper sequencing of activities. The first in the series of tranches is for $1m to be implemented between 2015 and 2017.

I. Project Context

Country Context

In August 2012, the Federal Government of Somalia (FGS) came to power with a four-year term under a provisional constitution approved by a new parliament – ending Somalia's long period of revolving transitional government at the federal level. Since its establishment, the FGS has emphasized improved governance and economic management as key pillars of its development plan and is also laying the foundations for the implementation of a federal system of governance. The new government is responsible for meeting important political, security and economic milestones during its term, including the passage of a permanent constitution and the preparation for national elections in 2016. This transition marked the first time since 1991 that Somalia has a federal (rather than transitional) government and a widely supported provisional constitution.

The September 2013 Brussels Conference galvanized domestic and international support for Somalia, and endorsed the Somali Compact and its Peace-building and State-building Goals (PSGs), as well as the "Somaliland Special Arrangement (SSA)." To improve aid and financing coordination in support of Somalia's transition, the Somalia Reconstruction and Development Facility (SDRF) was established. The SDRF provides an overarching governance and aid coordination framework for a number of trust funds established to pool international support to Compact priorities. The World Bank's Multi-Partner Fund (MPF) is a key fund under the SDRF and has a primary focus on supporting the Somali Compact priorities for Economic Foundations (PSG 4) and Revenue and Services (PSG 5), alongside the priorities expressed in the SSA.

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Recent positive domestic and international momentum comes as Somalia - classified as a fragile and conflict affected country - has witnessed severe conflict and violence over the past two decades. Since the collapse of the Siad Barre government in 1991, southern Somalia has experienced cycles of conflict that fragmented the country, destroyed legitimate institutions and created widespread vulnerability. In contrast to the war-torn south, northern areas are relatively stable and have put in place functioning institutions, although considerable development challenges remain. While the Federal Government of Somalia – based in Mogadishu – is the internationally recognized governing body in Somalia since 2012, regional and local governments maintain authority over various parts of the country, including in the semi-autonomous region of Puntland and the self-declared state of Somaliland.

Reflecting the impact of prolonged cycles of conflict and fragility, Somalia's human development indicators are among the lowest in the world. Poverty incidence is 73 percent – 61 percent in urban areas and 80 percent in rural areas, with extreme poverty estimated to 43 percent. Somalia's macro-economic framework also reflects the country's underlying fragility. Reliable macro-economic data for Somalia is not available – however regional fiscal and economic data does exist and broader estimates can be aggregated. Public expenditure is estimated to account for 7.7 percent of GDP compared with private sector consumption of 73 percent of GDP. Agriculture and services are the key contributors to GDP. Based on regional fiscal data, Somaliland controls the largest budgetary resource envelope, generating US$127 million in revenue during 2012, compared to US$35 million at the federal level and US$38 million in Puntland.

Sectoral and institutional Context

The ICT sector, especially mobile communications, is one of the brightest spots in the Somali economy. Despite, or perhaps because of the lack of regulation, private, unlicensed mobile companies, using satellite for international communications, have emerged to meet the high demand for communications, especially with the large Somali diaspora. Penetration rates are actually higher and prices lower than in neighboring Djibouti and Ethiopia which have enjoyed peace for most of the last two decades, but retained state-owned monopolies (see Figure 1). However, the fact that the ICT Sector and the Financial Sector are both hitherto largely unregulated, and have the same holding companies active in both fields, is a potential source of risk for the Somali economy. Critical areas are influenced and, in some cases, controlled by large companies: remittances, mobile banking and mobile-money services and mobile services. The market structure is still evolving and consolidation around the larger companies is "de facto"; resulting from mergers and alliances. Although consolidation can bring some consumer benefits and help in achieving economies of scale, the future licensing framework will need to take into account competition policy considerations, and enforce interconnection.

Significant progress on regulatory reform has been made recently. In July 2014, historic interconnection agreement was reached between Somalia's three main operators. The Communications Act has been passed by the Cabinet and is pending approval by the Parliament. The seven commissioners of the Somali Communications Commission, the independent ICT regulator, have been identified and should be appointed as soon as the law is passed in Parliament. The new regulatory framework should make it possible to issue licenses to the existing operators, and to regularize existing spectrum allocations and make new ones, including for 4G LTE services. This should result in a significant boost to the national treasury from the telecom sector.

