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Report No: PAD4375

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GRANT

IN THE AMOUNT OF SDR 34.9 MILLION  
(US\$50 MILLION EQUIVALENT)

TO THE

FEDERAL REPUBLIC OF SOMALIA

FOR THE

SOMALIA CAPACITY ADVANCEMENT, LIVELIHOODS AND ENTREPRENEURSHIP, THROUGH  
DIGITAL UPLIFT (SCALED-UP) PROJECT ADDITIONAL FINANCING

May 26, 2021

Finance, Competitiveness, and Innovation Global Practice  
Eastern and Southern Africa Region

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## CURRENCY EQUIVALENTS

Exchange Rate Effective April 30, 2021

Currency Unit = Somali Shilling (SOS)

US\$1 = SOS 578.50

US\$1 = SDR 0.70

FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House
AF	Additional Financing
AfDB	African Development Bank
AML	Anti-Money Laundering
ATS+	Automated Transfer System
BAU	Business as Usual
BDS	Business Development Service
BRS	Business Registration System
CBS	Central Bank of Somalia
CDD	Customer Due Diligence
CERC	Contingent Emergency Response Component
CERT-SOC	Computer Emergency Response Team - Security Operations Center
CFT	Combating the Financing of Terrorism
CIP	Capital Injection Plan
CISP	Communications Infrastructure and Services Provider
COVID-19	Coronavirus Disease 2019
CPF	Country Partnership Framework
CPRP	Country Preparedness and Response Plan
CVS	Customer Verification System
DFI	Development Finance Institution
DFS	Digital Financial Service(s)
DNFBP	Designated Nonfinancial Businesses and Professions
DPO	Data Protection Office
EEP	Eligible Expenditure Program
eKYC	Electronic KYC
ERP	Enterprise Resource Planning
ESF	Environmental and Social Framework
ESMF	Environmental and Social Management Framework
FACTS	Financial Accounting Control and Transactions System
FATF	Financial Action Task Force
FGS	Federal Government of Somalia
FHW	Female Health Worker
FI	Financial Institution

FM	Financial Management
FMoH	The Federal Ministry of Health
FMS	Federal Member State(s)
FRC	Financial Reporting Center
FT	Financing of Terrorism
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
HIPC	Heavily Indebted Poor Countries
HR	Human Resource
IAD	Internal Audit Department
ICT	Information Communication Technology
ID	Identification
IDP	Institutional Development Plan
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPF	Investment Project Financing
IT	Information Technology
IVA	Independent Verification Agent
KYC	Know Your Customer
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments, and Agencies
MFD	Maximizing Finance for Development
ML	Money Laundering
MoCI	Ministry of Commerce and Industry
MoCT	Ministry of Communications and Technology
MoF	Ministry of Finance
MPF	Multi-Partner Fund
MRIA	Matter Requiring Immediate Action
MSMEs	Micro, Small, and Medium Enterprises
NAPA	National Adaptation Program of Action
NCA	National Communications Authority
NDP9	Ninth National Development Plan
NEC	National Economic Council
NGO	Nongovernmental Organization
NNDP	Ninth National Development Plan
NPV	Net Present Value
OAG	Office of the Accountant General
ODA	Official Development Assistance
OSS	One-Stop Shop
PBC	Performance-Based Condition
PCM	Private Capital Mobilization
PDO	Project Development Objective

PFI	Participating Financial Institution
PIU	Project Implementation Unit
POM	Project Operations Manual
PP	Procurement Plan
PPSD	Project Procurement Strategy for Development
PSC	Project Steering Committee
RBS	Risk-Based Supervision
RCRF	Recurrent Cost and Reform Financing Project
RF	Results Framework
SCORE	Somali Core Economic Institutions and Opportunities Program
SCRP	Somalia Crisis Recovery Project
SEA-SH	Sexual Exploitation and Abuse and Sexual Harassment
SEP	Stakeholder Engagement Plan
SICRP	Somalia Investment Climate Reform Program
SMEs	Small and Medium Enterprises
SPS	Somalia Payment Switch
STARS	Somalia Transaction and Reporting System
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical Assistance
ToC	Theory of Change
TOR	Terms of Reference
UCS	Use of Country Systems
ULF	Unified Licensing Framework
UN	United Nations
UNIDO	United Nations Industrial Development Organization
URL	Uniform Resource Link
WBG	World Bank Group
WBOPCS	World Bank Operations Policy and Country Services
WHO	World Health Organization

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**BASIC INFORMATION – PARENT (Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP) - P168115)**

Country Somalia	Product Line IBRD/IDA	Team Leader(s) Thilasoni Benjamin Musuku		
Project ID P168115	Financing Instrument Investment Project Financing	Resp CC EAEF1 (9552)	Req CC AECE2 (6542)	Practice Area (Lead) Finance, Competitiveness and Innovation

Implementing Agency: Ministry of Finance, Federal Republic of Somalia

Is this a regionally tagged project?  No				
Bank/IFC Collaboration  Yes	Joint Level  Complementary or Interdependent project requiring active coordination			
Approval Date  07-Mar-2019	Closing Date  30-Jun-2023	Expected Guarantee Expiration Date	Original Environmental Assessment Category  Partial Assessment (B)	Current EA Category  Partial Assessment (B)

**Financing & Implementation Modalities**

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input checked="" type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input checked="" type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)

**Development Objective(s)**

The Project Development Objective (PDO) is to support progress towards increased access to basic digital financial and government services targeting entrepreneurship and employment, particularly for women.

**Ratings (from Parent ISR)**

	Implementation			Latest ISR
	30-May-2019	17-Dec-2019	18-Jun-2020	18-Dec-2020
Progress towards achievement of PDO	S	S	S	S
Overall Implementation Progress (IP)	S	S	S	MS
Overall Safeguards Rating	S	S	S	MS
Overall Risk	H	H	S	S
Financial Management	S	S	S	MS
Project Management	S	S	S	S
Procurement	S	S	S	MS
Monitoring and Evaluation	S	S	S	MS

**BASIC INFORMATION – ADDITIONAL FINANCING (Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP) Additional Financing - P174769)**

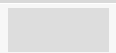


Project ID	Project Name	Additional Financing Type	Urgent Need or Capacity Constraints
P174769	Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP)	Scale Up	Yes

	Additional Financing		
Financing instrument	Product line	Approval Date	
Investment Project Financing	IBRD/IDA	09-Jun-2021	
Projected Date of Full Disbursement	Bank/IFC Collaboration	Joint Level	
30-Apr-2026	Yes	Complementary or Interdependent project requiring active coordination	
Is this a regionally tagged project?			
No			

**Financing & Implementation Modalities**

<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input checked="" type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input checked="" type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input checked="" type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input checked="" type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)
<input type="checkbox"/> Contingent Emergency Response Component (CERC)	

**Disbursement Summary (from Parent ISR)**

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed
IBRD				 %
IDA	18.00	6.26	11.99	 34 %
Grants	13.00	2.09	10.91	 16 %

**PROJECT FINANCING DATA – ADDITIONAL FINANCING (Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP) Additional Financing - P174769)**



**FINANCING DATA (US\$, Millions)**

**SUMMARY (Total Financing)**

	Current Financing	Proposed Additional Financing	Total Proposed Financing
<b>Total Project Cost</b>	31.00	75.00	106.00
<b>Total Financing</b>	31.00	75.00	106.00
<b>of which IBRD/IDA</b>	18.00	50.00	68.00
<b>Financing Gap</b>	0.00	0.00	0.00

**DETAILS - Additional Financing**

**Private Sector Investors/Shareholders**

Equity	Amount	Debt	Amount
		IFI Debt	50.00
		IDA (Credit/Grant)	50.00
		Commercial Debt	5.00
		Guaranteed	5.00
		Trust Funds	20.00
<b>Total</b>	<b>0.00</b>		<b>75.00</b>

**Payment/Security Guarantee**

<b>Total</b>	<b>0.00</b>
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**IDA Resources (in US\$, Millions)**

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
<b>Somalia</b>	0.00	50.00	0.00	50.00
National PBA	0.00	50.00	0.00	50.00
<b>Total</b>	<b>0.00</b>	<b>50.00</b>	<b>0.00</b>	<b>50.00</b>

## COMPLIANCE

### Policy

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any other Policy waiver(s)?

Yes  No

Explanation

The waiver of the Environmental and Social Framework, the Environmental and Social Directive for Investment Project Financing, and the Directive on Addressing Risks and Impacts on Disadvantaged or Vulnerable Individuals or Groups to prepare scale-up AF was sought from OPCS VP.

Has the waiver(s) been endorsed or approved by Bank Management?

Approved by Management       Endorsed by Management for Board Approval       No

Explanation

Approval was obtained from OPCS VP on September 11, 2020

## INSTITUTIONAL DATA

### Practice Area (Lead)

Finance, Competitiveness and Innovation

### Contributing Practice Areas

Digital Development

### Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

## PROJECT TEAM

### Bank Staff

Name	Role	Specialization	Unit
Thilasoni Benjamin	Team Leader (ADM)	TTL, Senior Financial Sector	EAEF1

Musuku	Responsible)	Specialist	
Asta Bareisaite	Team Leader	Co-TTL, Senior Private Sector Specialist	EAEF1
Francis Akolu Muthuiya	Procurement Specialist (ADM Responsible)	Sr. Procurement Specialist	EAERU
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Eugenia Nafula Konya	Team Member	Team Assistant	AEMSO
Haroub Ahmed Haroub	Social Specialist	Social Safeguards Specialist	SAEE2
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Jean O Owino	Team Member	Finance Officer	WFACS
Juan Andres Cartwright Ramon	Team Member	Financial Sector Consultant	EAEF1
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Taneem Ahad	Team Member	Business registration	CAFA1
Yara Quiros Soto	Team Member	Sr. Financial Specialist	EFNFS
<b>Extended Team</b>			
<b>Name</b>	<b>Title</b>	<b>Organization</b>	<b>Location</b>

## I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

### A. Summary

1. **The Somalia Capacity Advancement, Livelihoods, and Entrepreneurship, through Digital Uplift Project (SCALED-UP) (P168115) has made meaningful progress since effectiveness and is playing a central role in strengthening the capacity of the Federal Government of Somalia (FGS) to respond to the challenges brought by the coronavirus disease 2019 (COVID-19) pandemic.** Overall, the parent project has been rated ‘Satisfactory’ in relation to achievement of the Project Development Objective (PDO) and ‘Moderately Satisfactory’ for Implementation Progress (IP). At the beginning of May 2021, the total project disbursement stood at US\$8.2 million, representing 27 percent of the total available resources or 44 percent after factoring in US\$5.5 million of additional commitments<sup>1</sup>. With 44 percent of total project disbursement and commitments at 19 months since effectiveness, all project components are broadly in line with the projections and on course to utilize 100 percent of the current budget allocations.

2. **This project paper seeks the approval of the Executive Directors for an additional financing (AF) in the amount of US\$50 million for SCALED-UP, financed from the IDA resources.** In addition, this project paper seeks the approval of the Regional Vice President for an additional US\$20 million of the Somalia Multi-Partner Fund (MPF) trust fund grant (TF0B5774)<sup>2</sup>. The AF is requested to scale up the parent project activities to aid the FGS in supporting resilient recovery of households and businesses affected by the COVID-19 pandemic. Specifically, the AF aims to leverage the parent project’s platform for institution strengthening and enhancing service delivery to enable over 5,000 micro, small, and medium enterprises (MSMEs) to access finance to build back better; formalize another 5,000 firms through the business registry; support over 250,000 women to access financial transaction accounts; and support 3 million Somali residents to obtain unique identification (ID) numbers. The AF will:

- (a) Leverage two financing windows of the MSME financing facility established under the parent project, which have already proven to be effective in the expansion of access to finance for MSMEs, to mitigate vulnerable but viable firms’ liquidity shortages caused by the pandemic. The Somali firms’ already low access to finance has been exacerbated by the COVID-19 pandemic, leaving a large unmet market demand in the real economy. In effect, about 63 percent of firms currently find it difficult to access credit.<sup>3</sup> The AF will help mitigate the liquidity shortages of viable firms. This will in turn play a crucial role in preserving numerous jobs and enabling a faster path to resilient recovery of communities and businesses.

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<sup>1</sup> Expected to be disbursed by Q1 FY22, 60 percent of which is in commitments under Subcomponent 1.1 supporting the Central Bank of Somalia.

<sup>2</sup> Additional US\$5 million private capital mobilized (PCM) is expected under sub-component 2.1. This amount is only reflected in the datasheet on page 4 which captures the expected PCM, and not in the datasheet on pages 44-45. More details on the PCM are provided in the Annex VII.

<sup>3</sup> World Bank Group (WBG) and United Nations Industrial Development Organization (UNIDO). *Coronavirus and the Private Sector in Somalia: Results from the COVID-19-focused Enterprise Survey - Round 2*. March 2021.

- (b) Deepen the parent project’s reforms to accelerate outcomes and the transformational results needed to sharpen the FGS’ response to the COVID-19 pandemic and other structural challenges to support business continuity and a resilient recovery. More than ever, COVID-19 has led to the realization of the importance of driving the reform benefits related to integrity and proper functioning of financial markets and digital systems. These are essential to the Government’s mitigation of COVID-19 impacts on communities and businesses, but the FGS’ ability to finance the additional investment needed to accelerate reforms and operationalize digital infrastructure and platforms is constrained because of reduced fiscal revenues during the pandemic. To this end, the AF will finance reforms needed to roll out the digital ID in Somalia, support the Central Bank of Somalia (CBS) to implement its Strategic Plan (2020–2024) to become a policy-oriented central bank, expand the Government’s digital capabilities, and scale up the provision of digital services to individuals and businesses, such as online business registration. Through scaling up of the parent project, the AF attempts to ensure business continuity and remote service delivery, thus underpinning a resilient recovery and safeguarding sustainable livelihoods.

3. **The AF is closely aligned with the parent project’s structure and components with no new safeguards policy triggered.** The project components, implementation arrangements, and target beneficiaries will remain unchanged, the existing implementing arrangements, safeguards mechanisms, and financial reporting mechanisms in place will continue to ensure sound implementation.

4. **The AF also includes a restructuring,** featuring (a) updates to the Results Framework (RF) to reflect an updated assessment and scaling up of the parent project; (b) changes in disbursement arrangements to introduce performance-based conditions (PBCs) for activities that support the CBS given the growing capacity and the need to incentivize critical financial sector reforms, and scaled up and extended offering by Gargaara; (c) changes in disbursement projections; (d) changes to costs pursuant to the AF; (e) updated covenants; and (f) an extension of the project closing date by 30 months to December 31, 2025. The PDO remains unchanged and achievable.

5. **To enable an urgent response in light of the COVID-19 pandemic, the World Bank has invoked paragraph 12 of the Investment Project Financing (IPF) policy to use condensed procedures for processing in case of an urgent need of assistance due to a natural or man-made disaster or conflict.** These flexibilities<sup>4</sup> in project preparation allowed the World Bank management to process the AF with a condensed process and expedite the flow of necessary financing to ensure that Somalis are supported during the crisis. Additionally, in line with its COVID-19-specific risk considerations, the World Bank approved a waiver of the Environmental and Social Framework (ESF), the Environmental and Social Directive for IPF, and the Directive on Addressing Risks and Impacts on Disadvantaged or Vulnerable Individuals or Groups, allowing the AF to continue to apply the safeguards policies that were in use when the parent project was prepared.

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<sup>4</sup> Condensed procedures allow for (i) consolidating stages of project identification, preparation and appraisal; (ii) taking the decision to authorize negotiations after a single consolidated review of a complete negotiations package; and (iii) accelerating business standards with shorter turnaround times.

## B. Background

6. **SCALED-UP is a US\$31 million operation<sup>5</sup> that was approved on March 7, 2019, and became effective on August 8, 2019.** The PDO is to support progress toward increased access to basic digital financial and government services targeting entrepreneurship and employment, particularly for women. The project is designed around three mutually reinforcing components: Component 1: Strengthening Institutions (US\$7 million equivalent), Component 2: Enabling Financial and Digital Services (US\$20 million equivalent), and Component 3: Project Management and Coordination (US\$4 million equivalent) (see box 1 for details).

### Box 1. Description of the SCALED-UP Parent Project

**Component 1: Strengthening Institutions** (US\$7 million equivalent) is focused on supporting core government functions and services that play a key role in enabling economic opportunities for individuals and businesses, through strengthening governance, institutional effectiveness, efficiency, and sustainability. This is a reform area requiring progress across multiple ministries, departments, and agencies (MDAs) in several areas. This component has primarily provided support to the, (a) CBS on improving regulations and supervising financial institutions (FIs), promoting efficient financial intermediation and strengthening policies and strategies for digital financial services (DFS), and expanding financial access; (b) Financial Reporting Center (FRC) on enhancing its understanding of Somalia's anti-money laundering/combating the financing of terrorism (AML/CFT) risks, analyzing financial intelligence, and disseminating reports to law enforcement agencies as appropriate; (c) Ministry of Communications and Technology (MoCT)<sup>6</sup>/National Communications Authority (NCA) to strengthen policy development and effective regulation of the information and communication technology (ICT) sector; and (d) FGS to create the legislative and institutional enabling environment for the new foundational digital ID system, including the setup and operationalization of a new independent ID Authority.

**Component 2: Enabling Financial and Digital Services** (US\$20 million equivalent) focuses on increasing individuals' and businesses' access to services that expand economic opportunities and help restore resilience in a gender-sensitive manner. Under this component, the project supports sustainable and digitally enabled mechanisms for service delivery, including (a) the establishment and management of an MSME financing facility (Gargaara) as a dedicated apex institution providing financing to bank and non-bank FIs to reach MSMEs and large firms; (b) enrollment of at least 1 million registrants in a new foundational digital ID system, including dedicated support for outreach to poor and marginalized groups, and the use of the digital ID for increased financial access; (c) support for Government digital payments, including the construction of interoperable retail payments services, and integrated digital Government services; and (d) e-business registration services for small and medium enterprises (SMEs) through the operationalization of a one-stopshop (OSS).

**Component 3: Project Management and Coordination** (US\$4 million equivalent) focuses on funding project management by a single Project Implementation Unit (PIU) anchored in the Ministry of Finance (MoF) that coordinates closely with all relevant MDAs across the FGS and Federal Member States (FMS).

7. **While the Government's reform agenda supported by SCALED-UP and other IDA/MPF development projects has made considerable progress, the COVID-19 pandemic has deepened the challenges to be addressed by the project.** The pandemic comes at a time when the country is navigating a narrow path away from fragility. Since 2012, the country has managed to make sustained progress and

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<sup>5</sup> With financing from IDA's Pre-Arrears Clearance Grant facility and the MPF (IDA: SDR 12.9 million [US\$18 million equivalent] and MPF: US\$13 million).

<sup>6</sup> Formerly known as the Ministry of Posts, Telecommunications, and Technology.

demonstrated a strong track record of implementing wide-ranging institutional and economic reforms, as evidenced by Somalia reaching the Decision Point under the enhanced Heavily Indebted Poor Countries (HIPC) initiative in March 2020. However, the COVID-19 pandemic has severely affected the Somali economy that was already shaken by an infestation of desert locusts and reoccurring climate change-related shocks (floods and droughts).

**8. The private sector, which has been a major driver of economic growth and employment generation in Somalia, is being adversely affected by the ongoing COVID-19 pandemic in several ways.**

These include, but are not limited to, curfews and restrictions that disrupted commercial operations, increased business vulnerabilities, disruptions to key supply chains, closed borders, decreased capital and venture inflows, and diminished access to finance. According to Round 1 of the Somalia COVID-19 Enterprise Survey,<sup>7</sup> 75 percent of firms saw a decline in sales and 71 percent experienced a decrease in the supply of needed inputs by mid-2020.<sup>8</sup> Round 2 of the same survey suggests that about 52 percent and 44 percent of firms remain in these respective situations in early 2021.<sup>9</sup> Accordingly, about 37 percent of firms remain closed, 46 percent of firms are still decreasing their total number of permanent workers, and 54 percent of firms are still reducing the wages and salaries of their staff.<sup>10</sup>

**9. The financial health of Somali firms is also affected, with 49 percent of firms still facing liquidity and cash flow challenges and 80 percent of firms having to delay payments to their service providers and tax authorities.**<sup>11</sup> Many of these firms remain viable with timely liquidity support, to tide over the economic slowdown due to the COVID-19 pandemic, and consequently preserve previous institutional, social, and financial capital and jobs.

**10. While Somalia's financial sector remains stable, the COVID-19 pandemic has increased sector risks and vulnerabilities and diminished its already low capacity to expand access to finance to MSMEs, particularly women and women entrepreneurs.** The total capital-to-assets ratio of the consolidated commercial banking system in December 2020 was 12.2 percent, and the loan-to-deposits ratio was 26.7 percent.<sup>12</sup> Furthermore, the loan portfolio was still healthy in December 2020, with a nonperforming loan ratio of 4.0 percent.<sup>13</sup> However, according to Round 2 of the Somalia COVID-19 Enterprise Survey, although there have been some signs of recovery in the private sector economy,<sup>14</sup> 55 percent of firms in the country anticipate falling in arrears on their outstanding liabilities in the absence of additional support.<sup>15</sup> Given these perceptions of greater vulnerability due to the COVID-19 pandemic, participating

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<sup>7</sup> There have been two rounds of the COVID-19 Enterprise Survey so far. Round 1 interviewed 550 formally registered businesses between June 14 and July 30, 2020. Round 2 interviewed 494 of the 550 firms interviewed in Round 1, between December 15, 2020, and January 30, 2021. One more round of data collection will be performed in Q1 FY22.

<sup>8</sup> WBG and UNIDO. 2020. *Coronavirus and the Private Sector in Somalia: Results from the COVID-19-focused Enterprise Survey - Round 1*. September 2020.

<sup>9</sup> WBG and UNIDO. 2021. *Coronavirus and the Private Sector in Somalia: Results from the COVID-19-focused Enterprise Survey - Round 2*. March 2021.

<sup>10</sup> WBG and UNIDO 2021.

<sup>11</sup> Ibid.

<sup>12</sup> CBS - Commercial Banks Consolidated Data.

<sup>13</sup> Ibid.

<sup>14</sup> Although 50 percent of firms still saw a reduction in sales by December 2020, this is an improvement from the 75 percent of firms that had seen a decrease in the same month in 2019. Relatedly, only 49 percent of firms in Somalia were facing liquidity challenges by December 2020 in comparison to 90 percent of firms in December 2019.

<sup>15</sup> WBG and UNIDO 2021.



financial institutions (PFIs) have retrenched their outreach efforts—especially with micro and small businesses.<sup>16</sup> Accordingly, financial intermediation in the Somali credit market has diminished from its already modest position—private sector credit in Somalia by November 2020 was just over 4 percent of gross domestic product (GDP), compared to an average of 45 percent of GDP in Sub-Saharan Africa. Furthermore, the little that is being lent remains heavily concentrated on short-term trade finance and relatively large loans, whose weight in the total portfolio of FIs increased in 2020 compared to 2019.<sup>17</sup> Thus, by early 2021, about 63 percent of firms found access to credit difficult.<sup>18</sup> This leaves a large unmet market demand for financing in the real economy. Access to credit is one of the two most desired COVID-19 support options for private enterprises, and the proportion of firms that desire support to access new credit has in effect tripled between mid-2020 and early 2021. Additionally, about 49 percent of micro firms and 34 percent of non-micro firms say that they depend on bank financing to bridge liquidity shortages.<sup>19</sup>

**11. Furthermore, the pandemic and the need for social distancing has increased reliance on DFS, digital communications, and service platforms, as a means of ensuring remote and uninterrupted access to information, financial assistance, and critical public and private services.** In this context, ensuring resilience of DFS and communication services remains paramount. While regulatory capacity has increased under the parent project, there is a need for additional support at this critical juncture to ensure business continuity and to enable key sector institutions to develop the necessary capacity to meet the needs of Somalia’s transitioning economy, complicated further by the impact of the COVID-19 pandemic. The demand for mobile communication and mobile money services is expected to increase, as it has in connection with past crises, which has helped propel one of the highest rates of mobile money usage among adults in Africa (80 percent).<sup>20</sup> While many United Nations (UN) agencies and nongovernmental organizations (NGOs) are increasingly using mobile payment channels to deliver front-line services, the FGS’ use is still limited to salary payments through transaction accounts held at licensed banks. In this context, further system integration with a verifiable unique ID for transaction account owners is viewed as instrumental to scale up financial inclusion and wider application to new use cases such as social protection.

**12. While several digital systems have been introduced by the Government, its digital services capabilities remain nascent and vulnerable in the absence of foundational digital infrastructure and shared platforms that can accelerate readiness, delivery, security, and resilience of basic digital government services.** A handful of back-end systems have been/are being introduced to support core public sector functions critical to basic service delivery, but few of these systems leverage shared infrastructure and platforms, which allow systems to be readily integrated or scaled to enable more effective delivery of digital services facing individuals and businesses. The introduction of foundational infrastructure and platforms enabling delivery of digital ID services is also faced with political economy challenges and will require not just further strengthening of technical readiness and capabilities but also consensus building across FMS to ensure broad-based access to ID services across the country.

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<sup>16</sup> Conversations by the World Bank task team with Gargaara PFIs during the SCALED-UP AF pre-appraisal mission during January/February 2021.

<sup>17</sup> WBG - Somalia Economic Update. June 2020.

<sup>18</sup> WBG and UNIDO 2021.

<sup>19</sup> Ibid.

<sup>20</sup> World Bank. 2018. *Second Wave of Mobile Money Research - Use of Mobile Money during the Drought*.



Meanwhile, experience suggests that remote working, in connection with COVID-19, has increased the risk of cybersecurity incidents and data breaches, highlighting the need for adequate safeguards, but related frameworks are still absent in Somalia.

13. **The COVID-19 pandemic has also increased the urgency of resolution of financial integrity issues and de-risking.** Reliance on remittance flows and demand for social and humanitarian assistance have intensified due to the pandemic. However, effective payment delivery is constrained by the lack of reliable means to authenticate recipients or ensure their uniqueness within and across databases (that is, continued reliance on predominantly manual, low-assurance, and informal identification processes). Recent high-profile international reports have highlighted significant gaps in Somalia's AML/CFT system, including persistent risks of money laundering (ML) and financing of terrorism (FT). Without a trusted and universally accessible digital ID system, meeting international know your customer (KYC) and AML/CFT requirements remains a challenge for financial service providers operating in Somalia.

14. **The role of the CBS remains critical in the state reconstruction and stabilization of the financial sector and facilitation of remittances in a fragile environment to mitigate COVID-19 impact.** The CBS needs to diversify transmittal channels for Official Development Assistance (ODA) and extend Use of Country Systems (UCS) to FMS to mitigate overreliance on a few transmittal channels considering disruptions associated with the pandemic. The CBS continues to benefit from cooperating partners' support including the World Bank, International Monetary Fund (IMF), and United States Treasury, in boosting central bank governance and FI supervision and examination. The CBS operation systems and FI supervisory oversight capacities have been strengthened over the recent years.<sup>21</sup> Channeling of ODA through the CBS as a fiscal agent is expected to further contribute to federal state formation by extending UCS to the FMS level. The legal foundations for the CBS needed to underpin secure and stable transmittal channels are broadly in line with best practices and the internal governance arrangements are developing. However, the CBS needs to urgently strengthen key central banking functions that are critical to boosting financial sector integrity by (a) developing and maintaining good working knowledge of the FIs being supervised and the sorts of risks they are assuming in selected areas, particularly corporate governance, corporate structure, and risk management, and (b) building trust and public confidence in central bank supervisory policies through financial and nonfinancial disclosures of risk in supervised FIs, particularly ML and FT risks.<sup>22</sup>

### C. Status of the Parent Project

15. **SCALED-UP has made meaningful progress since effectiveness and is playing a central role in strengthening the FGS' capacity to respond to the challenges brought by the COVID-19 pandemic.** Overall, the parent project has been rated 'Satisfactory' in relation to achievement of the PDO and 'Moderately Satisfactory' for Implementation Progress (IP). At the beginning of May 2021, the total project disbursement stood at US\$8.2 million, representing 27 percent of the total available resources or 44 percent after factoring in US\$5.5 million of commitments which are expected to be disbursed by Q1 FY22. With 44 percent of total project disbursement and commitments at 19 months since effectiveness,

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<sup>21</sup> The Somali Core Economic Institutions and Opportunities Program (SCORE) and SCALED-UP supported the CBS to strengthen FI supervision and examination, banking operations, and financial governance controls and accounting using an integrated core banking and accounting technology solution called the Financial Accounting Control and Transactions System (FACTS).

<sup>22</sup> See annex I for a discussion on central bank governance and financial integrity.

all project components are broadly in line with the projections and are on course to utilize 100 percent of the current budget allocations.

