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**GRANT NUMBER E356--SO**

# **Financing Agreement**

**(First Somalia Economic Resilience Development Policy Operation)**

**between**

**FEDERAL REPUBLIC OF SOMALIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

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**FINANCING AGREEMENT**

AGREEMENT dated as of the Signature Date between FEDERAL REPUBLIC OF SOMALIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (i) the actions which the Recipient has already taken under the Program, and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework.

The Recipient and the Association therefore hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to ninety-four million five hundred thousand Special Drawing Rights (SDR 94,500,000) (“Financing”).
- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.03. The Payment Dates are April 15 and October 15 in each year.
- 2.04. The Payment Currency is Dollar.

- 2.05. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

### **ARTICLE III — PROGRAM**

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
  - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
  - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 5.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

6.01. The Recipient's Representative is its Minister responsible for finance.

6.02. For purposes of Section 11.01 of the General Conditions:

(a) the Recipient's address is:

Ministry of Finance  
Corso Somalia Street  
Shangani District

(b) the Recipient's Electronic Address is:

Email: info@mof.gov.so

6.03. For purposes of Section 11.01 of the General Conditions:

(a) the Association's address is:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America; and

(b) the Association's Electronic Address is:

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

AGREED as of the Signature Date.

**FEDERAL REPUBLIC OF SOMALIA**

**By**

*H. E. Bihi Iman Egeh*

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**Authorized Representative**

**Name:** H. E. Bihi Iman Egeh

**Title:** Minister of Finance

**Date:** 31-Jul-2024

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**By**



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**Authorized Representative**

**Name:** Adrian Howard Cutler

**Title:** Acting Country Director

**Date:** 31-Jul-2024

## **SCHEDULE 1**

### **Program Actions; Availability of Financing Proceeds**

#### **Section I. Actions under the Program**

The actions taken by the Recipient under the Program include the following:

1. To improve inland revenue mobilization, the Recipient's Minister of Finance has issued the Revenue Administration Regulation, which (a) clarifies procedures for tax payments, (b) provides for tax consultants, and (c) establishes electronic tax administration system.
2. To enhance customs revenue mobilization, the Recipient's Minister of Finance has issued the General Customs Regulation, which (a) establishes a comprehensive framework for customs revenue collection, (b) defines the process for licensing of customs brokers, and (c) enhances the enforcement provisions of the Customs Act.
3. To improve management of the risks and cost of public debt, the Recipient through its Minister of Finance has issued a decree that establishes the middle office within the Debt Management Unit, and provides the core functions of the front office, middle office, and back office.
4. To strengthen independent oversight over expenditure, the Recipient's Council of Ministers has issued the Public Audit Regulation which, inter alia: (a) establishes national auditing standards and procedures, (b) provides the code of conduct for Office of the Auditor General (OAG), (c) provides for OAG relationship with other governmental and international entities, and (d) spells out the procedures for the dismissal of the Auditor General.
5. To expand access to finance, the Recipient's Council of Ministers has submitted to Parliament the Financial Institutions Bill, which provides the framework for the regulation and supervision of financial institutions, including micro-finance institutions.
6. To strengthen the insurance sector and support financial resilience of pastoralists against drought and climate-related risks, the Recipient's Council of Ministers has submitted to Parliament the Takaful Bill, which inter alia: (a) establishes a system of regulation and supervision of all *Takaful* affairs, and (b) supports a sound competitive environment among takaful operators.
7. To improve fisheries governance and investment, the Recipient through its Ministry of Fisheries and Blue Economy has issued Regulations for the Fisheries Management and Development Council Rules and Procedures for coordinated federal-state management of Somalia's fisheries.

8. To ensure that investments incorporate environmental and climate considerations, (a) the Recipient has enacted the Environment Protection and Management Act, which mandates environment and social impact assessments (ESIA) of projects and installations, and establishes the core functions of the Ministry of Environment and Climate Change (MECC) for management of climate action and oversight of ESIA, and (b) the Recipient's MECC has issued the supporting ESIA Regulation that designate the types of installations and projects that are subject to ESIA's and mandates the incorporation of climate risk management and identification of priority climate actions into ESIA's.
9. To increase private sector provision of electricity, including from renewable sources, the Recipient through the National Electricity Authority has issued the Tariff Methodology and Tariff Adjustment Formulae, which applies principles of full cost-recovery.

