

PROJECT INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.: PIDA14925

Project Name	Public Financial Management Capacity Strengthening Project II (P151492)
Region	AFRICA
Country	Somalia
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-conflict reconstruction (2%)
Lending Instrument	Investment Project Financing
Project ID	P151492
Borrower(s)	Federal Government of Somalia
Implementing Agency	Ministry of Finance
Environmental Category	C-Not Required
Date PID Prepared/Updated	27-Nov-2014
Date PID Approved/Disclosed	04-Dec-2014
Estimated Date of Appraisal Completion	24-Dec-2014
Estimated Date of First Grant Approval	23-Jan-2015
Decision	

I. Project Context

Country Context

1. Somalia has been in conflict for over twenty years during which time it has not had a legally recognized government. Since the collapse of the Siad Barre government in 1991 southern Somalia has experienced cycles of conflict that fragmented the country, destroyed legitimate institutions and created widespread vulnerability. Between 1988 and 1993 civil war destroyed Mogadishu and Hargeisa, resulted in 50,000 civilian deaths in north-west Somalia alone and exacerbated the 1991 famine which had 250,000 victims. Peace conferences finally led to the formation in 2000 of the Transitional National Government, and then the Transitional Federal Government in 2004, but both were undermined by 'warlordism', mismanagement and international interference giving rise to militia-based opposition and today's al Shabab movement. Shaped by long years of conflict, a dynamic has developed in Somalia's economy in which economic and political actors face incentives to perpetuate conflict in order to sustain and divert associated revenue streams.

2. Despite today's more positive outlook, Somalia's economy and population of around 9-10 million remain vulnerable to shocks. In the absence of stable institutions, the combination of conflict, environmental degradation and harsh climate have resulted in a series of natural disasters resulting in full-scale humanitarian crises. Today, Somalia is still recovering from the 2011 drought which affected 13 million people in the Horn of Africa and resulted in 260,000 deaths in Somalia. Although food security has improved, 870,000 people remain food insecure and an additional 2.3 million – one fourth of the population - remain vulnerable to food insecurity. Displaced by conflict and famine, over 1 million Somalis live as refugees in the Horn of Africa and Yemen and 1.1 million remain inside Somalia as internally displaced persons (IDPs). Poverty is estimated to be 73 percent; extreme poverty 43 percent – however statistical and data work is required to validate the country's poverty profile.

3. In contrast to the war-torn south, Somalia's northern regions have put in place functioning institutions that have succeeded in sustaining stability although considerable development challenges remain. Following their declaration of independence and semi-autonomy respectively, Somaliland and Puntland have developed hybrid forms of governance combining modern institutions with religious authorities, civil society, the private sector and diaspora organizations, which have guaranteed higher levels of peace, security and institutional development. While substantial development challenges remain, the starting point for development work is nevertheless different in the north. Nevertheless, Puntland and Somaliland seek very different futures: while Somaliland's constitution envisages an independent existence, Puntland is committed to participate in Somalia's federal system. Somaliland in June 2010 held presidential elections for the second time and power was peacefully transferred to the opposition. Local elections were also held in November 2012. Democratic elections are expected for the Federal Government in 2016.

Sectoral and institutional Context

4. The Joint Needs Assessment (JNA) of PFM systems in Puntland, Somaliland and South Central Regions done by UNDP, DFID and World Bank in 2006-2007 at the request of the Somali authorities and the international community revealed that the "systems that manage public resources are very weak". The JNA led the UN and World Bank to put together the Somali Reconstruction and Development Program (RDP) with three main pillars to: (i) deepen peace, improve security and establish good governance; (ii) strengthen basic social services (especially education, health and water supply); and (iii) rebuild infrastructure, together with other actions, to expand economic opportunities, employment and incomes. However, long-term impactful reforms are yet to be undertaken across the regions since the JNA. Somalia ranks last the Transparency International Corruption Perceptions Index (CPI) for the recent three years.

