Report Number: ICRR0023899

1. Project Data

Project ID	Project Name
P151492	SO-Pub Financial Management Capacity Str
Country	**Practice Area(Lead)**
Somalia	Governance

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-D3700,TF-A0388,TF-A0389,TF-A8217,TF-A8218	30-Jun-2022	43,682,842.93
Bank Approval Date	**Closing Date (Actual)**	
07-Jul-2015	30-Jun-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	30,000,000.00	30,000,000.00
Revised Commitment	29,999,853.05	28,296,414.64
Actual	28,296,414.64	28,296,414.64

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The original Project Development Objective (PDO) of the Second Public Financial Management Capacity Strengthening Project was “to establish and strengthen institutional capacity for the management of public funds in central finance agencies and targeted sectors” (PAD, p. ix, 2015).

The PDO was amended when the 2017 restructuring was undertaken.

The revised PDO was "to strengthen systems of domestic revenue mobilization, expenditure control and accountability in the Federal Government, Puntland State of Somalia, and Somaliland." (ICR, pg.11).

The PDO as stated in the Financing Agreement (FA) was "to strengthen systems of domestic revenue mobilization, expenditure control accountability in the Federal Government, Puntland State of Somalia, and Somaliland", (FA, 2018 pg.5).

For the purposes of this review, the PDO will be parsed into three objectives as follows:

- PDO1: To strengthen systems of domestic revenue mobilization (DRM) in the Federal Government, Puntland State of Somalia, and Somaliland.
- PDO2: To strengthen systems of expenditure control in the Federal Government, Puntland State of Somalia, and Somaliland.
- PDO3: To strengthen systems of accountability in the Federal Government, Puntland State of Somalia, and Somaliland.

Split Rating: a split rating was considered due to the expanded scope of the project, the changes to the PDO, and the changes to the related PDO targets. However, the expansion of the scope of the project, which incorporated re-prioritization of Public Financial Management (PFM) activities, and additional financing did not warrant a split rating. The restructuring included core DRM elements, consolidated the project's design around the components of DRM, PFM, PFM expenditure accountability and oversight, and expanded the scope of activities to be financed. The scope of the project was not narrowed.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

07-Dec-2017

c. Will a split evaluation be undertaken?

No

d. Components

At appraisal, the project consisted of seven components. At the restructuring in 2017, these were reduced to four components that better reflected the programmatic changes from re-prioritization and consolidation of PFM activities, expanded scope, and the additional financing as follows:

Component 1: Strengthening Tax Policy and Inland Revenue Administration Systems: (*Appraisal: US$2.75 million; Restructured: US$15.0 million; Actual: US$10.68 million)*. Component 1 was originally designed as mobilization, planning and budget preparation.

The primary objective of this component was to strengthen tax policy and selected inland revenue systems and capacity. The sub-components were as follows:

a. *Improving organizational capacity for tax policy*: the main activities included establishment of the tax policy unit including the legislative and regulatory frameworks for access to taxpayer and other data, development of a revenue policy, evidence-based research, revenue forecasting, and tax gap analysis capacity.
b. *Improving systems for inland revenue administration:* the main activities included operationalization of the large taxpayer office, business process mapping and redesigning, development and implementation of integrated automation system user requirement specifications and an information and communication technology strategy. The procurement of ICT equipment and infrastructure for an integrated tax administration system that would interface with the Somalia Financial Management Information System (SFMIS) was also included. Capacity building under this sub-component included the development of a human resource management (HRM) strategy for the inland revenue department, a training needs assessment and development of a skill development strategy, a communication strategy, and training and professional development of staff that would lead to PFM and procurement accreditation.
c. *Taxpayer education and facilitation to promote voluntary compliance*: This sub-component included development and implementation of a taxpayer orientation/socialization program, taxpayer service charter, facilitation and grievance redressal help-desk, proactive disclosure of revenue performance reports, tax forums, training curriculum; and utilizing the Somalia Revenue Academy to equip the wider public with tax compliance skillsets and knowledge.
d. *Supporting the Revenue Bill consultations and bridging operationalization upon enactment*: This sub-component included activities to support consultations with the Federal Member State (FMS) on the FGS-led Revenue Bill, support to implement the enacted revenue law, and analytical work on revenue assignment and unbundling issues.

Component 2: Strengthening Capacity for Public Financial Management (PFM) Control and Accountability *(Appraisal: US$12.8 million; Restructured: US$25.5 million; Actual: US$21.3 million*). The original Component 2 - (treasury management, budget execution, procurement, accounting, and financial reporting), Component 3 - (integrity pillar strengthening), Component 4 - (PFM professionalization) were combined into the restructured Component 2 “strengthening capacity for public financial management control and accountability” (ICR, p. 42). Component 2 included three sub-components as follows:

a. *Strengthening systems of treasury management, budget execution, procurement, accounting, and financial reporting*: This sub-component included activities to support the integrity and quality assurance of the SFMIS, sustainable management of the SFMIS, and system’s implementation and post implementation support, including a Primary Data Center (PDC), and Disaster Recovery Center (DRC) support. Other activities included targeted institutional capacity building programs, recruitment of a PFM expert to support the Office of the Auditor General (OAG), implementation of government cash management policies, training, and capacity development specific to the information systems, and skills transfer. The sub-component also supported a systems audit to review potential gaps and data integrity issues as well as capacity building activities directly related to expenditure management and control, including implementation of government cash management policy.
b. *Strengthening the integrity systems***:** This sub-component supported the publication of timely and quality audit reports, institutional strengthening of the Supreme Audit Institutions (SAI) of the

FGS and FMS, SAI strengthening activities to fast track the audit of projects and Government-wide Annual Financial Statements (AFS), and capacity building.

c. *Professionalization of PFM staff:* This sub-component sought to expand the professionalization of the PFM staff program and to build PFM competencies. Key activities included a PFM Education and Training Program to build capacity for planning and budget preparation officials, procurement officers, accountants, and internal and external auditors, including face-to-face lectures supplemented by mentorship and on-the-job learning.

Component 3: Rapid Response Facility ***(Appraisal: US$1 million; Restructured: US$3.0 million; Actual: US$2.10 million)***. Component 3 replaced the original Component 5 - "Bank-executed, demand-driven, just-in-time contingency response". The goal of the component was to assist authorities for emerging DRM and PFM priorities, including provision of technical advisory services, conducting approved consultations, workshops, and focus-group discussions. The Rapid Response Facility was expected to support the three governments—FGS, PSS, and Somaliland - and finance: (i) consultants; (ii) services; and (iii) consultations, workshop, and focus-group discussions; and (iv) training to the staff of the Project Implementation Unit (PIU) in environmental and social safeguards management.

Component 4: **PFM reform oversight, coordination, and management** ***(Appraisal: US$2.92 million; Restructured: US$5.92; Actual: US$9.74 million)***. Component 4 was the same as the originally designed Component 6. This component provided project management and coordination support to the three governments of FGS, PSS and Somaliland.