**16. Under Component 1, the project has made significant headway in strengthening government institutions critical for efficient financial and digital service delivery.** While experiencing some delays due to COVID-19, implementation progress of activities to support capacity building at the CBS and FRC has been satisfactory. Building on the foundations laid under Somali Core Economic Institutions and Opportunities Program (SCORE) (P152241),<sup>23</sup> the project is providing technical and financial support to the CBS to strengthen critical systems for FIs' regulation and supervision and promoting efficient financial intermediation. These efforts are focused on transforming the CBS from a fiscal agent to a policy-orientated institution based on independence, responsibility, accountability, and transparency. The progress made on strengthening national payment systems is noteworthy. With successful deployment of a cloud computing hosting solution in September 2020 under SCORE for the Somalia Transaction and Reporting System (STARS)<sup>24</sup> and the Somalia Payment Switch (SPS), the national payment system initiative has now entered the 'go live' preparations phase expected by the end of June 2021.<sup>25</sup> The CBS has also developed a reorganization strategy for a rapid shift toward policy that was approved by the CBS board. The CBS reorganization program, which is transitional and incremental in nature, is aimed at laying the foundation toward CBS strategic, effective, and efficient resource allocation, further positioning the role of the CBS as a fiscal agent across the country. SCALED-UP has also made progress in strengthening the FRC by providing capacity-building activities and supporting the completion of the national risk assessment as well as providing the necessary infrastructure to strengthen financial sector integrity.<sup>26</sup>

**17. With the project's support, slow but steady progress has also been made with respect to boosting the Government's digital communications regulatory capacity.** In July 2020, the NCA Board of Directors approved the main licensing category under the new Unified Licensing Framework, a communications infrastructure and services provider (CISP) license. Four out of the six main incumbent operators have been issued CISP licenses under Somalia's new Unified Licensing Framework, with a fifth currently pending. These developments have also been catalytic for regulatory progress on the mobile money side, where Hormuud's CISP license allowed it to subsequently obtain Somalia's first mobile money license in March 2021. Finally, in parallel with the parent project, the World Bank has facilitated in-kind support for a cybersecurity maturity model assessment, which has helped the MoCT identify gaps in Somalia's cybersecurity ecosystem that need to be addressed.

**18. Work on building the legal and institutional foundations for the digital ID system has progressed as well, although important gaps remain in the enabling legislative framework and implementation arrangements for the infrastructure ID are still to be defined.** A bill to establish the ID Authority was

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<sup>23</sup> The previous World Bank flagship project on financial and private sector development in Somalia from May 2016 to September 2020.

<sup>24</sup> Which consists of an Automated Transfer System (ATS+) solution integrating functionality of a Real Time Gross Settlement System and an Automated Clearing House (ACH), along with Instant Funds Transfer.

<sup>25</sup> As of March 2021, the telecommunication networks and modular tier 3 data center have been deployed, and a private secure data exchange network between the CBS and participant FIs is established.

<sup>26</sup> The parent project is supporting the rollout of GoAML, a fully integrated software solution developed for use by financial intelligence units and is one of the strategic responses to financial crime by the United Nations Office on Drugs and Crime. This is expected to go live imminently.

passed in Parliament and signed by the President in December 2020. The newly established ID Authority was provided with a budget to cover its operating costs and a core team of local staff has been hired. A consulting firm was onboarded in February 2021 to support the design of a fully inclusive outreach and enrollment strategy for the digital ID system. The procurement of legal and technical advisory firms to support the drafting of the enabling legislation and the planning, procurement, and deployment of the system's technical infrastructure and technical capacity have not yet taken place. The scope of the Government of Pakistan's engagement in supporting the digital ID infrastructure is yet to be determined, but no financing or material support is expected in the short term. By providing the necessary resources to the FGS to put in place a robust technical infrastructure to underpin registration, identity management, and authentication services, the AF presents the opportunity to accelerate the operationalization of a digital ID system, including the establishment of the needed enabling legal and institutional underpinnings. The foundational digital ID system is expected to serve as a pillar for future resilience and crisis response, by strengthening financial inclusion and financial sector integrity, as well as enabling more efficient delivery of social assistance and basic services, including health care and future vaccination efforts. Additional support for enrollment will enable a substantial scale-up of the parent project's target related to the number of people with unique and verifiable ID credentials during the project duration.

19. **Under Component 2, the project has made great strides to set up and operationalize mechanisms to increase access to financial and digital government services.** The need to accelerate the provision of these critical services has been further highlighted by the ongoing COVID-19 pandemic.

20. **Gargaara Company Limited, the implementing entity for the US\$15 million MSME financing facility, is fully operational, with three PFIs lending to Somali firms.** Gargaara is the first apex MSME financing facility in Somalia, serving as a platform to crowd-in private capital and foster financial sector development and financial inclusion in the country. It has been operational since April 2019 as a freestanding autonomous institution with its own record of accomplishment, board of directors, and management. As of June 2020, three PFIs were onboarded out of the five expressions of interests received from prospective PFIs in November 2019. With the first disbursements made in June 2020 to Somali MSMEs in productive sectors, in March 2021 Gargaara reported that a total of US\$2.9 million was disbursed to 134 MSMEs, and another US\$1.1 million is in the pipeline to help firms address liquidity constraints in the COVID-19 environment. It thus plays a transformational role to facilitate the adoption of traditional lending by Somali FIs and create sufficient scale of market-based funding for MSMEs in productive sectors, which have difficulties in accessing finance and are crucial for Somalia's growth and job creation.

21. **The project has also shown satisfactory progress in advancing the rollout of digital government services, including the operationalization of full functionality of the online business registration system (BRS) and support to the Office of the Accountant General (OAG).** The pilot phase of the rollout of full BRS functionality in Mogadishu saw the submission of 620 applications through the system and the registration and issuance of licenses to 150 businesses as of March 23, 2021.<sup>27</sup> Subject to completion of the prelaunch engagement with key stakeholders and contingent upon the COVID-19 situation, it is

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<sup>27</sup> The BRS has also been supported through the International Finance Corporation (IFC) Somalia Investment Climate Reform Program (SICRP), and SCORE. SICRP and SCORE provided capacity support to the Ministry of Commerce and Industry (MoCI) and this increased capacity to operate the BRS and contributed to other priorities for the MoCI under the parent project.

expected that an enhanced system with various new features (for example, digital payment capability and business licensing functionalities) will go live by July 2021. The launch of the online BRS is a critical milestone that will enable access to a centralized information service to verify the identity of the beneficial owners of all legal entities operating in Somalia and will thus lower transaction costs, improve transaction traceability, and facilitate implementation of effective AML/CFT measures by financial service providers. Online business registration processes will also help Somalia improve its business environment by lowering transaction costs and strengthen the FGS' revenue collection from business registration. Furthermore, SCALED-UP is supporting the deployment of an electronic document management system for accountable documents to aid workflows, data analytics, financial control, and cash management at the OAG. This will enable secure and transparent government-to-person and government-to-business digital government payments and vice versa to, among others, facilitate cash management and planning, internal control and compliance, treasury and payroll management, public sector accounting and reporting, and interoperability between the Somalia Financial Management Information System and the CBScore banking system.

**22. Under Component 3, the project has established the organizational arrangements necessary to support project implementation.** A functioning PIU has been established to implement the project and is anchored in the MoF in Mogadishu. The PIU is responsible for day-to-day project management and coordination, working closely with MDAs covering the project target areas. The PIU is currently staffed with a financial management (FM) specialist, a safeguards specialist, a procurement specialist, and an information technology (IT) systems procurement consultant. The recruitment for a new PIU coordinator for the parent project is currently ongoing and expected to be completed by June 2021, with acting arrangements currently in place for the position.<sup>28</sup> The project also has a well-functioning Project Steering Committee (PSC) comprising representatives of the beneficiary MDAs. The PSC meets regularly to coordinate and oversee the implementation of activities, with attention to sequencing and timing issues, as well as ensuring effective stakeholder consultations and engagements. A project-level grievance redress mechanism (GRM) has been set up to enable systematic handling of project-related complaints and grievances. Whereas the GRM has been operational over the life of the parent project, there have been some gaps in its effective and timely uptake, processing and resolution of project-related complaints and grievances<sup>29</sup>. A monitoring agent has been brought onboard in Somalia, in view of COVID-19 travel restrictions that have limited the task team's ability to conduct meetings in Mogadishu.<sup>30</sup>

#### **D. Rationale for AF**

**23. Designed as a COVID-19 relief and recovery operation, the SCALED-UP AF responds to a request from the FGS made in May 2020 to scale up existing activities to** (a) expand access to finance for MSMEs and (b) accelerate critical reform and capacity-building initiatives needed to underpin a resilient recovery and safeguard sustainable livelihoods, particularly among women and women-owned businesses. As the project components and implementation arrangements needed to respond to this request are materially

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<sup>28</sup> The ongoing recruitment for the replacement has experienced some delay due to COVID-19 and the political situation in Somalia. In the meantime, the PIU FM specialist is successfully fulfilling the role of the acting PIU coordinator.

<sup>29</sup> These gaps related to the systematic dissemination of information on the availability and the functionality of the GRM over the various levels of project implementation.

<sup>30</sup> The monitoring agent is acting as an added layer of capacity to undertake implementation review, monitoring, and reporting on all performance aspects of SCALED-UP in the field, with particular focus on Gargaara.

the same as those under the SCALED-UP parent project, this AF enables a swifter response than preparing a new project and helps accelerate the Government's COVID-19 response activities. The AF will scale up the parent project activities to ensure continuity, timeliness, and effectiveness of the response to COVID-19.

24. **More specifically, activities to be funded under each component through the AF aim to support COVID-19 response and recovery through the following mechanisms:**

- **Under Component 1 (Strengthening Institutions).** The AF will provide scale-up support to select project beneficiaries to deepen and accelerate reforms needed to sharpen and strengthen the Government's COVID-19 response and recovery. This includes introduction of PBCs to incentivize critical central bank and financial sector reforms to secure stable transmittal channels for international remittances, private capital, and ODA. The use of PBC financing with this AF is supported by the need to speed CBS achievement of policy outcomes of reorganization by influencing reform prioritization and strategic resource allocation across core central banking functions, promoting institutional effectiveness in securing transmittal channels, and promoting financial market integrity, contributing to greater financial stability. To complement activities under component 2, the AF will also support institutional, strategic, legal, and regulatory work streams related to enabling rapid scale-up of DFS delivery by FIs. Government digital services will also be supported in aid of remote service delivery in the context of COVID-19. The scale-up of public digital services will focus on areas such as requisite safeguards, including data protection and cybersecurity, and support for a common approach to the rollout of shared public digital infrastructure and platforms to be used by the government digital ID.
- **Under Component 2 (Enabling Financial and Digital Services).** The AF will support scale-up activities focusing on individuals' and businesses' recovery and resilience. Accordingly, the AF will support the development of sustainable and digitally enabled mechanisms for expanding access to financial and digital services to mitigate COVID-19 impacts on communities and businesses and to enhance readiness to respond in the face of future crises. To achieve this, data safeguards and digital service enabling frameworks (financed under component 1) will be operationalized, and the rollout of shared public digital infrastructure and platforms underpinning the provision of these services will be supported. Relatedly, the AF will support the scale-up of the number of people who have been enrolled in the ID system and have received the unique ID credential to 3 million, from the 1 million targeted under the parent project. To help vulnerable but viable businesses to mitigate the impact of COVID-19 on operations, employment, and sales, the AF will support the scale-up of the two Gargaara financing windows (micro and small loans window and large loans window). The project will also support the outreach by sound FIs to micro and small firms in productive sectors with a special focus on women-led and women-managed enterprises. In addition, targeted MSMEs will also be eligible for matching grants for business development services (BDS) to help mitigate COVID-19 impacts and strengthen their loan applications.



- **Under Component 3 (Project Management and Coordination).** The project’s management and coordination arrangements will be scaled up to ensure appropriate implementation of the AF in the context of COVID-19 restrictions.

25. **The proposed AF is also in line with the World Bank Group (WBG) COVID-19 Crisis Response Approach Paper: ‘Saving Lives, Scaling-up Impact and Getting Back on Track’.** The AF aims to alleviate the COVID-19 impact on MSMEs and strengthen the FGS’ core institutions and digital initiatives underpinning the provision of digital financial and government services. Accordingly, the activities under the project fall under the relief and resilient recovery stages, as outlined in the Approach Paper, and will contribute mainly to Pillar 2: Protecting Poor and Vulnerable People; Pillar 3: Ensuring Sustainable Business Growth and Job Creation; and Pillar 4: Strengthening Policies, Institutions, and Investments for Rebuilding Better.<sup>31</sup> The AF’s activities will lay the groundwork for building back better, through improvements to financial and digital infrastructure, by supporting the FGS institutions that are key to the provision of services enabling economic opportunities and providing technical assistance (TA) to PFIs, which will help enhance resilience to similar shocks. Finally, the project will crowd-in investment capital from private sector sources through the apex institution established by the parent project including the lines of credit, risk-sharing facility, and additional development finance institution (DFI) capital mobilized, thereby releasing some of the FGS’ constrained fiscal resources to invest in building back better.

26. **This AF allows SCALED-UP to continue to deliver these activities in alignment with the Country Partnership Framework (CPF) (FY19–FY22).** The AF project is anchored under the Somalia CPF (for FY19–FY22), approved by the Board in September 2018 (Report No. 124734-SO), and its Focus Area 2 (Restoring Economic Resilience and Opportunities). In response to COVID-19, the WBG reprioritized the FY20 and FY21 pipelines to bring forward high-priority relief and recovery efforts<sup>32</sup>. More specifically, in line with the parent project, the AF will contribute to two higher-level objectives—expanding the use of digital and financial services and strengthening regulatory institutions and market infrastructure. This latter CPF objective also relates directly to Somalia’s Ninth National Development Plan (NDP9), which sets out the country’s priorities for national recovery and development for 2020–2024, particularly on actions to address constraints faced by MSMEs. NDP9’s Pillar 3 specifically highlights the importance of formalizing MSMEs, supporting the promotion of MSME growth in productive sectors, strengthening the business environment, enabling DFS, and deepening financial sector reforms. The AF is also aligned with the CBS Strategic Plan for 2020–2024 that places emphasis on good governance and a management system.<sup>33</sup> Similarly, the AF is aligned with Somalia National ICT Policy and Strategy (2019–2024),<sup>34</sup> which prioritizes the introduction of an enabling environment for scaling up the use of ICT and uptake of digital services and leveraging ICT to support economic development and social inclusion for all Somalis. The proposed

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<sup>31</sup> The AF is also aligned with the FGS’ commitment to scale up its response to COVID-19, and the proposed AF activities are fully in line with the relevant government strategies. The FGS’ ‘Socioeconomic Impact and Required Response for COVID-19 in Somalia’ note, prepared in March 2020, prioritizes increasing support to MSMEs to address liquidity constraints in the productive sectors.

<sup>32</sup> In FY20, the World Bank committed over US\$300 million of relief-focused IDA grants. The priority in FY21 shifted to recovery through restructuring of programs and new activities to build back better. The WBG COVID-19 Country Program Response Note for Somalia is included in annex VIII.

<sup>33</sup> This involves channeling resources to central bank reorganization processes and policy orientation of its operations; independent oversight by its Board of Directors, capacity development, and performance evaluation; strengthening of stakeholder communication, audit, and internal control; and adoption of international best practices.

<sup>34</sup> See <https://mptt.gov.so/en/wp-content/uploads/2019/11/National-ICT-Policy-Strategy-2019-2024.pdf>.

AF activities are also in line with the Somali Digital ID Policy, adopted in May 2019, which sets out the goal of providing all residents with a unique, trusted, and verifiable identity and establishing an identity verification platform that can be used by multiple service providers, in a manner aligned with international good practices, including the Principles on Identification for Sustainable Development.

## II. DESCRIPTION OF ADDITIONAL FINANCING

### A. Project Description

27. **The proposed AF activities are in line with the components of the parent project SCALED-UP (P168115).** The AF project description, PDO, project components and sub-components, safeguards, fiduciary, and implementation arrangements will remain materially unchanged, continuing to support progress toward increased access to basic digital financial and government services targeting entrepreneurship and employment, particularly for women. The AF activities will scale up the parent project's activities through Gargaraa's financing windows to mitigate MSMEs' liquidity shortages caused by the pandemic and by accelerating reforms and operationalizing digital infrastructure and platforms to enable the integrity and proper functioning of financial markets and digital financial systems. This will in turn help tackle the negative effects of the COVID-19 pandemic on Somali MSMEs and strengthen the FGS' ability to build back better.

28. **The AF project will also be combined with a restructuring of the parent project to reflect** (a) updates to the RF to reflect an updated assessment and scaling up of the parent project; (b) changes in disbursement arrangements to introduce performance-based conditions (PBCs) for activities that support the CBS given the growing capacity and the need to incentivize critical financial sector reforms, and scaled up and extended offering by Gargaara; (c) changes in disbursement projections; (d) changes to costs pursuant to the AF; (e) updated covenants; and (f) an extension of the project closing date by 30 months to December 31, 2025.

29. **The RF and the Theory of Change (ToC) of the parent project were reviewed during the AF preparation.** Accordingly, changes to the ToC were identified, and PDO and intermediate-level indicators were adjusted to (a) reflect the scale-up of project activities (for example, introduction of PBCs and scale-up of Gargaara offering and digital ID activities); (b) streamline and strengthen the alignment of indicators with the provision of relief support for COVID-19 recovery; and (c) add/modify end target values given the extension of the project closing date to December 31, 2025. The revised ToC is presented in annex IV, and specific changes to PDO and intermediate indicators are presented in annex V.

30. **The project will retain the same component structure under the AF.** Component 1 will continue to focus on strengthening institutions, and Component 2 will continue to support sustainable and digitally enabled mechanisms to increase individuals' and businesses' access to services. Component 3 will cover project management and coordination. The details of each component are outlined in the following paragraphs.

## **Component 1. Strengthening Institutions (US\$13 million equivalent)**

### *Sub-component 1.1. Support to CBS (US\$10 million equivalent)*

31. **In light of the COVID-19 pandemic, the AF will scale up support to the CBS and provide strengthened incentives for the achievement of critical financial sector reforms that safeguard financial stability and integrity and thus secure stable transmittal channels for international remittances, private capital, and ODA.** In the face of disruptions to transmittal channels associated with the pandemic witnessed in March 2020, the AF elevates to a higher level the priority the parent project places on helping other IDA and MPF operations and FIs in Somalia secure stable transmittal channels for ODA, international remittances, and other private sector flows. This will be achieved by accelerating the CBS reforms to the next level related to (a) central bank governance and financial reporting to enable CBS capitalization; (b) activation of critical institutional systems to enable functional corresponding banking arrangements; and (c) improved CBS supervisory oversight, capacity building, and staff reorganization into a more effective structure to tackle financial integrity and de-risking. In so doing, this sub-component introduces PBCs focused on building solid service delivery by both the CBS and FIs meeting internationally accepted standards coupled with expanded financial access for individuals and businesses with strong integrity controls (see annex II for the proposed description of the PBCs).

32. **Given the strong ownership, leadership, and support from CBS management and the new Board of Directors, the use of PBCs' financing approach provides an opportunity to focus efforts on results and quality.** Previous support through SCORE (P152241) financing focused on inputs has been used effectively for CBS policy objectives, strengthening of governance, and enhancement of operational efficiency and systems. The introduction of the PBCs provides an opportunity for the World Bank to deepen technical policy dialogue and technical support transforming ambitions to realities and results. Going beyond input-based investments and toward outcomes, the PBCs will be critical in accelerating desired CBS reforms. The use of PBCs only under sub-component 1.1 and no other areas of the AF is because this leverages the improved implementation capacity of reforms by the CBS, as witnessed in recent years under the parent project and predecessor project (SCORE) (P152241), contributing to Somalia reaching the Decision Point under the HIPC Initiative in March 2020.

33. **The AF support will consist of US\$6 million in PBCs' financing and US\$4 million through traditional IPF financing.** The allocation is based on the CBS rationalization program submitted to the World Bank, which amounts to US\$12.05 million and adjusted to US\$11.04 million eligible expenditure program by excluding US\$1.01 million voluntary severance scheme package.<sup>35</sup> The bulk of the financing allocations under this sub-component is structured to be disbursed conditionally upon achievement of PBCs as provided under table 1 (on PBC and sub-component expenditure composition), while the remainder of the resources are proposed to be channeled through traditional IPF financing. The US\$11.04 million CBS reorganization and staffing program outlined under annex III will comprise the eligible expenditures. These expenditures are self-contained and discrete investments focused on laying the

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<sup>35</sup> The entire budget for the CBS program of US\$12.05 million has been adjusted by US\$1.01 million for expenditures related to a voluntary severance scheme package. This will be considered when the necessary safeguard assessments are completed. This will call for a restructuring of the project further down the line once the feasibility of support under the AF project for the voluntary severance scheme package is established.



foundations for strong policy reorientation of central banking as opposed to ongoing expenditures focused on existing fiscal agency organizational structures.

34. **The AF will also support the hiring of DFS advisers, strengthening of CBS governance and financial reporting, activation of critical enterprise resource planning (ERP) modules at the central bank, and improved CBS supervisory oversight.** By strengthening these functions, the CBS would be able to offer improved services and business continuity in the face of COVID-19 and other crises faced by the country and would meet international standards. The PBCs are aligned with the PDO and the CBS rationalization program designed with support from other development partners and are expected to help with transforming and strengthening the CBS' orientation toward areas of maximum reform impact and influence strategic prioritization and resource allocation<sup>36</sup>. The CBS remains central to state building and stabilization of the financial and private sector, contributing to tackling the country's drivers of fragility and fostering state legitimacy. The project will help CBS develop a capital injection plan (CIP) to support attainment of the policy goals of reorganization, sustainability of reorganization interventions, and the possibility of continued investment in strengthening of CBS' capacity across core central banking functions.<sup>37</sup>

35. **The proposed PBCs would ensure that the AF is linked to results on policy, key reforms, and improved CBS institutional performance contributing to proper functioning of financial markets, considering the pandemic, and accelerating financial inclusion while improving the integrity of markets.** The specific program expenditures associated with the activities to be implemented to achieve the PBCs include (a) the CBS core restructuring priorities; (b) human capital development linked to the new policies, procedures, and manuals; (c) infrastructure; and (d) development and operationalization of policies, procedures, manuals, and records management as outlined under annex III. These expenditures outlined in the CBS rationalization program are transitional and incremental and will help the CBS accelerate the transition to a policy-oriented central bank, thereby contributing to greater financial stability and integrity in a fragile context. The focus is on outcomes ensuring that high standards of corporate governance, risk management, and compliance safeguarding against illicit financial flows are met by the FIs and CBS. The use of PBCs also serves as the road map to sustainable reforms and sequenced logical building blocks for ease of implementation monitoring and incentive management.

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<sup>36</sup> The strengthening of CBS governance and financial reporting is aimed at enabling central bank capitalization. The priority of activation of the CBS institutional system and ERP modules is linked to enabling functional correspondent banking relations. This will include the Wolfsberg Group Anti-Money Laundering Principles for Correspondent Banking and financial action task force (FATF) standards, particularly FATF Guidance on Correspondent Banking Services. The AF activities under this subcomponent would also complement the new financial sector initiative, which is in its early stage of design and preparation and is supported by the MPF donors including the United Kingdom, United States, and European Union.

<sup>37</sup> Required rightsizing of personnel and non-personnel expenses essential for a rapid shift toward policy orientation and push for sustainable results, particularly those affecting financial integrity and the de-risking agenda covering ML/TF risks.

**Table 1. Summary of Sub-component 1.1. Financing**

CBS Reform Benchmarks (PBCs)	Available Amount (US\$, thousands equivalent)			
	FY21	FY22	FY23	Total
PBC1: Strengthened governance and financial reporting of the CBS to enable capitalization	375	875	2,250	<b>3,500</b>
PBC2: Activation of critical institutional systems within CBS to enable corresponding banking arrangements	500	1,000		<b>1,500</b>
PBC3: Improved CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financial integrity and de-risking	400	600		<b>1,000</b>
<b>Total PBC-based financing</b>	<b>1,275</b>	<b>2,475</b>	<b>2,250</b>	<b>6,000</b>
<b>Traditional IPF input-based financing</b>	<b>3,000</b>	<b>1,000</b>		<b>4,000</b>
<b>Total Sub-component 1.1 financing under the AF</b>				<b>10,000</b>

36. **The AF proposes PBCs designed to be scalable to allow proportionate disbursement in case of partial achievement of performance benchmarks, based on agreed-upon levels and intermediate targets.** This allows for lower disbursement amounts when results are only partially achieved. In addition, the disbursements are linked to manageable bundles of result areas to be achieved by the CBS in a stepwise and graduated approach over the first 24 months of the AF so that delivery of these outcomes is not delayed given the COVID-19 emergency. Further, the breakdown of the PBCs into manageable bundles of reforms considers the long development timelines needed to implement activities given the fragile context and urgency for accelerated results and outcomes in light of the COVID-19 pandemic.

*Sub-component 1.2. Support to FRC (US\$0.5 million equivalent)*

37. **The AF will finance additional activities related to the improvement and implementation of the AML/CFT regime and dissemination of results of the ongoing national risk assessment, requested by the FRC.** Strengthening financial integrity will continue to support a steady flow of remittances through the COVID-19 crisis and beyond. Furthermore, fighting illicit flows through strengthened financial integrity will support a more inclusive recovery. The AF support will include support for the FRC’s planned outreach initiative to the FMS and subnational MDAs for disseminating ML/FT risks and AML/CFT priority policies and implementation actions. This can be achieved through a series of seminars and retreats, including study visits to neighboring countries to discuss the relevance of the agenda. Additionally, the FRC has identified the need to support all sectors in terms of AML/CFT policy development, implementation, and awareness raising—notably more progress is needed regarding FIs and designated nonfinancial businesses and professions (DNFBP). Consulting services will be financed for the FRC to review and draft relevant regulations, develop policies and procedures, and increase AML/CFT awareness through additional stakeholder engagement. Consulting services will also be hired by the FRC to conduct a mock mutual evaluation of Somalia’s effectiveness in preventing and combating ML/FT, following the FATF’s methodology of 2012, and in preparation for the upcoming Middle East and North Africa-FATF mutual evaluation of 2024. Increased support for dissemination and capacity building on AML/CFT measures to be implemented and transaction analysis in relation to both FIs and DNFBP will also be provided. Increased inter-agency cooperation between the FRC and other agencies, through capacity building, is needed to close the loop, particularly when it comes to appropriate dissemination of intelligence from the FRC to

relevant authorities. Finally, AF activities may include the FRC study tours to financial intelligence units in the region and sponsoring secondments for its staff to increase their capacity for financial intelligence analysis. Specific financial allocations will be based on results from the ongoing National Risk Assessment.

*Sub-component 1.3. Support to MoCT and NCA (US\$2.5 million equivalent)*

38. **The AF proposes to strengthen the enabling framework for digital service delivery, data management, and data safeguards, critical to supporting remote working and business continuity in the public sector in connection with the COVID-19 pandemic and future emergencies through continued technical and operational support.** Support will be provided to the MoCT to introduce a harmonized government approach to data protection and cybersecurity, grounded in inclusive government consultation. TA will be provided to develop shared strategic, governance, legal,<sup>38</sup> and institutional frameworks and action plans aimed at safely expanding e-services (supported under sub-component 2.3).<sup>39</sup> Examples of shared frameworks to be supported include development of a National Cybersecurity Strategy; National Guidelines for the Protection of Critical National Information Infrastructure; a National Institutional and Governance Structure for Cybersecurity; an enterprise architecture for the FGS; a shared government business and disaster continuity plan, including for critical infrastructure; and shared cybersecurity compliance standards. The MoCT's technical and institutional capacity will be bolstered, allowing it to provide stronger technical cross-support to MDAs assisted under the parent project—CBS, FRC, MoCI, NCA, Gargaara, and the digital ID Authority—with respect to their digital initiatives. Support will be provided allowing for the adoption of common frameworks and road maps for e-service scale-up, which can support an incremental movement toward a 'whole-of-government' approach grounded in shared framework, platforms, and infrastructure, which is expected to generate operational efficiencies and savings and increase readiness for introducing key digital services such as digital ID. The AF will also accelerate the NCA's work on major regulatory milestones (such as the adoption and implementation of a new spectrum management framework through additional TA and equipment), strengthen its basic regulatory functions (for example, systems for data collection), and support additional training and business continuity of the agency, which is yet to secure larger financing from the FGS given the Government's constrained fiscal space in connection with COVID-19.

*Sub-component 1.4. Support to Digital ID Authority*

39. **No AF is allocated under this sub-component.** US\$2 million in TA support is already allocated under the parent project, which will cover support for the ID Authority's institutional setup and related capacity building, including legal advisory support to put in place ID-enabling legislation and technical advisory support for the development of design, strategy, and procurement documents and the early operationalization of the ID system. This support is maintained. The FGS has legally established an ID Authority. At the same time, it will be important to accelerate progress toward the adoption of complementary enabling legislation, including on data protection, and other areas in line with the

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<sup>38</sup> The MoCT has confirmed that it stands ready to support drafting of legislation enabling the digital economy, that is, data protection, cybersecurity, and e-transactions. A consultant will be embedded at the MoCT as a legal adviser to anchor related TA.

