
GRANT NUMBER D843-SO

Financing Agreement

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

between

FEDERAL REPUBLIC OF SOMALIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

GRANT NUMBER D843-SO

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between FEDERAL REPUBLIC OF SOMALIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing to the Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift (SCALED-UP) Project (“Original Project”) (“Original Financing Agreement”), as supplemented by the additional activities described in Schedule 1 to this Agreement (the “Additional Activities”) (the Original Project and Additional Activities collectively referred to hereinafter as the “Project”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to thirty four million nine hundred thousand Special Drawing Rights (SDR 34,900,000) (“Financing”), to assist in financing the Project.
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Payment Dates are April 15 and October 15 in each year.
- 2.05. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall: (a) carry out Parts A, B.2, B.3, B.4, B.5, B.6 and C the Project through Ministry of Finance; and (b) cause the MSME Financing Facility to carry out Part B.1 of the Project, all in accordance with the provisions of Article V of the General Conditions and, Schedule 2 to this Agreement, the Project Agreement and the Subsidiary Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Project Operations Manual, including the MSME Subproject Manual, has been updated in a manner and substance satisfactory to the Association, pursuant to the provisions of Section I.C of Schedule 2 to this Agreement.
 - (b) A social safeguards specialist has been recruited for the Project Implementation Unit (“PIU”) under terms of reference and with qualifications and experience acceptable to the Association.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 4.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient’s Representative is its minister responsible for finance.
- 5.02. For purposes of Section 11.01 of the General Conditions:
- (a) the Recipient’s address is:

Ministry of Finance
Ministry of Finance Building
Corso Somalo Street
Shangani District
Mogadishu, Somalia; and

(b) the Recipient's Electronic Address is:

E-mail: info@mof.gov.so
minister@mof.gov.so
dg@mof.gov.so

6.03. For purposes of Section 11.01 of the General Conditions: (a) The Association's address is:

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

(b) the Association's Electronic Address is:

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

AGREED as of the Signature Date.

FEDERAL REPUBLIC OF SOMALIA

By

H.E. Abdirahman Duale Beileh

Authorized Representative

H.E. Abdirahman Duale Beileh
Name: _____

Minister
Title: _____

16-Jul-2021
Date: _____

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Kristina Svensson
Name: _____

Country Manager
Title: _____

16-Jul-2021
Date: _____

SCHEDULE 1

Project Description

The objective of the Project is to support progress towards increased access to basic digital financial and government services targeting entrepreneurship and employment, particularly for women.

The Project consists of the Original Project and the following Additional Activities:

Part A: Strengthening Institutions

1. Financing of Project Expenditures for: (a) strengthening the Central Bank of Somalia (“CBS”) governance and financial reporting systems to enable CBS capitalization; (b) activating critical institutional systems to enable functional corresponding bank arrangements; and (c) improving CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financing integrity.
2. Supporting: (a) the FRC’s planned outreach initiative to the Federal Member States (“FMS”) and subnational Ministries, Departments and Agencies (“MDAs”) for disseminating AML/CFT risks and AML/CFT priority policies and implementation actions; (b) AML/CFT policy development, implementation and awareness raising with regard to FIs, non-FIs and designated non-financial businesses and professions; (c) review and drafting of relevant regulations, development of policies and procedures and increasing AML/CFT awareness through additional stakeholder engagement; (d) dissemination and capacity building on AML/CFT measures to be implemented and transaction analysis in relation to FIs and designated non-financial businesses and professions; and (e) increased interagency cooperation between the FRC, national police and Attorney-General’s Office.
3. Supporting: (a) the introduction of a harmonized government approach to data protection and cybersecurity involving a consultative process; (b) the development of shared strategic, governance, legal and institutional frameworks and action plans to safely expand e-services through provision of technical assistance; (c) capacity building of the MOCT’s technical and institutional capacity to provide stronger technical cross-support to MDAs; (d) the acceleration of the National Communications Authority (“NCA”)’s activities on regulatory milestones, including the adoption and implementation of a new spectrum management framework, through provision of additional technical assistance and equipment; (e) the strengthening of basic regulatory functions such as data collection; and (f) support for training and business continuity of the NCA.

Part B: Enabling Financial and Digital Services

1. Supporting, *inter alia*: (a) scaling up of the large loans window and the micro and small loans window with a special focus on women owned firms; (b) development and implementation of a Matching Grants scheme for MSMEs; (c) the implementation of institutional development plans for Participating Financial Institutions (“PFIs”); (d) the introduction of digital financial services; (e) outreach activities targeting MSMEs in productive sectors hit by Covid-19; (f) expansion of lines of credit to Eligible PFIs; (g) financing of a Risk Sharing Mechanism that will pay compensation to PFIs for losses incurred on loans made out of their own capital to eligible MSMEs; and (h) capacity building activities for the MSME Financing Facility.
2. Supporting: (a) the ID system’s technical infrastructure, including activities related to secure identity management and digital authentication, enabling issuance of universally accessible, unique and digitally verifiable ID credentials, including delivery, operationalization and maintenance of all hardware and software required; (b) scaled enrollment activities, including (i) timely grievance recording and redress; (ii) distribution of ID credentials; and (c) related awareness-raising and communications to ensure access to the ID system for all residents.
3. Scaling up investment in the foundational infrastructure and services that can warehouse and safeguard critical information systems, and which can be shared across government to ensure more secure data management and exchange, including related studies, service contracts and installation of related hardware.
4. Supporting the operationalization of foundational cybersecurity and dataprotection frameworks including, through: (a) the introduction of a national Computer Emergency Response Team (“CERT”) security operations center to bolster the Recipient’s cybersecurity management capabilities, related equipment, office refurbishment, hardware and software; (b) capacity building, training and awareness raising; (c) penetration tests to identify vulnerabilities; (d) operationalization of the future data protection law, including setting up a data protection office and registry of data processors, controllers and complaints reporting system; (e) a data privacy risk assessment and compilation of a personal data catalogue; (f) drafting regulations on priority topic areas; and (g) technical assistance to formulate and implement shared compliance monitoring, auditing, and enforcement frameworks.
5. Supporting: (a) ensuring that core MDAs have adequate internet connections and basic IT tools to meet the immediate needs identified in the context of the Covid-19 pandemic; (b) financing systems integration (hardware and software), business process reengineering and training related to digitization of selected government revenue and expenditure streams and related workflows; and (c) the establishment

