

Document of
The World Bank

Report No: PAD1200

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF TWENTY MILLION DOLLARS
(US\$20 MILLION)

TO THE

FEDERAL REPUBLIC OF SOMALIA

FOR A

SECOND PUBLIC FINANCIAL MANAGEMENT CAPACITY STRENGTHENING
PROJECT

July 01, 2015

Governance Global Practice
Africa Region

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CURRENCY EQUIVALENTS

Exchange Rate Effective (04/09/2015)

Currency Unit = Somalia Shilling (SOS)

21,000 SOS = US\$1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank	MoF	Ministry of Finance
AGD	Accountant General's Department	MPF	Multi Partner Fund
AGO	Accountant Generals Office	NCB	National Competitive Bidding
AWP	Annual Work Plan	NDP	National Development Plan
BCM	Business Continuity Management	NGOs	Non-Governmental Organizations
CAATs	Computer Aided Audit Techniques	OAG	Office of Auditor General
CATT	Customs Assessment Trade Toolkit	ODL	Online Distance Learning
CBS	Central Bank of Somalia	OGD	Open Government Data
CBSL	Central Bank of Somaliland	OLAP	Online Analytical Processing
CGG	Campaign for Good Governance	PAC	Public Accounts Committee
CIPFA	Chartered Institute of Public Finance and Accountancy	PAD	Project Appraisal Document
CMU	Country Management Unit	PDC	Primary Data Center
COPM	Comprehensive Operating Procedures Manual	PDEs	Procuring and Disposal Entities
CSO	Civil Society Organization	PDO	Project Development Objectives
DA	Designated Accounts	PEFA	Public Expenditure and Financial Assessment
DAD	Development Assistance Database	PEM	Public Expenditure Management
DFID	Department for International Development	PETS	Public Expenditure Tracking Survey
DRC	Disaster Recovery Center	PFM	Public Finance Management
EAFS	External Assistance Fiduciary Section	PFM	Public Finance Management
EFT	Electronic Funds Transfer	PFM TC	Public Finance Management Technical Committee
EFT	Electronic Funds Transfer	PFM-JSC	Public Finance Management Joint Steering Committee
ESI	Electronic Stored Information	PFM-JSC	Public Finance Management Joint Steering Committee
EU	European Union	PFMRCU	Public Financial Management Reform Coordinating Unit

FCS	Fragile and Conflict Affected States	PKI	Private Key Infrastructure
FM	Financial Management	RPO	Recovery Point Objective
FR	Financial Regulations	RTO	Recovery Time Objective
GoSL	Government of Somaliland	SBD	Standards Bidding Documents
GRS	Grievance Redress Service	SCoA	Standard Chart of Accounts
HLACF	High Level Aid Coordination Forum	SLA	Service Level Agreement
HRM	Human Resource Management	SL-FMIS	Somaliland Financial Management Information System
HS Codes	Harmonized System Codes	SMEs	Subject Matter Experts
HWA	Hargesia Water Agency	TA	Technical Assistance
IATI	International Aid Transparency Initiative	TIN	Taxpayers Identification Numbers
IBRD	International Bank for Reconstruction and Development	TOR	Terms of Reference
ICB	International Competitive Bidding	ToT	Training-of-Trainers
ICBF	Institutional Capacity Building Framework	TPPA	Third Party Procurement Agents
ICT	Information and Communication Technology	TSA	Treasury Single Account
IDA	International Development Association	TSC	Technical Steering Committee
IEC	Information, Education and Communication	TTL	Task Team Leader
IFAC	International Federation of Accountants	TWG	Technical Working Groups
IFRS	International Financial Reporting Standards	UAT	User Acceptance Testing
IMF	International Monetary Fund	UNCITRAL	United Nations Commission on International Trade Law
INTOSAI	International Organization of Supreme Audit Institutions	UNCITRAL	United Nations Commission on International Trade Law
IPFM	International Public Financial Management	UNCTAD	United Nations Conference on Trade and Development
IPPF	International Professional Practices Framework	UNCTAD	United Nations Conference on Trade and Development
IPSAS	International Public Sector Accounting Standards	UNDP	United Nations Development Programme
IPSASB	International Public Sector Accounting Standards Board	UNDP	United Nations Development Programme
IR	Intermediate Result	UNDSS	United Nations Department for Safety and Security
ISN	Interim Strategy Note	UNOPS	United Nations Office for Projects Services

ISO	International Organization for Standardization	UNSPSC	United Nations Standard Products and Services Code
ISSAIs	International Standards for Supreme Audit Institutions	UNSPSC	United Nations Standard Products and Services Code
ISTQB	International Software Testing Qualifications Board	VDI	Virtual Desktop Infrastructure
ITC-ILO	International Training Centre of the International Labour Organization	VSAT	Very Small Aperture Terminal
JIT	Just In Time Support	WAN	Wide Area Network
JNA	Joint Needs Assessment	WCO	World Customs Organization
M&E	Monitoring and Evaluation		

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SOMALIA
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PAD DATA SHEET

Somalia

Second Public Financial Management Capacity Strengthening Project (P151492)

PROJECT APPRAISAL DOCUMENT

AFRICA

0000009063

Report No.: PAD1200

Basic Information			
Project ID P151492	EA Category C - Not Required	Team Leader(s) Winston Percy Onipede Cole	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [X] - Fragile States		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 01-Jul-2015	Project Implementation End Date 01-Jul-2018		
Expected Effectiveness Date 15-Jul-2015	Expected Closing Date 30-Jun-2018		
Joint IFC No			
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Renaud Seligmann	Mario Marcel Cullell	Bella Bird	Makhtar Diop
Approval Authority			
<p>The project will be financed by the Somalia Multi-Partner Fund (MPF) (TF072283) that has been designed to “provide a financing platform to support a coordinated international approach to promoting stability and the sustainable reconstruction and development of Somalia, including in core state functions and socio-economic recovery” (Multi-Partner Fund Board Document, December 17, 2013).</p> <p>The Somalia New Deal Compact established a new aid framework - the Somalia Development and Reconstruction Facility (SDRF) which provides a single governance platform for coordinating international assistance with Compact priorities delivered through windows administered by technical agencies including the Bank. The SDRF Steering Committee plenary</p>			

session provides joint oversight (donor and government) of the strategic direction, implementation, and results of the SDRF windows, including the MPF.

Borrower: Ministry of Finance

Responsible Agency: Ministry of Finance

Contact: Mr. Shire Haji Farah Title: Minister of Finance, Puntland
Telephone No.: 252907795113 Email: shire.hfarah@gmail.com

Responsible Agency: Ministry of Finance of Somaliland Hargeisa

Contact: Mrs Zamzam Abdi Adan Title: Minister of Finance, Somaliland
Telephone No.: +252 634427310 Email: minfin_somaliland@yahoo.com

Responsible Agency: Ministry of Finance Federal Government

Contact: Hon. Mohamed Aden Ibrahim Title: Minister of Finance
Telephone No.: +252612777738 Email: farkeeti@hotmail.com

Safeguards Deferral (from Decision Review Decision Note)

Will the review of Safeguards be deferred? ☒ Yes ☐ No

Project Financing Data(in US\$ Million)

☐ Loan ☐ IDA Grant ☐ Guarantee
☐ Credit ☒ Grant ☐ Other

Total Project Cost: 20.00 Total Bank Financing: 0.00

Financing Gap: 0.00

Financing Source	Amount(US\$ million)
Borrower	0.00
Somalia Multi-Partner Fund	20.00
Total	20.00

Expected Disbursements (in US\$)

Fiscal Year	2015	2016	2017	2018
Annual	2,500,000.00	10,000,000.00	5,000,000.00	2,500,000.00
Cumulative	2,500,000.00	12,500,000.00	17,500,000.00	20,000,000.00

Institutional Data

Practice Area (Lead)				
Governance				
Contributing Practice Areas				
Cross Cutting Topics				
<input type="checkbox"/> Climate Change <input checked="" type="checkbox"/> Fragile, Conflict & Violence <input type="checkbox"/> Gender <input type="checkbox"/> Jobs <input type="checkbox"/> Public Private Partnership				
Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	General public administration sector	90		
Public Administration, Law, and Justice	Sub-national government administration	10		
Total		100		
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Public sector governance	Public expenditure, financial management and procurement	90		
Public sector governance	Tax policy and administration	8		
Social development/gender/inclusion	Conflict prevention and post-conflict reconstruction	2		
Total		100		
Proposed 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.

Components

Component Name	Cost (US\$)
Component 1: Revenue mobilization, planning and budget preparation	2,750,000.00
Component 2: Treasury management, budget execution, procurement, accounting and financial reporting	9,880,000.00
Component 3: Strengthening the integrity pillars	1,945,000.00
Component 4: Public financial management professionalization	1,000,000.00
Component 5: Public financial management reform oversight, coordination and management	2,925,000.00
Component 6: Demand-driven just-in-time support (JIT) (Bank Executed)	1,000,000.00
Unallocated	500,000.00

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	High
7. Environment and Social	Low
8. Stakeholders	Substantial
9. Other	High
OVERALL	High

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]
Does the project require any waivers of Bank policies?	Yes []	No [X]
Have these been approved by Bank management?	Yes []	No []
Is approval for any policy waiver sought from the Board?	Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []
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
Legal Covenants		
Name	Recurrent	Due Date
Description of Covenant		
Conditions		
Source Of Fund	Name	Type
SOMP	Somalia Multi-Partner Fund	Effectiveness
Description of Condition		
<p>(a) The Subsidiary Agreement between the Recipient and the Puntland State of Somalia has been executed in accordance with the provisions of Section I.B of Schedule 2 of the Grant Agreement.</p> <p>(b) Puntland State of Somalia has established the Puntland Public Financial Management Reform Coordination Unit, the Puntland PFM Reform Oversight Committee, the Puntland</p>		

Technical Steering Committee and the Puntland Component Implementation Teams in accordance with the provisions of Section I.A of Schedule 2 of the Grant Agreement.					
(c) The Recipient has prepared and adopted a Project Implementation Manual in accordance with the provisions of Section I.C of Schedule 2 of the Grant Agreement.					
Team Composition					
Bank Staff					
Name		Role	Title	Specialization	Unit
Winston Percy Onipede Cole		Team Leader (ADM Responsible)	Sr Financial Management Specialist	Public Financial Management	GGODR
John F. A Etidau		Procurement Specialist	Consultant	Procurement	GGODR
Leonard Mutuku Matheka		Financial Management Specialist	Consultant	Financial Management	GGODR
Stephen Mugendi Mukaindo		Counsel	Counsel	Legal	LEGAM
Wolfhart Pohl		Safeguards Specialist	Adviser	Safeguards	GCFDR
Extended Team					
Name		Title	Office Phone		Location
Sharmarke Farah		Consultant			Puntland State
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Somalia	Sool	Sool	X		
Consultants (Will be disclosed in the Monthly Operational Summary)					
Consultants Required?		Consultants will be required			

I. STRATEGIC CONTEXT

A. Country Context

1. Somalia has been in conflict for over twenty years many of which has been without 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 under a government that has gained international recognition since 2012, Somalia’s economy and population of around 12.3 million¹ 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 fifth 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.²

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.³

¹ UNFPA (2014)

² The poverty estimates provided here are from the UNDP Human Development Report 2012.

³ Although Puntland is committed to participate in the federal system, Puntland is currently concerned that the Federal Government of Somalia (FGS) is itself not fully committed to implement the federal system. Tensions have arisen during 2013 that will need to be addressed at the political level, but also through the balanced and transparent allocation of development effort across Somalia.

4. ***A transformational moment:*** In August 2012 the Federal Government of Somalia (FGS) was brought to power with a four year term under a provisional constitution approved by a new parliament – ending southern Somalia’s long period of revolving transitional government. Since its establishment the FGS has stated its commitment to improved governance and economic management and is preparing to lay the foundations for the implementation of a federal system of governance. The new government is responsible for meeting important political, security and economic milestones during its term, including the passage of a permanent constitution and the preparation for national elections in 2016. From the first days of its government, the FGS embarked on a broad-ranging program of reconstruction and reform with support from development partners. The Government’s Six Pillar Policy provided an initial framework for reforms and deliverables in the areas of security, economic recovery, justice, basic services and infrastructure, and governance and rule of law. The compact translates the six pillar policy into concrete political, security, and development priorities and milestones over the next three years (2014-2016) based on a set of Peace-building and State-building Goals (PSG). Undertaken in the spirit of the New Deal⁴ for Engagement with Fragile States, the Compact preparation process sought to be inclusive of Somalia’s different regions and communities: consultations were held in Mogadishu, Baidoa, Galkayo and Garowe, culminating in a multi-stakeholder meeting in September 2013 in Mogadishu. With the inclusion of a Special Arrangement for Somaliland, the Compact priorities also build on the existing plans and strategies of both federal and regional governments and will be the basis for donor alignment and monitoring across the country.

5. In endorsing the Compact (Box 1) at the Brussels conference, donors committed to align their programs with its priorities and nine partnership principles. The Compact also establishes a new aid framework - the Somalia Development and Reconstruction Facility (SDRF) - which provides a single governance platform for coordinating international assistance with Compact priorities delivered through windows administered by technical agencies including the Bank. The SDRF will also enable a phased and calibrated approach to increasing the use of country systems based on clear benchmarks of performance which this project will help to establish over time.

6. Accompanying the Compact, the Federal Ministry of Finance and Planning prepared an Economic Recovery Plan (ERP) with a focus on core economic priorities. The ERP, prepared with technical support from the World Bank, sets out a vision for economic recovery focusing on the 11 regions of southern Somalia in the areas of public administration, infrastructure, natural resource management, and social services. Given limited resources and capacity, the ERP prioritizes five flagship programs⁵ and emphasizes the role of the annual budget in linking resources to Federal Government priorities. The intention to develop an Interim Poverty Reductions Strategy Paper (IPRSP) by linking the ERP with the Puntland Development Plan and the Somaliland National Development Plan.

⁴ <http://blogs.worldbank.org/nasikiliza/new-deal-somalia>

⁵ The five flagships include (i) rapid upgrading of state capacity at federal, regional and local authority level, (ii) productive infrastructure (crops, livestock, fisheries), (iii) rapid rehabilitation of infrastructure (ports, urban water and waste), (iv) basic health services; and (v) one million children back in school.

Box 1: The Somali Compact's Five Peacebuilding and State-building Goals

The Somali Compact's Five Peacebuilding and State-building Goals	
PSG1: INCLUSIVE POLITICS	
<i>Achieve a stable and peaceful Somalia through inclusive political processes.</i>	
Priority 1:	Advance inclusive political dialogue to clarify and settle relations between the FGS and existing and emerging administrations and initiate processes of social reconciliation to restore trust between communities.
Priority 2:	Finalize and adopt a Federal Constitution by December 2015.
Priority 3:	Prepare for and hold credible elections by 2016.
PSG2: SECURITY	
<i>Establish unified, capable, accountable and rights based Somali Federal security institutions providing basic safety and security for its citizens</i>	
Priority 1:	Strengthen the capacity and accountability of state security institutions to recover territory, stabilize and provide basic safety and security.
Priority 2:	Integrate security forces into Federal Institutions.
Priority 3:	Implement national programme for the treatment and handling of disengaged combatants.
Priority 4:	Develop an effective maritime security strategy within the framework of the Maritime Resource and Security Strategy.
PSG3: JUSTICE	
<i>Establish independent, accountable and efficient justice institutions capable of addressing the justice needs of the people of Somalia by delivering justice for all.</i>	
Priority 1:	Key priority laws in the legal framework, including on the reorganization of the judiciary, are aligned with the constitution and international standards.
Priority 2:	Justice institutions start to address the key grievances and injustices of Somalis.
Priority 3:	More Somalis have access to fair and affordable justice.
PSG4: ECONOMIC FOUNDATIONS	
<i>Revitalize and expand the Somali economy with a focus on livelihood enhancement, employment generation, and broad-based inclusive growth.</i>	
Priority 1:	Enhance the productivity of high priority sectors and related value chains, including through the rehabilitation and expansion of critical infrastructure for transport, markets access, trade, and energy.
Priority 2:	Expand opportunities for youth employment through job creation and skills development.
Priority 3:	Promote the sustainable development and management of natural resources by developing legal and regulatory frameworks and building capacity in key NRM institutions.
PSG5: REVENUE AND SERVICES	
<i>Increase the delivery of equitable, affordable, and sustainable services that promote national peace and reconciliation amongst regions and citizens and enhance transparent and accountable revenue generation and equitable distribution and sharing of public resources.</i>	
Priority 1:	Increase the provision of equitable, accessible, and affordable social services by creating a regulatory environment that promotes decentralized delivery and prioritizes key investments that extend and increase access to services.
Priority 2:	Enhance transparent and accountable revenue generation.
Priority 3:	Strengthen PFM to enable the different levels of governments to better manage financial resources in a transparent and accountable manner in of support national priorities.

Somaliland

7. Somaliland's recent political landscape has undergone significant change. The 2010 presidential election, which was generally regarded as having been free and fair, triggered a number of political alterations. First, by expanding the executive from 26 to 35 ministers and deputy ministers, the Silanyo administration has been able to appease diverse political factions, particularly in the eastern regions of Sool, Sanaag and Cayn. Second, the incumbent Kulmiye government has kept one of its election promises and opened up the decade-old political party scene, thus allowing for the formation of new political associations. Finally, recent years saw a resumption of dialogue between the Government of Somaliland and the Federal Government of Somalia through the dialogue hosted by Turkey. Following a formal request to the international community at the 7th High Level Aid Coordination Forum (HLACF) in Hargeisa in November 2014 to support the Turkey dialogue by playing a more active role and to hold all parties accountable a high-level delegation from Somaliland and the federal government met to prepare for the next round of talks.

Puntland

8. The Puntland Constitution which was enacted in 2012 specifies that Puntland is a federal member state of the Federal Republic of Somalia. The state is managed by an elected president and supported by a three-tier structure of government consisting of the state executive, regional governors, and district councils. There are currently nine regions each headed by a governor. The region, which is an administrative level funded through the budget of the Ministry of Local Government and Rural Development, performs mainly coordination, security, and political functions. Below the nine regions, the state is divided into 40 districts. Each district is led by a district council, which is chaired by a district commissioner/mayor. The district councils were originally appointed by the president, but a reform process is currently under way to have them elected. So far, seven districts have completed that process. Puntland witnessed a peaceful transition of power on January 8th 2014 to a highly technocratic President (Abdiweli Mohamed Ali Gas).

9. The Puntland framework for decentralized governance and service delivery is embedded in the Law No. 7 2003 Local Government Act, which provides a significant degree of devolved power to the districts, backed by revenue and expenditure assignments. It also outlines the districts' right to domestic and international borrowing, on previous approval from the state government. Because of extremely limited fiscal capacity, the state government has had little involvement with service delivery responsibilities. It has been concerned largely with regulatory functions and some revenue collection. Appointments down to the district level are made centrally, but the districts have significant autonomy over their revenue sources.

The Interim Jubba Administration (IJA)⁶

10. Located along the Indian Ocean on the south coast of Somalia (Lower Juba) the Kismayo port is one of the four major ports of Somalia playing a major role in the development of

⁶ IJA Leader, Sheikh Ahmed Madobe

Southern Somalia. Presently, Kismayo is one of the export points of charcoal and to a lesser extent one of the import points of vehicles from the Gulf. The revenue raising activities of the Kismayo Port Authority consist solely of Customs duty on imported goods passing through the port. In August 2013, Kismayo Airport was officially brought under the authority of the IJA. Per Addis Ababa agreement the management of the facility is scheduled to be transferred to the Federal Government of Somalia after a period of six months (February 27, 2014).

B. Drivers of Fragility and Conflict

11. The binding constraints to poverty reduction are security and re-establishing the rudimentary elements of state legitimacy. While Somalia's trajectory is now positive, transitions are rarely linear and the situation is likely to remain fragile unless progress is made on the following issues:

- Achieving consensus on a federal system that provides for inclusive representation and political accommodation among the regions on power and wealth-sharing;
- Establishing core institutions that can deliver basic services to citizens, including security, and can manage the economy transparently and effectively;
- Redressing the elite capture and economic exclusion that has resulted in widespread lack of trust in formal institutions and vulnerability among the Somali population.

12. More broadly, Somali society is highly segmented, complicating the development of a unifying vision of the Somali state. Somalia's political development has been oriented around clan and geography-based identities, where groups resolved disputes through a system of collective compensation and consensus. More recently, competing concepts of the state in Somalia have manifested themselves in stark and often violent opposition, and today de-facto authority remains contested between traditional, customary, religious and modern institutions. Against this backdrop of fragmentation and resource competition, Somalia's institutions have failed to build inclusive coalitions, further contributing to a crisis of legitimacy.

13. High dependency on external actors also exacerbates fragility and conflict. Both legitimacy and resources are provided by the international community to support emerging formal governance institutions in Somalia. The dependency on external actors has both positive and negative effects for the emerging formal institutions in Somalia and in particular regarding core economic institutions. The diversion of substantial amounts of resources has led the Western donor community to insist on tight rules for spending those resources as well as externalizing these functions instead of building government systems and processes. Performance, compliance and capacity are crucial to ensure predictable fund flows from the external development partners through Somali government institutions to citizens.

C. Situations of Urgent Need of Assistance or Capacity Constraints

14. Pursuant to OP 10.00, this project is being processed under paragraph 12 Projects in Situations of Urgent Need of Assistance or Capacity Constraints due to fragility and acute capacity constraints. However, as was done for the Federal Government, the fiduciary team used existing PFM diagnostics for Puntland and Somaliland to drill down into the fiduciary arrangements in the implementation agencies to establish minimum controls that will provide reasonable assurance that the grant proceeds will be used for the intended purposes.

D. Sectoral and Institutional Context

15. The Joint Needs Assessment⁷ (JNA) of PFM systems in Puntland, Somaliland and South Central Regions done by UNDP, Department for International Development (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 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, 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.” Somalia ranked 175 (equal to North Korea and Afghanistan) out of 177 countries in the 2013 Transparency International Corruption Perceptions Index (CPI)⁸.

16. A number of external assistance has been provided to the Federal Government, Somaliland and Puntland aimed at supporting PFM reforms. This project will build on work done so far to make the key PFM institutions and line ministries gradually more functional.

Federal Government of Somalia

17. The Federal Republic of Somalia Legislature and the Presidency⁹ 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. The good governance pillar vision is “to ease and eliminate the plight of the people by creating an enabling environment whereby citizens control the government through transparent and accountable policies”.

18. A government-led PFM self-assessment was undertaken to develop a PFM Capacity Strengthening Initiative¹⁰ which was launched internationally in May at the Somalia Conference in London. The Federal Government of Somalia ‘PFM Reform Architecture’ is underpinned by the government’s “Foundations of New Beginning: Six Pillar Policy”; particularly pillar one that

⁷ <http://www.somali-jna.org/index.cfm?Module=ActiveWeb&Page=WebPage&s=introduction> - The JNA analytical/diagnostic studies include the Interim PFM Support for Somalia TFG carried out by PricewaterhouseCoopers and sponsored by DFID; Reports on Need Assessments of Oversight Institutions to Monitor Accountability and Transparency; Roadmap for PFM Process in Somalia; Customs Assessment Report & Modernization and Reform Plan; Procurement Assessment and Recommendations Report, Reports on Budget Preparation, Execution and Monitoring; Report on the Options for Revenue Systems & Administration for TFG Somalia, 2005; and Report on Somalia Joint Needs Assessment Options for Macroeconomic Policy Framework and Data Development Cluster, 2006.

⁸ <http://cpi.transparency.org/cpi2013/results/>

⁹ His Excellency Professor Jawari, Mohammad Osman was elected Speaker of the new Federal Parliament of Somalia whilst Parliament elected President Hassan Sheikh Mohamud on 10th September 2012

¹⁰ <http://www.mof.gov.so/wp-content/uploads/2014/10/Somalia-PFM-Self-assessment-report-strategy-April-4-2013-Final.pdf>

deals with good governance. The PFM reforms are anchored on four platforms: (i) instituting PFM fundamentals for budget credibility; (ii) effective budget execution and financial accountability; (iii) improved policy formulation, planning and budget preparation; and (iv) institutional structures; Strategic Human Resource Management; Financial Management Information Systems (FMIS); and cross-cutting issues. The cross-cutting platform provides the beam that holds the whole reform platforms together in order to meet the overall PFM reform objectives. This strategy was endorsed by the Council of Ministers and submitted to the National Assembly; thereby receiving the strong political ownership. The overall PFM reform objective is “to improve the efficiency and effectiveness of public financial management processes, and systems in order to provide timely, transparent and accurate financial information across the public sector to underpin policy formulation and inform Government decision making in support of service delivery”. In addition to achieving the expected budgetary outcomes of (i) aggregate fiscal discipline; (ii) strategic allocation and use of public resources; and (iii) efficiency of service delivery and probity; the reforms specifically aim to: improve transparency and openness of the national budget process; enhance fiscal discipline through internal and external controls; focus public expenditure on priority areas of Government programs; enhance efficiency and effectiveness of public expenditures; and strengthen overall financial management and accountability.

19. Despite the commitments above, the resignation of the Governor of the Central Bank of Somalia in 2013 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

20. The Public Financial Management (PFM) Capacity Building Project funded by the Low Income Countries Under Stress (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 Bills¹¹ for strengthening the PFM legal and regulatory framework; standard bidding documents for goods, works and consultancies; and the enabling regulations and operating procedures manuals¹².

21. Somaliland budgeted revenue grew by 72 percent between 2011 (US\$88.32 million) and 2014 (US\$152 million) and actual collection exceeded revenue estimates by 2 percent and 8

¹¹ Public Financial Management and Accountability Bill, Public Procurement Bill, National Audit Bill, Customs Bill and Revenue Bill

¹² External Audit Manual, Internal Audit Manual (English and Somali version), Public Procurement General Manual, Procurement Regulations, Accounting & Financial Reporting Policies and Guidelines, Customs Regulations, Tax Manual, Public Accounts Committee Guidelines for reviewing Auditor-General's Reports, Public Accounts Committee Rules of Procedure for House of Representatives, and Budget Rules of Procedure for House of Representatives.

percent in 2012 and 2013 respectively. Budgeted revenue between 2013 and 2014 increased by 32 percent. Capital expenditure accounts for only 13 percent of the 2014 approved budget. The 2012 deficit consisted of unpaid bills of goods purchased and services received. There was a surplus of revenue over expenditure of US\$8.6 million in 2013.

22. The Somaliland government is determined to continue and to step up reforms of the Public Finance Management. Key PFM gaps and challenges identified by a government-led PFM self-assessment include:

- (i) Limited capacity in macroeconomic analysis. Revenue estimates are not based on sound methodology which undermines the budget planning, preparation and execution;
- (ii) Procurement lacks transparency and oversight and fails to adequately consider the role and responsibilities of line ministers (LMs);
- (iii) Line ministries do not assume sufficient responsibility and control over the execution of their budget ;
- (iv) Accounting records are maintained exclusively on physical registers by the Accountant General's Office (AGO), which maintains separate vote books and cash books for each ministry with very little data being captured digitally, which results in an onerous task, incomplete and delayed financial reporting;
- (v) In support of improved accountability and modernization, the current budget classification system will require revision to move beyond the current functional structure that does not support further expansion nor adhere to international conventions;
- (vi) Accountant General's Office (AGO) employees are not adequately trained and the country does not currently have an accounting oversight body to provide certification or set accounting standards;
- (vii) The 'Central Bank' of Somaliland (CBSL) relies exclusively on manual systems to manage the deposits and payments of the GoSL; and
- (viii) Parliament's ability to adequately oversee the budget and financial reporting of the government is hampered by weak procedures.

23. 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 (Figure 1) 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".

24. The "Somaliland Development Fund" was established within the Ministry of National Planning and Development, with the initial support of DFID and Danish International Development Agency (DANIDA). A Joint Steering Committee chaired by the Minister of National Planning and Development, is composed of the Minister of Finance, donor representatives, with observers from the EU, World Bank, civil society and the Chamber of Commerce provides the strategic decisions. The National Planning Commission, comprised of 15 ministers, the Governor of the Central Bank, academia and civil society guides the country-level decision-making on priorities, and financing. 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.

Figure 1: Somaliland PFM Reform Pillars and Components

Economic and Budget Management	Resource Mobilization	Financial Management and Reporting	Public Procurement	Oversight and Evaluation
1. Economic Management 2. Budget Formulation and Preparation 3. Fiscal Decentralization	4. Domestic Revenue Generation	5. Accounting and reporting 6. Treasury and Expenditure Management	7. Procurement	8. External audit 9. Internal audit 10. Parliamentary oversight
Crosscutting theme				
11. PFM Legislation 12. PFM Systems and Processes 13. PFM Capacity Development 14. PFM Program Management				

Puntland

25. 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.

26. Most of the laws, regulations and guidelines in use today were inherited from the Somalia central government of Mr. Siad Barre regime and have little relevance for today's social-economic and political setting. Government cannot afford to hire sufficient numbers of skilled personnel as civil servants because of the low pay. The current budget process lacks a link between government policy and budgeting and a perspective beyond the immediate future. The basic mechanisms for controlling public expenditure require improvement. The existing procurements systems and laws were relevant many years ago but clearly need to be revamped to improve competition and realize better value for money.

27. 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 and is used to underpin the design of the project activities to be undertaken in Puntland.

28. At the Puntland roundtable with international partners (May 21, 2014); the roundtable underlined the importance of ensuring equitable and fair development throughout Somalia and recognized the criticality of this issue in the New Deal. International partners welcomed the strengthened engagement with Puntland State and committed to continue this form of dialogue. It was agreed that Puntland's priorities (Puntland's priorities for Revenue and Public Financial Management Reform (2014-2016) - Priority 2: Increasing the Inland Revenue by elimination of tax evasion practices, and the improvement in tax collection mechanisms; and Priority 4: Strengthen Public Financial Management by improving the efficiency and effective use of resources in a transparent and accountable way that includes strengthening the budget process, establishing a chart of accounts and enhancing public procurement) should be taken into account in the Somali Compact and that Puntland's participation in the New Deal aid architecture was important - particularly in the Somali Development and Reconstruction Facility (SRDF).

29. The UNDP-SIDP through (i) Ernst and Young (EY) supported the development of organizational structure and job descriptions for the Office of the Accountant General, revision of the chart of accounts and manual, development of conceptual design, functional and technical IT specifications to facilitate the procurement of an off the shelf accounting software to automate the key processes within the accounting function; drafting of accounting and procedure manual; asset management policies and procedure manual; and (ii) Klynveld Peat Marwick Goerdeler (KPMG) supported the preparation of standard bidding documents and other procurement tools for the Puntland Tender Board; and supported the Auditor General's Office with Regularity Audit Manual; working papers; tools and templates; and training of trainers for selected individuals on how to use the manual. The only concern is that the manual is written in English and translation was not part of the contract between UNDP and KPMG. This made it difficult for the staff who prefer the documents to be in Somali language (official working language) to fully understand the contents.

The Interim Jubba Administration (IJA)

30. 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 leadership¹³. 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

¹³ IJA Leader, Sheikh Ahmed Madobe and his advisors, Abdiqhani and Abdi Rage, Minister for Planning and International Cooperation (MoPIC), Mohamed Nur Iftin, the Minister for Finance (MoF), Mohamed Sheikh Yusuf.

“establishing Immediate Public Financial Management Arrangements for the Interim Jubba Administration”; where feasible, the IJA consultants are ensuring consistency with the FGS PFM initiatives.

31. So far, budget preparation manual, budget circular and budget templates were delivered to IJA on April 30, 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 as the use of the *Hawala* system for this purpose has not been favourably viewed by IJA Ministers.

Strategic approach to respond to the Somalia context

32. As noted by Hilderbrand and Grindle (1997:31¹⁴), “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 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: action environment; institutional context of the public service; task network; organizations; and human resources. The capacity dimensions which are elaborated in the PIM are vital for change responsiveness and therefore, public sector organizations 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.

