

AFRICAN DEVELOPMENT BANK GROUP



SOMALIA

COUNTRY BRIEF 2013-2015

OREB DEPARTMENT

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Currency Equivalents

May 2012

UA 1 = USD 1.55

UA 1 = SOS 2,520.67

USD 1 = SOS 1,625.66

Acronyms and Abbreviations

ADF	African Development Funds	NGO	Non-Governmental Organizations
AfDB	African Development Bank Group	NTF	Nigeria Trust Funds
AMISOM	African Union Mission in Somalia	OECD	Organization for Economic Co-operation and Development
AU	African Union	OREB	Regional Department East B
AWF	African Water Facility	OSFU	Fragile States Unit
BWI	Bretton Woods Institutions	PBA	Performance-based country allocation
CISS	Coordination of International Support to Somalia	PFM	Public Finance Management
CPIA	Country Policy and Institutional Assessment	PWC	Pricewaterhouse Coopers
DFID	Department for International Development	RDP	Reconstruction and Development Program
DRSLP	Drought Resilience and Sustainable Livelihoods Programme	RMC	Regional Member Country
EARC	East Africa Regional Center	RO	Regional Operations
ESW	Economic Sector Work	SDG	Somali Donor Group
FDI	Foreign Direct Investment	SDR	Special Drawing Rights
FSF	Fragile State Facility	SRF	Special Relief Fund
FSP	Fragile States Principles	SOS	Somali Shilling
GDP	Gross Domestic Product	SSS	Somali Support Secretariat
HESPI	Horn Economic and Social Policy Institute	TFG	Transitional Federal Government
HIPC	Highly Indebted Poor Countries	TFP	Transitional Federal Parliament
HOA	Horn of Africa	UA	Unit of Accounts
ICG	International Contact Group	UDUB	Allied People's Democratic Party
IDPs	Internally Displaced Peoples	UK	United Kingdom
IFI	International Financial Institutions	UN	United Nations
IGAD	Intergovernmental Authority on Development	UNCT	UN Country Team
IMF	International Monetary Fund	UNFPA	United Nations Population Fund
JNA	Joint Needs Assessment	UNPOS	United Nations Political Office for Somalia
MDG	Millennium Development Goal	US	United States
MDRI	Multilateral Debt Relief Initiative	USAID	United States Agency for International Development
M&E	Monitoring and Evaluation	USD	United States Dollars
NDP	National Development Plan	WB	World Bank
		WRM	Water Resource Management

Bank Group Support to Somalia 2013-2015: Result Based Activity Framework

Contributions / activities	Expected Results	Target Population	Performance Indicators	Time Frame	Assumptions / Risks
<p>A. Resource Mobilization Efforts for the Bank Group Somalia Enhanced Program (SEP)</p>	<ul style="list-style-type: none"> - Operations are approved under the three components of the SEP for: • Somalia Drought Resilience and Sustainable Livelihood Program (DRSLP); • Capacity building; • Reengagement of Somalia with the international financial community. 	<ul style="list-style-type: none"> - Federal Government of Somalia and Sub-entities of Somaliland & Puntland - Entire Population of Somalia 	<ul style="list-style-type: none"> - Funds utilized under Pillar 3 and other Bank instruments not affected by sanctions; - Additional resources mobilized from Bank Group internal sources (Target: USD15to 20 million); - Additional resources are mobilized from other Donors and Development Partners (Target: USD80 to 100 million); - Regular dialogue and outreach efforts with Government, Donors, Regional Economic Communities (REC) conducted; - Formal annual Conferences/Seminars organized by Bank Group; - Bank Group participation in international events on Somalia 	<p>2013-2015</p>	<p>Assumptions:</p> <ul style="list-style-type: none"> - Peace and stability efforts are sustained both by the Somali leadership and the international community. - Donors remain committed and enhance their support for Somalia recovery. - Donor coordination efforts are enhanced - Bank Group enhances mobilization efforts of internal and external Stakeholders. - Donors sustain their early interests in the DRSLP. <p>Risks:</p> <ul style="list-style-type: none"> - Revival of tensions and deterioration of political, social & economic situations. - Risk mitigated by the domestic broad-based and inclusive approach and sustained commitment of international community.
<p>B. I. Drought Resilience & Sustainable Livelihood Program (DRSLP)</p> <ul style="list-style-type: none"> - Enhancement of water resources development and management; - Improvement of livestock infrastructure for market access, rangeland, livestock management; - Capacity building of IGAD and relevant national institutions, including communities <p>II. Somaliland Project “Water Resources Management & Investment Plan”:</p> <ul style="list-style-type: none"> - Preparation of a water resources management plan; - Preparation of an investment plan of projects and programs for funding; - Design and implementation of pilot rehabilitation works; and, - Provision of sector support and capacity building. 	<ul style="list-style-type: none"> - Natural environment stabilized in some vulnerable liberated and stable areas of South Central, Somaliland and Puntland; - Natural resources are exploited in a harmonious and sustainable manner; - Communities are resilient to drought and livelihoods are improved; - Mechanisms for enhancing availability of water resources are established at the local and regional levels. - Peace & security improved through increased availability of water; - Livelihoods improved; - Funds mobilized planned downstream investments; - Water institutions are strong & function sustainably 	<ul style="list-style-type: none"> - Federal Government of Somalia and Sub-entities of Somaliland & Puntland - Vulnerable communities in liberated and stable areas of South Central, Somaliland and Puntland - Entire Population of Somalia - All areas of Somaliland; - About 3.5 million urban & rural population - About 2 millions of nomadic pastoralists - Central and local governments - Communities. 	<ul style="list-style-type: none"> - Somalia Drought Resilience and Sustainable Livelihood Program (DRSLP) is approved and implementation initiated; - Planned amount of resources for DRSLP is mobilized from internal & external sources; - DRSLP projects preparation and appraisal undertaken; - Financing plan for DRSLP is confirmed - Required feasibility studies undertaken; - Regular dialogue, outreach and consultations conducted with Somali Authorities, traditional and non-traditional Donors and other Development Partners ----- - Percent of IDPs returning & recovering their livelihoods (50% of estimated 100,000 in 2012); - Percent of people with adequate access to water supply for human and animal uses (from 10% in 2012 to 20%); - Newly-irrigated areas for agriculture increase from 800 ha in 2012; - Percent of planned staffing & budget requirements increase from 10% in 2012; - Percent of total planned investments mobilized (from 0% in 2012); 	<p>2013-2014</p> <p style="text-align: center;">2013</p> <p style="text-align: center;">2013</p> <p style="text-align: center;">2013</p> <p>2013-2015</p> <p style="text-align: center;">By 2015</p>	<p>Assumptions:</p> <ul style="list-style-type: none"> - Peace and stability efforts are sustained both by the Somali leadership and the international community. - Security is being established and stable areas expand continuously. - Donors remain committed and enhance their support for Somalia recovery. - Donor coordination efforts are enhanced - Bank Group enhances mobilization efforts of internal and external Stakeholders. - Donors sustain their early interests in the DRSLP. <p>Risks:</p> <ul style="list-style-type: none"> - Non-availability of funds to undertake Somalia DRSLP and the required studies; - Difficulty in recruiting good consultants to undertake work in Somalia. - Lack of donor interest in funding the downstream works or sector support actions; - Inadequate sector budgets for ministries or districts; - Disputes over the trans-boundary sharing of water resources. <p>Mitigation Measures:</p> <ul style="list-style-type: none"> - Ensure key donor involvement to keep all donors fully informed about the projects; - Coordinated response from government and donors to provide adequate financing to meet operational

Contributions / activities	Expected Results	Target Population	Performance Indicators	Time Frame	Assumptions / Risks
			<ul style="list-style-type: none"> - Somaliland Project implemented satisfactorily (resources committed). 		<ul style="list-style-type: none"> and development budgets; - Involvement of IGAD as a regional coordinating body.
<p>C. Strengthening governance, human and institutional capacities</p> <ul style="list-style-type: none"> - New Operations based on priorities of the PFM Self-Assessment and country-led PFM Reform Action Plan; - Enhanced dialogue and consultations with Government and other Development Partners; - Ongoing Project ‘Rebuilding Financial Management Systems in Somalia’; - Joint Program for Capacity Development in Statistics for Somalia. 	<ul style="list-style-type: none"> - Evidence-based economic policy formulation and decision making for poverty reduction and improved livelihoods; - Main PFM functions are adequately assumed by Somali governments and institution; - Enhanced capacity of government and local administrations to plan, formulate, implement, monitor & evaluate national policies & programs; - Statistical systems of Somalia are functioning adequately & sustainably; - Broad-based agreement on country-led PFM Reforms; 	<ul style="list-style-type: none"> - Staff and institutions of Federal Government of Somalia and Sub-entities of Somaliland & Puntland - Somali Population at large; - Vulnerable groups and communities, including women 	<ul style="list-style-type: none"> - New Operation based on country-led PFM Reform Action Plan is approved & implementation initiated; - New activities based on PFM Self-Assessment are identified and preparation is initiated; - Project ‘Rebuilding Financial Management Systems in Somalia’ is completed; ----- - Legal and institutional framework for Statistics established ; - Basic statistical and physical infrastructure is established; - Statistical operations are conducted, including systems for poverty monitoring and analysis & a central data repository; - Population estimates for Somalia available at national, regional and zonal levels; - Socio-economic data are determined and produced; - Poverty baseline is established; - MDG progress reports are produced. 	<p>2014-2015</p> <p>2013</p> <p>2013</p> <p>2015-2016</p> <p>2015-2016</p> <p>2015-2016</p> <p>2014-2015</p> <p>2014-2015</p> <p>2014-2015</p> <p>2014-2015</p>	<p>Assumptions:</p> <ul style="list-style-type: none"> - Peace and stability efforts are sustained both by the Somali leadership and the international community. - Security is being established and stable areas expand continuously. - Government remains committed to rebuilding and strengthening governance structures and human and institutional capacities. - Donors remain committed and enhance their coordinated support to capacity building initiatives. <p>Risks:</p> <ul style="list-style-type: none"> - Non-sufficient funds for capacity building; - Difficulties in staffing public institutions; - Difficulty in recruiting good consultants to undertake work in Somalia. <p>Mitigation Measures:</p> <ul style="list-style-type: none"> - Bank Group enhances mobilization efforts of internal and external Stakeholders; - Coordinated response from government and donors to mobilize the Diaspora and to provide adequate & technical expertise.
<p>D. Facilitating the Reengagement Process of Somalia with the International Financial Community</p>	<ul style="list-style-type: none"> - Appropriate conditions are created for full-fledged reengagement of Somalia; - Government and Donors agree on terms and modalities for enhanced interim support; - Conditions created for medium term macro-economic stability and implementation of recovery and poverty reduction measures; - Debt issues are addressed and agreed by Stakeholders. 	<ul style="list-style-type: none"> - Government of Somalia - Institutions in charge of debt management and poverty reduction issues - Entire Population of Somalia 	<ul style="list-style-type: none"> - Coordinated Somalia arrears clearance plan is elaborated and approved by creditors; - Roadmap for an internationally coordinated reengagement process is elaborated and agreed by Stakeholders; - Appropriate I-PRSP (or equivalent) is elaborated; - Debt reconciliation issues addressed; - Agreement on Framework for macro-economic and structural reforms; - IMF resumes activities; - Agreement reached between Government and Development partners on issues, steps, requisite assistance and modalities; 	<p>2015</p> <p>2014</p> <p>2014-2015</p> <p>2014-2015</p> <p>2014-2015</p> <p>2013-2015</p> <p>2013-2014</p>	<p>Assumption:</p> <ul style="list-style-type: none"> - Commitment to peace-building and security; - Government and Donors are well sensitized on urgent need and actions for arrears clearance & debt relief - Enhanced donor coordination - Resources are planned should Somalia become eligible for arrears clearance under Pillar 2 of the FSF during ADF-13 cycle. <p>Risks:</p> <ul style="list-style-type: none"> - Revival of tensions and deterioration of political, social & economic situations; - Risk mitigated by the domestic broad-based and inclusive approach and sustained commitment of international community.

Contributions / activities	Expected Results	Target Population	Performance Indicators	Time Frame	Assumptions / Risks
E. Analytical and Economic & Sector Work	<ul style="list-style-type: none"> - Result-oriented programs integrating the Goals of Peace, & State-building; - Clearly defined and well-articulated reengagement plan and country-owned reconstruction and development programs; - Broad-based consensus on key challenges of Somalia. 	<ul style="list-style-type: none"> - Government of Somalia - Entire Population of Somalia. 	<ul style="list-style-type: none"> - New Aid Framework adopted; - Fragile States Principles Monitoring Survey; - Joint Fragility Assessment; - Political Economy Profiling; - Sector Needs Assessments; - Feasibility Studies; - Analysis of the social sector, youth employment and gender. 	2013-2015	
F. Emergency Assistance	<ul style="list-style-type: none"> - Peace and stability efforts sustained, though internationally-coordinated relief programs in regions affected by humanitarian crisis; - Livelihoods restored. 	<ul style="list-style-type: none"> - Vulnerable population in affected areas of Somalia; - IDPs - Refugees; 	<ul style="list-style-type: none"> - Bank Group Emergency Assistance provided as appropriate; - Reduction of number of people in need of humanitarian assistance; 	2013-2015	<p><u>Assumptions:</u></p> <ul style="list-style-type: none"> - The 3-year Consolidated Appeal Process (CAP) is in being implemented; - Donors remain committed.

I. INTRODUCTION

1.1 The last Country Brief (CB) for Somalia was approved by the Boards of Directors in May 2010. It was the first Bank formal note written for Somalia in two decades, during which the country disintegrated into clan-based conflicts and geopolitical entities (Cf. **Annex 2**). The 2010 CB provided a reengagement framework to guide the Bank's country dialogue and technical assistance in addressing the challenges of Somalia through Pillar 3 of the Fragile State Facility (FSF) and other funds that are not subject to Bank's Policy on Recovery of Arrears on Loans (the "Sanctions Policy"). In this context, the Bank has intensified its dialogue with the Transitional Federal Government (TFG), the sub-entities of Somaliland and Puntland, various Somali and regional stakeholders as well as coordination with other development partners on the unique and urgent challenges of Somalia and the Horn of Africa (HOA). The Bank has also provided capacity building support and emergency assistance.

1.2 After more than two decades of civil conflict, Somalia is currently at a "turning point" in terms of positive political and security developments as well as the commitment of the international community for a sustainable resolution of the protracted crisis in the country. Somalia has entered a new phase of peace-building, stability and recovery, after the end of the political transition on 20 August 2012. The TFG has given way to a new Federal Government of Somalia (FGS), a provisional Constitution and a Parliament. The outlook is more positive than it has been in a generation. However, the situation remains extremely fragile. Joint and concerted domestic and international efforts need to be sustained and enhanced to ensure national reconciliation, durable peace, stability and state building.

1.3 The objectives of this Country Brief (CB) are to update the Boards on the recent developments in Somalia and Bank Group activities, the emerging issues and challenges, as well as to provide a programming framework on possible options and priority areas for the Bank to play a more strategic and active role in re-engaging with Somalia at this critical juncture in the country's history. The CB also includes the main outcomes of the consultations held with the various Stakeholders and the new Federal Government of Somalia.¹

II. RECENT DEVELOPMENTS IN SOMALIA

2.1 Political and Security Developments

2.1.1 Somali leaders agreed on a "Roadmap" in September 2011 in Mogadishu and subsequently, at the constitutional conference in December 2011 on the so-called "Garowe Principles", discussed in **Annex 2**. The goal was to broker a viable and legitimate Somali-led political process up to 20 August 2012, which marked the end of transitional institutions, and beyond. A shared strategy for deepening peace, attacking poverty and post-conflict reconstruction was also discussed. The TFG was called upon to lead the implementation of the Roadmap, working with the Transitional Federal Parliament (TFP), regional entities and all sectors of society, including women, the business community, religious leaders, elders and youth.

