



## Second Public Financial Management Capacity Strengthening Project (P151492)

AFRICA | Somalia | Governance Global Practice |  
 Recipient Executed Activities | Investment Project Financing | FY 2016 | Seq No: 4 | ARCHIVED on 10-Mar-2018 | ISR30808 |

Implementing Agencies: Ministry of Finance, Puntland, Ministry of Finance of Somaliland Hargeisa, Federal Republic of Somalia, Ministry of Finance Federal Government

### Key Dates

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Bank Approval Date:07-Jul-2015

Effectiveness Date:09-Sep-2015

Planned Mid Term Review Date:08-May-2017

Actual Mid-Term Review Date:08-May-2017

Original Closing Date:30-Jun-2018

Revised Closing Date:30-Jun-2020

### Project Development Objectives

Project Development Objective (from Project Appraisal Document)

The Project Development Objective is to establish and strengthen institutional capacity for the management of public funds in Central Finance Agencies and targeted sectors.

Has the Project Development Objective been changed since Board Approval of the Project Objective?

No

### Components

Name

Component 1: Revenue mobilization, planning and budget preparation:(Cost \$2.75 M)

Component 2: Treasury management, budget execution, procurement, accounting and financial reporting:(Cost \$9.88 M)

Component 3: Strengthening the integrity pillars:(Cost \$1.95 M)

Component 4: Public financial management professionalization:(Cost \$1.00 M)

Component 5: Public financial management reform oversight, coordination and management:(Cost \$2.93 M)

Component 6: Demand-driven Just-in-Time support (JIT) (Bank Executed):(Cost \$1.00 M)

Unallocated:(Cost \$0.50 M)

### Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	● Moderately Satisfactory	● Satisfactory



Overall Implementation Progress (IP)	● Moderately Satisfactory	● Satisfactory
Overall Risk Rating	● High	● Substantial

## Implementation Status and Key Decisions

The current disbursement rate for the project stands at 60 percent (US\$12,564,947.47). The grant became effective on September 9, 2015 and is expected to close on June 30, 2020. The development objective of the project is to “establish and strengthen institutional capacity for the management of public funds in Central Finance Agencies and targeted sectors”. The project has five components: - (i) **Component 1:** Revenue Mobilization, Planning and Budget Preparation; (ii) **Component 2:** Treasury Management, Budget Execution, Procurement, Accounting and Financial Reporting; (iii) **Component 3:** Strengthening the Integrity Pillars; (iv) **Component 4** – Public financial Management Professionalization – is being implemented by the Ministry of Finance at the FGS; and **Component 5:** PFM Reform oversight; coordination and management.

*Component 1: Revenue Mobilization, planning and budget preparation:* The Ministry of Finance (MOF) contracted a technical advisory firm in January 2017 to provide consultancy services for revenue mobilization and tax administration, by developing strategies and providing technical support to Inland Revenue departments in the MOF. The primary focus of the TA is to support improvements in the efficiency and effectiveness of tax administration with the broader expectation of an enhanced domestic revenue collection. Thus far, the following have been developed: (i) a Tax policy gap analysis; (ii) a taxpayer segmentation and required compliance processes; (iii) a TIN register database; (iv) a road map towards implementing an ad valorem customs duty regime.

*Component 2: Treasury Management, Budget Execution, Accounting & Financial Reporting:*

At the Federal Government level, individual technical advisory support for the Office of the Accountant General have been instrumental to the improvements in day-day treasury functions. At FGS, the project has contributed to the smooth processing of both revenue and expenditure transactions through Government core PFM System, - Somalia Financial Management Information System (SFMIS). This includes amongst others the automation of immigration visa fee collection system; the integration of the SFMIS with the Central Bank of Somalia Core Banking System; and the development of the revenue collection system and its integration with the SFMIS. The system generated both government-wide and donor funded reports from a single integrated window. The project activities have also contributed improvements in the operationalization of the TSA including extended support to the Central Bank of Somalia (CBS).

In Puntland, significant progress has been made with SFMIS “go live” on January 1, 2017 supported by Individual Consultants hired under the PFM project in early 2016. In addition, the following activities have been completed: (i) development of core functions and training of super users (Training of Trainers-ToT); (ii) distribution of all system equipment (computers, printers, hard disks, projectors, etc.) to users; (iii) configuration and delivery of the Cloud system by UN Habitat; (iv) completion of process integration with Puntland State Bank with interim bank module with “barcode reading” capability extended to the State Bank; (v) issuance of ministerial order to direct all MDAs and stakeholders on the use of the system- adopting “No PFMIS no Payment”; (vi) Systems roll-out in all regions in Puntland with a team members appointed in each region to support the user groups on system related issues.