5. The various PFM diagnostics show that long-term impactful reforms are yet to be undertaken since the JNA and that the PFM systems and processes are still weak and prone to fraud and error; the 2012 UN Monitoring Group Report underscored the linkages between corruption and legitimacy, highlighting that "corruption, embezzlement and fraud are no longer symptoms of mismanagement, but have in fact become a system of management."

Federal Government of Somalia

6. The Federal Republic of Somalia Legislature and the Presidency have prioritized security, justice and PFM integrity at the top of the country's development agenda. This is driven by improved security, regaining of political legitimacy, and need to build citizens' confidence and

relationship with Development Partners (DPs) that public funds will be managed in a transparent, equitable and accountable manner. The President's Foundations of New Beginning: "Six Pillar Policy" are in line with the Peace-building and State-building Goals (PSGs) of the New Deal for Engagement in Fragile States (the "New Deal") particularly goal 5. A government-led PFM self-assessment was undertaken to develop a PFM Capacity Strengthening Initiative which was launched internationally in May at the Somalia Conference in London. The Federal Republic of Somalia 'PFM Reform Architecture' is underpinned by the Government's "Foundations of New Beginning: Six Pillar Policy" particularly pillar one that deals with good governance. The PFM reforms are anchored on four platforms as shown the figure below: (i) instituting PFM fundamentals for budget credibility; (ii) effective budget execution and financial accountability; (iii) improved policy formulation, planning and budgeting; and (iv) institutional structures; Strategic Human Resource Management (SHRM); Financial Management Information Systems (FMIS); and cross-cutting issues.

7. With Bank's technical guidance and funding from DFID; Ernst & Young provided technical assistance for (i) hands-on support to the Parliamentary Finance Committee for conducting public hearing on the 2012 audit report and a procedures manual to do this on a consistent basis, drafting an Audit Bill; (ii) organizational structure and job description for the Accountant General's Department including scheme of service and establishment of the External Assistance Fiduciary Section (EAFS), development of operations manual and conducting training; and (iii) proving comments on the Public Financial Management Bill. Two individual consultants also supported the implementation of an interim financial management information system that was used to capture transactions for 2013 and produce fiscal reports that are made public on the ministry of finance website. These quick-wins have provided impetus for this longer-term project

8. Despite the commitments above, the recent resignation of the Governor of the Central Bank of Somalia has raised questions regarding the commitment of the Federal Government to good governance. If not promptly and credibly addressed by appropriate actions, it threatens to unravel the Somalia Development Compact with international partners and undermine the legitimacy of the government in the eyes of the Somali public. It is in this context that the Federal Government of Somalia has proposed a program to strengthen financial governance which would both provide a sense of the concrete actions that the FGS will undertake and address doubts about the capacity for implementation. The financial governance program is very much focused on establishing "functionalities" in key agencies which are essential for transparent financial governance and the approach is therefore distinct from a broad based capacity building program.

Somaliland

9. The Public Financial Management (PFM) Capacity Building Project funded by the LICUS TF094672 which closed in November 2011 supported only the Government of Somaliland (GoSL) because there were security concerns that restricted the Bank from engaging in South Central and Puntland. The project supported GoSL to develop Bills for strengthening the PFM legal and regulatory framework; standard bidding documents for goods, works and consultancies; and the enabling regulations and operating procedures manuals.

10. The Government is determined to continue and to step up reforms of the Public Finance Management system. A PFM Reform Strategy has been formulated to improve government's capacity and systems to utilize public funds towards meeting the National Development Plan (NDP) goals, and ultimately those of Vision 2030. The Somaliland-led PFM reform strategy and action

plan identifies the priorities for reform, provides a structured and sequenced framework to carry out specific reform activities, guide the mobilization of resources, and improve coordination as well as sustainability of the reforms aimed at strengthening PFM systems. The vision is to “achieve the highest possible efficiency, transparency and accountability in the allocation, management and use of public finances to meet the GoSL’s development and economic growth priorities”.

11. Government has established the “Somaliland Development Fund” within the Ministry of National Planning and Development, supervised by a Steering Committee and to which donors such as the DFID and Danida have already contributed. The SDF uses an independent firm for fiduciary arrangements. Benchmarks for transiting to use of the Somaliland PFM system will be aligned with key performance indicators from the PFM reform action plan and the PSG 5 priorities.