of a customer verification system (“CVS”) to enable the use of electronic know your customer (“eKYC”).

6. Supporting the Ministry of Commerce and Industry to sustain registration momentum of the online business registration system by, *inter alia*: (a) expanding business registration services beyond Mogadishu to other FMSs in Puntland and Jubaland (subject to the outcome of the FMS readiness assessment report and client demand); (b) capacity building of internal users at FMS ministries and final users in business communities; (c) strengthening stakeholder engagement by increasing outreach, media campaigns, and feedback loops of MSMEs using the online business registration service; and (d) establishing a virtual one-stop help desk for enterprises using business registration services.

Part C: Project Management and Coordination

1. Scaling up of gender-sensitive programming, promoting compliance with good safeguards practices, improving stakeholder engagement (especially targeting women), and strengthening feedback loops on implementation.
2. Strengthening monitoring and evaluation, learning systems, and ensuring compliance with safeguards requirements outlined in the Environmental and Social Management Framework (“ESMF”) and the Stakeholder Engagement Plan (“SEP”); and
3. Verification of Performance Based Conditions (“PBCs”) targets by an independent verification agency.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Ministry of Finance

The Ministry of Finance shall be responsible for overall coordination and implementation of the Project.

2. Project Steering Committee

(a) The Recipient shall maintain throughout Project implementation, the existing Project Steering Committee with a mandate, resources, terms of reference and functions, satisfactory to the Association.

(b) Without limitation to the provisions of paragraph 2(a) immediately above, the Project Steering Committee shall be responsible for: (i) approval of annual work plans and budgets, and Project reports, including financial management reports; and (ii) provide overall policy and strategic guidance for the Project.

3. Project Implementation Unit (PIU)

(a) The Recipient shall throughout Project implementation maintain the existing PIU under the Original Project within the Ministry of Finance with resources, terms of reference, staffing, and other resources, satisfactory to the Association, comprising, *inter alia*, a Project coordinator, a financial management specialist, a procurement specialist, an environmental safeguards specialist, a social safeguards specialist, and a monitoring and evaluation specialist.

(b) Without limitation to paragraph 3(a) immediately above, the PIU shall be responsible for day-to-day management and administration of the Project, preparation of annual work plans and budgets, consolidation of plans and reports, fiduciary aspects (financial management and procurement), environmental and social safeguards management, coordination of MDAs and institutions, communication of Project activities, and monitoring and evaluation.

4. Without limitation on Section I.A.3 above, the PIU shall, not later than three (3) months after the Effective Date, recruit a gender-based violence advisor, under

terms of reference and with qualifications and experience acceptable to the Association

B. Updated Subsidiary Agreement

1. The Recipient shall update the Subsidiary Agreement with the MSME Financing Facility in a manner and substance satisfactory to the Association, in order to facilitate the carrying out of Part B.1 of the Project, and make the portion of the Financing allocated to Part B.1 of the Project available to the MSME Financing Facility as a sub-loan, under terms and conditions acceptable to the Recipient and the Association.

C. Project Manuals

Project Operations Manual

1. The Recipient shall update, in a manner and substance satisfactory to the Association: (a) the Project Operations Manual, containing detailed guidelines and procedures for the implementation of the Project, including monitoring and evaluation, procurement, coordination, financial, administrative and accounting procedures, corruption and fraud mitigation measures, criteria for selection, measures for management of the environmental and social aspects of the Project and compliance with environmental and social guidelines, the Verification Protocol and related arrangements for Part A.1 of the Project; and (b) the MSME Subproject Manual, annexed to the Project Operations Manual, and containing MSME Subproject eligibility criteria, due diligence and selection criteria, implementation requirements, and terms and conditions for MSME Subproject Agreements, and except as the Association shall otherwise agree in writing, not amend or waive, or permit to be amended or waived any provision thereof.

Matching Grants Manual as an Annex to the Project Operations Manual

2. The Recipient shall cause the MSME Financing Facility to prepare and adopt a Matching Grants Manual, to be annexed to the Project Operations Manual, containing details of the guidelines and procedures governing the Matching Grants under Part B.1(b) of the Project, including, *inter alia*: (i) eligibility criteria applicable to potential Matching Grant Beneficiaries and Subproject proposals; (ii) procedures for the award of Matching Grants and selection of Matching Grants Beneficiaries; and (iii) except as the Association shall otherwise agree, the Recipient shall not amend, waive or fail to enforce the Matching Grants Manual, or any provisions thereof.

