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Report No: PAD2718

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GRANT

IN THE AMOUNT OF SDR 14.3 MILLION  
(US\$20 MILLION EQUIVALENT)

AND ON A

PROPOSED ADDITIONAL GRANT FROM SOMALIA MULTI-PARTNER FUND  
IN THE AMOUNT OF US\$10 MILLION

TO THE

FEDERAL REPUBLIC OF SOMALIA

FOR THE

DOMESTIC REVENUE MOBILIZATION AND PUBLIC FINANCIAL MANAGEMENT  
CAPACITY STRENGTHENING PROJECT

August 29, 2018

Governance Global Practice  
Africa Region

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## CURRENCY EQUIVALENTS

Exchange Rate Effective June 30, 2018

Currency Unit = Somali Shillings

Somali Shillings 578.5000 = US\$1  
US\$1 = SDR 0.71094933

## FISCAL YEAR

January 1 - December 31

Regional Vice President: Hafez Ghanem

Country Director: Bella Bird

Senior Global Practice Director: Deborah L. Wetzel

Practice Manager: Nicola J. Smithers

Task Team Leaders: Sher Shah Khan, Frederick Yankey

## ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AfDB	African Development Bank
AFROSAI-E	African Organization of English Speaking Supreme Audit Institutions
AFS	Annual Financial Statements
AG	Accountant General
ASA	Advisory Services and Analytics
ASPA	Association of Somali Professional Accountants
AuG	Auditor General
CAATs	Computer Aided Audit Techniques
CBS	Central Bank of Somalia
CIP	Capacity Injection Project
CIPFA	Chartered Institute of Public Finance and Accountancy
CIT	Component Implementation Team
CMU	Cash Management Unit
CPF	Country Partnership Framework
CSO	Civil Society Organization
DA	Designated Account
DFID	Department for International Development
DRC	Disaster Recovery Center
DRM	Domestic Revenue Mobilization
DRM & PFM	Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project
EAFS	External Assistance Fiduciary Section
EFT	Electronic Funds Transfer
EMP	Environmental Management Plan
EU	European Union
FCV	Fragile, Conflict and Violence
FGS	Federal Government of Somalia
FM	Financial Management
FMIS	Financial Management Information System
FMS	Federal Member States
FY	Fiscal Year
GDP	Gross Domestic Product
GRS	Grievance Redress Service
GST	Goods and Services Tax
HIPC	Heavily Indebted Poor Countries
HWA	Hargeisa Water Agency
IBRD	International Bank for Reconstruction and Development
ICBF	Institutional Capacity Building Framework
ICPAS	Institute of Certified Public Accountants of Somalia
ICT	Information and Communication Technology
IDA	International Development Association
IDI	INTOSAI Development Initiative
IFC	International Finance Corporation

IFI	International Finance Institutions
IFR	Interim Unaudited Financial Report
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IP	Implementation Progress
IPF	Investment Project Financing
IPSAS	International Public-Sector Accounting Standards
ISN	Interim Strategy Note
ISR	Implementation Status and Results Report
ISSAI	International Standards for Supreme Audit Institution
JIT	Just-in-Time
LTO	Large Tax-payer Office
M&E	Monitoring and Evaluation
MDA	Ministries Departments and Agencies
MoE	Ministry of Education
MoF	Ministry of Finance
MTI	Macroeconomics Trade and Investment
MTR	Mid-term Review
NGO	Non-Governmental Organization
OAG	Office of the Accountant General
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PACG	Pre-arrears Clearance Grant
PAD	Project Appraisal Document
PDC	Primary Data Center
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PFMCS II	Second Public Financial Management Capacity Strengthening Project
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PL-FMIS	Puntland Financial Management Information System
PMF	Performance Measurement Framework
PP	Procurement Plan
PPSD	Project Procurement strategy for Development
PREMIS	Public Resource Management in Somalia
PSS	Puntland State of Somalia
PSU	Puntland State University
RCRF II	Recurrent Cost and Reform Financing Project Phase 2
RCU	Reforms Coordination Unit
RIU	Reform Implementation Unit
ROC	Reform Oversight Committee
RRF	Rapid Response Facility
SAI	Supreme Audit Institution
SCD	Systemic Country Diagnostics

SCoA	Standard Chart of Accounts
SDR	Special Drawing Rights
SFMIS	Somalia Financial Management Information System
Sida	Swedish International Development Cooperation Agency
SL-FMIS	Somaliland Financial Management Information System
SMEs	Subject Matter Experts
SMP	Staff Monitored Program
SMPF	Somalia Multi-Partner Fund
SoE	Statement of Expenditure
SORT	Systematic Operations Risk Rating Tool
SPF	Single-partner Fund
SQL	Structured Query Language
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical Assistance
TIN	Taxpayer Identification Number
TPU	Tax Policy Unit
TSA	Treasury Single Account
TSC	Technical Steering Committee
UNDB	United Nation Development Business
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
US\$	United States Dollar
VAT	Value Added Tax
WB	World Bank
WBG	World Bank Group

**BASIC INFORMATION – PARENT (Second Public Financial Management Capacity Strengthening Project - P151492)**

Country Somalia	Product Line Recipient Executed Activities	Team Leader(s) Frederick Yankey		
Project ID P151492	Financing Instrument Investment Project Financing	Resp CC GGOAE (9748)	Req CC AFCE1 (6541)	Practice Area (Lead) Governance

Implementing Agency: Ministry of Finance, Puntland, Ministry of Finance of Somaliland Hargeisa, Ministry of Finance Federal Government

Is this a regionally tagged project?  No				
Bank/IFC Collaboration  No				
Approval Date 07-Jul-2015	Closing Date 30-Jun-2020		Original Environmental Assessment Category Not Required (C)	Current EA Category Not Required (C)

**Financing & Implementation Modalities**

<input type="checkbox"/> Multiphase Programmatic Approach [MPA]	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-Linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

### Development Objective(s)

The Project Development Objective is to establish and strengthen institutional capacity for the management of public funds in Central Finance Agencies and targeted sectors.

### Ratings (from Parent ISR)

	Implementation			Latest ISR
	05-Nov-2015	29-Jun-2016	29-Jun-2017	10-Mar-2018
Progress towards achievement of PDO	MS	MS	MS	S
Overall Implementation Progress (IP)	MS	MS	MS	S
Overall Safeguards Rating	S	S	S	S
Overall Risk	H	H	H	S

### BASIC INFORMATION – ADDITIONAL FINANCING (Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project - P166206)


Project ID P166206	Project Name Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project	Additional Financing Type Restructuring, Scale Up	Urgent Need or Capacity Constraints Yes
Financing instrument Investment Project Financing	Product line IBRD/IDA	Approval Date 25-Sep-2018	
Projected Date of Full Disbursement 30-Oct-2022	Bank/IFC Collaboration No		

Is this a regionally tagged project?	
No	

#### Financing & Implementation Modalities

<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-Linked Indicators (DLIs)	<input checked="" type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input checked="" type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	
<input type="checkbox"/> Contingent Emergency Response Component (CERC)	

#### Disbursement Summary (from Parent ISR)

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed
Grants	20.00	15.70	4.30	 79 %

#### PROJECT FINANCING DATA – ADDITIONAL FINANCING (Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project - P166206)

#### FINANCING DATA (US\$, Millions)

##### SUMMARY (Total Financing)

	Current Financing	Proposed Additional Financing	Total Proposed Financing
<b>Total Project Cost</b>	20.00	30.00	50.00
<b>Total Financing</b>	20.00	30.00	50.00
<b>of which IBRD/IDA</b>	0.00	20.00	20.00
<b>Financing Gap</b>	0.00	0.00	0.00



**DETAILS - Additional Financing**

**World Bank Group Financing**

International Development Association (IDA)	20.00
IDA Grant	20.00

**Non-World Bank Group Financing**

Trust Funds	10.00
Somalia Multi-Partner Fund	10.00

**IDA Resources (in US\$, Millions)**

	Credit Amount	Grant Amount	Total Amount
National PBA	0.00	20.00	20.00
<b>Total</b>	<b>0.00</b>	<b>20.00</b>	<b>20.00</b>

**COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any other Policy waiver(s)?

Yes  No

**INSTITUTIONAL DATA**

**Practice Area (Lead)**

Governance

**Contributing Practice Areas**

Macroeconomics, Trade and Investment

**Climate Change and Disaster Screening**

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

## Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

No

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

No

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

No

## PROJECT TEAM

### Bank Staff

Name	Role	Specialization	Unit
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Naseer Ahmad Rana	Peer Reviewer	Peer Reviewer	GTFOS
Nicola J. Smithers	Team Member	Overall Guidance	GGOAE
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Yoko Kagawa	Team Member	Monitoring & Evaluation	GGOAW
<b>Extended Team</b>			
<b>Name</b>	<b>Title</b>	<b>Organization</b>	<b>Location</b>



DOMESTIC REVENUE MOBILIZATION AND PUBLIC FINANCIAL MANAGEMENT CAPACITY STRENGTHENING PROJECT

TABLE OF CONTENTS

**I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING ..... 8**

**II. DESCRIPTION OF ADDITIONAL FINANCING ..... 16**

**III. KEY RISKS ..... 23**

**IV. APPRAISAL SUMMARY ..... 26**

**V. WORLD BANK GROUP GRIEVANCE REDRESS ..... 31**

**VI. SUMMARY TABLE OF CHANGES ..... 32**

**VII. DETAILED CHANGE(S) ..... 32**

**VIII. RESULTS FRAMEWORK AND MONITORING ..... 38**

**ANNEX 1: AF COMPONENT AND SUB-COMPONENTS BUDGET ESTIMATES ..... 49**

**ANNEX 2: IMPLEMENTATION ARRANGEMENTS ..... 55**

LIST OF TABLES

**Table 1: Coordinated PFM support to Somalia governments ..... 12**

**Table 2: Proposed AF components and sub-components ..... 17**

**Table 3: Parent project components captured in the AF ..... 17**

**Annex Table 1: Component 1 - Strengthening Tax Policy and Inland Revenue Administration (AF=US\$12,300,000) ..... 49**

**Annex Table 2: Component 2: Strengthening Capacity for Public Financial Management Control and Accountability (AF=US\$12,700,000) ..... 49**

**Annex Table 3: Component 4: Public Financial Management Reform Oversight, Coordination and Management (AF=US\$3,000,000) ..... 49**

**Annex Table 4: Implementation status of the FMIS modules ..... 51**

**Annex Table 5: Disbursement Tables ..... 60**

**Annex Table 6: Procurement Risk and Mitigation Measures ..... 65**

**Annex Table 7: Thresholds for procurement approaches and methods ..... 66**

LIST OF FIGURES

**Annex Figure 1: Funds flow arrangements ..... 57**

## I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

### A. Introduction

1. **This Project Paper seeks the approval of the Executive Directors to provide Additional Financing (AF) in the amount of US\$20 million to the Federal Republic of Somalia for the Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project (DRM&PFM – P166206), funded from the International Development Association (IDA) resources, which are available on an exceptional basis as part of the Pre-arrears Clearance Grants (PACG) for Somalia.** In addition, the proposed AF will have an additional financing for US\$10 million from the Somalia Multi-Partner Fund (SMPF)<sup>1</sup> (TF072283) resources. This will bring the total financing of the proposed AF to US\$30 million. The proposed AF will include restructuring of the parent project Second Public Financial Management Capacity Strengthening Project P151492.

2. **The AF is being processed at the request of the Federal Government of Somalia (FGS) of June 23, 2018,** to: (i) expand the scope of activities concerning domestic revenue mobilization (DRM); (ii) deepen treasury management and budget execution reforms and align them with the 2016-2020 Public Financial Management (PFM) Reform Action Plan; and (iii) introduce new activities to enhance fiscal accountability and transparency. The AF will continue to benefit the Puntland State of Somalia (PSS) and Somaliland in addition to the FGS. Overall, the activities are consistent with the original Project Development Objective (PDO) and are strategically aligned with Somalia's most recent Interim Strategy Note (ISN) fiscal year (FY) 2014-2016<sup>2</sup>, its Systemic Country Diagnostics (SCD)<sup>3</sup>, and the forthcoming Country Partnership Framework (CPF) FY2019-2022<sup>4</sup>.

3. **The AF also entails project restructuring** to: (i) revise the original PDO to explicitly include the DRM support; (ii) consolidate the PFM and integrity-related activities into one component; (iii) reallocate resources in accordance with the new design; (iv) amend the Just in Time (JIT) support; (v) revise the results framework and monitoring systems to improve the attribution of project specific interventions; and (vi) extend the closing date of the original project by two years, from June 30, 2020 to June 30, 2022, to allow for successful implementation of the project's original and new activities. The changes will strengthen the overall development impact of the original project and better align the World Bank assistance with the changing government priorities and country context. The project is expected to achieve results which include strengthened capacity to formulate efficient tax policy, establishment of more efficient inland revenue tax administration organization and systems and strengthened PFM and auditing systems. The project is also expected to contribute to higher level development objectives of enhanced revenues and more efficient and accountable government spending. The AF support is aligned to the key economic reform objectives of the federal government and its member states, as outlined in the National Development Plan 2017-2019, and is providing technical and financial resources to the internationally-supported state-building process in Somalia. The AF also re-prioritizes expansion of treasury

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<sup>1</sup> To be approved by the Africa Region Vice President.

<sup>2</sup> P124647, report number 39951-SO.

<sup>3</sup> P155548, report number 123807-SO.

<sup>4</sup> P165624, report number 124734-SO.

management and budget execution activities in accordance with the 2016-2020 PFM Reform Action Plan. The operation also supports the Somali Government to meet International Monetary Fund (IMF) Staff Monitored Program (SMP), and reforms towards Heavily Indebted Poor Countries (HIPC) Initiative Decision Point.

4. **The proposed AF is fully compliant with World Bank procedures that are set out for Parent Project-proposed AF in the context of ongoing, well-performing projects.**<sup>5</sup> The parent project is currently rated as Satisfactory for both progress towards achievement of the PDO and Implementation Progress (IP). All legal covenants are met under the original project and there is substantial compliance with financial management (FM) arrangements, and with the respective legal covenants. The proposed AF is being processed in accordance with the condensed procedures outlined in Paragraph 12 of Section III of the World Bank Investment Project Financing (IPF) Policy, and Paragraph 56 of Section III of the IPF Directive: Exceptional Arrangements in Situations of Urgent Need of Assistance or Capacity Constraints. The Safeguards requirements will in that regard be deferred to implementation as outlined in Paragraph 12(a) of the IPF Policy.

#### ***Background and alignment***

5. **Somalia has achieved significant progress in laying the foundations for stability and development; however, political and institutional gains must have tangible benefits for people if Somalia's transition is to hold.** The CPF for the period FY2019-2022 aims to increase citizens' access to services and help restore economic resilience – laying the foundations for longer-term poverty reduction and inclusive growth. The CPF is based on an analytical framework elaborated in the recently-concluded SCD as well as the outcome of country level dialogue between the World Bank Group (WBG), its Somalia partners and the international community.

6. **Recent political and institutional gains reflect a country making a positive transition from acute fragility and protracted emergency.** Agreement on a new federal structure, two peaceful transitions of power, nascent resource sharing deals and a willingness to tackle vested interests - all signal a collective willingness to move forward. To secure the new political settlement, Somalia's emerging federal institutions are working to generate dividends for the people, by enabling access to basic services and offering economic opportunities for a fast-growing population.

7. **Nevertheless, Somalia's long period of fragility has given rise to a "dual development trap" reflecting systemic distrust, and acute vulnerability to repeated shocks.** First, weak fiscal space constrains service delivery, including security and justice, leading to low trust in state institutions (further undermining revenues) and cycles of political crises. Second, climatic shocks (like the 2017 drought) deplete rural communities' assets, causing displacement and rapid urbanization – resulting in mounting exclusion, and unsustainable exploitation of natural resources. The two traps reinforce each other, becoming structural drivers of the country's sustained fragility. Overcoming the dual development trap requires the restoration of citizens' trust in institutions by strengthening accountability and oversight, mobilizing revenue and increasing citizens' access to services.

8. **With debt arrears outstanding, Somalia is ineligible for regular concessional financing from IDA and other International Finance Institutions (IFIs) – but the WBG re-engagement in 2012 funded by the SMPF has helped stabilize institutions and initiate IFI normalization.** With support of eleven donors, the SMPF has enabled

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<sup>5</sup>Following World Bank Procedure, Additional Financing for Investment Project Financing, Issued March 1, 2018.

the World Bank to support the strengthening of federal institutions and establishment of basic economic regulatory foundations, including through the DRM&PFM. The SMPF will remain the core financing vehicle under the CPF – but will be complemented in FY19 by an exceptional allocation of IDA PACGs targeting the key milestones to reach Decision Point under the Heavily Indebted Poor Countries (HIPC) Initiative. Provided reform momentum continues, the Decision Point is feasible within the CPF period, which would allow Somalia access to regular concessional resources from IDA and other IFIs, together with investment of private capital from the International Finance Corporation (IFC).

9. **The World Bank’s ongoing Somalia governance operations will be helping Somalia deliver the CPF focus of building institutions to deliver services, and ultimately in reaching HIPC Decision Point.** Specifically, the exceptional access to PACGs will be used to scale-up two ongoing governance projects, namely: The DRM&PFM AF, (co-financed by US\$20 million equivalent from IDA PACG and US\$10 million from SMPF), and the Recurrent Cost and Reform Financing Project Phase 2 AF (RCRF)<sup>6</sup> or “RCRF II”<sup>7</sup> (co-finance by US\$60 million equivalent from IDA PACG and US\$2 million from SMPF). Fundamentally, the DRM&PFM operation will build upon the foundations already laid by the project’s early successes, strengthen the systems for revenue mobilization and expenditure management to ensure both increased revenue collection and help for the governments to spend it wisely. RCRF will provide recurrent cost finance to provide continued fiscal stability and support the FGS and the Federal Member States (FMS) to deliver tangible education and health services to citizens. Working together, both operations will contribute to building state legitimacy and an increasingly coherent federal structure for service delivery.