<sup>39</sup> Somalia currently lacks any related capabilities, including business continuity and recovery plans. The NCA plays a key role with respect to managing cybersecurity threats pertaining to network infrastructure—critical for continuity in communications and mobile money services during the crisis.

commitments set out in the Digital ID Policy.<sup>40</sup> The parent project plans to front-load and refocus certain activities initially planned under this sub-component (for example, with respect to enabling frameworks for data protection, cybersecurity, e-transactions, and so on), taking a broader ecosystems approach to the enabling environment support envisioned and increasing related support under the AF, as related TA will help reinforce and increase readiness of all digital initiatives supported and not just the digital ID system.

## **Component 2. Enabling Financial and Digital Services (US\$55 million equivalent)**

*Sub-component 2.1. Financial Intermediary Financing for MSMEs (through Gargaara) (US\$25 million equivalent)*

40. **Sub-component 2.1 aims to provide relief and accelerate the recovery of MSMEs from the impact of Somalia’s multiple crises through the scale-up of Gargaara’s existing financing windows.** The AF would scale up the micro and small loans window for MSMEs by US\$9 million and the large loans window by US\$4 million. The PFIs onlending those funds will target vulnerable but viable firms in targeted productive sectors, with special focus on women-owned and women-managed firms. This scale-up of both windows under the AF will be done without triggering additional safeguards or adjusting FM implementation arrangements.

41. **Under the AF, Gargaara will also provide funds for TA and training needs of participating commercial banks and microfinance institutions to be able to efficiently select, assess, and lend to targeted firms.** In some cases, the TA may be provided in the form of a matching grant to implement tailored institutional development plans (IDPs)<sup>41</sup> to build the capacity of the PFIs. The IDP matching grant requirement will incentivize the crowding-in of private capital to co-finance the IDPs (for systems improvements including FM, monitoring and evaluation (M&E), safeguards, AML/CFT, and developing new products) and outreach to MSMEs, particularly micro and small businesses owned and managed by women.

42. **Targeted vulnerable but viable micro and small enterprises will also be eligible for matching grants for BDS to help mitigate COVID-19 impacts and strengthen their loan applications.**<sup>42</sup> Support to firms will be structured on a partial cost-recovery basis to ensure that they are demand driven and avoid creating distortions. Supported BDS beneficiaries would be restricted to MSMEs selected by PFIs and activities will be limited to those with strong economic rationale and long-term sustainability. These firms will be selected based on performance before the COVID-19 pandemic, their relative vulnerability to current business circumstances, and their potential for rapid recovery. Digital innovation skills and technology upgrading for improved resilience and women’s economic empowerment will be an underlying and cross-cutting element across the set of support services provided using short-term

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<sup>40</sup> The World Bank provided comments on the proposed law in December 2020, which highlighted gaps and areas that may benefit from further clarification to ensure complete alignment with the commitments made by the FGS as part of its Digital ID Policy endorsed by the Cabinet in May 2019.

<sup>41</sup> IDPs are described in the World Bank Financial Intermediation Guidance Note and help improve internal systems, products, credit allocation systems, and other institutional needs.

<sup>42</sup> PFIs have retrenched investments in the commercial financing to micro and small enterprises because of perceptions of greater vulnerability and risks during the pandemic.

matching grants. The BDS activities will focus on strengthening MSME business investment plans, adapting their business models and processes with the aim of accelerating their COVID-19 recovery and adaptation, developing new products, increasing their productivity and resilience, and improving their likelihood of accessing PFI financing. The BDS will be provided through a specialized professional entity to be managed by Gargaara.

**43. In addition, the AF will support Gargaara to crowd-in larger amounts of commercial financing to MSMEs that have been underserved because of perceptions of greater vulnerability and risks during the pandemic.** A study<sup>43</sup> is under way to assess the feasibility of a risk-sharing mechanism to incentivize PFI outreach to this market segment.<sup>44</sup> If this risk-sharing mechanism is found to be feasible, US\$2.5 million would be allocated for this activity.<sup>45</sup> This would result in an estimated direct private capital mobilization (PCM) of US\$5.0 million.

**44. The balance of the AF under this sub-component will fund additional operational and administrative costs for Gargaara.** Specifically, US\$4.5 million will be allocated for operational support for Gargaara, for IT system upgrade, staffing, and capacity-building activities needed by Gargaara to safely expand its portfolio. Given the COVID-19 challenges, Gargaara working alongside a monitoring agent will adopt new digital tools requirements to track the portfolio and identify problem loans.<sup>46</sup> This also includes US\$1.5 million to co-finance investments in IDPs for PFIs.

#### *Sub-component 2.2. Digital ID Services (US\$15 million equivalent)*

**45. This sub-component will fund the ID system's technical infrastructure, including components related to enrollment, secure identity management, credential issuance, and digital authentication.**<sup>47</sup>

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<sup>43</sup> The study would include recommendations on fees, leveraging, portfolio definition, documentation requirements, service standards, and other operational elements of an effective risk-sharing mechanism or facility. Gargaara has commenced preparatory work to conduct the feasibility study together with a team of researchers from Georgetown University and the Brookings Institution, Washington, DC; Brookings Institution, Doha; and Stockholm School of Economics, Stockholm. The study is expected to be completed by September 2021.

<sup>44</sup> Risk sharing is often employed in high-risk environments where commercial FIs that are committed to expanding their client base hold large amounts of savings and exceeding capital requirements.

<sup>45</sup> A condition of disbursement would be established to ensure that with the exception of feasibility study expenditures and related consultations with commercial FIs, no funds would be used by Gargaara for the implementation of the risk-sharing mechanism until the study has been completed and the World Bank has provided a technical review and 'no objection'. The risk-sharing mechanism would be consistent with the scaling up approach of the AF; therefore, no new safeguards will be triggered. It would be adjusted after the effects of the pandemic have been overcome and markets return to normal practices. Any final design would meet the 16 principles established for partial credit risk mechanisms promoted by the World Bank (see <https://www.worldbank.org/en/topic/financialsector/publication/principles-for-public-credit-guarantee-schemes-cgss-for-smes>).

<sup>46</sup> AF allocation of US\$25 million for this subcomponent is as follows: (a) US\$13 million for the two lending windows; (b) US\$2.5 million for the risk-sharing mechanism; (c) US\$5.0 million for matching grants to eligible MSMEs for BDS providers, with ; and (d) US\$4.5 million in operational support for Gargaara, including US\$1.5 million for TA and training for PFIs to implement IDPs.

<sup>47</sup> The design and implementation of the digital ID infrastructure will be aligned with principles, objectives, and features outlined in the Somali Digital ID Policy and aligned with the Principles on Identification for Sustainable Development (<https://id4d.worldbank.org/principles>). These include that registration and ID credentials are universally accessible to all residents, free from discrimination and free of charge; that data collection will be limited to only those necessary for establishing uniqueness and enabling identity verification and access to basic services; and that registrants will have access to an appropriate

Accordingly, the AF will enable the issuance of universally accessible, unique, and digitally verifiable IDs, underpinned by a foundational ID system. For the project period, the financed components are expected to include the delivery, operationalization, and maintenance of all hardware and software required to (a) facilitate registration, (b) facilitate biometric de-duplication, (c) provide secure data storage and management, (d) issue credentials, (e) enable timely grievance recording and redress, and (f) provide reliable identity verification and authentication mechanisms for financial service providers and social assistance programs. The design, procurement, deployment, and maintenance of these components will be supported through technical advisory services—for which financing is provided under the parent project—to optimize system costs, security, and utility and build capacity for long-term system operation and maintenance among Somali staff. In parallel, certain components of the broader enabling digital infrastructure, including shared hosting services and disaster recovery and operationalization of basic cybersecurity and data protection provisions, will be front-loaded and rescope under sub-components 1.3 and 2.3 as they serve as a broader enabling function for all digital initiatives supported under the project.

**46. Given the complexity from a technical, logistical, and political economy perspective of operationalizing a digital ID system, adequate planning, technical expertise, and early stakeholder engagement are critical for success.** Support for such preparatory activities is provided under the parent project countrywide across federal and regional leadership. In the Somali context, buy-in from FMS will be particularly important to secure access to and acceptance of the new IDs countrywide and enable the project to achieve its registration targets. Developing an implementation strategy that outlines the roles of key stakeholders and lays out a countrywide enrollment plan built on broad-based consensus across federal and regional leadership will thus be vital for ensuring that the system acquired will be ‘fit for purpose’ and that the ID system can be deployed and integrated into service delivery rapidly.<sup>48</sup> Such a widely supported implementation strategy can then inform the definition of the functional and technical architecture of the system and related procurements. Vendor lock-in and costly, unsuitable technology choices represent significant risks in the implementation of the ID project. It is thus also critical that key planning and procurement documents, such as technical and functional requirements, are prepared with great care and with the engagement of international technical expertise. To this end, authorities are encouraged to fully leverage the resources committed under the parent project for these purposes.

**47. Disbursement of the AF for this sub-component will be conditional on the adoption of critical components of the legal enabling framework as well as broad-based agreement on the ID system’s implementation arrangements, as aligned with the Digital ID Policy.** These legal building blocks and preparatory activities serve as critical safeguards and enablers to ensure successful initial take-up and long-term sustainability of the system. Conditions of disbursement thus stipulate that no withdrawal of AF funds shall be made for digital ID activities until (a) the FGS enacts legislation on the establishment and implementation of the digital ID system<sup>49</sup> and general data protection, in alignment with the Digital

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grievance redress and resolution mechanisms. In addition, it will be important that the technical architecture and components of the ID system follow an outcome- and standards-based approach and minimize the risk of vendor lock-in and enable future updates and changes in configuration to be implemented cost- and time-efficiently.

<sup>48</sup> The implementation strategy and the design and deployment of the ID system more broadly will also need to be aligned with the Somali Digital ID Policy.

<sup>49</sup> Such legislation is expected to, among others, define the basic purposes of the ID system; establish and specify the mandate,



Identification Policy and in form and substance satisfactory to IDA, and (b) an ID system implementation strategy, including a countrywide enrollment plan, which has been reviewed by the FMS, is prepared and submitted, in a form and substance that is satisfactory, to IDA.<sup>50</sup> These conditions will help mitigate the risks of unsuitable or unsustainable technology and design choices, including vendor and technology lock-in; promote the rapid, countrywide take-up of the new ID system by building trust and consensus across FMS; and minimize the risk of fragmentation and duplication in investments.

**48. The US\$3 million planned to support enrollment for the digital ID system under the parent project will be augmented to facilitate enrollment beyond the 1 million individuals targeted under the parent project, to up to 3 million by the end of the project.** Specifically, the AF will support operation costs related to enrollment, training, and transportation and costs related to the distribution of ID credentials. Special measures and registration efforts will also be put in place to ensure access to the ID system for remote, marginalized, and vulnerable populations including women, children, persons with disabilities, and internally displaced persons. Concrete recommendations to inform enrollment processes and practices will be developed with support from a social research and advisory firm, financed through the parent project and already onboarded, which will undertake consultations and qualitative research to better map people’s perspectives and constraints with regard to accessing and using IDs. The project will also support the implementation of an information, education, and communications campaign, including targeted messaging for members of vulnerable populations to build trust and describe the benefits and processes for ID enrollment. Reaching populations in areas that may be difficult for government entities to operate in will be facilitated through an ‘ecosystem’ approach to enrollment, leveraging banks, mobile network operators, NGOs, and other service providers as enrollment agents for the ID system. The enrollment processes could also be linked to the opportunity for individuals to concurrently open transaction accounts with banks and/or mobile money, which could help expand financial access substantially while also meeting ML/TF risk management requirements.

**49. The primary use cases for the digital ID system include the financial sector and social protection.** The new ID system and ID credentials issued will initially focus support on boosting financial sector integrity and enable more people to access financial services by facilitating improved identity verification and compliance with customer due diligence (CDD) requirements. The foundational digital ID system and the customer verification system (CVS) will be fully interoperable—that is, able to exchange data in an automated manner and the CVS will draw on the ID system for identity verification and authentication for the implementation of electronic KYC (eKYC) protocols to provide greater assurance about customers’ true identities. In addition, the unified social registry also intends to leverage the unique ID numbers issued by the digital ID system to ensure that each record in the registry is associated with a real, unique individual.

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governance arrangements, and functions of the ID Authority; and lay out key system features and principles, such as those related to registration processes, credential issuance, system interoperability, and the use of identity verification and authentication mechanisms for financial service providers and beyond.

<sup>50</sup> There are several risks, already identified at entry of the SCALED-UP parent project, including the risks of vendor lock-in, with suboptimal technical or other unsuitable features coded into the system; low coverage/exclusion risks; and financial sustainability and security risks, which could materialize if the ID system is not underpinned by a robust enabling environment and if sufficient technical expertise is not engaged throughout the design, planning, and implementation process.

*Sub-component 2.3. Government and Retail Payment Services (US\$13 million equivalent)*

50. **The AF will scale up investment in the foundational infrastructure and services that can warehouse and safeguard critical information systems, which can be shared across the Government to ensure more secure data management and exchange.** This will help create an enabling environment for key digital systems in the pipeline, including the digital ID system. Investments made will support a common and scalable approach to data management and hosting, which is expected to yield significant operational and efficiency gains and gradually increase readiness for the scale-up of more transactional digital services that require increased data exchange. Thus, it will help accelerate the rollout of digital financial and government services, including the digital ID and social assistance programs, which have been identified as priorities in the context of the Government's COVID-19 response. This sub-component will explore the feasibility, including optimal business and hosting models, and finance the introduction of a shared government data hosting solution, which is likely to rely on a hybrid approach that includes the introduction of a joint government data center and shared government cloud as well as related recover and/or backup site. The AF would cover related studies, service contracts, and installation of related hardware, including possible refurbishment of the optimal physical hosting site selected.

51. **As noted earlier, the AF will also increase financing for the operationalization of foundational cybersecurity and data protection frameworks.** The Government will be supported to introduce a national Computer Emergency Response Team (CERT) – Security Operations Center (SOC) with an ISO 27000 series or equivalent certification based on a build-operate-transfer model (likely to be hosted by the NCA) that could serve as an initial basis for gradually bolstering Somalia's cybersecurity threat intelligence, monitoring, and prevention capabilities over time, including initial equipment, office refurbishment, related hardware and software, training, and consultancy costs. Financing is also set to cover regular penetration tests by certified ethical hackers and by the CERT to identify vulnerabilities as well as technical solutions for the safe transfer and interoperability of sensitive and personal data. The FGS is currently being supported in conducting a cybersecurity maturity model assessment that should provide guidance on areas where additional capacity building is need, including support for training and awareness raising to reduce cybersecurity incidents in the civil service and specialized training for law enforcement and judiciary. The AF is likely to cover basic cybersecurity awareness training for key MDAs supported, particularly as it pertains to remote working and cybersecurity needs related to key system deployed, including ID.

52. **Support is also envisioned to operationalize the future data protection law, involving the setup of an independent Data Protection Office (DPO) and launch of a registry of data processors and controllers and complaints reporting system.** Given the FGS budget constraints, this office could initially be introduced at the MoCT, with the view of later becoming an independent entity. The AF would cover related office and IT equipment, specialized training (for DPO, government officials, judiciary, and law enforcement), embedded advisers to support initial DPO setup and staffing, and hardware and software for the registration and reporting IT systems deployed (registry of data controllers and processors, compliance and complaints management system, and database of personal information). Support for operational, financial, and human resource (HR) planning for the office would also be covered. The AF would also finance outreach and awareness campaigns needed to sensitize key data users to requirements under the law. Financing will cover a data privacy risk assessment and compilation of a personal data catalogue, support for drafting a first round of regulations on priority topic areas, TA for formulating and



implementing shared compliance monitoring, auditing, and enforcement frameworks, as well as conducting site visits, including developing a complaint investigation framework.

53. **The AF will provide limited support related to ensuring that core MDAs have adequate internet connections and basic IT tools to meet immediate needs identified in the context of the COVID-19 pandemic and finance quick wins that boost front-facing service delivery.** Integration of the Financial Management Information System with the core banking system, STARS and SPS, has, for example, been identified as a quick win to increase the readiness for scaling up the Government's use of digital payments, which has been identified as a priority in the context of COVID-19 response and recovery where remote services delivery has proved critical to social distancing strategies that need to be employed. The AF will finance requisite integration of systems (hardware and software), business process reengineering, and training related to the digitization of selected government revenue and expenditure streams and associated workflows that are critical for uninterrupted public service delivery in the face of the COVID-19 pandemic and other crises. The AF will also finance urgent basic IT equipment needs identified and capacity purchase for MDAs supported, allowing them to support the new functions assigned to them, based on a rapid IT and capacity audit. Finally, the AF will support expenditures related to the CBS setting up a new CVS to enable use of eKYC protocols in the financial services sector. The CVS will be complementary to the foundational digital ID system. Once the foundational ID system is fully operationalized, the two systems will be linked, and the CVS will leverage the digital ID system's authentication and verification services to strengthen CDD. This will be critical to expanding financial inclusion for individuals by enabling the scale-up of transaction account ownership, particularly for women and women entrepreneurs.

*Sub-component 2.4. E-registration Services for SMEs (US\$2 million equivalent)*

54. **The AF will support the MoCI to sustain registration momentum related to the recent launch of the full functionality of the online BRS.** The MoCI is making steady progress with online registration, with 620 applications received and 150 companies successfully registered as of March 23, 2021. The rollout of the digital BRS is particularly pertinent in the COVID-19 context, in line with the Government's efforts to limit physical interactions and scale up online service provision. The digital business registration services would also enable CDD as a pillar of an effective AML/CFT program by financial service providers operating in Somalia, including for Gargaara PFIs. The AF will be used to (a) expand BRS services beyond Mogadishu to other FMS in subsequent phases tentatively planned for rollout in Puntland and Jubaland, subject to final confirmation based on the FMS Readiness Assessment Report and client demand; (b) build the capacity of both internal users at FMS ministries and final users in business communities; and (c) strengthen stakeholder engagement by increasing outreach, media campaigns, and feedback loops of MSMEs using the online BRS. In addition, the AF will support establishment of a virtual one-stop help desk for enterprises using the BRS<sup>51</sup>.

**Component 3: Project Management and Coordination (US\$2 million equivalent)**

55. **It is proposed that the project's management and coordination arrangements will be enhanced to ensure appropriate implementation of the AF.** The AF will support the scale-up of gender-sensitive

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<sup>51</sup> This subcomponent has been designed and will be implemented in close coordination with the IFC team.

programming; promoting of compliance with good safeguards practices; improved stakeholder engagement (especially targeting women); and strengthening of GRM and citizen engagement mechanisms to enhance feedback loops to shore up early learning, adaptive, and iterative approaches to implementation. Strengthened project management mechanisms will be particularly needed in the constrained COVID-19 environment. As Gargaara operations scale up, the PIU, Gargaara management, and PFIs will need to employ additional resources and mechanisms to strengthen the monitoring, evaluation, and learning systems in place, especially in view of the COVID-19 restrictions. Furthermore, M&E systems will need to be further scaled up when the digital ID enrollments begin and business registration services commence across different FMS. Strengthening these M&E functions will be supported by the AF. While the AF was prepared under a waiver to process the AF activities under the safeguards policies rather than the ESF, additional resources<sup>52</sup> will also be needed to ensure full compliance with the additional safeguards requirements<sup>53</sup> outlined in the updated Environmental and Social Management Framework (ESMF) and Stakeholder Engagement Plan (SEP). Finally, the AF will also finance expenditures associated with verification of the PBCs to be introduced under sub-component 1.1.

## **B. AF Budget**

56. **The total amount of the AF requested is US\$70 million (US\$50 million IDA and US\$20 million MPF), with additional US\$5 million PCM expected under sub-component 2.1.** A breakdown of the AF by component and sub-components is provided in table 2.

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<sup>52</sup> A dedicated social specialist and a part-time GBV adviser will be recruited to support the environmental specialist at the PIU.

<sup>53</sup> The project triggers OP 4.01 (Environmental Assessment). However, in compliance with waiver conditions, it will identify, assess and mitigate an expanded range of environmental and social risks and impacts consistent with the ESF, including environmental pollution arising from the financing of the livestock sector, child labor, exclusion of minorities and other disadvantaged populations, gender-based violence (GBV), and loss and breaches in data privacy and protection measures.

**Table 2. Changes to Allocations by Component (US\$, millions)**

SCALED-UP Components	SCALED-UP Allocation	AF	Total Financing
<b>Component 1: Strengthening Institutions</b>	<b>7.0</b>	<b>13.0</b>	<b>20.0</b>
Sub-component 1.1: Support to CBS	1.5	10.0 <sup>a</sup>	11.5 <sup>a</sup>
Sub-component 1.2: Support to FRC	1.5	0.5	2.0 <sup>b</sup>
Sub-component 1.3: Support to MoCT and NCA	2.0	2.5	4.5 <sup>b</sup>
Sub-component 1.4: Support to ID Authority	2.0	—	2.0
<b>Component 2: Enabling Financial and Digital Services</b>	<b>20.0</b>	<b>55.0</b>	<b>75.0</b>
Subcomponent 2.1: Financial Intermediary Financing to MSMEs	15.0	25.0 <sup>c</sup>	40.0 <sup>c</sup>
Sub-component 2.2: Digital ID Services	3.0	15.0 <sup>d</sup>	18.0 <sup>b</sup>
Sub-component 2.3: Government and Retail Payment Services	1.0	13.0 <sup>b</sup>	14.0 <sup>b</sup>
Sub-component 2.4: E-registration Services for SMEs	1.0	2.0	3.0
<b>Component 3: Project Management and Coordination</b>	<b>4.0</b>	<b>2.0</b>	<b>6.0</b>
<b>TOTAL</b>	<b>31.0</b>	<b>70.0</b>	<b>101.0</b>
<b>PCM (under sub-component 2.1)</b>		<b>5.0<sup>e</sup></b>	<b>5.0<sup>e</sup></b>

Note:

a. The AF proposes to introduce PBCs as reform incentives for the CBS to attain a number of strategic goals in relation to the enabling environment supported under sub-component 1.1 and critical to securing stable transmittal channels for remittances, private capital, and ODA, focused on the de-risking agenda that can help unlock international investment and support correspondent banking relationships in Somalia by improving the integrity of financial markets and ensuring that high standards of corporate governance, risk management, and compliance safeguarding are in place to prevent illicit financial flows. The said scale-up will complement the financial sector initiative.

b. The AF proposes to front-load and refocus interventions for some activities under sub-components 1.2, 1.3, 2.2, 2.3, and 2.4 and component 3, aimed at creating an enabling environment for critical digital programs being supported, by introducing a common approach to data safeguards related to cybersecurity, data protection, hosting services, and disaster recovery, all of which serve as critical foundational investments for the FGS with respect to key digital services initiatives being spearheaded including the new foundation digital ID system and are expected to generate significant efficiency gains and support risk mitigation.

c. Of the US\$25 million AF allocation to Gargaara under sub-component 2.1, US\$2.5 million will be linked to a condition of disbursement for the risk-sharing mechanism activity, pending (a) the results of research by Gargaara management that will assess feasible delivery options for risk participation, subordination, and other co-financing approaches to induce greater PCM and impact by leveraging Gargaara capital and (b) the World Bank's technical review and 'no objection'.

d. Conditions of disbursement will be established in the AF to ensure that no funds will be used on digital ID until (a) the FGS has enacted legislation on the establishment and implementation of the digital ID system and general data protection, in alignment with the Digital ID Policy and (b) an ID system implementation strategy, including an FMS-wide enrollment plan, has been prepared and reviewed by FMS.

e. The PCM of US\$5 million is expected under the risk-sharing mechanism to be introduced under sub-component 2.1. See annex VII for details.

### C. Implementation Arrangements

57. **Implementation arrangements will remain the same as in the parent project.** The MoF is the executing agency of the parent project. The PSC, headed by the MoF and with representatives from the

MDAs,<sup>54</sup> will provide policy guidance and monitor progress of the project. The existing PIU will implement the AF activities and coordinate across the FGS and FMS. The Project Operations Manual (POM) which was prepared under the parent project (with the MSME Subproject Manual featured as an annex to the POM) will be updated to reflect AF activities before the AF project effectiveness, including PBC verification protocols and independent monitoring and detailed reporting formats, in form and substance satisfactory to the World Bank.

**58. The parent project’s implementation arrangements for the lines of credit under Gargaara will also remain the same, and the MSME Subproject Manual will outline implementation arrangements for the risk-sharing mechanism and MSME matching grants.** The Board of Directors and management team selected for Gargaara under the parent project will continue to select PFIs, without undue outside interference. Gargaara management will continue to submit ‘MSME Financing Facility Quarterly Progress Reports’ to all relevant stakeholders (for example, Gargaara’s Board of Directors and the WBG). Biannual reviews will continue to form the basis of at least two implementation support reviews of Gargaara per year. Finally, an independent monitoring agent hired under the parent project will continue to (a) provide an added layer of monitoring as set out in Gargaara’s Subproject Manual, (b) complement the safeguards responsibility of Gargaara, and (c) act as an ‘early warning’ whistleblower in case governance issues are detected. The FGS and World Bank will also continue to carry out a joint progress review for the project every two years. The MSME Subprojects Manual will also be updated to outline MSME matching grants and risk-sharing mechanism implementation arrangements and include an augmented RF for Gargaara to capture indicators beyond those reflected in the project RF.<sup>55</sup> The BDS will be provided through a specialized professional entity to be managed by Gargaara, and the selection criterion will be the operational practices and manuals used to select and service MSMEs.

### III. KEY RISKS

**59. The overall risk is rated Substantial, in line with the parent project.** Somalia remains a high-risk context for the AF project, but the mitigation and the prospects of benefits outweigh the risks, thereby providing a basis for engagement. The current disagreements on election modalities, the ongoing political tensions between the FGS and some FMS, and continued instability and fragility that the country faces may cause delays and difficulties in the implementation of project activities. The introduction of the digital ID system poses high project implementation risks, exacerbated by cybersecurity risks occasioned using digital technologies and low capacity of key stakeholder institutions. The project is managing this risk through multiple layers of monitoring and implementation support. Taking the risk management and mitigation measures into account, the overall residual risk for the AF project is rated Substantial.

**60. Political and governance (High).** The risk of political instability remains high and could slow or derail project implementation over the course of the project. Federally, defining the AF’s activities and implementation plans may prove challenging given the growing impasse between the FGS and FMS over

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<sup>54</sup> The MoCI, MoCT, Ministry of Interior, Federal Affairs and Reconciliation, CBS, FRC, and NCA. The PSC will also include a representative from the new ID Authority once it becomes operational.

<sup>55</sup> The last update of the MSME Subprojects Manual was concluded in November 2020 to operationalize the large loans window. A comprehensive review of Gargaara operations in the last 18 months was concluded in March 2021. Results from this review and added AF activities will be reflected in the revised manual.

constitutional reform, revenue sharing, and national security, as well as the 2020/21 election. This could affect project activities, including digital ID enrollments which would require close collaboration between the FGS and FMS. Reforms supported in the HIPC debt relief initiative, the IMF's Extended Credit Facility arrangement, and the World Bank financed Somalia Recurrent Cost and Reform Financing Project (RCRF) - Phase 2 (P154875), among others, provide a broader framework for risk mitigation, as reaching progress targets requires stakeholders from the FGS and the FMS to meet and reach agreements. Additional activities planned that reduce this level of risk are the AF's own support for capacity-building activities to help stabilize core government functions and strengthen governance and accountability frameworks for supported entities. To promote engagement and consensus building across FMS on the digital ID system, a disbursement condition linked to a widely consulted implementation and enrollment plan will also be introduced. Even with this set of mitigation measures, the residual risk remains high for political and governance risk.

61. **Macroeconomic (Substantial).** The Somali economy is vulnerable to shocks, including from adverse weather, disruptions in international trade, and remittances due to the COVID-19 pandemic. Furthermore, despite important and widespread reforms, the FGS' fiscal position remains weak due to the limited ability to generate domestic revenues, security sector expenditures dominating the budget, and only limited fiscal transfers between the FGS and FMS. The risk that this could result in macroeconomic instability that might overwhelm the reform momentum supported by the project is high. The Government is working to mitigate these risks through improvements in its macroeconomic management capacity and steady implementation of reforms supported by the HIPC process and the IMF's Extended Credit Facility arrangement. Additional mitigation that helps reduce this level of risk is the AF's own support for (a) formalization of businesses; (b) mitigation of liquidity shortages of MSMEs operating in productive sectors; (c) TA for efficient financial intermediation and improved capability of banks; and (d) improvement of the integrity and proper functioning of financial markets and digital financial systems.

