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**ESTABLISHMENT OF A PROGRAMMATIC
MULTI-PARTNER FUND FOR SOMALIA**

**Sudan, South Sudan & Somalia Country Management Unit
Africa Region**

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ABBREVIATIONS AND ACRONYMS

ACU	Aid Coordination Unit
CBS	Central Bank of Somalia
ERP	Economic Recovery Plan
FGS	Federal Government of Somalia
FMA	Financial Management Agent
FPA	Fiduciary Principles Accord
IDA	International Development Association
IDP	Internally Displaced Persons
I-PRSP	Interim Poverty Reduction Strategy Paper
ISN	Interim Strategy Note
MDTF	Multi-Donor Trust Fund
MDTF-SS	Multi-Donor Trust Fund- South Sudan
MPF	Multi-Partner Fund
PSG	Peace-Building and State-Building Goal
RMU	Risk Management Unit
SDRF	Somalia Development and Reconstruction Facility
SFF	Special Financing Facility
TFG	Transitional Federal Government

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Establishment of a Programmatic Multi-Partner Fund for Somalia

Table of Contents

I. INTRODUCTION.....	1
II. THE “PARADIGM SHIFT” – A NEW PARTNERSHIP FOR MORE EFFECTIVE INTERNATIONAL ASSISTANCE IN SOMALIA.....	5
III. MDTFs AND TRANSITION FINANCING LESSONS	7
IV. THE MULTI-PARTNER FUND FOR SOMALIA.....	8
V. FIDUCIARY AND ADMINISTRATIVE MANAGEMENT	22
VI. NEXT STEPS	27
VII. Annex: Indicative MPF Results Framework	28

ESTABLISHMENT OF A PROGRAMMATIC MULTI-PARTNER FUND FOR SOMALIA

I. INTRODUCTION

1. This Board Paper proposes the creation of a multi-donor trust fund, called the Multi-Partner Fund for Somalia (MPF), to deliver on critical reconstruction priorities set out and endorsed in the Somali Compact (the “Compact”) and the Bank’s Interim Strategy Note (ISN) for FY14-16. The MPF will be administered by the International Development Association (IDA) and will operate in close partnership with government, donors and international agencies within the context of the new Somalia Development and Reconstruction Facility (SDRF). The MPF is proposed for an initial ten year program of peace- and state-building support to the Somali transition, starting in January 2014 and lasting through December 2023.

2. Somalia’s new window of opportunity is the result of a successful transition of authority in 2012 from the Transitional Federal Government (TFG) to a new Federal Government of Somalia (FGS) within the framework of a provisional constitution. The Compact – which was endorsed at the landmark New Deal Conference in September 2013 – establishes a three-year roadmap with critical milestones across five Peace-Building and State-Building Goals (PSGs). Progress on the political front was accompanied by an 18-month period of important military gains in southern Somalia, in which the African Union force, AMISOM, re-took key cities from al Shabab, opening the way for political dialogue and stabilization. Northern Somalia remains a zone of relative stability.

3. The Bank is renewing engagement follows international recognition of the FGS and is in line with a revived commitment to the country’s stability and reconstruction. The UN has established a new political mission based in Mogadishu, led by a Special Representative of the Secretary General and agencies are returning to Mogadishu from Nairobi. In early 2013, the Bank changed its legal position permitting the signing of grant agreements with the new authorities and recipient executed activities.

Development Context

4. **Somalia is a country deeply affected by conflict:** Over the course of 22 years, Somalia’s conflicts have engendered extreme poverty, vulnerability and a complex set of political and social grievances that remain a threat to the positive transition the country is currently undergoing. The majority of Somalis today live in poverty and vulnerability: 2.3 million Somalis remain on the margins of food insecurity; 1.1 million are internally displaced.¹ Poverty is estimated at 73 percent and extreme poverty at 43 percent.² Humanitarian support is a life-saving reality for many, where access is possible; but on its own humanitarian action cannot develop the sustainable livelihoods necessary for poverty reduction. For that, Somalia needs

¹ Food Security and Nutrition Analysis Unit - Somalia

² Data from the 2002 World Bank and UNDP Socioeconomic Survey of Households in Somalia, using a poverty line of US\$2 per day, and an extreme poverty line of US\$1 per day.

long-term investment in a set of stable and legitimate institutions that can enable basic services, infrastructure financing and inclusive growth.

5. **A new reality:** In August 2012 the Federal Government of Somalia (FGS) was brought to power with a four-year term under a provisional constitution approved by a new parliament – ending southern Somalia’s long period of revolving transitional government. Since its establishment the FGS has placed improved governance and economic management as central priorities and is laying the foundations for the implementation of a federal system of governance. The new government is responsible for meeting important political, security and economic milestones during its term, including the passage of a permanent constitution and the preparation for national elections in 2016. Regional countries and international actors have re-doubled efforts to support and sustain this window of opportunity, endorsing a New Deal for Somalia at the September 2013 Brussels Conference and pledging US\$2.4 billion against a set of five priority Peace-building and State-building Goals set out in the Compact, which includes a “Special Arrangement for Somaliland”.

6. **Despite today’s more positive outlook, Somalia’s economy and population of around 9-10 million³ remain vulnerable to shocks.** In the absence of stable institutions, the combination of conflict, environmental degradation and harsh climate have resulted in a series of natural disasters resulting in full-scale humanitarian crises. Today, Somalia is still recovering from the 2011 drought which affected 13 million people in the Horn of Africa and resulted in 260,000 deaths in Somalia. Although food security has improved, 870,000 people remain food insecure and an additional 2.3 million – one fourth of the population - remain vulnerable to food insecurity. Displaced by conflict and famine, over 1 million Somalis live as refugees in the Horn of Africa and Yemen and 1.1 million remain inside Somalia as internally displaced persons (IDPs). Poverty is estimated to be 73 percent and extreme poverty at 43 percent; however statistical and data work is required to validate the country’s poverty profile.⁴

7. **In contrast to the war-torn south, Somalia’s northern regions have put in place functioning institutions that have succeeded in sustaining stability although considerable development challenges remain.** Following their declaration of independence and semi-autonomy respectively, Somaliland and Puntland have developed hybrid forms of governance combining modern institutions with religious authorities, civil society, the private sector and diaspora organizations, which have guaranteed higher levels of peace, security and institutional development. While substantial development challenges remain, the starting point for development work is nevertheless different in the north. Both Somaliland and Puntland are able to collect some revenues from Berbera and Bossaso ports sufficient to maintain basic administrative structure and security, but not enough to invest substantially in social and economic development. Nevertheless, the two regions seek very different futures: while Somaliland’s constitution envisages an independent existence, Puntland is committed to participate in Somalia’s federal system.⁵

³ UNFPA is undertaking a population estimation survey that will help firm up population data which have fluctuated given famine and displacement.

⁴ The poverty estimates provided here are from the UNDP Human Development Report 2012.

⁵ Although Puntland is committed to participate in the federal system, Puntland is currently concerned that the FGS is itself not fully committed to implement the federal system. Tensions have arisen during 2013 that will need to be addressed at the political level, but also through the balanced and transparent allocation of development effort across Somalia.

8. **Somalia's entrepreneurial private sector community is one of the country's main assets and an important partner for development actors.** Despite long instability, three industries have thrived: livestock, remittance services and telecommunications. The livestock trade remains the backbone of the economy: 60 percent of the population derives a livelihood from pastoralism-based livestock production. In the absence of a commercial banking sector, remittance companies have enabled the diaspora to remit around US\$1.3 billion per annum to families in Somalia. Telecommunications companies employ around 25,000 Somalis, generate substantial profit and have enabled a mobile penetration rate of 20 subscriptions per 100 people. While these achievements are impressive, further growth is constrained by under-investment, insecurity and the lack of regulation. Internet penetration remains one of the lowest in Africa; the unsustainable management of natural resources and rangelands threatens the livestock trade; and remittance companies face exclusion from international transactions in the absence of a sound domestic regulatory framework. A dialogue between public authorities and the business community is required to establish consensus on the role of the state in the market and the economy, and the value that appropriate regulation can bring in restoring public confidence and fostering private investment. This issue is also pertinent to the delivery of social services, where the private sector remains the key provider of health and education services.

Drivers of Fragility and Conflict⁶

9. **Somali society is highly segmented, complicating the development of a unifying vision of the Somali state.** Somalia's political development has been oriented around clan and geography-based identities, where groups resolved disputes through a system of collective compensation and consensus. More recently, competing concepts of the state in Somalia have manifested themselves in stark and often violent opposition, and today *de facto* authority remains contested between traditional, customary, religious and modern institutions. Which institutions are vested with the authority to direct state formation is itself a source of dispute, complicating the process to establish local and regional administrations. While the legal framework evolves, political negotiations - as in the case of the recent Jubbaland agreement - will continue to play a key role. This process is further complicated by actual and anticipated competition over access to and division of revenue streams, land, grazing, water and the potential exploitation of sub-soil assets⁷; in other words the sharing of Somalia's wealth and resources.