2.1.2 On 1st August 2012, the National Constituent Assembly of Somalia adopted the Provisional Constitution of Somalia, a key milestone towards the end of the political transition of the country. On 20th August 2012, Somali parliamentary elections marked effectively the end of the transition period. The new Parliament elected Hassan Sheikh Mohamud as the President of Federal Republic of Somalia on 10th September 2012.

¹ The Bank undertook a successful multi-disciplinary field mission (OSAN, OREB, EARC, OSFU, OSGE and SECU) to Mogadishu from 14th – 19th February 2013 to conduct high-level consultations with the new Somali Authorities, including the President of the Federal Republic, as well as other key Stakeholders on the ground. The mission discussed and agreed on strategic issues and the planned Bank Group program of activities discussed in this Country Brief, in particular on reengagement, PFM and the Drought Resilience and Sustainable Livelihood Program (DRSLP). This Country Brief refers to Somalia as a whole, i.e. a single national entity. However, the three main sub-entities of Somalia (South Central, Puntland and Somaliland) have experienced some specific political, security, economic and social dynamics for at least the last two decades. Some specific distinctive features of the sub-entities are provided in **Annex 2**, based on available information.

2.1.3 New institutions are being put in place, initiated with the appointment of a Prime Minister by the President and the formation of a new Government. The government has a degree of authority and legitimacy domestically and has been recognized by the international community, including the United Nations (UN), the African Union (AU) and many other organizations and countries.² The President has set out a vision and priorities for the country including security and justice, economic recovery, governance and combatting corruption.

2.1.4 **On the security front, significant progress and military gains have been made since 2011** by the TFG and a strengthened AU Mission in Somalia (AMISOM) that includes notably Burundi, Kenya, Uganda and Somali security forces. They have recovered and taken control of Mogadishu and other areas in South Central, creating a real opportunity for the restoration of government authority and stability. In September 2012, the Al Shabaab militia was pushed out of their stronghold in Kismayo, which significantly reduced their capacity as an organized fighting force. However, it is feared that Al Shabaab may resort to opportunistic, sporadic terrorist attacks. On 6th March 2013, the UN Security Council (UNSC) extended the AMISOM mission in Somalia for another year.³ The UNSC also partially lifted a decade-old arms embargo on Somalia for one year, to enable the Government to strengthen its security forces with light weapons in the fight against terrorism. Inter-clan clashes are also a concern. With a view to establishing effective local administrations, the TFG had engaged local political actors and developed detailed policies in recently-liberated areas. This will need to be sustained in the process of a broad-based national reconciliation.

2.2 Economic Developments

2.2.1 **Somalia is still characterized by a severe lack of basic economic and social statistics.** The situation has been worsened by the two-decade conflict and the resulting collapse of the country's institutions. The existence of de facto spatial and political entities results in complex economic realities and exacerbates the issue of data reliability and consistency for Somalia as a whole. The statistical system is very weak, and no comprehensive household income and expenditure survey has been conducted for a very long time (Cf. **Annex 4**). As a result, it is almost impossible to undertake planning and programming work, as well as to monitor economic and social developments and the MDGs.

2.2.2 **The common feature in the structure of the economy of the three sub-entities of Somalia is the predominance of agriculture and livestock in the economy and livelihoods, accounting for about 65% of the GDP and employment of the workforce.** Though difficult to quantify, the GDP of Somalia was estimated at close to US\$ 5.8 billion in 2010, with a per capita GDP of USD600.⁴ Livestock accounts for about 40% of GDP and more than 50% of export earnings. Other main products include fish, charcoal and bananas, sugar, sorghum and corn. According to the Central Bank of Somalia, aggregate imports of goods average about US\$460 million per year, which stand above the level prior to the start of the civil war in 1991. Exports of about US\$270 million annually have also surpassed pre-war aggregate export levels (before 1991), but still resulting in a trade account deficit of about US\$190 million per year.

2.2.3 **Somalia's economy is largely dominated by the informal sector.** The economy is based on international trade networks controlled by a small group of wealthy businessmen. The majority of the population lives at the subsistence level and is engaged in small-scale businesses, as petty traders, livestock or grain producers. **Annex 5** provides details on potential roles of the Somalia diaspora and the private sector.

² It should be noted that for the first time since 1991, the US has recognized the new Government of Somalia in January 2013.

³ Since the creation of AMISOM in January 2007, its mandate has been continuously extended for short-term periods (usually six months). The goal of the international community is to provide sustained support to the Somali forces and AMISOM, with a credible and phased exit strategy linked to clear and agreed benchmarks for rebuilding the Somali national security apparatus.

⁴ Various sources, including the UN, the World Bank and the CIA World Fact Book.

2.2.4 With the collapse of the central government, the **private sector** has demonstrated resilience and vitality in areas such as telecommunications, livestock and fisheries. In this context, the extensive Somali **Diaspora** has played a major role, by injecting a significant inflow of funds through a somewhat sophisticated banking system. The majority of services are offered by individual suppliers including a dynamic financial sector, water, electricity and other vital services in stable areas. Various new telecommunications companies have sprung up, in the absence of public-owned infrastructure, with funding from Somali entrepreneurs and backed by expertise from countries such as China, Korea and some European countries.

2.2.5 **In Somalia, Public Finance Management (PFM) is not effective.** In the absence of a central government apparatus and regulatory bodies, there is no formal tax policy. Businesses are not regulated or taxed, though an informal system of taxation has developed. Industries operate informally, even when they are highly profitable. Somalia has been characterized by high public expenditures by Governments, deficit financing through money printing, uncontrolled money supply and inflationary trends. The value of the Somali Shilling (SOS) is quite difficult to determine given the fluctuation of exchange rates from region to region within the Somali territory. The inflation rate is estimated to remain in the range of 300%.

2.2.6 The new Somalia central bank is to operate with all the prerogatives of a monetary institution, in particular the power to issue currency, regulate the banking and credit system and manage the external reserves of the Republic. However, it is handicapped by the lack of adequate human, material and financial resources. Alongside the Somali shilling, the US dollar is widely accepted as legal tender for relatively large transactions involving local trade activities. The inflationary trend is expected to lessen when the central bank takes effectively full charge of monetary policy and replaces the currency circulating, printed by the private sector.

2.3 Social Developments

2.3.1 **The prolonged conflict, protracted crisis and insecurity in Somalia over more than two decades have caused enormous damage to the human livelihoods and social indicators.** Somalia has some of the worst human development indicators in Africa. The provision of social services such as health, education, water, sanitation, food and nutrition has considerably deteriorated. The extended families and clans are the major social safety nets in the country, with remittances received from Somalis abroad accounting for a large part. Remittances are estimated to provide up to 40% of household income. The majority of the population survives at a basic subsistence level. The 2012 UN Human Development Index of Somalia stood at 0.285 and the country ranked 165 out of 170 countries.

2.3.2 The formal **education** system in Somalia collapsed in 1991. Since then, education has been reorganized through private means, including the proliferation of madrasahs (coranic schools). With an estimated adult literacy rate of 24%, Somalia still ranks among those countries with the lowest levels of adult literacy worldwide. Local administrations and communities cooperate with external donors, including the Somali Diaspora in rehabilitating primary and secondary schools and have initiated campaigns to improve women's education.

2.3.3 Somalia's **health** care is mainly limited to the urban centers and is run by private providers or international organizations. Health indicators are also among the worst in Africa, with life expectancy estimated at 49.7 years. Infant and child mortality rates stand at 108.4 and 178 per 1,000 live births, respectively, against 84 and 135 for Africa. Maternal mortality rate is also a staggering 1,400 per 100,000 live births, compared with 683 for Africa. Only 29% of the population has access to improved water sources (only 9% in rural areas) and 23% to improved sanitation facilities (6% in rural areas).

2.4 Environment, Climate Change and Water Resources

2.4.1 **Environmental degradation, natural disaster and climate change are major challenges in Somalia**, in particular in terms of threats to livelihoods, food security, peace and stability both at the national and regional levels (Cf. **Annex 6**). There is no institutional framework and policy for environmental protection and water resources management. Beside the conflict, this facilitated desertification, destruction of valuable grazing zones and fertile soil for agriculture and livelihoods. The overall damage has yet to be assessed, but it is likely to be significant. The critical ecological degradation will be difficult to reverse. **The growing scarcity of land and acute water shortages are main sources of conflicts among communities in Somalia**, spreading in the whole of the Horn of Africa (HOA) given the trans-boundary nature of the resources necessary for the livelihoods of the pastoralists.

2.4.2 **Food insecurity and poverty remain acute.** The situation is aggravated by recurrent devastating droughts and irregular rainfalls that vary according to location and season, with major implications for peace and stability in Somalia and the HOA. In 2011, two consecutive years of failed rainy seasons in the HOA and the absence of drought mitigation mechanisms on the part of governments and communities resulted in **the worst famine and vast humanitarian crisis in the last sixty years in Somalia and the HOA** (Cf. **Annex 6**).

2.4.3 Since the beginning of 2012, the famine situation seems to have been stabilized, but remains fragile. A three-year Consolidated Appeal Process has been adopted. It should however be noted that humanitarian needs are still immense and will continue to be protracted if, in parallel, more permanent long-term solutions are not devised and put in place as appropriate. This, in particular, calls for **sustained and coordinated efforts at building state and long-term resilience, as peace and stability are being established.**

III. CHALLENGES AND OPPORTUNITIES

3.1 Challenges

3.1.1 Somalia is currently faced with the **daunting challenges of creating the appropriate conditions for sustaining national reconciliation, peace and stability, and rebuilding the state and institutions, through tedious inclusive and democratic processes respectful of human rights.** The root cause of the Somalia's many problems is the collapse of the State and governance structures as well as the lack of safety, with resulting chronic conflict, lawlessness and poverty. Piracy (Cf. **Annex 7**), terrorism, constant streams of refugees and periodic famine are very well known regional problems resulting largely from the instability in Somalia.

3.1.2 **Rebuilding the state will entail vigorous and urgent efforts aimed at restoring the capacity of institutions, communities and putting in place effective and accountable governance structures.** Strengthening public finance management (PFM) will also be critical in institution building, after more than two decades of conflict (Cf. **Annex 4**). In this context, addressing the data and statistics gaps in a coordinated matter should be an urgent top prerequisite (Cf. **Annex 4**). The role of the **Diaspora** will also be very critical (Cf. **Annex 5**).

3.1.3 Furthermore, **appropriate policies and practices for sustainable management of natural resources are required both at the national and regional levels.** This will contribute to building long-term resilience, sustainable peace and stability, and significantly improve the livelihoods of millions of people, notably the pastoralists and agriculturalists.

3.2 Opportunities

3.2.1 The Somali political leadership must take advantage of the **momentum gained by the**

positive developments in the country and the strong commitment of the international community to build a new partnership based on the country priorities and leadership, credible national institutions, mutual trust and accountability. The process is likely to be long and tedious, but efforts must be sustained with a coordinated support from development partners.

3.2.2 **Creating the conditions to actively involve the Diaspora and the private sector** in the economy of a more regulated form can significantly contribute to Somalia's recovery.

3.2.3 **Potential for regional integration:** Somalia has immense potential for deepening private-sector-led regional integration, in particular through its access to the sea and its ports as well as management of shared water resources. This will require security and critical investments.

3.2.4 **The potential for oil and natural gas reserves in parts of Somalia has been revealed by some surveys.**⁵ While representing a significant potential source of revenue for Somalia as a whole, this could also constitute a source of conflict. The challenge is therefore to put in place good governance mechanisms to appropriately manage the eventual oil and gas revenues.

IV. AID COORDINATION

4.1 The main active donors in Somalia have been coordinating under a forum of International Support to Somalia (CISS) which includes the **Somalia Donor Group (SDG)**, the **UN country team (UNCT)** and the **NGO Consortium** (Cf. **Annex 3**). The SDG operates mainly from Nairobi (Kenya) and meets regularly to deal with substantive operational and policy issues on international assistance to Somalia and its coordination. The Bank has increased its participation in the last two years, through a Nairobi-based team and during field missions. In addition, there is a high, but unknown, level of support across the entities of Somalia from non-traditional donors, Islamic NGOs and other agencies, largely to health and education.

4.2 Since the formation of the new federal government, several UN missions and donors are exploring appropriate modalities to support the process of stabilization and recovery in Somalia. **Given the existing weak domestic capacity on the ground in Somalia, donor coordination is a major challenge and should be enhanced.** Development partners have agreed on the need for a new *Aid Framework* with the government, in accordance with Busan New Deal. It was also agreed during a donor consultation meeting in Nairobi in October 2012 that a coordinated *Fragility Assessment of Somalia* will be undertaken and the outcomes will serve as a common basis. This agreement was reconfirmed by the Authorities during the recent Bank's field mission to Mogadishu in February 2013. The new Government has recently created an **Aid Coordination Unit** under the Ministry of Finance, in order to enhance its capacity to engage with the partners. The Ministry aims to develop a mapping of donors' activities in order to ensure synergies and complementarity of interventions.

V. RECENT DOMESTIC, REGIONAL AND INTERNATIONAL INITIATIVES

5.1 **The Somali Reconstruction and Development Programme (RDP) 2008-2012** was prepared with assistance from the UN and the WB to serve as a five-year national development plan, including South Central Somalia, Somaliland and Puntland (Cf. **Annex 8**). However, the implementation of the RDP and donors' alignment to the program has been partial. The RDP is currently out of date and its analysis needs to be based on the new realities on the ground.

5.2 **Initiatives at the national, regional and international levels on Somalia have intensified**, culminating more recently, amongst others, in the Busan New Deal & Good International Practices and Engagement in Fragile States (Cf **Annex 9**), the London Conference in February 2012, the second Istanbul Conference in May-June 2012, the UN Mini-Summit in

⁵ It has been reported that the region of Dharoor field in Puntland could hold up to 1.2 billion barrels of oil and has a potential 10 billion barrels of deposits, in addition to the potential for off-shore oil and natural gas production in the Indian Ocean and the Red Sea.

September 2012 and the High Level Consultative Meeting (HLCM) on PFM held in January 2013 in Mogadishu. Detailed discussions on these initiatives are provided in **Annex 8**.⁶

5.3 **The key outcomes and consensus from these initiatives** include: (i) sustaining momentum into the political process; (ii) strengthening AMISOM while helping Somalia develop its own security forces; (iii) completion of the 2011 Fragile States Principles Monitoring Survey in Somalia in line with the New Deal; (iv) creation of the Somalia Stability Fund to help build stability at local level and newly-liberated areas; (v) the need for a long term approach to state-building, economic development and an enabling environment for private sector investment; (vi) commitment to a new partnership based on Somali priorities and leadership, competent and representative national institutions, mutual trust and accountability; (vii) urgent actions needed for achieving a rapid “peace dividend” for the Somali people; (viii) undertaking a comprehensive Strategic Review of the UN assistance; (ix) encouragement of Development partners to establish, where possible, a field presence in Somalia for a more direct engagement with the Somalis; (x) establishment of the Somalia Special Finance Facility (SFF)⁷; and, (xi) commitment by donors to strengthening a single Somali-led PFM Action Plan, in order to enhance transparency, accountability and sovereignty in public resource management.

