

Concept Note

Support to Financial Governance Policy Dialogue (P154578)

I. Introduction and Context

A. Background

1. **Somalia's progress towards sound and accountable economic and financial governance is critical for the restoration of public and international confidence and trust in government.** Important progress has been made to establish the foundations for accountability in government, including inter alia, establishing the Offices of the Accountant General and Auditor General, and an increasingly assertive Parliament. The government has improved revenue measures and is putting in place a stronger budget planning and execution framework. It is also putting in place more accountable systems for channeling international assistance through the budget. These efforts are supported by constructive partnerships with multilateral and bilateral development partners. While efforts are beginning to yield tangible results, these gains remain fragile and still fall short of providing reliable public financial management systems and robust financial governance framework.

2. **Similar to most fragile and conflict affected countries, the Somali government faces a mixture of low institutional capacity, challenges to state legitimacy, complex clan politics, and the imperative to deliver tangible results to the Somali people.** Having survived two decades of civil war and disruption, legacy systems of governance remain resilient in Somalia. This is characterized by informal practices, clan politics and systems that inform and influence the functioning of Somali institutions. Consolidating new and more appropriate legislative and regulatory rules of the game will take time, and will require sustained and intensive effort from both government and the international community. Historically, the fastest transformations of institutional quality in fragile and conflict affected countries have taken a generation.¹ By contrast, the international community is keen to see reform move fast and has a low tolerance for financial governance setbacks and perceived fiduciary risk. This provides a strong rationale for establishing a hybrid body to provide a forum for high level dialogue and help advance reform in key financial governance areas.

3. **To build confidence and improve transparency and accountability in key areas of financial governance, the Federal Government of Somalia and the international community, led by the World Bank, established a Financial Governance Committee (FGC) in early 2014.** The FGC was established following the crises in the Central Bank (see below). By its composition, the FGC is a hybrid Somali-international body that has played a mixture of *advisory*, *monitoring* and *catalytic* roles. Through its international representatives, the FGC has provided the Federal Government access to independent technical advice on issues related to concessions and strategic procurement contracts, and asset recovery – a scope identified in the

¹ The 2011 World Development Report (WDR) on Conflict, Security and Development highlights that it has taken the 20 fastest-reforming countries to move from current average levels in fragile states around the world to a threshold of “good enough governance” on average 17 years to get the military out of politics, 20 years to achieve functioning bureaucratic quality, and 27 years to bring corruption under reasonable control.

early joint identification mission in December 2013². The FGC has also provided a forum for monitoring and reporting on progress in these areas as well as banking and other aspects of public financial management. It has played a catalytic role in building a joint FGS-donor work program on use of country systems. It provides a forum for dialogue on strategic financial governance issues.

4. **In an environment where there is as much uncertainty, fluidity and complexity as Somalia, arrangements need to evolve rapidly over time to remain or become effective.** To this end, the FGC is a temporary body, with an initial period of two years (April 2014 – April 2016), with periodic half-yearly review of their functions by FGS and international development partners for effectiveness. The first half-yearly review of the FGC was undertaken in October 2013, and put forward a number of recommendations for strengthening its effectiveness. It highlighted the need for additional and more sustainable financing to enable the FGC to fulfill its mandate. This proposed TA support is to provide the FGC with predictability and reliability in funding to finance its basic operations and to make available technical assistance to help advance its work program during the FGC's second year.

B. Sectoral and Institutional Context

5. **In order to understand the role and value-added of the FGC, it is necessary to understand the wider financial and economic governance environment.** This includes areas in which the FGC has worked directly, areas the FGC work program has overlapped with, and areas the FGC will engage with more directly in its second year of operation. The following section reviews the major components of the financial governance agenda, including public procurement, asset recovery, PFM, central bank governance, fiscal policy, and the nascent role of financial oversight institutions including the Auditor General and Parliament.

Economic governance

6. **Revenue mobilization has proved particularly challenging, especially given the FGS' reliance on politically contested port revenues and unpredictable international grants.** Inland revenue collection has also been hampered by a poor security environment in which government tax collectors have been directly targeted in Mogadishu. The government recognizes that more needs to be done to address the technical, political, and security barriers to improved revenue collection. The Ministry has now instituted a revenue strategy but it remains constrained by weak enforcement and an outdated legal framework. Ultimately, the ability of government to generate revenue is critical for the government to achieve sustainability and legitimacy among the Somali public.

7. **A major pillar in Somalia's economic governance agenda is the development of a system of fiscal federalism.** Somalia has a highly devolved provisional constitution, whereby powers are given to the level of government where they are likely to be most effectively exercised. In practice most frontline public service delivery is either provided through subnational governments, or non-governmental actors. This means that the Federal Government cannot do everything itself: revenues, expenditures and services – in particular frontline social service delivery – are subject to understandings and agreements on intergovernmental fiscal

² The identification mission was undertaken jointly by the Federal Government of Somalia, the World Bank, the IMF, the African Development Bank, and with technical and expert support from DFID and the UN.

relations. These frameworks are emerging through dialogue and collaboration. In the short term, the focus will need to be on nurturing intergovernmental mechanisms through which fiscal arrangements can be negotiated by the Somali stakeholders. The FGC will provide a forum to support knowledge sharing and exposure in fiscal federalism that will inform the eventual model of fiscal federalism Somali stakeholders will wish to adapt to their specific context.

Public procurement and concessions

8. **The experience of tendering for concessions, especially for assets considered national or strategic, has highlighted the need for a stronger framework for procurement and concessions.** Concession agreements can increase revenue generation, improve the management of strategic assets, initiate the productive exploitation of mineral resources and provide services. However, the absence of a clear legal or regulatory framework for concessions, including for procedural transparency, and the need to provide services in certain areas (e.g. port/airport management) has led to sub-optimal outcomes. Opportunistic political actors, encouraged by domestic and international entrepreneurs, have sought to capitalize on the absence of an up-to-date legal and regulatory framework to benefit from the issuance of concessions to private companies, often entering into agreements with unfavorable terms for the FGS and Somali citizens who will be the eventual losers. This area has therefore come to the fore as a strategic focus for the government, as well as for the Financial Governance Committee (see below).

9. **While a draft Procurement Bill has been approved by the Council of Ministers, it is awaiting parliamentary approval.** The absence of procurement law leaves a legal lacuna that is exploited by various interests. This is complicated by the FGS' own extremely weak internal procurement, legal drafting and negotiation capacities. The proposal to include the Solicitor General as a new member of the expanded FGC represents an opportunity to institutionalize some of the temporary work of the FGC within that office. However, as the FGC review emphasized, the full burden of supporting public procurement reform goes beyond the mandate of the FGC, which cannot and should not substitute for strengthening of domestic Somali institutions and actors to enable them perform this role.³ For example, while the FGC can (and has) encouraged the FGS to issue interim procurement procedures, support is needed to ensure that the FGS has the capacity to implement them.

Asset recovery

10. **The recovery of Somalia's sovereign assets is a priority for the Federal Government and it has taken steps to initiate a more transparent recovery and usage process.** In line with the advice of the FGC and the joint UNODC/WB Stolen Asset Recovery (StAR) initiative the Governor of the Central Bank has terminated the previous asset recovery contract and the Federal Government has invited legal and technical advice from StAR. An Asset Recovery Team has been formed, a recovery strategy is under development and a Policy Statement on Asset Recovery and Use is under preparation. The need for transparency in the allocation and use of recovered assets remains a high priority. This was illustrated by the recovery and expenditure of USD 9 million of overseas assets during 2014, with limited reporting or transparency on the uses

³ The PFM Project under preparation and funded by the MPF will support capacity building in procurement and implementation of the law when it is passed.

of these unbudgeted resources, and absence of an agreed business process by which to administer and monitor their disbursement.

Central bank governance

11. **The government has taken important steps to strengthen governance at the Central Bank of Somalia (CBS), a central pillar of a stable monetary and payment system.** The CBS appointed a Governor and Board, designed its structure and policies and produced financial statements. The Board's first meeting was held in Mogadishu in May 2014. The CBS has also taken steps to improve core business processes, which are critical for efficient and transparent government expenditure, and a basic accounting and reporting framework is now in place. Further, provisional licenses have now been issued to four Commercial Banks and to eight money remittance providers (Hawalas) to provide an interim solution as a more comprehensive licensing and supervision framework is being developed.

Public Financial Management (PFM)

12. **Some progress has been made to advance the legal framework for public financial management.** The PFM Bill is awaiting the Council of Ministers endorsement and a number of by-laws to the Central Bank Act have been passed by the Board of Directors. The passage of legislation itself is more challenging, and the legal instrument for PFM is still the 1961 *Financial and Accounting Procedure of the State*. New laws will also require intensive support to institutionalize change across multiple dimensions of the PFM system. Meanwhile, Ministerial Orders are used to bring into force improved controls and reporting requirements. The ongoing and proposed PFM operations are providing support to strengthen PFM institutions and processes.

13. **The government is establishing the basic building blocks of budgetary oversight, expenditure control, cash management and financial reporting with the support of a PFM operation supported by the World Bank and other donors.** A Treasury Single Account (TSA) is in place through which reported revenue collections are lodged with the CBS. The FGS has also taken a critical step in upgrading its Standard Chart of Accounts (SCoA) and is in the process of implementing a bespoke Somalia Financial Management Information System (SFMIS). This has enabled the Federal Government to periodically post reliable financial reports on its website⁴ and thus increase transparency of public finances. A web-based version of the SFMIS became operational in January 2015 with improved controls of making payments directly to beneficiaries through a vendor database and payment instructions using barcode technology instead of manual cheques. This will improve transparency in the payment process and confidence from suppliers. Building on the initial World Bank PFM project, a scaled-up project funded by the Multi-Partner Fund will deepen the reforms (see below). These positive steps are now being matched in some of the interim administrations and Federal Member states, creating the possibility for future systems integration.

14. **The Federal Government has made considerable progress in strengthening its payroll control and is also addressing the need for financial controls for operating expenditures.** With support of the Norwegian Special Financing Facility and the World Bank RCRF project, the government has strengthened its payroll process which now includes a two

⁴ See <http://www.mof.gov.so/public-financial-management-pfm/>.

part authentication process with unique identification numbers and biometric information. The government has established a Payment System Reform Task Force to develop a new system for all line ministries which will introduce ex ante controls and stricter differentiation of roles in the payment process.