10. **Against this backdrop of fragmentation and resource competition, Somalia's institutions have developed into agents of *extraction* and have failed to build *inclusive coalitions*, further contributing to a crisis of legitimacy.** From Siad Barre's policy of nationalization through to the previous Transitional Federal Government's mismanagement, Somalia's state institutions have tended to seek private or clan elite's gain from public resources, undermining public trust. During the conflict, armed non-state groups took control of key

⁶As part of the New Deal process the Bank undertook a series of literature reviews on the underlying sources of conflict and fragility in Somalia. While the sources of Somalia's fragility are complex - and contested among Somalis themselves - the repeated patterns of Somalia's history are important signposts for the process intending to support the country's state formation. In a participatory and inclusive process, bringing government, MP's and civil society together, the literature reviews underpinned the agreement on Compact priorities. In a very summary format, this section draws out the main findings of the analysis.

⁷This fragility driver is set to intensify during the ISN period with mounting interest in Somalia's potential oil and gas deposits.

revenue generating assets such as the ports of Mogadishu and Kismayo, presenting today's leadership with a key institutional and fiscal challenge. In the absence of effective public financial management and integrity institutions, international assistance and humanitarian supplies proved vulnerable to diversion. The 2012 UN Monitoring Group Report underscored the linkages between corruption and legitimacy, highlighting that "corruption, embezzlement and fraud are no longer symptoms of mismanagement, but have in fact become a system of management."⁸ The FGS's current prioritization of the reform of public institutions is recognition that a failure to do so could undermine the legitimacy of the state.

11. In the absence of an effective strategy to generate livelihoods and jobs, Somalia's interlinked crises of unemployed youth, forced displacement, contested land, drought and natural resource depletion will always present a risk to Somalia's peaceful development. An input for the UN's strategic assessment mission in 2012 noted that "the wider humanitarian and livelihood context of Somalia remains alarming, and is a critical contextual factor for conflict and political violence. Rates of internal displacement, food insecurity, and unemployment are extraordinarily high, as are the number of refugees in neighboring countries. This creates a large cadre of idle young men who are easily recruited into criminal gangs, clan militias, or jihadi movements."⁹ UNDP's Human Development Report 2012 reported that youth were already major actors in the conflict, constituting the bulk of the participants in militias and criminal gangs, including al Shabab.¹⁰ Overall unemployment among people aged 15 to 64 is estimated at 54 percent in Somalia, up from 47 percent in 2002. Somalia's youth (aged 14 to 29) unemployment is 67 percent – one of the highest rates in the world.

Government Priorities and Plans

12. From the first days of its government, the FGS embarked on a broad-ranging program of reconstruction and reform with support from development partners. The Government's Six Pillar Policy provided an initial framework for reforms and deliverables in the areas of Security, Economic Recovery, Justice, Basic Services and Infrastructure, and Governance and Rule of Law. The Compact translates the Six Pillar Policy into highly selective political, security, and development priorities for the next three years (2014-2016) based on a set of Peace-building and State-building Goals. The preparation of the Compact included a diagnostic of the binding constraints to stability and development in order to prioritize only those activities that were critical. While consultations on the completed Compact are set to continue, the preparation process was inclusive of Somali and international stakeholders and of Somalia's different regions. With the inclusion of a Special Arrangement for Somaliland, Compact priorities also build on the existing plans and strategies of both federal and regional governments and will be the basis for donor alignment and monitoring across the country.

13. Accompanying the Compact, the Federal Ministry of Finance and Planning prepared an Economic Recovery Plan (ERP) with a focus on core economic priorities. The

⁸ UN Monitoring Group on Somalia and Eritrea, report 27 June 2012. It should be noted that the 2013 UNSMEG report highlighted the challenges the new authorities are facing in re-establishing the basis for accountability.

⁹ Input from Somalia Expert Ken Menkhaus as a basis for the UN's strategic assessment mission in 2012.

¹⁰ The UNDP report notes that: "Lost opportunities, unclear identity and a growing sense of marginalization among youth in an environment of state collapse, violent conflict and economic decline provide fertile ground for youth radicalization."

ERP, prepared with technical support from the World Bank, sets out a vision for economic recovery focusing on southern Somalia in the areas of public administration, infrastructure, natural resource management, and social services. Preliminary costing of the Economic Recovery Plan totals US\$662 million for the two-year period 2014 – 2015. Given limited resources and capacity, the ERP prioritises five flagship programs and emphasises the role of the annual budget in linking resources to government priorities.¹¹ The ERP, together with the regional plans for Somaliland and Puntland, informs the ISN’s priorities and provides the basis for an integrated and national Interim Poverty Reduction Strategy Paper (I-PRSP).

World Bank Program

14. Since the political transition in 2012, the Bank and the IMF have both adjusted their legal positions on Somalia, and now accept the new federal government in Mogadishu as the *de jure* client, opening the way for direct operational work, financing and technical assistance, based on government priorities. The Bank Group’s forthcoming ISN will be based on country priorities and in close partnership with other international actors. It will have the overall objective of supporting momentum towards peace and stability in Somalia as a basis for longer-term poverty reduction. The program will align with the three-year timeline of the Somali Compact and will focus selectively on Compact priorities in areas where the Bank has comparative advantage and can complement others. The Bank will structure its activities within two priorities: (a) Strengthening Core Economic Institutions; and (b) Expanding Economic Opportunity – both of which engage with sources of Somalia’s fragility and establish the basis for a longer-term poverty reduction agenda.

15. With the formalization of relations between the Federal Government and the International Financial Institutions comes the prospect of addressing Somalia’s substantial arrears to the World Bank, IMF, and AfDB, which will need to be cleared in a coordinated manner through a HIPC framework in order for regular IDA assistance to resume. This is a long-term process, with preconditions including a solid track record of performance on PFM, conducting a systematic debt reconciliation exercise with the participation of all creditors, and the development of an I-PRSP based on the ERP, among other steps.

II. THE “PARADIGM SHIFT” – A NEW PARTNERSHIP FOR MORE EFFECTIVE INTERNATIONAL ASSISTANCE IN SOMALIA

16. The Somali Compact’s proposal for a coordinated financing architecture in the form of the SDRF, including the Bank’s MPF as a key window, responds to the Federal Government’s call for a “paradigm shift” in the way international assistance is channeled to Somalia.

17. The SDRF is intended to enhance the delivery of effective assistance to all Somalis and will serve as a mechanism for the FGS to oversee and guide the diverse activities of its

¹¹ The five flagships include (i) rapid upgrading of state capacity at federal, regional and local authority level, (ii) productive infrastructure (crops, livestock, fisheries), (iii) rapid rehabilitation of infrastructure (ports, urban water and waste), (iv) basic health services and (v) one million children back in school. The flagships have an indicative price tag of US\$222 million.

development partners. The establishment of the SDRF will be pragmatic and gradual, allowing for a steady transition towards full operational effectiveness, based on capacity and performance.

18. The SDRF was endorsed by donors in Brussels as a new paradigm shift for international assistance in Somalia. The SDRF will enhance the coordination of assistance by providing a platform for development partners and the authorities to oversee and monitor a broad range of financing. The SDRF will be phased in, based on capacity and performance, and will allow on-going activities to continue in parallel. However, the SDRF will aim to facilitate information sharing on existing activities through its governance framework. Over time, financing may increasingly transition towards the SDRF framework as a preferred channel, based on the facility's track record.

19. The key objectives of the SDRF are to:

- align resources behind the critical Somali priorities set out and agreed in the Somali Compact and ensure follow-up and monitoring of their delivery;
- develop sustainable institutional capacity by putting Somali institutions in the lead;
- facilitate a transition towards the full use of country PFM systems by establishing and strengthening those systems, starting with the national budget framework;
- increase the transparency and accountability of the delivery and management of international assistance in Somalia; and
- reduce transaction costs by pooling funds and through harmonized results reporting.

20. The SDRF is based on the lessons learned from other transitions. The SDRF design takes into account the need for rapid response as well as longer-term institution-building by bringing together several funds (“windows”) under a common governance framework. The windows will be administered by technical agencies in areas based on comparative advantage: the UN, the World Bank, and the administrator of the Special Financing Facility (SFF). Over the longer-term the African Development Bank is anticipated to administer a “window” of the SDRF focusing on infrastructure. All window administrators will agree on their operating procedures with the FGS and development partners to ensure compatibility with the principles of the SDRF. The window administrators will ensure that technical work on design and delivery is undertaken with federal and regional institutions at the technical level as appropriate. Window administrators will all report to a single SDRF Steering Committee, supported by a Secretariat housed within the government's Aid Coordination Unit (ACU). Final discussions of the SDRF governance arrangements are ongoing and the MPF will align accordingly. As with other MDTFs such as the Afghanistan Reconstruction Trust Fund, it is important to retain the flexibility to adapt governance arrangements at the country level to changing circumstances, while maintaining consistency within the overarching framework established in this Board Paper.

III. MDTFs AND TRANSITION FINANCING LESSONS¹²

21. Pooled funding approaches have become a common development approach in conflict-affected, crisis, and emergency response situations. Important lessons have emerged from this growing body of international experience and have informed the design of the MPF, as well as the SDRF.

