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29-May-2024

H.E. Bihi I. Egeh
Minister of Finance
Federal Republic of Somalia
Mogadishu, Somalia

Excellency:

***Somalia: Somalia Recurrent Cost & Reform Financing Project – Phase III
(Grant Numbers: D658-SO, E1020-SO, and TF0B8760)
Letter of Amendment***

We refer to the: (a) financing agreement between the Federal Republic of Somalia (the “Recipient”) and the International Development Association (the “Association”) dated June 23, 2020 (the “Original Financing Agreement”) as amended; (b) financing agreement between the Recipient and the Association, dated July 5, 2022 (the “Fist Additional Financing Agreement”); and (c) grant agreement between the Recipient and the Association, acting as administrator of the Somalia Multi-Partner Fund, dated July 5, 2022 (the “Grant Agreement”) (collectively, “Agreements”) - for the Somalia Recurrent Cost & Reform Financing Project – Phase III (the “Project”).

We further refer to the second additional financing for the Project, recently approved by the Association’s Board on May 21, 2024, which entails some modest restructuring to the Project.

Accordingly, we are pleased to inform you that the Association hereby proposes to:

- (a) delete Schedule 1 to the Agreements and replace it with the Schedule set forth in annex 1 to this letter (Amendment Letter);
- (b) amend Section 3.01 of the Grant Agreement to read as set forth below:

“The Bank agrees to extend to the Recipient a grant in an amount not to exceed nineteen million United States Dollars (\$19,000,000) (“Grant”) to assist in financing the Project.”

- (c) delete the disbursement table set forth under Section III.A.1 of Schedule 2 to the Grant Agreement and replace it with the table set forth in annex 2 to this Amendment Letter;

- (d) amend Section I.D. of Schedule 2 to the First Additional Financing Agreement and Grant Agreement, and Section I.E of Schedule 2 to the Original Financing Agreement to read as set forth below:

“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 an independent third-party consultant(s) (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, prior to each payment for eligible expenditures for the PBCs, 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 pursuant to 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.”*
- (e) extend the Closing Date set forth in Section III.B.4 of Schedule 2 to the First Additional Financing Agreement and Section III.B(2) of Schedule 2 to the Grant Agreement, till December 31, 2026;
- (f) amend Section III.B(1) of Schedule 2 to the Grant Agreement as set forth below:

“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) until and unless the Recipient has:*
- (i) *submitted to the Bank the applicable IUFR detailing the expenditures incurred under the Project up to the date of the applicable withdrawal application, all pursuant to the Disbursement and Financial Information Letter; 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 Bank 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 Bank, 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 Bank, 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 Subsidiary Agreement in a manner and substance satisfactory to the Bank. Any transfers from the Recipient to an EFMS in violation of this provision shall be deemed an ineligible expenditure.”

- (g) amend paragraph 54 of the Appendix to the Original Financing Agreement and Additional Financing Agreement, to read as set forth below:*

“Verification Consultant(s)” means an independent monitoring and supervision consultant(s) – individual or firm - to be hired by the Recipient for the verification of the achievement of the PBCs under this Agreement.”

- (h) adopt in the Appendix to the Grant Agreement, the relevant definitions in the First Additional Financing Agreement, as amended, pertaining to the Performance-Based Condition (PBC) introduced to the Grant Agreement pursuant to this Amendment Letter, and the remaining paragraphs of the Appendix renumbered accordingly;*

- (i) introduce the following additional paragraphs below in the respective Appendix to the Agreements, and the remaining paragraphs renumbered accordingly:*

- i. “Council of Ministers” means the highest executive authority of the FGS, established pursuant to Article 97 of the Recipient’s Provisional Constitution, 2012.*

- ii. “Internal Audit Charter” means the charter which provides for the internal audit department centralized at the FGS Ministry of finance, with a mandate that allows it to undertake internal audit activities across all ministries, departments, and agencies.*

- iii. “Intergovernmental Education Coordination Forum” or “IGECEF” means the forum for intergovernmental education institutions from the FGS, FMS, and*

BRA, set up to inter alia, strengthen the fundamental collaborations and advance education systems and processes among the FGS, FMS, and BRA.