Oversight institutions

15. **Some progress has been made in re-establishing the Office of the Auditor General (OAG).** Following the appointment of the new Auditor General in March 2014, the OAG made some early progress in auditing the 2013 financial statement and is expected to submit its report to the Parliament in June this year. In January 2015, an Audit Bill to establish a more independent OAG received parliamentary approval and now needs to be implemented. The resolution by the FGC that the Auditor General should be engaged through the open meetings and/or invited as an observer for relevant FGC agenda items, as appropriate, offers an entry point to strengthen linkages between the work of the FGC and the OAG.

16. **The federal Parliament is gradually establishing and asserting its oversight role.** It has repeatedly asserted its legal role in approving large concessions contracts, and has sought to bring about the renegotiation or cancellation of a number of contracts that have been brought to its attention, and parliamentary committees have summoned ministers for questioning on such contracts. Further, the Parliamentary Sub-Committee for Financial Oversight of Public Institutions conducted a public hearing on the 2012 audit report and a procedures manual has been developed to enable it to do this on a consistent basis in the future. The proposed addition of the Chair of the Parliamentary Sub-Committee for Financial Oversight of Public Institutions as a new member of an expanded FGC is a welcome development in linking the work of the FGC to the more long-term role of the parliamentary committees.⁵

17. **However, federal financial accountability institutions have been under resourced and marginalized for decades, and require sustained support to be empowered to perform their full functions.** In a context where very little information has been made available for external audit or parliamentary review and scrutiny, and where institutions have been starved of resources and subjected to targeted attacks, significant support must be given to the OAG and parliament to improve the credibility and visibility and enable them fulfil their roles, alongside the executive's own legal advisory functions and the judiciary. Through dialogue and consultations the FGC will help to give these domestic oversight institutions more visibility and high profile.

The Financial Governance Committee

18. **The Financial Governance Committee (FGC) was established in early 2014 in the wake of the resignation of Yusur Abrar, the Governor of the Central Bank, and the ensuing political crisis in late 2013.**⁶ The resignation was viewed as having dealt a blow to the FGS's reputation and to international community's confidence in it, at a time when donors had invested heavily in supporting the new government, including through a conference in Brussels

⁵ The Parliamentary Sub-Committee for Financial Oversight of Public Institutions is part of the larger Committee on Budget, Finance, Planning, International Cooperation and Financial Oversight of Public Institutions.

⁶ Ms Abrar resigned after a tenure of less than two months, citing concerns over the Federal Government of Somalia's approach to the recovery of frozen assets, and the terms of a private US law firm's engagement in the asset recovery process.

held in September 2013 where a joint strategic framework, the Somali Compact, was endorsed. In the days that followed, there was recognition on all sides that the FGS needed to implement concrete measures to strengthen financial governance, in particular in the areas brought into focus by the Governor's resignation (management of frozen assets, Central Bank governance, terms of commercial contracts). Thus, a key purpose of the FGC was to reestablish trust between international partners and the FGS and support the implementation of such measures.

19. **The overall objective of the FGC was originally to ‘improve the functionality and transparency of key financial systems’ within a two year time horizon.**⁷ Beyond this, the FGC was intended to: i) provide a program of short-term actions to demonstrate commitment to strengthen public finance and central bank management; ii) allow the government to access independent and transparent international advice on policy and implementation modalities in economically important areas; iii) identify, co-ordinate and receive prompt and appropriate short term technical analysis and implementation advice and support from development partners; iv) link the actions supported by the FGC to longer-term ongoing efforts to strengthen government institutions.

20. **At the outset, the FGC's areas of focus were guided by a work plan, which was developed between the FGS and the IFIs in late 2013, before the FGC was established.** It identified ‘commitments’ requiring FGS implementation in four key areas, as follows: i) the creation of a well-governed, functional Central Bank; ii) the establishment of sound public revenue and expenditure management; iii) the development of orderly public procurement and concessioning processes, and; iv) the transparent repatriation of national assets. During its retreat, held in August 2014, the FGC redefined its areas of focus to cover the following topics: i) asset recovery; ii) contracts, concessions and procurement; iii) fiscal federalism, and; iv) the progressive use of government systems. These work areas will likely be subject to further review as the ToR and composition of the FGC changes, and in the context of a fluid and rapidly changing external environment.

21. **The FGC is configured as a joint committee comprising FGS members and independent experts appointed by the International Financial Institutions (IFIs).** The original FGS members were drawn from the Ministry of Finance (Minister), the Central Bank (Governor) and the President's Office (Senior Adviser). The IFI members were appointed by the World Bank and African Development Bank. The IMF appointed a representative who would act as an adviser to the entire committee, rather than a committee member itself. Since its inception, the FGC has held five formal meetings between April 2014 and January 2015. In its first ten months of operation, the FGC has established a platform for regular dialogue on sensitive financial governance issues, and provided the government with independent advice on a range of financial governance issues.

22. **It was initially intended that the operations of the FGC would be guided by an Independent Advisory Panel (IAP) composed of high-level advisors.** The FGC would refer issues requiring policy guidance to the IAP for advice, and for written opinions in cases of disagreement within the FGC. However, the different elements of the FGP were not established simultaneously. By the time of the FGC Review, the IAP had not yet been established. Also, as the FGC has assumed more of an advisory role than originally envisaged, and as the FGC has to

⁷ See “*Terms of Reference: Financial Governance Program for Somalia*,” endorsed by the FGC on 23 April 2014.

date managed to operate fairly effectively by consensus, the Review recommended that the IAP role be revisited (see below).

23. **Beginning in March 2014, the Federal Government has submitted a total of twelve signed and draft contracts to the FGC for review and advice.** Through the World Bank representative and drawing on expertise from the ALSF and Bank sector experts, confidential assessments have been shared with the FGC and concerned line ministries.⁸ As a follow up the Federal Government has begun the process of renegotiating or cancelling a number of these contracts on the basis of the advice received. The FGC has also monitored progress on agreed reform activities, and played its catalytic role by facilitating a dialogue on the use of country systems between the Federal Government and donors. In late 2014, the Federal Government asked the FGC to advise on and oversee the process of asset recovery.

24. **An independent external review was carried out in October 2014 and made a number of recommendations for improved functioning of the FGC** (see Box 1). As a consequence, the FGC Terms of Reference have been revised, its membership expanded and a Financial Governance Forum established to enable dialogue between the FGC and key international stakeholders. A key recommendation of the review was that the FGC needed to be more adequately resourced in order to fulfill its objectives. Continued relevance of the FGC will also depend on its ability to demonstrate to all stakeholders that its operations have a tangible impact in improving financial governance. This will require stronger linkages with executive bodies in government, with public accountability bodies such as the parliament, the Office of the Auditor General and the press, and with joint policy platforms such as the SDRF.

25. **This Project responds to the recommendation of the FGC review on funding by articulating a program of support to enable the FGC to fulfil its revised role more adequately in its second year of operation.** This will complement funding and support by the AfDB, IMF, and other development partners. The project necessarily builds in a high degree of flexibility in order to allow support to the FGC work in a highly fluid financial governance environment.

Box 1: Key findings from the FGC Review

A review of the FGC has highlighted a number of challenges encountered by the FGC in its first 6 months of operation, and associated improvements that could be made to address them. These included:

- Strengthen FGC resourcing, in particular for the FGC Secretariat to improve effectiveness.
- Provide IFI/donor representatives who are not hindered by movement or access restrictions in Mogadishu and extend their visits beyond day trips to Mogadishu Airport.
- Expand FGC membership to include an additional representative from the bilateral agencies, without compromising the principle that international representatives should maintain an independent 'arm's length' relationship with their sponsoring institution.
- Increase transparency by holding regular 'open meetings' for stakeholders.
- Reconsider the role of the Independent Advisory Panel (IAP) and instead call on individual IAP

⁸ The advice offered in the Confidential Assessments ranges from recommending that the Federal Government negotiate an improvement in terms, to proposing the cancellation of those contracts that are of dubious benefit to the country.

members to join FGC meetings as needed to provide guidance on specific topics.

The review also made recommendations beyond the FGC, to the broader donor community, stressing the limitations inherent in the role of the FGC and the importance of other complementary interventions:

- Provide FGS with sufficient technical support (above existing levels) to enable the implementation of key reforms.
- Ensure that the FGC is understood as constituting one component of a wider accountability framework and agree how financial governance issues which do not fall within the remit of the FGC should be addressed.

Other fora for policy dialogue and coordination on financial governance

26. **The FGC is part of a wider set of fora for policy dialogue and coordination on financial governance.** It was never intended that the FGC would be the sole instrument in this area, and it is complemented by a number of other important groups that cover aspects of financial governance reform at FGS level.

27. **The Recurrent Cost and Reform Financing Facility (RCRF) establishes a new instrument for supporting the government’s budget and for enabling associated policy dialogue.** The RCRF builds on the pioneering Special Finance Facility (SFF) supported by Norway.⁹ In mid-2014, the RCRF as part of the World Bank’s Multi-Partner Fund (MPF), took over from the SFF to sustain the gains in payroll reform, and provide reliable medium-term strategic funding of recurrent costs in the government budget. The RCRF will be accompanied by a quarterly forum for government-donor dialogue on progress against agreed fiscal and other benchmarks and associated support from the international community.

28. **Donor Coordination and technical dialogue between government and development partners on broader issues related to revenue and service delivery takes place in the context of the PSG5 Working Group.** This is a forum for coordination and dialogue on development partner support to areas such as revenue mobilisation, inter-governmental fiscal relations, linkages between PFM reform and service delivery, as well as strengthening the wider viable Somali oversight institutions (e.g. external audit and legislative scrutiny).

29. **Under the PSG5 Working Group, a sub-working group provides a platform for in-depth discussion on PFM.** The work of the group is founded upon the 2013 PFM self-assessment led by the Ministry of Finance. Following the assessment, the World Bank, DFID and other international partners supported the development of a PFM capacity strengthening project. This is now being scaled-up into a nationwide PFM project that will seek to strengthen public financial management systems across Somalia. Future PFM reform benchmarks to be supported by this project have been discussed and agreed in the Use of Country Systems Working Group described below.