62. **Sector strategies and policies (Moderate).** The AF activities proposed are fully aligned with the FGS strategies in place and policy commitment made (for example, the Digital ID Policy and the CBS Strategic Plan 2020–2024), yielding moderate strategy and policy risk. However, as noted under the political and governance risk, these strategies may be knocked off course by the wider political climate, where immediate political and security sector priorities may risk derailing implementation or capturing the attention of the FGS and FMS, for example, resulting in politicization and securitization of the ID project. The disbursement condition related to the enactment of legislation on the establishment and implementation of ID system as well as general data protection legislation, in alignment with the Digital ID Policy, will help mitigate this risk by promoting long-term, broad-based FGS commitment to the inclusive, development-oriented, and privacy-conscious approach to identification originally endorsed by the Cabinet.

63. **Technical design (Substantial).** The parent project has created a strong basis for scaling up the existing activities, but inherent technical risk remains high in light of the technical complexity of many of the initiatives supported and constraints in terms of technical capacity on the client side. For example, as noted above, the need for robust advisory services and safeguards has repeatedly been stressed by the World Bank as a means to mitigate the inherent high technical risks associated with the deployment of a

new foundational digital ID system.<sup>56</sup> The nonavailability of qualified consultants and firms also presents a risk in this context. This can be partially mitigated by leveraging the Identification for Development Initiative's network of practitioners and technical experts to raise awareness among qualified applicants and to support capacity building. While the World Bank has a track record of supporting activities being scaled up (for example, cybersecurity and shared digital infrastructure), the weak technical capacity on the client side elevates technical risk. To mitigate this risk, the AF will provide additional support for upstream capacity building for key technical lead institutions involved to strengthen the FGS' capacity for managing digital systems and services. As the FGS scales its investments in digital systems, risks related to cybersecurity and data protection are set to increase. Related risks are actively being mitigated through initial investment in basic cybersecurity detection and response capacity and data protection frameworks in line with best practice where none currently exist; however, these risks cannot be mitigated completely. More investment will be needed to boost related capacity over time to keep pace with the evolving cyber threat landscape. The introduction of the PBCs under the CBS support in sub-component 1.1 also carries high technical risks given that the limited knowledge and experience of the PBCs may cause delays during the project start-up phase. The CBS needs to strengthen risk-based financial institution supervision for ML and TF risks and coordinate various actions across core central bank functions for the achievement of the PBCs. To further mitigate these risks, the project will adopt a phased approach to the rollout of the PBCs related to the CBS' financial sector reforms, digital ID system, and scaled-up Gargaara activities. Disbursement conditions will be leveraged to ensure that the ID system is underpinned by robust legal enabling frameworks and an iterative implementation approach is applied ensuring flexibility to fine-tune client readiness for implementation of progressively technically complex elements. This combination of activities mitigates the inherent risks of innovations in a fragile situation effectively, so the residual risk is rated Substantial.

64. **Institutional capacity for implementation and sustainability (Substantial).** The AF project will build on the existing project infrastructure and institutional capacity developed through the parent project. However, this is a challenging project that presents risks of delays of activities and inefficiency in planning and implementation due to capacity challenges, which are further exacerbated in the COVID-19 environment. Newly established entities, such as the ID Authority, will also likely require additional support, both in the form of World Bank TA and through experienced technical advisory firms. The PIU housed at the MoF has demonstrated the ability to successfully implement project activities since the parent project became effective, and the PSC set up under the parent project is facilitating smooth project implementation. To further mitigate implementation and sustainability risks, the AF project is allocating additional resources to strengthen the PIU's capabilities by ensuring compliance with good safeguard practices and strengthening monitoring, evaluation, and learning functions taking into account COVID-19 challenges. In addition, an independent monitoring agent will provide an added layer of supervision capacity and help identify or anticipate key gaps on the client side. Furthermore, the AF will include additional capacity-building efforts targeting MDAs enabling access to basic services for individuals and businesses, including building their digital capabilities which are critical in the COVID-19 context, in combination with external support provided by other development partners, so the residual risk is Substantial.

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<sup>56</sup> This entails ensuring that the FGS avoids many of the common pitfalls involved in deploying such systems, including the ID being difficult to access or use for certain individuals or groups, the misuse of personal data, and vendor lock-in.



65. **Fiduciary (High).** The Government’s legal framework, procedures, and operational systems remain relatively new and incomplete, posing significant challenges to the Government’s overall reform program yielding high inherent fiduciary risks. Strengthening fiduciary systems remains an ongoing government priority. The new public FM regulations will contribute to reduction of fiduciary risk, as will continued support from World Bank IPFs and Advisory Services and Analytics and IMF programs. Additional mitigation measures that will reduce this level of risk is the AF’s own support for promoting government digital payments and reduced fiscal leakages by leveraging digital technology to enhance FM and control. Other risk mitigation measures include consistent and regular reporting and evaluation to closely scrutinize cost coefficients where applicable; mechanisms to minimize instances of unjustified delays in the evaluation of bids and contract awards; recruitment of dedicated project implementation support personnel; strengthening of the capacity of the implementing agencies including support through other World Bank-financed projects; prior review of all procurement activities by the World Bank regardless of value, nature, categories or packages; strengthening of internal controls to provide increased checks and balances; and implementation of fraud and corruption reporting mechanisms. Despite these important reforms and additional support provided, financial controls remain relatively weak, so the residual fiduciary risk is High.

66. **Environmental and social (Substantial).** The likelihood of exogenous factors to adversely affect the ability of the project to achieve and sustain its objectives as well as the nature, scale, and significance of direct and indirect environmental and social impacts is assessed as Substantial for both environmental and social risks. An overarching risk relates to the weak environmental and social legal, regulatory, and institutional systems that hamper the effective identification, understanding, and mitigation of environmental and social risks. Key environmental risks are associated with environmental pollution arising from the financing of the livestock sector. The nature of the design of project-specific environmental and social risks may be present from a variety of factors such as issues associated with a client or investee’s operations, the industry sector, the regulatory climate, and the geographic context. Some risks include poor MSME practices in the control of emissions and waste, community safety, and labor health and failure to provide full access to information for all persons, credit risks for lenders, associated liability, and reputation of lenders. Social risks are associated with child labor, exclusion of minorities and other disadvantaged populations, gender-based violence (GBV)/sexual exploitation and abuse and sexual harassment (SEA-SH), and loss and breaches in data privacy and protection measures. Meanwhile, increased investment in digital systems will require hardware and devices that increase energy consumptions and e-waste. Overall, the digitization of key services streams (financial and public) subsequently enabled by related investments is expected to minimize the climate footprint by reducing the need for physical travel and paper-based processes. The scale-up of digital financial and government services will need to actively consider the risk of economic and social exclusion due to, for example, gender, clannism, disability, age, and/or other specific barrier that may prevent access. To mitigate social inclusion risks in the context of the digital ID system, the project will finance a qualitative study with a focus on vulnerable populations and on people’s perspectives about identification, including potential barriers to access and use. This research will then inform the development of an inclusive outreach and enrollment plan for the digital ID system. Ensuring a fully inclusive, people-centric ID system design and implementation approach will also be integrated into the objectives of the legal and technical advisory services financed under the project.

67. **Stakeholders (Substantial).** The scale-up of the Gargaara financing facility and rollout of shared government frameworks, digital infrastructure, platforms, and services, including the digital ID and the expansion of the BRS, all come with high inherent stakeholder risks. This includes risks associated with reaching beneficiaries across all FMS as well as the need for strong collaboration between the FGS and MDAs to ensure successful adoption and deployment. The issuance of ID and registration of SIM cards may encounter social resistance among communities that have not used registration or identification services provided by a Government authority for more than a generation. To manage the related stakeholder risk, the project is proposing to leverage inclusive policy dialogue and support continuous client and citizen engagement and outreach, stakeholder workshops, and so on financed under the project as well as other World Bank operations, which will reduce the said risks to Substantial. Disbursement conditions have also been introduced to ensure that the ID implementation and enrollment planning is an inclusive process involving FMS. Similarly, the membership of the PSC has been designed with a view to ensure effective stakeholder engagement of key MDAs. These mitigation measures reduce the risk to a residual level of Substantial.

#### IV. APPRAISAL SUMMARY

##### A. Economic and Financial (if applicable) Analysis

68. **While the nature of most AF activities makes direct attribution of their benefits challenging, they are expected to generate considerable economic and financial gains for Somalia.** As illustrated in the revised ToC (annex IV) the technical advisory, capacity-building, and institutional strengthening activities under component 1 will contribute to increased access to financial and digital services and sustainable employment. Under component 2, Gargaara's IDPs for PFIs will also have this impact. Furthermore, the rollout of shared public digital infrastructure and platforms underpinning the provision of basic services such as digital ID, Government, and retail payment services has the potential to generate significant economic benefits and savings for both the FGS and the Somali private sector. There is strong evidence on the potential of these services for boosting financial inclusion<sup>57</sup> and easing the transactional burden of the private sector (for example, paying taxes and business registration).<sup>58</sup>

69. **International experience also suggests that inclusive ID systems can generate considerable fiscal benefits and savings for the Government and users of digitized public services by** (a) reducing the number of 'ghosts', duplicates, and ineligible beneficiaries in public programs, (b) eliminating redundant systems; and (c) cutting transaction costs.<sup>59</sup> In Somalia, where only 80 percent of cash transfer funds are

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<sup>57</sup> See, for example, Radcliffe, Daniel, and Rodger Voorhies. 2012. *A Digital Pathway to Financial Inclusion*.

<sup>58</sup> See, for example, Kochanova, Anna, et al. 2020. "Does E-Government Improve Government Capacity? Evidence from Tax Compliance Costs, Tax Revenue, and Public Procurement Competitiveness." *The World Bank Economic Review* 34 (1):101–120.

<sup>59</sup> For example, as Pakistan rolled out an emergency cash transfer program for flood victims, authorities were able to use prospective beneficiaries' unique IDs to eliminate about 40 percent of the initial 2.7 million applications as people were found to be ineligible or were duplicate family members (World Bank. 2018. *Public Sector Savings and Revenue from Identification Systems: Opportunities and Constraints*, Washington, DC: World Bank).

<http://documents1.worldbank.org/curated/en/745871522848339938/pdf/Public-Sector-Savings-and-Revenue-from-Identification-Systems-Opportunities-and-Constraints.pdf>.



estimated to reach the beneficiary,<sup>60</sup> this could lead to millions of dollars in savings, and enable a more efficient use of scarce public resources in the COVID-19 context and beyond. In addition, unique identifiers can enable broad-based participation of vulnerable segments in the economy and create opportunities to increase revenues in the private sector.<sup>61</sup> For example, an inclusive and trusted digital ID system can help private sector firms simplify onboarding processes and reduce risks.<sup>62</sup> Finally, an increased investment in data safeguards, such as cybersecurity, is expected to reduce the cost of related incidents amid growing risk reported, particularly in the COVID-19 context.<sup>63</sup> The combination of all these benefits suggests a high rate of return, but these benefits nevertheless are inherently difficult to measure because of data limitations.

**70. Of the project's sub-components, only the gains caused by the scale-up of financing to Gargaara are susceptible to a meaningful net present value (NPV) analysis.** Considering the AF's scale-up of financing for Gargaara and the extension of the project until FY24, it is estimated that during the project's lifetime, MSME financing will reach approximately 430 additional SMEs (360 will receive small loans - US\$5,001–US\$50,000, and 70 will receive large loans - US\$50,001–US\$150,000) and provide 4,600 additional microloans (microloans are classified as US\$1,001–US\$5,000).<sup>64</sup> As in SCALED-UP, an MSME finance multiplier effect of 3x output for SMEs with large loans and 2x output for SMEs with small loans and microenterprises is applied. With a 12 percent discount rate, the economic NPV for the line of credit is estimated at US\$6.8 million, with an economic internal rate of return of 25 percent. These assumptions are very conservative.<sup>65</sup> The results are also robust at various discount rates and lower benefits multipliers.<sup>66</sup> Furthermore, due to the difficulty in accurately estimating job creation in an unprecedented period like the COVID-19 crisis and considering that the evidence from existing literature on the impact

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<sup>60</sup> Jerving, S. 2018. "How Cash Transfers in Somalia Could Evolve into a National Social Safety Net." Devex online. <https://www.devex.com/news/how-cash-transfers-in-somalia-could-evolve-into-a-national-social-safety-net-91873>.

<sup>61</sup> See, for example, World Bank. 2018. *G20 Digital Identity Onboarding*. Washington, DC: World Bank. [https://www.gpfi.org/sites/default/files/documents/G20\\_Digital\\_Identity\\_Onboarding\\_WBG\\_OECD.pdf](https://www.gpfi.org/sites/default/files/documents/G20_Digital_Identity_Onboarding_WBG_OECD.pdf); World Bank. 2018. *Private Sector Economic Impacts from Identification Systems*. Washington, DC: World Bank. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/219201522848336907/private-sector-economic-impacts-from-identification-systems>.

<sup>62</sup> eKYC, for instance, can reduce onboarding and compliance costs significantly, enabling financial service providers to offer services to a wider customer base and to do so more cheaply (see Pisa, M., and J. Woodsome. 2019. "Overcoming the 'Know Your Customer' Hurdle with E-KYC." *Center for Global Development* (blog). <https://www.cgdev.org/blog/overcoming-know-your-customer-hurdle-e-kyc>).

<sup>63</sup> For example, the World Bank Rwanda Digital Acceleration Project (P173373) calculated that each dollar invested in the country's cybersecurity would yield an economic return of approximately 9.1 percent, by integrating cost-benefit analysis into the National Institute of Standards and Technology Cybersecurity Framework through the Gordon-Loeb Model.

<sup>64</sup> This considers that SCALED-UP's extension will lead to additional recycling of capital provided by the parent project to Gargaara. Specifically, because small and large loans have a maximum tenor of 36 months and microloans have a maximum tenor of 18 months, the parent project's capital used for small and large loans will be recycled once and the parent project's capital used for microloans will be recycled twice more. The AF's capital used for microloans will also be recycled once during the project's lifetime.

<sup>65</sup> The assumptions are more conservative than those used by SCORE (P152241) in Somalia, which applied a multiplier of 4x on output, but this was a grant project. It is also significantly more cautious than multipliers used in other (non-fragility, conflict, and violence) countries where multipliers used were 10x (for example, Benin, Burkina Faso, and Niger) and 15x (Kenya).

<sup>66</sup> Reducing the benefits multiplier of microloans to 1.5x, the economic NPV remains positive at discount rates below 37 percent.

on employment of providing access to finance for MSME's is mixed,<sup>67</sup> increased employment income has not been included in the calculation of economic NPV. The impact of the proposed risk-sharing facility for Gargaara and BDSs for MSMEs have not been included in this calculation either, as their implementations depend on the result of a feasibility study and on the willingness of MSMEs to match BDS grants, respectively.

## **B. Technical**

**71. The technical design for the AF remains in line with the parent project, scaling up activities under the current design.** To ensure continuity from the parent project, the AF will use the existing structures and institutions, which have proved to be successful in implementing the project. Selected AF activities prioritize interventions with the high expected developmental impact aimed to support the FGS in responding to the COVID-19 crisis in Somalia while taking capacity constraints in the field into consideration. The PIU housed at the MoF will maintain its mandate of overall project coordination.

**72. The overall approach for the implementation of the digital ID system remains aligned with the parent project, with greater emphasis being placed on shared government structures for the AF.** At the highest level, the design and implementation of the digital ID system is guided by the Somali Digital ID Policy, approved in May 2019, and the Principles on Identification for Sustainable Development,<sup>68</sup> co-developed and endorsed by the World Bank. The AF activities will, in line with the parent project, focus on creating a legal and institutional enabling environment and government capacity to successfully implement the digital ID system. At the same time, the AF will refocus some activities toward building shared government capabilities and infrastructure for data governance, including data hosting and cybersecurity.

**73. The PBCs under sub-component 1.1 are designed to take into account the CBS' capabilities and Somali context.** This sub-component will leverage the improved implementation capacity of reforms by the CBS witnessed in recent years contributing to Somalia reaching the Decision Point under the Enhanced HIPC Initiative in March 2020. Further, the breakdown of the PBCs into small reform packages considers the long development timelines needed to implement activities given the fragile context and urgency for accelerated results and outcomes considering the COVID-19 pandemic. The AF also reflects lessons from RCRF Phase II (P154875) and Phase III (P173731) on the importance of financial incentives to support reforms in Somalia and specific considerations for designing PBCs in Somali context.

**74. For sub-component 2.1, Gargaara will expand on the existing loan products, business assessment tools, and targeting methods to reach vulnerable but viable micro and small businesses recovering from the economic impacts of COVID-19.** The inclusion of TA packages and training will strengthen the systems and product menu of current and future PFIs. BDS to micro and small businesses will make them more attractive, less-risky clients to the PFIs by presenting clearer evidence-based

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<sup>67</sup> While some studies find that MSME financing results in direct and indirect job creation (for example, World Bank Independent Evaluation Group's evaluation of credits to SMEs in Sri Lanka finds the 'average beneficiary' expanded employment by 22 to 56 employees), more recent studies report that these impacts are very modest (Cho and Honorati 2013; Grimm and Paffhausen 2014) and that access to finance and training are more effective in changing intermediate outcomes like business knowledge than in increasing jobs.

<sup>68</sup> <https://id4d.worldbank.org/principles>.

business plans. The rollout of the BDS and risk-sharing mechanisms will incorporate lessons learned from other countries (including fragile states) and build on those pertinent to implementing activities to support firms in COVID-19 contexts.<sup>69</sup> These are known technical solutions to the types of challenges faced by Gargaara, the PFIs, and the micro and small businesses.

### C. Financial Management

75. **The overall FM risk rating is High. The High risk rating is attributable to weak Public Financial Management country level legal and operational framework.** Despite the High risk rating, there are adequate and existing FM arrangements in the implementation of the parent SCALED-UP project in the FGS including reporting and accounting provisions, internal control procedures, planning and budgeting, flow of funds arrangements, external audit reporting, and accounting staff. These arrangements will be extended to the AF project. Activities being considered for funding will also fall within the existing FM arrangements. In addition, it was agreed that the interim financial reports will be submitted to the World Bank within 45 days after the end of each reporting quarter. The Office of the Auditor General of the FGS will carry out the project's external audit for the current project and for the anticipated additional resources. The Government will continue to strengthen internal controls and institute strict fiduciary oversight over the current operations, and this will be extended to the activities under AF.

76. **The CBS' capacity to prepare financial statements and reconcile the opening balances, annual receipts, payments, assets, and liabilities with source documents on the required timeline is a substantial risk for the AF that needs to be considered.** The opening balances for 2013 are not reconciled to the respective financial statements and with year-end audits of receipts, payments, and assets and liabilities. It is proposed that the introduction of a reform benchmark on this linked to PBCs under sub-component 1.1 will create significant incentives for the CBS to sufficiently use the core banking system and ERP modules. The incentive is aimed at fostering the quality and timeliness of financial statements preparation, budgeting, and budget control to meet required audit timelines and clean audit opinions to bolster the central bank's confidence, transparency, and accountability.

### D. Procurement

77. **Procurement for the AF will be carried out in accordance with the requirements in the Procurement Regulations for IPF Borrowers** dated July 1, 2016 (as updated in November 2020) and Guidelines on Prevention and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants dated 15, 2006, and revised in January 2011 and July 1, 2016. Given Somalia's fragility, conflict, and violent country status, procurement will be processed under the special procurement arrangements referred to under paragraph 12 of section III of the World Bank Policy on IPF dated September 30, 2018.

78. **Project Procurement Strategy for Development and Procurement Plan.** The procurable activities under the AF are similar to those of the parent project. Under the parent project, a Project Procurement

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<sup>69</sup> Including those reflected in the recent Organization for Economic Co-operation and Development SME and Entrepreneurship Policy Paper 'Business Advice for Entrepreneurship and Small Firms' and Finance, Competitiveness & Innovation Global Practice Note 'Supporting Firms in Restructuring and Recovery'.

Strategy for Development (PPSD) had been prepared identifying the 'fit for purpose' procurement selection methods and market approaches. In this regard, the existing PPSD of the parent project will apply under the AF. The existing market approaches and selection methods will be followed during the project implementation. The borrower has prepared a PP covering 18 months and shared with the World Bank. The Procurement Plan (PP) sets out the selection methods to be followed by the borrower during project implementation in the procurement of goods and consulting services. The PP also includes the cost estimates, time schedules, the World Bank's review requirements, brief description of the activities/contracts, and so on. The PP will be updated at least once in 12 months, or as required, to reflect the actual project implementation needs, but each update shall require World Bank approval.

79. **Procurement implementation arrangement.** The existing implementation arrangement of the parent project will be maintained and strengthened through training/hands-on support under the proposed AF. The expertise gained and institutional memory will be beneficial for the implementation of the AF. The PIU is already staffed with a procurement specialist among other staff. The same PIU will be responsible for the implementation of the procurement activities. The procurement function of the SCALED-UP is led by a qualified and experienced procurement specialist whose performance has been satisfactory. However, the PIU lacks adequate experience in using World Bank Procurement Regulations, but to mitigate the risk, the capacity of the existing staff will continue to be strengthened through training/hands-on support under the AF.

80. **Procurement management risk is assessed as High.** The procurement environment in Somalia remains challenging. The main procurement-related risks are (a) limited number of competent procurement staff; (b) weak capacity of bidders and limited service providers; (c) high price of bids/proposals due to security conditions in some parts of the country; (d) fraud and corruption; (e) collusion among bidders due to limited competition; (f) inadequate experience in procurement planning, monitoring, and contract management; (g) delays in procurement implementation should the COVID-19 crisis prolong due to disruptions in supply chains resulting in price volatility and unavailability of items; and (h) weak legal and financial institutions (banks and insurance agencies are not well established). Proposed mitigation measures include (a) ensuring that the PIU always has a dedicated procurement specialist with relevant and adequate qualification and experience acceptable to the World Bank and the POM includes a detailed procurement management process; (b) all procurement activities, regardless of value, nature, categories, or packages, will be treated as prior review and reviewed by the World Bank; and (c) training of the PIU staff by the World Bank on the New Procurement Regulations.

81. **The AF proposes PBCs.** The IPF-PBC procurable expenditures under AF will follow the World Bank's Procurement Framework.

82. **Systematic Tracking of Exchanges in Procurement (STEP).** The WBG's STEP tool will be used to prepare, clear, and update PPs and conduct all procurement transactions for the project. Staff of the PIU have been trained in using STEP.

#### **E. Environmental and Social Risks Management (including Safeguards)**

83. **Progress has been made in the identification and mitigation of environmental and social risks and impacts under the parent project.** The project has prepared an ESMF to guide the identification of

subprojects eligible for financing. Using the ESMF, risks associated with environmental pollution arising from financing the livestock sector have been mitigated by a systematic screening of subprojects eligible for funding and utilization of a negative list to identify subprojects whose funding will lead to adverse environmental and social risks and impacts. There is an established process for SME application screening and due diligence. The PIU environmental and social consultant has engaged PFI representatives to review loan applications for environmental and social risks.

**84. Project activities under the AF are not expected to materially change from what was designed under parent project.** The mitigation measures put in place under the parent project will be used for the AF activities as well. Areas to be strengthened include PFI participatory agreements to entrench World Bank requirements on environmental and social safeguards, fiduciary, and corruption requirements and beneficiary loan application to include environmental and social condition covenants.

**85. The GRM system of the parent project needs strengthening.** Grievance redress efforts are not substantive and responsibilities for actions to implement the GRM are ambiguous. There is need for adoption of Gargaara-specific GRM approaches to PFI agreements. A grievance redress strategy is under development and the project is in the process of engaging a firm to design a GRM for the digital ID system and the MSME financing facility and social research/advisory services and stakeholder/citizen engagement strategy for both the MSME facility and the Digital ID Policy ID registration and with functional/effective GRMs. The advisory service, expected within four months of the project effectiveness, will include requirements for GRM GBV aspects on reporting on SEA-SH and other forms of GBV, as well as response, referral, and information sharing. Stakeholder engagement and GRMs will be adapted to COVID-19 regulations for the safety of beneficiaries and project workers.

**86. A COVID-19 pandemic waiver to process the AF activities under the safeguards policies rather than the ESF was secured.** The project preparation included the application and coverage of the policies and the additional requirements to address a broader range of environmental and social risks and impacts consistent with the ESF requirements<sup>70</sup>. Possible environment risks and impact resulting from project activities are likely to be minimal, site-specific, and easy to mitigate. These are environmental pollution from livestock activities and battery disposal and recycle from off-grid renewable energy sector. Key possible social risks and impacts are identified as

- (a) Exclusion of the target population and particularly poor, vulnerable, and minority groups from project benefits such as the ID system.
- (b) Selection bias where local community dynamics may lead to attempts to capture the benefits of the project for a particular group.

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<sup>70</sup> The project triggers OP 4.01 (Environmental Assessment). However, in compliance with waiver conditions, it will identify, assess and mitigate an expanded range of environmental and social risks and impacts consistent with the ESF, including environmental pollution arising from the financing of the livestock sector, child labor, exclusion of minorities and other disadvantaged populations, gender-based violence (GBV), and loss and breaches in data privacy and protection measures.

- (c) Security and political fragility where the use of MSMEs might lead to further marginalization of poor applicants from vulnerable groups, female-headed households, and internally displaced persons who have no ability to access credits.
- (d) Gender dynamics that can be restrictive for women and children leading to exacerbation of GBV/SEA-SH where registration for IDs or qualification for MSME credits is exchanged for sexual favors.
- (e) Remoteness and other security risks that restrict access to areas in Somalia for effective stakeholder engagement, community participation, and grievance redress.
- (f) Breach of data security-related to the collection, use, and storage of data for the ID component.

87. To this end, a rapid assessment will be conducted to identify and contextualize environmental and social risks and mitigation measures. These mitigation measures will be reflected in an updated ESMF and an SEP. Climate and disaster risk screening conducted under the parent project has been updated for the AF.

88. **While performance to date has been moderately satisfactory, Gargaara staffing is still inadequate and the environmental and social specialist position is yet to be filled.** This resource is needed foremost for environmental and social issues management, GRM and interagency arrangement, and capacity building. The capacity of the PIU will also be strengthened with respect to the management of social risk and impacts. To sufficiently resource the PIU through the implementation of AF safeguards instruments, a dedicated social specialist and a part-time GBV adviser will be recruited to support the environmental specialist currently engaged with the PIU. This recruitment should be done within three months of project effectiveness. This augmented capacity is expected to result in a strengthened project GRM, robust monitoring and reporting requirements, and meaningful stakeholder consultation and information dissemination. The rapid social assessment, updates to the ESMF, and the SEP including the inclusion of the additional measures on environmental and social risk management (occupational health and safety, GBV/SEA-SH, and security) will be completed within three months of project effectiveness.

89. **Activities under the AF will follow a gender-sensitive approach established under the parent project and will dedicate additional resources to reach women beneficiaries.** The gender gap analysis, and the approach to address the identified gender gaps, prepared under the parent project, also applies for the AF. The creation of a new foundational digital ID and progressive movement toward universal coverage will help bridge the gender ID gap by actively boosting female enrollment and facilitate women's access to financial services and economic opportunities more broadly. Gargaara PFIs will receive additional support to strengthen their outreach strategy for targeting women-owned enterprises. Finally, the AF will enhance project feedback and GRMs in place to facilitate access for women.

90. **In line with the parent project and in consideration of activities under the AF, GBV risks under the project are assessed as Moderate.** To mitigate the identified risks, the project will develop a GBV/SEA-SH response plan as part of the ESMF. In addition, a GBV/SEA-SH adviser will be hired by the PIU on a part-time basis while contracts with PFI and other entities connected to the project will include GBV/SEA-SH requirements, provisions, clauses and obligations. These will be completed not later than three months after the Effective Date.



91. **Climate change/climate co-benefits.** Somalia has high exposure to multiple climate risks, notably drought and flooding. Strengthening the country's financial and ICT sectors and boosting access to financial and digital services will help moderate risks associated with climatic hazards. Activities proposed under the AF activities will expand the reach of the parent project's activities, and this will in turn enhance climate change mitigation and adaptation co benefits identified under the parent project. For a detailed description of activities that support the reduction of climate vulnerabilities, see annex V.

#### **F. Citizen Engagement**

92. **The project will incorporate a citizen feedback loop by actively engaging beneficiaries' in consultations across project activities and continuously integrating beneficiary feedback into the design and implementation of financial and digital service supported by the project.** With regard to the digital ID system, project activities will include a qualitative field study of prospective beneficiaries to understand perspectives and concerns around accessing and using identification, which will directly inform the FGS' ID outreach and enrollment strategy and the specification for the system's technical infrastructure. In addition, the ID system's responsiveness to people's needs will be facilitated through a stakeholder consultative working group, working closely with the ID Authority's leadership and oversight bodies as well as a robust GRM. Gargaara will strengthen feedback mechanisms from end beneficiaries, including micro enterprises owned and managed by women. The project will finance information, education, and communication campaigns related to all project activities, specifically the digital ID program/enrollment; ownership of transaction accounts covering mobile money, banks, and remittances; and e-registration services for SMEs under the OSS and the MSME financing facility. An updated indicator has been added in the project RF to measure if the reports are prepared on feedback from beneficiary consultations regarding perspectives on identification and if/ how this feedback has been integrated into the ID system's design and implementation.