10. **The two operations are being scaled-up in close coordination with other key development partners, and at a crucial time for development of public sector systems and coherence.** This includes the International Monetary Fund (IMF) Staff Monitored Program (SMP), the European Union (EU)’s forthcoming budget support operations, officially titled the ‘State-building and Resilience Contract’, and other World Bank operations and bilateral Technical Assistance (TA) providers. Through this coordinated approach, they help to support Somalia on an accelerated pathway towards the HIPC Decision Point. The timing is also very important. The PACGs are well timed to enable Somalia to take advantage of the expected more favorable macroeconomic outlook (higher growth after the drought, higher domestic revenue) to continue focusing on stabilization and strengthening capacity.

### **Somalia governance program integrated view**

11. **Addressing the multi-faceted governance challenges in Somalia requires the adoption of approaches, which are: highly innovative; flexible; and balance between short, medium- and long-term reform strategies and manages high transaction costs with multiple clients.** The Troika<sup>8</sup> of WB Governance-focused projects provides a foundation that is premised on the 2011 World Development Report (WDR) with a focus on

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<sup>6</sup> P167224, Report No PAD 2958.

<sup>7</sup> P154875, Report No. PAD 1380.

<sup>8</sup> The *Troika* of Governance-focused projects include: (i) The Capacity Injection Project (CIP) (P149971) with the objective of strengthening the staffing and institutional capacity of selected line ministries and central agencies; (ii) the Recurrent Cost and Reform Financing Project (P154875), aimed at providing credible and sustainable payroll and to establish the foundation for efficient budget execution and payment systems for the non-security sectors; and (iii) the PFM Capacity Strengthening Project (P151492) which focuses on improving the institutional capacity of central finance agencies.

strengthening legitimate institutions and governance as a *sin-qua-non* for the provision of security, justice and jobs for citizens – all of which are central to breaking the cycles of violence and setting the path towards economic development.

12. **The Somalia Governance program therefore takes an integrated view and an iterative approach - starting with the SMPF funded pilots and using the IDA PACG to scale up - that considers the strengthening of core institutions of government as fundamental.** This is achievable through: (i) transparent and sustainable support to civil service salary payments – this serves as a mechanism for legitimizing the Government; (ii) the strengthening of DRM and PFM system – via support for an effective core DRM and PFM system; strong oversight including the engagement of citizens; and (iii) merit-based recruitment and enhanced capacity of civil servants. As such, the Troika of projects provide an integrated and interdependent set of broader governance solutions and incentives aimed at governance and public-sector systems improvement.

### ***B. Description of the existing project and its performance***

#### ***Somalia Second Public Financial Management Capacity Strengthening Project (PFMCSP II) (P151492)***

13. **Original approval and restructuring.** The PDO of the original project is ‘to establish and strengthen institutional capacity for the management of public funds in central finance agencies and targeted sectors.’ The parent project in the amount of US\$20 million was approved by the Africa Regional Vice President on July 7, 2015, and has been effective since September 2015. A US\$20 million grant from the SMPF is the current sole source of financing. The original closing date was June 30, 2018. However, the project was restructured to extend the closing date by two years, from June 30, 2018 to June 30, 2020. The extension was approved on December 7, 2017. The project’s geographical scope (FGS, PSS, and Somaliland) was decided through coordination with the Department for International Development (DFID) and the EU and in harmonization with their programs of PFM support in southern Somalia, ensuring national coverage of PFM support. Such coordination, in particular includes: Public Resource Management in Somalia (PREMIS) –DFID, EU; and Support for the FGS to Strengthen Domestic Revenue Generation and Macroeconomic Management for Customs reforms (DFID, United States Agency for International Development [USAID], and EU). Coordination among key partners for PFM and DRM support to government is ongoing through government-led Pillar Working Groups under the Somalia Development and Reconstruction Facility as well as through technical level exchanges to ensure comprehensive accountability and integrity-related support across Somalia.



**Table 1: Coordinated PFM support to Somalia governments**

	DRMPFMCSP	RCRF*	PREMIS**
<b>Federal Government</b>	✓	✓	
<b>Puntland State</b>	✓	✓	
<b>Somaliland</b>	✓		
<b>Jubaland State</b>		✓	✓
<b>South West State</b>		✓	✓
<b>Galmudug State</b>		✓	✓
<b>Hirshabelle State</b>		(✓)	✓

direct World Bank support

World Bank coordinates closely with Partners

Note: \*RCRF - focused capacity development to manage RCRF funds.

Note: \*\*PREMIS - DFID/EU project support for PFM and DRM.

14. **Overall performance.** Currently, the IP, progress towards the achievement of the PDO, and performance of most project components are rated as *Satisfactory*. The Government is very committed to the project's continued successful implementation. Although the fiduciary arrangements remain adequate, the FM arrangements will further be strengthened as part of the project specific fiduciary arrangements as well as overall PFM capacity strengthening activities under the project. The project has no overdue audits, supervision reports or IFRs. Likewise, FM, procurement, project management, and monitoring and evaluation (M&E) are rated as Moderately Satisfactory as reflected in the last Implementation Status and Results Report (ISR) dated March 10, 2018. Smooth project implementation has translated into high disbursement rate for the parent project funds, which stands at a current disbursement ratio of about 79 percent as of August.

15. The parent project has achieved tangible results. The components and progress are described in more detail in Annex 1. Some of the key results include:

- a) **The Somalia Financial Management Information System (SFMIS) configuration has enabled the FGS's Office of the Accountant General (OAG) to improve its day-to-day treasury functions substantially, including to scrutinize payment transactions more effectively.** Also, it has improved transparency and accountability in revenue collection and has set the foundations for the implementation of the cash management and Treasury Single Account (TSA). Furthermore, the payment module has been extended to the Central Bank of Somalia (CBS) to allow integration. As a consequence, for the first time FGS recorded the 2015 budget in the system, resulting in the generation from the system of the budget utilization and revenue performance reports as well as Interim Unaudited Financial Report (IFRs) for World Bank financed projects.
- b) **The capacity assessment of Supreme Audit Institution (SAI) - FGS Office of the Auditor General (OAuG) - is at an advanced stage. In addition, a framework for collaboration with the media and**



**non-state actors—which is a crucial element towards promoting outreach for the work of the Public Accounts Committee (PAC)—has been finalized.** Moreover, the OAuG has over the past few months developed a Strategic and Operational Plan, with the help of the International Organization of Supreme Audit Institutions (INTOSAI) Development Initiative (IDI), to provide direction on the medium to longer term goals over the period 2017-2020. Similarly, in PSS, Strategy and Development Action Plan for the OAuG has been completed, and the OAuG is conducting three pilot audits using the newly developed Risk Based Auditing procedures manuals.

- c) **The PFM Staff Professionalization activities are successfully completed for the FGS, PSS, and the Somaliland Government.** As a result, 53 percent (126 out of 239) registered students passed the certificate level PFM examination. Similarly, 59 percent passed the procurement stream certificate level examination. The PSS has followed up with immersion of the participants. As seven of these students have been employed under the Work Bank-supported projects. Likewise, 36 (of 45) civil servant students enrolled for the international Chartered Institute of Public Finance and Accountancy (CIPFA) examinations at the Puntland State University (PSU) passed the certificate level examination.
- d) DRM TA support has made improvements in the efficiency and effectiveness of tax administration with the broader expectation of enhanced domestic revenue collection.

### ***C. Rationale for the Additional Financing***

16. **Somalia’s development trajectory has improved in the last few years, and there is a real opportunity for Somalia to reach the HIPC Decision Point during the next three years.** Reaching Decision Point is a stated objective of Somalia’s leadership, to unlock access to the World Bank’s IDA window and other sources of concessional financing. However, this will require sustained and strong commitment to reform and stability.

17. **Somalia is in urgent need of assistance due to protracted fragility, extremely low fiscal capacity, inequitable geographic distribution of resources, and the need for a ‘step change’ in assistance to support the FGS in reaching Decision Point.** Despite progress at Federal level on revenue generation, both the FGS and FMS remain subject to chronic fiscal stress, with low revenues, and fluctuating grants from international partners. Similarly, expenditure management remains weak, as reforms critical to minimizing the accumulation of arrears and enhancing fiscal discipline remain outstanding.

18. **With satisfactory progress with the implementation of the parent project, the FGS requested for AF of US\$30 million for the DRM&PFM operation to address fiscal constraints, sustain the reform effort to help reach HIPC Decision Point, and increase the emphasis on DRM&PFM institutional strengthening.** For this purpose, the DRM&PFM proposes to:

- a) **scale up and expand some carefully chosen project activities.** The AF is a necessary response to the emerging needs of Somalia and is considered crucial for the full achievement of the project’s development objectives. To this end, the Government is requesting to restructure the project to: (i) upgrade the revenue administration sub-component into a new standalone component that would include, inter alia, activities to enhance “readiness” of the FGS and the FMS to implement and operationalize the new revenue legislation upon its enactment; (ii) consolidate and deepen PFM



related activities, including to: re-prioritize and expand treasury management and budget execution activities in accordance with the 2016-2020 PFM Reform Action Plan; introduce activities to enhance fiscal accountability and transparency via improving the institutional effectiveness of the SAIs of FGS, PSS and Somaliland, thus strengthening audit and external oversight capacities; strengthen internal control systems by establishing and operationalizing modern internal audit functions, strengthening government procurements systems and enhance the overall fiduciary environment; and (iii) include a mechanism that rapidly responds to the FGS's need for more flexible and adaptive operational support to help seize windows of reform opportunities as they emerge;

- b) **support the project's restructuring** as the evolving government priorities and emerging technical concerns require an informed response. Notwithstanding the achievements of the project, Somalia's fiscal situation continues to face challenges. In addition, the added complexity of changing internal and external dynamics are already influencing the nature of the PFM reform program. Consequently, there is need to revise the project's implementation timeline, scope, costs, and approach to achieving the development objectives; and
- c) **improve other aspects of the original project** as the design can be simplified around three components instead of six, while resources could be reallocated to better respond to emerging needs. Similarly, to facilitate successful implementation of the expanded activities under the AF, the closing date will be extended to June 2022. Likewise, the restructuring would also involve improvements to the results framework and monitoring systems. In particular, results indicators are to be refined to improve the attribution of project specific interventions. Furthermore, the wording of the PDO will be revised to reflect the expanded DRM scope.

19. **With regard to DRM, the Government's strong commitment to strengthening its institutional capacity for mobilizing and managing public funds is potentially a game changer, and is already yielding promising results.** Domestic revenue collection has increased markedly from US\$76 million in 2013 to US\$143 million in 2017. At 4 percent of Gross Domestic Product (GDP), tax revenues are, however, not adequate to support Somalia's reconstruction and development agenda, and the FGS remains dependent on development partners to finance capital expenditures. While federal revenues have increased over the last five years, gains have been made mainly based on increased trade taxes (customs), whereas inland revenue remains untapped. In addition, inland revenue has little support, if at all, by other development partners.

20. **With regard to PFM, substantial progress has been made to improve budget execution—the variance between actual and originally budgeted primary expenditure has reduced from a baseline measure of 45 percent in December 2013 to 31 percent in December 2017.** Yet, expenditure management remains weak, as reforms critical to minimizing arrears and enhancing fiscal discipline remain outstanding. At the same time, there has been little progress on achieving targets to reduce the time to submit audit reports to Parliament. While the project has delivered very useful and relevant analytical work throughout implementation, there is a need to ensure that TA reform recommendations are translated into tangible actions that can spur growth in DRM and strengthen PFM.

21. **In this context, the FGS leadership is strongly committed to remaining 'on track' under the third IMF SMP as well as with RCRF reform benchmarks and, in particular, the quantitative targets relating to revenue mobilization and non-accumulation of arrears.** Also, access to PACG is a major step and intends to accelerate

reforms required for IDA arrears clearance, and to help restore resilience. It is in this context that the project is expected to make a substantial contribution to the achievement of higher level objectives of increased inland revenues and improved quality of public spending. In addition, the adjustments are considered necessary for ensuring that the project beneficiaries can effectively consolidate the gains of the project.

22. **The proposed AF is considered the most appropriate mechanism to maximize development impact of the expanded activities for two main reasons:** (i) the scope of the scale-up can be accommodated in the context of the original project, relying on the beneficiaries' existing implementation capacity and project management arrangements; and (ii) the proposed AF brings greater procedural, time, and cost-effectiveness gains for the Government vis-à-vis preparing a new IPF operation. Comparatively, the proposed AF ensures greater synergies, efficient resource deployment, and better attribution of results. Furthermore, the activities are consistent with the original PDO, and are strategically aligned with Somalia's most recent ISN (FY2014-2016), its SCD, and the forthcoming CPF.

23. **There are no significant changes in fiduciary, social safeguards or other design aspects of the project since it was appraised.** The external audit report for Fiscal Year 2016 highlighted weaknesses in the management of project vehicles which required close monitoring, particularly the refund of unauthorized disposal of project vehicles by a beneficiary institution. However, the refund has since been processed by the authorities and funds credited back to the trust fund.

24. **The environmental category of this project is assessed as "B"** due to funding allocated for the completion of an annex to the Ministry of Finance (MoF) building in Mogadishu.

#### ***D. Higher-level Objectives to which the Project Contributes***

25. **Somalia has achieved significant progress in laying the foundations for stability and development; however, political and institutional gains must have tangible benefits for people if Somalia's transition is to hold.** Somalia's emerging federal institutions are working to generate dividends for people, by collecting and managing public resources to enable access to basic services that offer economic opportunities for a fast-growing population. The proposed AF is aligned with the key economic reform objectives of the FGS and FMS, as outlined in the National Development Plan 2017-2019, and is providing technical and financial resources to the internationally-supported state-building process in Somalia.

26. **The proposed AF will support the CPF focus area of building institutions to strengthen the systems for revenue mobilization and expenditure management to enable both increased revenue collection and spending these resources wisely and in an accountable manner for the benefit of the citizens.** The support provided will establish and strengthen the processes and automation for selected inland revenue instruments to enable these instruments to become operational and so collect revenue. The proposed AF will monitor inland revenue collections and will draw on this to inform project implementation. In addition, the proposed AF re-prioritizes the PFM and integrity-related activities to accord with the 2016-2020 PFM Reform Action Plan. The systems for strengthened expenditure controls and accountability that the AF is expected to deliver will provide mechanisms to enable compliance with aggregate expenditure targets, use of funds for intended purposes, and oversight of spending. The operation also supports the Somali Government to meet the International Monetary Fund (IMF) Staff Monitored Program (SMP), and reforms towards Heavily Indebted Poor Countries Initiative Decision Point.



27. **The project is being scaled-up in close partnership with other key DPs, and at a crucial time for development of public sector systems and coherence.** This includes the IMF SMP, EU’s forthcoming budget support operation, officially titled the ‘State-building and Resilience Contract’ – and other World Bank operations and bilateral TA providers. Collectively they help to support Somalia on an accelerated pathway towards HIPC Decision Point. The timing is also very important. The PACGs are well timed to enable Somalia to take advantage of the expected more favorable macroeconomic outlook (higher growth after the drought, higher domestic revenue) to continue focusing on stabilization and strengthening capacity, as well as the conditions-based phasing out of the African Union Mission in Somalia (AMISOM) and an associated potential scale-up of funding through country systems, making investment in strengthening government resource management systems highly strategic at this time.

## II. DESCRIPTION OF ADDITIONAL FINANCING

28. **The proposed AF and restructuring entail the following changes:**

- a) Modification of the PDO to reflect the expanded scope of the project and new emphasis on DRM;
- b) AF allocation of \$US12.3 million to substantially scale up of project activities to strengthen tax policy and inland revenue administration, which is potentially a ‘game changer’ as inland revenue has great revenue generation potential but has received little support up to now;
- c) Consolidation of the PFM and integrity related activities into one component of US\$12.7 million;
- d) An additional allocation of US\$3.0 million to extend project management and coordination support in accordance with the new AF activities and extended timeline;
- e) Redesigning the JIT (Component 6) into Rapid Response Facility (RRF) US\$2.0 million;
- f) Adjustments to the results framework and monitoring to reflect the changes in the project’s design; and
- g) Extension of the project closing date from June 2020 to June 2022 to allow for successful implementation of the project’s original and new activities.

29. **The PDO is changed to reflect the expansion in scope of the project and the new emphasis on DRM and on public funds accountability, as follows:**

- **Original PDO:** To establish and strengthen institutional capacity for the management of public funds in central finance agencies and targeted sectors.
- **Revised PDO:** To strengthen systems of domestic revenue mobilization, expenditure control and accountability in the Federal Government, Puntland State of Somalia, and Somaliland.

30. **The relationship between parent project structure and that of the AF is shown in Table 2 and Table 3.** Table 2 provides the overview of the proposed AF component structure, while Table 3 summarizes how the components and sub-components of the parent project are now reflected in the AF structure.



