Financial Governance Report

Financial Governance Committee

July 2019

THE WORLD BANK

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About the Financial Governance Committee

The Financial Governance Committee (FGC) was established in early 2014 by mutual agreement between the Federal Government of Somalia (FGS), donors and International Financial Institutions (IFIs) to provide a forum for dialogue and advice on strategic financial governance issues. The FGC's mandate is renewed annually, subject to agreement between the Federal Government and the international community.

Members of the FGC are drawn from Somali institutions and international partners. The FGC is chaired by the Minister of Finance of the FGS. Other FGS members include the Governor of the Central Bank of Somalia (CBS), representatives from the President's Office and the Prime Minister's Office, the Chair of the Parliamentary Finance Committee and the State Attorney General. The FGC has four international members, who sit as delegates on behalf of the International Monetary Fund (IMF), the World Bank[1], the African Development Bank (AfDB) and donor partners.[2]

The FGC provides advice on macro-critical financial governance issues, including Central Bank governance, asset recovery, currency reform, public procurement and concessions, public asset protection, public financial management reforms, domestic revenue mobilization, resource sharing and fiscal federalism. Until such time as the Procurement Act is under full implementation, the FGC has been mandated by the FGS to review and provide advice on all Government contracts and concessions above $5m in value.[3]

The FGC meets on a monthly basis in Mogadishu. FGC meetings are confidential, but the FGC regularly issues press releases and produces meeting summaries which are made publicly available. It also publishes a number of its Advisory Notes on critical near-term issues. Since 2017, the FGC has issued an annual report on Financial Governance known as the Financial Governance Report (FGR).[4]

1 Funded through the World Bank Multi Partner Fund. The fund has ten contributing donors – for further details see: http://somaliampf.org/development-partners

2 Funded on behalf of donors by the European Union

3 See Annex 1 for a list of all FGS contracts reviewed by the FGC since 2014

4 For further details, see: http://www.mof.gov.so/fgc

Executive Summary

Why sound financial governance is important

Good financial governance is an essential element of Somalia's state and institution-building process. In the absence of good financial governance, there will remain considerable scope for the misappropriation of public funds and assets for private gain, undermining the chances that state-building efforts will be sustainable. In addition, donor funding will continue largely to be provided through non-government channels, lessening the relevance of the state to its citizens. Economies cannot succeed without the trust of citizens, businesses and donors in how public money is managed. The lack of trust discourages business, deters investment and ultimately lowers tax yields. Good financial governance is the responsibility of all levels of government.

Current financial governance challenges in Somalia

The FGC has identified seven strategic issues that the Federal Government needs to address in order to strengthen financial governance in Somalia. These challenges remain relevant in 2019, despite the good progress already made.

1

Agreeing a coherent way forward on fiscal federalism

Current inter-governmental fiscal arrangements still need improvement. In spite of the recent progress made in agreeing revenue sharing arrangements for petroleum and fisheries, further work is still required to ensure that the overall distribution of resources is equitable, and matched to expenditure responsibilities in order to minimise the risk of fragmented and uneven development across Somalia.

2 Managing natural resources transparently and equitably

In the past year, FGS has commenced the process of exploiting Somalia's natural resources by conducting a tuna licensing round and launching its first oil and gas licensing round. As it moves forward, it needs to ensure that sectoral efforts to exploit natural resources are transparent, equitable and fully supported by the FMS.

3 Raising domestic revenues

FGS has made significant progress in increasing its revenues over the past five years, but still faces a severe resource constraint that limits its ability to support fiscal federalism, deliver core State functions and provide services to the public effectively. Raising revenues requires a complex set of inter-linked actions; political commitment to tax compliance, dialogue with taxpayers in key sectors, development of appropriate harmonized legislation, agreement with the FMS and greater technical capacity for collection, administration and compliance.

4 Strengthening the credibility of public procurement and concessions

The FGS has made a strong commitment to more transparent and competitive contracting and has made significant efforts to resolve a number of legacy contracts, to follow due process when entering into new ones and to take steps to protect public property. However, its efforts face a number of challenges, including shortcomings in the legislative framework, a significant lack of technical capacity for procurement and concessions management within Government, a general lack of understanding of procurement due process amongst most stakeholders, and the political influence of the business community in Somalia.

5 Improving expenditure management

As the capacity of the payment and banking systems has improved, the FGS has embarked on reforms to the payment of salaries (direct to individuals' accounts) and non-wage expenditures (direct to suppliers) to reduce cash handling. In the past year, these reforms have been extended to the security sector with positive initial results. FGS now needs to sustain the reforms and further strengthen its mechanisms for verifying the delivery of goods and services; particularly high-value rations contracts.

6 Developing the financial sector

The Central Bank of Somalia's (CBS) reform efforts are focused on capacity enhancement, organizational reforms, and system modernization including ICT infrastructure in order to improve service delivery and restore public confidence in the institution. CBS has developed and issued key regulations for Commercial and Banks and Money Transfer Businesses (MTBs) including anti-money laundering (AML/CFT) regulations. It is now working to address a number of vulnerabilities in the mobile money system in order to mitigate the risks to the wider economy. It is critical that financial sector reforms continue to be supported, politically, financially and technically.