- iv. *“National Civil Service Commission or “NCSC” means the independent body established by the Recipient’s Law No. 10 of 2006, with the mandate to recruit civil servants of the FGS.*
- (j) delete Schedule 3 to the Original Financing Agreement and First Additional Financing Agreement and replace it with the Schedule set forth in annex 3 to this Amendment Letter; and
- (k) introduce a Schedule 3 to the Grant Agreement as set forth in annex 3 to this Amendment Letter.

The capitalized terms used in this Amendment Letter and not defined herein have the meaning ascribed to them in the Agreements. Except as specifically amended herein, all other provisions of the Agreements shall remain in full force and effect.

Please confirm your agreement, on behalf of the Recipient, to the amendments mentioned above by countersigning and dating this Amendment Letter. This Amendment Letter shall be deemed effective upon the effectiveness of the financing agreement for the second additional financing for the Project (Grant No. E312-SO).

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

Keith E. Hansen

Keith E. Hansen
Country Director
Kenya, Rwanda, Somalia, and Uganda
Eastern and Southern Africa Region

CONFIRMED AND AGREED:

FEDERAL REPUBLIC OF SOMALIA

By: *H. E. Bihi Iman Ige*
 Authorized Representative

Name: H. E. Bihi Iman Ige

Title: Minister of Finance

Date: 31-May-2024

“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’ salaries of Eligible Civil Servants as well as CIM Recruits, on a declining basis.
2. Financing the FGS’ salaries of Eligible Civil Servants against the implementation of a series of reforms in domestic revenue administration, FGS’ payment processes, inter-governmental fiscal relations, fiscal transfers to Eligible Federal Member States, public administration, wage bill management, *budget transparency and strengthening health and education systems*.

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 technical assistance, training and capacity building of MDAs, and continuing to support the running costs of these fora.
2. Financing implementation of Annual Community Health Service Delivery Plans, education service delivery, salaries of EFMS’ Eligible Civil Servants and Eligible Non-Salary Recurrent Costs against implementing service delivery reforms, strengthening resource management systems, and the delivery of 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, and strengthening public finance management and domestic revenue management in Eligible Federal Member States.
3. Strengthening Eligible Federal Member State resource management systems through, *inter alia*: (a) financing EAFS Units and their professionalization; (b) developing the institutional capabilities of ministries of health and education in the areas of finance, accounting and financial reporting, procurement, human resources and internal audit; (c) supporting the Office of the Accountant General in the institutional formation of the accounting cadre in the Eligible Federal Member States, professionalization and training needs assessment for the government’s accounting cadre, developing a three-year strategic plan, and maintaining strategic regional partnerships; (d) building up expertise in social safeguards; and (e) the harmonization of the Chart of Accounts and fiscal reporting.
4. Supporting local governance in Eligible Federal Member States through (i) fostering intra-FMS dialogue with and capacity building of municipal/district governments selected in accordance with criteria set forth in the POM on functional and fiscal decentralization; (ii) building the system of fiscal transfers from the EFMS to local governments; (iii) building capacity of fit-for-purpose

public financial management systems; (iv) promoting citizen engagement at all levels of government; and (v) advising on mechanisms to enable emergency financing in response to climate-related and other disasters.

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 salaries of Eligible Civil Servants in selected MDAs, as well as salaries of CIM Recruits on a declining scale through the provision of conditional federal grant transfers to Eligible Federal Member States pursuant to the Subsidiary Agreements; and (b) strengthening the institutional capacity of EFMS MoFs capacity to manage donor funds.
2. Financing teacher and non-teacher education staff salaries, 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, data collection and analysis, 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 focus on health and education); (b) establishing two-way communication channels with selected service providers and service recipients for collecting feedback, verification of service delivery, and behavior change; (c) promoting community compacts between users/beneficiaries and service providers; and (d) implementing pilots in targeted areas.
3. Incorporating citizen 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 on a declining scale 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, and hiring of an Independent Verification Agent.”