#### **V. WORLD BANK GRIEVANCE REDRESS**

93. 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 Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).



## VI. SUMMARY TABLE OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Disbursements Arrangements	✓	
Legal Covenants	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Safeguard Policies Triggered		✓
EA category		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓

## VII. DETAILED CHANGE(S)

### COMPONENTS

Current Component Name	Current Cost (US\$, millions)	Action	Proposed Component Name	Proposed Cost (US\$, millions)
Strengthening Institutions	7,000,000.00	Revised	Strengthening Institutions	13,000,000.00
Enabling Financial and Digital Services	20,000,000.00	Revised	Enabling Financial and Digital Services	55,000,000.00
Project Management and Coordination	4,000,000.00	Revised	Project Management and Coordination	2,000,000.00



## The World Bank

Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP)  
Additional Financing (P174769)

<b>TOTAL</b>	<b>31,000,000.00</b>			<b>70,000,000.00</b>
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### LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Current Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-D4330	Effective	30-Jun-2023	30-Jun-2023	31-Dec-2025	30-Apr-2026
TF-A9642	Effective	30-Jun-2023	30-Jun-2023	31-Dec-2023	30-Apr-2024

### DISBURSEMENT ARRANGEMENTS

Change in Disbursement Arrangements

Yes

### Expected Disbursements (in US\$)

Fiscal Year	Annual	Cumulative
2019	500,000.00	500,000.00
2020	4,000,000.00	4,500,000.00
2021	9,500,000.00	14,000,000.00
2022	27,500,000.00	41,500,000.00
2023	24,500,000.00	66,000,000.00
2024	15,000,000.00	81,000,000.00
2025	15,000,000.00	96,000,000.00
2026	5,000,000.00	101,000,000.00

### SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Latest ISR Rating	Current Rating
Political and Governance	● High	● High
Macroeconomic	● Substantial	● Substantial
Sector Strategies and Policies	● Moderate	● Moderate
Technical Design of Project or Program	● Moderate	● Substantial



Institutional Capacity for Implementation and Sustainability	● Substantial	● Substantial
Fiduciary	● High	● High
Environment and Social	● Substantial	● Substantial
Stakeholders	● High	● Substantial
Other		
Overall	● Substantial	● Substantial

**LEGAL COVENANTS – Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP) (P168115)**

Loan/Credit/TF	Description	Status	Action
IDA-D4330	The Recipient shall not later than 30 days after the Effective Date, establish and thereafter, maintain throughout the project implementation, the Project Steering Committee with a mandate, resources, terms of reference and functions, satisfactory to the Association.	Complied with	No Change
IDA-D4330	The Recipient shall, not later than October 31 of each year prepare and furnish to the Association, a consolidated annual program of activities proposed for implementation under the Project during the following Fiscal Year, together with a proposed budget for the purpose.	Complied with	No Change
IDA-D4330	The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.	Not yet due	No Change
IDA-D4330	Schedule 2, Section 1.A:4 of the Financing Agreement: The Recipient shall without limitation on Section I.A: 3 the PIU shall, not later than three (3) months after the Effective Date, recruit a gender-based violence advisor, under terms of reference and with	Not yet due	New



	qualifications and experience acceptable to the Association		
IDA-D4330	Schedule 2, Section 1.H:1(a) of the Financing Agreement: The Recipient shall update the ESMF and SEP, within three (3) months after the Effective Date, in manner and substance satisfactory to the Association	Not yet due	New
IDA-D4330	Schedule 2, Section 1.H:1(b) of the Financing Agreement: The Recipient shall consult and engage with stakeholders on the Project design, benefits, risks and impacts, as well as mitigation measures within (3) months after the Effective Date, in a manner and substance satisfactory to the Association.	Not yet due	New
IDA-D4330	Schedule 2, Section 1.J:1(a) of the Financing Agreement: not later than three (3) months after the Effective Date, appoint and enter into a verification agreement with one or more Verification Agencies, under terms of reference satisfactory to the Association and following terms of reference agreed between the Recipient and the Association	Not yet due	New
IDA-D4330	Schedule 2, Section 1.J:1(b) of the Financing Agreement: undertake, at least every six (6) months, an independent verification process, in accordance with the Verification Protocol and in a manner and in substance acceptable to the Association, through the said Verification Agency(ies), to ascertain whether the PBCs have been achieved for t	Not yet due	New
IDA-D4330	Schedule 2, Section 1.J:1(c) of FA: furnish to the Association corresponding verification report(s) in form and substance agreed with the Association, and any information and/or	Not yet due	New



	documentation that the Verification Agency(ies) and/or the Association shall reasonably require for the monitoring, audit, analysis and/or verification of the achievement/fulfillment of the PBCs set forth in Schedule 3.		
IDA-D4330	Schedule 2, Section 1.J:2 of Financing Agreement: In the event of a need for verification services prior to the appointment of such agency, the Recipient shall put in place adequate interim arrangements acceptable to the Association and approved in writing by the Association for this purpose.	Not yet due	New

**LEGAL COVENANTS – Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP) Additional Financing (P174769)**

**Sections and Description**

No information available

**Conditions**

Type	Financing source	Description
Effectiveness	IBRD/IDA	Article IV. Section 4.01(a) of the Financing Agreement: Project Operations Manual, including the MSME Subproject Manual, has been updated in a manner and substance satisfactory to the Association, pursuant to the provisions of Section I.C of Schedule 2 to the Financing Agreement.
Effectiveness	IBRD/IDA	Article IV. Section 4.01(b) of the Financing Agreement: A social safeguards specialist has been recruited for the Project Implementation Unit (“PIU”) under terms of reference and with qualifications and experience acceptable to the Association.
Disbursement	IBRD/IDA	Schedule 2. Section III.B.1(a) of the Financing Agreement No withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed SDR 840,000 may be made for payments made prior to this date but on or after January 1, 2021, for Eligible Expenditures



		under Category (4)
Type Disbursement	Financing source IBRD/IDA	Description Schedule 2. Section III.B.1(b) of the Financing Agreement No withdrawal shall be made from Categories (1), 3(a) and 3(b) until and unless, the Recipient has fully withdrawn the resources made available under the Grant Agreement to Parts A, B and C (except Parts A.1, B.1(b) to (d) and B.2 of the Project).
Type Disbursement	Financing source IBRD/IDA	Description Schedule 2. Section III.B.1(c) of the Financing Agreement No withdrawal shall be made for payments under Category (2), unless the Recipient has: (a) enacted legislation on the establishment and implementation of the digital ID system and general data protection, in alignment with the Digital Identification Policy and in form and substance satisfactory to the Association; and (b) submitted, in form and substance satisfactory to the Association, an ID system implementation strategy, including a countrywide enrollment plan which have been reviewed by the FMS.
Type Disbursement	Financing source IBRD/IDA	Description Schedule 2. Section III.B.1(d) of the Financing Agreement No withdrawal shall be made for payments under Category (3)(c): (i) unless the MSME Financing Facility has submitted to the Association a final feasibility study on the Risk Sharing Mechanism setting in form and substance acceptable to the Association; and (ii) unless the MSME Financing Facility and the Association have entered into an amendment of the Project Agreement setting out the criteria for beneficiary eligibility, eligible expenditures, disbursement mechanisms, applicable requirements for compliance with environmental and social safeguards, and terms and conditions of the risk sharing products to be offered under the Risk Sharing Mechanism.
Type Disbursement	Financing source IBRD/IDA	Description Schedule 2. Section III.B.1(e) of the Financing Agreement No withdrawal shall be made for payments under Category (3)(d), unless the Recipient has prepared and



		adopted a Matching Grants Manual in form and substance satisfactory to the Association.
Type Disbursement	Financing source IBRD/IDA	<p>Description</p> <p>Schedule 2. Section III.B.1(f) of the Financing Agreement</p> <p>No withdrawal shall be made in respect of Category (4) above, until and unless the Recipient has: (i) furnished evidence satisfactory to the Association that the PBC for which payment is requested has been achieved as set forth in Schedule (3) to this Agreement, including the corresponding verification report(s) referred to in Section I.J of Schedule 2 to this Agreement; and (ii) complied with the instructions under the Disbursement and Financial Information Letter, including the submission to the Association of evidence acceptable to the Association of the incurrence of Project Expenditures for which payment is requested.</p>
Type Disbursement	Financing source Trust Funds	<p>Description</p> <p>Section III - B: B. 1. of the Grant Agreement: Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the Signature Date.</p>
Type Effectiveness	Financing source Trust Funds	<p>Description</p> <p>Article V. Section 5.02 of the Grant Agreement: As part of the evidence to be furnished pursuant to Section 5.01 (a) of the Grant Agreement, there shall be furnished to the Bank an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank or, if the Bank so requests, a certificate satisfactory to the Bank of a competent official of the Member Country, showing the following matters: on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.</p>
Type Effectiveness	Financing source Trust Funds	<p>Description</p> <p>Article V. Section 5.01 of the Grant Agreement: The Grant Agreement shall not become effective until evidence satisfactory to the Bank has been furnished that; (a) the execution and delivery of the Grant Agreement on behalf of the Recipient has been duly authorized or ratified by all necessary governmental and corporate action; and (b) the Financing Agreement</p>





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		dated the same date as this Agreement, between the Recipient and IDA, providing a grant in support of the Project has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the fulfillment of effectiveness of this Agreement) have been fulfilled.
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**VIII. RESULTS FRAMEWORK AND MONITORING**

**Results Framework**

COUNTRY: Somalia

Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP) Additional Financing

**Project Development Objective(s)**

The Project Development Objective (PDO) is to support progress towards increased access to basic digital financial and government services targeting entrepreneurship and employment, particularly for women.

**Project Development Objective Indicators by Objectives/ Outcomes**

Indicator Name	PBC	Baseline	Intermediate Targets						End Target	
			1	2	3	4	5	6		
<b>Number of people who have received their unique ID number, of which (%) are female (Action: This Objective has been Revised)</b>										
Number of people who have received their unique ID number (Number)		0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	1,000,000.00	3,000,000.00
<i>Action: This indicator has been Revised</i>										
Of which (%) are female (Percentage)		0.00	0.00	0.00	0.00	0.00	0.00	50.00	50.00	50.00
<i>Action: This indicator has been Revised</i>										
<b>Number of transactional accounts opened using CVS/eKYC (Action: This Objective has been Revised)</b>										



Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
Number of unique transactional accounts opened using a digital Customer Verification System (CVS) to enable electronic KYC (eKYC) protocols (Number)		0.00	0.00	0.00	50,000.00	100,000.00	250,000.00	500,000.00	1,000,000.00
<b>Action: This indicator has been Revised</b>									
of which % are female owned transaction accounts (Percentage)		0.00	0.00	0.00	25.00	25.00	25.00	25.00	25.00
<b>Action: This indicator has been Revised</b>									
<b># of MSME loans disbursed from Gargaara by Participating Retail Financial institutions (Action: This Objective has been Revised)</b>									
Cumulative number of MSME loans disbursed from the Retail PFIs (Number)		0.00	0.00	300.00	2,100.00	3,200.00	3,900.00	4,700.00	5,500.00
<b>Action: This indicator has been Revised</b>									
Of which (%) are loans to women owned and managed businesses (Percentage)		0.00	0.00	40.00	40.00	40.00	40.00	40.00	40.00
<b>Action: This indicator has been Revised</b>									
<b>Number of firms that benefit from reformed business registration requirements</b>									



Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
Number of firms that benefit from reformed business registration requirements (Number)		0.00	0.00	500.00	1,000.00	2,000.00	3,000.00	4,000.00	5,000.00
<b>Action: This indicator has been Revised</b>									
Of which % are women owned firms (Percentage)		0.00	0.00	30.00	30.00	30.00	30.00	30.00	30.00
<b>Action: This indicator has been Revised</b>									
<b>Jobs created by firms that access the MSME Financing Facility (Action: This Objective has been Marked for Deletion)</b>									
Jobs created by firms that access the MSME Financing Facility (Number)		0.00	0.00	650.00	1,100.00				1,400.00
<b>Action: This indicator has been Marked for Deletion</b>									
Of which % are for females (Percentage)		0.00	0.00	30.00	30.00				30.00
<b>Action: This indicator has been Marked for Deletion</b>									
Of which % sustainable jobs (Percentage)		0.00	0.00	30.00	30.00				30.00
<b>Action: This indicator has been Marked for Deletion</b>									



**Intermediate Results Indicators by Components**

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
<b>Component 1</b>									
Digital ID Authority established & operational (Yes/No)		No	No	No	Yes	Yes	Yes	Yes	Yes
<i>Action: This indicator has been Revised</i>									
CBS legal and institutional framework strengthened to enable CBS' capitalization (Text)	PBC 1	N.A	N.A	The CBS Board has (i) established an Audit Committee of the CBS Board and (ii) formulated a plan, with the external auditors, setting out actions to resolve the recurring audit qualification for FY19 and beyond	The CBS Board has (i) resolved outstanding recommendations (those contributing to financial statements qualification) and completed all outstanding external audits from prior years and (ii) established quarterly reporting to the Audit Committee on the execution of its audit plan, status of recommendations (including external audit	The CBS Board has approved, and the recipient's Cabinet has endorsed, the draft CBS Act Amendment Bill	The CBS Board, FGS MoF, and the recipient's Cabinet have approved a credible Capital Injection Plan (CIP)	The CBS Board, FGS MoF, and the recipient's Cabinet have approved a credible CIP	The CBS Board, FGS MoF, and the recipient's Cabinet have approved a credible CIP



Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
					recommendations), and key activities				
<b>Action: This indicator has been Revised</b>									
Activation of critical institutional systems within CBS to enable corresponding banking arrangements (Text)	PBC 2	N.A	N.A	The CBS ICT Directorate in consultation with user departments has issued a report approved by the CBS Governor, setting out the proof of concept, implementation road map, and timelines outlining all the scoped CBS systems (modules) earmarked for implementation at the FGS and FMS.	The CBS ICT Directorate in consultation with user departments has implemented 50 percent of the validated scope and the corresponding system functionalities (modules) have been fully activated and operationalized	The CBS ICT Directorate in consultation with user departments has implemented 75 percent of the validated scope and the corresponding system functionalities (modules) have been fully activated and operationalized	The CBS Governor has (i) established 2 additional active corresponding arrangements for the CBS and (ii) extended CBS operations to 3 out of the 5 FMS	The CBS Governor has (i) established 2 additional active corresponding arrangements for the CBS and (ii) extended CBS operations to 3 out of the 5 FMS	The CBS Governor has (i) established 2 additional active corresponding arrangements for the CBS and (ii) extended CBS operations to 3 out of the 5 FMS
<b>Action: This indicator has been Revised</b>									
Shared legal, strategic, policy and governance frameworks and standards adopted by key institutions supported (Number)		0.00	0.00	0.00	3.00	5.00	7.00	9.00	9.00
<b>Action: This indicator has been Revised</b>									



Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
Improved CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financial integrity and de-risking. (Text)	PBC 3	NA	NA	CBS has initiated its staffing reorganization scheme in accordance with HR guidelines.	CBS ICT Directorate in consultation with user departments and PFIs has operationalized regulations enabling eKYC protocols and two licensed PFIs have been connected to CVS by the CBS.	CBS senior management has approved examination reports for PFIs using RBS approaches covering ML/FT risks, and matters requiring immediate action (MRIAs) have been communicated to PFIs for implementation	CBS has published in the Financial Stability Report the non-confidential aggregate information on the nature and number of matters requiring immediate action (MRIAs) issued to all PFIs.	CBS has published in the Financial Stability Report the non-confidential aggregate information on the nature and number of matters requiring immediate action (MRIAs) issued to all PFIs	PFI customers with transaction accounts verified using Customer Verification System (CVS) enabling electronic KYC (eKYC) protocols 50 percent (proportion)
<b>Action: This indicator has been Revised</b>									
Financial sustainability plans prepared and submitted to MoF by each of the project supported institutions (Yes/No)		No	No	Yes	Yes				Yes
<b>Action: This indicator has been Marked for Deletion</b>									
<b>Component 2</b>									
Cumulative Value of MSME loans from the Retail PFIs (Million USD) (Number)		0.00	0.00	4.00	12.00	18.00	22.00	26.00	30.00





Indicator Name	PBC	Baseline	Intermediate Targets						End Target	
			1	2	3	4	5	6		
<i>Action: This indicator has been Revised</i>										
Of which % are disbursed to female owned businesses (Percentage)		0.00	0.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
<i>Action: This indicator has been Revised</i>										
Number of firms that receive BDS as part of the COVID-19 response support (Number)		0.00	0.00	0.00	50.00	100.00	150.00	225.00	300.00	
<i>Action: This indicator has been Revised</i>										
Percentage of MSME beneficiaries that are satisfied with PFI lending processes (Percentage)		0.00	0.00	0.00	50.00					85.00
<i>Action: This indicator has been Marked for Deletion</i>										
% of female owned MSMEs that are satisfied with services provided by PFIs. (Percentage)		0.00	0.00	0.00	70.00					90.00
<i>Action: This indicator has been Marked for Deletion</i>										
Volume of additional private capital mobilized		0.00	0.00	0.00	0.00	0.00	8.00	15.00	20.00	



Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
(including through the risk-sharing facility, lines of credit and additional DFI capital mobilized) (Million USD) (Amount(USD))									
<b>Action: This indicator has been Revised</b>									
Percent of FGS payments that are executed via interoperable inter-bank payment mechanism rather than cash. (Percentage)	0.00	0.00	25.00	75.00					100.00
<b>Action: This indicator has been Marked for Deletion</b>									
Digital ID system operational (Text)	N.A.	N.A.	N.A.	N.A.		Functional and technical specifications prepared and procurement for required hardware and software launched	All necessary hardware and software delivered, installed, and configured	ID system able to capture and securely transmit and store data for enrollment, issue unique ID numbers, and facilitate digital identity verification and authentication	ID system able to capture and securely transmit and store data for enrollment, issue unique ID numbers, and facilitate digital identity verification and authentication
<b>Action: This indicator has been Revised</b>									
Shared digital platforms introduced to enable	0.00	0.00	0.00	0.00	0.00	1.00	2.00	4.00	4.00



Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
remote and secure e-service expansion (Number)									
<b>Action: This indicator has been Revised</b>									
Prepared reports on feedback from beneficiary consultations regarding perspectives on identification and if/how this feedback has been integrated into the ID system's design and implementation (Yes/No)	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
<b>Action: This indicator has been Revised</b>									
PFI's receiving training/TA to develop new savings and lending product for women – cumulative (Number)	0.00	0.00	0.00	3.00	5.00	6.00	6.00	6.00	6.00
<b>Action: This indicator is New</b>									

**Monitoring & Evaluation Plan: PDO Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of people who have received their unique ID number	Number of people who have received their unique	Quarterly	PIU reports	Compilation of enrollment statistics,	PIU



	ID number or ID card using the new ID system			disaggregated by gender, provided from digital ID enrollment reports	
Of which (%) are female					
Number of unique transactional accounts opened using a digital Customer Verification System (CVS) to enable electronic KYC (eKYC) protocols	Number of people accessing FS linked to CVS/eKYC	Semi-annually	CBS/PIU reports		CBS/PIU
of which % are female owned transaction accounts					
Cumulative number of MSME loans disbursed from the Retail PFIs	Total number of loans that are financed by MSME Financing Facility via the PFIs (cumulative). Includes re-flows from microloans window for more loans.	Quarterly	PIU/Retail PFI reports	Compilation of data from Retail PFIs borrowers	PIU/Retail PFIs
Of which (%) are loans to women owned and managed businesses					
Number of firms that benefit from reformed business registration requirements	Total number of businesses registered with the e-registration services at MOCI	Quarterly	MOCI reports	Compilation of business registry data provided from MOCI business registration system	MOCI
Of which % are women owned firms					
Jobs created by firms that access the MSME Financing Facility		Semi-annually	Compilation of data from MSME Financing		PIU/MSME Financing Facility/PFIs



			Facility beneficiaries, and surveys of MSMEs.		
Of which % are for females					
Of which % sustainable jobs					

**Monitoring & Evaluation Plan: Intermediate Results Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Digital ID Authority established & operational	Legal framework governing the implementation of the digital ID body/system is passed by Parliament, assented to by the President, and effective. Digital ID authority providing services actively to clients	Semi-annually	PIU Reports		PIU
CBS legal and institutional framework strengthened to enable CBS' capitalization	CBS Act amendment bill package approved, submitted to parliament and Gazetted. CBS Capital Injection Plan (CIP) developed and adopted by both Board and MoF	Semi-annually	PIU/IVA Reports		PIU/IVA



Activation of critical institutional systems within CBS to enable corresponding banking arrangements	Activation of critical institutional systems to enable corresponding banking arrangements	Semi-annually	PIU/IVA Reports		PIU/IVA
Shared legal, strategic, policy and governance frameworks and standards adopted by key institutions supported	<p>Number of shared FGS legal, strategic, policy and governance frameworks adopted, cumulative, enabling remote and secure e-service expansion. Adopted refers to laws promulgated, policy and strategic frameworks consulted and published, which will subsequently shape implementation.</p> <p>Critical frameworks expected in FY22 include a shared legal framework for (i) data protection, (ii) cybersecurity, and (iii) e-transactions.</p> <p>Examples of others shared frameworks expected include: (iv) National Digital Inclusion Policy, (v) National e-Government Strategy, (vi) National Cyber Security Policy, (vii) Institutional and</p>	Annually	PIU Reports		PIU



	Governance Framework for Cybersecurity (viii) Cybersecurity Technical Architecture; (ix) Strategic Plan for the establishment of a Data Protection Office				
Improved CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financial integrity and de-risking.	Inter-agency coordination body established for coordination between CBS, FRC, and NCA, under an MOU covering policy formation and harmonization of policies.	Annually	Project implementation reports		PIU
Financial sustainability plans prepared and submitted to MoF by each of the project supported institutions		Annually	Compilation of data from the project-supported institutions.	Compilation of data from the project-supported institutions.	PIU
Cumulative Value of MSME loans from the Retail PFIs (Million USD)	Value of MSME loans (cumulative) from the Retail PFIs Financing Facility. Includes re-flows from microloans window.	Quarterly	PIU/Retail PFIs Reports	Compilation of data from Retail PFI borrowers	PIU/Retail PFIs
Of which % are disbursed to female owned businesses					
Number of firms that receive BDS as part of the COVID-19 response support	MSMEs receiving BDS services through PFIs	Semi-annually	PIU/MSME Financing Facility/PFIs Reports	Compilation of data from MSME Financing Facility	PIU/MSME Financing Facility





Percentage of MSME beneficiaries that are satisfied with PFI lending processes	<p>These indicators capture MSME satisfaction with quality of on-lending processes and services provided by PFIs.</p> <p>IBS Bank 90% are satisfied and 71% are female. Amal &amp; Premium bank has not done customer satisfaction survey on the lending processes, so it's difficult to estimate the satisfaction level of the MSME facility</p> <p>.</p>	Annually			PIU
% of female owned MSMEs that are satisfied with services provided by PFIs.					
Volume of additional private capital mobilized (including through the risk-sharing facility, lines of credit and additional DFI capital mobilized) (Million USD)	Volume of additional private capital mobilized (including through the risk-sharing facility, lines of credit and additional DFI capital mobilized)	Annually	PIU/MSME Financing Facility/PFIs Reports	Survey of PFIs	PIU/MSME Financing Facility/PFIs
Percent of FGS payments that are executed via interoperable inter-bank payment mechanism rather than cash.	<p>CBS is yet to update the status of this indicator.</p> <p>This indicator captures the</p>	Semi-annually		Reports with baseline and subsequent change in the use of cash as settlement instrument.	PIU/CBS/MOF/FIs



	change in the use of cash as settlement instrument towards interoperable inter-bank payment mechanism.				
Digital ID system operational	The necessary hardware and software for the digital ID system has been delivered, installed, configured and staff have been trained, and the system is able to facilitate the registration of individuals, biometric de-duplication, secure data storage and management, credential issuance, and digital identity verification and authentication by relying parties. At least 100 IDs should have been issued for the system to be considered operational.	Annually	PIU/ID authority Reports	Project implementation reports, Procurement documents, System technical documents, Acceptance Test reports and completion of training by staff	PIU/ID authority
Shared digital platforms introduced to enable remote and secure e-service expansion	Number of shared digital platforms introduced to enable remote and secure e-service expansion (e.g., CERT, , DP registry, shared data hosting)	Annually	PIU Reports		PIU
Prepared reports on feedback from beneficiary consultations regarding	This indicator would capture feedback from	Annually	PIU/ID authority	Compilation of beneficiary feedback	PIU/ID authority



perspectives on identification and if/ how this feedback has been integrated into the ID system’s design and implementation	beneficiaries and the actions taken based on the feedback to shape the ID system’s design and implementation		Reports	obtained through consultations with civil society organizations, community leaders, key informant interviews, or focus group discussions and related decisions taken	
PFI receiving training/TA to develop new savings and lending product for women – cumulative	PFI launch new savings and lending products for women, other under-served target groups	Annually	PIU/Retail PFI Reports	PIU/Retail FI	PIU/Retail PFI

**Performance-Based Conditions Matrix**

<b>PBC 1</b>	Strengthened governance and financial reporting of the CBS to enable capitalization			
<b>Type of PBC</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Intermediate Outcome	Yes	Text	3,500,000.00	0.00
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>
Baseline	N.A			



June, 2021	PBC 1.1: (a) The CBS Board has (i) established an Audit Committee of the CBS Board and (ii) formulated a plan, with the external auditors, setting out actions to resolve the recurring audit qualification for FY19 and beyond. (b) The CBS Governor has approved and caused to be audited and published the FY19 financial statements on the CBS website.	125,000.00	Please refer to the PBC Matrix in Annex II
December, 2021	PBC 1.2:(a) The CBS Board has (i) resolved outstanding recommendations (those contributing to financial statements qualification) and completed all outstanding external audits from prior years and (ii) established quarterly reporting to the Audit Committee on the execution of its audit plan, status of recommendations (including external audit recommendations), and key activities.(b) The CBS Governor has approved and caused to be audited and published the FY20 financial statements on the CBS website.	250,000.00	



June, 2022	PBC 1.3: (a) The CBS Board has approved, and the recipient’s Cabinet has endorsed, the draft CBS Act Amendment Bill to (i) remove the requirement for the MoF to issue directives to the CBS in exceptional circumstances, (ii) specify the CBS’ authorized capital share, (iii) include provisions on the authority and functions of the Audit Committee, and (iv) strengthen the provisions on external and internal audit procedures. (b) The CBS Board, FGS MoF, and the recipient’s Cabinet have approved a credible CIP. (c) The CBS Governor has approved and caused to be audited and published the FY21 financial statements on the CBS website.	750,000.00	
December, 2022	PBC 1.4: The Minister of Finance has submitted the draft CBS Act Amendment Bill to Parliament for approval.	625,000.00	
June, 2023	PBC 1.5: (a) The CBS Amendment Act has been published in the Government Gazette and enacted into law. (b) The FGS MoF has made an initial capitalization payment (nominal capital) to the CBS (in line with the approved CIP).	1,750,000.00	
<b>Action: This PBC is New</b>			

<b>PBC 2</b>	Activation of critical institutional systems within CBS to enable corresponding banking arrangements			
<b>Type of PBC</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Intermediate Outcome	Yes	Text	1,500,000.00	0.00
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>



Baseline	N.A			
June, 2021	Scoping of key ERP modules completed		125,000.00	Please refer to the PBC Matrix in Annex II
December, 2021	Seventy five percentage (75 percent) of ERP modules activated and operationalized		375,000.00	
June, 2022	At least four active corresponding banking arrangements		500,000.00	
December, 2022	At least four active corresponding banking arrangements		500,000.00	
June, 2023	At least four active corresponding banking arrangements		0.00	
<b>Action: This PBC is New</b>				
<b>PBC 3</b>	Improved CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financial integrity and de-risking			
<b>Type of PBC</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Outcome	Yes	Text	1,000,000.00	0.00
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>
Baseline	N.A			
June, 2021	PBC 3.1: CBS Board has approved the staffing reorganization scheme		200,000.00	Please refer to the PBC Matrix in Annex II
December, 2021	PBC 3.2: (a) CBS has initiated its staffing reorganization scheme in accordance with HR guidelines. (b) CBS Board has approved and operationalized the eKYC draft regulations and risk-based supervision (RBS) methodology of ML and FT risks in FIs.		200,000.00	



