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GRANT NUMBER D658-SO

# **Financing Agreement**

**(Somalia Recurrent Cost & Reform Financing Project – Phase III)**

**between**

**FEDERAL REPUBLIC OF SOMALIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

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**GRANT NUMBER D658-SO**

**FINANCING AGREEMENT**

AGREEMENT dated as of the Signature Date between the FEDERAL REPUBLIC OF SOMALIA (“Recipient”) and THE INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to forty-nine million eight hundred thousand Special Drawing Rights (SDR 49,800,000) (“Financing”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2, and Schedule 3 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Payment Dates are April 15 and October 15 in each year.
- 2.05. The Payment Currency is Dollar.

**ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions.

**ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Additional Conditions of Effectiveness consist of the following:

- (a) The Recipient has updated the Project Operations Manual, in a manner and substance satisfactory to the Association, pursuant to the provision of Section I.C.1 of Schedule 2 to this Agreement; and
- (b) The Recipient has prepared and adopted the ESMF (including GBV/SEA Action Plan), the LMP, and the updated SEP (including a grievance redress mechanism for the Project, and medical waste management procedures), in a manner and substance acceptable to the Association.

- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 4.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is Recipient's Minister of Finance.
- 5.02. For purposes of Section 11.01 of the General Conditions, the Recipient's address is:

Ministry of Finance  
Corso Somalo Street  
Shangani District  
Mogadishu, Somalia; and

- 5.03. For purposes of Section 11.01 of the General Conditions:

- (a) The Association's address is:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America; and

- (b) the Association's Electronic Address is:

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

AGREED as of the Signature Date.

**FEDERAL REPUBLIC OF SOMALIA**

**By**

*Abdirahman Duale Beileh*

\_\_\_\_\_  
**Authorized Representative**  
Abdirahman Duale Beileh

**Name:** \_\_\_\_\_

**Title:** \_\_\_\_\_ Minister

**Date:** \_\_\_\_\_ 23-Jun-2020

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**By**

*C. Felipe Jaramillo*

\_\_\_\_\_  
**Authorized Representative**

**Name:** \_\_\_\_\_ C. Felipe Jaramillo

**Title:** \_\_\_\_\_ Country Director

**Date:** \_\_\_\_\_ 17-Jun-2020

## SCHEDULE 1

### Project Description

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

The Project consists of the following parts:

#### *Component 1: Recurrent cost finance to reform resource management systems*

1. Financing the FGS' wage bill of Eligible Civil Servants as well as CIM Recruits, on a declining basis.
2. Financing the FGS' wage bill of Eligible Civil Servants against the implementation of a series of reforms in customs, FGS' payment processes, inter-governmental fiscal relations, fiscal transfers to Eligible Federal Member States and public administration.

#### *Component 2: Strengthen inter-governmental fiscal relations*

1. Institutionalizing the inter-governmental fiscal forum, including its secretariat, the inter-governmental fiscal forum technical committee and the finance ministers' fiscal forum ("FMFF"), inter-governmental coordination meetings in health and education sectors, in addition to training and capacity building of MDAs, and continuing to support the running costs of these fora.
2. Implementing service delivery reforms strengthening resource management systems and the delivery education and health services at Eligible Federal Member State -level, ensuring that the Eligible Federal Member States' on-budget transfers for education and health services reach schools and communities.
3. Strengthening Eligible Federal Member State resource management systems through, *inter alia*: (a) developing the institutional capabilities of MDAs in the areas of finance, accounting and financial reporting, procurement, human resources and internal audit; (b) extending the public financial management staff professionalization program in Eligible Federal Member States by providing adequate training across state-level public financial institutions and MDAs; (c) aligning public financial management legislations, regulation and procedures across the federation; and (d) developing IT capabilities (i.e. training, software and equipment) as well as inter-governmental collaboration to improve automatic fiscal data sharing between FGS and Eligible Federal Member States and the harmonization of budget classifications.

*Component 3: Transfers for core government functions and foundational education health service delivery mechanism in Eligible Federal Member States*

1. (a) Financing the Eligible Federal Member States' non-salary recurrent costs and the wage bill of Eligible Civil Servants in selected MDAs, as well as salaries of CIM Recruits through the provision of conditional federal grant transfers to Eligible Federal Member States pursuant to the Subproject Agreements; and (b) strengthening the institutional capacity of EFMS MoFs capacity to manage donor funds.
2. (a) Providing Performance-Base School Grants to Payroll-Supported Schools that meet the criteria set out in the Basic Quality Standards Checklist; and (b) financing teacher salaries, carrying out proficiency testing of teachers, implementing school supervision and accountability mechanism, and supporting improved school budgetary planning and execution.
3. Scaling up the 'Marwo Caafimaad' female health workers program to reach national coverage and strengthening the FGS' and EFMS' stewardship and management capacities, including contract management, enhanced monitoring and evaluation, and improved donor coordination.

*Component 4: Citizen Engagement and Feedback*

1. Improving budget transparency through citizenry participation in budget preparation and execution, increasing disclosure of budget information.
2. Promoting citizenry participation in service delivery at community level through: (a) mapping of selected service providers (with primary focused on health and education); (b) identifying, studying and collecting feedback from service stakeholders in selected; (c) promoting community compacts between users/beneficiaries and service providers; and (d) implementing pilots in targeted areas.
3. Incorporating citizenry feedback in the provision and improvements to education and health services and evaluating the Project impact on access and quality of these services.