Restructurings:

The project underwent three restructurings as follows:

Restructuring No. 1: The first restructuring on August 25, 2016, extended the project closing date by 24 months from June 30, 2018, to June 30, 2020.

Restructuring No. 2: The second restructuring on September 25, 2018, included additional financing (AF), and became effective on April 01, 2019. Following the 2017 mid-term review (MTR), the project was restructured to: (a) expand the scope of activities related to DRM; (b) deepen treasury management and budget execution reforms and align them with the 2016-2020 PFM Reform Action Plan; and (c) introduce new activities to enhance fiscal accountability and transparency. The restructuring also included: (a) a revision of the PDO to explicitly include DRM support; (b) consolidation of the PFM and integrity-related activities into one component; (c) reallocation of resources in accordance with the new design; (d) amendment of the Just in Time (JIT) support; (e) revision of the results framework and monitoring systems to improve the attribution of project specific interventions; and (f) extension of the closing date of the original project by two years, from June 30, 2020 to June 30, 2022, to allow for successful implementation of the project's original and new activities (PAD 2018, pg. 8).

Main component changes:

Component 1: expansion of DRM activities which included the redesign and retooling of a large taxpayer office, establishment of a fit-for-purpose integrated tax administration system (ITAS), mapping of the tax business process, and support to modernization and automation of information and communications technology. The component also included measures in support of the Highly Indebted Poor

Countries (HIPC) initiative tax-related benchmarks, including developing sales taxes procedures for domestic products and turnover taxes for large taxpayers, and submission of the revenue bill to Parliament.

The following intermediate results indicators (IRIs) were added in Component 1:

- IRI1: Capacity of federal government to administer taxes based on modern principles: number of large and medium taxpayers using automated processing.
- IRI2: Capacity of federal government to implement tax policy: number of analytical reports disseminated.
- IRI3: Citizen engagement: number of taxpayers consulted or educated (gender disaggregated).

Component 2: all key PFM reforms were consolidated into this component. The consolidated Component 2 included financing for: (a) implementation of critical treasury management, control, budget execution, public procurement and accounting and reporting reforms; (b) transparency and accountability in the use of public funds through strengthening key integrity pillars; (c) the fiduciary environment; and (d) PFM staff professionalization.

The following intermediate results indicators (IRIs) were added in Component 2:

- IRI4: Chartered Institute of Public Finance and Accountancy (CIPFA) diploma-certified students (gender disaggregated).
- IRI5: Stronger audit methods implemented.
- IRI6: Percentage of payments made directly to vendors.

Component 3: this component was added to enable the project to respond to urgent unplanned PFM reform needs.

Component 4: this component was extended to include financing of project management and coordination support for the three governments, FGS, Puntland (PSS), and Somaliland.

Restructuring No. 3: The third restructuring on May 31, 2022, extended the project closing date from June 30, 2022, to June 30, 2023. This extension was for the DRM component only, to allow the ITAS to be fully implemented.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The Project's original cost at appraisal was US$20 million to be funded through the Somalia Multi-Partner Fund (MPF). US$16 million was approved on 6 July 2015 (TF- AO388) and US$4 million was approved on 10 November 2015 (TF – AO389). AF of US$6 million was approved on 22 August 2018 (TF-A8217). On September 25, 2018, further AF of US$20 million was approved, of which US$15.5 million was disbursed (IDA- D3700), while another US$4 million was approved on 25 September 2018 (TF- A8218), of which US$2.3 million was disbursed.

The actual project cost at closure was US$43.8 million.

Financing: A US$30 million commitment from Somalia Multi-Partner Trust Funds and a US$20 million IDA grant financed the project.

Borrower Contribution: The Federal Government of Somalia, the Puntland State Government and Somaliland did not contribute financially to the project.

Dates: The Bank approved the Project on July 7, 2015, and it became effective on September 9, 2015. The original closing date was June 30, 2020; however, this was revised twice, and the project closing date was extended by 36 months to June 30, 2023. The MTR was completed on December 7, 2017.

3. Relevance of Objectives

Rationale

At appraisal-in 2015, Somalia had just emerged from more than 20 years of conflict that had undermined the rule of law and destroyed major governance institutions. Somalia's formerly centrally planned economy had fallen into disarray, leading to radical privatization of a significant portion of the country's economic activities. Although the FMS of Somaliland and Puntland did not directly have violence, they had experienced the spillover effects of violence from the south. Somalia was classified as the world's most fragile state according to the Fragile States Index at the time.

Two decades of conflict had led to a general lack of trust by the public in government institutions, the destruction of the country's human capital and extremely limited government capacity for PFM. The formation of a new government in 2012 rekindled hopes that effective state institutions could be built. The ability to establish credible public finance institutions, improve macro-fiscal management, generate more revenues, and manage resources efficiently was necessary for better service delivery and for the establishment of an accountable public sector in Somalia.

At the time of project design-in 2014, Somalia had the lowest ratio of domestic revenue to gross domestic product (GDP) in the world (1.7 percent). The federal budget accounted for merely 3 percent of GDP with much of the budget going to salaries. Total government expenditures were only 3.8 percent of GDP while wages and salaries accounted for 51 percent of GDP in 2014. Government tax institutions were weak and lacked capacity to collect and disburse revenues because of limited staff skills and lack of digitalization. The highest-spending institution in 2014 was the armed forces, accounting for 29 percent of total spending (US$43 million), with almost half allocated to salaries and allowances. Accumulation of expenditure arrears was acute in the armed forces, accounting for 16 percent of the budget in 2014. Pursuing PFM reforms would help the government generate revenue and enable better use of limited public funds collected.

Somalia's political and economic instability had significant consequences as equipment, and records of most government agencies were destroyed or damaged during the civil war. Government agencies were understaffed due to a mass exodus of qualified personnel during the civil conflict. There was also a shortage of technical and policy expertise. Almost all FGS institutions recruited advisors to support senior management in highly technical functions. As the government lacked meaningful public expenditure systems and functioning internal controls, it was important to address this core weakness by establishing accounting systems and related internal controls. At the time of project design, the federal government of

Somalia, and the state governments of Puntland, and Somaliland suffered from deep perceptions of corruption. Audit offices existed only on paper. Public finances were not scrutinized by parliament and there was a lack of parliamentary oversight of government public finances.

