



The World Bank

Somalia Inclusive Growth DPF Series (P174889)

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Report No: PGD267

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED GRANT

IN THE AMOUNT OF SDR 74.1 MILLION (EQUIVALENT TO US\$100 MILLION) TO

FEDERAL REPUBLIC OF SOMALIA

FOR THE

SOMALIA INCLUSIVE GROWTH DEVELOPMENT POLICY FINANCING SERIES

June 29, 2022

Macroeconomics, Trade and Investment Global Practice
Eastern and Southern Africa Region

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FEDERAL GOVERNMENT OF SOMALIA FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(exchange rate effective as of May 31, 2022)

Currency Unit: Somali shilling (SOS)

US\$1.00 = SOS26,027; US\$1.00 = SDR0.74

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank	IPF	Investment Policy Finance
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism	KYC/CDD	Know Your Customer / Customer Due Diligence
ASA	Advisory Services and Analytics	LDP	Letter of Development Policy
CBS	Central Bank of Somalia	LIC	Low-Income Country
CPF	Country Partnership Framework	MDA	Ministry, Department, or Agency
CPI	Consumer Price Index	MDRI	Multilateral Debt Relief Initiative
DPF	Development Policy Finance	MMO	Mobile Money Operators
DSA	Debt Sustainability Analysis	MOCI	Ministry of Commerce and Industry
ECF	Extended Credit Facility	MOF	Ministry of Finance
EU	European Union	MPF	Multi Partner Fund
ESP	Electricity Service Provider	NDC	Nationally Determined Contribution
FGS	Federal Government of Somalia	NDP	National Development Plan
FMS	Federal Member State	NPV	Net Present Value
GDP	Gross Domestic Product	PER	Public Expenditure Review
GNP	Gross National Product	PFM	Public Financial Management
GRS	Grievance Redress System	PPA	Performance and Policy Action
HIPC	Heavily Indebted Poor Country	SCD	Systematic Country Diagnostic
IBRD	International Bank for Reconstruction and Development	SDFP	Sustainable Development Financing Policy
IDA	International Development Association	SDR	Special Drawing Rights
IDP	Internally Displaced People	SNBS	Somali National Bureau of Statistics
IFC	International Finance Corporation	TSA	Treasury Single Account
US\$	United States dollar	UN	United Nations
IMF	International Monetary Fund	USR	Unified Social Registry
IUU	Illegal Unreported and Unregulated		

Regional Vice President: Hafez Ghanem

Country Director: Keith Hansen

Regional Director: Asad Alam

Practice Managers: Vivek Suri

Task Team Leaders: Natasha Sharma



SOMALIA INCLUSIVE GROWTH DPF SERIES

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The Somalia Inclusive Growth Development Policy Financing Grant was prepared by a World Bank team led by Natasha Sharma and Zubair Khurshid Bhatti. The team included Afrah Alawi Al-Ahmadi, Anna Zeita Metz, Aphichoke Kotikula, Asta Bareisaite, Catherine Ngumbau, Felix Lawson, Fred Yankey, Gael Raballand, Isabella Hayward, Jiwanka Wickramasinghe, John Randa, Julien Million, Leonard Matheka, Martin Serrano, Patrick Thaddayos Balla, Phil Schuler, Sameer Goyal, Sher Shah Khan, Sitara Sultanova, Stephen Ling, Taneem Ahad, Verena Phipps, and Yara Esquivel. Guillemette Jaffrin (Program Leader, EAEDR) and Kevin Carey (Adviser, EMNDR) served as peer reviewers. Laura Jaramillo (IMF Mission Chief) and Allen Dennis (Program Leader, EAEDR) provided helpful guidance. Logistical and administrative support was provided by Angela Mwangi, Eric Walter Maina and Lydie Ahodehou.



SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P174889	Yes	1st in a series of 2

Proposed Development Objective(s)

Promote inclusive growth by strengthening intergovernmental fiscal relations and transparency; and enhancing economic resilience and investment.

Organizations

Borrower: FEDERAL REPUBLIC OF SOMALIA

Implementing Agency: Ministry of Finance, Federal Government of Somalia

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

International Development Association (IDA)	100.00
IDA Grant	100.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

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

Overall Risk Rating

High



Results

Indicator Name	Baseline	Target
Results Indicator #1: Published Annual Report data on goods traded at the ports of Mogadishu, Bosaso and Kismayo using the HS code	Value (2021) No	Value (2025) Yes
Results Indicator #2: Publication of special audit reports on health and education expenditures that use government systems	Value (2021) No	Value (2025) Yes
Results Indicator #3: Number of new beneficiary households selected to receive shock-mitigating cash transfers from the government's Baxnaano safety net program using the household welfare scoring system of the unified social registry	Value (2021) Zero	Value (2025) 20,000, of which 70% are female
Results Indicator #4: Number of beneficiaries who have received their unique ID number	Value (2021) Zero	Value (2025) 500,000 men 500,000 women
Results Indicator #5: Number of licenses issued in compliance with the Federal Law on Fisheries and published on the Ministry of Fisheries website	Value (2021) zero	Value (2025) 5
Results Indicator #6: The number of licenses issued to operators supplying renewable energy	Value (2021) zero	Value (2025) 5
Results Indicator #7: Increase in the number of registered companies	Value (2021) 764	Value (end-2025) 802



IDA PROGRAM DOCUMENT FOR A PROPOSED GRANT TO THE FEDERAL REPUBLIC OF SOMALIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. This proposed Development Policy Financing (DPF) aims to support the Federal Republic of Somalia to promote inclusive growth by strengthening intergovernmental fiscal relations and transparency as well as enhancing economic resilience and investment. Strengthening intergovernmental fiscal relations is critical for addressing the drivers of state fragility and providing a predictable environment for private sector growth. Enhancing economic resilience is an urgent priority given Somalia's susceptibility to shocks including increasingly frequent climate-related disasters.¹ Adapting to climate change requires developing coping mechanisms for the most vulnerable and diversifying sources of livelihoods. Climate mitigation can be supported by following a low-emissions pathway for future growth, for example by encouraging investment for renewable electricity generation. Providing opportunities for Somalis to access jobs and generate a meaningful income to escape poverty entails alleviating structural constraints through supporting financial inclusion, expanding access to affordable and renewable energy, and developing the private sector. The proposed operation would be the first in a programmatic series of two DPF operations to support Somalia's progress in reaching the Heavily Indebted Poor Countries (HIPC) Initiative Completion Point at which point the country will be eligible for full and irrevocable debt relief.

2. Somalia concluded parliamentary and presidential elections in May 2022 and there has been a peaceful transition of power. Following a 15-month electoral period, Hassan Sheikh Mohamud became the country's president on May 15, 2022. President Mohamud had previously served as Somalia's eighth president between 2012 and 2017, when he oversaw the formation of Federal Member States (FMS) and directed Somalia's reform agenda to work towards reaching the HIPC Decision Point. While the protracted nature of the recent elections reflects Somalia's deep fragility, and the ongoing complexities of establishing an effective federal structure, their conclusion underscored the leadership's commitment to work towards state-building and stability despite challenging circumstances. A prime minister was appointed in June 2022 and will nominate a cabinet. A full government is expected to be constituted by September 2022.

3. Somalia has been subject to various shocks related to climate change, the Coronavirus Disease 2019 (COVID-19) pandemic, and rising commodity prices due to the war in Ukraine. Upon reaching the HIPC Decision Point milestone in March 2020, Somalia's economy was expected to grow by 3.2 percent and by 3.5-4.0 percent over the medium term. These growth projections were interrupted by a triple crisis of the COVID-19 pandemic, locust's infestation, and floods which caused the economy to contract by an estimated 0.3 percent in 2020 and contributed to a loss of livelihoods. In 2021, there were signs of a modest economic recovery with growth estimated at 2.0 percent as private sector activity picked up in urban areas. However, the ongoing severe drought is affecting economic recovery by reducing the

¹ Somalia has endured multiple droughts since 1965. The 2011 drought led to the demise of 260,000 people. The 2016/17 drought left over six million people food insecure. The current drought is contributing to internal displacement and widespread food insecurity. Somalia is also vulnerable to severe flooding. In 2019-20, floods displaced more than a million people, and following high precipitation and abnormal vegetation growth, the desert locust outbreak decimated crops and affected more than 2.6 million people. It is expected that incidences of droughts and flooding will increase, as indicated by the IPCC Working Group I report, https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM_final.pdf



country's limited domestic agricultural production. The drought is also contributing to a rise in the number of internally displaced people (IDPs). Furthermore, rising commodity prices following the war in Ukraine are placing strains on household expenditures, especially for the poor. In June, an estimated 46 percent of the Somali population are estimated to face food insecurity.²

4. These recent shocks, including the impacts of the war in Ukraine, are likely to place additional pressures on the poor in a context where almost 70 percent of Somalis are estimated to live on less than US\$1.90 a day.³ Poverty is high throughout Somalia, with rates elevated amongst IDPs living in settlements (largely due to climate related shocks such as droughts and floods), people living in rural communities, and nomads; groups which also have lower access to services. Almost 90 percent of Somali households are deprived in at least one dimension of poverty—monetary, electricity, education, or water and sanitation—and nearly 70 percent suffer deprivation in two or more dimensions. Across the board, women have lower rates of literacy and educational attainment. Households face further vulnerabilities related to injury, death, or unemployment.⁴ Just over 50 percent of the Somali working age population are actively participating in the labor market. Women and youth fare worse, with labor force participation rates estimated at 43 percent and 39 percent respectively.⁵

5. Despite multiple challenges, the Somali authorities have maintained progress in advancing the economic reform agenda and broader debt relief process. Several HIPC Completion Point triggers have been achieved or are near completion. In the area of public financial management, the Office of the Auditor General has published audited financial accounts and Regulations to the Public Financial Management (PFM) Act of 2019 have been issued (supported by this operation).⁶ To enhance domestic resource mobilization, the Federal Government of Somalia (FGS) and FMS reached an agreement on the single tariff schedule for major ports which has been submitted to the 11th Parliament for approval (supported by this operation). Debt transparency has improved through the publication of quarterly debt bulletins.⁷ In the social sectors, new agreements between the FGS and the FMS have been reached in education and health. A unified social registry (USR) is being supported although data privacy reforms are needed (supported by the second year of this operation). To enhance prospects for economic growth, an Electricity Act is being considered by the 11th Parliament and regulations to the Company Act of 2019 have been issued (both actions supported by this operation). Outstanding HIPC Completion Point triggers require legislation to be submitted to parliament, which the President has committed to prioritizing. Furthermore, the International Monetary Fund's (IMF)'s Board of Executive Directors approved the second and third reviews of the Extended Credit Facility (ECF) arrangement in June 2022 with Directors commending Somalia's authorities for maintaining macroeconomic stability and momentum on policy reform despite the multiple crisis facing the country.

² 2022 Drought Impact Snapshot, United Nations Office for the Coordination of Humanitarian Affairs, June 2022 <https://reliefweb.int/report/somalia/somalia-2022-drought-impact-snapshot-june-2022>

³ Measured at [2011] prices adjusted for purchasing power parity. Somali High Frequency Survey (SHFS), World Bank, 2017

⁴ World Bank, "Somalia Poverty and Vulnerability Assessment: Findings from Wave 2 of the Somalia High-Frequency Survey," April 2019.

⁵ Improving Access to Jobs for the Poor and Vulnerable in Somalia. World Bank 2020. Washington, DC.

⁶ The application of harmonized duty rates across the major ports was also supported by a performance and policy action (PPA) under the Sustainable Development Financing Policy (SDFP) in FY22.

⁷ Improvements to debt transparency have been supported by the Reengagement and Reform DPF P171570) and is a PPA under the SDFP.



6. The proposed operation supports policy reforms that strengthen intergovernmental fiscal cooperation and promote economic resilience, including through addressing the impacts of climate change. Pillar 1 supports the deepening of the federal agenda between the FGS and the FMS as the foundation for advancing the state-building process. Measures such as harmonizing customs regimes across regions and improving the basis for accounting for public resources represent incremental steps towards building trust and enhancing cooperation. Policy reforms in pillar 2 strengthen economic resilience through reforms to improve the targeting of the government's shock responsive social safety net (Baxnaano), increase financial inclusion, improve the diversification and sustainability of livelihoods through supporting sectors such as fisheries (which can stimulate growth and job creation), expand access to renewable energy, and strengthen the broader environment for private sector growth. These reforms are critical for stabilizing the state, supporting adaptation to climate change (in line with stated priorities under Somalia's Nationally Determined Contribution (NDC)), and access to alternative sources of income for the poor and vulnerable, including for women.⁸ Furthermore, this proposed operation can help the FGS meet urgent expenditures to help maintain macroeconomic stability and keep the broader reform process on track.

7. The reforms supported in this proposed operation complement the World Bank Group's expanding engagement in Somalia. The Somalia Recurrent Cost and Reform Financing (RCRF) Project - Phase 3 (P177900) supports intergovernmental fiscal cooperation. The Somalia Enhancing Public Resource Management Project (SERP, P177298) is under preparation to strengthen domestic revenue mobilization and public financial management arrangements at the FGS and FMS level. Support to financial inclusion and the Anti-Money Laundering / Combatting of Financing for Terrorism (AML/CFT) agenda is being provided under the Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP, P168115). To support sustainable fishing and the diversification of livelihoods, the Somali Sustainable Fisheries and Blue Economy Development Project (P178032) is under preparation. To develop the electricity sector, the Somali Electricity Sector Recovery Project (P173088) is supporting new investments. To strengthen Somalia's response to climate-related crises, the Somalia Crisis Recovery Project (P173315) is being implemented and the Baxnaano cash transfer program is being expanded with support from the Somalia Shock Responsive Safety Net for Human Capital Project (P178730). The Water for Agro-pastoral Productivity and Resilience Project (P167826) is implementing new investments to manage cyclical rainfall and strengthen agricultural productivity. To support the response to the COVID-19 pandemic, vaccinations are being deployed through the Somalia COVID-19 Emergency Vaccination Project (P176956), and more broadly efforts are underway to support human capital through the Improving Healthcare Services in Somalia Project (P172031) and the Somalia Education for Human Capital Development Project (P172434). The reforms in this proposed operation complement the World Bank Group's ongoing assistance and advance the achievement of HIPC CP triggers.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

8. The Somali economy had been making a modest recovery from the triple crisis of COVID-19, locusts, and floods, but is since facing headwinds from an exceptional drought across the Horn of Africa.

⁸ The Federal Republic of Somalia, Updated Nationally Determined Contribution (NDC), July 2021



The economy is estimated to have grown by 2 percent in 2021 following an economic contraction of 0.3 percent in 2020.⁹ Economic activities in cities are the main drivers of GDP growth. Higher demand for imported consumer goods (year-on-year increase of 9 percent in 2021) is supporting consumption and investment. A firm survey undertaken in July / August 2021 showed that almost two-thirds of firms experienced an increase in sales compared to the same period the year before, indicating a recovery in private sector activity.¹⁰ However, this economic recovery has not resulted in higher formal sector employment. Nearly half of all firms reduced the number of full-time permanent employees in July / August 2021 compared to the level in February 2020. By June 2022, only 10 percent of the population was fully vaccinated against the COVID-19 disease, which could prolong the adverse health effects of the pandemic. Furthermore, following three consecutive seasons of failed rains which intensified in the last quarter of 2021, a severe drought is affecting the country with famine conditions emerging in certain regions. These severe weather conditions are having a detrimental effect on livestock, reducing the consumption of the poor and contributing to internal displacement.

