

APPRAISAL DRAFT

PROGRAM DESCRIPTION DOCUMENT

FOR A

PROPOSED GRANT

IN THE AMOUNT OF SDR X MILLION
(USD 50MILLION EQUIVALENT)

TO THE

GOVERNMENTS OF SOMALIA, SOMALILAND AND PUNTLAND

FOR A

PUBLIC FINANCIAL MANAGEMENT AND STATE CAPACITY BUILDING PROGRAM

August 31st, 2009

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April X, 2009)

Somalia Shilling XXXX = US\$1
US\$ X.X = SDR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ASYCUDA	Automated System for Customs Data
CBOC	Community Budget Oversight Committees
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Review
CSO	Civil Society Organizations
CTB	Central Tender Board
DfID	Department for International Development
DLC	Development Learning Center
EOI	Expression of Interest
ESMF	Environmental and Social Management Framework
EU	European Union
FMAS	Financial Management and Accounting System
FMR	Financial Management Report
GDP	Gross Domestic Product
GoS	Government of Somaliland
GoSSP	Governments of Somalia, Somaliland and Puntland
GoP	Government of Puntland
GPN	General Procurement Notice
IAPSO	Inter-Agency Procurement Services Office
ICB	International Competitive Bidding
IDA	International Development Agency
IFMIS	Integrated Financial Management Information System
IGAD	Intergovernmental Authority on Development
LG	Local Government
M & E	Monitoring and Evaluation
MoF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
MoU	Memorandum of Understanding
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
O&M	Operation & Maintenance
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PIC	Public Information Center

PPF	Project Preparation Facility
PFMSCBP	Public Financial Management and State Capacity Building Program
PFMSCBPU	Public Financial Management Reform and State Capacity Building Program Unit
PSR	Project Status Report
QCBS	Quality and Cost Based Selection
RPF	Resettlement Policy Framework
SBD	Standard Bidding Documents
SOE	Statement of Expenditure
SPN	Specific Procurement Notice
SRFP	Standard Request for Proposals
TA	Technical Assistance
TORs	Terms of Reference
TFG	Transitional Federal Government
UNDP	United Nations Development Program
WB	World Bank
WCO	World Customs Organization

**SOMALIA
PUBLIC FINANCIAL MANAGEMENT REFORM AND STATE CAPACITY BUILDING
PROGRAM**

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GOVERNMENTS OF SOMALIA, SOMALILAND AND PUNTLAND

PUBLIC FINANCIAL MANAGEMENT REFORM & STATE CAPACITY BUILDING PROGRAM

Program Description Document

Date: January 15, 2009	Team Leader: Patrick Umah Tete
Sector: General public administration sector (100%)	Themes: Administrative and civil service reform (P)
Safeguard screening category: TBD	Environmental screening category: TBD
Lending Instrument: <i>Technical Assistance Budget Support and Investment Grants</i>	

Program Financing Data			
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Other:			
Guarantee			
Total Development Partner Financing (US\$m.): 50.00			
Financing Plan (US\$m)			
Source	Local	Foreign	Total
RECIPIENT	0.00	0.00	0.00
IDA/Development Partners		50.00	50.00
Total:	0.00	50.00	50.00
Recipient(s): Ministries of Finance of Somalia, Somaliland and Puntland			
Responsible Agencies: <i>PFM& SCB Coordinating Unit</i>			
Tel: (x) Fax: (x) E-mail address: y@x.com			
Ministry of Finance Somalia Mogadishu, Somalia Tel: (x) xxx xxx E-mail address: xxx@yahoo.com			
Ministry of Ministry of Somaliland Hargeisa, Somaliland Tel: xxx E-mail address: xxx@yahoo.com			
Ministry of Finance Puntland xxx, Puntland			

Tel: (xxx) xxx xxx

E-mail address: xxx@yahoo.com

Estimated disbursements (CY/US\$m)									
CY	2009	2010	2011	2012	2013				
Annual	9.60	5.50	5.20	4.82					
Cumulative	9.60	5.10		5.12					
Program implementation period: Start June 30, 2009 End: June 30, 2013									
Expected effectiveness date: June 30, 2009									
Expected closing date: Dec 31, 2013									

Does the Program depart from the JNA in content or other significant respects?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the Program require any exceptions from Bank policies?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Have these been approved by Bank management?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Is approval for any policy exception sought from the Board?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Does the Program include any critical risks rated “substantial” or “high”?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the Program meet the Regional criteria for readiness for implementation?	<input type="checkbox"/> Yes <input type="checkbox"/> No

Program development objective: The proposed Program development objective is to help the Governments of Somalia (GoS), Somaliland (GoSo) and Puntland (GoP) improve inclusiveness, transparency, and accountability of public financial management at all levels of government, modernize their customs services and develop regulatory frameworks for monetary management and the banking sector

Program description [*one-sentence summary of each component*]

Component 1. Public Financial Management Reform will support an ongoing PFM reform agreed with the participating Governments, based on an existing diagnosis of their expenditure management and procurement systems.

Component 2. Customs Sector Reform will support the introduction of a uniform tariff scheme based on accepted international standards and related trade facilitation and customs control measures

Component 3. Strengthening the financial system will support the provision of specialized policy advice to establish a monetary and exchange rate policy that will promote macroeconomic stability, the introduction of new banking and supervision laws, reintroduction of a national payments system and finance the issuance of new currency.

Component 4. State Capacity Building will provide technical assistance for the creation of the federal civil service of Somalia, and reform of the civil services of Puntland and Somaliland, and fund key senior federal civil service positions in the initial years.

Component 5. Development Learning Center will support the development of financially self sufficient, fee –based professional training centers and collaboration with regional training centers in public sector management.

Component 6. Formation of an Association of Professional Accountants will support the creation of an independent association promoting international best practice in the profession, the development of appropriate training programs and membership and collaboration with international and regional professional organizations and training institutes.

Component 7. *PFMSCBP Coordination will finance contract staff, technical assistance, consultancies, equipment to fulfill the overall coordination, financial management, procurement, and monitoring responsibilities for Program implementation.*

Which safeguard policies are triggered, if any? , **Technical Annex 10**

Significant, non-standard conditions, **if any**, *TBD*

Board presentation: *TBD*

Grant effectiveness:

- *Qualified Auditor for PFMSCBP selected on a competitive basis.*
- *Adoption of the Program Implementation Manual and the Program Financial Management Manual.*
- *The appointment of a Fiduciary Agent proposed for the Program*
- *Program Account opened and an initial deposit of US\$XXX equivalent provided as core funding.*

Covenants applicable to Program implementation: .

- *General: Annual Joint Government / Development Partner Program Review.*
- *Specific: Covenants to be determined*

A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

With an estimated per capita income of \$226, Somalia is one of the poorest countries in the world¹ A period of protracted macroeconomic instability in the 1980s triggered the collapse of the economy and the financial system. As a result of these strains and the mounting resistance to an autocratic and isolated regime, in 1988 Somalia erupted into a civil war. The conflict swept away virtually the entire government apparatus and ultimately led to the break up of the country into three distinct entities. In 1991, the former British Somaliland Protectorate declared itself to be an independent state (the Somaliland Republic), and has subsequently managed its affairs separately from the rest of the country. Another group of regions in the north-eastern part of the country formed the autonomous state of Puntland. In the remaining Southern and Central part of the country, anarchy and armed conflict between clans or followers of local warlords has continued virtually unabated, preventing the formation of effective local administrations and rendering the provision of even rudimentary public services impossible. Reflecting this chaotic situation, Somalia as a whole has some of the worst social indicators in the world. One fifth of the children born in Somalia die before the age of five, and only one fifth of those that survive attend primary school. As a result of these and other appalling social conditions it ranks 163rd of the 165 countries covered by the UN's Human Development Index.

In 2004, a Transitional Federal Government (TFG) was formed through a peace and reconciliation process sponsored and managed under the auspices of the Governments of IGAD member states. The TFG includes representatives of Somali clans from the southern – central regions and Somaliland and the Puntland administration. However it is not recognized by the Somaliland administration. The TFG is expected to develop a new federal constitution for Somalia and approve the legislation necessary to establish and administer a modern democratic and decentralized state. However, the eruption of violence in Mogadishu and much of South and Central Somalia since 2006 has effectively paralyzed the political process of reconciliation and, according to the IGAD's October 28th Ministerial Statement, led “to the near hopelessness of the existing situation with respect to achieving the objectives of the transition period as evidenced in the complete failure to establish institutions of governance only nine months before the end of the transitional period”. A new Government was formed in early 2009 with expanded parliamentary representation of groups previously outside the Government with the expectation that progress in democratic institution building and achieving peace and stability will be accelerated, although at the time of writing internal conflict within Southern Somalia continues.

By way of contrast, Puntland and Somaliland are more peaceful, secure and stable than south-central Somalia enabling the local administrations to bring some measure of development to their communities. Though it has not secured political recognition by the international community, Somaliland has managed to establish a functioning political system and introduce

¹ Somalia Reconstruction and Development Program Volume, 1. A significant factor in elevating per capita income in Somalia, which explains why Somalia performs relatively well in income- based monetary measures of poverty when compared to other post conflict countries in the region, is the large inflow of remittances (about US\$1 billion per year).

basic governance structures. It has also succeeded in restoring most essential public services and attracting the bulk of the reconstruction and development assistance provided to Somalia.

However, because of limited government capacity, coupled with concerns over the weak and non-transparent fiduciary controls, development assistance is almost entirely administered by grant agencies, and most social interventions are channeled through international or local NGOs. The Somaliland authorities have a weak revenue base (mostly derived from trade taxes) estimated at around 5 % of GDP or US \$20 m annually. The government finds it difficult to fund even the public sector wage bill, leaving little scope for investment or even the recurrent costs of service delivery. A similar situation prevails in Puntland. However, the TFG has not yet succeeded in establishing a functioning government, or introducing an official budget that would provide ministries and local government authorities with the financial resources necessary to fulfill their responsibilities

In order to provide the start up capacity to initiate and implement the proposed program, and to ensure that appropriate safeguards are in place to ensure that donor resources are managed effectively, it is proposed that a Fiduciary Agent be contracted to manage the Program. In addition to providing the financial and procurement capacity needed to manage the start up of the Program, the Fiduciary Agent will be charged with rapidly building indigenous capacity through an ambitious program of institution building and capacity development that is currently being supported through the SIDP and LICUS Trust Fund. In Puntland and Somaliland the existing rudimentary financial management capacity can be built upon. At the federal level, however, the systems will have to be developed virtually from scratch. Given this low starting base, the need to build consensus for the passage of legislation and development of necessary guidelines-- and the need to recruit and train local counterparts that can staff the multiple offices (budget planning and execution, procurement agencies, internal and external audit and parliamentary oversight) require-- it is expected that it will take up to five years to establish the necessary domestic systems to shift to a fully government executed program

At the request of the Transitional Federal Government and the international community the UN and the WB have prepared a Somali Joint Needs Assessment (JNA) which provides a prioritized set of reconstruction and development initiatives to support Somali-led efforts to deepen peace and reduce poverty, based on the findings of an integrated team of Somali and other technical experts after wide consultations undertaken in all regions of Somalia. The assessment identifies three high priority needs:

- Deepen peace, improve security and establish good governance*
- Strengthen basic social services (especially education, health and water supply);*
- Rebuild infrastructure, together with other actions, to expand economic opportunities, employment and incomes.*

The JNA recommends supporting these priorities through all necessary means including substantial capacity building, the establishment of lean, efficient government institutions embodying good governance processes of transparency, accountability, fair representation, and effective participation, and with extensive decentralization of services and responsibilities and merit-based gender sensitive employment.

The Final report resulting from the JNA, the " Somali Integrated Reconstruction and Development Program (RDP)", identified four specific priorities that needed to be fast- tracked in order to lay the basis for Somalia's overall development. These include a comprehensive public sector expenditure management reform program, to ensure public resources are spent with prudence and in accordance with priorities, and that such expenditures are properly accounted for; customs reforms to mobilize urgently needed domestic revenues, central banking reforms and financial sector development to promote macroeconomic stability and the basis for private sector intermediation and civil service reform and institution building to overhaul and professionalize the existing civil service structures in Somaliland and Puntland and rebuild the federal civil service. These priorities in turn require a correspondingly urgent and large scale program of technical assistance and domestic capacity building to jump- start the four reform priorities, and place Somalia on a sustainable development path.

a. Public Financial Management Reform

It is widely accepted that the effective and strategic use of public resources is a critical ingredient of Somalia's development strategy, and that transparent and accountable utilization of public resources is required to restore popular trust in government. For this reason, improving public financial management is a priority in the development plans of Somaliland and Puntland and the TFG's requests for capacity building support. Moreover, a good financial management system is an essential requirement if development partners are to have the confidence in government that is necessary to underpin expanded development assistance.

At present, the financial management systems across all levels of government are extremely rudimentary, leading to weaknesses in financial controls and low levels of public information on budget intentions or outcomes. The concepts of independent legislative oversight and the consequent need for an independent auditing authority system have not been put into practice, nor have the rights of citizens to have access to information on the use of public resources been established. Consequently, there is need for a major legislative effort to introduce new financial management architecture to accompany the technical and professional challenges of implementing a modern system of public financial management across Somalia. It will also require a substantial donor commitment to provide financial resources to fund the system and build the domestic capacity necessary to administer such a system.

The proposed program will support five public financial management reform priorities agreed under the Joint Needs Assessment (these priorities also form the basis for the Procurement and Financial Management Action Plans developed by the World Bank for its Projects in Somalia). These are to:

- *Establish sound and transparent public financial management systems. Conduct accountant training; prepare financial management policies and procedures; equip staff; generate annual financial reports, and establish oversight mechanisms.*
- *Strengthen procurement capacity, procurement law and regulations, develop standard bidding documents and training programs, elevate the Somaliland and Puntland tender boards to procurement oversight authorities.*
- *Establish participatory, transparent and gender-sensitive budget preparation processes at all administrative levels.*

- *Promote effective and equitable fiscal decentralization, implementation of planned fiscal and functional decentralization, strengthen district level financial planning and budgeting, design criteria for targeted pro-poor and pro-women transfers; and develop local revenue generation.*
- *Ensure transparent monitoring of public financial management and procurement through the active involvement of parliament, civil society, NGOs, the private sector and the media.*

The authorities in Puntland and Somaliland and the TFG have underscored their interest in receiving technical assistance in these areas during the JNA and in the context of letters of agreement with UNDP and requests for assistance to other donors.²

It is important to emphasize that significant legal reforms will be required at the regional and federal level to support these priorities. The reforms include passage of budget laws establishing the legal and regulatory framework underpinning the formulation, execution and oversight of the budget and any system of intergovernmental transfers that may be agreed providing for the creation of an independent external audit function and changes in procurement legislation. Regulations will also be needed to establish budget execution, accounting, and reporting processes and controls and to clarify the associated financial management accountabilities. Given the rudimentary capacity in place and the need to build consensus for the passage of legislation and development of necessary guidelines to ensure a harmonized approach across Somalia it is expected that it will take five years to establish a functioning PFM system.

