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Report No: PAD2958

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GRANT

IN THE AMOUNT OF SDR 42.8 MILLION  
(US\$60 MILLION EQUIVALENT)

AND ON A

PROPOSED ADDITIONAL GRANT FROM THE SOMALIA MULTI-PARTNER FUND  
IN THE AMOUNT OF US\$2 MILLION

TO THE

FEDERAL REPUBLIC OF SOMALIA

FOR THE

RECURRENT COST AND REFORM FINANCING PROJECT

August 29, 2018

Governance Global Practice  
Africa Region

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## CURRENCY EQUIVALENTS

Exchange Rate Effective Jul 31, 2018

Currency Unit = Somali Shillings

Somali Shillings = US\$1

578.49948803

US\$1 = SDR 0.71180963

## FISCAL YEAR

January 1 - December 31

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Practice Manager: Nicola J. Smithers

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## ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AMISOM	African Union Mission in Somalia
ASA	Advisory Services and Analytics
BCC	Behavior Change Communication
BRA	Benadir Regional Authority
CBS	Central Bank of Somalia
CBHW	Community-based Health Worker
CIM	Capacity Injection Mechanism
CIP	Capacity Injection Project
CIPFA	Chartered Institute of Public Finance and Accountancy
CMU	Country Management Unit
CoFOG	Classification of Government Functions
COPM	Comprehensive Operating Procedures Manual
CPF	Country Partnership Framework
DA	Designated Account
DEO	District Education Officer
DLI	Disbursement Linked Indicator
DLR	Disbursement Linked Result
DHIS-2	District Health Information System-2
DPs	Development Partners
DRM	Domestic Revenue Mobilization
DRM & PFM	Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project
EAFS	External Assistance Fiduciary Section
EEF	Eligible Expenditure Framework
EEP	Eligible Expenditure Program
EFT	Electronic Funds Transfer
EMIS	Education Management Information Systems
EPHS	Essential Package of Health Services
ESSP	Education Sector Strategic Plan
EU	European Union
FCV	Fragility, Conflict and Violence
FHW	Female Health Worker
FGC	Somalia Financial Governance Committee
FGS	Federal Government of Somalia
FM	Financial Management
FMFF	Finance Ministers' Fiscal Forum (political level)
FMS	Federal Member States
FY	Fiscal Year
GAVI	Global Alliance for Vaccines and Immunization
GBV	Gender-based Violence
GDP	Gross Domestic Product
GRM	Grievance Redress Mechanism
GSS	Galmudug State of Somalia
HIPC	Heavily Indebted Poor Countries
HMIS	Health Management Information System
HR	Human Resources
HRM	Human Resource Management
HSS	Hirshabelle State of Somalia
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IFIs	International Finance Institutions

IFR	Interim Unaudited Financial Reports
IGFF	Inter-governmental Fiscal Forum (technical level)
IGFR	Inter-governmental Fiscal Relations
IMF	International Monetary Fund
IP	Implementation Progress
IPF	Investment Project Financing
IPSAS	International Public-Sector Accounting Standards
ISN	Interim Strategy Note
ISR	Implementation Status and Results Report
IVA	Independent Verification Agent
JHNP	Joint Health and Nutrition Program
JNA	Joint Needs Assessment
JSS	Jubbaland State of Somalia
NGO	Non-governmental Organization
M&E	Monitoring and Evaluation
MA	Monitoring Agent
MDA	Ministries, Departments and Agencies
MoE	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
MoU	Memorandum of Understanding
MS4SSA	Math and Science for Sub-Saharan Africa
MTO	Money Transfer Operator
MU	Moderately Unsatisfactory
OAG	Office of the Accountant General
OAuG	Office of the Auditor General
OPM	Office of the Prime Minister of the Federal Republic of Somalia
PACG	Pre-arrears Clearance Grants
PAD	Project Appraisal Document
PDO	Project Development Objective
PER	Public Expenditure Review
PFM	Public Financial Management
PFMCSP II	Second Public Financial Management Capacity Strengthening Project
PFMRCU	Public Financial Management Reform Coordination Unit
PIU	Project Implementation Unit
POM	Project Operations Manual
PP	Procurement Plan
PPSD	Project Procurement Strategy for Development
PREMIS	Public Resource Management in Somalia
PSS	Puntland State of Somalia
QA	Quality Assurance
RCRF	Recurrent Cost and Reform Financing
REO	Regional Education Officer
RRA	Risk and Resilience Assessment
SCD	Systematic Country Diagnostics
SCoA	Standard Chart of Accounts
SDG	Sustainable Development Goal
SDR	Special Drawing Rights
SFMIS	Somalia Financial Management Information System
SMP	Staff Monitored Program
SMPF	Somalia Multi-Partner Fund
STEP	Systematic Tracking of Exchanges in Procurement
SWSS	South West State of Somalia

T&A	Time and Attendance
TA	Technical Assistance
TCC	Transmitter Control Code
ToR	Terms of Reference
TIN	Taxpayer Identification Number
TSA	Treasury Single Account
TTL	Task Team Leader
US\$	United States Dollars
UK	United Kingdom
UNICEF	United Nations International Children's Emergency Fund
VA	Verification Agent
WCO	World Customs Organization



**BASIC INFORMATION – PARENT (Somalia Recurrent Cost & Reform Financing Project - Phase 2 - P154875)**

Country Somalia	Product Line Recipient Executed Activities	Team Leader(s) Geoff Handley		
Project ID P154875	Financing Instrument Investment Project Financing	Resp CC GGOAE (9748)	Req CC AFCE1 (6541)	Practice Area (Lead) Governance

Implementing Agency: Ministry of Education, Federal Government of Somalia

Is this a regionally tagged project?	
No	

Bank/IFC Collaboration	
No	

Approval Date 25-Jun-2015	Closing Date 30-Jun-2020	Original Environmental Assessment Category Not Required (C)	Current EA Category Not Required (C)
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**Financing & Implementation Modalities**

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



**Development Objective(s)**

The objective of the Project is to support the Recipient to provide credible and sustainable payroll, and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the Federal Government and eligible federal member states and interim and emerging administrations.

**Ratings (from Parent ISR)**

	Implementation			Latest ISR
	09-Nov-2015	29-Jun-2016	01-Aug-2017	29-Jun-2018
Progress towards achievement of PDO	S	S	S	S
Overall Implementation Progress (IP)	MS	MS	MS	S
Overall Safeguards Rating				
Overall Risk	H	H	H	H

**BASIC INFORMATION – ADDITIONAL FINANCING (Recurrent Cost & Reform Financing Project - Additional Financing - P167224)**

Project ID P167224	Project Name Recurrent Cost & Reform Financing Project - Additional Financing	Additional Financing Type Restructuring, Scale Up	Urgent Need or Capacity Constraints Yes
Financing instrument Investment Project Financing	Product line IBRD/IDA	Approval Date 25-Sep-2018	
Projected Date of Full Disbursement 30-June-2022	Bank/IFC Collaboration No		






Is this a regionally tagged project?	
No	

**Financing & Implementation Modalities**

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

**Disbursement Summary (from Parent ISR)**

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed
Grants	86.00	62.01	23.99	 72 %

**PROJECT FINANCING DATA – ADDITIONAL FINANCING (Recurrent Cost & Reform Financing Project - Additional Financing - P167224)**

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

**SUMMARY (Total Financing)**

	Current Financing	Proposed Additional Financing	Total Proposed Financing
<b>Total Project Cost</b>	144.00	62.00	206.00
<b>Total Financing</b>	144.00	62.00	206.00
<b>of which IBRD/IDA</b>	0.00	60.00	60.00
<b>Financing Gap</b>	0.00	0.00	0.00



**DETAILS - Additional Financing**

**World Bank Group Financing**

International Development Association (IDA)	60.00
IDA Grant	60.00

**Non-World Bank Group Financing**

Trust Funds	2.00
Somalia Multi-Partner Fund	2.00

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

	Credit Amount	Grant Amount	Total Amount
National PBA	0.00	60.00	60.00
<b>Total</b>	<b>0.00</b>	<b>60.00</b>	<b>60.00</b>

**COMPLIANCE**

**Policy**

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

Yes  No

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

Yes  No

**INSTITUTIONAL DATA**

**Practice Area (Lead)**

Governance

**Contributing Practice Areas**

Education

Finance, Competitiveness and Innovation

Health, Nutrition & Population

Macroeconomics, Trade and Investment

**Climate Change and Disaster Screening**

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

**Gender Tag**

Does the project plan to undertake any of the following?

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

Yes

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

Yes

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

Yes

**PROJECT TEAM****Bank Staff**

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<b>Extended Team</b>			
<b>Name</b>	<b>Title</b>	<b>Organization</b>	<b>Location</b>



SOMALIA

RECURRENT COST AND REFORM FINANCING PROJECT - ADDITIONAL FINANCING

TABLE OF CONTENTS

<b>I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING .....</b>	<b>9</b>
<b>II. DESCRIPTION OF ADDITIONAL FINANCING .....</b>	<b>16</b>
<b>III. KEY RISKS .....</b>	<b>32</b>
<b>IV. APPRAISAL SUMMARY .....</b>	<b>36</b>
<b>V. WORLD BANK GRIEVANCE REDRESS .....</b>	<b>42</b>
<b>VI. SUMMARY TABLE OF CHANGES .....</b>	<b>43</b>
<b>VII. DETAILED CHANGE(S).....</b>	<b>43</b>
<b>VIII. RESULTS FRAMEWORK AND MONITORING .....</b>	<b>49</b>
<b>ANNEX 1: RCRF POLICY BENCHMARKS, 2018* .....</b>	<b>67</b>
<b>ANNEX 2: WORLD BANK-EU PERFORMANCE BENCHMARKS/DLIS .....</b>	<b>70</b>
<b>ANNEX 3: WORLD BANK DISBURSEMENT-LINKED INDICATORS.....</b>	<b>75</b>
<b>ANNEX 4: FINANCIAL MANAGEMENT IMPLEMENTATION ARRANGEMENTS.....</b>	<b>83</b>
<b>ANNEX 5: COMPREHENSIVE RISK MANAGEMENT APPROACH FOR RCRF.....</b>	<b>91</b>
<b>ANNEX 6: PROCUREMENT IMPLEMENTATION ARRANGEMENTS.....</b>	<b>92</b>

LIST OF TABLES

<b>TABLE 1: SUMMARY OF PROPOSED DLIS, DLRS, AND ASSOCIATED DELIVERY SUPPORT* .....</b>	<b>16</b>
<b>TABLE 2: COMPONENT ALLOCATIONS AND INDICATIVE BUDGET FOR RCRF II AF.....</b>	<b>18</b>
<b>TABLE 3: PARENT PROJECT COMPONENTS CAPTURED IN THE AF .....</b>	<b>19</b>
<b>TABLE 4: ELIGIBLE EXPENDITURE PROGRAM FOR DLIS – PROJECTED FGS CIVIL SERVICE WAGE BILL GROWTH AND SHARE OF RCRF .....</b>	<b>21</b>
<b>TABLE 5: KEY HEALTH INDICATORS: SOMALIA AND SUB-SAHARAN AFRICA.....</b>	<b>26</b>
<b>TABLE 6: FM ACTION PLAN TO ADDRESS MU RATING.....</b>	<b>40</b>
<b>TABLE 7: SUMMARY TABLE FOR RCRF POLICY BENCHMARKS PER 2018 POLICY REVIEW.....</b>	<b>67</b>
<b>TABLE 8: OVERVIEW OF WORLD BANK-EU BENCHMARKS/DLI BY RESULTS AREA .....</b>	<b>70</b>
<b>TABLE 9: DETAILED LIST OF WORLD BANK-EU BENCHMARKS/DLI BY RESULTS AREA .....</b>	<b>71</b>



<b>TABLE 10: RCRF II AF DLI MATRIX.....</b>	<b>75</b>
<b>TABLE 11: RCRF II AF DLI VERIFICATION PROTOCOL TABLE .....</b>	<b>79</b>
<b>TABLE 12: ELIGIBLE EXPENDITURES FOR IDA GRANT AND SMPF GRANT.....</b>	<b>88</b>
<b>TABLE 13: KEY FIDUCIARY RISKS AND MITIGATION MEASURES.....</b>	<b>89</b>
<b>TABLE 14: RCRF RISK MANAGEMENT ARRANGEMENTS .....</b>	<b>91</b>
<b>TABLE 15: PROCUREMENT RISKS AND MITIGATION MEASURES.....</b>	<b>95</b>
<b>TABLE 16: THRESHOLDS FOR PROCUREMENT APPROACHES AND METHODS.....</b>	<b>96</b>

**LIST OF FIGURES**

<b>FIGURE 1: FUND FLOWS DIAGRAM RCRF II.....</b>	<b>86</b>
<b>FIGURE 2: TOTAL FGS WAGE BILL AND SIZE .....</b>	<b>88</b>

**LIST OF BOXES**

<b>BOX 1: COMPREHENSIVE APPROACH TO RISK MANAGEMENT.....</b>	<b>35</b>
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## I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

### A. Introduction

1. **This Project Paper seeks the approval of the Executive Directors to provide Additional Financing (AF) in the amount of US\$60 million equivalent to the Federal Republic of Somalia** for the Recurrent Cost and Reform Financing operation phase 2 (RCRF II AF-P167224), financed from the International Development Association (IDA) resources, which are available as part of the exceptional allocation of Pre-arrears Clearance Grants (PACG) for Somalia. In addition, this Project Paper seeks the approval of the Africa Regional Vice President for an additional US\$2 million of the Somalia Multi-Partner Fund (SMPF) trust fund grant (TF083270). The total value of additional resources under this Project Paper is therefore US\$62 million. The proposed AF will include restructuring of the parent project Somalia Recurrent Cost and Reform Financing Project - Phase 2 (P154875).

2. **The project is proposed to be restructured to further support and incentivize the reform process associated with establishing core government functions, providing inter-governmental fiscal transfers and developing the foundational mechanisms for service delivery in health and education.** The parent project, funded through the SMPF, was approved by the World Bank Regional Vice President for Africa on June 25, 2015 in the amount of US\$144 million. The project became immediately effective on July 2, 2015 with a first disbursement on July 10, 2015. Before the parent project, the first phase of the RCRF ran as a one-year project to test the systems for on-budget recurrent cost financing, as well as piloting the use of the monitoring agent (MA). To date, while the overall parent project amount is US\$144 million, Grant Agreements have been signed for an available amount of US\$86 million, which is currently allocated to the project. The remaining US\$58 million is committed under the SMPF allocation, and while approved for the parent project, was not available for use under it. This amount will now be added to the US\$62 million for the AF. Thus, available funding under the restructured project equals US\$120 million (US\$62 million of AF, and US\$58 million from the agreed allocation under the SMPF) as part of the proposed restructuring, making the total cost of the project US\$206 million.

3. **This Project Paper proposes to restructure the project to:** (i) revise the Project Development Objective (PDO) to reflect the proposed revisions in the project focus for the proposed AF and; (ii) revise the disbursement arrangements to introduce Disbursement Linked Indicators (DLIs) under Sub-component 1.3. to provide incentives for sustained reform efforts in the areas of focus of the project; (iii) revise the component structure to reflect changes in the scope of the project and provide a clearer sense of total transfers to eligible Federal Member States (FMS); (iv) adjust the results framework to reflect the changes in the scope; and (v) extend the closing date by two years to June 30, 2022. The activities are consistent with the original PDO and are strategically aligned with Somalia's most recent Interim Strategy Note (ISN) fiscal year (FY) 2014-2016<sup>1</sup>, its Systematic Country Diagnostics (SCD)<sup>2</sup>, and the forthcoming Country Partnership Framework (CPF)<sup>3</sup>. Hereafter the Project Paper describes the available funding of US\$120 million.

4. **Somalia is in urgent need of assistance due to the protracted conflict, extremely low fiscal capacity, inequitable geographic distribution of resources, and the need for a 'step change' in assistance to support the Federal Government of Somalia (FGS) in reaching the Heavily Indebted Poor Countries (HIPC) Decision Point.**

<sup>1</sup> P124647, report number 39951-SO.

<sup>2</sup> P155548, report number 123807-SO.

<sup>3</sup> P165624, report number 124734-SO.



The proposed AF is being processed in accordance with the condensed procedures outlined in Paragraph 12 Section III of the World Bank Investment Project Financing (IPF) Policy, and Paragraph 56 of Section III of the IPF Directive: Exceptional Arrangements in Situations of Urgent Need of Assistance or Capacity Constraints.

5. **The proposed AF is fully compliant with World Bank procedures that are set out for parent project - proposed AF in the context of ongoing, well-performing projects.** The parent project is currently rated as Satisfactory for both progress towards achievement of the PDO and Implementation Progress (IP). The legal covenants are substantially met under the original project, and there is substantial compliance with financial management (FM) arrangements, and with the respective legal covenants. The parent project includes a requirement for the FGS to recruit an independent verification and evaluation agent to certify eligibility of the expenditures upon which payments are made. In the course of implementation support the World Bank has used a third-party MA to conduct this role.

### **Background and alignment**

6. **Somalia has achieved significant progress in laying the foundations for stability and development; however, political and institutional gains must have tangible benefits for people if Somalia's transition is to hold.** The CPF for the period FY19 to FY22 aims to increase citizens' access to services and help restore economic resilience – laying the foundations for longer-term poverty reduction and inclusive growth. The CPF is based on an analytical framework elaborated in the recently-concluded SCD as well as the outcome of country level dialogue between the World Bank Group, its Somali partners and the international community.

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

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

9. **With debt arrears outstanding, Somalia is ineligible for regular concessional financing from IDA and other International Finance Institutions (IFIs) – but the World Bank Group's re-engagement in 2012 funded by the SMPF has helped stabilize institutions and initiate IFI normalization.** With support of eleven donors<sup>4</sup>, the SMPF has enabled the World Bank to support the strengthening of federal institutions and establishment of basic economic regulatory foundations, including through the RCRF. The SMPF will remain the core financing vehicle under the CPF – but will be complemented in FY19 by an exceptional allocation of IDA PACGs targeting the key milestones to reach Decision Point under the HIPC Initiative. Provided reform momentum continues,

<sup>4</sup> European Union, United Kingdom, Germany, Sweden, Norway, Denmark, Switzerland, Finland, United States, Italy, World Bank State- and Peace-building Fund.





the Decision Point is feasible within the CPF period, which would allow Somalia access to regular concessional resources from IDA and other IFIs, together with investment of private capital from the International Finance Corporation (IFC).

10. **The World Bank's ongoing Governance operations will contribute to the CPF focus area of building institutions to deliver services, and ultimately in reaching HIPC Decision Point.** The proposed AF is funded in large part by the exceptional allocation of IDA's PACGs which is being used to scale-up two ongoing Governance projects, namely: The Domestic Revenue Mobilization and Public Financial Management Capacity Strengthening Project or "DRM&PFM" AF (co-financed by US\$20 million equivalent from IDA PACG and US\$10 million from SMPF), and the RCRF II AF (US\$60 million IDA PACG and US\$60 million SMPF<sup>5</sup>). Fundamentally, the DRM&PFM AF operation will, building upon the foundations already laid by the parent project's early successes, strengthen the systems for revenue mobilization and expenditure management to ensure both increased revenue collection and to help the governments to spend it wisely. RCRF AF will provide recurrent cost finance for continued fiscal stability and support FGS and FMS and eligible interim and emerging FMS to deliver tangible education and health services to citizens. Working together, both operations will contribute to building state legitimacy and an increasingly coherent federal structure for service delivery.

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

11. **Addressing the multi-faceted governance challenges in Somalia requires the adoption of approaches, which are: highly innovative, flexible and balance short-, medium- and long-term reform strategies and manage high transaction costs with multiple clients.** The Troika<sup>6</sup> of World Bank governance-focused projects provides a foundation that is premised on the 2011 World Development Report, with a focus on strengthening legitimate institutions and governance as an essential precondition for the provision of security, justice and jobs for citizens – all of which are central to breaking the cycles of violence and setting the path towards economic development.

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

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

13. **The parent project was approved on June 25, 2015 and became effective on July 2, 2015 with a first disbursement on July 10, 2015.** In advance of the scaled up RCRF II, RCRF I ran as a one-year project to test the

<sup>5</sup> As outlined in paragraph one and two, SMPF Additional Financing is composed of US\$2 million in new contributions and US\$58 million of already approved funds under the parent project.

<sup>6</sup> The *Troika* of Governance-focused projects include: (i) The Capacity Injection project (CIP) (P149971) with the objective of strengthening the staffing and institutional capacity of selected line ministries and central agencies; (ii) the RCRF Project (P154875), aimed at providing credible and sustainable payroll and to establish the foundation for efficient budget execution and payment systems for the non-security sectors; and (iii) the PFM Capacity Strengthening Project (PFMCSP II, P151492) which focused on improving the institutional capacity of central finance agencies.



systems for on-budget recurrent cost financing, as well as piloting the use of the MA. As noted above, so far Grant Agreements in the amount of US\$86 million have been signed under RCRF II. Out of these funds, about 72 percent has been disbursed as of August 2018, with a remaining undisbursed balance of US\$24 million. The project is currently scheduled to close on June 30, 2020.

14. **Progress towards achievement of the PDO is currently rated as *Satisfactory*, with significant results observed in terms of payroll credibility and establishment of core government functions.** The PDO is ‘to support the Government to provide credible and sustainable payroll, and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the Federal Government, Eligible Federal Member States and Interim and Emerging Administrations’. Since initiation, the project has helped sustain and strengthen government focus on payroll accountability, fiscal stability, revenue mobilisation, budget execution and inter-governmental relations. Starting in 2016, but formalised in 2017, the project introduced benchmarks. The project reform benchmarks have delivered important reforms by making additional headroom available for financing of the FGS civil service wage bill conditional upon achievement of policy benchmarks. Major successes during 2017 included: (i) shift from cash-based payment of salaries and allowances to bank account payment for certain categories of Ministry of Finance (MoF) employees; (ii) bringing revenue collection at Mogadishu International Airport (visas) and Ministry of Industry and Commerce (business licenses) under MoF control; and (iii) pioneering inter-governmental fiscal harmonization agreement signed for ‘sin taxes’ and departure tax. By involving the Office of the Prime Minister (OPM) in developing the benchmarks and tracking reform progress, this approach has elevated the level of political attention on difficult technical reforms. For example, the Prime Minister played a crucial role in enabling the MoF team to take over revenue collection for visa fees from the Immigration Department at Mogadishu International Airport. The client is therefore requesting increased results-based financing from the Project to build upon this successful model.

15. The project activities have been implemented through the following four components:

16. **Component 1: Support to Core Government Functions in Ministries, Departments and Agencies of the Federal Government of Somalia.** This component includes financing of eligible civil service salaries in non-security sectors in FGS, financing of salaries and allowances for government staff and graduates recruited under the capacity injection mechanism (CIM)<sup>7</sup>, and eligible non-salary recurrent costs. It aims to support the payment of salaries for non-security civil servants on a declining scale. This is a reform area requiring progress across multiple public-sector agencies in several areas including: (i) budgeting; (ii) procurement; (iii) treasury authorization; and (iv) payment systems. As designed, it was expected that the contribution to salary payments by the project under this sub-component would be zero by 2020.

17. **Component 2: Inter-Governmental Fiscal Transfers for Core Government Functions in Eligible Federal Member States and Interim and Emerging Administrations.** This component includes financing of transfers to interim and emerging states for core government functions under Sub-component 2.1. The project has already been providing support to Puntland State of Somalia (PSS) and Jubbaland State of Somalia (JSS) and, following the conclusion of readiness assessments and the signature of inter-governmental agreements with FGS, has expanded support to Galmudug State of Somalia (GSS) and South West State of Somalia (SWSS) in late 2016. The newest FMS – Hirshabelle State of Somalia (HSS) – has recently applied to benefit from RCRF, and will join in the coming months, pending the completion of satisfactory readiness assessments. In addition, under Sub-component 2.2, support is provided for the inter-governmental fiscal forum. RCRF is aiming to support the

<sup>7</sup> The CIM facilitates recruitment and placement of qualified Somalis in critical strategic functions in targeted institutions in FGS and PSS, with focus on the most important staffing priorities of the Government. The Mechanism is implemented through the Somalia CIP (P149971), while financing for salaries is initially provided under RCRF II, with a shift to domestic financing ongoing.



Government to lay the foundations for a system of inter-governmental dialogue, and associated resource transfers. This is intended to strengthen inter-governmental trust, and, ultimately, to promote fiscal arrangements that promote greater equity in resource distribution among FGS and FMS. Following agreements reached to institutionalize the inter-governmental dialogue, an inter-governmental fiscal forum was formed, bringing together the FGS and FMS finance ministries to discuss issues of mutual interest, comprising both technical and ministerial levels, through the Inter-governmental Fiscal Forum (IGFF) and Finance Ministers' Fiscal Forum (FMFF) respectively.