The PDO was highly relevant and well-aligned with World Bank's FY2014-2016 Interim Strategy Note (ISN) which focused on two areas: (i) strengthening core economic institutions and (ii) expanding economic opportunity. This project was the second in a series of projects (SOP) aimed at boosting Somalia's public sector capacity development and strengthening core government functions. The Somalia Capacity Injection Project (CIP, P149971) aimed at strengthening the staffing and institutional capacity of selected line ministries and central agencies to perform core government functions, while the Second Phase of the Recurrent Cost & Reform Financing Project (RCRF, P154875)) financed recurrent costs of core government functions and support to expert services. The project's focus on capacity building to enhance revenue mobilization and strengthen the institutional and regulatory PFM framework aligned fully with the ISN's call to boost institutions such as the Ministry of Finance (MoF), the Central Bank of Somalia, and the Ministry of Planning and International Cooperation. During restructuring in 2018, it was ensured that the expanded scope of the project was consistent with the ISN (2014-2016), Systemic Country Diagnostic (SCD) and the Country Partnership Framework (CPF) FY2019 – 2022 as well as the government's National Development Plan (NDP) 2017 – 2019.

The PDO was also highly relevant and well aligned with the World Bank's CPF for FY2019-23 which positioned Somalia for eligibility to enter the HIPC process by including in program documentation the goal of strengthening Somalia's institutions to deliver services and restore economic resilience and opportunities. To be able to benefit from HIPC debt relief, Somalia needed to establish the necessary governance systems and achieve some core IDA and IMF HIPC triggers and benchmarks. Somalia needed to implement PFM reforms that would later be supported by the companion RCRF project and CIP activities. The project supported the Somali Government's to meet the International Monetary Fund's (IMF) Staff Monitored Program (SMP) in its preparation for the HIPC debt relief program. The PDO was relevant for the CPF's other priorities such as strengthening governance institutions and making them more accountable and effective to restore citizens' confidence in government, and ensuring targeted distribution of services facilitated by improvements in PFM and institutional effectiveness, The PDO reflected the fragile conditions on the ground, weak capacity in government, and was appropriately pitched at Somalia's development status by establishing systems and building foundational capacity.

The project was consistent with the government's strategy, the NDP 2012–2016, covering the Peacebuilding and Stability Goals (PSGs) of the New Deal for Engagement in FCVs. It was in line with the 2014 Somalia Flagship Program set out by the federal government in partnership with the World Bank and the United Nations and focused on building resilient and efficient institutions through three components: developing capacity for core government functions, strengthening the frameworks and procedures for civil service management, and strengthening capacity at the center of government to effectively coordinate policy and lead reform. The PDO also aligned with one of the five priorities of the 2017 NDP of Somalia which centered on effective and efficient institutions. The NDP proposed to engage both on the reorganization/streamlining of public sector structures and the re-building of operational effectiveness and capacities through reform of PFM, revenue generation, and HRM. Throughout the period from 2014 to 2022, the PFM capacity strengthening project remained the core instrument directly supporting all PFM systems necessary for the establishment of effective state institutions and the delivery of better public services.

The project contributed to the Somalia Multi-Partner Fund's objective of fostering socio-economic recovery and stabilization by financing technical assistance and the establishment of accountable and transparent mechanisms of public funds' management. It was also aligned with the Somalia Compact's emphasis on the need to build core public sector capacity as a precondition for rebuilding trust in Somalia's institutions. The Compact's fifth Peacebuilding and Stability Goal (PSG) was dedicated to Revenue and Services, and its third priority was to "strengthen PFM to enable the different levels of governments to better manage financial resources in a transparent and accountable manner in support of national priorities" (PAD, p. 3). To complement the Compact, the Federal MoF and Planning prepared an Economic Recovery Plan (ERP), which emphasized the role of the annual budget in linking resources to Federal government priorities.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

PDO1: Strengthen systems of domestic revenue mobilization in the Federal Government, Puntland State of Somalia, and Somaliland.

Rationale

Theory of Change: The overall theory of change (TOC) was that stronger systems and structures of revenue mobilization and tax collection would boost the legitimacy of state institutions, in turn enhancing state capacity to deliver basic services. In the longer term, these would enhance revenues and facilitate service delivery.

Key Outputs

- Annual Budget Revenue Forecasts for 2020, 2021, 2022 Budgets;
- Revenue Mobilization strategy for Somaliland;
- Development of tax audit strategy;
- Customs Declaration system and introduction of Tax Identification Number (TINs) through issuance of guide for all taxpayers;
- Tax platform to engage with citizens;
- FGS/FMS Medium Term Revenue Strategy;
- Tax enforcement study in three largest ports
- FGS/FMS-DRM Organizational Structures and Staffing Review;
- Orders and regulations to cover some of legal gaps relating to tax collection.

Intermediate indicators and outcomes

IRI 1: FGS Revenue administration capacity for tax administration

IRI-1 focused on measuring the number of registered taxpayers through the automation of registration and payment of revenue through Financial Management Information System (FMIS). **Baseline**: 25. **Target** 200. **Actual achieved at completion**: 103. Partial achievement.

An increase in the FGS revenue administration capacity for tax administration was partially attained by registering 103 taxpayers through the FMIS against a target of 200.The target was missed because the FMIS registration system was paused at some point in anticipation that this process would be done in ITAS, which did not materialize during the project and until closure.

It bears noting that IRI 1 was a weak indicator as an increase in the number of registered taxpayers is not indicative of whether they paid any taxes. In the absence of data on revenues collected, the contribution of IRI1 to PDO1 is unclear.

IRI 2: SL-Revenue Mobilization Strategy implemented in Somaliland.

A revenue mobilization strategy for Somaliland was developed and implemented. **IRI-2 Baseline**: Ad hoc approach to revenue mobilization. **Formally Revised Target**: Regulations to implement Customs Act drafted and introduced. **Actual achieved at completion**: Regulations to implement Customs Act drafted and introduced. Goods self-declaration, tariff classification, customs valuation and risk profiles developed.

The implementation of the strategy allowed for the development of the Customs Act which made customs duties obligatory for importers; led to a customer's charter; and enabled goods self-declaration at customs, tariff classification, customs valuation, and customs risk profile to be put in place. The introduction of a new revenue mobilization strategy in Somaliland was intended to replace the ad hoc approach to revenue mobilization with the Customs Act, as well as the digitalization of some tax operations, and education of traders about the new procedures. However, as the target was only to draft regulations for the Customs Act, and there is no information confirming the passing of the Act, the contribution of IRI2 to PDO1 is unclear.

IRI3: FGS improved Tax Policy Capacity

IRI-3 measured two staff capabilities through the production of revenue performance reports and quarterly and annual revenue forecast reports, both of which materialized through the work of the FGS Tax Policy Unit (TPU). **Baseline**: 0. **Formally Revised Target**: 2 reports. **Actual achieved at completion:** 2. Achieved.

The TPU also supported the annual budget revenue forecasting process from 2020 and conducted COVID-19 fiscal implications related analysis. With project support, the MoF established the large and medium taxpayer office (LMTO), a tax policy unit, and a revenue academy and instituted tax audits and verification. The federal government also introduced a system of unique TINs issued to 4,287 citizens by 2022. In 2015 the federal government had collected US$114 million but by end of 2022 this had increased to US$225 million, and the country's revenues increased from 1.3 percent in 2016 to 4.3 percent in 2019. It is not clear that the increasing trend in revenue collected was sustained in the post COVID-19 pandemic period as the ICR provides no evidence. It is unclear how the production of revenue performance reports would contribute to enhanced revenue collection.