**Section II. Availability of Financing Proceeds**

**A. General.**

The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

**B. Allocation of Financing Amounts.**

The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>
(1) Single Withdrawal Tranche	94,500,000
<b>TOTAL AMOUNT</b>	<b>94,500,000</b>

**C. Withdrawal Tranche Release Conditions.**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.

**D. Deposit of Financing Amounts.**

1. Notwithstanding the provisions of Section 2.03 of the General Conditions, all withdrawals from the Financing Account shall be deposited by the Association into Dedicated Accounts determined by the Recipient and acceptable to the Association.
2. The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the Dedicated Accounts referred to in Section 2.03(a) of the General Conditions; (b) the details of the Recipient's treasury single account to which the proceeds of the Financing will be/have been credited; (c) the record that an equivalent amount has been accounted for in the Recipient's budget management systems (i.e. the Recipient's budget management systems); and (d) the statement of receipts and disbursement of the accounts referred to in Section 2.03 (a) of the General Conditions.

**E. Audit.** Upon the Association's request, the Recipient shall:

1. have the Dedicated Accounts audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case, not later than four (4) months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and
3. furnish to the Association such other information concerning the Dedicated Accounts and their audit as the Association shall reasonably request.

**F. Closing Date.** The Closing Date is December 31, 2025.



**APPENDIX**  
**Definitions**

1. “Auditor General” means the head of the Office of the Auditor General.
2. “Council of Ministers” means the highest executive authority of the Recipient established pursuant to Article 97 of the Recipient’s Provisional Constitution, 2012.
3. “Customs Act” means the Recipient’s Customs Act 2020 (Law No. 21 of 2020).
4. “Debt Management Unit” means the unit within the Recipient’ Ministry of Finance responsible for supporting the Recipient with, inter alia, collecting, recording, managing, and reconciling of domestic arrears and external debt.
5. “Dedicated Accounts” means the accounts referred to in Part D.1 of Section II of Schedule 1 to this Agreement.
6. “Environment and Social Impact Assessments” or “ESIA” means a systematic examination conducted to determine whether or not a program, activity or project will have any adverse social or environmental impacts.
7. “Environment Protection and Management Act” means the Recipient’s law which provides for, inter alia, environment and social impact assessments of projects and installations.
8. “ESIA Regulations” means regulations issued pursuant to the National Environment Protection and Management Act.
9. “Financial Institutions Bill” means the bill submitted to the Recipient’s Parliament, which seeks to, inter alia, to provide a framework for the licensing, regulation, and supervision of financial institutions.
10. “Fisheries Management and Development Council” means the council established pursuant to section 11 of Law of Fisheries Management and Development of Somalia.
11. “Fisheries Management and Development Council (FMDC) Rules and Procedures” means the regulation issued pursuant to the Law of Fisheries Management and Development of Somalia providing the rules of procedure of FMDC.

12. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing,” dated December 14, 2018 (Last revised on July 15, 2023).
13. “General Customs Regulations” means the regulation No. 0427 of 2024, issued pursuant to the Customs Act.
14. “General Customs Regulation” means the General Customs Regulation, No. 0427-2024.
15. “Law of Fisheries Management and Development of Somalia” means the Recipient’s law No. 008 of 2023, providing for inter alia, the long-term conservation, management and development of fisheries and aquaculture resources in Somalia.
16. “Ministry of Environment and Climate Change” or “MECC” means the Recipient’s ministry responsible for the environment or any successor thereto.
17. “Ministry of Finance” means the Recipient’s ministry responsible for finance or any successor thereto.
18. “Ministry of Fisheries and Blue Economy” means the Recipient’s ministry responsible for fisheries or any successor thereto.
19. “National Electricity Authority” or “NEA” means the regulatory body for electricity in Somalia, established pursuant to the Recipient’s National Electricity Act, 2023, or any successor thereto.
20. “Office of the Auditor General” and “OAG” means the Recipient’s supreme audit institution mandated to enhance public sector service delivery through audits, established as an independent institution pursuant to Article 114 of the Recipient’s Constitution, 2012.
21. “Parliament” means the Recipient’s law-making body established pursuant to Chapter 6 of the Recipient’s Constitution of 2012.
22. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated June 23, 2024 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.

23. “Public Audit Regulation” means the regulation issued pursuant to the OAG law, No. 14 of 2023.
24. “Revenue Administration Regulation” means the Recipient’s Revenue Administration Regulation No. 336 of 2024, issued pursuant to the Revenue Administration Law, 2019.
25. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
26. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
27. “Takaful” means a mutual insurance concept that operates in accordance with Islamic principles and is based on fairness, transparency, and social responsibility, whereby participants share risk by making specific contributions into a fund that is used to pay for losses suffered by its members, and the fund can be used for projects aimed at climate adaptation, such as the construction of water reservoirs, fodder banks, and other infrastructure that reduces vulnerability to drought and other climate risks.
28. “Takaful Bill” means the bill submitted to Parliament which inter alia, establishes a system of regulation and supervision of all *Takaful* affairs.
29. “Tariff Methodology and Tariff Adjustment Formulae” means the methodology developed to operationalize the provisions in the Tariff Regulation developed by the NEA and approved by the Council of Ministers in accordance with the Electricity Act, 2023.