



## 1. Project Data

Project ID  
P148428

Project Name  
Recurrent Cost & Reform Financing

Country  
Somalia

Practice Area(Lead)  
Governance

L/C/TF Number(s)  
TF-17917

Closing Date (Original)  
27-Feb-2015

Total Project Cost (USD)  
16,000,000.00

Bank Approval Date  
18-Aug-2014

Closing Date (Actual)  
30-Apr-2015

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	0.00	6,000,000.00
Revised Commitment	0.00	4,816,543.95
Actual	0.00	14,816,543.95

Sector(s)  
 General public administration sector(40%):Central government administration(25%):Sub-national government administration(15%):Public administration- Education(10%):Public administration- Health(10%)

Theme(s)  
 Conflict prevention and post-conflict reconstruction(100%)

Prepared by  
Nestor Ntungwanayo

Reviewed by  
Clay Wescott

ICR Review Coordinator  
Lourdes N. Paganan

Group  
IEGEC (Unit 1)

## 2. Project Objectives and Components

### a. Objectives

"The Development Objective for the series of projects is to enable the Somali Government to achieve reliable and transparent financing of critical civil service operations to help strengthen the legitimacy of the state. The Development Objective of this first project in the Series is to finance and support an operational payroll and payment system for the non-security sectors (Grant Agreement, p.4)". The project appraisal document (PAD) had a similar objective (p.v).



b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components

The project had three components as detailed below:

**(I) Emergency Support to Core Government Functions in Ministries, Departments and Agencies (MDAs):** (Appraisal cost of US\$15.0 million; Actual cost of US\$14.0 million): This component was to fund the following three sub-components: (i) Payment of salaries of eligible civil servants in MDAs. The project would support the Federal Government of Somalia (FGS) to maintain core government functions by financing the salaries of non-security sector civil servants in the MDAs, (ii) Payment of salaries and allowances in selected MDAs. The project would finance the salaries and allowances of a cadre of Subject Matter Experts who are largely recruited from the Somali Diaspora and hold key positions and functions in government, and (iii) Financing of Eligible Non-Salary Recurrent Costs in selected MDAs. The project would support strengthening of controls for non-salary recurrent costs expenditures through pilot support in four MDAs.

**(II) Strengthening Systems of Expanded Operations and Service Delivery:** (Appraisal cost of US\$0.75 million; Actual cost of US\$0.20 million). This component was to fund the following four sub-components: (i) Technical assistance for assessment, review and analysis of salaries of civil servants in specific regions, (ii) Carrying out a program of activities to increase the reliability and integrity of the civil service payroll, notably by supporting the Civil Service Commission to develop and improve its operational processes and developing human resource tools, (iii) Technical assistance for assessment, review and analysis of teachers and civil servants in the health sector including developing databases and detailed operational guidelines and supply of equipment, and (iv) Providing technical assistance to the office of the Accountant General for fiduciary management. Following project restructuring in February 2015, the activity (ii) above was dropped, and earmarked resources reallocated to Component I.

**(III) Project Management and Coordination:** (Appraisal cost of US\$0.75 million; Actual cost of US\$0.60 million): This component was to fund the following four activities: (i) technical assistance for project management; (ii) capacity building for project management including training of project staff; (iii) carrying out the audit of the project; and (iv) financing of operating costs. Following project restructuring in February 2015, the contract for the Monitoring Agent (MA) was extended by the Government of Norway until February 2015. Consequently, the funding of this activity was dropped, and earmarked funds reallocated to Component I.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates

**Project cost:** The initial appraised project cost was US\$6.0 million, which was later on increased to US\$16.0 million. The total cost of the project was equal to the disbursed amount of US\$14.8 million, or 92.5% of the revised approved amount. This disbursed amount is different from the actual cost presented in the Annex I of the ICR, and the latter did not provide an explanation for this discrepancy. However, the project team indicated that the figures in the ICR were not final, as disbursements continued after the closure of the project until August 2015 to reach the total amount of US\$14.8 million.