In the interim, in order to provide the start up capacity to initiate and implement the proposed program and to ensure that appropriate safeguards are in place to ensure that donor resources are managed effectively it is proposed that a Fiduciary Agent be contracted to manage the Program. In addition to providing the financial and procurement capacity needed to manage the start up of the Program, the Fiduciary Agent will be charged with rapidly building indigenous capacity through an ambitious program of institution building and capacity development. In Puntland and Somaliland the existing rudimentary financial management capacity can be built upon. At the federal level, however, the systems will have to be developed virtually from scratch.) Given this low starting base, the need to build consensus for the passage of legislation and development of necessary guidelines to ensure a harmonized approach across Somalia, it is expected that it will take up to five years to establish the necessary domestic systems to shift to a fully government executed program.

Due to the current political situation in Somalia the PFM reforms will have to be done separately for the TFG, Somaliland and Puntland. However, these reforms will be implemented in a coordinated manner such that the PFM systems can be consolidated at a later period if, as

² For example as reflected in “ Letter of Agreement between UNDP and the Ministries of Planning and Finance of Puntland on the Implementation of Institutional Development Programme” November 4, 2008, “Letter of Agreement between UNDP and Ministry of Finance, Somaliland” October 10th, 2008, , “Letter of Agreement between UNDP and Ministry of Planning , Coordination and Relation with International Organizations, October 9th, 2008, ‘Letter from Focal Point, Transitional Federal Government of the Somali Republic of the Somali Republic to African Development Bank”, February 5th, 2009 ,and “ Puntland Reengagement Paper” presented at Meeting of Government of Puntland State of Somalia with International Partners, Garowe, 18-19 February 2009.

and when the political dynamics in Somalia move towards reintegration of the GoSSP. It is proposed that each of the subcomponents would be implemented by each of the TFG/State governments under a Steering Committee chaired by the respective Ministry of Finance with subcomponent heads as members and the implementing entity being a support secretariat to the Steering Committee. It is expected that Development Partners would be able to attend the Steering Committee as observers.

b. Customs reform

The issues confronting customs administrations in Somalia reflect the degradation and destruction of state institutions both before and during the civil war. All three administrations suffer from an extremely low capacity at both the policy and operational levels, and in the case of the TFG in particular administrative capacity is almost non-existent. The customs law under which the ports operate was developed during the latter half of the 19th century and is seriously deficient. It does not support trade facilitation such as warehousing, duty drawbacks, refunds, temporary importations and transit operations, or provide customs with strong enforcement mechanisms to ensure compliance. All three regions of Somalia use reference prices to compute customs duties which often have little or no relation with the actual value of the goods imported. In contrast, Somalia's neighbors and trading partners employ the transactional value concept (recommended under the World Customs Organization (WCO) guidelines) which is based on the price actually paid or payable by the buyer, and provides more predictability, uniformity and transparency for the business community.

At present, there seems to be a serious lack of effective customs control in the TFG administered area. In Somaliland and Puntland there are efforts at the operational level to combat the evasion of customs duty by the traders or importers. However, the internal control mechanisms of the customs administrations are not strong enough to monitor or effectively prevent the involvement of customs officials in evasion and fraud. In all three jurisdictions, the entire documentation system is manual, which does not support effective control or provide transparency to the business community. Access to reliable and complete trade information is also hampered by the very basic form of information captured by the customs administrations. The infrastructure and customs facilities at all locations also need upgrading and rehabilitation. The examination of goods is usually carried out on the open ground as there are no warehouses or sheltered examination areas, leaving goods vulnerable to damage during inclement weather. In the Bosaso (Puntland) and Mogadishu (South Central) ports, dredging and clearing of the harbors and access channels is needed. Finally, Human resource policies need major revision to provide for merit based recruitment, training and the adequate and timely payment of staff remuneration.

On the positive side, the customs administrations in Somaliland and Puntland have correctly identified most of the problems they face. The existing customs clearance procedures are relatively simple though the multiplicity of controls over the cargo by different border agencies needs to be reviewed and improved with most consignments getting cleared the same day. Importers and exporters are subject to limited state control and on a broader scale, there is awareness in all the three regions of importance of creating a competitive, liberal economy, which stimulates investment and growth and creates more jobs.

There is enthusiasm in all the three customs administrations to modernize and improve enabling the preparation of a customs reforms and modernization plan in consultation with the customs management and employees in the three regions. Key recommendations are as follows:

- *Introduce radical changes, as a matter of urgency, in the existing valuation practices to bring them in conformity with the internationally accepted principles. In the immediate term this may involve the hiring of a reputed PSI company to provide stability, predictability and transparency to customs revenues during the transition period and to help develop customs valuation database.*
- *Revise and rationalize the customs tariff and make it consistent with the international HS code. Reduce the number of tariff slabs to a maximum of three.*
- *Revise and update the customs laws and develop new regulations for customs operations which increase customs controls over the imported goods without compromising trade facilitation. In the short term, new legislative text can be produced covering the main elements required to provide transparency to customs operations and protection of the rights of traders.*
- *Organizational reforms in customs including clear delineation of management and operational responsibilities.*
- *Simplify and automate customs procedures and implement the SAD in line with the United Nations Lay out Key. Introduce ASYCUDA.*

While the difficulties faced by each customs administration are almost identical in nature, there are differences in the magnitude of the problems, mainly relating to the local capacity. Somaliland and Puntland are considered more appropriate for initial support in terms of governance and the current status of its customs administration, while the TFG has to resolve the security situation and improve governance in the ports before assistance can be effective. Nevertheless, it is important to adopt a uniform approach towards customs reform and modernization. A uniform approach towards improvement in the national customs administration will ensure that the importers receive a set of standard services at all entry ports in the country and that the choice of ports is not influenced or distorted by a difference in tax regimes or customs procedures. Another advantage of a common and coordinated program is the strengthening of the overall governance as implementation of a standard set of rules for recording and reporting information and use of common documentation increase transparency and public accountability and reduce the chance of organized collusion between government officials and importers.

c. State Building and Financial Sector Development

Civil service reform. *A legacy of years of dictatorship and political mismanagement, have created widespread misgivings about government, which is still often perceived by Somalis to be an oppressive instrument for the benefit of a minority, rather than a critical provider of public services to the Somal people. The mandate of the TFG is to pave the way for a decentralized system of administration based on federalism with four tiers of administration - federal, state, regional and district. Somaliland and Puntland also have their own constitutions which need to be taken into account in reaching agreement on the specifics regarding the role and functions of the various levels of government and any associated revenue collection or fiscal transfer*

mechanisms which would be required to underpin these arrangements. The JNA provides a vision for the future architecture of the Somali government which is a lean, gender inclusive, efficient federal structure of institutions embodying good governance processes of transparency, accountability and participation, with extensive decentralization of services and responsibilities. It suggests building a state does not require a heavy set of government institutions, but acknowledges that the challenge of building even core government institutions from the Somalia baseline is enormous given the current starting point.

Training and capacity building. *At present, the TFG have only a small number of senior officials, in the key cabinet ministries and the offices of the President, Prime Minister and Speaker, many of whom are financially supported by development partners. Most other people working for the TFG are generally not being paid. In other parts of Somalia, payments are erratic and generally not conducive to professional or efficient service delivery. Skill levels across the civil service are low and in need of upgrading.*

Four prioritized capacity-building initiatives for government institutions are proposed under the JNA:

- *Create a new federal civil service adopt merit-based civil service recruitment and training policies taking into account clan and gender balance.*
- *Decentralize service delivery through establishment of inclusive participatory local governance systems in all Somali regions*
- *Create and staff four core civil service institutions with equitable gender representation immediately as top priority to build confidence.*
- *Design, support and implement civil service reform in Puntland and Somaliland*

Macroeconomic stability and financial sector development. *For decades Somali Governments have been spending in excess of their revenue bases leading to inflationary pressures and an ever dwindling value of the Somali Shilling as more money was printed to cover the funding gap. Reversing this trend is essential for creating macroeconomic stability, restoring public confidence in the local currency and providing a stable environment for private sector initiatives. There is a clear need for a systematic restructuring of the civil service to create affordable structures that can implement the vision of a lean and capable administration. However, the public sector will need substantial domestic and external resources to finance even a lean federal structure and service delivery at the district level.*

Once the Somali Government establishes a track record of sound budgetary management and inflationary expectations are calmed, it will be appropriate to issue a new currency which over the medium term could provide a source of seignorage for the monetary authorities. Although the Somali diaspora can easily transfer money back to Somalia and importers can remit funds abroad, the internal payments system no longer functions, rendering even simple domestic banking transactions, such as payment by check impossible at the present time. Consequently,, a major challenge will be to overhaul the country's banking laws and introduce a system of prudential oversight over its banks, so that they can provide efficient and secure intermediation services for private savings and investment. This will require the restoration of the country's financial infrastructure.

B. PROGRAM DESCRIPTION

1. Lending instrument

This will be a mixture of technical assistance, investment and budget support grants, for five years.

2. Program development objective and key indicators

The proposed Program Development Objective is to help the post-conflict Governments of Somalia, Somaliland and Puntland rebuild the capacity of the civil service administrations through supporting state capacity building and civil service reform by establishing a functioning transparent and accountable system of public financial management across all levels of government a network of development learning centers that will support capacity building efforts necessary for transforming the civil service administrations to provide needed services and achieve macroeconomic stability (primarily through mobilizing additional custom's revenues that eliminate the need for excessive domestic deficit financing), establish the monetary and financial regulatory framework that will make financial intermediation possible and support the establishment of an independent Institute of Professional Accountants that will support the introduction internationally professional standards and the provision of associated training programs.

The suggested key performance indicators are³:

- *Public Finance Management (PFM) capacity developed/strengthened*
- *Efficient accounting and transparent reporting procedures introduced*
- *Local procurement capacity developed and strengthened*
- *Budget preparation process strengthened and made participatory and poverty focused*
- *Federal, state, and local government domestic revenue base established*
- *Macroeconomic stability ensured and maintained*
- *Capacity for bank supervision and monetary policy established*
- *Local currency printed and in circulation*
- *Commercial banks re- established*
- *Efficient, professional and performance-based federal civil service established including women and minorities*
- *Existent staff in Puntland and Somaliland professionalized and civil services right sized*
- *Development Learning Centers established and meeting cost recovery targets*
- *Independent Professional Association of Accountants Established and recognized by membership in relevant international bodies*

³ *These indicators are drawn from the Somalia Joint Needs Assessment Results Matrix and based on the recommendations of the Somali Integrated Reconstruction and Development Program (RDP). Specific quantifiable indicators for the proposed program remain to be developed during the forthcoming consultation and appraisal process, and are to be reflected in Annex 3, "Results Framework and Monitoring"*

3. Program components

The program components have been designed to provide Development Partners with a flexible instrument for supporting Somalia's priority needs for managing its public finances, establishing a civil service and re-introducing private sector banking. The Program provides opportunities for both project based funding and budgetary support. Program outlays will be based on procurement plans to be developed by the (proposed) Fiduciary Agent, in consultation with the counterpart Somali government committees. Partners will be expected to provide oversight based on quarterly financial reports, and joint annual reviews (with the participating governments) of program implementation. Budgetary support for the program will be fully fungible across program components. This will provide an opportunity for the Fiduciary Agent to respond rapidly to emerging opportunities and changing circumstances in the participating jurisdictions over the five year program.

Component 1 Public Financial Management Reform (US\$14.5m, (First Year US\$1m))?)

The objective of this component is to continue the support the implementation of a PFM reform program initiated under the UNDP technical assistance program, African Development Bank's proposed support to the Transitional Federal Government and the Banks LICUS trust fund. At present PFM support to Somaliland, Puntland and the Transitional Government of Somalia is being provided under specific arrangements for each of the three counterparts. However, given the common needs of the three governments, it is expected that the support programs will be designed in such a way as to facilitate harmonisation. The goal of the program will be to put in place functioning PFM systems over five years. In turn it is expected that once these systems are in place, significant progress would be made in relation to PEFA benchmarks.

Subcomponent 1.1: Strengthen and functionalize the offices of Accountant Generals in Somaliland, Puntland and the TFG

This objective of this subcomponent is to support: improvement/development of PFM legislation to provide the mandate of the Offices of the Accountant General to conduct their activities; introduction of accounting policies and procedures in line with international good practices e.g. International Public Sector Accounting Standards; building staff capacity through training in professional accountancy or accountancy technician courses and on the job training by PFM experts; automating accounting systems through use of the Integrated Financial Management Information System (IFMIS)⁴; membership in regional bodies, e.g. East and Southern African Association of Accountant General's, which will provide support to strengthen the Somali

⁴ It will finance the staffing cost of the IFMIS implementation team, technical assistance and consultancies, equipment and vehicles, and intensive training for stakeholders. The component will also include the initiation of training of line ministries to prepare them for their new responsibilities and the new IFMIS. Initially it will be set-up to replace the current manual record keeping and reconciliation systems in the Accountant General's Office of the MoF and certain pilot ministries. It will be subsequently rolled out to all line Ministries. The office of the Auditor General and Internal Audit Unit will also be able to access the system.

Accountant General's Offices; purchase of office equipment, furniture or renovation of office premises, and; professional staff recruitment.

Subcomponent 1.2: Strengthen and functionalize the Offices of the Auditor General in Somaliland, Puntland and the TFG

The objective of this subcomponent is to support: improvement/development of audit legislation that will enable the independence and functionalize the Offices of the Auditor General; development of an external audit manual, in line with International Standards on Auditing issued by the International Federation of Accountants (IFAC) and International Organization of Supreme Audit Institutions (INTOSAI) auditing standards; building staff capacity through training in professional accountancy courses, computer audit training and value for money audit training (on the job training can also be done by PFM experts); acquiring external audit software e.g. team mate; membership of regional/international bodies e.g. African Organization of English-speaking Supreme Audit Institutions (AFROSAI-E) and INTOSAI; purchase of office equipment, furniture or renovation of office premise, and; professional staff recruitment.

Subcomponent 1.3: Strengthen and functionalize the Internal Audit Unit within the Ministries of Finance in Somaliland, Puntland and the TFG

The objective of this subcomponent is to support: the introduction of legislation governing the function of internal audit in the PFM legislation that would include the role of audit committees in strengthening governance of public funds; development of internal audit manuals in line with the standards issued by the Institute of Internal Auditors (IIA); establishing ministerial and sectoral audit committees-- whose main role will be to ensure that issues raised by the internal and external auditors are followed up and addressed by management; building staff capacity through training in professional accountancy courses, certified internal auditor courses by the IIA, computer audit training and value for money audit training (on the job training can also be done by PFM experts); acquisition of software for internal auditing; membership in international bodies e.g. Institute of Internal Auditors, who will help strengthen the internal audit unit; purchase office equipment, furniture or renovation of office premises, and; professional staff recruitment.