18. **Component 3: Support for Recurrent Costs in Education and Health Sectors in Eligible Federal Member States and Interim and Emerging Administrations.** Following extensive preparatory work, support to salary payments to PSS teachers commenced in late 2016. Discussions and preparatory work with both the FGS and JSS regarding support to payment of government teachers in the Benadir Regional Authority (BRA) and JSS regions have been concluded successfully and the payment to teachers started in 2017. Despite a slow start and an initial focus on the education sector, the health team has made progress in commencing discussions around priorities in the health sector and how to support the systems for health service delivery as part of the expansion of the Project. The proposed AF will further build on these discussions and start financing health service related activities.

19. **Component 4: Project Management and Coordination.** This component finances External Assistance Fiduciary Section (EAES) consultants, workshops, seminars, training, travel, communications, translation of documents, operational expenses, bank charges etc.

20. **As noted above, the RCRF introduced a series of reform benchmarks with the FGS.** This approach has offered additional reform incentives in the form of variable levels of financing for the FGS civil service wage bill conditional upon achievement of reform benchmarks focused on the core areas where progress is required to reach HIPC Decision Point, namely: revenue, PFM and payment processes, and Inter-governmental Fiscal Relations (IGFR). The benchmark approach envisaged in the Project Appraisal Document (PAD) and Grant Agreement was initially operationalized in 2016, following the FGS' request for a discussion on the macro-assumptions underlying the sliding scale of salary payments. In response to this request a decision was reached – in consultation with SMPF donors – to provide an additional US\$4.5 million of financing for the FGS civil service wage bill in the context of fiscal and security pressures. This decision was however conditional on the agreed actions or benchmarks. This was followed by a further agreement – again in consultation with SMPF donors – for an additional US\$6 million in 2017 (with associated benchmarks), financed through reimbursement of eligible civil service salaries.<sup>8</sup> The introduction of reform benchmarks through the project, closely coordinated with both the World Bank's other governance system-strengthening-projects – i.e. the Second Public Financial Management Capacity Strengthening Project (PFMCSP II) and Capacity Injection Project (CIP) – and the IMF's SMP benchmarks, has helped to address some of these reform challenges. The proposed AF is introducing formal DLIs to incentivize reforms and build on the lessons from reform benchmarking in the project to date.

21. **The overall Implementation Status and Results Report (ISR) progress is rated Satisfactory.** In addition, the project management is rated Satisfactory and the procurement and monitoring and evaluation (M&E) are rated as Moderately Satisfactory. The project FM Implementation rating is Moderately Unsatisfactory (MU). The project does not have outstanding Interim Unaudited Financial Reports (IFRs) and external audit reports, and moreover, the verification mechanisms in place have not identified instances of ineligible expenditures. However, a MU rating has been given due to: (i) recurring inaccurate classification of the FGS salaries in the FGS

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<sup>8</sup> "Reimbursement" refers to a payment method whereby FGS finances a budgetary expenditure using domestic revenues, and seeks reimbursement under RCRF II, subject to review to determine eligibility of expenditures.



budget and financial reports; and (ii) delays in implementation of the recommendations of the Education Sector PFM/Fiduciary assessment, due to limited capacity and protracted decision-making. A related time-bound FM action plan is described in the Appraisal Summary below.

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

22. **The FGS has now requested AF of US\$120 million<sup>9</sup> for the RCRF Project to address fiscal constraints, sustain the reform effort over the next three years to help reach HIPC Decision Point, and increase the emphasis on education and health service delivery.** The proposed RCRF II AF is aimed at providing sustained incentives over the next three years for critical reforms in three main inter-related areas: (i) recurrent cost finance to reform resource management systems in FGS; (ii) strengthen IGFR; and (iii) increased education and health service delivery.

23. **Somalia's development trajectory has clearly improved in the last few years, and there is a real opportunity for Somalia to reach the HIPC Decision Point during the next three years.** Reaching Decision Point is a stated objective of Somalia's leadership, to unlock access to the World Bank's IDA window and other concessional financing sources. However, this will require sustained and strong commitment to reform and stability. Further, experience from implementing systems strengthening operations in Somalia to date has shown that reforms at Federal and Federal Member State level, while technically feasible, are sometimes delayed or blocked by non-technical issues. Analytical work and TA alone cannot always resolve these hard-to-implement reforms. It is therefore proposed to introduce a series of DLIs to strengthen the reform trajectory in Government over the duration of the operation.

24. **The early experience with reform benchmarks shows that performance incentives when well calibrated and aligned with other interventions, elevate policy dialogue on key reforms within Government, reinforce government's commitment, and leverage the wider World Bank portfolio.** The reform benchmarks agreed to date are deliberately relatively granular in nature (with a six-month implementation cycle). This reflects the fact that systems reform progress at FGS level has in recent years been taking advantage of short-term windows of opportunity. The MoF team of 'reform actors' suggested many of the benchmarks in areas where they were already undertaking work, but needed assistance in raising the level of support for the proposed reform within the Government. The reforms selected as benchmarks are broadly linked to the ongoing portfolio of World Bank projects, as well as the IMF SMP, but represent key intermediary reform steps. Choosing a reform step as a benchmark helped to get the MoF leadership as well as the OPM focused on key issues.

25. **Somalia is in urgent need of assistance due to the protracted conflict, extremely low fiscal capacity, inequitable geographic distribution of resources, and the need for a 'step change' in assistance to support the FGS in reaching Decision Point.** Despite progress at Federal level on revenue generation, both the FGS and FMS remain subject to chronic fiscal stress, with low revenues, and fluctuating grants from international partners. The FGS tax collection is limited to the capital of Mogadishu, whereas FMS Governments concurrently collect all of the available taxes in their respective jurisdictions. This lack of clear revenue assignment leads to both inefficiencies in tax administration and inequities of services among FMS, and between the FGS and FMS levels. Furthermore, since both the FGS and FMS budgets are under severe fiscal stress, the possibility of transferring services/functions among these different entities is limited, which only further entrenches inequities. FGS is also facing strong expenditure side fiscal pressures as it seeks to build legitimacy through timely payment of wages and salaries, provision of public goods such as improved security and education, and trust building measures between FGS and FMS such as inter-governmental transfers – i.e. by sharing resources in this way, the FGS

<sup>9</sup> Including \$58m that had been approved under the parent project but had not yet been made available, as noted in Para 2.



demonstrates its commitment to supporting the FMS to deliver services.

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

26. **Somalia has achieved significant progress in laying the foundations for stability and development; however, political and institutional gains must have tangible benefits for people if Somalia's transition is to hold.** Somalia's emerging federal institutions are working to generate dividends for people, by enabling access to basic services that offer economic opportunities for a fast-growing population. The RCRF is motivated by this critical agenda, linking the people to new institutions, achieving cooperation in the federation and applying resources based on results and reforms.

27. **The World Bank's ongoing Somalia Governance operations, including the proposed AF, will be helping Somalia deliver on the CPF focus of building sustainable institutions to deliver services, and ultimately in reaching HIPC Decision Point.** There are four key ways the RCRF II AF contributes to long-run fiscal sustainability. Firstly, the program is one element of a coordinated policy and financing framework supported by the World Bank, the EU's proposed budget support operation, and the IMF, whose SMP provides an overall macro-fiscal framework. Secondly, through its shift towards DLI-based financing, the RCRF II AF ensures financing is linked to reforms, and in particular to DRM and expenditure management measures supported by the DRM&PFM AF (P166206). Thirdly, the operation is being developed alongside a World Bank public expenditure review (PER) that will inform both the broader macro-policy dialogue (including on the medium-term civil service right-sizing and revenue and functional assignments) as well as the RCRF's own financing framework. Finally, the RCRF II AF supports the establishment of more sustainable education and health sector delivery and financing models. For obvious reasons, both sectors are currently directly financed by a range of donors and delivered through parallel non-state (non-governmental organizations [NGO] or private sector) agencies. The AF allows for an incremental transition of social sector financing, with roles for public and private actors that are informed by policy dialogue in appropriate sector coordination fora, including the FMFF. Despite these measures, the RCRF's sustainability risks remain and will sharpen as the project approaches its closing date; continual monitoring, policy dialogue and coordination with donors will play a key role in the management of this risk.

28. **Recognizing the Government's commitment to addressing female under-representation in the civil service, as articulated in the National Development Plan (2017-2019), the project will seek to integrate measures to improve retention, recruitment and payment of female civil servants across all sectors.** This will include development of an Eligibility Criteria on women's inclusion for new additions to the civil service payroll supported through the proposed AF. This may also include identification and development of key policies to enable women's recruitment and retention in civil service positions. This will also include specific targeting of women under Component 3 including investigation of measures to improve recruitment and retention of female teachers and dedicated focus on improving capacity of FHWs to enable improved access to basic services for women at the community-level.

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



management systems highly strategic at this time.

## II. DESCRIPTION OF ADDITIONAL FINANCING

### A. Overall Approach

30. **The RCRF II AF makes important operational adjustments to the program to reflect an evolving macro-fiscal context.** The overall approach to the RCRF II AF will seek to strengthen reform incentives through two mechanisms:

a. **Eligibility Criteria**, will be a simple and limited set of measures that both FGS and FMS must meet in order to continue benefiting from each project sub-component. The rationale for this is to promote basic system strengthening such as: inter-governmental relations, fiscal transparency (e.g. online publication of budget documents), and basic payroll and PFM controls. The eligibility criteria will be referenced in the Project Operations Manual (POM) and revised as part of the Annual Review process.

b. **DLIs for FGS** will be introduced to address binding constraints in the areas of focus of the reform benchmarks. Performance on these benchmarks, some of which will be associated with DLIs, will be reviewed twice per year as part of the RCRF review process, based on a detailed set of verification protocols and supported by an implementation Action Plan. A summary of DLIs is included in Table 1 below, and a full proposed set of DLIs is included at Table 10 in Annex 3.

31. **The introduction of DLIs in Component 1 aims to strengthen the reform incentives within RCRF and support strengthened policy dialogue around key reforms to meet HIPC Decision Point.** This approach builds on experience with reform benchmarking under the project to date. Following the recent issuance of IPF DLI guidance, the existing RCRF reform benchmarking approach is to be converted into an IPF-DLI approach from 2019 onwards. The identification of the DLIs is based upon a clear problem definition and a feasible reform trajectory over the medium-term (i.e. the next three years). It builds on an already established client dialogue around RCRF benchmarks which have been developed for 2017 and 2018 and seeks to ‘regularize’ this approach using the IPF DLI approach (see Annex 1 for a list of RCRF benchmarks for 2018).

Table 1: Summary of Proposed DLIs, DLRs, and Associated Delivery Support\*

<i>DLIs</i>	<i>Problem Statements [EU Coordination]</i>	<i>Theory of Change</i>	<i>Associated Delivery Support</i>
<b>DLI 1: Strengthen customs administration as per the customs reform action plan</b>	Poor systems capacity: organizational, technology, and workflows to support effective and efficient customs management and collection. [Joint with EU]	Improvements in customs management capacity will improve revenue collection and efficiency in processing increasing collection of customs.	- UK/EU/US Customs Revenue Project - World Bank advisory services in conjunction with World Customs Organization (WCO)
<b>DLI 2 Strengthen tax administration systems and staffing</b>	Poor systems capacity: organizational, technology, and workflows to support effective and efficient tax collection of both large and smaller tax payers. [Joint with EU]	Improvements in tax administration capacity will improve tax collection and efficiency in processing increasing collection of taxes from both large and small tax payers.	- World Bank DRM&PFM Project
<b>DLI 3: Strengthen cash management and treasury single account (TSA)</b>	Limited ability for Treasury to effectively manage cash; limited view of all liquid assets, limited view of commitments, and of revenue accrued but not booked. [Joint with EU]	Improvements in cash management capacity will increase the effective management of the budget and comply with a key SMP indicator.	- World Bank DRM&PFM Project - Financial Governance Committee (FGC) supported by World Bank, EU and IMF
<b>DLI 4: Strengthen</b>	Extensive use of cash advances to finance MDA	Improving the financial controls	- World Bank DRM&PFM



DLIs	Problem Statements [EU Coordination]	Theory of Change	Associated Delivery Support
payment process for operational expenditures:	operational costs, with lack of associated financial controls and unrequited expenditures. [Joint with EU]	around cash advances will improve effective budget management and reduce risk of unrequited expenditures.	Project - Somalia Financial Governance Committee (FGC) supported by World Bank, EU and IMF
DLI 5: Strengthen inter-governmental fiscal policy framework	Lack of a rule-based approach to the distribution of funds between FGS and FMS/Benadir Regional Administration(BRA), with limited assurance that Article 50 (e) of the Constitution ('fair distribution of resources') is being adhered to. [Joint with EU]	Predictable and rule-based financing will increase trust and confidence in the emerging federal system, and improve realistic budget planning and execution for FGS and FMS.	- World Bank RCRF II project (Component 2) - FGC supported by World Bank, EU and IMF
DLI 6: Strengthen FGS transfers to FMS:	Select FMS have minimal sources of revenue in their local economy, and therefore difficulty in sustaining their operations, while FGS collects tax and customs, partly from goods and services that are destined for delivery in FMS. Historically, FGS transfers to FMS have been made on an ad hoc and unpredictable basis. [Joint with EU]	Increased funding through FMS will increase confidence in all levels of government and increase the cohesion of the federal system, and provide more predictable financing for service delivery.	- World Bank RCRF II project (Component 2) - FGC supported by World Bank, EU and IMF
DLI 7 Strengthen teacher proficiency testing	Lack of an established system for teacher proficiency testing hampers merit-based recruitment and promotion, and undermines the effective development and targeting of pre- and in-service teacher training. [World Bank]	Improving the quality of the teachers and introducing a performance element into the teacher payroll will increase education outcomes for students.	- World Bank RCRF II project (Sub-component 3.2)

Note: \*For a complete DLI Table see Annex 3, Table 10. The DLIs are aligned with the EU budget support operation variable tranche indicators to the extent possible.

32. Further, the AF approach will seek to strengthen IGFR, by building on the success of the existing RCRF-supported IGFF and FMFF. This will entail a strengthened Secretariat function and TA support for the forums, as well as support to formalize currently *ad hoc* inter-governmental coordination forums for the education and health sectors. To date, RCRF has helped the FGS and FMS to successfully establish a platform for inter-governmental fiscal dialogue and decision-making, but this now needs to be strengthened to address the increasing workload it is tasked with delivering. This work will be essential to clarify agreements on revenue assignments, functional assignments and associated function ‘unbundling’ and other coordination issues such as the development of an inter-governmental transfers policy framework (in line with DLI 5 which also seeks to strengthen IGFR).

33. The AF will also scale-up support to education and health service delivery systems building. In education, it will build on the existing experience of recurrent cost finance in the sector to build a strengthened approach that goes beyond input-based payroll finance to add complementary measures to build service delivery systems for education. This will include helping to build and finance a teacher proficiency assessment system and to strengthen the school supervision system. In health, the AF will help to build an operational engagement in the health sector in support of service delivery (Sub-components 3.2) including building FHW cadres, and strengthening government implementation, stewardship, contract management, and monitoring capacity. The collective contribution to education and health service delivery systems building is intended to lay the foundations for scaled-up government service delivery once IDA and other concessional sources of financing become available after HIPC Decision Point.



34. The overall Component structure and allocations are summarized in Table 2 below.

Table 2: Component allocations and indicative budget for RCRF II AF

Components	2019	2020	2021	TOTAL
<b>Component 1: Recurrent cost finance to reform resource management systems</b>				
1.1: Financing eligible civil service salaries in FGS: baseline	7	7	6	20
1.2: Financing eligible salaries and allowances of the Capacity Injection Mechanism (CIM) recruits in FGS	2.6	2.6	1.4	6.6
1.3: Financing eligible civil service salaries in FGS: reform benchmarks (DLIs)	10	10	10	30
<b>SUB-TOTAL COMPONENT 1</b>	<b>19.6</b>	<b>19.6</b>	<b>17.4</b>	<b>56.6</b>
<b>Component 2: Strengthen inter-governmental fiscal relations</b>				
2: Strengthen inter-governmental fiscal relations (forums and Secretariat)	0.6	0.6	0.6	1.8
<b>SUB-TOTAL for COMPONENT 2</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>1.8</b>
<b>Component 3: Transfers for core government functions and foundational education and health service delivery mechanisms in eligible FMS</b>				
3.1: Financing core government functions in FMS	7.7	7.7	7.7	23.1
3.2: Financing education service delivery	5	5.5	6	16.5
3.3: Laying foundations for health service delivery mechanisms	3.8	5.3	6	15.1
<b>SUB-TOTAL for COMPONENT 3</b>	<b>16.5</b>	<b>18.5</b>	<b>19.7</b>	<b>54.7</b>
<b>Component 4: Project management and coordination in FGS and FMS</b>				
FGS Project management costs	1.45	1.45	1.45	4.35
FMS Project management costs	0.85	0.85	0.85	2.55
<b>SUB-TOTAL for COMPONENT 4</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>6.9</b>
<b>TOTAL</b>	<b>39</b>	<b>41</b>	<b>40</b>	<b>120</b>





Table 3: Parent project components captured in the AF

Component	Total Amount	New Component/Sub-component	Major Change
<b>Component 1: Support to core government functions of MDAs in FGS</b>			Introduction of DLI reform financing instrument, in addition to input financing
<b>Sub-Component 1.1:</b> Financing eligible civil service salaries in the non-security sectors in FGS	<b>49.0</b>	1.1	
<b>Sub-Component 1.2:</b> Financing salaries and allowances for government staff and young graduates recruited under the Capacity Injection Mechanism in FGS	<b>17.0</b>	1.2	
<b>Sub-Component 1.3:</b> Financing of eligible non-salary recurrent costs for MDA in FGS for MDA	<b>15.0</b>	Introduction of DLI approach including benchmark for NSRC at FGS, completion/discontinuation of NSRC input financing at FGS	
<b>SUB-TOTAL COMPONENT 1</b>	<b>81.0</b>		
<b>Component 2: Inter-governmental fiscal transfers for core functions (Grants from FGS to eligible federal member states, interim and emerging administrations)</b>			Introduction of social sector Inter-governmental forums financing, now component 2 finances fiscal, health, and education forums
<b>Sub-Component 2.1: Transfers to interim and emerging states for core government functions</b> Grant based on financing: (i) in Year 1 of project, reforms to meet readiness criteria; (ii) pilot financing of eligible non-military civil service salaries in selected MDA; and (iii) non-military recurrent costs of selected MDAs	<b>33.0</b>	new Sub-component 3.1	
<b>Sub-Component 2.2:</b> Inter-governmental fora on transfers and information exchange	<b>1.0</b>	new Component 2	
<b>SUB-TOTAL for COMPONENT 2</b>	<b>34.0</b>		



Component	Total Amount	New Component/Sub-component	Major Change
<b>Component 3: Support of recurrent costs in health and education sectors in FGS and eligible federal member states, interim and emerging administrations</b>			Substantive increase in scope of activities and funding amount for foundational education and health service delivery mechanisms
Sub-Component 3.1: Setting up basic accountability systems		Completion/Discontinuation	
Sub-Component 3.2: Financing eligible salaries and allowances of teachers and health workers	14.0	3.2	
Sub-Component 3.3: Financing eligible non-salary recurrent costs in the health and education sectors	4.5	3.3	
<b>SUB-TOTAL for COMPONENT 3</b>	<b>20.0</b>		
<b>Component 4: Project management and coordination:</b> Includes EAFS consultants; workshops, seminars, training, travel, communications, translation of documents, operational expenses, bank charges etc.			
<b>SUB-TOTAL for COMPONENT 4</b>	<b>9.0</b>		
<b>TOTAL</b>	<b>144.0</b>		



**Component 1: Recurrent cost finance to reform resource management systems (Total component cost: US\$56.6 million, of which US\$30 million is DLI-based)**

35. This component will provide up to US\$56.6 million in financing of the civil service wage bill over the AF period, of which US\$26.6 million is input-based or “baseline” financing, and US\$30.0 million is DLI-based.

**Sub-component 1.1: Financing eligible civil service salaries: baseline (US\$20.0 million)**

36. **Sub-component 1.1 will continue to provide a decreasing ‘baseline’ level of input-based financing of the FGS civil service wage bill.** This financing supports the timely payment of civil service salaries over the three-year period (US\$20 million in total) through the advance-replenishment model of payroll financing already successfully established under RCRF.

**Sub-component 1.2: Financing eligible salaries and allowances of the Capacity Injection Mechanism (CIM) recruits in FGS (US\$6.6 million)**

37. **Sub-component 1.2 will provide a continued source of financing for the FGS’ CIM recruits (recruited through the support provided by the World Bank CIP).** Financing totaling US\$6.6 million over the AF period. This financing will be provided on a ‘sliding scale’ from the current level in 2018 of US\$2.5 million. The FGS will therefore, over the remaining project period, be taking responsibility for co-financing an increasing share of the CIM payroll. This is an important commitment towards the long-term ownership and sustainability of the CIM.

**Sub-component 1.3: Financing eligible civil service salaries in FGS: reform benchmarks (DLIs) (US\$30.0 million)**

38. **DLI-based financing will be available under Sub-component 1.3, with the FGS eligible to access up to US\$30 million through reimbursement against eligible expenditures over the project period, under the US\$35.4 million annual civil service wage bill of the non-security sector, which will comprise the Eligible Expenditure Program (EEP) – see Table 4.** This total financing (baseline, CIM, DLI-based) is equivalent to around 47 percent of the projected civil service wage bill for 2019, declining to around 41 percent by 2021 based on simple extrapolation of wage bill trend growth. Fiscal sustainability of the wage bill will be supported through a number of measures, including: linkages to the IMF SMP; the use of DLIs to incentivize domestic revenue mobilization (DRM), and; a World Bank PER that will inform both the broader macro-policy dialogue as well as the RCRF’s own financing framework (see paragraph 28 above).

*Table 4: Eligible Expenditure Program for DLIs – Projected FGS Civil Service Wage Bill Growth and Share of RCRF*

	2016		2017		2018*	2019*	2020*	2021*
	Budget	Outturn	Budget	Outturn	Budget	Est.	Est.	Est.
<b>EEP: Salaries and allowances of eligible civil servants (US\$ million), SCoA Object Codes 2111 and 2112</b>	29.9	23.8	34.4	34.4	35.4	36.4	37.5	38.6
Project finance, Component 1 indicative allocation in PAD (US\$ million)	12.0	12.0	10.0	10.0	8	7	7	6
Project finance, reform benchmark (US\$ million)	4.5	0.8	6.0	6.0	13	10	10	10
Total Project finance (US\$ million)	16.5	12.8	16.0	16.0	21	17	17	16
Share of salaries financed by Government								
<i>Original PDO-level indicator target</i>	30%	30%	40%	40%	60%	80%	100%	
<i>Actual / estimated share of salaries financed by Government</i>	45%	46%	53%	53%	41%	53%	55%	59%
<i>Proposed revision to PDO-level indicator target</i>	n/a	n/a	n/a	n/a	40%	40%	40%	40%



Note: \*Assumes same % as January - February 2018.

Source: FGS budget documents, staff and MA team calculations.

39. **The DLIs are, to the extent possible, aligned with the EU's forthcoming budget support operation benchmarks, and have also been developed in close coordination with the IMF and with reference to the SMP.** The proposed DLIs are being prepared in alignment with the EU budget support operation, including aligning the DLIs with indicators for the EU variable tranche to minimize the overall number of reform benchmarks/DLIs for the FGS and to strengthen the incentives for their achievement. Table 8 in Annex 2 provides a clear overview of the extent of alignment between the RCRF DLIs and EU budget support benchmarks. Further, the DLIs are being prepared in the context of the IMF SMP structural benchmarks. The DLIs and EU variable tranche indicators will be reviewed on a six-monthly cycle, with two joint assessments or Policy Reviews each year, to be undertaken in March/April and September. The six-month review cycle facilitates a more 'granular' reform trajectory than an annual cycle, as well as a smoother cash management for government by providing more frequent tranche releases.

40. **The full joint list of World Bank and EU benchmarks/DLIs is included in Table 9 in Annex 2 for reference.** This has been developed under the policy leadership of the FGS, with both the MoF and OPM in lead roles, working together in a joint group with World Bank, EU and IMF staff teams, framed around a set of clear 'problem statements'. This coordination with the EU and IMF is intended to result in a coherent overall set of reform benchmarks for FGS, which is limited in number to minimize transaction costs and focus on the most 'binding constraints' to reaching HIPC Decision Point and laying the foundations for improved education and health service delivery systems. Some of the benchmarks have also been developed in alignment with the recommendations of the FGC, a joint platform for confidential dialogue on high-level financial governance issues between the FGS and international community (international Delegates are from the World Bank, EU and IMF).

41. **The verification of the DLIs shall be reviewed and cleared by an independent verification agent (IVA).** The Office of the Auditor General (OAuG) will be the IVA with overall responsibility in verifying DLIs of the project. This will include a TA twinning arrangement with the OAuG, as shall be discussed and agreed between the World Bank and the Government. These contracted TA experts shall work under the supervision and direction of the Auditor General. The Auditor General will appoint and second staff to work alongside the TA experts. The aim is to build the DLI verification function within the FGS. More detail is provided in Annex 4 which sets out the Financial Management (FM) arrangements for the AF.