22. ***Managing expectations:*** The global experience of MDTFs is that it is critical to manage expectations among a range of international and national stakeholders – donors, clients, and intended beneficiaries – by clearly articulating what an MDTF can and cannot deliver given the context. The speed of start-up, disbursements and results often disappoints donors, clients, and intended beneficiaries. Administrators can manage expectations up front through clear communications, but can also adopt a phased approach to operationalization in order to increase prioritisation and sequencing in line with Bank’s capacities, counterpart absorption capacity, and the broader security context. Recurrent cost operations have also enabled some funds (notably Afghanistan and West Bank & Gaza) to build and test country systems, generate counterpart capacity for managing funds and ensure basic running costs are met in emergency contexts, while teams prepare investment operations in parallel.

23. ***Design based on context and need:*** Lessons from other FCS contexts also indicate that pooled funding through “multiple-window, common governance” structures can, in the right contexts, ensure coordination while allowing fund administrators to work according to their comparative advantage. Given the heterogeneity of operating conditions and institutional capacities in Somalia (ranging from comparatively well-developed institutions in relatively stable Somaliland to very weak or absent institutions in a still fragile Mogadishu), all stakeholders agreed that this model would be appropriate for Somalia. No one fund will satisfy all the urgent needs during the transition. This approach puts primacy on strong technical collaboration and partnership with the UN, AfDB, and other partners in Somalia. The SDRF design concept strongly reflects this reality. However, as noted above, it will be critical to retain the flexibility to adjust the governance arrangements where necessary in dialogue with stakeholders on the ground, within the broad parameters agreed in this Board Paper.

24. ***Staffing and management:*** The experience of transition financing also underlines the need for rapid deployment of sufficiently experienced staff in-country. This issue has presented a significant risk to implementation in some cases. The Bank’s country team has developed a staffing strategy that will ensure strong MPF administrative oversight, as well as support to the SDRF Secretariat. The MPF’s Enhanced Implementation Support Workstream, described below, will also provide a flexible source of funding to ensure sufficient management supervision, oversight, and capacity support.

¹²The SDRF and MPF design draw on valuable lessons captured in pooled-funding evaluations including: the 2013 Independent Final Evaluation of the Multi-Donor Trust Fund- South Sudan (MDTF-SS) by FAFO; Scanteam’s global review of Programmatic Multi-Donor Trust Funds in Fragile and Conflict-Affected Situations, and the DFID-commissioned review “Pooled Funding to Support Service Delivery: Lessons of Experience from Fragile and Conflict-Affected States.

IV. THE MULTI-PARTNER FUND FOR SOMALIA

Rationale

25. Two decades of humanitarian and development assistance in the absence of a recognised central government have weakened accountability and transparency over the use of public resources. In place of national institutions, parallel delivery mechanisms have developed – funding instruments, UN joint programs, and NGO projects – which have fragmented institutional responsibilities and accountability.

26. At the heart of the Somali Compact’s new aid paradigm, the FGS seeks clearer leadership of the reconstruction effort and an increasing use by donors of country systems over time in line with the New Deal principles of TRUST¹³. The FGS has committed to a PFM Reform Action plan based on a self-assessment conducted in early 2013 with World Bank and DFID support. Prior to this, the government had asked the Norwegian government to set up the SFF to finance urgent salaries and to establish a government development presence throughout the country via small-scale community-driven infrastructure and employment generation projects. The SFF was operationalized in August 2013, and has so far received US\$30 million in commitments from Norway; further contributions are expected from other donors, including the EU. It has always been envisaged that the SFF will run for a limited period. Donors, the government and the Bank have in principle agreed that the MPF will take over the financing of recurrent costs from the SFF, building on the fund’s early experience. Bank fiduciary teams have contributed to the FM and procurement sections of the SFF Operations Manual. This has helped align the SFF with the longer-term PFM agenda.

Objectives¹⁴

27. The MPF fund-level Program Development Objective is to: *provide a platform for coordinated financing for the sustainable reconstruction and development of Somalia, with a focus on core state functions and socio-economic recovery.*

28. More specifically, the MPF will:

- ***Foster socio-economic recovery and stabilisation***, by supporting the payment of civil service salaries, and the running costs of government institutions; by financing technical assistance and supporting the building blocks of larger public investment programs across a range of sectors.
- ***Strengthen core government functions***, focusing on the budget framework and PFM systems. Through its focus on PFM, the MPF will strengthen public accountability and transparency over the use of public resources in Somalia, thereby increasing public and

¹³ Transparency, Risk-sharing, Use and strengthening of country systems, Strengthen capacities, Timely and predictable aid.

¹⁴ The extent to which these objectives can be achieved will depend in part on the level of financing available to the MPF. Preliminary estimates for the first two year’s funding range from \$70-140 million, and several donors have outlined their commitment to multi-year funding. This Board Paper assumes that donors will continue to provide regular financing to the MPF over the course of the MPF life.

international trust in Somali institutions. More broadly the MPF will build the capacities of Somali institutions over time to deliver critical services and infrastructure, at both federal and regional levels.

- ***Facilitate policy dialogue*** between international and national actors and ensure mutual accountability through the integration of the MPF within the SDRF governance.
- ***Increase the coordination of*** international financial support and its alignment with the Peace-building and State-building Goals of the Somali Compact. In line with the nine Partnership Principles of the Compact, the MPF also will strengthen national ownership of interventions through the development of sector strategies and flagship public investment programs. The MPF will also ensure coordination across funding instruments and between development and political actors.

29. The MPF will also promote coordination between the government's Economic Recovery Plan (ERP) for 2014-2015 and other strategic planning documents, including the Somaliland and Puntland Development Plans. The MPF will therefore be a critical tool of the overall New Deal process in Somalia and in ensuring a paradigm shift in the modalities of international assistance.

Implementation Modalities

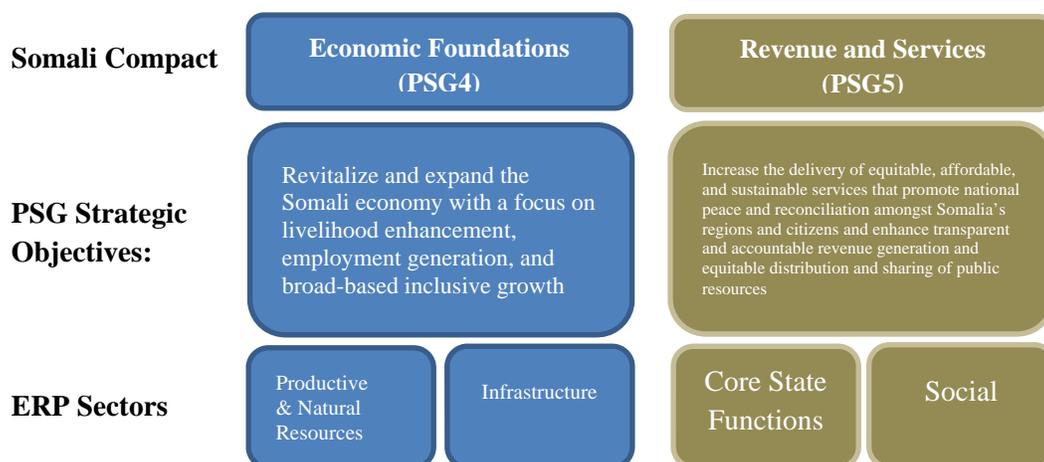
30. Implementation modalities include Recipient execution, Bank Execution on behalf of the Recipient, and Bank execution (through the Enhanced Implementation Support Workstream) modalities. In addition to the Federal Government, eligible recipients of MPF funding would include sub-national governments, NGOs, the UN, and other implementation partners, subject to the MPF's grant approval process.

Thematic Focus

31. In line with the ISN¹⁵ and the Bank's comparative advantage, the MPF will focus on selective elements of the Compact's priorities for Economic Foundations (PSG4) and Revenue and Services (PSG5). It will also focus on supporting implementation of the ERP, which underpins PSG4 and PSG5, although this will require further work to integrate the ERP with the other regional plans over time.¹⁶ The ERP's programs are organized into the following four sectors: (1) Core State Functions; (2) Infrastructure; (3) Productive and Natural Resources; and (4) Social Sector, as illustrated overleaf.

¹⁵ The World Bank Group ISN's two priorities: (a) Strengthening Core Economic Institutions and (b) Expanding Economic Opportunity – align with the Compact objectives and put in place necessary building blocks for tackling extreme poverty and promoting shared prosperity.

¹⁶ For the purposes of this Board Paper, we use the ERP framework as a framing device for programs that will aim to be national in scope, although delivered in partnership with regional authorities.



32. The below table presents an overview of ERP sector priorities, divided between rapid impact projects in support of stabilization, and programs to lay the foundations for sustainable growth and poverty. In line with the Bank's forthcoming ISN, the MPF will focus on supporting these priorities in partnership with other development partners.