Risk Sharing Mechanism Manual as an Annex to the Project Operations Manual

3. The Recipient shall cause the MSME Financing Facility to prepare and adopt a Risk Sharing Mechanism Manual (“RSM Manual”), to be annexed to the Project Operations Manual, containing details of the guidelines and procedures governing the Risk Sharing Mechanism under Part B.1(d) of the Project, including, *inter alia*, criteria for beneficiary eligibility, eligible expenditures, disbursement mechanisms, applicable requirements for compliance with environmental and social safeguards, and terms and conditions of the risk sharing products to be offered under the Risk Sharing Mechanism.
4. The Recipient shall carry out the Project in accordance with the Project Operations Manual, including the annexed MSME Subprojects Manual, the Matching Grants Manual and the Risk Sharing Mechanism (RSM) Manual.
5. In case of a conflict between the provisions of the Project Operations Manual (including the annexed MSME Subprojects Manual, Matching Grants Manual and RSM Manual) and this Agreement, the provisions of this Agreement shall prevail.

D. Annual Work Plan and Budget

1. The Recipient shall, not later than October 31 of each year prepare and furnish to the Association, a consolidated annual program of activities proposed for implementation under the Project during the following Fiscal Year, together with a proposed budget for the purpose.
2. The Recipient shall exchange views with the Association on each such proposed consolidated annual work plan, and shall thereafter adopt, and carry out such program of activities for such following Fiscal Year as shall have been agreed with the Association, as such plan may be subsequently revised during such following Fiscal Year with the prior written agreement of the Association (“Annual Work Plan and Budget”).

E. Eligibility Criteria, Terms and Conditions of the MSME Subprojects

1. The Recipient shall cause the MSME Financing Facility to ensure that each Eligible PFI shall appraise, approve, monitor and evaluate respective MSME Subprojects to be financed under Part B.1 of the Project, and administer credits or loans to the respective MSME Beneficiaries, in accordance with the terms and conditions of the pertinent Subproject Agreement between the Recipient and the Eligible PFI, the guidelines and procedures set forth in the SME Subproject Manual contained in the Project Operations Manual.

F. PFI Financing

1. The Recipient shall cause MSME Financing Facility to provide financing to the pertinent PFI in accordance with the Project Operations Manual (including the MSME Subproject Manual) through a PFI Agreement on terms and conditions which shall include:
 - (a) that the MSME Financing Facility shall obtain rights adequate to protect its interests and those of the Recipient and the Association, including the right of the MSME Financing Facility to suspend or terminate the right of the PFI to use the proceeds of the PFI Agreement and the obligation of the PFI to refund all or any part of the amount of the financing provided to the PFI upon such PFI's failure to perform any of its obligations under the pertinent PFI Agreement or under the MSME Subproject Manual;
 - (b) the requirement of each PFI to:
 - (i) carry out Part B.1 of the Project in accordance with the updated Project Operations Manual (including the annexed MSME Subprojects Manual);
 - (ii) (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards adequate to reflect its operations, resources and expenditures in respect of the pertinent MSME Subproject; and (B) at the Association's and Recipient's request, have such financial statements audited (annual audit) by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association;
 - (iii) prepare and furnish to the Recipient and the Association all such information as the Recipient and the Association shall reasonably request relating to the foregoing; and
 - (c) that the MSME Financing Facility shall exercise its rights under each MSME Subproject Agreement in such manner as to ensure that the MSME Subproject is carried out in accordance with the SME Subproject Manual and to protect the interests of the Recipient and the Association.

G. Risk Sharing Mechanism

The Recipient shall cause the MSME Financing Facility to enter into an amendment of the Project Agreement with the Association setting out the criteria

for beneficiary eligibility, eligible expenditures, disbursement mechanisms, applicable requirements for compliance with environmental and social safeguards, and terms and conditions of the risk sharing products to be offered under the Risk Sharing Mechanism and cause the MSME Financing Facility to carry out the Risk Sharing Mechanism in accordance with the amended Project Agreement.

H. Updated Safeguards Documents

1. The Recipient shall:
 - (a) update the Environmental and Social Management Framework (ESMF) and Stakeholder Engagement Plan, within three (3) months after the Effective Date, in manner and substance satisfactory to the Association; and
 - (b) consult and engage with stakeholders on the Project design, benefits, risks, and impacts, as well as mitigation measures within three (3) months after the Effective Date, in a manner and substance satisfactory to the Association.
2. The Recipient shall ensure, or cause the MSME Financing Facility to ensure that the Project is carried out in accordance with the updated ESMF and SEP, including the guidelines, rules and procedures defined in said ESMF and SEP and the provisions of this section and Section G of Schedule 2 to the Original Financing Agreement. Without limitations to Section III.A of this Schedule, no activities subject to the provisions of the updated ESMF and SEP shall be eligible for financing unless the updated ESMF and SEP have been disclosed by the Recipient or the MSME Financing Facility.
3. If sixty (60) days prior to the Closing Date, the Association determines that there are measures and actions specified in the ESMF and the SEP which will not be completed by the Closing Date, the Recipient shall, and shall cause the MSME Financing Facility to: (a) not later than forty-five (45) days before the Closing Date, prepare and present to the Association, an action plan satisfactory to the Association on the outstanding measures and actions, including a timetable and budget allocation for such measures and actions; and (b) thereafter, carry out said action plan in accordance with its terms and in a manner acceptable to the Association.
4. The Recipient shall ensure, and cause the MSME Financing Facility to ensure that all technical assistance under the Project, application of whose results would have environmental and social implications, shall only be undertaken pursuant to terms of reference reviewed and found satisfactory to the Association, such terms of

reference shall ensure that the technical assistance takes into account, and calls for application of the Association's environmental and social safeguards policies.