#### **Component 2: Strengthen inter-governmental fiscal relations (forums and Secretariat) (US\$1.8 million)**

42. **Because of years of state collapse and resulting fragmentation of political authority, Somalia has transitioned from a unitary state to a quasi-federal model.** Fiscal federalism is the mechanism by which public sector functions and resources are allocated among different tiers of government through agreement on revenue authority, expenditure responsibility and mechanisms for resource sharing. Current inter-governmental fiscal arrangements, including tax regimes, are not sufficiently harmonized. Therefore, strengthening the fiscal federalism coordination mechanisms is critical to further strengthen the emerging constructive relations between the FGS and FMS.

43. **This component builds on the successful experience to date with the establishment of a platform for inter-governmental fiscal dialogue.** This comprises two bodies, namely: (i) IGFF, which operates at technical-level; and (ii) the FMFF for political-level deliberation and decision-making. Meetings are held on a rolling basis in different regions of Somalia and, to date, have been held in Mogadishu, Garowe (PSS), Kismayo (JSS), and Nairobi. The IGFF comprises four representatives nominated by the FGS, while the FMS finance ministers have each appointed two representatives. Members are appointed for four-year periods. The coordinator



(chairperson) role is selected from one of the FGS members, a role currently played by the Director General of Revenue. Experience to date has shown that the members of the IGFF are too busy fulfilling their full-time roles to adequately follow-up on the agreed actions from meetings, undertake and commission research, and to fully prepare their respective teams for meetings.

44. **In addition to continuing to support the running costs of these forums, additional support will therefore be provided to establish a dedicated Secretariat, to be staffed by civil servants either seconded from FGS and FMS on a fulltime basis or newly recruited.** The functions of the Secretariat will include, among other things: prepare documents for review by the IGFF team; discuss and prepare agenda for upcoming meetings and other as-needed events (e.g. regional lesson-learning visits); undertake research; follow up on implementation of resolutions; and support sector-specific issues. Further, building on the successful experience of coordination between Ministries of Finance on federal- and federal member state-level, and given the importance of clear inter-governmental policy dialogue for service delivery in federations, counterpart sector coordination forums will be supported in education and health (the latter under Sub-component 3.3). This support will help to formalize currently *ad hoc* inter-governmental coordination activities in these sectors. In education, rolling meetings in different regions are held at present, but not all FMS are currently actively participating and the funding from the international community is provided on an incremental basis. More regular inter-governmental meetings are essential to develop and agree on clearer functional assignments and associated ‘unbundling’, which will help to ensure more effective recurrent cost financing of service delivery.

### **Component 3: Transfers for core government functions and foundational education and health service delivery mechanisms in eligible FMS (US\$54.7 million)**

45. **After decades of fragmentation in key social service delivery sectors, the FGS and FMS** have commenced important policy discussions around the assignment of functions for service delivery, and the building of systems to ensure access and quality for the delivery of these services across Somalia. Private and non-governmental service providers have played a very large role; however, challenges arise regarding quality, efficiency and equity. This component will provide both financing for actual service delivery as well as support for systems building for core functions and service delivery. In the education sector, the focus will be on primary and secondary education with a focus on quality and supervision. In the health sector, the initial focus will be on building a government cadre of female health workers (FHWs), while simultaneously building capacity for contract management and inter-governmental coordination in the sector (including function assignment), as foundations for future expanded service delivery.

46. **Importantly, activities under the AF have the potential to address persistent gender disparities in both sectors.** First, by addressing low rates of female teachers in the education sector – which is a key factor contributing to gender disparities in education outcomes—and by increasing improving women’s access to basic health services through an increased cadre of trained and qualified FHWs.

#### ***Sub-component 3.1: Financing core government functions in FMS (US\$23.1)***

47. **This sub-component will continue the financing of FMS recurrent costs: previously under Component 2, it is being moved to Component 3 to consolidate fiscal transfers to FMS.** The sub-component through the transfer grants from FGS to FMS finances: (i) reforms to meet the eligibility criteria; (ii) financing salaries and allowances of civil servants (excluding elected officials) in selected MDAs (i.e. Finance, Health, Education); (iii) salaries and allowances to government staff and young graduates recruited under the CIM; (iv) systems-strengthening and the establishment of basic accountability systems; and, (v) eligible non-salary recurrent costs for selected MDAs (i.e. Finance, Health, Education). Initially, allocations will be based on appraised needs, within



the overall project resource envelope, although this approach to allocation will be subject to review over time and would evolve towards norm-based allocations with specific and developmental objectives. All payments will be made directly into the bank accounts of the respective staff or contractors in accordance with the POM. Annual project allocations will be developed and agreed through a principle-based, inclusive, and Somali-led process, and consistent with the objective agreed for the RCRF grant, and as a part of the RCRF review process. A more detailed description of this process will be developed prior to the Annual Review 2018 in Quarter 4 of Calendar Year 2018.

***Sub-component 3.2: Financing education service delivery (US\$16.5 million)***

48. **According to the Education Sector Strategic Plan (ESSP) 2018-2020 of the Federal Ministry of Education (MoE) and PSS (2017-2021), only 38 percent of teachers nationally are qualified teachers; in SWSS and GSS, this figure is even lower at less than 25 percent.** With such large numbers of unqualified teachers in the system, the poor learning outcomes for Somali children are not surprising, and can be attributed in large part to poor teaching quality. While there is some anecdotal evidence on teachers' lack of basic literacy and numeracy skills, the absence of systematic teacher assessments and school supervision by education authorities has meant that the competency levels of teachers, in respect of content knowledge and classroom pedagogical practices, is unknown. Nonetheless, considering that two out of three teachers currently employed by schools are unqualified, the FGS MoE must assume its regulatory role to specify the minimum competency levels for teachers and thereafter, support FMS ministries in upgrading teachers to these levels. While ministries have education quality assurance (QA) officials charged with raising the effectiveness of the teaching-learning process in schools, they are unable to carry out this function due to the lack of budgetary resources for regular school supervision visits.<sup>10</sup> Through this support, strengthening the coordination between levels of government and optimizing the role of the private and non-governmental sectors in education service delivery will be key considerations in further development of service delivery mechanisms.

49. **This sub-component, building on ongoing World Bank support to the education sector, aims to improve education service delivery through two sub-components focusing on teacher assessment and school supervision.**

***Sub-component 3.2.1: Teacher assessment and salary***

50. **To establish a baseline on teacher proficiency, the FGS MoE will require all primary and secondary school teachers, beginning with those benefitting from salary payments under the RCRF, to take a test on basic literacy, numeracy, and pedagogy.** TA will be provided to the Ministry to adapt available instruments, such as the ones being used in Zanzibar and for the Math and Science for Sub-Saharan Africa (MS4SSA) initiative<sup>11</sup> to the Somali context. The test will be piloted in PSS, BRA, and JSS before being administered to about 3,000 teachers in the FMS. The Federal MoE, in consultation with the FMS, and with the support of national experts and an international consultant, will be responsible for test development, piloting, and scaling-up. The terms of reference (ToR) of the international consultant will also include capacity building of ministry staff as

<sup>10</sup> These supervision visits are expected to include classroom observation on teachers' effectiveness (i.e. knowledge of content and pedagogy) and their time-on-task.

<sup>11</sup> Launched by the World Bank in 2016, the MS4SSA initiative complements other efforts to improve mathematics and science education in Sub-Saharan Africa (SSA). It offers countries TA to enhance learning outcomes in those subjects among primary and secondary school students. Its focus is on the integration of four aspects of teachers' work that are crucial for better learning outcomes: teachers' content knowledge, classroom pedagogical practices, teaching materials and tools, and continuing guidance, mentoring and support from school leaders, inspectors, and others in the education system. A test of teacher proficiency in Math and Science, which is benchmarked to the first year of high school in the US, has been developed. In respect of primary school teachers, Zanzibar is using a testing instrument that may be more easily adapted to meet Somalia's needs.



well as relevant faculty of teacher training institutions.<sup>12</sup> Prior to developing a time-bound work plan and budget for carrying out the pilot, the Federal Ministry will establish national teacher assessment working group including representatives from Federal Ministries of education, umbrella groups and other non-state education providers on the setting of minimum competency standards for teachers based on academic qualifications, experience and performance on the proficiency test. Teachers meeting the minimum competency standards will progress to a new pay scale comparable with what has been proposed for 300 new teachers to be recruited by the Ministry with the Government's own resources, and subject to available resources within the project or other sources of finance.<sup>13</sup> The new pay scale has been set by the Federal MoE, Culture and Higher Education in collaboration with the State Ministries of Education. Those who do not meet the standards will continue to be paid on the current pay scale.

### ***Sub-component 3.2.2: School supervision***

51. **This sub-component will enable QA officers from the FGS and FMS ministries of education, Regional Education Officers (REO) and District Education Officers (DEO) to visit schools at least two times per year to carry out inspection using the protocol and procedures established under a common framework.**<sup>14</sup> Given the project's focus on improving service delivery, school inspectors will pay particular attention to classroom observation and provision of feedback/support to teachers. Proof of the school visit will be submission of a report (completion of a template with a checklist) no later than two weeks after the visit by the inspector. National and international experts will be contracted to implement the stepped-up school supervision program in two phases. In the first phase, an operation manual on school supervision, drawing on existing procedures/guidelines, will be finalized. QA officers in one to two-member states will be trained using this manual. It is anticipated that about 100 primary and secondary schools in two eligible FMS/BRA will be visited during the piloting of the enhanced supervision program in phase one. In parallel with school visits, technical support will be provided to the ministries of education to strengthen the accountability systems for school inspection including capacity building of accounting/FM departments. During phase two, a full round of supervision will be carried out in eligible FMS, benefitting at least 300 primary and secondary schools. The supervision visits will be financed by the Government's own budgetary resources that have been earmarked for this purpose.

52. **Consultancy services for development of the POM and training of QA officers, regional and district education supervisors and relevant ministry/regional/district staff will be supported through the operation.** This will support development of an Education Annex to the POM, to be adopted in eligible FMS/BRA. QA staff at the federal, regional and district level will be trained.

### ***Sub-component 3.2.3: Education sector recurrent costs***

53. **This sub-component will continue financing eligible salaries and allowances and non-salary recurrent costs to the FGS and FMS Ministries of Education.** Eligible salaries will include salaries of eligible teachers and other critical education service delivery personnel – potentially including QA officers, REOs, DEOs, and regional

<sup>12</sup> Faculty of the School of Education, Somali National University, as well as other functioning FMS Teacher Training Institutions, such as GTEC in PSS or JTTC in Jubbaland, will be included in the capacity building alongside staff from the FGS Ministry of Education.

<sup>13</sup> The Federal Ministry of Education has advertised 300 new teacher positions to be filled through competitive selection of candidates who have tertiary education qualifications (diploma and/or degree level), a minimum of three years of relevant experience, and a passing mark of 70 percent in a proficiency test. The new recruits will be paid around US\$400 and US\$450 per month for primary and secondary teachers, respectively. These rates are considerably higher than what primary and secondary teachers in BRA and JSS are currently receiving under the RCRF II Project, which are US\$100 and US\$150 per month, respectively.

<sup>14</sup> PSS has a comprehensive checklist covering the teaching-learning process in addition to the school environment and leadership by the school principal. This checklist will be an important input to the common framework for school supervision, which will be developed by the Federal Ministry of Education for adoption by all eligible FMS.



accountants – subject to prior development of adequate HR and payroll systems and controls and available project resources. Non-salary operating costs include rent, petrol, oil and lubricants, repair and maintenance of vehicles and equipment, office materials, travel of civil servants, and utilities. For the procurement of these goods and services, a set of improved/enhanced processes and procedures will be used. All non-salary operating costs would be paid by the Government and reimbursed by the World Bank up to an agreed amount based on a detailed review of 100 percent of these expenditures by the independent agent. The review will confirm that the expenditures are eligible, and that they have met the agreed improved procurement and control procedures.

**Sub-Component: 3.2.4: Education system strengthening**

54. **This sub-component will provide technical and financial support to the FGS and FMS Ministries of Education to strengthen critical education sector systems.** This includes improved and timely annual survey (census) of schools to ensure newly developed ESSP (2018-2020) targets are effectively monitored, combined with strengthening of the Education Management Information Systems (EMIS) used at FGS and FMS level for collecting, managing, and analyzing education data. To achieve the objective, this sub-component will directly support the following activities:

- a. Hiring of consultants to provide TA, including an FGS-level education focal point to support implementation at FMS-level;
- b. Development of costed workplans both for EMIS strengthening and implementation of the annual survey;
- c. Preparation of detailed functional specifications for an EMIS in Somalia that meets identified data requirements;
- d. Identification, selection and procurement of a suitable software platform to meet the EMIS needs of the FGS and States (including requirements to implement the annual survey);
- e. Training relevant central regional and district level staff at the FGS and FMS on the new system, data collection tools, analysis, verification procedures;
- f. Transportation, accommodation, per diems, Coordination, validation workshops, stationery, printing and dissemination and any other costs; and
- g. Design, implement, and evaluate a pilot to test the use of mobile devices to support data collection in Somalia.

**Sub-component 3.3: Laying foundations for health service delivery mechanisms (US\$15.1million)**

55. **Somalia’s prolonged internal conflict decimated health infrastructure and public health service delivery systems, leading to some of the worst health results in the world** (see Table 5. In the absence of public service delivery, the private sector thrived, but weak government regulatory and oversight capacities compromise health service quality and equity. Private healthcare costs are high, with a single outpatient visit costing on average 19 percent of monthly household income. High private healthcare costs are driven by drug costs, which make up nearly 30 percent of average outpatient visit costs. Complex demand side service barriers further limit health service delivery and are exacerbated by the virtual absence of functional community-level healthcare.

Table 5: Key Health Indicators: Somalia and Sub-Saharan Africa

Indicator	Somalia (2016)	Sub-Saharan Africa (2016)
Life Expectancy at birth	56	60
Maternal Mortality Ratio (per 100,000 live births)	732	547
Neonatal Mortality Rate (per 1,000 live births)	39	28





Indicator	Somalia (2016)	Sub-Saharan Africa (2016)
Infant Mortality Rate (per 1,000 live births)	83	53
Under Five Mortality Rate	133	78
Total Fertility Rate	6.3	4.8

Source: World Development Indicators, as of 2016.

56. **Somalia has a national level Health Policy, developed in 2014, as well as a 2017 to 2021 National Health Sector Strategic Plan (HSSP-II), both of which are in line with the National Development Plan and the Sustainable Development Goals (SDGs).** The Somali Federal Ministry of Health (MoH) developed an essential package of health services (EPHS) which defines four levels of health service delivery: (i) the Primary Health Units (PHU), (ii) Health Centers, (iii) Referral Health Centers, and (iv) Hospitals. The EPHS provides six core and four additional programs as well as a management support component. The EPHS framework was piloted in nine of Somalia’s 18 regions through the joint multi-donor and multi-UN program, the Joint Health and Nutrition Program (JHNP) which was active from 2013 to 2016.

57. **The proposed health component of the RCRF II AF Project aims to establish the foundations necessary to improve health service delivery and health outcomes through development of FHWs cadres and strengthening of government’s stewardship and management capacities.**

58. **In parallel, the World Bank plans to undertake Advisory Services and Analytics (ASA) work with the Government including analytics into options for effective service delivery of the EPHS focusing on reproductive, child and maternal health and primary care, to underserved people.** The ASA has three components: (i) strengthening access to health services; (ii) strengthening government policy, regulation, coordination, and oversight; and (iii) health financing and financial protection.

59. **The first component on strengthening health service access will include analysis of both private and public sector service delivery options.** This requires thorough analysis and examination of available options suitable to different local context and needs, taking into consideration the existing, vibrant private sector in the health sector vis-à-vis inadequate or poorly functioning public health service delivery due to prolonged fragility and crisis. DPs and NGOs are also active in providing health service delivery outside the public sector. Such fragmented approaches have resulted in varying quality of services, insufficient coverage of population, and high cost of care, which have in turn led to low services access and sustained poor health outcomes in Somalia.

60. **The proposed ASA will be conducted by the World Bank in collaboration with the Government and DPs, and funded by the SMPF in the next two years, along with the implementation of the RCRF II AF health component.** The ASA will consider available delivery models/options appropriate to the Somalia context to design the service delivery model for implementation. Possible options on effective provision of health services which are globally tested and well adapted to fragility, conflict and violence (FCV) contexts: support for public service delivery, contracting private providers with results-based financing, and demand-side vouchers. The detailed design will also include a draft implementation manual for piloting delivery models in two or three eligible FMS. This will pave a way for its immediate implementation in selected areas and subsequent wider roll-out in Somalia.

***Sub-component 3.3.1: Developing female health worker cadre***

61. **In Somalia, where health service utilization is relatively low and women have little decision-making autonomy, FHWs can play an important role in linking the population to health facilities for increasing service utilization and addressing demand-side health behaviors to increase health systems responsiveness.** FHWs are embedded within communities and engage directly with the population with the aim of delivering health



services to especially underserved and hard to reach communities. FHWs also have a critical role in increasing female autonomy and decision-making capacity, both through direct engagement of women and indirectly by increasing female participation in the public sphere.

**62. In line with the Government's community health strategy, and through the support of the Global Alliance for Vaccines and Immunization (GAVI) and JHNP funding, Somalia has rolled out FHWs in selected regions within the EPHS targeted regions.** Somali health authorities have trained around 450 FHWs through a three-month training package and refresher trainings on a monthly basis over nine months. The FGS has developed basic capacity to manage FHWs in terms of guidelines and tools for recruiting and managing the FHWs, including the pre- and in-service training packages, reporting tools, and similar management structures.

**63. Supporting FGS stewardship of the FHW program is a mechanism to improve FHW program consistency, coverage, and quality.** Currently, multiple DPs and NGOs finance various community-based health worker (CBHW) programs in an uncoordinated manner and no FHWs are financed through the government budget. As a result, there are differing implementation models, multiple training modules, varying supervision and quality control standards, and coverage gaps. This inconsistent support of CBHW programs by DPs and NGOs as well as the failure to synchronize programs have impeded full realization of the programs' potential in improving health outcomes. In such a context, there is strong justification for the FGS to play a stewardship role in coordinating and harmonizing fragmented CBHW programs as a component of implementing the FGS' community health strategy. The strategy aims to engage FHWs in service referrals, health education, and other tasks to expand the coverage of EPHS, focusing on primary health care and reproductive/child/maternal health, to underserved populations.

**64. To achieve the objective, this sub-component will directly support the following activities:**

- a. Financing FHW contracts including hiring and deployment of over existing 450 FHWs in the three locations which were trained and initially supported by GAVI/JHNP. The RCRF II AF will support the payment for FHWs and their supervisors, refresher trainings, transportation cost where necessary, supervision activities, procurement of essential supplies for FHWs within the EPHS, reporting and reviewing of the FHW data/information, supervision, and M&E of the implementation of the program. Implementation will be guided by the principle of using country systems and complemented by TA as necessary.
- b. Expanding access to community based health services by training, contracting/hiring and deployment of additional FHWs;
- c. Implementing the Behavior Change Communication (BCC) strategy by reviewing the latest strategy prepared by United Nations International Children's Emergency Fund (UNICEF), developing the communication tools, harmonizing key messages and channels, and consultations with stakeholders, trainings, transmission of messages, and evaluation.
- d. Supporting of hiring, training, and eligible recurrent costs of FHW supervisors (one supervises about 10-15 FHWs), other relevant government supervisory cadres, and M&E managers at both FGS and FMS, who will oversee and manage the implementation of the FHW program including monitoring implementation and results, and ensuring the compliance to the national standard of training and program implementation. QA and supportive supervision will be conducted by FHW supervisors every two weeks.
- e. Coordinating various existing FHW programs on quarterly basis at the national level by setting up or strengthening a technical working group for the FHW program at the federal-level, and as needed in FMS supported by the project, that monitors consistency, financing gaps, and implementation progress of the FHWs program; under this activity, TA will be required to review the current existing



- models of CBHW through a series of consultation workshops to harmonize the CBHW materials, operational procedures and programs and to align them to the national community health strategy;
- f. Integrating the existing data collecting and reporting tools to the national Health Management Information System (HMIS) and the District Health Information System-2 (DHIS-2) software; and
  - g. Developing the real-time reporting of services provided by FHWs through mobile phone, tablet, etc. to link to DHIS-2.

65. **The proposed activities listed above will be initially managed by MoH at FGS in contracting with the existing 450 FHWs while enhancing the ownership of three FMSs/regions.** Whether FMSs will directly manage the FHW program will be determined based on the fiduciary and management capacity of the FMSs. The FGS will provide technical and fiducial assistance, capacity development, and management support for all and FHW program activities including training, deployment planning, monitoring and support to the deployed FHWs, management of payments, procurement and delivery of supplies for the FHWs, collection and analyses of data on FHW services, supporting coordination of existing FHWs programs, and standardizing FHW program training and implementation approaches. Payments to FMSs/regions will be directly made from the MoF, through the MoH at federal level.

***Sub-component 3.3.2: Strengthening government capability for contract management, monitoring, and coordination***

*Contract management and performance monitoring*

66. **To fully realize the potential of trained FHWs and service providers to improve access and quality of essential health services, the Government must be able to coordinate partners, coordinate across government agencies and levels, monitor results, and hold contractors accountable for implementation progress and results.** The first stage of this component will conduct capacity assessments, conducted through RCRF II AF (or CIP if equivalent assessments have already been conducted) for both FGS and FMS. At the state level, the results of the capacity assessments will determine, based on objective criteria (see selection section below), which FMS has readiness criteria for the FHW program to be expanded. States that are assessed and are not ready for further engagement will receive basic capacity development support, including TA and salary support. Readiness of such government technical, fiduciary and contract management capacity is critical when choosing areas for piloting of effective models to deliver health services.

67. **Based on the results of capacity assessments, the project will strengthen the technical capacity, monitoring, and performance management capacity of the government at the federal level and potentially at the FMS level in some states which are positioned to directly manage contracts.** This includes the establishment and strengthening of the contracting management unit(s) within MoH at the FGS and/or FMS levels.

68. **Work to strengthen monitoring and contract management capacity at FGS and FMS where direct management of these functions is appropriate will include:**

- a. Developing contract management capacity or a unit;
- b. TA for complementing the existing capacities and support from DPs, including community health, to implement the sub-components;
- c. Strengthening planning, review, monitoring and supervision capacity at all levels;
- d. Enhancing project management through hiring of one health focal point linking MoH to the project implementation unit (PIU) located at MoF at FGS mainly focusing on fiduciary aspects of the project; and



- e. Ensuring data entry to the HMIS at the district level from the current practice of data entry at regional level.

69. **Particular attention will be given to those FMS that the capacity assessment determines are not ready for Sub-components 3.3.1. The support may include the following:**

- f. Staffing support (civil service staff or equivalent contractor);
- g. Support for advisors and TA;
- h. Staff training, coaching, and mentorship to learn about contracting and service delivery models, etc.; and
- i. Support for other recurrent operational expenses including verification visits, supportive supervision, and information/data management systems.

*Inter-governmental coordination*

70. **Appropriate assignment of responsibilities between FGS and FMS (known as ‘function assignment’) is a first and critical step to building sectoral service delivery systems.** Currently, health service delivery in Somalia is largely a responsibility of FMS. The FGS is expected to perform the overall coordination function for all FMS, provide guidance on policy, and set legal and regulatory standards. Coordination of other key players in the sector including DPs and non-governmental entities is also considered as the role of FGS. This function has however not been well developed.

71. **Under this sub-component, FGS will be supported to establish an effective inter-governmental coordination mechanism that will help bring together all the FMSs and agree on the overall Somalia Health Strategy including adoption of common standards and guidelines.** The proposed activities are underpinned by the analytical report on functional assignments recently prepared by World Health Organization, in collaboration with FGS and FMS, which will be translated into Memorandum of Understanding (MoU) among the concerned FGS and FMS. Specifically, this sub-component will support:

- a. Setting up a small coordination secretariat under the Department of Policy and Planning at the FGS level for these meetings and support the convenings. This will include development of ToRs for the inter-governmental and sectoral coordination activities, and the recruitment of additional technical expertise to help augment the capacity of government to undertake planning and coordination functions; and
- b. Facilitating inter-governmental coordination by the Coordination Secretariat through: (1) project implementation committee meeting on a quarterly basis with the FGS and all FMSs to review the progress of each activity under the project and discuss challenge and solutions, and (2) a semi-annual health sector-wide coordination forum including DPs, NGOs, and other stakeholders to promote integrated sector-wide planning and management.
- c. Support consultation workshop for discussing and developing MoU on the agreed assignment of health functions between the FMS and FGS. This workshop has the objective to translate the functional review consultations conducted and the report generated. This proposed support will be facilitated by/with the ASA support from the World Bank.