Puntland

12. In the last several years, the government of Puntland has initiated and implemented several reforms in PFM and public administration reforms. These included tax and budget reforms and the establishment of the civil service commission among other initiatives. Some of the reforms at the Central Government (National) and the Local Government (Sub-National) levels have attracted technical and financial support from the international development partners, notably the United Nations (UN) agencies. Whereas donor support is in most instances aligned with the real needs of the people of Puntland there is a risk of fragmenting the support due to lack of a written country led reform strategy to guide donor support and ensure synergies and coherence from all the reform actors. There are opportunities to improve coordination and effectiveness of donor support by adopting a common government led PFM Reform strategy as the basis for all donor support to PFM reforms. In this regard, a government-led PFM self-assessment is planned to be conducted to underpin a comprehensive PFM reform strategy and action plan. The strategy would reflect country specific priorities and be based on a homegrown agenda with strong government ownership and leadership. To implement the strategy, an action plan detailing the actual activities to be implemented to achieve a particular objective, time line and resource requirements such as technical assistance and funding would also be prepared. The PFM reform strategy would come into force through a government policy instrument such as a presidential decree.

13. The Puntland authorities have discussed public sector reforms issues and challenges and proposed a vision of “effective Government and sustainable service delivery for all” to be implemented through four main reform components: (i) managing public finance and procurement; (ii) managing human resources; (iii) building institutions and measuring performance; and (iv) improving service delivery. A Puntland Public Financial Management reform strategy concept note was also prepared.

The Interim Jubba Administration (IJA)

14. IJA has determined that 10 ministries should be established. The first step will be to prepare a draft organizational structure for consideration by the IJA leadership. This structure initially will only contain the departments necessary to implement the budget preparation, budget execution, cash management and banking, accounting and reporting and limited IT support functions. Also critical is the Kismayo Port and Airport Authorities with respect to their revenue-raising functions. The Somalia Stability Fund (SSF) is providing support in “Establishing Immediate Public Financial Management Arrangements for the Interim Jubba Administration”; where feasible, the IJA consultants are ensuring that consistency with the FGS PFM initiatives.

15. So far, budget preparation manual, budget circular and budget templates were delivered to IJA on 30 April, 2014 for distribution to Ministries for preparation of agency budgets. Plans are in the way for implementation of a Financial Management Information System (FMIS) based on the Bisan Enterprise (Government Edition) application. The current major challenges include: slow progress in staff for MoF; refurbishment of MoF building; and lack of an acceptable banking facility in Kismayo --- in general, use of the Hawala system for this purpose has not been favourably viewed by IJA Ministers.

Strategic approach to respond to the Somalia context

16. As noted by Hilderbrand and Grindle (1997:31), “governments have failed to fashion appropriate roles for the state in development; they have been unable to organize and manage systems that identify problems, formulate policies to respond to them; implement and sustain activities over time”. Without attention to institutional transformation, countries are susceptible to a vicious cycle of repeated violence (WDR 2011:47). Therefore, to address the capacity weaknesses in Somalia that affect the ability to perform PFM tasks effectively, efficiently and sustainably, the capacity building efforts (reform activities) will be targeted around the five main dimensions of capacity which are interactive and dynamic: (i) Action environment - the economic, political, and social milieu in which the governments carry out their activities affect socio-economic development; (ii) Institutional context of the public service - the PFM legal and regulatory and other procedures set for government operations are outdated. Most PFM tasks are performed by unqualified personnel with career progression based on seniority rather than merit-based; financial resources are limited and responsibility for social services are mainly performed by the private sector and non-governmental organizations (NGO) with unstructured policy guidance, standard setting, coordination and monitoring by relevant government bodies; (iii) Task network - the set of organizations composed of public sector organizations, private sector and NGOs involved in performing given tasks often do not communicate and coordinate effectively leading to duplication of efforts and sub-optimal delivery of services (schools/hospitals build but not enough or suitably qualifies teachers/nurses); (iv) Organizations - ministries, departments and agencies (MDAs) are the building blocks of the task network and the structures, processes, resources, and management styles of the MDAs affect how development goals are established and also how sub-systems within MDAs and across MDAs work together in delivering organizational outputs towards achieving shared objectives/outcomes in a transparent, efficient and effective manner; and (v) Human resources --- attraction, effective utilization and retention of suitably qualified PFM professionals is a major challenge as there has been brain drain over the years. Technical, managerial and professional PFM talents are urgently needed. MDA performance and human resource capability for PFM tasks are strongly interconnected and dependent on sustained capacity development with emphasis on establishing an organizational culture of flexibility, problem solving, participation, teamwork, shared professional norms and a strong sense of mission. A long-term PFM education and training program that is well-focused on building PFM competencies complemented by similar intervention for other public sector tasks will improve the functional performance of the overall government.