June, 2022	PBC 3.3: (a) CBS has fully implemented the staffing reorganization scheme and 50% of the CBS staff positions outlined in the staffing reorganization scheme have been recruited on merit and, in accordance with HR guidelines, are trained and actively providing services. (b) CBS ICT Directorate in consultation with user departments and PFIs has operationalized CVS enabling eKYC protocols and 2 licensed FIs have been connected by the CBS. (c) CBS senior management has approved examination reports completed by staff for 40% of the FIs examined using RBS approaches covering ML/FT risks, matters requiring immediate action have been communicated to FIs for implementation, and the CBS has published in the Financial Stability Report the nonconfidential aggregate information on the nature and number of matters requiring immediate action issued to all FIs.	450,000.00	
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December, 2022	PBC 3.4: (a) 100% of all the CBS staff positions outlined in the staffing reorganization scheme have been recruited on merit in accordance with HR guidelines, trained, and actively providing services. (b) CBS ICT Directorate in consultation with user departments and PFIs has verified 50% of customers with transaction accounts using CVS/eKYC. (c) CBS senior management has approved examination reports completed by staff for 50% of the FIs examined using RBS approaches covering ML/FT risks, and matters requiring immediate action have been communicated to FIs for implementation.	150,000.00	
June, 2023		0.00	
<b>Action: This PBC is New</b>			

**Verification Protocol Table: Performance-Based Conditions**

PBC 1	Strengthened governance and financial reporting of the CBS to enable capitalization				
Description	PBC 1.1 (a) (i) Signed Board minutes approving the establishment of the Audit Committee; (ii) Board approved TOR outlining roles and responsibilities of the Audit	PBC 1.2 (a) Duly filled and signed checklist of all the recommendations from the prior audits, actions taken addressing, and resolving the	PBC 1.3 (a) Draft CBS Act Amendment Bill approved by the CBS Board and endorsed by the FGS MoF specifically (i)	PBC 1.4 CBS Act Amendment Bill package submitted to the Parliament. The package shall include the CBS Bill,	PBC 1.5 (a) Gazetted CBS Amendment Act as enacted by Parliament  (b) Evidence of FGS





	<p>Committee, working arrangements, and scope; and (iii) minutes of the Audit Committee, and approved FY19 external audit time-bound action plan by the Board. All the supporting documentation must be provided for the PBC to be deemed met.</p> <p>(b) CBS approved FY19 financial statements prepared in line with the provisions of the IFRS and audited according to International Standards of Auditing and results published on the CBS website.</p>	<p>recommended actions by Chairperson of the Audit Committee. Quarterly audit progress report on audit recommendations in form and content as shall be prescribed in the POM. The audit progress report to the Audit Committee of the Board shall be dully approved by the CBS management (Governor). The verification evidence shall be CBS quarterly progress report, audit review checklist, and Board Audit Committee minutes reflecting the quarterly audit report deliberations and recommendations.</p> <p>(b) CBS approved FY19 financial statements prepared in line with the provisions of the IFRS and audited according to International Standards of Auditing and results</p>	<p>expunging the requirement for the Government to issue directives to the CBS, (ii) specifying central bank's share capital, (iii) including provisions on the authority and functions of the Audit Committee, and (iv) strengthening the provisions on external and internal audit. All items must be reflected in the act for the PBC to be deemed met.</p> <p>(b) The CBS Board, MoF, and evidence of cabinet approval memo of a credible CIP</p> <p>(c) CBS approved FY19 financial statements prepared in line with the provisions of the IFRS and audited according to International Standards of Auditing and results</p>	<p>CBS Board endorsement minutes, Cabinet endorsement memo, and letter forwarded by the minister to the Speaker of the Parliament and or Senate (as applicable)</p>	<p>(MoF) initial capitalization disbursement to the CBS and funds confirmation by the CBS</p>
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		published on the CBS website. Unclean/qualified audit opinion attracts a 30 percent reduction in the PBC allocation.	published on the CBS website. Unclean/qualified audit opinion attracts a 30 percent reduction in the PBC allocation.		
<b>Data source/ Agency</b>	<i>Central Bank of Somalia (CBS)</i>				
<b>Verification Entity</b>	<i>IVA working in close consultation with CBS IAD</i>				
<b>Procedure</b>	<i>IVA to obtain documentation, undertake assessment and verify data/results</i>				
<b>PBC 2</b>	Activation of critical institutional systems within CBS to enable corresponding banking arrangements				
<b>Description</b>	Activation of critical institutional systems to enable corresponding banking arrangements				
<b>Data source/ Agency</b>	<i>Central Bank of Somalia (CBS)</i>				
<b>Verification Entity</b>	<i>IVA working in close consultation with CBS IAD</i>				
<b>Procedure</b>	<i>IVA to obtain documentation, undertake assessment and verify data/results</i>				
<b>PBC 3</b>	Improved CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financial integrity and de-risking				
<b>Description</b>	PBC 3.1 The CBS has completed functional review of core	PBC 3.2 (a) CBS has initiated fitting existing staff in	PBC 3.3 (a) 50% of the CBS staff positions outlined in	PBC 3.4 (a) 100% of the CBS staff positions	



	<p>operational units to better allocate HR in core policy areas.</p>	<p>new organigram positions according to HR guidelines. Gaps to be filled through new recruitments identified according to HR guidelines</p> <p>(b) Stakeholder consultations on eKYC regulations undertaken and completed</p> <p>Draft eKYC regulations approved by the Board</p> <p>Approved RBS of ML/FT risks in FIs by the Board</p>	<p>the recruitment plan filled on merit according to HR guidelines</p> <p>(b) CVS/eKYC platform to be deemed 'operational' when at least two of the licensed FI connections have been tested and are functional</p> <p>(c) FI examination reports generated demonstrating use of RBS approaches covering ML/FT risks; examination reports completed by staff, endorsed by the CBS senior management include MRIAs communicated to the FI for implementation</p>	<p>outlined in the recruitment plan filled on merit according to HR guidelines</p> <p>(b) Customers with transaction accounts shall be deemed 'verified' when FI connections to the CVS/eKYC platform have been tested and are functional for FIs and customers</p> <p>(c) FI examination reports generated demonstrating use of RBS approaches covering ML/FT risks; examination reports completed by staff, endorsed by the CBS senior management include MRIAs communicated to the FI for</p>	
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				implementation
<b>Data source/ Agency</b>	<i>Central Bank of Somalia (CBS)</i>			
<b>Verification Entity</b>	<i>IVA working in close consultation with CBS IAD</i>			
<b>Procedure</b>	<i>IVA to obtain documentation, undertake assessment and verify data/results</i>			

## ANNEX I: CBS GOVERNANCE AND FINANCIAL INTEGRITY

1. **Central bank and financial integrity.** While the CBS systems and operational and oversight capacities have improved because of the continued support of international development partners (for example, World Bank, IMF, and United States Treasury) to boost central bank governance and improve FI supervision and examination,<sup>71</sup> several central bank and FI integrity issues still need to be solved. First, disruptions associated with the pandemic have shown that the CBS needs to mitigate overreliance on a few transmittal channels for ODA, through the diversification and extension of the UCS to FMS. Channeling of ODA through the CBS as a fiscal agent is also expected to contribute to further federal state formation by extending the UCS. Second, while the legal foundations for the CBS needed to underpin secure and stable transmittal channels are broadly in line with best practices, and its internal governance arrangements are developing adequately, the legal and regulatory framework for modern central banking remains to be fully operationalized. Although the CBS Act was enacted in 2012, it is dependent on the completion of other high-level reforms outlined in the CBS Strategic Plan (2020–2024). Third, the CBS needs to urgently operationalize key central banking functions that are critical to boosting financial sector integrity by (a) developing and maintaining a good working knowledge of the FIs being supervised and the sorts of risks they are assuming in selected areas (for example, corporate governance and corporate structure risk management) and (b) building trust and public confidence in central bank supervisory policies through financial and nonfinancial disclosures of risk in supervised FIs (for example, ML, FT risks).

### **Box 1.1. Customer Information Verification for Accessing and Using Financial Services Continues to Be a Barrier to Somali Financial Sector Development**

The connection of Somalia to the global financial system remains tenuous. This is partly because, while the compliance burden for FIs is growing steadily, requiring greater KYC/CDD scrutiny, several gaps in country systems tackling ML and FT risks remain (as highlighted in recent high-profile international reports). Existing KYC/CDD protocols are also based on manual processes, which are time-consuming, operationally demanding, expensive, inefficient, and unreliable. The CBS needs to strengthen the enforcement of supervisory actions on AML/CFT regulations covering KYC/CDD and suspicious transaction reporting, to guard against reputational and financial integrity risks in Somalia.

For this, the CBS will need to work alongside FIs to kick-start use of a digital CVS for the financial sector to enable use of eKYC protocols and help boost financial integrity. The CVS would need to be designed to promote visibility and enrich the integrity of customer information across all FIs regulated by the CBS and increase the efficiency and robustness of operating KYC/CDD protocols and establish a level of coherence that meets global standards for preventing and combating ML/FT risks. The CVS would also need to be interoperable with the foundational digital ID system as the latter is expected to serve as an authoritative source for the verification of customer identities. When implemented, this initiative would provide a pathway for unbanked Somalis to become banked using the CVS-enabled eKYC protocols. The screening of customer KYC/CDD information is also an important element in establishing a feasible pathway for the Somali financial system to reintegrate into the global banking system.

<sup>71</sup> SCORE and SCALED-UP supported CBS strengthen FI supervision and examination, banking operations, financial governance controls, and accounting using an integrated core banking and accounting technology solution called Financial Accounting Control and Transactions System (FACTS).

2. **CBS governance, risk management and compliance, and de-risking.** To boost central bank governance, the CBS established a new Board of Directors in March 2020, with representation and membership in line with international best practices, to guide future policy priorities. This Board comprises seven members—the Governor, the Deputy Governor, and five non-executive members. All members have been chosen to ensure that the Board has a good mix of skills (for example, economics, central banking, accounting, and financial management). While the CBS Act only requires the Board to meet six times a year (once every two months), in practice it has been holding monthly meetings to engage on, among others, the asset recovery process, licensing of FIs, regulation of mobile money services, and the currency exchange project. Additionally, as independent oversight of the audit mechanisms and budget controls needs strengthening, a new Audit Committee was established in April 2020. This committee has been vital in improving the quality of the CBS’ annual external audit and strengthening internal controls by engaging with departments on long outstanding internal and external audit recommendations. Additionally, with IMF’s support, the CBS has developed an audit charter aligned with international best practices to help audit functions focus on risk-based systems audits. Finally, activation of relevant modules of the core banking and ERP system already deployed under SCORE remain outstanding. These outstanding activities include enhancing the integration of the core banking system with the FGS Somalia Financial Management Information System, and the new national payment systems platforms STARS and SPS, to facilitate seamless transaction processing and transactions reporting to the OAG and the MoF.

3. **Central bank financial reporting.** As highlighted in several reviews by the World Bank and IMF, since 2014, the CBS has made progress toward adoption of the International Financial Reporting Standards (IFRS) as its foundational reporting framework. Despite this progress, several challenges have emerged including (a) significant departures relating to accounting for transactions, risk management, and other disclosures as outlined in the CBS annual financial statements and external audit management letters; (b) financial statements finalized with significant delays; (c) qualified audit opinions due to unreconciled historical balances; and (d) delays in resolving long outstanding audit queries including adoption of year-end closing procedures. The CBS will need to take time-bound operational and policy measures, to address these fiduciary issues as part of the AF.

4. **Capacity building and staff reorganization.** In the past three years, the number of employees at the CBS has grown progressively to 154 staff members as of March 2021. Nevertheless, most staff are deployed in the banking operations area and there is only limited managerial and technical skills in policy areas (for example, monetary and supervisory policies). Effectively, the key person risk in policy functions and core operations is high, and it remains critical that the CBS manages this risk and continues to build capacity in line with the planned reorganization of core central bank functions. In October 2019, the CBS Board of Directors approved this reorganization to shift the institution from a banker of the Government to a modern policy-oriented institution. Despite its inclusion in CBS’ strategic plan for 2020–2024, filling key vacancies in the proposed new structure has been challenging due to the lack of resources and low capacity. More specifically, while the CBS has developed and requested board approval for a reorganization strategy to shift the CBS toward policy orientation and sustainability of policy outcomes (for example, effective FI supervision and examination—particularly coverage of ML/TF risks), it is yet to develop a CIP to support this reorganization.



5. **Oversight by the Board of Directors and its sub-committees.** Independent oversight requires further strengthening, particularly on policy-orientated operations. The CBS will also need to take steps to mitigate gaps in supervisory practices and enforcement of supervisory actions on AML/CFT regulations. In this regard, the CBS will need to budget and allocate greater financial and human resources (for example, managerial, technical, and IT skills) toward policy-orientated operations critical to improving financial stability and integrity. This will involve the CBS (a) selecting staff on merit according to HR guidelines already developed with support of SCORE and SCALED-UP; (b) further streamlining governance and reporting arrangements; and (c) generating operational efficiencies following its own procedures and ERP tools for FM (for example, budgeting and budget controls embedded as ERP modules). This will help the CBS assemble a well-articulated CIP to mobilize capital on a significantly larger scale from contributing donors including the World Bank.<sup>72</sup> In addition, the CIP will need to demonstrate relevance and clear alignment to higher-level objectives on financial sector development (for example, FI supervision, mobile money and payment systems oversight, and KYC/CDD regulations) articulated in the financial sector road map, which integrates the process of defining and sequencing of World Bank/IMF support to financial sector reforms, drawing on the knowledge and development experience of MPF donors and countries in a similar situation as Somalia.

6. **To accelerate CBS reforms, the AF will support the CBS with both traditional IPF input-based financing and PBC outcome-linked financing.** The traditional IPF financing will be used to fund investments needed by the CBS to sustain the reform trajectory. Three PBCs will also be introduced under the AF and linked to key outcomes in identified key reform areas: (a) improvement of central bank governance and financial reporting to enable CBS capitalization; (b) activation of institutional systems to enable functional corresponding banking arrangements; and (c) improved CBS supervisory oversight, capacity building, and staff reorganization into a more effective structure to tackle financial integrity and de-risking. The proposed PBCs ensure that the AF is linked to policy changes or improved CBS institutional performance contributing to proper functioning of financial markets to accelerate financial inclusion while improving the integrity of markets and ensuring that high standards of corporate governance, risk management, and compliance safeguarding against illicit financial flows are met by FIs and the CBS. These reform outcomes are also important for building international trust in the CBS and FIs and for securing stable transmittal channels for public and private capital given the impact of COVID-19 pandemic on existing arrangements.

7. **The AF proposes PBCs that are designed to be scalable to allow proportionate disbursement in the case of partial achievement of performance benchmarks.** While a portion of the resources under sub-component 1.1. are to be channeled through traditional IPF financing, the bulk of these resources would be structured and disbursed conditionally upon achievement of PBCs. Disbursements under the PBC mechanism will be triggered by the documentation of eligible expenditures that have been incurred and evidence of achievement of reform actions or results. A certain amount of financing proceeds will be

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<sup>72</sup> Even though the amount of capital for the central bank is not prescribed under Part III of the CBS Act Law (no. 130 of April 22, 2012), the ownership of the entire paid-up capital of the central bank is vested in the MoF. The CBS Act stipulates that authorized capital of the CBS may be increased by such amounts as may be proposed by the board and approved by the MoF; Specifically, the CBS has developed capacity-building programs to support the transition to the new policy orientated structure. An indicative restructuring budget is estimated by CBS at US\$12 million over an initial two-year period.

allocated to each PBC, referred to as PBC price, which is the amount that the FGS/CBS can claim as reimbursement against the eligible expenditures if that PBC has been achieved and verified. Accordingly, for each period under consideration, the maximum amount eligible for disbursement will be equivalent to the price of the PBCs achieved. However, the amount to be disbursed under the PBCs will always be the lower of the eligible expenditures incurred or equal the amount allocated to achieved PBC targets. It is important for the FGS/CBS to ensure that sufficient quantum and qualifying expenditures have been incurred to justify withdrawal under the PBCs. Selected PBCs have been designed to be scalable to allow proportionate disbursement in the case of partial achievement. This allows for lower disbursement amounts when results are only partially achieved.<sup>73</sup> Payment for compliance with PBCs will be made as and when the PBCs are achieved with semiannual implementation progress reviews. The detailed PBCs and related financing allocations will be outlined in the POM.

8. **PBCs verification mechanism and protocols.** As part of the AF, the CBS will procure services of an independent verification agent (IVA) who will work in close consultation with CBS Internal Audit Department (IAD) to undertake the verification of the program expenditures and the proposed PBCs. Periodic independent reviews at least semiannually and verification of the program expenditures and PBCs will be undertaken to confirm the accomplishments of the PBCs and the applicable eligible expenditures and make necessary proposals for disbursements. Terms of Reference (TOR) for the Independent Verification Agent (IVA) will be agreed between the CBS and the World Bank. The CBS IAD will appoint and second staff to work alongside the IVA consultants. To build the capacity of the staff within the CBSIAD, the IVA experts are expected to work jointly with the seconded staff. The IVA experts and the appointed staff shall prepare the PBCs and eligible program expenditure verification report and submit them to the CBS management for review and approval. The verification will be extended to cover PBC verification, eligible expenditures quality and sufficiency reviews, PBC and eligible expenditures supporting evidence, and key risks and challenges affecting the PBCs and eligible expenditures. The approved reports shall be submitted to the World Bank through the PIU. As part of implementation support, the World Bank may, directly or through its appointed agents, undertake additional confirmation reviews. Where the eligible expenditures and achievement of a PBC cannot be verified, an amount equivalent to the price of that PBC will be withheld. This amount may be paid at any later date when such achievement is verified and confirmed. The CBS, as the implementing agency in charge of the PBCs, will provide evidence of eligible expenditure and achievement of their respective PBCs to the PIU using the prescribed reporting formats as shall be detailed in the POM. The CBS, in consultation with the PIU, will compile the information on the status of achievement of results (as provided by the responsible implementing agencies/departments). From time to time, a special meeting of the PSC, which will include implementing agencies, verification agents, World Bank, and participating development partners, will then review the report and resolve any outstanding/emerging issues. The detailed verification mechanisms, protocols, roles and responsibilities, and TORs will be outlined in the POM.

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<sup>73</sup> This is only applicable for PBCs with specific targets/outcomes.





**ANNEX II: PBC Matrix**

**Performance-Based Conditions and Allocated Amounts**

PBCs	Results <sup>74</sup>				
	June 2021	December 2021	June 2022	December 2022	June 2023
<p><b>PBC 1:</b></p> <p>Strengthened governance and financial reporting of the CBS to enable capitalization.</p>	<p>PBC 1.1:</p> <p>(a) The CBS Board has (i) established an Audit Committee of the CBS Board and (ii) formulated a plan, with the external auditors, setting out actions to resolve the recurring audit qualification for FY19 and beyond.</p> <p>(b) The CBS Governor has approved and caused to be audited and published the FY19 financial statements on the CBS website.</p>	<p>PBC 1.2:</p> <p>(a) The CBS Board has (i) resolved outstanding recommendations (those contributing to financial statements qualification) and completed all outstanding external audits from prior years and (ii) established quarterly reporting to the Audit Committee on the execution of its audit plan, status of recommendations (including external audit recommendations), and key activities.</p> <p>(b) The CBS Governor has approved and caused to be audited and published the FY20 financial statements on the CBS website.</p>	<p>PBC 1.3:</p> <p>(a) The CBS Board has approved, and the recipient’s Cabinet has endorsed, the draft CBS Act Amendment Bill to (i) remove the requirement for the MoF to issue directives to the CBS in exceptional circumstances, (ii) specify the CBS’ authorized capital share, (iii) include provisions on the authority and functions of the Audit Committee, and (iv) strengthen the provisions on external and internal audit procedures.</p>	<p>PBC 1.4:</p> <p>The Minister of Finance has submitted the draft CBS Act Amendment Bill to Parliament for approval.</p>	<p>PBC 1.5:</p> <p>(a) The CBS Amendment Act has been published in the Government Gazette and enacted into law.</p> <p>(b) The FGS MoF has made an initial capitalization payment (nominal capital) to the CBS (in line with the approved CIP).</p>

<sup>74</sup> The time frames indicated in this table are indicative and the achievement of PBCs is not time bound.



PBCs	Results <sup>74</sup>				
	June 2021	December 2021	June 2022	December 2022	June 2023
			(b) The CBS Board, FGS MoF, and the recipient’s Cabinet have approved a credible CIP.  (c) The CBS Governor has approved and caused to be audited and published the FY21 financial statements on the CBS website.		
<b>Allocated amount</b>	For PBC 1.1(a): SDR 43,750  For PBC 1.1 (b): SDR 43,750	For PBC 1.2(a): SDR 87,500  For PBC 1.2 (b): SDR 87,500 if the FY20 financial statements published on the CBS website include a clean or unqualified audit  or  SDR 61,250 if the FY20 financial statements published on the CBS website include an unclear or qualified audit.	For PBC 1.3(a): SDR 175,000  For PBC1.3 (b): SDR 175,000  For PBC 1.3(c): SDR 175,000 if the FY21 financial statements published on the CBS website include a clean or unqualified audit  or  SDR 122,500 if the FY21 financial statements published on the CBS website	For PBC 1.4: SDR 437,500	For PBC 1.5(a): SDR 350,000  For PBC 1.5(b): SDR 875,000



PBCs	Results <sup>74</sup>				
	June 2021	December 2021	June 2022	December 2022	June 2023
			include an unclear or qualified audit.		
<p><b>PBC 2:</b></p> <p>Activation of critical institutional systems within CBS to enable corresponding banking arrangements.</p>	<p><b>PBC 2.1:</b></p> <p>The CBS ICT Directorate in consultation with user departments has issued a report, approved by the CBS Governor, setting out the proof of concept, implementation road map, and timelines outlining all the scoped CBS systems (modules) earmarked for implementation at the FGS and FMS.</p>	<p><b>PBC 2.2:</b></p> <p>The CBS ICT Directorate in consultation with user departments has implemented 50 percent of the validated scope and the corresponding system functionalities (modules) have been fully activated and operationalized.</p>	<p><b>PBC 2.3:</b></p> <p>(a) The CBS ICT Directorate in consultation with user departments has (i) implemented 75 percent of the validated scope and the corresponding system functionalities (modules) have been fully activated and operationalized and (ii) extended CBS operations to 2 out of the 5 FMS.</p> <p>(b) The CBS Governor has (i) established 2 additional active corresponding arrangements for the CBS and (ii) extended CBS operations to 3 out of the 5 FMS.</p>	<p><b>PBC 2.4:</b></p> <p>(a) The CBS ICT Directorate has (i) implemented 100 percent of the validated scope, with the corresponding system functionalities (modules) having been fully activated and operationalized, and (ii) extended CBS operations to more than 50 percent of the FMS.</p> <p>(b) The CBS Governor has established 3 additional active corresponding banking arrangements and CBS operations are sustained across 4 out of the 5 FMS.</p>	
<b>Allocated amount</b>	SDR 87,500	SDR 157,500 if at least 30 percent of the validated scope has been	For PBC 2.3(a): SDR 105,000 if at least 75 percent of the	For PBC 2.4(a): SDR 175,000	



PBCs	Results <sup>74</sup>				
	June 2021	December 2021	June 2022	December 2022	June 2023
		implemented and the corresponding system functionalities (modules) have been fully activated and operationalized, and SDR 52,500 for each additional 10 percent up to a maximum of SDR 262,500.	validated scope has been implemented, and the corresponding system functionalities (modules) have been fully activated and operationalized, and CBS operations extended to 2 out of the 5 FMS, and SDR 52,500 for each additional 10 percent of the validated scope which has been implemented, and the corresponding system functionalities (modules) have been fully activated and operationalized, and SDR 17,500 for CBS operations extended to each additional FMS up to a maximum of SDR 175,000.  For PBC 2.3(b): SDR 70,000 for the first additional and active corresponding arrangement	For PBC 2.4(b): SDR 175,000	



PBCs	Results <sup>74</sup>				
	June 2021	December 2021	June 2022	December 2022	June 2023
			established, and for CBS operations extended to two FMS, and SDR 52,500 for each additional corresponding banking arrangement established up to a maximum of SDR 175,000.		
<p><b>PBC 3:</b></p> <p>Improved CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financial integrity and de-risking.</p>	<p>PBC 3.1:</p> <p>CBS Board has approved the staffing reorganization scheme.</p>	<p>PBC 3.2:</p> <p>(a) CBS has initiated its staffing reorganization scheme in accordance with HR guidelines.</p> <p>(b) CBS Board has approved and operationalized the eKYC draft regulations and risk-based supervision (RBS) methodology of ML and FT risks in FIs.</p>	<p>PBC 3.3:</p> <p>(a) CBS has fully implemented the staffing reorganization scheme and 50 percent of the CBS staff positions outlined in the staffing reorganization scheme have been recruited on merit and, in accordance with HR guidelines, are trained and actively providing services.</p> <p>(b) CBS ICT Directorate in consultation with user departments and PFIs has</p>	<p>PBC 3.4:</p> <p>(a) 100 percent of all the CBS staff positions outlined in the staffing reorganization scheme have been recruited on merit in accordance with HR guidelines, trained, and actively providing services.</p> <p>(b) CBS ICT Directorate in consultation with user departments and PFIs has verified 50 percent of customers with transaction accounts using CVS/eKYC.</p>	



PBCs	Results <sup>74</sup>				
	June 2021	December 2021	June 2022	December 2022	June 2023
			operationalized CVS enabling eKYC protocols and 2 licensed FIs have been connected by the CBS.  (c) CBS senior management has approved examination reports completed by staff for 40 percent of the FIs examined using RBS approaches covering ML/FT risks, matters requiring immediate action have been communicated to FIs for implementation, and the CBS has published in the Financial Stability Report the nonconfidential aggregate information on the nature and number of matters requiring immediate action issued to all FIs.	(c) CBS senior management has approved examination reports completed by staff for 50 percent of the FIs examined using RBS approaches covering ML/FT risks, and matters requiring immediate action have been communicated to FIs for implementation.	
<b>Allocated amount</b>	SDR 145,000	For PBC 3.2(a): SDR 70,000 For PBC 3.2(b): SDR 70,000	For PBC 3.3(a): SDR 35,000	For PBC 3.4(a): SDR 17,500	



PBCs	Results <sup>74</sup>				
	June 2021	December 2021	June 2022	December 2022	June 2023
			For PBC 3.3(b): SDR 205,000  For PBC 3.3(c): SDR 70,000	For PBC 3.4(b): SDR 70,000 if 50 percent of customers with transaction accounts using CVS/eKYC have been verified and SDR 7,000 for every incremental 10 percent of customers verified.  For PBC 3.4(c): SDR 17,500 if examination reports completed by staff are approved for 50 percent of the FIs and SDR 3,500 for every incremental 10 percent of examination reports approved.	

*Note:* CBS staffing reorganization scheme including the CIP will have due regard to rightsizing of personnel and non-personnel expenses to ensure consolidation of the CBS fiscal position and sustainability of reorganization interventions.