30. **There is an emerging government – donor dialogue on the strengthening and use of country PFM systems which draws technical work together.** Through a joint working group, government and donors have agreed a set of short-term benchmarks to guide progressive improvements in both the quality and use of country PFM systems. This joint dialogue aims to

⁹ The SFF was initially established in late 2013 by Norway, with technical support from the World Bank, as an emergency instrument to establish a predictable salary payment and associated payroll reforms.

provide a framework within which donors can channel an increasing share of their assistance through country PFM systems as government improves fiduciary oversight. Going forward the proposal is to develop a roadmap and associated monitoring mechanism with regular and independent reviews of both progress in PFM systems reform and the quality of international support. This group will continue its work in 2015, with reporting lines to both the FGC and the PFM sub-working group.

31. **Successful financial governance reforms will lay the foundation for Somalia's accession to the Highly Indebted Poor Countries (HIPC) debt relief and associated arrears clearance.** In order to initiate the HIPC process and prepare an arrears clearance operation, the government, working in partnership with the international community, is seeking to demonstrate its clear commitment to financial accountability and transparency and will be elaborating a national development plan for the alleviation of poverty in Somalia - an interim poverty reduction strategy (I-PRSP).

C. Higher Level Objective to which the Project Contributes

32. **The project responds to the strategic objective of the Somali Compact** to “*strengthen PFM to enable the different levels of government to better manage financial resources in a transparent and accountable manner, in support of national priorities*” (PSG 5, priority 3). The important role of the FGC was acknowledged at the first annual Ministerial High Level Partnership Forum (HLPF) in Copenhagen on 19-20 November 2014. The Copenhagen communique “*urge[d] the Committee to further strengthen its oversight work on public procurement, concessions, and the recovery of Somalia's national assets within two years, and exhort[ed] the Federal Government to implement its recommendations.*”

33. The project aims to directly contribute to the objectives of the FGC which have been set out in revised TOR (see Annex 3), expected to be endorsed by government and international partners by the SDRF Executive Committee.

D. Rationale for Bank Engagement

34. **The project is consistent with the first strategic objective of the Bank's Interim Strategy Note** that seeks to build and strengthen core economic institutions, as the basis for national and international trust in Somali public institutions.

Relationship to Bank portfolio

35. **The World Bank MPF has a ‘troika’ of three public sector projects designed to strengthen core government systems and functions.** The three projects are: i) Recurrent Cost and Reform Financing Facility (RCRF), which is financing and supporting an operational payroll and payment system for the non-security sectors; ii) PFM Reform Project, which is supporting the establishment of systems and capacity for more transparent and accountable management of public funds, and; iii) Public Sector Capacity Injection Project, which is strengthening staffing levels and institutional capacity in selected MDAs to perform core government functions. The work of the FGC complements these three projects at the level of policy dialogue and advice in strategic financial governance areas. Table 1 below provides brief descriptions of all three projects.

Table 1: The ‘Troika’ of MPF core capacity strengthening projects: RCRF, PFM & Capacity Injection

| Project | Description |
|--|---|
| Recurrent Cost & Reform Financing (RCRF) Project | The Phase I project is effective and finances recurrent costs of core government functions and support to expert services. It has to date supported the payment of civil servants’ salaries from July 2014 through February 2015 through a reimbursement model. It is also piloting a strengthened payment process for non-salary operating costs. From March 2015 onwards, the RCRF will start to transition out of support for federal salaries and will initiate the transfer of resources for expanded service delivery at regional levels, laying the foundations for an emerging system of inter-governmental fiscal relations. |
| Public Financial Management (PFM) Reform Project | The PFM reform projects (phase 1 already under implementation) aim at establishing systems for more transparent and accountable use of public funds. A phase 2 project will focus on the following key areas: revenue mobilization and tax administration; financial management information system; treasury management, budget execution, accounting and financial reporting; concessions, procurement and contract management; strengthening of integrity institutions (Office of the Auditor General and Public Accounts Committee); modernizing CBS banking operations and financial control environment. |
| Capacity Injection Project (CIP) | This project will strengthen staffing levels and capacity in selected line ministries and central agencies to perform core government functions, including ability to i) formulate and implement strategies, policies and regulations, ii) develop, manage and execute flagship programs and projects that deliver visible benefits to the Somali people, and iii) perform public financial management, procurement and human resource management in a standardized, rules-based manner. |

36. **The Stolen Asset Recovery Initiative (StAR)¹⁰ has assisted Somalia in the development of an asset recovery strategy**, including policy considerations on the management of recovered assets. StAR has also provided guidance to Somalia on good practices in engaging private sector entities in asset recovery actions, an area that has raised significant concerns among the international donor community. StAR is currently working with several Somali counterparts in the Central Bank and Ministry of Finance, as well as the Financial Governance Committee to build a foundation for progress on asset recovery actions.

37. **The World Bank is also providing programmatic support to the petroleum sector in Somalia.** The project objectives include: i) facilitating a process between federal and regional authorities to harmonize issues of ownership, control and revenue sharing; ii) supporting the development of a petroleum strategy and a policy, legal and fiscal framework, and; iii) building capacity to negotiate and manage petroleum contracts. Ultimately, the project aims to see Somalia embed the vision developed through this process in the emerging constitutional and legal framework. The FGC TA Project will complement this support by providing support to review oil and gas concessions with the assistance of experts inside and outside of the Bank. The

¹⁰ StAR is a partnership between the World Bank Group and the United Nations Office on Drugs and Crime.

FGC has also recommended a moratorium on federal oil and gas contracting until an appropriate regulatory framework has been put in place.

38. **The World Bank is presently developing a knowledge program on fiscal federalism.** This work program complements the FGC’s stated objective of playing its ‘catalytic role’ in the arena of inter-governmental fiscal relations. The program will provide support through: i) conferences and technical workshops on international experiences with fiscal federalism for Somali stakeholders; ii) associated Topical Briefs and options papers building on conference proceedings; iii) on-demand technical advice to inform dialogue/policy on fiscal federalism, in particular to support the development of options, design formulas and evaluate implications of various options under consideration. The work program will be coordinated with the FGC to ensure complementarity.

International support to the FGC

39. **As mentioned, the AfDB and IMF are equal partners in the FGC.** Table 2 below summarizes the different on-going and planned contributions of the three IFIs and bi-lateral donors in direct support of the FGC. The following section gives a short overview of related support from other development partners in the broader area of financial governance.

Table 2: IFI and Development Partner Support to the FGC

| Organization | Support to the FGC |
|-------------------------|--|
| World Bank | <ul style="list-style-type: none"> ▪ On-going project (DFID-financed) to support FGS and FGC in the area of procurement and concessions. Project will be completed by June 2015. ▪ Support to Secretariat, FGC review, meetings and contract reviews (April 2014 – April 2015). ▪ StAR support to FGS and Central Bank in the area of asset recovery. ▪ Planned support to finance World Bank delegate, FGC Secretariat and technical assistance in the areas of strategic procurement and concessions and asset recovery. |
| AfDB | <ul style="list-style-type: none"> ▪ The Africa Legal Support Facility (ALSF) has been providing legal support for the review and/or renegotiation of concessions/contracts to which the government has decided to seek revisions. ALSF will continue to provide support to the Government. ▪ Support to finance AfDB delegate with plans to scale up support to also cover FGC Secretariat and technical assistance in the areas of PFM and Central Bank Governance. |
| IMF | <ul style="list-style-type: none"> ▪ Support to IMF observer. |
| Bilateral Donors | <ul style="list-style-type: none"> ▪ Support to the World Bank delegate, travel and security costs (Norway). ▪ Potential support to additional FGC member |

Relationship to other international support

40. **The AfDB’s Economic and Financial Governance Institutional Support Project** (UA2.5 million) provides support to the following key areas: i) macroeconomic and fiscal management, ii) arrears clearance and debt reconciliation, iii) budget preparation, and iv) budget dissemination and transparency. In addition, the Africa Legal Support Facility (ALSF) is providing legal support for the review and/or renegotiation of concessions and/or contracts the government has decided to revise.

41. **The IMF provides support to economic and financial governance through policy dialogue and surveillance.** The IMF has also provided technical assistance (TA) in support of budget preparation for 2014 and 2015 and the preparation of key macroeconomic statistics. Further, the soon to be established Somalia Trust Fund for Capacity Development in

Macroeconomic Policies and Statistics will provide TA and training for civil servants. Ultimately, the IMF's support will provide the basis for conducting Article IV discussions that could lead to a staff-monitored program (SMP).

42. **DFID is implementing a 6 year £18 million Accountability Programme.** The programme seeks to empower civil society, media and think tanks and to build linkages between key institutions and civil society throughout Somalia. It will also support strengthening of domestic accountability institutions at national and local level and pilot grievance redress mechanisms around core government services. The program will also contribute to increasing the evidence base, notably in developing a better understanding of financial flows in and out of Somalia, their impact on government accountability and suitable policy responses.

43. **USAID is funding a three year USD 24 million Strengthening Somali Governance (SSG) program** which will support the following activities: 1) improve the legislative, representative, and oversight functions of Somalia's federal and state deliberative bodies; 2) improve the ability of targeted government institutions to carry out essential functions; and 3) increase citizen awareness of and engagement in government decision-making.

II. Project Development Objectives

A. Proposed Project Development Objective

44. **The project development objective is to provide technical advice and facilitate policy dialogue to strengthen transparency and accountability in the areas of high value public procurement and concessions, asset recovery and other selected areas of financial governance.**

B. Project Beneficiaries

45. **The primary beneficiaries of technical assistance under the project are the financial governance and oversight institutions of the Federal Government of Somalia**, i.e. the Ministry of Finance, the Central Bank of Somalia, the Office of the Prime Minister, the Office of the President, the Office of Auditor General and the Parliamentary Financial Oversight Subcommittee. The project will also provide technical assistance to selected government ministries and agencies involved in public contracts and concessions, e.g. the Ministry of Petroleum, the Ministry of Civil Aviation, the Ministry of Fisheries and Natural Resources. The project will also aim to contribute to a broader public dialogue on financial governance issues and will engage with the media and Somali think tanks.

