Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 01/15/2020 | Report No: ESRSC01054
**BASIC INFORMATION**

**A. Basic Project Data**

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Somalia</td>
<td>AFRICA</td>
<td>P172057</td>
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**Project Name**

Somalia Currency Exchange Project

**Practice Area (Lead)**

Finance, Competitiveness and Innovation

**Financing Instrument**

Investment Project Financing

**Estimated Appraisal Date**

4/28/2020

**Estimated Board Date**

6/25/2020

**Borrower(s)**

Ministry of Finance

**Implementing Agency(ies)**

Central Bank of Somalia

**Proposed Development Objective(s)**

The Development Objective of the project is to support the issuance of a new, legal, low denomination national currency notes to replace the counterfeit and old notes currently in circulation.

**Financing (in USD Million)**

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**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

The currency exchange is envisaged as a project with a scope that combines traditional exchange of banknotes with several legal and structural reforms involving banking, digital financial inclusion and payment systems. Support will be provided to the FGS towards implementation of four components:

Component 1 – Currency design and planning of implementation activities: The CBS will issue banknotes with low denominations and appropriate security features, namely SOS 1,000, SOS 2,000, SOS 5,000, and SOS 10,000. The CBS has already began to work on the design of the new currency and has completed the currency specifications including size, security features, and other specifications. The new series of banknotes will have much improved security features compared to the series from 1983–90 and will be difficult and time-consuming to copy by both traditional
and computer-based printing methods. Typically, local counterfeiters do not exhibit sophisticated techniques and use crude in-house techniques. At this stage, the project will fund planning activities by the CBS, including development of a clear logistics and communication plan.

Component 2 – Currency exchange implementation: Through this component the CBS will implement all currency exchange activities. Printing of banknotes will be procured internationally through a competitive tendering process. There are several specialized currency printing firms with facilities in the U.K., US, Germany, Switzerland and Russia that would be eligible to bid for this project. Delivery of the banknotes will be done by the vendor(s) via air or ship to Mogadishu, upon clearance by the CBS/Currency Management Unit. Transportation from the harbor/airport to this facility would be arranged with Somali security and AMISOM forces. In addition, the communication consultant hired under the project will execute all communication activities by coordinating with key stakeholders. The new banknotes will be distributed through MTBs and the process is expected to not to exceed 90-100 days.

Component 3 – Ongoing technical assistance: Subject to securing adequate funding, the project will finance TA to the CBS to ensure sustainability of the project. The CBS organizational reform and governance (including having a well-functioning currency management unit) and stronger financial sector regulations (including mobile money operators) will be needed to ensure that new national currency can be managed appropriately and achieve the development objectives of ‘a sound and stable legal tender national currency’. The project design will also incorporate an aspect of riding on the currency exchange operation to promote opening of bank and mobile money accounts at the currency exchange points.

Component 4 – Financial management, and monitoring and evaluation: This component would finance all the costs pertaining the Project Implementation Unit (PIU) within implementing entity; financial management, and monitoring and evaluation (M&E).

D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]
The project location is the Benadir / Mogadishu region as well as the Federal Member States.
D. 2. Borrower’s Institutional Capacity
The Central Bank of Somalia (CBS) is the primary client for this project. The capacity of the CBS to undertake the project will be upgraded in early project implementation before the currency exchange commences. Somali citizens have capacity with money, as mobile money has well-penetrated the economy. Provisions are being made to reach marginalized and vulnerable groups.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC) Substantial

Environmental Risk Rating Moderately
There may be some potential negative environmental impacts associated with the printing of new currency notes as well as the destruction of the old currency notes. As the mechanics for printing new notes and destructing old notes
is not yet specific, these impacts are not yet known. The environmental risk rating will be adjusted as this information is known.