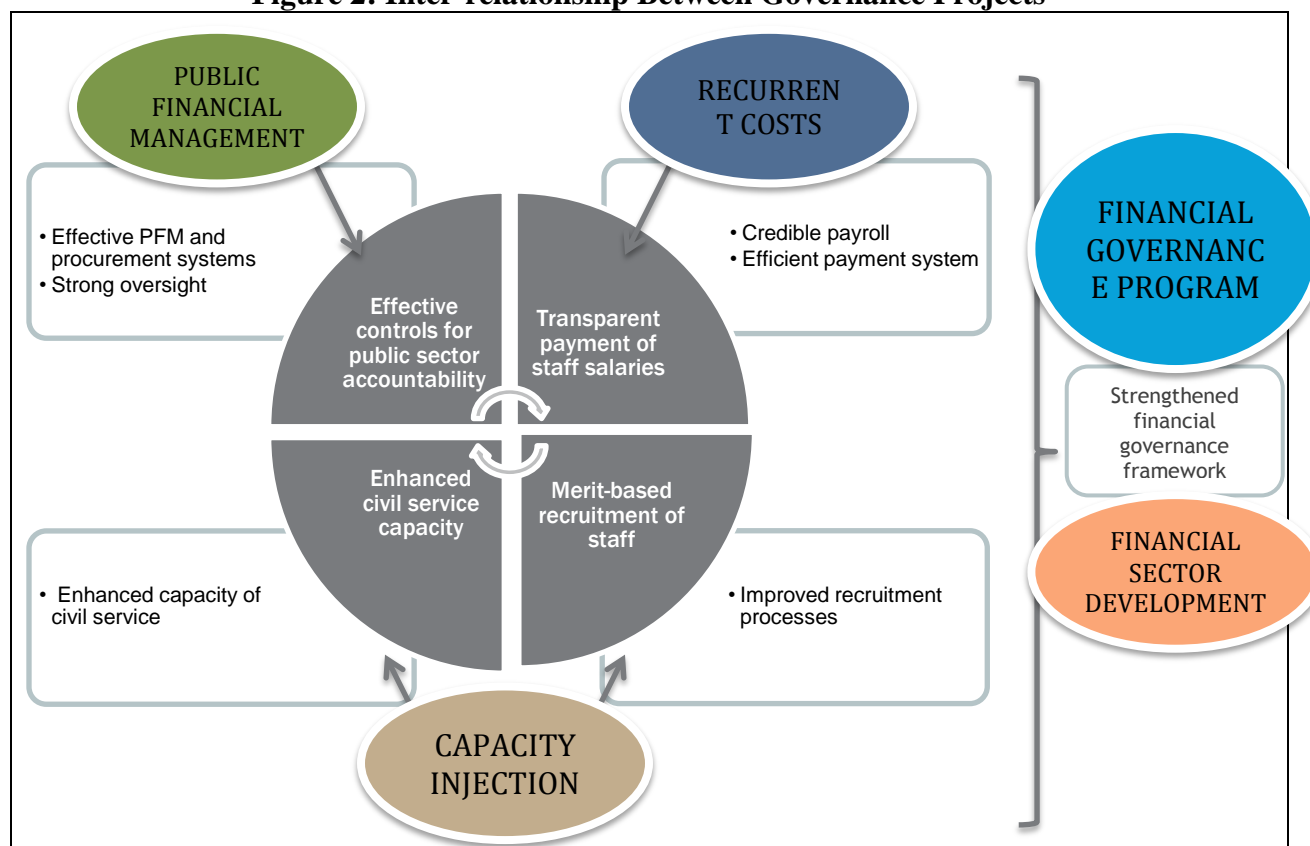
33. The Bank has therefore taken a strategic decision to be selective and focus on areas that build upon work already started under the PFM capacity strengthening project (P146006). The whole design recognizes the absorptive capacity, resource availability and the need to focus on getting the basics right before venturing into more sophisticated reforms. The Bank is presently supporting 4 public sector governance initiatives.

- (i) Public sector capacity injection and institutional strengthening project
- (ii) Recurrent costs and reform facility project (RCRF I&II)
- (iii) Public financial management capacity strengthening project (PFM 1&2)
- (iv) Financial governance program

34. This project will establish the PFM fundamentals that will underpin the recurrent cost window project (P148428) and provide critical technical assistance for the Federal Government to meet the PFM commitments of the financial governance program.

¹⁴ Hilderbrand ME and MS Grindle (1997) ‘Building sustainable capacity in the public sector: what can be done’, in MS Grindle (ed.) *Getting Good Government: Capacity Building in the Public Sectors of Developing Countries HIID*, Boston Mass: Harvard University Press.

Figure 2: Inter-relationship Between Governance Projects



E. Relationship to Interim Strategy Note (ISN)

35. The World Bank Group Interim Strategy Note (ISN) FY14-16 for Somalia will contribute to the international effort to support the country's transition out of the cycle of fragility and conflict and establish the foundations of peace, national reconciliation and development in the context of a new national government. The program will draw on the experience of other countries emerging from conflict and fragility, and in particular on the lessons of the World Development Report 2011 on Conflict, Security and Development with regards to building coalitions and early confidence-building measures in fragile transitions. It is also grounded in the principles of the G7+ New Deal. The objective of the Somalia ISN is to lay the foundations for poverty reduction and shared prosperity by delivering on selected priorities in the Compact's Peace- and State-building Goals. In aligning with the Compact and working in areas of comparative advantage, the Bank will contribute to a well-coordinated international effort in Somalia, based on partnership between agencies that engage across the interlinked areas of politics, security and development. The ISN's activities will initiate and scale up a few activities clustered around two

priorities: (i) Priority One: Strengthening Core Economic Institutions; and (ii) Priority Two: Expanding Economic Opportunity

36. While PFM will be an early focus, Somalia's federal institutions face an immense capacity gap and a concerted and coordinated approach is urgently needed if the transition is to be sustained. Somaliland and Puntland also need sustainable capacity development investments including in civil service reform. Working closely with technical UN agencies, the Bank will support the development and delivery of a national framework that balances the need for capacity substitution approaches in the short term with longer-term capacity enhancement.

37. This proposal is anchored on the ISN priority one: strengthening core economic institutions and the proposed activities will deliver timely assistance to support confidence building for the country by supporting discrete aspects of the PFM reform action plans. Also, in line with the ISN and the Bank's comparative advantage, the Multi Partner Fund (MPF) will focus on selective elements of the compact's priorities for economic foundations and revenue and services. The ERP's programs are organized into the following four sectors: (1) core state functions; (2) infrastructure; (3) productive and natural resources; and (4) social sector. The MPF will build the capacities of Somali institutions over time to deliver critical services and infrastructure, at both federal and regional levels. The MPF will also promote coordination between the Federal government's ERP and other strategic planning documents, including the Somaliland and Puntland Development Plans. The MPF will therefore be a critical tool of the overall New Deal process in Somalia and in ensuring a paradigm shift in the modalities of international assistance.

F. Higher Level Objectives to which the Project Contributes

38. The project will contribute to the following high level objectives.

- (i) Donor partnerships will be strengthened as this project is part of broader PFM support effort by development partners around a common Government-owned reform agenda. PFM reforms will enable increased donor coordination under the government's leadership consistent with the Somali Compact.
- (ii) Contributes to knowledge and learning that will improve operations in sectors for effective service delivery.
- (iii) More effective, transparent and accountable collection, management and use of public resources that builds citizen trust for the social agenda (state-citizen compact). PFM legal framework will reduce discretion and curb opportunities for corruption.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objectives

39. The Project Development Objective (PDO) is to establish and strengthen institutional capacity for the management of public funds in central finance agencies and targeted sectors.

40. This project directly supports the World Bank Group's strategic goals of eliminating extreme poverty and promoting shared prosperity as a strengthened PFM system will contribute to more transparent allocation and efficient use of public funds for effective service delivery. Also, the

project is designed from an institutional development standpoint because, institutions are, by definition, mediating structures; it follows then that it is essential to (re)build the PFM institutions to address the engrain accountability challenges to improve citizen and donor confidence/trust in the government and this will enhance state-building and the Government's legitimacy. Improved PFM institutions and systems will ultimately contribute to positive political and socio-economic outcomes.

B. Project Beneficiaries

41. The direct project beneficiaries are the central finance agencies and selected line ministries in the Federal Government of Somalia, Puntland State of Somalia and Government of Somaliland and its citizens. However, it is important to recognize that the PFM reforms will involve changes that will affect the interests of a broad range of stakeholders¹⁵ and understanding their relative power and influence will help in reconciling their claims on the project.

C. PDO Level Results Indicators

42. Achievement of the PDO will be measured by the following key performance indicators:

- (i) Reduced variance between actual primary expenditure and the originally budgeted primary expenditure.
- (ii) Time elapsed (in months) between end of period covered and submission of audit reports to the legislature.
- (iii) Increase in real terms of domestic revenue collection.

Key Intermediate Results and Indicators:

Intermediate Result (IR) 1: Improved realism of the budget and fiscal discipline.

- 1. Increased budget execution rate in targeted sectors.
- 2. Revenue mobilization strategy implemented.

Intermediate Result (IR) 2: Strengthened controls for fiscal discipline, transparency and reporting.

- 3. Improvement in coverage and classification of data in in-year budget reports.
- 4. Improvements in information contained in annual financial reports with regard to application of International Public Sector Accounting Standards (IPSAS) – *cash basis*.
- 5. Percentage of contracts using competitive procurement methods.
- 6. Procurement, installation and commissioning of core banking and accounting systems with an added basic payment system.

Intermediate Result (IR) 3: Strengthened key integrity pillars to hold government accountable for the use of public funds.

- 7. Percentage of expenditures represented by the government entities audited in total public expenditure.
- 8. Percentage of audit recommendations for which there is evidence of follow-up.

¹⁵ A stakeholder is “any group or individual who can affect or is affected by the achievement of an organization’s objectives” (Freeman 1984:46).

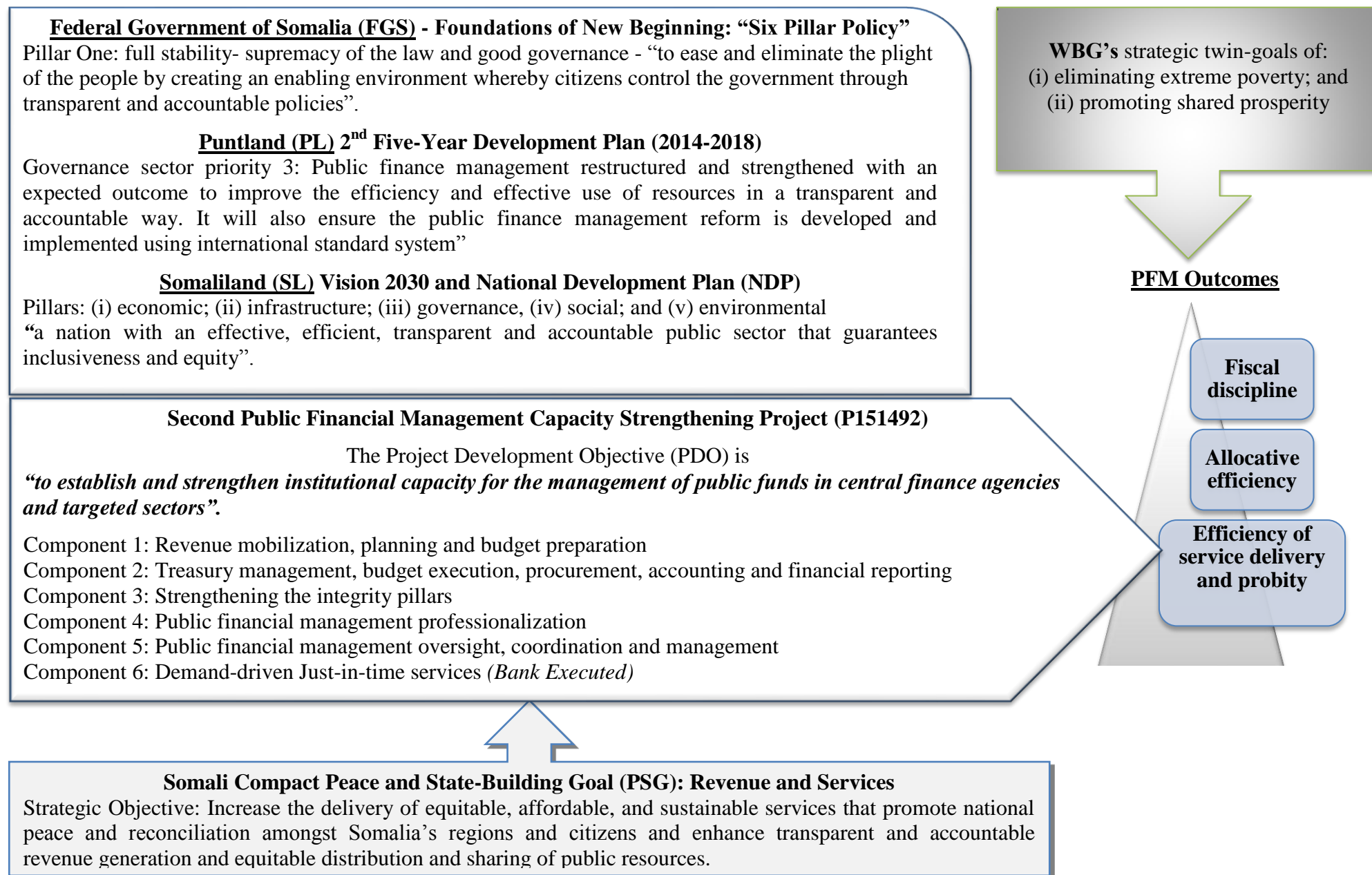
Intermediate Result (IR) 4: Number of PFM accredited staff.

9. Number of students completing certificate and diploma stages.

Intermediate Result (IR) 5: Demand-driven Just-in-time Services (*Bank Executed*).

10. Number of PFM reviews and actionable advisory notes.

Figure 3: Second Public Financial Management Capacity Strengthening Project Strategic Alignment



III. PROJECT DESCRIPTION

43. The reform activities were developed in close consultation with the key government officials who were empowered to actively participate in deciding on the project components and activities. The PSG5 sub-group on PFM participated in the preparation of the projects. The Aid Coordinating Unit (ACU) provided guidance in presenting the project concept to the SDRF Executive Committee on August 31, 2014 and it was endorsed subject to further consultations at the PSG sub-group level which was held on September 4, 2014 with close involvement of the beneficiaries in preparing the project activities and agreeing on the expected project results.

44. The Organization for Economic Co-operation and Development (OECD) Principles for Good International Engagement in Fragile States (April 2007) guides the design of this project and in particular DPs have agreed on practical coordination mechanisms through the government PFM reform oversight structures. Also, the PFM donor group steering committee actively engaged with government during the PFM self-assessment and aligned its support around the government-owned reform action plans to form a coherent set of mutually reinforcing projects.

A. Project Components

45. 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 (US\$2,750,000)

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

46. 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).

47. 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: Revenue mobilization and tax administration (US\$2,120,000)

48. 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.

49. 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 (US\$9,880,000)

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

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

51. 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 (US\$1,000,000)

52. 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.

53. 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.

54. 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 (US\$1,000,000)

55. 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: Bespoke Financial Management Information Systems (FMIS) (US\$4,380,000)

56. 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 website¹⁶ and thus living up to its commitment of transparency.

57. 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 bescope 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.

Sub-component 2.5: Modernizing Central Bank of Somalia banking operations and financial control environment (US\$2,000,000)

58. 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 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 (US\$1,945,000)

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

59. 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

¹⁶ <http://mofep.gov.so/sfmis-generated-summary-of-the-government-revenue-and-expenditure-as-of-june-2013/>
<http://www.mof.gov.so/wp-content/uploads/2014/04/Budget-Utilization-Report-Jan-to-Dec-2013.pdf>

function in accordance with the core principles on SAI Independence: Lima Declaration of Guidelines on Auditing Precepts adopted in October 1977.

60. 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.

Sub-component 3.2: Planning, Finance and Public Accounts Committee (PAC) (US\$150,000)

61. 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: Public financial management professionalization (US\$1,000,000)

62. 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 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-ILO¹⁷). 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

¹⁷ <http://www.itcilo.org/en> - ITC-ILO in Turin-Italy is a world-class provider of procurement management training and a pioneer in developing procurement management training curricula for the UN, World Bank, European Union and OECD - <http://masterpublicprocurement.itcilo.org/>

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: Public financial management oversight, coordination and management (US\$2,925,000)

63. 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. Since their responsibilities will be in addition to their normal work, it is important that they direct the project by 'management by exceptions', being regularly informed by Component Implementation Teams (CIT) and only asking for joint decision making at key points in the project.

64. 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.

65. 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.

66. 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) (US\$1,000,000)

67. 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 Recipient requested in writing for the Bank's execution of this component on their behalf. The bank executed component 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) (US\$500,000)

68. Civil society organizations are emerging to clamor for government effectiveness but the reality is that they are weak. In collaboration with social development specialists in the Bank, 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-state 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.

69. 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](#)¹⁸.

Sub-component 6.2: Governance/PFM reviews and advisory notes (US\$500,000)

70. 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.

71. 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.

B. Project Financing

Lending Instrument

72. The project will be financed by the Somalia Multi-Partner Fund (TF072283) that has been designed to “provide a financing platform to support a coordinated international approach to

¹⁸ <http://wbi.worldbank.org/boost/about>

promoting stability and the sustainable reconstruction and development of Somalia, including in core state functions and socio-economic recovery” (MPF Board Document, December 17, 2013). The MPF is one of the key financing windows under the Somalia Development and Reconstruction Facility. The MPF has received contributions from UK, Sweden and EU and further contributions are under consideration from Italy, Germany, Norway, Denmark and Finland. Overall funding levels are estimated at around US\$250 million in the first three years of the MPF and a multi-year funding pipeline has been approved for the MPF for this period. The main criteria to be met to participate in the program is the establishment of the project oversight and implementation structures including the external assistance fiduciary section (EAFS). In the case of Somaliland, commitment to the reforms will be assessed by submission of the PFM bills to Parliament.

Project Cost and Financing

73. The table below sets out the expenditure categories and percentages to be financed out of the total grant proceeds of US\$20 million. The grant will be divided between US\$10 million to be signed in 2015 and a further US\$10 million to be signed in 2016 according to the agreed multi-year funding pipeline agreed with donors and the authorities. The unallocated amount will form part of the expenditure category. Bank account maintenance and commission charges for the designated accounts will be financed by the grant.

Project Components	Project cost (US\$)	Percentage of expenditure to be financed (inclusive of Taxes)
Component 1: Revenue mobilization, planning and budget preparation	2,750,000	100%
Component 2: Treasury management, budget execution, procurement, accounting and financial reporting	9,880,000	100%
Component 3: Strengthening the integrity pillars	1,945,000	100%
Component 4: Public financial management professionalization	1,000,000	100%
Component 5: Public financial management reform oversight, coordination and management	2,925,000	100%
Component 6: Demand-driven Just-in-time services (Bank Executed)	1,000,000	100%
Unallocated (performance based and physical/price adjustments)	500,000	100%
Total Project Costs	20,000,000	100%
Total Financing Required	20,000,000	
Multi-Partner Fund	20,000,000	

C. Project Components by Regions

74. Table 1 below provides breakdown of the project cost for the various components depending on which particular activity will be implemented by the Federal Government of Somalia, Puntland State of Somalia or Government of Somaliland. Emerging federal member states will be considered in future phases of the project depending on availability of funding; the federal member state's commitment to reforms and security considerations.

Table 1: Budget Estimates by Components

Budget estimates by components/sub-components (2015-2018)	FGS	PL	SL	BE	US\$ ('000)	%
1. Revenue mobilization, planning and budget preparation	1,705	1,045	-	-	2,750	14%
1.1 Strengthening planning and budget preparation	315	315	-	-	630	
1.2 Revenue mobilization and tax administration	1,390	730	-	-	2,120	
2. Treasury management, budget execution, procurement, accounting and financial reporting	5,525	2,400	1,955	-	9,880	51%
2.1 & 2.2 Treasury management and budget execution; accounting and financial reporting	1,250	750	500	-	2,500	
2.3 Concessions, procurement and contract management	500	250	250	-	1,000	
2.4 Bespoke Financial Management Information System (FMIS)	1,775	1,400	1,205	-	4,380	
2.5 Modernizing Central Bank of Somalia banking operations and financial control environment	2,000	-	-	-	2,000	
3. Strengthening the integrity pillars	775	645	525	-	1,945	10%
3.1 Foundations for Supreme Audit Institutions (SAI)	725	595	475	-	1,795	
3.2 Planning, Finance and Public Accounts Committee (PAC)	50	50	50	-	150	
4. Public financial management professionalization	500	-	500	-	1,000	5%
4.1 Fees for faculty and course administration expenses	100	-	100	-	200	
4.2 WYG Consortium fees and reimbursable expenses	100	-	100	-	200	
4.3 Procurement stream by International Training Centre of the International Labour Organization (ITC-ILO)	300	-	100	-	400	
4.4 Upgrading of ICT infrastructure and other logistics	-	-	200	-	200	
5. Public financial management reform oversight, coordination and management	995	910	1,020	-	2,925	15%
5.1 ROC, TSC, PFMRCU and related expenses	295	710	920	-	1,925	
5.2 Association of Somali Professional Accountants (ASPA)	200	-	-	-	200	
5.3 Security and logistics	500	200	100	-	800	
6. Demand-driven Just-in-Time support (JIT) (Bank Executed)	-	-	-	1,000	1,000	5%
6.1 Social accountability; non-state actors; citizen engagement; open government data platform including data migration; and public expenditure tracking surveys (PETS)	-	-	-	500	500	
6.2 PFM Reviews: CATT; PEFA/code of good practices on fiscal transparency and advisory notes	-	-	-	500	500	
Total Base Cost	9,500	5,000	4,000	1,000	19,500	100%
Unallocated (performance based and physical/price adjustments)					500	

	Total financing required				20,000
Proportion of overall project budget excluding unallocated	49%	26%	21%	5%	100%

D. Lessons Learned and Reflected in the Project Design

75. With Bank's technical guidance and funding from DFID; Ernst & Young (EY) 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.

76. Progress to date in implementing the SPF funded US\$4.5 million PFM capacity strengthening project (P146006) include: (i) project coordinating unit and external assistance fiduciary section operational and producing project progress reports and interim financial reports as required by the Grant Agreement¹⁹; (ii) upgraded the standard chart of accounts (SCoA) from two segments (organization and economic) to a multi-dimensional structure including: organization; fund; programs/projects; economic; and geographic locations. The new fund and program segments are being piloted with the WB-funded projects using country systems and this allows linkage to the ERP. The organization segment has also been mapped to allow for production of reports by Classification of Functions of Government (COFOG) and Peace and State Building Goals (PSG). The economic segment is used to produce IMF-GFS reports; (iii) the budget execution and payment process is well documented in the SFMIS Conceptual Design and User Guide and includes step-by-step flow charts and MoF is recording transactions in the SFMIS to produce in-year budget performance reports but with delay caused by late passage of the 2014 budget in 2014; (iv) PFM education and training program steering committee established and selection of 175 students (of which 14% are female) from the civil service in FGS and Puntland completed, self-study introductory course outline agreed for registered students to help them get started on their studies before the initiation of the online distance learning (ODL); and hands-on budget preparation training focusing on revenue forecasting techniques held in Nairobi between September 8-12, 2014.

77. The long-term vision for international engagement in fragile states is to help national reformers to build effective, legitimate, and resilient state institutions, capable of engaging productively with their people to promote sustained development. To realize this objective, the design of the project took account of the OECD Principles for Good International Engagement in Fragile States and Situations (April 2007²⁰) and Rebuilding Fiscal Institutions in Post-conflict Countries²¹.

¹⁹ <http://www.mof.gov.so/public-financial-management-pfm/>

²⁰ The OECD Principles for Good International Engagement in Fragile States and Situations were formally endorsed by ministers and heads of agencies at the Development Assistance Committee's High Level Forum on 3-4 April 2007.

²¹ International Monetary Fund Washington DC 2005:8

78. The principles for “reforming internal agency systems to support rapid action to restore confidence and long-term institution building”²² are adopted in the design of this project. A clear exit strategy will be developed to ensure a smooth transfer of skills over the medium-term. Firms will be identified as independent financial monitoring agents to provide additional assurance that project funds are used for the intended purpose.

79. With due consideration for the Somalia specific situation the implications and recommendations that emerged from PFM reforms in Fragile and Conflict-Affected States (FCS), a study by Overseas Development Institute and Centre for Aid and Public Expenditure sponsored by the Bank on PFM reforms in Fragile and Conflict-Situations (FCS) in eight countries²³ were applied in the design of this projects as shown in the Table 2 below.

Table 2: Lessons Learnt From PFM Reforms in Fragile and Conflict-Affected States

Implications and recommendations	Related design features
i. Consider country context (and existing incentives for local stakeholders) systematically in deciding if and how to intervene on strengthening PFM systems.	The political class and civil servants are desirous of embarking on PFM reforms which is a top priority in the President’s six pillar policy.
ii. Development partners have an opportunity to use aid allocations and aid modalities in ways that incentivize sustained PFM improvements and can also make a fundamental contribution to reducing fragmentation of public finances.	<p>Joint reform oversight mechanism including broad government stakeholders and development partners has been established to encourage mutual accountability and will be done by tracking funding of the reforms through government reporting and accountability systems and using a common set of performance indicators.</p> <p>The Special Financing Facility (SFF) funded by Norway and the Somaliland Development Fund (SDF) funded by DFID, DANIDA, Norway and the Netherlands both provide opportunities to incentivize PFM reforms. Other sector specific aid could also be released by tranches linked to progress in PFM reforms.</p>
iii. Developing clear reform plans based on emerging analysis and the periodic updating of such plans will help ensure that approaches to PFM reforms and the provision of support are strategic and focused.	Both South-Central and Somaliland embarked on a PFM self-assessment and developed a country-owned PFM reform strategy and action that underpins this project. In South-Central, the Council of Ministers deliberated on and endorsed the PFM reform action plan on May 2, 2013 ²⁴ ; the plan was also submitted to the

²² World Development Report 2011:277

²³ The eight countries are Sierra Leone, Liberia, Afghanistan, Cambodia, Democratic Republic of Congo, Kosovo, Tajikistan and West Bank and Gaza. The lessons learnt have also been included in a Synthesis Report on PFM Reforms in Post Conflict States authored by Verena Fritz.

²⁴ <http://www.midnimo.com/2013/05/02/somali-government-adopts-new-public-finance-management-policy/>

	Parliamentary Financial Treasury Committee of the Parliament for their attention.
iv. There are distinct reform challenges and opportunities across the three key phases of the budget cycle (budget planning, execution, and accountability).	The project activities respond distinctively to the specific challenges identified in the budget cycle during the self-assessments. The stakeholder analysis also identifies the major entry points and the change path.
v. Legal and institutional reforms are an integral part of strengthening PFM systems in post-conflict environments, but there is less of a need to front-load these reforms than has been suggested by previous analysis.	Since the public sector is rules-based; PFM cannot operate optimally in the absence of a robust legal framework. There are serious concerns that the PFM Bills developed for Somaliland since 2011 are yet to be enacted. This project will assist in securing their enactment of PFM Bills in the three regions. In the interim assistance will be provided in issuing Ministerial Orders or Treasury Circulars.
vi. Strengthening capacity development requires a phased and layered approach that includes addressing capacity constraints in the short term as well as pursuing longer-term improvements.	<p>The reform action plan follows a platform approach with specific objectives of each phase in an incremental manner. ‘Quick-wins’ are identified to be implemented to demonstrate the benefits of the reforms.</p> <p>Lessons are drawn from the ongoing PFM Capacity Strengthening Project (P146006): an efficient coordination mechanism is critical within government PFM stakeholders and amongst DPs; expectations need to be managed as reforms take time especially with the fragile situation in Somalia; important to focus on key building blocks at the onset of the reforms; and the ‘people-factor’ is critical for the sustainability of the reforms and therefore, the education and training program is the flagship of the project to create a cohort of suitably qualified PFM practitioners.</p>
vii. Development partners and governments should consider monitoring tools that complement PEFA reports to provide a stronger focus on results chains and on the impact of strengthened PFM systems on service delivery and state building.	PEFA is planned as part of the mid-term review of the action plans. The ‘New Deal’ Peace-building and State-building Goals (PSGs) particularly goal 5 are aligned with the overall government recovery agenda. Criteria for debt relief will also be aligned with the PFM reform indicators.
viii. A more structured inclusion of sectors and subnational levels—going beyond a focus on ministries of finance—should be emphasized to ensure impact of efforts at	Considering the generally weak PFM capacity, the approach adopted is to first strengthen the Central Finance Agencies (CFA) extensively before decentralizing PFM operations. In the

strengthening PFM systems.	case of Somaliland where there is relative security beyond the capital city, in phase II, the FMIS and accounting and reporting will be piloted in 4 out of the 7 Grade ‘A’ Districts - Hargeisa, Berbera, Boruma, and Burao) and also at the Hargeisa Water Agency. All sub-national activities will be undertaken in close partnership with the UN-JPLG. The FMIS will also be piloted at Ministry of Education, Health, and Agriculture.
ix. As emphasized in the 2011 WDR, institutional transformations require a time horizon of at least 20 years, underlining the long-term support needed for achieving and consolidating strengthened PFM systems.	A sequenced approach is adopted for the reforms. Considering the political environment, the first phase (2013-2016) is synchronized with the life of the current Federal Government before elections are due. A comprehensive review of the PFM reform efforts will be undertaken to develop the next generation of reforms.
x. The reasons for the lack of a clearer link between the level and pace of PFM improvements and service delivery improvements need to be better understood to enable more targeted engagement.	Improvements in budget classification as part of the ‘quick-wins’ of the project will provide basis for strategic allocation of resources for service delivery. Publication of disaggregated financial statements by projects and regions will also allow citizens to provide feedback on service delivery and improve transparency and accountability.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

80. The project will be Recipient-Executed (RE) to ensure ownership and sustainability. Under the existing exceptional circumstances of acute institutional capacity constraints, the State and Peace Building Fund has catalysed the PFM strengthening efforts and this reform program will build on the ‘quick-wins’ through the Multi-Partner Fund (MPF). Using the flexibility in preparation and implementation provided by the new OP 10.00²⁵, the team, in close consultations with fiduciary and safeguards colleagues, is taking advantage of the flexibility provided to fragile and capacity-constrained countries like Somalia. This provides the opportunity to conduct more efficient and better-quality preparation by deferring fiduciary, environmental, and social safeguards to the first year of implementation of the Project.

81. 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

²⁵ The fiduciary and environmental and social requirements set out in [OP/BP 4.01](#), [OP/BP 4.10](#), [OP/BP 4.11](#), [OP/BP 4.12](#), [BP 10.00](#), and [OP/BP 11.00](#) that are applicable during the Project preparation phase may be deferred to the Project implementation phase.

resources needed to implement the 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.

82. 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 projects to implement the reform strategy. The TSC will be responsible for providing technical guidance for meeting the reform objectives and ensuring cohesion and coordination of the various components by reviewing and endorsing annual work plans and budgets.

83. 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.

84. The Bank project team is multi-disciplinary to ensure successful implementation and monitoring of this project. The team is 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 situations 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.

B. Results Monitoring and Evaluation

85. The PDO level indicators are kept to a reasonable number for which the expected outputs are directly arise from the component activities. The intermediate outcome indicators and other targets/outputs collectively contribute to the PDO. Consistent with the TRUST principles in the ‘New Deal’, instead of creating parallel requirements for external assistance; Development Partners can align with the government key performance indicators which will be used by the PFM reform steering committee to monitor and evaluate implementation of the reform action plans. Yearly targets will be set at the reform component level and this will guide the preparation of Annual Work Plans (AWP) and budgets.

86. Monitoring and evaluation of the project will occur at two levels: (i) The PFM reform oversight committee will carry out the monitoring and evaluation at the policy level by relying on reports from the PFMRCU. Component implementation team members will be involved in compilation of progress reports complemented by the additional data and surveys obtained from the PETS. The annual PFM forum will also provide an opportunity to obtain citizens’ perception of PFM performance; and (ii) the Bank will also monitor the project through its supervision and

implementation support missions. Reliance will also be placed on the independent fiduciary agents.

C. Sustainability

87. The project design provides reasonable assurances regarding the sustainability of the activities supported and outcomes expected. The project components are based on formal request from the authorities as part of the key priorities in the government-owned PFM reform strategy. The high degree of ownership of the reform package at the technical and managerial level and the determination from the political leadership are indications for successful and sustained implementation of the reform agenda.

88. Capacity substitution is avoided as far as possible with alternative arrangements of capacity supplementation through subject matter experts who will be providing technical assistance with rigorous hand-holding for skills transfer. The design of the training program demonstrates good practice principles to ensure sustainability by putting in place a mechanism to gradually build internal capacity to take over functional responsibility from expatriate consultants.

89. PFM in Somalia is receiving high visibility by the internal community as demonstrated by the May 7 London Conference²⁶ where various development partners pledged their support to the government reform agenda. Also, as part of the 'New Deal' 'focus' in engaging in fragile states, the Government-owned PFM reform strategy provides "*One vision-one plan*" to form a *compact* that will be used in ensuring harmonization and donor coordination, reducing duplication, fragmentation and programme proliferation. Furthermore, the PFM dialogue will be sustained as part of the debt relief/arrears clearance. Civil society organizations though nascent and the emerging vibrant Parliaments also provide an opportunity for continuous state-society engagement.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	High
7. Environment and Social	Low
8. Stakeholders	Substantial

²⁶ The Somalia Conference took place at Lancaster House on May 7, 2013, co-hosted by the UK and Somalia, and attended by fifty-five friends and partners of Somalia.

9. Other	High
Overall	High

B. Overall Risk Rating Explanation

90. The overall risk rating for the project is high and detailed explanations are provided in Annex 4. The government is unfamiliar with the World Bank fiduciary requirements and has weak capacity to manage projects. The history of bad governance and corruption risks are high but the new government has so far expressed desire that going forward it will not be “business as usual”. However, it is unlikely that the risks of corruption and fraud will abate in the short-run. Attempts to strengthen and use country systems rather than bypass will be more developmental. The international community is also committed to seize this new window of opportunity to support the reforms in a coordinated manner behind ‘one vision-one plan’. Therefore, despite the constraints on implementation and supervision as a result of security risks, the risks of action with supplemental independent monitoring and the mitigation measures outweigh the risks of inaction. Also it is important to note that this project by strengthening rather than bypassing the country’s PFM systems will be mitigating substantial portfolio risks and safeguarding the government’s own-source revenue and expenditure - another factor for the “cost of doing nothing”

91. There is a significant risk that frequent changes in political leadership/appointees undermine government ownership of the project and slow down the initial gains in in the reforms. The project team will engage with multiple levels of leadership within targeted ministries to ensure broad, institutional ownership to mitigate the risks posed by turnover of appointed leaders.

