



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 26-Apr-2024 | Report No: PIDIC00128



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Somalia	P501988	First Somalia Economic Resilience Development Policy Financing	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
EASTERN AND SOUTHERN AFRICA	30-Jul-2024	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Republic of Somalia	Ministry of Finance		

Proposed Development Objective(s)

To promote economic resilience through more sustainable public finances and resilient private sector development.

Financing (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	No
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Total Financing	75.00
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DETAILS

Total World Bank Group Financing	75.00
World Bank Lending	75.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

1. **Somalia continues to face multiple and overlapping shocks that reduce economic growth and contribute to widespread poverty.** Climate change is making periodic droughts and floods more frequent and severe and is inextricably linked to Somalia’s social and political vulnerabilities. Combined with external market shocks, the COVID-19 pandemic, and domestic security challenges, have contributed to declining per capita GDP. Between 2019–23, economic growth rates averaged only 2 percent, compared with a population growth rate of 2.9 percent. The legacy of state fragmentation and continued conflict have shaped the country’s development trajectory. The public sector therefore has little fiscal space for investments that would generate economic growth and reduce poverty. And it lacks capacity to steer private sector dynamism towards creation of more and better jobs. Only one third of men and 12 percent of women are actively engaged in the labor market. In 2022, an estimated 55 percent of the Somali population lived below the national poverty line of US\$741 per person per year.¹

2. **Despite this difficult environment, the Federal Government of Somalia (FGS) continued to implement important economic reforms.** These reforms were centered on strengthening macroeconomic stability and economic governance in key sectors and culminated in reaching two significant milestones. In December 2023, Somalia achieved the HIPC Completion Point and became member of the East African Community. The post-HIPC reform agenda remains broad and is focused on continuing improvements in core state functions, measures to support the development of the private sector and ensure sustainable and inclusive growth.

Relationship to CPF

3. **The reforms supported in the Economic Resilience DPF complement the WBG’s engagement in Somalia.** The proposed series is part of the World Bank’s support to help Somalia construct a more stable, visible, and legitimate state, foster inclusive private-sector led growth, and enhance resilience, with a long-term view to restoring the social contract and enabling Somalia’s emergence from fragility, conflict, and violence.² The DPF supports the objectives of the World Bank’s Country Partnership Framework for Somalia (FY24–28). DPF Pillar A directly contributes to the CPF high-level outcome “macroeconomic stability and governance Foundations.” Pillar B contributes to three CPF pillars: “strengthen financial inclusion and growth,” “increase access to infrastructure, energy, and digital services,” and “strengthen urban resilience.” Furthermore, this operation aligns with WBG corporate commitments on climate co-benefits, reducing gender gaps, maximizing finance for development, and supporting Somalia’s transition from its FCV status.

C. Proposed Development Objective(s)

4. To promote economic resilience through more sustainable public finances and resilient private sector development.

Key Results

5. To promote sustainable public finances, this DPF is expected to increase the FGS’s ability to collect inland tax and customs revenue, contain the costs and risks of public debt, and strengthen public expenditure transparency and accountability. To enable resilient private sector development, the DPF is expected to facilitate better access to

¹ Federal Republic of Somalia, Somalia National Bureau of Statistics, Somalia Poverty Report, 2023.

² World Bank. Somalia: Country Partnership Framework for the Period FY24–28. Report No: 187254-SO. (Washington, D.C.: World Bank Group, 2024).



microfinance and insurance products, as well as support increased fisheries exports. To further strengthen resilience of private sector to climate change, the DPF is expected to expand investments in renewable sources of energy and ensure investment projects take into account environment, social and climate risks.

D. Concept Description

6. **The proposed operation is the first in a programmatic series of two operations to support economic resilience in the Federal Republic of Somalia.** The objective of Pillar A is to strengthen sustainability of public finances and ensure macroeconomic stability and fiscal space to support Somalia’s large development needs in the context of high volatility to climate change and fragility, conflict, and violence. The objective of Pillar B is to enable economic resilience of the private sector through implementing structural reforms that enhance the environment for private sector-led growth and create conditions for job creation. The reforms supported in this operation build on the reforms anchored in the HIPC initiative and supported by DPFs approved in 2020–2023.³

7. This DPF series promotes sustainable public finances to increase the fiscal space needed to foster economic growth and poverty reduction. Clarifying the collection of taxes, fees, duties, and other government revenues as well as ensuring implementation of the income tax legislation are expected to mobilize more domestic revenues in support of country’s significant development needs. Actions to strengthen the institutional arrangements for debt management will ensure that Somalia has a well-structured and staffed Debt Management Unit (DMU) that is capable of assessing the risks and costs of new public borrowing, managing the stock of debt that was not subject to debt relief, and ensuring transparency of all debt-related activities. Audit regulations will further align the functions of the Office of the Auditor General (OAGS) with international standards and reinforce OAGS’s autonomy in critical areas of staffing, operational and financial management, as well as delineate responsibilities between OAGS and FMS auditors general.

8. **To enable resilient private sector development and thus support climate adaptation and mitigation, the DPF includes reforms in key sectors of the economy.** Actions to strengthen the regulatory and supervisory framework for banks and, for the first time, microfinance institutions, will facilitate the development and introduction of new products and services—especially for small and micro borrowers. Improved regulation and supervision of all takaful affairs will protect the rights and interests of takaful customers and promotes the development of the takaful market, resulting in increased number of pastoralists, including women, covered by takaful insurance. Enhancing the collaboration between federal and state levels in fisheries governance and setting export and important fisheries standards will support higher exports and sustainable exploitation of maritime resources. Establishing the core functions of the Ministry of Environment and Climate Change and introducing environment and social impact assessments (ESIAs) for investment projects will make the economy more resilient to climate change and reduce environmental costs. Putting in place clear framework for true cost recovery and optimized generation and transmission network development plan will incentivize private investment in renewable energy.

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

Poverty and Social Impacts

9. **This DPF is expected to generate positive social impacts by mobilizing more domestic resources and supporting private sector development.** Higher FGS revenues and prudent management of public expenditure and debt will provide more resources to finance basic service delivery. No DPF actions supported reforms are likely to have significant negative poverty and social impacts. The adoption of an electricity tariff-setting framework will limit the costs that suppliers can

³ The Somalia Reform and Reengagement DPF (P171570) and Supplemental Financing (P174064) and the Somalia Inclusive Growth and Development DPF series (P174089 and P179307).



pass along to consumers. This is designed to encourage more efficient electricity generation and ultimately lower growth in prices faced by end-users, but levels of tariff rates that will be approved in the future are uncertain.

Environmental, Forests, and Other Natural Resource Aspects

10. **No prior actions are likely to have significant adverse environmental costs.** Although the construction of new electricity generation facilities expected to be enabled by the adoption of optimized generation and transmission network development plan could pose risks to the environment, the new requirement for investors to conducted ESIA's mitigates these risks.

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APPROVAL

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