



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 02-Jun-2020 | Report No: PIDA29286



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Somalia	P174064	Somalia Re-engagement and Reform Supplemental Development Policy Financing (P174064)	P171570
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	23-Jun-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Federal Government of Somalia	Ministry of Finance		

**Proposed Development Objective(s)**

Facilitate Somalia's full reengagement with the World Bank Group and support Somalia's economic recovery through policy reforms that strengthen fiscal management and promote inclusive private sector-led growth.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	55.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	55.00
World Bank Lending	55.00

**Decision**

The review did authorize the team to appraise and negotiate



## B. Introduction and Context

### Country Context

- 1. COVID-19 has spread rapidly in Somalia, which now has one of the highest infection rates in the region, with 9.7 cases per 100,000 people.** Somalia confirmed its first case on March 16 and, ten weeks later, had reported over 1,900 cases and 73 deaths. Internally displaced persons (IDPs) and the urban poor face risks from community spread of the disease. Coming on top of the 2019 floods and the locust infestation, COVID-19 is pushing more households into food insecurity and malnutrition.
- 2. The pandemic has disrupted economic activity—globally and in Somalia—and threatens to interrupt Somalia’s recovery from fragility.** COVID-19 containment measures and the global recession are expected to reduce remittance inflows and export revenue (notably from livestock and travel-related services), wage earnings, and consequently spending on imports, household consumption, and investment. The government closed airports to international flights in March, and currently none of Somalia’s 21 land border crossings are open.<sup>1</sup> Closure of internal borders and panic buying of food and health items pushed up domestic prices sharply in March and April. Commercial banks report rising withdrawals and falling deposits, as many businesses close or limit their activity in response to social distancing requirements. In light of these developments, the economy is now expected to contract by at least 2.5 percent—a dramatic downward revision to the forecast of 3.2 percent growth made in February 2020.
- 3. Somalia now faces large and unexpected financing needs as a result.** Economic contraction and the closure of international borders are reducing revenue collection, which is constraining the capacity of the government to maintain limited public services and to respond to new expenditure needs generated by the crisis. The Federal Government of Somalia’s (FGS’s) proposed revised budget projects a 29 percent shortfall in domestic revenue below the target in the approved 2020 budget, caused mainly by lower revenue derived from international trade and travel. Meanwhile, spending pressures have increased. The FGS plans to increase cash transfers to vulnerable households million and proposes to increase grants to subnational jurisdictions, which face similar shortfalls, to support an integrated response to the crisis across Somaliland, the Federal Member States (FMSs), and the Benadir Region.<sup>2</sup> After including all expected new financing, the revised budget would have a deficit of US\$88.6 million (2.2 percent of GDP). The government is unable to borrow to finance budget deficits, and indeed must execute a balanced budget in practice.

### Relationship to CPF

- 4.** The proposed operation achieves the interim goal of Focus Area 1 in the FY19–FY22 Somalia CPF: “to secure normalization of Somalia’s relations through the HIPC process.”<sup>3</sup> The reform program supported by the proposed operation complements the IPFs, ASA, and IFC Advisory Services identified in the CPF in achieving several of its major objectives.

## C. Proposed Development Objective(s)

Facilitate Somalia’s full reengagement with the World Bank Group and support Somalia’s economic recovery through policy reforms that strengthen fiscal management and promote inclusive private sector-led growth.

<sup>1</sup> UNOCHA, “COVID-19 responses in Somalia,” <https://covid19som-ochasom.hub.arcgis.com/>, viewed May 31, 2020.

<sup>2</sup> The 2012 Provision Constitution established the Federal Republic of Somalia and the FMSs, which include Galmudug, Hirshabelle, Puntland, Jubbaland, and South West States. The Benadir Regional Administration (BRA) is the municipal government of Mogadishu, the capital. In 1991, Somaliland declared its independence, which is not internationally recognized, and has been self-governed since that time.

<sup>3</sup> The Board of Executive Directors discussed the Joint IDA/IFC/MIGA Country Partnership Framework for Somalia for the Period FY19–FY22 (IDA/R2018-0291, IFC/R2018-0280, MIGA/R2018-0128) on September 25, 2018.



## Key Results

5. **Expected outcomes include:** Increased transparency of public debt information, growth of FGS inland tax revenue, increased allocation of national revenue to Federal Member States, BRA and Somaliland, reduced time to register a business, increased number of mobile network operators that have entered into interconnection agreements, increased transparency of mobile money transaction information.

## D. Project Description

6. The proposed operation is a single-tranche, Supplemental DPF that would provide an additional disbursement to the parent Somalia Reengagement and Reform DPF (P171570), which was approved by the Board of Executive Directors on February 27, 2020. The DPF supports an economic policy reform program that is rooted in Somalia's National Development Plan (Somalia's poverty reduction strategy), which aims to move the country out of chronic fragility. The reform program is designed to enable Somalia to obtain debt relief through the Highly Indebted Poor Countries (HIPC) initiative and channel the benefits of debt relief towards reducing poverty and sustaining inclusive economic growth. Somalia reached the HIPC Decision Point on March 25, 2020.

