



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 30-Oct-2019 | Report No: PIDC27845



BASIC INFORMATION

A. Basic Project Data

Country Somalia	Project ID P171570	Project Name Somalia Reengagement and Reform Support DPF (P171570)	Parent Project ID (if any)
Region AFRICA	Estimated Board Date Feb 28, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

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

Financing (in US\$, Millions)

SUMMARY

Total Financing	405.00
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DETAILS

Total World Bank Group Financing	405.00
World Bank Lending	405.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Sustained political and economic reforms since 2012 are supporting Somalia's transition out of fragility.** The adoption of the Provisional Constitution in 2012 established a federal political system, which comprises the Federal Government of Somalia (FGS) and five Federal Member States (FMSs). Legal and institutional reforms implemented since 2012 are rebuilding core public sector functionalities. Improved fiscal management capacity has enabled the FGS to more



than double its revenue collection, absorption of external grants, and total spending between 2013 and 2019. The Central Bank of Somalia (CBS) is building its financial supervision capacity, enabling a significant expansion of the banking system.

2. **Poverty remains pervasive, underscoring the need to build economic resilience.** Almost 70 percent of Somalis live on less than US\$1.90 a day in purchasing power parity terms, and economic growth is barely keeping up with population growth, estimated at 2.8 percent per year.¹ Regional disparities are large, with the highest incidence of poverty among internally displaced people living in settlements, people living in rural communities, and nomads. Almost 9 in 10 Somali households are deprived in at least one dimension of poverty—monetary, electricity, education, or water and sanitation—and nearly 7 of 10 households suffer in two or more dimensions.

Relationship to CPF

3. The proposed operation achieves the interim goal of Focus Area 1 in the FY19–FY22 Somalia CPF: “to secure normalization of Somalia’s relations through the Heavily Indebted Poor Countries (HIPC) process.”² In addition, the reform program supported by the proposed operation complements the IPFs, ASA, and IFC Advisory Services identified in the CPF in achieving several of its major objectives:

- Prior actions on debt transparency, expenditure containment, and budget accountability are aligned with CPF objective 1.1 (“Improve public finance management and institutional effectiveness”).
- Prior actions on revenue mobilization and intergovernmental revenue sharing are aimed at CPF objective 1.2 (“Enhance domestic revenue mobilization and resource sharing”).
- Prior actions on the business environment and regulation of the telecommunications industry are aligned with CPF objective 2.1 (“Improve the business environment and lowering barriers to entry”).
- Prior actions on the financial sector are aligned with CPF objective 2.2 (“Access to finance to increase inclusion and digital development opportunities”).

4. **By achieving full reengagement, the proposed operation is linked to the World Bank Group strategy.** Normalization of relations with the World Bank Group and other IFIs will allow Somalia to qualify for HIPC debt relief and unlock additional and more predictable support from the international community. Somalia critically needs this support to implement its poverty reduction strategy (NDP9), increase the country’s resilience to climatic shocks, and foster inclusive economic growth.

C. Proposed Development Objective(s)

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

5. **Strengthening fiscal management and promoting inclusive private sector-led growth were selected as the focus areas for this program as they are the natural foundations for overcoming the country’s main challenges of strengthening economic resilience and moving towards a more inclusive federal system.** Weak fiscal management can inhibit private investment, increase fiscal pressure, reduce social spending, and limit the governments’ ability to implement reforms. At the same time, a vibrant private sector is needed not only to create jobs, but to produce goods and services, drive innovation, and contribute to tax revenue that can be used by governments to reinvest in their people. As part of this operation, Pillar 1 to strengthen fiscal management support various dimensions of the government’s program— including the goal of creating an enabling environment for economic growth and further progressing towards

¹ World Bank, “Somalia Poverty and Vulnerability Assessment: Findings from Wave 2 of the Somalia High-Frequency Survey,” April 2019. The population growth rate estimate is from Federal Republic of Somalia and UNFPA, “Population Estimation Survey 2014,” October 2014.

