Public Disclosure Authorized
Public Disclosure Copy
Public Disclosure Authorized
Public Disclosure Copy

INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE

Report No.: ISDSA13436

Date ISDS Prepared/Updated: 08-May-2015

Date ISDS Approved/Disclosed: 28-Nov-2014, 03-Jun-2015

I. BASIC INFORMATION

1. Basic Project Data

Country:	Somalia	**Project ID:**	P151492
Project Name:	Public Financial Management Capacity Strengthening Project II (P151492)		
Task Team Leader(s):	Winston Percy Onipede Cole		
Estimated Appraisal Date:	20-Mar-2015	**Estimated Board Date:**	15-Jun-2015
Managing Unit:	GGODR	**Lending Instrument:**	Investment Project Financing
Sector(s):	General public administration sector (90%), Sub-national government administration (10%)		
Theme(s):	Public expenditure, financial management and procurement (90%), Tax policy and administration (8%), Conflict prevention and post-con flict reconstruction (2%)		
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?			Yes
Financing (In USD Million)			
Total Project Cost:	20.00	Total Bank Financing:	0.00
Financing Gap:	0.00		

Financing Source	**Amount**
Borrower	0.00
Somalia Multi-Partner Fund	20.00
Total	20.00

Environmental Category:	C - Not Required
Is this a Repeater project?	No

2. Project 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.

Public Disclosure Copy

3. Project Description

1. The SPF-funded PFM capacity strengthening project (P146006) project that became effective in January 2014 is catalytic in laying the foundation for longer-term PFM reforms in the Federal Government. This project will scale up the activities and extend support to Puntland and Somaliland. Also, a strengthened PFM system is an enabler for implementation of social services and infrastructure investments, as well as increasing donor confidence in the use of country PFM systems where they are found adequate. Analytic and advisory services will be bank-executed to ensure high-quality outputs. The activities in the various components/sub-components will directly contribute to the PDO. Mechanisms for implementation are laid out in the Project Implementation Manual (PIM).

Component 1: Revenue mobilization, planning and budget preparation ($2,750,000)

Sub-component 1.1 Strengthening planning and budget preparation ($630,000)

2. Activities will be implemented to better integrate the recurrent and capital budgets, and improve the capacity of MDAs to prepare fully costed Medium-Term Sector Strategies (MTSS) that will inform the planning and budget preparation process in the targeted sectors (health, education, agriculture and environment.

3. Putting 'aid-on-budget' is the tipping point towards use of country systems. In Somalia, most Official Development Assistance (ODA) is 'off-budget' this inevitably leads to waste and corruption. The use of parallel systems to circumvent limited Government absorptive capacity has impeded aid effectiveness and the building of a more effective State. There are efforts to capture such assistance in the Development Assistance Database (DAD). This component will support the development of a framework to include aid-on-budget.

Sub-component 1.2 – Tax policy, revenue mobilization and tax administration ($2,120,000)

Public Disclosure Copy

4. There is a dire need to mobilize domestic resources to complement debt relief and donor aid to achieve development objectives. The main source of revenue for the Federal Government are taxes on international trade (customs duties are specific rather than ad valorem) and little from income and corporation taxes, which is unlike most other countries. Both Somaliland and Puntland are able to collect some revenues from Berbera and Bossasso ports to partially fund basic administrative structure and security, but not enough to invest substantially in social and economic development.

5. Whilst expanding the tax base; segmentation of taxpayers will be undertaken to introduce simplified and economical procedures for small and micro-size taxpayers to reduce compliance costs; and the tax regimes will be improved for the medium and larger taxpayers. This component will design measures to bring integrity into customs and tax administration. Concerted efforts for staff training including building in-house capacity to undertake tax audits and investigations based on risk analysis will be a long term venture.

Component 2: Treasury management, budget execution, procurement, accounting and financial reporting ($9,880,000)

Sub-component 2.1 Treasury management and budget execution ($1,500,000)

6. Somalia is a highly cash-based country and the financial services sector is only now

Public Disclosure Copy

emerging. As commercial banks emerge with appropriate banking sector infrastructure, they will be better placed to collect revenues more efficiently than tax offices which should focus on tracking taxpayers. It is desirable to establish a technical Cash Management Unit (CMC) in the Ministry of Finance with technically skilled staff to project, monitor, analyze and update cash plans. Also, an inter-departmental task force will develop a cash management policy with a framework for deciding on cash ceilings and periodic cash releases for line ministries.