**Table 2: Proposed AF components and sub-components**

<b>AF Components</b>		<b>US\$'000</b>
<b>Component 1</b>	<b>Strengthening Tax Policy and Inland Revenue Administration systems</b>	<b>12,300</b>
Sub-component 1.1	Improving organizational capacity for tax policy	750
Sub-component 1.2	Improving systems for inland revenue administration	10,250
Sub-component 1.3	Tax payer education and facilitation to promote voluntary compliance	1,000
Sub-component 1.4	Supporting the Revenue Bill consultations and bridging operationalization upon enactment	300
<b>Component 2</b>	<b>Strengthening Capacity for PFM Control and Accountability</b>	<b>12,700</b>
Sub-component 2.1	Strengthening systems of treasury management, budget execution, procurement, accounting and financial reporting	6,550
Sub-component 2.2	Strengthening the integrity systems	4,050
Sub-component 2.3	Professionalization of PFM staff	2,100
<b>Component 3</b>	<b>Rapid Response Facility</b>	<b>2,000</b>
<b>Component 4</b>	<b>PFM reform Oversight, Coordination and Management</b>	<b>3,000</b>
<b>TOTAL AF</b>		<b>30,000</b>

**Table 3: Parent project components captured in the AF**

<b>Parent Project Component</b>	<b>Parent Project Allocation US\$'000</b>	<b>AF Component/ Sub-component</b>	<b>Change</b>
<b>1. Inland Revenue Administration, Planning and Budget preparation</b>	<b>2,750</b>		Substantially expanded inland revenue support provided in AF Component 1
1.1 Strengthening planning and budgeting	630	Completed	
1.2 Strengthening Inland Revenue administration	2,120	1.1, 1.2, 1.3, 1.4	
<b>2. Treasury Management, Budget Execution, Procurement, Accounting and Financial Reporting</b>	<b>9,880</b>		Consolidated into AF Sub-Component 2.1
2.1 Treasury Management and Budget Execution	1,500	2.1	
2.2 Accounting and Financial Reporting	1,000	2.1	
2.3 Concessions, procurement and contract management	1,000	2.1	
2.4 Bespoke financial management information systems (FMIS)	4,380	2.1	
2.5 Modernizing CBS banking operations and financial control environment	2,000	2.1	Reduced scope
<b>3. Strengthening the Integrity Pillar</b>	<b>1,945</b>		Consolidated into AF Sub-Component 2.2
3.1 Foundations for Supreme Audit Institution (SAI)	1,795	2.2	
3.2 Planning, Finance and Public Accounts Committee	150	2.2	
<b>4. PFM Professionalization</b>	<b>1,000</b>	2.3	Becomes AF Sub-Component 2.3
<b>5. PFM Reform Oversight, Coordination and Management</b>	<b>2,925</b>	4	Becomes AF Component 4
<b>6. Demand Driven Just-in-Time (JIT) Bank-Executed</b>	<b>1,000</b>		Becomes AF Component 3
6.1 Social accountability and open government data	500	3	
6.2 Governance/PFM Reviews and advisory notes	500	3	
Unallocated	500		
<b>Total Parent</b>	<b>20,000</b>		



31. **The components and sub-components of the AF are described below.**

32. **Component 1: Strengthening Tax Policy and Inland Revenue Administration systems (US\$12,300,000).** This component is expected to strengthen tax policy and selected<sup>9</sup> inland revenue<sup>10</sup> systems and capacity. It substantially expands the support to inland revenue and incorporates parent project Sub-Component 1.2. The component includes sub-components described below

33. **Sub-component 1.1: Improving organizational capacity for tax policy (US\$750,000).** This sub-component includes: (i) establishing the tax policy unit (TPU) in the MoF by supporting activities to crowd in support for the TPU, definition of structure and job specifications, definition of linkages to the Attorney General's office and support in establishing legal or regulatory frameworks for access to tax payer and other data, and (ii) support TPU in development of a credible and fair revenue policy, evidence based research, revenue forecasting, and tax gap analysis capacity.

34. **Sub-component 1.2: Improving systems for inland revenue administration (US\$10,250,000).** This sub-component includes the following:

- a) **Operationalizing large tax payer office (US\$250,000):** This will include re-tooling the Large Taxpayer Office (LTO), people capacity, and organization structure, and will supplement the IMF's TA to establish the LTO.
- b) **Business process mapping and redesigning (US\$250,000)** (initially focusing on the LTO processes and gradually covering the whole spectrum and ensuring standardization): This will include review of existing business processes, and development and implementation of more efficient processes and systems for: (a) registered tax payer base; (b) risk-management; (c) timely filing of declaration; (d) timely payments; (e) accurate reporting in declaration, business intelligence and audit; (f) dispute resolutions; (g) revenue reconciliation, refunds and arrears; and (h) transparency and accountability of the administration including integrity management.
- c) **Modernizing and automation<sup>11</sup> (US\$9,500,000):** This will include: (a) development and implementation of integrated automation system user requirement specifications and Information

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<sup>9</sup> The FGS has prioritized specific tax instruments including: Sales Tax; Excise Duty; Personal and Corporate Income Tax; Rental Income Tax; Road Tax; Stamp Duty; Registration fee / levies, turnover tax. A draft Revenue Bill has been developed and is being processed to reform policy and administration of the above specific instruments. All the above taxes have been introduced in Somaliland. Goods and Services Tax (GST) will be introduced soon.

<sup>10</sup> This scope of the support is limited to Inland Revenue, and based on the division of labor amongst development partners. Support to Customs reforms is being supported under a program mainly financed by DFID. However, the Bank will deliver Advisory Services and Analytics (ASA) and TA activities to complement DFID support. Using the RRF, the project is structured to take advantage and plug any emerging gaps in improvements to the Customs performance. This should help sustain dialogue around a major revenue stream for Somalia. Structural benchmarks under consideration by IMF include the following areas with accompanying TA to be provided by the IMF: sales tax for domestic products/services (e.g. telecoms, utilities), turnover tax for large taxpayers, submission of National Revenue Bill to parliament, fisheries licensing implementation, large and medium taxpayer office implementation.

<sup>11</sup> Support for automation shall be at FGS and later rolled out to PSS if PSS adopts the revenue bill.



and Communication Technology (ICT) strategy; (b) financing and supporting deployment of a fit-for-purpose integrated tax administration system fully interfaced with SFMIS, and procuring necessary ICT equipment and infrastructure; and (c) training and change management strategy to facilitate adoption of the system by both staff and taxpayers.

- d) **Capacity building (US\$250,000):** This includes: (a) development of a human resource management strategy for the inland revenue department; (b) execution of a training needs assessment and development of a skill development strategy; (c) development and implementation of a communication strategy; and (d) delivery of the knowledge and skill sets following the successful PFM and procurement accreditation program of the parent project. In this regard, two pivotal elements will underpin this support. Firstly, complementing African Development Bank (AfDB) support which is setting up infrastructure for a Somalia Revenue Academy, the AF will develop curriculum and equip trained trainers to facilitate continuous professional development for staff. Secondly, the skill development of the tax officials will among others adopt an accreditation model, learning from the (PFM) certification, which has been successfully implemented by the parent project, and including personal and supervisory skills development to facilitate effectiveness of the institution.

35. **Sub-component 1.3: Tax payer education and facilitation to promote voluntary compliance (US\$1,000,000).** This sub-component will include development and implementation of: (i) taxpayer orientation/socialization program; (ii) taxpayer service charter; (iii) facilitation and grievance redressal help-desk; (iv) proactive disclosure of revenue performance reports; (v) tax forums; (vi) training curriculum; and (vii) utilizing the Somalia Revenue Academy to equip the wider public with tax compliance skillsets and knowledge.

36. **Sub-component 1.4: Supporting the Revenue Bill consultations and bridging operationalization upon enactment (US\$300,000).** This sub-component includes: (a) support for FGS-led Revenue Bill<sup>12</sup> consultation process with the FMS; (b) support to selected FMS to implement the enacted revenue law, in addition to PSS and Somaliland that are already in the project scope; and (c) analytical work on revenue assignment and unbundling issues following the revenue bill consultation, and to help operationalization upon the enactment. In this regard, this support will supplement the revenue related dialogue at the Inter-Governmental Fiscal Forum which is receiving ongoing support from the RCRF Project. In doing so, the sub-component will build on findings and recommendations of the analytical work that was produced by the parent project. Also, given the substantial support at the FGS level by the AfDB, the World Bank's Macroeconomics Trade and Investment (MTI) Global Practice, and DFID, implementation of Component 1 will be coordinated particularly with these, and other relevant key stakeholders. Finally, the project will consider development and implementation of the Medium-Term Revenue Strategy, likely in the beyond 24 months of effectiveness timeframe once the government-led follow up of the revenue enactment becomes clear.

37. **Component 1 will support both the FGS (US\$9,300,000) and PSS (US\$3,000,000).** The Government of PSS will prepare an Annual Work Plan, in consultation with the FGS. The Annual Work Plan is expected to specify the activities to be implemented in PSS in a given year, costings, deliverables, with clear targets and indicators that directly contribute to the PDO. The planned activities for PSS will be appraised as part of the Annual Work Plan,

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<sup>12</sup> The bill development is being supported by the IMF SMP.



which will be reviewed and approved by the Bank.

38. **Component 2: Strengthening Capacity for Public Financial Management Control and Accountability (US\$12,700,000).** This component consolidates the support for PFM and integrity systems in Components 2 and 3 of the parent project into one component. The consolidated Component 2 focuses on: (i) the implementation of critical treasury management, control, budget execution, public procurement and accounting and reporting reforms; (ii) deepening reforms targeted at enhancing transparency and accountability in the use of public funds through strengthening key integrity pillars including SAIs, external oversight capacities, internal control systems, and the overall fiduciary environment; and (iii) expanding the reach of the government's PFM staff professionalization program. The consolidated Component 2 will have three sub-components, and these components are described in broad terms to allow flexibility for activities to be undertaken under the original and new envisaged activities. These components are as follows:

39. **Sub-component 2.1: Strengthening systems of treasury management, budget execution, procurement accounting and financial reporting (US\$6,550,000).** This sub-component (incorporating parent project Component 2) is expected to institute essential controls needed to promote fiscal discipline, transparency, and accountability. At the FGS level, the additional resources will be used to ensure integrity of the SFMIS by supporting the quality assurance of the SFMIS and throughout the system's implementation and post-implementation phases, including Primary Data Center (PDC), and Disaster Recovery Center (DRC) that assure the timely recovery of data in case of any mishap. The AF will also support sustainable management of the SFMIS through targeted institutional capacity building programs. Such programs will support the recruitment of a PFM expert to support the OAG throughout implementation of accounting policies and procedures. TA will also support the implementation of government cash management policies. Besides this, the AF will finance a sustainable, skills transfer focused capacity development plan to ensure sustainability of the SFMIS. Specific training will include: (i) Windows Server Management Training (Phase 1) and (ii) completion of the Phase 2 training plan on Structured Query Language (SQL) Server Management.

40. **Given the importance of ensuring integrity of the FGS's financial information, there is a need to support SFMIS business continuity and disaster management plans, especially in the areas of information security policy, strategies, and procedures** (including functionality to support attachment of transactions supporting documentation). There will also be need for independent quality assurance to affirm whether the business processes are accurately mapped into the applications in line with specified user and business requirements, and adherence to the system's overall implementation and governance framework. Furthermore, to enhance transparency and accountability, support will be provided to prepare unified reporting formats for use by the FGS and FMSs for reporting on fiscal transfers. As part of the strengthening the comprehensiveness and all-inclusive nature of the budget to focus on the critical needs of citizens, the team will engage with the FGS and participating FMS on the need for citizens involvement in the budgeting process and pilot the process when modalities have been agreed and documented.

41. **In PSS, additional resources will provide hands-on TA support to the OAG in areas such as financial reporting and expenditure management and control.** Given the criticality of the Puntland Financial Management Information System (PL-FMIS) to improved transparency, the AF will also support a systems audit to review potential gaps and data integrity issues that could endanger sustainability of the solution. The AF will also support capacity building activities targeted at improving expenditure management and control, including implementation of government cash management policy.



42. **In Somaliland, the additional resources will be deployed to specifically support the Government to undertake the following:** (i) FM TA to the OAG focused on expenditure controls, cash management, accounting and reporting; (ii) implementation of business process reengineering, including change management; (iii) implementation of Somaliland Financial Management Information System (SL-FMIS) quality assurance, system security, business continuity, and disaster recovery strategies; (iv) implementation of a cash management policy and establishment of a Cash Management Unit (CMU) at the office of the AG, amongst others. To sustain progressive rollout of the SL-FMIS, foster ownership, and ensure sustainability of the original IT infrastructure provided by UN-Habitat, the AF will support a post-implementation assessment of the SL-FMIS infrastructure. This will include configuration and installation of Citrix Servers and post-implementation technical support. In addition, the AF will likewise support implementation of SL-FMIS system security, business continuity, and disaster recovery strategies for Somaliland. The AF support will involve interim back-up option such as cloud disaster recovery, and private network connection to facilitate easier access to the SL-FMIS servers.

43. **Important to note is that the CBS is currently managing Sub-component 2.5 of the parent project which includes Financial Accounting Control and Transactional System (FACTS) and Automated Transfer System (ATS+) with inbuilt:** (i) real-time gross settlement (RTGS); and (ii) automated clearinghouse (ACH); and (iii) instant funds transfer (IFT) functions. This sub-component was not considered as part of the PFM Reform Action Plan. With this understanding, the scope of support under the AF will be limited to the completion of ongoing FACTS activities. Subsequent support to the CBS for the implementation of balance of FACTS and ATS+ activities will be financed through the ongoing Somali Core Economic Institutions and Opportunities Program (P152241).

44. **The sub-component also supports strengthening of public procurement.** Specifically, it will provide advisory support regarding concessions contracting, procurement processes and contract management.

45. **Lastly, the sub-component will introduce a new activity: Modernization of the Internal Audit function. Internal Audit is an essential component of a well-functioning internal control system, and over time it is expected to play an important role in evaluating the effectiveness of control systems within the Government's strategic operations.** As part of the ongoing business process review, pre-audit of vouchers should be the direct responsibility of the expenditure or payment section. Given the importance of Internal Audit, the AF will be supporting the operationalization of internal audit functions across the three regions (FGS, PSS and Somaliland). Initially, the Internal Audit function will be focused in undertaking risk-based systems audit, including projects activities at the FGS and States level.

46. **Sub-component 2.2: Strengthening the integrity systems (US\$4,050,000).** This sub-component (incorporating parent project Component 3) is expected to enable publication of timely and quality audit reports; improvement in the percentage of expenditures represented by the Government entities audited as part of total public expenditures; and better follow up by Parliament of audit recommendations. It supports institutional strengthening of the Supreme Audit Institutions of the FGS and FMS. The AF will support delayed SAI strengthening activities to fast track the audit of projects and Government-wide Annual Financial Statements (AFS), while also building capacity of the SAIs as follows:

- a) **In FGS, with the support of the IDI, the SAI has developed its strategic plan,** which seeks to lead it to meet the INTOSAI requirements for SAIs; the AF will support some of the strategic goals in collaboration with other participating partners.



- b) **In PSS, the AF will support a review of the Audit Law number 15 of 2000**—which is currently based on the judicial system—to ensure alignment with INTOSAI and reflect the modern mandate, structure, and roles of the SAI. This extant legal framework is needed to ensure sustainability of the ongoing reforms discussed earlier. In addition, there is need to develop and implement capacity building approaches to ensure sustainability beyond the project. This will include twinning arrangements with more mature SAIs, on-the-job training, access to peer learning, and experience sharing. The project has also supported the OAuG to acquire audit management information system and tools to facilitate its use of such technics to audit Ministries Departments and Agencies (MDAs) financial statements prepared using the PLFMIS. As a result, the OAuG will be required to use these systems to carry out its audits including centralized project audits.
- c) **In Somaliland, the scope of support to the OAuG has been limited to the following activities due to the initial financing gap.** Going forward, engagement with civil society organizations (CSOs) and non-state actors will be valuable in deepening accountability of public resources to ensure that the oversight roles of both the OAuG and the PAC are well anchored. The AF will therefore support the development of a framework of engagement with CSOs, leveraging non-state actors to monitor the quality of public expenditures and strengthening their impact in exercising public oversight. As in the case of PSS, the AF will continue to support Somaliland SAI institutional strengthening activities to fast-track the audit of projects and Government-wide AFSs across the three regions.

47. **Separately, the sub-component will introduce “Centralized project audit” to support the project’s annual and interim audits, and will extend periodic performance monitoring across areas of limited/remote access (including emerging States).** These new activities are motivated by the lessons learned from the twinning arrangement between the OAuG and audit firms providing TA in the audit of SMPF/Single-partner Fund (SPF)-funded projects. In implementing this activity of the sub-component, the relevant cost-benefit analyses will be undertaken to evaluate the pros and cons of engaging individual practicing auditors compared to firms. The AF will seek to formulate strategic linkages with regional Professional Association Organizations. In line with the design of the original project, the AF will support establishment of a national Institute of Certified Public Accountants of Somalia (ICPAS) and its membership to Pan Africa Federation of Accountants and International Federation of Accountants. These activities were not undertaken initially because of the resource constraints. Government officials working across key PFM institutions and registered as CIPFA students will be encouraged to register under appropriate ICPAS membership classification.

48. **Sub-component 2.3: Professionalization of PFM staff (US\$2,100,000).** This sub-component (incorporating parent project Component 4) provides support to expand the government’s professionalization of PFM staff program. The AF will help train more cadres and work with the FGS and the FMS to ensure these qualified candidates are posted to the right functions and grades in the civil service. The project will gather gender data relating to this training to ensure a fair balance is accorded. This component will also explore the need to support some of the outstanding candidates, who may want to further their education to gain a fuller professional qualification. With limited funding, this will be carefully reviewed during implementation and a quality-based criterion established prior to its introduction. The PFM Reform Coordination Unit (RCU) will coordinate activities to assist the Association of Somali Professional Accountants (ASPA) to evolve as a Professional Accountancy Organization. To achieve this, the AF will finance the development and implementation of an action plan to meet the standards of the International Federation of Accountants as well as Statement of Membership Obligations. The ASPA will be used as a platform for Continuing Professional Development of like-minded PFM professionals

and also for exercising oversight of its members.