IRI4: FGS Citizen engagement

IRI-4 measured the number of taxpayers who received/educated (gender disaggregated) comprehensive information about tax filing, ways to reduce taxes due and how to ensure compliance with tax laws and regulations. **Baseline**: 0. **Formally Revised Target**: 600. **Actual achieved at completion:** 1441. Exceeded target. Although the target was exceeded, it is unclear whether this measure made any contribution to overall revenue collection.

RI-1: Main PDO1 indicator – Number of Tax and Non-Tax Revenue Instruments with Basic Processes Automated

The strengthening of DRM processes in the FGS, Puntland State and Somaliland was assessed through progress made in RI-1 "revenue instruments (both tax and non-tax) with basic processes automated at the FGS." **Baseline**: 0. **Revised Targets**: 4. **Actual achieved at completion**: 2. The PDO indicator was partially met. By project closure, 50 percent of the non-taxation instruments were in place through the implementation of a new revenue mobilization strategy in Somaliland (IRI-2) and the education and consultation of taxpayers in FGS on tax processes (IRI-4). The other two taxation instruments referred to a property tax and a Value Added Tax (VAT). Interview data obtained by the IEG suggest that the former's applicability is limited to cities and municipalities, while a VAT tax law was passed by Parliament in November 2023 after project closure.

It is unclear how much the project contributed to strengthening domestic revenue mobilization as the envisaged International Tax Administration System (ITAS) was not completed by project closure, and there was no/little progress in implementing the tax instruments and processes for the property tax and VAT which are typically effective in raising revenues. If the pandemic period of 2020-2021 is excluded, revenue data indicates a gradually increasing total revenue stream with a steady rise in the share of locally collected revenues. However, as improvements in Somalia's tax capacity were also supported by several development partners (IMF, EU, African Development Bank), the partial achievement of the PDO1 is not directly attributable to this project.

The IRIs for PDO1 suggest that the project made modest progress toward PDO1. IRI-4 exceeded the target, IRIs 2 and 3 were met and IRI-1 was partially met. However, their contribution to PDO1 is unclear. Most of the targets that were met were related to taxpayer education or registration without corresponding evidence (data) that they contributed to tax collection. PDO1 is rated Modest.

Rating
Modest

OBJECTIVE 2

Objective
PDO2: Strengthen systems of expenditure control in the Federal Government, Puntland State of Somalia, and Somaliland.

Rationale
Theory of Change: PDO2 sought to improve Somalia's severely limited PFM system, broken institutions, loss of the state's legitimacy, extremely weak government capacity to manage and across-the board erosion

of human capital. Given inadequate public expenditure systems and ineffective internal controls, the project was expected to address this core weakness by establishing accounting systems and related internal controls. These would create the basis for sustainable technical and implementation capacity of the state, thereby enhancing its legitimacy in the eyes of the citizens.

Key Outputs

- Budget module;
- Use of country systems Roadmap strategy;
- Multi-dimensional chart of accounts;
- HRM manual developed;
- FMIS functional evaluation report;
- Draft Public Procurement Law and Public Procurement Authority Strategic Plan;
- PPP legal and institutional management structure.

Intermediate indicators and outcomes

IRI-5, IRI-6 and IRI-7: Improved coverage and classification of data in Quarterly (in year) and Annual Budget Reports

In each of the three jurisdictions – FGS (IRI-5), Puntland State of Somalia (IRI-6), and Somaliland (IRI-7):

Baseline: Quarterly budget reports included only approved budget and actuals disclosed.

Formally Revised Target: Code covered main budget items.

Actual achieved at completion: The end target was achieved. Allowed comparison to approved budget including supplementary information. The targets for each of the three jurisdictions were achieved and contained enhanced coverage by including expenditures at commitment and payment stages at project closure.

IRI-8, IRI-9 and IRI-10: Improved coverage and classification of data in Annual Financial Reports

For all three jurisdictions – FGS (IRI-8), Puntland State of Somalia (IRI-9), and Somaliland (IRI-10):

Baseline: Revenue and Expenditure reports by organizational and economic classification.

Formally Revised Target: Improved financial statements.

Actual achieved at completion: Implemented. The targets for each of the three jurisdictions were achieved and contained enhanced information at project closure as intended.

The target for in-year budget reports improving coverage and data classification was achieved in each of the three jurisdictions. As Somalia had no formal approved budget for almost 20 years during the protracted war, PFM capacity did not exist previously. All records were processed manually, there were long delays in preparing the government's annual financial statements and presenting them to Parliament. No financial statements had been submitted for audit within 25 months of the end of each financial year for several years, and there was a 3-year backlog in preparing annual financial statements. The achievement of the targets for IRI-5 – IRI-10 was therefore a significant step towards PDO2.

IRI-11 – IRI-12: Diploma Training

- IRI-11: **Somaliland - Baseline**: 0 students. **Revised Targets**: 33 students. **Actual achieved at completion:** 2 students obtained their diploma from the Somaliland Chartered Institute of Public Financial Accountants (CIPFA). Somaliland CIPFA diploma target of 33 was not met.

Somaliland did not perform well because the training by CIPFA UK for their local PFM consultant CIPFA trainer and qualified accountant, who also provided ongoing direct support to students started late. Face-to-face and web-based lectures were however supplemented by mentorship and on-the job learning, and a senior manager's scheme ensured that proper workplace coaching and mentoring is provided to students. These aspects were brought on board late.

- IRI-12: Puntland State of Somalia - **Baseline**: 0 students. **Revised Targets**: 33 students. **Actual achieved at completion:** 34 students. PSS target of 33 was exceeded.

IRI-13, IRI-14 and IRI-15: Direct Payments to Vendors

- IRI-13 – IRI-15 measured the percentage of non-salary expenditures that were transferred directly to beneficiaries in each of the three jurisdictions compared to their targets.
- IRI-13 - FGS **- Baseline**: 25%. **Revised Targets**: 60%. **Actual achieved at completion:** 93.5%. Exceeded.
- IRI -14 - Somaliland **- Baseline**: 25%. **Revised Targets**: 60%. **Actual achieved at completion:** 100%. Exceeded.
- IRI – 15 - Puntland State of Somalia - **Baseline**: 25%. **Revised Targets**: 60%. **Actual achieved at completion:** 51%. Target was not met at PSS due to problems in the interface system connected with the Central Bank.

Out of a total of eleven IRIs, nine were met and two were not met.

RI-2a – 2c: Main PDO2 indicator – Percentage of Appropriated Expenditures Processed.