*Component 5: Project Management*

Strengthening the institutional capacity of the FGS and the EFMS for the coordination and implementation of Project activities, including compliance with procurement, financial management (including financial audits), social and environmental, communications, monitoring and evaluation, and reporting requirements therefor.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements.

1. The Recipient shall vest the overall responsibility for Project coordination and implementation in its Ministry of Finance (“MoF”).
2. Notwithstanding the foregoing, the Recipient shall:
  - (a) maintain the Project Steering Committee throughout the period of implementation of the Project, with representation from FGS’ MDAs and EFMS satisfactory to the Association, as set forth in the POM; and vested with such powers, functions and competencies, acceptable to the Association and set forth in the POM, as shall be required to review the Verification Reports and Progress Reports, and provide policy guidance, strategic decision-making and inter-institutional coordination for the implementation of the Project;
  - (b) maintain, throughout the period of implementation of the Project, the Public Financial Management Reform Coordination Unit (“PFMRCU”), within MoF, with competent, experienced and qualified staff, in sufficient numbers and under terms of reference acceptable to the Association as set forth in the POM, vested with such powers, financial resources, functions and competencies, acceptable to the Association and set forth in the Project Operations Manual, necessary to carry out the day-to-day implementation of FGS’ Respective Activities under the Project, including: (i) coordinating all activities under the Project among all institutional stakeholders including the EFMS; (ii) carrying out procurement, contract management, budgeting and planning, safeguards compliance (ESCP), monitoring and reporting activities under the Project; (iii) implementing communications and citizenry outreach programs; and (iv) serving as secretariat for the Project Steering Committee;
  - (c) maintain, throughout the period of implementation of the Project, a Project Management Team within MoF headed by a Project Manager assisted by competent, experienced and qualified staff, in sufficient numbers and under terms of reference acceptable to the Association as set forth in the POM, vested with such powers, financial resources, functions and competencies, acceptable to the Association and set forth in the Project Operations Manual, necessary to provide technical guidance to the PFMRCU for the implementation of the Project; and

- (d) maintain, and cause the EFMS to maintain, throughout the period of implementation of the Project, the EAFS Unit within MoF's Office of Accountant General and the respective EFMS' treasuries, with competent, experienced and qualified staff, in sufficient numbers and under terms of reference acceptable to the Association, and vested with such powers, financial resources, functions and competencies, acceptable to the Association and set forth in the COAP Manual, necessary to assist the PFMRCU and the respective EFMS's MDAs with the day-to-day financial management and fiduciary responsibilities for their Respective Activities under the Project.
- 3. In furtherance to the provisos of paragraph 1 and 2 above, the Recipient shall, or shall cause the Eligible Federal Member States to select and engage, by not later than three (3) months after the signing of the Subproject Agreement, and thereafter maintain throughout the period of implementation of the Project, the services of a health technical partner with qualification and experience and under terms of reference acceptable to the Association, to assist the Eligible Federal Member States with the implementation of Sub-component 3.3. of the Project, including procuring pharmaceuticals, managing and supervising the *Marwo Caafimaad* program, developing the program's operational systems, strengthening linkages between program services and health facilities, and supporting/devising measures to increase the effectiveness and reach of program coverage and services;

**B. Subproject Agreements.**

- 1. To facilitate the carrying out of the EFMS' Respective Activities under the Project, the Recipient shall make the proceeds of the Financing allocated from time to time to Category (2) of the table set forth in Section III.1 of this Schedule available to the EFMS under the respective subproject agreement to be between the Recipient and each such EFMS, under terms and conditions approved by the Association (the "Subproject Agreement").
- 2. The Recipient shall exercise its rights under the Subproject Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subproject Agreement or any of its provisions.
- 3. In the event of any conflict between the provisions of the Subproject Agreements and those of this Agreement, the provisions of this Agreement shall govern.

**C. Project Documents**

- 1. The Recipient shall:



- (a) update the Project Operations Manual (“POM”) in a manner and substance satisfactory to the Association, which manual shall set forth, *inter alia*: (i) roles and responsibilities of the FGS and the EFMS in the implementation of their Respective Activities under the Project including job descriptions/terms of reference and allocation of functions and responsibilities, reporting and accountabilities lines for implementation units and Project staff; (ii) detailed guidelines and procedures for the implementation of the Project, including administration and coordination, monitoring and evaluation, procurement and contract management, environmental and social risks mitigation measures (ancillary to those of the ESCP), fraud and corruption mitigation measures, the administrative structure and procedures of the Project grievance redress mechanism; (iii) any financial management requirements (ancillary to those of the COAP Manual), including detailed arrangements and procedures for financial approvals hierarchies and segregation of duties; management of bank accounts and payment processes, management and accounting of assets, and preparation of internal audits and annual Financial Statements, including the terms of reference for the external auditor; (iv) procedures for the preparation and approval of the Annual Work Plans & Budgets; (v) eligibility criteria for the participation of EFMS under the Project; (vi) terms and conditions of the Subproject Agreements; (vii) terms and conditions for the Performance-Based Schools Grants including eligible uses of funding and applicable Basic Quality Standard Checklist; (viii) eligibility criteria for the determination of Eligible Civil Servants whose salaries will be financed the Project; (ix) the Verification Protocol applicable to certify the achievement of PBCs; (x) the Project’s results framework and monitoring indicators; and (xi) such other arrangements and procedures as shall be required for the effective implementation of the Project, in form and substance satisfactory to the Association; and
  - (b) thereafter, implement the Project pursuant to the POM and the COAP Manual, in a manner and substance satisfactory to the Association.
- 2. The Recipient shall refrain from materially and/or substantially amending, revising, waiving, voiding, suspending or abrogating, any provision of the POM and/or the COAP Manual, whether in whole or in part, without the prior written concurrence of the Association.
- 3. In the event of any inconsistency between a provision of the POM or the COAP Manual and those of this Agreement, the provisions of this Agreement shall prevail.