C. PDO Level Results Indicators

46. **The main results envisaged by the project are:** i) enhanced policy dialogue and mutual accountability between FGS and international community on key financial governance issues, ii) strengthened oversight and transparency in the area of strategic public procurement and concessions, iii) strengthened oversight and transparency in asset recovery and usage.

47. **Due to the targeted and short-term nature of the technical assistance project, results will be assessed through the achievement of the following output indicators:**

- i) Publication of periodic progress reports and thematic reports on key financial governance issues by the FGC (number);

- ii) Proportion of new high value procurement or concessions contracts that are a) reviewed by government and the FGC prior to signature; and, b) made public following signature;
- iii) Publication of verification reports on the recovery and usage of assets (number);
- iv) The development and operationalization of a monitoring framework to monitor the extent FGC decisions/advice implemented by FGS.

III. Project Description

A. Project components

1. Facilitating policy dialogue and mutual accountability on financial governance

48. This component will facilitate policy dialogue on financial governance by financing the main elements of the FGC architecture, including the Bank’s representative to the FGC and the FGC Secretariat. It will also aim to strengthen mutual accountability between the government and international partners as well as between government and key Somali actors by monitoring and communicating financial governance progress and stimulating public debate. The mutual accountability element of the FGC’s work was introduced in response to demand from FGS representatives that the FGC should not solely make recommendations to government, but should also make recommendations to development partners on issues such as progressive use of country systems through the FGC’s ‘catalytic’ role.

1.1 Providing high-level policy advice to the FGS and administrative support to FGC

49. This sub-component will provide support to the following activities: i) the World Bank’s FGC Representative, ii) high-level policy experts that can provide advice and share experiences on financial governance reform on a demand driven and draw-down basis and (iii) administrative support to the FGC.

50. The role of the World Bank’s FGC representative will be to provide high-level policy advice to the government, raise issues to the attention of the FGC, review the implementation of key financial governance issues and actions, and write regular progress reports and opinions. The Bank’s representative will focus on the areas of asset recovery, concessions and procurement and will complement the contributions of other international FGC representatives (see Annex 4 for TOR and expected deliverables for the International FGC Representative).

51. The FGC will be able to draw on a range of independent high-level practitioners and/or advisors (e.g. current/former ministers of finance, central bank governors or Auditor-Generals) who will be called on to join FGC meetings and/or missions on a draw-down basis. Their role will be to share experience on financial governance reform, provide guidance on specific topics relevant to their expertise, and to help mediate and provide a way forward in the event of differences of opinion between FGC members. Financing for this activity will cover fee, travel and logistical costs for the high-level policy experts and related meetings. These high level experts will be identified based on consultations within FGC and recommendations from the IFIs and development partners.

52. This component will also provide Secretariat support to the FGC and support for organizing broader public dialogue on financial governance issues as well as technical support to the dialogue on the strengthening and use of country PFM systems.

53. The FGC requires a full-time Secretariat with at least one Somali-based and one international staff member to be able to function effectively and advance the FGC's agenda in-between formal meetings. The role of the FGC Secretariat will be to support the FGC to define and implement its agenda, monitor implementation of FGC recommendations and international support, organize FGC and Financial Governance Forum meetings, and support communications and information-sharing among key financial governance stakeholders (see Annex 5 for TOR and expected deliverables for the FGC Secretariat). In addition, the Secretariat will provide logistical support to the conduct of half-yearly FGC reviews and support the broader public dialogue on financial governance issues (see Sub-Component 1.3 below). Financing will cover the salary costs of Secretariat staff, operating expenses in Mogadishu and Nairobi and non-salary support to enable the functioning of the Secretariat.

54. The FGC has played a catalytic role in stimulating a discussion on the use of country systems. A sub-working group linked to the broader policy dialogue on macro-fiscal management and PFM has been established. This sub-working group serves as a technical forum to review and discuss progress and benchmarks in the use of country systems. This activity will also finance technical assistance to the sub-working group, notably to develop a series of guidance notes on issues related to the use of country PFM systems (e.g. aid alignment, reporting aid on budget, use of treasury).

1.2 Monitoring financial governance progress and stimulating public dialogue

55. This sub-component will provide support to the following activities: i) regular monitoring of FGC performance and independent reviews of FGC progress, ii) organizing public dialogue on selected financial governance issues.

56. As noted, Somalia's fluid and complex financial governance environment demands flexible and rapidly evolving instruments that seek out and adapt to independent feedback on their performance in an iterative manner. To this end, the FGC TOR foresees a half-yearly independent, external review of its operations and work program under the oversight of the SDRF Executive Committee. The purpose of these reviews is to take stock of progress and inform any necessary course corrections and adjustments. To complement independent half-yearly reviews, the World Bank will develop a simple monitoring tool to allow all stakeholders to track the delivery of agreed FGC actions and monitor progress in the implementation of the FGC work program. This activity will fund independent consultants to carry out FGC reviews and operational costs for developing and operationalizing monitoring of FGC performance.

57. Finally, this sub-component will aim to stimulate and support broader public dialogue on selected financial governance issues. In partnership with a think tank or CSO, it will finance an event series and media activities (e.g. radio and internet discussions) on financial governance issues. This dialogue will involve key government stakeholders, representatives from parliament, civil society and academia, and will be supported by simple factual financial governance briefings in English and Somali on FGC work areas, to be published on the FGC website.

2. Strengthening high value public procurement and concessions

58. This component will provide dedicated technical assistance and advisory services to strengthen the area of high value public procurement and concessions. It will support the FGC and the FGS by facilitating technical advisory services and by improving transparency in high value

procurement and concessions. This will build on initial activities financed through an EFO in the area of procurement and concessions and will complement and bridge interventions between the on-going PFM project and the planned scaled up intervention. Additional funding to supplement activities under this component will be requested from the Public-Private Infrastructure Advisory Facility (PPIAF).

2.1 Facilitating technical advisory services on high value procurement and concessions

59. This sub-component will provide support to the following activities: i) on-demand technical assistance for prior review and revision of existing and new concession contracts, ii) advisory services on concessions, high value procurement and public-private partnerships.

60. Over the past year, the FGC has sent a total of twelve contracts and concessions to the FGC for review. Confidential assessments have been shared with the FGC and with concerned line ministries but follow up on recommendations has been limited. Under this activity the project will support the prior review function of the FGC by financing staff time of World Bank sector experts and/or external experts. In addition, the project will support on-demand technical assistance to assist the government in the revision of complex and high-value contracts and to implement FGC recommendations. This will include reviews in the oil and gas sector as well as in the transportation and energy sector. This support will complement the legal advice provided through the Africa Legal Support Facility. This activity will be carried out in close consultation with the IFC with the objective to encourage and facilitate dedicated IFC support for a specific PPP transaction.

61. This component will also provide targeted on-demand advisory-services to respond to government requests for assistance in the area of high value procurement, concessions and public-private partnerships. The focus will be on short-term support to help implement FGC recommendations and/or bridge a gap in assistance. Advisory services could include support to the formation of an Interim Inter-Ministerial Concessions Committee, necessary institutional capacity to support the review process, including follow up to FGC recommendations. Support could also be provided to develop guidance for handling unsolicited proposals and bids as these are expected to remain the most commonly used avenue by the private sector to engage the government.

62. In partnership with PPIAF, and subject to availability of additional financing from the PPIAF Trust Fund, assistance could be provided to help the government assess the overall PPP environment, identify options for potential future PPPs (“pipeline”) and advise on the institutional and regulatory frameworks for PPPs in strategic sectors.

2.2 Improving transparency in public procurement and concessions

63. This sub-component will provide support to the following activities: i) technical support to publish signed contracts and concessions on a dedicated web-site, ii) scoping options for third-party monitoring of the performance of selected concession and public procurement contracts, iii) engagement with parliament on concessions/contracts.

64. Building on initial activities under the EFO on procurement and concessions, this activity will support the operations and maintenance of a web portal. This will provide a platform for government to publish signed contracts and to disseminate legislation, guidelines and manuals

related to procurement and concessions. A tender sub portal will carry tender notices and audit reports or reviews of awarded contracts. Other means for making signed concession and procurement contracts transparently available and for disseminating relevant information will be explored. This activity will bridge support between the EFO and the forthcoming PFM project.

65. A flexible allocation to support follow-up to a study on the use of third party monitoring techniques will be included under the component. The purpose is to explore how cost-effective methods (e.g. ICT or mobile-phone based) could be used to collect data on the performance of concessionaires, contractors and/or suppliers.

66. This sub-component will also support engagement with the relevant oversight committees in Parliament, including the sub-committee on Financial Oversight of Public Institution. Parliament committees will be engaged through seminars, targeted training workshops and/or study tours. The possibility of facilitating a meeting of like-minded Members of Parliament/Parliamentary Committees within the region to share experiences and strengthen networks will be explored.

3. Supporting Oversight and Transparency of Asset Recovery

67. This component will contribute to greater transparency of the asset recovery process by supporting the FGC's oversight role and monitoring asset recovery and the use of proceeds of recovered assets. It will also provide limited technical assistance to support the Central Bank of Somalia and the government in implementing its asset recovery strategy, if required. Activities will complement the assistance provided under the World Bank / UNODC Stolen Asset Recovery (STAR) initiative (see above).

3.1 Facilitating technical advisory services and monitoring of asset recovery and usage

68. This sub-component will provide support to the following activities: i) limited draw-down TA and short-term support to complement technical advice by StAR and to support the FGC in monitoring and verifying the recovery and usage of assets, and ii) communicating asset recovery actions and results.

69. On-demand technical assistance will be provided to support and advise the FGC, CBS and the Somali asset recovery team in selected areas. This would complement existing support under StAR, as may be required. To support the FGC in performing its oversight function, a Financial Management consultant will be contracted to review and verify the recovery of assets and the usage in line with agreements reached. The consultant will publish financial reports on assets recovered and disbursements made. Reports will be made available on a dedicated website to enhance transparency and accountability.

70. The sub-component will also support efforts to communicate the importance of transparent asset recovery, progress and achievements, including on the usage of recovered assets. This will be important to build domestic and international confidence and support.

