**Project Name** | Somalia Public Financial Management Capacity Strengthening Project
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**Region** | AFRICA
**Sector** | General public administration sector (100%)
**Project ID** | P146006
**Borrower(s)** | MINISTRY OF FINANCE AND PLANNING
**Implementing Agency** | MINISTRY OF FINANCE AND PLANNING
**Environment Category** | [ ] A  [ ] B  [X] C  [ ] FI  [ ] TBD (to be determined)
**Date PID Prepared** | May 30, 2013
**Estimated Date of Appraisal Authorization** | October 2013
**Estimated Date of Board Approval** | November 15, 2013

### I. Key development issues and rationale for Bank involvement

The new Federal Republic of Somalia has prioritized security, justice and Public Financial Management (PFM) integrity at the top of the country’s development agenda. This is driven by improved security, regaining of political legitimacy, and need to build citizens’ confidence and relationship with Development Partners (DPs) that public funds will be managed in a transparent, equitable and accountable manner.

Against the backdrop of a fluid transition process, the World Bank is preparing a new country strategy. The proposed aim of the Interim Strategy Note (ISN) for Somalia will be to contribute to the international effort to support the country’s transition out of the cycle of fragility and conflict and establish the foundations of peace, national reconciliation and development in the context of a new national government. The program will draw on the experience of other countries emerging from conflict and fragility, and in particular on the lessons of the *World Development Report 2011 on Conflict, Security and Development* with regards to building coalitions and early confidence-building measures in fragile transitions. It is also grounded in the principles of the g7+ New Deal.

The proposed ISN will address two key fragility dynamics: a dynamic of extractive and non-inclusive political and economic institutions and a dynamic of economic exclusion and vulnerability. While both areas are long-term challenges, the strategy proposes to deliver early confidence building results as well as laying the foundation for longer-term programmatic work. The first strategic objective is to build the basis for national and international trust in Somali public institutions by providing technical support to core government functions, building a strong policy dialogue through knowledge work and helping to facilitate the re-engagement process through a New Deal framework and financial normalization. The second strategic objective will be to build a platform for sustainable economic development or “resilience” by expanding the Bank’s ongoing work with the private sector into livelihoods and infrastructure.

This project is anchored on the first strategic objective of the ISN and aligned with the government’s overall PFM reform objective is to improve the efficiency and effectiveness of public financial management processes, and systems in order to provide timely, transparent and accurate financial
information across the public sector to underpin policy formulation and inform Government decision making in support of service delivery.

The Somaliland region PFM reform strategy when completed will also be supported through this project by scaling up the activities through leveraging multi-donor funds.

II. Proposed objective

The Project Development Objective (PDO) is “to establish systems for more transparent and accountable management and use of public funds in Somalia”.

III. Preliminary description

The OECD Principles for Good International Engagement in Fragile States (April 2007) guides the design of this project and in particular DPs have agreed on practical coordination mechanisms through the Government PFM Reform Oversight Structure. Also, the PFM Donor Group Steering Committee actively engaged with Government during the PFM self-assessment and aligned its support around the Government-owned reform action plan by agreeing on the division of labour. This project will catalyze the PFM reform action plan with the objective of laying the foundation for longer-term reforms by strengthening controls around the basic Ministry of Finance and Planning functions.

Component 1: Public Financial Management Reform Oversight

The reform oversight and implementation structure will provide policy directions for strengthening the PFM systems and take periodic stock of progress by ensuring that key milestones in the PFM reform strategy are on track and take concrete action where required. Annual public PFM Forums will be organized as part of the communication strategy. Pooling of all support within a unified PFM reform program will enhance coordination and provide a forum for structured dialogue with development partners. Some analytic and design work will be bank-executed to ensure high-quality outputs.

With the crisis over the past decade depleting PFM capacity; PFM Subject Matter Experts (SMEs) will provide technical assistance services with a clear capacity building and exit strategy with skills transfer arrangements (hand-holding approach) by embedding the arrangements within government structures and working closely with Component Implementation Teams (CITs) that will be led by Heads of the key PFM institutions. An adaptive leadership approach with a suitable change management path based on the Somalia context will help in distinguishing technical problems from the political economy of such institutional reforms.