**D. Performance-Based School Grants**

1. For purposes of carrying out Sub-component 3.2.(a) of the Project, the Recipient shall:
  - (a) in coordination with the EFMS, design and implement a program for the provision of Performance-Based School Grants to Payroll Supported Schools aimed at promoting and rewarding schools' improvements in the quality of education services and the achievement of and students' outcomes;
  - (b) cause the EFMS to enter into Performance-Based School Grant Agreements with Payroll-Supported Schools within their geographical jurisdiction, under terms and conditions acceptable to the Association and set forth in the POM, for the provision of Performance-Based School Grants upon achievement of pre-agreed quality standards and/or results set forth in the Basic-Quality Standards Checklist; and
  - (c) cause the EFMS to establish quality assessment teams, with qualified and experienced staff, in adequate numbers and under terms of reference satisfactory to the Association, to carry out schools inspections and verification in order to certify achievement of the agreed standards set forth in the Performance-Based School Grants as per their respective Performance-Based School Grant Agreements.
2. The Recipient shall cause the EFMS to exercise their rights under the Performance-Based School Grant Agreements in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing, including ensuring compliance with the Association's Procurement Regulations, Anti-Corruption Guidelines and financial management standards. Except as the Association shall otherwise agree, the EFMS shall not assign, amend, abrogate or waive any the signed Performance-Based School Grant Agreement or any of its provisions.

**E. PBC Verification Arrangements**

The Recipient shall:

- (a) vest the responsibility for verifying the achievement of PBCs in the OAuG and, to that end select and engage, not later than six (6) months after the Effective Date, an independent third-party entity or entities (the "Verification Consultant(s)"), with qualifications, experience and terms of reference satisfactory to the Association, to assist the OAuG with the verification process referred to in sub-paragraph (b) below;

- (b) undertake, at least semi-annually throughout the period of Project implementation, through the OAuG (with the assistant of the Verification Consultant(s)), a verification process, in a manner and substance satisfactory to the Association, pursuant to the Verification Protocol agreed with the Association and the provisions of the Project Operations Manual, to ascertain the achievement/fulfillment of the PBCs during the period under review; and
- (c) immediately thereafter, furnish to the Association the corresponding verification reports (“Verification Reports”) in form and substance acceptable to the Association.

**F. Annual Work Plans & Budgets**

The Recipient, through its PFMRCU, shall:

- (a) prepare and furnish to the Association on an annual basis, by no later than October 31 of each year, commencing on October 31, 2020, a consolidated annual plan of Project activities and ancillary budget and source of funding proposed for the next following Fiscal Year of Project implementation (the “Annual Work Plan & Budget”), which plan and budget shall be of such scope and detail as set forth in the Project Operations Manual and/or as the Association shall reasonably request. Notwithstanding the foregoing, the Annual Work Plan and Budget for the first year of Project implementation shall be prepared by the Recipient by not later than one (1) month after the Effective Date;
- (b) immediately submit each such Annual Work Plan & Budget to the Association for review and comments; and
- (c) thereafter, ensure that the Project is carried out in accordance with the Annual Work Plans & Budgets as agreed with the Association.

**G. Environmental and Social Standards.**

1. The Recipient shall, and shall cause the EFMS to, ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Association.
2. Without limitation upon paragraph 1 above, the Recipient shall, and shall cause the EFMS to, ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan (“ESCP”), in a manner acceptable to the Association. To this end, the Recipient shall, and shall cause the EFMS to, ensure that:

- (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, and provided in the ESCP;
  - (b) sufficient funds are available to cover the costs of implementing the ESCP;
  - (c) policies and procedures are maintained, and qualified and experienced staff in adequate numbers are retained to implement the ESCP, as provided in the ESCP; and
  - (d) the ESCP, or any provision thereof, is not amended, repealed, suspended or waived, except as the Association shall otherwise agree in writing, as specified in the ESCP, and ensure that the revised ESCP is disclosed promptly thereafter.
3. In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.
4. The Recipient shall, and shall cause the EFMS to, ensure that:
- (a) all measures necessary are taken to collect, compile, and furnish to the Association through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the ESCP and the environmental and social instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out, *inter alia*: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and
  - (b) the Association is promptly notified of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, in accordance with the ESCP, the environmental and social instruments referenced therein and the Environmental and Social Standards.
5. The Recipient shall establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Association.
6. The Recipient shall ensure, and cause the EFMS to ensure, that all bidding documents and contracts for civil works under the Project include the obligation

of contractors, and subcontractors and supervising entities to: (a) comply with the relevant aspects of ESCP and the environmental and social instruments referred to therein; and (b) adopt and enforce codes of conduct that should be provided to and signed by all workers, detailing measures to address environmental, social, health and safety risks, and the risks of sexual exploitation and abuse, sexual harassment and violence against children, all as applicable to such civil works commissioned or carried out pursuant to said contracts.

**Section II. Project Monitoring, Reporting and Evaluation**

The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar quarter, covering the calendar quarter.