7. Operationalizing the Treasury Single Account (TSA) in the Central Bank through which all revenue collections and authorized payments are made with regular bank reconciliation will lend credibility to the completeness and accuracy of financial reports for decision making and accountability. Training will be conducted for deriving cash plans from the annual work plans and linking same to procurement plans. Each Budget Entity will have a dedicated TSA sub-ledger bank account in the FMIS (not actual bank accounts operated outside the view of Treasury) to which monthly cash releases will be made and ring-fenced for exclusive use by the Budget Entity. This will give full control to the Accounting Officer (Permanent Secretary or Director General) to use the allocations based on payment vouchers that will be prepared by the line ministry and submitted to Treasury (until such time when the FMIS will be roll-out to line ministries) for processing. The FMIS will generate the payment to the direct beneficiaries through 'Payment Instructions' that will be submitted as final authority to the Central Bank for payment.
Sub-component 2.2 Accounting and financial reporting ($1,000,000)

8. Good quality in-year financial reports and annual financial statements are not consistently produced. Management usually perceive the purpose (or key benefit) of financial statements to be for compliance and accountability, not as useful information for informing decisions. In addition to the statutory compliance dimension, this sub-component will support activities to produce clear and concise financial statements that better articulate the meaning of what is being reported based on the audience/consumer of information to increase the use of financial statements by executive management for decision making; and elected officials and the public for measuring accountability/ performance in service delivery.

Public Disclosure Copy

9. Simple accounting procedures manual will be prepared to guide the preparation of annual financial statements in accordance with the 'Financial Reporting under the Cash Basis of Accounting' standard issued by the International Public Sector Accounting Standards Board (IPSASB). Practical training will be conducted for recognition and measurement of elements of financial statements and preparation of prescribed financial statements and the relevant disclosure notes. Tools will also be prepared to support the upload of in-year budget reports and annual financial statements in government websites in a format that is user-friendly for public consumption.

10. To ensure consistency in arriving at correct tax obligations and weighing the costs/benefits of applying International Financial Reporting Standards (IFRS) and considering the number of owner-managed business, the MoF will work closely with the Chamber of Commerce to adopt the Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by the United Nations Conference on Trade and Development (UNCTAD). Instead of an audit report that will increase the cost burden of small businesses, the tax authorities will consider relying on an 'Accountant Report' for businesses with a certain level of turnover to be determined after due consultation with relevant stakeholders. As security improves and with more establishment of Significant Public Interest Entities and Other Public Interest Entities, mechanisms for application

Sub-component 2.3 Concessions, procurement and contract management ($1,000,000)

Public Disclosure Copy

11. Public Procurement regulatory framework and Stores Regulations are outdated with no well-functioning procurement system in place. This sub component will primarily support the FGS's public Procurement reform and capacity building strategy preparation and implementation of immediate and medium term activities. As recommended by the MoF, the Government's draft public procurement strategy is the basis for these interventions. This sub-component will specifically fund the activities in the following areas: (i) legal and regulatory framework capacity building; (ii) institutional capacity building; (iii) procurement capacity assessment and development of capacity building strategy followed by training programs; (iv) monitoring and oversight capacity building (to enhance integrity and transparency of procurement). These activities will pave way for long term public procurement reform initiatives to embed sound supply chain and contract management

Sub-component 2.4 Financial Management Information Systems (FMIS) ($4,380,000)

12. A detailed needs assessment has been undertaken as part of the ongoing project for the Federal Government (P146006) and a similar approach is ongoing for Somaliland for a Bespoke Financial Management Information System (FMIS) that is user-friendly, robust and secure and focusing in the first instance on; capturing the approved budget, purchasing, treasury functions, payroll, tax collection and financial reporting. The following outputs have been delivered to date: (i) Statement Of User Requirements (SOUR) – hardware and applications; (ii) Conceptual Design with business process maps; (iii) System Design Document including conceptual diagram of the FMIS architecture with key functional components of the proposed solution; (iv) upgraded Standard Chart of Accounts (SCoA); (iv) Change management and training plan; and (v) an interim bespoke FMIS for Treasury Management with user guide. This has enabled the Federal Government to periodically post reliable financial reports on its website and thus living up to its commitment of transparency.