B. Project Financing

71. The project will be financed by a USD 2 Million allocation from the World Bank Multi Partner Fund and will be Bank-executed. The project duration is 18 months. While the current mandate of the FGC runs until April 2016, the slightly longer project duration provides some

flexibility in implementation of project activities and in case the FGC mandate may be extended. To supplement the implementation of component 2, additional financing from the Public-Private Infrastructure Advisory Facility (PPIAF) will be sought under a separate proposal. Out of the project budget, USD 250K is allocated to operational and administrative cost of the World Bank (e.g. meeting organization and logistics, travel, staff time). Table 3 below provides a break-down of the budget by component. See Annex 6 for a detailed budget overview.

Table 3: Project Costs

| Project Components | Amount Allocated (US\$) | Percentage of Allocation |
|--|--------------------------------|---------------------------------|
| Component 1: Facilitating policy dialogue and mutual accountability on financial governance | 1,300,000 | 65 % |
| <i>1.1 Providing high-level policy advice to the FGS and administrative support to FGC</i> | 1,50,000 | |
| <i>1.2 Monitoring financial governance progress and stimulating public dialogue</i> | 250,000 | |
| Component 2: Strengthening high value public procurement and concessions | 350,000 | 17.5 % |
| <i>2.1 Facilitating technical advisory services on high level procurement and concessions</i> | 250,000 | |
| <i>2.2 Improving transparency in public procurement and concessions</i> | 100,000 | |
| Component 3: Supporting Oversight and Transparency of Asset Recovery | 100,000 | 5 % |
| <i>3.1 Facilitating technical advisory services and monitoring of asset recovery and return</i> | 100,000 | |
| Operational Cost | 250,000 | 12.5 % |
| Total Financing Required | 2,000,000 | 100 % |

IV. Implementation Arrangements

72. The project will be Bank-Executed to ensure rapid, flexible and efficient support without generating additional transaction costs for the government. The institutional arrangements for implementation of the project are aligned with the SDRF aid architecture and the governance arrangements for the Financial Governance Committee. The role of key governance bodies in relation to this project will be as follows:

73. **SDRF Steering Committee:** The SDRF Executive Steering Committee will be responsible for approving the project. It will also serve as the forum for broader strategic and policy dialogue on financial governance issues and for mutual accountability on international assistance to Somalia. The SDRF Steering Committee may decide to establish a technical-level working group to oversee independent reviews of the FGC and discuss implementation progress of the project in greater detail. The World Bank will convene this working group.

74. **The Financial Governance Forum:** The Financial Governance Forum provides a forum for information-sharing, dialogue and feedback between FGC members and key international and domestic stakeholders. It will serve as platform to update interested participants on relevant activities under the project.

75. **Financial Governance Committee:** The FGC will identify the need, oversee and guide technical assistance services to support the government's reform efforts in the area of strategic procurement and asset recovery. It will receive and respond to reports from the independent FGC review.

76. **FGC Secretariat:** The FGC Secretariat will provide direct administrative support to the FGC and facilitate the implementation of its work program. It will also manage input by high-level policy experts. Under the overall guidance of the FGC, the Secretariat will also help to identify the need for technical advisory services funded by the project in the areas of high value procurement, concessions and asset recovery.

77. **World Bank Project Team:** The Bank project team will be responsible for contracting the World Bank delegate and for procuring the services of a consultant or firm to perform the function of the FGC Secretariat. The Bank will contract technical advisory services to support the government in the areas of high value procurement, concessions and asset recovery under the overall guidance of the FGC and in close cooperation with the FGC Secretariat. It will also contract consultancy services for bi-annual independent reviews, the organization of a public dialogue series on financial governance and support to the working group on the use of county systems. Through the project team, it will monitor FGC progress and draw on in-house Bank experts to support the FGC's prior review function on contracts and concessions.

Annex 1: Results Framework and Monitoring

| PDO Level Results Indicators* | Core | Unit of Measure | Baseline | Cumulative Target Values** | | | | | Frequency | Data Source/ Methodology | Responsibility for Data Collection | Description |
|--|--------------------------|-----------------|----------|----------------------------|------|-----|-----|-----|-----------|--------------------------|------------------------------------|---|
| | | | | YR 1 | YR 2 | YR3 | YR4 | YR5 | | | | |
| Publication of periodic progress reports and thematic reports on key financial governance issues by the FGC | <input type="checkbox"/> | Number | 0 | 4 | NA | NA | NA | NA | Quarterly | Public Records | FGC Secretariat | <i>Assesses whether FGC is performing its core role of information-sharing and transparency through the publication of 2 topic-specific progress reports in the area of asset recovery and concessions and 2 periodic progress updates.</i> |
| Proportion of new strategic procurement or concessions contracts that are a) reviewed by government and the FGC prior to signature; and, b) made public following signature; | <input type="checkbox"/> | Percent | 0 | 50 % | NA | NA | NA | NA | Quarterly | FGC Records | FGC Secretariat | <i>Assesses i) FGS compliance with commitment to submit new contracts to the FGC for prior review and to make them publicly available, ii) capacity of FGC to support review and publication of contracts.</i> |
| Publication of verification reports on the recovery and usage of assets | <input type="checkbox"/> | Yes/No | No | Yes | NA | NA | NA | NA | Quarterly | Consultant report | FGC Secretariat | <i>Assesses FGC role in strengthening accountability and transparency of asset recovery efforts through the independent verification of asset recovery usage.</i> |
| The development and operationalization of a monitoring framework to monitor the extent FGC decisions/advice implemented by FGS. | <input type="checkbox"/> | Yes/No | No | Yes | NA | NA | NA | NA | Quarterly | Bank records | Bank Project Team | <i>Assesses whether a monitoring framework to assess FGC performance and FGS follow up to FGC recommendations has been put in place and is used.</i> |

Annex 2: Summary of findings from the first FGC Review

Summary of Review Findings and Recommendations

FGC Origins

The origins of the Financial Governance Committee (FGC) lie in the political crisis that followed the resignation of the Governor of the Central Bank of Somalia at the end of October 2013. The Federal Government of Somalia (FGS) and the international community, led by the World Bank, agreed to develop a Financial Governance Programme (FGP) to strengthen financial governance through the provision of expert advice and technical support, at the core of which was the establishment of a Financial Governance Committee (FGC).

FGC composition

The FGC is configured as a joint committee comprising FGS members and independent experts appointed by the International Financial Institutions (IFIs). The FGS members are drawn from the Ministry of Finance (Minister), the Central Bank (Governor) and the President's Office (Senior Adviser). The IFI members are appointed by the World Bank and African Development Bank. The IMF has appointed a representative who acts as an adviser to the entire committee, rather than a committee member itself.

FGC role

The FGC was intended from the outset to operate within the framework of the Financial Governance Programme (FGP). The aim of the FGP was to 'improve the functionality and transparency of key financial systems' within a two year time horizon. Since the FGC was intended as a component of the FGP, it did not have its own stated objective as such, beyond the intention that it should 'guide the implementation of the FGP (including developing and managing a Financial Governance work plan) and ensure that it contributes to building in Somali national institutions'.

Stakeholders have varying and overlapping interpretations of the role of the Financial Governance Committee. Some see its role as being primarily advisory, geared to areas of financial governance that are politically or commercially sensitive. Others also view it in terms of increasing transparency on financial governance issues. Generally, stakeholders believe the purpose of the FGC is to help improve government's financial governance and systems for public financial management and to strengthen donor trust and confidence in FGS.

The FGC's role in overseeing financial governance and enabling greater financial accountability is a more open question, with the interpretation of the term 'oversight' posing considerable difficulty amongst stakeholders in arriving at a common understanding of the FGC's role. Since its establishment, the FGC has, on paper at least, been assigned quasi-executive authority with respect to prior review of FGS concessions with a value of over \$5 million (until such a time as formal procurement structures are established), as well as the oversight and monitoring of the national asset recovery process. These functions constitute a more formal 'oversight' role in specific areas of financial governance, and open the door to the broader interpretation that the FGC is a financial governance oversight body, even though, in general, its current functions are primarily advisory.

FGC achievements to date

The FGC has enabled a dialogue to be established on financial governance issues. It has also enabled FGS to share confidential contracts with the FGC's IFI representatives for advice. Subsequent to the FGC's establishment, some progress has been seen in financial governance in the areas it has been focusing on, particularly as relates to renegotiation or cancellation of some, though not all, of the contracts shared by FGS, measures to strengthen the Central Bank, and steps towards a more transparent asset recovery process. These actions have in turn led to

some improvement in external confidence in the FGS's commitment to better financial governance, but the gains remain fragile and subject to reversal.

Stakeholder perceptions of FGC achievements

The question as to whether FGC achievements to date have met stakeholders' expectations is subjective, based on initial views of what the FGC was expected to achieve, which in themselves vary quite considerably depending on the stakeholder. Those who were least convinced by the FGC's advisory-based model in the first place, and would have preferred a stronger oversight mechanism, tend to be the least convinced by the effectiveness of the FGC's achievements. They acknowledge that the dialogue and advice that the FGC has initiated between IFI representatives and the FGS is positive, but express concerns that the sharing of information is only partial, and the IFI representatives have no way of enforcing the implementation of their advice.

The term 'fig leaf' was used by a number of stakeholders in this context, reflecting a concern that the FGS may provide just enough commitment to the FGC to enable a minimum of results to be achieved, without making genuine underlying changes to its approach to financial governance. The asymmetric nature of access to information within the FGC, with the FGS members evidently having both a wider and a more detailed knowledge of the current financial governance situation than the IFI representatives, reinforces this concern.

Those who view the FGC's achievements in a more positive light point out that it has only been in operation since April. They view the progress that has been made in the context of just four meetings as notable, and believe it provides an encouraging foundation for further improvements. Nonetheless, they acknowledge that the gains made to date remain fragile, and are contingent on continued commitment by the FGS to take action on the advice that has been provided, and to implement broader financial governance reforms.

FGS members of the FGC take a positive view of its progress. They have appreciated the advice provided by IFI representatives, which has acted as an 'eye opener' into a number of deficiencies in FGS contracting. They also appreciate that the advice has, in a number of cases, enabled them to gain better terms from existing contracts than had previously been the case. Nonetheless, there is a sense amongst FGS members that the accountability expectations around the FGC are one-way, oriented towards the FGS, and that the international community is showing insufficient commitment to accountability and transparency on the use of its own resources in Somalia.