**Section III. Withdrawal of the Proceeds of the Financing**

**A. General**

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<b>Category</b>	<b>Amount of the Grant Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods, works, non-consulting services, and consulting services salaries of FGS' Eligible Civil Servants, CIM Recruits, FHW Program Costs, salaries of teachers and other critical education service delivery personnel, Training and Workshops, and Incremental Operating Costs for FGS's Respective Activities under the Project.	15,200,000	100%
(2) Goods, works, non-consulting services, and consulting services, salaries of EFMS' Eligible Civil Servants, CIM Recruits, FHW	21,400,000	100%

<b>Category</b>	<b>Amount of the Grant Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
Program Costs, Performance-Based School Grants, salaries of teachers and other critical education service delivery personnel, Training and Workshops, and Incremental Operating Costs for the EFMS' Respective Activities under the Project.		
(3) Salaries of Eligible Civil Servants.	13,200,000	100% (to be disbursed as per Schedule 3 to this Agreement)
<b>TOTAL AMOUNT</b>	49,800,000	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:
  - (a) for payments made prior to the Signature Date; or
  - (b) under Category (3) (sub-categories (a) and (b)) until and unless the Recipient has:
    - (i) complied with the additional instructions referred to in Section III.A of this Schedule, including the submission to the Association of the applicable IUFR detailing the expenditures incurred under the Project up to the date of the applicable withdrawal application; and
    - (ii) furnished the respective Verification Report, in accordance with the Verification Protocol and in a manner and substance acceptable to the Association, confirming the Recipient's and/or the FMS'/BRA's satisfactory achievement of the respective PBCs as set forth in Schedule 3 to this Agreement;
2. Notwithstanding the foregoing, if the Association determines in its sole discretion that one or more of the PBCs set forth in Schedule 3 to this Agreement has/have not been achieved, or were no longer achievable, by the respective PBC deadline

and/or the Closing Date, the Association may, at any time, by notice to the Recipient, decide, at its sole discretion, to:

- (a) authorize the withdrawal of such lesser amount of the unwithdrawn proceeds of the Allocated Amounts for such PBC which, in the opinion of the Association, corresponds to the extent of achievement of said PBC, provided that the same be scalable, in accordance with the formulae set out with respect to such PBC in Schedule 3 to this Agreement; and/or
  - (b) withhold all or a portion of the proceeds of the Financing corresponding to the Allocated Amounts for the unmet PBC(s) until such PBC(s) is/are, in the opinion of the Association, satisfactorily achieved; and/or
  - (c) cancel all or a portion of the proceeds of the Financing corresponding to the Allocated Amounts then allocated to unmet PBC(s).
3. The Recipient shall refrain from transferring any funds out of the proceeds of the Financing to any individual EFMS, until the Recipient and respective EFMS have duly executed the Subproject Agreement in a manner and substance satisfactory to the Association. Any transfers from the Recipient to an EFMS in violation of this provision shall be deemed an ineligible expenditure.
  4. The Closing Date is December 31, 2023.

**SCHEDULE 3**

**Performance-Based Conditions & Allocated Amounts**

PROPOSED REFORMS	PERFORMANCE-BASED CONDITIONS						
	*SEPTEMBER 30, 2020	*JUNE 30, 2021	*NOVEMBER 30, 2021	*JUNE 30, 2022	*NOVEMBER 30, 2022	*JUNE 30, 2023	*NOVEMBER 30, 2023
<b>1. Strengthen customs administration as per the Customs Reform Action Plan</b>				1.1. MoF has developed and operationalized the new IT system, as well as its manuals of procedures		1.2. MoF has completed a simplified functional review of FGS customs to better allocate human resources in customs.	
<i>Allocated Amounts</i>				SDR 732,000		SDR 185,000	
<b>2. Strengthen payment process for operational expenditures</b>					2.1. MoF has: (i) completed a business process review for FGS' payment; and (ii) prepared/issued a business process review report including the processing of fiscal transfers and education and health sector payments.		2.2. MoF has approved comprehensive procedures aligned with the business process review for following areas: (i) planning and budgeting; (ii) internal controls; and (iii) accounting procedures.

\* Unless the context of the respective PBC otherwise require, these dates are provided for indicative verification purposes. Whenever feasible the in accordance with their terms, the PBCs can be met in advance or carried forward and met later.



PROPOSED REFORMS	PERFORMANCE-BASED CONDITIONS						
	*SEPTEMBER 30, 2020	*JUNE 30, 2021	*NOVEMBER 30, 2021	*JUNE 30, 2022	*NOVEMBER 30, 2022	*JUNE 30, 2023	*NOVEMBER 30, 2023
<i>Allocated Amounts</i>					SDR 732,000		SDR 185,000
<b>3. Strengthen inter-governmental fiscal policy framework</b>				3.1. FGS' FY 2022 budget provides for appropriations for FGS' fiscal transfers to FMS/BRA as per an inter-governmentally agreed formula.		3.2. FGS' FY 2023 budget provides for appropriations for FGS' fiscal transfers to FMS/BRA as per an inter-governmentally agreed formula.	
<i>Allocated Amounts</i>				SDR 732,000		SDR 185,000	
<b>4. Strengthen FGS transfers to FMS</b>					4.1. FGS' fiscal transfers execution rate for the 1 <sup>st</sup> half of FY 2022 to FMS/BRA is equal to, or greater than, the out turn rate for FGS' domestic revenues.		4.2. FGS' fiscal transfers execution rate for the 1 <sup>st</sup> half of FY 2023 to FMS/BRA is equal to, or greater than, the out turn rate for FGS' domestic revenues.
<i>Allocated Amounts</i>					SDR 732,000		SDR 185,000
<b>5. Strengthen public administration</b>				5.1. FGS has: (i) enacted a pension law; (ii) adopted regulations on pensions for civil			5.2. FGS has established, staffed and operationalized a pension unit