92. Targeted government institutions are staffed with unskilled, aged or absentee employees and staff morale is low because of poor compensation. Therefore, project may struggle to achieve the critical mass of capacity necessary to strengthen institutional capacity and implement reform.

93. Over time, the PFM education and training program will produce a cohort of suitably qualified PFM practitioners and the senior managers’ scheme of the program will be providing mentoring at the workplace. While acknowledging the existing challenges in the context of Somalia, the Bank team will endeavor to advocate for skills transfer under the PFM program.

94. The PFM reforms will involve changes that will affect the interests of stakeholders and there will be ‘win-lose’ situations, where the vested interests of respective parties are incompatible, or where other stakeholders cannot or will not accept a common position. This is mitigated by understanding the relative power and influence of the various stakeholders in order to reconcile their claims on the project. Broad consensus for the reforms will ensure durability noting that all stakeholders are important but different stakeholders must be managed differently. The islands of excellence/effectiveness concentrated in MoF who may tend to capture resources (financial and technical assistance) will be expanded to de-concentrated line ministries responsible for service delivery to improve inclusiveness and hence buy-in for the PFM reforms.

95. The risk of not receiving the second tranche of US\$10 million is managed by properly sequencing the activities (see Table 33) to utilize the available funds to re(establish) the PFM

foundations that could be built upon when additional funds already committed for 2016 are received. In addition, the full US\$20 million project value is part of the multi-year funding framework for the MPF pipeline agreed with the donors and the authorities within the Somalia Development and Reconstruction Facility (SDRF).

96. The design of this project is managing the risk of failure²⁷ by (i) following appropriate change management strategies by seizing opportunities in the ‘reform space’²⁸ as they emerge; (ii) prioritizing to first get the basics right and establishing the PFM foundations cognizant of the political economy issues and existing human resource capacity challenges; (iii) responding to the critical PFM institutional capacity gaps; and (iv) working closely with other DPs by rallying around the PFM reform actions plans and developing the reform activities in close consultation with the key government officials who were empowered to actively participate in deciding on the project components and activities.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

97. Direct attribution of economic and financial benefits of PFM reform is difficult because the outcomes are often affected by external factors but one could get a sense of the scale of its potential impacts. Over the medium to long term, strengthening of the public financial management system will lead to efficiency and effectiveness in government operations. This will provide more fiscal space to direct scarce resources more strategically. Public funding of the PFM reforms is justified as it will provide the political oversight needed to reestablish the enabling macro-economic environment for private sector led growth. Openness in budget information will also provide signals to the private sector to plan better for supplying goods and services for public service delivery. The move from a totally manual payroll to a computerized payroll that ensures consistency between nominal roll under the control of the Civil Service Commission and the calculated payroll under the control of the Accountant General’s Department will reduce opportunities for ghost works. Operationalization of treasury single account will reduce potential cost of borrowing in the long run. Efficiency gains through reduced administrative costs faced by firms through improved tax administration. Improved transparency in the use of public finance will increase public confidence and willingness to pay taxes in return for public services.

98. 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. The bank has used its convening power to crowd-in funds through the MPF for this project that will scale up the activities in the Federal Government 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. A key added value from the Bank’s involvement in this project is in using its technical expertise and adapting global experience in an

²⁷ <http://blog-pfm.imf.org/pfmblog/2014/08/18-key-principles-of-pfm-reform.html>

²⁸ Andrews M (2008:5), Creating Space for Effective Political Engagement in Development, John F. Kennedy School of Government – Harvard University. Ultimately, we aren’t going to wake up and find that the shoemaker’s elves have built Somalia a state-of-the-art PFM system overnight - <http://www.guardian.co.uk/global-development/2013/apr/19/somalia-yardstick-new-deal-conflict-countries>

innovate manner in using country systems as an inroad for strategic dialogue on PFM reforms and also hand-holding the project team through capacity development during design and implementation. The demand-driven just-in-time activities will be bank-executed to ensure high-quality outputs.

99. Although security has improved since the new government came into office, recent suicide bombings in Mogadishu, some close to Villa Somalia targeting government officials, will discourage good consultants to accept assignments unless at premium rates. Security costs will significantly increase the overall cost of administering the project.

B. Technical

100. Past “reform failures” needs scrutiny; if the development process is one of experiment, then “failures” can, with an appropriate learning mechanism, contribute to knowledge and influence the path taken in search of further improvement²⁹. Therefore, the speed of the reforms is incremental and thinking ‘out of the box’ with flexibility of ‘learning-by-dong’ with appropriate controls³⁰. The project concept and the design is based on tested and successful models drawn from similar fragile states circumstances but contextualized from the findings of the PFM self-assessment and responsive to the reform strategy.

101. The proposed PFM Education and Training program is grounded on what worked in the past but with additional built in sustainability arrangement for the qualification to be part of the civil service scheme of service for the PFM job family to create a cohort of competent PFM professionals with a polyvalence of skills to perform a broad range of PFM tasks.

C. Financial Management

102. The financial management risk is rated as high. This is confirmed in the JNA-RDP and the PFM needs assessment which recognizes that systems that manage public resources are very weak, rudimentary unregimented banking sector with high potential for money laundering and terrorism financial. In addition, restricted movement due to very high insecurity and volatility due to active Al-Shabab led insurgency. While recognizing this, the Bank would work closely with the government to support the use of country systems without creating parallel arrangements and hence live up to the ‘New Deal’ promises of using and strengthening country systems and capacities to allow for greater levels of funding that are jointly administered and which flow through pooled facilities. Given the security situation in the country, financial management function will be centralized within the federal and states Ministries of Finance. The External Assistance Fiduciary Section (EAFS) made up of national staff in the Office of the Accountant General with responsibilities for accounting for Donor funds has been established at the Federal Government with the support from phase I of the PFM project. Plans are underway to establish similar units in the respective State Ministries of Finance (Offices of the Accountant General) in Somaliland and Puntland. The EAFS manuals provide guidance on the day to day

²⁹ Edward Olowo-Okere and Cyril Tomkins (1998:327), “Understanding the evolution of government financial control systems”, *Accounting, Auditing & Accountability Journal*, Vol. 11 No. 3, 1998, pp. 309-331

³⁰ Dean attributed many of the failed financial control reforms in developing countries to the failure to identify clearly what control system features were appropriate to the country’s stage of development. He calls such a lack of match an “anachronism” - Dean, P.N. (1988), “Government financial management systems in developing countries”, in Chan, J.L. and Jones, R.H. (Eds), *Government Accounting and Auditing: International Comparisons*, Routledge, London, pp. 149-74.

financial management of the project as well as other donor funded operations financed through the use of country systems.

103. The Offices of the Auditor General at the federal level and in Somaliland and Puntland have the constitutional responsibility to carry out independent audit of the project. The audit would be carried out with support from necessary technical assistance to guarantee quality assurance as well as compliance with the World Bank external audit requirements. In carrying out the external audit, the project will support the financing of the technical assistance and related expenses incurred by the Offices of the Auditor General. The audited project annual financial statements together with any additional information required will be submitted to the Bank within six months after the end of the fiscal year. This audit will be in conformity with the Bank's audit requirements and in accordance with internationally recognized auditing standards. The auditor will express an opinion on the financial statements in compliance with provisions of the International Standards on Auditing (ISA). In addition to the audited financial statement, the auditor will prepare a management letter with observations and recommendations for improvement in accounting, recording, systems and compliance with the financial covenants in the grant agreement. The audited financial statements, audit opinion, management letter and the necessary audit supporting documentation shall be prepared and submitted in English language. In line with OP 10.00 frequent supervisions of the FM systems at the federal and States levels will be carried out during project implementation and arrangements updated to reflect the emerging developments in the FM systems.

D. Procurement

104. For the recipient executed activities, the PFMRCU will apply the Bank's Guidelines as follows: Guidelines for Procurement of Goods Works and non-consulting services under IBRD Loans and IDA Credits and Grants by World Bank Bank Borrowers January 2011; and (ii) Guidelines for Selection and Employment of Consultants IBRD Loans and IDA Credits and Grants by World Bank Bank Borrowers January 2011. Bank executed activities will be subject to AMS 15.01 of November 2011. The bidding and contract documents used will be those acceptable to the Bank.

E. Social (including Safeguards)

105. The project is expected to have positive social impacts through improved public confidence in government in the management of public funds in a transparent and accountable manner. However, in attempting to tackle malfeasance in the Somalia context, stakeholders need to be mindful of ingrained socio-cultural norms and the 'contiguity effect' of personal relationships at the local level which affects arm's length transactions with public interest often put in the back seat. Similarly, the 'theory-practice congruity gap' suggests that expectations should be well managed because financial resources (including conditionality) and legal structures, though necessary, are not sufficient; "supportive social and political context" with strong leadership that provides space for citizen participation to demand accountability are critical. Complementary reforms in the judicial sector, rule of law and wider public sector reforms will be required.

F. Environment (including Safeguards)

106. The project will be carried out with Somali counterpart institutions in the Capital Mogadishu and the cities of Garowe and Hargeisa. The only physical activities that are foreseen are the procurement of electronic hardware (computer terminals, servers) and small scale, indoor works to refurbish and retrofit office space and server rooms to accommodate the hardware. This project does not warrant a separate dialogue on safeguards, as the anticipated impacts 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 Environmental Management Plan 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.

107. 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.

108. 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.

109. The project will not be implemented in an area that is disputed between two or more Bank members. Somaliland and Puntland are territories of a member country, i.e. Somalia since 1962. For purposes of OP 7.60, no third State has recognized the independence of Somaliland and the Bank has no position on this.

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Cultural Property (OPN 11.03 , being revised as OP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples (OD 4.20 , being revised as OP 4.10)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
International Waterways (OP/BP/GP 7.60)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP/GP 7.60)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

G. World Bank Grievance Redress

110. Communities and individuals who believe that they are adversely affected by a World Bank (WB) 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 World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VII. CONDITIONS AND ASSURANCES

A. Conditions of Grant Effectiveness

162. The conditions for grant effectiveness are the following:

- (a) The subsidiary agreement between the recipient and the Puntland State of Somalia has been executed in accordance with the provisions of Section I.B of Schedule 2 of the grant agreement.
- (b) Puntland State of Somalia has established the Puntland public financial management reform coordination unit, the Puntland PFM reform oversight committee, the Puntland technical steering committee and the Puntland component implementation teams in accordance with the provisions of Section I.A of Schedule 2 of the grant agreement.
- (c) The recipient has prepared and adopted a project implementation manual in accordance with the provisions of Section I.C of Schedule 2 of the grant agreement.

VIII. ANNEXES

Annex 1: Results Framework and Monitoring

SOMALIA: Second Public Financial Management Capacity Strengthening Project (P151492)

The Project Development Objective (PDO) is *to establish and strengthen institutional capacity for the management of public funds in central finance agencies and targeted sectors.*

PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Target Values			Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				2016	2017	2018				
Indicator One Reduced variance between actual primary expenditure and the originally budgeted primary expenditure.	☒	%	45 <i>FG: 40</i> <i>PL: 50</i>	45 <i>FG: 40</i> <i>PL: 50</i>	35 <i>FG: 30</i> <i>PL: 40</i>	25 <i>FG: 20</i> <i>PL: 30</i>	Annually	FMIS and published budget documents and Annual Financial Statements	Accountant General's Department	Aggregate fiscal discipline
Indicator Two Time elapsed (in months) between end of period covered and submission of audit reports to the legislature.		Months	12	12	9	6	Annually	Auditor General's Report to Parliament	Office of Auditor General	Transparency for the use of public finds
Indicator Three Increase in real terms of domestic revenue collection.		Amount (US\$ million)	95 FG: 96 PL: 0.72	120 FG: 120 PL: 1	144 FG: 144 PL: 1.3	172 FG: 172 PL: 1.5	Annually	Annual Financial Statements	Tax Department	Resource mobilization

INTERMEDIATE RESULTS										
Intermediate Result (Component One): Revenue mobilization, planning and budget preparation Improved realism of the budget and fiscal discipline.										
Intermediary Result	Core	Unit of Measure	Baseline	Target Values			Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				2016	2017	2018				
<i>Intermediate Result indicator One</i> Increase in budget execution rate in targeted sectors.		%	55 <i>FG: 60</i> <i>PL: 50</i>	60 <i>FG: 60</i> <i>PL: 60</i>	65 <i>FG: 65</i> <i>PL: 65</i>	70 <i>FG: 70</i> <i>PL: 70</i>	Annually	FMIS and published budget documents and Annual Financial Statements PETS	Acct General's Department Sector focal points	Strategic allocation and use of funds for pro-poor sectors ³¹
<i>Intermediate Result indicator two</i> Revenue mobilization strategy implemented.		Text	Ad hoc approach to revenue mobilization	Customs duties based on <i>ad valorem</i>	Unique Taxpayer Identification Numbers (TIN) introduced	Procedures manual for tax administration disseminated and training conducted	Annually	Revenue Departments' admin records	Revenue Departments	Revenue mobilization
Intermediate Result (Component Two): Treasury management, budget execution, procurement, accounting and financial reporting Strengthened controls for fiscal discipline, transparency and reporting.										
<i>Intermediate Result indicator One</i> Improvement in 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 both at commitment and at payment stage	Annually	FMIS and published budget documents and Annual Financial Statements	MoF	Improved reporting for management decision-making and transparency Open Budget Initiative (OBI) principles

³¹ This breakdown indicator measures the increase in an average quarterly budget execution rate on an annual basis or the increase in budget execution rate at year end for a particular sector by comparing to the baseline which is budget execution rate for this sector in the previous year.

Intermediate Result (Component Two): Treasury management, budget execution, procurement, accounting and financial reporting The objective of this component is to strengthen controls needed for fiscal discipline and promote transparency and accountability.										
Intermediary Result	Core	Unit of Measure	Baseline	Target Values			Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				2016	2017	2018				
<i>Intermediate Result indicator Two</i> Improvements in information contained in annual financial reports with regard to application of International Public Sector Accounting Standards (IPSAS) – cash basis.		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	Annually	Annual Financial Statements	Accountant General's Dept.	Transparency and accountability
<i>Intermediate Result indicator Three</i> Percentage of contracts using competitive procurement methods.		%	0	20	30	60	Annually	Transparency, competition and complaints mechanisms in procurement	MoF (Tender Board)	Public confidence in transparency of procurement processes and systems
<i>Intermediate Result Indicator Four</i> 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 and technical requirements for core banking system and procurement of services for supply and implementation	Installation, commissioning and stabilization of core banking and accounting solution including the ICT infrastructure	Basic payment system operational	Annually	Central bank project management reports	Central bank	Public confidence in transparency & accountability of central bank

Intermediate Result (Component Three): Strengthening the integrity pillars										
Strengthened key integrity pillars to hold government accountable for the use of public funds.										
Intermediary Result	Core	Unit of Measure	Baseline	Target Values			Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				2016	2017	2018				
<i>Intermediate Result indicator One</i> Percentage of expenditures represented by the government entities audited in total public expenditure.		%	0	50	60	75	Annually	External Audit reports	Office of Auditor General	Independent oversight and accountability for use of public funds
<i>Intermediate Result indicator Two</i> Percentage of audit recommendations for which there is evidence of follow-up.		%	0	10	20	40	Annually	External Audit reports	External Audit reports	Fiduciary Assurance
Intermediate Result (Component Four): PFM Professionalization										
Number of PFM accredited staff										
<i>Intermediate Result indicator One</i> Number of students completing certificate and diploma stages.		Number (persons)	0	10 Certificates <i>FG - 5</i> <i>PL - 5</i> <i>SL - NA</i>	20 Certificates <i>FG - 5</i> <i>PL - 7</i> <i>SL - 8</i>	20 Diplomas <i>FG - 5</i> <i>PL - 7</i> <i>SL - 8</i> <i>Plus 10 ITC-ILO diplomas</i>	Annually	PFM Academy PFM Academy in participating universities records	PFM Academy in participating universities	PFM knowledge, skills and competencies
Intermediate Result (Component Six): Demand-driven Just-in-time services (Bank Executed)										
Demand-driven Just-in-time Services (Bank Executed).										
<i>Intermediate Result indicator One</i> Number of PFM reviews and actionable advisory notes.		Number	-	1	1	1	Annually	PEFA Framework/ Fiscal ROSC Customs Assessment Trade Toolkit (CATT) PETS	Bank Task Team	Just-in-time analysis and advice

Annex 2: Detailed Project Description

SOMALIA: Second Public Financial Management Capacity Strengthening Project (P151492)

1. The general weaknesses identified in the PFM self-assessment calls for good coverage in the PFM cycle and related HR factors. The project response is context-specific to each reform area and mindful of the political reform space and absorptive capacity. Within the wide reform themes, the project activities under this first-generation reform seek to get the basics right by concentrating on the building blocks that will be built upon in subsequent reforms over the medium to long term. Whilst seeking good coverage, efforts are concentrated on cash management, commitment controls; financial reporting and the enabling information management system as key pre-requisites for the other reform areas. Detailed component/sub-components annual work packages will be developed by the component implementation teams for the various activities that will be properly sequenced with flexibility to make adjustments to meet emerging challenges and seize opportunities in the reform space.

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

The objective of this component is to improve the realism of the budget and instill fiscal discipline.

Budget estimates by components/sub-components	1. Federal Government	2. Puntland	3. Somaliland	Total \$(‘000)
1. Revenue mobilization, planning and budget preparation	1,705	1045	-	2,750
1.1 Strengthening planning and budget preparation	315	315	-	630
1.2 Revenue mobilization and tax administration	1,390	730	-	2,120

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

111. *Current status:* The African Development Bank (AfDB) approved the Economic and Financial Governance Institutional Support Project (EFGIS³²) for the Federal Government on December 18, 2013 and is currently providing technical assistance for debt management and aid coordination. Development plans are in place but do not contain fully costed sector strategies with a multi-year perspective to achieve sector objectives. There are significant deviations between the amounts budgeted and the actual expenditure especially for the capital budget. Low level of capital expenditure (Capex) allocation that is even quite often not fully implemented, affects the pace of implementing much needed infrastructure for socio-economic development

³² EFGIS components- Component 1: Enhancing management, policy and planning: 1.1 Support to macroeconomic and fiscal management and 1.2 Support to arrears clearance and debt reconciliation process; Component 2: Strengthening effectiveness and inclusivity of the budget: 2.1 Strengthening the budget preparation process and 2.2 Improving budget dissemination and transparency; Component 3: Support to capacity development and project management: 3.1 Provision of training to enhance macroeconomic management, policy planning and budget process; 3.2 Provision of essential equipment; and 3.2 Project management

2. For the Federal Government, the AfDB and the IMF will take the lead in providing support for building capacity for the production of macroeconomic statistics; developing an adequate macroeconomic framework for monetary and fiscal policy formulation and implementation. This project will reserve a small budget to provide complementary support in these areas for the Federal Government. Activities under this sub-component will mainly be for Puntland and Somaliland and include:

- 1.1.1 preparing and training staff on budget preparation guidelines, which promote a strong link between the macro fiscal framework, sector policies and the annual budget by developing a credible MTFF. The MTFF will help link macroeconomic performance with fiscal policy at the aggregate level, while forecasting the size of the fiscal envelope based on macro-fiscal assumptions and on a multi-year basis;
- 1.1.2 developing a macro-fiscal forecasting Excel-based tool. The MTFF model/tool proposed would be useful to calculate a more realistic fiscal envelope along and financing needs;
- 1.1.3 preparing a methodological manual for preparing and reviewing the MTFF. A user manual will be prepared to help staff use the tool through the budget preparation process. The user manual would allow non-technical users to know how (i) the base data are populated, (ii) to enter new assumptions and produce simulations or scenarios; and (iii) to prepare tables and graphs. The technical manual will explain the analytical framework behind the tool, the internal logic of the model, data sources, the equations, and relations; and indicate methodologies to expand its coverage and improve the database;
- 1.1.4 adhering to a fixed budget calendar to improve orderliness and participation in the annual budget process. Procedures for early involvement of the Council of Ministers (the Cabinet) in setting sector ceilings before issuing budget call circular. Supporting relevant parliamentary committees with technical and advisory services to facilitate budget hearings. ‘*Citizens Budget*’ will be prepared to clearly show the revenue sources, how they are applied in implementing government programs and the expected outputs and results;
- 1.1.5 integrating the recurrent and capital budgets, and improving the capacity of targeted sectors to prepare fully costed Medium-term Sector Strategies (MTSS) that will inform the planning and budget preparation process and properly appraising development projects³³. Priority will be given to the following pro-poor sectors: Health; Education; Agriculture; Water; Environment, Wildlife and Tourism (Puntland);
- 1.1.6 putting ‘aid-on-budget’ is the tipping point towards use of country systems. In Somaliland, other than the SDF; and in the Federal Government, other than the Bank administered MPF window, Official Development Assistance (ODA) is ‘off-budget’ this inevitably leaves room for 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). Putting ‘aid-on-budget’ will improve the comprehensiveness of the budget to achieve strategic allocation of resources;
- 1.1.7 establishing a database of key indicators that will monitor MDA performance in delivering the expected results of budgetary allocations. The indicators will be frequently

³³ Rajaram, Anand; Tuan Minh Le, Senior Economist PRMPS and Nataliya Biletska, PRMPS, The World Bank; “A Diagnostic Framework for Assessing Public Investment Management”, 2008 - (i) investment guidance, project development and preliminary screening; (ii) formal investment appraisal; (iii) independent review of appraisal; (iv) project selection and budgeting; (v) project implementation; (vi) project adjustment during construction period; (vii) facility operation; and (viii) project evaluation.

updated and released to the public for independent evaluation and feedback in a *Budget Performance Observatory (BPO)* as part of the Open Government Data initiative.

Implementation

3. This sub-component will be implemented by the Ministry of Finance, Ministry of Planning and the targeted ministries (health, education, agriculture and environment (Puntland) and will fund the cost of some IT equipment, office furniture and fittings, consultancy fees, training, workshops and peer learning events.

Expected results

4. Strengthened government capacity to prepare and implement prioritized budgets that are fiscally sustainable and contribute to national development policy objectives.

Sub-component 1.2: Revenue mobilization and tax administration (US\$2,120,000)

5. *Current status:* In Somaliland, the LICUS Trust Fund supported the preparation of customs bill, revenue bill, and procedural guidelines to support the implementation of the Somaliland Revenue Act 2011; proposed organizational structure for the Somaliland revenue authority and roadmap for phased implementation (East African School of Taxation). The findings and short-term revenue generation options in the JNA 2006 are still relevant. 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. Efforts to increase tax collection by the Federal Government have been met with stiff resistance leading to gunning down of tax collectors.

6. For the Federal Government, the IMF is taking the lead in providing support for building capacity for improving tax and customs policy. This project will provide complementary support in these areas for the Federal Government and extend support to Puntland. Somaliland is receiving related support from DfID. The sub-component will fund the following activities:

1.2.1 formulating tax policies, tax laws and revenue forecasting and expanding the tax base to “***close the tax gap***” will need to be built in a progressive manner. The capacity of the legislature to understand tax policy issues and enact tax laws in a simple, clear language will be extremely important. Evidence based tax policy and administration will require capability for economic intelligence activities to periodically scan the business environment to ascertain the revenue potential and identify emerging opportunities to broaden the portfolio of tax options;

$$\text{Tax Gap} = 1 - \frac{\text{Total revenue collected}}{\text{Potential revenue}}$$

1.2.2 conducting tax education campaigns (in the form of seminars, workshops, advertisements, brochures, television adverts, interviews, and dissemination through the

- internet etc.) to ensure that liable taxpayers are made aware of their tax obligations; tax rates are known and assessment procedures are disseminated;
- 1.2.3 shifting customs duties from specific to *ad valorem*;
 - 1.2.4 segmenting of taxpayers (large, medium and small) and implementing system for unique Taxpayer Identification Number (TIN) linked to business registration systems and compliance with financial sector regulations will help in enforcing collection as noncompliant taxpayers can be promptly identified and action taken to secure returns and recover arrears. Introducing simplified and economical procedures for small and micro-size taxpayers to reduce compliance costs and improving tax regimes for the medium and larger taxpayers. This will assist taxpayers in complying with their legal tax obligations in a timely and accurate manner;
 - 1.2.5 establishing systems and procedures to maintain up-to-date tax records for regular reporting of revenue performance and its uses for service delivery in particular will contribute to increased tax compliance;
 - 1.2.6 improving business processes could for example increase total tax revenue without necessarily increasing the tax rate by collecting actual tax payable efficiently; establishing effective billing and collection systems with low cash handling through partnerships with the emerging financial institutions ('Hawalas'); and exploring possibilities for interface with pre-shipment inspection systems;
 - 1.2.7 exploiting the financial management information system to its full potential to ensure complete reconciliation of tax assessments, collections, arrears and timely transfers to the Treasury Single Account. To support the overall cash management process, all tax revenue should be paid directly into accounts controlled by the Treasury or transfers to the Treasury should be made daily by any collection agent or transit bank as this will allow consolidation of overall government cash balances. Exploring the use of handheld devices that will ensure that genuine receipts are issued to taxpayers;
 - 1.2.8 training including building in-house capacity to undertake tax audits and investigations based on risk analysis will be a continuous and long term venture.

Implementation

7. This component will be implemented by the Ministries of Finance and will collaborate with the Ports Authorities and will fund the cost of IS/IT systems and equipment, consultancy fees, training and workshops, printing of manuals and other training material. Other border and security agencies that control movement of goods and people will be part of the government implementation team. Close collaboration with the IMF will be required to ensure consistency with any agreed macro-economic framework.

Expected results

8. By giving priority to actions that would address the most critical problems first and for which there is support at the political and management levels³⁴, the increased fiscal capacity and improved tax administration capacity will free up resources for service delivery.

³⁴ Jit B. S. Gill, Diagnostic Framework for Revenue Administration, World Bank Technical Paper 472, 2000

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

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

Budget estimates by components/sub-components	1. Federal Government	2. Puntland	3. Somaliland	Total \$('000)
2. Treasury management, budget execution, procurement, accounting and financial reporting	5,525	2,400	1,955	9,880
2.1 & 2.2 Treasury management and budget execution; accounting and financial reporting; PFM legal framework; and Comprehensive Operating Procedures Manual (COPM)	1,250	750	500	2,500
2.3 Concessions, procurement and contract management	500	250	250	1,000
2.4 Bespoke Financial Management Information System (FMIS); Primary Data Center (PDC); Disaster Recovery Center (DRC) – including Somaliland Grade 'A' Districts and Hargeisa Water Agency (HWA)	1,775	1,400	1,205	4,380
2.5 Modernizing CBS banking operations and financial control environment	2,000	-	-	2,000

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

9. *Current status:* comprehensive legislative framework and robust organizational structures for PFM institutions are critical pillars for creating an enabling PFM environment. The extant PFM legal framework is outdated and can no longer support the envisaged modernization of PFM practices; therefore, a PFM Bill has been endorsed by the Council of Ministers and submitted to Parliament for passage. Somalia is a highly cash-based country and the financial services sector is only now 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. Internal controls for budget execution as currently applied is concentrated on seeking prior approval before undertaking activities and making payments even where funds have already been allocated.

10. The sub-component will fund the following activities:

2.1.1 re-engineering business processes to strengthen existing processes such as revenue assessment and collection; payment authorization and approval; and accounting and reporting. The internal control system should operate effectively to ensure proper approval of expenditures in accordance with budget, and proper authorization of

- payments (e.g., through segregation of duties). Internal control³⁵ objectives are statements of the desired result or purpose to be achieved by implementing control activities (procedures). Controls include policies, procedures and practices (tasks and activities) established by management to provide reasonable assurance that specific objectives will be achieved, e.g. safeguarding of assets, authorization and authentication, segregation of duties, availability of information technology services and information on automated systems is current and secure from improper access;
- 2.1.2 issuing *Treasury Circulars or Ministerial Orders* for the evolving business processes for budgeting, commitment controls, procurement, internal controls, accounting and reporting whilst the main PFM legal framework is being updated; and later codifying in Financial Regulations (FR) and preparing Comprehensive Operating Procedures Manuals (COPM); translating to Somali language; widely disseminating and conducting training;
 - 2.1.3 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. Cash handling which pose high risk for leakages will be avoided through direct ‘bank’ transactions. Each Budget Entity (line ministries) will have a dedicated TSA sub-ledger bank account 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 at the line ministry and submitted to Treasury for processing through the FMIS that will generate the payment to beneficiaries whose details are verified in a Vendor Database;
 - 2.1.4 ensuring prompt transfer of collected revenues to government accounts through stringent rules with services remunerated on a per transaction basis independent of the value of the transactions. Arrangements will be defined to foster competition when revenues are collected by commercial banks or registered ‘*Hawalas*’;
 - 2.1.5 introducing commitment controls to curb build-up of arrears. Budgets will be controlled at the Group Level of the chart of accounts but transactions will be recorded at the lowest line item level as this will provide flexibility to budget holders and avoid frequent virements;
 - 2.1.6 training will be conducted for deriving cash plans from the annual work plans and linking same to procurement plans to inform periodic cash allocations for effective budget execution. For efficient budget implementation, it is necessary to ensure that claims will be paid according to the contract terms and that revenues are collected on time and banked intact. The preparation of the overall cash plan and its updating will require close coordination between the Treasury Department, the Budget Department, and the Tax Administration Department. It is necessary to have: (i) quarterly updates of the projections for the entire fiscal year; and (ii) monthly updates of the projections for the succeeding month;
 - 2.1.7 improving the operations of the Cash Management Committee (CMC) in the Ministry of Finance with technically skilled staff to project, monitor, analyze and update cash projections. Also, an inter-departmental task force will develop a cash management policy with a framework for deciding on cash ceilings and periodic cash releases to line

³⁵ INTOSAI: *Guidelines for Internal Control Standards for the Public Sector* issued by the Internal Control Standards Committee at www.intosai.org

ministries. In situations of cash crises, there is a temptation for corrupt practices in deciding who gets paid and in what order. Therefore, clear and transparent rules for ordering payments would be established to minimize corruption. The Accountant General will issue 'Payment Instruction' that will be submitted as final authority to the Central Bank for direct payment to the vendor. Notwithstanding the centralized payment process, responsibility for detailed expenditure control rests with the spending unit and parent ministry as they would be responsible for preparation and authorization of vouchers; MoF is responsible for recording and making payments; and Central Bank is responsible for banking operations. Payments could also be channeled through the licensed financial institutions. The TSA conceptual model³⁶ will consider the limitations of the existing 'banking' environment and seek to take advantage of mobile money transfers mechanisms in place;

- 2.1.8 establishing the policy and legal framework for admissibility of evidence for Electronic Stored Information (ESI) to be admissible as prima facie evidence of the matters or transactions of the original financial management transaction. This is critical with the envisaged Electronic Funds Transfer (EFT) and possibility of using Mobile Phone collection and payment mechanisms or other payment instruments.

Implementation

11. This sub-component will be implemented by the Ministry of Finance in close collaboration with the Central Bank and will fund IS/IT application and equipment, consultancy services, training, workshops and printing of manuals and other training material.

Expected results

12. Improved predictability in the availability of funds for commitment of expenditures and better control of supplier arrears.

Sub-component 2.2: Accounting and financial reporting (US\$1,000,000)

13. *Current status:* Timeliness in preparing financial reports is improving but accuracy and completeness is lacking. 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. Records management system for creating, capturing, managing and preserving financial records that are authentic and reliable as evidence of actions and transactions are inadequate for supporting accountability and transparency.

14. The sub-component will fund the following activities:

³⁶ Ali Hashim and Allister J Moon, Treasury Diagnostic Toolkit, World Bank Working Paper No 19 (27713), 2004

- 2.2.1 preparing simple accounting procedures manual to guide the preparation of annual financial statements in accordance with the '*Financial Reporting under the Cash Basis of Accounting*³⁷', 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;
- 2.2.2 developing tools 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. Use of IMF-GFS compliant Standard Chart of Accounts (SCoA) will support the preparation of 'whole-of-government' fiscal reports and comparison amongst member states in Somalia;
- 2.2.3 ensuring 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 (UNCTAD³⁸). 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. This will assist taxpayers in complying with their legal tax obligations in a timely and accurate manner. As security improves and with more establishment of Significant Public Interest Entities and Other Public Interest Entities³⁹, mechanisms for application of IFRS and ensuring compliance will be developed;
- 2.2.4 undertaking a records management assessment and establishing systems, structures and guidance for creating and protecting authentic and reliable financial records, including: capturing metadata to relate the records (financial and human resource) to the context of their creation and use; capturing information (e.g. audit trails, digital signatures) needed to confirm authenticity and authorship; ensuring that the security measures are in place to protect records against unwarranted access; defining retention and disposal requirements; ensuring that appropriate personnel have been assigned responsibility; ensuring that regular system audit procedures are in place.

Implementation

15. This sub-component will be implemented by the Accountant General Departments and will fund IT equipment, consultancy services, training, workshops and printing of manuals and other training material.

Expected results

³⁷ Part 1 is mandatory. It sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting. Part 2 is not mandatory. It identifies additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements.