Review question 1: *to what extent do the issues selected for attention by the FGC address the real financial governance concerns of Somalia? Which, if any issues, might usefully be added or removed from the FGC's agenda?*

The expectation that the FGC should address (all) the real financial governance concerns of Somalia appears in itself unrealistic. The FGC should be viewed as one component in a wider accountability architecture. It cannot, as a single mechanism with limited resources playing (primarily) an advisory role to the executive, be expected to address all financial governance issues, or support all financial governance functions across all branches of government.

The more appropriate question would be: *what is the comparative advantage or value-added of the FGC? What issues should the FGC be focusing on, based on its comparative advantage? How should other financial governance issues, which do not naturally fall within the remit of the FGC, be addressed?* The comparative advantage, or value-added, of the FGC is closely linked to its configuration. At present, the FGC is configured as an arms-length, restricted-access advisory body. This naturally suits it to providing a confidential space where FGS can seek advice and guidance on financial governance issues with a sensitive political economy, or of a commercially sensitive nature. This is the role that the FGC has already started to play with respect to contracts, concessions,

asset recovery and banking, and could play further with respect to other politically sensitive issues such as revenue management, wealth sharing and currency reform.

By contrast, the current arms-length, restricted access configuration of the FGC arguably does not necessarily make it the appropriate forum to address issues that require either broad stakeholder buy-in, co-ordination amongst a wide range of actors, or direct discussion between the FGS and its donors. However, the FGC may nonetheless play a catalytic or agency role in bringing relevant issues into the frame of discussions between the FGS, donors and other stakeholders, providing guidance to the FGS and enabling broader discussions to take place within the appropriate fora. This has already been the case with respect to current discussions on a roadmap for use of country systems, where the involvement of the FGC has provided a stimulus to the establishment of an SDRF sub-group to look at the issue in more detail.

Review question number 2: *how effective has the FGC been in its operations, in progressing key financial governance policy issues and in increasing confidence in financial governance in general?*

The FGC has enabled some progress in financial governance, particularly as relates to greater transparency and some action over existing contracts, measures to strengthen the Central Bank, and steps towards a more transparent asset recovery process. These actions have in turn led to some improvement in confidence, but the gains remain fragile and subject to reversal.

It is commendable that these gains have been achieved with very slight resources. However, the slightness of these resources risks undermining the future effectiveness of, and broader confidence in, the FGC, relative to the expectations placed upon it.

The FGC comprises just five members, three from the FGS side and two from the IFIs, with one standing non-member adviser. At present, a quorum for an FGC meeting may comprise just three people – two FGS representatives, and one IFI representative. This configuration is extremely slight; significant financial governance discussions and decisions are contingent on the opinions of a minimum of three or a maximum of five individuals. Notwithstanding the importance of these individuals, the weight of their opinions, and the institutions they represent, it is important that the FGC as a constituency has sufficient breadth for non-FGC stakeholders to be confident that the discussions and decisions that take place within it carry adequate buy-in.

The FGC also faces a number of other limitations. Both the ADB representative and the IMF adviser have considerable restrictions on their movement in Somalia, with the IMF adviser currently unable to visit Somalia at all. None of the IFI representatives work full-time on FGC-related issues, and their visits to Mogadishu, when permitted, often do not extend beyond a day. In addition, the FGC is supported by a one-person Secretariat, who is supposed to provide a mix of administrative, secretarial and policy support functions. Likewise, the FGC has not been able to call on resources to provide technical support to FGS in unsupported priority areas, as originally envisaged under the FGP.

Review question number 3: *how effective has engagement been between the FGC and key stakeholders in financial governance, with a focus on government and donors?*

By the time of the review, the FGC had issued two periodic reports, and circulated a limited version of the minutes from its retreat to a wider audience. IFI appointees have sought to brief the international community on FGC progress after each meeting, while the FGC as a whole held a briefing with members of the international community prior to the Naivasha retreat. Donor stakeholders have appreciated the FGC's attempts to share information. The briefing by the full FGC prior to the Naivasha was particularly well-received.

Nonetheless, there is a sense among donor stakeholders that information sharing on FGC activities is insufficiently structured. Information is received 'in bits', and access to information often depends on informal networks, rather than formal briefings. This gives rise to a sense that access is in some way preferential or exclusive, and leads to a frustration that issues are not being explained transparently, lessening overall confidence in the FGC. It can also lead to a situation in which there are divergent understandings amongst external stakeholders on the status of a single action or reform.

One of the main intentions of the FGC is to give the broader international community confidence that sensitive financial governance issues are being dealt with appropriately, without necessitating their direct involvement, which may not be desirable. However, if the FGC in some way starts to replace the dialogue that the FGS, and in particular the Ministry of Finance, needs to be having with its sponsoring donors, or preclude the sharing of important information (with confidentiality caveats applying), it will inadvertently start to undermine the confidence and trust of external stakeholders, rather than increasing it. This seems a real risk at present.

Review Recommendations

- 1. Revisit the FGC's ToRs.** They should specify the FGC's role and purpose, and define its functions accordingly. The review recommends that the ToRs should clarify that the FGC's role is primarily advisory, and that its purpose is to help stimulate, guide and monitor reforms, rather than playing a direct role in implementing them. In instances where the FGC is assigned an oversight role, the FGS should clarify its extent and legal basis.
- 2. Develop clear criteria for FGC engagement in specific financial governance issues, based on its purpose and comparative advantage,** and define its areas of focus accordingly. The review recommends two main criteria for FGC engagement; providing a confidential space where FGS can seek advice and guidance on sensitive financial governance issues, and catalysing engagement between the FGS, donors and other stakeholders on broader financial governance issues as appropriate.
- 3. Expand FGC membership and increase FGC quorum.** The review recommends maintaining the current FGC membership configuration (direct representation from FGS, arms-length representation from the international community), but expanding membership by one or two members on either side, to ensure sufficient breadth and buy-in to FGC discussions.
- 4. Provide FGS with sufficient technical support to enable the implementation of key reforms.** This recommendation goes beyond the FGC, to the broader donor community. Financial governance reforms cannot be conducted on the basis of advice and political will alone. Substantial and sustained support is required to improve system functionality, particularly in key areas such as procurement and payments. This support needs to extend beyond the Ministry of Finance to FGS spending agencies.
- 5. Hold 'open' FGC meetings on a quarterly basis.** The review recommends that donors and other interested stakeholders are invited to these meetings. Their purpose should be to brief stakeholders on FGC activities and progress in financial governance, and to enable them to raise issues that they feel the FGC should be addressing or aware of, or request clarification on issues that are unclear.
- 6. Strengthen FGC resourcing to improve effectiveness.** The review recommends that:

- i. Sponsoring international community members should commit to fielding representatives without movement or access restrictions that compromise the functionality of FGC meetings. They should also allocate them an equal number of working days per month.
- ii. International community representatives' visits to Mogadishu should extend beyond a day, so that they can hold informal discussions with key stakeholders such as Parliamentarians prior to FGC discussions receive pre-briefings and conduct de-briefings.
- iii. The resources dedicated to the FGC Secretariat should be strengthened, by separating its policy support function from its administrative and secretarial functions.

7. Enhance FGC operating procedures. The review recommends that:

- i. The roles and responsibilities of the different FGC constituents are clarified, to reduce the perception that international community representatives are in some way 'double hatted', both advising FGS on reforms and helping FGS present its position on them back to the international community.
- ii. Non-members are invited to participate in FGC meetings, dependent on the issues being discussed.
- iii. Greater use is made of procedures for managing differences in opinion. When the FGS decides not to implement the advice given by international community representatives, it should provide a clear explanation within the FGC as to why this is the case. Likewise, international representatives should feel able to express any differences in opinion over the decisions taken by the FGS with regard to implementation of their advice, and identify the circumstances in which these differences in opinion should be shared beyond the FGC.
- iv. The procedures for FGC dissolution are adjusted. The FGS and sponsoring international community members should review their mutual commitment to the FGC after each half-yearly review, and identify the circumstances under which either party would consider continued involvement in the FGC to be unworkable.

8. Reconsider the role of the IAP. The review recommends that instead of establishing a standing facility, individual IAP members are called on to join FGC meetings on a drawdown basis, to provide guidance on specific topics relevant to their expertise, and to help mediate and provide a way forward in the event of differences of opinion between FGC members.

9. Ensure that the FGC is understood as constituting one component of a wider accountability framework. This recommendation goes beyond the FGC, to the broader donor community. Using existing structures such as the SDRF, the FGS and the international community need to consider how financial governance issues and activities which do not naturally fall within the remit of the FGC should be addressed. If the structures that fall under the SDRF, such as the PFM sub-group, are not fit for this purpose, they should be adjusted so that they can play this role.

Annex 3: Terms of Reference for the Financial Governance Committee

TERMS OF REFERENCE FOR THE FINANCIAL GOVERNANCE COMMITTEE

(FINAL DRAFT March 2015)

This draft has been revised on the basis of feedback received by the FGC at its meeting on 29-30 January and comments made by international partners prior to that meeting. Following a final review by the FGC and key stakeholders, the final draft will be submitted to the SDRF Executive Committee for endorsement.

Background

The FGC was established in early 2014 by mutual agreement between the Federal Government of Somalia (FGS), donors and international financial institutions (IFIs). The establishment of the FGC followed the resignation of the then-Governor of the Central Bank of Somalia (CBS), who made accusations of financial mismanagement. The original objective of the FGC was to help reestablish trust between international partners and the Federal Government of Somalia and to support the implementation of measures to strengthen financial governance, in particular in the areas of asset recovery, procurement and concessions, Central Bank governance and Public Financial Management.

The FGC held five formal meetings since it was established, with the first on 23 April and the last on 29-30 January. An independent and external review in October 2014 made a number of recommendations for improved functioning of the FGC, leading to the redrafting of the FGC's terms of reference.

Objective, role and member responsibilities

Objective

The objective of the FGC is to improve financial governance in Somalia, as a foundation for overall good governance, economic development and political stability.