PROPOSED REFORMS	PERFORMANCE-BASED CONDITIONS						
	*SEPTEMBER 30, 2020	*JUNE 30, 2021	*NOVEMBER 30, 2021	*JUNE 30, 2022	*NOVEMBER 30, 2022	*JUNE 30, 2023	*NOVEMBER 30, 2023
				sevants (including those guiding collection); and (iii) established a pension secretariat with the participation of all relevant MDAs.			within six (6) months from the commencement of pension collections.
<i>Allocated Amounts</i>				SDR 732,000			SDR 185,000
<b>6. Strengthen FMS resource management systems for service delivery</b>	6.1. The FMS have: (i) signed Service Delivery Transfer Agreements with FGS, including costed COVID-19 measures, for an aggregate amount equal to the Allocated Amount of this PBC equivalent; and (ii) approved budgetary appropriations for FY 2020 allocating a net budgetary increase for their respective MoHs equal to the amount of the	6.2. The FMS have: (i) signed with FGS an updated Service Delivery Transfer Agreements (2021); and (ii) approved budgetary appropriations for FY 2021 allocating a net aggregate budgetary increase for their respective MoHs equal to the aggregated Allocated Amounts for PBCs #6.2.; #6.3.; #8.1 and #8.2.	6.3. The FMS have: (i) issued their respective implementation and financial reports on the use of federal (service) transfers covering FY 2020 and the 1 <sup>st</sup> half of FY 2021 in line with provisions Service Delivery Transfer Agreements demonstrating release of funds to MoHs and MoEs; and (ii) submitted the same to MoF.	6.4. The FMS have: (i) signed with FGS an updated Service Delivery Transfer Agreements (2022); and (ii) approved budgetary appropriations for FY 2022 allocating a net aggregate budgetary increase for education and health sectors equal to the aggregated Allocated Amounts for PBCs #6.4.; #6.5.; #7.2.;	6.5. The FMS have: (i) issued their respective implementation and financial reports on the use of federal (service) transfers covering FY 2021 and the 1 <sup>st</sup> half of FY 2022 in line with provisions Service Delivery Transfer Agreements demonstrating release of funds to MoHs and MoEs; and (ii) submitted the same to MoF.	6.6. The FMS have: (i) signed with FGS an updated Service Delivery Transfer Agreements (2023); and (ii) approved budgetary appropriations for FY 2023 allocating a net aggregate budgetary increase for education and health sectors equal to the aggregated Allocated Amounts for PBCs #6.6.; #7.4. and #8.5.	

PROPOSED REFORMS	PERFORMANCE-BASED CONDITIONS						
	*SEPTEMBER 30, 2020	*JUNE 30, 2021	*NOVEMBER 30, 2021	*JUNE 30, 2022	*NOVEMBER 30, 2022	*JUNE 30, 2023	*NOVEMBER 30, 2023
	respective Service Delivery Transfer Agreements.			#7.3.; #8.3.; and #8.4			
<i>Allocated Amounts</i>	SDR 370,400 per FMS that meets both conditions, up to an aggregate of SDR 1,852,000.	SDR 88,000 per FMS that meets both conditions, up to an aggregate of SDR 440,000.	SDR 88,000 per FMS that meets both conditions, up to an aggregate of SDR 440,000	SDR 110,000 per FMS that meets both conditions, up to an aggregate of SDR 550,000	SDR 110,000 per FMS that meets both conditions, up to an aggregate of SDR 550,000	SDR 55,000 per FMS that meets both conditions, up to an aggregate of SDR 275,000	
<b>7. Strengthen education service delivery.</b>		aggregated	7.1. Each FMS has adopted a Performance-Based School Grants policy.	7.2. Each FMS has: (i) maintained a Performance-Based School Grants policy for the financing of recurrent costs; and (ii) approved aggregate FY 2022 budgetary appropriations for MoEs' Performance-Based School Grants equal to half the aggregated Allocated Amounts for PBCs #6.4.; #6.5; #7.2; #7.3.; #8.3. and #8.4.	7.3. All Payroll Supported Schools in the FMS with signed Performance-Based School Grants Agreements have received annual Performance Based Schoool Grants in a timely manner, as per the signed agreements.	7.4. Each FMS has (i) maintained a Performance-Based School Grant policy for the financing of recurrent costs; and (ii) approved aggregate FY 2023 budgetary appropriations for MoEs' Performance-Based School Grants equal to half the aggregated Allocated Amounts for PBCs #6.6.; #7.4 and #8.5.	