³⁸ http://unctad.org/en/Docs/itete20036_en.pdf

³⁹ Other Public Interest Entities - this refers to those entities, other than listed entities (unquoted, private companies), which are of significant public interest because of their nature of business, size, or number of employees or their corporate status which require wide range of stakeholders. Examples of entities meeting these criteria are large not for profit entities such as charities and pension funds and may include publicly owned entities and other entities where there is a potentially significant effect on financial stability.

16. Timely preparation of high-quality in-year budget performance reports will provide opportunity for decision making and early action to ‘bring in the budget’. Publication of annual financial statements will contribute to enhancing transparency and accountability.

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

17. *Current status:* Public Procurement regulatory framework and Stores Regulations are outdated with no well-functioning procurement system in place. There is currently a director of procurement and national assets whose responsibilities include overseeing procurement processes that are yet to be established. The objective is to put in place a modern but appropriate institutional and legal framework based on the current Somalia context that will increase value for money in the use of public resources and allow broader participation of the private sector and transparency in the procurement process. Initially, emphasis will be placed on linking of procurement plans with budget, work plans, and disbursement schedules to ensure availability of funds to support the award and payments of contracts in ensuring effective implementation of the budget.

18. UNDP Somalia contracted KPMG East Africa to improve the quality and relevance of public procurement and public audit in the Federal Government of Somalia (FGS) and Puntland State, and specifically to introduce a competitive and transparent public procurement system. The following documents were prepared: Standard Bidding Documents (SBDs) for supplies and works for national and international competitive bidding; user guide for the SBDs for the procurement of supplies; procurement procedural forms; and proposed organizational structure and job descriptions for the Public Procurement Authority.

19. In Somaliland, the LICUS Trust Fund supported the preparation of the Public Procurement Bill 2011; Procurement Regulations; Public Procurement General Manual; organizational structures for the Public Procurement Authority/units and competences determined for each position within the structure and transition arrangements; SBDs and supporting manuals.

20. DFID is providing financial support towards the cost of the implementation of the FGP through an Externally Funded Output (EFO) of the Bank. The objective of this EFO is to support the delivery of the FGP by building Somali capacity in the area of public procurement and concessions – two critical components of the wider FGP. The grant will specifically support the (i) the development of a Web Portal accessible to the Somali public and internationally, launched and staff of the Procurement and Assets Directorate of Ministry of Finance trained and assigned to maintain it (ii) hiring of a consultant to prepare a principles-based manual for the processing and award of contracts for concessions or procurements, disseminated and users trained on it (iii) a consultant will be hired to conduct a pilot market survey with a view to preparing a model for mapping the business associations, firms, CSOs, NGOs, Donors and UN Agencies that act as providers for consulting, goods supply and construction services. (iv) a concessions and

procurement adviser will be hired to support the implementation of the Financial Governance Program (FGP) and (v) a consulting firm to be hired to undertake a feasibility of using third party monitoring techniques to collect data on the performance of concessionaires, contractors and suppliers will be studied.

21. The sub-component will fund the following activities:

- 2.3.1 *Enabling policy, legal and regulatory framework* - the overall goal will be to set a robust legal and regulatory framework for the Federal Government of Somalia. The sub-component will fund (i) the enactment and gazetting of the public procurement, disposal and concessions act and its dissemination; (ii) technical assistance for the drafting of regulations and guidelines (harmonized procurement manual). These regulations will guide the implementation of the Act and will specify how the provisions of the Act are applied and they will contain official templates and forms that are required under the Act for procurement processing. A harmonized Government “owned” procurement (guidelines) manual which will be used as a reference guide or handbook for managing the procurement cycle from procurement planning to contract management and standard bidding documents, will be drafted and distinct for central government PDEs and Local Government PDEs; (iii) the printing and translation to Somali language of the procurement act, regulations and guidelines (manual) and their dissemination to ministries districts and agencies and other stakeholders; (iv) additional support will be provided to cater for the preparation of a medium-term strategic plan for the new Authority. The strategic plan will articulate specific key result areas, objectives and strategies to be pursued, and it will be a roadmap for the Authority to deliver its mandate; (v) and the setting up of a technical working group to guide the implementation of the procurement reforms and review the outputs of various consultants (technical assistance) to the procurement component.
- 2.3.2 The granting of public *concessions* requires the development of a sound policy that must be made transparently with full regard to the benefits to the population at large. The FGS intends to signal its commitment to good financial governance by following good practice, rules and transparent procedures in the award of all concessions and to subject recent concessions to independent review and advice. The sub-component will support the acquisition of technical assistance for the development of a strategy for concessions. The incumbent will also provide advisory role to the inter-ministerial committee (IMC) responsible for award of concessions.
- 2.3.3 In order to put in place the necessary *Governance and Organization Structures*, the sub component will support the achievement of the overall goal of establishing a lean but effective governance and organizational structure that will deliver the mandate of the Procurement Authority. The activities to be funded include: (i) technical assistance will be funded for preparing and implementing an organizational structure for the Authority, an oversight board, definition of roles and responsibilities, job descriptions for all the proposed positions . The proposed organizational structure should facilitate service delivery, good governance, and be responsive to the needs of the stakeholders; (ii) The board and management will be inducted on the mandate of the Authority and will receive more specialized training on the corporate governance and on public procurement act and regulations delivered by professional institutions and universities and to set up linkages

between the Authority and MDAs and the private sector; (iii) to support the board to function. A board charter will be prepared and including terms of reference to be developed for various board committees; (iv) other activities to be funded under this component will include; (v) rolling out the strategic plan; and (vii) participation of the authority in the institutional working groups with other oversight agencies.

2.3.4 *Building institutional and management capacity* - activities will receive funding and will primarily be focused on procurement capacity assessment, development and execution of training plans to ensure that all stakeholders in the procurement sector have the necessary skills and qualifications. The implementation of the Act will decentralize procurement to MDAs. Procurement (tender committees) will be appointed to grant decisions on award of contracts; procurement and disposal units will be established in all the MDAs; a procurement complaints review board will also be established to provide assurance on the credibility of the procurement system. Specific activities eligible for funding include: (i) the induction of the accounting officers and tender committees on governance and sensitization on the procurement act and regulations; (ii) capacity needs assessment and the development and implementation of a national procurement (central and local government) capacity building strategy (CBS); (iii) technical assistance to support specific areas i.e. capacity building, procurement and concessions advisory services, market survey and research etc; (iv) delivery of Training of Trainers (ToTs) program; (v) to monitor the implementation of the capacity building strategy (vi) to develop an internship, mentoring and on-job-coaching of the procurement cadre (vii) professional certification and accreditation of the procurement cadre under the PFM professionalization component of this project.

2.3.5 *Developing monitoring and oversight capacity* - to enhance the integrity and transparency of the procurement system by ensuring increased compliance of the PDEs and other stakeholders to the procurement act. It will be implemented with the aim of gradually increasing the no. of procurement audits and compliance checks in MDAs. The same effort will be extended to improving a mechanism for handling and investigating complaints and administrative reviews. Specific activities to be funded under the sub component include: (i) building of procurement audit capacity of the department of audit, compliance and investigations department of the proposed Authority to undertake audits; (ii) technical assistance for preparation of procurement audit manual and terms of reference for independent audit firms to undertake audits on behalf of the Authority; (iii) identifying Third Party Procurement Agents (TPPA) to provide procurement audit and compliance and training the identified TPPAs; (iv) undertake procurement and disposal audits and compliance checks and the subsequent publishing of audit and compliance findings; (v) preparation of guidelines for handling procurement complaints; for public procurement disclosure and for contract monitoring; and (vi) the enhancement of anti-corruption institutions and inter agency cooperation and the enhancement of third party monitoring services through civic society participation.

Implementation

22. This sub-component will be implemented by the Procurement Directorate or Tender Board in close collaboration with the line ministries and will fund consultancy services, training, workshops and printing of manuals and other training material.

Expected results

23. Improved national public procurement system that increases the confidence of both the citizens and the business community in the public sector management of the Government. The existence of robust public procurement system, in turn, ensures that public funds are used for the intended purpose with due attention to economy and efficiency, and mitigating chances of misuse, without regard to political and other non-economic influences or considerations.

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

The objective of this sub-component is to progressively improve the technical capacity to handle PFM processes in an efficient manner.

24. *Current status:* Key to realizing government's development objectives is the establishment of adequate procedural and control systems that will ensure the legality, accuracy and timelines of fiscal information in the areas of planning, budgeting, purchasing, accounting, reporting and auditing. Establishing fundamentals for fiscal discipline through robust mechanisms for comprehensive revenue forecasting to promote realism of the budget and tightening cash controls for revenue collection and payments will require robust Financial Management Information Systems (FMIS). Change management will be central to the whole implementation approach and the business process re-engineering will consider absorptive capacity during the re-orientation of the end-users.

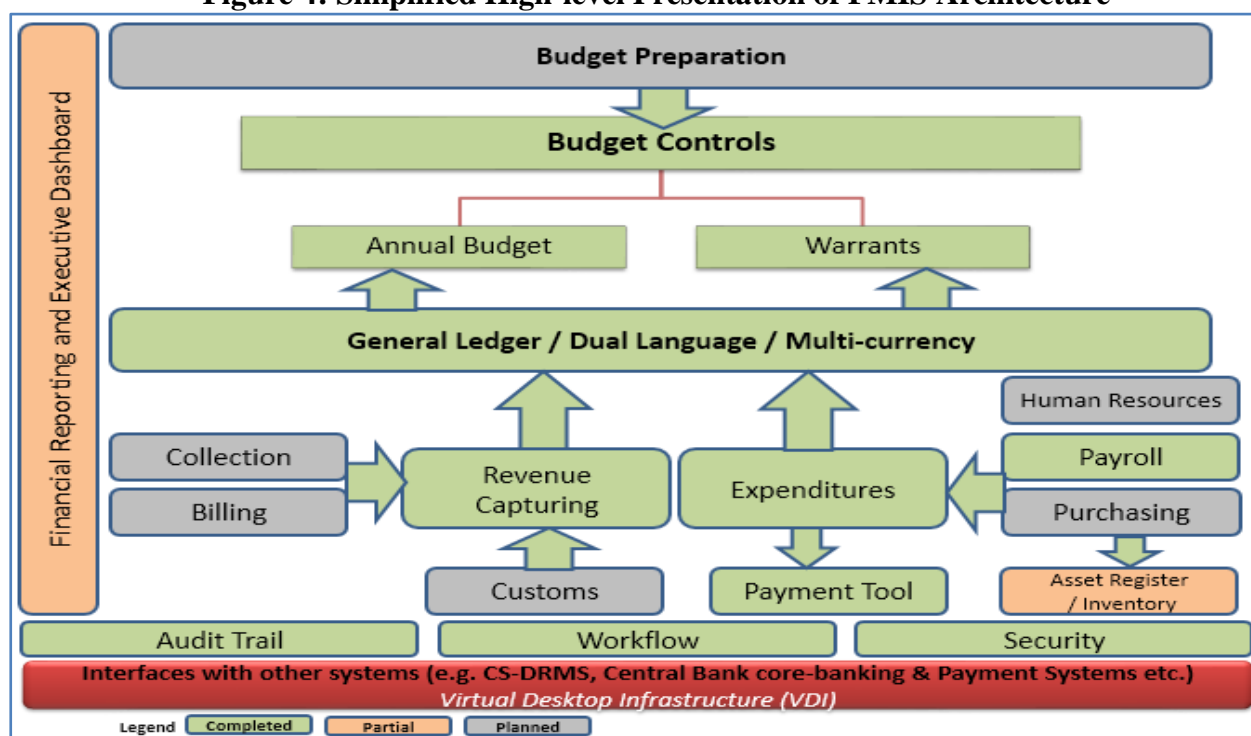
25. A Handbook on Financial Management Information Systems for Government, A Practitioners Guide for Setting Reform Priorities, Systems Design and Implementation, noted that "systems implementation could start with a basic bespoke system that could be used to firm up requirements. Centralized architecture is still the architecture of choice to the extent it is possible --- but a country could start with a distributed architecture"⁴⁰. A detailed needs assessment has been undertaken as part of the ongoing project (P146006) for the Federal Government for a 'fit-for-purpose' bespoke FMIS (Figure 4) 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. Considering the clarity of the requirements from the feasibility so far, the approach for organizing the project will be incremental or progressive by using variants of iterative applications development (evolutionary and spiral prototyping development or agile development by breaking down the project into relatively short, time-boxed iterations) to deliver the solution in releases by expanding in terms of modules, functionality, range of users and operating sites (line ministries etc.). While accepting flexibility, a formal change control process would be established to avoid creeping scope during the system development. User Acceptance Testing (UAT) will be conducted using

⁴⁰ <https://collaboration.worldbank.org/docs/DOC-10935> - this handbook (see page 84) by Ali Hashim was published in 2014 and is a part of the Africa Operations Services Series. It is based on a compilation of experiences in World Bank-financed projects.

the International Software Testing Qualifications Board (ISTQB) guidelines before giving clearance for ‘go-live’ and extensive rollout.

26. 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 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 website⁴¹ and thus living up to its commitment of transparency. In partnership with DFID, a similar approach was adopted for Somaliland for the bespoke system to be implemented in the first instance at the Ministry of Finance; Accountant General’s Office; Office of Auditor General; and with connection to the Central Bank. Roll-out will be piloted in the Ministry of Health, Education, Agriculture and Hargeisa Water Agency (HWA); and for the Local Government Authorities at Hargeisa, Borama, Buroa and Berbera districts. The Inland Revenue and Customs functionality will be first piloted at Berbera District Customs. Roll-out to Accountant General Regional Offices will be piloted at Berbera, Buroa and Borama.

Figure 4: Simplified High-level Presentation of FMIS Architecture



27. In Puntland, JPLG through UN-HABITAT will be providing the ICT “infrastructure as a Service” which is a virtual system (a cloud system) at a cost of US\$435,000 for three-year

⁴¹ <http://mofep.gov.so/wp-content/uploads/2013/04/Budget-Figures-2013.pdf>
<http://www.mof.gov.so/wp-content/uploads/2014/04/Budget-Utilization-Report-Jan-to-Dec-2013.pdf>
<http://www.mof.gov.so/public-financial-management-pfm/>
<http://www.mof.gov.so/wp-content/uploads/2014/11/Summary-of-Government-Revenue-and-Expenditure-as-of-30th-September-2014.pdf>

period. This option is faster to implement with reduced risks that may occur especially with regards to maintenance of the infrastructure⁴². Initially Garowe, Qardo, and Bosssao will be connected to the Puntland FMIS (PL-FMIS) once it goes live to replace the districts' current accounting and billing system.

28. This project will for the Federal Government 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. The project will build on the interim solution⁴³ in the Federal Government and support the deployment of a web-based version⁴⁴ 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. Other advantages of the web-based system include: reduced deployment time and support efforts and provides faster access to the system especially for the roll-out sites.

29. With this proof of concept, the project will support a similar approach for Puntland and Somaliland. The features of the FMIS to be implemented are provided below. The Federal Government, Puntland and Somaliland will have a similar but distinct system based on specific business processes and exclusive access rights.

- 2.4.1 **Budget preparation and warrants** - upon the issuance of National Budget Policy which includes the budget ceilings, the Ministry of Finance will set ceilings (sector and/or MDA) in the system and request MDAs to enter their budget proposals. After negotiation, finalization and Parliamentary approval, the Ministry of Finance will approve the budget in the system and allow for budget execution.
- 2.4.2 **Revenue capturing** - when revenue is collected by the collecting agencies (such as Inland Revenue), an individual receipt voucher will be issued. On a daily basis, each collecting agency will create a Revenue Voucher, attach the batch of receipt vouchers and send it to the Accountant General Department who will review the receipt vouchers and approve the revenue voucher for each batch in the system against which the collected cash will be deposited in the Central Bank.
- 2.4.3 **Expenditure control** - when an expense is incurred such as invoice for goods/services or monthly payroll; the cost center will create an Expense Voucher (F3), and the Director General or Director of Admin and Finance of the cost center will review, approve and submit the expense voucher to the Accountant General's Department. The voucher will be reviewed by the verifiers in the Accountant General Department who will validate the supporting documents and availability of cash balance. If cash is available, the Chief Examiner will approve the voucher and the cash office will issue a cheque (Payment Instruction) or do Electronic Funds Transfer (EFT) for each payment to be signed by the

⁴² Three Telecommunications companies exist that provide networks and internet connectivity in the entire country. This connectivity is available via VSAT, Microwave and Point to Point. The companies offer E1 connectivity and Internet that can be provided to the government to connect the different locations that will be using PL-FMIS

⁴³ vb.net development language; MS Windows operating system; and MS Access

⁴⁴ asp.net development language; MS Windows operating system; and MS SQL Server 2012 database

Accountant General and submitted to the Central Bank for payment direct to the beneficiary whose details are verified in the Vendor Database.

- 2.4.4 **Purchasing** – this module will deepen the commitment control by including requisitioning, purchase order, goods received note and invoicing. Standard definition and coding of commonly procured items and indicative prices will be held in an Item Master file for use during costing of plans and budget preparation to ensure consistency amongst line ministries and is also useful for management to periodically check variance between indicative and actual prices. The Item Master will be based on the United Nations Standard Products and Services Code® (UNSPSC®⁴⁵).
- 2.4.5 **Revenue management** - Payer Database: will be integrated with the Tax Management System (which will be third party system) and will use the registered TINs as an ID for payers. The system will also be integrated with the Ministry of Commerce database to identify all companies allowed to import / export and having a valid license; Billing (Integration with vertical systems⁴⁶): assessment of amount to be collected will be performed by vertical systems, for example, the Tax Management System will identify the tax amount of each tax payer, and this information will be passed to the revenue module and will be displayed when a receipt is created upon the payment of tax; Accounts Receivable: the amount due based on the assessment of revenue will be updated in the Accounts Receivable database, and ultimately update the General Ledger; Receipts: will allow creation of receipts upon the payment of due amount, and will send a confirmation of payment to the concerned system where the amount was assessed. The receipt items will be classified according to the type of revenue and will be linked with the COA coding block. The system will allow the use of hand-held devices for outdoor collections; and Bank Deposits: will create Bank Deposits Slips for the collected cash to be deposited in the bank and will update the Bank Reconciliation database; Revenue Voucher (Posting to G/L): will automatically create Revenue Voucher for all generated receipts and will update the General Ledger.
- 2.4.6 **Customs management** - Customs Declaration: will provide the capability for creating Customs Declaration form of different types (import, export, transit, and import for re-export). The Declaration form will include all information about the Importer / Exporter, Commodity, Origin, Shipping Agency, etc. The Declaration form can be created by Customs Officer, or in the future created by the Importer/Exporter online through a portal; Risk Management: will automatically assess the risks of the declarations based on pre-defined risk profiles, and ultimately will alert the Customs officers for discovered risks; Harmonized System Codes (HS Code) Database⁴⁷: the Commodity items will be using the international standard HS Code which was created and is administered by the Brussels-based World Customs Organization (WCO). The HS Codes will be imported to the system, and this will facilitate the exchange of declaration data with other countries; Tariff & Exemptions Database: will allow defining the Tariff and Exemption rules for each commodity, which will automate the calculation of Customs duty for each declaration; Valuation Database (range of pre-defined values for each HS Code): will be

⁴⁵ <http://www.unspsc.org/> - , managed by GS1 USTTM for the UN Development Programme (UNDP), is an open, global, multi-sector standard for efficient, accurate classification of products and services.

⁴⁶ Vertical Operational Systems such as Tax Management, Customs, etc. where receipt amount will be assessed and defined.

⁴⁷ The HS Code was created and is administered by the Brussels-based World Customs Organization (WCO) - http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs_nomenclature_2012.aspx

integrated with the Risk Management module to identify manipulated declarations in terms of goods value. Each commodity will have a range of value based on historical import information, which will be used to identify the correctness of declared value for each declaration; Inspection: should inspection be required (based on risk assessment), the system will forward a message to inspectors along with the consignment information to be inspected. After completion of inspection, the inspectors will input the inspection results in the system with the decision of releasing the consignment or not; and Client Accreditation: will identify the accredited clients based on the history of transactions. Accredited clients might have special privileges according to the Government's rules and policies.

- 2.4.7 **General ledger, bank reconciliation and financial reporting** - journal voucher posting will occur when there is a need to post entries to record financial transactions that are not generated directly from the expenditures or revenue module. On a periodic basis the Accountant General will import an electronic bank statement in a format to be mutually agreed between with the Central Bank. Upon posting of all transactions and closure of fiscal period, authorized users can print or preview up-to-date trial balance, in-year management reports and statutory financial statements. The users can slice and dice by selecting up to two grouping levels for reporting across the SCoA segments. Reports are generated in 'pdf' format and can also be exported to Microsoft Excel for additional data analysis.
- 2.4.8 **Human Resource Management (HRM) and payroll** - The HRM/Payroll module configuration will ensure compliance with the Somali Civil Service law No.11 and any other regulations guiding the work of the National and Regional Civil Service Commissions (Puntland Civil Service law No.5 and Somaliland Civil Service Law No.7). The objective is to ensure consistency between nominal rolls and the payroll with seamless integration with the core FMIS modules to enhance credibility of reported payroll costs. The HRM/Payroll System is a seamlessly integrated module with FMIS having single user logon and same user interface and look and feel. The payroll provides the capability to support creating and maintaining of employee records and performing monthly payroll calculation and payment with seamless posting of financial information to the General Ledger. The payroll system contains the following functions: employee master record; training record; allowances/deductions business rules definition; periodic payroll calculation and payroll sheet generation; workflow approval; payroll reports; and auto recording of payroll financial information to General Ledger. In the first instance, the civil service commission will have approval hierarchy roles for employee addition; exit; transfer; and change of grade. The HRM features will include the following that will be gradually implemented: Manpower Planning; Employee Transaction Management; Time & Attendance; Training Management; Performance Management; and Other Features (Document management and Employee Self-Service).
- 2.4.9 **The Fixed Assets Register** provides for unlimited number of assets by ministry/department /cost center; multiple asset types, book value and asset reports. The Fixed Assets module provides the capability to support the creation and maintaining of assets register and performing all relevant financial activities. The Fixed Assets module contains the following functions: Item Master; Assets Master; Asset Update; Asset Disposal; Asset Re-Evaluation; Asset Depreciation; and Asset Count.

- 2.4.10 ***The Inventory Management System*** provides a tool to automate all aspects of managing inventories, receiving, tracking, warehousing and storage, turnover, and reordering. Automation can dramatically impact all phases of inventory management, including counting and monitoring of inventory items; recording and retrieval of item storage location; recording changes to inventory; and anticipating inventory needs, including inventory handling requirements.
- 2.4.11 ***Secured connectivity*** – The Guidelines for the Management of IT Security published by the International Organization for Standardization (ISO) will be used to ensure that security for the web-based application is reasonably assured through firewall security systems; Advanced Encryption Standard (AES) and authentication; Secure Sockets Layer (SSL)⁴⁸ Certificates through a Private Key Infrastructure (PKI); 128 bit password strength; and time-out period for logins amongst other controls to mitigate the vulnerability of the information systems. Server, desktop and application virtualization concepts will be pursued to improve the efficiency and economic use of IT resources and minimize risk to information assets by enhancing security through centralized IT management, application of service packs and patches and restoration of IT services.
- 2.4.12 ***Interface with other systems*** - activities will be implemented to align the chart of accounts and establish data exchange protocols between the FMIS and other systems. The FMIS will facilitate publication⁴⁹ of aid data in conjunction with efforts through the Development Assistance Database (DAD). Online Analytical Processing (OLAP) technology will be used to organize data from the various sources to support business intelligence and production of Executive Dashboards through a data warehouse.
- 2.4.13 ***License*** - except for any proprietary software that is used; the design schemas, operational and technical documentation, and source code of the bespoke application will be regulated by a Software Escrow Agreement⁵⁰ to manage the ownership and relationship (administrative, financial, material, legal, etc.) between the Government and the FMIS developers. Post-implementation support and maintenance will be guided by Service Level Agreements (SLA) informed by the characteristics/classification of the various applications (critical e.g. the general ledger and payment module; vital e.g. the reporting function; sensitive e.g. budgeting; and non-sensitive) of the FMIS services and the recovery time and point objectives. Security vulnerability to information assets will be continuously monitored and patches applied accordingly. A Quality Assurance Group (QAG) will provide independent assurance and confirm whether the business processes are accurately mapped into the application in line with the user requirements and adherence to the overall information systems implementation governance framework.
- 2.4.14 ***Business Continuity Management (BCM)***⁵¹ - a key activity will be establishing capacity for BCM by following the guidelines for the Management of IT Security published by the International Organization for Standardization (ISO) to develop an information security policy, strategy and procedures for business continuity and disaster recovery based on incident and impact analysis to determine the required detective, preventive and corrective controls. This will require classification of systems as critical, vital, sensitive

⁴⁸ Secure Sockets Layer (SSL) provides end point authentication and communications privacy over the Internet using cryptography. However, this system will be using 'intranet'

⁴⁹ <http://iatistandard.org/guidance/how-to-publish/select-publishing-tool/>

⁵⁰ <http://www.softwareescrowguide.com/>

⁵¹ BCM is a holistic management process that identifies potential threats to an organization, the impacts to business operations that those threats may cause, and provides a framework for building organizational resilience to safeguard the interests of its key stakeholders, reputation and lines of business.

and non-sensitive and undertake a business impact analysis to assign crisis levels. Thereafter, Treasury's recovery capability risk assessment can be determined by its (i) Recovery Time Objective (RTO): the acceptable downtime in case of disruption to FMIS operations; and (ii) Recovery Point Objective (RPO): determined based on the acceptable data loss in case of disruption to FMIS operations.

- 2.4.15 **IT Training** - to upgrade the knowledge areas, skills and abilities, an in-house training program will be initiated to complement external training in areas and themes that require in-depth knowledge and specific skills and abilities to manage the whole FMIS environment in a sustainable manner. The IT support team will receive training and certification in the following areas: Virtual Server Management - Vmware; Network Management – VPN; Network Security; Disaster/Backup recovery; administering Microsoft SQL Server databases; Windows Server Management; Exchange Server Management; and Crystal report writing.

Implementation

30. This component will be implemented by a core SFMIS team lead by the Ministry of Finance (Figure 6) and will fund the following activities to build on the interim bespoke solution in the Federal Government and conceptualize and implement fit-for-purpose solutions for Puntland and Somaliland: (i) design, test, deploy and conduct training on IT Infrastructure including Virtual Desktop Infrastructure (VDI) and post-implementation support; (ii) SFMIS web-based applications design and testing, configure upgraded SCOA & setup TSA; (iii) deploy web-based applications with adequate training on user manuals and post-implementation support; (iv) communication and change management; and (v) redundant back-up infrastructure and business continuity management plan. The Component Implementation Team (CIT) will comprise of members drawn from the key PFM institutions and end-users from line ministries.

Expected results

31. The FMIS solutions will provide a system with adequate audit trails to identify administrative accountability in processing transactions. Improved timeliness and accuracy of transaction processing together with comprehensiveness of financial reports and the adoption of TSA will also improve management decision making. The report outputs can be saved and retrieved in a variety of formats (Microsoft Excel, portable data file (.pdf) and HTML) for publishing on the Web to make key fiscal data available to the public (through Open Government Data⁵²) to hold government accountable for the use of public funds.

Sub-component 2.5: Modernizing Central Bank of Somalia banking operations and financial control environment (US\$2,000,000)

32. *Current status:* 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

⁵² **Open Government Data** (OGD) - datasets that governments generate, collect, and possess. The term "open data" refers to non-proprietary and machine-readable data that anyone is free to use, reuse, manipulate, and disseminate without legal or technical restrictions.

reserve accounts for licensed financial 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 for the federal member states.

33. This sub-component of the project will support through a turnkey solution; investment in new core banking and accounting technology solution and thereby foster improved internal financial controls; fill financial information and reporting gaps currently existing in the manual system; streamline banking, accounting and foreign desk processes and procedures to make them more efficient and less prone to error and potentially fraud. It is also expected to improve the onboarding and management of financial institutions' and government accounts at CBS. Although CBS had established a number of correspondent accounts in the past, currently only two are active – one with Zirratt bank in Turkey and one with CFC Stanbic in Kenya. The account with Zirratt Bank is the only one which is actively used for channeling ODA to Somalia. This creates significant vulnerability for CBS potentially undermining effectiveness of development partners' aid efforts. Strengthening CBS core banking and accounting operations permits the central bank to secure the channeling of Official Development Assistance (ODA) from development partners through a portfolio of active correspondent accounts held with top-tier international and regional financial institutions.

34. The deliverables include Technical Assistance (TA), core banking system, capacity injection and procurement of small works and goods through the following activities using a turnkey approach.

2.5.1 *Strengthening CBS core banking and accounting operations* - upgrading or replacing the limited improvements to banking operations achieved with the short-term bridge support will require CBS to urgently update user requirements and functional needs expected from fully-fledged investments in core banking operations. CBS will require urgent support to construct an upgrade path for the limited improvements made to banking operations, update user and functional requirements, and reflect these in a Request for Proposal for a new core banking and accounting application. CBS will also require support to assess core banking and accounting solution proposals, conduct contract negotiations with solution providers, and undertake implementation support for selected systems. The following are the expected deliverables of the consulting services:

- (i) Assessment of the critical environmental elements (existing telecommunication, legal and regulatory as well as technical environments) to enable implementation of the technology solution and recommendations of risk mitigation measures;
- (ii) Updated user design and functional requirements for a new core banking and accounting system, system integration requirements within MOF, CBS branches, other central banks and licensed financial institutions to foster financial control and operational efficiencies in payment processing, including government payments;
- (iii) Request for Proposal (RFP) for a new core banking and accounting system, vendor proposal assessment, undertake vendor/supplier due diligence, contract negotiation support and project implementation. This will include evaluation of hardware, software and network/communication options;

- (iv) Support to build consensus through a series of workshops for detailed discussions and identification of obstacles that will require strong commitment and collaboration by relevant stakeholders; and
- (v) Support implementation of the selected options.

35. The core banking and accounting system will comprise hardware, software and integration to core systems at MoF and the licensed financial institutions. This will deliver a robust (resilient and high availability infrastructure) *scalable platform* that allows a consortium of licensed financial institutions to operate settlement accounts at CBS (payment system connectivity, mobile-banking integration, account opening, payment processing, compliance and statutory reporting) in accordance with set governance rules and regulations; generate audit trail with time stamps and access control; integrated with analytical and reporting tools; compliant with open system concepts; supports multi-entities (branches and regional/federal units)

36. Business continuity is a key factor in the delivery of this banking and accounting system solution including the need for a disaster recovering site as a fall back in case of a disaster. The Disaster (DR) site will ensure high availability, disaster recovery and data protection readiness in an off-site secondary data center for the proposed systems and operations of the central bank. Several factors will be considered in deciding on the location the DR site is to be hosted by evaluating the options of either to “bring-in-house” or to “outsource the DR site” by collocating into an already existing data center. The decisions will also depend on the goals and strategic position of the central bank and not only on the cost of the implementation and accessibility of the DR site.

37. The functional requirements will be for highly customizable processing, control and reporting systems/formats to address Somali specificities, such as any Islamic finance and accounting treatments/requirements. The chart of accounts and general ledger in the accounting system will include integration with MoF and licensed financial institutions and capture sufficient accounting or remittance detail on payment transactions consistent with best practice.

38. This procurement will only be undertaken after satisfactory assessment, validation and adoption of updated user design and functional requirements for banking and accounting system and an international RFP issued by CBS.

2.5.2 *leveraging technology to improve CBS financial control and operational efficiencies* - promoting financial control and operational efficiencies will require significant efforts to improve processes and procedures. CBS will need support to undertake rigorous analysis and assessment of user design and functional requirements for the new technology solution for core banking and accounting. This is with a view of ensuring that the solution provides capabilities for CBS to better serve the government, financial institutions and other stakeholders, and effectively contributes to the promotion of good financial governance and accountability; robust security and operations; and compliance to relevant accounting standards and PFM regulations. Furthermore, CBS together with MOF will require support to update the design and development of new payments and reporting arrangements befitting capabilities of the new technology solution for core banking and accounting. This would include design of business rules for origination,

authentication and authorization of transactions, governance structure, and responsibilities for participating MDAs, support and service level issues, consistent with best practices. The following are the expected deliverables of the consulting services:

- (i) Review of all limited upgrades of operations delivered with the short-term bridge support; identify gaps and improvement priorities support for heavier longer-term investments in line with best practices. The consultants' responsibility would be to prepare drafts of new processes and procedures and then amendments as required by CBS until the final form is reached. The consultants will deliver implementation workshops and training on selected topics on the updated processes and procedures focusing on the objective of ensuring that an improved financial control environment and operational efficiency at CBS as well as compliance with laws, regulations and standards in line with best practice.
- (ii) Review CBS internal audit function and related processes. Conduct workshops to support detailed discussion of review findings and proposed changes. Depending on identified need, facilitate lectures and case studies. Support implementation of the new audit regime and train CBS officials at different levels elaborating on the analytical tools, compliance monitoring approaches, reporting and operational procedures.
- (iii) Country visits on strengthening financial control environment and operational efficiencies - these are country case studies to interview key stakeholders at central banks and/or ministries of finance on reform approaches and verify results in achieving development results. Case studies will be used to infer conclusions on what works and this will provide useful input for reviewing and improving CBS financial control environment and operation efficiencies.
- (iv) During implementation of the project, existing CBS responsibilities, skills profiles and institutional arrangements related to banking and payments including applicable laws, regulations, operations manuals, and reporting and information systems will be given a detailed review by the consultants to identify all changes required to achieve agreement with best practice. Detailed work plans and timetables will then be developed consistent with the overall project timetable. Where required, impact assessments of proposed changes will be developed to address concerns.