13. This project will continue the modular-incremental implementation path with emphasis on Training-of-Trainers (ToT) to create a cohort of FMIS Super Users who will be competent in supporting and maintaining the system in a sustainable manner and only escalating to the developers for second level support. Inclusive change management and extensive training for various categories of users and sensitization of the political class and the public will form a critical aspect of the implementation approach. This project will build on the interim solution and support the deployment of a web-based version with more modules and features accessible through a dedicated MoF Intranet (not internet!) that will provide secured access using latest security technology ensuring that only certified computers can have access to the system. Except for any proprietary software that is used; the design schemas, operational and technical documentation, and source code of the beskope application will be regulated by a Software Escrow Agreement to manage the ownership and relationship (administrative, financial, material, legal, etc) between the Government and the FMIS developers.

Public Disclosure Copy

Sub-component 2.5 Modernizing CBS banking operations and financial control environment ($2,000,000)

14. CBS core banking operations and systems are completely manual with no written procedures and incomplete records. As Somalia emerges from crisis, the volume of banking and accounting transactions processed is expected to grow considerably. This is expected to exert operational and financial control pressures and put additional strain on the manual banking and accounting systems. CBS needs to play its part in building up its operations and support use of country system by operating settlement accounts and maintenance of statutory reserve accounts for licensed financial

Public Disclosure Copy

institutions; operating an inter-bank system and constructing a national payment system; conducting monetary policy and foreign exchange operations. This will form the foundation for potentially linking with the other central banks and forge the beginnings of an interlinked national/federal payment system. Implementation of strong core banking operations and accounting systems will allow the CBS to deliver on its mandate for traditional central banking services and functions.

Component 3: Strengthening the integrity pillars ($1,945,000)

Sub-component 3.1 Foundations for Supreme Audit Institutions (SAI) ($1,795,000)

15. Even though the Supreme Audit Institution (SAI) is part of the state as a whole, it should have the financial, functional and organizational independence laid down in the Constitution in order for it to accomplish its statutory mandates. The SAI should have direct access to the required human, logistics, tools and monetary resources without control by the Executive - the Lima Declaration sections 5 and 7, Mexico Declaration on SAI Independence principle 8. Therefore, this component will support implementation of appropriate Audit Laws to provide for the legal and organizational independence of the Magistrate of Accounts and transform them to function in accordance with the core principles on SAI Independence: Lima Declaration of Guidelines on Auditing Precepts adopted in October 1977.

16. A Strategy and Development Action Plan will also be prepared and benchmarked against the SAI Performance Measurement Framework to enable compliance with the International Standards for Supreme Audit Institutions (ISSAIs) and other established international good practices for external public auditing. Also, the sub-component will support the Office of the Auditor General in its efforts to improve their engagement with civil society and citizens as to enhance the overall impact, relevance, and legitimacy of the audit process towards enhancing the external oversight of public funds.

Public Disclosure Copy

Sub-component 3.2 Plannin g, Finance and Public Accounts Committee (PAC) ($150,000)

17. Public Accounts Committees (PAC) existence and its success require three basic conditions: proper staffing and information, non-partisan functioning of the committee, and media coverage. They undertake this oversight function in two ways: they oversee the preparation of a given policy (ex-ante oversight), or they can oversee the execution and the implementation of a given policy (ex-post oversight). A major challenge facing SAIs is that quite often; their recommendations are ignored or not implemented by government departments. This sub-component will support the strengthening of the planning, finance and PAC Secretariat with procedures to analyze budget, financial statements and audit reports and provide technical advisory services to the committee members for conducting well-structured public hearings and vetting minutes with the Chairman before finalization. Also, activities will support the design of follow-up mechanisms to ensure that audited bodies prepare an action plan based on SAI observations and PAC recommendations which is tracked by the SAI and comments provided in subsequent reports on how the audited bodies have responded to the recommendations. Progress against implementation of recommendations when publicized will provide non-state actors with information to advocate for accountability.