5.4 **The Bank Group participated in most of these forums on Somalia.** In addition, the Bank launched in August 2011 the regional program “*Drought Resilience and Sustainable Livelihoods in the Horn of Africa (DRSLP)*”, which was endorsed by the African Union (AU). The program involves IGAD and eight countries of the region, including Somalia.⁸ It aims at contributing to peace and state building by addressing the issue of resource-based conflict, in particular the importance of livestock and agriculture in the economies of the HOA.

5.5 The DRSLP is a 15-year phased investment program. The total cost was estimated at USD750 million over a 5 year period. In September 2011, the Bank organized jointly with IGAD a validation workshop in Djibouti with all the IGAD member countries. The three main Somali entities (South Central, Puntland and Somaliland) endorsed the program and submitted proposals totaling USD100 million over a 5-year period. The first phase of the DRSLP for Djibouti, Ethiopia and Kenya was approved in December 2012 with ADF-12 resources. The Bank, in collaboration with IGAD, organized in Addis (21-24 February 2013) an **international Workshop on the DRSLP**, which gathered high-level officials from participating countries and development partners. Participants agreed on the implementation issues of Phase 1 and the major elements of Phase 2 of the DRSLP, including the inclusion of Somalia.

5.6 However, the arrears problem of Somalia precludes its qualification for the conventional ADF resources for its inclusion in the DRSLP.⁹ Yet, **Somalia is the epicenter of the problem and is therefore critical for the success of the Program and for sustaining peace and livelihoods in the region.** This calls for the need for the Bank to explore alternative mechanisms of resource mobilization to finance the Somalia component of the HOA program.

⁶ It should be noted that the UK is co-organizing an international conference on Somalia in May 2013 and the EU plans to host a ‘New Deal’ Global Conference on Somalia in the second half of 2013. The goal is to sustain progress in the political, security and development areas.

⁷ The SFF is expected to function as a multi-donor pulled funds mechanism under the control of the Ministry of Finance expected to support the country’s recovery process prior to the full establishment of PFM systems.

⁸ The HOA comprises eight countries, namely: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda.

⁹ The Bank’s resources for funding the DRSLP Program are derived primarily from the Regional Operations (RO) envelope, which involves cost-sharing with participating countries, in particular through a portion of their ADF country performance-based allocations for eligible countries. Countries that are eligible for ADF resources can therefore have access to the RO window.

VI. BANK GROUP ENGAGEMENT IN SOMALIA AND RECENT ACTIVITIES

6.1 Arrears and Debt Situation

6.1.1 Somalia has been under sanctions since October 1990. **As at 31 December 2012, Somalia's debt to the Bank Group stood at UA59.74 million (about USD92.0 million),** of which ADF (73%), ADB (24%) and NTF (3%).

Somalia: Arrears to the Bank Group, as at 31 December 2012 (in thousand UAs)

	Total	Principal	Charges
ADF	43,293.9	33,322.3	10,971.6
ADB	14,787.2	4,355.1	10,432.1
NTF	1,664.1	738.0	926.1
Total	59,745.2	38,415.4	22,329.8

6.1.2 **According to the 2011 HIPC-eligibility ring-fencing exercise conducted by the World Bank and IMF, Somalia is in debt distress and its external debt burden is unsustainable.** The analysis shows that the debt burden indicators meet the threshold for HIPC eligibility. Somalia's external debt continues to accumulate in arrears.¹⁰ The existence of arrears with the International Financial Institutions (IFIs) will limit the scale of their financial assistance in the short-run as well as the full-fledged reengagement of Somalia.¹¹

6.2 Bank Group Activities

6.2.1 **Despite the arrears situation, the Bank has intensified its engagement in Somalia in recent years, through dialogue and targeted support within the provisions of the sanctions policy.** Details on Bank Group activities are provided in Annexes 10 and 11.

6.2.2 The Boards approved in December 2010 the Somalia Country Brief. **Somalia's allocation under Pillar 3 of FSF during ADF-12 is UA2.5 million.** This was partly used to finance the project "*Rebuilding Financial Management Systems in Somalia*" amounting to USD 2.0 million. It has provided technical assistance to the TFG in the area of PFM. **The remaining balance under Pillar 3 of the FSF amounts to UA1.2 million,** which will be used to finance additional eligible targeted capacity building activities. The Bank also provided **emergency assistance** in 2010 and 2011 in the context of the food and humanitarian crisis.

6.2.3 **During 2011-2012, the Bank conducted inclusive dialogue with the Somali political leadership,** including the TFG and the other sub-entities of Somalia. A consultation mission organized in November 2011 brought together delegates from IGAD, the TFG, Somaliland and Puntland. Delegates reiterated their support to the Bank's leadership in assisting Somalia to address its challenges in an inclusive manner. They jointly requested the Bank, as an African Institution, to use its convening power to play a more active role in state re-building, reconstruction and carrying out the resilience agenda. **The Bank was given green light to intervene in all regions of Somalia. This will be done in consultation with the TFG and the resources will be channeled as appropriate.** Going forward, the Bank will maintain this institutional arrangement, including in country dialogue and donor coordination activities.

6.2.4 The Bank subsequently undertook field missions to Somaliland in March and May 2012, to appraise a water project "*Water Resources Management and Investment Plan for Somaliland*" for EUR2.0 million under the AWF, which will be submitted for approval during 2013.

¹⁰ Partial data as at end-2010, collected from multilateral and Paris Club creditors, estimated Somalia's public external debt to at least US\$ 2.24 billion, of which about 58% is owed to multilateral institutions and 42% to Paris Club creditors.

¹¹ The accumulation of arrears with the Bretton Woods Institutions (BWIs) dates back to the mid-1980s. As at end-June 2011, Somalia's arrears was estimated at SDR 148.3 million to the World Bank and SDR 231.7 million to the IMF, compared to SDR 56.8 million to the AfDB.

6.2.5 Given the particular situation of Somalia, the Bank has initiated dialogue and coordination activities to explore options involving the use of its available instruments in a catalytic way to mobilize additional resources from other development partners, particularly with the view to ensuring Somalia's inclusion in the DRSLP program.¹²

VII. PROPOSED BANK GROUP RE-ENGAGEMENT APPROACH IN SOMALIA

7.1 Resource Constraints and Issues

7.1.1 Somalia is eligible to the African Development Fund (ADF) window, but is under sanction. The sanction applies to the ADF Performance-based country allocation (PBA) and part of the resources from the Fragile States Facility (FSF). **Somalia qualifies as a Fragile State,**¹³ but can currently benefit only from FSF Pillar 3 (targeted support for capacity building and knowledge). **Addressing Somalia's arrears is a pre-requisite for normalizing its relations with the Bank and other IFIs, which will unlock much-needed development resources.**

7.1.2 The Bank Group provides arrears clearance support to eligible RMCs through FSF Pillar 2, as part of the debt relief assistance package under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) to which Somalia is potentially eligible.¹⁴ Access to Pillar 2 will mostly hinge upon Somalia satisfying the required conditions for the second-stage eligibility criteria of Pillar 1, namely the government's commitment to macroeconomic and structural reforms. **The new Government will have to be tested on its ability to deliver on its vision and priorities.** The issue of human and institutional capacities will be critical in this regard.¹⁵

7.2 Rationale for Scaling Up Bank Group Assistance to Somalia

7.2.1 Despite the recent encouraging developments in Somalia, the situation remains extremely fragile. Somalia and the HOA are facing urgent challenges, which threaten sustainable peace, stability and prosperity in the region. The needs remain immense in relation to the complex and often deep-rooted challenges. It is important to maintain momentum through a stronger and effective partnership involving the Somalis and the international community. The objective is to build strategies and programs of the appropriate scale and scope to support the emergence of Somalia out of situations of crisis for sustainable peace and development in the HOA.

7.2.2 Despite the non-accrual status of Somalia, the Bank has remained engaged in the country, making extensive use of its available non-traditional financing instruments, including FSF Pillar 3, AWF and SRF. Though useful, these resources remain limited. The effective clearing of arrears and the full reengagement of Somalia with the IFIs is necessary, but this can only be envisioned in the medium term. In the meantime, the urgency of the situation dictates that the Bank and other partners will need to use effectively the still fragile window of opportunity in Somalia and assume a more creative and proactive role, by devising innovative and flexible approaches to address the operational and financial constraints.

¹² The Bank organized a Roundtable on Somalia, "*Rebuilding the Somali State and Resilience within the Horn of Africa*" in Arusha on 31st May 2012 during the Annual Meetings. Participants strongly urged the Bank to continue its dialogue and outreach efforts initiated in Arusha, in particular by pushing forward its advocacy towards establishing a special Somalia Enhanced Program.

¹³ The harmonized AfDB/World Bank CPIA for Somalia stands at 1.13, which is below the cut-off score of 3.2 for fragile states.

¹⁴ The Bank's arrears clearance operations are designed and implemented as an integral part of a country comprehensive re-engagement strategy. They are closely linked to similar operations provided by the IMF and the World Bank, and coordinated with reengagement processes of the international community, including other multilateral and bilateral aid agencies.

¹⁵ Access to Pillar 2 is subject to eligibility criteria, including the two-stage criteria for Pillar 1 (Supplementary Support, for infrastructure rehabilitation and reconstruction, regional projects and budget support). The analysis shows that Somalia could potentially meet the first-stage eligibility criteria, i.e. (i) prospects & government's commitment for peace and security; and (ii) huge unmet social and economic needs.

7.2.3 In this regard, the Bank is proposing to establish a special **Somalia Enhanced Program**. Pillar 3 of the FSF can eventually be expanded, and is also suited for receiving dedicated and ring-fenced voluntary contributions to (partially) finance the Somalia Enhanced Program.¹⁶

7.3 Bank Group Special Somalia Enhanced Program

7.3.1 **The financing mechanism of the Bank Group special Somalia Enhanced Program will function as a vehicle for scaling up and ring-fencing resources to support crucial activities in Somalia**, through targeting available instruments within the Bank to be used as seed money to mobilize development partners for co-financing or parallel financing. Despite the arrears situation, the Program would help the Bank ensure a meaningful presence on the ground and support needed targeted activities. **The Program is discussed in great details in Annexes 12 and 13.** The main outcomes are shown in the Result-based Activity Framework of this CB.

7.3.2 **The goal** of the proposed Program is to support sustainable peace, state-building and reconstruction, through building capacities and long-term resilience, and assistance to Somali-led full-fledged reengagement efforts with the international financial community.

7.3.3 **The Somalia Enhanced Program will have three main components:** (i) Financing the Somalia component of the Bank Group regional program DRSLP; (ii) Strengthening governance and capacities; and, (iii) Facilitating the re-engagement process of Somalia with the international community. The Program will involve capacity building, investment projects, analytical work, feasibility studies, advisory services, country dialogue and donor coordination. The program will also include infrastructure rehabilitation and reconstruction, involving, where appropriate, community level labor-based public works in local programs.

A. *Drought Resilience and Sustainable Livelihoods in the Horn of Africa (DRSLP)*

7.3.4 The DRSLP regional program was endorsed by the three main sub-entities of Somalia (South Central, Puntland and Somaliland). The cost of the Somalia component was estimated at USD100 million over a 5-year period. The program has three key components: (a) Enhanced water resources development and management; (b) Improvement of livestock infrastructure for market access, rangeland and livestock management; and, (c) Capacity building of IGAD and relevant national institutions, including communities. Identification and preparation missions were fielded in Somaliland. Following its field mission to Mogadishu in February 2013, the Bank has initiated the process of recruiting national experts in the areas of Agriculture and Livestock Production, Animal Health and Rural Infrastructure to assist the Government in the preparation of the project.

7.3.5 The DRSLP will address the long-standing problem of recurrent drought and conflicts in Somalia and the HOA by: (i) stabilizing the natural environment; (ii) ensuring the harmonious and sustainable exploitation of natural resources; (iii) building long-term resilience and improving livelihoods, particularly the pastoral communities; and, (iv) establishing mechanisms for enhancing the availability of water resources at the regional level.

B. *Strengthening governance, human and institutional capacities*

7.3.6 **Key areas of focus in the planned Bank's interventions** will aim at strengthening: (i) the capacity of the government and local administrations to plan, formulate, implement, monitor and evaluate national development policies and programs; and, (ii) public finance management (PFM). The Bank will work closely with the government officials and other development partners in defining a coordinated capacity building framework as well as urgent priorities and implementation modalities, in order to ensure rapid and sustainable results on the ground. The role of the Somali

¹⁶ The Bank has accumulated knowledge and experience in other fragile states and situations and has developed some areas of comparative advantage to provide an effective differentiated approach to the specific challenges of Somalia. There are good examples of the role of the Bank in developing and strengthening effective partnerships to provide early enhanced pre-arrears clearance support, as evidenced for instance with the FSF and the Zim-Fund in Zimbabwe. In particular, the FSF has been designed to provide scope for voluntary contributions from other donors, in addition to those from the ADF. Contributions from other donors can be targeted by country, pillar or for general use.

Diaspora will be taken into account. The new Government has already produced in February 2013 the draft *PFM Self-Assessment Report*, conducted with technical assistance from DFID and World Bank. The report is being finalized to integrate comments from donors, including the Bank. The PFM Self-Assessment aims at short to medium-term reform priority actions necessary to strengthen the PFM system over the next four years.

7.3.7 The **financing sources of the Bank’s capacity building activities** will primarily consist of the remaining balance under the existing FSF Pillar 3 (UA1.2 million), dedicated Trust Funds, as well as the resources that will be mobilized under the proposed *Somalia Enhanced Program*.

7.3.8 The **activities under the ongoing project “Rebuilding Financial Management Systems in Somalia” will be completed**. Lessons will also be learned and taken into account in the design and implementation of new capacity building activities.

7.3.9 **Regarding new activities** and as a matter of urgency, the Bank will contribute to the major multi-donor *Joint Program for Capacity Development in Statistics for Somalia*, in partnership with the Federal Government, the administrations of Somaliland and Puntland and the Somalia Development Group (SDG), under the technical leadership of the United Nations Population Fund (UNFPA). The total cost of the Program is estimated at USD12 million. The Bank is contributing USD500,000 from the remaining balance of the FSF Pillar 3.

7.3.10 The **main expected outputs** are articulated in the Result-based Activity Framework. **In terms of outcomes**, it is expected that the Joint Program will ultimately lead to a process of evidence-based economic policy formulation and decision making that will result in the equitable access to basic services by Somali people, poverty reduction and improved livelihoods.

7.3.11 Additional **new capacity building activities** will be based primarily on the *PFM Self-Assessment* and other joint diagnostic exercises envisaged, including the *Joint Somalia Fragility Assessment* and the agreed country-led *PFM Reform Action Plan*. In this context, the FGS has already requested support to build the capacity of the Ministry of Finance and the Central Bank of Somalia (CBS). The objective is to consolidate gains in the ongoing PFM project ‘*Rebuilding Financial Management Systems in Somalia*’ (RFMS). Results already achieved under RFMS are discussed in **Annex 11**.¹⁷

C. Facilitating the full-fledged re-engagement process of Somalia

7.3.12 Somalia will need the earliest possible the full-fledged assistance that the IFIs can provide to address its challenges. Clearing the arrears is the key pre-requisite, through the HIPC/MDRI Initiative. This process is more likely to require time, as it takes into account the evolving situation on the ground and progress in the technical and financial prerequisites, which will need to be mobilized and coordinated. A country-led process of fulfilling the technical requirements will be a major constraint likely to be time consuming, given the very weak capacity on the ground and the relative isolation of the country from the international financial community for more than two decades. In this regard, **the arrears issue of Somalia should be initiated sooner**, at least in terms of country dialogue, donor coordination, analytical work, technical assistance and capacity building, including sensitization of Somali Stakeholders.