**Implementation arrangements for Sub-component 3.3**

72. **Implementation arrangements.** The Planning and M&E Units under the Department of Policy and Planning at FGS will assume the overall responsible of planning and monitoring the progress under the project. The project will support hiring of one focal point to be housed at MoH at FGS, who will ensure smooth coordination between PIU for the RCRF II Project located at MoF at FGS and MoH especially in the fiduciary



aspects/requirements of the project. In addition, the POM for RCRF II will be updated with a Health Annex to align with the new sub-component and activities under the AF including the health sector. Hiring of a focal point for health and the update of the existing POM are the dated legal covenants to be fulfilled, within 90 days from the signing of legal agreements for the RCRF II AF and 45 days of effectiveness respectively. As stated earlier, project implementation will be overseen by a quarterly project implementation committee with the participation of FGS and all FMS, chaired by the Director General of MoH at FGS.

73. **Target states will be selected based on a set of objective readiness criteria to be defined in the POM.** Initial capacity assessments at the FMS level through sub-component three will determine, through a set of objective readiness criteria based on states' capacity as well as in coordination with other partners' support, the states in which support for the FHW program will be expanded. States which do not meet the readiness criteria for the Sub-component 3.3.1 will receive capacity development support through Sub-component 3.3.2 with the aim of supporting these states to prepare for future health engagement.

74. **M&E.** As described above, the project supports hiring M&E Officers at both the FGS and FMS levels, who are dedicated for timely FHW data analysis and reporting. The data will be sent to the M&E Unit at the Department of Policy and Planning at FGS. Capacity strengthening will be supported as needed at the M&E Unit. Data quality and analysis capacity for HMIS/DHIS-2 has been supported by the Global Fund. The collected data will be discussed at the quarterly project implementation committee with FGS and all FMS. The project will also support the real-time reporting of services provided by FHWs through mobile phone/tablet, potentially linking it with the existing DHIS-2. Lastly, validation of data accuracy through data system and manual spot checks will also be supported to ensure quality of data. These data will also be cross checked through available survey data funded by other partners. Currently, a new, nationwide Demographic and Health Survey (DHS) is undergoing, to be completed by December 2018.

#### **Component 4: Project management and coordination in FGS and FMS (US\$6.9 million).**

75. **The AF proposes to expand the original Component 4 and augment its financing to extend project management and coordination support for FMS, in accordance with the new activities and extended timeline.** This component would support the coordination, administration, communication, management, procurement, M&E, audit and dissemination of project activities in FGS, and FMS. It will finance dedicated staff to cover project coordination and management, administration, M&E, FM, procurement, safeguards and communications. The project will emphasize gender equity in recruitment and retention by setting targets for employment for female civil servants and for ensuring inclusion of women in all decision-making bodies under the project.

#### **B. Proposed Changes**

76. **Changes to the PDO:** The PDO will be revised to reflect the revised scope and approach of the project.

**Original PDO:** To support the Government to provide credible and sustainable payroll, and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the Federal Government, Eligible Federal Member States and Interim and Emerging Administrations.

**Revised PDO:** To support the Federal Government of Somalia and eligible Federal Member States to strengthen resource management systems, the inter-governmental fiscal framework, and service delivery systems in health and education.

77. **Changes to project results framework:** The results framework will be revised to reflect the additional resources and time frame of the project.



78. **Changes to components and costs:** The proposed AF aims to provide additional incentives to sustain the reform effort in three main inter-related areas: (i) Recurrent cost finance to reform resource management systems in FGS; (ii) Strengthen IGFR; and (iii) Scaled-up education and health services delivery at FMS level. It is proposed that the project components be reorganized, with Component 1 dedicated to financing recurrent costs and providing strengthened reform incentives at Federal level, Component 2 financing the emerging inter-governmental fiscal framework, and Component 3 financing recurrent costs at FMS level, and education and health service delivery systems support.

79. **Change in closing date:** The closing date will be extended by two years to June 30, 2022.

80. **Change in disbursement arrangements:** As described above, a DLI based approach will be introduced under Sub-component 1.3.

81. **Procurement:** Procurement under the AF will be carried out in accordance with the requirements in the Procurement Regulations for Borrowers under IPF: Goods, Works, Non-Consulting Services and Consulting Services dated July 1, 2016 (revised November 2017 and August 2018); and “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by International Bank for Reconstruction and Development (IBRD) Loans and IDA Credits and Grants (revised as of July 1, 2016).”

### III. KEY RISKS

#### *Overall (High)*

82. **Somalia remains a high-risk context for institution building and development financing.** The two main risks to the project are political contestation among key political and economic partners (resulting in conflict) on the federal and Federal Member State level, and the fiscal pressure on the budget from a wide array of needs across the country and recurring external shocks. This project builds on the commitment of the authorities demonstrated through the ongoing state formation process, the peaceful 2012 and 2017 transfers of power, two successful reviews of the IMF SMP, and positive steps towards a comprehensive security sector reform. The World Bank disbursed over US\$100 million through Somali country systems, of which the RCRF II Project was a key driver with 48 percent of total SMPF disbursements. Additional levels of monitoring and hand-holding supervision enabled the team to implement and expand the project successfully over the last four years. Important lessons have been included into the operational procedures. Additional risks over the next five years include the upcoming elections on state level, potentially introducing fragility in the existing political compacts, and the need for sustained political reforms towards the next electoral cycle in 2020. The political contestation among key partners in Somalia could slow-down reform processes and constrain the Government to take important decisions impacting on federal-state relations as well as public-private relations. A slowing reform trajectory can have significant impact on the overall reform process, and relevant reform benchmarks under the SMP, minimizing the likelihood of achieving full IFI realization within the projects duration. The overall risk to the project achieving its objectives over the next three years is judged to be high, with three high-level risks, namely political and governance, macroeconomic, and fiduciary.

#### *Political and governance (High)*

83. **Risk of political instability remains high and could slow or derail reforms over the course of the project.** The government’s reform trajectory remains positive, but is costly in terms of political capital for the current administration. Improving governance, and tackling corruption are key demands from domestic and international partners, yet, the political space for reform is uncertain with domestic and regional pressures on the Government. The main risk is that the reform trajectory is slowed down due to intra-governmental and



inter-governmental contestation around the assignment of authority in the ongoing constitutional review process, among the federal government institutions and between the FGS and the FMS. The project is investing in inter-governmental institutional frameworks aimed at providing a conducive environment for constructive inter-governmental relations. Further, the inter-governmental transfers between the FGS and FMS are further supporting a consolidation of the political compacts between the different levels of government, and provides additional confidence building project design features, such as inter-governmental transfers based on participation in inter-governmental institutions, support to the IGFF, and TA to education and health service delivery through FMS.

**84. Political economy risk will be heightened over the course of the project as consequential and high-level decisions will occupy the client's agenda.** The constitutional review process, the AMISOM transition and security sector reform, federal elections in 2020, and state-level elections each year towards and beyond 2020, as well as increased regulatory activity on the federal level will impact on the emerging formal institutional framework, and the informal networks currently providing space for reform. Actual or alleged state capture from either level of government or political-economic networks are risks that have in the past derailed reform processes and increased underlying social tensions and grievances, regardless of factual evidence. The low level of trust between and among key actors in the political, economic, and security space require additional efforts for constructive links between and across those spaces, within the emerging formal institutional framework. The project is managing this risk through support to the IGFF, the Financial Governance Committee, and leveraging policy dialogue and client engagement through activities provided in other World Bank-financed operations. Additional activities planned that reduce this level of risk are the project's own support to government's service delivery activities within an inclusive policy dialogue around functional assignment, and the investments in the accountability framework of the federal and state systems.

***Macroeconomic (High)***

**85. The macro-economic risk remains high due to limited, yet increasing, ability of the Government to react to external shocks on the nascent formal economy.** The state remains constrained to increase legitimacy, capacity, and authority across Somalia. Despite important and wide-spread reforms, the Federal Government's fiscal position remains weak due to the limited ability to generate domestic revenues, security sector expenditures dominating the budget, and only limited fiscal transfers between the FGS and FMS. Consequently, the authorities are at risk of structural over-reliance on grant-financing. The key mitigation of macro-fiscal risk is the ongoing work - jointly with other DPs, including the IMF - to support increased DRM, including through the proposed AF for the DRM&PFM project. The proposed EU budget support operation will further provide fiscal space to mitigate against shocks and provide a more predictable fiscal basis over the coming years.

***Institutional capacity for implementation and sustainability (Substantial)***

**86. The institutional capacity to implement the project and important domestic economic reforms remains weak and the risk emanating from this is substantial.** The Government has embarked on important public-sector reforms and was able to attract domestic and diaspora talent to drive key reforms, yet the overall level of capacity in the public sector and its key economic institutions remains limited. Strengthening country systems and investing in the talent across Somalia remain key principles for the project and investments in education and health are longer term investments in the human capital of Somalia. In the shorter term, the project will build additional capacity in the key ministries, as well as augmenting existing capacity with external support. The MA adds additional supervision capacity and identifies key gaps on the client side to anticipate any larger capacity gaps just in time. The proposed AF for the DRM&PFM project will further build important capacity on the client side.



***Fiduciary (High)***

87. **The Fiduciary risk rating for the AF is rated High.** The FM risk is rated High, while the overall procurement assessment risk is substantial. The country PFM legal framework is weak and fragmented. The PFM accountability systems, supporting processes and inter-governmental fiscal transfers mechanisms between FGS and FMS under the project are evolving. The payroll controls both at federal level and FMS are developing with emerging incidences of payroll exceptions. The project banking and funds flow risks are high, given the need to utilize exceptional arrangements and channels in absence of a solid local banking system.

88. **To mitigate the identified risks, mitigation measures have been adopted and will be maximized under the AF.** The AF design integrates key design aspects into the DLIs as part of nurturing the emerging inter-governmental fiscal transfer framework and mechanisms between FGS and related FMS. To foster transparency and accountability, the fiscal transfers are budgeted, accounted, reported and oversighted as conditional transfers both at the federal and state levels. To strengthen aggregate payroll controls, human resource management (HRM) and time and attendance (T&A) functions will be integrated into the FMISs both at the federal and state levels. In addition, the project will support the authorities undertake a comprehensive reconciliation and development of roadmap to fully resolve variations between the nominal payroll and outcomes of HR and biometric registration. The World Bank in joint consultation with the mandated Government PFM institutions will undertake periodic monitoring of fund flows, including with the support of the third part MA. Detailed risks and proposed mitigation measures are highlighted in the FM appraisal summary and further detailed in Annex 4 on Financial Management Implementation Arrangements.

***Other (High)***

89. **The proposed DLI approach carries substantial fiscal and reputational risk if there is failure to achieve the DLIs.** This could be impacting upon FGS' ability to regularly pay salaries and other recurrent expenditure or project negatively on the overall reform process. The project continues to finance a baseline of salaries without DLIs. The EU budget support operation is another instrument for FGS that can be utilized for smoothing fiscal pressures from non-achievement of individual DLIs in the World Bank program. The weak fiscal position of the FGS and the expectation of funds through the DLI approach could further put pressure on the budget with political ramifications for the Government. This risk is mitigated through two channels: (i) selection of eligibility criteria which represent relatively achievable activities that can be expected to be achieved at low costs and within existing capacity; and (ii) through the overall number/composition of the multi-year DLIs, so that failure to meet an individual DLI will not result in substantial fiscal impact on FGS. As outlined above, given the vulnerability to high-frequency shocks it may be appropriate to restructure during implementation when these shocks are substantial and with impact on the fiscal position.

90. **Social risks are Moderate; however, the project will ensure increased attention to key social risks particularly as related to gender-based violence (GBV).** Incidence of GBV, including sexual and physical violence, exploitation and abuse, intimate partner violence and other forms of violence, is a prevalent challenge in Somalia extending from the legacy of conflict and instability, challenging social norms and broader conditions of vulnerability and marginalization, including displacement. It is not anticipated that the AF will exacerbate drivers or dynamics that contribute to GBV; that said, the project will ensure dedicated attention to the potential for project activities to distort power dynamics or imbalances – in recruitment or retention process, for example—that may increase opportunities for exploitation and abuse throughout the life of the project. The POM will explicitly include key mitigation measures to minimize potential GBV risks – this includes establishing recruitment and retention policies that have clear provisions to minimize potential for sexual exploitation and abuse and clear policies to address incidence of sexual harassment and abuse. These provisions will also include





delineation of a response and accountability framework outlining key responsibilities and response measures in the event of a GBV-related incident. The POM should further identify potential GBV Services Providers in case of incident and in case response services are needed. This work will build on similar efforts initiated under the CIP and other projects. This will also include establishment of grievance redress measures that enable safe, ethical and confidential reporting of incidence of GBV and sexual exploitation and abuse, with key considerations for channels that enable reporting for women.

91. **In addition to these mitigation measures, project activities, in particular increased support to the education and health sectors, are expected to result in significant positive benefits to women, including for those at risk for GBV.** Specifically, increasing capacity of FHWs can enable improved dissemination of information for women in communities, including related to available services for those affected by GBV; similarly, health care facilities can serve as a conduit for providing information on GBV. The project will further seek to build on learning emerging from ongoing GBV interventions, including the Bank-supported Inclusive Community Resilience and GBV Pilot underway in PSS, which, among other activities, aims to improve service provision through community-based health facilities. In the event of a GBV-related incident, Training to be given to FHWs will include GBV-specific training to improve basic knowledge and understanding of GBV response and to enable appropriate care for survivors. The grievance redress mechanism (GRM) planned under the project, includes provisions for informing women about the project and its possible benefits to women, informing women of the GRM and its procedures, and receiving project-related complaints from women through culturally-appropriate channels. As indicated, the project will further seek to adapt the GRM to enable safe, confidential and ethical reporting channels linked to sexual exploitation and abuse and other forms of GBV.

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

93. **The RCRF II AF operation will have a comprehensive approach to risk management.** For a full overview of emerging risk mitigation measures, please refer to Annex 5. Box 1 provides a summary overview of specific risk mitigation measures in particularly sensitive areas including DLI verification, fiduciary, third-party monitoring, partnerships with other actors, gender, and health.

*Box 1: Comprehensive Approach to Risk Management*

**Monitoring arrangements.** The SMPF MA will continue to provide an important third-party MA role for RCRF II AF. This will include a stronger focus on systemic fiduciary risks such as payroll integrity at FGS and FMS level, including for education and health service delivery. RCRF II AF will also introduce a more structured approach to sharing MA reports and high-level findings with Government to improve policy dialogue and build a strong feedback loop on emerging risks and mitigation measures to address them.

**Independent Verification of DLIs.** The verification of DLI progress is a FGS responsibility and the role of the IVA is being assigned to the OAuG which will receive additional capacity support under DRM&PFM operation for this, as well as additional TA support from the EU budget support implementation budget. The MA will backstop this verification, providing a line of reporting on DLI verification to the World Bank task team, further strengthening fiduciary risk



management.

**Partnerships for risk mitigation.** The RCRF II AF team is also managing risk through partnerships. In addition to support from the MA, the operation works jointly with the EU, IMF, other World Bank task teams (notably the DRM&PFM team) and other TA providers to enhance fiduciary risk management. For example, the UK/EU Public Resource Management in Somalia (PREMIS) program will provide support to enable FMS to meet the Eligibility Criteria, including supporting procurement and implementation of biometric T&A systems in FMS (JSS, GSS, SWSS, and HSS).

**Gender.** Risks associated with gender issues, including equity concerns and potential exploitation and abuse are assessed as moderate. However, public sector recruitment processes can distort power relations and lead to opportunities for abuse. The project will therefore seek to identify and mitigate these risks from the outset of the AF period, and this will include contracting of technical expertise during preparation of the POM to identify risks and put in place appropriate mitigation mechanisms, including measures to ensure safe and equitable recruitment and retention, as well as confidential reporting measures and response mechanisms.

#### IV. APPRAISAL SUMMARY

##### A. Economic Analysis

94. **Somalia is emerging from conflict and facing the challenge of reconstructing core physical infrastructure and institutions and delivering public services to over 12 million people.** The economy is on a recovery trajectory despite recurrent shocks including drought, export bans, and sporadic terror attacks, which points towards stronger prospects for peace, economic and social development. Even though economic activities across sectors are recovering, the country remains one of the poorest in the world with Gross Domestic Product (GDP) per capita estimated at US\$497 in 2017. Poverty is pervasive with almost 70 percent of the population living below the international poverty line of US\$1.90 Purchasing Power Parity coupled with large sensitivity to shocks like drought.

95. **Even though, the economy is showing signs of modest recovery, the levels of growth are not sufficient for poverty reduction.** Somalia's economy has been growing, but this growth has not translated into poverty reduction. Between 2013 and 2017, real GDP grew by an average of 2.5 percent, compared to its estimated average annual population growth of 2.9 percent. The average GDP per capita growth rate during 2013-2017 was minus 0.4 percent per annum which is way below 1.1 percent per capita average growth (post 2010s) for fragile countries and SSA countries. Because of its fragility, the country has weak human and institutional capacity, and has enormous difficulties to absorb or respond to shocks. As such it is unable to deliver basic services and security to its citizens and faces severe and entrenched obstacles to economic growth.

96. **Somalia represents a gloomy picture in social indicators mainly education and health due to conflict, poverty, and limited access.** With majority parts of the country being poor and underdeveloped, there is limited service delivery. Health indicators are among the worst in the world. High mortality rates are driven by high death rates in the early stages of life. In 2016, infant mortality was estimated at 83 per 1,000 live births, and under-five mortality was 133, far above the Sub-Saharan average. Maternal mortality was 732 deaths per 100,000 live births. Education sector faces significant challenges, which are compounded by insecurity, lack of resources, low government implementation capacity, and weak links between the Federal and FMS. Education outcomes are poor with 90 percent of all schools destroyed during the war. Two generations of Somali children missed out on education during the civil war.

97. **Building on the successes achieved in the last three years, the project aims to further support and incentivize government reform processes in core government functions, rebuilding institutions, and expanding service delivery.** It aims to create fiscal space by enhancing fiscal discipline and improving strategic



allocation of resources through strengthened systems and procedures and targeted capacity building. Due to the growing demand for service delivery, the recent track record shows that despite government's strong revenue growth, albeit from a low base, fiscal space has if anything hardly increased as a result of increased in recurrent obligations. Under the project, along with related PFM activities and policy dialogue, the Government would face a well-defined revenue envelope, and continue strengthening budget formulation and FM procedures to contain commitments within the available resources. At the same time, the financing of recurrent costs would be linked to the provision of critical human development services and advancing fiscal federalism agenda. The experience of other fragile and conflict situations (e.g. Iraq) shows that without restraint on payroll expansion and associated building of PFM capabilities, states emerging from conflict tend to fail to build resilience to inevitable revenue volatility. This will imperil investments in state legitimacy once a subsequent revenue downturn is realized -- with no buffers available to absorb it. Likewise, under the IMF SMPs, the country has committed to improving cash management and payment processes with no creation of arrears, broadening revenue base, increasing domestic revenue collection, and strengthening PFM. These goals are embedded in the project's design as well as in other ongoing complementary World Bank operations.

98. **Through the project the government's budget is expected to benefit from US\$37.6 million allocation in 2018 and US\$40 million on average in the medium term.** This represents 13.7 percent of the total FGS budget and 24 percent of own-source revenue in 2018. Overall, 25 percent of the total AF resources are DLI linked hence strengthening the reform trajectory for both FGS and FMS. Similarly, education and health sectors will benefit from 11 percent of the total project resources in 2018 and is projected to triple by 2021. This amount represents 50 percent of the total consolidated FMS health and education budget in 2018 who are the main beneficiaries of the two components.

99. **Direct benefits from the project can also be observed in improved budget execution, revenue collection, strengthened PFM and payment processes, as well as increasing the ability of Treasury to manage cash, improve financial controls, and effectively manage fiscal risks.** The project will also see strengthened payroll management at FGS and FMS, and especially in key social service delivery sectors. More robust payroll and expenditure controls will reduce inefficiency of spending. This project and complementary ongoing World Bank operations, EU budget support, and IMF SMP 3 will increase the FGS' ability to restructure, assess, and reward concrete reform steps in a complex environment of economic reform as outlined in the CPF. For instance, complementarity and comprehensiveness of support to governance reforms in Somalia through additional investments through the DRM&PFM project is leveraging direct benefits generated in one operation for all other operations. Moreover, reforms undertaken in public finance and public procurement will enhance the efficiency of public resources, and administrative reforms will strengthen the government's control over personnel expenditures. Similarly, support for an inter-governmental fiscal framework able to distribute resources across levels of government and provide incentives for service delivery through arrangements agreed by all parties involved will be a lasting contribution to Somalia's peace and stability, although difficult to quantify in the short term or anticipate over the course of the project.

100. **Rationale for public sector financing. Somalia has achieved significant progress in laying the foundations for stability, rebuilding state capacity and institutions, improving security, and rehabilitating physical infrastructure.** However, these economic, political and institutional gains must have tangible benefits for people if the country's transition is to hold. The project design aims to strengthen core institutions and resource management systems that are required to improve public sector efficiency, value for money, and improved management of overall fiscal risks. These are core government reforms that are not characterized as bankable commercial projects and hence private sector financing is not suitable. Therefore, to provide such support there is no alternative to public sector financing for strengthening core institutions and building the capacity of



government agencies to undertake PFM, resource mobilization reforms, and management of public resources to deliver basic services. Private sector services provision is also characterized by high out-of-pocket spending negatively affecting the majority poor and vulnerable households. Nevertheless, Somalia's large share of private sector activity provides an opportunity to explore various options at implementation especially in health and education sectors.

## B. Technical

101. **The proposed AF design builds on lessons learned from the parent project.** More specifically, through its shift towards DLI-based financing, the AF ensures financing is linked to reform, and in particular to DRM and expenditure management measures supported by the World Bank-financed DRM&PFM AF Project. This approach is based on lessons learned from previously introduced reform benchmarks within the parent project which offered additional reform incentives in the form of variable levels of financing for the FGS civil service wage bill conditional upon achievement of the reform benchmarks focused on the core areas, namely: revenue, PFM and payment processes, and IGFR. The project design also considers the evolving country priorities to expand service delivery. The World Bank's ongoing Somalia Governance operations, including the proposed AF, will be helping Somalia deliver on the CPF focus of building institutions to deliver services, and ultimately in reaching HIPC Decision Point. The project is also an element of a coordinated policy reforms and financing framework supported by the World Bank, the EU's proposed budget support operation, and the IMF SMPs. The rationale of the technical design is also based on the following considerations:

102. **World Bank value added:** The comparative advantage of the World Bank compared to other DPs (and the private sector) is its ability to accompany all stages of the fiscal management and service delivery value chain. Consequently, the value addition of the World Bank's engagement is found in the balanced and multidimensional sector support, which targets all aspects of core systems building, payroll, PFM and service delivery in the education and health sectors. Moreover, the complementarity of this project with ongoing investment projects, TA, and analytical reports targeting topics of social sector reform in health and education, PERs for the public sectors, governance reforms, fiscal consolidation and macroeconomic management provides the Government with a variety of tools to execute a large and complex reform agenda. This renders the World Bank as a trusted partner in reforms and leverages its unique position to rally stakeholders around one reform agenda. The World Bank SMPF has so far provided a conducive forum to initiate policy discussions around more aligned external support to the Government from multiple actors, and key DPs use the SMPF for this purpose. The existing strong client dialogue in key sectors, and the World Bank's role as part of key governance reform networks (i.e. FGC, IGFF, DLI/Budget Support Working Group, etc.) will pose a strong demand on World Bank teams.

103. **New currency in 2019:** With the new currency set to be introduced in 2019, Somalia will face new challenges to sustaining macroeconomic stability. Policy and institutional capacity to deal with macroeconomic pressures will be tested amidst pressure from Somalis for service delivery, which in turn impact on broader stability. To help address these challenges, the macroeconomic stability and fiscal resilience, this operation can play a critical role in building a modern Somalia, which requires a mix of institution building as well as policy reforms. In addition, concessional budgetary financing can support long-term public investments and help build fiscal buffers. Lessons from other fragile and conflict affected countries have shown how similar operations like this one can be in strengthening policies and institutions for stability and growth over the medium to long-term. This operation will help in improving economic governance which can help sustain confidence in Somalia economy, which is important for private investment, and help protect much needed fiscal space for public service delivery and poverty reduction.



104. **Delivery of health services:** The health component of the proposed AF uses an effective approach in conflict-affected settings that has been implemented in Somalia, yet addresses key gaps in the current support from other partners. CBHWs/FHWs program has been implemented in many countries in active conflict and other fragile settings (e.g., Afghanistan, northeast Nigeria, Liberia, Sierra Leone). It provides essential health services including service referrals, health education, reproductive health services including home-based antenatal health, neonatal health postnatal health and family planning, nutrition services, integrated community case management (ICCM) for malaria, acute respiratory infection, and diarrhea. It is proven effective as they are from local community and thus understand local conflict and cultural contexts and are well received by local community. In Somalia, the FHW programs have been implemented by other partners (e.g., Gavi, Global Fund, UNICEF and German: German Society for International Cooperation [*Deutsche Gesellschaft für Internationale Zusammenarbeit - GIZ*]), and the project can build on it in part using already trained FHWs. However, the coverage of these programs has been limited in particular in rural areas, without functional systems for coordination and monitoring under the government leadership. The RCRF II AF will address such service coverage gaps and strengthen the coordination platform by establishing and operationalizing Community Health Department/Unit and technical working group for the FHW program. To address capacity constraints and ensure robust monitoring of the program, the project will contract a third-party agency to be embedded in the FGS and FMSs.