Subcomponent 1.4: Strengthen and functionalize the Procurement Unit to take the lead in conducting procurement reforms in Somaliland, Puntland and the TFG

The objective of this subcomponent is to support: the drafting of Procurement legislation in line with good procurement practices; establishing a Public Procurement and Disposal Authority through new Procurement Legislation that will enforce procurement regulations/guidelines; a sensitization program to disseminate new policies, laws and regulations, annual public procurement forums for all stakeholders, and production of annual public procurement reports for public information; development of a procurement syllabus for universities and conducting trainers of trainers courses for lecturers at the universities; purchase of office equipment, furniture or renovation of office premises, and professional staff recruitment

Subcomponent 1.5: Strengthen and functionalize the Budgeting Units within the Ministries of Finance in Somaliland, Puntland and the TFG

The objective of this subcomponent is to establish the MTEF process. It will finance technical assistance on how to guide and reflect donor activities in program policy choices, improve the Cabinet policy process and Parliamentary oversight, strengthen the linkages between policy objectives and budget proposals, and use the MTEF process as a key driver to motivate vote controllers towards efficiency in management, and to reward budget entities for performance. This subcomponent will also finance intensive training for stakeholders on the MTEF process and program budgeting. It will provide support for: improvement/development of budget legislation to document the mandate of the Ministry of Finance in the budget process and the requirement of the House of Representatives (Parliament) to approve and monitor the budget; development of budget guidelines to facilitate budget preparation and monitoring; development of program budgeting and links to sectoral budgets; strengthening the Medium Term Expenditure Framework (MTEF) and related budget formulation and execution processes; training staff in budgeting; purchase of office equipment, furniture or renovation of office premises, and; professional staff recruitment.

Subcomponent 1.6: Strengthen and functionalize the Macroeconomic Policy Units within the Ministry of Finance in Somaliland, Puntland and the TFG

The objective of this subcomponent is to support: a review the revenue and tax policy to broaden the tax base which is mainly dependant on taxes on imports (customs duty) from the ports and airports which contribute to about 80% of total government revenue⁵; development of revenue sharing formula and policies and procedures for fiscal transfers between the federation and member states, in line with the functional allocation of expenditure responsibilities; policies and procedures to address bottlenecks to streamline revenue transfers to local governments; train staff in the macroeconomic policy units to conduct their work; build the macroeconomic policy units capacity to make revenue forecasts for the annual budget, monitor monthly revenue collections and make at least quarterly revisions of the annual revenue forecasts⁶; purchase office equipment, furniture and construction or renovation of office premises, and; professional staff recruitment.

Subcomponent 1.7: Strengthen and functionalize the Parliamentary (House of Representatives) Oversight PFM committees in Somaliland, Puntland and the TFG.

The objective of this subcomponent is to support: the development of rules of procedures for the Parliamentary (House of Representatives) Public Accounts Committee (PAC) and Budget Committee; training committee members to effectively apply the rules, and; the establishment of a PAC Secretariat, which will help the committee review audit reports and take appropriate,

⁵ The tax policy should also address the movement from specific to ad-valorem taxes given that specific taxes are not responsive to inflationary pressures which adversely affect the real value of tax collections; developing income tax legislation to broaden the tax base and to address the administrative and structural deficiency in the tax system by setting up an autonomous Revenue Management Agency within each of the GoSSP to improve on tax collections.

⁶ The unit should also monitor developments in monthly expenditure commitment payments, and any payment arrears. Based on this analysis it should make recommendations whether any intra year adjustments in revenue or expenditure policy appear necessary to meet the annual budget balance objective.

timely action,⁷; purchase office equipment, furniture and construction or renovation of office premises, and; professional staff recruitment.

Subcomponent 1.8: Design and implementation of a decentralized government financial management system

This subcomponent will finance the development and implementation of a district government financial management system and intensive training for government financial management staff in the administrative regions and districts of Somalia. It will support development of: Local Government PFM Legislation (if not clearly stated in the PFM legislation), and; local government Financial Management, Internal Audit and Procurement Guidelines/Manuals (which should be done in liaison with the Accountant General's Office to ensure harmonization amongst the guidelines at central and local government)⁸

Subcomponent 1.9 Monitoring & Evaluation

The objective of this component is to support an assessment of the quality of Somali government expenditure management systems using a set of standard PFM assessment indicators developed by the Public Expenditure and Financial Accountability (PEFA) Secretariat of the World Bank. An assessment for Somaliland, Puntland and South Central was completed in February 2008 All indicators were either rated D, or no score was noted in cases where there was not enough information to facilitate the assignment of grades. This PEFA assessment will be used as a baseline for measuring PFM developments in Somaliland, Puntland and South Central. A similar benchmarking exercise will be undertaken for the Federal Government in the near future. Re-assessment of the standard PFM indicators will be conducted annually, so as to evaluate the impact of the PFM reform initiatives.

Component 2 Customs Modernization and Reform (US\$7m, (First Year US\$ 1.75m))⁹

The objective of this Program is to support the reform, modernization and harmonization of customs administration in Somalia.

Subcomponent 2.1 Improve the Legal and Regulatory Framework.

The objective of this subcomponent is to establish the core policy advisory and implementation capacity for the customs reform program. It will finance the establishment of the Customs Reform Implementation Unit, the drafting of relevant legislation, revisions in tariff codes and customs valuation practices and administrative documents to bring them into conformity with

⁷ The unit should also monitor developments in monthly expenditure commitment payments, and any payment arrears. Based on this analysis it should make recommendations whether any intra year adjustments in revenue or expenditure policy appear necessary to meet the annual budget balance objective.

⁸ It is proposed that the district government FM system will initially be implemented on a manual basis. The Program will later finance the acquisition and implementation of a small standard accounting package for district governments. The experience of using this simple computerized system will prepare district governments for operating the IFMIS, when it is rolled out to the administrative regions and elected district councils.

⁹ The World Bank is currently providing \$141,900 for a revenue management tax expert to advise on customs and tax reforms and revenue generation.

international standards, the introduction of ASYCUDA, and coordinate the roll out of the reform program in each of the three participating regions while supporting related consultation and public information activities.

Subcomponent 2.2 Outsource Pre-Shipment Inspection (PSI)

This subcomponent would finance technical assistance from a PSI company to verify the valuation and classification of imports and develop a customs valuation database and support the generation of timely and reliable trade statistics.

Subcomponent 2.3 Restructuring and reorganizing customs administration

This subcomponent will provide technical assistance for the reorganization of management and administrative structures, change management and the development of related managerial and administrative control systems and human resource policies.

Subcomponent 2.4 Simplifying and Automating Customs Procedures

This subcomponent will provide technical assistance and finance training costs, field trips and related hardware costs for introducing ASYCUDA and the construction of Entry Processing Units at border offices.

Subcomponent 2.5 Upgrading and Rehabilitation of Customs Facilities

This component will finance the design and construction of basic customs sheds for the temporary protection of goods while awaiting customs clearance during inclement weather (at present goods are inspected on open ground).

Subcomponent 2.6 Developing Customs Intelligence and Enforcement Capacity

This subcomponent would provide technical assistance training and equipment for specialist anti-smuggling teams in selected locations along the border with Ethiopia and Kenya and coastal areas and establishing an intelligence system that supports generation of information through an informer network and risk based investigation and enforcement of suspect individuals and businesses indulging in fraud or smuggling

Subcomponent 2.7 Monitoring and Evaluation of the Customs Reform and Modernization Proces

The objective of this subcomponent is to provide for consistent monitoring of Customs activities, draw lessons, and improve on Customs operations. The overall Monitoring and Evaluation (M&E) component should be carried out by the relevant Ministries of Finance.

Component 3 Strengthening the Financial System (US\$6.5m, First Year US\$1m)

The objective of this component is to provide specialized policy advice to the Governments of GoSSP in defining the roles and responsibilities of the Central Banks of the GOSSP and related opportunities for collaboration, stabilize the monetary system and establish an appropriate exchange rate regime. It will also provide technical assistance to strengthen the legal and regulatory framework for financial sector development, upgrade the treasury and related functions of the central banking institutions of the GoSSP, establish a national payments system and fund the introduction of a new currency.

Subcomponent 3.1 Provision of Specialized Policy Advice and Capacity building

This subcomponent will provide specialized policy advice to the central banks of the GOSSP to define their respective roles and responsibilities within the central banking system and policy recommendations for stabilizing the monetary system and publishing an appropriate exchange rate regime. The sub - component will also provide support for the development design and delivery of relevant specialized training and capacity building for central bank staff, in collaboration with the Development Learning Centers.

Subcomponent 3.2 Improve the Financial Legal and Regulatory Framework.

This sub component will provide technical assistance and related services for modernizing the legal and regulatory framework governing central banking operations, commercial banking laws and bank supervision arrangements and the development of the associated regulations and guidelines needed to operationalize this legislation. This includes redrafting and of the Central Bank Act, Banking law and deposit insurance, development of anti-money laundering and anti-terrorism financing legislation and the translation and publication of these laws and associated regulations in English and Somali.

Subcomponent 3.3: Computerizing Central Bank Treasury and Related Functions

This subcomponent will provide technical assistance for introducing a modern IT system for managing the financial transactions of the central banks of the GOSSP and linking them to the related modules of the IFMS.

Subcomponent 3.4: Establishing a National Payments System

This sub component will provide technical assistance for establishing a national payment system among appropriate Somali financial institutions.

Subcomponent 3.5: Introduction of a New Currency

This subcomponent will provide budgetary support for the issuance of a new currency once arrangements for stabilizing the monetary system are in place.

Component 4: Support for State Capacity Building (US\$4.5m, First Year US\$1m)¹⁰

This component will provide technical assistance for the establishment of the federal civil service for Somalia and for the reform of the civil services of Puntland and Somaliland.

Subcomponent 4.1: Support for strategic policy decisions

This subcomponent will provide technical assistance for a policy management and advisory unit for the President, the Prime Minister and Cabinet of Somalia to provide strategic policy advice to leadership in the initial three years of the program

Subcomponent 4.2: Support for Civil Service Commissions

This subcomponent will provide technical assistance for the recruitment of the top echelon of the federal civil service and related senior positions in oversight institutions, the judiciary and

¹⁰ Currently the UNDP is providing funding of \$1.8mn to the TFG to support the development of the legal framework, core staffing and infrastructure for the Federal Civil Service and the establishment of an institution to provide training in public administration and leadership, and \$3.8mn to support similar activities in Somaliland and Puntland through the SIDP.

Parliament, and to fund their salaries for the first three years of the transition, it will also support to the Federal Civil Service Commission for establishing a professional civil service and developing related human resource policies. It will also support change management programs in the TFG, Somaliland and Puntland administrations to reorganize and professionalize their existing civil services, improve their client focus, and provide assistance for the identification and elimination of ghost workers and related payroll cleansing and auditing arrangements .

Component 5 Development Learning Centers (US\$11.5m, First Year US\$2.5m)

The objective of this component is to establish a network of excellent information, communications, and training centers to meet the latent demand for capacity building in public administration, financial management and service delivery, and serve as a hosting organization for international institutions delivering short term training programs in-country. This component will finance the establishment of Development Learning Centers, combining the existing Global Development Learning Network (GDLN) sites and a Development Information Center. The curriculum of the DLCs would primarily focus on training in public financial management and other related capacity building efforts supported under the Program.

Subcomponent 5.1 Establishment of the DLC as an independent legal entity

The objective of this subcomponent is to establish the DLC as an independent entity by legislation.

Subcomponent 5.2 Constructing, equipping and staffing the DLC

The objective of this subcomponent is to construct a DLC facility in Mogadishu and upgrade the GDLN facilities in Hargeissa and Puntland to DLC facilities, install the required equipment, and recruit staff, so as to make the DLC operational.

Subcomponent 5.3 Support the Development and Delivery of DLC Curricula and Related Partnership Arrangements with Regional Training Centers.

The objective of this subcomponent is to design the course materials and training programs needed to deliver core programs in public sector administration, finance and accounting, in association with training centers with experience in delivering such programs in the Region. Public administration courses would include areas such as governance accountability and anti-corruption, public sector reform and results based management, performance based management and contracting, outsourcing, program based budgeting and project management. Public Finance would include such areas as basic finance management, budgeting and budgetary controls, managing donor funds, basic procurement and procurement procedures and regulations. The Public Sector Accounting Programs would range from basic short term accounting programs for technical staff with little or no formal training to long term courses aimed at providing more experienced staff with the opportunity to obtain formal qualifications in public financial management.

Subcomponent 5.4 Support the operation of the DLC

The objective of this subcomponent is to assist the DLC become financially viable in five years. It includes:

- *financing of operational costs on a decreasing basis over the first five years of DLC operation;*
- *purchasing light vehicles to facilitate transport and marketing services;*
- *technical assistance and staff training; and*
- *establishing financial management systems and undertaking annual audits.*

Subcomponent 5.4 Monitoring and Evaluation

The objective of this subcomponent is to provide for consistent monitoring of DLC activities, draw lessons, and improve on DLC operations. The overall Monitoring and Evaluation (M&E) component should be carried out by the DLC Board.

Component 6: Establishing an Independent Institute of Professional Accountants (IPA), (US \$1m, First Year US\$0.2m)

The objective of this component is to establish an independent accounting institute that would promote the adoption of internationally recognized standards for the accounting profession in Somalia, regulate the profession and develop a professional accountancy course which can be delivered in collaboration with the DLCs. The Institute of Professional Accountants will be strengthened through a twinning arrangement with a well established professional accountancy body.

Subcomponent 6.1: Establishment of the IPA as an independent legal entity

The objective of this subcomponent is to establish the IPA as an independent entity by legislation.

Subcomponent 6.2: Constructing, equipping and staffing the IPA

The objective of this subcomponent is to construct an IPA center, provide the necessary furniture, fixtures teaching materials, library resources and equipment, and recruit staff, so as to make the IPA operational.

Subcomponent 6.3: Twinning arrangements with a well established professional accountancy body to strengthen IPA operations in Somalia

The objective of this subcomponent will be to ensure the Somalia IPA has a twinning arrangement with an established professional accountancy body such that it can develop its professional accountancy courses to meet international good practices through setting up their curricula; regulate and monitor the accountancy and auditing profession in Somalia through observance of standards and professional ethics with an ultimate objective of ensuring the professional body is registered with the International Federation of Accountants.

Subcomponent 6.4: Support the operation of the IPA

The objective of this subcomponent is to assist the IPA become financially viable in five years. It includes:

- *financing of operational costs on a decreasing basis over the first five years of IPA operation;*
- *purchasing light vehicles to facilitate transport and marketing services;*
- *technical assistance and staff training; and*
- *establishing financial management systems and undertaking annual audits.*

Subcomponent 6.5: Monitoring and Evaluation

The objective of this subcomponent is to provide for consistent monitoring of IPA activities, draw lessons, and improve on IPA operations. The overall Monitoring and Evaluation (M&E) component should be carried out by the IPA Board.

Component 7. PFMSCB Coordination, Implementation, Monitoring and Evaluation (US\$5m, (First year US\$1m))

The objective of this component is to finance the fiduciary agent's and related activities involving coordination and implementation of the Program across the multiple GoSSP entities that will benefit from the Program, and ensure that it complies with the World Bank's and other participating Development Partners' Financial Management, Procurement, Social and Environmental Guidelines, mobilize and manage development partner funding and to ensure effective implementation of the Program components.