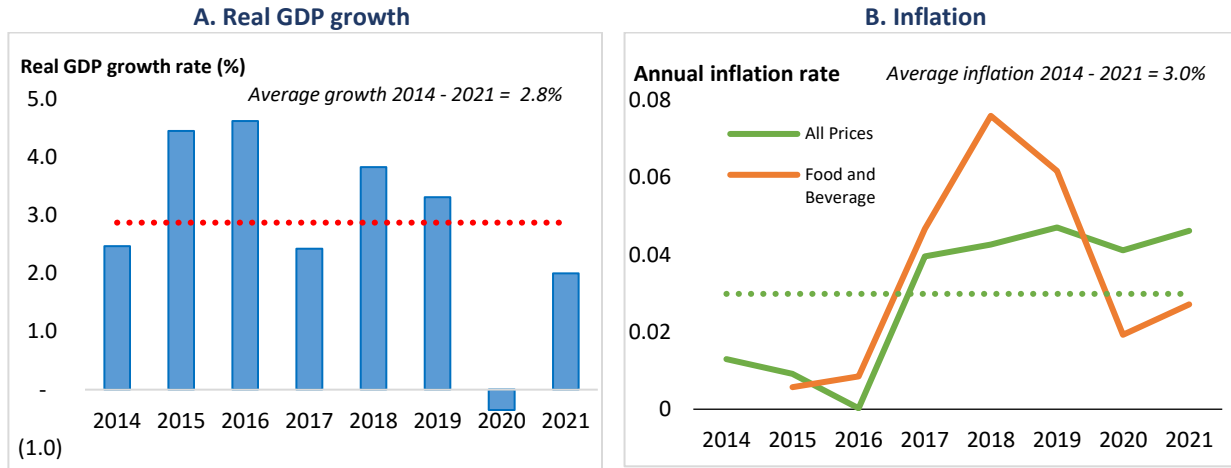
9. Consumer prices have been on an upward trend since mid-2021, further exacerbated by the impacts of the war in Ukraine. Somalia's de facto dollarization has usually been a source of broad-based price stability in contrast to the pre-war period which was characterized by high inflation and an unsustainable exchange rate regime. In the Banadir region, home to the capital city Mogadishu, the y-o-y inflation rate was 6.5 percent in April 2022, mostly due to higher food prices. Food prices in Mogadishu had been on an upward trend since July 2021 due to bottlenecks in supply chains which have constrained the availability of imported items as well as rising global food prices. While there have been improvements to supply chains, the war in Ukraine has further contributed to steady increases in food and fuel prices. Somalia has limited domestic production capacity, as enabling infrastructure such as irrigation, energy and roads was largely destroyed during the war. Limited domestic production of goods such as cereal is being affected by the severe drought and constraining the potential for finding viable food substitutes. Fuel prices are determined by the market, and combined with housing, water, and gas, rose by 4.6 percent y-o-y by in April 2022. These price increases for basic commodities are borne directly by Somalis and are expected to reduce consumption of the poorest 40 percent.

⁹ The IMF and the World Bank adopted the national accounts data (2012-2020) produced by the Somalia National Bureau of Statistics (SNBS) in December 2021. The new GDP series incorporates improvements in data coverage. Adopting the new series represents a 25 percent upward shift in the level of nominal GDP in 2017 (base year) compared to the prior estimates used by the Fund and the Bank.

¹⁰ Impact of the COVID-19 Crisis on Firms in Somalia: Findings from Round 3 of the Business Survey, Federal Government of Somalia, World Bank Group and United Nations Industrial Development Organization, December 2021



Figure 1 . Growth in Somalia has been modest, while inflation is ticking up



Sources: World Bank and IMF staff estimates, April 2022

Sources: Directorate of National Statistics

Notes: The period goes up to end-March 2021 covering month-on-month changes from previous years.

10. Somalia runs a chronically high structural trade deficit, which is financed by grants and remittances. A legacy of civil war has diminished domestic manufacturing capacity, leaving Somalia reliant on imports for major products such as food and fuel. Imports are estimated at 88 percent of GDP in 2021. The war in Ukraine has contributed to higher costs of imported items, although these may be offset by lower demand. Unlike the severe drought of 2016/17, the volume of humanitarian food imports is likely to be lower (while prices have increased), as fundraising efforts to support the current drought have been less effective in a context of increasing global emergencies and competing demands for official development assistance (ODA).¹¹ Somalia’s export goods basket is largely concentrated in livestock to Gulf Cooperation Council countries, and total exports in 2021 are estimated at 17.4 percent of GDP. The drought conditions are expected to reduce the quality of livestock for export. Exports of services are expected to have picked up after the COVID-19 containment measures were lifted and visitor numbers have increased. The trade deficit is financed by external flows, including grants, remittances, and foreign direct investment.

11. Although the official currency is the Somali shilling, the country is de facto highly dollarized. The last legitimate shilling notes were printed in 1990, and virtually all notes in circulation are counterfeit. However, there is demand for the Somali shilling, particularly for low value transactions which use low denomination currency. The amount of counterfeit currency in circulation is estimated to be equivalent to around US\$61.8 million. The CBS does not conduct currency transactions. The shilling/dollar exchange rate is fully market determined and has stayed relatively stable. In 2021, the Somali shilling / dollar exchange rate was estimated at 26,000. Mobile money is widely used, with an estimated penetration rate of 73 percent.¹²

12. The Central Bank of Somalia (CBS) is gradually advancing financial sector reforms. Since the approval of the Central Bank Act and the Financial Institutions Act in 2012, the CBS has been expanding

¹¹ In Q1, 2022, the US\$ value of imported food items increased by almost 40 percent year-on-year.

¹² Of the 73 percent of Somalis over the age 16 that use mobile money services: 83 percent are in urban areas, 72 percent are in IDP camps and 55 percent are in rural areas, Altai Consulting, “Mobile Money Ecosystem in Somalia,” April 2017



its regulatory capacity to ensure stable growth of the sector. In August 2021, a National Payment System was launched which is expected to be adopted by all commercial banks and increase Somalia's readiness for scaling up use of digital payments. As confidence in the banking sector grows, customer bank deposits have started to steadily rise, and credit to the private sector has increased as a percentage of GDP from 3.4 percent in 2020 to 5.0 percent in 2021. Overall, liquid assets to total assets are stable, estimated at 54 percent in December 2021.

13. Nevertheless, there are overall low levels of financial intermediation given the nascent development of core financial sector institutions and widespread informality in the private sector. While nearly three-quarters of the Somali population have access to mobile banking, finance for investment purposes is limited, and largely concentrated in trade finance, with women at a disadvantage. Somalia's isolation from the global financial system due to money laundering and terrorism financing concerns have resulted in tenuous correspondent banking relationships which adversely affect access to finance and the development of the financial sector. The Somali authorities are making steady progress in improving the AML/CFT framework, including the publication of a National Risk Assessment and the development of know-your-customer protocols, which are supported by this operation.

Table 1. Selected Economic Indicators
(percent of GDP unless otherwise indicated)

	2019	2020	2021e	2022f	2023f	2024f	2025f
GDP, nominal (millions of dollars)	6,477	6,965	7,373	8,202	8,839	9,621	10,49
Real GDP growth	3.3	-0.3	2.0	2.7	3.6	3.7	3.9
Per capita GDP, nominal (dollars)	451	471	485	525	551	583	619
Poverty incidence (US\$1.90/day purchasing power parity)	69						
Money and prices							
Consumer Price Index inflation rate (period avg)	4.5	4.3	4.6	8.5	3.6	3.8	3.7
Private credit (growth, end of period)	11.8	7.0	46.0
Private credit (share of GDP)	3.2	3.4	5.0
Fiscal (central government)							
Total revenue and grants	5.2	7.1	5.1	6.7	6.7	4.2	4.6
of which external grants	1.7	4.1	2.0	3.6	3.3	0.5	0.5
Total expenditure	4.9	6.8	6.2	7.0	6.8	6.1	6.4
Of which Compensation of employees	2.5	3.3	3.4	3.2	3.1	2.9	3.1
Of which Transfers to subnational	0.7	1.3	0.6	1.0	0.8	0.6	0.6
Of which Purchase of non-financial Assets	0.2	0.3	0.2	0.3	0.3	0.5	0.5
Overall balance, net	0.3	0.2	-1.1	-0.3	-0.1	-1.9	-1.8
External							
Current account balance	-10.4	-10.8	-15.0	-14.3	-12.4	-12.6	-13.6
Trade balance	-63.7	-63.4	-70.7	-71.0	-69.5	-67.9	-67.8
Exports of goods and services	17.3	13.9	17.4	16.9	16.9	17.2	17.2
Imports of goods and services	81.0	77.3	88.1	87.9	86.5	85.2	85.1
Remittances, private transfers	24.4	23.2	28.2	29.1	28.9	28.9	28.4



Official grants	29.4	29.9	28.0	28.2	28.7	26.9	26.3
Foreign Direct Investment	6.9	7.7	7.9	7.8	7.8	7.8	7.8
External debt	82.0	56.5	46.8	42.3	6.5	9.1	10.1
Exchange rate (shilling/dollar) (e.o.p)	25,065	25,761	26,039				

*Assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDRI and ‘beyond-HIPC’ relief at Completion Point in 2023. Notes: Central government refers to the Federal Government of Somalia.

Sources: Somali authorities, IMF, and World Bank estimates (May 2022).

14. Despite facing substantial fiscal pressures, the FGS has continued to not borrow. Under the IMF’s ECF arrangement various fiscal targets have been established, including zero borrowing. Furthermore, a Performance and Policy Action (PPA) in FY22 was to not enter any contractual obligations for new external public and publicly guaranteed (PPG) non-concessional debt. The FGS’ 2021 Appropriated Budget was prepared in expectation of budget support from international partners, in line with trends in previous years. However, budget support from multilateral partners did not materialize due to the prolonged electoral period. In April 2022, Türkiye disbursed US\$12.5 million as part of a bilateral agreement between Türkiye and the FGS, which has been used to replenish the fiscal buffer. While domestic revenue collection has been improving, doubling between 2016 and 2021, the pace of increase has not kept up with rising expenditures. Consequently, the FGS has had an average fiscal gap of around US\$10 million a month since August 2021. The general Special Drawing Rights (SDR) allocation to Somalia has helped to alleviate near-term fiscal pressures and a Memorandum of Understanding was signed between the CBS and the Ministry of Finance outlining how the SDR allocation would be apportioned to each institution.¹³ The MoF’s SDR allocation was exhausted in May 2022. Available options for addressing liquidity pressures include accessing external grants from partners based on performance in implementing reforms, as well as a temporary advance from the CBS for a period of three months. A small deficit of 0.3 percent of GDP in 2022 is expected, compared to 1.1 percent of GDP in 2021.

15. While exceptional budget support helped to compensate for the reduction in revenues due to COVID-19, broad-based improvements are being made to domestically mobilized revenues. Containment measures related to COVID-19 contributed to revenue collection falling short of projections in the FGS 2021 Appropriation Act by 14 percent. Exceptional budget support from IDA and the African Development Bank (AfDB) helped to offset revenue shortfalls.¹⁴ An easing of COVID-19 containment measures supported an improvement in domestic revenue collection, which increased by 8 percent in 2021 across the FGS and FMS, surpassing the pre-COVID-19 level. Revenue collection is dominated by trade-related taxes for the FGS and for states that have major ports including Puntland State of Somalia and Jubbaland State of Somalia. Trade-related tax revenues have the potential to further increase as efforts continue to harmonize and modernize customs processes, which are supported by this operation. Other reforms that the FGS and the FMS have been implementing to strengthen tax administration include

¹³ The authorities decided to distribute the 2021 SDR Allocation by the IMF on August 23, 2021, for SDR156.6 million (about US\$222.13 million) between the CBS (about US\$90 million) and the FGS (about US\$133 million).

¹⁴ The Reengagement and Reform DPO (P171570) was approved by the Board on February 27, 2020, and the Supplemental DPO (P174064) on June 23, 2020. The Reengagement and Reform DPO facilitated the clearance of arrears and reengagement with the international community. The full amount of US\$420 million was disbursed, of which US\$375 million was for arrears clearance and US\$45 million was for budget support. The Supplemental DPO disbursed US\$55 million.



the establishment of a Tax Policy Unit and Large Taxpayers Office, the introduction of a Taxpayer Identification Numbers and the development of a tax audit strategy.

Table 2. FGS Fiscal Operations (percent of GDP)

	2019	2020	2021e	2022f	2023f	2024f	2025f
Revenue and grants	5.2	7.1	5.1	6.7	6.7	4.2	4.6
<i>Domestic revenue</i>	3.5	3.0	3.1	3.0	3.4	3.7	4.2
Tax revenue	2.4	2.0	2.2	2.1	2.4	2.7	3.1
Taxes on income, profits, property	0.2	0.2	0.2	0.2	0.2	0.3	0.4
Taxes on goods and services	0.4	0.3	0.3	0.4	0.5	0.6	0.8
Taxes on international trade	1.7	1.3	1.5	1.4	1.5	1.5	1.6
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-tax revenue	1.2	1.0	0.9	0.9	1.0	1.0	1.1
<i>Grants</i>	1.7	4.1	2.0	3.6	3.3	0.5	0.5
Budget support	1.4	2.2	0.5	1.6	1.5	0.0	0.0
Projects' support	0.3	1.9	1.5	2.0	1.9	0.5	0.5
Total expenditure	4.9	6.8	6.2	7.0	6.8	6.1	6.4
<i>Current</i>	4.6	6.5	6.0	6.7	6.5	5.6	5.9
Compensation of employees	2.5	3.3	3.4	3.2	3.1	2.9	3.1
Use of goods and services	1.4	1.2	1.4	1.4	1.4	1.3	1.4
Interest and other charges	-	0.0	0.0	0.0	0.1	0.2	0.2
Grants (intergovernmental, etc.)	0.7	1.1	0.6	1.0	0.9	0.2	0.3
Social benefits	-	0.9	0.5	1.0	0.9	0.9	0.9
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Capital</i>	0.2	0.3	0.2	0.3	0.3	0.5	0.5
Transfer to government deposits	0.2	0.0	0.0	0.1	0.0	0.0	0.0
Overall fiscal balance, net	0.3	0.3	-1.1	-0.3	-0.1	-1.9	-1.8
Net accumulation of external debt	0.0	-0.2	0.8	0.5	-0.1	1.9	1.8
New external borrowing	0.0	0.0	1.0	0.6	0.0	2.0	1.9
Amortization of external debt	0.0	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1

Sources: Somali authorities, IMF, and World Bank estimates (May 2022).

16. Public expenditures are dominated by current spending, as Somalia tries to establish basic public service functions needed to stabilize the state. Wage bill expenditures accounted for just over half of total spending in 2021. Given the liquidity challenges, the FGS has made efforts to rationalize expenditures. Expenditures on all major items including the wage bill, the use of goods and services and capital are lower than the amounts appropriated in the FGS 2021 Appropriation Act. While intergovernmental transfers were lower than budgeted in 2021, they still comprised an estimated 9 percent of total spending. In 2020 and 2021, social spending was at about 17 percent of total expenditures, largely due to the channeling of project grants through country systems. The Baxnaano social safety net program accounted for more than half of social service spending in 2021. The FGS publishes quarterly consolidated government accounts comprising FGS and FMS expenditures, based on a new reporting tool that harmonizes the chart of accounts. Over time, and as fiscal space allows, the FGS has been making efforts to increase expenditures for development priorities identified in the ninth National Development Plan (NDP9) and has presented this in the Budget Policy Framework Paper for 2022.



17. Somalia is currently in the HIPC interim period. In March 2020, Somalia reached the Decision Point milestone of the HIPC Initiative, which restored access to regular concessional financing and launched the process toward debt relief. At end-2019, total public debt was US\$5.3 billion or 82 percent of GDP. At the HIPC Decision Point, the debt-to-GDP ratio fell to 56 percent in 2020. Debt servicing obligations (payment of interest and debt amortization) has resumed to IDA, with the FGS paying around US\$14 million each year. The IMF provides HIPC interim assistance on IMF-related obligations falling due prior to Somalia reaching the Completion Point, subject to satisfactory progress under the ECF arrangement being maintained. The AfDB has set aside financing for debt servicing until 2023. Upon reaching the HIPC Completion Point milestone, which is currently projected in 2023, the debt-to-GDP ratio is projected to fall to 6.5 percent, which assumes the full delivery of debt relief. Somalia's latest debt sustainability analysis (DSA) assesses Somalia to be in *debt distress*, but *debt is sustainable* contingent on the full delivery of the HIPC Initiative, Multilateral Debt Relief Initiative (MDRI), and beyond-HIPC assistance at the Completion Point.¹⁵

18. Somalia has signed agreements with individual creditors to restructure external public debt. At the HIPC Decision Point, Paris Club creditors agreed to provide interim debt relief as part of the HIPC Initiative.¹⁶ Debt relief and restructuring agreements have been signed subsequently with most Paris Club creditors, except Russia.¹⁷ Debt renegotiation discussions are underway with non-Paris Club creditors. In April 2022, Somalia signed a debt relief agreement with the Kuwait Fund for Arab Economic Development (KFAED) and negotiations have reached an advanced stage with the Saudi Fund and the Abu Dhabi Fund.¹⁸ The Somali Ministry of Finance is receiving technical assistance to support the discussions on the restructuring debt with creditors financed by the AfDB.