5. Except as the Association shall otherwise agree in writing, the Recipient shall ensure, and cause the MSME Financing Facility to ensure, that none of the provisions of the ESMF, SEP or any environmental and social impact assessment be abrogated, amended, repealed, suspended or waived. In case of any inconsistencies between the provisions of the ESMF, SEP or any environmental and social impact assessment and the provisions of this Agreement, the provisions of this Agreement shall prevail.

I. Grievance Redress Mechanism

1. The Recipient shall, and shall cause the MSME Financing Facility, throughout Project implementation, to publicize the availability of a grievance redress mechanism, in form and substance satisfactory to the Association, to hear and determine fairly and in good faith all complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.

J. Verification

1. The Recipient shall, for purposes of implementation of Parts A.1 of the Project:
 - (a) not later than three (3) months after the Effective Date, appoint and enter into a verification agreement with one or more Verification Agency(ies), under terms of reference satisfactory to the Association and following terms of reference agreed between the Recipient and the Association;
 - (b) undertake, at least every six (6) months, an independent verification process, in accordance with the Verification Protocol and in a manner and in substance acceptable to the Association, through the said Verification Agency(ies), to ascertain whether the PBCs have been achieved for the period under review; and
 - (c) furnish to the Association corresponding verification report(s) in form and substance agreed with the Association, and any information and/or documentation that the Verification Agency(ies) and/or the Association shall reasonably require for the monitoring, audit, analysis and/or

verification of the achievement/fulfillment of the PBCs set forth in Schedule 3 to this Agreement.

2. In the event of a need for verification services prior to the appointment of such agency, the Recipient shall put in place adequate interim arrangements acceptable to the Association and approved in writing by the Association for this purpose.

Section II. Project Monitoring, Reporting and Evaluation

The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, services, consultants' services, non-consultants' services, Training and Incremental Operating Costs under Parts A, B and C (except Parts A.1, B.1 and B.2 of the Project)	12,200,000	100%
(2) Goods, services, consultants' services, non-consultants' costs, Training, and Incremental Operating	10,500,000	100%

Costs under Part B.2 of the Project.		
(3) Line of Credit: PFI financing under Part B.1 of the Project:		
(a) large loans window for MSMEs	(a) 700,000	100%
(b) micro and small loans window for MSMEs	(b) 2,800,000	100%
(c) Eligible compensations to PFIs through the Risk Sharing Mechanism under Part B.1(g) of the Project and as set out in the amended Project Agreement	(c) 2,800,000	100%
(d) Matching Grants under Part B.1(b) of the Project	(d) 1,700,000	100%
(4) Project Expenditures under Part A.1 of the Project	4,200,000	100%
TOTAL AMOUNT	34,900,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:
 - (a) for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed SDR 840,000 may be made for payments made prior to this date but on or after January 1, 2021, for Eligible Expenditures under Category (4); or

- (b) from Categories (1), 3(a) and 3(b) until and unless, the Recipient has fully withdrawn the resources made available under the SMPF Grant Agreement to Parts A, B and C (except Parts A.1, B.1(b) to (d) and B.2 of the Project); or
 - (c) for payments under Category (2), unless the Recipient has: (a) enacted legislation on the establishment and implementation of the digital ID system and general data protection, in alignment with the Digital ID Policy and in form and substance satisfactory to the Association; and (b) submitted, in form and substance satisfactory to the Association, an ID system implementation strategy, including a countrywide enrollment plan, which have been reviewed by the FMS; or
 - (d) for payments under Category (3)(c): (i) unless the MSME Financing Facility has submitted to the Association a final feasibility study on the Risk Sharing Mechanism, in form and substance acceptable to the Association; and (ii) unless the MSME Financing Facility and the Association have entered into an amendment of the Project Agreement setting out the criteria for beneficiary eligibility, eligible expenditures, disbursement mechanisms, applicable requirements for compliance with environmental and social safeguards, and terms and conditions of the risk sharing products to be offered under the Risk Sharing Mechanism; or
 - (e) for payments under Category (3)(d), unless the Recipient has prepared and adopted a Matching Grants Manual in form and substance satisfactory to the Association; or
 - (f) in respect of Category (4) above, until and unless the Recipient has: (i) furnished evidence satisfactory to the Association that the PBC for which payment is requested has been achieved as set forth in Schedule 3 to this Agreement, including the corresponding verification report(s) referred to in Section I.J of Schedule 2 to this Agreement; and (ii) complied with the instructions under the Disbursement and Financial Information Letter, including the submission to the Association of evidence acceptable to the Association of the incurrence of Project Expenditures for which payment is requested.
2. Notwithstanding the provisions of paragraph 1(f) above, if the Association determines that any PBC has been not been achieved or has only been partially achieved by the end of the year during which such PBC was scheduled to be achieved as set forth in Schedule 3 to this Agreement, and/or the Allocated Amount(s) for such PBC(s) has/have not been fully withdrawn, the Association may, at any time, by notice to the Recipient, decide at its sole discretion to:

- (a) for any PBC which is scalable, as indicated in the Verification Protocol, authorize the withdrawal of such lesser amount of the unwithdrawn proceeds of the Financing corresponding to the Allocated Amount for said PBC which, in the opinion of the Association, corresponds to the extent of achievement of said PBC(s), said lesser amount to be calculated in accordance with the applicable scalability formula set out in the Verification Protocol and Schedule 3 to this Agreement;
 - (b) withhold all or a portion of the proceeds of the Financing corresponding to the Allocated Amounts for the said PBC(s) until such PBC(s) is/are, in the opinion of the Association, satisfactorily met, and thereafter disburse in whole or in part such Allocated Amounts at any later time when such PBCs are met;
 - (c) reallocate all or a portion of the proceeds of the Financing corresponding to the Allocated Amounts of the said PBC(s) to any other PBC(s); and/or
 - (d) in the case of any PBCs not achieved by the Closing Date, cancel all or a portion of the proceeds of the Financing corresponding to the Allocated Amounts then allocated to said PBC(s), it being understood that the dates provided in Schedule 3 to this Agreement by which PBCs are set to be achieved are indicative and that PBCs may be achieved at any time prior to the Closing Date.
3. Notwithstanding the provisions of paragraph 1(f) above, the amount of the Financing to be withdrawn upon the verified achievement of any PBC shall not exceed the lesser of: (a) the Allocated Amount corresponding to such PBC; and (b) the amount of the Project Expenditures under Category (4) incurred by the Recipient but not yet paid by the proceeds of the Financing as of the date of such withdrawal.
4. If, at any time, the Association determines that any portion of the amounts disbursed under Category (4) was: (i) made for expenditures that are not eligible under the Project Expenditures; or (ii) not in compliance with the provisions of paragraph 1(f) above and the provisions of the Project Operations Manual, the Recipient shall promptly refund any such amount to the Association as the Association shall specify by notice to the Recipient.
5. The Closing Date is December 31, 2025.

SCHEDULE 3

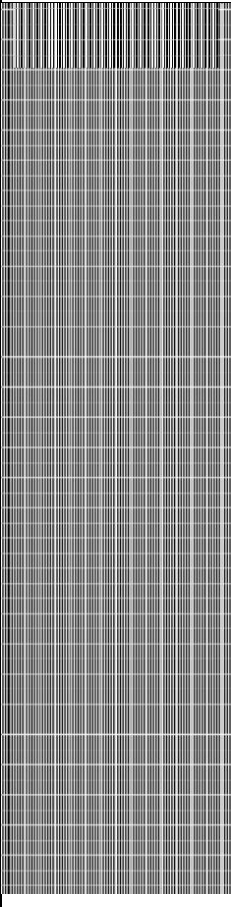
Performance-Based Conditions and Allocated Amounts

Performance Based Conditions	Results ¹				
	June 2021	December 2021	June 2022	December 2022	June 2023
<p>PBC 1:</p> <p>Strengthened governance and financial reporting of the CBS to enable capitalization</p>	<p>PBC 1.1:</p> <p>(a) The CBS Board has: (i) established an Audit Committee of the CBS Board; and (ii) formulated a plan, with the external auditors, setting out actions to resolve the recurring audit qualification</p>	<p>PBC 1.2:</p> <p>(a) The CBS Board has: (i) resolved outstanding recommendations (those contributing to financial statements qualification) and completed all outstanding external audits from prior years; and (ii) established quarterly reporting to the</p>	<p>PBC 1.3:</p> <p>(a) The CBS Board has approved, and the Recipient's Cabinet has endorsed, the draft CBS Act Amendment Bill to: (i) remove the requirement for the Ministry of Finance to issue directives to the CBS in exceptional circumstances;</p>	<p>PBC 1.4:</p> <p>The Minister of Finance has submitted the draft CBS Act Amendment Bill to Parliament for approval.</p>	<p>PBC 1.5:</p> <p>(a) The CBS Amendment Act has been published in the Government Gazette and enacted into law.</p> <p>(b) The FGS Ministry of Finance has made an initial capitalization payment</p>

¹ The time periods indicated in this table are indicative and the achievement of PBCs is not timebound.

	<p>for FY19 and beyond.</p> <p>(b) The CBS Governor has approved and caused to be audited and published the FY19 financial statements on the CBS website.</p>	<p>Audit Committee on the execution of its audit plan, status of recommendations (including external audit recommendations) and key activities.</p> <p>(b) The CBS Governor has approved and caused to be audited and published the FY20 financial statements on the CBS website.</p>	<p>(ii) specify the CBS' authorized capital share;</p> <p>(iii) include provisions on the authority and functions of the Audit Committee; and</p> <p>(iv) strengthen the provisions on external and internal audit procedures.</p> <p>(b) The CBS Board, FGS Ministry of Finance and the Recipient's Cabinet have approved a credible Capital Injection Plan.</p> <p>(c) The CBS Governor has approved and caused to be audited and</p>		<p>(nominal capital) to CBS (in line with the approved Capital Injection Plan).</p>
--	---	---	---	--	---

			published the FY21 financial statements on the CBS website.		
Allocated Amount	<p>For PBC 1.1(a): SDR 43,750</p> <p>For PBC 1.1 (b): SDR 43,750</p>	<p>For PBC 1.2(a): SDR 87,500</p> <p>For PBC 1.2 (b): SDR 87,500 if the FY20 financial statements published on the CBS website include a clean or unqualified audit or</p> <p>SDR 61,250 if the FY20 financial statements published on the CBS website include an unclean or qualified audit</p>	<p>For PBC 1.3(a): SDR 175,000</p> <p>For PBC1.3 (b): SDR 175,000</p> <p>For PBC 1.3(c): SDR 175,000 if the FY21 financial statements published on the CBS website include a clean or unqualified audit</p> <p>or</p> <p>SDR 122,500 if the FY21 financial statements published on the CBS website include an unclean or qualified audit</p>	SDR437,500	<p>For PBC 1.5(a): SDR 350000</p> <p>For PBC 1.5(b): SDR 875,000</p>