Beyond availability of good laws and institutional structures, PFM improvement requires capability at the level of individual PFM practitioners. The PFM Education and Training Program will build capacity to provide individuals with the required knowledge, skills, abilities and with training on values and integrity. The main targeted participants are planning and budget officials, procurement officers, accountants and internal and external auditors. To ensure sustainability, the education program will be constituted as a PFM Academy within local universities.

Component 2: Somalia Financial Management Information System (SFMIS)

The SFMIS is computer based software that facilitates the management of financial information. It is operated from computer terminals (to be procured) that are connected to software and databases housed on a number of servers (to be procured). The system will be housed in the premises of Ministry of Finance and Planning where a building/floor/wing will be rehabilitated and equipped with the required
infrastructure (cables, electricity, light, new windows) to accommodate the servers, and fitting of air conditioned, dust-free rooms with access control.

The SFMIS will be user-friendly, robust and secured and will focus on capturing budget, treasury functions, payroll, tax collection and financial reporting. Users will be provided with access privileges based on their respective level of authority to main internal controls. This will be preceded by business process reviews and development and implementation will be through an inter-ministerial task force that will own the Statement of User Requirements (SOUR) including a Standard Chart of Accounts (SCoA).

The SFMIS will provide a system with adequate audit trails to identify administrative accountability in processing transactions. Improved timeliness and accuracy of transaction processing together with comprehensiveness of financial reports with the adoption of Treasury Single Account will also improve management decision and make key fiscal data available to the public to hold government accountable for the use of public funds.

**Component 3: Budgeting, Expenditure Control, Procurement, Accounting and Reporting (BECPAR)**

Business processes will be re-engineered to strengthen existing processes such as requisitioning, purchase orders, invoicing, payment authorization/approval, accounting and reporting. Improved business processes could for example increase total tax revenue without necessarily increasing the tax rate by collecting actual tax payable efficiently.

The evolving business processes for budgeting, commitment controls, procurement, internal controls, internal audit, accounting and reporting will initially be issued as *Treasury Circulars or Ministerial Orders* and later codified in Financial Regulations (FR) and a Comprehensive Operating Procedures Manuals (COPM) to support the PFM Law.

Establishing a *Treasury Single Account (TSA)* in the Central Bank through which all revenue collections and authorized payments are made with regular bank reconciliation will lend credibility to the completeness and accuracy of financial reports for decision making and accountability. Cash handling which pose high risk of leakages will be avoided through direct ‘bank’ transactions.

Stores Regulations are outdated with no well-functioning procurement system in place. The objective is to put in place a modern but appropriate institutional and legal framework based on the current context that will increase value for money in the use of public resources and allow broader participation of the private sector and transparency in the procurement process. Initially, emphasis will be placed on linking of procurement plans with budget, work plans, and disbursement schedules to ensure availability of funds to support the award and payments of contracts in ensuring effective implementation of the budget.

Good quality in-year financial reports and annual financial statements are not produced. The project will provide a system of accounting that reflects accurately and in accordance with internationally acceptable accounting standards, the flow of transactions and the year-end position of financial resources of the FGS in a timely manner and serves as a key instrument for management decision making. Simple accounting procedures manual will be prepared to guide the preparation of annual financial statements. Practical training will be conducted for recognition and measurement of elements of financial statements and preparation of prescribed financial statements and the relevant disclosure notes in accordance with International Public Sector Accounting Standards (IPSAS cash basis) (cash basis).

To ensure consistency in arriving at correct tax obligations and weighing the costs/benefits of applying International Financial Reporting Standards (IFRS) and considering the number of owner-managed business, the government will work closely with the Chamber of Commerce to adopt the Small and

Budget and commitment controls will be introduced to curb build-up of arrears through embedded system control features of the SFMIS. Also, strengthening controls, streamlining business processes and applying internationally acceptable standards and practices will improve fiscal discipline and promote transparency and accountability.

IV. Safeguard policies that might apply
None

V. Tentative financing
Source: ($m.)

<table>
<thead>
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<th>Source</th>
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<tr>
<td>State and Peace Building Fund</td>
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<tr>
<td><strong>Total</strong></td>
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