105. **The health component will also support the key functions of the Government (both FGS and FMSs) to manage and monitor health services.** This will not only strengthen the implementation capacity of the FHW program but also improve efficiency of partner activities by strengthening the capacity of the Government to coordinate other partners' activities and hold them accountable for results. It will also build contracting unit that will play a major role in strengthening basic health service delivery in partnership with the non-government providers for the future engagement by the World Bank and other partners.

106. **Education component of the proposed AF supports key priorities for the education sector in Federal Ministry's three-year ESSP-2018-2020 which aims at improved quality education.** These are (a) building the capacities of the QA department and systems through enhanced school supervision/inspection and training and (b) Improving quality of education with greater emphasis on improving assessments and competencies. The project education component is designed to assist the Federal and State Governments of Somalia to support the implementation of the ESSP priorities in a systematic manner.

107. **Component 3 of the RCRF II Project has been supporting salary payments to PSS Government teachers which commenced in late 2016.** Discussions and preparatory work with both the FGS and JSS regarding support to payment of government teachers in the BRA and JSS regions have been successful and the payment to teachers has started in 2016 and 2017. Because of the successful implementation of financing teacher salaries, FGS and FMS requested continuation of financing of teacher salaries. To strengthen its supervisory and regulatory role and, FGS will set the minimum competency levels for teachers and strengthen QA systems.

### C. Financial Management

108. **The FM risk is rated High.** The high-risk rating is due to i) weak PFM legal framework; ii) low-level PFM capacities and accountability systems; iii) nascent inter-governmental fiscal mechanisms; iv) evolving weak payroll controls at the federal and federal members states under the project with increasing cases of payroll exceptions; and iv) absence of a solid local banking system for flow of funds. Exceptional funds flow and banking arrangements have been operational since the effectiveness of the current operation in July 2015 with no identified ineligible expenditures or leakage of funds under the project. The arrangements were designed in close consultation with the Somali authorities and endorsed by World Bank Group Financial Operations. The



project FM Implementation rating is rated MU. The external audits since the inception of the project in July 2015 confirm the project proceeds were applied for the intended purposes including the project share of FGS salaries. The MU rating is mainly due to the recurring inaccurate budgeting and expenditure reporting misclassification, and the delays in implementing recommendations of the June 2016 project PFM/Fiduciary education sector assessment.

**109. Appropriate short-term and medium-term measures to mitigate risks under the project will be deployed.** The lessons from the project particularly on the inter-governmental fiscal transfers will be summarized to inform the development of the PFM and Federal Audit Bills under drafting with support of the PFM project. The payroll and HRM functions as well as the recommendations from the public-sector human resources (HR) Audit and biometric enrolment will inform payroll controls improvement measures- with the entire payroll processes fully migrated into FMISs both at the federal and states levels. The FM and mandated Government PFM institutions will continuously monitor the banking and funds flow processes and take appropriate to strengthen the funds flow, disbursement and banking controls and mitigate highlighted risks. The project does not have outstanding FM supervisions, IFRs and external audits. A summary of key drivers to the ISR MU rating and proposed time bound FM mitigation measures follows:

Table 6: FM Action Plan to address MU rating

FM/Fiduciary drivers to the MU	Proposed FM Action	Timelines
Persistent inaccurate budget classification of the project expenditures in the FGS budgets, as the organizational and funds source is consolidated under a common segment	FY 2018 budget amendment decoupling project contribution to the FGS salary expenditures.	September 30, 2018
	Specific measures to ensure FY 2019 budget and outer years are accurately budgeted in line with Standard Chart of Accounts (SCoA) segments.	October 31, 2018
Delays in full implementation of June 2016 Education Sector PFM assessment with key recommendation to strengthening existing systems/mechanisms of accountability, harmonization of salaries and incentives.	Biometric enrolment of all the benefiting teachers and reconciliation of the database with outcome of the HR audit	October 15, 2018
	The appointment of a liaison in the MoE and establishment of Technical Implementation Unit	September 30, 2018
	Strengthening existing systems/mechanisms of accountability – specifically such systems as the HRM; teacher profile database; the EMIS with focus on use of biometric features. The project will also support a comprehensive review of the education sector payroll systems, data re-certification and integration of biometric functional capabilities to the sector workers profiles	September 30, 2018
	Harmonization of salaries and incentives: Through RCRF support, the Government will facilitate a dialogue on (i) the harmonization of donor-funded salaries/incentives; (ii) sector payment systems with specific focus to seamless integration of the payments with the core PFM systems (FMISs)	October 31, 2018
	Government-led dialogue with DPs in the sector to mitigate any potential duplication.	October 31, 2018



#### D. Procurement

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

111. **Project Procurement Strategy for Development (PPSD) and Procurement Plan (PP):** As per the requirement of the Regulations, the Borrower has developed a PPSD, based on which the PP for the first 18 months has been prepared. The PP will set out the selection methods to be followed by the Borrower during project implementation in the procurement of goods, non-consulting services and consulting services. The PP will be updated at least every 12 months, or as required, to reflect the actual project implementation needs, but each update shall require World Bank approval. There are no procurable items under the Eligible Expenditure Framework (EEF) as the EEF is entirely salaries. All PPs will be publicly disclosed in accordance with the World Bank disclosure policy.

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

#### E. Social (including Safeguards)

113. **Gender and GBV Risks:** While existing contextual risks for GBV in Somalia are high, the project is not expected to exacerbate these risks and key measures will be undertaken to mitigate those risks, to be integrated into the POM. As such the GBV-related risks is assessed to be Moderate. These measures include establishment of clear recruitment and retention policies that both emphasize equity and increasing the register of female staff supported by the project, and are meant to outline clear standards and policies to minimize potential for sexual harassment, exploitation and abuse and other forms of GBV. This will also include development of a response and accountability framework to outline key response measures should incidence occur, and identification of GBV Services Providers to enable appropriate and immediate care should a problem arise. Key risks are further mitigated by project focus on education and health and in particular on the development of a cadre of FHWs and embedded training on GBV service provision and care. Citizen engagement, with a focus on gender, will be embedded in the project through (i) gender-differentiated consultations, (ii) an assessment of the quality of the health-care delivered by the FHWs, the number of patients served and the level of satisfaction among patient seen by the FHWs, (iii) the establishment of a gender-sensitive and GBV-sensitive GRM, and (iv) creation of a feedback loop to discuss findings with beneficiaries, FHWs and other stakeholders including policy-makers and health-care managers. During implementation, periodic surveys could be carried out with focus on key indicators including quality of service provision by FHWs, number of gender-related grievances reported, the number of GBV-related grievances referred to GBV services providers, and the number of GBV trainings conducted.

#### F. Environment (including Safeguards)

114. **RCRF II AF environmental category is retained as C.** OP 4.01 on Environmental Assessment is not



applicable and status remains the same as for the parent project. The project is financing TA, training and salaries under Component 3 (teachers and FHWs), with no direct or indirect environmental safeguards implications. Good practice materials relating to health care worker health and safety and medical waste management will be included in ToRs and training manuals to support TA and capacity building as relevant. Climate change and disaster screening has been conducted for RCRF II AF.

**Climate screening:** Although the Somali country profile is highly susceptible both to near-term climate-induced disasters as well as long-term climate change impacts, this project does not have any activities with exposure to climate risks, nor does it have any activities which mitigate climate risks.

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

115. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank'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 World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank 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/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org)





**VI. SUMMARY TABLE OF CHANGES**

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

**VII. DETAILED CHANGE(S)**

**PROJECT DEVELOPMENT OBJECTIVE**

**Current PDO**

The objective of the Project is to support the Recipient to provide credible and sustainable payroll, and to establish the foundation for efficient budget execution and payment systems for the non-security sectors in the Federal Government and eligible federal member states and interim and emerging administrations.

**Proposed New PDO**

To support the Federal Government of Somalia and Eligible Federal Member States to strengthen resource management systems, the inter-governmental fiscal framework, and service delivery systems in health and



education.

**COMPONENTS**

Current Component Name	Current Cost (US\$, millions)	Action	Proposed Component Name	Proposed Cost (US\$, millions)
Support to Core Government Functions of MDAs in FGS	81.00	Revised	Recurrent cost finance to reform resource management systems	56.60
Inter-governmental Fiscal Transfers to Core Functions of Sub-National Authorities	34.00	Revised	Strengthen inter-governmental fiscal relations	1.80
Support of Recurrent Costs in the Health and Education sectors	20.00	Revised	Transfers for core government functions and foundational education and health service delivery mechanisms in eligible FMS	54.70
Project Management and Coordination	9.00	Revised	Project Management and Coordination in Federal Government and FMS	6.90
<b>TOTAL</b>	<b>144.00</b>			<b>120.000</b>

**LOAN CLOSING DATE(S)**

Ln/Cr/Tf	Status	Original Closing	Current Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-A0534	Effective	30-Jun-2020	30-Jun-2020	30-Jun-2022	30-Oct-2022
TF-A6971	Effective	30-Jun-2020	30-Jun-2020	30-Jun-2022	30-Oct-2022

**DISBURSEMENT ARRANGEMENTS**

Change in Disbursement Arrangements

Yes



Expected Disbursements (in US\$)

Fiscal Year	Annual	Cumulative
0000	0.00	0.00
2015	12,800,000.00	0.00
2016	14,000,000.00	26,800,000.00
2017	23,000,000.00	49,800,000.00
2018	36,200,000.00	86,000,000.00
2019	39,000,000.00	125,000,000.00
2020	41,000,000.00	166,000,000.00
2021	40,000,000.00	206,000,000.00

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

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



**Environmental Assessment (EA) Category**

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

**LEGAL COVENANTS – Somalia Recurrent Cost & Reform Financing Project - Phase 2 (P154875)**

Loan/Credit/TF	Description	Status	Action
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**LEGAL COVENANTS – Recurrent Cost & Reform Financing Project - Additional Financing (P167224)**

Sections and Description
Schedule 2 Section I.B.1: The Recipient not later than forty-five (45) days after the Signature Date, update the Project Operations Manual, in form and substance satisfactory to the World Bank.
Schedule 2 Section I.C.1: The Recipient shall, not later than December 31 of each year prepare and furnish to the Association, a consolidated annual program of activities proposed for implementation under the Project during the following Fiscal Year, together with a proposed budget for the purpose.
Schedule 2 Section I. A.5 (c): The Recipient shall not later than ninety (90) after the Effective Date, recruit a focal point for the health sector activities, in accordance with provisions of the Procurement Regulations.

**Conditions**

Type	Description
Effectiveness	The Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled;
Effectiveness	The SMPF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
Disbursement	No withdrawal shall be made for any DLI or DLR unless the Association has received from the Recipient or the Independent Verifiers, the EEP Spending Reports confirming that the DLI and DLR have been achieved and containing a proposal for disbursement under each Withdrawal
Disbursement	No withdrawal shall be made for any expenditure under Category (1) unless the Association has received from the Independent Verifiers, a certification, acceptable to the Association, to confirm that: (i) the expenditures sought under



Type Disbursement	<p>Category (1) are eligible for payment; and (ii) the Recipient has achieved the eligibility criteria for financing, inter alia, based on the reforms undertaken by the Recipient for the review period preceding the withdrawal request as set forth in the Project Operational Manual</p> <p>Description No withdrawal shall be made for Subprojects Grants under Category (4) unless the Association has received from the Independent Verifiers, a certification, acceptable to the Association, to confirm that: (i) the expenditures sought under Category (4) are eligible for payment; and (ii) the Federal Member State has achieved the eligibility criteria for financing, inter alia, based on the reforms undertaken by the pertinent Federal Member State for the review period preceding the withdrawal request as set forth in the Project Operational Manual.</p>
Type Withdrawal	<p>Description With respect to the withdrawals under Category (2), payments shall be made on a bi-annual basis each year during Project implementation upon timely submission by the Recipient of a withdrawal request acceptable to the Association, such withdrawal request shall include evidence in form and substance acceptable to the Association of: (i) EEPs incurred for the period preceding the withdrawal request as presented in the EEP Spending Reports; and (ii) supporting documentation confirming that the Recipient has complied with the respective DLIs and DLRs, as verified by the Independent Verifiers.</p>
Type Withdrawal	<p>Description Notwithstanding the provisions of paragraph 1(a) and (b) and of this Section, if the World Bank is not satisfied that a particular DLI has been fully achieved, the World Bank may, at its discretion: (i) authorize the withdrawal of such lesser amount of the unwithdrawn proceeds allocated to said DLI, which in the opinion of the World Bank corresponds to the degree of achievement of such DLI; (ii) authorize the unwithdrawn amount by which such disbursement has been reduced due to partial achievement of a DLI, be carried forward to subsequent Withdrawals; and/or (iii) cancel all or portion of the proceeds of the Financing allocated to such DLI.</p>
Type Withdrawal	<p>Description If, at any time, the World Bank determines that any portion of the Financing under the Project was used for items improperly procured in violation of Section III to this Schedule, was not used for Eligible Expenditures or, in case of the Eligible Expenditure Programs of Parts A and C.2 of the Project, was not supported by evidence of actual spending by the Recipient or the Eligible Federal Member States under said Eligible Expenditure Programs and/or by evidence of satisfaction of other criteria set forth in this Agreement or in the Project Implementation Manual, the Recipient shall refund any such portion to the World Bank as the World Bank shall specify by notice to the Recipient. The World Bank may, at its own discretion, cancel such refunded amount.</p>



Type  
Withdrawal

Description

If, at any time, the Association determines that any portion of the Financing under the Project was used for items improperly procured in violation of Section III to this Schedule, was not used for Eligible Expenditures or, in case of the Eligible Expenditure Programs of Parts A.3 of the Project, was not supported by evidence of actual spending by the Recipient under said Eligible Expenditure Programs and/or by evidence of satisfaction of other criteria set forth in this Agreement or in the Project Operations Manual, the Recipient shall refund any such portion to the Association as the Association shall specify by notice to the Recipient. The Association may, at its own discretion, cancel such refunded amount.

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VIII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Somalia

Recurrent Cost & Reform Financing Project - Additional Financing

Project Development Objective(s)

To support the Federal Government of Somalia and Eligible Federal Member States to strengthen resource management systems, the inter-governmental fiscal framework, and service delivery systems in health and education.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	Intermediate Targets			End Target
			1	2	3	2022
<b>Recurrent cost finance to reform resource management systems (Action: This Objective is New)</b>						
Share of civil servants' salaries financed by government (Percentage)		40.00	40.00	40.00	40.00	40.00
<b>Action: This indicator has been Revised</b>						
Payroll verifications undertaken by independent agent (Number)		6.00	12.00	20.00	26.00	30.00
<b>Action: This indicator has been Marked for Deletion</b>						
Eligible civil servants salaries paid on time (Percentage)		8.00	12.00	16.00	20.00	22.00
<b>Action: This indicator has been Revised</b>						
<b>Strengthen inter-governmental fiscal relations (Action: This Objective is New)</b>						



Inter-governmental transfers to eligible FMS (Percentage)	0.00	15.00	30.00	0.00	45.00
<i>Action: This indicator has been Revised</i>					
<b>Transfers for core Govt functions and foundational education and health service delivery mechanisms (Action: This Objective is New)</b>					
Eligible FMS/BRA conducting proficiency testing of teachers as an annual exercise establishing minimum competency level of teachers (DLI 7) (Number)	0.00	1.00	2.00	3.00	3.00
<i>Action: This indicator has been Revised</i>					

**Intermediate Results Indicators by Components**

Indicator Name	DLI	Baseline	Intermediate Targets			End Target
		2018	1	2	3	2022
<b>Recurrent cost finance to reform resource management systems (Action: This Component is New)</b>						
Monthly payroll reports published on MOF website (Number)	4.00	12.00	12.00	12.00	12.00	12.00
<i>Action: This indicator has been Marked for Deletion</i>						
Monthly payroll reports published on MOF website (Number)	4.00	4.00	5.00	6.00	12.00	12.00
<i>Action: This indicator is New</i>						
Strengthened payment process for operational expenditures (DLI 4) (Percent)	DLI 4	Cash advances to MDAs 50% of	26.4	16.4		All government payments for salaries,





		operating expenditures.				transfers and capital expenditures to be executed as payments to Bank accounts directly to vendors, with the exception of: petty cash, travel advances, security sector and contingency (per Appropriation Act)
<i>Action: This indicator is New</i>						
<b>Strengthen inter-governmental fiscal relations (Action: This Component is New)</b>						
Establishment of payment systems by the Central Bank of Somalia/ Dahabshiiil International Bank (Yes/No)		No	Yes	Yes	Yes	Yes
<i>Action: This indicator has been Marked for Deletion</i>						
Inter-governmental forums held annually (Number)		3.00	2.00	2.00	2.00	4.00
<i>Action: This indicator has been Revised</i>						
Verified reimbursements of non-salary recurrent cost expenditures (Number)		4.00	12.00	12.00	12.00	12.00
<i>Action: This indicator has been Marked for Deletion</i>						
Strengthened FGS transfers to FMS (DLI6) (Text)	DLI 6	2018 fiscal t transfers to FMS budgeted at USD 12m, with USD 5.4m for block transfers under Ministry of Interior and Federal Affairs				FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 3)



<b>Action: This indicator is New</b>					
<b>Transfers for core Govt functions &amp; foundational education &amp; health service delivery mechanisms (Action: This Component is New)</b>					
Strengthened school supervision (Text)	Lack of a coherent system for school supervision, with inadequate financing to enable FMS education ministries to fulfil this function				Satisfactory completion of full round of supervision activities in eligible FMS
<b>Action: This indicator is New</b>					
Contract Management Unit established and fully staffed according to organogram (Yes/No)	No	No	No		Yes
<b>Action: This indicator is New</b>					
Women of child bearing age (15-59 years) and children 0-59 months referred to health facilities by Female Health Workers (Percentage)	0.00	3.00	5.00	7.00	10.00
<b>Action: This indicator is New</b>					
Female Health Workers selected according to guidelines, trained, and actively providing services (Number)	0.00	100.00	250.00	550.00	750.00
<b>Action: This indicator has been Revised</b>					
Fully functional EMIS with integrated teacher profile and HR System (Yes/No)	No	No	No	Yes	Yes
<b>Action: This indicator has been Marked for Deletion</b>					



**Monitoring & Evaluation Plan: PDO Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Share of civil servants' salaries financed by government	Percentage of civil servants' salaries financed by government out of the entire civil servants' salaries	Bi-annual	Government Budget, Progress Report and MA Advisory Report	See POM	EAFS/Office of the Accountant General; Independent Agent
Payroll verifications undertaken by independent agent	The number of payroll verifications undertaken by independent agent	Bi-annual	Progress Report and MA Advisory Report	See POM	EAFS/Office of Accountant General; Independent agent
Eligible civil servants salaries paid on time	Percentage of eligible civil servants salaries paid on time out of the entire civil servants planned to make a payment on the same timeline	Bi-annual	Progress Report and MA Advisory Report	See POM	EAFS/Office of Accountant General; Independent agent
Inter-governmental transfers to eligible FMS	Inter-governmental transfers to eligible FMS from baseline year (2018) level	Bi-annual	Government Budget, Progress Report and MA Advisory Report	See POM	EAFS/Office of Accountant General; Independent agent
Eligible FMS/BRA conducting proficiency testing of teachers (DLI 7)	The number of Eligible FMS/BRA conducting proficiency testing of teachers as an annual	Bi-annual	FGS MoE to prepare report on teacher	See POM	FGS and FMS Ministries of Education



	exercise establishing minimum competency level of teachers (DLI 7)		proficiency testing		
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**Monitoring & Evaluation Plan: Intermediate Results Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of mMonthly payroll reports published on MOF website	The number of monthly payroll reports published on MOF website	EAFS and Independent agent	Progress report and MA Advisory report		monthly
Monthly payroll reports published on MOF website	The number of monthly payroll reports published on MOF website	Bi-annual	Progress report and MA Advisory report	See POM	EAFS and Independent Agent
Strengthened FGS transfers to FMS (DLI 6)	Execution rate for transfers to FMS				
Strengthened payment process for operational expenditures (DLI 4)	Pertent of cash advances to MDAs of operating expenditures	Bi-annual	SFMIS fiscal reports showing the baseline and subsequent change. Baseline (January – March 2018)	See POM	FGS MoF, OAG; SFMIS
Establishment of payment systems by the Central Bank of Somalia/	Establishment of payment systems by the Central	Central Bank of Somalia/EASF/Office	Progress Report,		Bi-Annual



Dahabshiil International Bank	Bank of Somalia/ Dahabshiil International Bank	of Accountant General	Central Bank of Somalia		
Inter-governmental forums held annually	The number of inter-governmental forums held annually	Bi-annual	Progress Report	See POM	EAFS and Office of Accountant General
Verified reimbursements of non-salary recurrent cost expenditures	The number of Verified reimbursements of non-salary recurrent cost expenditures	EAFS and Independent agent	Progress Report, MA Advisory Report; MoF website		Monthly
Strengthened FGS transfers to FMS (DLI 6)	FGS fiscal transfers execution rate to FMS	Bi-annual	FGS Budget and SFMIS reports, OAG	See POM	FGS Budget and SFMIS reports, OAG
Strengthened school supervision	Satisfactory completion of full round of supervision activities in eligible FMS	Bi-annual	FGS MoE Dept. of Regional States and Partnerships Coordination	See POM	FGS MoE
Contract Management Unit established and fully staffed according to organogram	Contract Management Unit established and fully staffed according to organogram	Bi-annual	FGS Ministry of Health Contract Management Unit	See POM	FGS Ministry of Health
Women of child bearing age (15-59 years) and children 0-59 months referred to health facilities by Female	Percentage of women of child bearing age (15-59 years) and children 0-59	Annual	DHIS-2/HMIS	See POM	FGS Ministry of Health



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Health Workers	months referred to health facilities by Female Health Workers				
Female Health Workers selected according to guidelines, trained, and actively providing services	Female Health Workers selected according to guidelines, trained, and actively providing services	Bi-annual	DHIS-2	See POM	FGS Ministry of Health
Fully functional EMIS with integrated teacher profile and HR System	Fully functional EMIS with integrated teacher profile and HR System	MoE	Progress report		Annual

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**Disbursement Linked Indicators Matrix**

Disbursement Linked Indicators Matrix				
DLI 1	Strengthen customs administration as per the customs reform action plan			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Process	No	Text	4,285,713.99	0.07
Period	Value		Allocated Amount (USD)	Formula
Baseline	Draft customs reform action plan prepared by FGS			
March 2019			0.00	
August 2019	Customs modernization road map and action plan tabled, discussed and adopted at intergovernmental technical committee, including agreement on common goods classification.		1,428,571.33	
February 2020			0.00	
August 2020	Implementation of interim IT system at Mogadishu, Bossaso and Kismayo ports, including common goods classification, customs practices and procedures and valuation of goods		1,428,571.33	
February 2021	Functional specifications for the new customs IT system developed and approved by FGS Ministry of Finance.		1,428,571.33	



August 2021			0.00	
<i>Action: This DLI is New</i>				
<b>DLI 2</b>	<b>Strengthen tax administration systems and staffing</b>			
<b>Type of DLI</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Process	No	Text	4,285,713.99	0.07
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>
Baseline	Companies registered as government suppliers and with the valid business license, must have clearance by the tax authority before payments on services are made			
March 2019	TIN and TCC mandatory when bidding for government contracts and valid TIN required to have invoice paid.		1,428,571.33	
August 2019			0.00	
February 2020	Review existing business processes 'as-is' and new business processes developed and approved by FGS for the following revenue streams (sales tax, excise duty, road tax, stamp duty, registration tax (fees and levies).		1,428,571.33	
August 2020	Targeted automation for collection of sales tax, excise duty, road tax, stamp duty, and registration tax deployed.		1,428,571.33	





February 2021			0.00	
August 2021			0.00	
<i>Action: This DLI is New</i>				
<b>DLI 3</b>	<b>Strengthen cash management &amp; treasury single account (TSA)</b>			
<b>Type of DLI</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Process	No	Text	4,285,713.99	0.07
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>
Baseline	SFMIS and Core Banking System interface business requirements and technical design documented, developed, tested and deployed.			
March 2019	SFMIS incorporates: (i) End-of-day balances of all TSA accounts and (ii) monthly balances of all MDA accounts held at the CBS.		1,428,571.33	
August 2019			0.00	
February 2020	SFMIS incorporates: (i) end-of-day reconciled balances of all government accounts for revenue and expenditure, and (ii) all outstanding commitments made		1,428,571.33	
August 2020			0.00	