Component 4: PFM professionalization ($1,000,000)

18. Beyond availability of good laws and institutional structures, PFM improvement requires capability at the level of individual PFM practitioners. There is a dearth of suitably qualified officers

Public Disclosure Copy

to perform critical PFM functions. A PFM Education and Training Program will build capacity at the individual level for planning and budget preparation officials, procurement officers, accountants and internal and external auditors to obtain the required capability knowledge, skills, abilities and other characteristics (values, integrity etc.). The Education and Training Program is geared to ensure learning to cover the PFM Process Architecture: Elements and Components. To portray the right public service ethos, change management efforts encompassing attitudinal and behavioral change will be required to complement the main output of a cohort of technically skilled PFM practitioners to achieve the expected outcome of improved PFM performance. Procurement will be included as a stream by collaborating with the International Training Centre of the International Labour Organization (ITC-ILO). The education and training program when implemented will create a cohort of skilled PFM practitioners with the required capabilities and competences to perform core PFM tasks across government. Staff will also need to take personal responsibility for managing their career development. A PFM for Managers Scheme will ensure that proper workplace coaching and mentoring is provided to students.

Component 5: Project oversight, coordination and management ($2,925,000)

19. The PFM Reform Oversight Committee (ROC) 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 Technical Steering Committee (TSC) members will be accountable for the success of the various project activities and expected results. Their responsibilities will be in addition to their normal work, it is important that they direct the project by ‘management by exceptions’, keeping regularly informed by Component Implementation Teams (CIT) but only asking for joint decision making at key points in the project.

20. The Public Financial Management Reform Coordinating Unit (PFMRCU) will anchor the reform and capacity building efforts. A Government PFM Reform Coordinator will be responsible for day-to-day coordination of the reform activities and serve as the key interlocutor for the Component Implementation Teams (CIT) and ensuring proper sequencing of activities expected to be funded by various donors. PFM Subject Matter Experts (SMEs) will provide technical assistance services with a clear capacity building and exit strategy with skills transfer arrangements (hand-holding approach) by embedding the arrangements within government structures and working closely with the CITs that will be led by Heads of the key PFM institutions.

Public Disclosure Copy

21. Since the PFM legal framework cuts across the various PFM components; the PFMRCU will coordinate the processes of ensuring enactment of and training on the various PFM Laws. The PFMRCU will also be responsible for change management; security and logistics; and Monitoring and Evaluation (M&E) for the project.

22. Avoiding surprises by ensuring strategic communication to politicians about benefits of the reforms including exactly what will change, when and how is crucial and will be undertaken through Information, Education and Communication (IEC) campaigns that will target key stakeholders.

Component 6: Demand-driven Just-in-time services (Bank Executed) ($1,000,000)

23. This component will be implemented by the Bank on behalf of the beneficiaries according to paragraph (12)(d) of the Bank’s Operating Policy OP 10.00 due to insufficient capacity by the beneficiaries to undertake such technical analytic and advisory work. The bank executed component

Public Disclosure Copy

will follow applicable internal Bank procurement rules and are limited to activities which involve the procurement of small contracts for goods and works, and the provision of technical assistance.

Sub-component 6.1 Social Accountability and Open Government Data (OGD) ($500,000)

24. Civil society organizations are emerging to clamor for government effectiveness but the reality is that they are weak. In collaboration with World Bank Institute (WBI) and the World Bank Civil Society Team, support will be provided for establishing, providing tools and training 'Issue-based Networks' to have space to work on a regular basis in advocating constructively for change in pursuit of the social agenda. Advocacy networks for Campaign for Good Governance (CGG) comprising of relevant non-sate actors are critical elements of the integrity pillar and will also be trained to undertake independent policy and budget analysis, revenue-watch and expenditure-tracking. As the reforms progress and in anticipation of spending on social services, Public Expenditure Tracking Surveys (PETS) will be undertaken. The results of the PETS will form part of the annual PFM forum and will form part of the information used to judge public perceptions about PFM performance.

25. Making key fiscal data available to the public through Open Government Data portals will provide a platform for holding government accountable for the use of public funds. To push the boundaries for fiscal transparency, support will be provided to disseminate fiscal datasets (revenue and expenditure) in accessible formats (i.e., soft copy), by working closely with the BOOST Initiative.

Sub-component 6.2 Governance/PFM Reviews and Advisory Notes ($500,000)

26. The objective is to provide actionable PFM policy notes that respond to emerging PFM issues. Support will be provided by working closely with key government counterparts to formulate focused policy notes that will guide choice of appropriate interventions in tackling socio-economic issues. Support will be provided for conducting a joint-PEFA assessment through a Government Task Force that will be established with participation of Development Partners and Non-State Actors. This assessment will provide an opportunity to make adjustments to the reform action plans and feed into the project M&E.