ERP Sector	Rapid impact stabilization projects	Laying foundations for sustainable growth and poverty reduction	SDRF and MPF activity
1. Core State Functions	<ul style="list-style-type: none"> - Ensure salary payments are met - Set appropriate standards for employment of externally funded national consultants - Increased revenue generation - Quick rehabilitation of government buildings 	<ul style="list-style-type: none"> - Identify core state functions, responsibilities and required - administrative capacity - Enhance revenue generation - Revitalize public financial management 	<ul style="list-style-type: none"> - SFF covers short-term & urgent priorities - UN and MPF to develop capacity injection / framework - WB to focus on macro-fiscal and PFM reforms with AfDB & IMF
2. Productive and Natural Resources	<ul style="list-style-type: none"> - Infrastructure projects supporting productive sectors - Intensification and diversification of agriculture, fisheries and livestock sectors 	<ul style="list-style-type: none"> - Sustainable development and management of natural resources - Business enabling environment 	<ul style="list-style-type: none"> - UN (FAO) ongoing work - MPF new programs
3. Infrastructure	<ul style="list-style-type: none"> - Rehabilitation of infrastructure for transport, market access, trade, and energy - Rapid urban infrastructure for stabilization (Water and Sanitation, Waste Management, Lighting) 	<ul style="list-style-type: none"> - Infrastructure assessment and planning - Feasibility studies for key large infrastructure for transport, market access, trade, and energy 	<ul style="list-style-type: none"> - MPF & AfDB
4. Social	<ul style="list-style-type: none"> - Increase provision of equitable, accessible, and affordable social services 	<ul style="list-style-type: none"> - Service delivery regulation and standards and guidelines 	<ul style="list-style-type: none"> - UN lead - MPF to support knowledge &

	- Rehabilitation of infrastructure for health, education and water - Youth employment		innovation
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33. While the MPF will focus primarily on the areas outlined above, it may also fund activities in the other areas of the Somali Compact, including PSG1 (Inclusive Politics), PSG2 (Security), and PSG3 (Justice). Funding would complement the work of other development partners leading in these areas, would be in line with the Bank’s areas of expertise and comparative advantage, and in accordance with the Bank’s Articles of Agreement.

MPF Windows and Workstreams

34. The MPF will have a recipient-executed window and Bank-executed window. Workstreams under the recipient-executed windows will support Compact and ERP priorities and will evolve over time with Somalia’s development priorities and based on the SDRF decision-making processes.

35. MPF workstreams under the recipient-executed window will be as follows:

- *Recurrent Costs of Core Government Functions:* Evolving the existing SFF, this workstream will cover the costs in the Somali budget for the sustained payment of core government running costs and will develop – in close coordination with the UN system – a systematic approach to embedding core and sustainable capacity within Somali institutions.
- *Public Investments:* This workstream will focus on putting in place a portfolio of public investments that support longer-term socio-economic recovery and capacity building across a range of areas based on the government’s priorities. Projects will finance capacity building as well as capital investment and service delivery.

36. Given the highly challenging operating environment, a separate Bank-executed window will focus on *Enhanced Implementation Support*. Funding under this window will support operational activities to enable a robust risk management and fiduciary framework, allowing for the higher overheads associated with undertaking work in Somalia. This window will be operational from inception to allow for rapid project preparation.

37. The **Recurrent Costs of Core Government Functions Workstream** will transition the financing of civilian recurrent costs from the SFF to the MPF. This will strengthen the fiduciary framework for recurrent costs and will allow for policy dialogue on key PFM reforms linked to recurrent cost payments. The Bank has contributed to the design of the SFF especially its procurement and FM provisions and the Bank will also join supervision missions of the SFF as a member of the SFF Oversight Board. The Bank will aim to take over the civil service salary component of the SFF following an appraisal process planned for the first half of 2014. Financing of core government functions will be pursued carefully in the context of the Bank's comparative advantage and will be tied to core areas of Bank engagement such as PFM and socio-economic recovery.

38. The systems for recurrent cost financing will be based on the risk-calibrated approach that the Afghanistan Reconstruction Trust Fund Recurrent Cost window had evolved over the course of a 12 year program, which has been further adapted under the SFF. According to this approach, the Bank and government will agree eligibility criteria by which to review and approve expenditures on an ex-ante and ex-post basis. The MPF would make an advance to the government which is then replenished based on receipts of eligible and verified expenditure, thereby providing for fluid support to government, while also protecting against the financing of ineligible expenditures. A Mogadishu-based third-party financial management agent, who would be contracted by IDA as MPF Administrator, would apply the eligibility criteria and verify expenditure compliance. The tracking of eligibility criteria creates over time a record of government performance on PFM systems that can feed into policy dialogue; the recurrent cost window thus provides the platform for policy dialogue with government on core functions performance. The value addition brought by the MPF to the SFF will be a more explicit link between recurrent cost financing, PFM reforms and the broader policy dialogue on core government functions and capacity building.

39. MPF financing of recurrent budget expenditures would, as under the SFF, be based on the FGS' budget framework, which would be reviewed by the IMF and the World Bank. As a macro-fiscal framework is developed and strengthened in line with improved data and statistical capacity, the basis for MPF recurrent expenditure support will be strengthened. The total external funding needs for government recurrent budgetary expenditures are expected to decline over time as domestic revenue mobilization picks up. Therefore, MPF funding of recurrent expenditures will have a natural phasing-out strategy tied to narrowing external financing gap in the FGS' recurrent budget. However, this will need to be closely integrated with the review of security sector spending in Somalia, which makes up the majority of recurrent expenditures. Within its knowledge program in the ISN, the Bank is planning a security sector Public Expenditure Review in 2014, in partnership with key security sector actors.

40. The financing of recurrent costs by the SFF is currently limited to the payroll of the Mogadishu-based federal authorities. Over time, with further clarification of the inter-governmental fiscal and constitutional framework, the SFF and the MPF will work with the FGS and regional authorities to develop potential financing streams to integrate fiscal management across Somalia based on clear development norms or formulae. The workstream will also facilitate linkages between recurrent cost payments and an evolving Capacity Development Facility, led by the UN system. In addition to on-going support to PFM, the MPF will support the development of an appropriate framework for capacity injection allowing government to provide opportunities for Somali diaspora and graduates in government line positions, and on salary scales that are both competitive and sustainable.

41. The **Public Investment Workstream** will finance flagship and other government investment projects and programs, including capacity development and technical assistance activities. These flagships will likely build on a) smaller pilots or early recovery activities that would be transferred to government implementation mechanisms and would seek MPF financing for scale-up, and b) SFF-funded projects being financed using government systems. Where possible, projects and programs will use country PFM systems for delivery to establish capacities within government ministries. UN agencies, NGOs and the private sector may continue to

deliver activities, but increasingly within government-defined frameworks and under contract with line departments. Accordingly, the MPF program activities will take longer in design before moving to effectiveness and would be limited to implementation in permissive areas.

42. Sector coverage of investment activities will remain flexible in order to respond to changing needs and to dialogue between the Bank, donors and the FGS at the governance level of the SDRF. Nevertheless, preliminary preparation work to develop the MPF pipeline has been initiated based on the ISN and ERP priorities, and the Bank's comparative advantage. These areas include:

- Urban infrastructure & urban services: Based on a rapid assessment in August/September 2013, the team has identified investment opportunities in Somalia's three main cities in line with the ERP flagship. Somalia's urban areas are increasingly strained by urbanisation and IDP and informal settlements leading to human development challenges. Initial investments could focus on solid waste management, water and sanitation, and upgrading of roads – with a cross-cutting focus on job creation, especially in Mogadishu.
- Youth employment: Livelihoods and job creation, particularly for Somalia's excluded youth, is a Compact priority which requires both short and long-term approaches. To initiate its response in this area the Bank will pilot a youth employment initiative through private sector participation in the renewable energy sector. The initiative is based on the recently completed joint FAO/World Bank *Tsunami Livelihood Recovery Project* which supported fishing communities along Puntland's coast with capacity building and basic equipment.
- Resilience and Livestock: The livestock export sector is the backbone of Somalia's economy and generates livelihoods for 60 percent of the population. The Bank is collaborating with FAO on the policy, institutional and infrastructure needs to support the sector's sustainable development.
- Information and Communication Technologies: The ICT sector is a strategic sector for the economy and the Bank is designing a program to enhance its competitiveness and employment by encouraging efficiency and equity in access to connectivity and promoting further investment in the sector.
- Private sector development: The Bank's on-going engagement with the private sector is limited to Somaliland. This program, with scaled up support through the MPF, will seek to expand to Puntland and southern Somalia, with work on the business enabling environment, public private partnerships in key sectors (ports) and matching grant initiatives to stimulate investment.

43. In the social sectors the Bank will provide knowledge and innovation support that complements the UN agencies' leadership in health and education and that may lay the foundations for future investments under the MPF, allowing for the gradual transfer of responsibilities from the UN agencies currently delivering services to the government.¹⁷ Moving

¹⁷ Currently the UN is implementing flagships in the health sector and education sector through UN joint programs that are closely integrated with technical ministries: the Joint Health & Nutrition Program (WHO & UNICEF, with DFID and SIDA

these programs to the MPF in a phased manner over time would bring implementation into government systems and processes, while maintaining the critical role of non-state actors. Looking ahead, the Bank is also preparing engagements that can support energy, water and sanitation, and oil and gas, in response to government and development partner demand.

44. As noted above, these activities are under preliminary consideration and will be developed further into projects based on dialogue with counterparts and development partners and in line with Bank and government capacity, as well as the security situation on the ground. MPF investment activities will be closely aligned with the ISN and will build on earlier activities the Bank has piloted.