February 2021	SFMIS incorporates cash forecasting model, to inform management about commitments, available balances and expected revenues with regular monthly management reports produced by the Accountant General through SFMIS		1,428,571.33	
August 2021			0.00	
<i>Action: This DLI is New</i>				
<b>DLI 4</b>	<b>Strengthen payment process for operational expenditures (DLI 4)</b>			
<b>Type of DLI</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Process	No	Text	4,285,713.99	0.07
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>
Baseline	Cash advances to MDAs 50% of operating expenditures.			
March 2019	Reduce cash advances to MDAs for non-salary recurrent costs from 56.4% baseline at end-March 2018 to 26.4% [value-based]		1,428,571.33	
August 2019			0.00	
February 2020	Reduce cash advances to MDAs for non-salary recurrent costs from 56.4% baseline at end-March 2018 to 16.4% [value-based]		1,428,571.33	
August 2020			0.00	



February 2021	All government payments for salaries, transfers and capital expenditures to be executed as payments to Bank accounts directly to vendors, with the exception of: petty cash, travel advances, security sector, and contingency (per Appropriation Act)		1,428,571.33	
August 2021			0.00	
<i>Action: This DLI is New</i>				
<b>DLI 5</b>	<b>Strengthen intergovernmental fiscal policy framework</b>			
<b>Type of DLI</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Process	No	Text	4,285,713.99	0.07
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>
Baseline	Policy paper outlining Policy Framework for Inter-Governmental Fiscal Transfers Developed and tabled at Finance Ministers Fiscal Forum covering: Budget Timetable; Reporting and disbursement conditions.			
March 2019	Policy paper outlining policy framework for Intergovernmental Fiscal Transfers agreed at Finance Ministers Fiscal Forum covering: Budget timetable, reporting, accountability and disbursement conditions.		1,428,571.33	
August 2019			0.00	



February 2020			0.00	
August 2020			0.00	
February 2021	Draft Policy paper including: (i) principles to guide FGS transfer allocations to FMS/BRA; (ii) comparative analysis, reflecting regional context; and (iii) long-term views, tabled at Finance Ministers Fiscal Forum		1,428,571.33	
August 2021	Fiscal transf		1,428,571.33	
<b>Action: This DLI is New</b>				
<b>DLI 6</b>	<b>Strengthen FGS transfers to FMS (DLI 6)</b>			
<b>Type of DLI</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Output	No	Text	4,285,713.99	0.07
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>
Baseline	2018 fiscal t transfers to FMS budgeted at USD 12m, with USD 5.4m for block transfers under Ministry of Interior and Federal Affairs			
March 2019			0.00	
August 2019	FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 1)		1,428,571.33	
February 2020			0.00	



August 2020	FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 2)		1,428,571.33	
February 2021			0.00	
August 2021	FGS fiscal tr		1,428,571.33	
<i>Action: This DLI is New</i>				
<b>DLI 7</b>	<b>Strengthen teacher proficiency testing</b>			
<b>Type of DLI</b>	<b>Scalability</b>	<b>Unit of Measure</b>	<b>Total Allocated Amount (USD)</b>	<b>As % of Total Financing Amount</b>
Output	No	Text	4,285,713.99	0.07
<b>Period</b>	<b>Value</b>		<b>Allocated Amount (USD)</b>	<b>Formula</b>
Baseline	FGS Ministry of Education has developed a basic teacher proficiency test, and plans to apply this test to the recruitment of 300 new government teachers. Existing teachers (financed through RCRF) have not been subject to any proficiency testing.			
March 2019			0.00	
August 2019	Teacher proficiency test piloted in at least one eligible FMS/BRA, establishing minimum competency level of teachers (Year 1)		1,428,571.33	
February 2020			0.00	



August 2020	Proficiency testing of teachers conducted in at least two eligible FMS/BRA as an annual exercise, establishing minimum competency level of teachers (Year 2)	1,428,571.33	
February 2021		0.00	
August 2021	Proficiency testing of teachers conducted in at least three eligible FMS/BRA as an annual exercise, establishing minimum competency level of teachers (Year 3)	1,428,571.33	
<i>Action: This DLI is New</i>			

**Verification Protocol Table: Disbursement Linked Indicators**

<b>DLI 1</b>	Strengthen customs administration as per the customs reform action plan
<b>Description</b>	
<b>Data source/ Agency</b>	Intergovernmental Technical Committee and RCRF II Project Manager
<b>Verification Entity</b>	Office of the Auditor General with support from contracted technical experts
<b>Procedure</b>	See Project Operations Manual (POM)
<b>DLI 2</b>	Strengthen tax administration systems and staffing
<b>Description</b>	



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<b>Data source/ Agency</b>	Ministry of Finance (MoF) Revenue Department
<b>Verification Entity</b>	Office of the Auditor General with support from contracted technical experts
<b>Procedure</b>	See Project Operations Manual (POM)
<b>DLI 3</b>	Strengthen cash management & treasury single account (TSA)
<b>Description</b>	
<b>Data source/ Agency</b>	FGS MoF, OAG; SFMIS
<b>Verification Entity</b>	OAuG with support from Contracted technical Experts
<b>Procedure</b>	See Project Operations Manual (POM)
<b>DLI 4</b>	Strengthen payment process for operational expenditures (DLI 4)
<b>Description</b>	
<b>Data source/ Agency</b>	FGS MoF, OAG, SFMIS
<b>Verification Entity</b>	OAuG with support from contracted technical experts
<b>Procedure</b>	See Project Operations Manual
<b>DLI 5</b>	Strengthen intergovernmental fiscal policy framework
<b>Description</b>	
<b>Data source/ Agency</b>	Intergovernmental Fiscal Forum and the budget department



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<b>Verification Entity</b>	OAuG with support from contracted technical experts
<b>Procedure</b>	See Project Operations Manual (POM)
<b>DLI 6</b>	Strengthen FGS transfers to FMS (DLI 6)
<b>Description</b>	
<b>Data source/ Agency</b>	FGS Budget and SFMIS reports, OAG
<b>Verification Entity</b>	OAuG with support from contracted technical experts
<b>Procedure</b>	See Project Operations Manual (POM)
<b>DLI 7</b>	Strengthen teacher proficiency testing
<b>Description</b>	
<b>Data source/ Agency</b>	FGS and FMS Ministries of Education
<b>Verification Entity</b>	OAuG with support from contracted technical experts
<b>Procedure</b>	See Project Operations Manual

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### Annex 1: RCRF Policy Benchmarks, 2018\*

Table 7: Summary table for RCRF Policy Benchmarks per 2018 Policy Review

Results Area	First Policy Review (end July)		Second Policy Review (end November)	
	Benchmark	Monitoring and Verification	Benchmark	Monitoring and Verification
Revenue	1.1. <b>Revenue Bill:</b> consultation at technical level at the IGFF (technical) on key policy issues for inclusion in the Bill.	IGFF minutes	2.1. <b>Customs:</b> Automation of revenue capturing at the seaport collection point through Somalia Financial Management Information System (SFMIS).	Report from SFMIS
	1.2. <b>Telecoms:</b> Appointment of all National Communications Authority (NCA) board members, including General manager and Deputy General Manager.	Legal confirmation of appointment, such as press release from Ministry of Posts, Telecoms and Technology (MPTT)	2.2. <b>Telecoms:</b> MPTT along with NCA and MOF to agree on: (i) a framework for national numbering plan for Somalia; and (ii) fee structure for spectrum and numbering, as components of a future fiscal regime for telecoms.	Directive issued by NCA, and press release from MPTT
	1.3. <b>Taxpayer Identification Numbers (TIN):</b> Continue registration of TIN entities to have tax identification number, extending to 30 new entities, from 30 <sup>th</sup> March 2018, in addition to existing number of 247 entities.	SFMIS report showing 30 entities given TIN registration	2.3. <b>TIN:</b> Companies registered as government suppliers and with the valid business license, must have clearance by the tax authority before payments on services are made.	SFMIS vendor payment report indicating only entity with tax clearance have received payments
PFM and Payment Process	1.4. <b>Payment process:</b> Reduce cash advances to MDAs for non-salary recurrent costs from 61.8 percent baseline at end-March to 52 percent	SFMIS report showing that 52 percent of NSRC made directly to vendors	2.4. <b>Payment Process:</b> Reduce cash advances to MDAs for non-salary recurrent costs to	SFMIS report showing that 42 percent of NSRC made directly to vendors
			2.5. <b>Payment process:</b> Develop and submit fuel and travel policies to the Cabinet, and review, validate, and disseminate Comprehensive Operating Procedures Manual (COPM).	Minister of Finance signed covering letter to the Cabinet with the draft policies attached. Ministerial Circular announcing COPM enforcement.
	1.5. <b>TSA:</b> Undertake listing of all government accounts that are currently outside of the TSA including operating mandates (including government accounts at commercial banks	Letter from the AG listing all accounts		



Results Area	First Policy Review (end July)		Second Policy Review (end November)	
	Benchmark	Monitoring and Verification	Benchmark	Monitoring and Verification
	but excluding off budget donor project accounts).			
	1.6. <b>Payroll:</b> Validated bank account details populated in SFMIS and used to generate Payment Instruction to CBS. To be validated through documented confirmation process.	SFMIS Payroll report indicating bank accounts	2.6. <b>Payroll:</b> FGS payroll Payment Order to commercial banks generated automatically from SFMIS payroll module and appropriately integrated in Core Banking System.	Payment Order generated from SFMIS
			2.7. <b>Core banking system and SFMIS integration:</b> SFMIS and Core Banking System interface business requirements and technical design documented, developed, tested and deployed.	Signed letter from H. E. Governor certifying that SFMIS and Core Banking systems in use for daily operations on an integrated basis.
	1.7. <b>Procurement:</b> Training materials and sessions for MDAs developed and delivered on Interim Procurement Requirements. Framework contract templates developed and agreed (with World Bank review).	Issuing directive from the Minister to MDAs on the interim procurement arrangement	2.8. <b>Procurement:</b> Draft amendment to the Public Procurement, Concessions and Disposal Act to provide for a set of 'review thresholds' submitted to Cabinet.	Draft Amendment submitted to Cabinet with signed transmittal letter
	1.8. <b>Audit Legal Framework:</b> Audit Bill drafted and re-submitted to Parliament.	Copy of signed transmittal letter to parliament and Bill	2.9. <b>Audit:</b> Audited financial statement 2017 submitted to parliament	Copy of signed AoG transmittal letter to parliament
Public Administration			2.10. <b>HR Audit:</b> HR Audit complete. This means data (administrative and biometric) is fully collected for MDAs and has been validated in accordance with the timeline in the Inception Report.	Validated HR audit headcount report with the Biometric personnel data
Inter-governmental Fiscal Relations	1.9. <b>Allocations:</b> 2018 fiscal transfers to FMS communicated at IGFF, disaggregated by transfer type; and all inter-governmental transfers as electronic funds transfers (EFT) direct to Recipient Single Treasury Accounts.	IGFF minutes including table-showing allocations for 2018 by FMS in US\$ and SFMIS report showing direct transfer.	2.11. <b>Transparency:</b> Policy paper outlining Policy Framework for Inter-governmental Fiscal Transfers Developed and tabled at Finance Ministers Fiscal Forum (FMFF) covering: Budget Timetable; Reporting and disbursement conditions.	Policy paper to FMFF and minutes
	1.10. <b>Fisheries:</b> Mechanism developed and agreed for the issuance of tuna fishing licenses to foreign vessels. This requires the development of an application process, standard operating procedures, <i>i.e.</i> for the	Mechanism for the issuance of tuna licenses shared with signed cover letter from MFMR	2.12. <b>Fisheries:</b> Pricing schedule and terms and conditions for foreign tuna licenses developed and agreed. Issuance of at least one actual tuna license, in line with agreed mechanism, to be	Publication on MFMR website of: - terms and conditions, - issued fishing licenses for tuna - fees collected, broken



Results Area	First Policy Review (end July)		Second Policy Review (end November)	
	Benchmark	Monitoring and Verification	Benchmark	Monitoring and Verification
	review of license applications (including due diligence of the applicants: IOTC authorized list, non-IUU, etc.).		published on the Ministry of Fisheries and Marine Resources (MFMR) website.	down by individual licenses
Education	1.11. <b>Function Assignment:</b> Improve coordination with FMS by conducting a Technical Inter-State Education Forum dialogue and agree on forum's ToR	ToR for Inter-State Education Forum with signed MoE covering letter	2.13. <b>Certification:</b> MoE to replace national Secondary School leaving certificate with a more secure, digitized, automated document.	Digitized school leaving certificate
	1.12. <b>Curriculum:</b> Develop Curriculum Implementation Roadmap.	Roadmap with signed MoE covering letter	2.14. <b>Curriculum:</b> Develop and produce set of Lower Primary school textbooks based on the new curriculum (Seven books).	Pre-Print Copies of all 7 Lower Primary School textbooks with signed MoE covering letter
			2.15. <b>Quality Assurance:</b> developing a quarterly supervision and monitoring action plan	Quarterly supervision and monitoring action plan, including School Supervision Checklist, with signed MoE covering letter

Note: \*RCRF reform benchmarks for 2018 are included here for context only and are not being revised or altered.



## Annex 2: World Bank-EU Performance Benchmarks/DLIs<sup>15</sup>

Table 8: Overview of World Bank-EU Benchmarks/DLI by Results Area

	Mar 2019	Aug 2019	Feb 020	Aug 2020	Feb 2021	Aug 2021
<b>Domestic Revenue Mobilisation</b>						
Customs admin		Joint		Joint	World Bank	
Tax administration	Joint	World Bank		Joint		
Telecoms			EU			
Fisheries	EU			EU		
<b>Pubic Financial Management and Payment Process</b>						
Cash Management and TSA	Joint		Joint		Joint	
Operational expenditures	World Bank		Joint		World Bank	
<b>Inter-governmental Fiscal Relations</b>						
Policy clarity	Joint				Joint	Joint
Increased amounts and execution	EU	World Bank	EU	World Bank	EU	World Bank
<b>Law Enforcement</b>	EU	EU	EU	EU	EU	
<b>Education</b>						
Governance and function assignment		EU	EU			
Quality			EU	EU	EU	
Teacher Proficiency Testing		Joint		World Bank		World Bank

<sup>15</sup> The EU benchmarks were yet to be finalized at time of writing, and may be subject to alteration.



Table 9: Detailed list of World Bank-EU Benchmarks/DLI by Results Area

Problem Statement and medium-term reform trajectory	Mar 2019	Aug 2019	Feb 2020	Aug 2020	Feb 2021	Aug 2021
<b>Domestic Revenue Mobilisation</b>						
<b>Customs administration:</b> Poor systems capacity: organizational, technology, and workflows to support effective and efficient customs management and collection		<b>Customs modernization road map and action plan tabled, discussed and adopted at inter-governmental technical committee, including agreement on common goods classification.</b> [Joint]		<b>Implementation of interim IT system at Mogadishu, Bosaso and Kismayo ports, including common goods classification, customs practices and procedures and valuation of goods.</b> [Joint]	Functional specifications for the new customs IT system developed and approved by FGS MoF [World Bank]	
<b>Tax administration:</b> Poor systems capacity: organizational, technology, and workflows to support effective and efficient tax collection of both large and smaller tax payers	<b>TIN and Transmitter Control Code (TCC) mandatory when bidding for government contracts and valid TIN required to have invoice paid.</b> [Joint]	Review existing business processes 'as-is' and new business processes developed and approved by FGS for the following revenue streams (sales tax, excise duty, road tax, stamp duty, registration tax (fees and levies). [World Bank]		<b>Targeted automation for collection of sales tax, excise duty, road tax, stamp duty, and registration tax deployed.</b> [Joint]		
<b>Telecoms revenue:</b> Communications Act passed, but underlying regulatory structures and associated revenue streams not yet established, continued shortfall of revenues from the sector compared to potential collections.			Revenue collection 2018 from license fees, telecom-specific taxes and spectrum fees increased by X percent from baseline in 2017 of US\$5.3 million [EU]			
<b>Fisheries:</b> Potentially significant economic sector that needs further formalization and structure to unleash its	Issuance of at least [3] actual tuna licenses [baseline insert], in line with 2018 agreed			Inter-governmental agreement on allocation of foreign		



potential, including operationalizing agreement on jurisdictional limits over Territorial Waters and EEZ, Federal licensing mechanism for fisheries between 24nm and 200nm for more sustainable management of the sector.	mechanism. [EU]			licensing revenues agreed. [EU]		
<b>PFM and Payment Process</b>						
<b>Cash Management TSA:</b> Limited ability for Treasury to effectively manage cash; limited view of all liquid assets, limited view of commitments, and of revenue accrued but not booked.	<b>SFMIS incorporates: (i) End-of-day balances of all TSA accounts and (ii) monthly balances of all MDA accounts held at the CBS.</b> [Joint]		<b>SFMIS incorporates: (i) end-of-day reconciled balances of all government accounts for revenue and expenditure, and (ii) all outstanding commitments made</b> [Joint]		SFMIS incorporates cash forecasting model, to inform management about commitments, available balances and expected revenues with regular monthly management reports produced by the Accountant General through SFMIS	
<b>Payment process for operational expenditures:</b> Extensive use of cash advances to finance MDA operational costs, with lack of associated financial controls and unrequited expenditures.	Reduce cash advances to MDAs for non-salary recurrent costs from 56.4 percent baseline at end-March 2018 to 26.4 percent [value-based]		<b>Reduce cash advances to MDAs for non-salary recurrent costs from 56.4 percent baseline at end-March 2018 to 16.4 percent [value-based]</b> [Joint]		All government payments for salaries, transfers and capital expenditures to be executed as payments to Bank accounts directly to vendors, with the exception of: petty cash, travel advances, security sector, and contingency (per Appropriation Act)	
<b>Inter-governmental fiscal relations</b>						
<b>Policy:</b> Lack of a rule-based approach to the distribution of funds between FGS and	<b>Policy paper outlining policy framework for Inter-governmental Fiscal Transfers</b> agreed			<b>Draft Policy paper including: (i) principles to guide FGS transfer</b>		<b>Fiscal transfer allocations in draft 2021 FGS budget</b>



FMS/BRA, with limited assurance that Article 50 (e) of the Constitution ('fair distribution of resources') is being adhered to.	<b>at Finance Ministers Fiscal Forum covering: Budget timetable, reporting, accountability and disbursement conditions.</b> [Joint]			<b>allocations to FMS/BRA; (ii) comparative analysis, reflecting regional context; and (iii) long-term views, tabled at Finance Ministers Fiscal Forum.</b> [Joint]		<b>reflect policy paper principles.</b> [Joint]
<b>Amounts of FMS transfers:</b> Select FMS have minimal sources of revenue in their local economy, and therefore difficulty in sustaining their operations, while FGS collects tax and customs, partly from goods and services that are destined for delivery in FMS. Historically, FGS transfers to FMS have been made on an ad hoc and unpredictable basis.	Placeholder for benchmark on amount of transfer to FMS. FGS proposal (at technical level only) is to link it to percentage of increase of domestic revenue. [EU]	FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 1) [World Bank]	Placeholder for benchmark on amount of transfer to FMS. FGS proposal (at technical level only) is to link it to percentage of increase of domestic revenue. [EU]	FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 2) [World Bank]	Placeholder for benchmark on amount of transfer to FMS. FGS proposal (at technical level only) is to link it to percentage of increase of domestic revenue. [EU]	FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 2) [World Bank]
<b>Law enforcement</b>						
Law Enforcement (police) lacks the required professionalism, capability, efficiency, accountability and trust needed to effectively and efficiently provide law enforcement service to the Somali people.  The implementation of the State Police Development Plans and the SPF's Transformation Plan will put the Somali Police forces in a better position to provide law enforcement across the country (initially focused on the main urban centres).	Finalize Police payroll reform by:  - Biometric registration of all SPF personnel, and Registration of SPF personnel into SFMIS  - Remuneration of all SPF personnel via electronic means. [EU]	FGS/FMS authorities have issued and adopted adequate Administrative Procedures and Policies governing recruitment, remuneration and retirement of police personnel as well as their Code of Conduct. [EU]	Consolidated medium-term-expenditure framework for the Police, FGS and FMS, with costing of their internal security requirements (policing), within medium term realistic expenditure limits of the budget. [EU]	Retirement carried-out of x percent of eligible Somali Police Force (Federal) officers. [EU]	All FGS/FMS controlled police personnel are registered in SFMIS/FMS system and their remuneration is channelled through the FGS/FMS system. [EU]	



Education						
<b>Governance and function assignment:</b> Insufficient articulation of the roles, functions and accountabilities between the federal and state level education authorities.		Review framework for Cooperation on Education and MoU signed between FGS and FMS to facilitate effective sharing of functions, roles and responsibilities. [EU]	Develop and formally approve by the Minister of education a policy framework for private education provision including school licensing, fees and implementation of national curriculum. [EU]			
<b>Quality:</b> Framework in place but requires a nation-wide rollout. Learning materials aligned to the new curriculum framework are lacking, teachers are not oriented on the new curriculum and supervision is weak.			Develop and approve textbook content for grade 5-8 in core subjects in line the approved curriculum framework.(EU)	Establishment of a transparent award procedure for textbook publishing and formal approval by the Minister of education of a plan for distribution and monitoring of core textbooks in all FMS. (EU)	School supervision conducted in all eligible FMS using common supervision framework and reports produced. [EU]	
<b>Teacher Proficiency Testing</b>		<b>Teacher proficiency test piloted in at least one eligible FMS/BRA, establishing minimum competency level of teachers (Year 1)</b> [Joint]		Proficiency testing of teachers conducted in at least two eligible FMS/BRA as an annual exercise, establishing minimum competency level of teachers (Year 2)		Proficiency testing of teachers conducted in at least three eligible FMS/BRA as an annual exercise, establishing minimum competency level of teachers (Year 3)





### Annex 3: World Bank Disbursement-Linked Indicators

Table 10: RCRF II AF DLI Matrix

DLI and Problem Statement	Year 0 (2018) Baseline	Indicative timeline for achievement					
		6 months (March 2019)	12 months (August 2019)	18 months (February 2020)	24 months (August 2020)	30 months (February 2021)	36 months (August 2021)
<b>DLI 1 Strengthen customs administration as per the customs reform action plan:</b> Poor systems capacity: organizational, technology, and workflows to support effective and efficient customs management and collection	Draft customs reform action plan prepared by FGS		Customs modernization road map and action plan tabled, discussed and adopted at inter-governmental technical committee, including agreement on common goods classification.		Implementation of interim IT system at Mogadishu, Bosaso and Kismayo ports, including common goods classification, customs practices and procedures and valuation of goods.	Functional specifications for the new customs IT system developed and approved by FGS MoF.	
<b>4.29</b>			<b>1.43</b>		<b>1.43</b>	<b>1.43</b>	
<b>DLI 2 Strengthen tax administration systems and staffing:</b> Poor systems capacity: organizational, technology, and workflows to support effective and efficient tax collection of both large and smaller tax payers	Companies registered as government suppliers and with the valid business license, must have clearance by the tax authority before payments on services are made	TIN and TCC mandatory when bidding for government contracts and valid TIN required to have invoice paid.		Review existing business processes 'as-is' and new business processes developed and approved by FGS for the following revenue streams (sales tax, excise duty, road tax, stamp duty, registration tax (fees and levies).	Targeted automation for collection of sales tax, excise duty, road tax, stamp duty, and registration tax deployed.		
<b>4.29</b>		<b>1.43</b>		<b>1.43</b>	<b>1.43</b>		



DLI and Problem Statement	Year 0 (2018) Baseline	Indicative timeline for achievement					
		6 months (March 2019)	12 months (August 2019)	18 months (February 2020)	24 months (August 2020)	30 months (February 2021)	36 months (August 2021)
<b>DLI 3 Strengthen cash management and TSA:</b> Limited ability for Treasury to effectively manage cash; limited view of all liquid assets, limited view of commitments, and of revenue accrued but not booked.	SFMIS and Core Banking System interface business requirements and technical design documented, tested and deployed.	SFMIS incorporates: (i) End-of-day balances of all TSA accounts and (ii) monthly balances of all MDA accounts held at the CBS.		SFMIS incorporates: (i) end-of-day reconciled balances of all government accounts for revenue and expenditure, and (ii) all outstanding commitments made		SFMIS incorporates cash forecasting model, to inform management about commitments, available balances and expected revenues with regular monthly management reports produced by the Accountant General through SFMIS	
<b>4.29</b>		<b>1.43</b>		<b>1.43</b>		<b>1.43</b>	
<b>DLI 4 Strengthen payment process for operational expenditures:</b> Extensive use of cash advances to finance MDA operational costs, with lack of associated financial controls and unrequited expenditures.	Cash advances to MDAs 56.4 percent of non-salary recurrent cost expenditures (January to March 2018).	Reduce cash advances to MDAs for non-salary recurrent costs from 56.4 percent baseline at end-March 2018 to 26.4 percent [value-based]		Reduce cash advances to MDAs for non-salary recurrent costs from 56.4 percent baseline at end-March 2018 to 16.4 percent [value-based]		All government payments for salaries, transfers and capital expenditures to be executed as payments to Bank accounts directly to vendors, with the exception of: petty cash, travel advances, security sector, and contingency (per Appropriation Act)	
<b>4.29</b>		<b>1.43</b>		<b>1.43</b>		<b>1.43</b>	