Specifically, this component will finance:

- *staff responsible for overall coordination of PFMSCB implementation and the management of development partner funding;*
- *staff responsible for financial management of the PFMSCB;*
- *staff responsible for ensuring that all procurement under the PFMSCB complies with the World Bank and other development partner procurement guidelines;*
- *a Monitoring and Evaluation Specialist, to be responsible for setting up and maintaining an M&E system for the PFMSCB; and*
- *technical assistance and operational expenditures to strengthen the coordination monitoring implementation and training functions of the unit.*

4. Lessons learned and reflected in the Program design

a. Consensus and transparency are the keys to effecting strategic change

The structural transformation envisaged under the state capacity building, PFM and financial sector reform programs is going to significantly influence the power balance within the Somali political, bureaucratic and clan structures. Leaders will need to build consensus for reform through transparent consultation mechanisms, ensure that the reasons for any changes are clearly articulated, and provide stakeholders with continuous feedback on results achieved to build confidence that these changes are in the common interest of all Somalis. Development Partners support for this process will need to combine high-level dialogue with the political leadership with strong support for building policy advisory and management capacity at the technical level. The PFMSCB Program will invest heavily in financing professional staff and their training, and through prompt public disclosure of the results of all M&E activities supported under the Program.

b. Successful implementation requires flexibility and strong coordination

The Program design team recognizes that the political situation on the ground across the regions of Somalia remains extremely fluid and that the implementation path will have to respond pragmatically to political, security and operational developments that may arise during the Program. In order to respond to this challenge, the investment and training elements of the

Program will be focused initially in Somaliland, where the security situation is more conducive. Conversely the technical assistance elements of the Program involving strategic policy choices, drafting of legal and regulatory legislation and other knowledge based services will be more concentrated at the federal level. It is recommended that a strong program management coordination unit be established by the Fiduciary Agent to oversee this process in an impartial and depoliticized way, so as to balance the needs of inclusive development against the prudential and economical use of program resources. Particular attention will be given to ensuring technical assistance and training can be quickly deployed as circumstances warrant, to ensure that timely support can be extended when needed and redeployed as necessary, without losing momentum.

c. Capacity building is more effective if it is through learning by doing

Based on the experience in other countries (e.g., Uganda Local Government Development Program), the Sierra Leone Institutional Reform and Capacity Building Program) will adopt “learning by doing” as the approach that will be used for government capacity building. Learning will be supported by a mixture of in-classroom training and on-the-job mentoring which will ensure that skills which are immediately and directly relevant to the needs of participants are acquired. Experience gained in early phases of the Program e.g. IFMS roll out in Somaliland will be reflected in design in later phases of IFMS development in other Regional systems (Puntland, South Central) as well as at the federal level

d. Realistic expectations and careful management of IFMIS implementation

Existing implementation experience in Africa suggests that success of IFMIS implementation depends on the leadership, Program management skills, capacity in government agencies to accept and implement the change. The IFMIS component of the Program is intentionally modest, given limited capacity in line ministries and local councils. It will first be implemented in the Ministry of Finance to replace the existing system and then transformed to support the more decentralized financial control and accounting system designed under subcomponent 2.1, in the Ministry of Finance and one other line ministry.

e. An appropriate governance arrangement is the key to the success of the DLC

The implementation experience of GDLN sites around the world and in particular in Africa showed that the success of a DLC depends critically on its governance arrangement. First, for the DLC to become a self-financing entity at the end of the fifth year of operation requires it to be a commercially oriented entity, with autonomy in business management. Political interference and bureaucratic delays often reduce the capacity of DLCs to respond to client needs in a timely manner and recover costs in a reliable way. Second, since the client base of the DLC is much broader than the public sector, there is a need to include key stakeholders in the decision making process, so DLC can become a knowledge, information, and communications center for all. Third, attaching the DLC to an existing training institution sometimes runs the risk of the institution monopolizing the use of the DLC and thus impeding other clients’ access to it. For these reasons, it is proposed that a governing board be established with a minority stake by government, and with representations from other stakeholders, including the universities, private sector and the civil society.

5. Alternatives considered and reasons for rejection (to be prepared in light of stakeholder discussions on the present draft)

- a. Coverage
- b. Focus
- c. Phasing.
- d. Financial Management and Procurement
- e. Development Partner Financing Modalities

C. IMPLEMENTATION

1. Partnership arrangements

The PFMSCB Program is based on the recommendations of the Somali Integrated Reconstruction and Development Program (RDP). The RDP represent a politically prioritized program that has been developed from the findings of the Somali Joint Needs Assessment (JNA). The JNA was produced by an integrated team of Somali and other technical experts whose activities were jointly coordinated by the UN and the World Bank, under the oversight of a Coordination Support Group chaired by the European Commission. The RDP takes a comprehensive view of the priorities for reconstruction and development embracing infrastructure, social and private sector development, as well as three cross-cutting issues – peace-building and conflict development, capacity building and human development, and human rights and gender. It was agreed that the components supported under the proposed Program would be pursued as a matter of priority, as they could play a catalytic role and building the Somali peoples confidence in the financial integrity of government and mobilizing additional development partner support for interventions in other sectors, strengthening the capacity of the government to finance its operations. It also provides a supportive monetary and regulatory environment for the development of the financial sector which will in turn be a catalyst for private investment across Somalia.

Reflecting the consensus on priorities and desire for harmonization among development partners, a joint identification mission comprising UNDP, DfID and the World Bank was organized in October 2007 to initiate the Program. A Public Financial Management Steering Committee), comprising representatives from the Arab League, the World Bank, DfID, EC, UNDP, USAID, has also been established-- and is open to other interested donors. In addition to its coordination and informational role, one of its objectives is to develop harmonized financing arrangements for development partners that will facilitate collective support for the Program, while taking into account preferred donor modalities and interests. DFID has already earmarked about US\$200,000 for the start-up phase of the PFM technical assistance out of which US\$ 80,000 was disbursed to the Bank in FY08.

UNDP is playing a pivotal role for the development partners supporting the PFMSCB Program, by providing administrative, security and logistical support for missions to Somalia and facilitating donor coordination and stakeholder consultations. At the technical level, UNDP has provided some computers to the Somaliland Administration for financial management purposes.) It is also providing technical assistance to Somaliland most notably through experts in economic management and expenditure control. UNDP could also play a potentially helpful role

through the provision of technical assistance, including software and training, for the deployment of ASYCUDA

2. Institutional and implementation arrangements (subject to discussion with Development Partners and the GoSSP)

It is proposed that the Program will be executed through a fiduciary agent overseen by the donor group financing the program. This arrangement builds on an existing governance structure established for the implementation of the LICUS Trust Fund for Somalia, approved by Executive Directors of the World Bank on November 6th, 2008¹¹). Other PFM Working Group Donors who contribute to the Program will participate in the oversight of the fiduciary agent, based on a memorandum of understanding to be developed during appraisal. This arrangement has a number of advantages. It provides a vehicle for continuity during the uncertain period ahead, when the mandate of the transitional federal government is expected to lapse. It also represents a pragmatic response to the need for a neutral coordination mechanism among the beneficiary governments that takes account the non-recognition of the TFG by the Somaliland government. It also reflects the development partners' wish to ensure appropriate fiduciary and reporting arrangements are in place from the outset of the Program. It will also avoid taxing the embryonic implementation capacity of senior transitional federal government officials, who are presently working under extremely difficult circumstances, and lack the necessary administrative and technical support structures to effectively oversee the Program. These arrangements will be revisited during the mid term review of the Program, with the expectation that significant administrative responsibility for the Program could be transferred to the respective Somali governments.

The fiduciary agent will be responsible for overseeing the operations, procurement and financial management aspects of the Program.

Terms of Reference will be developed to ensure that the fiduciary agent can manage the operational, procurement and financial management activities of this Program in accordance with the financial and operational policies of the development partners, as reflected in the memorandum of understanding discussed above. The Fiduciary agent will also be expected to coordinate with the PFM Working Group to ensure that new activities build on, reinforce and draw appropriate lessons from the Projects currently supported by the GoSSP's development partners. The fiduciary agent will also establish a quality assurance and implementation support mechanism for each component of the Program. This will provide expert support to the fiduciary agent for reviewing draft Terms of References and contracts, draft policy papers and legislations, outputs of consultants; specifications of equipment to be procured and its acceptance testing; change management, communication campaigns to build support for the Program, building project management skills etc. The beneficiaries of the Program subcomponents will also participate fully in every stage of the quality assurance process. Specific coordination arrangements with the concerned governments remain to be discussed but are expected to be modeled on the ongoing agreements between UNDP and the TFG ,

¹¹ (give Reference)

Somaliland and Puntland These proposed arrangements will be discussed and modified or confirmed during appraisal.

With regard to component 1.1, it is proposed that UNDP will assist in procurement of the PFM software for Somaliland (IFMIS design and implementation) procurement of computers and related IT equipment, and the design of technical training modules (for users and administrators) that match the selected accounting and recording systems. In addition, IT training will be provided along with installation of the software. Where it is appropriate and necessary, the public offices housing the IFMS facilities will be rehabilitated by the UNDP. (we need to make sure that UNDP is going to do this) These proposed arrangements will be discussed and modified or confirmed during appraisal.

3. Monitoring and evaluation of outcomes/results)

Intensive M&E is a key part of the PFMSCB implementation process. Three categories of M&E activities are envisaged:

- *monitoring for due diligence purpose, i.e., whether Program implementation complies with financial management and procurement guidelines and social and environmental safeguard policies of the World Bank and other development partners supporting the Program;*
- *monitoring and evaluating whether the development objectives are being achieved – this should include an evaluation from beneficiaries of the Program; and*
- *evaluating the implementation arrangements to assess their effectiveness, and whether they will be need to be modified in the light of Program experience or political developments.*

The Fiduciary agent will develop a Monitoring and Evaluation (M&E) plan for each component in consultation with the agencies supported under the Program. The fiduciary agent will also prepare and implement an overall M&E plan for the entire Program. The Program will include appropriate training of M&E officers in the agencies supported under the Program. Proposed indicators to measure the achievement of the development objectives are to be developed in a Results Framework (Annex 3). During Program implementation, outer-year goals will be reviewed and revised in the joint annual review.

Regarding M&E of the PFM Program, the Identification Mission conducted an assessment of the quality of the government expenditure management system of Somaliland, Puntland and South Central using a set of standard PFM assessment indicators developed by the Public Expenditure and Financial Accountability (PEFA) Secretariat of the World Bank, which provide a benchmark for the purposes of measuring results. Regular re-assessment of the indicators will be conducted annually so as to evaluate the impact of PFM reform initiatives. A similar exercise will be conducted for the TFG to provide a benchmark for measuring the results of the PMF program at the federal level.

The M&E conducted during the annual joint reviews would include:

- *monitoring for due diligence purposes, i.e., whether Program implementation complies with financial management and procurement guidelines and social and environmental safeguard policies of the World Bank and other development partners. This would in particular include regular monitoring and audits of government agencies participating in the Program;*
- *monitoring and evaluating for the purpose of improving the effectiveness of capacity building;*
- *monitoring and evaluating for the purpose of ensuring the sustainability of the public financial management reform and strategy and;*
- *evaluating the impact of public financial management reform on the quality and timeliness of the audited accounts of the government. This should include evaluation by the relevant parliamentary committees and civil society organizations.*

Regarding M&E of the DLC, the PFMSCB annual joint review will also monitor four groups of functions: (i) the timeliness of completion of establishment of the DLC; (ii) capacity utilization; (iii) the type of clients, and; (iv) the level of cost recovery.

4. Sustainability

The sustainability of the PFMSCBP involves the following dimensions:

- *The sustainability of the public sector financial management systems and basic capacity to provide stewardship over public assets and appropriate timely and transparent reporting;*
- *The sustainability of the customs reform program and the successful transition from a PSI managed system to one managed by the customs authorities;*
- *The enforceability of the legal framework governing public financial management and the financial system;*
- *The level of customs revenue mobilization in relation to government expenditures and the coverage of the new customs schedule in relation to total imports*
- *the costs of issuing currency*
- *The financial sustainability of the DLC.*

As all these components involve institution building “from the ground up”, they require constant monitoring, evaluating, and fine tuning to support their progress towards sustainability. As a result, a key part of the PFMSCB implementation process is a strong emphasis on M&E.

The PFMSCB implementation arrangements have been designed on the principle that if new structures are created to lead the reforms, they are created not as parallel structures of government but rather as part of the government structures. Careful attention has been paid to ensuring that the proper reporting relationship is established between contract staff and the leadership of the relevant ministries.

There is a risk that the contract staff hired under the Program will not be retained or successfully replaced once Program funding ends, unless the GoSSP address the poor conditions of service for professional and managerial staff. Various studies have been undertaken to assess

the size of the civil service that is required to administer the country at the federal and regional level but substantial further work is required to develop a clear and robust medium term strategy for establishing a cost effective, affordable and appropriately sized staffing complement based a comprehensive vision of the respective roles of the public and private sectors and civil society in service delivery, and a functional analysis of the respective roles of the different levels of government. Clearly, developing a social consensus on this issue is an urgent political task for the GoSSP leadership, so as to lay the groundwork for a fiscally viable state that can provide some basic services for its people. The Civil Service Commission will be expected to develop proposals for the creation of a Senior Executive Service to fast track the improvement of conditions of service for senior civil servants. The Program will monitor the development of government strategy in this area.

The Program will closely monitor the operation of the DLC towards maximizing its financial sustainability. The average annual operating cost of African DLCs is US\$250,000. Based on an estimate of US\$500,000 annual operating cost of the Somaliland DLC, full cost recovery can be reached if the DLC has at least one activity per day, 260 days per year, and charge US\$60 per participant per day, and is utilized at 68% of its total capacity. If the DLC is allowed management autonomy, reaching this target at the end of the fifth year is feasible.