2.5.3 *constructing a basic national/regional payment system* - the proposed core banking and accounting system permits CBS to operate settlement accounts for financial institutions and construct a basic payment system. CBS will require support to construct a basic payment system and address weaknesses in the inter-connection of financial institutions operating in Somalia. The core banking system allows the creation of an "inter-bank" clearing and settlement platform with formally regulated and supervised financial institutions, potentially with useful features such as netting, failure to settle and collateral arrangements, among others. This is aimed at minimizing credit and liquidity risks and creating an improved business environment in dealing with electronic payment instruments in Somalia. In this way, the basic payment system will contribute to the promotion of integrity of the formal financial system. CBS will require support to construct rules, procedures and regulatory framework relating to the payment system initiative and building consensus to ensure that different stakeholders play their respective roles effectively in promoting the initiative. The following are the expected deliverables of the consulting services:

- (i) Governance framework and rules, procedures and regulations, fee structure and other terms and conditions establishing the basic payment system.

- (ii) Data analysis and mapping to support integration, and definition of transaction remittance data with appropriate regulatory compliance requirements for financial institutions.
- (iii) Support to build consensus through workshops for detailed discussions and identification of implementation obstacles that will require strong commitment and collaboration by relevant stakeholders to be overcome.
- (iv) Conduct three (3) one-week training workshops for stakeholders groups at different levels on the identified collaboration and business model for the basic payment system to elaborate on the operational guidelines for the basic payment system developed.
- (v) Support implementation of the collaboration and business model, and operational guidelines.
- (vi) Depending on the identified need, facilitate broad based promotion of awareness and understanding

Implementation

39. CBS will be provided with technical assistance support in the form of on-site consultancy services throughout the project lifecycle to provide on-the-job advice and assistance with various policy considerations involved in central bank financial and banking operations. The project will also fund goods, training, workshops and dissemination events.

Expected results

40. 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 (US\$1,825,000)

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

Budget estimates by components/sub-components	1. Federal Government	2. Puntland	3. Somaliland	Total \$('000)
3. Strengthening the integrity pillars	775	645	525	1,945
3.1 Foundations for Supreme Audit Institution (SAI)	725	595	475	1,795
3.2 Legislative Oversight: Planning, Finance, Budget and Public Accounts Committee (PAC)	50	50	50	150

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

41. *Current status:* 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. In the exercise of his/her duties; the Auditor-General must be impartial and must exercise the powers and perform the functions

of office without fear, favor or prejudice in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) International Standards of Supreme Audit Institutions (ISSAI) and its Code of Ethics for auditors in the public sector. The SAI's audit objectives of legality, regularity, economy, efficiency and effectiveness of financial management in the public sector will be achieved by the Auditor General reporting directly to Parliament and having responsibility for providing general leadership for the public sector auditing cadre and ensuring strategic human resource management with continuous professional development for all staff to meet ISSAI requirements to have the qualifications and moral integrity required to completely carry out their tasks. Civil Society Organizations (CSOs) can help to strengthen the SAI through social audits and holding public hearings whereby information which is not always available through traditional auditing procedures can be exposed and thereby can make a valuable contribution to PFM reforms by pressurizing government to follow-up on the audit recommendations. The Somalia SAI has become a full member of AFROSAI-E and chairs the working group on the capacity building frameworks and best practices.

42. An Audit Bill has been passed by the Federal Parliament awaiting Presidential assent. The Audit Bill is expected to address the provisions in Article 1 of Law 34 of 1972, the Law on the Magistrate of Accounts that practically weaken the independence and effectiveness of the Office Auditor General to function as a Supreme Audit Institution (SAI). The chief aim of the Lima Declaration of Guidelines on Auditing Precepts adopted in October 1977 is to call for independent government auditing by a SAI. In the FGS, with technical support by the Bank and funding from DFID, an Audit Bill has been prepared to transform the Law on the Magistrates of Accounts to be consistent with the core principles on Supreme Audit Institutions (SAI). In Puntland, Audit Law No 15_2000 is being amended - Sixid Sharci (Amendment of Law) LR.15/2000; and in Somaliland, the Audit Bill prepared since 2011 is still pending amongst other PFM Bills. SAIs 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 Office of Auditor General in accordance with the core principles on SAI Independence: Lima Declaration of Guidelines on Auditing Precepts adopted in October 1977⁵³.

43. So far, KPMG as contractors under the UN-SIDP has provided support to the Auditor General's Office in Puntland and the Federal Government and has developed Regularity Audit manual (Draft 12.01.2014) with the necessary working papers, templates and tools. Similarly for Somaliland, the Bank supported through the LICUS Trust Fund in 2008, the preparation of an Audit Bill and manuals that comply with ISSAIs as supplemented by the necessary ISAs. In Puntland, the outputs from the UNDP-SIDP intervention will be translated into the Somali language (official working language) and further training conducted through pilot audits.

44. The sub-component will fund the following activities:

- 3.1.1 supporting the enactment, translating and disseminating the Audit Act;
- 3.1.2 developing a Strategy and Development Action Plan benchmarked against the AFROSAI-E SAI Institutional Capacity Building Framework (ICBF) and the INTOSAI

⁵³ <http://www.intosai.org/issai-executive-summaries/view/article/issai-10-the-mexico-declaration-on-sai-independence-eger.html>

- SAI Performance Measurement Framework (SAI PMF) that is intended to be used to establish how well a SAI performs compared to international good practices;
- 3.1.3 accreditation on application of International Standards of Supreme Audit Institutions (ISSAI⁵⁴);
 - 3.1.4 implementing Risk Based Auditing (RBA) procedures manuals (including translation) and conduct of on the job training;
 - 3.1.5 providing training on use of Computer Aided Audit Techniques (CAATs) such as Audit Command Language (ACL) and Electronic Working Paper (EWP⁵⁵);
 - 3.1.6 supporting intra-regional/sub-regional peer learning events;
 - 3.1.7 in such Fragile and Conflict-Affected Situations in Somalia, where risks are heightened by weak institutions, insecurity and limited audit capacity, risk management can be strengthened by community monitoring and citizen engagement through social audits and related social accountability mechanisms (see component 6 social accountability reform interventions). Financial and compliance audits⁵⁶ therefore need to be complemented with technical/performance audits but this will take time considering the limited capacity that will be strengthened through technical assistance. In order to address these challenges, citizens and Civil Society Organizations (CSOs) will be leveraged to jointly monitor the quality of public expenditures and strengthen their impact in exercising public oversight. This activity will support efforts of the OAG to engage in an effective manner with CSOs and citizens around the audit cycle. Specific activities will consist of:
 - (i) assessing existing challenges (participatory diagnostic) and opportunities for OAG to leverage CSOs to increase the effectiveness of external audit;
 - (ii) in-depth capacity building programs and technical support on how-to implement citizen engagement practices and tools around the audit cycle; and
 - (iii) supporting the development of a “Framework for Engagement” with CSOs and actionable plans for implementation.

Implementation

45. This component will be implemented by the Office of Auditor General and will fund goods, consultancy services, training, workshops and dissemination events and vehicles to facilitate staff movement to undertake audit work.

Expected results

46. Improved independent oversight on the use of public funds by the Executive and enhanced capacity of the OAG to engage with CSOs and citizens throughout the audit cycle.

Sub-component 3.2: Planning, finance and public accounts committee (PAC) (US\$150,000)

47. PAC guidelines for reviewing audit reports were prepared for Somaliland in 2011 through the LICUST Trust Fund. Public Accounts Committees (PAC) existence and its success require three basic conditions: proper staffing and information, nonpartisan functioning of the committee, and media coverage (electronic, print and broadcast). They undertake this oversight

⁵⁴ <http://www.issai.org/>

⁵⁵ <http://cchgroup.com/teammate/glssa>

⁵⁶ <http://www.mof.gov.so/wp-content/uploads/2014/08/Xisaab-Xidhka-2013-ka.pdf>

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)⁵⁷. A major challenge facing SAIs is that quite often; their recommendations are ignored or not implemented by government departments.

48. This sub-component will support the following activities:

- 3.2.1 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;
- 3.2.2 designing a sanctions regime with 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 (through electronic, print and broadcast media) to advocate for accountability;
- 3.2.3 designing a framework for collaboration with the media and non-state actors to promote outreach for the work of the committee(s);
- 3.2.4 training and peer-learning for committee members and Secretariat staff; and
- 3.2.5 providing legal advisory services to facilitate passage of relevant PFM Bills.

Implementation

49. To avoid multiple implementing entities and designated accounts, this component will be implemented by the Office of Auditor General in close collaboration with the PAC. Funding will cover consultancy costs, travelling, training, workshops, IT equipment and furniture.

Expected results

50. Improved independent oversight on the use of public funds by the Executive.

Component 4: Public financial management professionalization (US\$1,000,000)

The objective of this component is to build PFM competencies.

Budget estimates by components/sub-components	1. Federal Government	2. Puntland	3. Somaliland	Total \$(‘000)
4. PFM professionalization	500	-	500	1,000
4.1 Training of participating universities' faculty; fees for tutors from participating universities and course admin expenses	100	-	100	200
4.2 WYG Consortium remuneration and reimbursable expenses; CIPFA teaching and learning materials for certificate, diploma and professional stages; examination fees including re-sits	100	-	100	200

⁵⁷ What Makes Public Accounts Committees Work? A Comparative Analysis - Politics & Policy, Volume 34, No. 4 (2006): 774-793

4.3 Procurement stream by International Training Centre of the International Labour Organization (ITC-ILO)	300	-	100	200
4.4 Upgrading of ICT infrastructure and other logistics support for participating universities	-	-	200	600

51. *Current status:* 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 to perform critical PFM functions. “When an organization needs to learn quickly it must shorten the time of acquisition and diffusion of knowledge. We assimilate new concepts only if they are within a small reach of what we already know, i.e. within the zone of proximity⁵⁸”. Although the skills of PFM professionals are based on applicable international standards, those with public sector knowledge and experience are limited, thus making the few who possess the required PFM skills and knowledge unique and valuable. To possess the required PFM HR competencies in the short run, PFM professionals are being acquired⁵⁹ mostly as special advisers to Ministers rather than embedded in critical positions) on above the current civil service pay rates but transfer of knowledge to civil servants is not assured.

52. In 2006, under a joint project by the Bank and UNDP, the International Management Consultants Ltd. which is now WYG in collaboration with University of Fort Hare (UFH) and the BPP Professional Education (United Kingdom), developed an online distance learning (ODL) course⁶⁰. Students had to obtain a pass mark of 50 percent for each of the five units to successfully complete the course and receive certification. The course and re-sit examinations were completed in December 2007. Results were issued in April 2008, with certificates issued in June 2008. Out of the 196 students who participated; 118 successfully graduated – this represents a 60 percent overall student completion. However, it is difficult to trace these graduates within the current government structures possibly because the course was not entirely dedicated to PFM.

53. 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. 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 capability⁶¹: knowledge, skills, abilities and other characteristics (values, integrity etc.).

⁵⁸ Dove R 1999 “Knowledge management, response ability, and the agile enterprise” Journal of Knowledge Management, Vol 3, No 1 pp.18-35

⁵⁹ Lepak and Snell (1999) ‘The human resource architecture: toward a theory of human capital allocation and development’ Academy of management Review, Vol 24, No 1, pp 31-48

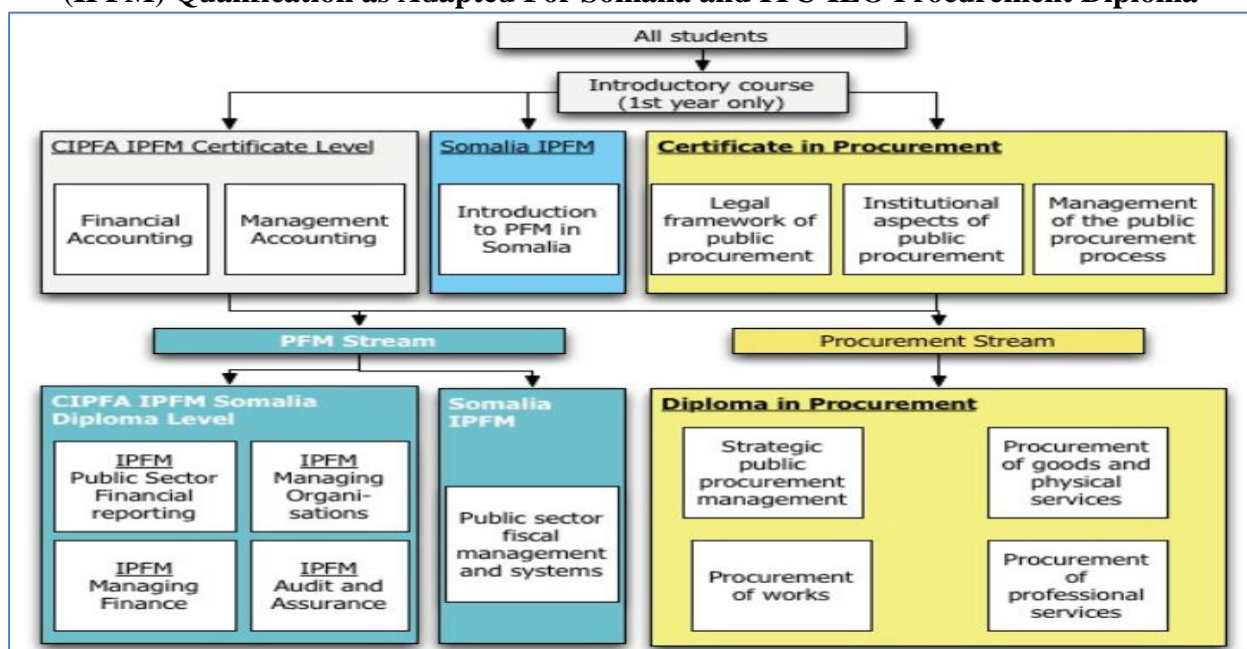
⁶⁰ The course was run at six Centres across Somalia over 10 months with two examination periods. Students also received face-to-face tutorial support from tutors at the six Somali participating Universities: Puntland State University (Puntland); East Africa University (Puntland); University Of Hargeisa (Somaliland); Amoud University (Somaliland); Somali Institute of Management and Administration Development SIMAD (Somalia); and Mogadishu University (Somalia)

⁶¹ Learning outcomes - professional skills (e.g., intellectual, technical, non-technical, organizational, personal, interpersonal) & professional values, ethics, and attitudes (e.g., ethical values, professional manner, commitment to high technical standards, skeptical attitude, commitment to continual improvement and life-long learning, appreciation of public interest and social responsibility)

54. The Education and Training Program (Figure 9) is geared to ensure learning to cover the PFM Process Architecture: Elements and Components⁶². The Chartered Institute of Public Finance and Accountancy (CIPFA) International Public Financial Management (IPFM) qualification will be the model and procurement will be included as a stream by collaborating with the International Training Centre of the International Labour Organization (ITC-ILO⁶³) who will be contracted directly by the Government.

55. Whilst the curriculum and learning modules will comply with internationally acceptable standards, the design will respond to region-specific applicable legal frameworks. However, in the interest of economy and efficiency, a common platform and quality assurance mechanism will be implemented. Face-to-face lectures will be supplemented by mentorship and on-the-job learning; a training technique in which technical skills and professional skills are not acquired in the classroom but through observation of and gradual participation in practice through mentoring arrangements to ensure attainment of the desired competencies⁶⁴. A PFM for managers' scheme will ensure that proper workplace coaching and mentoring is provided to students.

Figure 5: Course Structure for the CIPFA International Public Financial Management (IPFM) Qualification as Adapted For Somalia and ITC-ILO Procurement Diploma



56. As part of the ongoing PFM Capacity Strengthening Project (P146006); WYG International Limited in joint venture with Michael Parry Consulting, Chartered Institute of Public Finance and Accountancy (CIPFA) and Adira Consulting Limited (sub-contractor) - “The Consortium” has as part of their 21 months contract (i) conducted training for the faculty from

⁶²CIPFA ‘PFM\ a whole system approach’ (Vol 1 p.18) - <http://www.cipfa.org/Policy-and-Guidance/Reports/Whole-System-Approach-Volume-1>

⁶³ <http://www.itcilo.org/en> - ITC-ILO in Turin–Italy is a world-class provider of procurement management training and a pioneer in developing procurement management training curricula for the UN, **World Bank**, European Union and OECD - <http://masterpublicprocurement.itcilo.org/>

⁶⁴ Performance outcomes - relating to practice standards (e.g., functional, managerial, and inter-personal) & behavioral standards (e.g., ethical and professional conduct, demonstrating appropriate skepticism, performance in relation to professional development)

participating universities from the Federal Government and Puntland⁶⁵; registered students and provided them with the introductory course self-study material; prepared the teaching and learning materials that are available through the open distance learning platform; developed a web-based support facility including online training; a structured query and discussion process; and (ii) provided short courses/focused workshops and quick-impact TA to provide practical guidance on budget preparation designed with the specific objective of leading to improvements in the budget in terms of quality of forecasts/resource allocation tool, and presentation leading to a fiscal strategy paper; development of budget documents; finalization and enactment of the budget; and budget management and monitoring.

57. Out of 196 registered students (including tutors who also registered as students) only 151 actually sat the November 2014 Financial Accounting exam. Of these, 65 had a mark below 20 percent and there were only 7 passes (i.e. 50 percent and above). It is probable that many of these absent or low scoring students do not have the motivation and/or ability to pass the certificate level examinations. All students who either did not attend, or who scored below 20 percent in the exam, will have their performance reviewed to decide whether they should be allowed to continue with the course. The review will consider attendance, performance in course tests and any other factors before making a recommendation on the student's future. All new students must study the Introductory Course and pass a test before being admitted to the main IPFM course. Additional English language instruction will be arranged locally.

58. This project will increase the student intake and extend the program from certificate and diploma stage to advance diploma and professional. Some professional stage qualification should be achievable by December 2019 when the project is expected to close. Students will be directed by their sponsoring organizations into one or other of the two streams (financial management or procurement) and hence depends on government policy.

Implementation

59. This component will be coordinated by the Ministry of Finance in close collaboration with the Civil Service Commission and the participating universities. The targeted trainees are the civil servants assigned to performing PFM functions. Building on work done to establish the qualification framework under the first project (P146006), this component will fund the consultancy services of the Consortium including provision of additional teaching and learning materials; upgrading the facilities of the participating universities; training additional faculty where required; registration and examination fees to professional bodies for new student intakes; and honorarium to the lecturers.

Expected results

60. The activities will create a cohort of suitably qualified PFM practitioners with a polyvalence of skills to perform a broad range of PFM tasks and who will contribute to improving PFM performance. With professionally qualified Accountant General and Auditor General as champions with a visionary and pacesetting leadership style, the PFM reforms are expected to gain pace if the middle tier PFM staffs are also qualified with a critical mass of technicians. The design of the training program demonstrates good practice principles to ensure

⁶⁵ <http://www.wacaal.com/2014/09/04/bankiga-aduunka-oo-maamulka-puntland-ka-caawinaya-maaraynta-maaliyada-dadweynaha-sawirro-dhageyso/>

sustainability by putting in place a mechanism to gradually build internal capacity to take over functional responsibility from technical assistants. Evaluation of the training programmes will be conducted using the Kirkpatrick Training Evaluation Model⁶⁶.

Component 5: Public financial management reform oversight, coordination and management (US\$3,345,000)

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

Budget estimates by components/sub-components (2015-2017)	1. Federal Government	2. Puntland	3. Somaliland	Total \$(‘000)
5. Public financial management oversight, coordination and management	995	910	1,020	2,925
5.1 Reform Oversight Committee (ROC), Technical Steering Committee (TSC), PFM Reform Coordinating Unit (PFMRCU) related expenses; communication & change management; general workshops, seminars and training; translation of docs; operational expenses; bank charges etc	295	710	920	1,925
5.2 Association of Somali Professional Accountants (ASPA)	200			200
5.2 Security and logistics	500	200	100	800

61. 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. The Public Financial Management Reform Coordinating Unit (PFMRCU) will anchor the reform and capacity building efforts. A

⁶⁶ Donald Kirkpatrick “Evaluating Training Programs” 1994 – (i) **Reaction**: what participant thinks of training (ii) **Learning**: improvements to knowledge and capability; (iii) **Behavior**: improvements to work performance; and (iv) **Results**: impact on the organization.

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. Consistent with the 'New Deal' TRUST principles, this structure will substantially reduce program implementation units per institution and will coordinate the use of external technical assistance, ensuring that they report through the relevant national authorities.

62. 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. An adaptive leadership approach with a suitable change management path based on the Somalia context will help in distinguishing technical problems from the political economy of such institutional reforms.

63. *Association of Somali Professional Accountants (ASPA)*⁶⁷ - the PFMRCU will coordinate activities to support ASPA to evolve as a Professional Accountancy Organization by developing and implementing an action plan to meet the International Federation of Accountants (IFAC) Statement of Membership Obligations (SMO). ASPA will be used as a platform for Continuing Professional Development (CPD) of like-minded PFM professionals and also for exercising oversight of its members. ASPA will be supported to seek membership to the Pan African Federation of Accountants (PAFA)⁶⁸ that was launched in May 2011 to accelerate the development of the accountancy profession in Africa and strengthen the voice of the accountancy profession within Africa and worldwide. ASPA will work closely with the Chamber of Commerce to introduce an 'Accountant Report' in accordance with the Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by the United Nations Conference on Trade and Development (UNCTAD)⁶⁹ for businesses with a certain level of turnover to be determined after due consultation with relevant stakeholders.

64. *Change management* - currently, the Federal Government, Puntland and Somaliland are fiscally autonomous. Therefore, context matters in designing 'country-specific' reform measures and the change management path: firstly, a socio-cultural and politically sensitive approach considering the action environment and its inter-relationship with organizational sub-systems would underpin the change scope, path and leadership style; secondly, it is not enough to have capacity to respond to change in a reactionary manner; pro-activity is required as "effective change management means finding (or even creating) those paths that will enable the public sector organizations and its people to develop and prosper" (Connor *et al* 2003:232). A critical resource is an effective change manager; precisely a 'leager'⁷⁰ that commands respect amongst his peers and subordinates (*primus inter pares*⁷¹), within the public sector organizations and externally including CSOs and DPs.

⁶⁷ <https://www.linkedin.com/today/post/article/20141107185818-69437379-the-birth-of-the-association-of-somali-professional-accountants-aspa>

⁶⁸ <http://www.pafa.org.za/>

⁶⁹ http://unctad.org/en/Docs/iteteb20036_en.pdf

⁷⁰ Leadership should not be confused with management. "Leaders have followers, managers have subordinates" (Buchanan and Huczynski) Leadership and management can be put on continuum and the word 'Leager' would then be most appropriate by saying that: Leaders choose the road for managers to drive on; Managers get people to do things – leaders get people to do the right things; Managers get people to do things – leaders get people to want to do things; and Managers get people to do the same things – leaders get people to do better things.

⁷¹ First amongst equals

65. Structures and processes in the public sector take longer to amend; ‘quick-wins’ will eliminate cynicism towards reforms and gather momentum by creating a learning culture and reward flexibility in the spirit of goal-congruence amongst departments. Once re-engineered processes demonstrate efficiency and possibly start curbing corruption, there will be wide support for other reforms/changes. 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.

66. *Monitoring and Evaluation (M&E)* - the reform oversight and implementation structure will provide policy directions for strengthening the PFM systems and take periodic stock of progress by ensuring that key milestones in the PFM reform strategy are on track and take concrete action where required. Annual public PFM Forums will be organized as part of the communication strategy. Pooling of all support within a unified PFM reform program will enhance coordination and provide a forum for structured dialogue with development partners.

Implementation

67. This sub-component will be implemented by the Ministry of Finance and will fund the salaries for the PFM Reform Coordinating Unit staff, change management, the operating costs of the oversight, coordination and implementation arrangements, training, study tour, exchange visits, annual PFM Forum, annual audits, Fiduciary Monitoring Agent where applicable and logistics/security firm.

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

Sub-component 6.1: Social accountability and Open Government Data (OGD) (US\$500,000)

68. *Current status:* In the current low audit capacity situations and insecurity where expenditures or outputs are difficult and costly to verify by financial audits; alternative verification through non-state actors could be done more economically and efficiently through improved citizen engagement and social accountability measures. As noted in the 2011 WDR (Conflict, Security and Development), political transitions are followed by an extended period where the risk of a resurgence in conflict is elevated. It is increasingly recognized that engaging civil society, media (electronic, print and broadcast), and other demand-side constituents is crucial for achieving positive development outcomes and mitigating risks. In such fragile and conflict-affected situations in Somalia, where risks are heightened by weak institutions, insecurity and limited audit capacity, risk management can be strengthened by community monitoring and citizen engagement through social audits and related social accountability mechanisms. Financial and compliance audits therefore need to be complemented with technical/performance audits but this will take time considering the limited capacity that will be strengthened through technical assistance.

69. Social accountability strategies and tools continue to help empower citizens around the world to exercise their rights to hold their governments accountable for the effective use and disbursement of public funds. Since the annual budgets are now publicly available, it is relatively easy to verify whether the government is, indeed, allocating a certain portion of its

budget towards improving social sector outcomes. What is far more difficult to ascertain, but crucial to ensure improved development outcomes, is whether designated funds allocated in the annual budget are actually reaching the intended beneficiaries. Very often, government ministries are unable to monitor the adequacy of public spending in relation to gender equality. Some of the reasons include the lack of (i) capacity to conduct gender analysis; (ii) monitoring systems; and (iii) adequate sex disaggregated data⁷². As the focus of service delivery moves closer to the ultimate beneficiaries, citizen engagement can play an important role in verification of effectiveness of service delivery and strengthen social accountability on the ground. Civil society organizations are emerging in Somalia⁷³ to clamor for government effectiveness but the reality is that they are weak. In collaboration with the World Bank's Governance and Inclusive Institutions team, support will be provided for establishing/strengthening and providing tools and training for '*Issue-based Networks*' to have space to work on a regular basis in advocating constructively for change in pursuit of the social agenda/state-citizen compact. Advocacy networks for *Campaign for Good Governance (CGG)* comprising of relevant non-state 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. It is expected that by empowering citizens to participate in government decision-making processes and supporting government institutions to be more responsive, will lead to an accountable and effective government.

70. Voice, accountability and participation are an “inescapable” part of governance today, particularly in countries transitioning from conflict. CSOs contribute to the PFM reform process through advocacy, training and capacity development. CSO participation can benefit the various phases of the budget process⁷⁴; for example, in the drafting phase, CSOs can propose priorities based on citizen engagement in which their preferences are expressed as part of the bottom-up planning process. In the legislative stage, the well-trained policy-based networks can support legislative committees to make the budget easier to understand by producing simplified guides and discussion papers and thereby supplementing legislative research capacity of legislatures. Downstream, CSO can also participate in Public Expenditure Tracking Surveys (PETS) and provide feedback to influence future policy choices and accountability mechanisms.

71. Citizen engagement in decision-making and monitoring will be achieved through real empowerment by adopting '*Participatory Democracy*' (Crook and Manor 1998:7) and placing citizens at the top of the ladder of citizen participation through interactive participation and self-mobilization to avoid vitiation of citizen preferences. This will change the top-down *status quo* where the form of involvement is validating of existing plans or ideas (from DPs and government) without giving citizens full rights to decide which is typical of the *pseudo participation* styles at the bottom of the ladder. The involvement of effective women⁷⁵ (without been tokenistic) in the networks should increase the local uptake of essential services.

⁷² <http://gender-financing.unwomen.org/en/areas-of-work/transparency-and-accountability>

⁷³ (i) <http://www.heritageinstitute.org/> - the **Heritage Institute for Policy Studies (HIPS)** is an independent, non-partisan, non-profit policy research and analysis institute based in Mogadishu, Somalia; (ii) <http://www.hespi.org/> - The Horn Economic and Social Policy Institute (iii) <http://somalangoconsortium.org/> - the **Somalia NGO Consortium** promotes information sharing, cooperation and joint advocacy initiatives amongst local and international NGOs working in Somalia and Somaliland; (iv) <http://www.sonsaf.org/> - **Somaliland Non State Actors Forum (SONSAF)** aims to strengthen non-state actors in Somaliland to engage in domestic and international policy dialogue and decision making to bring about a secure and peaceful future for the people of Somaliland.

⁷⁴ Krafchick (2005)

⁷⁵ <http://www.eldis.org/go/topics/resource-guides/gender/budgets-and-the-economy>

72. This sub-component will support the development of social accountability strategies and tools to help empower citizens to exercise their rights to hold government accountable for the effective use of public funds. Since the annual budgets are publicly available, it is relatively easy to verify whether a government is, indeed, allocating a certain portion of the budget towards improving social sector outcomes. CSOs as an alternative channel for citizens' voices can contribute to the PFM reform process through advocacy, training and capacity development. In the legislative stage, the well-trained policy-based networks can support legislative committees to make the budget easier to understand by producing simplified guides and discussion papers and thereby supplementing legislative research capacity of legislatures.

73. The expected result of this sub-component is enhanced transparency and accountability by empowering citizens through active participation that will close the 'accountability gap' - the space between supply (governments, service providers, NGOs) and demand (citizens, communities, civil society organizations). Open and collaborative governance will be improved by enhancing the organizational and technical capacity of the issue-based network as credible partners to engage with government within a secured space to advocate for good governance. The ultimate aim is for a *sound* policy formulation, planning, budget preparation and execution and reporting system that engender trust among citizens that the government is listening to their concerns and taking concrete action by strategically applying available resources in an effective, transparent and accountable manner.

74. The Bank team has discussed with and will be collaborating with DFID who will also be developing the capacity of civil society and key institutions across Somalia in order to increase both the "demand" for accountability in Somalia as well as administrative capacity to respond to such demand. To do this in a manner that is both sustainable and sensitive to the conflict drivers, social and political issues in Somalia, DFID will support a strategic evidence oriented programme which directly supports efforts to increase accountability in a variety of areas. The programme will select interventions which would have the greatest impact on the accountability environment in the following thematic areas that may for example include: Civil Society/Empowerment; Institution Building; Increasing the Evidence Base. Critically, DFID will support a real time evidence led programme that will constantly evaluate all of these interventions with a view to determining what is the most cost effective, replicable and scalable set of interventions that will produce the greatest impact on the accountability environment in Somalia. This evidence will be disseminated widely both within and outside of Somalia.

75. This sub-component will support efforts of the government to leverage CSOs and citizens to jointly monitor the status and quality of public finances. Specific activities will consist of:

6.1.1 making key fiscal data available to the public through *Open Government Data*⁷⁶ 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](http://wbi.worldbank.org/boost/about)⁷⁷. The FMIS will complement this initiative by digitizing financial information to allow for consolidated reporting to present the big

⁷⁶ *Open Government Data* (OGD) - datasets that governments generate, collect, and possess. The term "open data" refers to non-proprietary and machine-readable data that anyone is free to use, reuse, manipulate, and disseminate without legal or technical restrictions.

⁷⁷ <http://wbi.worldbank.org/boost/about>

- picture but still allowing for others such as tax-payers or investors to go more deeply into the data. Cost of data migration to the portal will also be funded;
- 6.1.2 providing capacity support to CSOs to create user friendly easy to use budget monitoring tools & methods;
 - 6.1.3 providing specific technical support to government and CSOs to jointly implement these tools and methods;
 - 6.1.4 providing technical support to government to create feedback mechanisms for facilitating CSOs engagement into the budget planning and execution processes;
 - 6.1.5 conducting Public Expenditure Tracking Surveys (PETS) with CSO participation to provide feedback to influence future policy choices and accountability mechanisms. 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.

Expected Result

- 76. Enhanced collaboration between government agencies and CSOs in monitoring the use of public funds.

Sub-component 6.2: Governance/PFM Policy Notes and Public Expenditure and Financial Accountability (PEFA) joint-assessment (US\$500,000)

- 77. The objective is to undertake PFM analytic work and 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 the choice of appropriate interventions in tackling socio-economic issues. In collaboration with other DPs outreach events will help in bridging the gap between the technical reforms and the realities for service delivery.

- 78. With support from DFID, there is now a good understanding of the PEFA framework as a result three workshops conducted for 35 government officials to build capacity to conduct a PEFA self-assessment. The data collection during the workshops produced PFM baselines for: (i) credibility of the budget through indicators PI-1, PI-2 & PI-3 (ii) policy-based budgeting through indicator PI-11 (iii) accounting, recording and reporting through indicator PI-25, and (iv) external scrutiny and audit through indicator PI-27. This has set the stage for the main PEFA self-assessment.

- 79. Capacity for revenue generation can be enhanced by reforming and modernizing customs administration to increase its efficiency, effectiveness and accountability and promote trade facilitation. The Customs Assessment Trade Toolkit (CATT) is an integrated tool for measuring Customs performance in seven dimensions that summarize the good practice benchmarks: (i) process orientation (ii) strategic thinking (iii) control (iv) efficiency (v) effectiveness (vi) facilitation (vii) transparency against a set of 120 high level indicators related to customs' operations and producing performance benchmarks. 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 to contribute to improving cargo release-time (time spent processing documentation and releasing goods to the importer).