19. The FGS is strengthening its debt management capacity. The Ministry of Finance established a Debt Management Unit (DMU) in December 2015. The AfDB financed the installation of a debt recording system and provided training to staff in the unit, primarily to support the reconstruction of loan records. The debt recording system is being upgraded to the Commonwealth Meridien System, which is a cloud-based IT system that will allow for an in-depth review of the existing portfolio. The DMU started to issue quarterly debt bulletins at the end of 2020. The coordination between the DMU and other departments is improving. For the preparation of 2022 budget, for the first time the DMU is preparing an information annex on debt, to enhance debt transparency, which is a PPA. A joint IMF-World Bank technical assistance mission took place in 2021, which helped to establish a roadmap for strengthening debt management capacity, focusing on the legal framework, the institutional framework, as well as debt recording, monitoring, and reporting. A follow up mission on the debt management roadmap is planned in the second half of 2022.

¹⁵ The Somalia DSA was finalized in June 2022.

¹⁶ For press release please refer to <http://www.clubdeparis.org/en/communications/press-release/debt-relief-to-somalia-31-03-2020>. It was also agreed, on an exceptional basis, that Somalia would not be required to make debt service payments until at least end March 2024, given Somalia's very limited payment capacity, and if it continued to implement satisfactorily an IMF-supported program.

¹⁷ The authorities are engaged in negotiations on a debt relief agreement with Russian Federation.

¹⁸ the agreement with the KFAED includes a commitment to delivering full debt relief to Somalia under the HIPC Initiative.

**Table 1. External Financing Requirements***(millions of U.S. dollars)*

	2019	2020	2021p	2022f	2023f	2024f	2025f
Current account deficit	676	752	1,109	1,187	1,095	1,075	1,279
Amortization	-	13	16	15	7	8	10
Total Financing Needs	676	765	1,125	1,202	1,102	1,083	1,289
FDI (net)	447	534	580	636	685	750	819
Project loans	0	0	0	0	0	0	0
Other external financing	229	263	722	474	419	325	471
Total Financing Sources	676	797	1,302	1,110	1,104	1,075	1,290
<i>Memorandum</i>							
Change in reserves (- = increase)	0	-32	-177	92	-2	8	-1

Source: Central Bank of Somalia, IMF, and World Bank estimates, May 2022

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

20. The economy is expected to make a modest recovery in 2022, despite the drought and headwinds from the war in Ukraine. The economy is projected to grow by 2.7 percent in 2022. Growth would have been stronger were it not for the worsening drought conditions, which will affect livelihoods and livestock exports, as well as higher prices stemming from the war in Ukraine. Growth projections in 2022 are anchored in the peaceful transition of power following the elections and assume that there will be average rainfall conditions for the remainder of 2022. Numerous investments are in the pipeline to enhance access to finance, expand renewable energy supply, and develop new road infrastructure. These investments can help to develop new sectors such as fisheries, taking advantage of Somalia having the longest coastline in Africa, which can support growth and job creation. The agriculture sector is likely to remain vulnerable to climate-related shocks, as efforts to strengthen climate resilience through improved water management will likely pay off over the medium-term. The impact of the drought is partly being mitigated by the expansion of cash transfers to vulnerable households, where targeted beneficiaries include women. Rapid rates of urbanization, estimated at around 4 percent per annum, are expected to continue with cities continuing to be the main drivers of growth. By December 2022, it is expected that 40 percent of the Somali population will be fully vaccinated.

21. Given Somalia's high risk and fluid context, as well as headwinds from the war in Ukraine, a downside scenario is considered which projects growth at 1.8 percent in 2022. In the downside scenario, drought conditions further worsen which affects domestic agricultural productivity, while humanitarian support is limited due to competing demands for ODA and limited availability of food supply. Inflation could further increase (particularly for oil and wheat) which could result in a fall in consumption particularly for the poor as food and transportation costs increase. Higher inflation and reduced availability of food imports could lead to prolonged food insecurity. In addition, a delayed rollout of vaccinations could lead to adverse health impacts and the imposition of new containment measures.

22. Conversely, in the upside scenario, growth could reach 3.5 percent in 2022 and 3.9 percent in 2023. Improvements to intergovernmental dialogue and the security situation could reduce risks for the private sector and encourage foreign direct investment, particularly from Somalia's large diaspora. An



improvement in average rainfall conditions could enhance agricultural production to a level sufficient to allow for greater consumption of domestically produced food. A rise in humanitarian support could help to address food insecurity concerns. An increased pace of the vaccination rollout could be supported by improved security conditions and enhanced public health campaigns.

23. The current account deficit is projected at 14.5 percent of GDP in 2022 and is expected to decline slightly over the medium term. In 2022, the export of livestock is projected to decline due to the prolonged drought, although services exports may improve if visitor numbers increase, including from Somalia's large diaspora. Over the medium term, an improvement in access to affordable and renewable energy supply could support the establishment of a cold chain which can help develop new products for export, including seafood, as well as upgrade existing agricultural value chains. It is expected that Somalia will remain heavily import-dependent over the medium-term, as it will take time to rebuild the economy's productive capacity.¹⁹ Official grants and private remittances will continue to finance most of the trade deficit.

24. Inflation is projected to increase in 2022 and then reduce over the medium-term, provided the impacts of the war in Ukraine diminish. Following the rise in commodity prices and worsening drought conditions, inflation in 2022 is projected at around 8.5 percent, assuming global commodity prices continue to remain elevated for the rest of the year. Over the medium-term, prices are projected to decline in line with historical trends, provided there are better weather conditions to support agricultural production and the consumption of domestically produced items. De facto dollarization should provide relative price stability, given Somalia's dependence on imports.

25. Incremental improvements to revenue collection and higher grants are projected. Numerous efforts are underway to strengthen revenue collection, including the harmonization of customs and inland revenues to transition towards a single national administration rather than multiple fragmented administrations, which is being supported by technical assistance from the World Bank, the IMF and the United Kingdom's Foreign, Commonwealth and Development Office. Other initiatives to enhance tax collection include extending the collection of sales taxes through automated payment points; and increasing non-tax revenues from highly profitable firms that pay relatively low levels of taxes in the telecommunications industry and other service sectors. For example, the International Finance Corporation (IFC) and the IMF have been engaged in helping increase revenues from spectrum fees. Greater political stability is also expected to increase private sector activity, and in turn, associated tax collection. In addition, the recent completion of the elections is expected to unlock budget support from the European Union (EU), as reforms have been completed.

26. Over the medium-term, modest increases in expenditures are projected. Expenditures are projected to continue focusing on state stabilization through the financing of core government functions, which is fundamental for growth. Gradually, priorities in the NDP9 are expected to be financed as fiscal space enlarges. The growth of the wage bill is projected to stay contained, as the FGS works on improving payroll controls, which is also supported by the IMF's ECF program. Over the long term, grants are projected to gradually fall after HIPC Completion Point, as they are replaced by concessional loans. The fiscal primary deficit is projected to widen gradually in the medium and long term from -1.0 percent of

¹⁹ For example, Somalia's high power costs are a binding constraint on the development of an internationally competitive food processing industry. Significant investment in electricity generation and transmission is unlikely to be forthcoming until Somalia puts in place critical legal, policy, and regulatory institutions. Easing this constraint will therefore take several years.



GDP in 2024 to -1.5 percent of GDP in 2040 to finance public investments, as Somalia benefits from renewed access to concessional borrowing.

27. The IMF-World Bank Low-Income Country Debt Sustainability Analysis (LIC-DSA) (June 2022) confirms that Somalia is in debt distress. Total public debt is US\$3.5 billion. The present value (PV) of external debt in 2021 is 42 percent of GDP, well above the 30 percent threshold for countries like Somalia with weak capacity to manage debt. The baseline scenario assumes interim HIPC debt relief and that there will be no new borrowing over the interim period.²⁰ The May 2022 baseline DSA incorporates information on debt relief agreements already signed with Paris Club creditors, which leads to higher debt levels compared with the November 2020 DSA, due to differences in assumptions made for interim relief under HIPC in the November 2020 DSA and the actual terms in the signed debt relief agreements.²¹ Nevertheless, the May 2022 DSA presents an improvement in all indicators in the near term compared to the November 2020 DSA, largely due to the adoption of a revised macroeconomic framework which incorporates improvements in the nominal GDP series produced by the Somali National Bureau of Statistics (SNBS). These improvements are partially offset in the medium term (and more than fully offset in the long term) by an increase in the PV of external debt, resulting from both the update in the interim HIPC relief and slightly higher deficit projections than assumed in the November 2020 DSA.²² The PV of external debt-to-GDP and the PV of the external debt-to-exports continue to see significant breaches of the corresponding benchmarks over the forecast period. Moreover, the external debt service thresholds are breached beyond 2023 (debt service to revenue), and 2027 (debt service to exports).

28. In a forward-looking sense Somalia's debt is assessed as sustainable contingent on the full delivery of debt relief under the HIPC Initiative, MDRI, and beyond-HIPC assistance at the Completion Point.²³ Full delivery of this debt relief would bring all debt burden indicators significantly below their respective thresholds, consistent with achieving a moderate risk rating at the Completion Point. Reaching the HIPC Completion Point milestone would result in the debt-to-GDP ratio falling to 6.5 percent of GDP.²⁴ The non-debt flow shock, which is a shock in current official transfers is a consistently high-ranking shock scenario across all indicators, highlighting Somalia's dependence on ODA.²⁵ Furthermore, the external debt service-to-revenue ratio experiences large breaches under all shock scenarios, indicating the importance of strengthening domestic resource mobilization.

29. Somalia will need to continue making progress to meet all the HIPC Completion Point requirements. It is possible for Somalia to reach the HIPC Completion Point in 2023, provided all HIPC

²⁰ See Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018 (Appendix V. HIPC Initiative and MDRI).

²¹ For example, some agreements signed provide a 100 percent cancellation of debt at HIPC Completion Point (e.g., Italy, Japan), while for other countries previous assumptions did not incorporate terms included in the signed agreement (i.e. for the U.S., the agreement consolidates non-ODA debt after interim relief with ODA debt, and incorporates the capitalization of interests over the consolidation and grace period to the debt stock.)

²² The PV of external debt-to-GDP in the current DSA baseline (which only incorporates interim relief) is 45 percent in 2022, about 10 percentage points of GDP lower relative to the Nov 2020 DSA baseline. However, the PV of external debt-to-GDP in the current DSA baseline is projected to decline at a slower rate than in the November 2020 DSA baseline over the medium and long term, reaching 21 percent in 2040 (about 7 percentage points higher than in the November 2020 DSA baseline).

²³ Obtaining full debt relief is considered as an alternative scenario in the DSA.

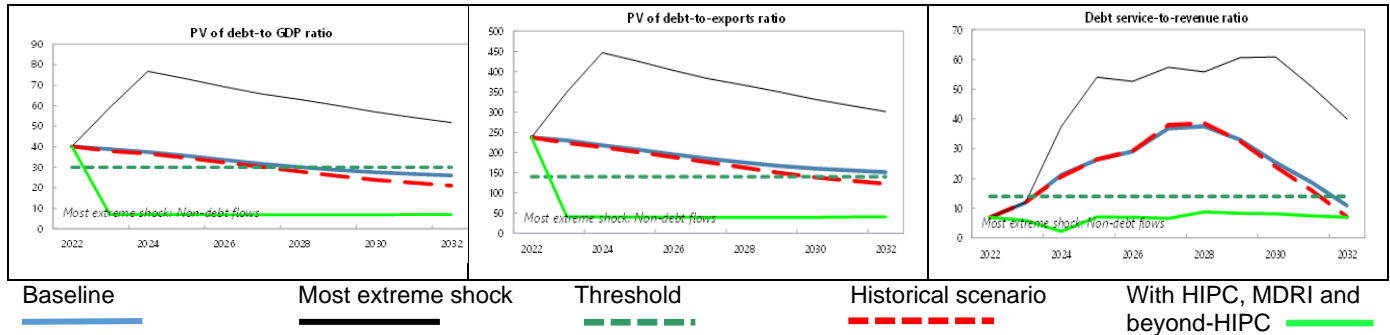
²⁴ See Appendix V in "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries," (February 2018).

²⁵ Standardized stress test suggests the most serious shocks stem from a one-time depreciation, although this shock is unlikely to occur in Somalia's de-facto dollarized context.



Completion Point triggers are completed (several of which are supported by this operation), a track record of macroeconomic stability is maintained and the government’s poverty reduction strategy, NDP9, is implemented for at least one year. In line with HIPC procedures, Somalia is required to prepare annual progress reports on the implementation of NDP9. Staffs of the IMF and WB will prepare brief Joint Staff Advisory Notes on these reports for the Boards. Upon reaching the HIPC Completion Point, Somalia will be eligible for full and irrevocable debt relief.²⁶

Figure 2. Somalia will remain in debt distress in the absence of debt relief



Source: IMF-World Bank Revised Low-Income Country-Debt Sustainability Analysis, April 2022

30. Risks to the economic outlook are high. The worsening of drought conditions, the possibility of other extreme climate events, absence of humanitarian support due to competing demands for ODA, and a further increase in prices related to the war in Ukraine could lead to a deterioration of the growth outlook. Delays in the rollout of the COVID-19 vaccine and a delay in projected investments also presents risks to the growth outlook.

31. The policy reform program supported by this operation can mitigate some of these risks. Actions in the first pillar support the federal agenda, through using technical reforms to build trust, increase transparency, and enhance cooperation. Advancing progress towards maintaining macroeconomic stability and the debt relief process sets the building blocks for growth, by improving the ability to manage shocks, coordinate responses to a crisis, and plan for long-term development policies. Actions in the second pillar strengthen economic resilience and recovery from climate and other shocks, for example through shock mitigating cash transfers and the advancement of structural reforms to support growth and job creation. The broader reform program supported by the international community complements this proposed operation, such as the IMF’s ECF program, HIPC CP triggers and EU budget support. The reforms in this operation are supported by WBG projects and advisory services.

32. The macroeconomic policy framework is assessed as adequate for the proposed operation. This assessment rests critically on Somalia’s ongoing commitment to the reform agenda anchored in the HIPC Initiative, including efforts to enhance fiscal discipline by not borrowing and improving expenditure

²⁶ Immediately prior to reaching the HIPC Completion Point, staff of the World Bank and IMF will work closely with the Somali authorities and creditors to determine the final amount of external debt eligible for debt relief. It will also compute the amount of HIPC assistance that each participating creditor should provide. The World Bank and the AfDB will provide full and irrevocable relief of all qualifying debt owed to the International Development Association (IDA) and the AfDB through the Multilateral Debt Relief Initiative. The IMF will provide similar beyond-HIPC relief.



controls. Strengthening intergovernmental fiscal cooperation, particularly concerning domestic resource mobilization and the governance of public resources will also be critical for supporting the adequacy of the macroeconomic framework. The HIPC CP triggers are expected to deliver important structural reforms to the economy, including those supported by this operation such as the harmonization of the national tariff, developing an enabling environment in the energy sector, and the Data Privacy Bill which is critical for the USR. Full and continued support is needed from multilateral partners to provide positive net grant flows as the country continues to rebalance its spending priorities towards state stabilization and meeting its fiscal obligations under the HIPC process. These elements are the foundation for Somalia to continue a sustained trajectory towards addressing the drivers of fragility, developing economic resilience, and reducing poverty.

2.3. IMF RELATIONS

33. Upon reaching the HIPC Decision Point in March 2020, Somalia entered a three-year Extended Credit Facility (ECF) arrangement. In March 2020, the IMF Executive Board approved a three-year blended arrangement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF), which involved access of SDR 253 million (155 percent of quota) under the ECF and SDR 38 million (23 percent of quota) under the EFF. As the full amount of the EFF arrangement was made available on approval and drawn at the first purchase, the EFF arrangement lapsed immediately. Program monitoring continues under the three-year ECF arrangement. The first review of the ECF was completed on November 18, 2020. Following a delay due to the protracted electoral period, the second and third reviews of the ECF were completed on June 17, 2022. To date, a cumulative SDR 257.4 million (about US\$365.5 million) has been disbursed under Somalia's ECF and EFF arrangements. In August 2021, the IMF increased its SDR allocation to Somalia by 156.6 million (US\$222.1 million).