**Financing:** The project was financed entirely by a grant from the Somalia Multi-Partner Fund, administered by the International development Association (IDA), in an amount of US\$16.0 million. Disbursed amount was US\$14.8 million, and US\$1.2 million was canceled when the project closed.

**Borrower contribution:** There was no planned Borrower contribution.

**Dates:** The initial grant was approved on August 19, 2014, with a closing date set on February 27, 2015. An amendment to the initial grant was signed on November 10, 2014 to increase the grant up to US\$16.0 million. A new Amendment was signed on February 10, 2015 to restructure the project activities of the components II and III, and to reallocate the resources of the above components to the first component, and to extend the closing date of the project until April 30, 2015. The project was closed on schedule.



### 3. Relevance of Objectives & Design

#### a. Relevance of Objectives

Somalia has been a fragile country deeply affected by conflict. The August 2012 transfer of power from a transitional to a full Federal Government represented the best chance for state-building and it generated domestic political momentum and triggered international re-engagement. A Compact with Peace- and State-building Goals adopted in September 2013 was an important political and development roadmap for the Federal Government. The Bank intervention was particularly responsive to the request of the Government as the Special Financing Facility created earlier was coming to an end and there was an urgent need to pay salaries of eligible civil servants budgeted for the year 2014, especially in the light of poor domestic revenue performance.

The project's objective is consistent with the two priority areas of the Bank's FY14-FY16 Interim Strategy Note (ISN): (i) strengthening core economic institutions; and (ii) expanding economic opportunity. The ISN aligned the World Bank's work fully within the framework of the new FGS Compact that was committed to peace and state-building goals necessary to address the binding constraints to poverty reduction in Somalia. The project resources came from a Multi-Partner Fund (MPF) established to provide development support to the transition in Somalia, with an early focus on supporting the Federal Government to re-establish basic functionality. The project activities were also aligned with the MPF objective of fostering socio-economic recovery and stabilization by supporting the payment of civil service salaries, and the running costs of government institutions; financing technical assistance and supporting the building blocks of larger public investment programs across a range of sectors. The Phase I of the Recurrent Cost and Reform Financing (RCRF) project was the first MPF grant to be operational, and reflected the particular and emergency conditions facing the Federal Government at this sensitive point in the Somali transition. When the project closed, its objective was still highly relevant, as fragile country conditions at the project launch were still prevailing.

Rating  
High

#### b. Relevance of Design

The project was designed as a six-month operation aimed at providing financial resources to pay salaries and recurrent costs for non-security sectors and provide technical assistance to build capacity in the Government. The components and sub-components were consistent with the specific PDO and included adequate activities, and the strengthening of technical capacity in the Government, especially in fiduciary and the civil service management. The results framework was sound, as there was a clear and convincing causal chain linking activities with the expected outputs and outcome. For instance, supporting the payroll was to be done through the payment of salaries, and the funding of experts that would build capacity in the Ministry of Finance's departments in charge of fiduciary aspects of the civil servant management.

A level two restructuring of the project activities and reallocation of resources affected the project design and its results framework, although the PDO relevance and statement were unchanged, and weakened the project design as less resources were made available to support the technical capacity dimension of the project. A portion of the resources initially devoted to funding components II and III were reallocated to the component I. Resources were moved from capacity building in the Ministry of finance and the civil service management to fund salaries and non-salary recurrent costs of the central Government. This reallocation allowed additional funding of Government salaries and recurrent costs rather than building technical capacity, which was compensated by the extension of MA funding by Norway.

Rating  
Substantial

### 4. Achievement of Objectives (Efficacy)



## Objective 1

### Objective

The Development Objective of this first project in the series is to finance and support an operational payroll and payment system for the non-security sectors.

### Rationale

Achievement of project objective is assessed against progress in PDO indicators: (i) the revised target for the number of civil servants in non-security sector paid was exceeded, as the number was 3,893 against a target of 3,600 and a baseline of 1970 (ii) the revised target related to the reduction of delay in payments of civil servant salaries in non-security sector was substantially missed. The delay in payments over the project life was on average 31 days, against a revised target of 12 days, and (iii) the number of payroll verifications undertaken by an independent agent was achieved, as the revised target of 8 verifications was reached at project closure.