A further sign of progress is that the private sector operators have started making formal payments to the Ministry of Finance since May 2014. The payments, on the order of US$400'000 per month are coordinated through the leading mobile operator, and are in lieu of taxes and license fees. These payments should be regularized once the law is adopted and license fees are issued. In the FY2015 federal budget, a figure of US$12 million has been included for payments from the ICT sector, and this may be boosted also by auctions of spectrum for fourth generation (4G) mobile services. This figure is well below the level of payments made in other East African economies but would nevertheless be a substantial amount in the context of the overall Somalia government budget. But, in return, operators will expect a much greater contribution from the federal government to security for telecom installations, including masts and base stations.

The prominence of the ICT sector in the Somali economy is reflected in Somalia's development plans. The proposed ICT Sector Support Project aligns with the FGS's primary development frameworks, including the FGS' Economic Recovery Plan (ERP) and the Somali Compact:

- The FGS's ERP for 2014-2015 seeks funding for the information, telecommunications and transport sector, providing a framework for the proposed ICT Sector Support Project.

- The project is also aligned with the Somali Compact PSGs for Economic Foundations (PSG4) and Revenue and Services (PSG5). The project will support PSG 4 as ICT is a productive sector that will support the enabling environment and enhance productivity through infrastructure investment as well as contribute to the generation of employment. The project will support PSG 5 by contributing to the effective management of revenues and building capacity for accountability and service delivery, while enhancing transparent and accountable revenue generation.

II. Proposed Development Objectives

The overarching Project Development Objective (PDO) for this series of projects is "to support the ICT Sector in Somalia by contributing to establishing an enabling environment and by encouraging efficiency and equity in access to connectivity".

III. Project Description

Component Name

Component 1: Enabling Environment

Comments (optional)

The objective of this component is to support the regulatory and governance framework for the sector, following the passage of the new Communications Law, in particular for mobile money.
Component 1: Enabling Environment (US$4.5m), focusing on supporting the regulatory and governance framework for the sector, following the anticipated passage of the new Communications Law.
1.1: Ongoing regulatory support (US$2.5m)
1.2: Facilitation and support the implementation of an effective mobile-money framework (US $2m).

Component Name

Component 2: Efficiency and equity in access to connectivity

Comments (optional)

The objective of this component is to develop Somalia's telecommunications infrastructure as a foundation for economic recovery and growth and to make optimal use of the new fibre connectivity arriving in Somalia ((US$7.8m, + US$1.52m co-financing)
2.1: Establishing a framework for SIM card registration (US$0.8m)
2.2: Supporting the connectivity in the higher education sector (US$3.5m)
2.3: Extending communications rooms in key ministries across all economic zones (US$3.5m + US $1.52m co-financing);

Component Name

Component 3: Program Management and Coordination

Comments (optional)

The objective of this component is to support the Project Implementation Unit established in the Ministry of Posts and Telecommunications, working closely with the Ministry for Finance, for program management and coordination, and for capacity-building.

IV. Financing *(in USD Million)*

Total Project Cost:	14.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
For Loans/Credits/Others			**Amount**

Borrower	0.00
Somalia Multi-Partner Fund	14.00
Total	14.00

V. Implementation

The project would be structured as recipient-executed grant. Component 1 will be Bank executed, at the request of the government. This will allow Bank procurement systems to be used and will allow Bank expertise in ICT regulation and mobile money to be used. This will also allow the Bank team to offer hands-on guidance to the recipient, and to handle the procurement aspects directly. The Ministry of Posts and Telecoms (MPT) would implement components 2 and 3 with assistance from the Ministry of Finance (MoF) and in collaboration also with the Ministry of Culture and Higher Education and Ministry of Interior, for component 2.2. In consequence, separate grant fund requests will be prepared and will be phased according to implementation performance.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

The project is classified as environmental category C and the team will help the counterpart to prepare basic due diligence instruments to manage the minor impacts that may occur and build on an Environmental and Safeguard management capacity. The instrument proposed as appropriate is a short, checklist type Environmental and Social Management Plan (ESMP) that will be supplied during the implementation phase together with tender and contract documents to provide guidance, and establish contractual leverage on good housekeeping, waste management, and workplace and community health and safety.

VII. Contact point

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