49. **The PSS government has requested that the implementation of PFM staff professionalization activities in PSS financed under the SMPF (TFOA0388) be managed directly by the PSS MoF.** This request is supported by the commitment of the PSS which is evidenced by the considerable number of qualifying CIPFA and International Training Centre of the International Labor Organization graduates absorbed within the Puntland Civil Service especially its PFM institutions, as well as the development of a PFM Academy within the PSU. This approach is aligned with the WB's Capacity Development Strategy that encourages the use of domestic institutions as a sustainability strategy. The implementation of this sub-component therefore is aligned with the Capacity Injection Project and its support to the establishment of the Puntland School of Public Administration.

50. **Component 3: Rapid Response Facility (US\$2,000,000).** This component replaces parent project Component 6. The RRF will provide JIT support, responding to the authorities' request for a flexible window within the project to respond to emerging DRM and PFM priorities in a timely manner, without the need to reallocate project proceeds or for project restructuring. Access to the RRF will be based on a set of transparent criteria that align with the project objectives, and will be the decision of the Technical Steering Committee (TSC) chaired by the FGS Minister of Finance. The RRF will support the three governments—FGS, PSS, and Somaliland - and finance: (i) consultants; (ii) services; and (iii) consultations, workshop and focus-group discussions; and (iv) training to the staff of the Project Implementation Unit (PIU) in environmental and social safeguards management. The activities and expenditures funded through the RRF will be subject to the project's implementation arrangements and reporting requirements.

51. **For the FGS, the first activity to be funded by the RRF will be construction completion of the MoF building estimated at US\$1,400,000.** Reestablishing a functional MoF building is a pre-requisite to strengthening the Ministry's capacity for DRM. The Bank will engage with Government to explore contracting options to finalize the pending works activities for the MoF building, including contracting through a United Nations Agency.

52. **For Somaliland, the first activity to be funded by the RRF will be a needs assessment for development and implementation of an integrated automation system, including user requirement specifications, ICT strategy, financing for procuring necessary ICT equipment and infrastructure.** The second activity will be an e-payment system for inland revenue, providing a short term solution based on the existing money transfer system in Somaliland, including ICT and geo-enabling technology.

53. **Component 4: Public financial management reform oversight, coordination and management (US\$3,000,000).** This component incorporates parent project Component 5 and augments its financing to extend project management and coordination support for the three governments—FGS, PSS, and Somaliland - in accordance with the new activities and extended timeline.

### III. KEY RISKS

54. **Overall Project Risk (High):** Somalia remains a high-risk context for institution building and development financing. The risks include political contestation among key political and economic partners (resulting in conflict) and fiscal pressure on the budget from a wide array of needs across the country and recurring external shocks. At the project level, risks include weak PFM Legal framework compounded by limited access to the client/projects



sites; a rudimentary and weakly regulated banking sector, and weak PFM institutional and human capital capacities. The in-depth knowledge gained by the World Bank's project team during the implementation of the parent project over the last several years has led to the adoption of measures that contribute to mitigating the high level of country and implementing entity risks, including close monitoring through the use of a Monitoring Agent, enhanced implementation support and appropriate funds management arrangements, and are discussed further below. The overall risk to the project achieving its objectives over the three years is judged to be high, due to high political and governance, macroeconomic and fiduciary risks.

55. **Political and Governance (High):** Risk of political instability remains high and could slow or derail reforms over the course of the AF. The government's reform trajectory remains positive, but is costly in terms of political capital for the current administration. Improving governance, and tackling corruption, are key demands from domestic and international partners, yet, the political space for reform is uncertain with domestic and regional pressures on the Government. A key risk is that the reform trajectory is slowed down due to intra-governmental and inter-governmental contestation around the assignment of authority in the ongoing constitutional review process, among the federal government institutions and between FGS and the FMS. In addition, political economy risk will be heightened over the course of the project as consequential and high-level decisions will occupy the client's agenda. The constitutional review process, the AMISOM transition and security sector reform, federal elections in 2020, and state-level elections each year towards and beyond 2020, as well as increased regulatory activity on the federal level will impact on the emerging formal institutional framework, and the informal networks currently providing space for reform.

56. **These risks are being managed through a range of World Bank engagements.** The proposed AF for the RCRF project, taking place alongside this project, is investing in inter-governmental institutional frameworks aimed at providing a conducive environment for constructive inter-governmental relations. Furthermore, the RCRF project supports inter-governmental transfers between the FGS and FMS which further support a consolidation of the political compacts between the different levels of government, and provides additional confidence-building features, such as inter-governmental transfers based on participation in inter-governmental institutions, support to the IGFF, and TA to education and health service delivery through FMS. This project reinforces the RCRF support for strengthening intergovernmental institutional framework, by collaborating across DPs to ensure coordinated reform support on DRM, PFM and accountability institutions to all FMS as well as FGS. They will be further mitigated by leveraging policy dialogue and client engagement through support for the Financial Governance Committee and other Bank-finance operations.

57. **Macroeconomic (High):** The macro-economic risks remain high due to limited, yet increasing, ability of the Government to react to external shocks to the nascent formal economy. Despite important and wide-spread reforms, the Federal Government's fiscal position remains weak due to the limited ability to generate domestic revenues, the weight of security sector expenditures in the budget, and the pressure to increase fiscal transfers to subnational units and FMS. Consequently, the authorities are at risk of structural over-reliance on external grant-financing. Somalia's growth prospects are also dependent on external remittances, and on export revenues from only a few commodities (mainly livestock) which make them vulnerable for example to disease or trade bans. Furthermore, the introduction of the new currency set for 2019 will create further challenges to sustaining macroeconomic stability. The key mitigation of macro-fiscal risk is the ongoing work - jointly with other development partners, including the IMF - to support increased DRM, including through this AF. The proposed EU budget support operation will further provide fiscal space to mitigate against shocks and provide a more predictable fiscal basis over the coming years. The World Bank is also supporting the modernizing of the



Central Bank of Somalia banking operations and financial control environment, which is expected to contribute to a more robust framework for financial flows

58. **Technical Design of Project or Program Risk (Substantial):** The technical design of the project is straight forward and has been streamlined to reduce the number of components from the parent projects' six (6) to four (4). However, the AF will continue to support multiple PFM institutions and departments across FGS, PSS and SL. Implementation of financial management information systems (FMIS) are generally difficult with challenging implementation modalities. Technical Design or Project Risk is therefore still rated as Substantial and will continue to be mitigated through strong coordination among the participating PFM institutions, as well as the oversight arrangements to support close supervision of activities, comprehensive monitoring and reporting and the constant engagement of the World Bank's team with the client.

59. **Institutional Capacity for the Implementation and Sustainability (Substantial):** The RCU within MoF will continue to be central for coordinating the AF, with clearly aligned responsibilities and procedures. The scaling up is expected to result in enhanced resources at the RCU, including one DRM reforms officer and a procurement officer. These additional resources will support the Coordinator given the scaled-up DRM scope of the project. The institutional capacity risk is assessed as Substantial because it includes some potential sensitive reform agenda that changes the way business is done across government. To mitigate this risk, the project will strengthen further collaboration through increased monitoring of the quality and timeliness of the Technical Steering Committee (TSC) and Reform Oversight Committee (ROC) mandated activities— both of which are central elements of the projects governance arrangement. These efforts are expected to ensure the sustainability of reform outcomes. Substantial training and on-the-job capacity building activities especially at the CIT level, which are currently budgeted for within the existing project and the AF, including workshops and training activities, will be undertaken. Furthermore, the new actors involved with the AF activities have been briefed on accelerated protocol procedures and teamed up with existing players within the project to deliver the desired objectives.

60. **The project will leverage lessons learned from the implementation of Phases I and II of the PFM CSP, client feedback at the mid-term review (MTR) for the Governance *troika*, and associated analytical work.** To this end, a two-pronged conflict sensitive approach is based on lessons from Fragile, Conflict and Violence (FCV) situations. Such an approach comprises of the: multi-tracked implementation; and reallocation flexibility across components. The multi-track approach envisages simultaneous implementation of short term (3-12 months), medium term (12- 24 months) and long term (beyond 24 months) reforms, to ensure that the short-term results are aligned, and contribute to the long term institutional development vision. In doing so, the short-term support will target government-led reforms based on the existing legal environment. The medium-term support will target enhancing preparation readiness for the enactment of the revenue bill as well as related PFM reforms. The long-term support will target bridging gaps to help operationalize such laws upon enactment. The flexibility to reallocate across components enables reallocation of resources from slow moving activities to fast moving activities, without recourse to reallocate project proceeds or project restructuring as the case may be. Such flexibility is imperative, in view of the project evolving implementation environment on the request of the authorities. This flexible design is expected to enable the project to adapt to a rapidly changing national context and evolving priorities within the project scope.

61. **Fiduciary (High):** The fiduciary risk rating for the existing operation is rated substantial. The AF's Fiduciary risk rating is assessed as High, largely due to the Country and Implementing entities' weak PFM and DRM Legal framework and risks related to civil works, including financing for the completion of the MoF building, limited

access to the client/projects sites, rudimentary unregulated banking sector, weak PFM and DRM institutional and human capital capacities. Appropriate risk mitigation measures including periodic extended implementation support activities complemented by close monitoring will be undertaken in addition to providing “on the ground” PFM/fiduciary capacity support to the country PFM oversight institutions as well as the project as a whole. The World Bank and mandated Government PFM institutions will continuously monitor the banking and funds flow processes and take appropriate actions to strengthen the funds flow, disbursement and banking controls and mitigate highlighted risks. The layered approach to risk, which has functioned well for increasing levels of disbursements since 2014, will be continued--the World Bank will continue to: maximize disbursements under the project directly to vendors, minimizing Designated Account (DA) balances; intensify FM monitoring through reconciliation of project and bank accounts and deployment of a monitoring agent in-country; and support capacity building of the country PFM oversight institutions including the OAG and OAuG.

62. **Stakeholders Risks (Substantial):** Public Sector Reforms, especially in the areas related to DRM and PFM, involve changes that will affect the interests of different stakeholders and likely to have “winners and losers”. In situations where the interests of respective parties are incompatible, or where other stakeholders cannot or will not accept a common position, this can undermine reform objectives. Some of these risks can be mitigated by investing in a prior understanding of the power dynamics, interests and influences among different stakeholders which in turn can help the reformers to navigate and reconcile varying positions that may otherwise impact on the project. Broad consensus for the reforms will also ensure durability, noting that all stakeholders are important but different stakeholders must be managed differently. Key constituencies such as parliamentarians, the media, CSOs, Think-Tanks and academia will continue to be meaningfully engaged to play their role in minimizing these risks.

63. **Other Risk (High):** Additional context-specific risks not captured in the other categories include insecurity related risks. Insecurity poses a risk to human security (WB staff and client), project implementation and its sustainability. It can create limitations on access to the operating environment, which in turn poses additional project risks, creating challenges for project implementation and monitoring. Insecurity can further discourage vendors from accepting assignments under the project and slow down the pace of reforms. Security costs can also significantly increase the overall cost of the project implementation and related reforms. As part of the risk mitigation approach, the World Bank team operates in close consultation and guidance provided by WBG Corporate Security and United Nation Department of Safety and Security, which includes on the ground security support. In addition, the World Bank has contracted with security firms in all areas where the project – and wider World Bank portfolio – is active to help manage the day to day missions of World Bank staff in Somalia.

#### **IV. APPRAISAL SUMMARY**

##### **A. Economic and Financial Analysis**

64. **The AF Component 1 is expected to contribute to increase in inland revenues in Somalia.** More than 25 years of civil conflict destroyed Somalia’s tax administration system. Governments failed to provide public services, and companies and individuals failed to pay taxes. Improvement in inland revenue (individual and corporate income tax) generation offers a promising source of home-grown development finance, to contribute toward fiscal sustainability and funding for service delivery. In the short term, enabled by creation of a LTO, evidence-based policy, administrative and voluntary compliance efforts supported by the project, government-

led reforms are expected to increase inland revenues from US\$2 million (2015) to about US\$30 million (2019).<sup>13</sup> Similarly, in the medium term, enabled by the automation of the core business processes, harmonization, and taxpayer education and facilitation supported by the project, is expected to increase the inland revenues further to about US\$170 million (2022). During implementation, drawing on the progress that is made in inland revenue collection and improved economic data that is expected to become available, the World Bank will update the economic and financial analysis which will inform the assessment of the scope and opportunities to further narrow the tax gap.

65. **The AF Component 2 is expected to contribute to enhanced expenditure management and accountability.** These enhancements in the PFM system are in turn important enablers of fiscal sustainability, and greater efficiency and effectiveness of public spending and government operations. A key focus of the project is to support the strengthening of expenditure controls, reporting and oversight, which are fundamental to sound PFM. For example, the largest beneficiary from the AF will be the offices of the Accountant General (AG) at the FGS, PSS and Somaliland, which are to receive US\$6 million. The treasury management function is strategic in strengthening the controls needed to ensure greater fiscal discipline and minimize the accumulation of arrears. The move from a manual payroll to a computerized payroll that ensures consistency between the nominal roll under the control of the Civil Service Commission and the calculated payroll under the control of the OAG will reduce the fiscal burden arising from ghost workers. Similarly, the operationalization of TSA will reduce potential cost of borrowing in the long run. The strengthening of the integrity pillar and the planned conduct of audit over 75 percent of MDAs over the life of the project will ensure effective scrutiny over significant portion of the government's recurrent budget, which in 2017 amounted to US\$179 million. Likewise, the support to the SAI aligns with the post 2015 development agenda and also helps the better use of resources through improvements in the quality of expenditures - all of which provide a critical pathway to increasing the reach of available development financing for Somalia with the added potential of ensuring better public service delivery results, especially in critical sectors as education, health care, water and sanitation amongst others.

66. **The WBG is the lead partner to Somalia in its DRM and PFM reforms.** The World Bank has strong technical expertise and a good record of results in DRM and PFM institutional development in the fragile and conflict affected situations, and no other development partner is providing support for inland revenue or the PFM institutions in these three governments. The World Bank's global knowledge will facilitate direct, indirect, and induced benefits that will be well beyond the total investment made into the project. The economic and financial benefits financed under the AF remains the same as for the ongoing and completed activities. On DRM, the AF will have a strong economic rationale due to the rather limited cost of the interventions and the strong potential economic benefits even with conservative estimates of benefits without project.

67. **Rationale for public sector financing. Somalia has achieved significant progress in laying the foundations for stability, rebuilding state capacity and institutions, improving security, and rehabilitating physical infrastructure.** However, these economic, political and institutional gains must have tangible benefits for people if the country's transition is to hold. The project design aims to strengthen core institutions and resource management systems that are required to improve public sector efficiency, value for money, and improved management of overall fiscal risks. These are core government reforms that are not characterized as bankable

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<sup>13</sup> The World Bank Group (2017), Federal Republic of Somalia, Somalia Economic Update, Mobilization Domestic Revenue to Rebuild Somalia.



commercial projects and hence private sector financing is not suitable. Therefore, to provide such support there is no alternative to public sector financing for strengthening core institutions and building the capacity of government agencies to undertake PFM, resource mobilization reforms, and management of public resources to deliver basic services.

## **B. Technical**

68. **The design of the AF is simplified, more focused, consolidated and more flexible, building on lessons from the parent project, aiming for better outcomes.** To this end, the design has been simplified into three substantive components (in addition to reform oversight, coordination and management), namely an enhanced focus on revenue to generate inland revenues; a PFM and integrity component consolidated to enhance impact; and a JIT component redesigned into an innovative RRF. Also, this design takes on board the lessons-learned during the implementation of the ISN and the need to adopt a flexible approach to implementation. It also addresses more directly the reality of an incremental and non-linear reform trajectory in which ‘learning-by-doing’ in a problem-solving iterative manner, with appropriate controls, is a more sustainable approach. Furthermore, multi-track and balanced implementation between simultaneous short, medium, and long-term reform strategies ensure that short-term results are aligned with the medium to longer term institutional development vision. The rationale of the technical design is also based on the following considerations:

- a) **Value added:** A key added value from the World Bank involvement in this project is its application of technical expertise in an innovative manner to use country systems as an inroad for strategic dialogue on PFM and DRM reforms. Also, hand-holding the project team through capacity building during design and implementation has proven to be an invaluable strategy. The parent project was catalytic in laying a foundation for longer-term PFM and DRM reforms in Somalia since effectiveness in 2015. Finally, the World Bank is ideally placed to use its convening power to crowd-in funds from both IDA and through the SMPF for this project to scale up the original activities for the FGS and extend support to PSS and Somaliland, while coordinating with other actors operational in southern Somalia.
- b) **Opportunity:** Following a decade of intense conflict during the 1990’s, Somalia has in recent years experienced a series of encouraging transitions, laying the foundations for a stable political settlement. A security transition, facilitated by the ousting of Al Shabab from key urban areas including the capital Mogadishu, opened up political space. Secondly, the 2011 agreement to adopt a federal system enshrined in the 2011 Provisional Constitution opened the way for two electoral processes that generated momentum and support for the FGS. Thirdly, wide-ranging institutional reforms have improved public finances and the regulation of the economy helping to address the inequities favored by entrenched vested interests. As a result, many analysts claim the country is experiencing a unique opportunity to escape from protracted political crisis.
- c) **Strengthened approach:** Building on a doubling of federal revenues in the last four years, the World Bank will add value by introducing substantial new TA for DRM and PFM reforms. Increasing fiscal space - to avoid dependence and to finance essential services - is a key to overcoming the fragility trap and a key objective of the project as well as the CPF. The AF will invest in tax policy and administration (including systems automation) and tax payer education. In so doing, it will build upon the systems experience and expertise developed in the MoF on the successful development and implementation of SFMIS.