**Social Risk Rating**

Overall, the project is expected to have positive social outcomes. The key social risks related to the proposed operations relate to activities under component 2 on component 2 on currency exchange implementation. As withdrawal of old and counterfeit and exchange with the new currency depends on robust community engagement and communication campaign for awareness, the challenges of ensuring the project reaches hard to serve community members (such as minorities, people with disabilities or widows, IDPs and pastoralists) may lead to exclusion. Similarly, the timing of the currency exchange processes could lead to the exclusion of mobile families. Security concerns and the remoteness of the project target areas can also combine to provide a significant challenge for monitoring and supervising project implementation. This can include challenges for community and stakeholder engagement, grievance redress and other risk mitigation protocols. The risks of Gender Based Violence (GBV), and Sexual Harassment (SH) for women travelling to currency exchange points as well as exposing women traders and girls to Sexual Exploitation and Abuse (SEA) by project workers and the police involved in anti-counterfeiting activities is also possible.

**B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered**

**B.1. General Assessment**

**ESS1 Assessment and Management of Environmental and Social Risks and Impacts**

*Overview of the relevance of the Standard for the Project:*

ESS1 is relevant in the context of the selection of base materials and manufacturing method for the new currency. There will be potential negative environmental impact which occurs as a by-product of the production process. There are potential positive environmental impacts with shifting from a older manufacturing method for paper currency to a current method, as current methods have made significant gains in reducing effluents as well as using technology which prolongs the length of a bill in circulation.

The project is expected to positively foster financial access for the poor including through enabling mobile money to transact in the proposed new Somali shilling, thus providing an efficient mechanism to expand access to basic transaction accounts for those who are currently unable to transact in U.S. dollars. Considering Somalia’s complex operational environment potential exclusion of hard to serve community members (such as minorities, people with disabilities or widows, IDPs and pastoralists) remain. There is also risk of social conflict, harm or risks to human security and increased social tension in the community as it is likely that the banknotes (old and new) could be stolen, parallel distribution could take place and the new notes could be counterfeited.

An assessment of the existing regulatory framework for the currency exchange will be conducted before appraisal. This will inform the development of measures to strengthen regulatory framework under which this exchange will take place as required. In addition, a Social Assessment (SA) will be developed, consulted and disclosed prior to appraisal. The SA will have a gender sensitive approach.

To protect people from losses from the use of old notes, the CBS plans to covert 100% of the shillings and any margin of error will be estimated during appraisal and a strategy will then be devised to deal with it so that people do not
lose their money. This will include counterfeit notes held by the people. No limits will be imposed on the exchange. Similarly, no fees will be charged by the MTBs. These measures will be outlined in the SMP as appropriate.

The project will also potentially have labor risks including OHS and GBV as significant number of personnel including armed security agents will be engaged for implementation. These risks will be mitigated through preparation and implementation of labor management procedures (LMP) and adoption of mitigation measures to be consolidated in a Social Management Plan (SMP) to guide the distribution components of the project.

The SMP will include a GBV Action Plan aligned to GBV Good Practice and outlining GBV mitigation measures and measures to manage security risks. Specifically, the LMP and SMP will outline how the use of code of conducts, community sensitization and awareness raising, collaboration with local communities and GBV-related service providers, effective stakeholder engagement including inclusive and transparent consultation processes and the setting up of a functional project Grievance Redress Mechanism (GRM), will help protect the community and particularly more vulnerable populations (such as minorities, people with disabilities or widows, IDPs and pastoralists), and ensure their inclusion and full participation in project activities.

**Areas where “Use of Borrower Framework” is being considered:**

The borrower framework is not being considered for use in this project.

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**ESS10 Stakeholder Engagement and Information Disclosure**

The CBS will implement a series of information and awareness activities, which will include audio/print/visual media, SMS messaging, use of mosques, that will formally start with an official launch and will continue during the whole exchange period. The CBS will also establish a dedicated website, to educate the public during and after the introduction of the new banknotes. These plans/steps will be included in an SEP to be developed for the project before appraisal. Particular care will be taken to ensure that hard to serve communities such as the pastoralists, IDPs, women and the persons with disabilities are reached. The design and implementation of the operation will be done taking into account concerns and feedback of women, nomadic people, vulnerable groups, and other stakeholders. A project level GRM will be set-up to accord project affected persons an avenue to raise project related complaints and grievances.

Key stakeholders include; members from the Minister of Finance, Minister of Interior and Federal Affairs, representatives from the Prime Minister’s Office and the Office of the President, Solicitor General and the Chair of the Parliamentary Budget Committee. Relevant ministries, institutions of government, FMSs, the security force, business communities, commercial banks, MTBs, targeted vulnerable groups, African Union Mission in Somalia (AMISOM) and police force/CID, NISA and the Attorney General’s office.