PROPOSED REFORMS	PERFORMANCE-BASED CONDITIONS						
	*SEPTEMBER 30, 2020	*JUNE 30, 2021	*NOVEMBER 30, 2021	*JUNE 30, 2022	*NOVEMBER 30, 2022	*JUNE 30, 2023	*NOVEMBER 30, 2023
<i>Allocated Amounts</i>			SDR 88,000 per FMS that meets the condition, up to an aggregate of SDR 440,000	SDR 139,200 per FMS that meets both conditions, up to an aggregate of SDR 696,000	SDR 139,200 per FMS that meets both conditions, up to an aggregate of SDR 696,000	SDR 84,200 per FMS that meets both conditions, up to an aggregate of SDR 421,000	
<b>8. Strengthen health service delivery</b>		8.1. The FMS have: (i) adopted annual community health service delivery plans, including infectious disease measures for FY 2021; and (ii) approved MoHs' FY 2021 budgetary appropriations for community health service delivery for an amount equal to the aggregated Allocated Amounts for PBCs #6.2.; #6.3.; #8.1. and #8.2.	8.2. The FMS have executed the community health service delivery plans for FY 2021 in a timely manner, as per the signed Service Delivery Transfer Agreements :	8.3. The FMS have: (i) adopted annual community health service delivery plans, including infectious disease measures for FY 2022; and (ii) approved MoHs' FY 2022 budgetary appropriations for community health service delivery for an amount equal to half the aggregated Allocated Amounts for PBCs #6.4.; #6.5.; #7.2.; #7.3.; #8.3. and #8.4.	8.4. The FMS have executed the community health service delivery plans for FY 2022 in a timely manner, as per the signed Service Deliver Transfer Agreements.	8.5. The FMS have (i) adopted annual community health service delivery plans, including invectious desease measures for FY 2023; and (ii) approved MoHs' FY 2023 budgetary appropriations for community health service delivery for an amount equal to half the aggregated Allocated Amounts for PBCs #6.6.; #7.4 and #8.5.	
<i>Allocated Amounts</i>		SDR 88,000 per FMS that meets both conditions,	SDR 88,000 per FMS that meets both conditions,	SDR 110,000 per FMS that meets both conditions,	SDR 110,000 per FMS that meets both conditions,	SDR 55,000per FMS that meets both conditions,	

<b>PROPOSED REFORMS</b>	<b>PERFORMANCE-BASED CONDITIONS</b>						
	<b>*SEPTEMBER 30, 2020</b>	<b>*JUNE 30, 2021</b>	<b>*NOVEMBER 30, 2021</b>	<b>*JUNE 30, 2022</b>	<b>*NOVEMBER 30, 2022</b>	<b>*JUNE 30, 2023</b>	<b>*NOVEMBER 30, 2023</b>
		up to an aggregate of SDR 440,000	up to an aggregate of SDR 440,000	up to an aggregate of SDR 550,000	up to an aggregate of SDR 550,000	up to an aggregate of SDR 275,000	

## APPENDIX

### Definitions

1. “Allocated Amounts” means the amount allocated to each individual PBC, or determined for each PBC pursuant to the respective formula set forth in Schedule 3 to this Agreement, as such amount might be increased, reallocated and/or cancelled (whether partially or in its entirety) by the Association, from time to time as the case may be, in accordance with the provisions of Section III.B.2 of Schedule 2 to this Agreement.
2. “Annual Work Plans & Budgets” means the yearly work plans and budgets to be prepared, approved and implemented by the Recipient and WFP pursuant to Section I.F of Schedule 2 to this Agreement as further elaborated in the Project Operations Manual.
3. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
4. “Basic Quality Standards Checklist” means the education service standards checklist to be detailed in the Project Operations Manual and applied for the eligibility and provision of Performance-Based School Grants.
5. “Benadir Regional Administration” and the acronym “BRA” means the regional authority established and operating as a regional member state administration established pursuant to Article 49 of the Recipient’s Provisional Constitution (2012).
6. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
7. “CIM Recruits” means advisors, subject-matter experts and young graduates engaged by the Recipient pursuant to the capacity injection modality Program pursuant to the eligibility criteria set forth in the Project Operations Manual.
8. “Component” means each of the clustered Project activities grouped under the titles: “*Component 1: Recurrent cost finance to reform resource management systems*”; “*Component 2: Strengthen inter-governmental fiscal relations*”; “*Component 3: Transfers for core government functions and foundational education health service delivery mechanism in eligible Federal Member States*”;

*“Component 4: Citizen Engagement and Feedback”*; and *“Component 5: Project Management”* in the description of the Project in Schedule 1 to this Agreement.

9. “COAP Manual” means the comprehensive operating administration procedures manual dated January 1, 2019, adopted by the EAFS Unit, MoF Office of the Accountant General, as amended from time to time with the prior written concurrence of the Association.
10. “COVID-19” means the mild to severe respiratory syndrome caused by a coronavirus of the genus *Betacoronavirus*, identified in 2019.
11. “Customs Reform Action Plan” means the Recipient’s customs reform action plan dated June 22, 2019 and approved by the an intergovernmental technical committee meeting held on that date in Addis Ababa, Ethiopia, attended by all the Director Generals of customs of the Recipient, as the same may be amended from time to time with the prior concurrence of the Association.
12. “EAFS Units” means the Recipient’s and the FMS-MoFs’ external assistance fiduciary section units established within MoF’s Office of the Accountant General and the FMS-MoFs, as the case may be, to carry out the overall financial management in respect of the external developmental assistance including proceeds received from the Association.
13. “Eligible Civil Servants” means a civil service employee of the Recipient’s and/or the EFMS’ non security sectors who meets the eligibility criteria set forth in the Project Operations Manual (e.g. teachers, education officials, health workers, etc.).
14. “Eligible Federal Member State” and the acronym “EFMS” means each of the FMS and/or BRA that meets the eligibility criteria set forth in the Project Operations Manual.
15. “Environmental and Social Commitment Plan” or “ESCP” means the environmental and social commitment plan for the Project, dated May 18, 2020, as the same may be amended from time to time in accordance with the provisions thereof, which sets out the material measures and actions that the Recipient shall carry out or cause to be carried out to address the potential environmental and social risks and impacts of the Project, including the timeframes of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any environmental and social instruments to be prepared thereunder.
16. “Environmental and Social Standards” or “ESSs” means, collectively:  
(i) “Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts”; (ii) “Environmental and Social Standard 2: Labor and Working Conditions”; (iii) “Environmental and Social Standard 3: Resource Efficiency and Pollution Prevention and Management”;