- 80. Specific activities will consist of:

- 6.2.1 supporting 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 have concrete data to monitor the reform progress and make adjustments to the reform action plans and also feed into the project monitoring and evaluation framework. It would be worth complementing the PEFA with the Code of Good Practices on Fiscal Transparency (2014)⁷⁸;
- 6.2.2 customizing tools such as the ‘Afrobarometer’ to gauge citizens’ satisfaction on governance factors;
- 6.2.3 applying CATT at the Berbera seaport and Hargeisa airport in Somaliland; the Bosasso seaport in Puntland; and 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. The CATT will be undertaken by an Evaluation Team composed of external customs experts (CATT Evaluators) who will work during the evaluation with the Customs Offices (Local Evaluators).
- 6.2.4 preparing demand-driven PFM policy notes.

Expected results

81. The added benefit is that the outputs of this component will be subjected to the Bank’s quality assurance procedures. The capacity-building measures in the other components will enable the beneficiaries to be able to directly undertake such activities as their capacities are built over time and will also re-enforce ability to undertake the execution of the other Project activities.

Implementation

82. This component will be implemented by the Bank on behalf of the beneficiaries pursuant to the Bank’s Operating Policy OP 10.00 (12)(d) due to insufficient capacity by the beneficiaries to undertake such technical analytic and advisory work as requested by the Recipient in writing. The bank executed component will follow applicable internal Bank procurement rules and are limited to activities which involve the procurement of small contracts for goods and the provision of technical assistance. These activities will be done in close collaboration with the World Customs Organization (WCO).

⁷⁸ <http://www.imf.org/external/np/fad/trans/code.htm>

Annex 3: Implementation Arrangements

SOMALIA: Second Public Financial Management Capacity Strengthening Project (P151492)

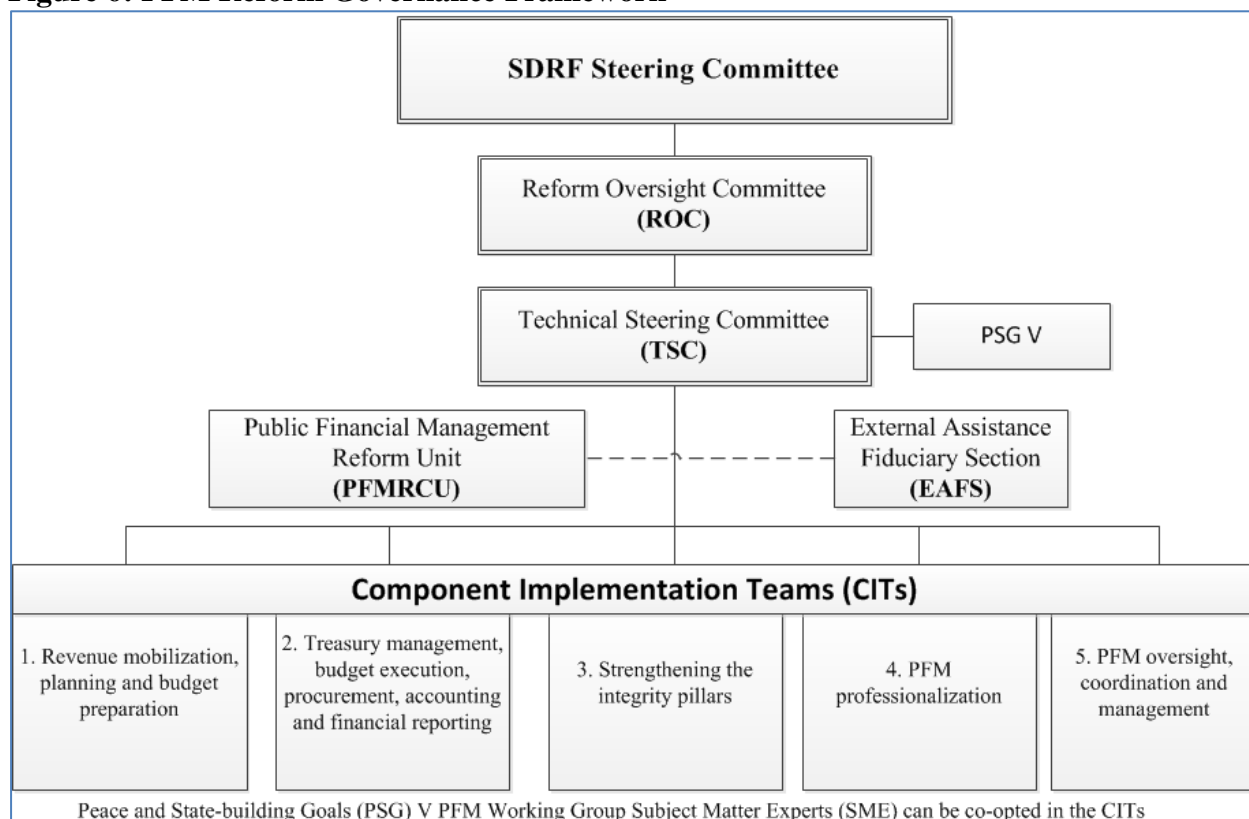
Project Institutional and Implementation Arrangements

1. A key PFM finding of the 2006-2007 Joint Needs Assessment (JNA) of PFM systems in Puntland, Somaliland and South Central Regions⁷⁹ 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](#).
2. In applying lessons learnt from similar reforms in FCSs, a deliberate attempt is made up-front to use country systems instead of creating parallel Project Implementation Unit (PIU). A Public Financial Management Reform Coordinating Unit (PFMRCU) in the Ministry of Finance and Planning 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 Technical Assistants will be shadowed by government counterparts in the Component Implementation Teams (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 Ministry of Finance will use the convening power of the ministry to provide strategic guidance for the reforms.
3. The PFM Reform Oversight Committee (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 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.
4. 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 projects to implement the reform strategy. Their responsibilities will be in addition to their normal work, it is important that they direct the project by

⁷⁹ jointly carried out by the Transitional Federal Government, the United Nations and the World Bank

‘management by exceptions’, keeping regularly informed by the Component Implementation Teams but only asking for joint decision making at key points in the project.

Figure 6: PFM Reform Governance Framework



5. The project administration mechanisms are explained in the governance framework in the Table 3 below.

Table 3: Roles and Responsibilities for the PFM Reforms Governance Framework

Institutions	Strategic orientation / Roles and responsibilities	Composition
SDRF Steering Committee	<ul style="list-style-type: none"> The SDRF Steering Committee plenary session will provide joint oversight (donor and government) of the strategic direction, implementation, and results of the SDRF windows, including the MPF. At the plenary level, the SDRF Steering Committee will have no role in the approval or review of individual MPF grants. Decisions will be on a consensus basis. With a broader set of stakeholders, the Steering Committee in its plenary format will provide a 	<p>Membership of the Steering Committee will include line ministries, donors, window administrators (the WB, AfDB, UN, Norway/SFF).</p> <p>Observers from civil society and the private sector.</p>

Institutions	Strategic orientation / Roles and responsibilities	Composition
	platform for policy dialogue between the FGS and the international community.	
Presidency or Office of Prime Minister	<p><u>PFM Reform Oversight Committee (ROC)</u></p> <ul style="list-style-type: none"> • The PFM ROC will provide updates at the SDRF Steering Committee plenary meetings • The ROC will be aligned with the PSG5-WG structure • Sets the political tone for the broad governance reform agenda and manage resistance. • Address linkages with wider aid management issues and impact on overall development agenda. • Manage relationships with development partners and the international community • Using institutional convening power; guides and presents PFM issues at cabinet level, the highest decision making organ in Government to get the political support required to drive the PFM reform agenda. • The ROC shall meet <u>at least quarterly</u> to evaluate progress of the reforms. • Commitment of human and financial resources and approve Annual Work Plans (AWP) to underpin the reform budget and provide framework for monitoring of the reform activities. 	<p>Chair: Prime Minister (for Federal Government) and Office of the President (for Puntland)</p> <ul style="list-style-type: none"> • Heads of the various PFM institutions. • Governor of Central Bank of Somalia • Minister of Planning • Co-opted chairpersons of Parliamentary Committees on Planning, Budget, Finance and oversight. • Chamber of Commerce • Representative of Non-state actors • PSG 5 PFM Working Group chair and co-chair
Ministry of Finance	<p><u>Technical Steering Committee (TSC)</u></p> <ul style="list-style-type: none"> • The TSC will be responsible for providing technical guidance for meeting the platform objectives and ensuring cohesion and coordination of the various components. • Reviews and endorses component AWP and budgets. • The TSC shall meet <u>at least monthly</u> to evaluate progress of the reforms. 	<p>Chair: Minister of Finance</p> <ul style="list-style-type: none"> • Heads of the various PFM institutions and line ministries representing key front-line service delivery. • Director of Banking, Central Bank

Institutions	Strategic orientation / Roles and responsibilities	Composition
	<ul style="list-style-type: none"> Project Task Team will hold joint meeting with Government TSC in Mogadishu, Garowe and Hargeisa at least quarterly (on separate dates). The TSC will be aligned with the PSG PFM-SWG structure Will provide progress reports to the SDRF Operations Sub-Committee 	<ul style="list-style-type: none"> Project Coordinators from FGS, PL and SL Project Task Team Leader PSG 5 PFM Working Group chair and co-chair
Public Financial Management Reform Coordinating Unit (PFMRCU)	<p><u>Component Implementation Teams (CIT)</u></p> <ul style="list-style-type: none"> Responsible for day-to-day coordination of the reform activities and serve as key interlocutors to consultants in ensuring proper sequencing of activities. Director General Ministry of Finance and Planning will provide strategic guidance The CITs shall meet <u>at least weekly</u> to review work packages. Prepares component AWP's and budgets. PFMRCU is responsible for submitting quarterly progress reports to the TSC. 	<p>CIT Chairs: To be determined depending on functional aspects of the component.</p> <ul style="list-style-type: none"> Subject Matter Experts from various departments Technical Assistants (TA) - mix of individual consultants and/or firms Co-opted PSG 5 PFM Working Group Subject Matter Experts (SME)

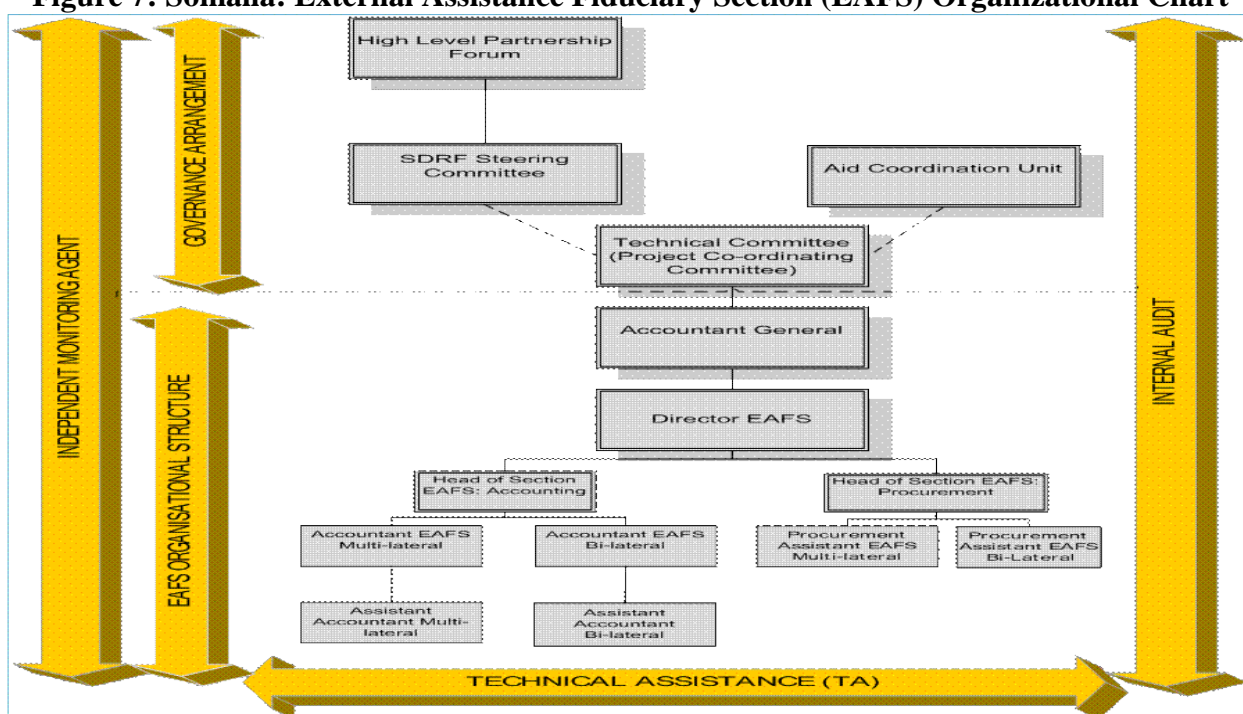
6. An External Assistance Fiduciary Section (EAFS) has been established in the Accountant General's Department. The EAFS is designed to ensure harmonization, donor co-ordination, reduce duplication, fragmentation and proliferation of donor-specific financial management units. The underlying principle 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 are planning, budgeting, procurement, accounting and reporting of recipient-executed external assistance.

7. The organizational chart for the EAFS is depicted below (Figure 7) and the positions have been filled as per posting letter from the Accountant General after conducting training for a set of staff from which those that passed the tests were appointed to various positions in the EAFS. An organizational structure including job descriptions and scheme of service has been prepared for the Office of Accountant General and this includes specific roles and responsibilities for the EAFS. Where required, the Bank will Technical Assistants to provide direct support within the EAFS government structure instead of creating parallel arrangements and hence live up to the

‘New Deal’ promises of using and strengthening country systems and capacities to allow for greater levels of funding that are jointly administered and which flow through pooled facilities.

8. Key success criteria for transferring more payment responsibility to the EAFS are: (i) number of payment vouchers successfully processed without queries by the Expenditure Control TA; (ii) number of instances of ineligible expenditure; and (iii) reduction in number of transactions processed by direct payment by the World Bank with responsibility transferred to the EAFS to process through the Central Bank. Similar structures will be established in Somaliland and Puntland since they are fiscally autonomous and consistent with the subsidiarity principles to ensure that accountability for use of funds and delivery of the project outputs and expected results squarely lie at the point of implementation.

Figure 7: Somalia: External Assistance Fiduciary Section (EAFS) Organizational Chart



9. The idea to setup an EAFS that looks beyond this specific project is part of the strengthening of the country systems to handle all external assistance and treat them as Somali public funds and not ‘donor-funds’ *per se*. An independent monitoring agent where required will be responsible for physical verification of expected outputs beyond just reviewing payment vouchers for compliance with procedures.

10. The SDRF Steering Committee plenary session (Figure 8) will provide joint oversight (donor and government) of the strategic direction, implementation, and results of the SDRF windows, including the MPF.

Figure 8: SDRF Governance Structure

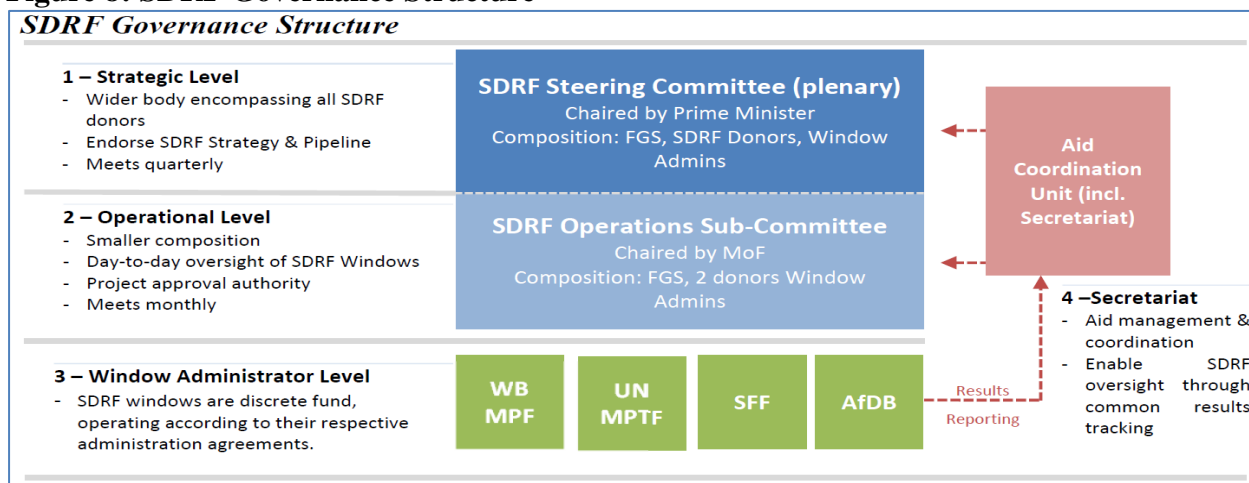
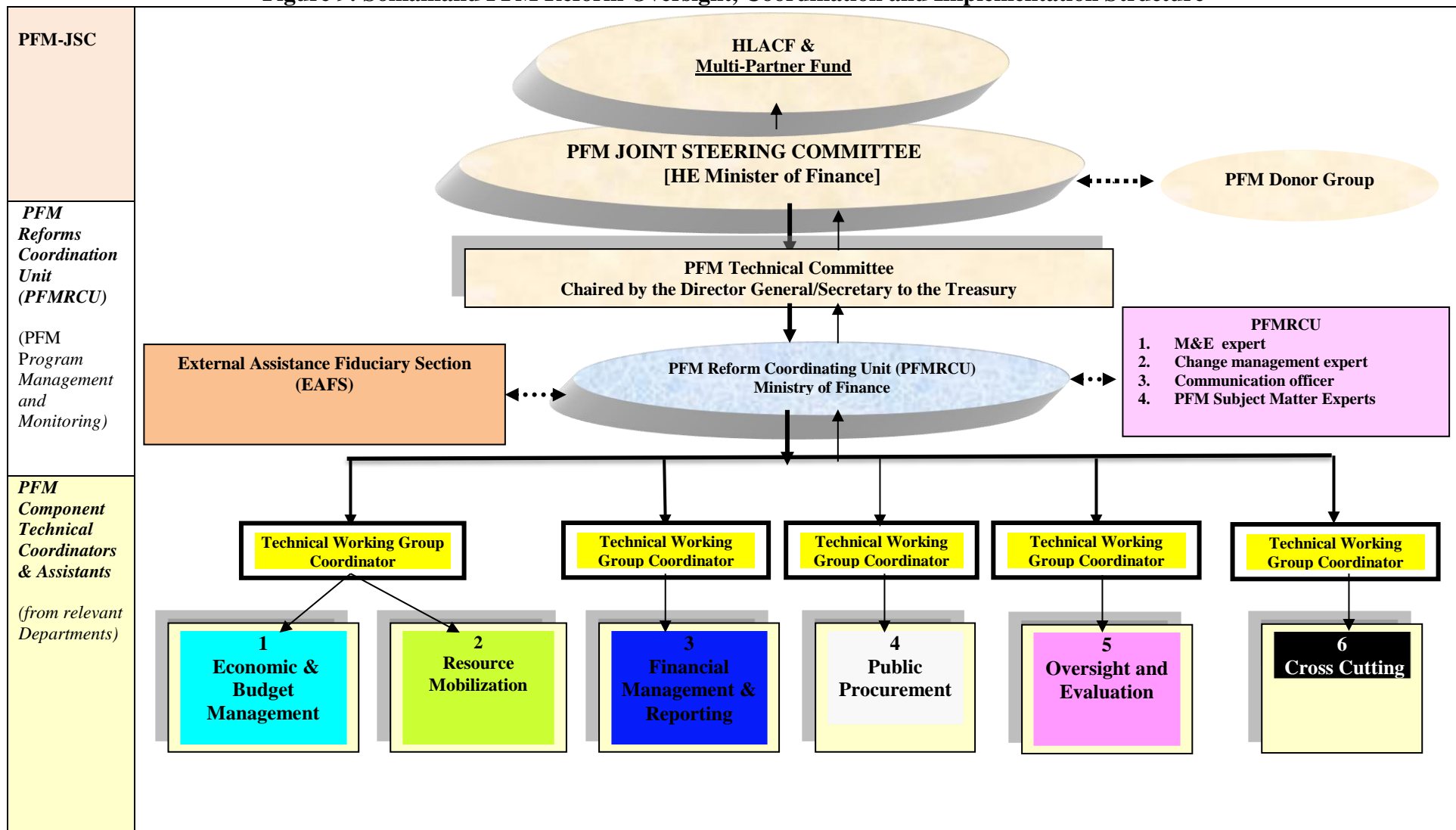


Figure 9: Somaliland PFM Reform Oversight, Coordination and Implementation Structure



Financial Management, Disbursements and Procurement

Financial Management

1. The financial management risk is assessed as high. Financial management capacity challenges that are likely to affect the project exist. This includes lack of key financial management competencies and internal controls, reliance on consultants, rudimentary unregulated banking sector with potential risks of money laundering and terrorism financing, lack of regulatory framework for key PFM aspects amongst others. Various mitigating measures are designed both specific to the project and as part of other Bank/Donor engagements in the country. Given the consideration for Use of Country Systems (UCS), the project would also adopt the UCS in various aspects of the projects financial management including for accounting and reporting, banking, oversight and capacity building arrangements with the Office of the Auditor General and EAFS staffing. This will be supported by Technical Assistance (TA) with clear requirement for knowledge transfer incorporated in the TA Term of Reference. The project will also focus on developing financial management capacity as part of the project activities. The Project Financial Management Reform Coordinating Units (PFMRCU) and EAFS units at the federal and States will be made up of key project staff including a team of professional's relevant and adequate qualification and experience in financial management acceptable to the Bank. The project will closely link and liaise with other Bank/Development Partners led initiatives aimed at strengthening the banking arrangements. These include the rapid development of a banking and payments contingency plan for MPF projects such as establishment of the safe financial corridors, World Bank and IMF financial sector work, including support for the licensing of financial institutions in Somalia (both transfer and banking licensing), and to support the development of new correspondent banking relationships.

Country Issues

2. A key PFM finding of the 2006-2007 Joint Needs Assessment (JNA) of PFM systems in South Central Regions⁸⁰, Somaliland and Puntland was that 'systems that manage public resources are weak'. Similarly, the April 2013 PFM self-assessment which focused mainly on the federal 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](#).

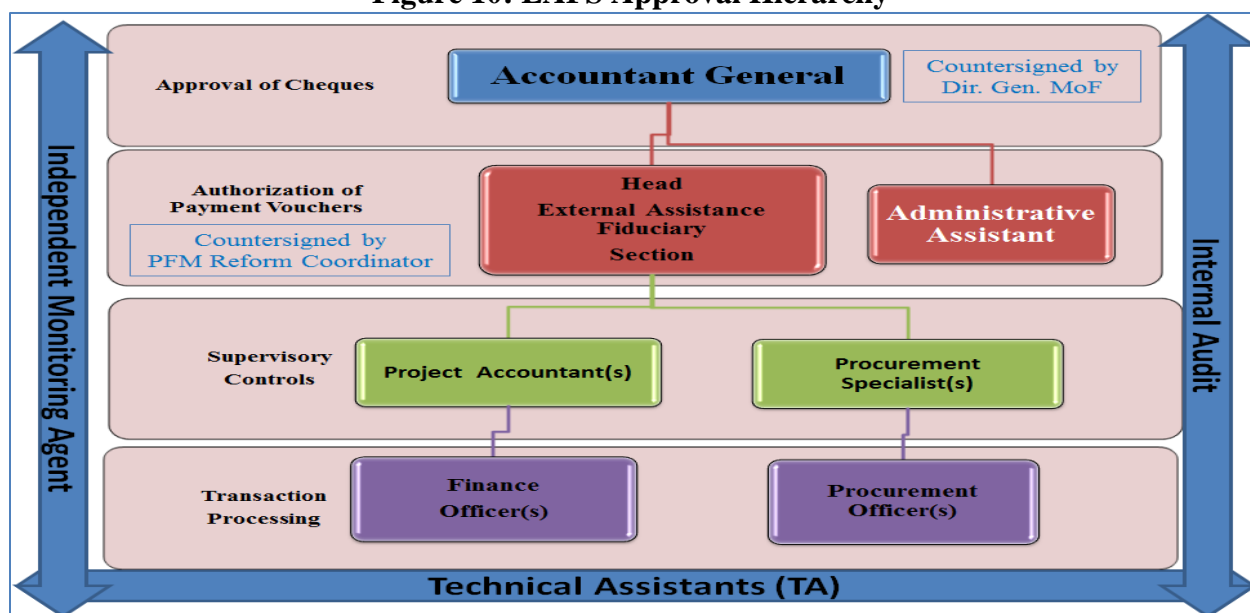
Project Financial Management System

3. An External Assistance Fiduciary Section (EAFS- figure 12) has been established within the federal Ministry of Finance (Office of the Accountant General) to ensure harmonization, donor co-ordination, reduce duplication, fragmentation and proliferation of donor-specific financial management units. The EAFS forms part of the Project Financial Management Reform

⁸⁰ jointly carried out by the Transitional Federal Government, the United Nations and the World Bank

Coordinating Unit (PFMRCU) with responsibilities for day-to-day management and accountability for the project; and reporting to the Technical Steering Committee (TSC). Plans are at an advanced stage to establish similar Units in the Ministries of Finance (Offices of the Accountant General) in regional States of Somaliland and Puntland.

Figure 10: EAFS Approval Hierarchy



Budgeting Arrangements

4. Each of the EAFS units at the federal and regional States, working closely with each of the Component Implementing Teams (CIT) and the project PFMRCU will prepare and submit the project annual work plan; budget and cash flow forecast for each component and submit for the necessary approvals from Task Team Leader (TTL) at the World Bank. The work plans, cash flow projections and budget should include the figures for the year analyzed by month and quarter. The cash budget for each month and quarter will reflect the detailed specifications for project activities, schedules (including procurement plan), and expenditure on project activities scheduled respectively for the quarter. All annual cash budget will be sent to the TTL at least two months before the beginning of the project fiscal year for review and approval. The project anticipated annual disbursements at the federal and the regional States will be 'on-budget' and form part of the appropriation by federal and States Parliaments. Budget utilization reports shall be prepared from the financial management system as part of the internal government(s) periodic reports as well as quarterly reports submitted to the World Bank.

Accounting Arrangements

5. 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 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 financial management arrangements will be spelled out in the EAFS Manuals and will include all

the relevant accounting procedures. The EAFS manual for the federal has already been developed and plans are at an advanced stage to develop EAFS manuals and establish EAFS structures in Somaliland and Puntland. The project accounting will be on a cash basis and will cover all project funds and any other contributions under the project. These will be supported with appropriate records and documentation to track commitments and to safeguard assets. Accounting records will be maintained in US\$. The EAFS and each CIT will ensure that:

- (i) All important business and financial processes are adhered to;
- (ii) Adequate internal controls and procedures are in place;
- (iii) Interim un-audited Financial Reports (IFRs) are prepared on a timely basis;
- (iv) The financial statements are prepared on a timely basis and in accordance with International Public Sector Accounting Standards (IPSAS *cash-basis*);
- (v) The external audit is completed on time and audit findings and recommendations/ issues raised in the management letter are implemented expeditiously.

6. The Standard Chart of Accounts mapped into the bespoke financial management information system will 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. All the project financial management records will be maintained through the system. Sustentative modules of the system have been tested and implemented at the federal and plans are underway to roll out the system to the regional States. In the interim financial management records and reports for the States implemented components will be maintained through use of excel worksheet and be phased out once the financial management system is in place. The EAFS Manual will describe all requirements regarding accountability of all funds for all components. Eligibility of expenditures will be based on the actual amount expended evidenced by appropriate supporting documents.

Internal Control and Internal Auditing

7. The project EAFS Manuals will incorporate relevant internal control procedures and acceptable control procedures for approval and payment processes. These procedures require that the CIT certifies the completion and acceptance of goods or services before requesting for payment. The EAFS units will also ensure that the contracts are consistent with the invoices and payment request before processing them. They will also monitor and report on the utilization of project funds, including the fiduciary standards complied with and the reliability of the FM system. The Fixed Assets Register relating to the project will be prepared by the project, regularly updated and physical verification/count of assets carried out periodically. The Fixed Assets Register will 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; disposal. A Contracts Register will also be maintained in respect of all contracts with consultants, contractors and suppliers. The EAFS units will prepare Contract Status Reports quarterly as part of the IFRs. Control procedures over fixed assets and contracts management will be the responsibility of the PFMRCU. An Internal Audit team will be set up in the Office of the Accountant General to review the activities of the project and report quarterly to the PFMRCU, TSC, ROC and the Bank.

Financial Reporting Arrangements

8. Quarterly IFRs will be prepared by the EAFS and will cover all project funds for the purpose of monitoring the implementation of the project and submitted to the PFMRCU, TSC, ROC and the Bank and other participating donors within 45 days of the end of each fiscal quarter. This report must cover all funds received for the project as a whole as well as counterpart or government funds received under the project if any. It includes a statement showing: period and cumulative inflows by sources and outflows by main expenditure classifications; beginning and ending cash balances of the project; and supporting schedules comparing actual and planned expenditures. Expenditures would be classified by component and by category. Semi-annual cash forecast statement should also be included. A template for this report will be agreed upon between MoF, EAFS and the Bank.

9. The respective EAFS units will be responsible for providing overall consolidated financial reports as defined in the relevant covenants. The accounting system to be put in place will ensure that financial reports will be designed to provide relevant and timely information to the project management, implementing agencies, and various stakeholders monitoring the project's performance. It is expected that all levels of implementation will maintain adequate filing and archival system of all accounting and relevant supporting documents for review by the Bank's FM team during supervision mission and also for audit purposes. The EAFS units will also prepare annual financial statements (AFS) for the entire project. The content of the statements will be documented in the Audit ToRs. The Annual Financial Statements (AFS) will be prepared in accordance with Cash Basis International Public Sector Accounting Standards (IPSAS). The AFS shall include adequate notes and disclosures consistent with the cash basis of financial reporting under the IPSAS.

External Auditing

10. The Offices of the Auditor General at the federal and in each of the regional States of Somaliland and Puntland have the constitutional responsibility to carry out independent audit of the project components implemented at the federal and states levels. The project will support the engagement of an external audit technical assistance to work with the staff of the respective Offices of the Auditor General with special reference to International Standards on Auditing (ISA 800) - Auditor's Report on Special Purpose Audit Engagements. The audited project annual financial statements, management letters together with any additional information required will be submitted to the Bank within six months after the end of the financial year. The audits shall be in conformity with the Bank's audit requirements and in accordance with internationally recognized auditing standards. The respective Offices of the Auditor General will express an opinion on the Financial Statements in compliance with International Standards for Supreme Audit Institutions (ISSAI); and also prepare a Management Letters giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls and compliance with financial covenants in the Grant Agreement(s).

Fraud and Corruption

11. 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 i) insecurity and political instability j) 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 EAFS Manual) 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; and (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. 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").