Progress toward intermediate outcome indicators was uneven:

- Two indicators were satisfactorily achieved as follows: (i) the target of reviewing and approving withdrawal applications by an independent MA was exceeded as 8 reviews were completed against a target of 6 reviews, and (ii) the target of the number of monthly updates of the personnel and payroll databases in line with agreed eligibility criteria was exceeded, reaching 8 updates against a target of 6.
- Two indicators were partially achieved: (i) the target of the number of monthly payroll reports published on the Ministry of finance website was partially achieved, as 4 payrolls were published, against a target of 6, (ii) the target of having the Accountant General Office equipped and upgraded for payroll monitoring was partially achieved. While the civil services registry was uploaded in the Somali Financial Management Information System (SFMS) in February 15, the Bank team highlighted that there remain physical and capacity challenges for smooth management of public funds.
- Finally the following indicators were missed: (i) the activity of verifying reimbursements of non-salary recurrent cost expenditures was not carried out as the drafting of guidelines were delayed and the Government did not meet the necessary criteria for reimbursement, and (ii) the update and the approval of the Operations Manual for external affairs fiduciary section did not occur.

Overall, there was an increase in the number of civil servants paid, following new hiring and incorporation of other civil servants after the required processing of documents was completed. This highlights a robust verification process while also placing importance on systems that were strengthened by carrying out payroll processing through the SFMS, that had been put in place with other Bank support, and was implemented in a short period of time. The process of loading all civil servants' data on the SFMS ensured that controls were effective, but there were delayed payments due to data migration in the context of upgrading management systems. An independent MA undertook payroll verifications in order to ensure reimbursement of monthly salary to the FGS and the verifications were undertaken at defined dates for each ministry during each month and were based on biometric verification of each employee by the Central Bank of Somalia. However, the delay in salary payment could not be cleared, and will be a priority in the successor operation.

**The overarching Development Objective for the series of projects is to enable the Somali Government to achieve reliable and transparent financing of critical civil service operations to help strengthen the legitimacy of the state.**

This project contributed to the development objective of the planned series of projects as follows: (i) the payment of civil servant salaries in the non-security sectors contributed in the restoration of public confidence in the State and improved the fiscal position of the country and allowed the Government to provide basic services to the population; (ii) similarly, payment of salaries and allowances led to the non-accumulation of the country's financial obligations and freed up resources for support of expenditure in the social sectors, (iii) the increase in the number of civil servants and their regular payment, and the robust verification process which improved the controls around payrolls were made possible by a full-fledged SFMS, which enhanced transparency in the civil servant management, and has been progressively helping to enhance the legitimacy of the State.

### Rating

Substantial

## 5. Efficiency

There was no economic and financial analysis carried out at the time of the project preparation, given the dearth of economic data, the



ongoing conflict and fragility, and the challenge in determining costs and benefits. The exercise was not done at the project closure either. However, the ICR (p.36) indicated that (i) the project helped increase the aggregate demand, as compensation to employees formed approximately 50% of the annual FGS budget, and (ii) the Bank financing in the context of the FGS budget helped in injecting liquidity in the economy and in boosting the aggregate demand, thus supporting the economy recovery.

While recognizing the difficult environment of project implementation, the project management suffered from shortcomings: (i) the late restructuring of the project shifted resources from building technical capacity in the Civil Service Commission and the Fiduciary Department to the payment of salaries, diverting scarce resources from building technical capacity of a client with weak technical capacity. In the end, 8% of project resources were not used, and this was a lost opportunity for a fragile country; and (ii) despite the use of the MA and other fiduciary control mechanisms, there were fiduciary compliance issues. An external review of the Auditor General's report highlights "significant control deficiencies as well as instances of non-compliance".

Efficiency Rating  
 Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

\* Refers to percent of total project cost for which ERR/FRR was calculated.

## 6. Outcome

The objectives of the project were highly relevant, and the relevance of design was substantial. The operation was part of a package to provide the FGS with a window for state-building after two decades of a failed State. While the initial results framework was sound, a late restructuring affected the possibility to achieve parts of the project outcome.