5. Critical risks and possible controversial aspects

Critical risks and possible controversial aspects	Risk Mitigation Measures	Risk Rating with Mitigation
To Program Development Objectives		High(H)/ Medium (M)/ Low (L)
<i>Weak political leadership and lack of sustained commitment to inclusive and accountable governance.</i>	<i>Strengthen the capacity of Members of Parliament, civil society and the diaspora as advocates for transparency, inclusiveness, and accountability.</i>	H
<i>Insecurity</i>	<i>Focus on strategic institutional reforms on which there is consensus at regional and national level, phase support for regional and district governments to reflect progress in peace building efforts and resulting security levels with initial support focused in Somaliland, build in options for geographical redeployment of technical assistance across regions if warranted.</i>	H
<i>The risk of funds not being used for purposes intended due to lack of Financial Management and Procurement systems and associated corruption risks</i>	<i>Proposed Fiduciary Agent with appropriate control systems for procurement and financial management.</i>	M
<i>Lack of unity and absence of forum for program coordination across GoSSP constrains implementation</i>	<i>High level Steering Committees within each jurisdiction will oversee implementation and use of common international standards, e.g., PEFA and coordinated technical support will facilitate harmonization, if political climate for enhanced coordination improves.</i>	H
To Component Results		
<i>Lack of qualified trainers to provide required training for civil servants</i>	<i>Training of Trainer programs will be implemented. Competent trainers will be certified and offered contractual employment to deliver training.</i>	M
<i>Customs reform generates insufficient revenue to fund meaningful increase in public service delivery.</i>	<i>Intensive public information campaign to promote taxpayer support and compliance.</i>	H

<i>Civil servants resist changes that threaten their security of tenure or opportunity to supplement their meager incomes through petty bribery.</i>	<i>Recruitment and retention strategy to employ qualified staff who can enhance their skills through training and introduction of revised salary and compensation schemes to regularize salary payments, reward performance and reflect cost of living</i>	M
<i>Corrupt and vested interests impeding structural changes such as customs reform and financial accountability.</i>	<i>Publicize information to promote transparency. Mobilize stakeholders that support reform, parliamentarians, civil society, local officials, etc.</i>	H
<i>Development partners co-financing for PFM reform and other Program components uncoordinated or not materializing.</i>	<i>Establish PFM Reform Implementation Unit to coordinate donor support for the decentralization and PFM reform Programs. Cash flows from other donors have been conservatively estimated both in terms of amount and timing</i>	L
<i>Development partners continuing to channel funds to beneficiaries through Donor or CBO administered projects in areas that are to be implemented by regional or district governments and therefore impede their service delivery capacity building efforts.</i>	<i>Somalia Donor Coordination Group to undertake continuous review of PFM implementation and its implication for sector support operations. Development Partners to modify operational strategy to provide additional information on off-budget programs and increase government involvement in Program supervision and implementation.</i>	M
<i>Increased “on- budget” donor resources reduces federal and regional governments’ incentives to mobilize local revenues.</i>	<i>Formula for “on-budget” transfers to eligible regional and district governments linked to incremental revenue generation.</i>	L

6. Grant conditions and covenants (subject to discussion with Development Partners and the GoSSP)

Current interventions which are being supported by Development Partners could be scaled up if the following conditions are satisfied:

- *Memorandum of Understanding between development Partners and GoSSP signed*
- *Qualified fiduciary agent for PFMSCB Program selected.*
- *Adoption of the Program Implementation Manual, and the Program Financial Management Manual.*
- *Government has prepared and publicly disclosed an Environmental and Social Management Framework (ESMF), which has been approved by ASPEN and disclosed by the World Bank and the Government.*

- GoSSP has prepared and publicly disclosed a Resettlement Policy Framework (RPF) in accordance with World Bank Operational Policy 4.12.

Others:

- *The establishment of the DLCs as independent entities will be a condition for initiating procurement of this component.*
- *Annual joint Development Partner/ GoSSP reviews.*

D. APPRAISAL SUMMARY

1. Technical

The Program supports a carefully phased approach to public financial management reform and capacity building focusing on critical areas needed to revive public confidence in the integrity of government, the most important source of revenue and policy reforms in trade and financial sector that are critical for private sector development. It takes account of the uncertain political environment by building an extensive consultation component into the design of key legislation and supports confidence building through a comprehensive public information dissemination strategy. It seeks to extensively support key stakeholders, parliamentarians, civil society and the private sector and provide them with means of redress through clear and independent complaints procedures (most notably for customs decisions). It also provides for a careful sequencing of the Program to take into account the variations in the political and security situation in the various jurisdictions. The capacity building elements of the Program involve a crucial element of “learning by doing” so that technical skills imparted through training are immediately applicable in the working environment. There is a strong emphasis on a thorough M&E arrangement for each component of the Program so adjustments in Program design and implementation can be made where necessary, and lessons learned in the initial phases of the Program are shared and applied in the other jurisdictions when they join the Program.

The PFM Component builds on the lessons drawn from previous assessments of the government PFM system and is based on a prioritized framework. The sequence of the PFM reform first focuses on the generation of timely and reliable financial information and improving internal controls. In parallel, changes in legislation give effect to the independence and authority of oversight institutions to support in the transparency of the public finances of the participating governments. Change management techniques will support the separation and transformation of internal and external audit functions and the introduction of new codes of ethics in conformity with internationally accepted audit principles. Audit staff will also receive appropriate specialised training so as to make optimal use of the IMFS in conducting audits. Legislators will receive extensive briefings on the rationale for and importance of changes in the budgetary laws to institutionalise the budgetary approval and oversight process and to ensure the independence of the external auditors and their direct accountability to their respective parliaments. Subsequently, support and training will be given to the relevant parliamentary committees and their staff so that they can play a more effective role in the formulation, approval and oversight of the budget.

The design of the DLC component is based on the experience of GDLN in many African countries which underscores the importance of a robust governance framework. The Customs Reform program reflects the experience of capacity building programs in other low income and post conflict countries where AYSCUDA has been successfully introduced and the services of PSI companies have been helpful in managing the transition to more transparent and efficient import regimes. The civil service reform reflects the recommendations of the JNA for a client focused lean and affordable public administration with merit based, inclusive and gender sensitive selection and staff development values. The monetary and financial sector support components are also based on the priority interventions identified by the JNA for establishing monetary stability and resuscitating private sector banking in Somalia.

2. Fiduciary

The overall assessment of fiduciary (financial management and procurement) risk environment in the GoSSP is high. Consequently, the appointment of a fiduciary agent with a qualified team of chartered accountants, procurement officers and monitoring and evaluation experts is a requirement for proceeding with the scale up of the Program. A Financial Management Manual will be prepared for use by the fiduciary agent and all beneficiary agencies for the approval of Development Partners, to ensure that appropriate fiduciary and procurement procedures are in place under the Program has been examined by Bank staff. Intensive training on FM and procurement for all beneficiary agencies will be conducted to prepare for an eventual transition to government execution of the Program. The Program emphasizes intensive monitoring of the FM and procurement practices of the beneficiary agencies and further links the integrity of their FM and procurement practices with their graduation to beneficiary execution

3. Social

The proposed Program is expected to have a positive social impact, as it focuses on empowering parliaments to play a more effective oversight role and developing a capacity to respond to the needs and aspirations of the Somali people for greater transparency in the use of public funds. Transparent and accountable management of public resources will lead to improved trust in government and increased civic engagement in the public decision-making process. The customs reform Program will provide positive benefits to the private sector by opening up opportunities for self regulation, and introducing a transparent and non distorting import duty scheme with clear rights for importers to appeal valuation decisions. The civil service reforms will provide opportunities for women and other disadvantaged groups to gain access to employment opportunities and thereby contribute to social cohesion. The monetary and financial sector reforms will contribute to poverty reduction, as the expected reductions in domestic inflation will primarily benefit the poor, who are the main holders of Somali currency and are not insulated from the adverse impact of currency depreciation. The associated financial sector reforms will lay the basis for the reactivation of the domestic payments system and the reintroduction of commercial banking thereby benefiting the private sector in particular and savers in general.

4. Environment

The Environmental Category for the proposed Program is yet to be evaluated, but likely to be “B”. Some of the infrastructure development activities eligible for financing under the Infrastructure Rehabilitation and Construction components may have environmental dimensions. The investments could potential have environmental implications involving water supply,

drainage, sanitation, solid waste management and access roads.. However, the exact nature of the investments or their possible impacts cannot be foreseen at this time, because many of these investment projects will only be identified once the Program is underway in the Southern and Central parts of Somalia.. The potential environmental and social effects of such relatively modest infrastructural investment , however, are well understood, unlikely to be significant, and readily manageable.

Participating Somali Governments will be required to prepare an Environmental and Social Management Framework (ESMF), which in the case of the Bank needs approval from ASPEN and to be disclosed by the World Bank and the participating Governments). The ESMF would include

- *an environmental checklist for sub-projects, so as to assist local governments to carry out environmental appraisal of investments they make;*
- *a set of mitigation and monitoring measures to eliminate, offset, or reduce adverse environmental and social impacts to acceptable levels during implementation and operation of the subprojects; and*
- *identification of any potential environmental and social impacts of sub-projects and how to address them by incorporating the relevant mitigation measures into their design.*

The PFMSCB Operational Manual will be expected to include the ESMF. Beneficiary agencies will be required to apply the environmental checklists for appraising their investments and comply with relevant mitigation measures. In addition, routine checks will be made to ensure that individual investments also conform to these environmental standards. Government's capacity in this area is weak. Under the Program, an environmental and resettlement training module will be developed as part of the standardized training module under the Infrastructure and Rehabilitation sub components.

5. Safeguard Policies

The Safeguard classification for the Program is (to be evaluated but is likely to be S2). Three components involve investments in infrastructure, the Development Learning Center (DLC) component, the Infrastructure Construction and Rehabilitation component and the construction of ASYCUDA facilities. It is reported that a number of Government Offices in Southern and Central Somalia have been occupied Internally Displaced People seeking refuge from the ongoing conflict in that area. Although it is expected that many IDPs will have voluntarily returned to their homes before any rehabilitation work is undertaken in these areas, an appropriate resettlement program will be put into effect¹². Availability of land without any form of encumbrance is one of the prerequisites for project site selection and implementation. Accordingly, the Program would not require displacing any settler on the locations (to be chosen) for the possible construction of new offices under the PFM component, establishment of the Development Learning Center or the ASYCUDA facilities for the customs authorities

However, at this point in the Program, given the uncertainty over the ownership and current use of any land that may need to be acquired, the beneficiary governments would need to prepare a

¹² *To be based on UNDP guidelines currently in place*

Resettlement Policy Framework (RPF) in accordance with World Bank OP 4.12. This would establish the resettlement and compensation principles, organizational arrangements and design criteria to be applied to meet the needs of the people who may be affected by the Program activities requiring land acquisition and/or denial, restriction or loss of access to economic resources. In the case of the World Bank, the RPF would require approval by ASPEN and be disclosed by the World Bank and the governments concerned. If land acquisition is necessary for a sub-project, then a resettlement plan will be prepared and presented for World Bank and other Development Partners' requirements.

Safeguard Policies Triggered by the Program	<i>Yes</i>	<i>No¹³</i>
<i>Environmental Assessment (OP/BP/GP 4.01)</i>	<i>[x]</i>	<i>[]</i>
<i>Natural Habitats (OP/BP 4.04)</i>	<i>[]</i>	<i>[x]</i>
<i>Pest Management (OP 4.09)</i>	<i>[]</i>	<i>[x]</i>
<i>Cultural Property (OPN 11.03, being revised as OP 4.11)</i>	<i>[]</i>	<i>[x]</i>
<i>Involuntary Resettlement (OP/BP 4.12)</i>	<i>[x]</i>	<i>[]</i>
<i>Indigenous Peoples (OD 4.20, being revised as OP 4.10)</i>	<i>[]</i>	<i>[x]</i>
<i>Forests (OP/BP 4.36)</i>	<i>[]</i>	<i>[x]</i>
<i>Safety of Dams (OP/BP 4.37)</i>	<i>[]</i>	<i>[x]</i>
<i>Projects in Disputed Areas (OP/BP/GP 7.60)*</i>	<i>[]</i>	<i>[x]</i>
<i>Projects on International Waterways (OP/BP/GP 7.50)</i>	<i>[]</i>	<i>[x]</i>

6. Policy exceptions and readiness

The Program is not expected to seek any policy exceptions from development partners involved in the Program. A Memorandum of Understanding (MoU) will be prepared which will clarify any specific policy requirements of donors that may need to be addressed during implementation. Once the Memorandum of Understanding is signed and effectiveness conditions that may apply to specific donors are fulfilled, the Program would be ready for implementation.

¹³ (NB indicate other Development Partners requirements if any)

* By supporting the proposed Program, the Development Partners do not intend to prejudice the final determination of any parties' claim on disputed areas

Annex 1: Country and Sector or Program Background

GOSSP: PUBLIC FINANCIAL MANAGEMENT REFORM & STATE CAPACITY BUILDING

With an estimated per capita income of \$226, Somalia is one of the poorest countries in the world. A period of protracted macroeconomic instability in the 1980s led to the collapse of both the real economy and the financial system. As a result of these strains and the mounting resistance to an autocratic and isolated regime, in 1988 Somalia erupted into a civil war. The conflict swept away virtually the entire government apparatus and ultimately led to the break up of the country into three distinct regions. In 1991 the former British Somaliland Protectorate declared itself to be an independent state (the Somaliland Republic), and has subsequently managed its affairs separately from the rest of the country. Another group of regions in the north-eastern part of the country formed the autonomous state of Puntland. In the remaining Southern and Central part of the country, anarchy and armed conflict between clans or followers of local warlords has continued virtually unabated, preventing the formation of effective local administrations and rendering the provision of even rudimentary public services impossible. Reflecting this chaotic situation, Somalia as a whole has some of the worst social indicators in the world. One fifth of the children born in Somalia die before the age of five, and only one fifth of those that survive attend primary school. As a result of these and other appalling social conditions it ranks 163rd of the 165 countries covered by the UN's Human Development Index.

In 2004, a Federal Transitional Government (TFG) was formed through a peace and reconciliation process sponsored and managed under the auspices of the Governments of IGAD member states. The TFG includes representatives from the southern – central regions and Puntland administration. However it is not recognized by the Somaliland administration. The TFG is expected to develop a new federal constitution for Somalia and approve the legislation necessary to establish and administer a modern democratic and decentralized state. However, the eruption of violence in Mogadishu and much of South and Central Somalia since 2006 has effectively paralyzed the political process of reconciliation and, according to the IGAD's October 28th Ministerial Statement, led "to the near hopelessness of the existing situation with respect to achieving the objectives of the transition period as evidenced in the complete failure to establish institutions of governance only nine months before the end of the transitional period".

By way of contrast Puntland and Somaliland are more peaceful, secure and stable than south-central Somalia enabling the local administrations to bring some measure of development to their communities. Though it has not secured political recognition by the international community, Somaliland has managed to establish a functioning political system and introduce basic governance structures. It has also succeeded in restoring most essential public services and attracting the bulk of the reconstruction and development assistance provided Somalia. However, because of limited government capacity, coupled with concerns over the weak and non-transparent fiduciary controls, development assistance is almost entirely administered by grant agencies, and most social interventions are channeled through international or local NGOs. The Somaliland authorities have a weak revenue base (mostly derived from trade taxes) estimated at around _% of GDP or \$ _mn annually. The government finds it difficult to fund even the public sector wage bill, leaving little scope for investment or even the recurrent costs of service

delivery. A similar situation prevails in Puntland. However, the TFG has not yet succeeded in establishing a functioning government, or introducing an official budget that would provide ministries and local government authorities with the financial resources necessary to fulfill their responsibilities

At the request of the Transitional Federal Government and the international community asked the UN and the WB have prepared a Somali Joint Needs Assessment (JNA) which provides a prioritized set of reconstruction and development initiatives to support Somali-led efforts to deepen peace and reduce poverty, based on the findings of an integrated team of Somali and other technical experts after wide consultations undertaken in all regions of Somalia. The assessment identifies three high priority needs:

- *Deepen peace, improve security and establish good governance*
- *Strengthen basic social services (especially education, health and water supply);*
- *Rebuild infrastructure, together with other actions, to expand economic opportunities, employment and incomes.*

The JNA recommends supporting these priorities through all necessary means including substantial capacity building, the establishment of lean, efficient government institutions embodying good governance processes of transparency, accountability, fair representation, and effective participation, and with extensive decentralization of services and responsibilities and merit-based gender sensitive employment.

a. Public Financial Management Reform

It is widely accepted within Somalia that the effective and strategic use of public resources is a critical ingredient of its development strategy, and that transparent and accountable utilization of public resources is required to restore popular trust in government. For this reason improving public financial management is a priority in the development plans of Somaliland and Puntland. Moreover, a good financial management system is an essential requirement if development partners are to have the confidence in government that is necessary to underpin expanded development assistance.