Flow of Funds and Banking Arrangements

12. The project will open separate Designated Bank Accounts (DAs) for each of the components implemented by the Federal, Somaliland and Puntland States. All the expenditures incurred through the DAs and as well as those submitted to the World Bank 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 Bank will be made in US\$ and will be submitted online through the client connection. 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 Bank's Disbursement Guidelines. Detailed disbursement arrangements will be documented in the Disbursement Letters. The EAFS Units in consultation with the respective Offices Accountant General will institute adequate controls in the management of the DAs. The signatories to the DAs (Treasury Cheques/Payment Instructions/Electronic Funds Transfer) and Withdrawal Applications will include at least two bank account signatories categories (either from each panel must sign) in each of the following panels at the Federal, Somaliland and Puntland:-

Signatories

Federal Government

- Panel A: Director General of MoF (with Director of Administration as alternate)
- Panel B: Accountant General (with Deputy Accountant General as alternate)

Puntland State

- Panel A: Director General of Expenditure (with Director General of Revenue as alternate)
- Panel B: Accountant General (with Deputy Accountant General as alternate)

Somaliland

- Panel A: Director General of MoF (with Director of Finance as alternate)
- Panel B: Accountant General (with Deputy Accountant General as alternate)

Figure 11: Funds Flow Processes for (a) Federal Government; Puntland State (b); and Somaliland (c)

Figure 11(a): Federal Funds Flow Process

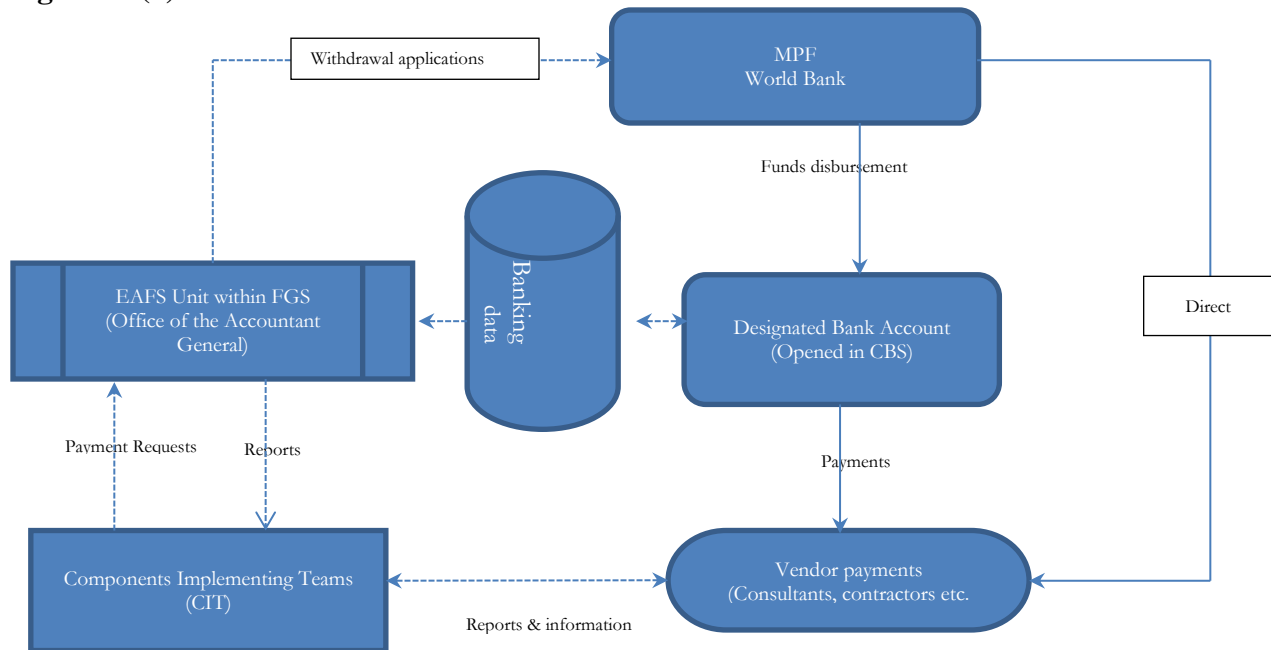


Figure 11(b) Puntland Funds Flow Process

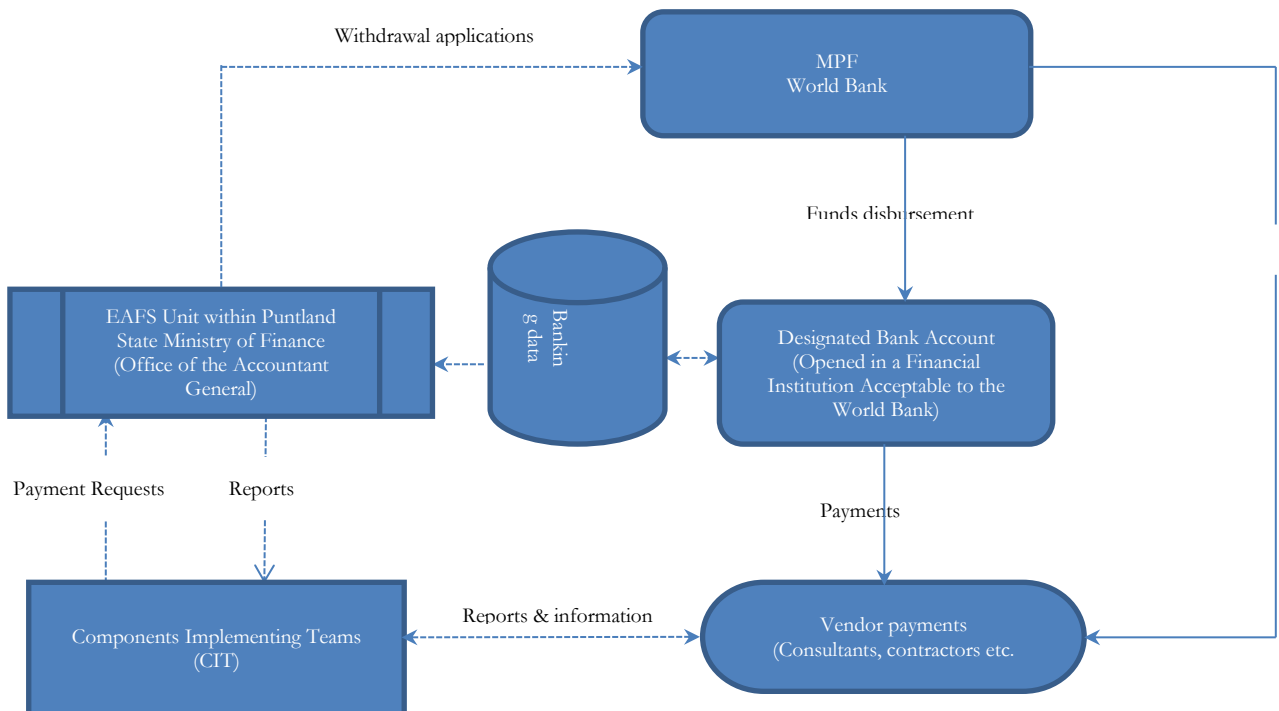
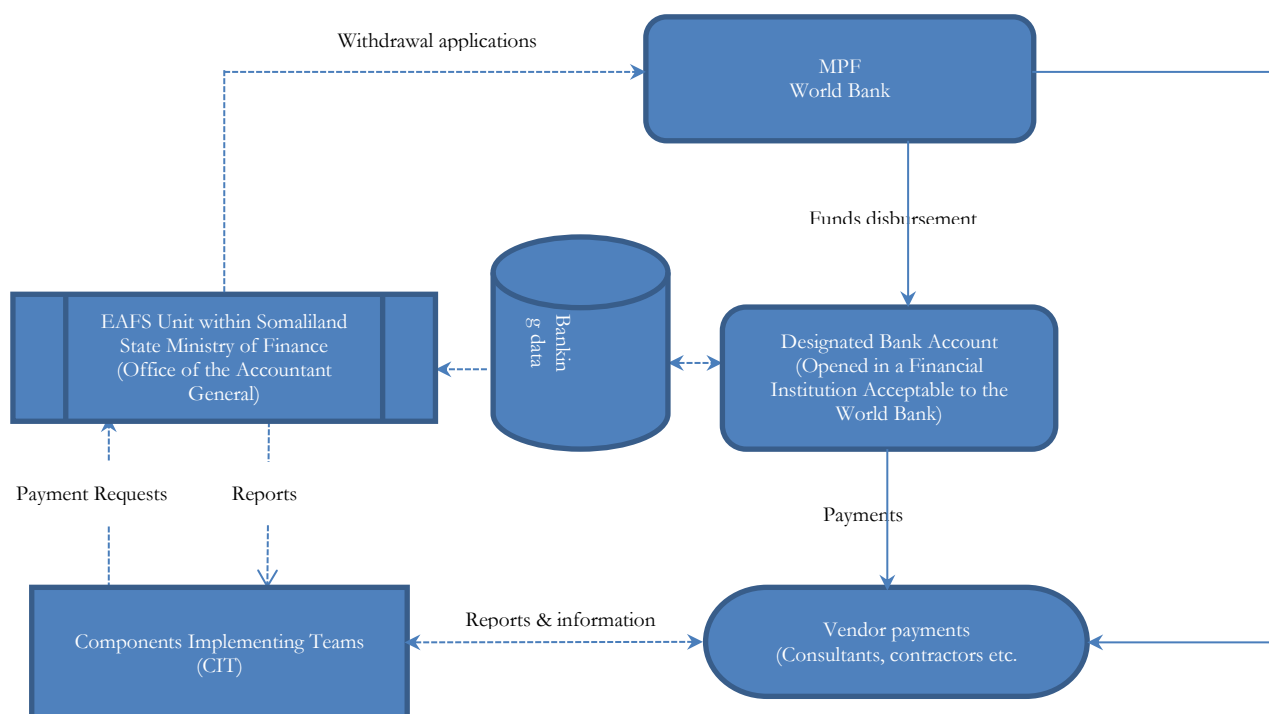


Figure 11(c) Somaliland Funds Flow Process



Each of the EAFS will maintain:

- (i) A DA in US Dollar (US\$) for the project component in a financial institution acceptable to the Bank⁸¹. The ceiling of the DA will be based first on Statement of Expenditure and subsequently, after the Financial Management Information System has been fully installed and found acceptable, based on request by Borrower, a Bank supervision and approval by TTL, a variable forecast for two (2) quarters as provided in the quarterly IFRs to be reviewed and approved by the Bank's Financial Management Specialist (FMS) and Task Team Leader (TTL).
- (ii) Project component funds will be transferred into the DA against an approved Withdrawal Application to be prepared by the External Assistance Fiduciary Section. 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 for the next six months.
- (iii) Detailed disbursement arrangements will be documented in the Disbursement Letter.

⁸¹ On terms and conditions in the World Bank Disbursement Guidelines for Projects (May 1, 2006:11).

13. The FM action plan are as follows:

Table 4: Financial Management Action Plan

Action	Responsibility	Due Date	Status (June 11, 2015)
Establishment of FM implementation arrangements (EAFS Units and Manuals)	MoF	April 2015	EAFS manual under preparation
Designate government accountants to support the project at EAFS.	MoF	April 2015	Government staff assigned to EAFS units
Open Designated Accounts at CBS for the federal government and financial institution acceptable to the Bank (Somaliland and Puntland)	MoF	April 2015	Designated Account opened for Federal Government. Arrangements ongoing for Somaliland and Puntland
Prepare TORs for a private audit firm to provide technical assistance to the Office of Auditor General to conduct financial audit of the project.	MoF	April 2015	ToR drafted
Agree on IFR format for incorporation in SFMIS.	MoF	April 2015	Agreed during negotiation

Conclusion and Supervision Plan

14. ***The financial management risk for the project is high.*** Given the consideration for use of country systems (UCS) despite the capacity weaknesses identified in the assessment, there will be intensive on-site visits in the first year of implementation with due consideration to the security situation in the country, to ascertain continued adequacy of arrangements. This will be supplemented by desk reviews of IFRs, independent monitoring agent reports and annual audit reports. The FM supervision missions will be planned jointly with the general project supervision mission and the objectives will include ensuring that strong financial management systems are maintained for the project throughout project life. In adopting a risk-based approach to FM supervision, the key risk areas of focus will include assessing the accuracy and reasonableness of budgets, their predictability and budget execution, compliance with payment and funds disbursement arrangements, ex-ante and post ante internal controls as well as key risk areas identified by the monitoring agent.

Disbursements

Table 5: Disbursement Table

Categories	Amount of the Grant Allocated (US\$)	Percentage of expenditure to be financed (inclusive of taxes)
Goods, small works, training, consultancy services and operating costs	20.0	100%
TOTAL AMOUNT	20.0	100%

15. With respect to banking arrangements and flow of funds, a Designated Account (DA) will be opened in a Bank on terms and conditions in the World Bank Disbursement Guidelines for Projects (May 1, 2006). Separate Designated Accounts (DA) will be established for the Federal Government, Puntland and Somaliland. Funds will flow directly to the DAs and managed by the various Accountant General's Departments where all the fiduciary controls and accountability will lie for the use of the grant proceeds.

16. There is a Central Bank of Somalia Act 2011 and a Financial Institutions Law No. 130 of April 22, 2012 which is an Act to provide for the licensing, regulation and supervision of the business of entities taking deposits from the public. The CBS has developed specifications for a National Payment Systems and a strategic plan to address its capacity challenges. The Central Bank Swift code is CBSOSOSM and is in the process of establishing correspondence bank arrangements beyond Ziraat that is currently used for the PFM Capacity Strengthening Project (P146006). The project will make withdrawals from the DA and full records will be kept for audit purposes as to for what purposes the funds are used. The figure below depicts the funds flow arrangements. Each disbursement from the DA will be initiated by an official request from authorized project officials.

Procurement

17. The Federal Government of Somalia (FGS) public procurement legal framework and institutions are not yet in place. The Country has neither an institutional capacity nor legislative framework to handle robust public procurement. The private sector and civil society have limited capacity or functionality (due to total lack of regulatory law and business norms). A new Public procurement, Concessions & Disposal Bill has been approved by the Council of Ministers and is now in the Somalia National Parliament for discussion. If enacted, 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.

18. Procurement for the proposed project will be carried out in accordance with the latest revision of the World Bank's "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grant by the World Bank Borrowers" dated January 2011(revised July 2014); and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grant by the World Bank Borrowers" dated January 2011 (revised July 2014), that facilitates dealing with the emergency and fragile situations in Bank-financed projects and Recipient-Executed Trust Funds. "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, (the Anti-Corruption Guidelines)" dated October 15, 2006 and revised in January 2011, and the provisions stipulated in the Legal Agreement will be applied. Somalia being a FCS country, Procurement under the projects will be processed under special procurement arrangements referred to in paragraph 20 of OP 11.00

19. Project Procurement implementation arrangement and risk identification: (a) In the FGS the procurement of the proposed project will be carried out by the External Assistance Fiduciary Section (EAFS) Unit in the Ministry of Finance. (b) All procurements under the Project will be undertaken centrally by the EAFS unit under the Accountant General's office in the Ministry of

Finance. The EAFS unit in FGS is fully functional and supported by a Procurement Specialist. Additional procurement expertise will be provided by the TA procurement specialist contracted by Government after a competitive recruitment process and funded by the African Development Bank. The placement of the TA procurement specialist will mitigate against inherent procurement risks caused by capacity limitations to undertake proper and efficient project procurement. It is expected that the TA Procurement Specialist will ensure that procurement capacity is built within the Ministry of Finance. At least two government procurement officers will be seconded to the EAFS Unit for the necessary mentoring and transfer of skills to be effected by the procurement specialist. It is recommended that the two officers will be absorbed into the national civil service to constitute the procurement unit for the Ministry of Finance.

20. In Puntland, under the Ministry of Finance, a similar EAFS will be established to provide procurement and FM support to all donor-funded projects. Procurement for the project will be handled by EAFS. A procurement officer will be hired with the necessary skills and experience under the EAFS in Puntland. His project procurement skills will be enhanced by guidance he will receive from the TA procurement specialist in Mogadishu.

21. In Somaliland the EAFS will perform the financial management functions. TA Procurement specialist will be injected into the Procurement Unit of the Ministry of Finance and operate in collaboration with the PFM Reform Coordinator Unit. Procurement Officers will be seconded or posted to the Procurement Unit to work alongside the TA Procurement Specialist to facilitate skills transfer.

22. As the result of the overall operational challenge and weak institutional capacity, the project procurement risk is rated as high. The major challenges related to the overall procurement environment and institutional capacity aspects and possible risk mitigation measures have been identified as below:

Table 6: Action Plan, Procurement Risks and Mitigation Measures

Sr. No.	Issue	Risk mitigation action plan	Responsibility and time frame to implement the actions
1	Lack of public procurement legal and institutional framework (including procurement regulations, Procurement manual etc.) in all the areas	The procurement in FRS will be guided by the manual developed by EAFS in MOF. The Bank will review the updated Procurement Manual for use in the project. The deviations in these Manuals in the procedure to meet the requirement of the World Bank would be stipulated in the PIM.	EAFS/Immediately
2	Experience and skills limitations within the EAFS Unit in Mogadishu, Garowe and Hargeisa	IN FGS, the EAFS Unit will be supported by TA Procurement Specialist and two (02) procurement officers locally recruited. In addition to processing the project procurement, the TA consultant will train the staff of EAFS to enable them gradually take over the procurement activity of the project; In Puntland and	MoF/ADB/ May 2015

		Somaliland, qualified and experienced procurement officers will be hired.	
3	Lack of procurement regulation, oversight and monitoring arrangement for the project procurement	The EAFS Unit will have a management structure to supervise and monitor and approve the implementation of the planned procurement activities and will work with EAFS for procurement monitoring and reporting.	EAFS/immediately
4	Absence of defined procurement complaints' handling mechanism	As the Procurement Law is not in place, any procurement complaint by dissatisfied bidders or stakeholders may be lodged to the Accounting Officer through the Head of the EAFS and the Coordinator has to respond to complaints within a reasonable time.	EAFS/immediately after receipt of the complaint
5	Due to the 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 website and posted on widely circulated national gazette. If the contract is ICB or if the assignment includes international firms, it has to be advertised on UNDB online in addition to the local posting; Private Sector orientation and outreach seminar will be conducted on the project opportunity.	EAFS/ regularly

23. **Specific Procurements under the Project:** Procurement under the project includes a number of consultancy services assignments (both firms and individual consultants), highly specialized ICT equipment's, acquisition of bandwidth, smaller goods, and equipment and office supplies. These would be elaborated in the procurement plan.

24. **Procurement and Selection Methods:** The procurement of Goods and non-consulting services where applicable will utilize methods such as international competitive Bidding (ICB), NCB, LIB, procurement from UN agencies, Shopping, and direct contracting. Procurement from UN Agencies such as UNOPS will be used for procurement of vehicles. Selection of Consultants will follow QCBS, QBS, Selection based on Consultant's qualifications (CQS), LCS, FBS, Selection of individual Consultants, and SSS.

25. **Workshops, conference attendance and Study Tours:** These will be carried out on the basis of approved annual work plans that would identify the general framework of training or similar activities, including the nature of training/study tours/workshops, number of participants, and estimated cost.

26. **Operating Costs** would be incurred using procedures acceptable to the Bank and described in the Operation manual.

27. **Procurement Plan.** The borrower prepared an initial procurement plan indicating procurements to be carried out over the period of the project and was reviewed and agreed during the negotiation. The procurement plan includes all the contracts to be financed by the project.

The plan will be updated at least yearly over the lifetime of the project. Any revision of the procurement plan will be subjected to prior review by the Bank.

28. **Threshold for each method of Procurement/Selection and Prior Review:** Given below are recommended method of Procurement/Selection and the Prior review threshold requirements. Guidance to the Bank prior review requirements is found in Appendix 1 to the Guidelines for procurement and Appendix 1 to Guidelines for Selection and Employment of the Consultants. All terms of reference (TORs) regardless of the contract amount shall be subjected to the Bank's Prior review.

Table 7: Procurement Methods and Thresholds for Goods, Works and Non-consulting Services

	Procurement Method	Threshold(US\$)	Comment
1	ICB (Works)	5,000,000	Equivalent or More
2	ICB (Goods and non-consulting services)	500,000	Equivalent or More
3	NCB (Works)	5,000,000	Less than
4	NCB (Goods and non-consulting services)	500,000	Less than
5	Shopping (Works)	300,000	Equivalent or less
6	Shopping (Goods and non-consulting services)	100,000	Equivalent or less
7	Direct Contracting	Any value	
8	UN Agencies	Any value	

Table 8: Prior Review Thresholds for Goods and Non-consulting Services

	Procurement Method	Prior Review Threshold(US\$)	Comment
1	ICB (Goods, works and non-consulting services)	All contracts	
2	NCB (Goods, and non-consulting Services)	500,000	Equivalent or more (The first NCB under each category will be under prior review)
3	NCB (Works)	5,000,000	Equivalent or More (The first NCB will be under prior review)
4	Direct Contracting (Goods, works and non-consulting services)	All contracts	
5	UN Agencies	All contracts	
6	Shopping (Goods and Works and non-consultancy services)	None (See comment)	The First shopping under each category will be under prior review.

Table 9: Selection Methods and Thresholds for Consultants

	Selection Method	Threshold(US\$)	Comment
1	QCBS, QBS, FBS and LCS	Any value	Selection method shall depend on nature and complexity of assignment.
2	CQS	300,000	Equivalent or less generally, however, may be permitted for higher value in appropriate cases as identified in Procurement Plan.
3	Individual Consultant	Any value	
4	SSS (for individual/ firm)	Any value	

Table 10: Prior Review Threshold for Consultants

	Selection Method	Threshold(US\$)	Comment
1	Competitive Methods (Firms)	200,000	Equivalent or More
2	Individual Consultant Selection	200,000	Equivalent or more
3	Single Source Selection (Firms/Individuals)	100,000	Equivalent or more

29. **Short list comprising entirely of national consultants:** Short lists of consultants for Engineering and Contract Supervision assignment estimated to cost equal or less than US\$ 200,000 equivalent and for all other consultancy assignments estimated to cost equal or less than US\$100,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

30. **Frequency of Procurement Supervision:** In addition to the Prior review supervision to be carried out by Bank, annual post procurement reviews of sample of about 20 percent of all contracts finalized by the project shall be carried out.

Environmental and Social (including safeguards)

31. 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 Environmental Management Plan.

Monitoring & Evaluation

32. Because successful reform of PFM systems tends to occur only over long time periods, and involves political as well as technical challenges (OECD, 2009b; Allen, 2009; IEG, 2008)⁸², it is probably not realistic to expect dramatic improvements in three years. The results framework and monitoring in annex 1 will be used to closely monitor that the expected outputs are produced to acceptable standards in order to meet the project development objectives. The Government is committed to conducting a Public Expenditure and Financial Accountability (PEFA) review in 2015 by which time financial statements for 2012, 2013 and 2014 will be available to score the quantitative performance indicators and monitor general progress on the reforms. It would be worth complementing the PEFA with the Code of Good Practices on Fiscal Transparency (2007)⁸³.

⁸² Stephen Knack (2013), Building or Bypassing Recipient Country Systems: Are Donors Defying the Paris Declaration? The World Bank Development Research Group WPS6423 Public Policy Research Working Paper 6423, (2013:30)

⁸³ <http://www.imf.org/external/np/fad/trans/code.htm>

Table 11: Draft Simplified Procurement Plan

Contract Descriptions	Estimated Cost (US\$ '000s)				Procurement Method	Review by World Bank (Prior/Post)	Expected Bid/Proposal Submission date	Expected Contract Signature	Expected completion date
	Total	FG	PL	SL					
Component 1: Revenue mobilization, planning and budget preparation (US\$2,750,000)	2,750	1,705	1,045	-					
(i) Consultancy services									
1.1 Individual consultant for strengthening planning and budget preparation	630	315	315	-	ICS	Prior	30-Aug-15	30-Oct-15	30-Apr-18
1.2 Firm for revenue mobilization and tax administration	1,500	1,000	500	-	QCBS	Prior	30-Aug-15	30-Oct-15	30-Apr-18
(ii) Goods and non-consultancy services									
Supply of office furniture and fittings & safes (for temporary cash holding) for revenue department and revenue collection points	150	100	50	-	Shopping	Post	30-Aug-15	30-Sep-15	30-Oct-18
Supply of IT equipment including consumables such as ink for revenue department and revenue collection points and the budget department	150	100	50	-	Shopping	Post	30-Jun-15	30-Jul-15	30-Aug-18
Training, workshops, seminars, peer-learning	230	130	100	-	Shopping	Post	NA	NA	30-Apr-18
Supply and delivery of 4X4 vehicle(s) to support revenue administration (2 for FG and 1 for PL)	90	60	30	-	Shopping	Post	30-Jun-15	30-Jul-15	30-Apr-18
Component 2: Treasury management, budget execution, procurement, accounting and financial reporting (US\$9,880,000)	9,880	5,525	2,400	1,955					
(i) Consultancy services									
2.1; 2.2 & 2.4 Firm for treasury management and budget execution; PFM legal framework; Comprehensive Operating Procedures Manual (COPM); accounting and reporting and functional TA for the bespoke FMIS including Somaliland Grade 'A' Districts and Hargeisa Water Agency (HWA) & Garowe Municipality	2,500	1,250	750	500	QCBS	Prior	30-Sep-15	30-Oct-15	30-Apr-18
2.3 Firm for concessions, procurement and contract management; development of a strategy for concessions and procurement and advisory role to the inter-ministerial committee (IMC) responsible for award of concessions; and placement as sector-based transactions advisers (FGS only) to key sectors (finance, education, health, mining, natural resources) to develop their capacity to undertake feasibility studies, procure and manage concession contracts etc	1,000	500	250	250	QCBS	Prior	30-Aug-15	30-Sep-15	30-Apr-18
2.4 (a) Bespoke FMIS application developer	630	175	180	275	Direct Contracting	Prior	30-Jun-15	30-Jul-15	30-Apr-18
2.4 (b) Bespoke FMIS IT specialist. <i>Somaliland has a capable IT Director. Puntland included in firm</i>	300	300	-	-	Direct Contracting	Prior	30-Jun-15	30-Jul-15	30-Apr-18
2.4 (c) In-house SFMIS Manager	1,090	290	400	400	ICS	Prior	30-Jun-15	30-Jul-15	30-Apr-18
2.5 Firm for modernizing CBS banking operations and financial control environment – includes supply and implementation of core banking application (turnkey solution)	2,000	2,000	-	-	QCBS	Prior	30-Sep-15	15-Dec-15	30-Apr-18
(ii) Goods and non-consultancy services									
Supply of office furniture and fittings for Accountant General's Department and Procurement Department	150	50	50	50	Shopping	Post	30-Jun-15	30-Jul-15	30-Apr-18
Supply of IT equipment for SFMIS Primary Data Center (PDC) and Disaster Recovery Center (DRC); CBS data center; connectivity (WAN/LAN) for MoF, CBS, CSC, OAG, Customs office line-ministries; and end-user devices including consumables such as ink	1,500	750	500	250	ICB	Prior	30-Aug-15	30-Oct-15	30-Apr-18
Training, workshops, seminars, peer-learning	620	180	240	200	Shopping	Post	NA	NA	30-Apr-18
Supply and delivery of 4X4 vehicle for FMIS support team	90	30	30	30	Shopping	Post	30-Jun-15	30-Jul-15	30-Apr-18
Component 3: Strengthening the integrity pillars (US\$1,945,000)	1,945	775	645	525					
(i) Consultancy services									
3.1 Firm for Supreme Audit Institution (SAI) including supply and implementation of ACL/CATTs; & 3.2 Legislative Oversight: Public Accounts Committee (PAC) & Budget Committee	1,000	500	250	250	QCBS	Prior	30-Aug-15	30-Oct-15	30-Apr-18
(ii) Goods and non-consultancy services									
Supply of office furniture and fittings for Office of Auditor General and PAC	150	50	50	50	Shopping	Post	30-Jun-15	30-Jul-15	30-Apr-18
Supply of IT equipment including consumables such as ink for Office of Auditor General and PAC	150	50	50	50	Shopping	Post	30-Jun-15	30-Jul-15	30-Apr-18
Supply and delivery of vehicle - (4X4 (No.1) & 15 passengers bus (No.1) ; for PL (4X4 (No.2) & 8 passengers bus (No.1)	225	75	75	75	Shopping	Post	30-Jun-15	30-Jul-15	30-Apr-18
Training, workshops, seminars, peer-learning	420	100	220	100	Shopping	Post	NA	NA	30-Apr-18
Component 4: PFM professionalization (US\$1,000,000)	1,000	500	0	500					
(i) Consultancy services									
4.1 Fees for faculty from the participating universities and course administration expenses	200	100	-	100	Direct Contracting	Prior	NA	NA	30-Apr-18
4.2 WYWG Consortium remuneration and reimbursable expenses; CIPFA teaching and learning materials for certificate, diploma and professional stages; student registration/examination fees including re-sits; training of participating universities' faculty; registration/examination fees for tutors from 2 participating universities per 'region'	200	100	-	100	Direct Contracting	Prior	NA	NA	30-Apr-18
4.3 Procurement stream by International Training Centre of the International Labour Organization (ITC-ILO)	400	300		100	Direct Contracting	Prior	NA	NA	30-Apr-18
(ii) Goods and non-consultancy services									
4.4 Firm for upgrading of ICT infrastructure and other logistics support for participating universities	200	-	-	200	Shopping	Post	30-Jun-15	30-Jul-15	30-Apr-18
Component 5: PFM reform oversight, coordination and management (US\$2,925,000)	2,925	995	910	1,020					
(i) Consultancy services									
5.1(a) PFMRCU Coordinator	790	70	360	360	ICS	Prior	30-Jun-15	30-Jul-15	30-Apr-18
5.1(b) Project change management/communication specialist (short-term consultant)	120	-	-	120	ICS	Prior	30-Jun-15	30-Jul-15	30-Apr-18
5.1(c) Monitoring and Evaluation (M&E) short-term consultant for the project	90	-	-	90	ICS	Prior	30-Jun-15	30-Jul-15	30-Apr-18
5.1(D) Translation TA					ICS	Prior	30-Jun-15	30-Jul-15	30-Apr-18
(ii) Goods and non-consultancy services									
5.1 Reform Oversight Committee (ROC), Technical Steering Committee (TSC), PFM Reform Coordinating Unit (PFMRCU) related expenses; communication & change management; general workshops, seminars and training; translation of documents, printing and dissemination; operational expenses; bank charges etc	800	200	300	300	NA	NA	NA	NA	30-Apr-18
5.2 PFMRCU furniture and fittings and IT equipment	125	25	50	50	Shopping	Post			
5.3 Association of Somali Professional Accountants (ASPA)	200	200					NA	NA	30-Apr-18
5.4 Security and logistics firm (secured transport and accommodation)	800	500	200	100	ICB	Prior	30-Aug-15	30-Nov-15	30-Apr-18
Sub-total	18,500	9,500	5,000	4,000					
6. Analytic and Advisory services (Bank Executed)	1,000								
Unallocated (performance based and physical/price adjustments)	500								
Grand Total	20,000								
Proportion relative to FGS, PL and SL only and excluding unallocated	100%	51%	27%	22%					

Components/activities	Categories of Expenditure					Totals	FG	PL	SL	
	Furniture, IT equipment and	Technical Assistance		Goods and small works	Operating Expenses					
		Consultancy	Training, workshops, seminars							
Component 1: Revenue mobilization, planning and budget preparation (US\$2,750,000)										
1.1 Strengthening planning and budget preparation	50	400	180		-	630	315	315	-	
1.2 Revenue mobilization and tax administration	300	1,500	230	90	-	2,120	1,390	730		
Sub Total	350	1,900	410	90	-	2,750	1,705	1,045	-	
Component 2: Treasury management, budget execution, procurement, accounting and financial reporting (US\$9,880,000)										
2.1 & 2.2 Treasury management and budget execution; accounting and financial reporting; PFM legal framework; and Comprehensive Operating Procedures Manual (COPM)	100	2,500	155	30	-	2,500	1,250	750	500	
2.3 Concessions, procurement and contract management	50	1,000	155	30	-	1,000	500	250	250	
2.4 Bespoke Financial Management Information System (FMIS); Primary Data Center (PDC); Disaster Recovery Center (DRC) – including Somaliland Grade 'A' Districts and Hargeisa Water Agency (HWA)	1,500	2,020	310	30	-	4,380	1,775	1,400	1,205	
2.5 Modernizing CBS banking operations and financial control environment (turnkey solution)	-	2,000	-	-	-	2,000	2,000	-	-	
Sub Total	1,650	7,520	620	90	-	9,880	5,525	2,400	1,955	
Component 3: Strengthening the integrity pillars (US\$1,945,000)										
3.1 Foundations for Supreme Audit Institution (SAI)	150	800	300	225	-	1,795	725	595	475	
3.2 Planning, Finance, Budget and Public Accounts Committee (PAC)	150	200	120	-	-	150	50	50	50	
Sub Total	300	1,000	420	225	-	1,945	775	645	525	
Component 4: PFM professionalization (US\$1,000,000)										
4.1 Fees for faculty from the participating universities and course administration expenses		200	-	-	-	200	100	-	100	
4.2 WYG Consortium remuneration and reimbursable expenses; CIPFA teaching and learning materials for certificate, diploma and professional stages; student registration/examination fees including re-sits; training of participating universities' faculty; registration/examination fees for tutors from 2 participating universities per 'region'		200	-	-	-	200	-	-	200	
4.3 Procurement stream by International Training Centre of the International Labour Organization (ITC-ILO)	-	200	-	-	-	200	100	-	100	
4.4 Upgrading of ICT infrastructure and other logistics support for participating universities	400		-	-	-	400	300	-	100	
Sub Total	400	600	-	-	-	1,000	500	-	500	
Component 5: PFM reform oversight, coordination and management (US\$2,925,000)										
5.1 Reform Oversight Committee (ROC), Technical Steering Committee (TSC), PFM Reform Coordinating Unit (PFMRCU) related expenses; communication & change management; general workshops, seminars and training; translation of documents, printing and dissemination; operational expenses; bank charges etc	125	1,000	500		300	1,925	295	710	920	
5.2 Association of Somali Professional Accountants (ASPA)	-	-	200	-	-	200	200	-	-	
5.3 Security and logistics	-	800	-	-	-	800	500	200	100	
Sub Total	125	1,800	700	-	300	2,925	995	910	1,020	
TOTAL	2,825	12,820	2,150	405	300	18,500	9,500	5,000	4,000	
6. Demand-driven Just-in-Time support (JIT) (Bank Executed)							1,000			
Unallocated (performance based and physical/price adjustments)							500			
Grand total							20,000			
								51%	27%	22%

Role of Partners

33. A division of labor was initially agreed to support the Governments' reform action plans. However, support by DPs is now done in a coherent manner through the MPF and this has led to the preparation of this comprehensive PFM reform program. Development Partners are encouraged to also focus on wider civil service reforms as PFM cannot operate optimally in a dysfunction civil service environment. Complementary reforms in the judicial sector and rule of law will also be required especially to support the efforts of the Auditor General. The PFM-SWG is involved from project identification, preparation and monitoring and will be meeting at the technical level to ensure proper coordination of other related interventions as shown below.