<p>PBC 2:</p> <p>Activation of critical institutional systems within CBS to enable corresponding banking arrangements</p>	<p>PBC 2.1:</p> <p>The CBS ICT Directorate in consultation with user departments has issued a report, approved by the CBS Governor, setting out the proof of concept, implementation roadmap and timelines outlining all the scoped CBS systems (modules) earmarked for implementation at the FGS and FMSs.</p>	<p>PBC 2.2:</p> <p>The CBS ICT Directorate in consultation with user departments has implemented 50% of the validated scope and the corresponding system functionalities (modules) have been fully activated and operationalized</p>	<p>PBC 2.3:</p> <p>(a) The CBS ICT Directorate in consultation with user departments has: (i) implemented 75% of the validated scope and the corresponding system functionalities (modules) have been fully activated and operationalized; and (ii) extended CBS operations to 2 out of the 5 FMS.</p> <p>(b) The CBS Governor has:</p>	<p>PBC 2.4:</p> <p>(a) The CBS ICT Directorate has: (i) implemented 100% of the validated scope, and the corresponding system functionalities (modules) have been fully activated and operationalized; and (ii) extended CBS operations to more than 50% of the FMS.</p> <p>(b) The CBS Governor has: (i) established 3 additional active corresponding</p>	

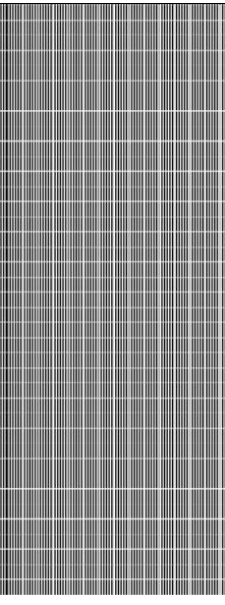
			(i) established 2 additional active corresponding arrangements for the CBS; and (ii) extended CBS operations to 3 out of the 5 FMS.	banking arrangements; and (ii) CBS operations are sustained across 4 out of the 5 FMS.	
Allocated Amount	SDR 87,500	SDR 157,500 if at least 30% of the validated scope has been implemented and the corresponding system functionalities (modules) have been fully activated and operationalized, and SDR 52,500 for each additional 10% up to a maximum of SDR 262,500	For PBC 2.3(a): SDR 105,000 if at least 75% of the validated scope has been implemented, and the corresponding system functionalities (modules) have been fully activated, and operationalized, and CBS operations extended to 2 out of the 5 FMS, and SDR 52,500 for each additional 10% of the validated scope which has	For PBC 2.4(a): SDR 175,000 For PBC 2.4(b): SDR 175,000	

			<p>been implemented, and the corresponding system functionalities (modules) have been fully activated, and operationalized, and SDR 17,500 for CBS operations extended to each additional 1 of FMS, up to a maximum of SDR 175,000</p> <p>For PBC 2.3(b): SDR 70,000 for the first additional and active corresponding arrangement established, and for CBS operations extended to two FMS, and SDR 52,500 for each additional corresponding banking arrangements</p>		
--	--	--	---	--	--

			established up to a maximum of SDR 175,000.		
<p>PBC 3:</p> <p>Improved CBS supervisory oversight, capacity building and staff reorganization into a more effective structure to tackle financial integrity and de-risking</p>	<p>PBC 3.1:</p> <p>CBS Board has approved the staffing reorganization scheme</p>	<p>PBC 3.2:</p> <p>(a) CBS has initiated its staffing reorganization scheme in accordance with human resources guidelines</p> <p>(b) CBS Board has approved and operationalized the eKYC draft regulations and risk-based supervision methodology of ML and CFT risks in FIs</p>	<p>PBC 3.3:</p> <p>(a) CBS has fully implemented the staffing reorganization scheme and 50% of the CBS staff positions outlined in the staffing reorganization scheme have been recruited on merit and in accordance with human resources guidelines, are trained and actively providing services</p>	<p>PBC 3.4:</p> <p>(a) 100% of all the CBS staff positions outlined in the staffing reorganization scheme have been recruited on merit in accordance with human resources guidelines, are trained and actively providing services</p> <p>(b) CBS ICT Directorate in consultation with user departments</p>	

			<p>(b) CBS ICT Directorate in consultation with user departments and PFIs has operationalized CVS enabling eKYC protocols and 2 licensed FIs have been connected by the CBS</p> <p>(c) CBS senior management has approved examination reports completed by staff for 40% of the FIs examined using RBS approaches covering ML/CFT risks, and matters requiring immediate action have</p>	<p>and PFIs has verified 50% of customers with transaction accounts using CVS/eKYC</p> <p>(c) CBS senior management has approved examination reports completed by staff for 50% of the FIs examined using RBS approaches covering ML/CFT risks, and matters requiring immediate action have been communicated to FIs for implementation</p>	
--	--	--	--	---	--

			<p>been communicated to FIs for implementation; and CBS has published in the Financial Stability Report the non-confidential aggregate information on the nature and number of matters requiring immediate action issued to all FIs</p>		
<p>Allocated Amount</p>	<p>SDR 145,000</p>	<p>For PBC 3.2(a): SDR 70,000</p> <p>For PBC3.2(b): SDR 70,000</p>	<p>For PBC 3.3(a): SDR 35,000</p> <p>For PBC 3.3(b): SDR 205,000</p> <p>For PBC 3.3(c): SDR 70,000</p>	<p>For PBC 3.4(a): SDR 17,500</p> <p>For PBC 3.4(b): SDR 70,000 if 50% of customers with transaction accounts using CVS/eKYC have been verified and SDR7,000 for</p>	

				<p>every incremental 10% of customers verified.</p> <p>For PBC 3.4(c): SDR 17,500 if examination reports completed by staff are approved for 50% of the FIs and SDR 3,500 for every incremental 10% of examination reports approved.</p>	
--	--	--	--	--	---