At present, the financial management systems across all levels of government are extremely rudimentary, leading to weaknesses in financial controls and low levels of public information on budget intentions or outcomes. The concepts of independent legislative oversight and the consequent need for an independent auditing authority system have not been put into practice and the rights of citizens to have access to information on the use of public resources have not been established. Consequently, there is need for a major legislative effort to introduce a new financial management architecture accompany the technical and professional challenges involved in implementing a modern system of public financial management across Somalia. This will require a substantial donor commitment to provide financial resources to fund such a system as well as a major capacity building effort to overcome the lack of domestic capacity necessary to administer such a system.

To address these constraints it is has been agreed that a Financial Management Agent and a Procurement Agency should be contracted to manage the public financial management reform program (and the other components of the State Capacity Building Program discussed below). . In addition to providing the financial and procurement capacity needed to manage the program,

these two entities will be charged with rapidly building indigenous capacity through an ambitious program of institution building. In Puntland and Somaliland the existing financial management capacity can be further built upon. At the federal level, however, the systems will have to be developed virtually from scratch. The Financial Management Agent and a Procurement Agency will support five reform priorities agreed under the Joint Needs Assessment (which also form the basis for the Procurement and Financial Management Action Plans developed by the World Bank for its programs in Somalia). These are to:

- Establish sound and transparent public financial management systems. Conduct accountant training; prepare financial management policies and procedures; equip staff; generate annual financial reports, and establish oversight mechanisms;*
- Strengthen procurement capacity. procurement law and regulations; develop standard bidding documents and training programs; elevate the Somaliland and Puntland tender board to procurement oversight authorities.*
- Establish participatory, transparent and gender-sensitive budget preparation processes at all administrative levels.*
- Promote effective and equitable fiscal decentralization. Implementation of planned fiscal and functional decentralization; strengthen district level financial planning and budgeting; design criteria for targeted pro-poor and pro-women transfers; and develop local revenue generation.*
- Ensure transparent monitoring of public financial management and procurement through the active involvement of parliament, civil society, NGOs, the private sector and the media*

It is important to emphasize that significant legal reforms will be required at the regional and federal level to support these priorities including passage of budget laws establishing the legal and regulatory framework underpinning the formulation, execution and oversight of the budget and any system of intergovernmental transfers that may be agreed providing for the creation of an independent external audit function and changes in procurement legislation Regulations will also needed to establish budget execution, accounting, and reporting processes and controls and to clarify the associated financial management accountabilities.

b. Customs reform

The major issues confronting customs administrations in Somalia reflect the degradation and destruction of state institutions both before and during the civil war. All three administrations suffer from an extremely low capacity at both the policy and operational levels, and in the case of the TFG administrative capacity is almost non-existent. The customs law under which the ports operate was developed during the latter half of the 19th century and is seriously deficient. It does not support trade facilitation such as warehousing, duty drawbacks, refunds, temporary importations and transit operations, or provide customs with strong enforcement mechanisms to ensure compliance. All three regions of Somalia use reference prices to compute customs duties which often have little or no relation with the actual value of the goods imported. In contrast, Somalia's neighbors and trading partners employ the transactional value concept (following the World Customs Organization (WCO) guidelines) which is based on the price actually paid or payable by the buyer and provides more predictability, uniformity and transparency for the business community.

At an operational level, there are efforts to stop instances of evasion of customs duty by the traders or importers. However, the internal control mechanisms of the customs administrations are not strong enough to monitor or prevent the involvement of customs officials in evasion and fraud effectively. And at present, there seems to be a serious lack of effective customs control in the TFG administered area. In all three jurisdictions the entire documentation system is manual, which does not support effective control or provide transparency to the business community. Access to reliable and complete trade information is also hampered by the very basic form of information captured by the customs administrations. The infrastructure and customs facilities at all locations need upgrading and rehabilitation. The examination of goods is usually carried out on the open ground as there are no warehouses or sheltered examination areas, leaving goods vulnerable to damage during inclement weather. In the Bosaso (Puntland) and Mogadishu (South Central) ports, dredging and clearing of the harbors and access channels is needed. Finally, Human resource policies also need major revision to provide for merit based recruitment, training and the adequate and timely payment of staff remuneration

On the positive side, there is a growing enthusiasm in all the three customs administrations to modernize and improve. It is also encouraging to note that the customs administrations in Somaliland and Puntland have correctly identified most of the problems faced by them. The existing customs clearance procedures are relatively simple though the multiplicity of controls over the cargo by different border agencies needs to be reviewed and improved with most consignments getting cleared the same day. Importers and exporters are subject to limited state control and on a broader scale, there is awareness in all the three regions of importance of creating a competitive, liberal economy, which stimulates investment and growth and creates more jobs.

A customs reforms and modernization plan developed with the active consultation of the customs management and employees in the three regions have been developed. Key recommendations are as follows:

- *Introduce radical changes, as a matter of urgency, in the existing valuation practices to bring them in conformity with the internationally accepted best principles. In the immediate term this may benefit from the hiring of a reputed PSI company to provide stability, predictability and transparency to customs revenues during the transition period and to help develop customs valuation database.*
- *Revise and rationalize the customs tariff and make it consistent with the international HS code. Reduce the number of tariff slabs to a maximum of three.*
- *Revise and update the customs laws and develop new regulations for customs operations which increase customs controls over the imported goods without compromising trade facilitation. In the short term new legislative text can be produced covering the main elements required to provide transparency to customs operations and protection of the rights of traders. This text should be complemented and upgraded at a later time.*
- *Launch organization reform of customs that includes a functional headquarters that clearly delineates management and operational responsibilities.*
- *Simplify and automate customs procedures and implement the SAD in line with the United Nations Lay out Key. Introduce ASYCUDA.*

While the difficulties faced by each customs administration are almost identical in nature, there are differences in the magnitude of the problems mainly relating to the local capacity. Somaliland and Puntland may be considered more appropriate for initial support in terms of governance and the current status of its customs administration while the TFG on the other hand has to resolve the security situation and improve governance in the ports before assistance can be effective. Nevertheless, it is important to adopt a uniform approach towards customs reform and modernization in the country. A uniform approach towards improvement in the national customs administration will ensure that the importers receive a set of standard services at all entry ports in the country and that the choice of ports is not influenced or distorted by a difference in tax regimes or customs procedures. Another advantage of a common and coordinated program is the strengthening of the overall governance as implementation of a standard set of rules for recording and reporting information and use of common documentation increase transparency and public accountability and reduce the chance of organized collusion between government officials and importers,

c. State Building and Financial Sector Development

A legacy of years of dictatorship and political mismanagement, have created widespread misgivings about government, which is still often perceived by Somalis to be an oppressive instrument for the benefit of a minority, rather than a critical provider of public services to the Somali people. The mandate of the TFG is to pave the way for a decentralized system of administration based on federalism with four tiers of administration - federal, state, regional and district. Somaliland and Puntland also have their own constitutions which need to be taken into account in reaching agreement on the specifics regarding the role and functions of the various levels of government and any associated revenue collection or fiscal transfer mechanisms which would be required to underpin these arrangements. The JNA provides a vision for the future architecture of the Somali government which is a lean, gender inclusive efficient federal structure of institutions embodying good governance processes of transparency, accountability and participation, with extensive decentralization of services and responsibilities. It suggests building a state does not require a heavy set of government institutions, but acknowledges that the challenge of building even core government institutions from the Somalia baseline is enormous given the current starting point.

At present, the TFG have only a small number of senior officials, in the key cabinet ministries and the offices of the President, Prime Minister and Speaker, many of whom are financially supported by development partners, Most other people working for the TFG are generally not being paid, in other parts of Somalia payments are erratic and generally not conducive to professional or efficient service delivery. Skill levels across the civil service are low and in need of upgrading.

Four prioritized capacity-building initiatives for government institutions are proposed under the JNA:

- Create a new federal civil service adopt merit-based civil service recruitment and training policies taking into account clan and gender balance.*
- Decentralize service delivery through establishment of inclusive participatory local governance systems in all Somali regions Conduct a*

- *Create and staff four core civil service institutions with equitable gender representation immediately as top priority to build confidence.*
- *Design, support and implement civil service reform in Puntland and Somaliland*

For decades Somali Governments have been spending in excess of their revenue bases leading to inflationary pressures and an ever dwindling value of the Somali Shilling as more money was printed to cover the funding gap Reversing this trend is essential for creating macroeconomic stability, restoring public confidence in the local currency and providing a stable environment for private sector initiatives. There is a clear need for a systematic restructuring of the civil service to create affordable structures that can implement the vision of a lean and capable administration. However, the public sector will need substantial domestic and external resources to finance even a lean federal structure and service delivery at the district level.

Once the Somali Government establishes a track record of sound budgetary management and inflationary expectations are calmed, it will be appropriate to issue a new currency which over the medium term could provide a source of seignorage for the monetary authorities. In addition to stabilizing the currency, a major challenge will be to overhaul the country's banking laws and introduce a system of prudential oversight over its banks, so that they can provide efficient and secure intermediation services for private savings and investment. This will require the restoration of the country's financial infrastructure. Although the Somali diaspora can easily transfer money back to Somalia and importers can remit funds abroad, the internal payments system no longer functions, rendering even simple domestic banking transactions, such as payment by check impossible at the present time.

**Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
GOSSP: PUBLIC FINANCIAL MANAGEMENT REFORM & STATE CAPACITY
BUILDING**

Donor Projects Supporting GoSSP PFM Government Capacity Building since 2006

Donor agencies	Project names	Amount
World Bank		
UNDP		
DFID		
EU		
AfDB		

Annex 3: Results Framework and Monitoring

GOSSP: PUBLIC FINANCIAL MANAGEMENT REFORM & STATE CAPACITY BUILDING PROGRAM

Results Framework

PDO	Outcome Indicators	Use of Outcome Information
Intermediate Results <i>(One per Component)</i>		Use of Results Monitoring
Component One: Public Financial Management Reform		Component One:
Component Two: Customs Sector Reform		Component Two:
Component Three: Strengthening the Financial System		Component Three:
Component Four: State Capacity Building		Component Four:

PDO	Outcome Indicators	Use of Outcome Information
Component Five: Development Learning Center		Component Five:

Arrangements for results monitoring

Outcome Indicators	Baseline (December 2008)	Target Values						Data Collection and Reporting
		Dec 09	Dec 10	Dec-11	Dec- 12	Dec- 13	Frequency and Reports	Data Collection Instruments
Component 1. Public Financial Management Reform								
Component 2. Customs Modernization and Reform								
Component 3. Strengthening The Financial System								
Component 4. State Capacity Building								

Outcome Indicators	Baseline (December 2008)	Target Values						Data Collection and Reporting	
		Dec 09	Dec 10	Dec-11	Dec- 12	Dec- 13	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Component 5. Development Learning Center									

Annex 4: Detailed Program Description

GOSSP: PUBLIC FINANCIAL MANAGEMENT REFORM & STATE CAPACITY BUILDING PROGRAM

Component 1 Public Financial Management Reform (US\$14.5m, (First Year US\$1m))

The objective of this component is to continue the support the implementation of a PFM reform program initiated under the UNDP technical assistance program, African Development Bank's proposed support to the Transitional Federal Government and the Banks LICUS trust fund. At present PFM support to Somaliland, Puntland and the Transitional Government of Somalia is being provided under specific arrangements for each of the three counterparts. However, given the common needs of the three governments, it is expected that the support programs will be designed in such a way as to facilitate harmonisation. The goal of the program will be to put in place functioning PFM systems over five years. In turn it is expected that once these systems are in place, significant progress would be made in relation to PEFA benchmarks..

Subcomponent 1.1: Strengthen and functionalize the offices of Accountant Generals in Somaliland, Puntland and the TFG

This objective of this subcomponent is to support: improvement/development of PFM legislation to provide the mandate of the Offices of the Accountant General to conduct their activities; introduction of accounting policies and procedures in line with international good practices e.g. International Public Sector Accounting Standards; building staff capacity through training in professional accountancy or accountancy technician courses and on the job training by PFM experts; automating accounting systems through use of the Integrated Financial Management Information System (IFMIS)¹⁴; membership in regional bodies, e.g. East and Southern African Association of Accountant General's, which will provide support to strengthen the Somali Accountant General's Offices; purchase of office equipment, furniture or renovation of office premises, and; professional staff recruitment.

Subcomponent 1.2: Strengthen and functionalize the Offices of the Auditor General in Somaliland, Puntland and the TFG

The objective of this subcomponent is to support: improvement/development of audit legislation that will enable the independence and functionalize the Offices of the Auditor General; development of an external audit manual, in line with International Standards on Auditing issued by the International Federation of Accountants (IFAC) and International Organization of Supreme Audit Institutions (INTOSAI) auditing standards; building staff capacity through

¹⁴ *It will finance the staffing cost of the IFMIS implementation team, technical assistance and consultancies, equipment and vehicles, and intensive training for stakeholders. The component will also include the initiation of training of line ministries to prepare them for their new responsibilities and the new IFMIS. Initially it will be set-up to replace the current manual record keeping and reconciliation systems in the Accountant General's Office of the MoF and certain pilot ministries. It will be subsequently rolled out to all line Ministries. The office of the Auditor General and Internal Audit Unit will also be able to access the system.*

training in professional accountancy courses, computer audit training and value for money audit training (on the job training can also be done by PFM experts); acquiring external audit software e.g. team mate; membership of regional/international bodies e.g. African Organization of English-speaking Supreme Audit Institutions (AFROSAI-E) and INTOSAI; purchase of office equipment, furniture or renovation of office premise, and; professional staff recruitment.

Subcomponent 1.3: Strengthen and functionalize the Internal Audit Unit within the Ministries of Finance in Somaliland, Puntland and the TFG

The objective of this subcomponent is to support: the introduction of legislation governing the function of internal audit in the PFM legislation that would include the role of audit committees in strengthening governance of public funds; development of internal audit manuals in line with the standards issued by the Institute of Internal Auditors (IIA); establishing ministerial and sectoral audit committees-- whose main role will be to ensure that issues raised by the internal and external auditors are followed up and addressed by management; building staff capacity through training in professional accountancy courses, certified internal auditor courses by the IIA, computer audit training and value for money audit training (on the job training can also be done by PFM experts); acquisition of software for internal auditing; membership in international bodies e.g. Institute of Internal Auditors, who will help strengthen the internal audit unit; purchase office equipment, furniture or renovation of office premises, and; professional staff recruitment.