17. The capacity dimensions above are vital for change responsiveness and therefore, public sector organizations in in the Federal Government, Puntland and Somaliland will be better positioned to embrace the opportunities that reforms (change) presents, if the structures and leadership (political and administrative) allow individuals to observe the effects of their actions when they recognize unsolved problems and are able to adapt to solve new problems i.e. “learning

to learn”. This will build the states’ resilience and capability in recognizing and responding adequately to the dynamics of reforms.

18. The Bank has therefore taken a strategic decision to be selective and focus on areas that build upon work already started under the PFM capacity strengthening project (P146006) and other ongoing/planned interventions to fill critical reform gaps and particular complement the capacity injection project. This project will establish the PFM fundamentals that will underpin the recurrent cost window of the MPF and provide the much needed technical assistance for the Federal Government to meet the PFM commitments of the Financial Governance Program. The whole design recognizes the absorptive capacity, resource availability and the need to focus on getting the basics right before venturing into more sophisticated reforms

II. Proposed Development Objectives

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

III. Project Description

Component Name

Component 1: Macro-fiscal policy formulation, revenue mobilization, planning and budget preparation

Comments (optional)

The objective of this component is to improve the realism of the budget and instill fiscal discipline
Sub-component 1.1 Introduction of Medium Term Fiscal Framework (MTFF), planning and budget preparation

Sub-component 1.2 – Tax policy, revenue mobilization and tax administration

Component Name

Component 2: Treasury management, budget execution, procurement, accounting and financial reporting

Comments (optional)

The objective of this component is to strengthen controls needed for fiscal discipline and promote transparency and accountability.

Sub-component 2.1 Treasury management and budget execution

Sub-component 2.2 Accounting and Financial Reporting

Sub-component 2.3 Concessions, procurement and contract management

Sub-component 2.4 Financial Management Information Systems (FMIS)

Sub-component 2.5 Records Management

Sub-component 2.6 ‘Mobile money’ transfer systems

Component Name

Component 3: Strengthening the integrity pillars

Comments (optional)

The objective of this component is to strengthen key integrity pillars to hold government accountable for the use of public funds.

Sub-component 3.1 Foundations for Supreme Audit Institutions (SAI)

Sub-component 3.2 Planning, Finance and Public Accounts Committee (PAC)

Sub-component 3.3 Establishing the internal audit function

Component Name

Component 4: PFM professionalization

Comments (optional)

The objective of this component is to build PFM competencies.

Component Name

Component 5: Project oversight, coordination and management

Comments (optional)

The objective of this component is to provide a structured approach to PFM institutional capacity strengthening.

Component Name

Component 6: Analytic and Advisory Services (Bank Executed)

Comments (optional)

The objective is to provide actionable PFM policy notes.

Sub-component 6.1 Social Accountability and Open Government Data (OGD)

Sub-component 6.2 Governance/PFM Policy Notes

Unallocated (US\$1,500,000)

Performance based and physical/price adjustments

Component Name

Unallocated

Comments (optional)

Performance based and physical/price adjustments

IV. Financing (*in USD Million*)

Total Project Cost:	40.00	Total Bank Financing:	0.00
Financing Gap:	20.00		
For Loans/Credits/Others			Amount
Borrower			0.00
Somalia Multi-Partner Fund			20.00
Total			20.00

V. Implementation

19. The PFM Reform Oversight Committee (ROC) is set at the political level and has authority because they are the decision makers and responsible for the commitment of human and financial resources needed to implement the PFM reform strategy successfully. The ROC will report to the Office of the President that set the political tone for the broad governance reform agenda and manage any resistance to the reforms.