7.3.13 In this context, the Bank intends to play an important role and assist in the initial discussions and consultations with the new Government and development partners on issues, to agree on the necessary steps, the required assistance and the modalities. Broadly speaking, Somalia would need to formulate a strategy or a roadmap for an internationally coordinated re-engagement process. The strategy would provide the basis for agreeing on key milestones and actions to be undertaken by

¹⁷ The technical assistance to the CBS will focus on the setting up of banking operations, commercial bank licensing and supervision, with a view to kick-starting the activities of the CBS. In addition, the CBS will be assisted in the preparation of a strategic plan, as well as the Regulations and Rules required to implement the Central Bank Act and Financial Institutions Act, which were both prepared under the RPFM.

the government, the Bank and development partners. The Bank will closely coordinate and monitor progress with the Breton Woods Institutions. The Authorities have expressed their support and agreement to this approach during the Bank Group's recent field mission to Mogadishu in February 2013.

D. Potential areas for Analytical Work and Monitoring and Evaluation (M&E):

7.3.14 **Analytical work and ESW:** The Bank will follow up on the collaborative initiatives already initiated on Somalia, in particular the PFM Self-Assessment and resulting PFM Reforms Actions Plan, the Fragile States Principles Monitoring Survey, the Joint Fragility Assessment, the New Aid Framework, and the UN Strategic Review. Other potential areas for ESW could include: (i) a Political Economy Profiling; (ii) Sector Needs Assessments and Feasibility Studies; (iii) Analysis of the social sector, youth employment and gender; and, (iv) relevant analytical work that will feed into the design of a credible reengagement plan and a country-owned reconstruction and development program.

7.3.15 **Monitoring and evaluation:** The **Results-based Activity Framework** attached to this Country Brief will serve as the main tool for monitoring the Bank Group program of activities. The Bank will undertake close monitoring, regular updates and annual reviews.

7.3.16 **Ensuring Bank presence on the ground to enhance effectiveness:** the Bank has recently strengthened its presence in the East Africa Regional Resource Center (EARC) in Nairobi, where most Somalia donor activities are being conducted.¹⁸ Additional resources are mobilized from the Regional Department East 2 (OREB) and cross-complex sector task team members on Somalia drawn from the EARC or Headquarters as appropriate. The reinforced presence in Nairobi will particularly enhance the quality of the Bank's engagement and participation in the SDG activities and regular PFM Working Group. An eventual expansion of the Bank's presence in Somalia it-self will be examined at a later stage, in particular depending on security issues, in coordination with the Somali government and using the experience of other donors.

VIII. RISKS AND MITIGATION MESURES

- **Risk 1:** The security situation and the peace process in Somalia are improving, but still fragile. **Measure 1:** The international community needs to sustain the momentum towards assisting Somalia to address the political and security issues, in particular through AMISOM and the process of rebuilding the Somali national security apparatus. **Measure 2:** The new Government is encouraged to sustain its broad-based and inclusive approach to national reconciliation, peace, democracy and recovery. Development partners should conduct a coordinated dialogue and joint monitoring and evaluation involving the government. **Measure 3:** Particular attention should be given to fulfilling the expectation of the population for rapid 'peace dividend' and livelihood improvement. Donors should mobilize for initiatives such as the Stability Fund and the Somalia Enhanced Program being advocated by the Bank Group.
- **Risk 2:** Somalia's arrears and unsustainable external debt may prevent needed MDB resources flowing to the country. **Measure:** The donor community needs to be committed to an urgent arrears clearance plan, supported by a strong early pre-arrear clearance program.
- **Risk 3:** Climate change, with the resulting drought and famine. **Measure:** The international community maintains its support to and implement the adopted 3-year Consolidated Appeal Process (CAP). In parallel, resilience-building programs such as the DRSLP proposed by the Bank should be supported and implemented.
- **Risk 4:** Limited human and institutional capacity. **Measure 1:** Donors' commitment, including the Bank, to deliver urgently on the core governance functions in Somalia should be sustained. **Measure 2:** Donors should ensure field presence as security situation improves.

¹⁸ A dedicated Somalia Team has been established in Nairobi, currently composed of a Lead Expert and a Country Economist on a permanent basis. The team will be boosted with consultants on a need basis and will liaise with resources from the EARC and Headquarters.

IX. CONCLUSION AND RECOMMENDATIONS

9.1 Conclusion

Somalia has entered a new phase of peace-building, stability and recovery. The prospects are greater than they have been for many years for addressing the country's immense challenges and for sustainable peace and development in the Horn of Africa (HOA). However, the situation remains extremely fragile. The Bank Group is committed to urgently use this fragile but unique window of opportunity to assume a more substantive leadership role in its core areas of comparative advantage, by leveraging its mandate, available instruments and convening power. This will require building strong partnerships and coordination with the Government and key traditional and non-traditional development partners. It is therefore proposed to establish a special **Somalia Enhanced Program**, articulated in this Country Brief.

9.2 Recommendations

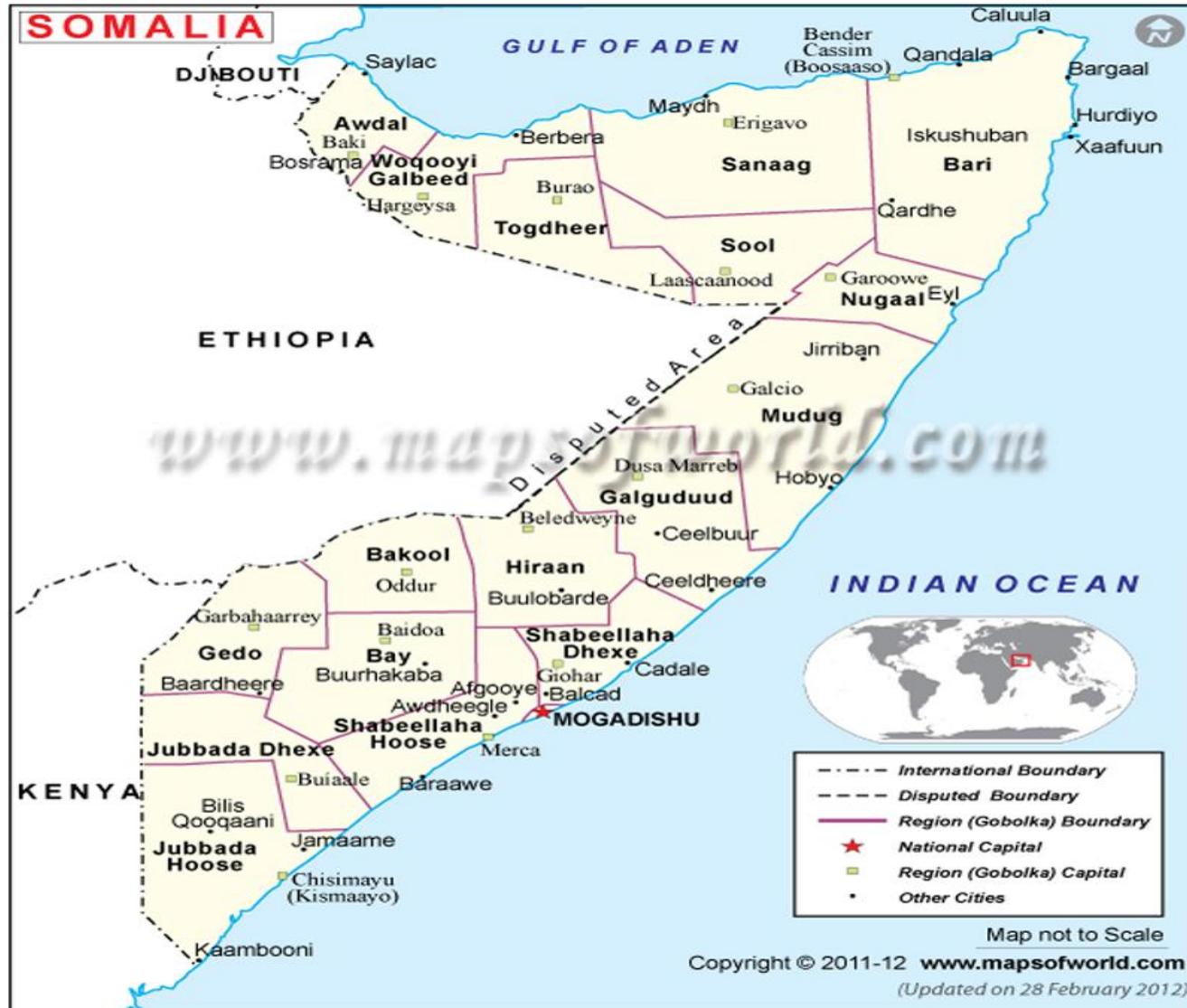
The Boards of Directors are invited to approve the Somalia Country Brief 2013-2015, in particular:

(i) Somalia's continued eligibility as a Fragile State and the use of Pillar 3 of the FSF and other facilities that are not affected by the arrears situation, such as the African Water Facility (AWF) and the Special Relief Fund (SRF);

(ii) The strategic and operational activities outlined in this Country Brief under the Bank Group Somalia Enhanced Program; and,

(iii) The financing modalities of the Somalia Enhanced Program, involving the exceptional use of Bank Group internal resources in line with the existing policy guidelines, to be utilized as seed money to mobilize additional funds from development partners for co-financing or parallel financing.

ANNEXE 1: SOMALIA POLITICAL MAP



ANNEX 2: SOMALIA: BACKGROUND

SOMALIA: BACKGROUND INFORMATION

A. Politics and Institutions

- 2.1 Somalia has undergone a prolonged period of conflict and insecurity over the last 30 years, with intense fighting, population displacement, food insecurity, humanitarian crisis and generalized lack of centralized governance structures. Somalia has been fractionalized into three de facto spatial and political entities, mainly **South Central Somalia** where the official capital city (Mogadishu) is located, **Puntland** in the north-east, and **Somaliland in the north**. Until 20th August 2012, the Transitional Federal Government (TFG) was the legitimate and internationally recognized Government of Somalia. It was confined for a long period to some areas of South Central and lacked the institutional capacities and authority over the entire territory.
- 2.2 The Djibouti peace agreement in June 2008 and the Kampala Accord, and the support of the international community have dramatically improved the security and political situations in the country, particularly over the last few months. Somali leaders agreed on a "Roadmap" in September 2011 in Mogadishu and, subsequently, at the Constitutional Conference in December 2011 on the so-called "**Garowe Principles**". The "Garowe Principles" included provisions on a new Constitution and a bicameral Parliament, with 30% of women and maintaining the "clan distribution formula" for the first elections, but to be phased out later. The draft constitution providing for a federal government was agreed for Somalia, with the exception of Somaliland. The Somali-led negotiations, facilitated by the UN Political Office on Somalia (UNPOS), included the TFG, Puntland and leaders of the semi-autonomous region of Galmudug. Somaliland has not taken part. However, the leaders of the TFG and Somaliland met in June, 2012 in the UAE and signed an Aide Memoire to continue discussions. This meeting was preceded by a Ministerial Meeting from the two sides in London. With the new political leadership in Somalia, such consultations and concerted efforts need to be sustained to ensure a broad-based national reconciliation, durable peace, stability, state and institution building.
- 2.3 **Somalia has entered a new phase of peace-building, stability and recovery**, after the end of the political transition on 20 August 2012. The TFG has given way to a new Federal Government of Somalia, a provisional constitution and a parliament. The outlook is more positive than it has been in a generation. The **new Federal Government of Somalia** was established on 20th of August, 2012, following the end of the interim mandate of the TFG. It officially comprises the executive branch of government, with the parliament serving as the legislative branch. It is headed by the President of Somalia, to whom the Cabinet reports through the Prime Minister. Under the new constitution, Somalia is a federation, now officially known as the **Federal Republic of Somalia**.
- 2.4 **Local state governments**, officially recognized as Federal Member States, have a degree of autonomy over regional affairs and maintain their own police and security forces. However, they are constitutionally subject to the authority of the Government of the Federal Republic of Somalia. The national parliament is tasked with selecting the ultimate number and boundaries of the Federal Member States within the Federal Republic of Somalia. As stipulated in Article 1 of the Transitional Federal Charter of the Somali Republic, Puntland is a part of the Federal State of Somalia.
- 2.5 **Semi-autonomous Somaliland** has declared itself an independent state and has been seeking the international community's recognition. While the central and southern regions of Somalia were engaged in war, Somaliland has remained more peaceful and stable, continuing its efforts toward state building and establishing a functioning democratic political system and basic governance structures. However, Somaliland is also faced with a high degree of fragility and huge needs for capacity building, reconstruction and development assistance. District elections were held in 2002, followed by presidential elections in 2003 and parliamentary elections in 2005, with the Allied People's Democratic Party (UDUB) maintaining its hold on the executive branch. The second presidential elections were conducted peacefully, after a two-year delay. Not officially recognized as a state, Somaliland receives only limited aid from OECD countries, provided primarily in the form of assistance from non-governmental organizations (NGOs) and multilateral aid.

B. Somaliland and Puntland: Economic Structure

- 2.6 **In Somaliland**, livestock production constitutes the backbone of the economy, accounting for about 65% of its GDP. As is the case with the rest of Somalia, the economy of Somaliland is heavily dependent on livestock production and remittances from Diaspora, estimated at USD500 million per year. The latter constitutes the largest single source of hard currency entering Somaliland. Foreign Direct Investment (FDI) is also estimated to have significantly increased in 2012, from Kuwait, China and France in the transport and service sectors.
- 2.7 The **Puntland** economy is also heavily reliant on livestock production and is highly vulnerable to extreme weather conditions. The recent drought situation has significantly affected the sector and negatively impacted the capacity to generate revenue. The economic over-dependency on one sector (livestock production) and one market (livestock export) has consequently constrained the administration's capacity to mobilize enough domestic resources. This is further exacerbated by the lack of sound fiscal and monetary policies as well as strong institutions.

ANNEX 3: SOMALIA: AID COORDINATION

AID COORDINATION AND DONOR ACTIVITIES

- 3.1 The main active donors in Somalia have been coordinating under a forum of International Support to Somalia (CISS) whose membership includes the **Somalia Donor Group (SDG), the NGO Consortium and the UN country team (UNCT)**. The SDG is made up of about thirty bilateral African and non-African representatives, U.N. agencies, multilateral and non-governmental organizations. The SDG, established since 2005, meets regularly to deal with substantive operational and policy issues in relation to international assistance to Somalia and its coordination. The SDG operates mainly from Nairobi (Kenya) on the basis of consensus, taking into account the respective mandates and independence of its members. The Bank has increased its participation in the last two years, through a Nairobi-based team and during field missions.
- 3.2 The International Contact Group (ICG) was established in 2006 as an informal working group of mainly western Ambassadors at the UN headquarters in New York. The ICG focuses on the political process, security and justice, and stability and development. In addition to funds from the UN agencies, international NGOs and bilateral donors, there is a high, but unknown, level of support across the constituent entities of the federation from non-traditional donors, Islamic NGOs and other agencies, largely to health and education.
- 3.3 Since the election of the new President, there have been numerous donor and UN missions to Mogadishu to initiate discussions with the view of providing assistance to support the process of stabilization and recovery in Somalia. **Donor coordination is going to be a major challenge given the existing capacity on the ground in Somalia.** However, there is not yet an agreed and coordinated platform for the process of normalization of Somalia's cooperation with donor countries. The international community has initiated a process of consultation with the view to agreeing on a new **Aid Framework** with the new government, in accordance with New Deal for Engagement with Fragile States. A small Strategic Coordination Group is likely to be established as an interim solution until a permanent Mogadishu-based policy orientated government-international partnership is agreed. Donors recognize that a **Somali Development Framework and Plan** has to be country-owned and led by the new authorities, with support from the international community. In this context, it was agreed during a donor consultation meeting in Nairobi in October 2012 that a coordinated **Fragility Assessment of Somalia** will be undertaken and the outcomes will serve as a common basis for development partners.
- 3.4 **On the part of the new Government**, following the formation of its cabinet, it has established an **Aid Coordination Unit** and a **Policy Development Unit** to enhance its capacity to engage with the partners. The Bank is expected to play an important role at all stages in the process of normalization of Somalia's relations with the donor community.