- RI-2a – 2c measured progress towards PDO2 by recording the percentage of transactions that were processed through the SFMIS system in each of the three jurisdictions.
- RI-2a: FGS B**aseline**: 25%. **Formally Revised Target**: 60%. **Actual Achieved at Completion:** 93.5%. Target exceeded.
- RI-2b: PSS **Baseline**: 25%. **Formally Revised Target**: 60%. **Actual Achieved at Completion:** 75%. Target exceeded.
- RI-2c: Somaliland **Baseline**: 25%. **Formally Revised Target**: 60%. **Actual Achieved at Completion:** **100**%. Target exceeded.

Achievement of RI – 2a- 2c in each of the three jurisdictions helped to reduce expenditure arrears. The operationalization of SFMIS established a PFM system with strong internal controls as evidenced by the absence of expenditure arrears (2021 IMF report No. 21/310). The SFMIS system also facilitated reconciling bank accounts in a timely manner, improving financial reporting and paying directly into the civil servants' individual accounts through the electronic system, thereby replacing the manual processing system that existed at appraisal.

As the RI-2 targets were exceeded in each of the three jurisdictions, the overall PDO2 indicator was achieved. Nine of the eleven IRIs for PDO2 were also achieved/exceeded. Consequently, the rating for the efficacy of PDO2 is Substantial.

Rating
Substantial

OBJECTIVE 3
Objective
PDO3: Strengthen systems of accountability in the Federal Government, Puntland State of Somalia, and Somaliland.

Rationale
Theory of Change: The overall theory of change (TOC) was that since Somalia's public finances were not scrutinized by parliament previously, the introduction of parliamentary oversight over its public finances would contribute to reducing the prevailing sentiment of widespread corruption, thereby contributing to institution building, and enhancing the legitimacy of the state, institutional effectiveness, and responsiveness of the state to citizens' needs. IEG believes that this approach was optimistic. It is not clear if the publication of audit reports would automatically contribute to parliamentarians and citizens knowledge/education about PFM given that electronic access to government publications remains a challenge.

Key Outputs

- International Standards of Supreme Audit Institutions (ISSAI) based Audit manual produced;
- Performance audit-based manual produced;
- Audit quality control guide produced;
- Office of the Auditor General (OAG) strategic plan;
- Draft Audit Act developed.

Intermediate indicators and outcomes

IRI-16, IRI-17 and IRI-18: Strengthened audit methods implemented.

In each of the three jurisdictions (FGS, PSS and Somaliland), IRI-16 – IRI-18 recorded the passing of audit laws that would align the audit procedures and methodology with the standards set by the International Organization of Supreme Audit Institutions (INTOSAI).

- IRI-16 - FGS **- Baseline**: Audit procedures & methodology not aligned with INTOSAI standards. **Revised**

Targets: Passing of a new law establishing the Office of the Auditor General (OAG). **Actual achieved at completion:** Law passed. Target achieved.

- IRI -17 - Puntland State of Somalia **- Baseline**: Audit procedures & methodology not aligned with INTOSAI standards. **Revised Targets**: New audit tools – adoption by the OAG of a Compliance Audit Manual (CAM) and a Financial Audit Manual (FAM) based on INTOSAI standards. **Actual achieved at completion:** Implemented – "As of 2019, the OAG is progressively adopting Compliance Audit Manual (CAM) & Financial Audit Manual (FAM) that were developed with technical assistance of the INTOSAI Development Institute (IDI). These were developed based on INTOSAI standards," (ICR Annex 1, June 30, 2023). *Progress was made but target was not fully achieved*.
- IRI-18 - Somaliland - **Baseline**: Audit procedures & methodology not aligned with INTOSAI standards. **Revised Targets**: MDAs to adopt audit procedures using modern audit management software and improved methodologies. **Actual achieved at completion:** End target achieved.

RI-3a – 3c: Main PDO3 indicator – Ministries, departments, and agencies (MDA) audits (incl. pro-poor sectors) completed and published.

- RI-3a – 3c measured progress in the accountability of public finances (PDO3) by recording the percentage of MDA audits completed and published in each of the three jurisdictions.
- RI-3a: FGS **Baseline**: 0%. **Formally Revised Target**: 75%. **Actual Achieved at Completion:** 98%. Target exceeded. The passing of the Law of the OAG of the FGS turned the OAG into an independent entity that was able to issue timely, relevant, and high-quality audit reports in line with international standards, including the formulation of a Strategic Plan for FY17-20.
- RI-3b: PSS **Baseline**: 0%. **Formally Revised Target**: 75%. **Actual Achieve at Completion:** 87%. Target exceeded.
- RI-3c: Somaliland **Baseline**: 0%. **Formally Revised Target**: 75%. **Actual Achieve at Completion**: 55%. Target missed. Somaliland did not attain the set target because it had a problem with its financial system which was resolved in late 2022. At closure, Somaliland only attained 62 percent.

The 75% target for RI-3 was met in two out of the three jurisdictions. RI-3 fell short of the target of 75% in Somaliland, where it reached 62 percent. A new law strengthening audit methods was passed at the federal level, new audit procedures were introduced in Somaliland, and new audit tools were implemented in Puntland. The project strengthened systems of accountability in all three jurisdictions through qualitatively better methods used to audit government financial statements. The project also financed the development of the audit law for FGS, audit manuals and sufficient infrastructure and ICT capacity for efficient audit operations in all three jurisdictions.

The targets for the IRIs related with the passing of the audit laws that would enable the implementation of the audits as per INTOSAI standards were achieved in FGS and Somaliland. While the target was missed in PSS, there was substantial progress starting in 2019. As the main PDO indicator (RI3) was largely met in the three jurisdictions, and the IRIs were either met or substantially achieved in all three jurisdictions, the efficacy of PDO3 is rated Substantial. This said, it is notable that the publication of the audit reports was critical for enhanced accountability. However, given the weak state of citizens' awareness and means to access electronically government publications, as well as the weak state of parliamentarians' access to electronic records, it is ambitious to assume that for the larger civil society and parliamentarians, RI-3a - 3c contributed to greater accountability and minimization of corruption.

Rating
Substantial

OVERALL EFFICACY

Rationale
The overall efficacy rating is Substantial. However, given the weak capacity and FCV status of Somalia, while all three PDOs can be perceived as being appropriately output-oriented to capture the intended outcomes, in the interest of sustainability, it would have been useful if the Project team was more ambitious in the case of at least one PDO and targeted creating more fiscal space in the longer-term. As an example, in the case of DRM, the project made progress in educating/registering taxpayers but despite an array of IRIs and RAs aimed at customs duties, property tax, VAT or income tax, there is no evidence whether any of the targets that were achieved contributed to enhanced revenue collection.