- d) **Client demand:** The project’s design reflects the request of FGS, PSS and Somaliland, which targets the following outcomes: (i) increase in DRM; and (ii) accountability in the use of public funds through enhanced institutional strengthening.
- e) **Flexibility:** Global experience from FCV countries indicates that flexibility to make timely adjustments to project activities enables smoother implementation and better results. The AF is designed to enable flexible responses to relevant government initiatives, as these develop and evolve over time. This flexibility would include mobilizing JIT TA within the scope of the project components and PDO, changing the sequence of activities, and reallocating funds from slow-moving activities to fast-moving ones in line with reform momentum without recourse to reallocation of project proceeds or project restructuring as the case may be.

### C. Financial Management

69. **The FM risk rating of the AF is assessed as High.** In Somalia, the lack of a unified PFM architecture is compounded by constraints recognizable in FCV countries, including limited access to the client, which continues to present challenges in provision of effective implementation support. The FM function has the dual role of: (i) providing assurance that project resources are used for the intended purposes with due consideration to the principles of economy, efficiency, effectiveness, transparency and accountability; and (ii) development of institutional PFM capacities. The FM capacity challenges that are likely to affect the project continue to exist. These include an inadequate legal framework and DRM and PFM competencies, risk of circumventing internal controls, over reliance on consultants, and absence of a solid local banking system for flow of funds. Exceptional funds flow and banking arrangements have been operational since the effectiveness of the current operation in July 2015 with no identified ineligible expenditures or leakage of funds under the project. Various risk mitigation measures and FM and funds flow arrangements will be further integrated into the AF’s design and fully aligned to the country’s PFM systems to further deepen the use of country systems. The AF’s FM arrangements are designed to facilitate and promote sustainable development PFM capacities across key government institutions.

70. **The offices of the Accountant Generals and Offices of the Auditor General for the FGS, Puntland, and Somaliland will be central counterparts in the management and oversight of FM arrangements and the implementation of risk mitigation measures.** In line with SMART fiduciary principles, FM arrangements for the project are centralized and managed by special units, the External Assistance Fiduciary Section (EAFS), headed by the EAFS Director and reporting to the AG at FGS, PSS, and Somaliland. The EAFS units are designed to ensure harmonization, donor coordination, reduction in duplication, fragmentation, and proliferation of donor-specific FM units. To foster sustainability, the EAFS units are staffed with mainstream civil servants supported by targeted TA with clear Terms of Reference outlining measures to promote knowledge transfer and an exit strategy. Additional in-built sustainability arrangement for the PFM staff professionalization will be annexed as part of the EAFS units civil service scheme of service for the PFM job family to create a cohort of competent PFM practitioners in government. The PFM Education and Training program continue to gradually build critical mass of PFM professionals with a good mix of skills to perform a broad range of PFM tasks. Like other projects implemented through country systems, the EAFS using the FMIS will prepare and publish project financial reports as part of government-wide fiscal performance reports. Meanwhile, the various Offices of Auditor General, with support of a qualified and registered practicing audit TA firm, are responsible for project audits. Given the high risks, special reference and attention will be made to International Standards on Auditing (800): Auditor’s Report on Special Purpose Audit Engagements. The World Bank will engage with Government to explore contracting

options to finalize the pending works activities for the MoF building, including contracting through a United Nations Agency.

#### **D. Procurement**

71. **Procurement under the AF will be carried out in accordance with the requirements in the Procurement Regulations for Borrowers under IPF:** Goods, Works, Non-Consulting Services and Consulting Services dated July 1, 2016 (revised November 2017 and August 2018); “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by International Bank for Reconstruction and Development (IBRD) Loans and IDA Credits and Grants (revised as of July 1, 2016)”; and provisions stipulated in the Financing Agreement. Somalia being a FCV country, Procurement under the projects will be processed under special procurement arrangements referred to in Paragraph 12 of the World Bank Policy IPF dated November 10, 2017.

72. **Project Procurement Strategy for Development (PPSD) and Procurement Plan (PP):** As per the requirement of the Regulations, the Recipient has developed a PPSD, based on which the PP for the first 18 months has also been prepared. The PP sets out the selection methods to be followed by the Recipient during project implementation in the procurement of goods, works, non-consulting services. The PP will be updated at least every 12 months, or as required, to reflect the actual project implementation needs, but each update shall require WBG approval. All PPs will be publicly disclosed in accordance with the WBG disclosure policy.

73. **Systematic Tracking of Exchanges in Procurement (STEP):** The WBG’s STEP system will be used to prepare, clear, **and** update PPs and conduct all procurement transactions for the project. Staff of the PIUs have already been trained in using STEP.

74. The overall procurement assessment risk is Substantial.

#### **E. Social (including Safeguards)**

75. **The AF does not trigger any social safeguards policies.** The Social impacts of the project are expected to be positive, as it will improve the DRM capacity of the government; ensure timely financial reporting; strengthen the PFM capability to increase the timely disclosure of overall government revenue collections, improve the link between procurement and budget, and henceforth improve procurement efficiency, all leading to greater accountability.

#### **F. Environment (including Safeguards)**

76. **The environmental category of this project is “B”, with OP 4.01 Environmental Assessment applicable, due to the construction completion (Phase 2) of the MoF building in Mogadishu, as referenced in Component 3.** The negative impacts of this construction are expected to be site-specific, reversible and can be readily mitigated. Phase 1 funding, previously provided by the Swedish International Development Cooperation Agency (Sida) outside the scope of this project, provided for demolition of the previous MoF building on the same footprint as well as construction of the structural base and frame of the new building. Impacts are known, as the building is currently under construction, and include the following: (i) risk to construction workers, including risks of falls; (ii) risk to adjacent properties and their inhabitants; (iii) risks associated with construction debris management, including removal and disposal; (iv) construction-related noise, air pollution, and traffic; and (v)



increased demand for water and wastewater services, both during construction and operation. Phase 2 of the construction will be completed by an engineering firm with both worker health and safety and environmental management covenants consistent with World Bank safeguard standards.

77. **Climate change and disaster screening has been conducted for this AF.** Although the Somalia country profile is highly susceptible both to near-term climate-induced disasters as well as long-term climate change impacts, this project does not have any activities with exposure to climate risks, not does it have any activities which mitigate climate risks.

78. **Safeguards requirements have been deferred, as provided for under Paragraph 12(a) of the IPF World Bank Policy, as the project being prepared under condensed procedures.** A Terms of Reference for an Environmental Audit of Phase 1 and an Environmental Management Plan (EMP) for Phase 2 has been prepared during project appraisal. The Phase 2 EMP, to include and build upon the Phase 1 Audit, will be prepared, reviewed, cleared, and disclosed both in the World Bank external website as well as in-country prior to disbursement of funds related to construction completion. The EMP will provide provisions for supervision of and reporting on construction contractor compliance with World Bank environmental and social safeguards policies. Other than construction completion of the MoF building, there are currently no other identified environmental impacts associated with the DRM & PFM AF. If the RRF proceeds to finance another activity where environmental and/or social safeguards policies are applicable, relevant safeguards documentation specific to that activity must be prepared, disclosed, and implemented.

## **V. WORLD BANK GROUP GRIEVANCE REDRESS**

79. **Communities and individuals who believe that they are adversely affected by a WBG supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WBG's attention, and Management has been given an opportunity to respond. For information on how to submit complaints to the WBG's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the WBG Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org)

## VI. SUMMARY TABLE OF CHANGES

	Changed	Not Changed
Project's Development Objectives	✓	
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Reallocation between Disbursement Categories	✓	
EA category	✓	
Procurement	✓	
Implementing Agency		✓
Cancellations Proposed		✓
Disbursements Arrangements		✓
Safeguard Policies Triggered		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
APA Reliance		✓
Other Change(s)		✓

## VII. DETAILED CHANGE(S)

### PROJECT DEVELOPMENT OBJECTIVE

#### Current PDO

The Project Development Objective is to establish and strengthen institutional capacity for the management of public funds in Central Finance Agencies and targeted sectors.

**Proposed New PDO**

To strengthen systems of domestic revenue mobilization, expenditure control and accountability in the Federal Government, Puntland State of Somalia, and Somaliland.

**COMPONENTS**

Current Component Name	Current Cost (US\$, millions)	Action	Proposed Component Name	Proposed Cost (US\$, millions)
Component 1: Revenue mobilization, planning and budget preparation	2.75	Marked for Deletion		0.00
Component 2: Treasury management, budget execution, procurement, accounting and financial reporting	9.88	Marked for Deletion		0.00
Component 3: Strengthening the integrity pillars	1.95	Marked for Deletion		0.00
Component 4: Public financial management professionalization	1.00	Marked for Deletion		0.00
Component 5: Public financial management reform oversight, coordination and management	2.93	Revised	Component 4: Public financial management reform oversight, coordination and management	3.00
Component 6: Demand-driven Just-in-Time support (JIT) (Bank Executed)	1.00	Marked for Deletion		0.00
Unallocated	0.50	Marked for Deletion		0.00
	0.00	New	Component 1: Strengthening Tax Policy and Inland Revenue Administration Systems	12.30
	0.00	New	Component 2: Strengthening Capacity for Public Financial Management Control and Accountability	12.70
	0.00	New	Component 3: Rapid Response Facility	2.00



<b>TOTAL</b>	<b>20.01</b>			<b>30.00</b>
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**LOAN CLOSING DATE(S)**

Ln/Cr/Tf	Status	Original Closing	Current Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-A0388	Effective	30-Jun-2018	30-Jun-2020	30-Jun-2022	30-Oct-2022
TF-A0389	Effective	30-Jun-2018	30-Jun-2020	30-Jun-2022	30-Oct-2022

**REALLOCATION BETWEEN DISBURSEMENT CATEGORIES**

	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
				Current	Proposed
TF-A0388-001   Currency: USD					
iLap Category Sequence No: 1   Current Expenditure Category: Gds,Wks,NonCS,CS,Trg&OCpts1A-5A					
	10,000,000.00	9,368,249.13	10,000,000.00	100.00	100.00
iLap Category Sequence No: 2   Current Expenditure Category: Gds,Wks,NonCS,CS,Trg&OCpts1B-5B					
	6,000,000.00	3,208,524.10	6,000,000.00	100.00	100.00
<b>Total</b>	<b>16,000,000.00</b>	<b>12,576,773.23</b>	<b>16,000,000.00</b>		

TF-A0389-001 | Currency: USD

iLap Category Sequence No: 1   Current Expenditure Category: Gds(incl vehcl),NonCS,CS,Trg&OC					
	4,000,000.00	1,638,387.04	4,000,000.00	100.00	100.00
<b>Total</b>	<b>4,000,000.00</b>	<b>1,638,387.04</b>	<b>4,000,000.00</b>		

**Expected Disbursements (in US\$)**

Fiscal Year	Annual	Cumulative
2016	1,030,040.00	1,030,040.00



2017	2,550,180.00	3,580,220.00
2018	3,983,380.00	7,563,600.00
2019	8,136,400.00	15,700,000.00
2020	7,000,000.00	22,700,000.00
2021	8,000,000.00	30,700,000.00
2022	10,000,000.00	40,700,000.00
2023	9,300,000.00	50,000,000.00

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

Risk Category	Latest ISR Rating	Current Rating
Political and Governance	● Substantial	● High
Macroeconomic	● High	● High
Sector Strategies and Policies	● Moderate	● Moderate
Technical Design of Project or Program	● Substantial	● Substantial
Institutional Capacity for Implementation and Sustainability	● Substantial	● Substantial
Fiduciary	● Substantial	● High
Environment and Social	● Low	● Moderate
Stakeholders	● Substantial	● Substantial
Other	● High	● High
Overall	● Substantial	● High

**Environmental Assessment (EA) Category**

Change of EA Category	Original EA Category
Yes	Not Required (C)
Current EA Category	Proposed EA Category
Not Required (C)	Partial Assessment (B)





**LEGAL COVENANTS – Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project (P166206)**

Sections and Description
Schedule 2 Section I Part D.1: The Recipient shall, not later than December 31 of each year prepare and furnish to the Association, a consolidated annual program of activities proposed for implementation under the Project during the following Fiscal Year, together with a proposed budget for the purpose.
Schedule 2 Section I Part D.2: The Recipient shall, in respect of Part 1.B.5 of Project cause the Puntland State of Somalia to submit the identified priority activities for implementation during the following Fiscal Year as part of the annual work program.
Schedule 2 Section I Part E.1(a): The Recipient shall prepare, in accordance with terms of reference acceptable to the Association, an Environmental Management Plan, including an Environmental Audit.
Schedule 2 Section I Part E.1(b): The Recipient shall adopt the Environmental Management Plan (EMP) Environmental Audit (EA) as shall have been approved by the Association and publish said EMP and EA, in a manner acceptable to the Association.
Schedule 2 Section I.C.1: The Recipient shall not later than thirty (30) days after the Signature Date, update the Project Implementation Manual, in form and substance satisfactory to the World Bank, and thereafter.
Schedule 2 Section I B1: The Recipient shall: not later than thirty (30) days after the Signature Date, update the Project Implementation Manual, in form and substance satisfactory to the World Bank.

**Conditions**

Type	Description
Effectiveness	The SMPF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled (FA with FRS Article V, 5.01, (a)).
Effectiveness	The Subsidiary Agreement has been executed and delivered on behalf of the Recipient and Puntland State of Somalia, and said Subsidiary Agreement is legally binding upon the Recipient and Puntland State of Somalia, in accordance with its terms (FA with FRS Article V, 5.01, (b)).
Disbursement	No withdrawal shall be made for payments for works in respect of construction of the second phase of the Federal Ministry of Finance headquarters building under Category (3) set forth in the table under Section IV.1. of this Schedule, unless the Recipient has prepared, adopted and disclosed the Environmental Management Plan and the Environmental Audit, in form and substance satisfactory to the Association (FA with FRS Schedule 2, Section III,B,(b)).
Disbursement	No withdrawal shall be made for payments under Categories (1), (2) and (3) in respect of any Rapid Response Facility activity under Parts 3.A.1, 3.A.2 and 3.B.1



	of the Project, unless the Recipient has, in form and substance satisfactory to the Association, met the respective criteria established in the Project Implementation Manual (FA with FRS Schedule 2, Section III,B,( c); and SMPF Grant Agreement with FRS Schedule 2, Section IV,B,1, (b).
Type Effectiveness	<p>Description</p> <p>The Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled (SMPF Grant Agreement with FRS Article V, 5.01,(a)).</p>
Type Effectiveness	<p>Description</p> <p>The Subsidiary Agreement has been executed and delivered on behalf of the Recipient and Puntland State of Somalia, and said Subsidiary Agreement is legally binding upon the Recipient and Puntland State of Somalia, in accordance with its terms (SMPF Grant Agreement with FRS Article V, 5.01,(b)).</p>
Type Disbursement	<p>Description</p> <p>Payments under Category (2) in respect of any Rapid Response Facility activity under Part 3 of the Project, unless the Recipient has, in form and substance satisfactory to the World Bank, met the respective criteria established in the Project Implementation Manual (SMPF Grant Agreement with Somaliland Schedule 2, Section IV, B, 1, (b)).</p>



### VIII. RESULTS FRAMEWORK AND MONITORING

Results Framework  
COUNTRY: Somalia

#### Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project

##### Project Development Objective(s)

To strengthen systems of domestic revenue mobilization, expenditure control and accountability in the Federal Government, Puntland State of Somalia, and Somaliland.

##### Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline 2015	Intermediate Targets			End Target 2022
			1	2	3	
<b>Increase in Domestic Revenue Mobilization (Action: This Objective is New)</b>						
Revenue instruments (both tax and non-tax) with basic processes automated at the FGS. (Number)		0.00	1.00	2.00		4.00
<i>Action: This indicator is New</i>						
Increase in real terms of domestic revenue collection (Amount(USD))		95.00	120.00	144.00	172.00	172.00
<i>Action: This indicator has been Marked for Deletion</i>						
<b>Strengthen Systems of Accountability (Action: This Objective is New)</b>						
MDA audits (incl. pro-poor sectors) completed and published. (Percentage)		0.00	25.00	50.00	75.00	75.00



Indicator Name	DLI	Baseline 2015	Intermediate Targets			End Target 2022
			1	2	3	
<i>Action: This indicator is New</i>						
<b>Strengthen Systems of Expenditure Controls (Action: This Objective is New)</b>						
Time elapsed (in months) between end of period covered and submission of audit reports to the legislature. (Months)		12.00	12.00	9.00	6.00	6.00
<i>Action: This indicator has been Marked for Deletion</i>						
Appropriated expenditures processed through the system. (Percentage)		25.00	40.00	50.00	80.00	60.00
<i>Action: This indicator is New</i>						
Reduced variance between actual primary expenditure and the originally budgeted primary expenditure. (Percentage)		45.00	45.00	35.00	25.00	25.00
<i>Action: This indicator has been Marked for Deletion</i>						

PDO Table SPACE

**Intermediate Results Indicators by Components**

Indicator Name	DLI	Baseline 2015	Intermediate Targets			End Target 2022
			1	2	3	
<b>Strengthening Tax Policy and Inland Revenue Administration Systems (Action: This Component is New)</b>						



**The World Bank**  
Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project (P166206)

Indicator Name	DLI	Baseline 2015	Intermediate Targets			End Target 2022
			1	2	3	
FGS revenue administration capacity for tax administration (Number)		25.00	50.00	100.00	200.00	200.00
<b>Action: This indicator is New</b>						
Revenue mobilization strategy implemented (Text)		Ad hoc approach to revenue mobilization	Customs duties based on ad valorem	Unique Taxpayer Identification Numbers (TIN) introduced		Procedures manual for tax administration disseminated and training conducted
<b>Action: This indicator has been Revised</b>						
FGS improved tax policy capacity (Number)		0.00				2.00
<b>Action: This indicator is New</b>						
<b>Strengthening Capacity for Public Financial Management Control and Accountability (Action: This Component is New)</b>						
Number of PFM reviews and actionable advisory notes (Number)		0.00	1.00	1.00	1.00	5.00
<b>Action: This indicator has been Marked for Deletion</b>						
Percentage of audit recommendations for which there is evidence of follow-up. (Percentage)		0.00	10.00	20.00	40.00	40.00
<b>Action: This indicator has been Marked for Deletion</b>						
CIPFA Diploma Certified students gender disaggregated ( PL, SL) (Number)		0.00	12.00	30.00		33.00



**The World Bank**  
Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project (P166206)

Indicator Name	DLI	Baseline 2015	Intermediate Targets			End Target 2022
			1	2	3	
<b>Action: This indicator is New</b>						
Percentage of expenditures represented by the government entities audited in total public expenditure. (Percentage)		0.00	50.00	60.00	75.00	75.00
<b>Action: This indicator has been Marked for Deletion</b>						
Number of students completing certificate and diploma stages. (Number)		0.00	10.00	20.00	20.00	20.00
<b>Action: This indicator has been Marked for Deletion</b>						
Procurement, installation and commissioning of core banking and accounting systems with an added basic payment system. (Text)		Banking operations manual with no written procedures and incomplete reports. Regional payment system non-existent	Gathering functional & technical requirements for technology solutions	Installation, commissioning & stabilization of core banking & accounting solution including the ICT infrastructure		Basic payment system operational
<b>Action: This indicator has been Marked for Deletion</b>						
Percentage of contracts using competitive procurement methods. (Percentage)		0.00	20.00	30.00	60.00	60.00
<b>Action: This indicator has been Marked for Deletion</b>						
Increase in budget execution rate in targeted sectors (Percentage)		55.00	60.00	65.00	70.00	70.00
<b>Action: This indicator has been Marked for Deletion</b>						



**The World Bank**  
Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project (P166206)

Indicator Name	DLI	Baseline 2015	Intermediate Targets			End Target 2022
			1	2	3	
Strengthened audit methods implemented (Text)		Audit procedures & methodology not aligned with INTOSAI Standards (FGS, PL,SL)				(I) Improved regularity audit methods applied for Government Financial Statement Audits (FGS and SL) (II) Percentage of MDAs with audited financial statements using Audit Management Software & adopting improved methodology (Puntland)
<b>Action: This indicator is New</b>						
Citizen engagement measured by the number of tax payers consulted / educated (gender disaggregated) (Number)		0.00	400.00			1,000.00
<b>Action: This indicator is New</b>						
Payments made directly to vendors (Percentage)		25.00	40.00	50.00		60.00
<b>Action: This indicator is New</b>						
Improved coverage and classification of data in in-year budget reports (Text)		Only approved budget and actuals disclosed	Allow comparison to original budget	Allow comparison to approved budget including supplementary and virement	Cover expenditure at payment stage	Timely in year budget reports include expenditure both at commitment and at payment stage
<b>Action: This indicator has been Revised</b>						





Indicator Name	DLI	Baseline 2015	Intermediate Targets			End Target 2022
			1	2	3	
Improved information contained in annual financial reports (Text)		Revenue and Expenditure reports by organizational and economic classification	Coverage to include revenue; expenditure; financial assets; domestic arrears; and cash flow statement	Donor funds under the control of the government included	Register for moveable fixed assets included	Donor funds under the control of government and Register for moveable fixed assets included
<i>Action: This indicator has been Revised</i>						

10 Table SPACE

Monitoring & Evaluation Plan: PDO Indicators						
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection	
Revenue instruments (both tax and non-tax) with basic processes automated at the FGS.	Instruments (both tax and non-tax) with basic processes automated at the FGS	Annually	Revenue sources : Revenue Codes in Place Processes Automated : ITAS or system in place.	Bank's review of revenue codes and process automation during supervision missions.	Ministry of Finance (Director General Revenue)	
Increase in real terms of domestic revenue collection	Increase in real terms of domestic revenue collection	Tax Department	Annual Financial Statements	Annual Financial Statements	Annually	
MDA audits (incl. pro-poor sectors) completed and published.	MDA Audits - Audit of financial statements of Ministries, Departments and Agencies	Annually	Annual Financial Statement Audits		Office of the Auditor General	
Time elapsed (in months) between end of period covered and submission of audit	Transparency for the use of public funds	Accountnat General's	Annual Financial Statements	Bank's review of annual financial	Annually	



reports to the legislature.		Department	statements during supervision missions.	
Appropriated expenditures processed through the system.	Appropriated expenditures processed through the commitment system.	Annually	Bank's review of FMIS and FMIS generated commitment control workflow during supervision mission.	Office of the Accountant General
Reduced variance between actual primary expenditure and the originally budgeted primary expenditure.	Aggregate fiscal discipline	Accountant General's Department	Bank's review of FMIS and published budget documents and Annual Financial Statements during supervision missions.	Annually

ME PDO Table SPACE

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
FGS revenue administration capacity for tax administration	FGS revenue administration capacity to administer tax based on modern principles	Annually	Inland Revenue Departments' admin records	Bank's review of Inland Revenue Departments' records during supervision missions.	Inland Revenue Departments



	measured by the number of large and medium tax payers automated processing	Annually	Revenue Departments' admin records	Bank's review of Revenue Departments' records and discussion with the authority during supervision mission.	Revenue Departments
Revenue mobilization strategy implemented	Revenue mobilization strategy implemented	Annually	Tax Policy Unit admin records	Bank's review of Tax Policy Unit records during supervision mission. Findings from TADAT Assessment if conducted	Ministry of Finance
FGS improved tax policy capacity	FGS improved tax policy capacity measured by the number of analytical report dissemination	Annually	PEFA Framework/ Fiscal ROSC Customs Assessment Trade Toolkit (CATT) PETS	Bank's review of PEFA Framework/ Fiscal ROSC Customs Assessment Trade Toolkit (CATT) PETS during supervision mission.	Annually
Number of PFM reviews and actionable advisory notes	Just-in-time analysis and advice	Bank Task Team	External Audit reports	Bank's review of external audit reports during supervision missions.	Annually
Percentage of audit recommendations for which there is evidence of follow-up.	Independent oversight and accountability for use of public funds	Office of Auditor General			



CIPFA Diploma Certified students gender disaggregated ( PL, SL)	The number of CIPFA Diploma Certified students gender disaggregated ( PL, SL)	Annually	PFM Academies in participating Universities	Bank's review of certifications provided by PFM Academies in participating Universities.	PFM Academies in participating Universities
Percentage of expenditures represented by the government entities audited in total public expenditure.	Independent oversight and accountability for use of public funds	office of Auditor General	External Audit reports	Bank's review of external audit reports during supervision missions.	Annually
Number of students completing certificate and diploma stages.	PFM competence. Targets to be split between the participating universities from the regions	PFM Academy in participating universities	PFM Academy PFM Academy in participating universities records	Bank's review of PFM Academy PFM Academy in participating universities records during supervision missions.	Annually
Procurement, installation and commissioning of core banking and accounting systems with an added basic payment system.	Public confidence in transparency & accountability of central bank	Central Bank	Central Bank project management reports		Annually
Percentage of contracts using competitive procurement methods.	Public confidence in transparency of procurement processes and systems	MoF (Tender Board)	Transparency, competition and complaints mechanisms in procurement	Bank's review of procurements based on PEFA methodology during supervision mission.	Annually



			(PEFA PI:19)				
Increase in budget execution rate in targeted sectors	Strategic allocation of funds	Accountant General's Department	Annual Financial Statements PETS (Health, Education, Agriculture, and Environment (Puntland))	Bank's review of PETS during supervision missions.	Annually		
Strengthened audit methods implemented	Audit procedures & methodology aligned with INTOSAI Standards	Annually	Audit reports	Bank's review of audit reports during supervision missions.	Offices of the Auditor General		
Citizen engagement measured by the number of tax payers consulted / educated (gender disaggregated)	Provision of information to, and consultation with tax payers on tax obligations and benefits	Annual	Consultative meetings reports	Consultative meetings reports	Department of Inland Revenue		
Payments made directly to vendors	Percentage of payments made directly to vendors	Annually	FMIS Payment Analysis Report	Bank's review of FMIS Payment Analysis Report.	Office of the Accountant General		
Improved coverage and classification of data in in-year budget reports	Budget reports classification in line with IPSAS requirements	Quarterly	FMIS and published budget documents and Annual Financial Statements Findings from PEFA	FMIS and published budget documents and Annual Financial Statements	Ministry of Finance		



Improved information contained in annual financial reports	Improvements in information contained in annual financial reports with regard to application of International Public Sector Accounting Standards (IPSAS) cash-basis	Annually	(if conducted) Annual Financial Statements (PEFA PI:25)	Bank's review of Annual Financial Statements based on PEFA PI-25 during supervision missions.	Accountant General's Department
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ME IO Table SPACE



**ANNEX 1: AF Component and Sub-components Budget Estimates**

**Annex Table 1: Component 1 - Strengthening Tax Policy and Inland Revenue Administration (AF=US\$12,300,000)**

	Federal Government	Puntland	Somaliland	Total US\$, millions
<b>1. Strengthening Tax Policy and Inland Revenue Administration</b>	<b>9.30</b>	<b>3.00</b>		<b>12.30</b>
1.1 Improving organizational capacity for tax policy	0.75	0.5		1.25
1.2 Improving systems for inland revenue administration	7.25	2.0		9.25
1.3 Tax payer education and facilitation to promote voluntary compliance	1.00	0.25		1.25
1.4 Supporting the Revenue Bill consultations and bridging operationalization upon enactment	0.30	0.25		0.55

**Annex Table 2: Component 2: Strengthening Capacity for Public Financial Management Control and Accountability (AF=US\$12,700,000)**

	Federal Government	Puntland	Somaliland	Total US\$, millions
<b>2. Strengthening Capacity for Public Financial Management Control and Accountability</b>	<b>4.63</b>	<b>3.61</b>	<b>4.46</b>	<b>12.70</b>
2.1 Treasury management, budget execution, procurement, accounting and financial reporting	2.33	1.91	2.31	6.55
2.2 Strengthening the Integrity Pillars	2.20	0.75	1.01	4.05
2.3 Professionalization of PFM staff	0.1	0.95	1.05	2.10

**Component 3: Rapid Response Facility (AF=US\$2,000,000)**

The RRF is to provide flexible, JIT recipient-executed support, to government-led urgent activities, which are aligned to the project objectives. There is no specific allocation between the participating governments.

**Annex Table 3: Component 4: Public Financial Management Reform Oversight, Coordination and Management (AF=US\$3,000,000)**

	Federal Government	Puntland	Somaliland	Total US\$, millions
<b>4. PFM reform oversight, coordination and management</b>	<b>1.10</b>	<b>0.95</b>	<b>0.95</b>	<b>3.00</b>





## Parent Project Performance

1. **Description and status of parent project components.** The parent project consists of six interrelated components.

2. *Component 1: Revenue mobilization, planning and budget preparation (US\$2,750,000)* aims to improve realism of the budget and fiscal discipline. This component supports the SFMIS configuration to report revenues collected and banked by the AG's office at the CBS. This has improved transparency and accountability in revenue collection and has set the foundations for the implementation of the cash management & TSA. On the revenue side, the primary focus of the ongoing TA is supporting improvements in the efficiency and effectiveness of tax administration with the broader expectation of enhanced domestic revenue collection. Thus far, the following have been developed for the FGS: (i) a tax policy gap analysis; (ii) taxpayer segmentation and required compliance processes; (iii) a TIN registration database; and (iv) a roadmap to implement an Ad Valorem customs duty regime. Similar deliverables are being produced for the Government of PSS.

3. *Component 2: Treasury management, budget execution, procurement, accounting, and financial reporting (US\$9,880,000)* aims to strengthen the controls needed for fiscal discipline and to promote transparency and accountability. The FGS' OAG has been central in championing the reforms of this component across several key government institutions, especially since the appointments of a new AG and an Auditor General. As a consequence of the ongoing technical advisory support, the OAG has improved its day to day treasury functions substantially, and is now able to scrutinize payment transactions more effectively. A more robust SFMIS has been developed; The modules implemented include: Expenditures Module (Automation of Expense Vouchers, Petty Cash); General Ledger Module (Journal Vouchers, Ledger Books); Asset Register Module (Item Master, Asset Register for WB Projects); Payroll Module (Monthly payroll processing for civil servants and military); Treasury Management Module (Payment Instructions, Bank Reconciliation). These will also facilitate the TSA and cash management control which will be supported under the AF. The SFMIS payment module has also been implemented and requisite access extended to CBS (Bank Deposit, Payment, Debit and Credit Notes) to allow integration with the CBS bank's systems. More recently Revenue Module (Automation of Revenue Voucher) to support revenue collection system. The enhance DRM component under the AF will build on this facilitate as it automats the whole DRM systems. For the first time, the FGS recorded the 2017-18 budget in the system, enabling the generation of budget utilization and revenue performance reports, and even unaudited IFRs for World Bank financed projects. The project has also developed budget module but not operationalized. To mitigate the budget errors and foster effective and efficient budget execution, the AF is expected to support the operationalization of the budget module.

4. Considerable progress has also been made in PSS, where a PL-FMIS was roll-out in all 10 regions as of January 1, 2017. The PL-FMIS is fully operational and is integrated with Puntland State Bank system through an interim bank module with "barcode reading" capability. As part of operationalizing the TSA, preliminary comprehensive audits were conducted in 2017 of the accounts for all FGS MDAs, both active and dormant. The findings of the audit are informing dialogue on a second SMP between the Government, the IMF, and the Bank. Implementation of SL-FMIS was slow but picked up in the first quarter of 2018. A total of twenty-five (25) key functional modules were scoped under FMIS across the three states. The



Table 4 below provides the implementation status of the various modules.

**Annex Table 4: Implementation status of the FMIS modules**

Sr#	Module	FGS	PSS	Somaliland
1	Core Functions (5 Segment COA, Budget Controls, Warrants, Expense Voucher, Revenue Voucher, General Ledger and Financial Reporting)	Implemented and rolled out to all key MDA's	Implemented at MoF and Regions, not rolled out to MDA's	Implemented at MoF and Pilot MDA's (Ministry of Education (MoE), Ministry of Health (MoH), Ministry of Agriculture (MoA)), not implemented for WB projects
2	Treasury Management (Cheque / Payment Instruction Printing, Bank Reconciliation and Cash Transaction Reports)	Implemented	Implemented (Except Bank Reconciliation)	Deployed but not functional
3	Contract Management (WB Contracts control & Disbursement Report)	Implemented	Implemented	Not Implemented
4	Fixed Assets (Asset Register)	Implemented	Not Implemented	Deployed but not functional
5	Payroll (Monthly Payroll Generation and Auto Creation of EV)	Implemented	Not Implemented	Implemented for Pilot MDA's but not functional
6	Payroll for Security Sector	Implemented, first batch of biometric registration (700 soldiers) was completed - Registration is ongoing	Not Implemented	Not Implemented
7	Payroll for Education Sector	Not Implemented	Not Implemented	Not Implemented
8	Payroll for Health Sector	Not Implemented	Not Implemented	Not Implemented
9	Central Bank Functions (Temporary module for Central Bank due to missing core banking system)	Implemented	Implemented	On hold - Central Bank deploying core banking system
10	Purchasing Phase 1 (Commitment Control, Requisitions, PO and GRN)	Implemented	Not Implemented	Not Implemented
11	Local Government FMIS (For PSS and Somaliland Only)	N/A	Not Implemented	Deployed for Hargeisa Municipality but not functional
12	Local Government Revenue Collection (For Puntland and Somaliland Only)	N/A	Not Implemented	Deployed for Hargeisa Municipality but not functional



Sr#	Module	FGS	PSS	Somaliland
13	Revenue Management (Revenue Collection, Receipt Generation, Auto Generation of RV)	Partially Implemented (Visa, MoT, MoC) - implementation is ongoing	Not Implemented	Not Implemented
14	Human Resources (Employee Record, Promotions, Transfers, Termination, Training)	Not Implemented	Not Implemented	Not Implemented
15	Data Warehouse and Business Intelligence	Not Implemented	Not Implemented	Not Implemented
16	Seaport / Airport Customs Automation (FGS)	Not Implemented	N/A	N/A
17	Hargeisa Water Agency (HWA) Somaliland only	N/A	N/A	Not Implemented
18	Budget Preparation (Budget Planning and Preparation)	Deployed but not functional	Not Implemented	deployed but not functional
19	Financial Reporting	On-going	On-going	On-going
20	Financial Dashboards	Not Implemented	Partially Implemented	Not Implemented
21	Inventory Management	Not Implemented	Not Implemented	Not Implemented
22	Cash Planning: Cash flow: Forecasting Disbursement schedules and cash releases	Not Implemented	Not Implemented	Not Implemented
23	Purchasing Release 2: Integration with Inventory and Asset Register Contract & Tender Management	Not Implemented	Not Implemented	Not Implemented
24	Integration with External Systems: a) Integration with Customs System b) Integration with Central Bank ACH, STARS and FACTS c) Integration with Tax Administration System d) Integration with Mobile Money, Etc.	Not Implemented	Not Implemented	Not Implemented
25	Workflow Phase II (Electronic Signatures and Email Integration) Mobile Applications - Workflow approvals and financial dashboards	Not Implemented	Not Implemented	Not Implemented

5. **Component 3: Strengthening the integrity pillars (US\$1,945,000)** aims to strengthen key mechanisms to hold government accountable for the use of public funds. The component supports the institutional strengthening of SAI as well as Planning, Finance, and PAC. In this regard, the project has been supporting activities geared towards strengthening appropriate audit laws and processes, staff capacity, and engagement with CSOs and citizens. Considerable progress has been made in completing the critical SAI capacity assessment for FGS OAuG, benchmarked against the African Organization of English Speaking Supreme Audit Institutions (AFROSAI-E) Institutional Capacity Building Framework (ICBF) and the INTOSAI Performance Measurement Framework (PMF). In addition, a framework for collaboration



with the media and non-state actors—which is a crucial element towards promoting outreach for the work of the PAC—has been finalized. Importantly, the World fiduciary team agreed with the FGS to use the 2016 audit of World Bank projects as a strategic opportunity to deepen capacity building and mobilize the transfer of the staff within the OAuG. As such, OAuG staff are being paired with experts from a technical advisory firm to conduct the 2016 audits. This approach is providing practical and operational experience to the OAuG team.