3. GOVERNMENT PROGRAM

34. Somalia's poverty reduction strategy, the NDP9, was approved in September 2019. The NDP9 is a nationally owned strategy for poverty reduction and inclusive growth. It builds on the progress made and lessons learned from 2017–19 NDP, Somalia's eight development plan, and is the first to be crafted by the central government since 1986. Underpinning the NDP9 is an in-depth analysis of the drivers of poverty, fragility, insecurity and how resilience can be strengthened. The NDP9 was developed through extensive consultations with civil society, private sector representatives, FGS and FMS line ministries, national and state parliamentarians, members of the judiciary, and development partners. A summary of the consultative process is included in the NDP9 document.

35. The NDP9 presents a comprehensive strategy for development that emphasizes inclusive growth and poverty reduction. There are four pillars. Pillar 1 is *Inclusive Politics* which focuses on deepening the federal system, ratifying the constitution, building trust, and the delivery of fair and credible elections. Pillar 2 is *Improved Security and the Rule of Law*, which aims to establish a unified, capable, accountable, and rights-based Somali federal security institutions, as well as securing and improving access to justice. Pillar 3 is *Economic Development*, which aims to create an enabling environment for economic growth through regulatory changes, strengthening economic infrastructure, diversifying the private sector, and sustainably developing natural resources. Pillar 4 is *Social and Human Development*, which seeks to improve health and education outcomes to strengthen resilience and reduce poverty. The



implementation of results monitoring is further supported by a chapter dedicated to monitoring and evaluation arrangements, which outlines efforts to improve the country's statistical capacities.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

36. The proposed operation supports critical elements of the NDP9 as well as the government's efforts to reach the HIPC Completion Point, which is a key priority. The harmonization of customs regimes is presented in the NDP9 as being important for deepening the federal agenda and contributing to the inclusive politics pillar. Strengthening transparency and the management of public resources, as well as adaptive social safety nets supports the improvement of service delivery and governance, as outlined in pillar 4 of the NDP9. Advancing structural reforms in sectors such as finance, electricity, fisheries, and an improved business environment support pillar 3 on economic development.

37. This operation builds on lessons emerging from DPFs prepared in fragile environments. An Independent Evaluation Group (IEG) report on engaging with fragile states highlights the need to focus on politically feasible reforms that can build momentum for future changes, with an emphasis on restoring and strengthening basic state functions.²⁷ To balance the need to implement durable policy changes, accompanying institutional reforms and technical assistance are also in place, with close links to World Bank Investment Project Financing (IPF) operations and IFC advisory support. Therefore, the reforms are targeted in areas where there has been ongoing collaboration with government counterparts and development partners, which helps to ensure complementarity and coordination of efforts.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Strengthening intergovernmental fiscal relations and transparency

38. Advancing the state-building agenda is critical for stimulating inclusive economic growth by building trust and enhancing fiscal transparency between the FGS and the FMS. Somalia's Provisional Constitution set the basis for a federal system, but it did not define how resources from inland taxes, customs, and natural resources, several major functions, and personnel would be shared amongst the FGS and the FMS. Moreover, unlike other countries that follow a federal system, Somalia is unique in that the states with major ports, in addition to the federal government for the port of Mogadishu, collect and administer their own duties, which complicates resource sharing between the FGS and the FMS and reduces incentives to cooperate on information sharing and tariff harmonization. Decisions on how resources will be shared and governed need to be made as part of the state building process along with decisions on the allocation and/or sharing of functions among the regions. This pillar supports actions that create the building blocks for strengthening intergovernmental cooperation to enhance state stabilization.

²⁷ Independent Evaluation Group, "World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States: An IEG Evaluation," 2013.



Policy area: Harmonization of customs rates and valuation across Somalia

Prior Action 1. To support the harmonization of import duties across the major ports of Mogadishu, Bosaso and Kismayo, the Recipient's Council of Ministers has submitted the National Tariff Schedule to the Parliament as part of the 2022 Budget Appropriation Package.

39. Rationale. Somalia's emerging federal system is characterized by inequities in access to resources, which lowers trust and reflects the country's fragmentation. States that have a major port, such as Mogadishu, Bosaso or Kismayo, can collect a higher share of revenues, mainly from trade-related taxes, which accounts for almost half of all domestically mobilized revenues. The existence of multiple customs regimes has several adverse effects. For government authorities there are higher compliance costs, enforcement capacity is stretched, and incentives to share trade-related information among the regions is lower. The private sector face higher costs as different procedures in each state must be navigated. The Revenue Act of 2019 states that laws governing the major taxes should be made at the Federal level, and the Federal Ministry of Finance is responsible for the administration and the implementation of the revenue laws in line with the articles of the National Revenue Law. Although the law does not stipulate which level of government will administer or retain any given tax, it nonetheless provides a legal basis for the FGS to work with the FMS to harmonize tax policies across the country.

40. Substance of the action and trigger for DPO2. Within the framework of the Finance Ministers' Forum held in July 2020, an inter-ministerial agreement was reached to harmonize import tariff rates and apply a 'national tariff schedule' at the Mogadishu, Bosaso, and Kismayo ports.²⁸ The agreed tariff rate will bring Somalia on par with the East African Community Customs Union and its application will be supported by the Somali Customs Automated System.²⁹ To obtain higher level political acceptance of the harmonization of import duties, the FGS will submit the harmonized National Tariff Schedule to parliament as part of the 2022 Budget Appropriation package. Since the national tariff schedule was agreed in early 2021 improvements have been made which reflect federal and state agreements with major trading partners. As a trigger for DPO2, regulations for customs declaration and common customs valuation reference tables will be issued which will apply the National Tariff Schedule, thereby building on the reform supported in DPO1.

41. Expected outcome. The adoption of a national tariff schedule and ad-valorem valuation database has potentially multiple positive outcomes, including the sharing of data on trade flows in the major ports. Key benefits include improved ease of compliance for the private sector, greater trust in the tax system and strengthened tax morale, as well as improvements in information sharing. The harmonization of a national tariff schedule is expected to contribute to the advancement of the federal state structure through strengthening dialogue, consensus building and cooperation between the FGS and FMS. Greater transparency of trade-related information should inform the decision of traders and increase predictability for the private sector. Over time, as reforms to customs administration progress, the application of the harmonized tariff should support enhanced domestic revenue mobilization from an expected increase in trade flows. The harmonization of customs tariff and duty rates in the three major ports is a HIPC CP trigger. The implementation of this reform is supported by technical assistance from the World Bank, the IMF and the UK's Foreign, Commonwealth and Development Office.

²⁸ This action was supported by a performance and policy action in FY21 under IDA's SDFP.

²⁹ The Somali tariff schedule has three ad valorem bands: 5 percent, 15 percent, and 25 percent.



Policy area: Governance of intergovernmental transfers and audit

Prior Action 2: To enhance the governance of intergovernmental transfers, the MoF has issued Regulations to support the implementation of the Public Financial Management Act, 2019 specifying modalities for the requisition, transfer and the execution of intergovernmental transfers.

42. Rationale. Currently, there are no clear modalities in place governing how intergovernmental transfers should be requisitioned, transferred, and executed. The lack of clear rules and procedures diminishes the predictability of transfers and contributes to mistrust between the FGS and the FMS. This situation is of particular concern for the more recently established FMS (Galmudug, Hirshabelle, and South-West State) which have relatively limited tax potential and rely on transfers from the FGS. Furthermore, there is limited understanding of how resources are used at the FMS level to support service delivery and immediate priorities such as responding to climate-related shocks, which raises concerns over the effective use of public resources. These challenges partly stem from uneven implementation of reforms to strengthen the management of public finances at the FMS level. While each FMS has its own audit function, there has been limited cooperation between the audit units of the FGS and FMS.

43. Substance of the action and trigger for DPO2. The Federal Ministry of Finance will issue regulations to the PFM Act of 2019, which will, among other provisions, specify the procedures to requisition funds and execute transfers from the FGS to the FMS.³⁰ The issuance of regulations to the PFM Act of 2019 is also expected to strengthen procedures for budget preparation and execution, internal controls, public investment and debt management, as well as natural resource revenue management.³¹ As a trigger for DPO2, the Finance Ministers' Fiscal Forum will direct the FGS' Auditor General's Office to issue a special audit on service delivery related expenditures at the state level, in collaboration with the FMS's Auditor General's Offices as required. The special audit is expected to indicate the institutional procedures to strengthen collaboration between the FGS and the FMS.

44. Expected outcome. Greater predictability of transfers from the FGS to the FMS is expected to improve budget credibility. Establishing the 'rules of the game' for requisitioning resources from the FGS can also support trust building between the federal and state governments. Furthermore, an audit of the FMS's service delivery expenditures can support enhanced transparency and promote an understanding of how public resources are being used. Strengthening collaboration between the FGS and the FMS audit functions can also help to support quality enhancement and build trust for the results of a special audit on service delivery related expenditures. The FGS's Office of the Auditor General has already produced audit reports for 2019 and 2020, which is a HIPC CP trigger. Gradually enhancing the transparency and accountability of public resources can also support citizen engagement and help promote the use of on-budget systems by development partners. Support to PFM reforms at the FMS level is being provided by

³⁰ As a separate initiative, in February 2022, an interim intergovernmental fiscal transfer agreement was reached between FGS, the FMS and the Banadir Regional Administration which states that transfers will be based on five parameters: equal share, revenue enhancement, expenditure management, reporting and auditing, and fiscal gap equalization.

³¹ The adoption of regulations to implement the 2019 PFM Act is strengthen natural resource revenue management and public investment management, and is HIPC Completion Point trigger.



the SERP (P177298), under preparation.

Pillar 2. Enhancing economic resilience and investment

45. Addressing Somalia’s susceptibility to shocks will require enhancing resilience and diversifying sources of livelihoods through advancing structural reforms. Somalia is highly exposed to climate-related shocks, which is a contributor to internal displacement and rapid urbanization. For example, between January 2021 and March 2022, 719,000 Somalis have been internally displaced by drought, and in mid-March alone, almost 15,000 people were displaced by drought.³² These shocks disproportionately impact poor and vulnerable households. Adaptive safety nets are critical for enhancing the resilience of poor and vulnerable households, particularly for women who are more likely to develop negative coping mechanisms. Safety net interventions also promote and protect human capital contributing to inclusive development. While agriculture and livestock are important for the rural economy and exports, the sector is exposed to climatic shocks, which can lead to a loss of livelihoods, food insecurity and loss of export earnings. Sustainable and resilient development of sectors that provide alternative sources of livelihoods, such as fisheries for example, can promote job creation and nutrition. Establishing new sources of growth and job creation will require advancing structural reforms, such as access to affordable electricity to support the development of a cold chain, which can leverage Somalia’s substantial potential in renewable energy. Gaining access to finance and investment can also support the development of new sources of growth, which requires advancing AML/CFT reforms and improving the business environment.

Policy area: Shock-mitigating social safety nets

Prior Action #3. To support the identification of the poorest and most vulnerable beneficiaries of the Baxnaano Safety Net Program, the MoLSA has issued a Ministerial Decree adopting a household welfare scoring system for the Unified Social Registry.

46. Rationale. Somalia’s Baxnaano program is an important instrument for supporting the poor and vulnerable in times of crises, which includes climate related shocks. Somali women are particularly vulnerable to shocks and so are important beneficiaries of the Baxnaano program. However, coverage of the Baxnaano program is low, at less than 10 percent of the population. Therefore, ensuring that the most vulnerable are accurately identified and selected to receive assistance to meet their basic needs and smooth food consumption in times of crisis is critical. Currently, there is no such tool in place to identify the income and food of the poorest and most vulnerable households. The Federal Ministry of Labor and Social Affairs (MoLSA), supported by the World Bank, is making good progress in developing the Baxnaano targeting approach based on a household welfare scoring system supported by a social registry. The government lacks the enabling environment to directly implement the Baxnaano program and the USR due to insufficient data privacy and data protection protocols. Therefore, the administration of the Baxnaano program is currently undertaken by third party service providers, which can result in inefficiencies and duplication of efforts, and does not support capacity building of national institutions to

³² Somalia: Drought Monitoring Dashboard, 13-26 March 2022, United Nations Office for the Coordination of Humanitarian Affairs, United Nations High Commissioner for Refugees, and International Organization for Migration Displacement Tracking Matrix

https://reliefweb.int/sites/reliefweb.int/files/resources/20220404_Somalia_Drought%20Displacement%20Monitoring%20Dashboard-26%20March.pdf



deliver services.

47. Substance of the action and trigger for DPO2. The action provides an institutional basis for the adoption and application of the USR's household welfare scoring system to identify and target the poorest and most vulnerable, including those affected by climate related shocks and women. The household welfare scoring system measures welfare based on socioeconomic characteristics associated with higher or lower level of economic wellbeing such as age, housing conditions, ownership of durable goods and livestock, as well as location specific data, and so households that have been affected by climate related shocks can also be identified, facilitating rapid support households in need in times of crisis. To implement the household welfare scoring model, software in the USR's management information system is being developed with the support of the SNHCP. As the medium to long term objective is for the government to assume ownership and administration of the Baxnaano program, it is essential that the household welfare scoring system is institutionalized beyond the support from IDA. As a trigger for DPO2, it is proposed that the FGS enacts a bill on Data Protection and Data Privacy, in line with international standards, which can support the government's administration of Baxnaano and the USR database, as well as strengthen the enabling foundation for digital identification to facilitate access to finance and social services.

48. Expected outcome. The action is expected to result in improved targeting of beneficiaries of the Baxnaano program, so that the poorest and most vulnerable, including women, are effectively identified as recipients of the cash transfers. The Data Protection and Data Privacy Bill will help to support the transfer of the Baxnaano program and the USR from third party agencies to the FGS, along with other requirements such as developing sectoral operational guidelines and protocols for data management and protection, which are supported by the SNHCP. Furthermore, the Data Protection and Data Privacy Bill is expected to support government handling of private data which can benefit different spheres of the economy including access to finance and social services. This prior action is expected to contribute to climate co-benefits by enhancing the resilience of households that have been affected by severe climatic events, including the severe drought which is contributing to internal displacement across Somalia.

49. The prior action is expected to reduce the gender gap, as women and girls in Somalia have been disproportionately impacted by multiple crises and food insecurity. Results from a high-frequency phone survey of households coping with shocks undertaken in October 2021 revealed that women have limited coping mechanisms compared to men.³³ More than 40 percent of survey respondents reported experiencing either economic, food price or natural disaster shocks. Male-headed households were more likely to access assistance or loans from family and friends as a coping strategy compared to female-headed households. The survey also revealed high levels of food insecurity in Somalia with more than 35 percent of all households experiencing moderate to severe hunger. Women were disproportionately affected by food insecurity, with 43 percent of female-headed households experiencing moderate to severe hunger compared to 32 percent of male-headed households. Moreover, in cases of malnutrition, the primary reason for not seeking treatment was due to lack of financial resources, affecting 67 percent of female-headed households compared to 56 percent of male-headed households. These findings show that women are more likely to be adversely affected during a crisis and adopt negative coping mechanisms, such as reducing food intake, which limits their overall resilience. Women are the primary

³³ Gendered Impact of the COVID-19 Pandemic in Somalia: Results from a High-Frequency Phone Survey of Households, forthcoming, World Bank, 2022



recipients of the Baxnaano safety net. By improving their access to a predictable income, the program contributes to closing the gap in accessing shock responsive coping mechanisms while also strengthening resilience.

Policy area: Financial integrity and digital identification

Prior Action # 4. To develop a risk-based approach to prevent money laundering and the financing of terrorism, the MoF has published the National Risk Assessment.