45. The **Enhanced Implementation Support Workstream** would enable IDA to administer the MPF and deliver the program in the context of a high-risk environment.¹⁸ This workstream will be a separate “window” in the Bank’s system to separate donor funds clearly between recipient-executed and Bank-executed activities. The cost ceiling would be set annually together with donors and government. Expenditures would include:

- *Program Development, AAA, Supervision and Impact Evaluation*: Includes costs for MPF project preparation; analytical and policy work; training and other capacity development, including for the supervision of specific activities and the undertaking of associated analytical work including data collection/survey work/baseline and impact evaluations of activities financed under the MPF;
- *Monitoring Agent*: the Bank-executed window would also fund a system for third party supervision of project activities, including but not limited to support to the UN’s Risk Management Unit within the Resident Coordinator’s Office. Monitoring agents have been used successfully in other high-risk contexts, and a Somalia-specific approach will be tailored based on consultation and lessons learned. The Monitoring Agent function will be adapted to the needs of the recurrent cost and public investment workstreams with an emphasis on fiduciary systems for recurrent cost financing, and on project monitoring and asset verification for the flagship program workstream.

Timelines

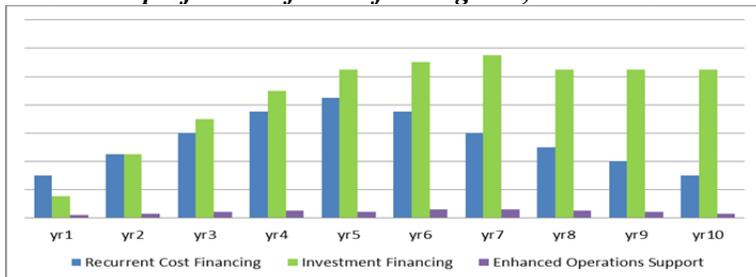
46. In terms of operational effectiveness, as noted above the identification of potential MPF activities has been initiated in line with government priorities and the Bank’s ISN framework. The timing of MPF funding of recurrent costs will be determined in dialogue with both the FSG and Norway, but is expected to begin in the first half of calendar year 2014, benefitting from the Bank’s engagement with the development of the SFF’s fiduciary procedures. The public investment workstream will be supported in start-up through the State and Peace-building Fund which has financed some small pilots which the MPF can scale up. Larger projects will be prepared and approved on a needs and capacity basis over time. Managing government and donor expectations on realistic timelines for delivering these larger flagship projects will be

support) and the UNICEF education program. The Joint Program on Local Governance is also another widely recognised UN intervention that could be appraised for scale-up under the MPF.

¹⁸ Costs related to specifically to the MPF administration will be directly covered – see section on Cost Recovery.

critical, and will be eased by the quicker delivery of recurrent cost and smaller-scale investment lending operations.

Illustrative projection of MPF funding mix, annual commitments



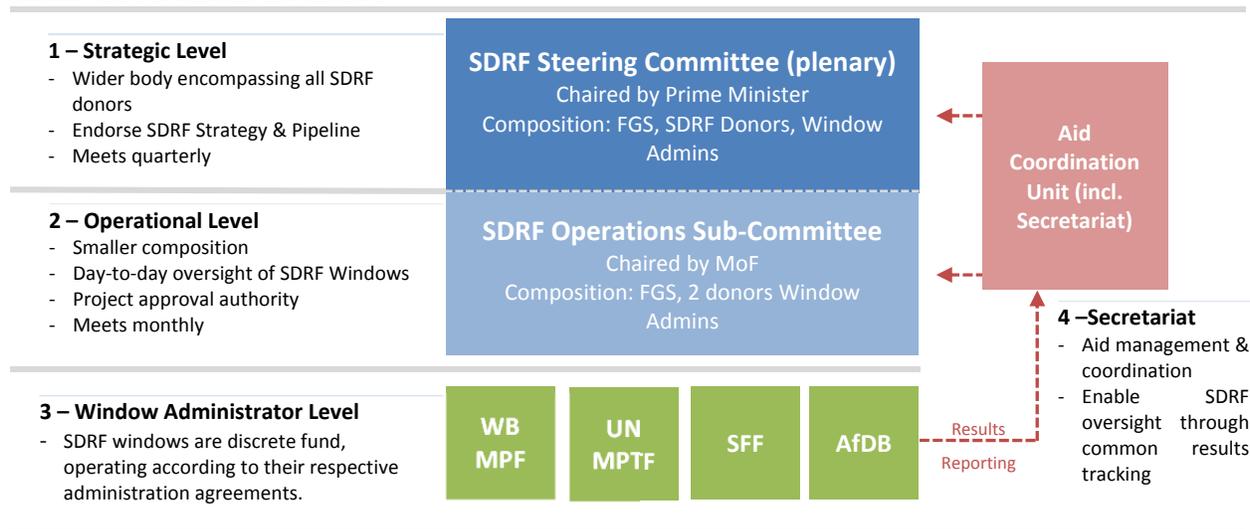
Governance Framework¹⁹

47. To enhance coordination and reduce transaction costs, the governance of the MPF will be fully integrated within the SDRF governance architecture set out in the Compact and elaborated further at the country level among key stakeholders. The MPF, along with the SDRF’s other windows, will be governed by the SDRF Steering Committee harmonising and streamlining a portfolio of Compact financing instruments under a common platform for coordination and dialogue.

48. The MPF governance structure will have three levels, which are:

- The SDRF Steering Committee;
- A SDRF Operations Sub-Committee;
- World Bank (IDA) as MPF Administrator.

SDRF Governance Structure



¹⁹ Based on the lessons of other MDTFs, the MPF governance arrangements will be flexible to allow continued adaptation to reflect changing political and security conditions as well as the on-going dialogue among SDRF stakeholders. This Board Paper establishes the parameters of this governance structure but allows flexibility to ensure the MPF remains within the parameters of the SDRF governance arrangements as they are concluded and operationalized.

49. Based on the current in-country dialogue, the **SDRF Steering Committee** will meet in a quarterly plenary session and a monthly operational session.²⁰ In the quarterly plenary session, it is intended that the SDRF Steering Committee will provide strategic oversight and guidance function for the SDRF and for the broader implementation of the Compact, including key commitments on aid policy and aid delivery. The SDRF Steering Committee plenary session will provide joint oversight (donor and government) of the strategic direction, implementation, and results of the SDRF windows, including the MPF. At the plenary level, the SDRF Steering Committee will have no role in the approval or review of individual MPF grants.

50. Membership of the Steering Committee will include FGS line ministries, donors, window administrators (the WB, AfDB, UN, Norway/SFF), with potential for observers from civil society and the private sector. Decisions will be on a consensus basis. With a broader set of stakeholders, the Steering Committee in its plenary format will provide a platform for policy dialogue between the FGS and the international community.

51. Specific functions of the SDRF Steering Committee will include:

- Discussing and endorsing a forward-looking project pipeline and ensuring alignment with Government development plans;
- Reviewing harmonized results reporting for SDRF windows provided by the Secretariat and assessing progress by the SDRF towards Compact and ERP priorities;
- Coordinating across SDRF windows;
- Supervising the Secretariat.

52. Given the many stakeholders involved in Somalia, the SDRF Steering Committee would include a mechanism for dispute resolution to adjudicate disagreements that may arise between development partners, government, and other actors.

53. **In its operational format the SDRF Steering Committee (or “Operations Sub-Committee”)** will have oversight of the administrative management of the MPF and other SDRF windows. Meeting on a monthly basis, the Operations Sub-Committee will have a smaller composition than the SDRF Steering Committee to avoid decision-making bottlenecks, limited to 8 Somali members (including two seats for regional governments) and 7 international members including the administrators and two rotating donor seats. The Operations Sub-Committee will review the financial status of the SDRF windows, and review proposals for funding under the MPF and the UN fund in line with procedures and pipelines endorsed by the SDRF Steering Committee in the plenary sessions. The Operations Sub-Committee will also ensure that the appropriate fiduciary arrangements, policies and procedures are applied.

54. The SDRF Operations Sub-Committee will be chaired by the FGS Minister of Finance with SDRF window administrators as permanent members. A small number of SDRF donors will participate on a rotating basis to ensure limited donor representation at the grant approval stage.

²⁰ Full terms of reference for the SDRF Steering Committee and Aid Coordination Unit are currently being finalised for endorsement.

The Operations Sub-Committee will be supported by the Secretariat and technical staff from SDRF window administrators. The SDRF Operations Sub-Committee will be responsible for overseeing the production of annual reports on the performance of the MPF and quarterly financial reports and will be accountable to the SDRF Steering Committee.

55. A **Secretariat** will support the governance arrangements of the MPF and will be housed inside a broader Aid Coordination Unit. It will be based inside the government in Mogadishu and will be supported with additional personnel from the World Bank, the UN, and other development partners. The Secretariat would support the proper functioning of the SDRF Steering Committee and the Operations Sub-Committee. As such it would perform functions primarily related to aid management and aid coordination. In particular, the Secretariat would:

- Facilitate reporting based on agreed common reporting standards;
- Facilitate coordination between the different funding windows;
- Follow up on aid pledges and commitments;
- Prepare the agendas and back-up documentation for SDRF Steering Committee and Operations Sub-Committee meetings;
- Support a common risk management approach within the SDRF.