DLI and Problem Statement	Year 0 (2018) Baseline	Indicative timeline for achievement					
		6 months (March 2019)	12 months (August 2019)	18 months (February 2020)	24 months (August 2020)	30 months (February 2021)	36 months (August 2021)
<b>DLI 5 Strengthen inter-governmental fiscal policy framework:</b> Lack of a rule-based approach to the distribution of funds between FGS and FMS/BRA, with limited assurance that Article 50 (e) of the Constitution ('fair distribution of resources') is being adhered to.	Policy paper outlining Policy Framework for Inter-Governmental Fiscal Transfers Developed and tabled at Finance Ministers Fiscal Forum covering: Budget Timetable; Reporting and disbursement conditions.	Policy paper outlining policy framework for Inter-governmental Fiscal Transfers agreed at Finance Ministers Fiscal Forum covering: Budget timetable, reporting, accountability and disbursement conditions.				Draft Policy paper including: (i) principles to guide FGS transfer allocations to FMS/BRA; (ii) comparative analysis, reflecting regional context; and (iii) long-term views, tabled at Finance Ministers Fiscal Forum	Fiscal transfer allocations in draft 2021 FGS budget reflect policy paper principles.
<b>4.29</b>		<b>1.43</b>				<b>1.43</b>	<b>1.43</b>
<b>DLI 6: Strengthen FGS transfers to FMS:</b> Select FMS have minimal sources of revenue in their local economy, and therefore difficulty in sustaining their operations, while FGS collects tax and customs, partly from goods and services that are destined for delivery in FMS. Historically, FGS transfers to FMS have been made on an ad hoc and unpredictable basis.	2018 fiscal transfers to FMS budgeted at US\$12 million, with US\$5.4 million for block transfers under under 10701 Ministry of Interior and Federal Affairs (US\$1.8 million each for GSS, SWSS, and Hirshabelle). Interior transfers transitioned from cash to EFT direct to Recipient Single Treasury Accounts during 2018.		FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 1)		FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 2)		FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 3)
<b>4.29</b>			<b>1.43</b>		<b>1.43</b>		<b>1.43</b>



DLI and Problem Statement	Year 0 (2018) Baseline	Indicative timeline for achievement					
		6 months (March 2019)	12 months (August 2019)	18 months (February 2020)	24 months (August 2020)	30 months (February 2021)	36 months (August 2021)
<b>DLI 7 Strengthen teacher proficiency testing:</b> Lack of an established system for teacher proficiency testing hampers merit-based recruitment and promotion, and undermines the effective development and targeting of pre- and in-service teacher training	FGS MoE has developed a basic teacher proficiency test, and plans to apply this test to the recruitment of 300 new government teachers. Existing teachers (financed through RCRF) have not been subject to any proficiency testing.		Teacher proficiency test piloted in at least one eligible FMS/BRA, establishing minimum competency level of teachers (Year 1)		Proficiency testing of teachers conducted in at least two eligible FMS/BRA as an annual exercise, establishing minimum competency level of teachers (Year 2)		Proficiency testing of teachers conducted in at least three eligible FMS/BRA as an annual exercise, establishing minimum competency level of teachers (Year 3)
<b>4.29</b>			<b>1.43</b>		<b>1.43</b>		<b>1.43</b>
<b>30.00</b>		<b>5.71</b>	<b>4.29</b>	<b>4.29</b>	<b>5.71</b>	<b>5.71</b>	<b>4.29</b>
		<b>10.00</b>		<b>10.00</b>		<b>10.00</b>	



**Table 11: RCRF II AF DLI Verification Protocol Table**

DLI	Definition / Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
			Data source/agency	Verification agent (VA) <sup>16</sup>	Procedure (Details of verification methodology for all DLIs in POM).
<b>DLI 1 Strengthen customs administration as per the customs reform action plan</b>					
DLR 1.1. Customs modernization road map and action plan tabled, discussed and adopted at inter-governmental technical committee, including agreement on common goods classification	Minutes of inter-governmental technical committee, and adopted customs modernization road map and action plan	No	Inter-governmental Technical Committee and RCRF II Project Manager	VA	VA to obtain documentation and confirm with selected meeting participants.
DLR 1.2. Implementation of interim IT system at Mogadishu, Bosaso and Kismayo ports, including common goods classification, customs practices and procedures and valuation of goods.	IT systems assessed as being in use, including common goods classification, and common processes and valuation of goods.	No	FGS (Mogadishu), PSS (Bosaso) and JSS (Kismayo) MoF Revenue Departments	VA	VA to assess design and use of system.
DLR 1.3. Functional specifications for the new customs IT system developed and approved by FGS MoF.	Functional specifications with signed covering letter from Minister of Finance	No	MoF Revenue Department	VA	VA to obtain documentation.
<b>DLI 2 Strengthen tax administration systems and staffing</b>					
DLR 2.1. TIN and TCC mandatory when bidding for government contracts and valid TIN required to have invoice paid.	SFMIS vendor payment report indicating only entities with tax clearance have received payments	No	MoF Revenue Department; SFMIS	VA	VA to assess design and use of system.
DLR 2.2. Review existing business processes 'as-is' and new business processes developed and approved by FGS for the following revenue streams (sales tax, excise duty, road tax, stamp duty, registration tax (fees and levies).	Report documenting existing business processes 'as-is' and new business processes, with signed approval letter from Minister of Finance	No	MoF Revenue Department	VA	VA to obtain documentation.
DLR 2.3. Targeted automation for collection of sales tax, excise duty, road tax, stamp duty, and registration tax deployed.	Report of automated revenue streams from the adopted systems with their revenue impact	No	MoF Revenue Department	VA	VA to assess design and use of system.
<b>DLI 3 Strengthen cash management and TSA</b>					

<sup>16</sup> OAug with support from contracted technical experts.



DLI	Definition / Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
			Data source/agency	Verification agent (VA) <sup>16</sup>	Procedure (Details of verification methodology for all DLIs in POM).
DLR 3.1. SFMIS incorporates: (i) End-of-day balances of all TSA accounts and (ii) monthly balances of all MDA accounts held at the CBS.	SFMIS fiscal reports showing: (i) end of day balances of TSA accounts, and (ii) monthly balances of all MDA accounts held at the CBS.	No	FGS MoF, OAG; SFMIS	VA	VA to assess and verify functionality of the SFMIS system.
DLR 3.2. SFMIS incorporates: (i) end-of-day reconciled balances of all government accounts for revenue and expenditure, and (ii) all outstanding commitments made	SFMIS fiscal reports showing: (i) end of day reconciled balances of all government accounts, and (ii) all outstanding commitments	No	FGS MoF, OAG; SFMIS	VA	VA to assess and verify functionality of the SFMIS system.
DLR 3.3. SFMIS incorporates cash forecasting model, to inform management about commitments, available balances and expected revenues with regular monthly management reports produced by the Accountant General through SFMIS	Regular monthly management reports produced by the Accountant General through SFMIS	No	FGS MoF, OAG; SFMIS	VA	VA to assess and verify functionality of the SFMIS system.
<b>DLI 4 Strengthen payment process for operational expenditures</b>					
DLR 4.1. Reduce cash advances to MDAs for non-salary recurrent costs from 56.4 percent baseline at end-March 2018 to 26.4 percent [value-based]	SFMIS fiscal reports showing the baseline and subsequent change. Baseline (Jan – Mar '18) excludes all security agencies (Armed Forces, Police, Custodial Corps, and NISA), except dry and wet rations	No	FGS MoF, OAG; SFMIS	VA	VA to verify baseline and targets.
DLR 4.2. Reduce cash advances to MDAs for non-salary recurrent costs from 56.4 percent baseline at end-March 2018 to 16.4 percent [value-based]	SFMIS fiscal reports showing the baseline and subsequent change. Baseline (Jan – Mar '18) excludes all security agencies (Armed Forces, Police, Custodial Corps, and NISA), except dry and wet rations	No	FGS MoF, OAG; SFMIS	VA	VA to verify baseline and targets.
DLR 4.3. All government payments for salaries, transfers and capital expenditures to be executed as payments to Bank accounts directly to vendors, with the exception of: petty cash, travel advances, security sector, and contingency (per Appropriation Act)	SFMIS fiscal reports showing the baseline and subsequent change. Baseline (Jan – Mar '18) excludes all security agencies (Armed Forces, Police, Custodial Corps, and NISA), except dry and wet rations	No	FGS MoF, OAG; SFMIS	VA	VA to verify baseline and targets.
<b>DLI 5 Strengthen inter-governmental fiscal policy framework</b>					



DLI	Definition / Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
			Data source/agency	Verification agent (VA) <sup>16</sup>	Procedure (Details of verification methodology for all DLIs in POM).
DLR 5.1. Policy paper outlining policy framework for Inter-governmental Fiscal Transfers agreed at Finance Ministers Fiscal Forum covering: Budget timetable, reporting, accountability and disbursement conditions.	Minutes of Finance Ministers Fiscal Forum, and agreed Inter-governmental Fiscal Transfers Policy Paper	No	Inter-governmental Fiscal Forum and the Budget Department	VA	VA to obtain documentation.
DLR 5.2. Draft Policy paper including: (i) principles to guide FGS transfer allocations to FMS/BRA; (ii) comparative analysis, reflecting regional context; and (iii) long-term views, tabled at Finance Ministers Fiscal Forum.	Minutes of Finance Ministers Fiscal Forum, working policy paper on inter-governmental fiscal transfers.	No	Inter-governmental Fiscal Forum	VA	VA)to obtain documentation.
DLR 5.3. Fiscal transfer allocations in draft 2021 FGS budget reflect policy paper principles.	Fiscal transfer allocations to FMS in draft 2021 FGS budget reflect policy paper.	No	2021 FGS Budget Submission to Parliament	VA	VA to obtain documentation.
<b>DLI 6 Strengthen FGS transfers to FMS</b>					
DLR 6.1. FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 1)	FGS 2019 Approved Budget, and SFMIS expenditure reports for January – June 2019	No	FGS Budget and SFMIS reports, OAG	VA	VA to verify targets.
DLR 6.2. FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 2)	FGS 2020 Approved Budget, and SFMIS expenditure reports for January – June 2020	No	FGS Budget and SFMIS reports, OAG	VA	VA to verify targets.
DLR 6.3. FGS fiscal transfers execution rate to FMS equal to or greater than the outturn rate for domestic revenues (Year 3)	FGS 2021 Approved Budget, and SFMIS expenditure reports for January – June 2021	No	FGS Budget and SFMIS reports, OAG	VA	VA to verify targets.
<b>DLI 7 Strengthen teacher proficiency testing</b>					
DLI 7.1. Teacher proficiency test piloted in at least one eligible FMS/BRA, establishing minimum competency level of teachers (Year 1)	FGS MoE to prepare report on teacher proficiency test pilot.	No	FGS and FMS Ministries of Education	VA	VA to undertake implementation verification.
DLI 7.2. Proficiency testing of teachers conducted in at least two eligible FMS/BRA as an annual exercise, establishing minimum competency level of teachers (Year 2)	FGS MoE to prepare report on teacher proficiency testing.	No	FGS and FMS Ministries of Education	VA	VA to undertake implementation verification.
DLI 7.3. Proficiency testing of teachers conducted in at least three eligible FMS/BRA as an annual exercise,	FGS MoE to prepare report on teacher proficiency testing.	No	FGS and FMS Ministries of Education	VA	VA to undertake implementation verification.



DLI	Definition / Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
			Data source/agency	Verifica- tion agent (VA) <sup>16</sup>	Procedure (Details of verification methodology for all DLIs in POM).
establishing minimum competency level of teachers (Year 3)					





## Annex 4: Financial Management Implementation Arrangements

### **Country PFM and Context**

1. A key PFM finding of the 2006-2007 Joint Needs Assessment (JNA) of PFM Legal Framework and supporting systems in Somalia<sup>17</sup> was that ‘systems that manage public resources are fundamentally weak and outdated’. Similarly, the April 2013 PFM self-assessment that focused mainly on FGS PFM activities revealed serious capacity weaknesses similar to those identified by the JNA. However, in support of 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 a deliberate effort, as part of the New Deal ‘FOCUS’<sup>18</sup> and ‘TRUST’<sup>19</sup> principles, to utilize country systems. The underlying principle is ‘country-ownership’ anchored in the “strengthened PFM approach”, a common framework that has been widely agreed between the Somali authorities, World Bank and DPs, and is in line with the World Bank’s overall approach to strengthening its PFM work.

2. Over the last five (5) years, the country has experienced emergence of an additional four FMS,<sup>20</sup> each with autonomous PFM legal frameworks without appropriate unifying PFM legal architecture. The pre-existing PFM legal framework is anchored on Decree 29 of December 1961, Financial and Accounting Procedures Number 2 of the Federal State. The framework requires significant upgrading to make it compliant with international standard and support a robust PFM framework. Various legislations and Bills have been enacted or under preparation with aim of modernizing and strengthening the PFM framework. In addition, with support of the World Bank and other DPs, series of PFM interventions led by the at FGS and FMS have been implemented. These include but not limited to: i) functional review and re-establishment of key PFM institutions (MoF, SAI and Accountant General/Treasury) at FGS and FMS; ii) scooping and roll out of Integrated Financial Management Systems (IFMIS) at Federal and State Level; iii) re-engineering of PFM business process and related policies and procedures; iv) launch of targeted high caliber PFM staff through pre-defined CIM; v) modernization of SCoA in line with IMF Government Financial Statistics (GFS) and Classification of Government Functions (CoFOG); vi) establishment of unified PFM/Fiduciary arrangements (units) within the Office of the Accountant General (OAG) and FMSs Treasuries - staffed by mainstream civil servants complemented by targeted TA; and vii) launch of PFM and Education Training curriculum in partnership with United Kingdom (UK) Chartered Institute of Public Finance and Accountancy (CIPFA) and local Universities, linked to civil service PFM professionalization cadre.

3. **Project PFM system.** To leverage on the authorizing environment the project FM system is fully aligned with the country PFM systems. The EAFS units established within offices of Accountant General at FGS and States Treasuries are fully operationalized and have been managing the FM arrangements at FGS and FMS

<sup>17</sup> Jointly carried out by the Transitional Federal Government, the United Nations and the World Bank.

<sup>18</sup> FOCUS: Nationally country led planning and priority-setting based on fragility assessments, simplified planning mechanisms, and support for political dialogue. The focus principles are: country-led fragility assessments; one vision, one plan; consensus around a compact; using the PSGs to monitor; and support for political dialogue. <https://www.pbsdialogue.org/en/new-deal/new-deal-principles/>

<sup>19</sup> TRUST: Increasing trust between national and international actors by promoting transparency, risk management, capacity development and use of country systems in the delivery of external aid. The trust principles are: transparency of aid; risk-sharing; use and strengthen country systems; strengthen capacity; and timely and predictable aid. <https://www.pbsdialogue.org/en/new-deal/new-deal-principles/>

<sup>20</sup> JSS, SWSS, GSS, and HSS, in addition to the much longer existing PSS.



level. The units are charged with overall FM responsibility for all the externally financed projects (including World Bank supported projects) at the FGS and FMSs and their performance has been satisfactory. With overall guidance from the Accountant General in the respective regions, the EAFS units in consultation with the respective Public Financial Management Reform Coordination Units (PFMRCUs) will continue to provide day-to-day FM for the project. The effectiveness of the EAFS unit alongside other key functional units<sup>21</sup> will be continuously monitored while key areas of capacity strengthening will be identified and supported through the resources under the AF. The existing organizational and functional structure of the EAFS units are expected to be maintained and further strengthened to provide effective FM support to the project. All project FM transactions will be recognized, captured, recorded, analyzed, summarized, and reported through the Government(s)' FMIS. The EAFS units with support of the Accountant Generals will ensure that:

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

4. **Budgeting.** To foster comprehensiveness, accountability and transparency of reporting, the project annual allocations under the normal activities funded through Designated Accounts (DA) and reimbursements linked to the achievement of the benchmarks are integrated into the project annual appropriations Acts approved by parliament. Government will take measures to guarantee adequate budgetary provisions both on the revenue and expenditure sides. The budget will be detailed according to the segments in the approved SCoA i.e. administrative/ organization, fund, program/project, economic/object code and location as may be appropriate. For the activities related to achievement of DLIs (reform benchmarks) the Government will ensure the specific earmarked budget codes are adequately budgeted and resourced. Reimbursements against the achieved reform benchmarks will be recorded, accounted for and reported under the project against eligible expenditures.

5. The PFMRCU in consultation with the EAFS and the Accountant General will prepare and submit to the World Bank for the necessary approvals, the project annual work plans, PP, budgets and cash flow forecast for each project component. The budget and cash forecast shall include normal activities pre-financed through the DA as well as anticipated reimbursements from the achievement of reform benchmarks. The work plans, cash flow projections budget include the project activities, amounts according to the Government financial year analyzed by month and quarter delineated by funding source (SMPF and IDA PACG). All annual cash budgets will be submitted to the World Bank Project Task Team Leader (TTL) not later than two months before the beginning of the Government fiscal year for review and approval. As part of Government fiscal performance monitoring, the project budget utilization reports shall be prepared from the government SFMIS.

6. Over the last three years, the project share of the salaries contribution has not been appropriated budgeted at FGS in line with the SCoA structure to which the organizational and fund source code are combined into a single segment in the budget. This oversight has posed downstream reporting and accountability challenges. The FGS non- security sector salary expenditures as shall be specified under the

<sup>21</sup> Internal Audit, Cash Management Unit, TSA, Payroll, HR Planning and Training units.



respective Government annual appropriation budget codes will form the Eligible Expenditure Framework/Program (EEF/P). The applicable object codes as provided on the approved annual budgets of the qualifying MDAs and Standard Chart of Accounts shall be specified in the POM. Government will take measures to ensure all the non-security sector salaries allocations are appropriately budgeted segregated by all the SCoA codes including General Government co-financing allocation, RCRF II Project SMPF and IDA fund sources allocations. Budget execution progress will be monitored continuously through periodic SFMIS generated fiscal summary reports. Detailed EEP SFMIS budget expenditure reporting format will be detailed in the POM.

7. **Disbursements, banking and funds flow arrangements.** The disbursements, banking and funds flow arrangements for the activities under the project will be managed by the EAFS with overall guidance from the OAG. Reimbursements related to achievement of reform benchmarks shall be processed through client connection and disbursed directly to the Government virtual TSA. The project will continue to maintain two DAs at the Central Bank of Somalia (CBS) or alternative Financial Institution Acceptable to the World Bank. The two DAs will be managed by the authorized signatories at the FGS. The signatories to the DAs will be structured into two panels with at least one mandatory signatory from each panel.

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

8. The EAFS units in consultation with the PFMRCUs, Accountant General and DG MoF at FGS and FMS will ensure the following:

- DAs and Project Accounts shall be in United States Dollar (US\$) and opened financial institution acceptable to the Bank<sup>22</sup>.
- Project component funds are transferred into the DA and Project Accounts against an approved Withdrawal Applications.
- Subsequent withdrawals are supported by Statements of Expenditures and the requisite supporting documentation.
- Disbursement arrangements as documented in the Disbursement Letter are adhered to.
- Once the vendor registration data base and payment systems are established all third-party payments and project staffs' salaries are processed directly into the vendors and employees bank accounts.
- Only eligible expenditures are paid for from the DA and Project accounts
- Authorized DAs and Project Accounts ceilings, FGS/FMS inter-governmental transfers and related payments processing procedures as defined in the PAD, Grant Agreement, Disbursement Letter, Government PFM Policies and Procedure Manuals (COPM and POM).
- Adequate working capital resources are maintained in the DA and Project Accounts throughout implementation of the project.
- Timely and predictable disbursement of funds, transfers and payments across the funds flow chain.
- Disbursements related to the DLIs are requisitioned through client connection on timely basis.
- In consultation with the Accountant General and budget Directorates adequate resources are prioritized in the TSA to finance earmarked disbursement linked result (DLR) activities.

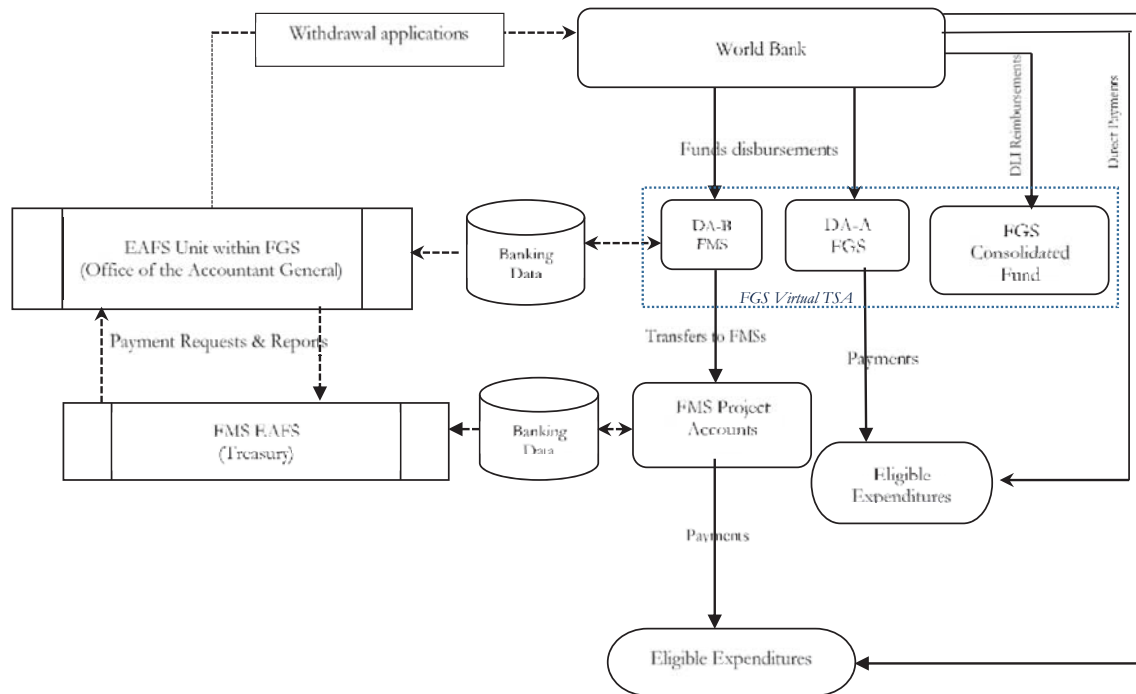
<sup>22</sup> On terms and conditions in the World Bank Disbursement Guidelines for Projects (May 1, 2006:11).



9. Given that the country is not connected to the global payment settlement systems, portfolio-wide alternative banking arrangements are used, which include aspects of Money Transfer Operators (MTOs). MTOs used by the FGS to facilitate payments are licensed, and subject to supervision, by the CBS. However, greater efforts are required to meet current and emerging needs in respect to further strengthening MTO licensing and supervision capacity of the CBS. Over the years under which the country has been supported through SMPF operations, the World Bank has not identified any major adverse funds and banking issues impacting on implementation and timelines in disbursement of funds to the DAs. The existing arrangements will be further strengthened to improve on controls and timeliness of funds from the DA to the Projects Accounts at the FMSs.

10. The revised funds flow arrangements are outlined in the diagram below.

Figure 1: Fund Flows Diagram RCRF II



11. **Accounting.** All project financial transactions shall be accounted through agreed government accounting policies and procedures. The EAFS will maintain all the supporting documentation relating project financial transactions including eligible expenditures relating to the reimbursements of salaries of eligible civil servants. The project will take measure to ensure adequate accounting and procedures are maintained to facilitate monitoring, accounting and reporting of the EEF/EEP and DLIs reimbursements (delineated into overall EEF/EEP as well as allocated proportions as financed by Government and the project). Detailed EEF/EEP FM procedures will be outlined in the POM. All the project budget and expenditures (input based as well as EEF/EEP) shall be recognized, recorded, analyzed, and summarized in line with agreed eligible budget codes. The project finances including expenditures related to the reform benchmarks will be accounted using IPSAS - cash basis of accounting. These will be supported with appropriate records and documentation to track commitments and safeguard project assets and liabilities.



The project budgets and expenditures will be classified to facilitate integrated comprehensive accounting of the project revenue and receipts finance through the DA as well as reimbursements on the achievement of the benchmarks. Accounting records will be maintained in U.S. dollars.