50. Rationale. Somalia is isolated from the global financial system due to gaps in country systems tackling money laundering and the financing of terrorism (ML/FT) risks and the fact that existing know your customer / customer due diligence (KYC/CDD) protocols are based on manual processes. Such processes are time-consuming, operationally demanding, expensive, inefficient, and often unreliable. The lack of a robust and verifiable government-recognized identification (ID) represents one of the key bottlenecks in tackling the persistent ML/FT risks. Consequently, Somalia has limited functional correspondent banking relationships, which makes international transactions challenging. The lack of correspondent banking relationships increases the cost of making international transfers for remittances, ODA and investment flows to facilitate trade and commerce. Financial flows are largely channeled through informal channels and money transfer businesses (MTBs), which remains a source of vulnerability since supervision of these types of financial institutions is at an early stage. Furthermore, the lack of KYC/CDD protocols related to a lack of verifiable identification presents significant barriers for Somali entrepreneurs, including women to access finance for investment purposes. The National Risk Assessment has been widely recognized as a critical step in the efforts to tackle Somalia’s ML/TF risks. For example, the importance of a timely publication of the National Risk Assessment (NRA) was repeatedly called for by the Somalia Advisory Remittances Council (SARC).³⁴

51. Substance of the action and trigger for DPO2. Somalia has undertaken a NRA on ML/TF risks. Developing the NRA on a risk basis can help to develop measures to prevent or mitigate ML/TF commensurate with the risks identified, and in turn develop an AML/CFT Action Plan to prepare for the Middle East and North Africa Financial Action Task Force (MENA-FATF) mutual evaluation in 2024, which aims to prevent criminal abuse of the financial system. The NRA classifies the risk of ML and TF as high. The NRA assesses the lack of proper identification as a key vulnerability due to the lack of identification infrastructure, questionable third-party identification, and inadequate customer background checks. The NRA was conducted as a self-assessment by the Somali authorities, using the NRA ML/TF Risk Assessment Tool that has been developed by the World Bank. Limited technical assistance was provided by the WB related to the utilization of the ML/TF Risk Assessment Tool. As a trigger for DPO2, to address the gap in identification, it is proposed that legislation will be enacted setting out the purposes, key features, and implementation approach for the Digital ID System, in line with the Digital ID Policy. The law will be the first of its kind in Somalia and is expected to provide the enabling framework for the issuance of digital identification for men and women, building on existing legislation establishing the ID Authority. Digital IDs will help Somalis to access social services (including the cash transfers administered through the Baxnaano program) as well as access to finance through supporting KYC/CDD protocols.

³⁴ SARC brings together Somali authorities and development partners with the purpose of sharing information and enhancing coordination to safeguard the flow of remittances to Somalia.



52. Expected outcome. The action is expected to result in improvements to financial integrity and contribute to the establishment of an inclusive and trusted digital ID system. These developments are expected to support access to finance and social services, including cash transfers administered through the Baxnaano social safety net system. Results will be measured by the number of men and women who are issued with digital ID credentials. Implementation support to the digital ID system is being provided through the SCALED-UP project (P168115), which is also supporting complementary reforms to the financial sector such as the drafting of a Financial Institutions Law and a National Payments Bill, as well as capacity building of key institutions such as the CBS and the Financial Reporting Center. The Data Protection and Data Privacy Bill, which is also a trigger, is expected to support the enabling environment for digital identification. Over the medium to long term, improvements to financial integrity and digital identification are expected to improve KYC/CDD protocols to support the establishment of correspondent banking relationships, which should facilitate access to finance for investment purposes.

53. The reforms under this policy area are expected to reduce the gender gap in identification. According to the 2017 High Frequency Survey, the rate of ID ownership among men is 18.8 percent and among women 15.6 percent. Traditionally, women in developing countries face several barriers in obtaining official identification: restrictions on women’s freedom to travel outside the home or community; distance to government offices; financial cost; time constraints; illiteracy; and, lack of support or opposition from other family members.³⁵ The establishment of an inclusive digital identification system and nationwide registration and credential issuance efforts will allow all citizens and residents, both women and men, to more easily prove who they are for accessing services offered by the public and private sectors and beyond. Thus, to ensure equal access to IDs for women, a multi-pronged approach is needed, including targeted awareness raising and communications campaigns with the participation of women’s associations and civil society organizations, special registration arrangements such as all-female registration units and locations and priority registration handling for pregnant women and those with small children. By making it easier for women to access identity credentials, the digital ID system will support the closing of the gender gap not only in identification, but also in other dimensions such as access to finance and economic opportunity. Moreover, improved identity verification and authentication facilitated by the digital ID system can ensure that benefits meant for women such as cash transfers and other services reach their intended recipients. Finally, to track progress in addressing the gender gap, the results framework includes an indicator number of beneficiaries who have received their unique ID number disaggregated by gender.

Policy area: Fisheries management

Prior Action 5. To support the sustainable development of the Somali fisheries sector, the Recipient’s Council of Ministers has submitted to Parliament the draft Fisheries Bill.

54. Rationale. With the longest coast in continental Africa and a productive marine ecosystem, Somali fisheries remain in better condition than terrestrial natural resources sectors, and have the potential to develop into an important source of jobs, income, and economic activity.³⁶ However, the fisheries sector is increasingly threatened by climate change, and lacks a robust formal governance framework, which

³⁵ Lucia Hanmer and Mariana Dahan, 2015 “Identification for Development: Its Power for Empowering Women and Girls, World Bank

³⁶ For information on the potential of Somalia’s fishing industry, see World Bank and Food and Agriculture Organization, “Somalia Country Economic Memorandum, Volume 1: Building Resilient and Sustainable Agriculture in Somalia,” 2018.



would allow for the sustainable exploitation of marine resources, including by foreign fishing vessels operating under licenses issued by the Federal Ministry. There is no formal coordination platform between the FGS and FMS for policy dialogue around fisheries governance, management, and development. There are no clear regulations protecting marine habitats. This lack of a formal governance framework has led to the continuation of Illegal, Unreported and Unregulated (IUU) fishing, negative impacts on the marine ecosystem, conflicts with domestic fishers and unsustainable exploitation of some resources. Furthermore, while progress had been realized to generate and share the revenues from offshore fisheries licenses issued by the FGS with the FMS, as part of broader efforts to strengthen intergovernmental fiscal cooperation, the Agreement on Management of Fisheries and Revenue-Sharing expired in September 2020.³⁷

55. Substance of the action and trigger for DPO2. The revised Federal Fisheries Law (draft) addresses gaps in the existing law by establishing the framework for fisheries management, conservation and protection of the marine ecosystem (particularly mangroves and coral reefs) in line with regional standards, issuance of licenses, as well as monitoring and surveillance provisions.³⁸ The law establishes that the revenues from fisheries licenses is to continue being shared between the FGS and the FMS, however the law does not provide a specific formula and decisions on revenue sharing have to be agreed between the FGS and FMS. As a trigger for DPO2, it is expected that supporting regulations to the law will be enacted. The reform is expected to prevent large, foreign-owned fishing vessels to fish close to shore and compete with artisanal fishers, thereby enhancing opportunities for small artisans.

56. Expected outcome. The Federal Law on Fisheries is expected to improve the enabling environment for the development of the fisheries sector. Since early 2019, the FGS has been issuing offshore fishing licenses to foreign fishing vessels operating in Somalia's Exclusive Economic Zone, up to 200 nautical miles (370 km) from its coastal baseline. The expected outcome is to have licenses issued in compliance with the revised law and its implementation. The licenses should be published on the Ministry of Fisheries and Marine Resources (MFMR) website in a timely manner, including with the amount of fees paid. The reform is expected to contribute to climate adaptation and mitigation by supporting protection of healthy fish stocks and the critical marine habitats on which they rely, enhance the resilience of marine resources to the effects of increasing sea temperatures and acidity, as well as improving carbon sequestration in coastal habitats.³⁹ Supporting healthy marine ecosystems is the most effective single measure for countering the impacts of climate change on coastal resources. Furthermore, the Federal Law on Fisheries establishes the enabling framework to prevent large, foreign-owned vessels to fish close to the shore and compete with artisanal fisheries, thereby supporting fisheries as an alternative source of income and nutrition. The Regional First South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFISH1) (P132123) provided technical assistance to draft the Federal Law on Fisheries and conduct consultations. However, the project lapsed before the draft law could be considered by Cabinet. The Federal Law on Fisheries is expected to establish the enabling framework for the sector, in anticipation of further support being provided through the pipeline Somali Sustainable Fisheries and Blue Economy

³⁷ The Agreement on Management of Fisheries and Revenue-Sharing was signed in Addis-Ababa on March 22, 2019 and made a provision for a revenue-sharing formula between the FGS and the FMS. The Agreement expired after 18 months. This revenue sharing agreement was also supported by the Somalia Reengagement and Reform Support Development Policy Grant (P171570).

³⁸ A revised Federal Fisheries Law was drafted in 2020 with the support of the SWIOFish1 (P132123) project. Drafting was led by the FGS in consultation with the FMS.

³⁹ Somali Fisheries Adaptations in the Context of Potential Climate Change Impacts, MacAlister Elliot and Partners Limited and National Oceanography Center, 2021



Development Project, which will provide technical assistance to support the licensing system and compliance monitoring for offshore vessels.

Policy area: Electricity sector

Prior Action 6. To establish an institutional framework for the electricity sector which creates an enabling environment for private sector provision of renewable energy supply, the Recipient's Council of Ministers has submitted to Parliament the Electricity Bill.

57. Rationale. Prior to the civil war in 1991, the Somalia National Electric Corporation was the single public utility in operation, supplying Mogadishu and the main regional centers of Hargeisa, Berbera, Burao, Baidoa and Kismayo through distributed diesel generators and localized distribution grids. However, as public infrastructure was destroyed, the private sector sought to fill the gap, working in a regulatory void. Electricity Service Providers (ESPs) operate a network of isolated mini grids to supply electricity. The main source of energy supply is diesel generators. The cost of energy supply is amongst the highest compared with peer countries, power losses are estimated between 25–40 percent and access levels remain low, particularly in rural areas and amongst nomadic households due to high tariffs and connection fees.⁴⁰ The fragmented energy system is high cost and carbon-intensive and presents structural barriers to inclusive and sustainable growth. This situation co-exists with Somalia's largely unharnessed solar and wind resources that can not only provide lower cost energy solutions but also contribute to expanding access for both domestic consumers and the region.⁴¹

58. Substance of the action and trigger for DPO2. The draft Electricity Bill will provide a regulatory basis for ESPs to generate electricity, including from renewable sources, moving away from the current ad hoc and fragmented sector arrangements. The draft Electricity Bill was submitted to parliament at the end of 2020, before the mandate of the previous parliament expired. During the extended electoral period, the dialogue in the electricity sector has continued, in line with preparations for the Somali Electricity Sector Recovery Project. It is expected that the reading of the Electricity Bill will be prioritized by the new parliament. As a trigger for DPO2, it is expected that the Client will issue supporting regulations to the Electricity Act which will encompass arrangements for licensing, the grid code, and tariffs. The approval of a Least-Cost Generation and Transmission Financing Plan is expected to guide the implementation of renewable energy investments.

59. Expected outcome: Improving the coherence of the electricity sector through an improved regulatory framework is expected to encourage investment, particularly in renewable energy to harness Somalia's substantial solar and wind energy potential. The expected outcome is to increase licenses to operators supplying renewable energy. The establishment of the regulatory framework for the electricity sector is being supported by the Somali Electricity Sector Recovery Project and IFC Advisory Services. This reform is also a HIPC Completion Point trigger, thereby advancing the debt relief process. In addition, this prior action is expected to contribute to climate mitigation. Although Somalia's contribution to GHG

⁴⁰ The cost per kWh in Somalia excluding Somaliland ranges from US\$0.25–1.3 per kWh, with a weighted average of about US\$0.61 per kWh. In Somaliland, the cost per kWh ranges from US\$0.30–0.90 per kWh, with a weighted average of about US\$0.68/kWh (Power Sector Master Plan (PSMP), 2018). These costs place Somalia in the upper 5 percent globally for power cost, and in the upper 15 percent globally for power expenditure as a share of gross national income per household, Regulatory Indicators for Sustainable Energy (2016).

⁴¹ A renewable energy mapping study was undertaken, which included preparing wind resource models, data bases, and energy potential maps with +/-20 percent certainty on the suitability of specific areas for wind power projects.



emissions is minimal, it will still need to follow low-emissions pathway for future growth. This prior action supports Somalia’s NDC target of achieving a 30 percent emissions reduction against the business-as-usual scenario through using renewable sources of energy to generate electricity. Furthermore, lowering costs of renewable energy supply can support investment and job creation, as well as lower the costs of energy consumption for the poor.

Policy area: Business and investment climate

Prior Action 7. To support the implementation of the Company Act, 2019, the MoCI has issued Company Law Implementing Regulations

60. Rationale. As part of broader efforts to stabilize the state and promote an enabling environment for business, a Company Law was enacted in 2019, which provides the regulatory basis for starting a company, shareholder rights, responsibilities of directors, dissolution of firms, as well as the financial and operational reporting requirements by companies, updating pre-1991 legislation.⁴² Without adequate legislation, businesses will not be able to formalize, which is a prerequisite for being able to access finance, facilitate the growth of firms and encourage investment. While the Company Law helped to bridge a substantial regulatory void, implementing regulations are needed to operationalize the law.

61. Substance of the action and trigger for DPO2. Implementing regulations to the Company Act were issued in January 2021 by the Ministry of Commerce and Industry (MOCI). These regulations provide legal underpinnings to the recently launched online business registration system and clarify how businesses can register and obtain a license.⁴³ Subsequently, the MOCI has issued a second set of regulations which provide information on the protection of minority shareholder rights; a HIPC Completion Point trigger. This reform builds on the enactment of the Company Act of 2019, which was supported by the Reengagement and Reform DPF. As a trigger for DPO2, the Investor Protection Bill is expected to be enacted which had been submitted to parliament for review.

62. Expected outcome. The reform is expected to improve the business environment by supporting the formalization of firms, which should stimulate investment and job creation. The reforms are also expected to result in more firms being registered in Somalia. In 2021, the MOCI reported that 764 firms registered. By 2025, it is anticipated that the number of new firms registering could increase by an estimated 5 percent. The reforms to the business environment and investment policy and promotion are supported by IFC Advisory Services, which includes technical support to Ministry of Commerce and Industry (MoCI) on business registration reform, jointly with the SCALED-UP project. Increasing investment is also expected to support the development of new sectors such as renewable energy, given the substantial potential to develop solar and wind energy in Somalia.

Table 1: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1: Strengthening Intergovernmental Fiscal Relations and Transparency	

⁴² This action was supported by the Reengagement and Reform DPF (P171570)

⁴³ See <https://ebusiness.gov.so/>



<p>Prior action #1: To support the harmonization of import duties across the major ports of Mogadishu, Bosaso and Kismayo, the Recipient’s Council of Ministers has submitted the National Tariff Schedule to parliament as part of the 2022 Budget Appropriation package</p>	<ul style="list-style-type: none"> • An Assessment of Somalia Customs Revenue Potential (2018), • Public expenditure review module on domestic resource mobilization (2020); • Kalyundu, Gilbert and Norregaard, John, (2020), “Designing Federal Tax Policy for Enhanced Domestic Revenue Mobilization”, <i>IMF technical report</i>. <p>All studies highlight the importance of harmonizing customs tariff rates between the three customs authorities to strengthen federalism and improve revenue collection.</p>
<p>Prior action #2: To enhance the governance of intergovernmental transfers, the MoF has issued Regulations to support the implementation of the Public Financial Management Act, 2019, specifying modalities for the requisition, transfer, monitoring and reporting of intergovernmental transfers</p>	<p>Public expenditure review module on inter-governmental fiscal relations (2020); PFM module of the Public Expenditure Review (2021) highlight the importance of improving the governance framework for transfers from the FGS to the FMS.</p>
<p>Pillar 2: Enhancing Economic Resilience and Investment</p>	
<p>Prior action #3: To support the identification of the poorest and most vulnerable beneficiaries of the Baxnaano safety net program, the MoLSA has issued a Ministerial Decree adopting a household welfare scoring system for the Unified Social Registry</p>	<p>‘From Protracted Humanitarian Relief to State-led Social Safety Net System: Somalia Baxnaano Program,’ Afrah Al-Ahmadi and Giuseppe Zampaglione, WB Discussion Paper highlighted the importance of improving targeting to the most vulnerable households, including those which are female-headed.</p> <p>‘Targeting Evaluation of Somalia Shock Responsive Safety Net for Human Capital Project (SNHCP),’ Samuel Hall and Development Pathways, January 2022.</p> <p>‘Somalia: Shock Responsive Safety Net for Human Capital Project – Baxnaano – Targeting Approach,’ March 15, 2022. Technical Paper prepared by World Bank team under Technical Assistance activity (ASA).</p> <p>Gendered Impact of the COVID-19 Pandemic in Somalia: Results from a High-Frequency Phone Survey of Households, draft, World Bank, 2022 highlights how women are disproportionately affected by shocks and are more likely to adopt negative coping mechanisms.</p>
<p>Prior action #4: To develop a risk-based approach to prevent money laundering and the financing of terrorism, the MoF has published the National Risk Assessment</p>	<p>The Somalia Country Economic Memorandum, 2021 highlighted how concerns over the AML/CFT framework constrained opportunities for financial inclusion, the identification of beneficiaries for social protection and basic services. The importance of advancing the NRA was highlighted.</p>
<p>Prior action #5: To support the sustainable development of the Somali fisheries sector, the Recipient’s Council of Ministers has submitted to parliament the draft Fisheries Bill</p>	<p>The Somalia Systematic Country Diagnostic, 2018, highlights how the potential to develop the fisheries sector has been constrained by the lack of a governance framework between the FGS and the FMS.</p> <p>The Report on Somali Fisheries Adaptations in the Context of Potential Climate Change Impacts, MacAlister Elliot and Partners Limited and National Oceanography Center, 2021 discusses the importance of improving governance of the fisheries sector to support its sustainable development.</p>
<p>Prior action #6: To establish an institutional framework for the electricity sector which creates an enabling environment for private sector provision of renewable energy supply, the Recipient’s Council of Ministers has submitted to parliament the Electricity Bill</p>	<p>An energy field study conducted in 2017 highlights how Somalia has one of the highest costs of energy production and tariffs. Meanwhile, the Somalia Power Sector Master Plan and renewable energy mapping analysis underscores the significant potential for renewable energy power generation. The government’s NDP9 further stresses the importance of developing the energy sector by developing renewable energy sources and regulating the industry.</p>
<p>Prior action #7: To support the implementation of the Company Act, 2019,</p>	<p>The Somalia Economic Update 3—Rapid Growth in Mobile Money? Stability or Vulnerability, 2018, discusses how firms currently operate in a regulatory void,</p>



the MoCI has issued Company Law Implementing Regulations

which hinders the business environment. Developing the legal framework to strengthen the environment for competition in the private sector is a specific recommendation in the report.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