56. As **Administrator**, IDA will be responsible for ensuring that the MPF and its funds are used in accordance with the administrative agreements signed with MPF donors and that recipients use MPF funds in accordance with the grant agreements. IDA, as Administrator, will be responsible for appraisal, supervision of implementation by recipients, and monitoring and reporting on all performance aspects of fund-financed activities. Critical to the Administrator's role will be to assume, on behalf of donors as set out in the administration agreements, fiduciary responsibility for the funds spent by the MPF. Given the fiduciary requirements on IDA as Administrator, the MPF will only finance activities in areas where a satisfactory minimum level of supervision can be undertaken. As the MPF will retain the flexibility to use the UN-WB Fiduciary Principles Accord under certain conditions, a separate governance process at the SDRF Operations Sub-Committee level will be established for approving and allocating MPF funds where the FPA is applied.

Regional Coverage

57. A key challenge for the SDRF (and consequently the MPF) will be to navigate the sensitive question of regional coverage, equity and subsidiarity of decision-making in the context of the evolving federal level leadership in Mogadishu. Linked primarily to the FGS, the SDRF will nevertheless need to ensure that allocations of international funding to Somalia's different regions is undertaken in partnership with regions themselves, based on regional needs and allows for regional implementation. In other contexts, such as Bosnia-Herzegovina following the Dayton Agreement, specific formula have been developed and agreed to guide the allocation of international resources. Elsewhere, such as Afghanistan, regional sensitivities have been addressed through "national programs" that ensure balance and equal economic opportunity – while allowing for flexibility in the operational roll-out based on feasibility and access. While Somali stakeholders have endorsed the principle of inclusive decision-making and regional balance in the allocation of funds, an implementation methodology and procedure have yet to be developed.

58. At the level of the MPF, project activities will be developed on the basis of consultation with federal and regional authorities and will be implemented through systems and institutional structures that are most appropriate for delivery in that area. MPF coverage is in principle national – but in practice will be constrained by security and access. Expenditure will be transparently reported with disaggregation by sector and region. For projects in Somaliland, arrangements will be made that take into account the Somaliland Special Arrangement as set out in the Somali Compact and consideration will be given - together with the authorities in Somaliland - to direct funding by the MPF of the Somaliland Development Fund which is the Somaliland government's preferred modality for channelling international funds to Somaliland. As part of its approach to integrating regional participation, the MPF could support the elaboration of an inter-governmental fiscal transfer system linking the federal government with eligible regional governments. Clear criteria would need to be developed and agreed upon between the federal government and regional governments, in line with the evolving legal and constitutional framework as well as the political context.

MPF Results

59. The MPF will take an iterative and phased approach to results, given that it is a ten-year fund that will span different phases of Somalia's transition. An indicative MPF results framework is presented as an annex to this document. It will be further developed in line with a results framework for the SDRF in order to reinforce the government's principle of establishing common reporting standards linked to Compact priorities across funding instruments, projects and programs. Drawing on the model of the Afghanistan Reconstruction Trust Fund, the MPF Results Framework will track high-level development results, partnership results and MPF effectiveness results, in addition to program- and project-level results. The MPF will build in gender-disaggregated results monitoring where data permits.

60. The responsibility for monitoring and reporting results will be specified in the individual grant agreements funded by the MPF with the line ministries responsible for delivering the MPF projects as specified under specific grant agreements. Capacity support will be built into the project design to enable monitoring and evaluation capabilities.

Risks

61. The MPF will operate in a high risk environment. Insecurity, political instability, low capacity, and constrained monitoring and supervision access, will create a challenging operating context for IDA as Administrator of the MPF. The MPF will face high corruption risks, especially given the focus on using country systems in an environment of very low institutional capacity. The MPF will also operate in a highly-politicized development environment. While it will apply valuable lessons-learned from elsewhere – including Iraq and Afghanistan – the MPF and its links to national ownership will operate in difficult territory with respect to the management of key risks. Key risk areas and mitigation approaches are described below. A full ORAF for the fund will be developed as part of the operations manual.

62. **Security:** While northern Somalia (Puntland and Somaliland) have operating conditions on a par with many other African countries, improvements in security will be a critical pre-condition for developing the MPF program in the southern Somalia. Much of the area remains

inaccessible given ongoing conflict between and among al Shabab militants, factional militia, government forces (the Somali National Army) and AMISOM (the African Union force). It is estimated that al Shabab has access to around half of Somalia's territory. Asymmetric attacks to destabilize the transition will likely continue on FGS personnel and international sponsors, including in Mogadishu. Firm international commitment to Somalia and to the Somali Compact is likely to ensure sustained support to AMISOM, to strengthening Somali forces and to international counter-terrorism operations in Somalia targeting the leadership of militant groups. As a mitigating measure if security gains stall or deteriorate, the MPF can re-balance its focus to the more stable Northern regions, while continuing to support knowledge work and technical assistance in the South.

63. Political and Regional Dynamics: Somalia's political leadership faces several challenging political tasks: outreach and dialogue with the regions; constitutional review and a referendum; and preparation for national elections in 2016. In line with lessons from the WDR2011, the current transition is creating new stresses that threaten progress. Already in 2013, some of the key political risks have emerged: the deterioration of relations between the new federal authorities and regional governments, which could complicate program development, absorb counterparts in protracted political negotiation or even undermine the government. The MPF and the SDRF more generally will bring relatively large funding source into a resource-constrained environment, and may exacerbate existing federal-regional tensions around power- and resource-sharing if the allocation of SDRF and MPF funding is seen as biased by stakeholders in Somalia's various regions. The main avenue for mitigating this risk is to develop a resource allocation method or formula that provides as objective and neutral a basis as possible for resource allocation. The World Bank is already working to develop such an approach with its development partners, and is drawing on lessons from other country contexts, including the former Yugoslavia (Dayton Accords) and Iraq.

64. Capacity and Integrity: Somalia's public institutions have extremely weak capacity, and counterparts have little to no experience with World Bank policies and procedures. The Central Bank of Somalia (CBS) lacks a formalized structure and resources, and there is no formalized banking industry in the country. This raises the risks that MPF grants do not disburse or are subject to fraud or corruption.²¹ The MPF's goal of strengthening core state functions through the use of country systems heightens these risks. The MPF approach is designed to mitigate these risks as much as possible and will benefit from the strong preparatory work undertaken by the Bank's PFM Capacity Strengthening Project, which institutes a rudimentary framework for World Bank-financed grants, including for procurement, financial management and expenditure control, as well as establishing improved internal controls for domestic funds. The Bank has also collaborated in the design of the SFF, which is piloting the use of country systems based on biometric verification for salary payments, and the establishment of licensed financial institutions with deposit and payment functionality. To further mitigate fiduciary risks, a third-party Financial Management Agent (FMA) will be contracted by the Bank to ensure application of Government processes and procedures in line with Bank fiduciary guidelines and will provide additional risk-mitigation assurance regarding the use of country systems The Bank

²¹ The 2013 UN Somalia Eritrea Monitoring Group report highlighted that while a new and robust PFM reform agenda may have been articulated, governance and integrity issues will remain challenging.

fiduciary, procurement and disbursement teams have developed a draft fiduciary framework for Bank operations to be adapted on a project-by-project basis. This may also include direct payment mechanisms. A joint assessment of risk and risk mitigation with development partners will also be developed and reviewed on an iterative basis to provide a platform for joint review and dialogue with the government. Finally, within the framework of the SDRF the Bank will work in close partnership with the UN technical agencies that have developed sophisticated networks and risk management approaches. The SDRF facilitates a joint approach to risk and will adopt and further strengthen the practices of the UN Risk Management Unit within the Resident Coordinator's Office, focusing on contractor verification and vetting as well as onsite spot-checks of projects.

65. **MPF-Specific Risks**

- **Staffing:** Global MDTF experience points to the importance of experienced staff to manage MDTFs. Given the risks posed by Somalia, recruitment may be a challenge. The Bank's country team has developed a staffing strategy that will ensure strong MPF administrative oversight and management, as well as support to the SDRF's Secretariat. The MPF's Enhanced Implementation Support Workstream, described below, will also provide a flexible source of funding to ensure sufficient management supervision, oversight, and capacity support. Procurement is likely to be a key bottleneck in Somalia. The Bank team is mobilising a dedicated procurement staff to be based in Nairobi to support procurement processes under the MPF and to support government to elaborate a stronger public procurement framework.
- **Slow start-up and delays:** Bank policies and procedures, while geared towards mitigating fiduciary risks, can reduce the speed with which funding is delivered. The World Bank has been clear to set reasonable expectations with government stakeholders and development partners regarding the role of the MPF to ensure that stakeholder expectations are aligned with what the MPF can deliver in terms of speed of start-up, disbursements and result. The MPF will also adopt a phased approach to operationalization in order to increase prioritisation and sequencing in line with Bank's capacities, counterpart absorption capacity, and the broader security context. Recurrent cost operations have also enabled some funds (notably Afghanistan and West Bank & Gaza) to build and test country systems, generate counterpart capacity for managing funds and ensure basic running costs are met in emergency contexts, while teams prepare investment operations in parallel.
- **Monitoring and Supervision:** Security conditions will present constraints to the monitoring and supervision of MPF activities. As a basic risk mitigation principle, the Bank will not operate in areas where sufficient oversight cannot be assured. However, experience from Afghanistan, Iraq, South Sudan, and elsewhere have shown that alternative approaches, including the use of third-party monitoring agents, can ensure that sufficient supervision is achieved even in challenging country contexts. The enhanced implementation support workstream will help provide the resources necessary to monitor and supervise MPF projects, allowing the MPF to use an innovative HR/Logistics Platform to extend its project supervision capabilities on the ground.