ANNEX 4: SOMALIA: STATISTICS SYSTEM AND PFM

SOMALIA: Statistics and Public Finance Management (PFM)

- 4.1 **The statistical system** in Somalia as a whole is very weak. No comprehensive household income and expenditure survey has been conducted for a very long time. The first population census carried out in 1975 was not published, except for an analytical report produced in 1984. A national demographic survey was carried out in 1980-81, but was not fully processed. A census was conducted in 1985-86, but was not published as there were doubts on its accuracy. The most recent attempt at producing reliable socio-economic data on Somalia were the Socio-Economic Survey 2002 and a nationwide household survey in 2004 by the World Bank and UNDP. Since then, there has been no follow up survey and updates. As a result, **it is almost impossible to undertake planning and programming work, as well as to monitor economic and social developments and the MDGs.** The UN agencies conducted a preliminary assessment of the capacity of the statistical system in Somalia in the first quarter of 2012. It revealed that these activities are uncoordinated, incoherent, incomplete and unpredictable. It was also noted the lack of statistical institutions that are functioning properly and sustainably in the various Somali administrations.
- 4.2 In Somalia as a whole, **there is no effective Public Finance Management (PFM).** The government budget has a very weak revenue base, which cannot even accommodate the wage bill of civil servants. Domestic resource mobilization has remained weak in the absence of a central government, appropriate fiscal policies and institutional accountability. Yet, providing basic services and reconstructing the country are crucial for peace-building and stability. A significant level of public investment will be required to help improve the business climate and the prospects for inclusive and sustainable growth.
- 4.3 In the absence of a central government apparatus and regulatory bodies, there is no formal tax policy. Businesses are not regulated or taxed, though an informal system of taxation has developed. Industries operate informally, even when they are highly profitable. Somalia has been characterized by high public expenditures by Governments, deficit financing through money printing, uncontrolled money supply and inflationary trends. The value of the Somali Shilling (SOS) is quite difficult to determine given the fluctuation of exchange rates from region to region within the Somali territory. From 1992 to 1995, Somalia's weighted average annual rate of inflation was 331.2%. No subsequent reliable information is available, but the inflation rate is estimated to remain in the range of 300%.
- 4.4 The new **Central Bank of Somalia** is expected to operate with all the prerogatives of a monetary institution, in particular the power to issue currency, regulate the banking and credit system and manage the external reserves of the Republic. It is already in the process of taking full charge of formulating and implementing monetary policy. However, it is handicapped by lack of adequate human, material and financial resources. Alongside the Somali shilling, the US dollar is widely accepted as legal tender for relatively large transactions involving local trade activities. The inflationary trend is expected to be under control when the Central Bank takes effectively full charge of monetary policy and replaces the currency circulating, printed by the private sector.
- 4.5 Although **Puntland** and **Somaliland** have official budgets, fiscal management is undermined by low resource mobilization and poor planning. Expenditures are mostly focused on recurrent security and general administration, with little scope left for investment. Currently, Somaliland has a relatively stable currency accepted by its citizens. Money transfer agencies and microfinance schemes constitute the major financial institutions, some of which provide marginal banking services. There is a Central Bank that acts more as a treasury to the government and prints currency. There are no credit institutions or insurance companies operating in the territory. The financial sector is also highly dollarized, which besides printing money, allows the Central Bank to use the buying and selling of dollars as part of its monetary policy instruments.

ANNEX 5: SOMALIA: POTENTIAL ROLES OF THE DIASPORA AND THE PRIVATE SECTOR

Somalia: Potential roles of Somalia diaspora and the private sector

A. Somalia Diaspora

- 5.1 **The Somali diaspora is estimated at between 1–1.5 million people.** Over the last two decades and more of civil war, the diaspora has been critical in helping people in Somalia survive a conflict situation in which food insecurity, massive unemployment, lack of public services, and exclusion from global banking, postal and law enforcement networks have presented additional challenges. For example, remittances alone are estimated at about US\$1bn-2bn a year in Somalia – and this figure does not even take into account the vital role the diaspora plays in providing basic services such as healthcare, education and water, as well as infrastructure and enterprise.
- 5.2 To date, **the support from the diaspora has primarily been in the following areas:**
- Individuals who provide assistance to relatives for survival and/or to establish businesses.
 - NGOs based in the diaspora who provide assistance to partner NGOs or social service providers (SSPs) in Somalia.
 - Professional associations (lawyers, midwives, academics, agronomists etc.) whose members provide technical support to NGOs and SSPs (and less frequently to Somali private companies). Members have often donated their time and skills by actually travelling to Somalia.
 - Many local NGOs, SSPs and private enterprises who have diaspora members on their Boards, and who provide essential support in terms of professional advice, access to professional networks abroad and sometimes funding.
 - A significant proportion of large businesses in Somalia have shareholders or investors in the diaspora. Private investors do not only give their money, but also visit the country (security permitting) to monitor or direct their investments.
- 5.3 One reason why **the diaspora has been so successful in helping communities in Somalia** is because the support network is entirely run by Somalis. **Thus, Somali ownership and trust has helped to minimize transaction costs and to ensure that assistance provided gets to its intended destination.**

Mechanism for channeling resources

- 5.4 Most financial support from the diaspora is sent using the Somali money transfer system often referred to as *hawala*. These remittance companies and channels are well established, efficient, cheap and trusted. The largest money transfer companies have branches all over the world and can send money within a few minutes to even the most remote parts of Somalia. Despite the obvious success of remittance companies, there is some concern that they have created a culture of dependency and, by using their dominant position, invested in and monopolized other industries previously made up of small individual and family companies.
- 5.5 Aside from financial transfers, the diaspora is involved in sending in-kind assistance (books, medical supplies, machinery, etc.), as well as technical support provided in-person.

Constraints faced by the diaspora

- 5.6 Notwithstanding their clear commitment and the successes they have been able to achieve, **the diaspora faces a range of difficulties in maximizing their support.** These include:
- Difficulty integrating into settlement countries, which means that Somalis are often not in a position to maintain consistency in/increase the support they are providing. This is compounded by uncertainties regarding their residence status.
 - Lack of information about development work and opportunities in Somalia, and including work of international agencies.

Potential for increasing support from the diaspora

- 5.7 Going forward, **this is a critical time for the diaspora to increase their support to Somalia in providing:** (i) skills and human capacity for the re-building of Government and other institutions; (ii) capital, technical know-how and links to international/regional markets for new businesses; and (iii) remittances as a critical social safety net for sustaining livelihoods, stability and peace. *The international community is well placed to facilitate this support.*

B. Private Sector in Somalia

- 5.8 **Leading on from point (ii) above, Somalia's long-term reconstruction and economic development depends heavily on a vibrant private sector.** Despite more than 20 years of war, Somalia still has a remarkably strong private sector, particularly in money transfer, telecommunications and the livestock industry.
- 5.9 Furthermore, in a bid to attract investment, **the Somali Government has identified six priority sectors that can play a significant role in rebuilding the economy:** telecommunications, infrastructure, livestock, fisheries, banking and energy (fossil fuels and alternative).
- **Telecommunications.** There are 11 licensed operators whose networks cover the whole country, and the biggest names are Somali Telecom, Golis, Nation Link and Hormund Telecom (with sales of US\$ 40m a year). Telecoms in Somalia have been a huge success and they currently have one of the most competitive telecoms markets in Africa.
 - **Infrastructure.** Given the massive deficit in infrastructure across the board, there is great need for attracting investors into infrastructure through Public Private Partnerships. A clear infrastructure investment plan (including a stocktake and sequenced priorities) is yet to be prepared.
 - **Livestock and fisheries.** Somalia is blessed with vast natural resources, including livestock and fisheries which are already the back bone of the economy. Major destinations for livestock exports from Somalia include Yemen, Oman, Libya, United Arab Emirates, Kuwait and Egypt. Estimates have shown that Somalia has an abundance of fish in its national waters and that a significant sustainable yield could be harvested without endangering stocks. Currently, fish production is very low compared to the potential and the likely demand from international markets. For example, in 2013 Somaliland hopes to achieve its long-term goal of netting 120,000 tons of seafood per year, the sale of which could generate US\$1.2bn in foreign currency.
 - **Banking.** The banking sector is dominated by the large remittance companies, who also provide savings products. The Central Bank is currently working on setting up the systems to support the licensing and operations of commercial banks. Such entrants would certainly increase competition and start helping to provide the financing for local businesses and investors.
 - **Energy.** Puntland is believed to have all the geological requirements to become a commercial oil-producing region. Somalia, and in particular Puntland, remains one of the last under-explored countries with high potential for considerable reserves of hydrocarbons.
- 5.10 Many investors have already expressed an interest in investing and establishing businesses in these sectors in Somalia, which would follow in the footsteps of Coca-Cola, Turkish Airlines, Africa Oil, Range Resources and SKA.
- 5.11 **Working with the private sector is a major opportunity for recovery and development. Donors should consider prioritizing projects that: (i) deliver formal business training; (ii) promote co-operation with entrepreneurs in providing basic services and improving infrastructure; and, (iii) look for more effective ways to draw on the business acumen of the diaspora.**

Sources: Various sources, including:

- UNDP, *Cash and Compassion: The role of the Somali Diaspora in Relief, Development and Peace-building*, December 2011
- Obsiye L. and Salah Y., *Remittances: Not all good news*, December 2012
- Somalia Investment Summit website, <http://somalia-invest.com/>
- The Guardian, *Somalia's private sector can help rather than hinder development*, May 2012
- East West Institute, *A Role for the Private Sector in Somalia?*, November 2011

ANNEX 6: SOMALIA: ENVIRONMENT, CLIMATE CHANGE AND WATER RESOURCES

SOMALIA: Environment, Climate Change and Water Resources

- 6.1 Environmental degradation and climate change issues constitute major challenges in Somalia, in particular in terms of threats to livelihoods, food security, peace and stability both at the national and regional levels.** There is no institutional framework for environmental protection and management. In this context, profit and short-term gains generally override environmental preservation considerations, with major implications on sustainable livelihoods. The charcoal business in southern Somalia provides a striking example. Trees are cut and burned for charcoal export; thus facilitating desertification and the destruction of valuable grazing zones and fertile soil for agricultural needs. About 97% of urban households depend on charcoal, and rural households rely on firewood as their main source of energy. Furthermore, it has been reported that foreign companies have disposed of toxic waste and engaged in uncontrolled fishing in Somalia's waters. The damage has yet to be assessed, but it is likely to be significant.
- 6.2 Production and livelihoods are constantly threatened,** in particular as a result of environmental degradation and natural disaster, exacerbated by the conflict situation, institutional weaknesses, inadequate production systems and the absence of appropriate policies and water resource management. The country suffers from critical levels of ecological degradation that may be difficult to reverse. Some 30% of the land (catchments, range areas and agricultural lands) is considered degraded. This situation directly affects livelihoods, as pastoralism and agro-pastoralism have been for centuries the dominant source of income for Somalia's predominantly rural population.¹ The prolonged conflict and the induced population displacement have seriously impacted livestock and agriculture, resulting in loss of productive assets, particularly livestock and irrigation equipment to militias, as well as expulsion from farms, especially in the south. The frequent droughts in 1987, 2000, 2004, 2008 and 2010-2011 also affected agricultural production.
- 6.3 The unavailability and inappropriate management of water resources poses a serious and growing threat to sustainable development,** aggravated by recurrent devastating droughts and irregular rainfalls that vary according to location and season. Northern and Central Somalia suffer from acute water shortages, with the available water being mainly saline. Since 1991, the vital water points for drinking and cultivation purposes have not received appropriate maintenance by government authorities. Somaliland in the north-west faces water crisis where entire villages are sometimes abandoned as a result of adverse climatic changes that reduce water sources. There are no rivers in the north-eastern regions, where the majority of the population depends on cattle, sheep and camel rearing. Southern Somalia is generally greener, with two permanent rivers, the Jubba and Shebele, which are shared with Ethiopia. These rivers and the underground aquifers are widely exploited. The remaining water courses are ephemeral, yet provide important water sources (wells) and account for relatively richer vegetation in their vicinity.
- 6.4 The growing scarcity of land and acute water shortages constitute major sources of conflicts among communities in Somalia,** with implications for the whole of the Horn of Africa (HOA) given the trans-boundary nature of the resources involved in the sustenance of the livelihoods of the pastoralists. Disputes over property and land rights have increased owing to the growing scarcity of land. Land speculation and illegal enclosures in common pastures are rising, resulting in an increase in local conflicts. Water rights have also been a major cause of conflict between groups of pastoralists. In rural Somaliland and Puntland, the construction of unplanned private water development, mainly by wealthy livestock owners, is increasing pressure on the surrounding rangeland. This is exacerbated by the increased use of private enclosures for grass, which curtails grazing routes and fuels most rural conflicts.
- 6.5 Food insecurity and poverty remain acute, and constitute a permanent threat to peace and stability in Somalia and the HOA.** In 2011, two consecutive years of failed rainy seasons in the HOA combined with the absence of drought mitigation mechanisms on the part of governments and communities contributed to exacerbating the fragility of livelihoods in Somalia. This resulted in **the worst famine and vast humanitarian crisis in the last sixty years in Somalia and the HOA.** Over 12 million people were severely affected by food crisis and were in urgent need of humanitarian assistance in Somalia and other parts of the region, particularly in Djibouti, Ethiopia, Kenya and Uganda. The impact of the drought in the HOA was exacerbated by the political, institutional and security problems of Somalia, which hinder the efforts of the international community in providing the appropriate response to the humanitarian needs. The situation also resulted in a significant inflow of refugees from the drought of Somalia into the neighboring countries of Kenya, Ethiopia and Djibouti.
- 6.6 Since the beginning of 2012, the famine situation seems to have been stabilized.** In September 2012, it was estimated that the number of people in crisis in Somalia had reduced by around 16%. However, about 2.1 million people remain in urgent need of aid and another 1.8 million at risk of sliding back into crisis. Humanitarian assistance will continue to be crucial and its delivery will remain a challenge. A **three-year Consolidated Appeal Process** has been adopted. It should however be noted that humanitarian needs are still immense and will continue to be protracted if, in parallel, more permanent long-term solutions are not devised and put in place as appropriate. This, in particular, calls for **sustained and coordinated efforts at building state and long-term resilience, as peace, reconciliation and stability are being established.**

¹ Somalia is an arid and semi-arid country where 80% of livelihoods are directly dependent on the natural resource base. Livestock has traditionally been the most important sub-sector, while agriculture has provided staple and cash crops. Livestock contributes to about 40% of GDP and 80% of all Somali exports in normal years. This includes both nomadic and sedentary herding of cattle, sheep, goats and camels. Their numbers were reported to be exceeding the carrying capacity, resulting in overgrazing and outbreaks of livestock disease. More than 70% of the land area is dedicated to agriculture through rain-fed and irrigated farming systems.