**Verification Protocol Table: PBCs**

PBCs	Description or Definition of Achievement				
<b>PBC 1:</b> Strengthened CBS governance and financial reporting to	PBC 1.1	PBC 1.2	PBC 1.3	PBC 1.4	PBC 1.5
	(a) (i) Signed Board minutes approving the establishment	(a) Duly filled and signed checklist of all the	(a) Draft CBS Act Amendment Bill	CBS Act Amendment Bill	(a) Gazetted CBS Amendment Act as



PBCs	Description or Definition of Achievement				
<p>enable central bank capitalization</p> <p><b>Scalability:</b> Yes</p>	<p>of the Audit Committee; (ii) Board approved TOR outlining roles and responsibilities of the Audit Committee, working arrangements, and scope; and (iii) minutes of the Audit Committee, and approved FY19 external audit time-bound action plan by the Board. All the supporting documentation must be provided for the PBC to be deemed met.</p> <p>(b) CBS approved FY19 financial statements prepared in line with the provisions of the IFRS and audited according to International Standards of Auditing and results published on the CBS website.</p>	<p>recommendations from the prior audits, actions taken addressing, and resolving the recommended actions by Chairperson of the Audit Committee. Quarterly audit progress report on audit recommendations in form and content as shall be prescribed in the POM. The audit progress report to the Audit Committee of the Board shall be dully approved by the CBS management (Governor). The verification evidence shall be CBS quarterly progress report, audit review checklist, and Board Audit Committee minutes reflecting the quarterly audit report deliberations and recommendations.</p> <p>(b) CBS approved FY19 financial statements prepared in line with the provisions of the IFRS and audited according to International Standards</p>	<p>approved by the CBS Board and endorsed by the FGS MoF specifically (i) expunging the requirement for the Government to issue directives to the CBS, (ii) specifying central bank's share capital, (iii) including provisions on the authority and functions of the Audit Committee, and (iv) strengthening the provisions on external and internal audit. All items must be reflected in the act for the PBC to be deemed met.</p> <p>(b) The CBS Board, MoF, and evidence of cabinet approval memo of a credible CIP.</p> <p>(c) CBS approved FY19 financial statements prepared in line with the provisions of the IFRS and audited according to</p>	<p>package submitted to the Parliament. The package shall include the CBS Bill, CBS Board endorsement minutes, Cabinet endorsement memo, and letter forwarded by the minister to the Speaker of the Parliament and or Senate (as applicable)</p>	<p>enacted by Parliament</p> <p>(b) Evidence of FGS (MoF) initial capitalization disbursement to the CBS and funds confirmation by the CBS</p>





PBCs	Description or Definition of Achievement				
		of Auditing and results published on the CBS website. Unclean/qualified audit opinion attracts a 30 percent reduction in the PBC allocation.	International Standards of Auditing and results published on the CBS website. Unclean/qualified audit opinion attracts a 30 percent reduction in the PBC allocation.		
<b>Protocol to evaluate achievement of the PBC and data/result</b> <b>Data source/agency:</b> CBS <b>Verification entity:</b> IVA working in close consultation with CBS IAD <b>Procedure:</b> IVA to obtain documentation, undertake assessment, and verify data/results					
<b>PBC 2:</b> Operationalization of institutional systems to enable functional corresponding banking arrangements.  <b>Scalability:</b> Yes	<b>PBC 2.1</b> Proof of concept, implementation road map, and timelines outlining all the baseline scoped CBS systems (modules) earmarked for implementation in the next 18–24 months (implementation road map). The scoping report will detail ERP modules to be implemented at the CBS HQ and FMS branches and implementation timelines. All items must be included in the plan for the PBC to be deemed to have been met. The baseline scoping report shall be submitted to the	<b>PBC 2.2</b> Evidence of 50 percent of the validated scope implemented and systems functionalities (modules) fully activated and operationalized. Partial achievement attracts reduction of the PBC allocation on an equal prorated basis. Verification evidence shall be (i) signed user acceptance testing report signed by the authorized head(s) of department for the implemented modules (all functionalities) and (ii)	<b>PBC 2.3</b> (a) 75 percent of all the scoped implemented and systems functionalities (modules) fully activated and operationalized and the CBS operations extended to at least 2 of the 5 FMS. Partial achievement attracts reduction of the PBC allocation on an equal prorated basis.  (b) At least two active corresponding banking arrangements	<b>PBC 2.4</b> (a) 100 percent of all the scoped implemented and systems functionalities (modules) fully activated and operationalized and the CBS operations extended to more than 2 of the 5 FMS. Partial achievement attracts reduction of the PBC allocation on a prorated basis.  (b) At least three active	



PBCs	Description or Definition of Achievement				
	World Bank for review, clearance, and 'no objection'. Verification evidence will be (i) baselines scoping report detailing implementation road map (modules, timelines, resource requirements) approved by CBS management (Governor) and (ii) World Bank 'no objection'	IVA structural walkthrough review confirmation that the modules are functional as defined in the systems specification requirements.	established, and the CBS operations extended to three of the 5 FMS. Partial achievement attracts reduction of the PBC allocation on an equal prorated basis. Verification evidence shall be (i) user acceptance testing report signed by the authorized head(s) of department for the implemented modules (all functionalities) and (ii) IVA structural walkthrough review confirmation that the modules are functional as defined in the systems specification requirements, (iii) formal communication between CBS and corresponding banks confirming existence of corresponding banking arrangements, and (iv) evidence that the corresponding channels are not inactive for	corresponding banking arrangements established, and the CBS operations extended to 4 out of the 5 FMS. Partial achievement attracts reduction of the PBC allocation on a prorated equal basis. Verification evidence shall be (i) user acceptance testing report signed by the authorized head(s) of department for the implemented modules (all functionalities), (ii) IVA structural walkthrough review confirmation that the modules are functional as defined in the systems specification requirements, (iii) formal communication	



PBCs	Description or Definition of Achievement				
			more than 3 months (evidence of corresponding transactions within 3 months).	between the CBS and corresponding banks confirming existence of corresponding banking arrangements, and (iv) evidence that the corresponding channels are not inactive for more than 3 months (evidence of corresponding transactions within 3 months).	
<p><b>Protocol to evaluate achievement of the PBC and data/result</b>  <b>Data source/Agency:</b> CBS  <b>Verification Entity:</b> IVA working in close consultation with CBS IAD  <b>Procedure:</b> IVA to obtain documentation, undertake assessment, and verify data/results</p>					
<p><b>PBC 3:</b> Improved CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financial integrity and de-risking.</p> <p><b>Scalability:</b> Yes</p>	<p>PBC 3.1</p> <p>The CBS has completed functional review of core operational units to better allocate HR in core policy areas.</p>	<p>PBC 3.2</p> <p>(a) CBS has initiated fitting existing staff in new organigram positions according to HR guidelines. Gaps to be filled through new recruitments identified according to HR guidelines.</p>	<p>PBC 3.3</p> <p>(a) 50 percent of the CBS staff positions outlined in the recruitment plan filled on merit according to HR guidelines.</p> <p>(b) CVS/eKYC platform to be deemed 'operational' when at</p>	<p>PBC 3.4</p> <p>(a) 100 percent of the CBS staff positions outlined in the recruitment plan filled on merit according to HR guidelines.</p> <p>(b) Customers with transaction</p>	



PBCs	Description or Definition of Achievement			
	<p>(b) Stakeholder consultations on eKYC regulations undertaken and completed.</p> <p>Draft eKYC regulations approved by the Board.</p> <p>Approved RBS of ML/FT risks in FIs by the Board.</p>	<p>least two of the licensed FI connections have been tested and are functional.</p> <p>(c) FI examination reports generated demonstrating use of RBS approaches covering ML/FT risks; examination reports completed by staff, endorsed by the CBS senior management include Matters Requiring Immediate Action (MRIAs)<sup>75</sup> communicated to the FI for implementation.</p>	<p>accounts shall be deemed 'verified' when FI connections to the CVS/eKYC platform have been tested and are functional for FIs and customers.</p> <p>(c) FI examination reports generated demonstrating use of RBS approaches covering ML/FT risks; examination reports completed by staff, endorsed by the CBS senior management include (MRIAs communicated to the FI for implementation.</p>	
<p><b>Protocol to evaluate achievement of the PBC and data/result</b>  <b>Data source/agency:</b> CBS  <b>Verification entity:</b> IVA working in close consultation with CBS IAD</p>				

<sup>75</sup> MRIAs shall cover FI practices that deviate from sound governance, internal control, and risks management principles and have the potential to adversely affect financial integrity if not addressed; matters that represent significant noncompliance with laws and regulations such as submission of suspicious transaction reports or conditions imposed by the CBS in writing; and repeat criticisms that have received little to no attention by the FI management or board of directors. The MRIA will discuss the significance of the matter at hand and the specific issue that needs attention and identify measurable action to be taken and the benefits and consequences of acting or not acting by the FI as well as the response by the FI and the timelines for implementation. These will be defined in the RBS approach approved by the board and reflected in the comprehensive manual.



PBCs	Description or Definition of Achievement
	<b>Procedure:</b> IVA to obtain documentation, undertake assessment, and verify data/results

*Note:* CBS staffing reorganization scheme including the CIP will have due regard to rightsizing of personnel and non-personnel expenses to ensure consolidation of the CBS fiscal position and sustainability of reorganization interventions.



**ANNEX III: SUMMARY OF THE CBS PROGRAM**

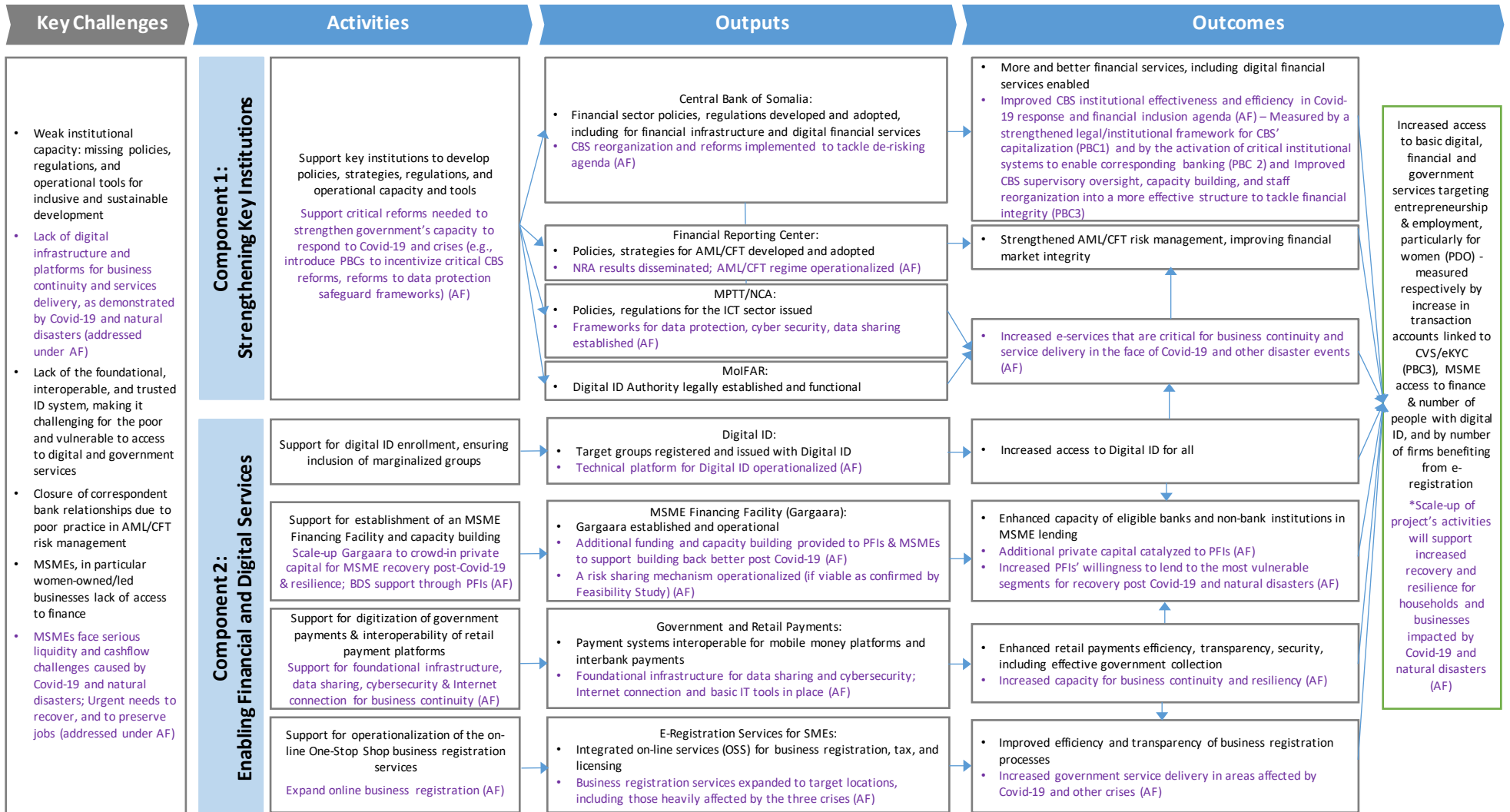
Cost Components	Support Description	Activity	Program Costs (\$US)	IPF Input-Based Financing <sup>b</sup>	PBC-Based Financing <sup>c</sup>		PBC Results Contribution
				(Procurable)	(Procurable)	(Non-procurable)	
<b>CBS core restructuring priorities</b>	Priority areas	Severance package <sup>a</sup>	—	—	—	—	PBC 1, 3
		Physical work environment	400,000	—	—	400,000	
		Transitional plan secretariate	240,000	—	—	240,000	
		Quality management program expert	192,000	192,000	—	—	
		Legal expert	192,000	192,000	—	—	
		Risk management expert	192,000	192,000	—	—	
		Communications expert	192,000	192,000	—	—	
<b>Human capital</b>	Hiring	New Qualified staff	1,137,600	—	—	1,137,600	PBC 1, 2, 3
		Expert consultants	2,184,000	1,198,000	986,000	—	
	Capacity building	Skills development/certifications	1,344,000	—	—	1,344,000	
		Leadership training	790,000	—	—	790,000	
		Study visits	1,398,000	—	—	1,398,000	
<b>Infrastructure upgrades</b>	IT/systems infrastructure	IT/systems infrastructure	1,060,000	1060000	—	—	PBC 2, 3
	Software/applications	Software/applications	706,000	706000	—	—	
	Physical (desktops/laptops)	Physical (desktops/laptops)	268,000	268000	—	—	
<b>Development of policies and procedures</b>	Development upgrade	Policies, procedures, manuals, translation costs	746,000	—	—	746,000	PBC 1, 2, 3
<b>TOTAL</b>			<b>11,041,600</b>	<b>4,000,000</b>	<b>986,000</b>	<b>6,055,600</b>	

Note: a. Voluntary severance scheme package = US\$1,012,464 (removed from the original program). The CBS will work alongside the World Bank task team to complete the safeguards assessment of the package to ensure feasibility of support under the AF project. Once the feasibility has been determined, restructuring of the project will be undertaken further down the line to fit the voluntary severance scheme package in the expenditure framework.

b. US\$4.0 million of the procurable items are proposed to be covered by traditional IPF input-based financing.

c. US\$6.0 million of items are proposed to be covered by PBC-based financing.

**ANNEX IV: THEORY OF CHANGE**



## ANNEX V: CHANGES TO THE RESULTS FRAMEWORK

1. **For all indicators, the target date is revised to December 31, 2025, to reflect the new project closing date.** As a result, yearly targets have been revised. Specific PDO and intermediate indicators have also been modified in the following ways to (a) reflect the scale-up of project activities (for example, introduction of PBCs and scale-up of Gargaara and digital ID activities) and (b) streamline and strengthen the alignment of indicators with the provision of relief support for COVID-19 recovery:

Action	Indicator	Baseline	End Target	Rationale
<b>PDO-level indicators</b>				
Adjust targets	Number of people who have received their unique ID number (Number)	0	3 million	Annual targets are adjusted because there has been a slower than expected delivery of the technical infrastructure for the rollout of the digital ID system. The provision of unique ID numbers is postponed until after the successful introduction of infrastructure and platforms that enable the delivery of this service. Once this introduction happens, the AF and the 30-month extension of the project present an opportunity to build a digital platform that can support a substantial scale-up of the parent project's target related to the number of people who receive their unique ID number during the project duration. The end target is revised accordingly.
Add	Number of unique transactional accounts opened using a digital Customer Verification System (CVS) to enable electronic KYC (eKYC) protocols (Number)	0	1 million	The AF supports investments related to CBS setting up a CVS to enable eKYC protocols in the financial services sector, which is critical to scaling up ownership of basic transaction accounts. The eKYC systems will be linked to the digital ID system once the latter becomes operational.
Remove	Number of people accessing financial services using their digital ID (Number)	0	900,000	This indicator was replaced by the indicator above, due to the introduction of the CVS system, which enables a more robust KYC process for account opening that relies on multiple potential sources and identity verification mechanisms, including those enabled by the digital ID system.
Revise end target	Number of firms that benefit from reformed	0	5,000	The AF and the 30-month extension of the project present an opportunity for the MoCI to expand the outreach of the



Action	Indicator	Baseline	End Target	Rationale
	business registration requirements (Number)			online BRS beyond Mogadishu to other FMS and scale up the number of businesses registering.
Remove	Value of MSME loans from the MSME Financing Facility (US\$)	0	16.2 million	Moved to intermediate-level indicators and replaced by an indicator that measures the number of loans, to better capture increased access to financial services.
Add and adjust targets	Cumulative number of MSME loans disbursed from the Retail PFIs (Number)	0	5,500	The AF and the 30-month extension of the project present an opportunity for Gargaara to substantially scale up the parent project's target related to the number of MSME loans disbursed by retail PFIs during the project duration. This was an intermediate indicator under component 2 of the parent project. Moved to PDO level to replace the indicator above, to better capture increased access to financial services.
Remove	Jobs created by firms that access the MSME Financing Facility (Number)	0	1,400	Indicator is removed because there are challenges to attribute the jobs impacts to the AF project, especially in the COVID-19 context. However, the indicator will remain in the extended Gargaara RF that includes indicators beyond those reflected in SCALED-UP AF. The task team will also work alongside Gargaara and MPF donors to update Gargaara's log frames, given the impacts of COVID-19 and the provision of relief support.
<b>Intermediate indicators for Component 1</b>				
Remove	Semi-annual reports produced by NCA on a number of license applications processed for communications service providers (Yes/No)	No	Yes	The indicator is removed to streamline the RF with focus on the provision of relief support for COVID-19 recovery. Additionally, the indicator's relevance has diminished as the NCA has already rolled out the first wave of license issuances under the parent project.
Remove	The FRC publishes quarterly statistics in their website on STRs <sup>76</sup> received and reports disseminated to LEAs (Yes/No)	No	Yes	The indicator is removed to strengthen alignment of the RF with the AF and provision of incentives to deepen financial sector reforms and introduction of PBCs that integrate STR generation, risk-based FI examination, and follow-on actions.

<sup>76</sup> STR = Suspicious transaction report.

Action	Indicator	Baseline	End Target	Rationale
Remove	Semi-annual reports produced by CBS on number of FI examinations and cases of supervisory actions using regulatory technology solution. (Yes/No)	No	Yes	Same as above
Remove	Inter-agency coordination body established for coordination between the CBS, FRC, and NCA, under an MOU (Yes/No)	No	Yes	Same as above
Remove	Financial sustainability plans prepared and submitted to MoF by each of the project supported institutions (Yes/No)	No	Yes	Same as above
Add	CBS legal and institutional framework strengthened to enable CBS' capitalization	n.a.	Added Contribution to CBS' Capital Injection Program	CBS' capitalization is a critical step toward the delivery of digital financial and Government services. This indicator is linked to PBC 1.
Add	Activation of critical institutional systems to enable corresponding banking arrangements	n.a.	At least four active corresponding banking arrangements	Activation of corresponding banking arrangements is a critical step toward the delivery of digital and financial Government services. This indicator is linked to PBC 2.
Add	Improved CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financial integrity and de-risking.	n.a.	Improved CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financial integrity and de-risking.	It is critical to facilitate financial integrity and de-risking. This indicator is linked to PBC 3.
Add	Shared legal, strategic, policy and governance frameworks and standards adopted by key institutions supported (Number)	0	9	The adoption of shared FGS legal, strategic, policy, and governance frameworks and standards by key institutions is critical for the delivery of digital financial and Government services targeting entrepreneurship and employment.

Action	Indicator	Baseline	End Target	Rationale
<b>Intermediate indicators for Component 2</b>				
Remove	Total accumulated number of MSME loans disbursed from Retail PFIs (Number)	0	30	The indicator is moved to become a PDO-level indicator.
Add and adjust targets	Cumulative Value of MSME loans from the Retail PFIs (US\$, millions)	0	30	AF and the 30-month extension of the project present an opportunity for Gargaara to substantially scale up the parent project's target related to the value of MSME loans disbursed by retail PFIs during the project duration. This was a PDO-level indicator under the parent project.
Add	PFIs receiving training/TA to develop new savings and lending products for women – cumulative (Number)	0	6	A more policy-oriented indicator on provision of digital financial services targeting women was necessary to strengthen the alignment of indicators with the PDO.
Remove	Target quotas for lending to women introduced by the PFIs of the MSME Financing Facility (Yes/No)	No	Yes	This indicator was replaced by the indicator above, as a more policy-oriented indicator on provision of digital financial services targeting women was necessary.
Remove	Percentage of MSME beneficiaries that are satisfied with PFI lending processes (Percentage)	0	85	Indicator is removed to streamline the number of Gargaara-related indicators, and given the new citizen engagement indicator introduced in the RF. The indicator will remain in the extended Gargaara RF tracked outside SCALED-UP's RF.
Adjust targets	Volume of additional private capital mobilized (including through the risk-sharing facility, lines of credit and additional DFI capital mobilized) (US\$, millions)	0	20	Targets are adjusted to reflect the AF's scale-up of Gargaara's financing windows.
Add	Shared digital platforms introduced to enable remote and secure e-service expansion (Number)	0	3	Indicator is added to capture the scale-up of e-services enablers that are critical to deliver basic digital financial and government services targeting entrepreneurship and employment.
Remove	Percent of Somali citizens satisfied with quality of service on digital ID enrollment (Percentage)	0	85	Indicator is removed to avoid duplication with the new strengthened citizen engagement indicator, which promotes engagement with beneficiaries starting from the planning phase and throughout implementation.

Action	Indicator	Baseline	End Target	Rationale
Remove	Percentage of Non-Performing Loans among PFIs (Percentage)	25	10	Indicator is removed to streamline the number of Gargaara-related indicators and given the difficulty of measuring nonperforming loan progress in a COVID-19 recovery context. The indicator will remain in the extended Gargaara RF tracked outside the SCALED-UP RF.
Remove	Percentage of grievances for the MSME Financing Facility addressed by the Project (Percentage)	0	100	Indicator is removed to streamline the number of Gargaara-related indicators, and given the new citizen engagement indicator introduced in the RF. The indicator will remain in the extended Gargaara RF tracked outside SCALED-UP's RF.
Add	Number of firms that receive BDS as part of the COVID-19 response support (Number)	0	300	Indicator is created to reflect the AF's scale-up of project activities related to COVID-19 recovery (for example, BDS services).
Add	Digital ID system operational	n.a.	ID system able to capture and securely transmit and store data for enrollment, issue unique ID numbers, and facilitate digital identity verification and authentication	Indicator is created to identify the degree of progression on the software and hardware components that underpin the operationalization of the digital ID system and to strengthen the alignment of indicators with the PDO.
Add	Prepared reports on feedback from beneficiary consultations regarding perspectives on identification and if/how this feedback has been integrated into the ID system's design and implementation (Yes/No)	No	Yes	Indicator is created to measure citizen engagement and to strengthen the alignment of indicators with the PDO.

## ANNEX VI: CLIMATE CO-BENEFITS

### A. Climate Vulnerability Context

1. **Somalia is highly vulnerable to climate change, as exhibited by its repeated exposure to climate shocks (predominately droughts and floods) that adds to burden of the ongoing COVID-19 health pandemic.**<sup>77</sup> Somalia's current climate is hot and dry, with uneven rainfall and regular droughts, resulting in frequent flash flooding. The project has been screened for climate change, and a number of climate-related risks were identified through the process. Somalia has high vulnerability to several natural hazards, including droughts, floods, cyclones, and climate-related diseases and epidemics. The mean annual temperature in Somalia is projected to increase by 2.2–5.7°C by the end of the twenty-first century, with the duration of annual heat waves increasing over time. Somalia has been repeatedly affected by persistent multiyear droughts, which have severe cross-cutting impacts on food security and growth of productive sectors. For example, at its peak, the 2016–2018 drought affected more than half the Somali population—about 6.7 million—leaving them in urgent need of humanitarian assistance and about 3.2 million on the verge of famine. Data suggest that this climatic trend shows no sign of abating. Droughts are projected to increase in frequency, with detrimental impacts on land degradation, desertification, and the depletion of water resources, as well as key assets and livestock—where the latter continue to be the mainstay of Somalia's economy, alongside agriculture.<sup>78</sup> This sector is also identified as the main source of current emissions, which means that investment in a new sector can help boost resilience. Meanwhile, the FGS continues to face an uphill challenge in mounting a large enough response to related shocks—for example, meeting needs for scaling services provision. As rainfall is predicted to become more erratic, the risk of flash floods is also set to increase. Parts of southern Somalia, especially along the Juba and the Shabelle River basins, are deemed to be particularly prone to frequent flash floods. Many urban areas are also exposed to a high risk to flooding, particularly in Mudud, Hiraan, and Gedo. Somalia is also vulnerable to sea level rise, given its long coastline measuring just over 3,300 km. About 55 percent of the Somali population live along this coastline, which would be hit in the event of sea level rise, which is now estimated to be +8 to +39 cm, compared to 1990 levels.

2. **Somalia National Adaptation Program of Action (NAPA)** identifies three major programmatic areas: (a) sustainable land management to protect forests and improve land use; (b) water resources management to develop a national water resources management plan, and (c) disaster management to strengthen the disaster management agency. NAPA serves as a policy guideline for climate change adaptation to anticipated impacts of climate change on socioeconomic development. Somalia also ratified the Paris Agreement on April 22, 2016.<sup>79</sup> Through the updated nationally determined contribution, Somalia has set a target of 30 percent emissions reductions against the business as usual (BAU) scenario by 2030. To achieve this target, Somalia has to reduce its greenhouse gas (GHG) emissions by about 60 MtCO<sub>2</sub>e relative to the BAU scenario by 2030.

<sup>77</sup> <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Somalia%20First/Somalia%27s%20INDCs.pdf>

<sup>78</sup> [https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/91826345\\_Somalia-NC1-1-Somalia%20Final%20%20FNC%20Final.pdf](https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/91826345_Somalia-NC1-1-Somalia%20Final%20%20FNC%20Final.pdf)

<sup>79</sup> Ibid.

## B. Plan for Addressing Climate vulnerability

### 3. The project is expected to contribute to Somalia’s voluntary GHG emission reduction target and support climate adaption and mitigation through:

- (a) Strengthening core FGS institutions’ capacity to promote use of climate-resilient technologies as part of their policy and regulatory frameworks and its own IT infrastructure rollou.
- (b) Boosting access to finance for MSMEs that can support economic diversification and climate-smart start-ups.
- (c) Boosting investment in the infrastructure and platforms needed to support the scale-up of digital channels for commercial and public services provision that reduced the need for travel/paper-based process that minimizes the climate footprint for services delivery and allows for more rapid scalability in an emergency context.

4. Many of the activities targeted for scale-up under this COVID-19 operation are also highly relevant to boosting resilience in the face of climatic shocks.

## C. Specific Activities Planned

Component	Type of Activity	Context and Expected Results	Description and Budget
<b>Component 1: Strengthening Institutions (US\$13 million equivalent)</b>			
1.3: Support to MoCT and NCA (US\$2.5 million)	National strategies/industry standard: Promote use of climate-resilient technologies.	The ministry has already taken steps to explore the use of ICT in emergencies.. Proposed TA will take stock of this work and propose a business recovery and response plan in relation to critical information infrastructure, including to climatic events.	<ul style="list-style-type: none"> <li>Business and disaster recovery plan (US\$200,000).</li> </ul>
<b>Component 2: Enabling Financial and Digital Services (US\$55 million equivalent)</b>			
2.1: Financial Intermediary Financing to MSMEs (US\$25 million)	MSME finance: Extend line of credit to enterprises to both reduce their exposure and boost their recovery from shocks, and to enterprises that reduce, capture, or sequester GHG emissions.	<p>The scaled-up financing support by Gargaara will mean that more MSMEs will be reached that have been adversely hit by COVID-19, with many still reeling under the latest reoccurring climatic shocks.</p> <p>Given current market maturity, there is no evident pipeline of MSMEs that can reduce, capture, or sequester GHG emissions that can be readily targeted by the apex financing facility. Focus will therefore be on raising awareness</p>	<ul style="list-style-type: none"> <li>The full top-up for existing financing windows envisioned will thus contribute to recovery (US\$13 million)</li> <li>Risk-sharing mechanism to increase lending enterprises, including climate-smart MSMEs (US\$2.5 million)</li> <li>A dedicated Gargaara outreach strategy to encourage application by climate-smart</li> </ul>

Component	Type of Activity	Context and Expected Results	Description and Budget
		and supporting outreach to attract and target related MSMEs moving forward.	MSMEs (US\$100,000). <ul style="list-style-type: none"> <li>Capacity building to PFIs to reach targeted MSMEs, including climate-smart MSMEs (US\$200,000).</li> </ul>
2.2: Digital ID Services (US\$15 million)	Remote services provision: Identity verification	The foundation ID system financed is one of the core building blocks for securely scaling e-service delivery that can cut down on the need to travel. The system introduced will facilitate remote, digital identity verification (for example, enable financial service providers and other service providers to verify a person's identity through direct, electronic queries against the ID database), which is likely to cut down the number of paper forms to be printed and reduce the need for face-to-face transactions, thus contributing to reduced emissions arising from less travel when compared to more informal identification mechanisms, which often require one or multiple 'witnesses' or 'introducers' to be present for transactions to validate a person's identity.	<ul style="list-style-type: none"> <li>All AF that covers hardware and software of ID system rollout is thus considered to contribute to the objective of minimizing GHG emissions through new ways of accessing services (US\$15 million).</li> </ul>
2.3: Government and Retail Payment Services (US\$13 million)	Climate-smart IT infrastructure: Consolidation of IT infrastructure to minimize climate impact and disaster recovery	A whole-of-government approach to data hosting will be developed and piloted through the AF that will increase readiness to scale public digital systems and service. By working to consolidate existing hosting solutions, the project will support energy gains. The design will include disaster recovery (for example, using the cloud) to ensure minimum to zero downtime in case of climate events.	<ul style="list-style-type: none"> <li>US\$3.5 million will be invested in shared data hosting, which will also cover disaster recovery site.</li> </ul>



## ANNEX VII: PRIVATE CAPITAL MOBILIZATION AND MAXIMIZING FINANCE FOR DEVELOPMENT - ENABLING ACTIVITIES

1. Under component 2.1, managed by Gargaara (MSME Financing Facility), US\$25 million AF will be used as follows: (a) US\$13 million for the two lending windows to MSMEs, (b) US\$2.5 million for the risk-sharing mechanism, (c) US\$5.0 million for the matching grants program to eligible firms, and (d) US\$4.5 million in operational support for Gargaara, including US\$1.5 million to co-finance investments in IDPs for PFIs as well as provide TA and training for potential PFIs.
2. Gargaara's various activities promise to generate interest, commitment, and capital investments by private sector investors. The following activities have been identified as promoting PCM and enabling Maximizing Finance for Development (MFD).<sup>80</sup>
3. **Risk-sharing mechanism.** One of the lessons learned from the parent project and the COVID-19 pandemic is that the risk profile of micro and small businesses has increased, making FIs more risk averse. However, based on the results of the ongoing risk-sharing mechanism feasibility study, this activity would explicitly use a guarantee to back each PFI's lending of its own capital. This mechanism has effectively enabled PFIs to turn capital and investment funds (Murabaha deposits) into loans to MSMEs in similar settings. PFIs in the parent project have asked for such a mechanism and are willing to pay a fee to have such coverage, so the fund is likely to be fully subscribed. The World Bank has developed a set of 16 principles for partial credit risk-sharing mechanisms that maximize the likelihood of crowding-in private sector funds, with a conservative leveraging factor of 2:1, which would result in an estimated direct PCM of US\$5.0 million (US\$2.5 million by a 2× leveraging factor).<sup>81</sup>
4. **BDS matching grants to eligible MSMEs.** Since this is designed as a match, it will generate buy-in in the form of co-investment by the firms that benefit from this support. However, it is deemed not to meet all of the tests for PCM—since it would be difficult to know the source of funds used for the matching contribution by the firm. Nonetheless, this is a clear example of enabling a private firm to invest more in its operations, owing directly to project interventions and support. This will also have an important jobs creation and jobs preservation effect, which is critically important given the economic crisis caused by the COVID-19 pandemic, locust infestations, droughts, and floods. During implementation, firms will be asked to identify the source of the match, enabling the project to classify the financing contribution as PCM if appropriate.
5. **Operational expenses support and capacity building for Gargaara.** While Gargaara does not yet have private sector investors, the support provided by the project will enable Gargaara to strengthen systems, train staff, increase operations, and demonstrate its efficiency and value in improving access to finance. This will include digital finance opportunities for firms and PFIs as well, owing to component 1 of the project. This is likely to attract other investors, including private capital investment over time. Discussions are already ongoing with the KfW development bank, which is likely to invest US\$9 million in

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<sup>80</sup> For an activity to be counted as generating private capital, it must (a) show a clear relationship between project activities and private sector decisions to invest additional funds, (b) take place after World Bank Board approval, and (c) be easily quantifiable. Several activities under the AF project are considered to enable MFD but do not demonstrate that the additional investment would be from private sources exclusively.