Annex 2

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, and consulting services, salaries of FGS' Eligible Civil Servants under Part 1.1 of the Project, 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, except for Parts 1.2 and 2.2 of the Project.	10,000,000	Up to 100%
(2) Goods, works, non-consulting services, and consulting services, salaries of EFMS' Eligible Civil Servants, FHW Program Costs, 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, except for Parts 1.2 and 2.2 of the Project.	5,000,000	Up to 100%
(3) Salaries of FGS' Eligible Civil Servants under Part 1.2 of the Project; and goods, works, non-consulting services, consulting services, Training and Workshops, FHW Program Costs, salaries of teachers and other critical education service delivery personnel, salaries of EFMS' Eligible Civil Servants, EFMS' Eligible Non-Salary Recurrent Costs, under Part 2.2 of the Project.	4,000,000	Up to 100%
TOTAL	19,000,000	

SCHEDULE 3

Performance-Based Conditions & Allocated Amount

PROPOSED REFORMS	PERFORMANCE-BASED CONDITIONS										
	*November 30, 2021	*June 30, 2022	*November 30, 2022	*June 30, 2023	*November 30, 2023	*JUNE 30, 2024	*November 30, 2024	*JANUARY 30, 2025	*JUNE 30, 2025	*JANUARY 30, 2026	*JUNE 30, 2026
1. Strengthen domestic revenue administration		1.1. MoF has developed and operationalized the Somalia Customs Administration System (SOMCAS) in Mogadishu Airport and Seaport	1.2. MoF has (i) completed a simplified functional review of FGS customs to better allocate human resources in customs; (ii) adopted SOMCAS procedure manuals.	1.3 FGS has procured the services of a 'third party' to develop and implement the Integrated Tax Administration System (ITAS)		1.4 Harmonized tax identification number (TIN) structure implemented between FGS and selected FMS			1.5 FGS and FMS implemented the harmonized Income Tax	1.6. FGS implemented inland revenue ITAS	
<i>Allocated amounts in US\$ (in millions)</i>		1	0.5	1.5		1.5			1	1	
2. Strengthen payment process for operational expenditures and payroll			2.1. MoF has: (i) completed a business process review for FGS' payment; and (ii) prepared/issued a business process review report.	2.2. MoF internal audit department has conducted a special audit on the payroll processes and provided clear recommendations to strengthen the payroll weaknesses.			2.3 FY 2025 FGS budget is prepared using the SFMIS budget preparation module by November 2024	2.4. At least 65% of identified audit recommendations on payroll management are addressed with evidence provided.		2.5. The MoF has implemented the newly approved comprehensive procedures and issued an implementation status report.	2.6 Council of Ministers approved Internal Audit Charter

<i>Allocated amounts in US\$ (in millions)</i>			1	0.5			1.5	1		1	1
3. Strengthen inter-governmental relations			3.1. MoF has prepared the budget for Fiscal Year 2023 using the new unified chart of accounts (“UCoA”) at the four-digit economic codes level.		3.2. MoF has published monthly fiscal reports using the new UCoA at the six-digit level and reporting formats generated through the financial management information system platforms of the FGS MoF and FMS starting from FY, 2023.	3.3 FGS’s 2024FY budget provides for appropriations for FGS’s fiscal transfers to FMS/BRA as per an inter-governmentally agreed formula		3.4 FGS’s 2025FY budget provides for appropriations for FGS’s fiscal transfers to FMS/BRA as per an updated inter-governmentally agreed formula.	3.5 FMFF adopts a framework for the operationalization of the NCC agreement on revenue assignment and expenditure responsibilities		
<i>Allocated amounts in US\$ (in millions)</i>			1		1	1		1	1		
4. Strengthen FGS transfers to FMS				4.1. FGS’s fiscal transfers execution rate for the previous FY to FMS/BRA is equal to, or greater than, the out-turn rate for FGS’s domestic revenues.		4.2 FGS’s fiscal transfers execution rate for the previous FY to FMS/BRA is equal to, or greater than, the out-turn rate for FGS’s domestic revenues.					
<i>Allocated amounts in US\$ (in millions)</i>				0.5		0.5					