APPENDIX

Definitions

1. “Additional Activities” means the additional Project activities described in Schedule 1 to this Agreement.
2. “Allocated Amounts” means the amount allocated to each individual PBC, or determined for each PBC pursuant to the respective formula set forth in Schedule 3 to this Agreement, as such amount might be increased, reallocated and/or cancelled (whether partially or in its entirety) by the Association, from time to time as the case may be, in accordance with the provisions of Section III.B.2 of Schedule 2 to this Agreement.
3. “Annual Work Plan and Budget” means a consolidated annual plan and budget referred to in Section I.D of Schedule 2 to this Agreement, to be prepared by the Recipient.
4. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
5. “Anti-Money Laundering” or “AML” or “ML” mean the laws, regulations and procedures intended to prevent money laundering.
6. “Attorney-General’s Office” means the Recipient’s Attorney-General’s Office or any successor thereto.
7. “Cabinet” means the Recipient’s Council of Ministers of the Federal Government of Somalia.
8. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
9. “Central Bank of Somalia” or ”CBS” mean the Central Bank of the Recipient established and operating pursuant to the Central Bank Act, 2011.
10. “CBS Act” means the Central Bank of Somalia Act Law no. 130 of 22 April 2012.
11. “CBS Governor” means the governor of CBS who serves as chairman of the board and is the chief executive officer for CBS.
12. “CBS ICT Directorate” means the unit within CBS responsible for installation, operation and maintenance of ICT systems including software, hardware, and data.

13. “Computer Emergency Response Team” or “CERT” means the team tasked with responding to cybersecurity emergencies or incidents at the operational level.
14. “Countering Financing of Terrorism” or “CFT” means the guidelines intended to prevent banks from being used, intentionally or unintentionally, by criminal elements for terrorist financing activities.
15. “Covid-19” means the mild to severe respiratory syndrome caused by a coronavirus of the genus *Beta coronavirus*, identified in 2019.
16. “Digital ID Policy” means the Recipient’s Digital ID Policy which sets out the goal of providing all residents in the Recipient’s territory with a unique, trusted and verifiable identity and establishing an identity verification platform than can be used by multiple service providers.
17. “Eligible PFI” means an approved bank, or financial institution, which is registered as a bank or financial institution pursuant to the laws of the Recipient and approved to participate through the Line of Credit as a financier of MSME Subprojects and “Eligible PFIs” means two or more of such financial institutions.
18. “Environmental and Social Management Framework” or “ESMF” means the framework dated January 2019, prepared by the Recipient, satisfactory to the Association, and disclosed on the Recipient on January 25, 2019, and by the Association on January 24, 2019 and which shall be updated not later than three months after the Effective Date, setting out the principles, rules, guidelines and procedures to screen and assess the environmental and social impacts (including health and safety issues) of the MSME Subprojects activities which will be identified and appraised during Project implementation, and containing measures and plans to avoid, minimize, mitigate and/or offset adverse impacts and/or reduce said adverse impacts to acceptable levels, and enhance positive impacts, provisions for estimating and budgeting the costs of such measures, and information on the agency or agencies responsible for addressing project impacts, as said instrument may be amended from time to time with the Association’s prior written agreement.
19. “Federal Government of Somalia” or “FGS” means the Recipient’s federal government.
20. “FIs” means “Financial Institutions”.
21. “Financial Reporting Center” or “FRC” mean the center established and operating pursuant to the Anti-Money Laundering and Countering the Financing of Terrorism Law 2016, of the laws of the Recipient.
22. “Financial Stability Report” means a report prepared by CBS in line with its promotion of financial stability.

23. “Fiscal Year” or “FY” means the Recipient’s fiscal year commencing on January 1 of each year and ending on December 31 of the same year.
24. “Federal Member States” or “FMS” mean, collectively, each of the states constituting the Somali federation, as acknowledged in Article 48 of the Recipient’s Provisional Constitution (2012).
25. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (revised on August 1, 2020 and April 1, 2021).
26. “ID” means identity.
27. “Incremental Operating Costs” means the reasonable incremental cost arising on account of Project implementation, based on Annual Work Plans and Budgets, approved by the Association pursuant to Section I.D of Schedule 2 to this Agreement, including office supplies, vehicle operation and maintenance, maintenance of office equipment, communication, advertisement and insurance costs, office administration costs, bank charges, costs associated with translation of documents, utilities, rental, consumables, accommodation, travel and *per diem* of Project staff on official travel, salaries of Project staff and excluding the salaries of the Recipient’s civil service staff.
28. “IT” means information technology.
29. “Jubaland” means the Juba Valley or Azania, a Federal Member State in southern Somalia.
30. “Line of Credit” means a revolving facility managed and operated by the MSME Financing Facility to provide financing (out of the proceeds of the Financing) to respective PFIs for financing MSME Subprojects.
31. “MDAs” means Ministries Departments and Agencies
32. “Matching Grant” means a grant made or proposed to be made by the Recipient under Part B.1(b) of the Project, and Matching Grants means two or more of such grants.
33. “Matching Grant Agreement” means any agreement to be executed between the MSME Financing Facility and a Matching Grant Beneficiary for a Matching Grant Subproject, as such agreement may be amended from time to time, with the agreement of the Recipient and the Association, and such term includes all appendices, schedules and agreements supplemental to the Matching Grant Agreement.