<sup>81</sup> This estimate has been confirmed by the World Bank team responsible for reviewing PCM for IPF projects.



Gargaara to onlend to MSMEs by early 2022. Gargaara management is also in discussions with the Multilateral Investment Guarantee Agency to attract private sector investors. Strengthened Gargaara's systems and processes, supported by the AF, will strengthen Gargaara's position to attract private investors. As development partners continue to invest in Gargaara systems and support a growing sound loan portfolio, the private sector is likely to add its support as well. The project's role is to support the implementation of an IDP for Gargaara to encourage such systems development in the short term.

6. **Strengthening PFI systems.** Under the AF, Gargaara will also provide funds for TA and training needs of participating commercial banks and microfinance institutions to implement tailored IDPs to build the capacity of the PFIs (to strengthen and manage MSME portfolio, strengthen internal systems including M&E, safeguards, financial management, gender-sensitive outreach, AML/CFT, and so on). This is expected to strengthen PFIs' position to attract additional investments from development partners and private sector investors.

7. **Lending windows.** The PFIs will borrow up to US\$13 million from the project to on-lend to qualified micro and small enterprises. At the same time, as the PFIs grow, they may attract additional funding from national and international private investors as well as increased financing from Government and multilateral sources. However, there is no formal commitment to mobilize additional private capital by PFIs.

## ANNEX VIII: WBG COVID-19 COUNTRY PROGRAM RESPONSE NOTE - SOMALIA

1. This note summarizes how the evolving, interim WBG country program aims to respond to Somalia's immediate economic, social, and financing needs in line with the broader WBG COVID-19 crisis response.

### Health Impact

2. The first COVID-19 case in Somalia was confirmed on March 16, 2020. Since then, 14,486 laboratory-confirmed cases of COVID-19, including 753 associated deaths, were reported in Somalia. The large majority (79.4 percent) of cases are aged between 20 and 60 years, with a median age of 35 (ranging from 1 to 110 years) and 67.4 percent of the confirmed cases have been male. The cumulative positivity rate, since the start of the outbreak stands at 8.0 percent, whilst the cumulative case fatality rate stands at 5.2 percent. There are anecdotal reports of additional, unconfirmed cases and quickly rising deaths.<sup>82</sup> The Government, with the support of development partners, has taken important steps to improve Somalia's COVID-19 response, including establishing testing capacity at the National Public Health and Reference Laboratory in Mogadishu, constituting rapid response teams, and increasing intensive care unit bed capacity from 15 early in the outbreak to 47.<sup>83</sup> However, existing health system capacity limitations constrain the COVID-19 response.

3. As part of the first phase of the vaccination against COVID-19 in Somalia, 300,000 doses of the vaccine arrived in Mogadishu on March 15, 2021 for further distribution to all states. The administration of these vaccines has been prioritized for high-risk groups including health workers, frontline workers, teachers, and police officers. As of May 2, 2021, a total of 123,570 people (41.2 percent of the target) received the first dose of the AstraZeneca COVID-19 vaccine in Somalia: 52,307 doses were administered in Somaliland; 20,752 in Banadir region; 14,499 in Puntland; 11,272 in Hirshabelle; 10,347 in Galmudug; 7,483 in South West State and 6,910 in Jubaland. The Federal Ministry of Health (FMoH) temporarily stopped vaccination activities on May 2, 2021, and the drive to provide the second dose of the vaccine was expected to start after Eid celebrations.

### Economic Impact

4. Somalia's economy continues to be affected by COVID-19, climate change events, and a desert locust infestation. In 2020, the economy is estimated to have contracted by 0.4 percent, which is less severe than the earlier projection of -1.5 percent. The economy (and particularly the urban, informal sector) was affected by reduced demand for goods and services as movement-related restrictions were introduced. The rural sector meanwhile has been affected by changes in climate, which has resulted in both floods and drought, as well as incidences of water scarcity, which has contributed to an infestation of desert locusts, adversely affecting agricultural productivity. Furthermore, Somalia is in a pre-election period, where political instability can affect the confidence of the private sector. The growth outlook for 2021 is projected at around 2 percent, compared to a pre-COVID 19 forecast of 3.2 percent, which assumes that mobility restrictions will not be introduced and that there are steady inflows of remittances

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<sup>82</sup> <https://coronavirus.jhu.edu/map.html>

<sup>83</sup> Somalia FMoH and World Health Organization (WHO) joint COVID-19 Situation Reports 3-6.

and official development assistance. In a downside scenario, growth in 2021 would be sluggish at around 1 percent due to an upsurge of COVID-19 cases and associated lockdown measures as well as a deterioration of the political climate. A further upside scenario projects growth at 3.2 percent based on improvements to political stability, a slowdown in COVID-19 cases, and continued external support.

5. Within the challenging economic context, the FGS is experiencing fiscal pressures. Following years of steady improvement to revenue collection, in 2020 domestic resource mobilization was 8 percent lower than 2019, due largely to a fall in collection of trade-related taxes as demand for imported goods fell. The international community supported the FGS with increased grants (which almost tripled) to help offset the effects of the health and climatic crisis on the economy and the population. Notably, budget support contributions increased from IDA and the African Development Bank (AfDB).<sup>84</sup> The 2021 approved budget projected that discretionary sources of revenue would increase by more than 20 percent (from domestic resource mobilization and budget support grants) while earmarked project financing was projected to increase by 130 percent. However, domestic resource mobilization fell by 11 percent in Q1 of 2021 compared to the same period last year, due to a fall in nontax revenues. Budget support grants have also not been forthcoming as the international community is signaling the importance of strengthening political stability and proceeding with arrangements for elections. As Somalia is in the interim period of the HIPC Initiative and is in debt distress, there is no possibility to borrow or run arrears, while the country continues to service debt payments to IDA. With reduced fiscal space, the FGS is prioritizing the payment of salaries and continues to face acute pressures.

### **Poverty Impact**

6. The pandemic has disrupted regular work activities. 21 percent of Somalis had to stop their work activity following the outbreak of COVID-19, in a country where only 55 percent of the population is actively engaged in the labor market. In particular, work activities in the agricultural, energy, and professional services sectors have been most disrupted. With limited formal job opportunities, more than one-third of Somalis are engaged in self-employment, which has been particularly hard hit, with almost one in three household enterprises not operating in July 2020 and revenue generation estimated to have almost halved. With the added shocks of locust infestation and floods, 25 percent of households involved in farming or livestock activities had not been able to carry out their normal farming activities.

7. The disruption from COVID-19 affected household incomes from all sources. 78 percent of households reported some reduction in their income from wages. Households also reported a decline in remittances in July 2020, although there has been some improvement in the receipt of remittance flows through official channel following accelerated financial sector reforms.

8. COVID-19 has exacerbated food insecurity. 32 percent of households reported having an adult not having eaten for an entire day. The hunger was even more prevalent among nomads (42 percent) and

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<sup>84</sup> On June 23, 2020, the Board approved a US\$55 million International Development Association (IDA) Somalia Re-engagement and Reform Supplemental Development Policy Financing (DPF) (P174064). This grant was a supplemental disbursement of the Somalia Reengagement and Reform Development Policy Financing (P171570), approved on February 27, 2020, which facilitated clearance of Somalia's arrears to IDA and restored Somalia's access to regular IDA financing.

rural households (37 percent). Food insecurity is expected to remain high through May 2021 due to localized floods, below average rainfall, and a worsening desert locust infestation.

9. Human capital has been affected especially by school closures. On March 18, 2020, the Government of Somalia announced the closure of all primary and secondary schools to curb the spread of the COVID-19 virus. During school closures, only 36 percent had students engaged in alternative learning activities.

### **Private Sector Impact**

10. The private sector, which has been the main driver of economic growth and employment generation in Somalia, is being seriously affected by the pandemic through a number of channels including, but not limited to, increased business vulnerabilities, interruption of supply chains, decreased investment inflows, and diminished access to finance. As outlined in the Health, Economic, and Social Impact of COVID-19 in Somalia Assessment (prepared by the National Economic Council [NEC] of Somalia, October 2020), containment measures put in place by the FGS—those including suspension of international and domestic flights, travel bans, ban of large public gatherings, and lockdowns—led to limited economic activity and reduced employment and incomes, and the resulting decline in demand has contributed to further reduction in outputs and incomes. Informal workers and microenterprises, accounting for most of Somalia’s employment, face a disproportionate risk in this regard. Moreover, limited fiscal space, due to low rates of revenue collection by Government, limits its ability to mount fiscal initiatives to protect Somali MSMEs during this time and support economic resilience as well as to ensure a faster recovery.

11. The NEC assessment also finds that the spread of virus has negatively affected the real economy sectors, particularly agriculture and services, which employ the largest share of labor force and contribute significantly to GDP and food security. The agricultural sector challenges include higher cost of production inputs destroying the production incentives and value chains and reducing the contribution of this essential sector to GDP, labor markets, exports, and food security.

12. COVID-19 has inflicted deep and widespread impacts on Somalia’s private sector, contracting sales and employment by about 30 percent and leaving most firms with liquidity challenges.<sup>85</sup> A year into the crisis, 62 percent of the formal businesses in Somalia temporarily suspended operations at least once because of the COVID-19 disruptions from February 2020 to January 2021, on average for about 10 weeks. A staggering 75 percent of firms experienced a decline in sales in May/June 2020 compared to the levels in 2019. By November/December 2020, the share went down to 52 percent of the firms. Although an improvement, still half of the firms saw decline in their sales. For an average firm, sales in November/December 2020 were 10 percent lower than their levels in the same months in 2019. While sales were still below their levels a year ago, overall, this has been a significant improvement compared to the 32 percent decline observed in May/June 2020. The slight easing up of the impact is reflected in

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<sup>85</sup> To better understand the effect of the crisis on Somalia’s private sector, the WBG and United Nations (UN) Industrial Development Organization (UNIDO), with support from the Somali MoCI and the Somali Chamber of Commerce, undertook two waves of a survey of businesses in the country (first wave in June and July 2020 and second wave in December 2020 and January 2021). The survey covered 550 formal businesses in the first wave and 498 formal businesses in the second wave, including microenterprises, across five cities in the country: Baidoa, Beledweyne, Bosaso, Kismayo, and Mogadishu.

the financial health of the business. The share of firms facing liquidity and cash flow shortages went down from 90 percent in June/July 2020 to about 50 percent in December/January 2020/2021. Yet, 80 percent of firms have delayed payments to their service providers and tax authorities. This could have implications for depth of the impact and the recovery process.

13. Firms took several adjustment measures to weather the impact of the shock, some of which have implications for the livelihoods of their employees. In the early periods of the crisis, employment-related adjustments were the main changes firms undertook to counter the impact of the crisis. A year into the crisis, however, adjustment to products and ways of delivering goods and services are the most common adjustments. About 82 percent of Somali business have adjusted their product or services, defined as either introducing new products/services or discontinuing existing ones, since the COVID-19 outbreak. In December/January 2021, 47 percent of firms reported cutting working hours compared with the levels same months a year ago, down from 70 percent reported in Round 1 of the survey. A similar pattern is observed for reductions in the number of workers (both temporary and full-time permanent) and salary. By November/December 2020, full-time permanent employment contracted, on average, by 37 percent compared to the level in February 2020.

### **Government Response**

14. After the first case of COVID-19 was detected, containment measures were introduced. Measures such as patient screening (with support from the WHO), the closure of international airports and schools were introduced. These containment initiatives were lifted in August 2020. In February 2021, a second wave of COVID-19 cases were detected, which was followed by further mobility restrictions, including the closure of schools. However, these measures have also been lifted. Within the current political situation, there has been caution against holding rallies and demonstrations, although these have not been fully respected.

15. The Government allocated increased fiscal resources to support the crisis in 2020. The Government introduced temporary tax relief measures on basic staple goods to protect the poor, with offsetting taxes raised for products such as tobacco and beauty products. The disbursement of budget support enabled the FGS to increase intergovernmental transfers (from US\$42.6 million in 2019 to US\$146.2 million in 2020) to facilitate a national response to the crisis. Pro-poor expenditures also increased, largely supported by the Baxnaano social protection, which is financed by IDA, and other crisis response projects. In 2021, the fiscal space available to support the crisis has narrowed, and the Government is reliant on externally financed project financing.

### **WBG Response**

16. The Somalia program is being adjusted in line with the selective WBG crisis response. The World Bank's COVID-19 Response Plan aims to alleviate the health, social, and economic impact of COVID-19. It focuses on helping scale Government health and livelihoods financing in the short and medium term, accompanied by proposed budgetary support. It aligns with specific needs in the FGS' response plans<sup>86</sup>

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<sup>86</sup> The Socioeconomic Impact and Required Response for COVID-19 (March 27, 2020) and the National contingency plan for preparedness and response to the coronavirus disease 2019 (March 26, 2020).

and has been designed to be complementary to the efforts of other international partners, notably AfDB, the European Commission, the UN<sup>87</sup>, and the broader donor community at the country level.

17. In response to COVID-19, the WBG reprioritized the FY20 and FY21 pipelines to bring forward high-priority relief and recovery efforts. In FY20, the World Bank committed over US\$300 million of relief-focused IDA grants. The priority in FY21 shifts to recovery through restructuring of programs and new activities to build back better. The WBG may consider additional budget support for fiscal stability and protection of basic services, though, as noted, this would require intensive client-facing policy dialogue based on the FGS/FMS Memorandum of Understanding on data sharing. The World Bank will deepen assistance to building Somalia's foundations for a resilient recovery from COVID-19, including investments in electricity supply and regional economic integration through the transport, health, and SME sectors in Q1 and through the AF in Q4 to Gargaara MSME Financing Facility to support critical productive sectors of the economy, as well as through the FY21 Improving Healthcare Services in Somalia ("Damal Caafimaad", P172031). The WBG's pipeline of investments for pandemic response in health, social protection, and other sectors align to the WBG's corporate priorities for COVID-19 moving from relief to resilient recovery (figure 8.1).<sup>88</sup>

18. To further support crisis response to the food insecurity situation in Somalia, US\$50 million of additional resources have become available under the World Bank's newly established IDA Crisis Response Window's Early Response Financing mechanism. This is part of the global Famine Action Mechanism utilized by the World Bank, UN, and other global partners which is dedicated to supporting upstream interventions in famine prevention, preparedness, and early action. This facility provides anticipatory financing to countries at imminent risk of food insecurity or pandemics.

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<sup>87</sup> The Somalia COVID-19 Country Preparedness and Response Plan (CPRP) is a joint effort by UN agencies and cluster partners to respond to the direct public health and indirect humanitarian and socioeconomic consequences of COVID-19.

<sup>88</sup> See the "WBG Approach Paper on COVID-19" presented to Executive Directors in June 2020.

**Figure 8.1. WBG Interventions Mapped to WBG Corporate Priorities for COVID-19 Response**

	Relief	Restructuring Stage	Resilient Recovery
Save lives	<b>Public health emergency</b> <ul style="list-style-type: none"> <li>Approved FY20: Crisis Recovery CERC on Covid-19 (\$20m)</li> </ul>	<b>Restructuring health systems</b>	<b>Pandemic-ready health systems</b> <ul style="list-style-type: none"> <li>FY21 New Health investment (\$100m "Damaal Caafimad", incl. \$25m from GFF)</li> </ul>
Protect the poor and vulnerable	<b>Social emergency</b> <ul style="list-style-type: none"> <li>Approved FY20: Shock Responsive Safety Nets for Locust Response (\$40m)</li> <li>Approved FY20: Somalia Crisis Recovery Project (\$137.5m)</li> </ul>	<b>Restoring Human Capital</b> <ul style="list-style-type: none"> <li>FY21: AF Shock responsive Safety Nets for Locust Response (\$75m)</li> <li>FY21: Education for Human Capital (\$40m)</li> <li>FY22: Second chances/ education</li> </ul>	<b>Putting people back to work strengthening resilience</b> <ul style="list-style-type: none"> <li>FY22 AFs for Urban and Water ("Biyooole")</li> <li>SCRIP ERF/CRW AF (\$50m)</li> </ul>
Sustainable business growth and employment	<b>Economic emergency</b>	<b>Firm restructuring and debt resolution</b> <ul style="list-style-type: none"> <li>FY21: AF SCALED-UP to provide enhanced short-term recovery support for SMEs through Gargaara</li> </ul>	<b>Green growth and job creation</b> <ul style="list-style-type: none"> <li>FY21: Energy Sector Recovery (\$150m)</li> <li>FY22: Regional Transport integration</li> <li>FY22: Fisheries and Coastal Development</li> <li>Potential IFC and MIGA investments</li> </ul>
Strengthening policies & institutions	<b>Maintain line of sight to long term goals</b> <ul style="list-style-type: none"> <li>Approved FY20: Supplemental DPO (\$55m)</li> </ul>	<b>Policy and institutional reforms</b> <ul style="list-style-type: none"> <li>Approved FY20: RCRF III shifts budget to protect basic services through performance-based fiscal transfers</li> </ul>	<b>Investments to rebuild better</b> <ul style="list-style-type: none"> <li>HIPC Completion Point and IMF ECF ongoing</li> <li>TA for PFM and wider governance reforms</li> </ul>



*Note:* ASA = Advisory services and analytics; CERC = Contingency Emergency Response Component; DPO = Development Policy Operation; ECF = Extended Credit Facility; MIGA = Multilateral Investment Guarantee Agency; PFM = Public financial management.

19. COVID-19 is expected to exact a heavy human and economic toll in Somalia, adding a public health emergency to a situation in which people are already dealing with multiple climate-related crises (cyclical droughts and floods, desert locusts) as well as prolonged armed conflict. These crises are inextricably linked with poverty, fragility, and severe food insecurity. Thus, while some of the interventions in the response plan have been specifically prompted by the COVID-19 crisis, others take a broader view at supporting Somalia’s most vulnerable, who are currently confronting crises on multiple fronts. The broader response will be folded into the Performance and Learning Review to be presented to the Board in FY22 for the IDA19 period.3315, 2020–2024) promotes a ‘whole-of-government’ approach to incentivizing cooperation and enhancing state-citizen trust through state-led responses to multiple crises confronting the country, including floods, drought, political instability, locust invasion, food insecurity, and COVID-19. The most vulnerable populations, farming communities, internally displaced persons, rural and urban communities, and host communities will be supported through multiple interventions. The



project has a budget of US\$137.5 million of IDA financing, of which US\$20.5 million has already been allocated to the CERC for health interventions related to COVID-19. The SCRCP was approved by the IDA Board on May 15, 2020. The project includes a CERC which has been activated to respond to COVID-19, with a financing envelope of US\$20.5 million. SCRCP CERC financing includes support for COVID-19 coordination and monitoring, surveillance, contact tracing, risk communication, laboratory support, infection prevention and control, and case management, as well as essential health services to complement the Government's and other partners' emergency response efforts. In the medium term, the project will strengthen health preparedness capacity such as Critical Care Units in a few major hospitals nationwide as well as surveillance and laboratory capacity for pathogen detection (including COVID-19). The total allocation for health under the SCRCP is US\$37.5 million.

20. **Budget support.** There was a need for immediate budget support to cushion the potential, significant revenue shortfalls, at the FGS and FMS levels, which could have undermined basic Government operations and functionality, the delivery of essential services, and the continuation of reforms. The World Bank team has delivered an initial supplemental DPO of US\$55 million under Somalia Re-engagement and Reform Supplemental Development Policy Financing (P174064), which enlarged fiscal space and enabled the FGS to increase intergovernmental grants to the FMS to support the crisis. Government authorities continue to implement reforms at the federal and state levels, which could be supported by Development Policy Financing and which contribute to the wider reform agenda under the HIPC initiative. Discussions on potential Development Policy Financing are advancing in line with broader dialogue on strengthening state stability by the international community.

21. **Safety nets.** The Government-led Shock Responsive Safety Net for Human Capital Project (P171346) (2019–2022) provides cash transfers to targeted poor and vulnerable households, while establishing the key building blocks of a national shock-responsive safety net system. The US\$65 million project is managed by the Ministry of Labour and Social Affairs, with support from the World Food Programme and United Nations Children's Fund to implement significant activities. An additional US\$40 million in IDA funds has been approved under Shock Responsive Safety Net for Locust Response Project (P174065) to target locust-affected households, scaling up the existing project. Given the far-reaching implications of COVID-19 and the multiple, ongoing crises in Somalia, cash transfer initiatives will provide critical lifelines for the most vulnerable.

22. **MSMEs and remittances.** To mitigate the economic impact of the pandemic on Somali businesses, and to bolster and safeguard Government's digital capabilities, in May 2020 the Government requested AF for SCALED-UP which aims to support progress toward increased access to basic digital financial and government services targeting entrepreneurship and employment, particularly for women. The US\$70 million operation (expected Board delivery in FY21) will (a) scale up and expand the MSME financing through the newly established MSME Financing Facility 'Gargaara' (especially in light of COVID-19 concerns and with the objective of supporting economic relief and recovery of MSMEs, including via enhancing liquidity and supporting de-risking); (b) scale up financing to deliver the digital ID infrastructure and other enabling interventions that support the new foundational digital ID system; and (c) scale up digital government services and remote working capabilities, including through support for additional internet capacity, IT equipment, and infrastructure, as well as TA to support process reengineering and change management. In addition, the CBS has reportedly dedicated US\$2.9 million to fund microfinance facilities through commercial banks.



23. Recurrent Cost and Reform Financing (RCRF) Project II and III<sup>89</sup> include health components in support of female health workers (FHWs). To respond to the rapid spread of COVID-19 in the country, the project was reprogrammed to include training of FHWs and other cadres of community health workers for COVID-19 response, including case detection, support for containment measures, and contact tracing. RCRF III expands FHW engagement in COVID-19 response, including accelerated expansion of the FHW program to support the core role of FHWs in prevention, case detection, and contact tracing. RCRF III will also support the Government in improving transparency and citizens engagement in use of funds, including COVID-19 funds, and is supporting the Government in absorbing and recovering from COVID-19's economic shocks.

24. Pandemic Emergency Fund payout provided US\$3.1 million to Somali to aid with the emergency response. The Government used US\$200,000 to pay for normal vaccines as part of the maintenance of essential services while the rest was channeled to the WHO to provide the Government with the just-in-time TA for emergency response.

25. **Preparation for the rollout of COVAX.** Somalia applied to the global COVAX facility on December 7, 2020, for support to inoculate the most at risk 20 percent of the population. Initially the vaccines were expected in the country after June 2021. Somalia received the first batch of AstraZeneca COVID-19 vaccine in March 2021. A total of 300,000 doses were received in March 2021 from the total allocation of 6 million doses. The second batch of 700,000 doses was expected in May 2021. However, the delivery of this batch has been significantly delayed because of the recent surge of COVID-19 in India where the vaccine is made by the Serum institute. To address the domestic needs, the Government of India has halted the exportation of COVID-19 vaccines – affecting many countries that were relying on the AstraZeneca vaccine through the COVAX facility. The estimated cost for the rollout is between US\$29-\$31 million. The Government is in the process of sending a request to the World Bank for support toward this cost.

26. **Longer-term health sector support.** A substantial new health sector investment is under development, with potential links with COVID-19 under discussion. The project is expected to go to the World Bank Board for approval in August 2021. The WB is currently in the process of preparing a US\$45 million emergency project to support the rollout of the COVID-19 vaccines and potentially purchase additional vaccines should the need arise. The project will also support the Government's pandemic response capacity.

## Development Partners

27. **In 2020, Somalia received approximately US\$2 billion in ODA.** The total aid was consistent with levels seen in recent years despite the increased needs on the ground. As in the past years, ODA to Somalia comprised roughly equal volumes of humanitarian (US\$1.07 billion)<sup>90</sup> and development aid (US\$981.8 million).<sup>91</sup> The largest providers of development aid in 2020 were the World Bank (US\$370.5 million), Germany (US\$137 million), and the United Kingdom (US\$115.5 million).<sup>92</sup> The largest providers of

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<sup>89</sup> Somalia Recurrent Cost & Reform Financing Project - Phase 2 (P154875) and Somalia Recurrent Cost & Reform Financing Project - Phase 3 (P173731)

<sup>90</sup> <https://fts.unocha.org/countries/206/summary/2020> (extracted 27 Jan 2021)

<sup>91</sup> <https://aims.mop.gov.so/envelope-report/?load=true&syar=2019&eyar=2021&ctype=1>

<sup>92</sup> <https://aims.mop.gov.so/envelope-report/?load=true&envelopeTypes=2&ctype=1>

humanitarian aid in 2020 were the United States (US\$524.8 million), Germany (US\$104.1 million), and the United Kingdom (US\$72.7 million).<sup>93</sup> The World Bank has used the MPF Consultative Group for regular coordination and updates on the economic and poverty impacts of COVID-19 in Somalia and continues to discuss recovery efforts with key stakeholders.

28. **Roughly 20 percent of ODA in 2020 was reported to specifically target COVID-19 or its socioeconomic impact** (US\$404 million).<sup>94</sup> Much of this support targeted the health sector as well as food security and nutrition initiatives.<sup>95</sup> An additional 40 percent (US\$839 million) was reported to have relevance for the COVID-19 response. With multiple, concurrent crises – desert locusts, floods, and COVID-19 – much of the humanitarian support provided was not limited to COVID-19 response alone.

29. **Levels of support did not meet estimated need.** Just 38 percent of the humanitarian component of the UN’s Somalia CPRP for COVID-19 was funded as of December 2020.<sup>96</sup> Total estimated needs for the humanitarian component for 2020 were US\$255.6 million.<sup>97</sup> The socioeconomic component of the plan fared better, as it was largely designed to reprogram and adapt existing activities to better target needs in light of COVID-19.

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<sup>93</sup> <https://fts.unocha.org/countries/206/donors/2020>

<sup>94</sup> <https://aims.mop.gov.so/sectors-report/?load=true&year=2020&eyear=2020&level=1&ctype=4&mid=10&mvalue=Targeted>

<sup>95</sup> <https://aims.mop.gov.so/sectors-report/?load=true&year=2020&eyear=2020&level=2&ctype=4&mid=10&mvalue=Targeted>

<sup>96</sup> [https://reliefweb.int/sites/reliefweb.int/files/resources/Covid%20Impact%20report\\_15.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/Covid%20Impact%20report_15.pdf)

<sup>97</sup> <https://somalia.un.org/sites/default/files/2020-08/CPRP%20Final%20Subow%2C%20August.pdf>