5. Strengthen public administration			5.1 The Cabinet has approved a pay and grade reform including a plan for transitioning Capacity Injection Modality staff into the new pay and grading system.	5.2. NCSC has published an annual report on the status of women in senior leadership positions for the previous year.		5.3. NCSC has (i) published an annual report on the status of women in senior leadership positions for the previous year and (ii) examined existing policies and practices impacting diversity and women's employment in the civil service and agreed on next steps.				5.4 (i) NCSC has published an annual report on the status of women in senior leadership positions for the previous year; and (ii) FGS reached at least 21% of women in senior leadership positions.	5.5 All permanent FGS non-security civil servants moved to new Pay and Grade Scale and receive payments accordingly.
<i>Allocated amounts in US\$ (in millions)</i>			1	0.5		1.5				0.75	1
6. Wage bill management			6.1 The FGS has adopted a reform plan on wage bill transparency and management.		6.3 MOF has (i) published details of 50% (in USD) of the non-formal, non-security wage bill, and (ii) issued a progress report on wage bill transparency and management		6.5 MOF has (i) published details of 100% (in USD) of the non-formal, non-security wage bill, and (ii) issued a progress report on wage bill transparency and management	6.7 Temporary workers in FGS non-security MDAs are mapped according to the new Pay and Grade Scale.		6.8 At least 30% of temporary workers in FGS non-security MDAs receive payments according to the new Pay and Grade Scale	

<i>Allocated amounts in US\$ (in millions)</i>			1		1.5		1.5	1		1	
			6.2. FGS has implemented biometric attendance monitoring systems covering at least 60% of the non-security staff in selected MDAs and appropriate disciplinary and performance management actions by NCSC are taken.		6.4. FGS has maintained the use of the biometric attendance systems covering at least 80% of the non-security staff in selected MDAs linked to the payroll management, disciplinary and performance management modules		6.6. FGS has (i) maintained the use of the biometric attendance systems covering 90% of the non-security staff in the selected MDAs; (ii) implementation continues to be linked to payroll, disciplinary and performance management; (iii) payroll management policy is developed; (iv) assessed the existing implementation mechanisms and submitted a report on lessons learned including feedback by stakeholders.				
<i>Allocated amounts in US\$ (in millions)</i>			0.5		1		1				

<p>7. Strengthen FGS and FMS resource management systems for health service delivery</p>	<p>7.1. Each FMS has (i) signed Service Delivery Transfer Agreements (ii) approved budgetary appropriations for FY 2020.</p>	<p>7.3. Each FMS has (i) signed with FGS updated Service Delivery Transfer Agreements (2022); (ii) adopted annual community health service delivery plans, including infectious disease measures for FY 2022; and (iii) approved budgetary appropriations for FY 2022 for the health sector equal to the aggregated Allocated Amounts for PBCs 7.3 and 7.4.</p>	<p>7.4. Each FMS has (i) issued their respective implementation and financial reports on the use of federal transfers covering FY 2021 and the 1st half of FY 2022 in line with provisions of Service Delivery Transfer Agreements demonstrating release of funds to MoHs</p>				<p>7.6. Each FMS has issued their respective implementation and financial reports on the use of federal transfers covering FY 2023 demonstrating release of funds to MoHs as specified in the POM</p>	<p>7.8 Each FMS has (i) submitted a report on closing the feedback loop on citizen engagement campaigns in the health sector in January-September 2024; (ii) adopted annual community health service delivery plans, including climate-induced disease measures for FY 2025; and (iii) approved FY2025 budgetary appropriations for MoH equal to the aggregated Allocated Amounts for PBC 7.8 and 7.9</p>	<p>7.9 Each FMS has (i) signed an MoU with the FGS on harmonizing regulations for health professionals, facilities, and training institutions; (ii) issued their respective implementation and financial reports on the use of federal transfers covering FY 2024 demonstrating the release of funds to MoHs as specified in the POM.</p>	<p>7.11 Each FMS has (i) submitted a report on closing the feedback loop on citizen engagement campaigns in the health sector in October 2024-September 2025; (ii) adopted annual community health service delivery plans, including climate-induced disease measures for FY 2026; and (iii) approved FY2026 budgetary appropriations for MoH equal to the aggregated Allocated Amounts for</p>	<p>7.12 Each FMS has (i) adopted regulations governing the registration of health professionals, facilities, and training institutions; (ii) issued their respective implementation and financial reports on the use of federal transfers covering FY 2025 demonstrating the release of funds</p>
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	7.2. Each FMS have (i) issued their respective implementation and financial reports on the use of federal (service) transfers					7.5. Each FMS has (i) updated with FGS Service Delivery Agreements (2024); (ii) adopted annual community health service delivery plans, including climate-induced disease measures for FY 2024; and (iii) approved FY2024 budgetary appropriations for MoH equal to the aggregated Allocated Amounts for PBC 7.5 and 7.6.				PBCs 7.11 and 7.12.	to MoHs as specified in the POM.
<i>Allocated amounts in US\$ (in millions)</i>	2.5+1.2	1.2	1.4			1.2	1.2	1.2	1.2	1.2	1.2