6. The OAuG at the FGS level has over the past few months developed a Strategic and Operational Plan to provide direction on the medium to longer term goals of the office over the period 2017-2020. The strategic plan focuses on the following goals: (i) timely, relevant, and high quality audit reports that are in line with international standards; (ii) strengthened internal governance for efficient and effective audit services; (iii) strengthened external communication and stakeholder relations to ensure audit recommendations are implemented and reports have an impact on governance and accountability; (iv) well qualified and professional staff and management; (v) sufficient infrastructure and ICT capacity for efficient operations; and (vi) development of a legal framework that is aligned with the Lima Declaration of Guidelines on Auditing Precepts that was adopted in October 1977. In addition, the OAuG signed a Memorandum of Understanding with the IDI to develop capacity as well as to support the development of a SAI PMF for the Office.

7. In PSS, significant progress has been made with the support of the TA firm Ernst & Young. Over the last few months, the following activities have been completed: (i) development of a Strategy and Development Action Plan for the PSS OAuG, benchmarked against the AFROSAI-E ICBF and the SAI PMF and International Standards for Supreme Audit Institutions (ISSAI) Compliance Assessment Tool, which are intended to be used to establish how well the SAI performs compared to international good practices; preparation of Risk Based Auditing procedures manuals and conducting classroom training using case studies; (ii) hand-holding the OAuG in conducting three pilot audits using the newly developed Risk Based Auditing procedures manuals as well as using Computer Aided Audit Techniques (CAATs); (iii) development of guidelines and procedures for PSS PAC hearing and template for PAC reports and mechanism for follow-up of audit queries and PAC recommendations; and (iv) design of a Communication Strategy for PSS PAC for engagement with the media and non-state actors.

8. **Component 4:** PFM professionalization (US\$1,000,000) supports development and strengthening of PFM competencies. The activities undertaken within this component facilitate the creation of suitably qualified PFM practitioners with the requisite skill-sets to perform a broad range of PFM tasks whilst contributing to improvements in Somalia’s PFM performance. The activities were successfully completed in December 2016 for the FGS, PSS, and the Somaliland. At the end of the program, 53 percent (i.e. 126 out of 239) of registered students passed certificate level PFM exams while 59 percent passed the procurement stream certificate level exam. The PSS has shown strong commitment for this program, as reflected in the success and immersion rates of the participants. As an example, 36 out of the 45 civil servant students enrolled for the international CIPFA examinations at the PSU passed at the certificate level, with seven of these students currently employed under WBG-supported projects.

9. **Component 5:** PFM oversight, coordination and management (US\$2,925,000) finances the creation of a project governance structure to effectively manage the project and its day to day activities. The structure includes (i) a PFM ROC, which is the decision-making authority and is responsible for



committing the needed human and financial resources to implement the project; (ii) a TSC, the members of which are accountable for the success of the various project activities and expected results; (iii) Component Implementation Teams (CIT) comprised of the heads of key PFM institutions who support the TSC execute its responsibilities; and (iv) the PFM RCU, which anchors the reform and capacity building efforts. Component 5 also finances a Government PFM Reform Coordinator who is responsible for day-to-day coordination of the reform activities and serves as the key interlocutor for the CIT, ensuring proper sequencing of activities expected to be funded by various donors. Also, PFM Subject Matter Experts (SMEs) work closely with the CITs to provide TA services with clear capacity building components and with exit arrangements that facilitate the sufficient transfer of skills via hand-holding approaches.

10. **Component 6:** Demand-driven JIT services (World Bank-executed on behalf of Recipient) (US\$1,000,000) finances reforms around Social Accountability and Open Government Data to promote fiscal transparency and the accountable use of public funds. Support has been provided to disseminate fiscal datasets (revenue and expenditure) to the public in accessible formats through Open Government Data portals in order to enhance fiscal transparency. The component also finances the preparation of actionable analytical products—PFM policy notes, joint- Public Expenditure and Financial Accountability (PEFA) assessments, customs assessments, etc.—that respond to emerging technical issues, and which are used to identify opportunities to adjust reform action plans or the project’s M&E framework. Component 6 has been executed by the World Bank on the Recipient’s behalf in accordance with Paragraph (12) (d) of the World Bank IPF Policy. Under the AF, this support is now provided through the Recipient-executed RRF.

## ANNEX 2: Implementation Arrangements

### SOMALIA: Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project - Additional Financing (P166206)

- Existing implementation arrangements of the ongoing PFM CSP II will be maintained, and strengthened under the AF.** This arrangement leverages lessons learnt from similar reforms in FCVs with a deliberate attempt to use country systems instead of creating parallel PIU. A PFM RCU in the MoF anchors the reform and capacity building efforts. A Government PFM Reform Coordinator is responsible for day-to-day coordination of the reform activities and serves as the key interlocutor for the Component Implementation Teams (CIT) and ensuring proper sequencing of activities expected to be funded by various donors. Similarly, DRM Reform Implementation Unit (RIU), reporting to the Director General Inland Revenue will anchor the institutional capacity and systems DRM reform, led by the DRM Reforms Officer, who will be supported by the DRM Procurement Officer, and for FM supported by the EAFS team and existing PFM reform expert. These additional resources will support the Coordinator with the scaled-up DRM scope. These TAs will be shadowed by government counterparts in the CIT for skills transfer. The CIT leaders will be the core civil servants to be determined depending on functional aspects of the component and will be directly responsible for day-to-day management of implementation and accountable for the reform outcomes. The Director-General, MoF or the equivalent accounting / responsible officer of government, will use the convening power of the ministry to provide strategic guidance for the reforms.
- The PFM ROC chaired by the Prime Minister represents at managerial level the key stakeholders.** The ROC has authority because they are the decision makers and responsible for the commitment of human and financial resources needed to implement the strategy successfully. The ROC reports to the Office of the President that set the political tone for the broad governance reform agenda and manage any resistance to the reforms. The TSC, chaired by the Minister of Finance and comprising Heads of the various PFM institutions and line ministries representing key front-line service delivery, will be accountable for the success of projects to implement the reform strategy. As the TSC member responsibilities are in addition to their normal work, it is important that they are kept regularly informed by the CITs while requiring joint decision making at key points in the project. Overall coordination of the project at FGS, PSS and Somaliland is through the Project Steering Committee Chaired by the Ministers of Finance and PFM- Sub-Working Group Co-Chaired PFM RCU Coordinator and representative of Donor Group

#### A. Detailed Financial Management Arrangements

- Project FM System.** The EAFS units established within the various offices of the Accountant General (AG) in FGS, Puntland, and Somaliland have been operational for the last three years. The units are charged with overall FM responsibility for all the SMPF/SPF funded projects at the FGS and FMSs and their performance has been satisfactory. With overall guidance from the AG in the respective regions, the EAFS units in consultation with the respective PFM RCUs will continue to provide day to day FM of the existing project as well as the AF. The effectiveness of the EAFS unit alongside other key functional units<sup>14</sup> will be continuously monitored while key areas of capacity strengthening will be identified and supported through the AF. The existing organizational and functional structure of the EAFS units are expected to be maintained and further strengthened to provide

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<sup>14</sup> Internal Audit, CMU, TSA, Payroll, Human Resources Planning and Training units.



effective FM support to the AF. All project FM transactions will be recognized, captured, recorded, analyzed, summarized, and reported through the Government(s) FMIS. The EAFS units with support of the AGs will ensure that:

- (a) All important business and financial processes are adhered to;
- (b) Adequate internal controls and procedures are in place and adequately enforced;
- (c) Un-audited IFRs are prepared on a timely basis;
- (d) Project financial statements are prepared on a timely basis and in accordance with International Public-Sector Accounting Standards (IPSAS) cash-basis;
- (e) External audit is completed on time and audit findings and recommendations/issues raised in the management letter are implemented expeditiously.

4. **Budgeting Arrangements.** The EAFS units working closely with each of the CITs and the project PFM RCU will prepare project annual work plan, budget, and cash flow forecast for each component. Not later than two months to the end of the preceding financial year (October 31), these will be submitted to World Bank Task Team Leader (TTL) for the necessary review and approvals. The work plans, cash flow projections, and budget include the project activities, amounts according to the Government financial year analyzed by month and quarter delineated by funding source (SMPF and IDA PACG). World Bank approved budget and projected annual disbursements at FGS and FMSs and Somaliland will be 'on-budget' and will be incorporated into the annual Appropriation Bills (Acts). The analyzed budget budgets will be posted into the respective FMIS according to the approved Standard Chart of Accounts (SCoA). The SMPF and IDA share of project financing will be posted by appropriate SCoA funding source to facilitate generation of project periodic reports by funding source (SMPF and IDA). The project's budget utilization reports shall be prepared from Government(s) FMIS<sup>15</sup> as a sub-set of the Government TSA fiscal reports.

5. **Flow of Funds and Banking Arrangements.** The AF from SMPF and IDA will be channeled through the existing project DAs managed directly by FGS, PSS, and Somaliland. However, to foster the independence of the Auditor General (AuG), the possibility of creating separate DAs to host funds for the activities earmarked for implementation by SAIs, including centralized project audits, will be explored. Financing by funding source (SMPF and IDA) will be tracked and reported through the FMIS. All the expenditures incurred through the DAs and as well as those submitted to the World Bank through client connection for direct payments will be justified, supported and eligible as shall be defined in the Project Appraisal Document (PAD) and the Grant Agreement(s). All project withdrawal applications to the World Bank will be made in U.S. Dollars (US\$) and will be submitted online through the client connection portal. Replenishment and reimbursement Withdrawal Applications will be accompanied by Statements of Expenditures (SoEs) in accordance with the procedures established in the disbursement Letter and the World Bank Disbursement Guidelines. Detailed disbursement arrangements will be documented in the Disbursement Letters. The EAFS Units in consultation with the respective Offices Accountant General, Director General and alternate signatories will institute adequate controls in the management of the DAs. The signatories to the DAs (Treasury Cheque/Payment Instructions/Electronic Funds Transfer(EFT)) and Withdrawal Applications will include at least two bank accounts signatories' categories (either from each panel must sign) in each of the following panels at FGS, PSS, and Somaliland:

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<sup>15</sup> FGS: Somalia Financial Management Information System (SFMIS); Puntland: Puntland Financial Management Information System (PL-FMIS); and Somaliland: Somaliland Financial Management Information System (SL-FMIS).





**Signatories**

**FGS**

Panel A: Director General of MoF or equivalent (with Director of Administration as alternate)

Panel B: Accountant General (with Deputy Accountant General as alternate)

**PSS**

Panel A: Director General of MoF or equivalent (with Director Administration alternate)

Panel B: Accountant General (with Deputy Accountant General as alternate)

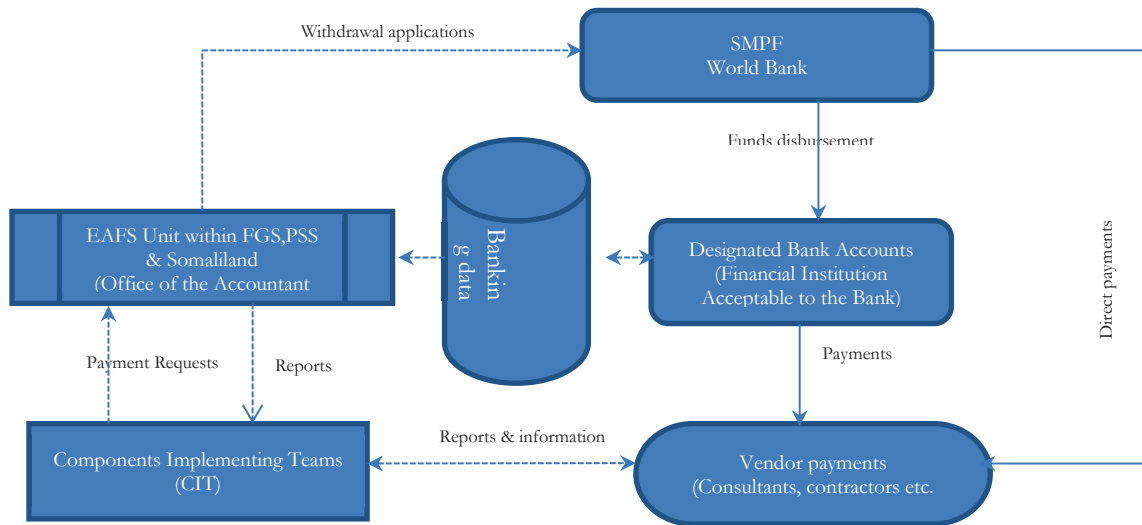
**Somaliland**

Panel A: Director General of MoF or equivalent (with Director Administration alternate)

Panel B: Accountant General (with Deputy Accountant General as alternate)

- 6. Each of the EAFS units will ensure:
  - (a) DAs are maintained in US\$ for the project component in a financial institution acceptable to the World Bank.<sup>16</sup> The ceiling of the DA will be based on calculated cash forecasts to ensure adequate working capital cash resources are maintained in the DAs. Funds drawdown will continue to be disbursed based on SoEs. Options in migration to report based disbursements shall be explored.
  - (b) Project component funds will be transferred into the DA against an approved Withdrawal Application to be prepared by the EAFS. Subsequent withdrawals will be based on SoE and after the change to report-based disbursement, based on the actual amount expended with a forecast of expenditure and cash flow needs.
  - (c) Detailed disbursement arrangements will be documented in the Disbursement Letter. Typical funds flow arrangements are highlighted in the diagram below:

**Annex Figure 1: Funds flow arrangements**



<sup>16</sup> On terms and conditions in the World Bank Disbursement Guidelines for Projects (May 1, 2006:11).



7. **Accounting and Internal Control Arrangements.** The project finances will be accounted for on a cash basis. These will be supported with appropriate records and documentation to track commitments and to safeguard assets. The project budgets and expenditure will be classified to facilitate the preparation of relevant reports and financial Statements, including information on total project expenditures, total expenditure on each project component/activity, and analysis of that total expenditure into various categories of goods, training, consultants and other procurement and disbursement categories. The project FM arrangements are spelled out in the EAFS Manuals which are being phased out and replaced with Comprehensive Operations and Accounting Procedures Manuals (COPAM)<sup>17</sup>, a move aimed at strengthening the use of county systems. In addition, the SCoA will be updated to accommodate the IDA funding source and consolidation of the project components as shall be detailed in the Project Implementation Manual (PIM) as part of implementation. The accounting records will be maintained in US\$. The project activities (SMPF and IDA) will be mapped to the FMIS using the SCoA to facilitate recording and reporting of all the project financial information, including information on total project expenditures, total expenditure on each project component/activity, and analysis of that total expenditure into various categories. All the project FM records will be maintained in hard copied at the EAFS as well as in electronic format archived in the FMIS across all the regions.

8. **The EAFS units will continue to monitor and report on the utilization of project funds, including the fiduciary standards complied with and the reliability of the FM system.** The EAFS in consultation with the PFM RCU will maintain project fixed assets register within the FMIS fixed assets module. The register will be regularly updated and physical verification/count of assets carried out periodically (at least once every six months). The fixed assets registers reflect details of suppliers, description and location of goods, original cost, disposal of assets, asset reference (identification) number, serial or registration number, date of purchase and price (cost) and/or valuation, additions to the asset, condition of asset, useful life and residual value, and disposal. Contracts Registers are also maintained in respect of all contracts with consultants, contractors, and suppliers. The EAFS units will continue to prepare Contract Status Reports as part of the periodic IFRs. Control procedures over fixed assets and contracts management will be the responsibility of the EAFS in consultation with PFM RCU. An Internal Audit function once established and operational will be mainstreamed to cover project activities. The internal auditors are expected to undertake project risk based systems audits. The audit reports together with the findings and systems strengthening recommendations will be shared with the project PFM RCU, TSC, ROC, and the World Bank FM team.

9. **Financial Reporting Arrangements.** All project financial reports are generated directly from single integrated window through Government FMIS and as sub-set of the various authorities TSA fiscal summary reports. Periodic<sup>18</sup> IFRs will be prepared by the EAFS in consultation with the PFM RCUs and will cover all project funds (SMPF and IDA). For purposes of monitoring project IP, the reports shall be submitted to the PFM RCU, TSC, ROC, and the World Bank. The reports will cover all funds received under the project (SMPF and IDA) as well as counterpart or government funds received under the project, if any. The formats and contents of the financial progress reports are designed into the FMIS. The systems will be reconfigured to reflect desegregated reporting by funding source (SMPF and IDA). The respective EAFS units will be responsible for providing overall

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<sup>17</sup> As shall be issued and adopted to replace the EAFS Manual, the COPAMs developed with the support of the project.

<sup>18</sup> Quarterly or any other periodicity as shall be agreed between the World Bank and the authorities.



consolidated financial reports as defined in the relevant covenants. The EAFS units will also prepare AFSs for the entire project. AFSs will be prepared in accordance with Cash Basis IPSAS. The AFSs will include adequate notes and disclosures consistent with the cash basis of financial reporting under the IPSAS.