63. The proposed operation supports the objectives of the World Bank Group’s Country Partnership Framework, report number 124734 (FY19-22), discussed by the Board of Executive Directors in August 2018, and complements World Bank-financed IPF operations. The CPF has two focus areas: to strengthen institutions to deliver services, and to restore economic resilience and opportunities, with priorities organized as sub-objectives. A Performance and Learning Review of the CPF will be finalized in FY23 to guide the adjustment of the CPF program as Somalia has qualified for the turnaround facility as well as other IDA facilities and for IFC investments.⁴⁴ A new CPF will be launched in FY23, which is expected to maintain the same priorities, while expanding the scope of WBG engagement to reflect the expanding program. The prior actions under this proposed operation directly contribute to the CPF objectives as follows:

- Pillar 1 on strengthening intergovernmental fiscal relations and transparency directly contributes to **CPF objective 1.1** (on improving institutional effectiveness through supporting the transparency of public expenditures) and **CPF objective 1.2** on enhancing domestic revenue mobilization and resource sharing (through customs harmonization). Enhancing the governance of public resources at the FMS level will be supported by the SERP) while intergovernmental dialogue is supported by the RCRF Project – Phase 3. The harmonization of customs is supported by the Somalia Customs Support Project (P172650). A programmatic Public Expenditure Review (2019-21) delivered modules on revenue mobilization, PFM, the wage bill, and fiscal federalism, which have been used to inform the design of Pillar 1 reforms. Bank advisory support to the Financial Governance Committee provides critical oversight to reforms on intergovernmental fiscal cooperation.
- Pillar 2 on enhancing economic resilience and investment directly contributes to **CPF objective 1.3** on improving delivery systems for more inclusive social services (through improved targeting of the Baxnaano program), **CPF objective 2.1** through improving the business environment and developing the fisheries sector and **CPF objective 2.2** on access to finance through the publication of the NRA, **CPF objective 2.3** on increasing access to renewable energy (through supporting the Electricity Act). The IFC provides advisory services through the Somali Unlocking Sectoral Investments (IFC 603088) and Somali Investment Climate Reform (IFC 603600) projects which support implementation of the Company Law. The Electricity Act is supported by the Somali Electricity Sector Recovery Project, reforms to the fisheries sector are supported by the pipeline Somali Sustainable Fisheries and Blue Economy Development Project, which the AML/CFT reforms are supported by SCALED-UP.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

64. The proposed reforms in this operation support NDP9, as well as sector guidelines and policies, which were all prepared in a consultative manner. The NDP9 was prepared through an extensive consultative process, which involved civil society, the private sector, FGS or FMS line ministries, and representatives of the National Parliament of FMS Assemblies. Reforms to advance customs

⁴⁴ Major facilities include IDA’s Crisis Response Window, Regional Window, and Window for Host Communities and Refugees.



harmonization have benefitted from consultations with stakeholders at the federal and FMS levels, as well as the private sector. The laws supported under pillar 2 have been through several rounds of consultations at the FGS and FMS levels, as well as with civil society and international partners. For certain reforms such as fisheries, the outcomes of consultations have been documented and shared with stakeholders. The reforms supported by IFC Advisory Services have benefited from a public-private dialogue mechanism.

65. The proposed operation is being developed in close collaboration with development partners. There has been close collaboration with the IMF to agree on common priority reform areas and assessment of the macroeconomic framework. There has been close collaboration with the AfDB, as part of ongoing efforts to coordinate PFM related support. The European Union has also been a close partner for budget support-related activities with complementary reforms in the area of PFM and the fisheries sector. In addition, there have been regular outreach initiatives with bilateral partners coordinated through the Multi-Partner Fund, including dissemination of analytical work which inform the design of the operation and updates on the assessment of the macroeconomic framework. The collaborative efforts to prepare this operation build on the ongoing partnerships with development partners to support Somalia in reaching the HIPC Completion Point.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

66. The overall poverty and social impact of this DPO is expected to be positive.⁴⁵ While most of the prior actions are broadly neutral, some will likely have a direct impact on poverty in the short and medium run. Actions under pillar 1 are expected to enhance intergovernmental fiscal relations, which can provide a foundation for inclusive growth. Prior Action #1 on the harmonization of import duties across the major ports of Mogadishu, Bosaso and Kismayo is expected to reduce poverty in the long run through greater trade and investment facilitated by cooperation among the FMS. Once the reference value tables have been decided which is a trigger in DPO2, the effective changes to tariffs in each of the ports can be determined and subject to further analysis. Enhanced revenues from greater trade flows are also expected to enlarge fiscal space to support pro-poor expenditures. Prior Action #2 on enhancing the governance of intergovernmental transfers is expected to improve the predictability of transfers and enhance budget credibility. The trigger on the special audit can also inform an understanding of how the FMS are using public resources to support service delivery, with the aim of gradually increasing the share of pro-poor expenditures.

67. The actions in the second pillar are expected to strengthen resilience to shocks and support financial inclusion. Prior Action #3 on household welfare scoring system for the USR is expected to increase the proportion of beneficiaries from the poorest quintile from an estimated to 36 percent to 66 percent in specific regions.⁴⁶ Adverse effects related to data privacy are not expected, as administration of the Baxnaano program will only be handed over to the government once data privacy protocols are in

⁴⁵ Data collection for the next Household Budget Survey is currently underway. The availability of these data can support future PSIA analysis.

⁴⁶ World Bank. 2022. Somalia Social Protection Support: Building Blocks Towards a National Social Protection System (P168945) Technical Paper: Safety Net Targeting System



place. As mothers and female caregivers are the direct recipients of cash benefits, the Baxnaano program can empower women through enhanced participation in the decision-making processes within their households and communities. Prior Action #4 on the National Risk Assessment and the trigger on digital identification will help improve access to finance and reduce the cost of transferring remittances through supporting the establishment of correspondent banking relationships. In the absence of identification, women need to rely on male relatives or community leaders to confirm their identity, creating a high level of dependency. Identification is also critical to securing ownership over assets, such as land, property, a business, or to establish a formal claim to an inheritance.

68. Reforms supported in pillar 2 are also expected to support growth and formal wage employment. Prior Action #5 on the Somali fisheries sector is expected to be positive. In the short term, the Federal Law on Fisheries should prevent large, foreign-owned vessels to fish close to the shore and compete with artisanal fisheries, thereby protecting income and livelihood of small-scale fishers. The domestic marine fishery subsector is currently modest in size, with an estimated 4,500 artisanal fishers working full-time and 5,000 engaged part-time although there is substantial potential for the sector to grow with enabling infrastructure in place and improved governance arrangements. Greater availability of fish for domestic consumption could help reduce food insecurity and provide an alternative source of nutrition, given that fish consumption in Somalia remains one of the lowest in Africa.⁴⁷ Prior Action #6 to establish an institutional framework for the electricity sector is expected to lower costs of renewable energy supply. Results from a pilot program in Somaliland indicates that electricity service providers have been able to reduce the consumer tariffs by about 34 percent.⁴⁸ Prior Action #7 supporting the implementation of the Company Act is expected to be distribution neutral in the short run. In the medium to long run, this action is expected to support the formalization of the private sector and wage employment. Transparent and streamlined processes to register businesses could support the formalization of small and medium enterprises and facilitate access to financial services, which could benefit women as close to half of the informal and micro enterprises are majority female owned.⁴⁹

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

69. The institutional basis for improving environmental management is being established. In November 2020, the Somali cabinet approved the Environmental Management and Coordination Bill, which will be considered by the incoming parliament. Once enacted, the Environmental Management and Coordination Bill is expected to improve environmental governance and intergovernmental cooperation. The Directorate of Environment and Climate Change (DoECC) has commenced negotiations with departments in charge of the environment from the various Federal Member States. These improvements to environmental institutions and laws have been supported by the Somalia Country Environmental Analysis (CEA), which was published in June 2020, and was developed through a collaborative engagement with Somali stakeholders across the federation.⁵⁰

⁴⁷ World Bank. 2018. Somalia Country Economic Memorandum • Rebuilding Resilient and Sustainable Agriculture in Somalia

⁴⁸ Somali Electricity Sector Recovery Project. Project Appraisal Document

⁴⁹ World Bank. 2021. Somalia Country Economic Memorandum: Towards an Inclusive Jobs Agenda.

⁵⁰ The Somalia CEA extends the analysis in the NDP9 to evaluate the environment and natural resources sector and identifies opportunities for managing natural resources to deliver improvements for livelihoods, reducing poverty and building climate resilience.



70. Four actions in this proposed operation are expected to substantially contribute to three key climate objectives under Somalia's Nationally Determined Contribution (NDC). Prior action 3 on adaptive social safety nets is expected to support poor and vulnerable households cope with the effects of climate change. Prior action 5 on the new fisheries law seeks to strengthen the status of fish stocks and marine ecosystems through enhanced regulation and implementation monitoring. Supporting healthy marine ecosystems is the most effective single measure for countering the impacts of climate change on coastal resources. Furthermore, the development of the fisheries sector presents an alternative source of income and nutrition. Prior action 6 on the enabling environment in the energy sector, combined with prior action 7 on investor protections, is expected to contribute to higher investment levels in least cost renewable energy generation, harnessing Somalia's substantial wind and solar power potentials to address its acute affordable energy challenges.

71. The other actions in this proposed operation are not expected to directly affect Somalia's environment, forests, or other natural resources. Policies that improve the harmonization of customs regimes and PFM are part of broader efforts to strengthen intergovernmental fiscal cooperation. These institutional measures contribute to macroeconomic stability, thus establishing the conditions for the client to manage the country's natural resources more effectively. The other actions in pillar 2 to strengthen economic resilience and structural reforms are expected to contribute to better economic conditions for Somalis, thereby providing alternatives to environmentally harmful economic activities, such as the extraction of natural assets, thereby contributing to environmental benefits in the long run.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

72. The FGS has been progressively rebuilding its core PFM systems. The FGS has been building a modern legal framework, for example through enacting the Procurement and Concessions Law in 2016 and the PFM Law in 2019 which replaced a legal framework established in 1961. Budget documentation and the structure of the budget covers the basic elements to meet minimum levels of transparency despite delays during election years. The implementation of the Somalia Financial Management Information system (SFMIS) has enabled the government to produce financial reports covering all expenses in the budget, produce quarterly fiscal reports and annual financial statements from the system. The government continues to take significant steps towards strengthening cash management, operationalizing a Treasury Single Account (TSA), consolidating all bank balances of Ministries, Departments and Agencies (MDAs) via the SFMIS. These initiatives have significantly reduced cash advances to MDAs for non-salary expenses.

73. The transparency of fiscal reports has substantially improved. The FGS has published audited financial statements for 2019 and 2020, which is also a HIPC Completion Point trigger. In 2021, as part of the Budget Policy Framework Paper, the FGS published an aggregated budget for the first time, presenting budgets of the FGS, five FMS and the Banadir Regional Administration (BRA). The FGS has published monthly consolidation reports of fiscal outturns for the FGS and the FMS on the federal MoF's website since January 2021. To strengthen expenditure controls, the FGS has fully operationalized the functionality of the SFMIS to control commitments within allocations and warrants, which are guided by monthly cash forecasts. To improve the transparency of public procurement, the FGS has launched the Somali Public Procurement website which provides a one-stop platform of procurement information. The FGS has also developed a series of guidelines, manuals, and templates that are needed for implementation of the Public Procurement Law and regulations. Further training of MDAs is planned to support compliance with new procurement regulation and guidelines.



74. Several measures have been adopted by the FGS and the FMS to improve expenditure controls. Examples of new measures adopted include the integration of payroll controls, streamlining SFMIS business processes, strengthening fiscal transparency and accountability, and enhancing public procurement. To strengthen payroll controls, the FGS will seek Cabinet approval of a new policy on pay and grading reforms to implement an integrated payroll that controls the compensation of all FGS employees in the 2023 budget documentation. To streamline the SFMIS budget execution and Treasury management processes, the FGS is in the process of issuing regulations to the PFM Act of 2019. The FGS is also developing and enforcing an invoice tracking functionality in the SFMIS to monitor the accumulation of unpaid invoices and arrears, and report on these in a timely fashion. Cash planning and revenue management functions are being automated through the SFMIS. The FGS has improved fiscal transparency through publishing annual financial statements in a timely fashion, including SDR holdings. A gap analysis of the FMS's financial statements has been undertaken and a common template has been prepared that complies with the Cash-basis International Public Sector Accounting Standards (IPSAS).

75. Notwithstanding these achievements, there are several areas that still need further improvement. Budget classification is guided by the Government Financial Statistics Manual, however there is scope for improving transparency. A functional classification is not used. Significant budget adjustments at the level of MDAs, inadequate time given to MDAs to submit proposals after the budget ceiling is issued and wide variation in donor revenues are remaining issues that make the credibility of the annual budget still questionable. Rules and processes of fiscal federalism are still at a nascent stage including the arrangements for harmonized fiscal and financial reporting. Moreover, weak capacity for accurate forecasting and lack of discipline to adhere to the forecasts makes the overall cash management and commitment control processes an ongoing area for improvement.

76. Central bank capacity and IMF safeguards assessment. The IMF concluded a safeguards assessment of the CBS in March 2020. The March 2020 IMF staff report noted the presence of some important safeguards, including the central bank's legal framework and the internal audit function. The internal auditor produces relevant reports and follows up on the recommendations. However, the CBS's limited access to international correspondent banks introduces credit risks in the area of foreign exchange accounts. The CBS does not actively manage its foreign exchange reserves, as Somalia's economy is de facto dollarized and Somali shilling notes in circulation are counterfeit. In January 2022, the CBS Board approved the 2020 financial statements, which had attained an unqualified opinion status. The CBS's external auditor, Deloitte, determined that the financial records of the CBS are free of any misrepresentations and have been maintained in accordance with the International Accounting Standards as well as being compliant with International Financial Reporting Standards.

77. The CBS is making significant reforms to improve governance. The launch of the National Payment System is a major milestone, enabling a safer and more efficient government payment infrastructure. The guidance for Islamic bank financial reporting and the guidance for the Shariah bank governance framework were issued in 2020. The two largest mobile money operators were granted licenses in 2021. Mobile money regulations have been issued, a Mobile Money Supervision Unit has been established, and supporting regulations have been drafted. The CBS has adopted a function-based organizational structure and a new performance management system has been established. The National Anti-Money Laundering/Combating the Financing of Terrorism Taskforce supporting the National Anti-Money Laundering Committee has been operational since February 2022. Key infrastructure and IT systems have been acquired to support the Financial Reporting Center to review and assess suspicious



transactions. Efforts have been made to improve the integrity of the financial sector through outreach and training.