ANNEX 7: SOMALIA: PIRACY: BACKGROUND, SOCIAL AND ECONOMIC IMPLICATIONS, RESPONSES AND WAY FORWARD

Somali Piracy: Background, Implications, Responses and Way-Forward

BACKGROUND

- 7.1 **Even though the first pirate attacks of any significant number were recorded in 2000 off the East coast of Africa, the roots of Somali piracy date back to 1991 when Mohammed Siad Barre was overthrown, leaving Somalia without an effective central government and locked in civil conflict.** Taking advantage of the power vacuum, rival warlords carved out influence over regional territories – first on land, and then increasingly at sea. Fishermen, dismayed at the inability of the central government to protect their country's exclusive economic zone (EEZ), and at the number of foreign fishing vessels illegally exploiting their traditional fisheries, took matters into their own hands. Initially arming themselves to chase off the illegal foreign fishing vessels, they quickly realized that robbing the vessels was a lucrative way to make up for lost income. Seeing their success, land based warlords co-opted some of the pirates and organized them into increasingly sophisticated gangs.

DEVELOPMENTS AND IMPLICATIONS

- 7.2 **This led to an increase over time of attacks off the coasts of Somalia, neighboring countries (e.g. Kenya) and in the Gulf of Aden,** and culminated in the worst year, 2009, for pirate attacks in the region, which rocketed by over 260% (reported incidents increased from 61 in 2008 to 222 in 2009).

- 7.3 **The number of incidents of piracy and armed robbery against ships became an increasing concern, not only for the maritime industry, but also for most African countries, as it threatened global seaborne trade and maritime economic activities for countries on the Eastern side of the continent.** Piracy has had a negative impact on the *cost of shipping* (for merchandise trade and oil) and *shipping related activities* (such as port and transshipment activities), *tourism* and *fishing*. By hijacking large tankers, seizing cargoes, and delaying or preventing delivery of merchandise, piracy poses additional costs to all (e.g. higher insurance premiums and fuel costs²). In addition, piracy has impeded³ the delivery of relief aid necessary to sustain a substantial part of Somalia's population during the civil war.

INTERNATIONAL RESPONSE

- 7.4 **In addition, in order to combat piracy, the international community has had to cooperate in a number of ways.** In 2009 a high-level meeting of 17 countries from the Western Indian Ocean, Gulf of Aden and Red Sea areas met in Djibouti and adopted a "code of conduct concerning the repression of piracy and armed robbery against ships in the Western Indian Ocean and the Gulf of Aden". Signatories to the code of conduct agree to cooperate in seizing, investigating and prosecuting pirates in the region, and to review their relevant national laws⁴.
- 7.5 **The UN Security Council has also been actively engaged in formulating adequate responses to the issue of piracy, including adopting several resolutions to, amongst others, protect and escort ships.** In January 2009, the Security Council (resolution 1851) established the *Contact Group on Piracy off the Coast of Somalia* to facilitate discussion and coordination of actions among states and organizations to suppress piracy. In support of resolution 1851 and the EU Naval Force for Somalia (EU-NAVFOR), set up in 2008 to improve maritime security off the Somali coast, the EU has established the Maritime Security Centre (Horn of Africa) as part of international efforts to coordinate efforts to deal with piracy. In addition, the UK Maritime Trade Organisation (UKMTO) was set up shortly after the 9/11 attacks, to provide security advice to British shipping in the area. There are also separate flotillas from NATO and U.S.-led coalition forces, and several other nations, including China and Russia, that escort ships through the "high-risk zone".
- 7.6 **Overall, these efforts seem to have had the intended impact as attacks have fallen considerably since 2009.** According to EU NAVFOR, there were only 36 confirmed attacks in 2012 and a further 73 'suspicious events' reported.

² For example, re-routing tankers carrying oil from the Gulf of Aden to the Cape of Good Hope costs around \$3.5 billion in annual fuel costs (Economic Impact of Maritime Piracy, AfDB, 2011).

³ For example, between 80-90% of food aid for Somalia arrives by sea, and ships willing to carry food aid to Somalia was cut by half in 2007 (a figure reported by the World Food Programme).

⁴ Nine countries have so far signed the code of conduct. These include: Djibouti, Ethiopia, Kenya, Madagascar, the Maldives, the Seychelles, Somalia, Tanzania, and Yemen.

WAY FORWARD

7.7 **In order to maintain a sustainable downward trend in piracy though, it is critical now to also support and enhance land-based socio-economic solutions.** Somali President, Hassan Sheikh Mohamud, recently announced amnesty for hundreds of young Somali pirates. The move is seen as the start of a productive approach to find these land-based solutions. These would include:

- Continued cooperation between the Federal Government of Somalia (FGS) and regions such as Somaliland and Puntland in enhancing their policing capabilities, and the creation of counter-piracy laws, courts and prisons. This would complement undertakings, and ease the burden, of countries like Seychelles and Kenya that have already tried and interned Somali pirates.
- The re-building of effective Government institutions, including the Judiciary, as well as reliable security agencies, to maintain peace, stability and the rule of law.
- Efforts by the FGS to rebuild the economy of the country and, thereby, provide alternative employment and livelihood opportunities to both pirates and potential pirates.

Sources: Various sources, including:

- African Development Bank Group (AfDB), *Economic Impact of Maritime Piracy*, by Kennedy Mbekeani and Mthuli Ncube (ECON Volume 2 – Issue 10, July 2011)
- Oxford Analytica, *Ending piracy may collide with Somali federal politics* (March 2013)
- Reuters, *Have hired guns finally scuppered Somali pirates?* (February 2013)

ANNEX 8: SOMALIA: RECENT DOMESTIC, REGIONAL AND INTERNATIONAL INITIATIVES

- 8.1 The Somali Joint Needs Assessment (JNA), co-led by the UN and the WB, was undertaken in 2005 as a post-conflict needs assessment, with the view to developing a prioritized set of reconstruction and development initiatives to support Somali-led efforts to deepen peace and reduce poverty. **The JNA was used to prepare the Somali Reconstruction and Development Programme (RDP) 2008-2012**, to serve as a five-year national development plan, including South Central Somalia, Somaliland and Puntland. The RDP had three national recovery priorities: (i) Deepening peace, security and good governance; (ii) Investing in people through improved social services (education, health and water supply), targeting in particular vulnerable groups such as internally displaced persons (IDPs) ; and, (iii) Establishing a sustainable enabling environment for rapid poverty-reducing development and job creation, with particular focus on infrastructure, livestock and agriculture sectors and protection of the environment and sustainable use of natural resources. The cost of implementation of the RDP was estimated at USD\$2.2 billion over five years (in 2007). **The implementation of the RDP and donors' alignment to the program has been partial. The RDP is currently out of date and its analysis needs to be based on the new realities on the ground.**
- 8.2 In line with the New Deal, the TFG had drafted a strategy with four pillars, namely: (i) Peace building and governance; (ii) Recovery and reconstruction (iii) Security and justice consolidation; and, (iv) Strategic communications and coordination.⁵ The new Federal Government subscribes to these key areas. At the UN Mini Summit on Somalia in September 2012, the priorities laid out by the new President included stabilization, economic revitalization, pacification and reconciliation, unification of the country, and improved relations between Somalia and the rest of the world. The President has recently reiterated, and as articulated in the 2012/13 Mini-Budget, that **the top three priorities of the new Federal Government will aim at enhancing security, public financial integrity institutions and the capacity of the judiciary system and other public institutions to deliver services.**
- 8.3 **Initiatives at the regional and international levels on Somalia have intensified**, culminating more recently, amongst others, in the Busan New Deal & Good International Practices and Engagement in Fragile States⁶, the London Conference in February 2012, the second Istanbul Conference in May-June 2012, the United Nations Mini-Summit in September 2012 and the High Level Consultative Meeting (HLCM) on Public Finance Management (PFM) held in January 2013 in Mogadishu. On its part, the Bank Group has also intensified in recent years its dialogue with Somalia's political leaders and stakeholders, and has developed the regional program "Drought Resilience and Sustainable Livelihoods in the Horn of Africa (DRSLP)".
- 8.4 **In line with the Busan New Deal, Somalia was included in the monitoring of the implementation of the Principles for Good International Engagement in Fragile States and Situations (FSPs).** The objective is to improve engagement by both national and international actors in Somalia towards the overarching goal of aid effectiveness. In this context, the 2011 Fragile States Principles Monitoring Survey in Somalia was conducted, with the support of the OECD. The goal was to reflect the current Somali situation and to make recommendations to refocus international and national engagement in Somalia that would lead to more efficient, effective (and different) results for the benefit of the Somali people. The key findings point at the importance of

⁵ It should also be noted that with the help of UNDP, Somaliland has developed a five-year National Development Plan (NDP) covering 2012-2016, which lays out a path towards public, social and economic transformation in the medium-term. The plan is built on five main pillars including: i) Economic development, ii) Infrastructure development, iii) Governance and rule of law, iv) Social development and v) Environmental protection. The total capital investment requirement for the NDP programs is estimated at USD924.37 million.

⁶ At the Fourth High-Level Forum on Aid Effectiveness in Busan (December 2011), several countries and international organizations, including the Bank Group, endorsed the **New Deal for Engagement in Fragile States**. The New Deal commits donors and partner countries to use Peace & State-building Goals (PSG) as an important foundation for progress towards the MDGs, focus on country-led and country-owned transitions out of fragility, and commit to mutual trust by providing aid and managing resources more effectively and aligning them for results.

context analysis, a Somali-owned Development Plan supported by a strong donor coordination, capacity building, risk management, scaled-up and predictable long-term funds (cf. Annex 3).

- 8.5 **The London Conference aimed at addressing the causes of instability and its symptoms.** The international community agreed to: (i) inject new momentum into the political process; (ii) strengthen AMISOM and help Somalia develop its own security forces; (iii) help build stability at local level; and, (iv) step up actions to tackle pirates and terrorists. The Conference also broadly endorsed the Somalia Stability Fund. The goal of the Stability Fund is to improve lives for Somalis through reconciliation, local development, and the establishment of legitimate local authority in emerging areas of stability, in accordance with the Busan New Deal.
- 8.6 **The second Istanbul Conference on Somalia, “Preparing Somalia’s Future: Goals for 2015”,** jointly organized by Turkey and the United Nations, held on 31 May and 1 June 2012. The Conference took stock of progress in the areas of politics, security and recovery and initiated a process of broad-based consensus building effort on Somalia after the end of the transition in August 2012, aimed at agreeing on a long term approach to State-building and economic development, including an enabling environment for private sector investment.
- 8.7 **The United Nations Mini-Summit on Somalia** was held on 26 September 2012 at the margins of the sixty-seventh General Assembly session. It aimed at launching a high-level dialogue between the international community and the new Somali leadership on the **Government’s** medium to long-term priorities. The international community committed to building a new partnership based on Somali priorities and leadership, competent and representative national institutions, mutual trust and accountability. It was emphasized that the Somali leadership and institutions should govern inclusively in the interests of all Somalis and manage resources transparently and accountably. It was also underlined the importance for the Somali people to see rapidly a “peace dividend” and solidarity against the continuing violence.
- 8.8 Key recommendations included: (i) The Somali leadership would seek eligibility for the UN Peace-building Fund to support some immediate priorities, while working with the **international** community towards a New Aid Framework; (ii) a comprehensive Strategic Review of the UN assistance to Somalia will be conducted, with proposals going forward; and, (iii) Development partners were encouraged to establish, where possible, a presence on the ground in Somalia in order to allow for more direct engagement with the Somalis.
- 8.9 **High Level Consultative Meeting (HLCM) on Public Finance Management (PFM)** was held on 23 January 2013 in Mogadishu.⁷ Donors welcomed the government's assessment of its PFM system. The difficult challenges in establishing credible PFM systems in the country were noted. They welcomed the Somalia Special Finance Facility (SFF), expected to support the country's recovery process prior to the establishment of PFM systems. The HLCM endorsed the proposed reforms of the PFM system presented by the President of Somalia and underscored the importance of re-engaging the country through the principles outlined in the 2011 New Deal for Engaging Fragile States. The importance of addressing corruption was underlined. The HLCM committed to supporting Somalia specifically by: (i) strengthening a single Somali-led PFM Action Plan, with the objective of improving transparency, accountability and enhancing sovereignty in public resource management; and, (ii) supporting the SFF and assisting in capacity building initiatives across the various sectors of the economy.
- 8.10 **The Bank Group took an active part in these forums on Somalia.** In addition, **the Bank launched in August 2011 the regional program “Drought Resilience and Sustainable Livelihoods in the Horn of Africa (DRSLP)”**. The African Union (AU) endorsed the initiative and encouraged the Bank to carry it forward, in partnership with the countries concerned, other

⁷ The HLCM was chaired by the Somalia President and attended by the Nairobi-based representatives of the European Union (EU), the World Bank, Sweden, Finland, Italy, Turkey, United Kingdom (UK), United States and Norway.

development partners and the regional institutions, particularly the IGAD. The program involves eight countries of the region, including Somalia.⁸ It is based on the recognition of the need to contribute to peace and state building by addressing the resource-based conflict issues, in particular the important role of livestock and agriculture in the economy of the HOA countries.

- 8.11 The DRSLP is a 15 year investment program. However, given the complexity of the program, it will be implemented in phases. The cost for all the HOA countries was estimated at USD750 million over a 5 year period. In September 2011, the Bank, in collaboration **with** IGAD, conducted a workshop in Djibouti with all the IGAD member countries to validate the DRSLP. Each country submitted proposals, including from the three main Somali entities (South Central, Puntland and Somaliland) totaling USD 100 million over a 5-year period.
- 8.12 The Bank's resources for funding the DRSLP Program are derived primarily from the Regional Operations (RO) envelope, which involves cost-sharing with participating countries, in particular through a portion of their ADF country performance-based allocations for eligible countries. Countries that are eligible for ADF resources (Djibouti, Eritrea, Ethiopia, **Kenya** and Uganda) can therefore have access to the RO window. The Bank has taken the lead in the HOA by investing resources to implement the DRSLP. The first five-year phase of the Program that covers Djibouti, Ethiopia and Kenya, was approved in December 2012 with ADF-12 resources. **Somalia is the epicenter of the problem. Its inclusion in the DRSLP is, therefore, critical for the success of the Program and for sustaining peace and livelihoods in the region.** However, Somalia's particular situation (because of the arrears problem) precludes its qualification for the conventional ADF resources. The Bank is, therefore, targeting various resource instruments within the Bank as well as mobilizing development partners for co-financing or parallel financing of of the Somalia component of the HOA program.

⁸ The HOA comprises eight countries, namely: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda.

ANNEX 9: 2011 Fragile States Principles Monitoring Survey

9.1 General Context

At the Fourth High-Level Forum on Aid Effectiveness in Busan (December 2011), several countries and international organizations, including the Bank Group, endorsed the **New Deal for Engagement in Fragile States**. The New Deal commits donors and partner countries to use Peace & State-building Goals (PSG) as an important foundation for progress towards the MDGs, focus on country-led and country-owned transitions out of fragility, and commit to mutual trust by providing aid and managing resources more effectively and aligning them for results.