7. Pillar 1 of the parent DPF strengthens fiscal management in Somalia by supporting reforms in areas of debt management, revenue mobilization, public expenditure containment, budget accountability, and intergovernmental fiscal arrangements. Pillar 2 of the parent DPF promotes inclusive private sector-led growth by supporting reforms aimed at improving the business and investment climate in general as well as targeted sectoral regulations. Somalia continues to make progress on the reform program supported by the parent operation. For example, the government is preparing regulations under the Public Financial Management and Companies Laws. (These regulations are also triggers for reaching the HIPC Completion Point.) And the Central Bank and the National Communications Authority are working with the institutions that are now subject to the new regulations that the DPF supported.

8. Other development partners are also providing budget support financing to Somalia to address the crisis. The African Development Bank is expected to provide US\$12 million through a new policy-based financing operation. The EU has reallocated around \$7 million previously programmed for 2021 to support the FGS in 2020. Its adjusted budget support is currently projected at \$25.3 million. The World Bank's Third Recurrent Cost and Reforming Financing (RCRF) IPF (P173731) is projected to disburse US\$3.2 million in calendar year 2020, bringing total expected 2020 financing of civil service salaries, inter-governmental grants, and other non-project recurrent costs under the RCRF IPFs to \$36.4 million. Turkey is providing a grant of US\$30 million in 2020.

## E. Implementation

### Institutional and Implementation Arrangements

9. The federal Ministry of Finance holds responsibility for overall implementation of the proposed operation. The Office of the Prime Minister has established a framework for monitoring of the country's broader economic reform program, including not only the reforms supported by the DPF but also structural benchmarks in the three-year financing program approved by the IMF on March 25, 2020, and the HIPC Completion Point triggers. Recognizing the government's capacity constraints, DPF prior actions were selected to complement financial and technical assistance provided by the World Bank Group, European Union, IMF, and other partners.



## F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

10. Prior actions in the parent operation contribute to poverty reduction by creating fiscal space, improving fiscal management systems needed for effective spending on social programs (including systems for inter-governmental transfers), establishing a legal framework for new firm creation, and introducing regulations to promote a stable and competitive mobile payments system. The crisis is re-versing progress the government had achieved in mobilizing revenue and encouraging new firm entry, while it pushes more Somalis into food insecurity, joblessness, and poverty. The urban poor, IDPs, and elderly are bearing the brunt of COVID-19. Both agriculturalists and pastoralists face loss of income if the locust infestation worsens.

11. Somalia is taking steps to address these challenges. The FGS has temporarily reduced taxes on many basic food items to mitigate pricing pressures. The FGS and FMSs are strengthening inter-governmental fiscal systems to support an integrated national response to the crisis and to channel funds to state and local governments, which have the primary responsibility for providing public health and education. The government launched the “Baxnaano” national safety net program in April and is developing a national social registry (a HIPC Completion Point trigger), which will enable it to more efficiently deliver cash transfers to the neediest. Finally, the proposed operation supports the government in meeting unanticipated financing needs arising from the crisis, which if left unchecked would disproportionately hurt the poor and vulnerable.

### Environmental, Forests, and Other Natural Resource Aspects

12. Prior actions in the parent operation are not likely to directly affect Somalia’s environment, forests, or natural resources. These reforms are expected to create a conducive macroeconomic and fiscal context for sound environmental management. Although the revised FGS budget preserves or increases funding for MDAs with mandates that are important for sound use of natural resources (e.g., it increased the allocation to the Ministry of Fisheries and Marine Resources by 17 percent), conditions are now less supportive of environmental protection.

13. The government is taking steps to improve its resilience to environmental shocks. The FGS is setting up a National Emergency Operations Center and FMSs are establishing disaster mitigation and management systems to operationalize the 2018 Recovery and Resilience Framework. Through the Somalia Crisis Recovery Project, the country is rehabilitating water resources, afforesting riverbanks, and rehabilitating irrigation systems.

## G. Risks and Mitigation

14. **Overall risks to this operation are high.** The enduring legacies of conflict and state collapse pose risks to policy reform in general and upcoming 2020/1 elections may result in heightened political tensions which could spill over into the reform agenda and impact on the operation. Risk ratings are maintained at the same levels as in the parent operation for political and governance (high), macroeconomic (high), fiduciary (substantial), and institutional and capacity (high). The crisis elevates social and environmental risks to the operation, which are now rated as substantial. The rapid spread of the disease and the disruption of households’ livelihoods threaten the realization of the reform program’s objectives of inclusive growth and poverty reduction. The government is taking steps to address these risks. In April 2020, the FGS launched a nationwide social safety net program, known as the “Baxnaano” program, to help protect poor and vulnerable families faced by shocks, including public health and other natural hazards. In addition to introducing testing, tracing, and other short-term responses to the pandemic, the authorities are redoubling their efforts to strengthen national health systems to address future shocks. The World Bank is providing financing to support these efforts through the Shock-



responsive Safety Net Project, Crisis Recovery Project, and the Shock Responsive Safety Net for Emergency Locust Response Project.

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**APPROVAL**

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**Approved By**

Country Director:	Camille Anne Nuamah	25-May-2020
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