(iv) “Environmental and Social Standard 4: Community Health and Safety”; (v) “Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement”; (vi) “Environmental and Social Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources”; (vii) “Environmental and Social Standard 7: Indigenous Peoples/Sub-Saharan Historically Underserved Traditional Local Communities”; (viii) “Environmental and Social Standard 8: Cultural Heritage”; (ix) “Environmental and Social Standard 9: Financial Intermediaries”; (x) “Environmental and Social Standard 10: Stakeholder Engagement and Information Disclosure”; effective on October 1, 2018, as published by the Association.

17. “ESMF” means the environmental and social framework to be prepared and adopted by the Recipients in a manner and substance satisfactory to the Association pursuant to the ESCP, and to be disclosed in-country, and at the Association’s website, setting out the modalities to be followed in assessing the potential adverse environmental and social impacts of Project activities in accordance with the ESSs, including risks of gender-based violence and sexual exploitation and abuse and the measures to be taken to offset, reduce or mitigate such adverse impacts, including measures that endeavor to prevent and respond to gender-based violence and sexual exploitation and abuse, occupational, health and safety (OHS) measures, protocols for managing waste and hazardous materials; as well as procedures for the preparation of site-/activity-specific environmental and social management plans, as such framework may be amended by the Recipient from time to time, with the prior written concurrence of the Association.
18. “Federal Government of Somalia” and the acronym “FGS” means the Recipient’s government.
19. “FHW Program Costs” means the reasonable costs incurred by the Recipient and/or the EFMS in the implementation of the *‘Marwo Caafimaad’* female health workers program as set forth in the Project Operations Manual.
20. “FMFF” means the Finance Ministers’ Fiscal Forum comprised of the ministers of finance of, and/or representatives from, MoF and FMS-MoFs.
21. “FMS” means, collectively, each of the states constituting the Somali federation, as acknowledge in Article 48 of the Recipient’s Provisional Constitution (2012).
22. “FMS-MoFs” means the Ministries of Finance of the EFMS, or any successors to them acceptable to the Association.
23. “FY” means the Recipient’s fiscal year commencing on January 1 of each calendar year and finishing on December 31 of the same calendar year.



24. “GBV/SEA Action Plan” means the gender-based violence and sexual exploitation and abuse action plan to be prepared by the Recipient as part of the ESMF, in a manner and substance satisfactory to the Association, pursuant to the ESCP, and to be disclosed on the Association’s website, setting out the precautionary measures to be set in place to mitigate and/or address any project-related incident of sexual exploitation and abuse, sexual harassment and other forms of gender based violence, as well as considerations related to child protection, as said instrument may be updated from time to time with the prior written concurrence of the Association.
25. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018.
26. “Incremental Operating Costs” means the reasonable incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, maintenance small office works and maintenance, of equipment, communication, advertisement and insurance costs, office administration costs, bank charges, translation costs, utilities, rental, consumables, salaries, accommodation, travel and *per diem* of Project staff, excluding the salaries of the Recipient’s and the EFMS’s civil service.
27. “IT” means information technology.
28. “IUFR” means each of the interim unaudited financial report to be prepared by the Recipient pursuant to the format agreed with the Association and attached by the Association to the Disbursement and Financial Information Letter.
29. “LMP” means the labor management procedures to be prepared by the Recipient, in a manner and substance satisfactory to the Association, pursuant to the ESCP, and to be disclosed on the Association’s website, setting out the Project’s approach and requirements on labor workforce for meeting national requirements as well as the objectives of ESS #2 (on labor and working conditions) and ESS #4 (on community health and safety), including procedures on incident investigation and reporting, recording and reporting of non-compliance, emergency preparedness and response procedures, protection of project workers from discrimination, forced labor and child labor, occupational health and safety (OHS), codes of conducts and continuous training and awareness for workers, as said instrument may be updated from time to time with the prior written concurrence of the Association.
30. “*Marwo Caafimaad*” means the Recipient’s female health worker program being implemented by the FGS and the EFMS pursuant to the “*Compendium to Implement Community Based Female Health Workers’ Program: The ‘Marwo Caafimaad’ Program*”, dated September 2014, as updated to the date of this Agreement.

31. “MDAs” means the ministries, departments and public agencies of the Recipient and/or the FMS.
32. “Ministry of Finance” and the acronym “MoF” mean the Recipient’s Ministry of Finance, or any successor to it acceptable to the Association.
33. “MoEs” means the Ministries of Education of the FMS and/or BRA, as the case may be, or any successors to them acceptable to the Association.
34. “MoHs” means the Ministries of Health of the FMS and/or BRA, as the case may be, or any successors to them acceptable to the Association.
35. “OAuG” means the Office of the Auditor General of the Recipient, or any successor acceptable to the Association.
36. “Payroll-Supported Schools” means ESMF’s school currently employing a teacher or teachers whose salaries are financed under the RCRFP Series.
37. “Performance-Based Condition” and the acronym “PBC” means each of the disbursement-linked targets/results set forth in the second through eighth columns of the table set forth in Schedule 3 to this Agreement. For avoidance of doubt, the dates stated in the respective columns as temporal references for the achievement of any such PBC are provided for indicative purposes only, and unless otherwise expressly or implicitly required by the wording of a given PBC, the PBC can be achieved in advance or after such indicative period.
38. “Performance-Based School Grant” means the grants to be provided by EFMS to Payroll-Supported Schools that enter into a Performance Based School Grant Agreement subject to the attainment of improvement in education services and results in accordance with the Basic Quality Standards Checklist, pursuant to the principles criteria set forth in the Project Operations Manual.
39. “Performance-Based School Grant Agreement” means the grant agreements to be entered into by and between the EFMS and their respective Payroll-Supported Schools for the provision of a Performance-Based School Grant, pursuant to the provisions of subparagraph 1(b) of Section I.D in Schedule 2 to this Agreement, and in accordance with the terms and conditions set forth in the Project Operations Manual.
40. “PFM Act” means the Recipient’s Public Financial Management Law (Law No. 017 of December 25, 2019), published in the Recipient’s Official Gazette on January 7, 2020.
41. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017 And August 2018.