In Somaliland, in line with the Government own reform PFM action plan and priorities, PricewaterhouseCoopers Limited (PwC) was contracted to provide support on treasury management component with key sub-components i) treasury management and budget execution; ii) accounting and financial reporting iii) concessions, procurement and contract management and sub-component and iv) Somaliland Financial Management Information Systems (SLFMIS). Thus far, the following deliverables under the phase-1 of the project activities have been delivered: (i) financial regulations that will guide the implementation of the PFM & Accountability Act; (ii) templates and sample treasury Circulars and Ministerial Orders for the evolving business processes in budgeting, commitment controls; procurement, internal controls, accounting and reporting as a gap filling measure in readiness for the update of the PFM legal framework; (iii) business process reengineering focused on strengthening existing processes such as revenue assessment and collection; payment authorization and approval; accounting and reporting; (iv) standard chart of accounts; (v) operating, financial accounting and reporting manuals; and (vi) conceptual framework for the TSA and cash management policy.

*Component 3: Strengthening the Integrity Pillars:* Progress made over the past few months especially with the successful procurement of a technical advisory firm to support the government in Puntland. So far, a SAI capacity assessment, benchmarked against the AFROSAI-E Institutional Capacity Building Framework (ICBF) and the SAI Performance Measurement Framework (SAI-PMF) have been completed.

To deepen the capacity development and transfer of the staff in the Office of the Auditor-General (OAG,) the government (FGS, Puntland and Somaliland) used the 2016 Projects Annual Financial Statements as a strategic “on the job” training opportunity ensuring that an SAI counterpart team worked alongside the TA firms and participated on all the steps of the audit process.

*Component 4: Public Financial Management Professionalization:* This component being implemented in FGS, Puntland and Somaliland are aimed at building PFM competencies across government as a strategy to ensure the availability of the needed expertise to sustain the PFM reforms over



time. The activities under this component were completed in December 2016

In Somaliland, the PFM professionalization program commenced in first Foundation Course examination "Introduction to PFM" took place in August 2017 with a re-sit in October 2017. Out of the 108 candidates that sat for the examinations, 63 candidates passed, reflecting a pass rate of 58 percent. An additional finance of US\$10 million is under preparation and will focus on the priorities of the Government as agreed at the mid-term review. These include: domestic resource mobilization (strengthening inland revenue systems); (ii) treasury management & budget execution; and (iii) strengthening oversight institutions (the Office of the Auditor General) ties.

## Risks

### Systematic Operations Risk-rating Tool

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

## Results

### Project Development Objective Indicators

► Reduced variance between actual primary expenditure and the originally budgeted primary expenditure. (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	45.00	31.00	31.00	25.00
Date	31-Dec-2013	31-May-2017	31-Dec-2017	30-Jun-2018

► Time elapsed (in months) between end of period covered and submission of audit reports to the legislature. (Months, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target



Value	12.00	12.00	12.00	6.00
Date	31-Dec-2013	31-May-2017	31-Dec-2017	30-Jun-2018

► Increase in real terms of domestic revenue collection (Amount(USD), Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	95.00	136.00	245.00	172.00
Date	31-Dec-2014	31-May-2017	31-Dec-2017	30-Jun-2018

#### Overall Comments

PDO level indicator on Revenue - the project development objective level indicator anticipated real growth in revenues with absolute revenues targeted at US\$359 million by end of 2018. This translates to revenue growth of 126 percent and 67 percent in 2017 and 2018 respectively. The actual revenue out turn is budgeted at US\$148.5 million by end of 2017 with growth rates of about 19 percent and 10 percent in 2016 and 2017 respectively. Secondly, the project, specifically supports Inland Revenue Departments which collect only 22 percent of the total FGS revenues - with potentially minimal impact on revenue growth. Considering these, this PDO level indicator will be revised to reflect results that can be attributed to the project.

On the time to submission of audit reports to Parliament - it is expected that the Results Indicator will be revised to appropriately reflect the scope of activities that will be supported by the project and the capacity level of the OAG

#### Intermediate Results Indicators

► Increase in budget execution rate in targeted sectors (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	55.00	55.00	69.00	70.00
Date	31-Dec-2014	31-May-2017	31-Dec-2017	30-Jun-2018



► Percentage of contracts using competitive procurement methods. (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	60.00
Date	31-Dec-2014	31-May-2017	31-Dec-2017	30-Jun-2018

► Improvements in information contained in annual financial reports with regard to application of International Public Sector Accounting Standards (IPSAS) cash-basis (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Revenue and Expenditure reports by organizational and economic classification	--	Annual Financial Statements submitted in a timely manner with coverage including revenue, expenditures, financial assets, domestic arrears and cash flow statement; as well as donor funds under the control of the government	Register for moveable fixed assets included
Date	31-Dec-2013	31-May-2017	31-May-2017	30-Jun-2018

► Revenue mobilization strategy implemented (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Ad hoc approach to revenue mobilization	--	Allocation of TINs commenced and expected to be operational in 2018	Procedures manual for tax administration disseminated and training conducted
Date	31-Dec-2013	31-May-2017	31-Dec-2017	30-Jun-2018



► Improvement in coverage and classification of data in in-year budget reports. (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Only approved budget and actuals disclosed	--	Budget reports classified to allow comparison to original budget including supplementary budget and virement.	Cover expenditure both at commitment and at payment stage
Date	30-Nov-2014	31-Mar-2016	31-Dec-2017	30-Jun-2018