Role

As an institution, the role of the FGC is to:

- Provide a forum at which members can debate financial governance issues and agree upon actions that should be taken to overcome challenges or weaknesses.
- Provide direct policy and technical advice – or source that advice from external experts - on critical financial governance issues to Somalia state institutions and/or international partners.
- Oversee progress and actions specifically in the areas of asset recovery, public procurement and concessions and any other specific financial governance issues requested by the government.
- Provide temporary oversight and review of future concession and public procurement contracts with or above a value of US\$ 5 Million until such time as functional national procurement systems have been established as provided for under the draft *Public Procurement, Disposal and Concessions Act (2015)*.
- Strengthen transparency on financial governance by sharing information on issues for which the FGC has responsibility and by encouraging Somali state institutions to make information available.
- Issue regular reports on financial governance challenges and progress, and the extent to which FGC recommendations have been implemented by key stakeholders.
- Facilitate the role and strengthening of Somali financial governance and oversight institutions and support the development of a broader public dialogue on financial governance.

Responsibilities

The responsibilities of each FGC member are:

- To *raise financial governance issues* as items for discussion in the FGC, as and when the member judges that the risk or issue is of significant importance.
- To *provide advice on financial governance actions* that should be taken by the FGS, other Somali state institutions or financial governance stakeholders in order to address those issues.
- To *issue opinions/advice in written form* when useful, and in cases where consensus among members is not reached, and share these with financial governance stakeholders and international partners.
- To *monitor the implementation of key financial governance issues* and actions taken to address them.
- To *communicate to stakeholders* financial governance concerns, outcomes of FGC discussions and FGC members' opinions.

The balance of responsibilities may differ between members, and are likely to differ based on the sponsoring organization of the member.

Scope and Priority Issues

For the FGC, 'financial governance' may include any aspect of public revenue collection and expenditure, including policy formulation, legislation, implementation and monitoring.

Within the broad area of financial governance the FGC is responsible for defining its own agenda. In doing so the FGC screens issues using the following criteria:

- Issues should be of critical importance to the national financial governance agenda;
- There should be a realistic prospect that FGC involvement can achieve an impact, including through bringing issues to light or stimulating public debate;
- The FGC should possess a comparative advantage, above and beyond existing institutions and structures, in addressing an issue.

At the time of writing, the FGC is engaged in the following priority issues:

- **Asset recovery:** the FGC has responsibility for overseeing the recovery of Somali financial assets held in foreign institutions. The appropriate Somali state institutions will undertake the actual process of recovery with support by the UNODC/World Bank StAR initiative.
- **Public sector contracting:** the FGC has responsibility for reviewing, and providing recommendations on, all public sector contracts with a value of US\$5 million or higher, including both procurement and concession agreements.
- **Use of government systems:** the FGC has been playing a 'catalyst' and advisory role on the issue of use of government systems, pressing for agreement on a roadmap towards use of government systems between the FGS and the international community.
- **Fiscal federalism:** the FGC will advise the government on the issue of fiscal federalism within the broader context of political agreements reached on the issue of decentralized government.

In addition, the FGC will continue to monitor, and provide advice where required, in the following areas:

- Public Financial Management, including monitoring overall progress on PFM and advising on critical PFM issues e.g. non-salary recurrent budget expenditures.
- Central Bank governance, including financial institutions licensing and supervision.
- Liaison with the Somalia and Eritrea Monitoring Group.
- Donor funded technical assistance and capacity building support in the area of financial governance.

TERMS OF REFERENCE FINANCIAL GOVERNANCE COMMITTEE

The FGC agenda and priority issues will be reviewed regularly. FGC members and financial governance stakeholders can suggest issues for inclusion in the FGC agenda.

Membership and Appointments

FGC membership

Members of the FGC are drawn from Somali institutions and international partners. At the time of writing, the agreed composition of the FGC is as follows:

- Minister of Finance (Chair);
- Governor of the Central Bank of Somalia;
- Representative, Office of the President;
- Representative, Office of the Prime Minister;
- Solicitor General (*awaiting confirmation*);
- Chair, Parliamentary Finance Committee (*awaiting confirmation*);
- World Bank delegate;
- African Development Bank delegate;
- Donor delegate (*to be appointed*);
- IMF observer/adviser.

International representatives are expected to liaise closely with their sponsor(s) and where appropriate, bring the views and technical advice of the sponsor to the FGC. At the same time, international FGC representatives are expected to provide independent advice and exercise their own professional judgment on an issue.

A quorum will be formed when at least two representatives of the FGS and at least two international delegates are present. Non-Members (e.g. key stakeholders, technical/policy experts) can be called to attend all or part of an FGC meeting if invited.

Appointments

Any appointments or changes in membership must be unanimously agreed between existing members. The factors that existing members should consider in assessing any proposed appointments are:

- Gaps in the technical expertise and experience of the FGC that need to be filled;
- The ability and intent of prospective members to make a constructive contribution towards financial governance in Somalia;
- The level of support for the appointment amongst key financial governance stakeholders;
- The size and manageability of FGC membership.

Security permitting, international FGC representatives must be able to travel to government buildings in Mogadishu. Terms of Reference for the international FGC delegates are annexed to this document.

Stakeholders and accountability

Stakeholders

Financial governance is of central importance to the development of Somalia, as it is in any state. As such, there are a broad range of FGC stakeholders. These include:

- The FGS, including the President, the Prime Minister and government ministries;
- The Central Bank of Somalia;
- Somali oversight institutions, including the Auditor General and Parliament;

TERMS OF REFERENCE FINANCIAL GOVERNANCE COMMITTEE

- International development partners (traditional and non-traditional);
- Financial and non-financial businesses operating in Somalia;
- Civil society and non-government organizations;
- Citizens of Somalia.

Where a stakeholder has significant responsibility for, or interest in, a particular financial governance issue, the FGC may invite them to participate in FGC meetings.

The FGC will communicate information on financial governance issues to national and international stakeholders as described below.

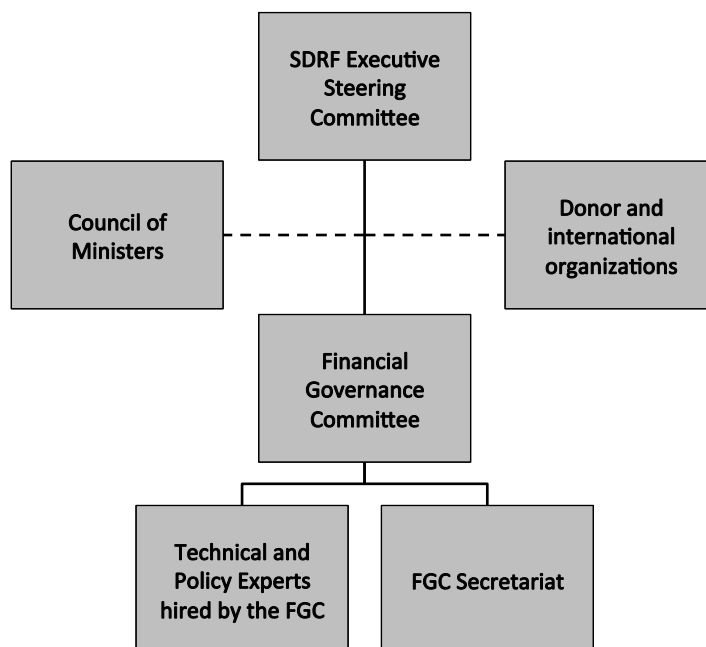
Accountability

The FGC's goal of improved financial governance gives it a degree of accountability to all financial governance stakeholders but its formal reporting relationship is to the Somalia Development and Reconstruction Facility (SDRF) Executive Steering Committee.

The FGC will also report regularly to the FGS (specifically, the Council of Ministers) and to donor and international organizations. The FGC will provide these groups with the minutes of FGC meetings, accounts of progress against existing FGC agenda items, accounts of new financial governance concerns, and accounts of divergences of opinion within the FGC (see section on briefings and communications below).

The FGC Secretariat and technical and policy experts hired by the FGC and the FGC Secretariat, will report to the FGC itself.

The diagram below illustrates these lines of accountability and reporting.



Responsibilities in relation to other governance bodies

The FGC is primarily responsible for advising Somali state institutions and complements other joint or international bodies that operate in the financial governance space. The responsibilities of relevant bodies, in relation to the work of the FGC, are:

TERMS OF REFERENCE FINANCIAL GOVERNANCE COMMITTEE

- SDRF Steering Committee: forum for broader policy dialogue and mutual accountability on international assistance to Somalia. The FGC is accountable to the SDRF Executive Steering Committee and provides regular briefings to its meetings. The SDRF Steering Committee oversees external FGC reviews.
- PFM Working Group: responsible for coordinating donor support to public financial management reform and technical dialogue on the use of country systems. The FGC can advise the Working Group on critical financial governance issues and on important areas/gaps for donor support. Likewise, the working group can bring issues to the attention of the FGC.
- Somalia and Eritrea Monitoring Group (SEMG): responsible for monitoring of a number of issues, which may touch on financial governance.

Technical and policy experts

The FGC may employ the services of technical experts to provide the FGC with advice on any item that is on its agenda. Those technical experts may be utilized for one or both of the following tasks:

- To advise the FGC on an issue within its agenda;
- To advise or support the government in implementing actions recommended by the FGC in order to address issues on the FGC's agenda.

Technical and policy experts should be short-term (their engagement should not exceed six months per year) and should report to the FGC.

It is important that technical and policy experts required by the FGC can be recruited at short notice, without lengthy recruitment procedures, and at rates that allow global experts to be recruited. It is also important that technical experts are able to travel to government buildings in Mogadishu.

Operations

FGC Meetings

The FGC will hold regular meeting which will take place at intervals of between one and two months. Meetings will be held in Mogadishu, with exceptions agreed by FGC members. The FGC Secretariat will be responsible for organizing meetings and for drafting and disseminating minutes.

Financial Governance Forum

A regular Financial Governance Forum will be organized every two to three months, to coincide with FGC meetings. This meeting will include the FGC representatives and international and Somali financial governance stakeholders, including the Auditor General. The purpose of the Financial Governance Forum is i) to facilitate information-sharing on the FGC work program and on actions taken, ii) to provide a forum for dialogue and feedback between FGC members and key international and domestic stakeholders, and iii) to solicit suggestions for FGC agenda items. The FGC Secretariat is responsible for organizing the Financial Governance Forum.