Of the three PDO indicators, RI-2 related with strengthening PFM control was met in all three jurisdictions and is rated Substantial. RI-3, which is also rated Substantial, measured improved accountability in PFM and was fully achieved in two of the three jurisdictions, and largely achieved in the third jurisdiction. RI-1 focused on DRM reforms and met its targets in only two of the three jurisdictions. As its achievement is not directly attributable to this project, RI-1 is rated Modest. It is also unclear if RI-1 made a contribution to DRM as its indicators were largely focused on taxpayer registrations/education.

Of the 18 IRIs, 14 achieved their targets, supporting the substantive progress that the project made towards PDO1 – PDO3. Even in cases where the IRI targets were not met, there was significant progress.

PFM capacity was increased in Somalia through activities outlined above by way of increased revenues. SFMIS established strong PFM system that had strong internal controls as evidenced by absence of expenditure arrears. Intergovernmental fiscal transfers were enabled on the strength of PFM systems at Federal and FMS level. In March 2020, Somalia qualified for the HIPC initiative decision point, reaching the necessary milestones—some of which this project financed.

Overall Efficacy Rating

Substantial

5. Efficiency

Traditional measures of efficiency, such as financial rate of return and cost per unit of input or output are not applicable to the project given the paucity of economic data, the ongoing conflict and fragility in southern Somalia, and the uncertainty in determining costs and benefits. However, it is possible is to determine the extent to which available resources were used efficiently, and whether cost effectiveness was a guiding criterion in Somalia's FCV context and the project's funding modalities.

Most of the available project funding was used at closure— US$43.6 million out of US$50.0 million, or 88 percent. The 2018 restructuring and availability of additional funding benefited all components.

In a country where two decades of war had destroyed all formal fiscal systems and government capacity, the project activities made impressive progress in establishing domestic revenue and expenditure management as well as audit systems. While the longer-term benefits of these are difficult to quantify, if sustained, they are likely to make significant contributions to PFM. The project activities under PDO2 and PDO3 modernized Somalia's PFM system. The use of SFMIS interfaced with the Central Bank of Somalia's system and enabled the processing of automatic payment systems which improved internal payment controls, decreasing opportunities for fraud and corruption, and eliminated payments arrears. The system enabled timely payment of salaries to civil servants, teachers, the Somali police force, and the army. The federal government has been using a custom-developed web-based FMIS since April 2015. The SFMIS is cost effective, with unlimited concurrent users and cost-effective license fees. There were 250 registered users in 2016, approximately 30 percent of whom connected to the system daily. The annual cloud hosting charge was US$54,000. Ongoing costs were approximately US$9,000 per month for Internet and phone. Puntland is using the same custom-developed platform but the Puntland FMIS costs less than the SFMIS because there were fewer licenses.

Somalia aligned its audit methodology with the ISSAIs, which supported provision of high-quality financial information to stakeholders, investors, and the public, resulting in greater economic growth, development, and accountability. The adoption of international standards by the OAG lent credibility to the audit process and allowed the Auditor General to publish government-wide audit recommendations. Expenditure documents are electronically filed to support accountability and audit processes. The training/capacity building effort established significant workforce capabilities built from the bottom up in the social sectors. The International Public Sector Accounting Standards, which the government adopted through the project, improved the cash basis of financial reporting. A citizen's guide to budget preparation was published although it is not clear that citizens have the knowledge and electronic access to benefit from it. Nevertheless, it is good practice and, if sustained, likely to benefit citizens in the longer-term. For Somalia which lacked a central authority and rule of law, the PFM reform project aspired to restore trust in government institutions through its support for core PFM institutions that are central to state building.

Several factors reduced the efficiency of resource use for the project.

Efficiency in resource utilization was negatively impacted by implementation delays. The 36-month extension of the project raised the administrative costs for the World Bank, as project implementation was delayed for six months after effectiveness. According to the ICR, the project's design was too complex with seven components and several activities included in each component. Evidently, the activities were too ambitious given the weak capacity of the government.

Software-related problems also led to delays. Delays were incurred due to the need to attain uniform specifications for ITAS and SFMIS as desired by the three government jurisdictions. The ITAS contract was cancelled by the government twice over the lifetime of the project, adding to the delays. There were also delays due to the onset of the pandemic towards the end of the initial project window.

The civil servants who ran the project lacked basic understanding of World Bank procurement guidelines. This led to difficulties for the beneficiary MDAs to draft the terms of reference which project implementation unit staff finally did, with World Bank technical assistance. Similar reasons led to delays in the procurement evaluation processes. The decision makers did not have full trust in the evaluation teams.

Resource efficiency was affected negatively by unusually high procurement contracts which incurred a higher premium compared to premia in other FCV environments, primarily because consultants were unwilling to work in Somalia without a premium, due to heightened security risk. In addition, the consulting market in Somalia for governance was very small and oligopolistic in nature. In the sub-region, there were few specialists with deep governance knowledge of PFM reform in FCV contexts.

Based on the above, the project's overall efficiency is rated as Substantial. The project benefited from considerable additional funding following appraisal, but implementation was slow and led to long delays, requiring a 36 months' extension.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project achieved significant gains in a challenging context. Under PDO1, strengthening DRM, the project facilitated the institutionalization of core DRM practices in all three jurisdictions. Revenue outcomes cannot be attributed to this project alone, however, given that several other organizations were working concurrently on such reforms satisfactory progress can be attributed to the overall project. Standards required as part of international tax administration system specifications (ITAS) are now applicable in FGS, PSS and Somaliland, although the system had not become operational by project closing. A new VAT tax law was passed by Parliament after project closure and is expected to contribute to enhanced DRM capacity. The envisaged new property tax was not implemented at closure. Although its legal framework has been put in place and is a step forward, it may not be implemented even in the medium-term because of Somalia's fragile security situation. A more meaningful approach to a DRM-PDO's design would be measures that are more amenable to implementation in conditions with fragile security. Under PDO2, automatic processing of expenditures is now operational in Somalia through the implementation of SFMIS, the establishment of the OAG as an independent entity that operates according to the ISSAIs, as well as the passing of a new PFM law that has significantly boosted the country's PFM capacity and knowledge. Under PDO3, considerable progress was made following the establishment of the new system of fiscal accountability through the completion and publication of expanded and detailed audit reports in FGS and PSS, although problems in Somaliland's financial system continue to impede progress in that jurisdiction. Importantly, synergies across PDOs were developed during implementation. Audit reports are also shared by the OAG with citizens in the hope of fostering citizens' feeling of ownership in the country's fiscal management system, though this goal is optimistic given that most citizens lack access to electronic information.

Although some reforms are pending, important results are already observed. Operationalizing and implementing the ITAS system will be crucial for the purposes of streamlining revenue collection mechanisms, while the full introduction of a new VAT and property tax will boost the federal government's capacity to enhance revenue. The establishment of new institutional structures through the LMTO, the tax policy unit, a unique TIN and the operationalization of the revenue academy will enable further progress in attaining core project objectives. The ICR mentions that improvements in budget management and control led to the IMF 2021 report that identified no new domestic expenditure arrears since 2017. In December 2023, Somalia qualified for irrevocable debt relief as the IDA and IMF approved the country's HIPC Completion Point. Somalia has fulfilled the required triggers that, *inter alia,* entail successful reforms in its PFM and DRM strategies (CPF FY24-28, p. 10).