Efficacy was substantial, because there was an increase in the number of civil servants paid, following new hiring and the integration of other civil servants, after the required processing of documents was completed. The implementation of payroll processing through the SFMIS allowed a robust verification process of the payment of salaries for civil service payments. Finally, an independent MA improved the payroll verifications before reimbursement of monthly salary to the FGS. On the weaker side, the activity of verifying reimbursements of non-salary recurrent cost expenditures was not carried out, and the update and the approval of the Operations Manual for external affairs fiduciary section did not occur.

Efficiency was modest, due to the cancellation of resources badly needed by the borrower, and fiduciary weaknesses, including missing internal controls and the existence of ineligible expenditures related to salary payments.



- a. Outcome Rating  
Moderately Satisfactory

## 7. Rationale for Risk to Development Outcome Rating

Key project development outcomes included an increased number of civil servants paid, payroll processing through the SFMIS, and enhanced payroll verifications. The Bank has committed to financing recurrent costs for the FGS as part of a series of projects and this financing would continue through the second phase of this project. This forms an integral part of the Bank's Interim Strategy Note (FY14-FY16). The follow-on project might provide more support to consolidate the SFMIS, and build capacity that would sustain the payroll verifications. Similarly, the Bank program series will continue to fund the salaries of civil servants as the Government slowly and progressively increases its tax revenue to take over that responsibility when the Bank program ends. In a normal context, the above plans should ensure sustained continuation of the achieved progress. In a conflict environment setting like in Somalia, everything is in flux, and that is why, despite the planned and on-going Bank interventions in supporting the the public financial management (PFM) domain and the salary payment system, risk to development outcome is assessed as substantial, because of the uncertainty in effectiveness and implementation of the planned projects, recovery of the country's economy, and sustained commitment to reforms by a fragile state.

- a. Risk to Development Outcome Rating  
Substantial

## 8. Assessment of Bank Performance

- a. Quality-at-Entry

The Bank team drew on the knowledge and lessons learned from reengaging with 6 fragile and post-conflict countries worldwide. This experience provided insights regarding the points of entry, the nature and duration of interventions, and the importance of coordination and building capacity at an early stage. There was also complementary support from the Bank's PFM Capacity Strengthening Project, inter alia in implementing the SFMIS. As the project was an emergency intervention, the project preparation was expedited.

Project implementation arrangement was designed to rely on country systems with some of the interventions aimed to strengthen the existing arrangements, which were made part of the project legal covenants. The project design provided increased supervision and implementation support missions and an MA was entrusted with responsibility for monitoring the monthly salary payments to civil servants and review of withdrawal applications to ensure that they are in line with Bank requirements.

Given the nature and the context of the intervention, the Bank team analyzed the multiple risks, ranging from security and multi-sector risks, to governance, corruption and payments risks, with mitigation measures identified. Finally, the implementing and M&E arrangements were appropriate and relied on the selection of an MA funded by a donor (Norway), and which has been supervising a Norwegian project supporting activities similar to those of the RCRF project. However, Bank's collaboration with the MA did not rely on solid protocols, as (a) eligibility criteria of expenses was not specified in the Project Operations Manual (as required by the Grant agreement), and (b) engagement with the MA was inconsistent with the Grant Agreement (GA) as it required a certification of expenses while the MA reports were presented as advisory opinions (ICR para. 67).



Quality-at-Entry Rating  
Satisfactory

b. Quality of supervision

The project was initiated and implemented rapidly, in response to an emergency situation in the country. The Bank team was adequately staffed to take up the supervision of a project that was rightly recognized as of high risk nature. Visits to Mogadishu could not be undertaken except during the first mission due to the prevailing security situation and the Bank had to rely substantially on the MA's reports. Overall, supervision of project activities was carried out diligently, as the Bank team undertook three Implementation Support Missions during the life of the project. Other training missions were conducted by the Bank team in Nairobi (i) to share the fiduciary aspects related to the project, including Bank fiduciary and operational requirements, and (ii) to support Financial Management Supervision. The Bank Review Missions in December 2014 and April/May 2015 were held in Nairobi as visits to Mogadishu were cancelled due to a travel embargo.