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**B.2. Specific Risks and Impacts**

A brief description of the potential environmental and social risks and impacts relevant to the Project.

**ESS2 Labor and Working Conditions**
The new Somali shillings will be produced overseas and shipped to Somalia. There are several globally renowned currency producers in Europe, the US and Russia that will likely bid for this contract. The finished notes will be shipped to Somalia once completed. The bidding process for the currency suppliers will include measures to protect against child labor and forced labor.

The currency exchange project will require a significant number of well-trained personnel to execute the plan. Many tasks will be performed during the currency exchange exercise by a combination of CBS staff and Police/NISA; all civil servants that will be covered under their existing terms of employment. As such, measures to ensure that their occupational health and safety and personal security is safeguarded will be spelled out in the LMP.

External consultants, MTBS staff and other contracted workers that will be hired under the project will operate under the provisions of the relevant national law with any additional measures relating to code of conduct, use of child and forced labour, OHS and setting up of a labor specific GRM being detailed in the LMP.

ESS3 Resource Efficiency and Pollution Prevention and Management
ESS3 applies to this project in relation to the entry and exit of paper money from circulation. Paper money creation and printing is quite sophisticated and involves using special high quality paper/polymers/inks etc. as well as steel plates to produce the notes. When a paper bill has been defaced, torn, or worn to the point where it is no longer identifiable or useable, it is taken out of circulation and can be shredded and recycled. The lifecycle of Somali currency will be further explored as part of the preparation for the bidding of the printing.

ESS4 Community Health and Safety
The project is expected to work with law enforcement agencies, including the National Police Force, the NISA and or contracted security personnel. A social assessment and a SMP will assess the risks related to the use of the National Police, NISA, and/or contracted security personnel and provide relevant mitigatory measures commensurate with the risks and impacts.

Other risks to community health and safety such as increased crime and violence, security risks while travelling to and from MTBs will be similarly assessed through a Social Assessment and mitigatory measures outlined in a Security Management Plan that will be included in the Social Management Plan (SMP).

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement
This ESS is not relevant for this project intervention.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources
This ESS is not relevant for this project intervention.
ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities
This ESS is not relevant for this project intervention.

ESS8 Cultural Heritage
This ESS is not relevant for this project intervention.

ESS9 Financial Intermediaries
This ESS is not relevant for this project intervention.

C. Legal Operational Policies that Apply

| OP 7.50 Projects on International Waterways | No |
| OP 7.60 Projects in Disputed Areas         | TBD |

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? No

Financing Partners
N/A

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

• Stakeholder Engagement Framework (SEP) that will include effective stakeholder engagement with inclusive and transparent consultation process including with vulnerable and marginalized groups
• Labour Management Procedure (LMP) that will include management of OHS, GBV and conduct of security personnel risk
• Social Management Plan (including a GBV Action Plan and a Security Management Plan)

Appropriate language to be inserted into bidding documents as well as into contracts to ensure proper occupational health and safety provisions for the currency manufacturer selected.

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

A Stakeholder Engagement Plan (SEP) will include the details of the formation of a national steering committee to oversee the currency replacement project. This steering committee will assist the states to promote the new currency. The SEP will target small-scale exchange dealers, internally displaced people (IDPs), small-traders, street vendors and sellers of food items such as vegetables, dairy, meat, bread, etc.
In lieu of an Environmental and Social Management Framework (ESMF), elements for greening new currency production and assuring occupational health and safety standards will be incorporated into the bidding documents as well as the printing contracts.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS 13-Feb-2020

IV. CONTACT POINTS

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Borrower/Client/Recipient
Borrower: Ministry of Finance

Implementing Agency(ies)
Implementing Agency: Central Bank of Somalia

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

Task Team Leader(s): Alwaleed Fareed Alatabani, Neema Mwingu

Practice Manager (ENR/Social) Robin Mearns Recommended on 14-Jan-2020 at 09:57:41 EST

Safeguards Advisor ESSA Nathalie S. Munzberg (SAESSA) Cleared on 15-Jan-2020 at 13:39:29 EST