10. **External Auditing.** Consistent with audit arrangement for the current project, the OAuG at FGS, Puntland, and Somaliland has the constitutional responsibility to carry out independent audit of project components implemented by the FGS and respective States. The project will support the engagement of an external audit TA to work with the staff of the respective Offices of the Auditor General to undertake the project audit alongside other SMPF/SPF/IDA funded projects implemented through country systems. Given the high-country risks, specific attention will be focused on the International Standards on Auditing (ISA 800) - Auditor's Report on Special Purpose Audit Engagements as necessary. The audited project AFSs, management letters, together with any additional information required, will be submitted to the World Bank within six months after the end of the financial year. The audits shall be in conformity with the World Bank's audit requirements and in accordance with internationally recognized auditing standards. The respective OAuG will express an opinion on the Financial Statements in compliance with ISSAI, and prepare a Management Letter giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls, and compliance with financial covenants in the Grant Agreement(s).

11. **Fraud and Corruption.** Possibility of circumventing the internal control system with colluding practices as bribes, abuse of administrative positions, mis-procurement etc., is a critical issue and may include: (a) late submission of supporting documents; (b) poor filing and records; (c) lack of system integration; (d) lack of budget discipline; (e) unauthorized commitment to suppliers, bypassing budget and expenses vetting procedures; (f) unsecured safekeeping and transportation of funds; (g) uncertainty over the banking arrangements supporting the project; (h) potential exposure to money laundering; and (i) insecurity and political instability. These are mitigated as follows: (i) specific aspects on corruption auditing would be included in the external audit and monitoring arrangements ToR; (ii) FM procedures (as part of FM manuals) approved and in operation for the project; (iii) strong FM arrangements (including qualified Project Accountants in the EAFS Units; (iv) periodic IFRs including budget execution and monitoring; (v) measures to improve social accountability and transparency are built into the project design by ensuring that project reports are available to the public; (vi) Annual PFM forums will be held; and (vii) portfolio-wide periodic preliminary audits feeding to the annual audits. The external audit will pay special attention to the risks of material misstatement of the financial statements due to fraud, in line with International Standards on Auditing (ISA) 240: "The auditor's responsibilities relating to fraud in an audit of financial statements").

**B. Disbursements**

Annex Table 5: Disbursement Tables

**Eligible Expenditure for IDA Grant (SDR 14.3 million [US\$20 million equivalent])**

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consulting services, Training and Operating Costs for Parts 1, 2.1.A.1, 2.2.A.1, 2.3.A.1, 2.4.A.1, 3.A.1(b), 3.A.2 and 4.A.1 of the Project	9,700,000	100%
(2) Goods, non-consulting services, consulting services, Training and Operating Costs for Parts 1.B, 2.1B.1, 2.2.B.1, 2.3.B.1, 2.4.B.1, 3.B.1, and 4.B.1 of the Project	3,600,000	100%
(3) Works and non-consulting services for Part 3.A.1(b) of the Project	1,000,000	100%
<b>TOTAL AMOUNT</b>	<b>14,300,000</b>	

**Eligible Expenditures for SMPF Grant (US\$4 million)**

Category	Amount of the Grant Allocated (expressed in US\$)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consultants' services, Training and Operating Costs for Parts 1.A, 2.1.A.1, 2.2.A.1, 2.3.A.1, 2.4.A.1, 3.A.1(a), 3.A.1(b), 3.A.2 and 4.A.1 of the Project	2,000,000	100%
(2) Goods, non-consulting services, consultants' services, Training and Operating Costs for Parts 1.B, 2.1B.1, 2.2.B.1, 2.3.B.1, 2.4.B.1, 3.B.1, and 4.B.1 of the Project	2,000,000	100%
<b>TOTAL AMOUNT</b>	<b>4,000,000</b>	

**Eligible Expenditures for SMPF Grant (US\$6 million)**

Category	Amount of the Grant Allocated (expressed in US\$)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, and consultants' services, Training and Operating Costs for Parts 2, 3 and 4 of the Project	5,800,000	100%
(2) Consultants' services and Training for Part 3 of the Project	200,000	100%
<b>TOTAL AMOUNT</b>	<b>6,000,000</b>	



Also, withdrawal conditions will include:

- Withdrawal condition for the FGS MoF building for environment and social safeguards assessment.
- Withdrawal condition for the Project Operational Manual revision for the RRF transparent criteria to be approved by the TSC of the Project.

### C. Procurement

12. **Procurement for the AF will be carried out in accordance with the requirements in the Procurement Regulations for Borrowers under IPF:** Goods, Works, Non-Consulting Services and Consulting Services dated July 1, 2016 (revised November 2017); “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016)””; and provisions stipulated in the Financing Agreement. Somalia, being a fragile and conflict affected country, procurement under the projects will be processed under special procurement arrangements referred to in Paragraph 12 of the World Bank Policy IPF dated November 10, 2017.

13. **PPSD and PP: As per the requirement of the Regulations, the Recipient has developed a PPSP, based on which the PP for the first 18 months has also been prepared.** The PP sets out the selection methods to be followed by the Recipient during project implementation in the procurement of goods, works, non-consulting services. The PP will be updated at least every 12 months, or as required, to reflect the actual project implementation needs, but each update shall require WBG approval. All PPs will be publicly disclosed in accordance with the WBG disclosure policy.

14. **PPSD Summary:** A summary of the PPSP is as follows:

#### A. Summary of the proposed procurement contracts:

The main contracts to be undertaken will include the following:

- (i) Construction completion of the MoF building in Mogadishu
- (ii) Goods and non-Consulting Services
- (iii) Consulting Services

#### B. Operating Context

- i) **Governance Aspects:** With the enactment of the second Federal Government term, Somalia and its international partners have committed to align behind Somalia’s new National Development Plan (NDP) (2017-2020), reinforced by the New Partnership for Somalia agreed at the London Conference in May 2017. The NDP will set the priorities for national recovery and development, while a new and reinvigorated partnership agreement will guide collective efforts through the next phase of Somalia’s transition out of conflict and fragility. The World Bank’s ongoing Somalia operations will be helping Somalia deliver the CPF focus of building institutions to deliver services and ultimately in reaching HIPC Decision Point. Specifically, AF will be used to scale-up two ongoing



Governance projects, namely: The DRM & PFM (co-financed by US\$20 million IDA and US\$10 million SMPF), and the RCRF II (US\$60 million IDA and US\$60 million SMPF).

- ii) **Economic Aspects:** Somalia is classified by the United Nations one of the least developed countries. Despite experiencing two decades of civil war, the country has maintained an informal economy, based mainly on livestock, remittance/money transfers from abroad, and telecommunications.
- iii) **Technological Aspects** - Besides the devastating impact of Somalia's civil war, an aspirational technology sector has been growing in the country for years. Somalia has one of the most active mobile money markets in the world, with millions of people subscribed to e-payment services. Young people, with increased access to the internet and mobile phones, have shown interest in launching technology-driven businesses, crowdfunding entities and even innovating around famine relief efforts.
- iv) **Market Research and Analysis:**
  - a) **Works:** Contract under works include the construction completion of the MoF second phase in Mogadishu. The proposed building was designed to be constructed in two phases. The first phase of the construction was supported by the Sida (outside the scope of this project). UNOPS has been contracted by Swedish to manage Phase 1 and 2 of the construction works and the Client is happy with the quality of the works so far. Tenders were requested by UNOPS for Phase 1 and 2. The contract was awarded to the winning bidder for both Phase 1 and 2 but due to limited funding, Phase 2 was subject to availability of funds. Thus, due to inherent advantages, the possibility of using UNOPS to complete the task would be considered as first option.
  - b) **Consultancy Services:** The procurement activities under consultancy services for this project will be hiring consultants. These will include both individual and consultant firms from local and international markets as appropriate. There are well qualified consulting firms and individuals mainly from the region who have participated in the previous consulting assignments. Previous experience from the on-going project and from similar project in Somalia shows that both local and foreign firms have participated in the in the bid opportunities. In some instances, the foreign firms have partnered with local firms to enhance their experience. The implementing agencies have experience of handling such selection processes whether locally or internationally. The preferred procurement methods for firms under consulting services would be QCBS. However, other methods including direct selection would be used as stipulated in the PP.
  - c) **Procurement of Non-Consulting Services:** Contracts under non-consulting services include activities such as hiring conference facilities, transport or IT services. These services are available either locally or internationally. Given the nature and the size of the non-consultancy services to be procured, most of the potential bidders are available locally. Such services will be procured through National Open Competition market approach and Request for Quotations.



- d) **Office Equipment, Vehicles and Supplies:** Somalia has available local traders for ICT equipment, scientific equipment, motor vehicles, and furniture and other office supplies. These items are available either locally or internationally. Such items will be procured using either Open National/International or Request for Quotation methods as appropriate. Such items will be procured using either open National or Request for Quotation methods.
- C. **Systematic Tracking of Exchanges in Procurement (STEP):** The WB's STEP system will be used to prepare, clear, and update PPs and conduct all procurement transactions for the project.
- D. **Procurement Templates:** The World Bank's Standard Procurement Documents (SPDs) shall be used for procurement of goods, and non-consulting services under International Competitive Procurement. As there are no National Bidding documents, the World Bank's SPDs may be used under National Procurement Procedures (NPP). Similarly, selection of consultant firms shall use the World Bank's SPDs, in line with procedures described in the Procurement Regulations.
- E. **Publication (Advertising):** The Recipient is required to prepare and submit to the World Bank a General Procurement Notice. The World Bank will arrange for its publication in United Nation Development Business (UNDB) online and on the World Bank's external website. Specific Procurement Notices for all procurement under ICB and Requests for Expressions of Interest for all consultancies shall be published in at least one newspaper of national circulation in the Recipient's country, or in the official gazette, or on a widely used website or electronic portal with free national and international access, and in *UNDB online*.
- F. **National Public Procurement Law:** The Public Procurement, Concessions and Disposal Act, 2015 (PPA) for The Federal Republic of Somalia (FGS) is the relevant public procurement legal framework. The new Act foresees a decentralized system of procurement. The Act further provides for an independent oversight body that will foster the regulatory and the policy framework of public procurement in the country. The PPA has been reviewed by the WB and found to be satisfactory and consistent with the National Procurement Procedure requirements prescribed in Paragraph 5.4 of the Regulations to a large extent. However, institutions are not yet in place in accordance with the Act. Similarly, regulations and other procurement guidance documents, including Standard Bidding Documents, are yet to be prepared. The private sector and civil society have limited capacity or functionality. Currently, the process of operationalizing the PPA are underway, through a Consultancy assignment. Until such time that the PPA is operationalized, and the documents reviewed and found satisfactory by the Bank, the Project shall use the World Bank's SPDs. In accordance with the PPA, it is anticipated that, when the PPA is operationalized, for the national procedures to be used, the following shall be observed: (i) the request for bids/request for proposals document shall require that Bidders/Proposers submitting Bids/Proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank's Anti-Corruption Guidelines, including without limitation the World Bank's right to sanction and the World Bank's inspection and audit rights; and (ii) rights for the World Bank to review Recipient's procurement documentation and activities.
- G. **Training and Workshops:** The project will finance training and workshops, if required, based on an annual training plan and budget which shall be submitted to the World Bank for its prior review





and approval. The annual training plan will identify, inter alia: (i) the training envisaged; (ii) the justification for the training; (iii) the personnel to be trained; (iv) the duration for such training; and (v) the estimated cost of the training. At the time of the actual training, the request shall be submitted to the World Bank for review and approval. Upon completion of the training, the trainees shall be required to prepare and submit a report on the training received.

- H. **Procurement Implementation Arrangements:** The project will be implemented by (i) MoF, FGS, (ii) MoF, Somaliland and MoF in PSS. The existing implementation arrangements of the on-going PFM CSP II will be maintained and strengthened under the proposed AF.

In the FGS the Procurement function of the project is carried out by the EAFS Unit under the AG's in the MoF. Administration of procurement processes and decision making under the on-going project has been sluggish, constraining timely implementation of the project. This is because the EAFS Unit supports all projects implemented by MoF but it lacks adequate procurement proficiency and experience in WB procurement procedures notwithstanding it does not have a procurement unit. In recognition of the constraint emanating from the current arrangement for procurement implementation, the MoF recruited a Procurement Specialist to support the implementation of the projects under the purview of the PFM RCU, including the PFM CSP II and RCRF II

In PSS, the project will be supported by a Procurement Consultant being hired under the Project. In Somaliland, the PFM RCU has a Procurement Consultant recruited under the on-going project. The same Procurement Specialist will be supporting the project procurement activities under the proposed AF.

- I. **Procurement Assessment**

**A procurement capacity assessment of the three PIUs in the MoF - FGS, MoF, Somaliland and MoF - PSS to implement the AF project procurement was conducted in July 2018.** The objectives of the assessment were: (a) to evaluate the capability of the PIUs to undertake procurement and the adequacy of the systems that are in place to administer procurement (b) to assess the ability of the PIUs to effectively carry out the procurement processes; (c) to develop an action plan to be implemented as part of the Project in order to address the deficiencies detected by the assessment, aimed at minimizing the risks identified; and (d) to propose procurement supervision plans for the World Bank considering the relative strengths and weaknesses and risks revealed by the assessment.

PIUs had been established under the on-going PFM CSP II in FGS, PSS and Somaliland. The same PIUs will be maintained and strengthened under the AF and will be responsible for the implementation of the procurement activities under the proposed AF. The procurement function of each of the PIU (FGS, Somaliland and PSS) is led by a Procurement Specialist. The procurement specialists have adequate academic qualification and their performance has been satisfactory. However, the procurement specialists have not undergone substantive procurement training on the WB New Procurement Framework (NPF) since the on-going PFM CSP II project is being implemented under the old WB guidelines. Major procurement challenges of the PIUs include: (i) inadequate experience in undertaking procurement in accordance with the requirements in the Procurement Regulations for Borrowers under IPF: Goods, Works, Non-Consulting Services and Consulting Services dated July 1, 2016 (revised November 2017); (ii) Inadequate experience in contract management; (iii) record





keeping system.

J. **Risk Assessment:** In view of the challenges outlined above, the risk for procurement was considered “High.” The risk is reduced to a residual rating of “**Substantial**” in view of the mitigation measure proposed in Table 6 below:

Annex Table 6: Procurement Risk and Mitigation Measures

S/No	Risk Description	Mitigation Measures	Timeframe	Responsibility
1.	Inadequate knowledge and experience of WB Procurement Regulations for Borrowers under IPF: Goods, Works, Non-Consulting Services and Consulting Services dated July 1, 2016 (revised November 2017);	Conduct Training to procurement and user departments on WB Procurement Regulations for Borrowers under IPF: Goods, Works, Non-Consulting Services and Consulting Services dated July 1, 2016 (revised November 2017)  Prior review of all contracts regardless of the value.	During Project Implementation	<i>The Ministry of Finance (FGS), Ministry of Finance (PSS) and Ministry of Finance (Somaliland)/WB</i>
2.	Inadequate knowledge and skills in contract management by the implementing agencies.	Conduct training tailored towards addressing weakness in contract management for PIU staff and technical departments	During Project Implementation	<i>The Ministry of Finance (FGS), Ministry of Finance (PSS) and Ministry of Finance (Somaliland)/WB</i>
3.	Inadequate skills by the end users in developing Specifications and Terms of Reference (TOR)	Need for TAs/Consultants in the respective technical areas to extend hands on support.	During Project Implementation	<i>The Ministry of Finance (FGS), Ministry of Finance (PSS) and Ministry of Finance (Somaliland)/WB</i>
4.	Need for systematic filing system in order to have complete records of the procurement processes	Establishment of a satisfactory filing system	During Project Implementation	<i>The Ministry of Finance (FGS), Ministry of Finance (PSS) and Ministry of Finance (Somaliland)</i>
5.	Due to security challenges and weak public-sector functionality, the private sector participation and efficiency would be limited and this affects the supply market functionality.	All bidding opportunities will be advertised on the available websites and posted on widely circulated national gazette.	During project implementation	<i>The Ministry of Finance (FGS), Ministry of Finance (PSS) and Ministry of Finance (Somaliland)</i>

K. **Procurement Oversight and Monitoring Arrangement:** The World Bank exercises its procurement oversight through a risk-based approach comprising prior and post reviews, as appropriate. The World Bank sets mandatory thresholds for prior review based on the procurement risk rating of



the project. Based on the risk rating of the project, the World Bank and Recipient will agree on the procurement applicable thresholds as provided in Table 8 below which shall be subjected to prior or post review. The requirement for a prior or post review shall be specified in the PP. During project implementation the World Bank will monitor and reassess the risk and risk mitigation measures and, if determined by the World Bank to be necessary and appropriate, the World Bank may require the Recipient to revise the prior and/or post review requirements in the PP. The World Bank will carry out post reviews of procurement activities undertaken by the Recipient to determine whether they comply with the requirements of the Financing Agreement.

**L. Thresholds for procurement approaches and methods:**

**Annex Table 7: Thresholds for procurement approaches and methods**

**Thresholds for Procurement Approaches and Methods (US\$ millions)–Goods, Works, and Non-Consulting Services**

Category	Prior Review (US\$ millions)	Open International	Open National	Request for Quotation (RfQ)
Works	≥ 0.2	≥ 5.0	< 5.0	≤ 0.2
Goods, IT, and non-consulting services	≥ 0.1	≥ 0.5	< 0.5	≤ 0.1

**Thresholds for Procurement Approaches and Methods (US\$, millions) – Consulting Services**

Category	Prior Review (US\$, millions)	Short List of National Consultants	
		Consulting Services	Engineering and Construction Supervision
Consultants (Firms)	≥ 0.1	≤ 0.1	≤ 0.2
Individual Consultants	≥ 0.05	n.a.	n.a.