The project components were restructured, and the activities devoted to building technical capacity in the civil servants and fiduciary management were dropped, because they were being supported by Norway through the MA, and resources reallocated to pay salaries and recurrent costs of the Government. Finally, while supervision of the fiduciary aspects appears to have been overall reasonable, the MA supervision support ended up providing advisory opinion to the Bank, which was at variance with the required certification by the MA as prescribed in the Grant Agreement (ICR para. 46) .

Quality of Supervision Rating  
Satisfactory

Overall Bank Performance Rating  
Satisfactory

## 9. Assessment of Borrower Performance

a. Government Performance

The Project was implemented under the overall supervision of the Oversight Board, supported by an operating team and the External Assistance and Financial Section (EAFS) within the Accountant General's office, both located in the Ministry of Finance. The FGS extended sustained support to the project both at entry and during implementation despite a fragile security environment.

The MA uncovered shortcomings that fall under Government responsibility as follows: (i) there was a delay in the establishment of the internal audit function; and (ii) the Oversight Board did not meet and thus did not guide the project as envisaged. In addition, financing of eligible non-salary recurrent cost expenses for 4 MDAs did not take place because the Payment System Reform Task Force set up by the Government has not yet established criteria for eligible expenditures.

Government Performance Rating  
Moderately Unsatisfactory

b. Implementing Agency Performance

The EAFS within the Accountant General's office was the key implementing agency, supported in this by the MA. The EAFS ensured harmonization, donor coordination, and reduced duplication, fragmentation and proliferation of donor-specific financial management units. This arrangement was expected to promote a high level of synergy and complementarities, eliminate unnecessary duplication and promote program ownership by the Government. In the execution of the above mandate, the MA uncovered shortcomings that fall under the EAFS responsibility as follows: (i) monitoring arrangements for the non-salary expenditure could not be established and carried out until the end of the project period; and (ii) the guidelines related to treatment of uncollected salaries were delayed.

The MA was to monitor, review and recommend for approval, withdrawal applications and all expenditures related to this project, including non-salary operating costs. The MA was responsible for the review of personnel and payroll, expenditure review and other fiduciary compliance and the provision of technical assistance to ensure sustainability through knowledge transfer to government staff, including suitable ways to measure the results of knowledge transfer ownership by Government.





While the EAFS and the MA were effective in implementing the project in a challenging environment, the ICR reported that their collaboration was not optimal. While the Bank team was informed through regular reports about the shortcomings in project implementation on the ground, the MA did not share that information in a timely manner with the Government to adopt corrective measures.

Implementing Agency Performance Rating  
Moderately Satisfactory

Overall Borrower Performance Rating  
Moderately Satisfactory

## 10. M&E Design, Implementation, & Utilization

### a. M&E Design

The performance indicators were of good quality and were to measure progress made toward the expected results. Most outcome and outputs indicators were specific, quantitative, with baselines and end-targets. The PDO-level results were monitored using three key indicators and six intermediate result indicators linked to the financing and verification of payments to eligible civil servant salaries in the non-security sector. In terms of M&E design, the above-mentioned indicators and measures appeared to be sufficient given the focus of the project. M&E arrangements were appropriate as the EAFS and the MA were both well-equipped and staffed to collect and analyze implementation information, related to progress toward outcome

### b. M&E Implementation

On the FGS side, the implementation arrangements established for the project are reported to be reasonable, particularly with a strengthened staffing arrangements at the EAFS and the provision for an Oversight Board and Operating Team. However, the Oversight Board did not hold meetings to effectively supervise the project activities. The role of the MA was critical for the monitoring and evaluation system established for the project. The MA reporting covered several aspects of the M&E framework in addition to the fiduciary function of review of withdrawal applications. Progress toward results was made available through the monthly reports of the MA and the quarterly progress report of the FGS. The actual progress against indicators was reported in the Bank's ISR Reports and in the Aide Memoires for the three supervision missions.