66. The MPF's risk management strategy will also involve the following components:

- A risk sharing approach agreed with the key partners to the MPF. The principle of risk sharing, as supported by many international donors at the OECD DAC, rests on joint assessments of risk, joint management of risks and transparent sharing of risk information as it arises within the program. This approach is particularly important in a high risk context such as Somalia, where “risk-dumping” would be unsustainable for any Administrator.
- A close partnership with the UN Resident Coordinator’s Office which has a dedicated Risk Management Unit (RMU). The RMU has been assessed by the Bank as a potential partner for risk management under the MPF which would involve MPF resources increasing the capacity of the RMU to carry out project site visits and asset verification processes. The involvement of the RMU would be in addition to the fiduciary oversight provided through the Bank’s supervision.
- Learning from, and adapting, existing programs and systems, including the SFF.
- Commitment to conflict-sensitive approaches: in line with Somali Compact principles, the World Bank, along with other development partners, and Government, will cooperate to ensure that MPF projects are designed in a conflict-sensitive manner, through the use of context analysis and regular monitoring, to reduce the risk that aid unintentionally contributes to the escalation or sustainably of violence. Particular attention must be paid not to increase economic and political inequalities. This commitment to conflict sensitive approaches includes the development of a grievance redress/ombudsman mechanism for the SDRF that will allow complaints related to aid operations to be filed and heard.
- Broader partnerships to be established beyond the executive branch of government, including with civil society actors and networks and oversight institutions including the Parliament.

Exit Strategy

67. Given the fragile security and political context, an exit strategy is required to limit the loss of reputation and financial resources to the international community should security or political progress suffers significant deterioration. The exit strategy would consist of incremental disengagement measures depending on the severity of the setbacks encountered by the program. IDA as administrator would make decisions regarding suspension of operations based on Bank policy. Contributors to the MPF would make decisions regarding withdrawal of funds, subject to the terms of administration agreements.

68. Disengagement steps would include a revision of the planned interventions, and the partial or full suspension of activities. Factors to be taken into account when considering a disengagement from the MPF would include: (i) large-scale reversal of security gains that undermines program activities and endangers implementation; (ii) a withdrawal of the international community from the political and security process, due, inter alia, to loss of popular legitimacy of national authorities; (iii) a lack of political will among domestic political actors to follow through with reforms as elaborated in the New Deal Compact.

V. FIDUCIARY AND ADMINISTRATIVE MANAGEMENT

69. As the Trustee and Administrator of the MPF, IDA will be responsible for the project cycle of identification, preparation, appraisal, effectiveness, supervision, and closing. Subject to the roles and responsibilities outlined in the administration agreements with donors, as Administrator IDA will also have final authority or responsibility to deny funding to proposed MPF activities at the disbursement level where in its view significant doubts arise as to whether the funds would be effectively used for the agreed upon purposes. The Administrator, subject to the Administration Agreements, will ensure transparency in communications around these issues.

70. Criteria for eligible financing and project identification processes will be developed with the MPF stakeholders in the SDRF Operations Sub-Committee for presentation and discussion with the members of the SDRF Steering Committee. These criteria will be linked with broader commitments to aid effectiveness set out in the Compact, including encouraging funding that is on-plan, on-budget, on-treasury and delivered through national institutional delivery platforms for delivery and reported on according to common reporting procedures and standards.

71. Given Somalia's urgent reconstruction and development needs and the low-capacity, volatile operating environment, IDA, as MPF Administrator, will seek to employ operational policy flexibilities that the Bank provides for, in discussion with the full range of donor partners. The Administrator may also seek to establish a set of time-bound, ring-fenced waivers to certain Bank policies for proposed activities focused on early recovery.

72. The Central Bank of Somalia (CBS) currently lacks a formalized structure and resources which increases the inherent risk for the application of funds and cash flow, which in turn will have an impact on financing of new operations. Capacity building support for the CBS, in the medium as well as the long term, will be critical due to the CBS' crucial role in establishing a unified Federal Government and Public Financial Management Structure and this work will be led by AfDB, the IMF, and UNDP. In the short term, the WB will explore possible alternatives to minimize the identified risks. The Bank's joint fiduciary mission has identified some mechanisms for mitigating funds flow risks in the short run, including direct disbursement and a minimal float ceiling in the designated account.

73. The Administrator will make use of the World Bank's new operational policy framework for "*Projects in Situations of Urgent Need of Assistance or Capacity Constraints*" as set out in paragraph 11 of Operational Policy 10.00. Accordingly, while a key strategic objective of the fund will be the strengthening and use of country systems, the fund will adopt a flexible approach that calibrates its operational modality to the country context and based on the specific project needs. OP 10.00 paragraph 11 allows for the following flexibilities:

- Fiduciary, social, and environmental safeguards requirements may be deferred from project preparation to project implementation stage;
- Special procurement arrangements may apply, including the use of a positive list for financing;

- Increased allowance for project preparation advances and retroactive financing²²;
- Where beneficiary capacity is insufficient, and at their request, the Bank may enter into arrangements with implementation agencies including the UN or NGOs directly, or may execute activities directly on behalf of the government. These arrangements have been applied in Somalia and Somaliland operations to date. The experience has been positive with regards flexibility for delivery, although direct execution limits the potential for building country ownership, including for supervision and fiduciary oversight in some cases.

74. These provisions are most relevant as additional flexibilities to be applied to recipient executed activities, which will be the preferred modality for MPF funding, with the exception of certain Bank-executed operational activities (enhanced supervision, AAA and M&E) that would be funded as part of the Enhanced Implementation Support Workstream.

75. In addition, at the Trustee level, the MPF will adopt the Fiduciary Principles Accord (FPA) previously agreed between the World Bank and United Nations agencies to allow for direct pass through of funding from the MPF to the UN. The use of the FPA would be in accordance with UN-WB policies and procedures and would be subject to SDRF Operations Sub-Committee approval. In the past, the FPA has provided Somalia with flexible funding for fisheries rehabilitation and rapid recovery from the devastating famine of 2011. With a UN MDTF operating in parallel to the MPF, it is not clear that the FPA will be used. However, given the long time frame of the MPF and the uncertain country context, there is a strong argument for retaining the MPF's capability to use the FPA, at the discretion of its governing bodies.

Project Approval Process

76. The SDRF Operations Sub-Committee will approve project proposals for development by the government. The Bank will recuse itself from voting on proposals for MPF funding, as will the other window administrators of the SDRF when proposals for funding from their respective windows are brought for a vote by the SDRF Operations Sub-Committee.

77. An annual rolling SDRF pipeline review in line with the budget preparation cycle will be undertaken collectively through the SDRF Steering Committee. On that basis, on-going programs will be reviewed and restructured as necessary and new project preparation will be initiated.

78. The SDRF Steering Committee will discuss and endorse a forward-looking pipeline. Project concepts will be approved by the SDRF Operations Sub-Committee. After Operations Sub-Committee approval, MPF projects will follow World Bank regional project approval processes.

79. The MPF will establish performance standards for different phases of the grant approval process so that there are realistic expectations about timing and in order to move as quickly as

²² Retroactive financing under the MPF will be within the retroactive financing date agreed with all donors and set out in the Standard Provisions of the Administration Agreements.

feasible. These standards, which will be included in the MPF Operations Manual, will be monitored and reported on in order to assess performance as well as identify and address bottlenecks.

Proposed MPF Project Approval Process



Fiduciary Framework

80. As an IDA-administered fund, the MPF will apply the Bank’s fiduciary framework for accounting, audit, and procurement, which positions government in the lead role for implementation, M&E and results reporting. IDA as Administrator will monitor and oversee the use of MPF funds, ensuring that they are managed in accordance with the administrative agreements and that recipients use funds in accordance with respective grant agreements.

81. World Bank financial management, procurement, and disbursement staff are currently developing the MPF’s fiduciary framework, which will be geared towards a pragmatic testing and strengthening of country systems for procurement, financial management, monitoring and evaluation, and oversight. This work reflects lessons emerging from the early implementation of the SFF as well as the program of technical assistance under the Bank’s Public Financial Management Capacity Strengthening Project. A key principle of the MPF’s fiduciary framework be to apply appropriate fiduciary measures in Somalia that take account of the country context. While this may raise the fiduciary risk for the MPF as a whole, it also addresses one of the key risks to the client. The counter-factual is to continue with a delivery strategy that bypasses government systems and accountability, or to apply inappropriate fiduciary policies that have little relevance to the country context.