Briefings and Communication

In addition to briefings at the Financial Governance Forum, the FGC will provide regular face-to-face briefings to the following financial governance stakeholders:

- Briefings to the SDRF Steering Committee or Executive Committee;
- Briefings to the FGC Council of Ministers and/or relevant Cabinet sub-committees;
- Briefings to Somali accountability institutions (e.g. parliament, Auditor General) and other key financial governance stakeholders;

TERMS OF REFERENCE FINANCIAL GOVERNANCE COMMITTEE

- Briefings to donors and international partners.

The FGC and/or FGC Secretariat will produce the following written outputs to communicate its work:

- *FGC meeting agenda* (including any items proposed for the agenda but not adopted) and minutes with actions agreed (FGC Secretariat, every 1-2 months, within one week of the FGC meeting)
- *Regular progress reports/updates*, including progress against FGC agenda items and against FGC actions (FGC Secretariat, every 2-3 months)
- *Topic-specific progress reports* on core FGC agenda items (FGC Member focal points, quarterly);
- *Advice/Opinions of FGC members* on specific financial governance issues (FGC Members, *ad hoc*, to introduce new items to the agenda or in cases when consensus is not reached between members)

These outputs will be shared with the FGS Council of Ministers, other state institutions and international partners. Reports will also be made publicly available on a dedicated website.

Transparency

The FGC will be committed to transparency of information, both where it relates to substantive financial governance issues and progress, and where it relates to FGC discussions and activities.

There may be occasions on which the FGC chooses to maintain confidentiality of discussions, to ensure that it can preserve a “safe space” for debate or where legal issues require it. However, on these occasions the FGC will define the issues being kept confidential and the reasons why.

Secretariat

A Secretariat is employed to support the work of the FGC. The responsibilities of the Secretariat are to:

- Organize regular FGC meetings, Financial Governance Forum meetings and briefings with financial governance stakeholders;
- Contribute to the setting of the FGC’s agenda and facilitate progress of agreed work program activities;
- Monitor implementation of actions recommended by the FGC, for communication to key stakeholders;
- Draft FGC meeting minutes and reports relating to FGC agenda items and recommended items;
- Support communication, information-sharing and dissemination of FGC reports to financial governance stakeholders.

Detailed Terms of Reference for the FGC Secretariat are available separately.

Resources

The FGC requires the following resources in order to operate:

- Financial compensation for international members, the FGC Secretariat and technical experts;
- Transport, accommodation and security to facilitate the work of FGC members, the FGC Secretariat and technical experts;
- Office space and facilities in Mogadishu and Nairobi to host the FGC Secretariat (to be provided by government and a sponsoring institution, respectively).

External review and dissolution

The FGC will be subject to half-yearly independent, external reviews of its operations and work program. Independent reviews will be undertaken under the oversight of the SDRF Executive Committee. All changes to the functioning of the FGC as a result of these reviews must be agreed by all members of the FGC and endorsed by the SDRF Steering Committee.

TERMS OF REFERENCE FINANCIAL GOVERNANCE COMMITTEE

As the institution to which the FGC is accountable, the SDRF may, at any time of its meeting, elect to dissolve the FGC with one month's notice.

Annex 4: Terms of Reference for International Delegates of the Financial Governance Committee

TERMS OF REFERENCE FOR INTERNATIONAL DELEGATES OF THE FINANCIAL GOVERNANCE COMMITTEE

These terms of reference should be read in conjunction with the overall terms of reference for the Financial Governance Committee.

Background

The FGC was established in early 2014 by mutual agreement between the Federal Government of Somalia (FGS), donors and international financial institutions (IFIs). The establishment of the FGC followed the resignation of the then-Governor of the Central Bank of Somalia (CBS), who made accusations of financial mismanagement by leading officials of key state authorities. The original objective of the FGC was to help reestablish trust between international partners and the FGS and to support the implementation of measures to strengthen financial governance, in particular in the areas of asset recovery, procurement and concessions, Central Bank governance and Public Financial Management.

The FGC has held five meetings since its inception, with the first on April 23rd 2015 and the last in January 2015. An independent and external review in October 2014 made a number of recommendations for improved functioning of the FGC, leading to a redrafting of the FGC's terms of reference.

Role and responsibilities

International FGC delegates should work in concert with other FGC representatives to improve financial governance in the public sector of Somalia. Each international FGC delegate will have responsibility for following a specific FGC agenda item in-depth.

International delegates of the FGC will:

1. *Raise financial governance issues* as items for discussion in the FGC, as and when the member judges that the risk or issue is of significant importance. In pursuit of this, they will:
 - a. Maintain an up-to-date understanding on financial governance issues facing Somalia through engagement and dialogue with Somali government and non-government actors as well as non-Somali actors, and through study of relevant data and reports.
 - b. Request additional information from the FGC and other actors on specific financial governance issues in order to ensure a full understanding of financial governance issues in Somalia.
 - c. Raise financial governance issues for discussion within the FGC, offering a clear explanation of the issue and the justification for its inclusion in the FGC's agenda. Items can be raised in written form, if appropriate.
 - d. Seek consensus on issues placed on the agenda. Where consensus is not achieved, provide a written explanation of his or her view for publication through the FGC Secretariat.
 - e. Suggest and seek consensus on non-members to be invited to FGC meetings, depending on the issues being discussed (e.g. FGS budget units, regional representatives, civil society representatives).
2. *Provide advice on financial governance actions* that should be taken by the FGS, other Somali state institutions, donors or financial governance stakeholders. In pursuit of this, they will:

TERMS OF REFERENCE FINANCIAL GOVERNANCE COMMITTEE

- a. Provide technical opinions on FGC agenda items and recommended actions for addressing them. In addition to recommended actions, opinions should seek to educate and inform fellow FGC members and other financial governance stakeholders. Opinions should, where useful, be written, and published through the FGC Secretariat.
 - b. Seek consensus on actions required to address FGC agenda items. Actions may require implementation by the FGS, other Somali state institutions, international partners or other actors.
 - c. Where necessary, engage directly with those responsible for implementing actions in order to provide further explanation of the issue and facilitate actions required.
3. *Oversee and review processes of asset recovery, public procurement and concessions* and any other specific financial governance issues, as requested by the government
 - a. Undertake prior review of draft procurement and concession contracts, and share policy and technical recommendations with the Council of Ministers via the FGC Chair; and assess and report on the FGS' response to this advice.
 - b. Oversee and comment on progress in asset recovery and usage, including through review of relevant communications, data and financial reports.
 - c. As needed, identify the technical expertise needed from outside to ensure that these functions, and any other oversight functions requested of the FGC by the FGS, can be adequately accomplished.
4. *Monitor the implementation of key financial governance* issues and actions taken to address them.
 - a. Maintain contact with those responsible for implementing actions in order to ensure a full understanding of progress, variance and challenges.
 - b. Support the Secretariat in assessing progress in implementation against planned actions and, provide written contributions to overall progress reports.
 - c. Draft quarterly progress reports on core FGC agenda items that the individual delegate has agreed to serve as a focal point on.
 - d. Identify, advise on and monitor the gaps in international support provided to address financial governance issues, including providing guidance on these gaps to the Sub Working Group on Public Financial Management.
 - e. Maintain or establish close contacts with other fora on financial governance issues, including PSG 5 and PFM sub-working group.
5. *Communicate to stakeholders* financial governance concerns, outcomes of FGC discussions and FGC members' opinions, as well as FGS progress on the reform agenda.
 - a. Provide verbal and written briefings and explanations to financial governance stakeholders where appropriate and/or when requested.
 - b. Uphold the principle of transparent reporting for all issues encountered by the FGC, diverging from transparency only where there are defensible reasons for doing so.
 - c. Maintain regular dialogue with relevant financial governance stakeholders beyond the membership of the FGC, and build support for proposed reforms, FGC actions and their follow up.

In carrying out their responsibilities, international FGC members will be required to attend meetings of the FGC and the Financial Governance Forum. These meetings will take place at intervals of 1-2 months. The estimated level of effort for FGC delegates is up to 10 working days per month (including participation in meetings and home-based work).

FGC meetings will require travel to Kenya and Somalia (including airport and Villa Somalia) and are likely to require overnight stays in Mogadishu. For missions to Somalia the security protocol of the sponsoring

organization will apply, and it is understood that this may constrain the ability of an individual to fulfill his commitment to work outside the airport in Mogadishu/Somalia.

Outputs

In the course of their work, FGC international members will deliver the following written outputs.

- Proposed agenda items;
- Recommendations and opinions on FGC agenda items;
- Topic-specific progress reports on core FGC agenda items;
- Contributions to general progress reports drafted by the FGC Secretariat.

Accountability

International FGC members are sponsored by various organizations and are expected to liaise closely with their sponsor, and where appropriate, bring the views or technical advice of the sponsor to the FGC. At the same time, international FGC members have been engaged on the understanding that they will at all times use their own best professional judgment on an issue. In cases where this judgment differs from that of their sponsor, they should make this clear to all relevant parties.

As members of the FGC, international members are ultimately responsible to the SDRF Executive Steering Committee.

Skills and experience required

All International FGC members require:

- Broad knowledge of financial governance issues, including public procurement, central banking, fiscal policy, budget and revenue administration, or fiscal federalism.
- In-depth experience working on one or more of the financial governance issues listed above.¹¹
- At least 15 years experience working in the area of public financial management, accountability and/or institutional development, including relevant experience at senior management or senior advisory level;
- Strong international reputation and credibility in the field of financial governance with proven record for integrity, professionalism and ethical behavior;
- Experience of working constructively with high-level personnel in government and other state institutions, as well as with personnel within international development agencies.
- Familiarity with development partner aid coordination mechanisms and technical assistance programs for PFM and financial governance in fragile or conflict- affected states;
- Experience of working in fragile states.

¹¹ In-depth expertise required will be determined in relation to the current combined FGC member skillset.

Annex 5: Terms of Reference for the Secretariat of the Financial Governance Committee

[to be added]