78. Grant amount, disbursement mechanism and flow of funds. Disbursement will follow the “General Conditions for IDA Financing, Development Policy Financing,” dated December 14, 2018. Upon effectiveness, IDA will disburse the proceeds of the grant of US\$100 million into dedicated accounts acceptable to IDA as a single tranche following notification by IDA of Effectiveness of the Financing Agreement. Upon receipt, the government will provide notice to IDA that the funds have been received in dedicated accounts mapped to the treasury single account (TSA), and the equivalent amount will be reflected in the government’s fiscal reports. The World Bank reserves the right to have specific audits conducted to confirm the funds flow and movement of funds from the World Bank to the dedicated accounts and from the accounts to the government Treasury Single Accounts.

79. The DPF dedicated accounts will be mapped and aggregated as part of the government’s TSAs. Disbursements of these proceeds will not be linked to any specific purchases and no procurement requirements must be satisfied, except that the government is required to comply with the standard negative list of excluded items that may not be financed with World Bank credit proceeds, as shall be in the Financing Agreement. If any portion of the Grant is used to finance ineligible expenditures as defined in the Financing Agreement, the World Bank has the right to require the government to promptly, upon notice from the World Bank, refund the amount equal to such payment to IDA. Amounts refunded to IDA will be cancelled from the Grant.

80. Reporting and accounting. The government will reflect the proceeds of the Grant in its budget documents, report on the grant in its fiscal summary reports and annual financial statements. The World Bank will not require specific tracking of the end use of the DPF funds, except as required by government PFM procedures and budgetary controls.

81. Auditing arrangements. The World Bank reserves the right to have a specific audit conducted to confirm the funds flow and movement of funds from the World Bank to the dedicated accounts and the TSAs. The audit will be essential more so, if in the opinion of the World Bank, the control environment ceases to be effective at any time during implementation. In such a case, the government, on request from the World Bank, shall provide full details of the bank accounts to which the DPF funds are disbursed (whether in U.S. dollar or any other alternative currency) and related transactions, audited based on audit terms of reference acceptable to the World Bank. The audit report shall be submitted to the World Bank within a period of four months after the World Bank’s request for the audit. The audit will be conducted by auditors acceptable to the Association, if required.

82. Closing date: The closing date of the DPF is January 31, 2024.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

83. The Ministry of Finance has the lead responsibility for the coordination, monitoring, and ensuring ultimate completion of the prior actions. Monitoring of results from the proposed operation will build on mechanisms that the ministry has developed for managing the IMF ECF program and the HIPC Completion Point commitments. Recognizing the government’s capacity constraints, prior actions for the proposed operation were selected to complement the ongoing support provided under World Bank, IMF and EU



supported projects to minimize the additional workload associated with monitoring the actions in this proposed operation.

84. “Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. 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/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org. ”

6. SUMMARY OF RISKS AND MITIGATION

85. Overall risks to this operation are high. Deep-rooted political tensions remain between the FGS and the FMS, which can undermine the reform momentum. The principal risks to the proposed operation are political and governance (high), macroeconomic (high), fiduciary (substantial), and institutional and capacity (substantial). These are elaborated below.

86. Political and governance risks are high. While the conclusion of presidential and parliamentary elections marks an important milestone in Somalia’s state-building process, resolving long-running tensions between the FGS and the FMS will require dialogue, cooperation, and trust-building. Measures aimed at harmonizing customs tariff and valuation require support from FGS and FMS political leaders, who can politicize the process and make reforms challenging to implement. The Finance Ministers’ Fiscal Forum, supported by the World Bank, has provided one important channel for the authorities to depoliticize these reforms and mitigate political and governance risks. The HIPC Initiative provides a broader framework for risk mitigation by providing incentives for political leaders to collaborate around breaking the vicious circle of weak state capacity, conflict, and persistent vulnerability.

87. Macroeconomic risks are high. The Somali authorities have limited policy options to respond to multiple shocks such as extreme climatic events, the COVID-19 pandemic, the impacts of the war in Ukraine and regular security incidences. The Central Bank of Somalia has no monetary policy instruments, as de facto dollarization supports prices stability. There is no fiscal space to allocate resources to respond to shocks. The FGS’ challenging fiscal situation underscores the country’s dependence on IDA and the importance of strengthening domestic revenue mobilization. Several measures are ongoing to improve fiscal sustainability, for example through raising domestically mobilized revenues and strengthening wage bill controls. Engagement in the IMF’s ECF arrangement, as well as participation in the HIPC Initiative also supports improvements to macroeconomic management.

88. Fiduciary risks are substantial. The government’s legal framework, procedures, and operational systems remain relatively new and incomplete, posing significant challenges to the government’s overall reform program. Strengthening fiduciary systems remains an ongoing government priority. The new PFM



regulations will contribute to reduction of fiduciary risk, as will continued support from the SERP which is under preparation, as well as support from IMF programs.

89. Institutional and capacity risks are substantial. Somalia’s policy agenda is crowded and competing demands from domestic and external stakeholders could overwhelm the authorities’ limited capacity to implement the reforms needed to achieve the operation’s expected results. Risks are mitigated by extensive financial and technical support from international partners, including the World Bank Group. The measures in the government’s program that are proposed in this operation were selected in part to take advantage of ongoing support provided by IPFs, Advisory Services and Analytics, and IFC Advisory Services.

Table 2: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● High
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	● Low
Overall	● High



ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
Pillar A---Program Development Objective A: Strengthening Intergovernmental Fiscal Relations and Transparency				
<p>Prior Action #1: To support the harmonization of import duties across the major ports of Mogadishu, Bosaso and Kismayo, the Recipient’s Council of Ministers has submitted the National Tariff Schedule to parliament as part of the 2022 Budget Appropriation package</p> <p><i>[Status: the national tariff schedule was submitted to parliament with the 2022 Budget Appropriation Package on May 26th 2022]</i></p>	<p>(Indicative) Trigger #1. To support the application of a single import duty across the major ports of Mogadishu, Bosaso and Kismayo the Recipient’s Ministry of Finance issues regulations on the Customs Reference Values and Customs Declarations</p>	<p>Results Indicator #1: Published Annual Report data on goods traded at the ports of Mogadishu, Bosaso and Kismayo using the HS code</p>	<p>Value (2022) No</p>	<p>Value (2025) Yes</p>
<p>Prior Action #2. To enhance the governance of intergovernmental transfers, the MoF has issued Regulations to support the implementation of the Public Financial Management Act, 2019, specifying modalities for the requisition, transfer, monitoring and reporting of intergovernmental transfers</p> <p><i>[Status: regulations were issued by the Cabinet on May 19th 2022]</i></p>	<p>(Indicative) Trigger #2: To transparently account for the use of public resources intended to support service delivery, the Finance Ministers’ Fiscal Forum issues a directive to the Auditor General’s Office to audit health and education expenditures for the Federal Government of Somalia and the Federal Member States</p>	<p>Results Indicator #2: Publication of special audit reports on health and education expenditures that use government systems</p>	<p>Value (2022) No</p>	<p>Value (2025) Yes</p>
Pillar B---Program Development Objective B: Enhancing Economic Resilience and Investment				
<p>Prior Action #3. To support the identification of the poorest and most vulnerable beneficiaries of the Baxnaano safety net program, the MoLSA</p>	<p>(Indicative) Trigger #3. To support the transfer of data of applicants in the unified social</p>	<p>Results Indicator #3: Number of new beneficiary households selected to</p>	<p>Value (2022) Zero</p>	<p>Value</p>



Prior actions and Triggers		Results		
<p>has issued a Ministerial Decree adopting a household welfare scoring system for the unified social registry</p> <p><i>[Status: The decree was issued on May 10th 2022]</i></p>	<p>registry and beneficiaries of the Baxnaano safety net program from third party agencies to the government, as well as establish the necessary foundations for digital identification, the Recipient has enacted a bill on Data Protection and Data Privacy, in line with international standards</p>	<p>receive shock-mitigating cash transfers from the government’s Baxnaano safety net program using the household welfare scoring system of the unified social registry</p>		<p>(2025) 20,000, of which 70% are female recipients</p>
<p>Prior Action #4. To develop a risk-based approach to prevent money laundering and the financing of terrorism, the MoF has published the National Risk Assessment</p> <p><i>[Status: The National Risk Assessment was published on May 18th 2022]</i></p>	<p>(Indicative) Trigger #4. To de-risk access to financial products and enhance access to social services including the Baxnaano social safety net program, the Recipient has enacted legislation setting out the purposes, key features, and implementation approach for the Digital ID System, in line with the Digital ID Policy</p>	<p>Results Indicator #4: Number of beneficiaries who have received their unique ID number</p>	<p>Value (2022) Zero</p>	<p>Value (2025) 500,000 men 500,000 women</p>
<p>Prior Action #5: To support the sustainable development of the Somali fisheries sector, the Recipient’s Council of Ministers has submitted to parliament the draft Fisheries Bill</p> <p><i>[Status: The law was submitted to parliament on May 19th 2022]</i></p>	<p>(Indicative) Trigger #5: To support the implementation of the Federal Law on Fisheries, the Recipient’s Ministry of Fisheries issues regulations to the Federal Law on Fisheries, which establishes mechanisms for monitoring vessels</p>	<p>Results Indicator #5: Number of licenses issued in compliance with the Federal Law on Fisheries and published on the Ministry of Fisheries website</p>	<p>Value (2022) 0</p>	<p>Value (2025) 5</p>
<p>Prior Action #6: To establish an institutional framework for the electricity sector which creates an enabling environment for private sector provision of renewable energy supply, the Recipient’s Council of Ministers has submitted to parliament the Electricity Bill</p> <p><i>[Status: Achieved: Electricity Bill was submitted to</i></p>	<p>(Indicative) Trigger #6: To support the implementation of the Electricity Act with a focus on the expansion of renewable energy, the Recipient’s Ministry of Energy and Water Resources issues (i) supporting regulations to the Electricity Act and (ii) the Least-Cost Generation Plan including renewable energy</p>	<p>Results Indicator #6: The number of licenses issued to operators supplying renewable energy</p>	<p>Value (2022) zero</p>	<p>Value (2025) 5</p>



Prior actions and Triggers		Results		
<i>Parliament on December 12th 2022]</i>	investments and Climate-risk management			
PA#7: To support the implementation of the Company Act, 2019, the MoCI has issued Company Law Implementing Regulations <i>[Status: Regulations were issued on May 19th 2022]</i>	(Indicative) Trigger #7 To improve the environment for foreign investment, the Recipient has enacted the Investment and Investor Protection Law to establish entry procedures and safeguards for investors in Somalia	Results Indicator #7: Increase in the number of registered companies	Value (2021) 764	Value (2025) 802



ANNEX 2: FUND RELATIONS ANNEX



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IMF Executive Board Completes the Second and Third Reviews of the Extended Credit Facility for Somalia

June 17, 2022

- Notwithstanding the challenges over the past 18 months, Somalia’s IMF-supported program remains on track, with continued progress on key reforms, including on domestic revenue mobilization, strengthening public financial management, deepening of CBS capacity, and enhancing governance.
- Support from development partners, both on financing and capacity development, is essential for the successful implementation of the authorities’ economic and structural reform strategy.

Washington, DC - June 17, 2022: The Executive Board of the International Monetary Fund (IMF) today completed the second and third reviews of the Extended Credit Facility (ECF) arrangement for Somalia. The Board’s decision enables the immediate disbursement of SDR 14 million (about US\$ 18.8 million), bringing Somalia’s total disbursement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) to SDR 271.4 million (about US\$ 384.3 million).

Somalia’s ECF arrangement was originally approved by the Executive Board on March 25, 2020 (see Press Release (<https://www.imf.org/en/News/Articles/2020/03/25/pr20105-somalia-imf-executive-board-approves-3-year-ecf-and-eff-arrangements>) No. 20/105) as part of a three-year blended arrangement under the ECF and the EFF, which involved access of SDR 252.86 million (155 percent of quota) under the ECF and SDR 39.57 million (24 percent of quota) under the EFF. As the full amount of the EFF arrangement was made available on approval and drawn at the first purchase, the EFF arrangement lapsed immediately. The ECF arrangement supports the implementation of the authorities’ National Development Plan and anchors reforms between the HIPC Decision and Completion Points.

Following the Executive Board discussion, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, made the following statement:

“The Somali authorities have preserved macroeconomic stability and maintained the reform momentum, notwithstanding multiple shocks. In addition to the challenges from Covid-19 and the protracted elections process, food security and economic activity are under strain because of severe drought conditions, compounded by rising global food and energy prices. The authorities’ have made skillful efforts to navigate these challenges, supported by the international community, including the 2021 General SDR allocation.

“The authorities maintain a steadfast commitment to the reform agenda under the ECF-supported program and the HIPC process, which is critical to build resilience, promote inclusive growth, and reduce poverty. The authorities’ ongoing efforts to strengthen domestic revenue mobilization and public financial management are commendable. Continued improvements in the institutional capacity of the Central Bank of Somalia are welcome. It will be important



to continue to advance reforms to improve AML/CFT and governance. Sustained efforts are needed to finalize the HIPC completion point triggers and achieve debt relief agreements with all creditors.

“Support from development partners, both on financing and capacity development, is important for the successful implementation of the authorities’ reform strategy. Contributions from Somalia’s partners to the Somalia Country Fund are also needed to ensure smooth delivery of IMF technical assistance to support the goals of the ECF-supported program and the HIPC Initiative.”

Table 1. Somalia: Selected Economic Indicators, 2019–2027

	Population: 15.2 million, 2021 estimate									
	Est.					Proj.				
	2019	2020	2021	2022	2023	2024	2025	2026	2027	
National income and prices										
Nominal GDP in millions of U.S. dollars	6,477	6,965	7,373	8,202	8,839	9,621	10,498	11,461	12,485	
Real GDP in millions of U.S. dollars	6,016	5,996	6,115	6,281	6,507	6,747	7,011	7,291	7,590	
Real GDP, annual percentage change	3.3	-0.3	2.0	2.7	3.6	3.7	3.9	4.0	4.1	
Real GDP per capita in U.S. dollars	419	406	403	402	405	409	413	418	425	
CPI (period average, percent change)	4.5	4.3	4.6	8.5	3.6	3.8	3.7	3.5	3.3	
CPI (n.o.p., percent change)	3.1	4.8	5.7	7.8	3.5	3.7	3.6	3.4	3.2	
(Percent of GDP)										
Central government finances 1/										
Revenue and grants	5.2	7.1	5.1	6.7	6.7	4.2	4.6	5.0	5.3	
of which:										
Tax	2.4	2.0	2.2	2.1	2.4	2.7	3.1	3.4	3.7	
Grants 2/	1.7	4.1	2.0	3.6	3.3	0.5	0.5	0.5	0.4	
Expenditure (FGS)	4.9	6.8	6.2	7.0	6.8	6.1	6.4	6.7	6.8	
Compensations of employees 3/	2.5	3.3	3.4	3.2	3.1	2.9	3.1	3.2	3.3	
Purchase of non-financial assets	0.2	0.3	0.2	0.3	0.3	0.5	0.5	0.6	0.7	
Overall balance	0.4	0.4	-1.1	-0.3	-0.1	-1.9	-1.8	-1.7	-1.5	
Net change in the stock of cash	0.4	0.2	-0.3	0.1	-0.2	0.0	0.0	0.0	0.0	
Stock of domestic arrears	1.0	1.0	0.9	0.8	0.8	0.7	0.6	0.5	0.4	
Public debt 4/, 5/	83.0	57.1	47.5	43.8	7.3	9.7	10.6	11.3	11.8	
(Percent of GDP)										
Monetary Sector										
Net Foreign Assets	1.9	-2.7	-3.3	-4.3	-0.1	-0.3	-0.2	-0.1	-0.1	
Central bank claims on non-residents 6/	2.3	2.8	3.0	3.3	3.0	2.5	2.3	2.1	1.9	
Net Domestic Assets	6.2	13.9	14.9	14.3	10.3	10.9	11.6	12.7	13.3	
Credit to the private sector	3.2	3.1	3.5	3.9	4.5	5.4	6.6	8.2	9.7	
Broad Money 7/	8.1	11.1	11.6	10.0	10.2	10.6	11.4	12.6	13.3	
Net Foreign Assets (Program Definition, in millions of U.S. dollars)	25	80	175	—	—	—	—	—	—	
(Percent of GDP)										
Balance of payments										
Current account balance	-10.4	-10.8	-15.0	-14.3	-12.4	-12.6	-13.6	-13.5	-13.5	
Trade balance	-63.7	-63.4	-70.7	-71.0	-69.5	-68.0	-67.9	-67.8	-67.8	
Exports of goods and services	17.3	13.9	17.4	16.9	16.9	17.2	17.2	17.2	17.2	
Imports of goods and services	81.0	77.3	88.1	87.9	86.5	85.2	85.1	85.0	85.0	
Remittances	34.4	33.2	28.2	28.1	28.9	28.9	28.4	28.4	28.4	
Grants	29.4	29.9	20.0	28.2	28.7	26.9	26.3	26.3	26.3	
Foreign Direct Investment	6.9	7.7	7.9	7.8	7.8	7.8	7.8	8.0	8.0	
External debt 8/	82.0	56.5	46.8	42.3	6.5	9.1	10.1	10.8	11.4	

Sources: Somali authorities; and Fund staff estimates and projections.