### c. M&E Utilization

M&E utilization was challenged by the limited duration of the project (8 months), and the inability for the team to visit the capital city of the country. Because of these constraints, the Bank team was not able to support integrating the feedback from the ground and to interact sufficiently with a critical mass of Government staff in charge of the project implementation and feed into the project execution the insights from the field. However, information and data collected during supervision missions, and the MA reports provided inputs used to restructure the project. The same input was used to design the second operation of the program series which was approved two months after the project closure.

M&E Quality Rating  
Substantial

## 11. Other Issues

### a. Safeguards

The project was classified as safeguards category C, indicating that there were no requirements regarding environmental or social





assessment and management. Throughout the project implementation, the Bank team confirmed that there were no adverse environmental and social impacts, either caused by the project or by directly associated activities.

b. Fiduciary Compliance

**Financial management:** The overall fiduciary risk rating ranged between high to substantial, largely due to the weak institutional capacity and potential risk of financial mismanagement. The project received the following support: (i) the EAFS was supported by technical assistance provided by the Financial Management Unit; (ii) an MA was to provide an advisory opinion on all the recurrent cost salary payments; (iii) a Bank Risk Management Expert was to carry out in-depth transactional reviews ; (iv) external audits were to be conducted by the Office of the Auditor General with technical assistance support from a qualified practicing audit firm in the region; and (v) Bank financial management implementation supervision was undertaken every three months.

While the role of the MA was to provide advisory opinion, the MA repeatedly provided advisory reports with specific disclaimers, which were at variance with the required certification by the MA as prescribed in the Grant Agreement. Internal controls have been missing, ineligible expenditures relating to payment salaries were identified, and the Bank team worked closely with Government in ensuring that all the ineligible expenditures were excluded from the documented expenditures and the related costs taken up by Government.

**Procurement:** A procurement plan was prepared taking into consideration the provision of the Bank’s Policy for fragile states using flexible and simplified procurement procedures. All the procurements were undertaken expeditiously and within the timelines in the procurement plan.

c. Unintended impacts (Positive or Negative)

There were no intended impacts.

d. Other

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## 12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Satisfactory	Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---



Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

### 13. Lessons

This review concurs with the lessons identified in the ICR, especially those related to (i) the importance of strengthening technical capacity of post-conflict clients, with a view of using country systems as soon as possible, (ii) the Bank's innovation by using a simplified supervisory MA, and (iii) the sustained focus on core governance and anti-corruption reforms.

IEG identified two additional lessons as follows:

**(i) In special circumstances, temporary Bank's support through the payment of salaries for civil servants might be what is needed to prime the pump of reengagement with a post-conflict client.** The State of Somalia had been exceptionally weakened following decades in failed state status, and strife among communities and regions. The economy was decimated and fiscal revenue vanished, and the country did not have the needed resources to run a government. Joining efforts with the international community, the Bank used grant resources to pay civil servants salaries, and this contributed substantially to stabilizing the country, which is making progress toward a stable situation.

**(ii) To operate in unsecure post-conflict environments, the Bank has to be innovative through establishing well-identified partnerships.**

This review concurs with the lessons identified in the ICR, especially those related to (i) the importance of strengthening technical capacity of post-conflict clients, with a view of using country systems as soon as possible, (ii) the Bank's innovation by using a simplified supervisory MA, and (iii) the sustained focus on core governance and anti-corruption reforms.

### 14. Assessment Recommended?

No

### 15. Comments on Quality of ICR

The ICR was a comprehensive and concise account of the rationale behind project design, and key aspects of implementation. It was centered around the project objective, and the expected outputs and outcome, and the results framework was used to assess performance. While the ICR discussed and provided evidence for the first part of the outcome, analysis and evidence related to the second part (enhanced capacity in Government) of the outcome was insufficient. Other areas that needed improvement were: (i) the insufficient discussion of the cancelation of badly-needed resources and its consequences, and (ii) the clarity of figures related to the project's disbursed amounts in Annex 1.

- a. Quality of ICR Rating  
Substantial