Subcomponent 1.4: Strengthen and functionalize the Procurement Unit to take the lead in conducting procurement reforms in Somaliland, Puntland and the TFG

The objective of this subcomponent is to support: the drafting of Procurement legislation in line with good procurement practices; establishing a Public Procurement and Disposal Authority through new Procurement Legislation that will enforce procurement regulations/guidelines; a sensitization program to disseminate new policies, laws and regulations, annual public procurement forums for all stakeholders, and production of annual public procurement reports for public information; development of a procurement syllabus for universities and conducting trainers of trainers courses for lecturers at the universities; purchase of office equipment, furniture or renovation of office premises, and professional staff recruitment

Subcomponent 1.5: Strengthen and functionalize the Budgeting Units within the Ministries of Finance in Somaliland, Puntland and the TFG

The objective of this subcomponent is to strengthen the MTEF process. It will finance technical assistance on how to guide and reflect donor activities in program policy choices, improve the Cabinet policy process and Parliamentary oversight, strengthen the linkages between policy objectives and budget proposals , and use the MTEF process as a key driver to motivate vote controllers towards efficiency in management, and to reward budget entities for performance. This subcomponent will also finance intensive training for stakeholders on the MTEF process and program budgeting. It will provide support for: improvement/development of budget legislation to document the mandate of the Ministry of Finance in the budget process and the requirement of the House of Representatives (Parliament) to approve and monitor the budget; development of budget guidelines to facilitate budget preparation and monitoring; development

of program budgeting and links to sectoral budgets; strengthening the Medium Term Expenditure Framework (MTEF) and related budget formulation and execution processes; training staff in budgeting; purchase of office equipment, furniture or renovation of office premises, and; professional staff recruitment.

Subcomponent 1.6: Strengthen and functionalize the Macroeconomic Policy Units within the Ministry of Finance in Somaliland, Puntland and the TFG

The objective of this subcomponent is to support: a review the revenue and tax policy to broaden the tax base which is mainly dependant on taxes on imports (customs duty) from the ports and airports which contribute to about 80% of total government revenue¹⁵; development of revenue sharing formula and policies and procedures for fiscal transfers between the federation and member states, in line with the functional allocation of expenditure responsibilities; policies and procedures to address bottlenecks to streamline revenue transfers to local governments; train staff in the macroeconomic policy units to conduct their work; build the macroeconomic policy units capacity to make revenue forecasts for the annual budget, monitor monthly revenue collections and make at least quarterly revisions of the annual revenue forecasts¹⁶; purchase office equipment, furniture and construction or renovation of office premises, and; professional staff recruitment.

Subcomponent 1.7: Strengthen and functionalize the Parliamentary (House of Representatives) Oversight PFM committees in Somaliland, Puntland and the TFG.

The objective of this subcomponent is to support: the development of rules of procedures for the Parliamentary (House of Representatives) Public Accounts Committee (PAC) and Budget Committee; training committee members to effectively apply the rules, and; the establishment of a PAC Secretariat, which will help the committee review audit reports and take appropriate, timely action,¹⁷; purchase office equipment, furniture and construction or renovation of office premises, and; professional staff recruitment.

Subcomponent 1.8: Design and implementation of a decentralized government financial management system

This subcomponent will finance the development and implementation of a district government financial management system and intensive training for government financial management staff in the administrative regions and districts of Somalia. It will support development of: Local Government PFM Legislation (if not clearly stated in the PFM legislation), and; local government Financial Management, Internal Audit and Procurement Guidelines/Manuals (which

¹⁵ *The tax policy should also address the movement from specific to ad-valorem taxes given that specific taxes are not responsive to inflationary pressures which adversely affect the real value of tax collections; developing income tax legislation to broaden the tax base and to address the administrative and structural deficiency in the tax system by setting up an autonomous Revenue Management Agency within each of the GoSSP to improve on tax collections.*

¹⁶ *The unit should also monitor developments in monthly expenditure commitment payments, and any payment arrears. Based on this analysis it should make recommendations whether any intra year adjustments in revenue or expenditure policy appear necessary to meet the annual budget balance objective.*

¹⁷ *The unit should also monitor developments in monthly expenditure commitment payments, and any payment arrears. Based on this analysis it should make recommendations whether any intra year adjustments in revenue or expenditure policy appear necessary to meet the annual budget balance objective.*

should be done in liaison with the Accountant General's Office to ensure harmonization amongst the guidelines at central and local government)¹⁸

Subcomponent 1.8 Monitoring & Evaluation

The objective of this component is to support an assessment of the quality of Somali government expenditure management systems using a set of standard PFM assessment indicators developed by the Public Expenditure and Financial Accountability (PEFA) Secretariat of the World Bank. An assessment for Somaliland was completed in February 2008 All indicators were either rated D, or no score was noted in cases where there was not enough information to facilitate the assignment of grades. This PEFA assessment will be used as a baseline for measuring PFM developments in Somaliland. Similar benchmarking exercises will be undertaken for Puntland and the Federal Government in the near future. Re-assessment of the standard PFM indicators will be conducted annually, so as to evaluate the impact of the PFM reform initiatives.

Component 2 Customs Modernization and Reform (US\$7m, (First Year US\$ 1m))

The objective of this Program is to support the reform, modernization and harmonization of customs administration in Somalia.

Subcomponent 2.1 Improve the Legal and Regulatory Framework.

The objective of this subcomponent is to establish the core policy advisory and implementation capacity for the customs reform program. It will finance the establishment of the Customs Reform Implementation Unit, the drafting of relevant legislation, revisions in tariff codes and customs valuation practices and administrative documents to bring them into conformity with international standards, the introduction of ASYCUDA, and coordinate the roll out of the reform program in each of the three participating regions while supporting related consultation and public information activities.

Subcomponent 2.2 Outsource Pre-Shipment Inspection (PSI)

This subcomponent would finance technical assistance from a PSI company to verify the valuation and classification of imports and develop a customs valuation database and support the generation of timely and reliable trade statistics.

Subcomponent 2.3 Restructuring and reorganizing customs administration

This subcomponent will provide technical assistance for the reorganization of management and administrative structures, change management and the development of related managerial and administrative control systems and human resource policies.

¹⁸ *It is proposed that the district government FM system will initially be implemented on a manual basis. The Program will later finance the acquisition and implementation of a small standard accounting package for district governments. The experience of using this simple computerized system will prepare district governments for operating the IFMIS, when it is rolled out to the administrative regions and elected district councils.*

Subcomponent 2.4 Simplifying and Automating Customs Procedures

This subcomponent will provide technical assistance and finance training costs, field trips and related hardware costs for introducing ASYCUDA and the construction of Entry Processing Units at border offices.

Subcomponent 2.5 Upgrading and Rehabilitation of Customs Facilities

This component will finance the design and construction of basic customs sheds for the temporary protection of goods while awaiting customs clearance during inclement weather (at present goods are inspected on open ground).

Subcomponent 2.6 Developing Customs Intelligence and Enforcement Capacity

This subcomponent would provide technical assistance training and equipment for specialist anti-smuggling teams in selected locations along the border with Ethiopia and Kenya and coastal areas and establishing an intelligence system that supports generation of information through an informer network and risk based investigation and enforcement of suspect individuals and businesses indulging in fraud or smuggling

Subcomponent 2.7 Monitoring and Evaluation of the Customs Reform and Modernization Process

The objective of this subcomponent is to provide for consistent monitoring of Customs activities, draw lessons, and improve on Customs operations. The overall Monitoring and Evaluation (M&E) component should be carried out by the relevant Ministries of Finance.

Component 3 Strengthening the Financial System (US\$6.5m, First Year US\$1m)

The objective of this component is to provide specialized policy advice to the Governments of GoSSP in defining the roles and responsibilities of the Central Banks of the GOSSP and related opportunities for collaboration, stabilize the monetary system and establish an appropriate exchange rate regime. It will also provide technical assistance to strengthen the legal and regulatory framework for financial sector development, upgrade the treasury and related functions of the central banking institutions of the GoSSP, establish a national payments system and fund the introduction of a new currency.

Subcomponent 3.1 Provision of Specialized Policy Advice and Capacity building

This subcomponent will provide specialized policy advice to the central banks of the GOSSP to define their respective roles and responsibilities within the central banking system and policy recommendations for stabilizing the monetary system and publishing an appropriate exchange rate regime. The sub - component will also provide support for the development design and delivery of relevant specialized training and capacity building for central bank staff, in collaboration with the Development Learning Centers.

Subcomponent 3.2 Improve the Financial Legal and Regulatory Framework.

This sub component will provide technical assistance and related services for modernizing the legal and regulatory framework governing central banking operations, commercial banking laws and bank supervision arrangements and the development of the associated regulations and guidelines needed to operationalise this legislation. This includes redrafting and of the Central Bank Act, Banking law and deposit insurance, development of anti-money laundering and anti-

terrorism financing legislation and the translation and publication of these laws and associated regulations in English and Somali.

Subcomponent 3.3: Computerizing Central Bank Treasury and Related Functions

This subcomponent will provide technical assistance for introducing a modern IT system for managing the financial transactions of the central banks of the GOSSP and linking them to the related modules of the IFMS.

Subcomponent 3.4: Establishing a National Payments System

This sub component will provide technical assistance for establishing a national payment system among appropriate Somali financial institutions.

Subcomponent 3.5: Introduction of a New Currency

This subcomponent will provide budgetary support for the issuance of a new currency once arrangements for stabilizing the monetary system are in place.

Component 4: Support for State Capacity Building (US\$4.5m, First Year US\$1m)

This component will provide technical assistance for the establishment of the federal civil service Somaliland and for the reform of the civil services of Puntland and Somaliland.

Subcomponent 4.1: Support for strategic policy decisions

This subcomponent will provide technical assistance for a policy management and advisory unit for the President, the Prime Minister and Cabinet of Somalia to provide strategic policy advice to leadership in the initial three years of the program

Subcomponent 4.2: Support for Civil Service Commissions

This subcomponent will provide technical assistance for the recruitment of the top echelon of the federal civil service and related senior positions in oversight institutions, the judiciary and Parliament, and to fund their salaries for the first three years of the transition, it will also support to the Federal Civil Service Commission for establishing a professional civil service and developing related human resource policies. It will also support change management programs in the TFG, Somaliland and Puntland administrations to reorganize and professionalize their existing civil services, improve their client focus, and provide assistance for the identification and elimination of ghost workers and related payroll cleansing and auditing arrangements .

Component 5 Development Learning Centers (US\$11.5m, First Year US\$2.5m)

The objective of this component is to establish a network of excellent information, communications, and training centers to meet the latent demand for capacity building in public administration, financial management and service delivery, and serve as a hosting organization for international institutions delivering short term training programs in-country. This component will finance the establishment of Development Learning Centers, combining the existing Global Development Learning Network (GDLN) sites and a Development Information Center. The curriculum of the DLCs would primarily focus on training in public financial management and other related capacity building efforts supported under the Program.

Subcomponent 5.1 Establishment of the DLC as an independent legal entity

The objective of this subcomponent is to establish the DLC as an independent entity by legislation.

Subcomponent 5.2 Constructing, equipping and staffing the DLC

The objective of this subcomponent is to construct a DLC facility in Mogadishu and upgrade the GDLN facilities in Hargeissa and Puntland to DLC facilities, install the required equipment, and recruit staff, so as to make the DLC operational.

Subcomponent 5.3 Support the Development and Delivery of DLC Curricula and Related Partnership Arrangements with Regional Training Centers.

The objective of this subcomponent is to design the course materials and training programs needed to deliver core programs in public sector administration, finance and accounting, in association with training centers with experience in delivering such programs in the Region. Public administration courses would include areas such as governance accountability and anti-corruption, public sector reform and results based management, performance based management and contracting, outsourcing, program based budgeting and project management. Public Finance would include such areas as basic finance management, budgeting and budgetary controls, managing donor funds, basic procurement and procurement procedures and regulations. The Public Sector Accounting Programs would range from basic short term accounting programs for technical staff with little or no formal training to long term courses aimed at providing more experienced staff with the opportunity to obtain formal qualifications in public financial management.

Subcomponent 5.4 Support the operation of the DLC

The objective of this subcomponent is to assist the DLC become financially viable in five years. It includes:

- *financing of operational costs on a decreasing basis over the first five years of DLC operation;*
- *purchasing light vehicles to facilitate transport and marketing services;*
- *technical assistance and staff training; and*
- *establishing financial management systems and undertaking annual audits.*

Subcomponent 5.4 Monitoring and Evaluation

The objective of this subcomponent is to provide for consistent monitoring of DLC activities, draw lessons, and improve on DLC operations. The overall Monitoring and Evaluation (M&E) component should be carried out by the DLC Board.

Component 6 Establishing an Independent Institute of Professional Accountants (IPA), (US \$1m, First Year US\$0.2m)

The objective of this component is to establish an independent accounting institute that would promote the adoption of internationally recognized standards for the accounting profession in Somalia, regulate the profession and develop a professional accountancy course which can be delivered in collaboration with the DLCs. The Institute of Professional Accountants will be strengthened through a twinning arrangement well established professional accountancy body,

Subcomponent 6.1 Establishment of the IPA as an independent legal entity

The objective of this subcomponent is to establish the IPA as an independent entity by legislation.

Subcomponent 6.2 Constructing, equipping and staffing the IPA

The objective of this subcomponent is to construct an IPA center, provide the necessary furniture, fixtures teaching materials, library resources and equipment, and recruit staff, so as to make the IPA operational.

Subcomponent 6.3 Support the Development and Delivery of IPA Curricula and Related Partnership Arrangements with Regional Training Centers.

The objective of this subcomponent is to design the course materials and training programs needed to deliver a core programs in accounting to recognized international standards public sector administration, finance and accounting, in association with training centers with experience in delivering such programs in the Region. Public administration courses would include areas such as governance accountability and anti-corruption, public sector reform and results based management, performance based management and contracting, outsourcing, program based budgeting and project management. Public Finance would include such areas as basic finance management, budgeting and budgetary controls, managing donor funds, basic procurement and procurement procedures and regulations. The Accounting Programs would range from basic short term accounting programs for technical staff with little or no formal training to long term courses aimed at providing more experienced staff with the opportunity to obtain formal qualifications in public financial management. Initially the teaching programs would be hosted by the DLCs until an appropriate facility can be made operational

Subcomponent 6.4 Support the operation of the IPA

The objective of this subcomponent is to assist the IPA become financially viable in five years. It includes:

- *financing of operational costs on a decreasing basis over the first five years of IPA operation;*
- *purchasing light vehicles to facilitate transport and marketing services;*
- *technical assistance and staff training; and*
- *establishing financial management systems and undertaking annual audits.*

Subcomponent 6.5 Monitoring and Evaluation

The objective of this subcomponent is to provide for consistent monitoring of IPA activities, draw lessons, and improve on IPA operations. The overall Monitoring and Evaluation (M&E) component should be carried out by the IPA Board.