► Procurement, installation and commissioning of core banking and accounting systems with an added basic payment system. (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Banking operations manual with no written procedures and incomplete reports. Regional payment system non-existent	--	Core Banking and accounting system at the CBS operational on a parallel basis to the legacy semi-manual system.	Basic payment system operational
Date	30-Nov-2014	31-May-2017	31-Dec-2017	30-Jun-2018

► Percentage of audit recommendations for which there is evidence of follow-up. (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	40.00
Date	31-Dec-2014	31-May-2017	31-Dec-2017	30-Jun-2018

► Number of students completing certificate and diploma stages. (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	126.00	20.00
Date	31-Dec-2014	--	31-Dec-2017	30-Jun-2018



## ▶ Number of PFM reviews and actionable advisory notes (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	0.00	5.00
Date	30-Nov-2014	--	31-May-2017	30-Jun-2018

## ▶ Percentage of expenditures represented by the government entities audited in total public expenditure. (Percentage, Custom)



	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	0.00	75.00
Date	31-Dec-2014	--	31-May-2017	30-Jun-2018

## Overall Comments

**Intermediate Indicator on competitive procurement: A significant percentage of FGS' expenditures are targeted at civil servants' salary payments as well as payment of security personnel rations. As such this indicator is being reviewed to focus on the reforms needed to institute robust payment and procurement policies and procedures**

## Data on Financial Performance

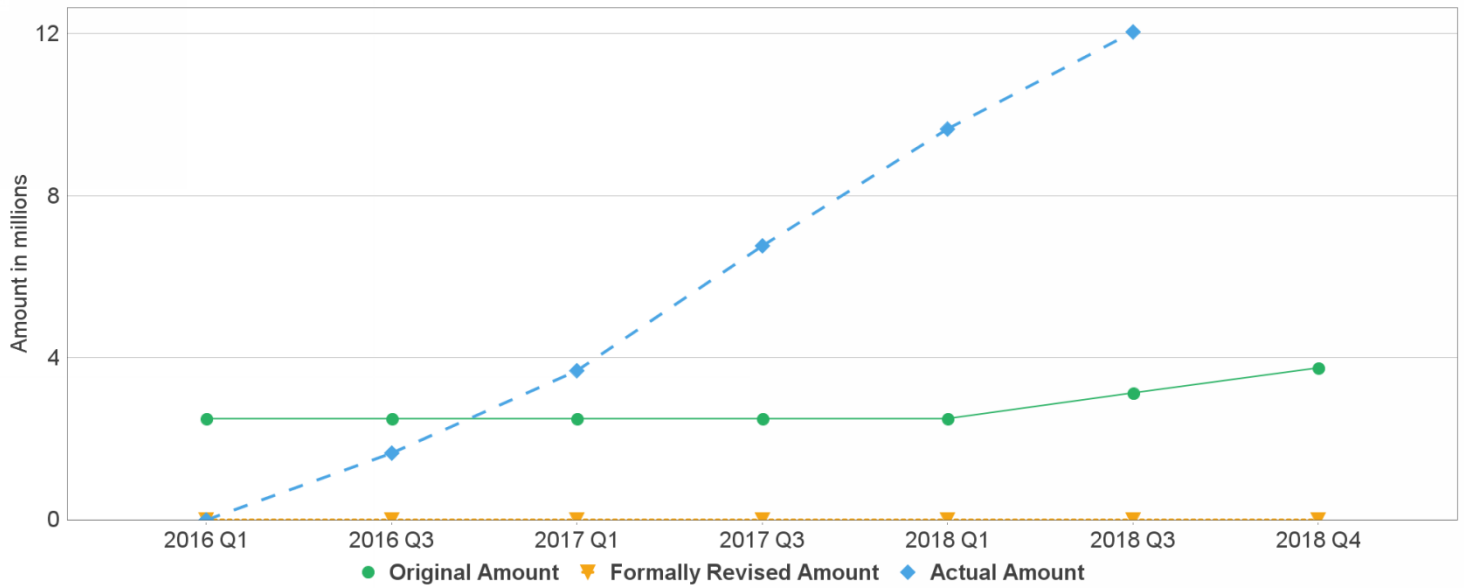
## Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	Disbursed
P151492	TF-A0388	Effective	USD	16.00	16.00	0.00	10.92	5.08	 68%
P151492	TF-A0389	Effective	USD	4.00	4.00	0.00	1.13	2.87	 28%

## Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P151492	TF-A0388	Effective	06-Jul-2015	22-Jul-2015	09-Sep-2015	30-Jun-2018	30-Jun-2020
P151492	TF-A0389	Effective	10-Nov-2015	10-Nov-2015	07-Dec-2015	30-Jun-2018	30-Jun-2020

## Cumulative Disbursements



## Restructuring History

Level 2 Approved on 25-Aug-2016 ,Level 2 Approved on 07-Dec-2017

## Related Project(s)

P166206-Second Public Financial Management Capacity Strengthening-Additional Financing