82. As mentioned above, the Central Bank of Somalia (CBS) lacks a formalized structure and resources which increases the inherent risk for the application of funds and cash flow, which in turn will have an impact on financing of new operations. Mechanisms to reduce risk in the short-term include direct disbursement and a minimal float ceiling for the designated account. Another key risk mitigation measure will be the use of a third-party Financial Management Agent (FMA), contracted by the IDA as MPF Administrator to ensure independence. The FMA will be tasked with monitoring and evaluation of activities financed by the MPF under the recurrent window by applying the eligibility criteria to government withdrawal applications. The FMA will be located in the Ministry of Finance to ensure application of Government processes and procedures that are consistent with the Bank fiduciary guidelines. This agent will provide additional risk-mitigation assurance regarding the use of country systems. This function will be closely coordinated with

the Public Financial Management Capacity Strengthening Project. The MPF's FMA approach follows models developed in Iraq, Afghanistan, and piloted in Somalia by the SFF.

83. IDA will maintain separate records and ledger accounts in respect of the Contribution funds deposited in the trust fund account and disbursements made there from. IDA will provide MPF donors current financial information relating to receipts, disbursements and fund balance in US\$ with respect to the contribution funds via the Bank's Trust Fund Donor Center secure website.

84. At closure, within six months after all commitments and liabilities under the MPF have been satisfied and the trust fund has been closed, the final financial information relating to receipts, disbursements and fund balance in US\$ with respect to the contribution funds will be made available to donors via the Bank's Trust Fund Donor Center secure website.

85. IDA will provide to the Donor within six months following the end of each Bank fiscal year the annual single audit report, comprising (a) a management assertion over internal controls surrounding the preparation of trust fund financial reports together with an attestation from the Bank's external auditors concerning the adequacy of internal control over cash-based financial reporting for trust funds as a whole, and (b) a combined financial statement for all cash-based trust funds together with the external auditor's opinion thereon. The cost of the single audit will be borne by IDA.

86. Any MPF donor request for a financial statement audit on an exceptional basis by the Bank's external auditors will require: a) consultation with the Bank as to whether such an external audit is necessary; b) unanimous approval of the request by all participating donors to the MPF. If both conditions are met, and following concurrence on the audit's scope and provisions, the Bank will arrange for such external audit. The costs of any such extraordinary audit, including the internal costs of the Bank with respect to such audit, will be paid by the Donor.

Safeguards

87. World Bank Regional safeguards advisers will work with the country team to develop an environmental and social safeguards screening framing for the MPF that takes into account the particular context of Somalia.

88. Across the implementation areas, the MPF will have access to support from the Nairobi-based Operational Solutions Team in the Centre on Conflict Security and Development (CCSD). The OST brings just in time advice to teams working on complex issues, in procurement, safeguards and financial management.

Operational Manual

89. An operational manual will be prepared that provides the ground rules for MPF-funded activities, project appraisal and approval, procurement, flow of funds, financial reporting, accounting and audit arrangements (including technical audits), quality assurance arrangements, and a results-based monitoring and evaluation framework.

Contributions to the MPF

90. Donors are encouraged to support the overarching objectives of the fund as part of a collective effort and to avoid over-specification of their bilateral priorities within the MPF. Earmarking to specific activities is not possible and will not be accepted within the MPF. However, donor ‘preferences’ will be acceptable up to 50% of a donors annual contribution towards MPF priorities, although they would be non-binding and no guarantees can be provided that preferenced funds will be committed as indicated.

91. The MPF will be designed to be able to receive financing from other Bank-administered trust funds, and also contributions from the Bank's Net Income or Surplus.

92. Donor contributions less than \$1,000,000 will not be accepted. Donor contributions will be held in US dollars. For contributions received in a currency other than US dollars, the Bank will, upon receipt of the funds, convert them into US dollars and transfer them to the Bank’s US dollar- denominated cash account “T”.

93. Anticipated funding levels for the MPF are expected to be in the range of US\$70-140 million in the first two years of the program, and annual contributions are expected thereafter in the range of US\$20-70 million depending on the context.

Cost Recovery

94. The MPF will adopt a customized fee arrangement to cover Trustee and Administrator functions. All donor contributions to the MPF will be charged a fixed percentage fee to cover central unit costs (e.g. Controller, Treasury, Legal). The central unit charge will follow the Bank’s graduated fee scale.²³

95. The MPF managing unit will apply full cost recovery through a customized fee arrangement based on a bottom-up detailed calculation of the full costs of managing and administering the trust fund, including all costs related to capital, recurrent, and other costs of the SDRF’s Secretariat based in Mogadishu.²⁴

96. The Bank may invest contribution funds pending their disbursement in any instrument in which the Bank is authorized to invest its own funds. Investment income earned on the contribution funds will be deposited into the account to be used for purposes of the MPF on a monthly basis.

97. Retroactive financing for investment projects and programs of the MPF would be considered on a case-by-case basis where appropriate and warranted, in line with the MPF’s administration agreements and with the normal criteria for retroactive financing used by the World Bank serving as a model. Decisions on whether to permit retroactive financing, and to what extent, would be made by the SDRF Operations Sub-Committee at the time when proposals are reviewed

²³ 2 percent charge if the MPF is <\$100m; 1 percent charge if the MPF is >\$100m

²⁴ The managing unit is the Bank unit responsible for administration of the MPF in accordance with the legal agreements, following relevant operational policies, procedures, and guidance that apply to trust funds and the administrative and budget procedures applicable to the Banks administrative budget.

98. As and when the MPF is closed, any undisbursed balance will be returned to donors, in proportion to their aggregate paid-in contribution to the MPF.

VI. NEXT STEPS

99. This paper recommends that Executive Directors (i) approve the establishment of the MPF and IDA's proposed role as Trustee and Administrator of the fund; and (ii) delegate to the Vice President, Africa Region, approval authority with respect to the provision by the Association, as Administrator of the MPF, of grants from MPF resources.

100. Upon approval by the Bank's Board of Executive Directors, the MPF would be formally established and the World Bank would then proceed to operationalize the MPF through:

- Convening the SDRF Steering Committee and its Operations Sub-Committee and initiating project identification in consultation with Government;
- Selecting and locating staff to administer the MPF and to support the SDRF's Secretariat;
- Concluding negotiation of the Administration Agreements with each interested donor;
- Establishing the trust fund for the MPF, from which funds would be released in accordance with specific Grant Agreements to be negotiated between the Bank and individual recipients;
- Further developing the MPF's results framework, reporting, and monitoring and evaluation systems.

VII. Annex: Indicative MPF Results Framework

The MPF’s fund-level objective is to “provide a platform for coordinated financing in support of the sustainable reconstruction and development of Somalia, with a focus on core state functions and socio-economy recovery.” The indicative results framework below provides an overview of the planned approach to results tracking in the MPF, in line with the current Somali Compact’s PSGs. Given the long-time frame of the MPF, the MPF result matrix will be revisited based upon progress on the country’s transition. The MPF, in line with SDRF commitments, will build in gender-disaggregated results monitoring where appropriate and as monitoring and evaluation conditions allow.

MPF Fund-Level Objective: Provide a platform for coordinated financing for the sustainable reconstruction and development of Somalia, with a focus on core state functions and socio-economic recovery.	
1. High Level Development Outcomes:	Indicative Indicators:
<ul style="list-style-type: none"> The economy is revitalized and expanded in an inclusive manner, with a focus on livelihood enhancement, employment generation, and inclusive growth (<i>PSG4, Economic Foundations</i>) 	<ul style="list-style-type: none"> % increase in productivity in key sectors # of jobs created / # of youth employed through youth-employment initiatives Increased market access, trade, electricity Output indicators for infrastructure (roads, ports, electricity)
<ul style="list-style-type: none"> Increased delivery of services that promote national peace and reconciliation amongst regions and citizens (<i>PSG5, Rev. & Services</i>) 	<ul style="list-style-type: none"> Increase in citizen trust in public institutions # of service delivery programs delivered by government or through government-contracted frameworks Increase in access to basic services
<ul style="list-style-type: none"> Core state functions strengthened, and revenue generation is enhanced in a transparent and accountable manner and public resources are distributed equitably (<i>PSG5, Rev. & Services</i>) 	<ul style="list-style-type: none"> PFM indicators from the FGS’ PFM Reform Action Plan # of salaries paid through recurrent cost financing Increased revenue generation that incorporates strong transparency and accountability Increased transparency of government spending (published budgets; public revenue/expenditure data made public)
2. Project/Program Outcome	To be determined in line with MPF portfolio development
3. Partnership Outcomes	Indicators:
<ul style="list-style-type: none"> Increased coordination of international financial support 	<ul style="list-style-type: none"> % of external financing on budget and using government’s chart of accounts. increase in funding aligned to Compact Priorities/channeled through SDRF government flagship programs fully funded and implemented through the SDRF % of new aid operations designed in partnership with government counterparts % increase of services delivered by NGO or private sector contracted by government
4. MPF Effectiveness Outcomes	Indicators:
<ul style="list-style-type: none"> The MPF provides timely and quality support that is conflict and gender sensitive, and regionally balanced 	<ul style="list-style-type: none"> - Project processing time, MPF Disbursement rate - Portfolio quality (% MPF projects rated satisfactory) - Gender Sensitive (Gender mainstreaming in results monitoring) - Conflict Sensitivity (# of disputes resolved satisfactorily by SDRF Dispute Resolution Mechanism) - Regionally Balanced (MPF Funding aligned to revenue sharing formula)