- **USAID: Strengthening Somali Governance (SSG) program.** USAID plans to award a three year Cost-Plus Fixed-Fee (CPFF) Completion type contract with a total estimated cost in the range of approximately US\$22,000,000 to US\$24,000,000 for the implementation of these activities: 1) improve the legislative, representative, and oversight functions of Somalia's federal and state (including Somaliland and Puntland) deliberative bodies; 2) improve the ability of targeted government institutions to carry out essential functions; and 3) increase citizen awareness of and engagement in government decision-making.
- ***African Development Bank - Economic and Financial Governance Institutional Support Project (EFGIS) UA2.5m:*** Component 1: Enhancing management, policy and planning: 1.1 Support to macroeconomic and fiscal management and 1.2 Support to arrears clearance and debt reconciliation process; Component 2: Strengthening effectiveness and inclusivity of the budget: 2.1 Strengthening the budget preparation process and 2.2 Improving budget dissemination and transparency; Component 3: Support to capacity development and project management: 3.1 Provision of training to enhance macroeconomic management, policy planning and budget process; 3.2 Provision of essential equipment; and 3.2 Project management.
- **IMF pipeline Somalia Trust Fund for capacity development in macroeconomic policies and statistics US\$9.3million over three years.** Build capacity for the production of macroeconomic statistics; develop an adequate macroeconomic framework for monetary and fiscal policy formulation and implementation; setup a functioning central bank; improve tax and customs policy and administration; and strengthen public financial management. The estimated cost will cover the costs of a dedicated program of delivery by the IMF at HQ and in the field (including in "third-country" locations), long-term advisors, specialized short-term experts, and training and attachments, including the costs of travel of Somali counterparts and their lodging, backstopping, project management and evaluation, and steering committee meetings. The program is expected to be delivered through diagnostic missions, short-term experts, and stand-alone training. Experts will also provide training via seminars and mentoring to maximize the number of technical assistant recipients.
- **UN Joint Programme on Local Governance and Decentralized Service Delivery (UN-JPLG)** supporting decentralization policy, community participation, sub-national PFM and service delivery covering planning and budgeting, public procurement, spatial planning and municipal finance, and elements of fiscal decentralization through the Local Development Fund, accountability and reporting mechanisms.

Annex 4: Systematic Operations Risk-rating Tool (SORT)
SOMALIA: Second Public Financial Management Capacity Strengthening Project
(P151492)

34. The assessment of risks takes into account both the likelihood of the risk materializing, as well as the severity of its impact on the achievement of the project intended results. The SORT focuses on identifying, assessing, and managing risks throughout the operation.

Risk Categories⁸⁴	Rating (H, S, M or L)
1. Political and governance	<p>Risks to the development objective stemming from the country's political situation and governance context - Rating: Substantial</p> <p>Changes in leadership (substantial) Frequent changes in political leadership/appointees undermine government ownership of the project and slow down the initial gains in the reforms.</p> <p><i>Risk mitigation.</i> The project team will engage with multiple levels of leadership within targeted Ministries to ensure broad, institutional ownership, mitigating the risks posed by turnover of appointed leaders.</p> <p>Political competition for project resources (substantial) Project staff may face difficulties achieving agreement between key government stakeholders on overall division of resources and implementation modalities for the project. Given the high levels of political and clan-based competition within government, procurement and consultancy selections for technical assistance hold the potential to be divisive and lead to competition within government.</p> <p><i>Risk mitigation.</i> Project team will engage in transparent dialogue with stakeholders regarding the allocation of resources. Strategic focus and objectives will be clearly defined to resist pressures to spread support too thinly. The PFM Reform Coordinating Unit (PFMRCU) in the Ministry of Finance will anchor the reform and capacity building efforts, helping to mitigate this risk at the Ministerial level by providing strategic alignment of the project with the directives of the Technical Steering Committee.</p>
2. Macroeconomic	<p>External and domestic economic risks that may derail proper preparation, implementation and achievement of results - Rating: High</p> <p>Lack of fiscal space (substantial) There is lack of fiscal space for investment in PFM reforms with huge security costs to attract suitably qualified and experienced professionals to Somalia. Macroeconomic institutions are weak with macroeconomic policies at high risk of becoming unsustainable and vulnerable to external</p>

⁸⁴ In all risk categories the assessment is of the risk to PDO or the risk of unintended consequences associated with the operational engagement, and does not refer to "country level" risk in and of itself.

	<p>shocks. Large fiscal deficits in past two years of 21% and 13% of total aggregate budgeted expenditure in 2013 and 2014 respectively. Expansion of Cabinet members would further put pressure on the budget and crowd out resources for service delivery.</p> <p>The government is planning to take measures to address these imbalances, but they may be incomplete, not credible and hampered by a weak track record. Key policies and required legislation (e.g. Telecommunication Act) are yet to be passed to enhance revenue collection.</p> <p><i>Risk mitigation.</i> Over the medium to long term, the project will strengthen the PFM system, leading to efficiency and effectiveness in government operations. This will provide more fiscal space to direct scarce resources more strategically. Openness in budget information will also provide signals to the private sector to plan better for supplying goods and services for public service delivery.</p>
3. Sector strategies and policies	<p>Risks associated with the strategies and policies of the sector(s) relevant to the project - <i>Rating: Moderate</i></p> <p>Lack of development partner cooperation (moderate) Potential fragmentation of development partner support is a risk. Although project preparation reflects a highly consultative process, it is necessary to maintain dialogue with other donors throughout project implementation to prevent duplication and possible conflicting concepts that will confuse stakeholders.</p> <p><i>Risk mitigation.</i> The project team is actively involved in the PFM sub-working group of the PSG 5 working group. The group brings together development partners and government representatives working on PFM, helping to ensure coordination and communication.</p> <p>Lack of coordination between WB projects (moderate) WB projects targeting core government functions (capacity, PFM, recurrent costs) may be insufficiently coordinated to effectively and efficiently deliver desired results.</p> <p><i>Risk mitigation.</i> The project team will maintain regular communication with related project teams to ensure coordination. The MPF Secretariat will provide additional support for fund-level coordination of WB activities.</p>
4. Technical design of project or program	<p>Risks related to the technical design of the project - <i>Rating: Substantial</i></p> <p>Scope of project activities (moderate) With many critical needs, the PFM reform agenda in Somalia is ambitious with multiple components cutting across key institutions. Somalia's weak institutions will have limited ability to absorb capacity injection at a rapid pace or adapt to overly ambitious reform agendas. Moreover, the</p>

	<p>interconnectedness of the various PFM reform activities will need to be properly prioritized and sequenced to avoid delayed or sub-standard outputs, which will require intra-governmental coordination.</p> <p><i>Risk mitigation:</i> Reforms will be introduced gradually to ensure government ownership and incremental capacity building tailored to the context. The Component Implementation Teams (CITs) led by senior Government officials supported by TAs with skills transfer mandate and appropriate change management techniques will mitigate the complexity risks. Close monitoring of work plans by the Technical Steering Committee (TSC) and Reform Oversight Committee (ROC) will be critical. However, the ‘<i>theory-practice congruity gap</i>’ suggests that expectations should be well managed because financial resources (including conditionality) and legal structures, though necessary, are not sufficient; a supportive action environment with strong political leadership that provides space for citizen participation to demand accountability are critical in achieving shared prosperity.</p> <p>Weak PFM Systems (high)</p> <p>The PFM self-assessment recognizes that systems that manage public resources are very weak. Overall fiduciary environment has substantial weaknesses and the principles including value for money, 3 Es, transparency, accountability and participation are not being implemented. The PFM legal framework is outdated and longer supports current PFM practices and the anticipated reforms. Passage of the 2014 budget was substantially delayed by 5 months and this delayed project implementation. Project financial reports are produced from the SFMIS but with some delay. Commercial banking is yet to take-off and this leads to cash handling with its inherent risk of leakage of funds.</p> <p>Project officials have been trained on use of the External Assistance Fiduciary Manual and the procedures and manuals are largely adhered to. An internal audit function is yet to be established. A qualified Accountant General and Auditor General were recently recruited. Annual Financial Statements and audit reports are up to date but Parliament is yet to consider the 2012 and 2013 audit report to assess extent of follow-up on audit findings.</p> <p><i>Risk mitigation:</i> There is a deliberate effort to use and strengthen the country system through technical assistants and hand-holding for skills transfer. A key control that is being instituted is to shift from cash payment to ministry officials to direct payment to end-beneficiaries who would have been screened and captured in a vendor database. Also, payment instructions from the Accountant General’s department can only be authorized against a unique donor fund-source and project component/sub-component and line-item in the chart of accounts for which there must be an approved budget and allocation. The payment</p>
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	<p>instruction is bar-coded as an additional system control such that the central bank can only pay the amount stated in the instruction with a system generated number and to the named vendor.</p> <p>Insufficient project funding (moderate) Insufficient funding to MPF to cover full project costs could prevent implementation of all project components and lead to frustration.</p> <p><i>Risk mitigation.</i> Project budgets established and adapted based on donor commitments to the MPF, based on CMU projections and financial planning. Activities are designed such that they can be easily scaled-up whenever additional funds become available.</p>
5. Institutional capacity for implementation and sustainability	<p>Risks related to the capacity of the government to implement activities, taking into account the institutional capacity of the implementing agencies, implementation arrangements (including PIUs), and monitoring and evaluation arrangements - Rating: Substantial</p> <p>Lack of familiarity with WB procedures (moderate) The client lacks familiarity with WB procedures and this may lead to delays in implementation.</p> <p><i>Risk mitigation.</i> Use and strengthen the country PFM system through the EAFS arrangements. The World Bank will provide expanded support to the client through an implementation support team. Moreover, the team will hold regular dialogue with the client to explain procedures and provide support. Project design focuses heavily on training and technical assistance in key areas (e.g. FM & procurement) in the early stages of project implementation.</p> <p>Capacity constraints within Ministries (high) Targeted government institutions are staffed with unskilled, aged or absentee employees. Staff morale is low because of poor compensation. Therefore, project may struggle to achieve the critical mass of capacity necessary to strengthen institutional capacity and implement reform.</p> <p><i>Risk mitigation.</i> The PFM education and training program will produce a cohort of suitably qualified PFM practitioners. The senior managers' scheme of the program will be providing mentoring at the workplace. While acknowledging the existing challenges in the context of Somalia, the Bank team will endeavor to advocate for skills transfer under the PFM program. The government also has to play its part by assigning counterparts that will be capable of receiving the intended skills transfer</p> <p><i>Incentive for staff championing the reforms</i> could be in the form of responsibility allowance under the control of the director generals of the implementing agencies. A clear and transparent incentive scheme should</p>

	<p>be documented that is rules-based. If the rules are consistently applied against the approved incentive scheme; the responsibility allowance will be deemed eligible for reimbursement as part of the payroll funded by the RCRF.</p>
6. Fiduciary	<p>Risks that funds will not be used to achieve value for money with integrity in delivering sustainable development - <i>Rating: High</i></p> <p>Limited FM capacity (high) There is a lack of key financial management competencies, weak internal controls and oversight, rudimentary accounting and reporting systems, over-reliance on external technical assistance, nonexistent banking arrangements and inadequate internal and external audit arrangements.</p> <p><i>Risk Mitigation:</i> The PFM Education and Training program will over time deliver a cohort of suitably qualified PFM professions. The capacity injection project will also provide institutional support by developing policies and organizational development of key MDAs. TAs key role will be mentoring and skills transfer through coaching to ensure long-term sustainability of the reforms. Use of country systems (<i>‘ab initio’</i>) rather than bypassing is more developmental.</p> <p>As part of the capacity strengthening of the Office of Auditor General, and in line with the use of country systems, the Auditor General would have the responsibility for carrying out the audit of the project. However, due to the current capacity constraint, an external audit firm acceptable to the Bank will be selected to work jointly with the staff of the Office of the Auditor General in carrying out the audit of the project financial statements as well as necessary capacity and institutional building.</p> <p>Limited procurement capacity (high) Lack of public procurement guidelines and regulations, as well as lack of experience and skills, could slow implementation and create opportunities for corruption and fraud.</p> <p><i>Risk Mitigation:</i> One of the project components (sub-component 2.3) specifically targets government procurement practices as a key area to be strengthened. This sub-component will finance: (i) issuing interim instruction as a base for regulating public procurement until a procurement law is in place and providing orientation and training to the users; (ii) drafting of a public procurement bill that meets international best practice and development of regulations and manuals; and (iii) hiring of a procurement consultant to provide technical assistance for procurement planning, bid documents preparation, bid evaluation, contract management, reporting and capacity building; (iv) undertaking a survey to ascertain indicative costs for commonly procured items and establishing an Item Master that would be used by the Purchasing Module</p>

	<p>of the FMIS.</p> <p>Fraud / corruption (high) Given the absence of a robust public financial legal framework and the nascent rudimentary banking systems, the potential risk of fraud and corruption related cases are high. Other internal control incidences that may expose the project to fraud and corruption include but not limited to (a) late submission of the required supporting documents; (b) poor filing and absence of minimum standards in the maintenance of the project accounting records; (c) noncompliance to the approved project work plans and or budget discipline; (d) unauthorized commitment to suppliers (e) bypassing agreed internal control oversight arrangements particularly in expenditure management expenses (f) high risks in cash handling inherent with the existing cash driven dollarized economy (h) denial of access to information and or limiting the scope of agreed external monitoring and capacity development arrangements.</p> <p><i>Risk mitigation:</i> Accounting and reporting on the project will be done using the government bespoke financial management information system which is being implemented. The system is expected to be able to account for and generate the necessary reports for project purposes by using the external assistance fiduciary procedures manual.</p> <p>Citizens and Civil Society Organizations (CSOs) will be leveraged to jointly monitor the reform progress and strengthen public oversight. However, efforts in these areas will take a long time as they will face resistance while trying to produce positive change by altering ingrained culture, behavior and political structures.</p> <p>The Reform Oversight Committee (ROC) brings together the senior PFM actors to objectively review progress reports and provide managerial direction with direct report to the Presidency. Clear criteria for selection of PFMRCU staff and annual performance evaluation will ensure that the right people are selected for the job. Participation at the ROC by the chair of PFM Donor Group (PFM-DG), Chamber of Commerce and representative of Non-state actors will provide an independent check on government.</p>
7. Environment and social	<p>Risks posed <u>to</u> the project by environmental and social risks and potential unintended consequences posed <u>by</u> the activity on physical, biological and cultural resources and on human health and safety - Rating: Low</p> <p>Environmental hazard (low) The works that might be carried out under this project are expected to have no or negligible environmental impacts. They will be confined to existing structures, be simple and non-hazardous in nature, restricted to</p>

	<p>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.</p> <p>Inadvertent bias toward one group (moderate) While the project is expected to have positive social impacts through improved public confidence in Government, resistance is expected from certain public officials to maintain the <i>status quo</i> of less-transparent systems and procedures for personal gains. The introduction of development resources into unstable environments risks triggering local conflict. Political and clan-based competition will also mean that procurement opportunities could be divisive and cause conflict. The project may also have unintentional, negative consequences on local tensions and power dynamics, if one group is favored over another through the allocation of project resources.</p> <p><i>Risk mitigation.</i> This challenge will be addressed by ensuring clear criteria for selection of PFMRCU staff with annual performance evaluation. Appropriate change management and information, education and communication strategies will be adopted. Quick-wins will be pursued to demonstrate the benefits of the reforms. The reform approach will be participatory and will seek to build coalitions that can support change and reform even if the political leadership changes. A good example will be the use of PFM forums in mobilizing support for public finance transparency. The project team will monitor the potential impact of activities on power dynamics and conflict drivers, taking care to implement project through a conflict sensitive approach.</p> <p>Gender perspective - deliberate efforts will be made to utilize an inclusive approach to capacity building and institutional strengthening to ensure good gender balance.</p>
8. Stakeholders	<p>Risks related to stakeholders who may affect successful project completion by delaying or halting its implementation - <i>Rating: Substantial</i></p> <p>Sensitive reforms: ‘win-lose’ situations (substantial) The PFM reforms will involve changes that will affect the interests of stakeholders and there will be ‘win–lose’ situations, where the vested interests of respective parties are incompatible, or where other stakeholders cannot or will not accept a common position.</p> <p><i>Risk mitigation.</i> Understanding the relative power and influence stakeholders will help in reconciling their claims on the project. Broad consensus for the reforms will ensure durability noting that all stakeholders are important but different stakeholders must be managed</p>

	<p>differently. Depending on their relative power, importance and influence, the PFM Reform Coordinator (‘transition manager’) will seek to build a coalition of change agents by adopting various communication and participation methods: inform, consult, involve, collaborate or empower. Key constituencies such as parliamentarians, the media, CSOs, Think-Tanks and academia will be meaningfully engaged by involving them through strategic communication via radio and TV discussions. The “Islands of Excellence/Effectiveness” concentrated in MoF who may tend to capture resources (financial and technical assistance) will be expanded to de-concentrated line ministries responsible for service delivery to improve inclusiveness and hence buy-in for the reforms.</p> <p>In circumstances of significant conflicts of interest, the PFM Reform Oversight Committee will draw on political power from the Presidency to deal with the resistance to change. Over-ambitious change plans tend to fail; therefore, the reform will be incremental and gradual so that stakeholders are not overwhelmed.</p>
<p>9. Other (Security)</p>	<p>Additional context-specific risks not captured in the other categories. In the context of Somalia, security risks will always be included in project-level risk management frameworks - Rating: High</p> <p>Insecurity (high)</p> <p>Insecurity poses a risk to human security (WB staff and client) and project implementation and sustainability. It creates severe limitations on access to the operating environment, which in turn elicits a number of additional project risks, creating challenges for project design, implementation and monitoring. The spate of recent bombings in Mogadishu, some close to Villa Somalia targeting Government officials and Legislators will discourage consultants to accept assignments and therefore slow down the pace reforms. The security costs will also significantly increase the overall cost of the reforms.</p> <p><i>Risk mitigation.</i> The Bank team will operate in close consultation with the corporate security department in the Bank’s Goods and Services Department (GSD) and under the UN umbrella provided by the Department of Safety and Security. GSD has already undertaken assessment missions to the three regions and has issued advice which is being implemented and a follow-up mission is under preparation by GSD to update the information, review what other agencies are doing and assess prospects for longer-term presence on the ground. An arrangement is under discussion with a third party firm to which risk can be transferred when hiring Bank consultants. These arrangements are widely in place for other UN agencies⁸⁵. In addition, GSD is considering hiring a security agent to help manage the day to day missions of World Bank staff to</p>

⁸⁵ Based on World Bank security guidance, Bank staff and consultants are currently permitted to travel to the airport in Mogadishu. Movement to Villa Somalia is permitted on a case by case basis depending on mission criticality and the security situation at that time.

	<p>Mogadishu.</p> <p>The security/logistics firm hired by MoF and that by the Bank will provide reasonable security for in-country presence to implement the reforms.</p> <p><i>Political crisis / breakdown (high)</i> Challenges to state authority by anti-government elements could delay or block project implementation. Moreover, it runs the risk of undoing progress achieved through the project.</p> <p><i>Risk mitigation.</i> The CMU will monitor the political and security environment, in collaboration with UNDSS. In the case of acute political crisis or breakdown, the project will need to be put on hold and potentially discontinued, based on the severity of the situation.</p>
Overall	<p>The overall risk rating for the project is high. The government is unfamiliar with the World Bank operating and fiduciary requirements and has weak capacity to manage projects. The history of bad governance and corruption risks are high but the new government has so far expressed desire that going forward it will not be “business as usual”.</p>

Annex 5: Implementation Support Plan

SOMALIA

Public Financial Management Capacity Strengthening Project II (P151492) Strategy and Approach for Implementation Support

35. The strategy for implementation support has been developed based on the nature of the program and its risk profile. The task team will aim at making implementation support to the client flexible and efficient by focusing on monitoring of the risk mitigation measures defined in the SORT.

36. Formal implementation support missions will be carried out at least quarterly and will focus on:

- (a) **Client Relations.** The Task Team Leader will coordinate the Bank team to ensure project implementation is consistent with Bank requirements, as specified in the legal documents. He will meet with senior officials on a regular basis to keep them acquainted of project progress and issues requiring resolution by the PFM Reform Oversight Committee.
- (b) **Technical inputs.** Members of the task team with various skills set will review terms of reference and bid documents prepared by the client and during implementation support will review outputs to ensure that they meet the required technical specifications.
- (c) **Fiduciary requirements and inputs.** Training will be provided to the External Assistance Fiduciary Section to ensure compliance with the fiduciary covenants.

Implementation Support Plan

37. The main focus in terms of support to implementation would be as follows:

Time	Focus	Skills Needed	Resource Estimate (Staff Weeks/year)	
First 12 months	Team Leadership	Management, supervision, coordination	Task Team Leader (TTL)	1
	Technical	PFM Specialist Change Management Specialist ICT Specialist	Component Subject Matter Experts	6
	Procurement	Procurement experience, Banks procurement norms knowledge, training	Procurement Specialists	6
	Financial Management	FM experience, knowledge of Bank FM norms, training	FM Specialists	6
12-36 months	Team Leadership	Project management, supervision, coordination	Task Team Leader	9
	Technical	PFM Specialist Change Management Specialist ICT Specialist	Component Subject Matter Experts	6
	Procurement	Procurement reviews and supervision, training as needed	Procurement Specialists	6
	Financial Management	FM reviews and supervision, training and monitoring	FM Specialists	6

38. The following skills mix is required for implementation support:

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
1. Winston Percy Onipede Cole Sr. Financial Management Specialist (Task Team Leader, GGODR)	12 Staff Weeks/year	6/year	Nairobi based
2. Thilasoni Benjamin Musuku Sr. Financial Sector Specialist (GFMDR)	4 Staff Weeks/year	4/year	Washington based
3. Stephen Mugendi Mukaindo Counsel (LEGAM)	1 Staff Week/year	1/year	Nairobi based
4. Adenike Sherifat Oyeyiola Sr. Financial Management Specialist (GGODR)	2 Staff Weeks/year	2/year	Juba based
5. Leonard Mutuku Matheka Financial Management Short-term Consultant (GGODR)	4 Staff Weeks/year	4/year	Nairobi based
6. Christiaan Johannes Nieuwoudt Finance Office (CTRLA)	2 Staff Week/year	1/year	Nairobi based
7. Anjani Kumar Sr. Procurement Specialist (GGODR)	4 Staff Weeks/year	4/year	Juba based
8. John F. A Etidau Procurement Short-term Consultant (GGODR)	4 Staff Weeks/year	4/year	Nairobi based
9. Hugh Riddell Sr. Operations Officer (AFCE4)	1 Staff Week/year	2/year	Nairobi based
10. Ikechi B. Okorie Sr. Operations Officer (GGODR)	2 Staff Week/year	1/year	Washington based
11. Geoff Handley Consultant (GGODR)	4 Staff Weeks/year	2/year	Nairobi based
12. Matthias Mayr ET Consultant (AFCE4)	3 Staff Week/year	1/year	HQ based
13. Wolfhart Pohl Adviser (GCFDR)	1 Staff Week/year	1/year	HQ based
14. Timothy John Charles Kelly Lead ICT Policy Specialist (DECWD)	3 Staff Week/year	2/year	HQ based
15. Ousman Abdulahi Ali Consultant (GPVDR)	4 Staff Weeks/year	2/year	Nairobi based
16. Caroline Nelima Wambugu Team Assistant (AFCE2)	2 Staff Weeks/year	1/year	Nairobi based
17. Salome Awuor Aganda E T Temporary (AFCE4)	2 Staff Weeks/year	1/year	Nairobi based

Partners

<i>Name</i>	<i>Institution/Country</i>	<i>Role</i>
1. Lervåg, Astrid	Norway, Astrid.Lervag@mfa.no	Counsellor, Co-chair PSG 5 WG
2. Alessia Riccardi	Desk Somalia, Development Cooperation Office Embassy of Italy, somalia.nairobi@esteri.it	Co-chair of PSG 5 WG
3. Rowan Yamanaka 4. John Wearing	United Kingdom, DFID j-wearing@dfid.gov.uk	Economic Adviser Co-chair PSG 5 PFM sub-group
5. Katarina Motoskova	Delegation of the European Union to Somalia katarina.motoskova@eeas.europa.eu	Delegation of the European Union
6. Per Karlsson	Somalia Section, Embassy of Sweden per.h.karlsson@gov.se	Senior Programme Manager
7. Victor Ndisale	African Development Bank (AfDB), v.ndisale@afdb.org	Senior Economist
8. Albert Soer 9. Anka Kitunzi 10. James Mugambi	UNDP, albert.soer@undp.org UNCDF, anka.kitunzi@uncdf.org UN-HABITAT, James.Mugambi@unhabitat.org	UNDP UNCDF IT Officer
11. Tye Ferrell 12. Julie Limoges	USAID, tferrell@usaid.gov US Embassy	USAID US Embassy
13. Liisamaria Keates	Embassy of Finland liisamaria.keates@formin.fi	Counsellor

Annex 6: Project Phasing and Sequencing

39. The projects to support the PFM reform program are focused on re(establishing) and in some areas strengthening the core PFM institutions and their systems and processes in an incremental phased manner in line with ‘Good Practice Note on Sequencing of PFM Reforms (Jack Diamond, 2013⁸⁶). The reform activities aim to first tackle the main PFM bottlenecks to financial compliance/fiscal control and then gradually introducing measures for strategic allocation and use of funds and probity for administrative and political accountability.

40. Grant Agreements will be signed based on available funding. Proper sequencing of activities will be done by drilling down on the high-level indicative work schedule in table 12. Support to external scrutiny and procurement stream of work will build on work done so far by UNDP-SIDP in the Federal Government and Puntland. Considering the dynamic operating environment, subsequent phases will be developed based on lessons learnt. Detailed component/sub-components annual work packages will be developed by the Component Implementation Teams for the various activities that will be properly sequenced with flexibility to make adjustments to meet emerging challenges and seize opportunities in the reform space.

⁸⁶ [https://www.pefa.org/sites/pefa.org/files/v8-Good_Practice_Note_on_Sequencing_PFM_Reforms_\(Jack_Diamond_January_2013\)_0.pdf](https://www.pefa.org/sites/pefa.org/files/v8-Good_Practice_Note_on_Sequencing_PFM_Reforms_(Jack_Diamond_January_2013)_0.pdf)

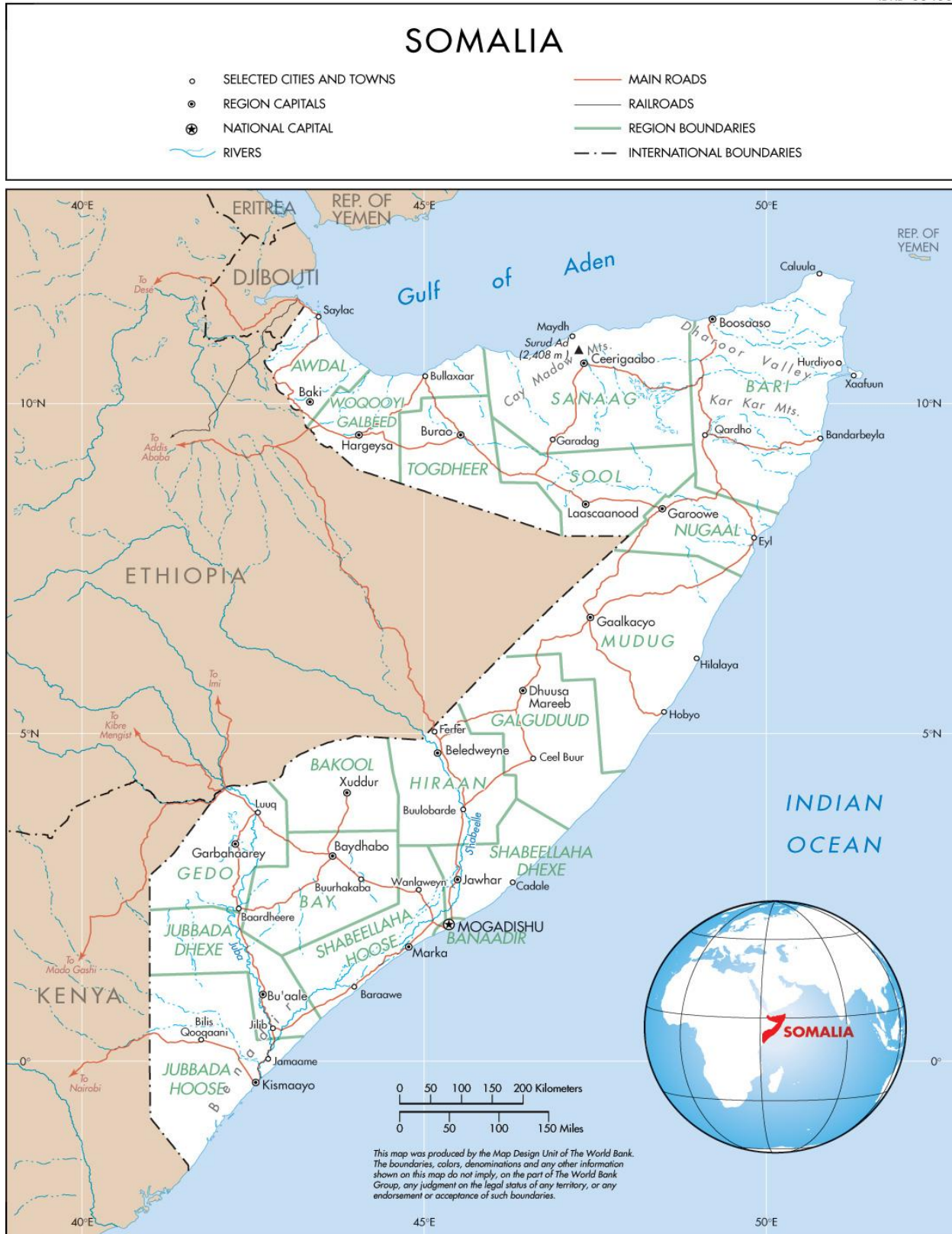
Table 12: High-level Indicative Work Schedule

High-level indicative work schedule	2015		2016				2017				2018			Totals	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3		
1. Macro-fiscal policy formulation, revenue mobilization, planning and budget preparation														2,750	
1.1 Strengthening planning and budget preparation	105	105			105				105	105	105			630	
1.2 Revenue mobilization and tax administration	400	400	400	100	100	100		80	100	120	100	120	100	2,120	
2. Treasury management, budget execution, procurement, accounting and financial reporting														9,880	
2.1 & 2.2 Treasury management and budget execution; accounting and financial reporting; PFM legal framework; and Comprehensive Operating Procedures Manual (COPM)	500	500		500		500		200		100		100	100	2,500	
2.3 Concessions, procurement and contract management	200	100			100	100			100	100	100	100	100	1,000	
2.4 Bespoke Financial Management Information System (FMIS); Primary Data Center (PDC); Disaster Recovery Center (DRC) – including Somaliland Grade 'A' Districts and Hargeisa Water Agency (HWA)	750	750	750		300	300	300		250	180	250	250	300	4,380	
2.5 Modernizing Central Bank of Somalia banking operations and financial control environment	500	600	300			100	200			100		100	100	2,000	
3. Strengthening the integrity pillars														1,945	
3.1 Foundations for Supreme Audit Institution (SAI)	300	300	300			200	200			200		150	145	1,795	
3.2 Planning, Finance, Budget and Public Accounts Committee (PAC)		25	25			15	10		25	25	25			150	
4. PFM professionalization														1,000	
4.1 Fees for faculty from the participating universities and course administration expenses	50				50				50		50			200	
4.2 WYG Consortium remuneration and reimbursable expenses; CIPFA teaching and learning materials for certificate, diploma and professional stages; student registration/examination fees including re-sits; training of participating universities' faculty; registration/examination fees for tutors from 2 participating universities per 'region'	40	20	20	10	10	20	20	10	10	10	10	10	10	200	
4.3 Procurement stream by International Training Centre of the International Labour Organization (ITC-ILO)	150	100		50		50		50						400	
4.4 Upgrading of ICT infrastructure and other logistics support for participating universities	200													200	
5. PFM reform oversight, coordination and management														2,925	
5.1 Reform Oversight Committee (ROC), Technical Steering Committee (TSC), PFM Reform Coordinating Unit (PFMRCU) related expenses; communication & change management; general workshops, seminars and training; translation of docs; operational expenses; bank charges etc	225	100	100	100	100	100	200	200	200	200	200	100	100	1,925	
5.2 Association of Somali Professional Accountants (ASPA)	25	50	20	30	25	30	20							200	
5.2 Security and logistics	200	50	100	75	100	50	50	50	25	25	25	25	25	800	
6. Demand-driven Just-in-Time support (JIT) (Bank Executed)														1,000	
6.1 Social Accountability; Non-state actors; Citizen engagement; Open Government Data platform including data migration; and Public Expenditure Tracking Surveys (PETS)	100		100		100		100				100			500	
6.2 PFM Reviews; CATT; PEFA/Code of Good Practices on Fiscal Transparency and Advisory Notes	100	100		50					100	50		50	50	500	
Unallocated (performance based and physical/price adjustments)														500	
	\$ (000s)	3,845	3,200	2,115	915	990	1,565	1,100	590	965	1,215	965	1,005	1,030	20,000

41. Detailed component/sub-components annual work packages will be developed by the Component Implementation Teams for the various activities that will be properly sequenced with flexibility to make adjustments to meet emerging challenges and seize opportunities in the reform space.

Annex 7: Somalia Official Map

IBRD 33483



NOVEMBER 2004