9.2 Republic of Somalia

The four key priority recommendations were the following: (i) International actors and government should support a process of Somali-led peace-building as a precursor to an internally driven approach to both localized and centralized state-building (FSP 3); (ii) Risk management capacities from the United Nations should be extended to other international actors and national capacities should be built to manage and mitigate risk (FSP 4); (iii) All actors should develop a joint, relevant development planning framework to act as a successor to the Reconstruction and Development Programme (RDP) that is respectful of geographic differences and is supported and aligned to by international actors, but primarily driven by the Somali authorities (FSP 7), and, (iv) International actors should increase longer-term funding, funding predictability and longer-term programming to address the underlying causes of instability (FSP 9).

PRINCIPLE	FINDINGS	SELECTED PRIORITIES
Take context as the starting point	A better understanding of the drivers of instability and crisis and Somalia's war economy is necessary. Localized analysis must be significantly improved.	International actors to systematically develop through a common diagnostic a shared analysis of conflict and the political economy of Somalia.
Do no harm	"Do no harm" is a priority principle for Somali stakeholders. Anti-terrorism conventions have impacted humanitarian assistance. The lack of a shared state-building vision compounds potential negative effects of external "interference" in political affairs. Approaches must take into account the Somali war economy.	All actors to comply with anti-terrorism legislation and ensure impartial accountable delivery of humanitarian assistance.
Focus on state-building as the central objective	A consolidated peace is a prerequisite for effective state-building; peace-building must be Somali-led. Greater accountability and legitimacy of the state(s) to Somali citizens is crucial.	All actors to support a process of Somali-led peace-building (including the development of a political strategy) as a precursor to an internally-driven approach to both localized and centralized state-building.
Prioritize prevention	The underlying causes of instability and fragility in Somalia need to be addressed.	International actors to extend risk management capacities from the UN to other international actors and build national capacities to manage and mitigate risk.
Recognize the links between political, security and development objectives	Recognizing the differences between objectives is as important as recognizing the links between objectives. Ensuring the independence and impartiality of humanitarian assistance (in relation to the use of funds for development goals) is crucial in the Somali context.	International actors to improve dialogue between diplomatic, development and security actors.
Promote non-discrimination as a basis for inclusive and stable societies	International alignment to this principle was considered to be good, though implementation could be improved.	International actors to ensure joint monitoring effectively includes the tracking of the application of non-discriminatory policies and strategies.

PRINCIPLE	FINDINGS	SELECTED PRIORITIES
Align with local priorities in different ways in different contexts	Somalis hold that alignment to national and local strategies could be improved; coherence among international strategies could likewise be greater.	All actors to develop a joint, relevant, development planning framework to act as a successor to the RDP that is respectful of geographic variability, supported and aligned to by international actors but primarily driven by the Somali authorities.
Agree on practical co-ordination mechanisms	There are too many fragmented co-ordination structures among international actors. There is a limited in-country presence, and genuine partnerships are too few.	All actors to Increase their presence in the country through the establishment of: regular and streamlined joint in-country meetings, improved support and security infrastructure, shifting of posts to the field and improved security provision and access by national actors.
Act fast... but stay engaged	Since 2008, funding had become more volatile and less predictable. Short-term funding cycles are detrimental to addressing long-term issues.	International actors to increase longer-term funding, funding predictability and longer-term programming to address underlying causes of instability.
Avoid pockets of exclusion	Lack of access to some areas due to ongoing insecurity significantly contributed to the exclusionary effects of international engagement. There is ongoing exclusion of women, rural peoples and unemployed youth.	National actors to improve security in order to increase access to areas and groups considered excluded.

Source: <http://www.oecd.org/dataoecd/13/50/48697962.pdf>

ANNEX 10: BANK GROUP CURRENT ACTIVITIES IN SOMALIA

Somalia: Bank Group Activities

- 10.1 Despite the arrears situation, the Bank has intensified its engagement in Somalia in recent years, through dialogue and targeted support within the provisions of the sanctions policy.
- 10.2 **The Boards approved in December 2010 the Somalia Country Brief**, the first Bank formal note written for the country in two decades. It approved the eligibility of Somalia to Pillar 3 of the FSF (targeted support for capacity building, technical assistance and knowledge development), as well as other instruments not affected by the arrears situation, such as Special Relief Funds (SRF), African Water Facility (AWF) and Trust Funds.
- 10.3 **Somalia's allocation for Pillar 3 of FSF under ADF-12 is UA2.5 million.** This was partly used to finance the project "Rebuilding Financial Management Systems in Somalia" amounting to USD 2.0 million and to provide technical assistance to the TFG in the area of PFM. The project covers several aspects of PFM aimed at improving budgeting, accounting, financial reporting, procurement, and internal and external audit. Support for the financial sector includes updating the Central Bank and Financial Institutions Acts and training for middle and senior staff. **The main beneficiary institutions** are the Ministry of Finance, the Treasury Ministry, the Central Bank, Auditor General, and the Accountant General. The TFG assigned the Horn Economic and Social Policy Institute (HESPI) based in Addis Ababa as the implementing agency and Pricewaterhouse Coopers (PwC) as the fiduciary agency.
- 10.4 **The following outputs have been completed:** (i) the Central Bank Act and the Financial Institution Bill; (ii) a training program on budget formulation, execution and timely reporting and monitoring for 13 officials representing the Budget Unit of TFG, conducted at the HESPI regional offices in Addis Ababa; (iii) the production by the participants for the first time in 20 years of the 2011 budget documents (Budget Framework and Accounts). It should be noted that the emergency 2012 Mini Budget Proclamation Act, prepared with technical assistance from HESPI, was approved by the new Parliament in October 2012. Work on the 2013 financial year is currently at an advanced stage.
- 10.5 **The remaining balance under Pillar 3 of the FSF amounts to UA1.2 million**, which will be used to finance additional eligible capacity building activities and targeted support in the context of this Country Brief and in coordination with other development partners.
- 10.6 The Bank also provided **emergency assistance** in 2010 and 2011 in the context of the food and humanitarian crisis.
- 10.7 **During 2011-2012, the Bank conducted inclusive dialogue with the Somali political leadership, including the TFG and the other sub-entities of Somalia.** In November 2011, the Bank organized, in collaboration with IGAD, a consultation mission with Somali political leaders in Djibouti, which brought together delegates from the TFG, Somaliland and Puntland. Delegates appreciated the leadership of the Bank in assisting Somalia address its challenges in an inclusive manner. They jointly reiterated their support and requested the Bank, as an African Institution, to use its convening power to play a more active role in state re-building, reconstruction and taking forward the resilience agenda. In addition, the Bank was given green light to intervene in all regions of Somalia, in consultation and through the TFG.
- 10.8 As a follow-up, the Bank undertook project identification and preparation missions to Somaliland in March and May 2012 to hold consultations with Stakeholders. This resulted in the appraisal of a water project "Water Resources Management and Investment Plan for Somaliland" for EUR2.0 million under the AWF, to be submitted for approval in the 1st quarter 2013. The project will address the need to develop a comprehensive plan for water resource management and development, and thereby contribute to on-going efforts to create water security and drought resilience, and improve livelihoods and support the process of economic recovery.
- 10.9 Given the non-accrual status of Somalia and the limited internal Bank's resources relative to the immense challenges and needs of the country, **the Bank has initiated dialogue and coordination work towards exploring options aimed at using its available instruments in a catalytic way to mobilize additional resources from other development partners through co-financing or parallel financing.** The objective is to support critically needed activities, particularly with the view to ensuring Somalia's inclusion in the regional Drought and Resilience and Sustainable Livelihood Program (DRSLP).
- 10.10 In this context, **the Bank organized a Roundtable on Somalia, "Rebuilding the Somali State and Resilience within the Horn of Africa"** in Arusha on 31st May 2012 on the side-lines of the Annual Meetings. The main objective was to initiate discussions and agree in principle on a framework to mobilize resources for a special Somalia Enhanced Program through the Bank Group FSF for effective, coordinated and scaled up engagement for long-term resilience, improved livelihoods for the people of Somalia and the HOA. Participants strongly urged the Bank to continue its dialogue and outreach efforts initiated in Arusha, in particular by pushing forward its advocacy for the Somalia FSF Enhanced Program.

ANNEX 11: KEY ACHIEVEMENTS UNDER THE BANK'S ONGOING CAPACITY BUILDING PROJECT IN SOMALIA

Summary of key Achievements under the Project 'Rebuilding Financial Management Systems in Somalia', financed under Pillar 3 of the FSF

- (i) A Budget department was established at the Ministry of Finance, staffed with qualified professionals, and made operational in late 2010;
- (ii) Skill training for the staff of the budget Department of the Ministry of Finance and line ministries was conducted at HESPI headquarters with support of the Ministry of Finance of Ethiopia in October 2010;
- (iii) Skill training for Treasury Department staff was conducted in Kenya in April 2011;
- (iv) A Central Bank Act was drafted, endorsed by the Council of Ministers and approved by Parliament in May 2011;
- (v) A Financial Institutions Act was developed through a consultative process, approved by the Council of Ministers and enacted by Parliament in May 2011;
- (vi) The first national budget in two decades was formulated for 2011, prepared up to international standards and executed by a Somali team from the budget department of the Ministry of Finance in 2011;
- (vii) A PFM bill was drafted through a consultative process and reviewed at technical level, endorsed by the Council of Ministers, and submitted to Parliament for approval in June 2011;
- (viii) A review of performance under 2011 budget and formulation of the 2012 budget was conducted by a team from the Budget Department of the Ministry of Finance and other ministries with the support of HESPI experts in November 2011;
- (ix) A Treasury department was established and the assigned staff were trained and equipped with needed tools and equipment in October/November 2011; and
- (x) Hands-on-training and secondment was provided to the new Treasury staff in November/December 2011, at the Ministry of Finance of Uganda.

Source: Draft *PFM Self-Assessment Report*, February 2013

ANNEX 12: BANK GROUP SOMALIA ENHANCED PROGRAM

Bank Group Special Somalia Enhanced Program

- 12.1 The **financing mechanism of the Bank Group special Somalia Enhanced Program** will function as a vehicle for scaling up and ring-fencing resources to support crucial activities in Somalia, through targeting available instruments within the Bank to be used as seed money to mobilize development partners for co-financing or parallel financing.⁹ Despite the arrears situation, the Program would help the Bank ensure a meaningful presence on the ground and support needed targeted activities.
- 12.2 **The proposed Program will support sustainable peace, state-building and reconstruction in Somalia, while contributing to regional integration and development in the HOA.** It will push further the peace, stability and resilience agenda, by focusing more specifically on targeted and appropriately phased-in medium to long-term infrastructure and capacity building initiatives, including at the local and community levels. The Program will develop complementarities and synergies with existing donor financing mechanisms to support the peace and state-building as well as long-term resilience and reconstruction, through an inclusive Somali-led political process.
- 12.3 **The main advantages of the Somalia Enhanced Program** include: (i) avoiding the creation of a new Fund, by using an existing appropriate and well-established financing vehicle; (ii) reinforcing the ability of the Bank Group to deliver appropriate responses in its mandated and demonstrated areas of expertise that are crucial for sustainable peace, stability and development of Somalia and the HOA; (iii) developing complementarity and synergy with existing donor mechanisms, including the Somalia Stability Fund and other new initiatives.¹⁰
- 12.4 **The Somalia Enhanced Program will have three main components:** (i) Financing the Somalia component of the Bank Group regional program “Drought Resilience and Sustainable Livelihoods in the Horn of Africa (DRSLP)”; (ii) Strengthening governance, human and institutional capacities; and, (iii) Facilitating the re-engagement process of Somalia with the international community. Each component will involve capacity building, investment projects, analytical work, feasibility studies, advisory services, country dialogue and donor coordination. The program will also include infrastructure rehabilitation and reconstruction, involving, where appropriate, community level labor-based public works programs.

A. Drought Resilience and Sustainable Livelihoods in the Horn of Africa (DRSLP)

- 12.5 **The DRSLP regional program was endorsed by the three main sub-entities of Somalia (South Central, Puntland and Somaliland).** The cost of the Somalia component was estimated at USD100 million over a 5-year period. **The program has three key components:** (a) Enhanced water resources development and management; (b) Improvement of livestock infrastructure for market access, rangeland and livestock management; and, (c) Capacity building of IGAD and relevant national institutions, including communities. Identification and preparation missions were fielded in Somaliland. Field missions are being planned for the other parts of Somalia.
- 12.6 **The DRSLP will address the long-standing problem of recurrent drought and floods and conflicts in Somalia and the HOA by:** (i) stabilizing the natural environment; (ii) ensuring the harmonious and sustainable exploitation of natural resources; (iii) building long-term resilience and improving livelihoods, particularly the pastoral communities by shielding them from the negative impact of drought and making them less dependent on rainfall; and, (iv) establishing mechanisms for enhancing the availability of water resources (water and pastures) at the regional level.
- 12.7 As the leading agency on this program, the challenge for the Bank is to mobilize additional resources for the inclusion of Somalia who is critical to the success of this regional program, in order to ensure sustainable peace, stability and development in the whole HOA. Many development partners have expressed their strong interest in participating in the program. The Bank has made significant progress and the prospects are favorable. The Bank will build on the Arusha Roundtable on Somalia and subsequent consultations to enhance its dialogue and outreach efforts, which will include both traditional and non-traditional donors. Besides bilateral consultations, the Bank will explore the opportunity of organizing a formal resource mobilization roundtable. Internally, the Bank will explore options for securing resources for Somalia as seed funding, in order to mobilize additional funds.¹¹
- 12.8 **The Somaliland water project already appraised, “Water Resources Management & Investment Plan for Somaliland”** for EUR2.0 million under the AWF, has been designed to ensure synergy with the DRSLP. The main component of the project which focuses on water resources development and management overlaps with the DRSLP. The investment plans under the project will particularly enable the Bank to fast-track the detailed design and implementation of water infrastructure for human, agriculture and livestock needs in Somaliland.

⁹ Possible options could include mobilizing resources for Somalia from the Bank Surplus Account and enhanced possibilities under ADF-13 being negotiated, in particular channeling additional resources through FSF Pillar 3 and potentially Pillar 1 through exceptional eligibility as appropriate.

¹⁰ In particular, the Stability Fund has defined its modalities and results-based framework, and is expected to operate incrementally at local levels as stability is established in relatively peaceful and newly-liberated areas of Somalia.

¹¹ The Bank is considering securing resources for Somalia from the Surplus Account, which will be used as seed funding.

12.9 **The Somaliland water project has four main components:** (i) preparation of a water resources management plan; (ii) preparation of an investment plan comprising projects and programs for funding; (iii) design and implementation of pilot rehabilitation works; and, (iv) provision of sector support and capacity building. In the medium term, the outputs of the project are expected to lead the mobilization of resources for the implementation of downstream investments, as well as building strong water institutions to enable them to sustainably manage water resources in accordance with the Water Resource Management (WRM) Plan.

12.10 **Overall, all areas of Somaliland are expected to benefit from the improved peace and security that will result from the increased availability of water,** in particular approximately 3.5 million urban and rural people in Somaliland, of which about two million nomadic pastoralists and their 18-20 million livestock. The government will benefit from the sector support plans and actions. The decentralised levels of government and communities will benefit from the support given during implementation of the pilot works.

B. Strengthening governance, human and institutional capacities

12.11 **After more than two decades of conflict, insecurity and protracted crisis, Somalia is in dire need of rebuilding its capacities at all levels.** Capacities will need to be re-created or brought in and strengthened as appropriate to tackle the numerous recovery and reconstruction challenges. In this context, **the role of the Somali Diaspora will be critical.** The **three top priorities of the Federal Government** include: (i) enhancing integrity of public financial institutions; (ii) providing adequate security; and, (iii) strengthening the capacity of the judiciary system and other public institutions to deliver services. New institutions are being put in place, but they will need the requisite human capacity, rules and procedures as well as frameworks to operate and deliver basic services and the “peace dividend” expected by the population, in order to sustain the stability and recovery processes.