As the relevance of the PDO is rated High, overall efficacy is rated Substantial, and efficiency is rated Substantial, the overall outcome is rated Satisfactory.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The risk to the project's development outcomes is significant and spans most risk categories, primarily due to Somalia's status as a fragile state marked by weak institutions, limited state capacity, and ongoing conflict. These challenges pose significant obstacles to the project's long-term sustainability. An escalation of the security risk could erode the government's effectiveness, potentially draining resources required for civil servant salaries, leading to new accumulation of arrears. A breakdown in relations between the PSS and the FGS as is currently happening (https://www.bloomberg.com/news/articles/2024-04-01/puntland-to-operate-independently-from-somalia-after-law-change), will undermine the progress made in hiring and training competent staff, thus leading to a loss of valuable technical skills. The political landscape in Somalia is characterized by competing interests and power struggles. This further jeopardizes the sustainability of development outcomes. One of the most important risks to development is the FGS's modest level of fiscal revenues and its continued dependence on donor support to finance the wage bill. This includes the provision of technical capacity and training needed to sustain and enlarge the sphere of civil service competence in both jurisdictions. An external shock that disrupts the flow of donor support will directly affect FGS's ability to maintain the PFM reforms and systems established as a part of the project. The Somali federal government, as well as state governments such as the PSS and Somaliland, remain in an embryonic state, and clan-based rivalries have the capacity to undermine political leadership in support of project reforms and associated policy. Policy implementation remains a key challenge in the country context. An example is the functionality of the SFMIS, crucial to project outcomes. Some of the SFMIS functions do not work well, yet developers have chosen to retain the SFMIS course code instead of handing it over to the FGS.

8. Assessment of Bank Performance

a. Quality-at-Entry

Project design focused on setting up functional structures on PFM, external control, and accountability. The project team recognized, in line with the 2012 UN Monitoring Group Report, that corruption and legitimacy are linked in Somalia, and that building trust in Somali institutions and enhancing state legitimacy was at the core of establishing PFM integrity, as well as security and justice. The project's rationale and design departed from the sound argument that institutional capacity-building in FCV contexts is a long-term exercise as also underscored in the 2011 WDR. The project's solid analytical underpinnings elaborated in the 2018 SCD pointed to continued donor dependence in Somalia and the need to boost solid, institutionalized domestic revenue streams. With regards to donations from abroad, project design stressed the need to ensure a predictable flow of funds from the external development partners through Somali government institutions that would then direct the flow of funds to citizens in the form of reliable service delivery.

The Bank cooperated with international donors by disseminating results and findings to them. Cooperation on PFM reform and DRM was pronounced, especially with the African Development Bank, the European Union, Norway and the UK Foreign, Commonwealth and Development Office.

The project's design reflected synergies with Bank engagement in Somalia but was complex and set overtly ambitious targets and was not clear on crucial aspects of the project. At appraisal, the project was agreed upon with key government officials from the three jurisdictions and ensured domestic reform ownership. The PFM focus areas selected built on progress made until appraisal through existing Bank engagement in Somalia by the PFM capacity strengthening project (P146006). Its main results would underpin the recurrent cost window project (P148428), thereby ensuring a gradual strengthening of financial management structures. However, project appraisal included three high level objectives, three key performance indicators, seven components and multiple intermediate results indicators, despite the fragile security situation and the known absence of a statistical office and related data. Each of the components contained several activities and the activities were overambitious. Moreover, the adoption and implementation of such policies is a long and often arduous process that depends, *inter alia*, on adequate technical and administrative capacity. At appraisal, the project also did not clearly define the "central finance agencies and targeted sectors" mentioned in the original PDO and was vague about the range of stakeholders that were expected to be influenced by project activities. Further, the level of ambition set out by the project in the PAD, such as the establishment of a "training for trainers" (ToT) to create SFMIS "super users" (PAD, p. 22) or a MoF intranet for Somalia did not adequately consider the set of challenges that the realization of such laudable goals would entail.

The lessons derived from PFM reforms in FCV operations in other countries, especially regarding the salience of an incremental approach to reform and quick implementation, were not always reflected in the project's implementation and sequencing. The project rightly drew on prior analytical and practical work on PFM reform in FCV contexts such as the 2005 IMF Report on Rebuilding Fiscal Institutions in Post-conflict Countries. During implementation, however, some of those lessons were ignored. While the PAD stressed the need to embark on reforms in an incremental manner and make good use of "quick wins" to build momentum, such a sequenced approach was not followed through. implementation delays meant that action had to be taken simultaneously to use existing windows of reform opportunity instead of moving from quick wins at PFM level to service delivery improvements, as originally envisaged and as done in other FCV countries that had successfully undertaken PFM reforms. Further, lessons from other FCV operations underlined the significance of a robust legal framework early on to concentrate on implementation in subsequent stages. Such progress did not always prove easy. To illustrate, the new Audit Law was passed and approved by the President shortly before project closure in 2023 (ICR, p.21).

Project sequencing did not take adequate account of contextual constraints. Existing data at preparation pointed to the fragility of Somalia, the political tensions that existed in the country and the need to make efficient use of resources to maximize output towards the PDO. The ICR mentions that project sequencing responsibilities were delegated to a government PFM Reform Coordinator on a day-to-day basis, despite the known challenges in the country context pertaining to technical expertise and implementation capacity. Procurement contracts incurred a high premium due to heightened security risk and the paucity of qualified governance specialists. This could have been incorporated in the project at appraisal, given that Somalia's fragility status was well known.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

Political support at the highest level enabled the implementation of difficult reforms. The close engagement with high-level government officials allowed the World Bank to have a strategic dialogue with the federal government, Puntland and Somaliland and continue supporting the reform process, despite frequent changes in government and associated priorities.

The Bank's ongoing dialogue with the government facilitated frequent and effective monitoring, despite security challenges. Security constraints increased the difficulties for implementation and supervision. It was difficult to organize in-country missions due to security threats, including implementation support missions. The onslaught of the pandemic made on-site visits for supervision and control very difficult, with the government and the WB being the sole monitoring agencies. The PFM Action Plan (PFMRAP) aimed at focusing public expenditure on government priority areas and improve the transparency of the national budget process. PFMRAP was created out of two studies, conducted by the Inland Revenue Department, setting up benchmarks to mark progress towards the realization of the set PFM goals.