34. “Matching Grant Beneficiary” means a beneficiary who is eligible to receive a Matching Grant in accordance with the criteria and procedures set forth in the Matching Grants Manual.
35. “Matching Grants Manual” means the manual referred to in Section I.C.2 of Schedule 2 to this Agreement, as said manual may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.
36. “Matching Grant Subproject” means an eligible Matching Grant activity proposed to be financed or financed under Part B.1(b) of the Project.
37. “Ministry of Commerce and Industry” means the Recipient’s ministry responsible for commerce and industry, or any successor thereto.
38. “Ministry of Communications and Technology” or “MOCT” means the Recipient’s ministry responsible for communications and technology, or any successor thereto.
39. “Ministry of Finance” means the Recipient’s ministry responsible for finance, or any successor thereto.
40. “Ministry of Interior, Federal Affairs and Reconciliation” means the Recipient’s ministry responsible for interior, federal affairs and reconciliation, or any successor thereto.
41. “MSME Financing Facility” means the autonomous entity known as Gargaara Company Limited, a financial institution incorporated in April 2019 by the FGS as a dedicated apex development finance institution to provide Line of Credit to PFIs.
42. “MSME Subproject” means an eligible MSME activity proposed to be financed or financed under Part B.1 of the Project.
43. “MSME Subproject Agreement” means any agreement to be executed between an Eligible PFI and an MSME beneficiary for an MSME Subproject, as such agreement may be amended from time to time, with the agreement of the Recipient and the Association, and such term includes all appendices, schedules and agreements supplemental to the MSME Subproject Agreement.
44. “MSME Subproject Manual” means the manual referred to in Section I.C.1 of Schedule 2 to this Agreement, as said manual may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.

45. “National Communications Authority” and “NCA” mean the national communications authority established and operating pursuant to the Communications Law 2017, of the laws of the Recipient.
46. “Original Financing Agreement” means the financing agreement between the Federal Republic of Somalia and the International Development Association, dated April 10, 2019 (Grant No. D433-SO) for the Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Program (SCALED-UP) Project.
47. “Original Project” means the Project described in the Original Financing Agreement.
48. “PFI Agreement” means the agreement between the MSME Financing Facility and an Eligible PFI.
49. “PFI Financing” means a sub-financing to be made by the MSME Financing Facility to an Eligible PFIs pursuant to a PFI Agreement.
50. “Performance Based Conditions” and the acronym “PBC” means each of the disbursement-linked targets/results set forth in Schedule 3 to this Agreement. For avoidance of doubt, the dates stated in the respective columns as temporal references for the achievement of any such PBC are provided for indicative purposes only, and unless otherwise expressly or implicitly required by the wording of a given PBC, the PBC can be achieved in advance or after such indicative period.
51. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated November 2020.
52. “Project” means the Original Project together with the Additional Activities.
53. “Project Agreement” means the project agreement entered between Gargaara Company Limited and the International Development Association, dated June 08, 2019 (Grant No. D433-SO) for the Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Program (SCALED-UP) Project.
54. “Project Implementation Entity” means the MSME Financing Facility as defined above.
55. “Project Operations Manual” means the Recipient’s manual referred to in Section I.C.1 of Schedule 2 to this Agreement, as said manual may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.

56. “Project Expenditures” means a set of defined expenditures for goods, consulting and non-consulting services, Training, salaries, and Operating Costs (and excluding severance pay) made by the Project Implementation Unit for Part A.1 of the Project.
57. “Project Steering Committee” means the steering committee established by the Recipient under the Original Project and referred to in Section I.A.2 of Schedule 2 to this Agreement.
58. “Project Implementation Unit” or “PIU” mean the project implementation unit established by the Recipient for the Somali Core Economic Institutions and Opportunities Project and referred to Section I.A.3 of Schedule 2 to this Agreement.
59. “Puntland” means the Puntland State of Somalia, a Federal Member State in northeastern Somalia.
60. “Risk Sharing Mechanism” means the risk sharing mechanism under Part B.1(d) of the Project which shall be used to compensate PFIs for losses incurred on loans made out of their own capital to eligible MSMEs.
61. “Risk Sharing Mechanism Manual” means the manual referred to in Section I.C.3 of Schedule 2 to this Agreement, as said manual may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.
62. “SEP” means the Stakeholder Engagement Plan referred to in Section H of Schedule 2 to this Agreement.
63. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
64. “SMPF Grant Agreement” means the SMPF Trust Fund grant agreement for the Project between the Recipient and the Association (acting as an administrator of the Somalia Multi-Donor Partner Fund Trust Fund), dated the same date as this Agreement, as such SMPF Grant agreement may be amended from time to time, and such terms includes all appendices, schedules and agreements supplemental to the SMPF Grant.
65. “Subsidiary Agreement” means the agreement referred to in Section I.B.1 of Schedule 2 to this Agreement.
66. “Training Costs” means the reasonable costs associated with training under the Project, based on the relevant Annual Work Plan and Budget, and attributable to

study tours, training courses, seminars, workshops and other training activities, not included under service providers' contracts, including costs of training materials, space and equipment rental, travel, accommodation and per diem costs of trainees and trainers, trainers' fees, and other training related miscellaneous costs.

67. "Verification Agency" means an entity, agency, or consultant, acceptable to the Association, to be engaged by the Recipient for the purpose of certifying the achievement of DLRs in accordance with the provisions of Section I.J of Schedule 2 to this Agreement.
68. "Verification Protocol" means the verification protocol agreed on between the Recipient and the Association for purposes of: (i) defining the PBC terms and requirements; (ii) listing the documentary evidence to be provided in support thereof; and (iii) providing the verification procedures and responsibilities to certify compliance with/achievement of each PBC, as such verification protocol may be revised, updated or supplemented from time to time with the mutual agreement of the Recipient and the Association.