Component 7 PFMSCB Coordination, Implementation, Monitoring and Evaluation (US\$5m, (First year US\$1m))

The objective of this component is to finance the fiduciary agent's and related activities involving coordination and implementation of the Program across the multiple GoSSP entities that will benefit from the Program, and ensure that it complies with the World Bank's and other participating Development Partners' Financial Management, Procurement, Social and Environmental Guidelines, mobilize and manage development partner funding and to ensure effective implementation of the Program components.

Specifically, this component will finance:

- staff responsible for overall coordination of PFMSCB implementation and the management of development partner funding;
- staff responsible for financial management of the PFMSCB;
- staff responsible for ensuring that all procurement under the PFMSCB complies with the World Bank and other development partner procurement guidelines;
- a Monitoring and Evaluation Specialist, to be responsible for setting up and maintaining an M&E system for the PFMSCB; and
- technical assistance and operational expenditures to strengthen the coordination monitoring implementation and training functions of the unit.

Table: Expected Development Partner Support US\$ m

	Expected Development Partner Support
Public Sector Reform and State Capacity Building Program	<i>To be completed following consultations with Development Partners</i>
Component 1: Public Financial Management Reform	
Component 2 Customs Modernization and Reform	
Component 3 Strengthening the Financial System	
Component 4: Support for State Capacity Building	
Component 5 Development Learning Center	
Component 6 Association of Professional Accountants	
Component 7 PFMSCB Coordination, Implementation, Monitoring and Evaluation Unit	
	Total Partner Financing US \$m

Annex 5: Program Costs
GOSSP: PUBLIC FINANCIAL MANAGEMENT REFORM & STATE CAPACITY
BUILDING PROGRAM

Program Cost By Component and/or Activity	Local US \$million	Foreign US \$million	Total US \$million
1. Public Financial Management Reform			
2. Customs Reform and Modernization			
3. Strengthening the Financial System			
4. Support for State Capacity Building			
5. Development Learning Center			
6. PFMSCB Coordination, Implementation, Monitoring and Evaluation Unit			
7. Unallocated			
<hr/>			
Total Baseline Cost			
Physical Contingencies			
Price Contingencies			
<hr/>			
Total Program Costs			
Interest during construction			
Front-end Fee			
<hr/>			
Total Financing Required			50.0

Annex 6: Implementation Arrangements

GOSSP: PUBLIC FINANCIAL MANAGEMENT REFORM & STATE CAPACITY BUILDING PROGRAM

Annex 7: Financial Management and Disbursement Arrangements

GOSSP: PUBLIC FINANCIAL MANAGEMENT REFORM & STATE CAPACITY BUILDING PROGRAM

Executive Summary

The objective of the Financial Management Assessment is to determine whether the entities identified for the implementation of the Program have adequate and acceptable financial management capability to undertake the assigned tasks.

Conclusion

COUNTRY ACCOUNTABILITY ISSUES

The summary risk analysis is to be undertaken and our FM assessment of the Program implementing and coordinating agencies.

SUMMARY OF RISK ANALYSIS

Risk	Risk Rating	Risk Mitigation Measure
Inherent Risks:		
Country		
a)		
b)		
c)		

Overall Inherent Risks:		
Control Risk:		
<i>Funds Flow</i>		
<i>Internal Audit</i>		
<i>External Audit</i>		
<i>Information Systems</i>		
Overall Control Risk		

ACCOUNTING SYSTEM

FLOW OF FUNDS

AUDITING ARRANGEMENTS

REPORTING AND MONITORING

The Program will prepare quarterly Program financial monitoring reports (FMRs) in the areas of finance and procurement, including complaints from bidders, and Program progress.

The Quarterly Financial Reports would consist of a statement of cash receipts by sources and expenditures by main expenditure classifications for the period and cumulatively; cash balances of the Program; and supporting schedules comparing actual and budgeted expenditures;

Quarterly Physical Progress Reports include narrative information and output indicators, linking financial information with physical progress and report on issues that require attention;

Quarterly Procurement Management Reports would consist of information on procurement for goods and works and that for consultants' services and compliance with agreed procurement methods. The report compares procurement performance against the plan agreed at negotiations and appropriately updated at the end of each quarter. The report should also provide any information on complaints by bidders, unsatisfactory performance by contractors and any contractual disputes.

DISBURSEMENT ARRANGEMENTS

The proceeds of the grant would be disbursed over a 5-year period. A period of four months after the closing date would be allowed to make disbursements for expenditures incurred until the closing date of the grant.

Disbursements for all expenditures under Special Account A would be against full documentation, except for items of expenditures under contracts and purchase orders below US\$100,000 equivalent each, for works and consulting firms, US\$150,000 for goods and US\$50,000 for consultant services (individuals), training and incremental costs for which disbursements would be based on statement of expenditures (SOEs). Supporting documentation for SOEs would be retained by IRCBPCU for review by Development Partner missions and external auditors.

For Special Account B, the disbursement will be report-based. Required reports will include documentations that beneficiary LCs have met the minimum conditions, Financial Management Reports on Special Account B. The replenishment of Special Account B is subject to the following conditions:

Annex 8: Procurement
GOSSP: PUBLIC FINANCIAL MANAGEMENT REFORM & STATE CAPACITY
BUILDING PROGRAM

Procurement Environment

1. The current procurement practices for goods, works and services are: *to be described*
2. Review of procurement practices under on-going Bank-financed projects identified the following unacceptable practices: *to be described*

Procurement procedures

3. Efficient public procurement systems are necessary to check against corruption and are a means of ensuring value for money, in addition to responding to demands of a democratic culture that requires that use of public funds be explained to the people. The on-going procurement reforms will provide procurements laws that will ensure sound and uniform public procurement systems. In the meantime.....

Procurement Implementation Arrangements

Except where otherwise agreed in the MoU, procurement will be based on World Bank Guidelines

4. Contracts for works, goods and consulting services to be financed under the Program would be procured in accordance with the *Guidelines: Procurement under IBRD Loans and IDA Credits, January 1995 and as revised in January and August 1996, September 1997 and January 1999*. Consultants will be selected in accordance with the *Guidelines: Selection and Employment of Consultants by World Bank Borrowers January 1997 and as revised September 1997 and January 1999*. National Competitive Bidding (NCB) procedures will include: (a) an explicit statement to bidders of the evaluation and award criteria; (b) national advertising with public bid opening; (c) award to the lowest evaluated responsive and qualified bidder and (d) foreign bidders would not be precluded from participation in NCB.
5. The Bank's Standard Bidding Documents (SBD) will be used for ICB (and with appropriate amendments for all NCB) for goods. The Bank's Standard Request for Proposals (SRFP) would be used for all consulting assignments. Less competitive bidding and selection procedures should not be used as an expedient alternative to more competitive methods. Fractioning of large procurements into smaller ones should not be done to allow use of less competitive methods. The detailed procedures to be followed are described in the PIM. Domestic preference will be

allowed for ICB contracts, provided that there are qualified domestic manufacturers and contractors to benefit from domestic preference.

Advertising

6. A General Procurement Notice (GPN) is mandatory and will be published in the UN Development Business and in the DG Market as provided under the Guidelines. Specific Procurement Notices (SPN) will be required for contracts to be procured under ICB and NCB procedures and for expressions of interest (EOI) prior to the preparation of the shortlist for consultant contracts with an estimated cost of US\$100,000 or more to obtain. SPNs will (as a minimum) be published in a newspaper of wide national circulation. In addition, EOI FOR consultant contracts with an estimated cost of US\$200,000 or more will be advertised in Development Business and in the dg Market. Sufficient time would be allowed (not less than 6 weeks for ICB, and 30 days for NCB and for EOI) to allow candidates adequate time to obtain documents and respond appropriately.

Procurement Capacity Assessment

7. As there is very little (almost none) procurement capacity in the participating agencies the coordinating unit will be managed by an independent fiduciary agent selected through competitive bidding, the procurement risk under the Program is therefore *expected* to be rated “low”.

Procurement Planning

8.

9. Tender Committee

Scope of Procurement and Procurement Methods

10. Works contracts estimated to cost **US\$ x.x million** would consist of refurbishment and construction of government offices, customs facilities and development learning centers Works contracts estimated to cost US\$500,000 and above will be procured on basis of ICB, and below that by NCB. Small contracts estimated to cost less than USD 50,000 equivalent would be procured on the basis of simplified bidding documents by soliciting quotations/bids from not less than three qualified contractors. In all cases, the award of contract shall be made to the contractor who offers the lowest price for the required work, and who has the experience and resources to successfully complete the contract. Where beneficiary communities wish to participate, simplified procedures under “Community Participation in Procurement” will be applied. These procedures are [to be](#) described in the PIM.

11. Goods contracts are estimated to cost about **US\$x.x million** under all components of the Program. Good’s contracts will include vehicles, office equipment and furniture. To the extent possible and practicable, goods would be combined into packages worth at least US\$150,000 and procured by ICB. Contracts estimated to cost US\$30,000 to US\$150,000 equivalent would be procured by NCB. Procurement for readily available off-the-shelf goods that cannot be grouped

together and estimated to cost less than US\$30,000 equivalent would be procured on the basis of comparison of quotations [sample quotation form will be provided in the PIM] from at least three eligible suppliers. Requests for and such quotations will be in writing, and will include time and place for delivery of the quotations, a clear description/specification and quantity of the goods; as well as requirements for delivery time, place for the delivery of goods, and where needed installation requirements as appropriate. Quotations will be opened and evaluated at the same time. No aggregates are established for any type of procurement method. Packages will not be split for purpose of using a less competitive method.

12. Alternatively, goods may also be procured from UN Agencies [e.g. IAPSO - Inter-Agency Procurement Services Office] provided that such a contract does not exceed US\$100,000 for each type of goods.

13. **Consulting Services (US\$x.x million) and Training (US\$x.x million).** Consulting services will include long term and short term technical assistance, financial and procurement audits and engineering services for civil works. Other assignments will be for training, studies and IT services. Consulting assignments estimated to cost less than US\$200,000 equivalent may be procured on the basis of short-lists featuring only local firms, provided a sufficient number of qualified local firms are available and foreign consultants who wish to participate are not excluded from consideration. Assignments in excess of US\$200,000, and specialized technical assistance assignments, must be procured on the basis of international short-lists.

14. As a rule, consultant services will be selected through Quality and Cost Based Selection (QCBS) method. Consulting assignments costing less than US\$50,000 for firms may be procured by comparing the qualifications of consultants who have expressed an interest in the assignment or who have been identified. Financial auditors, procurement auditors and civil works consultants would be selected using Least-Cost-Selection procedures. Individual consultants will be selected in accordance with Part V of the Guidelines for Consultants.

15. **Training Programs** are geared toward building capacity, information sessions and improving management and staff skills. Training programs would be part of the Program's Annual Work plans to be prepared in accordance with procedures specified in the PIM. Training programs costing US\$10,000 equivalent or more would be cleared with the Bank prior to their initiation.

Review of procurement by the Bank

16. All goods contracts estimated to cost US\$150,000 equivalent or more and work contracts estimated to cost US\$200,000 or more will be subject to IDA prior review in accordance with the procedures in Appendix I of the Guidelines for Procurement of goods and works. All consultant contracts estimated to cost US\$100,000 or more for firms and US\$50,000 or more for individuals would be subject to prior review in accordance with the procedures in Appendix I of the Guidelines for Selection of Consultants. All single source selection will be subject to IDA prior review irrespective of value.

17. Contracts, which are not subject to prior review, will be selectively reviewed by the Bank during Program implementation and will be governed by the procedures set forth in paragraph 4

of Appendix I of the Guidelines for procurement of goods and works or for selection of consultants as the case may be.

18. Procurement Audits and Contract Management/Expenditure Reports. Annual procurement audits will be used to report on fiduciary compliance. Not later than three months after the end of each financial year, the PFMRSBPU will submit to the Bank a procurement audit report prepared by consultants selected in accordance with the guidelines for selection of consultants and Terms of Reference to be incorporated in the PIM. In addition, the PFMRSBPU will prepare and submit to IDA on a quarterly basis contract management and expenditure information.

Table A: Program Costs by Procurement Arrangements
(US\$ million equivalent)

Expenditure Category	Procurement Method ¹				Total Cost
	ICB	NCB	Other	N.B.F.	
1. Works					
2. Goods					
3. Consulting Services and audit					
4. Grants to Local councils					
5. Operating Costs					
Total					

¹ Figures in parentheses are the amounts to be financed by the {Grant/Trust Fund}. All costs include contingencies.

Table A1: Consultant Selection Arrangements (optional)
(US\$ million equivalent)
NOT USED

Consultant Services Expenditure Category	Selection Method							Total Cost ¹
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	
A. Firms	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
B. Individuals	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Total	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)

Table B: Thresholds for Procurement Methods and Prior Review¹

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement Method	Contracts Subject to Prior Review (US\$ millions)
1. Works	Over \$500,000	ICB	All
	US\$50,000-500,000	NCB	Contracts above 200,000
2. Goods	Over US\$150,000	ICB	All
	US\$30,000-150,000	NCB	None
	Below US\$30,000	Shopping	None
3. Services	Over US\$200,000	QCBS (international advertisement)	All
	US\$50,000-200,000 firms	QCBS (national advertisement)	Contracts above 100,000, and TOR for all others
	Below US\$50,000 firms	CQ	None
	All individual consultants	Individual selection	All contracts over US\$50,000
	Sole source contracts	Sole source	All

¹Thresholds generally differ by country and project. Consult OD 11.04 "Review of Procurement Documentation" and contact the Regional Procurement Adviser for guidance.

Total value of contracts subject to prior review: (US\$XX)

Overall Procurement Risk Assessment:

Frequency of procurement supervision missions proposed: One every 3 months during the first year, thereafter as needed but at least twice a year (includes special procurement supervision for post-review/audits).

Table C: Allocation of (Grant) Proceeds

Expenditure Category	Amount in US\$ million	Financing Percentage
1. Works		100% foreign expenditures and local expenditures
2. Goods		100% foreign expenditures and local expenditures
3. Consultants' services, training and audits		100%
4. Local Government Development Grant		100%
5. Operating Costs		100%
6. Refund of Project Preparation Advance		
7. Unallocated		
<hr/>		
Total Program Costs		
Interest during construction		
Front-end Fee		
Total		

Annex 9: Economic and Financial Analysis

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Not applicable.

Annex 10: Safeguard Policy Issues
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Annex 11: Program Preparation and Supervision
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	Planned	Actual
PCN review		
Initial PID to PIC		
Initial ISDS to PIC		
Appraisal		
Negotiations		
Board/RVP approval		
Planned date of effectiveness		
Planned date of annual review		
Planned closing date		

Key institutions responsible for preparation of the Program:

- GoP
- GoS
- GoSo

Development Partner staff and consultants who worked on the Program included:

Name	Title	Unit

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Annex 13:Country at a Glance

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