							7.7 FGS and FMS adopt (i) the national policy for managing non-civil service health cadre, including FHWs; (ii) Community Health Strategy.		7.10 FGS and FMS submit implementation report on the national policy for managing non-civil service health cadre, including FHWs		
							0.5		0.5		

<p>8. Strengthen education service delivery.</p>			<p>8.1. Each FMS has (i) signed functional assignment agreements with FGS, and (ii) approved aggregate FY 2022 budgetary appropriations for MoEs equal to the aggregated Allocated Amounts for PBC 8.1</p>	<p>8.2. Each FMS has (i) signed functional assignment agreements with FGS, and (ii) approved aggregate FY 2023 budgetary appropriations for MoEs equal to the aggregated Allocated Amounts for PBCs 8.2 and 8.3.</p>	<p>8.3. Each FMS included information in its financial reports on the use of federal transfers equal to the amount of PBC 8.1 and 8.2</p>	<p>8.4. Each FMS has (i) signed functional assignment agreements with FGS, (ii) submitted the costing plan for education service delivery, and (iii) approved aggregate FY 2024 budgetary appropriations for MoEs equal to the aggregated Allocated Amounts for PBCs 8.4 and 8.5.</p>	<p>8.5. Each FMS has (i) included information in its financial reports on the use of federal transfers equivalent to the amount of PBC 8.3 and PBC8.4 in line with the budgetary appropriations, and (ii) submitted implementation reports of the education service delivery plans.</p>			<p>8.8 Each FMS (i) adopts the national student learning assessment strategy and framework and submits the action plan on its implementation; (ii) submits a report on the implementation of the national school financing policy at the FMS level; and (iii) approves aggregate FY 2026 budgetary appropriations for MoEs equal to the aggregated Allocated Amounts for PBCs 8.8</p>	
<p><i>Allocated amounts in US\$ (in millions)</i></p>			<p>0.8</p>	<p>0.8</p>	<p>0.8</p>	<p>0.8</p>	<p>0.8</p>			<p>2.2</p>	

							8.6 FGS absorbs RCRF teachers into the Government payroll	8.7 IGECF adopts the national school financing policy and operational guidelines		8.9 IGECF adopts the national student learning assessment strategy and framework	
							0.9	0.9		0.9	
9. Strengthening PFM and DRM in selected FMS			9.1 MoF in Puntland and Jubbaland have developed and operationalized the SOMCAS system, as well as their manuals of procedures in in five agreed locations.	9.2. Each FMS undergoes assessment and establishes a baseline on revenue enhancement, expenditure management, and audit and reporting.		9.3. Each FMS (i) undergoes a self-assessment in the parameters of revenue enhancement, expenditure management, external audit, and reporting, (ii) keeps the ratings at least at the same level as in the baseline assessment, and (iii) adopts an action plan on making improvements on parameters with low scores.		9.4 Each FMS to formalize and implement a common enhanced transparency initiative		9.5 Each FMS to formalize and implement a common enhanced transparency initiative	
Allocated amounts in			0.2	0.75		0.75		2.7		4	

<i>US\$ (in millions)</i>											
<i>10. Budget transparency</i>								10.1 Public consultations held in person during 2025 budget formulation and summary consultation report published		10.2 Public consultations held in person and online during 2026 budget formulation and summary consultation report published	
<i>Allocated amounts in US\$ (in millions)</i>								1		0.75	