Public Disclosure Copy

27. With the objective of reforming and modernizing customs administration to increase its efficiency, effectiveness and accountability, and promote trade facilitation; the project will seek to apply the Customs Assessment Trade Toolkit (CATT) targeting subject to political acceptance, the Berbera seaport and Hargeisa airport in Somaliland; the Bosasso seaport in Puntland; the Mogadishu seaport and Mogadishu international airport; Kismayo seaport in the Interim Juba Administration may not be possible at this point as the regional government is just emerging. From the evaluated relative strengths and weaknesses, a performance improvement plan will be prepared for implementation to bring the various customs administration to good practices.

4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will be carried out with Somali counterpart institutions in the Federal Government, Puntland State and the Somaliland Territory. The only physical activities that are foreseen are the procurement of electronic hardware (computer terminals, serves) and small scale, indoor works to refurbish and retrofit office space and server rooms to accommodate the hardware.

Public Disclosure Copy

Public Disclosure Copy

5. Environmental and Social Safeguards Specialists

Wolfhart Pohl (GCFDR)

6. Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	An environmental screening is carried out by default for every Bank financed project to determine the environmental category and design an adequate assessment and management response. The works that might be carried out under this project are expected to have no or negligible environmental or social implications and no negative impacts. They will be confined to existing structures, be simple and non-hazardous in nature, restricted to very basic, small scale refurbishment, painting, cabling and possibly the installation of new doors and windows in areas encompassing several rooms only, within existing buildings in the property of, and used by the Somali Government. No specific safeguards instruments would be required to manage or mitigate the anticipated impacts, but the team will proactively manage the small works by helping the Borrower to prepare a simple EMP.
Natural Habitats OP/BP 4.04	No	The project will not be implemented in or near natural habitats.
Forests OP/BP 4.36	No	The project does not involve forests.
Pest Management OP 4.09	No	The project does not involve pest management.
Physical Cultural Resources OP/BP 4.11	No	The project does not affect or involve physical cultural resources.
Indigenous Peoples OP/ BP 4.10	No	There are no Indigenous Peoples in the project area.
Involuntary Resettlement OP/BP 4.12	No	The project does not involve land acquisition leading to involuntary resettlement and/or restrictions of access to resources or livelihoods.
Safety of Dams OP/BP 4.37	No	N/A
Projects on International Waterways OP/BP 7.50	No	N/A
Projects in Disputed Areas OP/BP 7.60	No	The project will not be implemented in a disputed area.

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify

Public Disclosure Copy

and describe any potential large scale, significant and/or irreversible impacts:
The works that might be carried out under this project are expected to have no or negligible environmental or social implications and no negative impacts. They will be confined to existing structures, be simple and non-hazardous in nature, restricted to very basic, small scale refurbishment, painting, cabling and possibly the installation of new doors and windows in areas encompassing several rooms only, within existing buildings in the property of, and used by the Somali Government. The civil works will be undertaken in accordance with national and local laws and procedures.
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
N/A
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
N/A
4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
Somalia is a fragile state with limited capacity to do environmental and social management. The environmental impacts of this project, however, are negligible to minimal, and can be easily handled, with the guidance of the project's simple Environmental Management Plan (EMP).
5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
The key stakeholders are the employees of the government institutions. The small repairs will be undertaken in existing government buildings and will not affect local communities.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	09-Apr-2015
Date of submission to InfoShop	07-May-2015
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	////
"In country" Disclosure	
Comments:	
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/ Audit/or EMP.	
If in-country disclosure of any of the above documents is not expected, please explain why:	

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment	
Does the project require a stand-alone EA (including EMP) report?	Yes [ ] No [ ] NA [×]
The World Bank Policy on Disclosure of Information	

Public Disclosure Copy

Public Disclosure Copy

Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [ ] No [ ] NA [×]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [ ] No [ ] NA [×]
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [ ] No [ ] NA [×]
Have costs related to safeguard policy measures been included in the project cost?	Yes [ ] No [ ] NA [×]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [ ] No [ ] NA [×]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [ ] No [ ] NA [×]

III. APPROVALS

Task Team Leader(s):	Name: Winston Percy Onipede Cole	
Approved By		
Practice Manager/ Manager:	Name: Renaud Seligmann (PMGR)	Date: 03-Jun-2015

Public Disclosure Copy