12.12 Many development partners, including the Bank, have expressed their willingness to provide assistance. The coordinated support from the international community will be crucial in putting in place and building a critical mass of human and institutional capacities, to guide, implement, monitor and evaluate the priorities, reforms and programs of the new government.

12.13 **Key areas of focus in the planned Bank’s interventions will therefore aim at strengthening:** (i) the capacity of the government and local administrations to plan, formulate, implement, monitor and evaluate national development policies and programs; and, (ii) public finance management (PFM). The Bank will work closely with the new government officials and other development partners in defining a coordinated capacity building framework as well as urgent priorities and implementation modalities, in order to ensure rapid and sustainable results on the ground. The new Government has already requested donors to assist in conducting a “*PFM self-assessment*” exercise to establish the existing PFM situation on the ground and the short to medium-term reform priority actions necessary to strengthen the PFM system.

12.14 **The financing sources of the Bank’s capacity building activities** will primarily consist of the remaining balance under the existing FSF Pillar 3 (UA1.2 million), dedicated Trust Funds, as well as the resources that will be mobilized under the proposed *Somalia Enhanced Program*.

12.15 **The activities under the ongoing project “Rebuilding Financial Management Systems in Somalia” will be completed.** In this regard, the Bank will agree on new urgent priorities and fast-tracked the implementation of the resulting activities in consultation with the new Government and in coordination with other development partners. Lessons will also be learned and taken into account in the design and implementation of new capacity building activities.

12.16 **Regarding new activities and as a matter of urgency,** the Bank will contribute to the major multi-donor *Joint Program for Capacity Development in Statistics for Somalia*, in partnership with the Federal Government, the administrations of Somaliland and Puntland, the UN agencies and the Somalia Development Group (SDG), under the technical leadership of the United Nations Population Fund (UNFPA). The **specific objectives of the Joint Program** are to: (i) assist Somali administrations in undertaking a credible and reliable Population Survey; (ii) conduct Critical Surveys, including a household income expenditure survey, demographic health survey, multiple indicator cluster survey, labor force survey and agriculture and livestock surveys; and, (iii) build capacity for the establishment of functional and sustainable statistical systems. **The total cost of the Program is estimated at USD12 million.** The Bank is contributing UA500,000 from the remaining balance of the FSF Pillar 3.

12.17 **The main expected outputs of the Joint Program** are: (i) Population estimates for Somalia are available down to the settlement level by 2014, i.e. at national, regional and zonal levels; (ii) Socio-economic data are determined and produced by 2014/15, including the size of Somalia economy, sector composition and its distribution, as well as the establishment of poverty baseline and preparation of MDG progress reports; and, (iii) Statistical systems of Somalia are functioning adequately and sustainably by 2015/16, through the establishment of the legal and institutional framework, the basic statistical and physical infrastructure, as well as the conduct of statistical operations including poverty monitoring and analysis systems and a central data repository.

12.18 **In terms of outcomes,** it is expected that the Joint Program will ultimately lead to a process of evidence-based economic policy formulation and decision making resulting in: (i) equitable access to basic services by Somali people; (ii) poverty reduction through improved livelihoods, decent work, equitable and sustainable economic development; (iii) a stable environment where the rule of law and rights-based development for women and men are pursued.

12.19 **Additional new capacity building activities will be based primarily on the PFM Self-Assessment and other joint**

diagnostic exercises envisaged, including the *Joint Somalia Fragility Assessment*, in line with the New Deal for Engagement with Fragile States, in particular the commitment of governments and development partners to rely on joint assessments and common pools of information. The Bank is currently collaborating with other development partners in the PFM Self-Assessment exercise, led by the World Bank and DFID. The main outcome of this exercise is to lay the groundwork for a country-led PFM Reform Action Plan, which will provide a set of prioritized and time-bound PFM actions and measures that will help guide support from development partners.

C. Facilitating the full-fledged re-engagement process of Somalia with the international financial community:

- 12.20 Somalia will need the earliest possible the full-fledged assistance that the International Financial Institutions (IFIs) can provide to address its challenges. Clearing the arrears is the key pre-requisite, generally in the context of the HIPC/MDRI Initiative. Although the actual HIPC/MDRI process could somewhat varied to adapt to specific country circumstances and the positions of major stakeholders, including donors' commitment, the technical requirements tend to remain fairly standard.¹² Provided that peace and stability efforts are sustained, the process in Somalia could relatively move faster for at least two reasons: (i) the current good political will from the international community to scale up its assistance to Somalia; and, (ii) the total amount of arrears is relatively small compared to other countries.
- 12.21 While the Bank Group has a dedicated facility for arrears clearance and reengagement to which Somalia can potentially qualify, this would largely depend on progress towards consolidation of peace, the establishment of macroeconomic framework and broader reengagement process with the international community. At this stage it is difficult to assess how long such a process might take, as it take into account the evolving situation on the ground and the technical and financial prerequisites, which will need to be mobilized and coordinated. A country-led process of fulfilling the technical requirements can constitute a major constraint likely to be time consuming, given the very weak capacity on the ground and the relative isolation of the country from the international financial community for more than two decades. In this regard, **the arrears issue of Somalia should be initiated sooner**, at least in terms of country dialogue, donor coordination, technical assistance and capacity building, including sensitization of Somali Stakeholders.
- 12.22 In this context, the Bank intends to play an important role and assist in the initial discussions and consultations with the new Government and development partners on issues, to agree on the necessary steps, the required assistance and the modalities. **Broadly speaking, Somalia would need to formulate a strategy or a roadmap for an internationally coordinated re-engagement process.** The strategy would provide the basis for agreeing on key milestones and actions to be undertaken by the government, the Bank and development partners.
- 12.23 **Other potential areas of support** could be for instance in the form of seminars, workshops (including peer-learning), as well as capacity building and technical assistance to relevant institutions dealing with reforms, arrears clearance, debt relief and management issues, poverty reduction strategies and relations with development partners. The Bank will also take an active part in major international initiatives, conferences and consultations on arrears clearance and debt relief issues. The Bank will step up efforts for a robust resource mobilization and donor outreach, including in the context of mobilizing funds for the Somalia Enhanced Program.
- 12.24 The Bank will closely coordinate with the Breton Woods Institutions, monitoring the progress of Somalia towards putting in place the required macroeconomic framework, developing and committing to national development planning, as well as its overall commitment fulfill the conditions for normalizing relations with the IFIs.

¹² The technical requirements include (i) a reconciliation of the debt data, which would be challenging given the likelihood of destruction of records during the years of conflict; (ii) the preparation of an Interim Poverty Reduction Strategy Paper (I-PRSP), to be developed in consultation with a broad range of stakeholders; and (iii) a successful be implementation of the I-PRSP for at least a year in order for Somalia to reach the Decision Point under the HIPC Initiative. An IMF-supported program is also a key requirement. In parallel to the political process, the Authorities would need to start work towards an IMF-supported program that would provide the basis for the framework for macroeconomic and structural reforms.

ANNEX 13: SOMALIA ENHANCED PROGRAM: STRATEGIC PARTERSHIPS

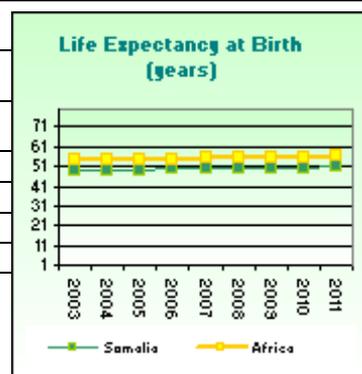
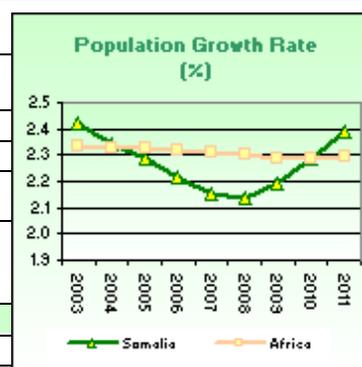
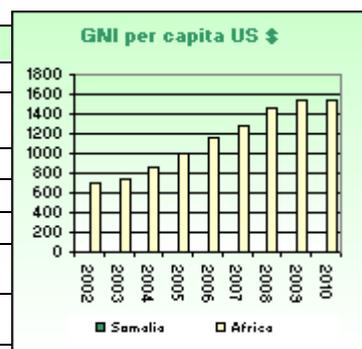
Somalia Enhanced Program: Strategic Partnerships

- 13.1 **The Bank's effectiveness in a context such as Somalia** will entail developing strong strategic partnerships and coordination with key traditional and non-traditional development partners, other relevant international and regional institutions, as well as domestic stakeholders. It will also involve undertaking key background analytical works to better conduct country dialogue and donor coordination, as well as to design and implement effective result-oriented programs and projects that will serve the goal of peace, reconciliation and state building. The strategic partnerships will also influence positively monitoring and evaluation (M&E) activities.
- 13.2 **Consolidating the gains in peace and security is a key pre-requisite.** The Bank will continue to monitor developments in the political, security and humanitarian areas, in collaboration with regional and international partners and institutions which have clear mandate and comparative advantage, particularly the UN, AU, IGAD, EU, and some bilateral donors. The Bank will participate in the organization of major international forums on Somalia, particularly those pertaining to national reconciliation, state rebuilding and governance in general as well as the overall re-engagement process. The Bank will continue to contribute to emergency relief initiatives as appropriate, in coordination with relevant institutions.
- 13.3 **In the area of analytical work and ESW**, the Bank will follow up on the collaborative initiatives already initiated on Somalia, in particular the Fragile States Principles Monitoring Survey, the Joint Fragility Assessment, the New Aid Framework, and the UN Strategic Review. Other potential areas for ESW could include: (i) a Political Economy Profiling; (ii) Sector Needs Assessments and Feasibility Studies; (iii) Analysis of the social sector, youth employment and gender; and, (iv) relevant analytical work that will feed into the design of a credible reengagement plan and a country-owned reconstruction and development program.
- 13.4 **Ensuring Bank presence on the ground to enhance effectiveness:** the Bank has recently strengthened its presence in the East Africa Regional Resource Center (EARC) in Nairobi, where most Somalia donor activities are being conducted. A dedicated Somalia Team has been established in Nairobi, currently composed of a Lead Expert and a Country Economist on a permanent basis. The team will be boosted with consultants on a need basis and will liaise with the Regional Department East 2 (OREB) and cross-complex sector task team members on Somalia drawn from the EARC or Headquarters as appropriate. The reinforced presence in Nairobi will particularly enhance the quality of the Bank's engagement and participation in the SDG activities and regular PFM Working Group. An eventual expansion of the Bank's presence in Somalia it-self will be examined at a later stage, in particular depending on security issues, in coordination with the Somali government and using the experience of other donors.

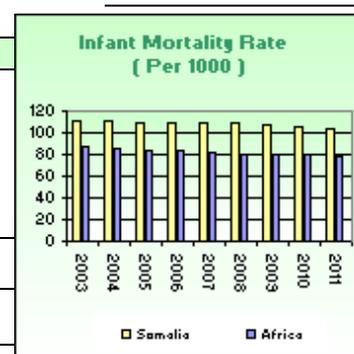
ANNEXE 14: SOMALIA SOCIO-ECONOMIC INDICATORS

Somalia COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Somalia	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		638	30 323	80 976	54 658
Total Population (millions)	2011	9.6	1,044.3	5,732	1,123
Urban Population (% of Total)	2010	37.6	39.9	45.1	77.3
Population Density (per Km ²)	2011	15.0	34.0	59.9	33.2
GNI per Capita (US \$)	2005	...	1 565	3 304	38 657
Labor Force Participation - Total (%)	2011	39.0	40.1	65.6	60.7
Labor Force Participation - Female (%)	2011	40.8	41.0	51.7	52.2
Gender-Related Development Index Value	2007-09	...	0.433	0.694	0.911
Human Develop. Index (Rank among 187 countries)	2007-09	...	n.a	n.a	n.a
Popul. Living Below \$ 1 a Day (% of Population)	2007-09	...	42.3	25.2	...
Demographic Indicators					
Population Growth Rate - Total (%)	2011	2.4	2.3	1.3	0.6
Population Growth Rate - Urban (%)	2010	3.7	3.4	2.4	1.0
Population < 15 years (%)	2011	44.9	40.3	29.0	17.5
Population >= 65 years (%)	2011	2.7	3.8	6.0	15.4
Dependency Ratio (%)	2011	87.3	77.6	55.4	49.2
Sex Ratio (per 100 female)	2011	98.4	99.5	93.5	94.8
Female Population 15-49 years (% of total population)	2011	22.9	24.4	49.4	50.6
Life Expectancy at Birth - Total (years)	2011	50.8	56.0	67.1	79.8
Life Expectancy at Birth - Female (years)	2011	50.4	57.1	69.1	82.7
Crude Birth Rate (per 1,000)	2011	42.9	34.2	21.4	11.8
Crude Death Rate (per 1,000)	2011	15.0	12.6	8.2	8.4
Infant Mortality Rate (per 1,000)	2011	104.2	78.6	46.9	5.8
Child Mortality Rate (per 1,000)	2011	170.3	127.2	66.5	6.9
Total Fertility Rate (per woman)	2011	6.3	4.4	2.7	1.7
Maternal Mortality Rate (per 100,000)	2008	1200.0	530.2	290.0	15.2
Women Using Contraception (%)	2007-09	61.0	...



Health & Nutrition Indicators					
Physicians (per 100,000 people)	2007-09	4.0	58.3	109.5	286.0
Nurses (per 100,000 people)*	2007-09	11.3	113.3	204.0	786.5
Births attended by Trained Health Personnel (%)	2007-09	33.0	50.2	64.1	...
Access to Safe Water (% of Population)	2008	30.0	64.5	84.3	99.6
Access to Health Services (% of Population)	2007-09	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	23.0	41.0	53.6	99.5
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	0.5	4.9	0.9	0.3
Incidence of Tuberculosis (per 100,000)	2010	286.0	294.9	161.0	14.0
Child Immunization Against Tuberculosis (%)	2010	29.0	85.3	81.0	95.1
Child Immunization Against Measles (%)	2010	46.0	77.9	80.7	93.0
Underweight Children (% of children under 5 years)	2007-09	32.8	30.9	22.4	...
Daily Calorie Supply per Capita	2007-09	...	2 465	2 675	3 285
Public Expenditure on Health (as % of GDP)	2007-09	...	5.7	2.9	7.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2007	32.5	100.4	107.2	101.3
Primary School - Female	2007	23.0	90.0	109.2	101.1
Secondary School - Total	2007	7.8	37.7	62.9	100.1
Secondary School - Female	2007	4.9	33.7	61.3	99.6
Primary School Female Teaching Staff (% of Total)	2007	16.6	41.4	60.5	81.4
Adult literacy Rate - Total (%)	2007-09	...	65.1	80.3	98.4
Adult literacy Rate - Male (%)	2007-09	...	74.3	86.0	98.7
Adult literacy Rate - Female (%)	2007-09	...	56.2	74.8	98.1
Percentage of GDP Spent on Education	2007-09	...	4.7	3.8	5.0
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2008	1.6	7.8	10.6	10.9
Annual Rate of Deforestation (%)	2007-09	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2007-09	...	10.9
Per Capita CO2 Emissions (metric tons)	2009	0.1	1.1	2.9	12.5



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports Note : n.a. : Not Applicable ; ... : Data Not Available