² The Board of Executive Directors discussed the Joint IDA/IFC/MIGA Country Partnership Framework for Somalia for the Period FY19-FY22 (IDA/R2018-0291, IFC/R2018-0280, MIGA/R2018-0128) on September 25, 2018.



the HIPC Completion Point. For example, enactment of a public financial management law will improve the transparency of public debt, providing information that policy makers need to make sound borrowing decisions and which creditors, donors, analysts, and ratings agencies need to assess investment opportunities. It will also enable citizens to hold governments accountable on the purpose of debt. In addition, harmonization of revenue raising and sharing fishing revenues between the federal and state government is supportive of inclusive politics, and measures to audit the security sector and biometric registration contribute to a more accountable security sector. Together, these efforts support Pillar 2 to promote inclusive private sector-led growth, and is part of the government's broader efforts to tackle corruption and reduce leakage of government expenditures. Moreover, the enactment of the Company Law and the issuance of mobile money regulations strengthen the regulatory basis for doing business in Somalia, with supportive measures to strengthen institutions.

Key Results

6. Expected outcomes include Increased transparency of public debt information, growth of FGS inland tax revenue, containment of the government wage bill growth, increased use of competitive bidding to procure security rations, increased allocation of national revenue to Federal Member States, reduced time to register a business, increased number of foreign investor leads, increased number of telecommunications interconnection agreements completed, increased transparency of mobile money transaction information, and increased transparency of operation of the national payments system.

D. Concept Description

7. The proposed operation is rooted in Somalia's National Development Plan (NDP), which was developed through an extensive participatory process involving stakeholders from Somalia and the diaspora. Proposed prior actions aimed at strengthening fiscal management are aligned with NDP pillars on inclusive politics and the rule of law. Actions aimed at promoting inclusive private sector-led growth are aligned with the economic development NDP pillar.

8. The proposed operation would strengthen fiscal management in Somalia by supporting FGS reforms in areas of debt management, revenue mobilization, public expenditure containment, budget accountability, and intergovernmental fiscal arrangements. The authorities are working to enact foundational laws in these areas (e.g., a Public Financial Management Law) and implement other measures that will improve their capacity to manage fiscal operations.

9. The proposed operation would promote inclusive private sector-led growth by supporting FGS reforms aimed at improving the business and investment climate in general as well as targeted sectoral regulations. For example, the Company Law, when enacted, and a national payments system will provide a crucial legal and operational foundations for a well-functioning market economy. The operation would also support the authorities in establishing sectoral regulations that ensure fair competition and stability in the fast-growing telecommunications and mobile money sectors.

10. Reforms to fiscal management and private sector-led growth are important underpinnings for addressing Somalia's development challenges, complementing well the overall Bank program and efforts of development partners. The Bank's broader program is focused on enhancing the basic functions of public institutions in a federal system, building greater resilience through better water management and developing social protection systems, with pipeline efforts to support the renewable energy sector and human capital. The reforms in this proposed operation and the overall Bank program complement the efforts of the broader development community, including reforms developed under the Resilience and Recovery Framework and those implemented through a series of IMF Staff-Monitored Programs.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts



11. Prior actions in the proposed operation are not expected to have direct effects on poverty and equity in the short term, but will create more favorable conditions for reducing poverty and inequality in the medium- and long-term. Prior actions aimed at strengthening fiscal management are expected to create fiscal space, contribute to long-term fiscal sustainability, and foster the development of fiscal federalism—all of which are preconditions for the authorities to implement poverty reduction programs. Similarly, prior actions aimed at promoting inclusive private sector-led growth are expected to facilitate the formalization of small enterprises and enable them to grow, thereby creating the employment needed to reduce poverty. Actions aimed at building a stable financial sector are especially critical for safeguarding poor households' financial resources.

Environmental Impacts

12. Prior actions in the proposed operation are not expected to have direct effects on the environment, forests, or other natural resources in Somalia in the short term. However, they will create conditions that are more conducive to strengthening environmental management in the long term. The demands of security and state-building currently consume essentially all fiscal space in Somalia. Prior actions aimed at strengthening fiscal management are expected to create the fiscal space that the authorities can use to safeguard natural resources. Prior actions aimed at promoting private sector-led growth are expected to help the economy to create new jobs and other economic activities that provide alternatives to activities that are harmful to Somalia's environment.

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APPROVAL

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Approved By

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