1/ Budget data for the Federal Government of Somalia. Fiscal operations are recorded on a cash basis. GDP data cover the entire territory of Somalia.

2/ A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous SDSD risk of grants and loans with 100 percent loans (with 50 year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress. Lower grants would result in deficits of 1.5 to 2.0 percent of GDP, higher than the ones projected under the alternative before this policy change. The difference with previous deficit projections would dissipate over time as the previous deficit projections already incorporated a gradual shift away from grants to loans.

3/ The increase in compensation of employees in 2020 reflects a reallocation of allowances from G&S to compensation in the context of Somali National Army reform.

4/ Assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDR1 and “beyond-HIPC” relief at Completion Point in 2023.

5/ Public debt includes arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Consistent with the public debt definition in the DSA. It includes net SDR position of the country.

6/ Includes FGS grants held abroad.

7/ Primarily deposits at commercial banks. Data before 2020 does not yet include balances held with MMOs.

8/ Consistent with the DSA external debt definition, which reflects the external debt of the country as a whole. Includes the total net SDR position of the central bank. This differs from public external debt reported in Tables 2A, 2B, and 10.

MEDIA RELATIONS

PRESS OFFICER: NADYA SABER

PHONE: +1 202 623-7100 | EMAIL: MEDIA@IMF.ORG

@IMFSpokesperson (<https://twitter.com/IMFSpokesperson>)



ANNEX 3: LETTER OF DEVELOPMENT POLICY

Federal Republic of Somalia
Ministry of Finance
Office of the Minister



Jamhuuriyadda Federaalka Soomaaliya
Wasaaradda Maaliyadda
Xafiiska Wasiirka

جمهورية الصومال الفيدرالية
وزارة المالية
مكتب الوزير

MOF/OM/793/2022

June 15th 2022

Mr. David Malpass
President
World Bank
1818 H Street, NW Washington, D.C. 20433
Washington DC

RE: Somalia Letter of Development Policy

Dear Mr. Malpass,

Somalia has made significant progress in rebuilding its economy over the last few years by undertaking a robust reform program. The Federal Government of Somalia (FGS) has successfully implemented wide-ranging reforms and capacity-building initiatives that has had positive impact on the reform process and facilitated the journey towards an expectation of achieving a Heavily Indebted Poor Countries Initiative (HIPIC) decision point that could enable possible future access to grant resources from the International Financial Institutions (IFIs) and other bilateral and multilateral partners. These challenging but fruitful reforms, which have strengthened our economic fundamentals, were made possible by the unwavering support from Somalia's development partners through continued financial support, including the first and second DPOs from World Bank.

In an effort to further strengthen the momentum, I am writing to formally request the Inclusive Growth Development Policy Financing operation on behalf of the Federal Republic of Somalia from the World Bank that will further support the advancement of critical reforms in Somalia. The DPO program will support the advancement of critical reforms in Somalia, which support progress towards reaching the Heavily Indebted Poor Countries Initiative Completion Point milestone and key reform priorities in the ninth National Development Plan, the country's poverty reduction strategy. This letter outlines some of the key achievements of the administration, the challenges going forward, and the overall commitment to the reform process.

The government has successfully completed the presidential elections on 15th May 2022 that has resulted in a peaceful and smooth transition of power to a new government. The new President, H.E. Hassan Sheikh Mahamoud, has firmly committed his government to further advancing the economic reform program in the country to reach the Completion Point. This is complemented by the strong support the reform program enjoys with the Somali people as a result of sustained effective communication, outreach and public engagement by all stakeholders.

Ministry of Finance, Shangaani District
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As demonstrated by the successful completion of elections and peaceful transition of power, Somalia is taking forward the state-building objectives and is firmly committed to a government at peace with itself and at peace with the world.

The Federal Government of Somalia (FGS) has embarked on an irreversible path of developmental progress under the HIPC process directed by an ambitious economic reform program. Our government is absolutely committed to implementing these wide-ranging reforms to support and enhance Somalia's political stability, economic growth, and poverty reduction ambitions which firmly anchors them in the Heavily Indebted Poor Countries initiative (HIPC) debt relief process. The FGS has communicated the benefits of the economic reforms well to all stakeholders, in particular the Somali people, its main beneficiaries and the current actions and aspiration of successfully implementing them has particularly inspired and engaged them. This is a strong base of public support from which to build on and strengthen the reforms to grow Somalia's economy, reduce poverty and create opportunities and further improve good governance. The purpose of this letter is to describe the challenges the FGS is facing, steps been taken to address the challenges and policies the government plan to pursue in the months ahead to ensure the success of the reform program to benefit the Somali people.

Key challenges: The Somali economy, despite difficult setbacks in the form of the COVID-19 impact as well as regular and deep climatic shocks, continues to grow at a small rate. However, lessening imports, COVID-19 restrictions, increasing costs of global supply chain, higher food and fuel prices following the Russian war in Ukraine, as well as worsening drought situation and influx of internally displaced people to major cities, particularly the capital Mogadishu, have created economic challenges for both the FGS and the Somali people.

Domestic Revenue Mobilization remains a strong focus of Somalia's economic reforms and recovery but the above challenges as well as the prolonged electoral process have led to liquidity challenges. The high national debt burden, poor levels of human and physical capital, a nascent fiscal federalism agenda, and the security situation are also impacting the FGS ability to expand the space to grow the economy faster and create further opportunities for domestic revenue mobilization. Additionally, the impact of COVID-19, locusts, and erratic weather has had significant impact on Federal domestic revenue mobilization as well.

The government's strategy to improve the economic situation is centered on building the resilience of the economy and the Somali people. Key to this is developing new sectors that are less vulnerable to climate shocks, strengthen the provision of affordable electricity, encourage investments, expand cash transfers for the most vulnerable, improve to domestic resource mobilization, commitment to maintain expenditure controls with increased transparency of the wage bill (hiring freeze) and the publication of consolidated government accounts. The FGS is also working to increase trading opportunities for Somali entrepreneurs and engaged in regional and global discussions for trade access and currently participating in the Horn of Africa Initiative which will assist with this. The government has also made headway in the Fiscal Federalism agenda and fiscal transfers to the Federal Member States. Somali customs have made good progress in areas of harmonization of customs processes as per World Customs Organization standards and have one common system (Somali Customs Automated system), SOMCAS.

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SOMCAS is currently piloted in Mogadishu will be cascaded to other ports and airports of the country. The agreed system, along with agreed tariff rate will transform Somali customs to be on par with East African customs union in terms of tariffs and process of doing business. This is envisaged to greatly improve the government's domestic revenue mobilization efforts. Alongside this, the transition to Advolerum tariff will substantially increase our international trade tax proceeds and thereby contribute to increasing domestic revenue. On the matter of fiscal transfers, Revenue shortfalls due to Covid19 have been covered by grant from the previous DPO and the FGS is always committed in sharing resources to mitigate the risk of Federal Member States (FMSs) not meeting their financial obligations. The FGS has shared EU budgetary support; fishery license proceeds and other RCRF allocations with the FMSs so far. The FGS also made a transfer to Somaliland as part of direct budgetary support in the spirit of fair distribution of resources to all Somalis. However, the FGS capacity to continue fiscal transfers at an increased pace is abruptly disrupted by the suspension of direct budgetary support by the international development partners, namely the World Bank and the European Union. This did not allow the FGS to improve transfer execution. In Fiscal Year 2021, total transfers to FMSs stood at US\$31.6 million and this is -47% below the actuals of Fiscal Year 2020. Moreover, Inter-Governmental Fiscal Federalism Technical committee meetings were taking place as usual even during the election period, whereby the technical committees discussed and agreed on significant intergovernmental fiscal federalism agenda, including the agreement on harmonization of Chartered Account to inform a unified financial reporting system, agreement on fiscal transfer based on a formula and among other things. The technical committee have unanimously agreed to formalize transfers on the basis of Performance-Based Criterion (PBC) with consideration of absorption capacity. This agreed fiscal transfer criteria for budget support grants will be presented to the Finance Minister's fiscal forum for endorsement after the new cabinet is formed. The FGS is committed to increasing fiscal transfers to all FMSs, including Somaliland, vis-a-vis an increased fiscal space from budgetary support, and the amounts for these transfers will be included in the Draft 2022 FGS Appropriation Act.

Government's vision.

The Inclusive DPO includes reforms that will solidify the economic reform gains thus far and build on them further to ensure a resilient and equitable economy. These reforms are integral to the overall economic reform agenda which are envisaged in the 9th National Development Plan. They have also been reached in an inclusive and participatory manner which reflects the priorities of the Somali people and government. The inclusive Growth DPO contributes to support vital aspects of government's program including fiscal sustainability and management, debt management, revenue mobilization, PFM, Financial Sector reforms, including AML/CFT, climate resilience and human Development through the *Baxnaano* program. Two of the best examples of this support are in the form of the Fisheries and Electricity Bills.

The Fisheries Bill that will be presented to Parliament will support private sector investment and growth while creating opportunities for coastal communities where poverty is rife. The Bill will also introduce policies and laws to effectively regulate the fisheries industry to promote competition and environmental protection for sustainable utilization of marine resources. This is because the protection of coastal habitats and maintaining healthy stocks of fish will contribute to climate mitigation and climate adaptation.

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The Electricity Bill will be prioritized for consideration by the new Parliament. This Bill is a priority for the Federal Government of Somalia as it aims to expand the coverage to people and businesses by reducing the cost of electricity through better competition and regulation in the market. This will unleash the opportunities available to Somalia's entrepreneurial business community, both as investors in and consumers of electricity, and assist in the development of new sectors, in particular, small-scale industries. This will hopefully have a direct effect on the domestic revenue mobilization and the creation of diverse opportunities for employment which will increase human capital, economic spending and investment and thereby reduce poverty.

The FGS has already achieved major reform milestones in revenue administration, Public Financial Management, Central Bank institutional reforms, good governance, and national statistics. All these are positively affecting the economy, strengthening institutional capacity, citizens confidence and international partners engagement, including the IMF and World Bank since 2013. This has resulted in a real collaborative opportunity to address Somalia's socio-economic challenges which directly impacts the daily lives of the Somali population which are among the most vulnerable in the world because of poverty and under development.

In addition to the above, the institutional reforms at the Ministry of Finance and Central Bank of Somalia are delivering capacity injection and policy implementation successes that are strengthening fiscal fundamentals. Furthermore, the National Development Plan 9 (NDP9) is complete after a long process of consultation and is focused on addressing the root causes of poverty and aims to improve the impacts of poverty experienced by households and individuals across Somalia. The poverty strategy for NDP-9 is therefore organized in four pillars: Inclusive and Accountable Politics; Improved Security and the Rule of Law; Inclusive Economic Growth (including increased employment) and Improved Social Development. By focusing interventions in these four pillars, Somalia will be addressing the root causes of poverty and focusing policies, interventions, and resources in these key areas.

On the economic front, the FGS's focus on domestic revenue mobilization, strengthening public financial management, improving debt management and economic good governance, has resulted in the Somali economy slowly rebounding despite the effects of Covid-19 and recurrent drought. The Federal Government of Somalia (FGS), represented by the Ministry of Labour and Social Affairs (MoLSA) is implementing the Safety Net for Human Capital Project (SNHCP) program, also known as Baxnaano, which seeks to provide timely and predictable nutrition linked cash transfers to 200,000 targeted poor and vulnerable households in 21 targeted districts in Somalia. The program also aims to put in place the key building blocks for a national shock-responsive safety net system in Somalia. The FGS has been successfully implementing the World Bank Baxnaano project in partnership with the United Nations organizations. In the SNHCP, 100% of the primary recipient enrolled in the program are women. Since the beginning of the implementation of the project in 2020, 186,889 households (93%) have already received their monetary entitlements over 5 quarters. The project has also targeted locust-affected districts, of and as of March 2022, out of the 102,947 targeted households, 98% have so far successfully received their full monetary entitlements of 6 months, with the remaining 2% targeted to be covered within this quarter.

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Conclusion.

The FGS remains committed to achieving the reforms outlined in the NDP9, which includes greater political stability, economic resilience, and opportunities for poverty reduction, including basic public service provision. The government is also strongly committed to reaching the HIPC Completion Point, and this will be the priority of the incoming government to ensure that the Somali people benefit fully from the developmental assistance and investment opportunities that accompany it at this critical time of need.

Given the number of challenges that the Somali economy has faced, the government is seeking support to strengthen its own efforts to build resilience and promote stability from the Bank. This is a period of hope and Somali stands at a juncture where I am confident that the national reform efforts will lead Somalia to the path of stability, progress and sustainable development.

Yours Sincerely,


Dr. Abdirahman D. Beileh
The Minister



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ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Strengthening intergovernmental fiscal relations and transparency		
<p>Prior Action #1: To support the harmonization of import duties across the major ports of Mogadishu, Bosaso and Kismayo, the Recipient’s Council of Ministers has submitted the National Tariff Schedule to parliament as part of the 2022 Budget Appropriation package</p>	No	<p>Positive impact – greater cooperation among the regions can enhance state stability and reduce fragility</p>
<p>Prior Action #2. To enhance the governance of intergovernmental transfers, the MoF has issued Regulations to support the implementation of the Public Financial Management Act, 2019, specifying modalities for the requisition, transfer, monitoring and reporting of intergovernmental transfers</p>	No	<p>Positive impact – improving the transparency of intergovernmental transfers can support monitoring of resources to service delivery sectors</p>
Operation Pillar 2: Enhancing Economic Resilience and Investment		
<p>Prior Action #3. To support the identification of the poorest and most vulnerable beneficiaries of the Baxnaano safety net program, the MoLSA has issued a Ministerial Decree adopting a household welfare scoring system for the unified social registry</p>	<p>Positive – cash transfers can help vulnerable households adapt to extreme weather events and mitigate against food insecurity</p> <p>A functioning unified social registry’s household welfare scoring system enables rapid response to climate-related shocks, as it provides a readily available database of the poor and vulnerable hit hardest by climate-related crises, among other shocks</p>	<p>Positive impact – through improved targeting of cash transfers to the poorest and most vulnerable, where women are the primary recipients</p>
<p>Prior Action #4. To develop a risk-based approach to prevent money laundering and the financing of terrorism, the MoF has published the National Risk Assessment</p>	No	<p>Positive impact – advancing the AML/CFT agenda can support access to finance, including for vulnerable groups, which is critical for strengthening job creation and financial flows for investment purposes</p>



<p>Prior Action #5: To support the sustainable development of the Somali fisheries sector, the Recipient's Council of Ministers has submitted to parliament the draft Fisheries Bill</p>	<p>Yes – supports sustainable fisheries and preservation of the ecosystem</p>	<p>Positive impact – The Federal Law on Fisheries should prevent large, foreign-owned vessels to fish close to the shore and compete with artisanal fisheries, thereby protecting income and livelihood of small-scale fishers.</p>
<p>Prior Action #6: To establish an institutional framework for the electricity sector which creates an enabling environment for private sector provision of renewable energy supply, the Recipient's Council of Ministers has submitted to parliament the Electricity Bill</p>	<p>Yes – supports the expansion of renewable energy supply which can reduce emissions and support the development of new productive sectors such as fisheries</p>	<p>Positive impact – lowering costs of renewable energy supply can support investment and job creation, as well as lower the costs of energy consumption for the poor</p>
<p>PA#7: To support the implementation of the Company Act, 2019, the MoCI has issued Company Law Implementing Regulations</p>	<p>No</p>	<p>Positive impact – support the development of the formal private sector and the wage employment</p>