The ISRs were conducted frequently and were instrumental in improving aspects of the project. Project supervision benefited from frequent ISRs, 11 in total, which were detailed and analytical. They contributed to the dialogue with FGS authorities on reform prioritization. The 2017 Mid-term review that led to the additional financing paper was crucial in restructuring the project, clarifying the PDO and tightening the results chain framework.

The Bank offered close support to implementing agencies throughout project implementation, but frequent TTL changes undermined cohesion. Bank support was extensive throughout the project life cycle, including during the preparation of the procurement documents, review of deliverables, discussions with consultants, and technical advice and support in implementation related to DRM and expenditure control and accountability reforms. Supervision required significant engagement from the Bank, and Bank continuity was limited, especially in the project's early phase. The first TTL managed the project for a little longer than 1 year after project effectiveness, the second one for 6 months, and the third TTL for 18 months. A team of co-TTLs led the project from the mid-term review to completion. The Bank also maintained an active hands-on dialogue supplemented with frequent face-to-face meetings and consultations with the client government in a frequently changing and volatile environment.

Capacity constraints inhibited project implementation. Institutional capacity was weak due to the lack of defined processes and responsibilities (which the project sought to address) as well as the lack of familiarity with World Bank procedures. Most of the staff at MDAs, both management and civil servants, lacked a basic understanding of World Bank procurement regulations, including the stages of the procurement process. This led to multiple requests for clarifications to the Project Coordination Units, in addition to suppliers also faced challenges with bidding documents published in English, and not in Somali. complaints. Many suppliers also faced challenges with bidding documents published in English, and not in Somali.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The project objective was initially vague but improved at midterm review. The monitoring and evaluation system and framework lacked realistic targets and had poorly formulated indicators, which were vague and difficult to measure. The overall logic of intervention was not clear. None of the DRM-related indicators could measure progress towards revenue collection - "number of taxpayers consulted or educated" was not a meaningful indicator. The design of the VAT is noted to be unsuitable for a fragile state. Similarly, the expenditure-related indicators also did not connect with a larger fiscal space. The citizens'-related accountability indicators were too ambitious given that most citizens do not have access to the Internet in Somalia. The project indicators were not well aligned or linked to the PDOs or necessary reporting tools. Some of the initial indicators were not relevant, specific, measurable, achievable, relevant, and time-bound. There were no proposed sampling and data collection methods documented, while M&E also lacked an analysis plan and reporting templates. At midterm review, the PDO was made clearer and changes in a series of indicators clarified the intervention logic, making some targets clearly measurable.

b. M&E Implementation

Project restructuring allowed for the formulation of mostly measurable indicators. M&E data was recorded for the ISRs. Most intermediate results indicators were relevant, specific, measurable, achievable, and time bound. The IRI used to assess citizen engagement was unclear as to whether citizens were consulted or educated regarding tax processes.

c. M&E Utilization

M&E data was used by the Bank to warn stakeholders and accelerate progress. In the project's initial phases, M&E data was difficult to obtain. The PFM Reform Coordinating Unit regularly updated the operational tools and procedures. Challenges identified were shared with other donors, World Bank management, and the government so that they could be addressed. M&E was used to inform project implementation during the 2017 restructuring, and data was used to accelerate progress towards meeting PDO objectives as well as specific indicators, such as revamping the OAG's audit framework to align with the Supreme Audit Institution framework standards, the alignment to ITAS specifications by the three jurisdictions and the outline of the CIPFA Diploma.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was classified as Category C, and no environmental or social compliance issues occurred during implementation. No specific environmental or social safeguard instruments were required, and no safeguard policies were triggered.

b. Fiduciary Compliance

The project complied with World Bank procedures and policies regarding budgeting, financial accounting, and internal controls, reporting and auditing. Quarterly interim unaudited financial reports were found to be timely in the later part of the project and prepared in form and substance as agreed upon with the Bank. Challenges raised in the project's audit reports were resolved satisfactorily. The PFM project received unqualified audit reports every year from the OAG. The overall level of disbursements at the date of closure was noted to be moderately satisfactory due to initial limitations in the internal control that were addressed during the project.

Project procurement was conducted in accordance with the WB's procurement guidelines under IBRD loans and credit and in accordance with the approved Procurement Plan. Since the national procurement law was not fully operational, customized Bank standard procurement documents were used to approach the national market. Procurement delays were mostly due to the challenging operating environment and weak capacity of procurement staff as well as unfamiliarity with the WB's procurement requirements. Additional procurement support was offered as implementation progressed, including hands-on support by the WB procurement and technical teams. Recommendations made during implementation support missions, combined with the trainings, resulted in improved processes and reduction in procurement processing turn-around time. The overall project procurement performance is rated Moderately Satisfactory.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	Initial project design led to implementation delays and the non-completion of ITAS by closure, reducing the developmental impact of the project.
Quality of M&E	Modest	Modest	
Quality of ICR	---	Modest	

12. Lessons

Design project sequencing by setting realistic targets in FCV contexts. The Somalia Second PFM Capacity Strengthening Project suggests that “quick wins” envisaged at appraisal should be implemented in the early stages of the project to carry forward a positive momentum and expand beneficiaries over time. Although its risk assessment analysis departed from sounds observations regarding the inherent risks in implementation in the country context, project design did not anticipate the possibility of implementation delays that could undermine overall delivery.

Front-load tough reform areas to build momentum. The Somalia Second PFM Capacity Strengthening Project demonstrates that it is useful to implement tough reforms early to enhance the chances of implementation by closure. One of the project’s major objectives was to fully implement ITAS at closure. Such an inherently difficult reform typically faces multiple veto players, opposed coalitions and entrenched interests set against change. In the presence of government commitment to reform, such a reform should have been introduced at the very early stages of Somalia’s PFM reform drive. This may have convinced reform beneficiaries that the developmental impact of the reform would be positive and thus enlarged the pro-change constituency. In practice, important DRM progress was made through the project, but even after two extensions, ITAS implementation was not achieved by closure.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR offers a concise summary of the project, substantiating most of its ratings with available data and evidence. Overall, the ICR maintains a largely consistent alignment with the project's developmental objectives, adheres to most of the established guidelines and maintains a results-oriented focus. Lessons drawn from the project are articulated clearly and are mostly substantiated by the evidence presented in the ICR. Some of the available data regarding Bank performance are not well documented, and there are some important gaps in information. IEG obtained evidence of IRI indicators from other documents, such as the 2022 restructuring paper (Report No. RES51297) and ISRs, while the tax instruments that formed a core part of PDO-1’s outcome indicators were obtained by IEG through additional research, since they were not stated in the ICR. The report does not include a discussion of the project's theory of change, since none was formulated at approval, instead outlining a retroactive ToC through a diagram. It would have been very beneficial to outline how the theory of change looks *ipso facto*, aiding the reader in comprehending the basis for the given ratings. The ICR’s risk section could have more strongly acknowledged the existential risks to the sustainability of the project outcomes.

a. Quality of ICR Rating

Modest