42. “Project Management Team” means the management team established by the Recipient under the RCRFP Series and referred to in Section I.A.2(c) of Schedule 2 to this Agreement.
43. “Project Operations Manual” and the acronym “POM” mean the Project operations manual adopted for the implementation of the RCRFP series as the same will be updated pursuant to subparagraph 1.(a) of Section I.C. of Schedule 2 to this Agreement, and as it might be further updated from time to time with the prior written concurrence of the Association.
44. “Project Steering Committee” means the steering committee established by the Recipient under the RCRFP Series and referred to in Section I.A.2(a) of Schedule 2 to this Agreement.
45. “Public Financial Management Reform Coordination Unit” and the acronym “PFMRCU” mean the coordination unit established by the Recipient under the RCRFP Series and referred to in Section I.A.2(b) of Schedule 2 to this Agreement.
46. “RCRFP Series” means the series of projects financed by the Association on its own behalf and as trustee of the Somalia Multi-Donor Partner Trust Fund, pursuant to TF Grants TF0A0534 and TF0A6971, and the Association’s Grant D378-SO.
47. “Respective Activities means:
  - (a) In respect of FGS: Component 1, Sub-component 2.1 and the activities under Sub-component 3.3 and Component 5 carried out at federal level; and
  - (b) In respect of the EFMS: Sub-components 2.2, 2.3, 3.1 and 3.2 and Component 4, as well as the activities under Sub-component 3.3. and Component 5 carried out at a local/regional level.
48. “SEP” means the stakeholder engagement plan prepared by the Recipient dated May 8, 2020, as the same shall be: (a) further updated in a manner and substance satisfactory to the Association, pursuant to the ESCP and a condition precedent for the effectiveness of this Agreement; and (b) disclosed on the Association’s website; which plan sets out the mechanisms for identifying stakeholders, gauging their interests and providing them and their communities with systematic means and processes for inclusive and meaningful engagement to influence Project design and implementation, including a grievance redress mechanism, as said instrument may be updated from time to time with the prior written concurrence of the Association.
49. “Service Delivery Transfer Agreement” means each of the agreements to be entered into by and between the Recipient and each FMS and/or BRA, in a manner and substance satisfactory to the Association, whereby: (i) the FGS shall providing

for fiscal transfers (in the case of the ESMF, additional to those of the Subproject Agreement) on account of FMS'/BRA's achievement of pre-agreed service delivery results in the education and health sectors; and (ii) the FMS/BRA consent to, and undertake to cooperate with, the FGS' and the Association's monitoring, evaluation and/or validation of such results.

50. "Signature Date" means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to "the date of the Financing Agreement" in the General Conditions.
51. "Sub-component" means each group of activities clustered in the same numbered paragraph within each of the Components 1 through 4, of the Project, individually considered.
52. "Subproject Agreement" means each of the fiscal transfer agreements to be entered into by and between the Recipient and each EFMS for purposes of regulating the on-granting of the proceeds of the Financing and the implementation arrangements, responsibilities and obligations, fiduciary and safeguards standards and agreed results for their Respective Activities under the Project, all pursuant to the provisions of Section I.B of Schedule 2 to this Agreement and the terms and conditions set forth in the POM, as the same may be amended from time to time with the prior written concurrence of the Association.
53. "Training and Workshops" means the reasonable costs of training, workshops and conferences conducted in the territory of the Recipient, or, subject to prior approval by the Association, attended abroad by the Recipient's and the EFMS's officials and staff in connection with the Project, including the purchase and publication of materials, rental of facilities, course fees and travel and subsistence of trainees..
54. "Verification Consultant(s)" means the independent monitoring and supervision consultant(s) to be hired by the Recipient pursuant to sub-paragraph (a) of Section I.E of Schedule 2 to this Agreement.
55. "Verification Protocol" means the PBCs verification protocol agreed on May 18, 2020 between the Recipient and the Association for purposes of: (i) defining the PBC terms and requirements; (ii) listing the documentary evidence to be provided in support thereof; and (iii) providing the verification procedures and responsibilities to certify compliance with/achievement of each PBC, as such verification protocol may be revised, updated or supplemented from time to time with the mutual agreement of the Recipient and the Association.
56. "Verification Report" means each of the reports to be prepared by the OAuG with the assistance of the Verification Consultant(s) pursuant to paragraph (c) of Section I.E in Schedule 2 to this Agreement, in accordance with the Verification Protocol, for purposes of certifying the achievements of the PBCs, which reports shall serve

as the basis for the processing of the Grant withdrawal applications pursuant to Section III.B.1(b) of Schedule 2 to this Agreement.