12. **Internal controls.** With the support of the PFM CSP II, FGS and PSS consolidated the EAFS Manuals into a single Government-wide COPM. Project activities shall be undertaken in compliance with the provisions of the COPAM and the POM. The POM will be updated routinely to include emerging projects FM aspects as well as detailed procedures in the management of the EEF/EEP. With support of the CIP, plans are underway to establish an internal audit function centralized within FGS OAG. Once operationalized, the internal audit function will be integrated to cover the project activities with specific focus to risk based systems audits part of which may include the verification of the benchmarks. In the transitional period, the verification of the benchmarks shall be reviewed and cleared by an independent verifier (which may include TA twinning arrangement with OAuG). The independent verification certification reports shall explicitly outline and provide verification mechanisms and protocols adhered to, verification approaches deployed, verification evidence gathered and DLR verified, recommended specific amount to be reimbursed. The benchmark verification mechanism including verification protocol, supporting documentation, approval processes, reporting arrangements and timing will be documented in the POM and IVA ToR Specific internal controls will be incorporated in the POM detailed the FM arrangements for the decentralized Community Driven Development activities implemented at the local level particularly CDD activities in Health and Education Sectors including payments of salaries to Teachers and CBHW. Internal controls for the payments including funds flow and disbursement arrangements at the local level will be outlined in the POM as well as covered as part of FM implementation support and independent monitoring.

13. **Financial reporting. The project financial reports shall be generated directly from SFMIS in the pre-agreed content and format.** The project IFRs shall be comprehensive and detailed covering revenues and expenditures of all the project activities funded through the DA as well those related to benchmark reimbursements. The IFR formats shall be revised to include specific report outlining the EEF/EEP status (annual budget allocation, quarterly and annual actual expenditures by source – FGS and project, share of actual EEP financed by Government, projected DLIs reimbursement and actual amounts disbursed). Detailed reporting formats shall be outlined in the POM. The physical progress reports shall outline progress made in the achievement of the agreed benchmarks at the aggregate as well as by key result areas. The IFRs and progress reports will be submitted in the periodicity as specified in the PAD and Grant Agreement. The project annual financial statements prepared on IPSAS Cash Basis (including appropriate disclosure notes) and submitted by the Accountant General to the Auditor General for audit will include project financial activities financed through the DA as well benchmark reimbursements.

14. **External audit.** The audit arrangements envisaged in the original design of the project remains. However, the ToR for the external audit will be enhanced to include specific audit procedures of the DLIs/DLRs and related EEF/EEP. The auditors are expected to extend their confirmation test to provide assurance on the benchmarks verification processes, adequacy of the supporting documentation, attainment and consistent maintenance of the agreed benchmarked results.

15. **EEF/Eligible Expenditure Program (EEF/EEP).** The design of the project has been enhanced to incentivize Government reform efforts. Bulk of the project resources are channeled to Government through the IPF while the remainder of the resources are structured and disbursed to FGS conditionally upon achievement of variable reform related results as provided under Table 10. The FGS non-security sectors



civil servants wage bill as provided in the annual appropriation Act will be the EEF/EEP. The qualifying expenditure framework is co-financed 77 percent through FGS domestic revenue (approximately US\$2.2 million as at April 2018) and 23 percent as input based financing through the project. Figure 4.2 below provides the total wage as the matching proportion financed by the Government and project since March 2015 to March 2018.

Figure 2: Total FGS Wage Bill and Size

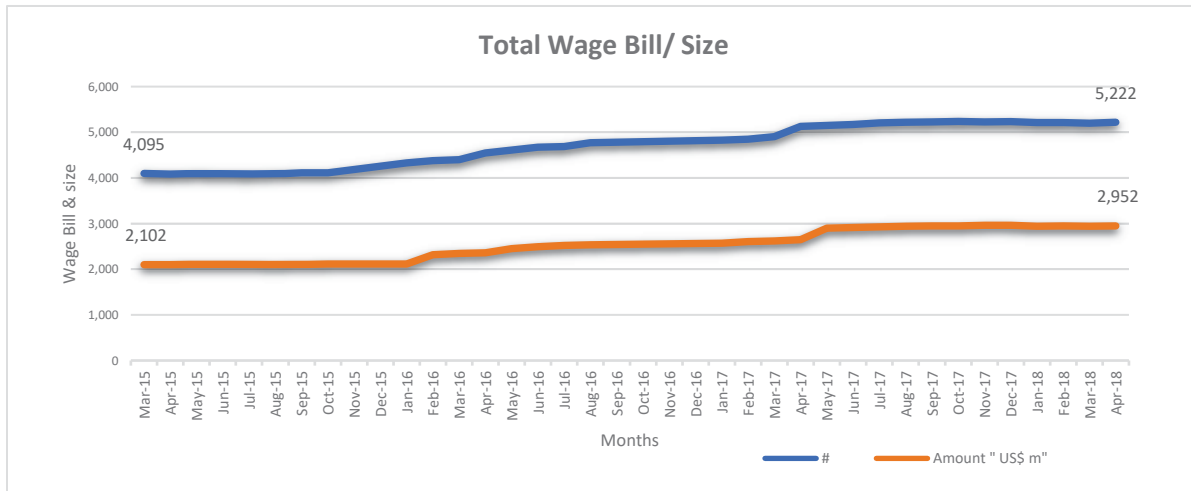


Table 12: Eligible Expenditures for IDA Grant and SMPF Grant

Category	Amount of the Financing Allocated from IDA Grant (expressed in SDR)	Amount of the Financing Allocated from SMPF (expressed in US\$)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Salaries of Eligible Civil Servants and eligible Staff and Young Graduates, Eligible Non-Salary Recurrent Costs, goods, non-consulting services, consultants' services, Training and Operating Costs under Parts A.1 and A.2 of the Project	6,300,000	2,000,000	
(2) Eligible Expenditure Programs under Part A.3 of the Project	21,500,000		100% of amounts spent in compliance with DLI and DLR amounts set out in Schedule 3 of this Agreement as reported under the EEP Spending Reports for each Withdrawal
(3) Goods, non-consulting services, consultants' services, Training and Operating Costs under Parts B and D of the Project	2,050,000		100%
(4) Subproject Grants for Salaries of Eligible Civil Servants, Eligible Staff and Young Graduates, Eligible Non-Salary Recurrent Costs, non-consulting services, consultants' services, Training and Operating Costs under Part C of the Project	12,950,000		100%



TOTAL AMOUNT	SDR 42,800,000	US\$2,000,000
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Table 13: Key fiduciary risks and mitigation measures

Key Risks	Proposed Mitigation Measures
<p>Key EEF/EEP (PFM/FGS payroll) related risks identified over the period. These risks if not effectively managed will impact on the quality and adequacy of the EEF/EEP.</p> <ul style="list-style-type: none"> <li>• Progressive growth in size and total wage bill which may outweigh Government’s domestic revenue fiscal ability which may be exacerbated by pipeline EU Euro 92m budget support.</li> <li>• Unexplained payroll changes and exceptions (entries, exits, changes in basic salaries and allowances etc.)</li> <li>• Undisclosed cash based salary payments outside payroll iv) payroll processes not fully migrated into SFMIS payroll module</li> <li>• Lack of T&amp;A monitoring systems vi) manual payments systems at the CBS</li> <li>• Increase in the quantum of potentially ineligible payroll expenditures at FGS and FMSs viii) inadequate payroll changes business processes</li> <li>• Salaries payments not accurately budgeted in line with the approved Government SCoA</li> <li>• Government employment not undertaken in line with public sector employment plans as recommended in the existing operation</li> <li>• Inadequate or non-existence HR and payroll policies and procedures.</li> </ul>	<p>Commensurate PFM/Fiduciary measures will be deployed including</p> <ul style="list-style-type: none"> <li>• Robust monitoring arrangements focused on significant areas of payroll risks and exceptions.</li> <li>• Extended payroll monitoring and oversight through Government PFM institutions and arrangements (Civil Service Commission, Accountant General, SAI, Internal Audit Function)- the mitigation will be linked to the payroll verification PDO.</li> <li>• Public-sector employment plans envisaged in the existing operation will need to be enforced.</li> <li>• Strengthening aggregate and specific payroll controls through SFMIS and re-engineered business processes linked to PFMCSF II and CIP.</li> <li>• Policy dialogue and reconciliation of the payroll staff with outcome of the HR audit and biometric exercise undertaken by CIP. The reconciliation process will be supported by TA support posted to OAG and Civil Service Commission as necessary.</li> <li>• TA support to undertake independent QA of the SFMIS modules with specific focus on the payroll and HRMIS modules.</li> <li>• World Bank/Government joint policy dialogue on HR policies and procedures on payroll controls and related exceptions.</li> <li>• TA support to strengthen Government budget policy framework and budget preparation process – specific focus on the accuracy and comprehensiveness of the EEP.</li> </ul>

16. **Disbursements under results-based financing.** Fund disbursements under the DLIs mechanism are conditional on the achievement of reform actions or results. A certain amount of grant proceeds will be allocated to each DLI, referred to as DLI price, which is the amount that the Government can claim as reimbursement against the EEP if that DLI has been achieved and verified. For each year, the maximum amount eligible for disbursement will be equivalent to the price of the DLIs achieved. Payment is made for compliance with DLIs on a semiannual basis. Selected DLIs have been designed to be scalable to allow proportionate disbursement in the case of partial achievement. This allows for lower disbursement amounts when results are only partially achieved. This is only applicable for DLIs with numerical targets. The detailed DLIs and related financing allocations will be outlined in the POM.



17. **DLIs verification mechanism and protocols.** The Office of the Audit General will be the VA with overall responsibility in verification of the DLIs for the proposed project. Auditor General will carry this task with support of TA. Semiannual independent review and verification of the DLRs will be undertaken to confirm the accomplishments of the DLIs and make necessary proposals for disbursements. These contracted TA experts shall work under the supervision and direction of the Auditor General. The Auditor General will appoint and second staff to work alongside the Consultants. To build the capacity of the staff within the OAuG, the Experts are expected to work jointly with the seconded staff. The experts and the appointed staff shall prepare the DLR verification report and submit them to the Auditor General for review and approval. The verification will be extended to cover DLR verification, EEF/EEP quality and sufficiency reviews, DLR/EEF/EEP supporting evidence, key risks and challenges impacting on the DLIs, EEF/EEP. The approved reports shall be submitted to the World Bank through the PFMRCU. As part of implementation support, the World Bank may directly or through its appointed agents undertake confirmation review. Where the achievement of a DLIs cannot be verified, an amount equivalent to the price of that DLI will be withheld. This amount may be paid at any later date when such achievement is verified and confirmed. The implementing Agencies/departments will provide evidence of achievement of their respective DLIs to the PFMRCU using the reporting formats. The PFMRCU will compile the information on the status of achievement of results (as provided by the responsible implementing agencies/departments). From time to time a special meeting of the project steering committee which will include implementing agencies, VAs, World Bank and participating DPs will then review the report and resolve any outstanding issues. The detailed verification mechanisms, protocols, roles and responsibilities and TORs will be outlined in the POM.





## Annex 5: Comprehensive Risk Management Approach for RCRF

1. **The Risk Management arrangements for RCRF II have been continuously developed alongside the operation to enable delivery in a high-risk and volatile environment.** To deliver the activities accordingly additional risk management procedures have been adopted to manage the residual risk profile in Somalia as the institutions emerge. Traditional instruments are insufficiently tailored to solely operate in Somalia, yet, the delivery of the Somalia portfolio since 2014, has resulted in valuable lessons across the portfolio that have been adapted to the operational context. The recent assessments of the country including the SCD and Risk and Resilience Assessment (RRA) have highlighted sources of risk, and the CPF provides an effective overall risk framework for the country. The manifestation of those risks in the operations varies over time and in intensity, requiring risk management instruments that are adaptable and scalable. The emerging institutional context requires enhanced fiduciary supervision arrangements above and beyond the traditional procedures of the World Bank and a focus on building those institutions in Somalia in parallel, across the World Bank’s portfolio and in close partnership with other DPs. Innovative approaches to tackle GBV-related risks through a portfolio-wide screening and staff time from the World Bank’s GBV expert on project-level GBV risk management, or additional layers to the World Bank’s security platform to enable the delivery of critical services and TA to the client, are some instruments of the comprehensive risk management approach for RCRF that will be further developed and adapted during implementation and captured in the POM.

Table 14: RCRF Risk Management arrangements

Risk Management	Traditional	Enhanced	Innovative
<i>Principles</i>	<i>Reactive</i>	<i>Proactive (RCRF II, ISN 2014-2017)</i>	<i>Adaptive (RCRF II AF, CPF 2018-2022)</i>
Political Risk	Country Management Unit (CMU), client dialogue	SCD, RRA, World Bank Operations Officer – RISK; additional TA (FGC, IGFF); political and conflict sensitivity screenings	Enhanced coordination between Governance operations; UN-World Bank Political Economy assessments; World Bank-EU-IMF partnership; Restructuring schedule; Agile project design; UN collaboration: UN Political Mission exchanges, World Bank-UN Liaison Officer
Macroeconomic risk	World Bank Economic Updates, Bank ASA	IMF SMP monitoring; World Bank and bilateral programming for DRM; PER	Working Group on Budget Support, World Bank-EU-IMF partnership
Fiduciary Risk	World Bank Fiduciary team	MA	Enhanced TA on procurement, complementing support through IFIs, bilaterals, and capacity injection; handholding and partnering arrangements with Auditor General; Eligibility criteria for recipient readiness (i.e. T&A system); VA and client capacity building; double monitoring (payroll and DLI verification) Note especially Table 13: Key fiduciary risks and mitigation measures
Reputational Risk	World Bank Communications and CMU	SMPF Communications Officer, SMPF Operations Officer – RISK, political and conflict sensitivity screenings	TA for government on media engagement, CSO engagement. See Political risk
GBV Risk	Social Safeguards	Social Safeguards Specialist review with specific GBV training	GBV risk review of Somalia portfolio, GBV review of project, GBV Specialist part of Task Team
Security risk	GSD	Private security platform	Professional services platform for implementation support and TA



## Annex 6: Procurement Implementation Arrangements

1. **Guidelines:** Procurement under the proposed AF will be carried out in accordance with the requirements in the Procurement Regulations for Borrowers under IPF: Goods, Works, Non-Consulting Services and Consulting Services dated July 1, 2016 (revised November 2017); “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016)”; and provisions stipulated in the Financing Agreement. Somalia being a FCV country, Procurement under the projects will be processed under special procurement arrangements referred to in paragraph 12 of the World Bank Policy IPF dated November 10, 2017.
2. **PPSD and PP:** As per the requirement of the Regulations, the Borrower has developed a PPSD, based on which the PP for the first 18 months will be prepared. The PP will set out the selection methods to be followed by the Borrower during project implementation in the procurement of goods, non-consulting services, and consulting services. The PP will be updated at least every 12 months, or as required, to reflect the actual project implementation needs, but each update shall require World Bank approval. All PPs will be publicly disclosed in accordance with the World Bank disclosure policy.
3. **PPSD Summary: A summary of the PPSD is as follows:**
4. Summary of the proposed procurement contracts:
  - a. The main contracts to be undertaken will include the following:
    - i. Goods and non-Consulting Services
    - ii. Consulting Services
5. Operating Context
  - a. **Governance Aspects:** With the enactment of the second Federal Government term, Somalia and its international partners have committed to align behind Somalia’s new National Development Plan (NDP) (2017-2020), reinforced by the New Partnership for Somalia agreed at the London Conference in May 2017. The NDP will set the priorities for national recovery and development, while a new and reinvigorated partnership agreement will guide collective efforts through the next phase of Somalia’s transition out of conflict and fragility. Specifically, the AF will be used to scale-up two ongoing Governance projects, namely: The DRM&PFM AF Project (co-financed by US\$20 million IDA and US\$10 million SMPF), and the RCRF II (US\$60 million IDA and US\$60 million SMPF).
  - b. **Economic Aspects:** Somalia is classified by the United Nations one of the least developed countries. Despite experiencing two decades of civil war, the country has maintained an informal economy, based mainly on livestock, remittance/money transfers from abroad, and telecommunications.
  - c. **Sustainability Aspects:** Because of the protracted war and persistent drought conditions in many parts of Somalia, the country is facing uncertainty regarding the sustainability of the programs intended to support the growth of the economy thus support sustainable programming. It is hoped that with the steps that the country has been able to take since 2012, and with the new Government in place, the country will be able to develop more long term sustainable development.



**d. Market Research and Analysis:**

- i. **Consultancy Services:** Consultancy services assignments for this project will be hiring consultants. These will include both individual and consultant firms from local and international markets as appropriate. There are well qualified consulting firms and individuals mainly from the region who have participated in the previous consultancy assignments in the past. Previous experience from the on-going project and from similar projects shows that both local and foreign firms have participated in the bid opportunities. In some instances, local firms have partnered with foreign firms. The implementing agency has experience of handling such selection processes whether locally or internationally. The preferred procurement method for firms under consulting services would be Quality and Cost Based Selection (QCBS). However, other methods including direct selection would be used as stipulated in the PP.
- ii. **Procurement of Non-Consulting Services:** Contracts under non-consulting services include activities such as workshop venues, transport or IT services. Non-consulting services items such as Information and Communication Technology (ICT) equipment/consumables and printing services are available either locally or internationally. Given the size and nature of non-consulting services to be procured, most of the potential bidders are available locally. Such items will be procured through National Open Competition market approach and Request for Quotations.
- iii. **Office Equipment and Supplies:** These items will include vehicles, IT equipment and furniture. Somalia has available local traders for ICT equipment, scientific equipment, motor vehicles, and furniture and other office supplies. Such items will be procured using either Open National or Request for Quotation methods.

6. **STEP:** The World Bank's STEP system will be used to prepare, clear, and update PPs and conduct all procurement transactions for the project.

7. **Procurement Templates:** The World Bank's Standard Procurement Documents (SPDs) shall be used for procurement of goods, and non-consulting services under International Competitive Procurement. As there are no National Bidding documents, the World Bank's SPDs may be used under National Procurement Procedures (NPP). Similarly, selection of consultant firms shall use the World Bank's SPDs, in line with procedures described in the Procurement Regulations.

8. **Publication (Advertising):** The Borrower is required to prepare and submit to the World Bank a General Procurement Notice. The World Bank will arrange for its publication in United Nation Development Business online (UNDB online) and on the World Bank's external website. Specific Procurement Notices for all procurement under ICB and Requests for Expressions of Interest for all consultancies shall be published in at least one newspaper of national circulation in the Borrower's country, or in the official gazette, or on a widely used website or electronic portal with free national and international access, and in UNDB online.

9. **National Public Procurement Law:** The Public Procurement, Concessions and Disposal Act, 2015 (PPA) for The Federal Republic of Somalia (FGS) is the relevant public procurement legal framework. The new Act foresees a decentralized system of procurement. The Act further provides for an independent oversight body that will foster the regulatory and the policy framework of public procurement in the country. The PPA



has been reviewed by the World Bank and found to be satisfactory and consistent with the National Procurement Procedure requirements prescribed in paragraph 5.4 of the Regulations to a large extent. However, institutions are not yet in place in accordance with the Act. Similarly, regulations and other procurement guidance documents, including Standard Bidding Documents, are yet to be prepared. The private sector and civil society have limited capacity or functionality. Currently, the process of operationalizing the PPA are underway, through a Consultancy assignment. Until such time that the PPA is operationalized, and the documents reviewed and found satisfactory by the Bank, the Project shall use the World Bank's SPDs. In accordance with the PPA, it is anticipated that, when the PPA is operationalized, for the national procedures to be used, the following shall be observed: (i) the request for bids/request for proposals document shall require that Bidders/Proposers submitting Bids/Proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank's Anti-Corruption Guidelines, including without limitation the World Bank's right to sanction and the World Bank's inspection and audit rights; and (ii) rights for the World Bank to review Borrower's procurement documentation and activities.

10. **Training and Workshops:** The project will finance training and workshops, if required, based on an annual training plan and budget which shall be submitted to the World Bank for its prior review and approval. The annual training plan will identify, inter alia: (i) the training envisaged; (ii) the justification for the training; (iii) the personnel to be trained; (iv) the duration for such training; and (v) the estimated cost of the training. At the time of the actual training, the request shall be submitted to the World Bank for review and approval. Upon completion of the training, the trainees shall be required to prepare and submit a report on the training received.

11. **Procurement Implementation Arrangements:** The project will be implemented by: (i) FGS Mo ; and (ii) PSS MoF. The existing implementation arrangements of the on-going RCRF II Project will be maintained and strengthened under the proposed AF.

- a. In the on-going project, the procurement function under FGS is carried out by the EAFS unit under the Accountant General's in the MoF. The administration of the procurement processes and decision making under the on-going project has been sluggish, constraining timely implementation of the project. This is because EAFS unit supports all projects implemented by MoF and lacks procurement proficiency and experience in World Bank Procurement procedures notwithstanding that EAFS does not have a procurement unit. In recognition of the constraint emanating from the current arrangement for procurement implementation, the MoF has recruited a Procurement Specialist to support the effective implementation of the projects under the purview of the PFMRCU, including the PFMCS II and the RCRF II.
- b. In PSS, the procurement activities will be supported by the Procurement Specialist being recruited under the on-going PFMCRU.

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



weaknesses and risks revealed by the assessment.

13. The existing PIUs of the on-going RCRF II Project will be maintained and strengthened under the proposed AF. These PIUs will be responsible for the implementation of the procurement activities under the proposed AF. In Mogadishu, the overall procurement activities of the project will be supported by the Procurement Specialist already recruited under the on-going RCRF II Project. The procurement specialist has adequate academic qualification and experience and his performance has been satisfactory. In PSS, the procurement activities will be supported by the Procurement Specialist being recruited under the on-going PFMCRU. Since the on-going project is being implemented under the old World Bank guidelines, the Procurement Specialists will undergo a training on the World Bank New Procurement Framework (NPF). Major procurement challenges of the PIUs include (i) inadequate experience in undertaking procurement in accordance with the requirements in the Procurement Regulations for Borrowers under IPF: Goods, Works, Non-Consulting Services and Consulting Services dated July 1, 2016 (revised November 2017) (ii) Inadequate experience in contract management and (iii) record keeping system.

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

Table 15: Procurement Risks and Mitigation Measures

#	Risk Description	Mitigation Measures	Timeframe	Responsibility
1.	Inadequate knowledge and experience of World Bank Procurement Regulations for Borrowers under IPF: Goods, Works, Non-Consulting Services and Consulting Services dated July 1, 2016 (revised November 2017);	Conduct training to procurement and user departments staff on World Bank Procurement Regulations.  Prior review of all contracts regardless of the value.	During Project Implementation	The MoF (FGS) and the MoF (PSS)/World Bank
2.	Inadequate knowledge and skills in contract management by the implementing agencies.	Conduct training tailored towards addressing weakness in contract management for PIU staff	During Project Implementation	The MoF (FGS) and the MoF (PSS)/World Bank
3.	Inadequate skills by the end users in developing Specifications and TOR	Need for TAs/Consultants in the respective technical areas to extend hands on support. Specific training sessions to be conducted on developing Specifications/TOR	During Project Implementation	The MoF (FGS) and the MoF (PSS)/World Bank
4.	Need for systematic filing system in order to have complete records of the procurement processes	Establishment of a satisfactory filing system	During Project Implementation	The MoF (FGS) and the MoF (PSS).
5.	Due to security challenges and weak public-sector functionality, the private sector participation and efficiency would be limited and this affects the supply market functionality.	All bidding opportunities will be advertised on the available website and posted on widely circulated national gazette.	During Project Implementation	The MoF (FGS) and the MoF (PSS)



- a. Procurement Oversight and Monitoring Arrangements: The World Bank exercises its procurement oversight through a risk-based approach comprising prior and post reviews, as appropriate. The World Bank sets mandatory thresholds for prior review based on the procurement risk rating of the project. Based on the risk rating of the project, the World Bank and Borrower will agree on the procurement above the applicable thresholds as provided in Table 16 below which shall be subjected to prior or post review. The requirement for a prior or post review shall be specified in the PP. During project implementation the World Bank will monitor and reassess the risk and risk mitigation measures and, if determined by the World Bank to be necessary and appropriate, the World Bank may require the Borrower to revise the prior and/or post review requirements in the PP. The World Bank will carry out post reviews of procurement activities undertaken by the Borrower to determine whether they comply with the requirements of the Financing Agreement.

**Thresholds for procurement approaches and methods:**

*Table 16: Thresholds for procurement approaches and methods*

<b>Thresholds for Procurement Approaches and Methods (US\$ millions) - Goods, Works, and Non-Consulting Services</b>				
<b>Category</b>	<b>Prior Review (US\$ millions)</b>	<b>Open International</b>	<b>Open National</b>	<b>Request for Quotation (RfQ)</b>
Works	≥ 0.2	≥ 5.0	< 5.0	≤ 0.2
Goods, IT, and non-consulting services	≥ 0.1	≥ 0.5	< 0.5	≤ 0.1
<b>Thresholds for Procurement Approaches and Methods (US\$, millions) – Consulting Services</b>				
<b>Category</b>	<b>Prior Review (US\$, millions)</b>	<b>Short List of National Consultants</b>		
		<b>Consulting Services</b>	<b>Engineering and Construction Supervision</b>	
Consultants (Firms)	≥ 0.1	≤ 0.1	≤ 0.2	
Individual Consultants	≥ 0.05	n.a.	n.a.	