20. The Technical Steering Committee (TSC) members comprising of Heads of the various PFM institutions and line ministries representing key front-line service delivery will be accountable for the success of specific projects to implement the reform strategy as laid out in the PFM reform action. The TSC will be responsible for providing technical guidance for meeting the reform objectives and ensuring coherence and coordination of the various components by reviewing and endorsing annual work plans and budgets.

21. A Public Financial Management Reform Coordinating Unit (PFMRCU) in the Ministry of Finance 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. The CITs will be led by the functional heads responsible for the PFM subject matter with sub-groups of inter-departmental members formed to deal with specific issues. This will ensure broad understanding, consensus and ownership during implementation. This approach puts the core government functionaries at the centre of the implementation to engender skills transfer and sustainability.

22. The Bank project team is multi-disciplinary to ensure successful implementation and monitoring of this project. The team will be led by a Task Team Leader (TTL) with hands-on experience of leading similar PFM reforms as a Government PFM practitioner and also in designing and supporting similar reforms in fragile-state environment. The Fragile and Conflict States Hub has created a Solutions Team with a mandate to gather and disseminate best practices in response to the unique implementation challenges in FCS and bring those lessons “straight to the doorstep” of task teams.

23. A key PFM finding of the 2006-2007 Joint Needs Assessment (JNA) of PFM systems in Puntland, Somaliland and South Central Regions was that ‘systems that manage public resources are weak’. Similarly, the April 2013 PFM self-assessment for the Federal Government which focused mainly on the central government PFM activities revealed serious capacity weaknesses similar to those identified by the JNA. However, in furtherance to the Paris Declaration on Aid Effectiveness (2005), the Principles for Good International Engagement in Fragile States and Situations (2007), the Accra Agenda for Action (2008), and the Busan Partnership for Effective Development Co-operation (July 2012), there is deliberate effort as part of the New Deal 'FOCUS' and 'TRUST' principles to use country systems. The underlying principle is ‘country-ownership’ anchored in the “strengthened PFM approach” – a common framework that has been widely agreed among the Bank and development partners, and is in line with the Bank’s overall approach to strengthening its PFM work.

24. An External Assistance Fiduciary Section (EAFS) in the Accountant General’s Department is designed to ensure harmonization, donor co-ordination, reduce duplication, fragmentation and proliferation of donor-specific financial management units. The underlying principle is ‘country-ownership’ anchored in the “strengthened PFM approach”. The organizational structure for the EAFS takes into consideration the key areas of authority and responsibility and appropriate lines of reporting and comprise of staff with relevant and adequate qualification and experience acceptable to the Bank. The main functions of the EAFS will be planning, budget preparation, procurement, accounting and reporting of recipient-executed external assistance.

25. Separate Designated Accounts (DA) will be established for the Federal Government, Puntland and Somaliland (consistent with the Somaliland Special Arrangement). Funds will flow directly to the DAs and managed by the EAFS in the various Accountant General’s Departments where all the fiduciary controls and accountability will lie for the use of the grant proceeds.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	

Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

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.

This project does not warrant a separate dialogue on safeguards, as the anticipated impacts really are negligible. However, to sensitize the counterpart towards good practice, and create an example for subsequent projects with potentially more significant impacts, a short, checklist type EMP will be supplied during the implementation phase with tender and contract documents to provide guidance, and establish contractual leverage on good housekeeping, waste management, and workplace and community health and safety.

The counterpart's capacity in planning, implementing and supervising any due diligence measures (environmental, technical, overall quality) is currently deemed very low, and the team sees this project without any formal requirements and no actual issues as a good platform to familiarize Somali agencies with basic quality management practice.

VII. Contact point

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