7 Increasing access to external financing

FGS has made considerable progress in bringing funding from certain institutions (EU, World Bank) on-budget, but many other donors continue to be reluctant to use country systems. Achieving debt relief will be key to unlocking additional external financing, as once FGS has achieved Completion Point under the Highly Indebted Poor Countries (HIPC) initiative, it will be able to access concessional loans from multilateral and bilateral lenders. At the same time, FGS will also need to strengthen its capacity for macroeconomic and fiscal management, to ensure that future debt and spending levels are sustainable.

Key elements in strengthening financial governance in Somalia

In the FGC's assessment, individual initiatives towards stronger financial governance are most likely to make sustained progress when underpinned by the following:

i. Appropriate laws, regulations and policies

ii. Sound implementation processes

iii. Availability of skilled human resources

iv. Financing

v. Clear communication by Government on the objective of the reforms

vi. Stakeholder commitment/acceptance

Reform targets need to be formulated holistically, with a clear understanding of all the elements that need to be in place for the reform to be successful. Timelines and sequencing need to be set accordingly, and resources provided as necessary. Technical feasibility alone is not a guarantee of reform success in Somalia.

Financial governance developments in the past year

Financial governance reforms, including FGS's commitment to tackling corruption and ending financial impunity, are cross-cutting in nature. The FGS has made tangible progress over the past year on a number of issues that are important for improving sound financial governance, including security sector registration, domestic revenue mobilization, contract renegotiation (with a successful outcome for the airport concession), tuna licensing and the development of core components of the PFM framework. This progress has played a vital role in securing additional donor financing for the FGS budget, including the first disbursement through government systems of World Bank International Development Association (IDA) resources for thirty years, demonstrating an increased trust by multilateral donors in the use of country systems. It has also enabled FGS to maintain its strong record in SMP implementation, which is in turn essential to Somalia's prospects of attaining debt relief.

FGS's determination over the past year to deliver stronger financial governance in the security sector, in the face of considerable opposition, is highly commendable. Its efforts have encompassed security sector registration and payment direct to bank of over 30,000 personnel across all forces, as well as regularization of rations contracts through competitive retendering. FGS now needs to invest in the sustainability of the registration and payment process going forward, and to make the case for alignment of donor stipend funding with the FGS system. FGS also needs to complete the process of rations retendering, and to develop a more robust internal control system for rations management.

FGS has also taken steps to strengthen the legal framework for expenditure management in the past year. The Public Financial Management (PFM) Bill has been passed by the House of the People, and is with the Upper House. It will provide a legal basis for the harmonisation of FGS and FMS budgeting and accounting procedures and establish a clear legal framework for the acquisition and management of Government debt. The latter is important for ensuring debt sustainability in light of FGS's efforts to attain debt relief in the context of HIPC initiative. The PFM Bill will also provide a framework for natural resource revenue management, including provisions for saving a portion of natural resource revenue for future investment and to ensure fiscal sustainability.

FGS's progress in raising domestic revenue over the past year has been very positive. It has been able to introduce and sustain new revenue measures, such as sales tax on imports, and its decision to require non-tax revenues collected by FGS agencies to be remitted to the Single Treasury has yielded positive results. FGS has also taken a number of steps to enhance its longer-term capacity for domestic revenue mobilisation, both from domestic taxes and from customs. Close collaboration between FGS and the FMS, supported by donors and their implementing partners, will be an important factor for the success of these reforms, particularly in customs. FGS also needs to ensure continuous communication with the public to strengthen support for revenue reforms and improve compliance.

The FGC is concerned that FGS's efforts to raise revenue could end up being absorbed by rising Government administrative costs, as opposed to enabling greater funding for service delivery, infrastructure or productive investments. The FGC has noted over the past year that ad hoc sectoral legislation and donor funding benchmarks are starting to encourage institutional proliferation, in terms of the creation of new government agencies. Institutional proliferation in a context of low capacity and constrained resources raises concerns both for government functionality and fiscal sustainability. The FGC has recommended that FGS establish a policy that determines the conditions under which the creation of a new agency is justifiable, in order to ensure the most efficient use of scarce resources and avoid fragmentation of state capability.

FGS has made extensive efforts over the past year to renegotiate or otherwise resolve a number of the contracts entered into by the previous administration without due process. The FGS's successful renegotiation of the Mogadishu airport management contract represents a significant milestone in its commitment to stronger public procurement and contracting. The revised contract represents a considerable improvement over the initial concession agreement signed in 2013. Its terms establish a clear investment plan for the airport and ensure that revenue payments to government are transparent and fair. FGS has also made considerable efforts to renegotiate the port contract, and negotiations are currently entering their final phase. The FGC has also reviewed and provided advice on a number of other legacy contracts that the FGS needs to work to resolve, including contracts for the issuance of passports and visas, a contract for curriculum development and textbook production, and six leases of Government property.

The FGS has also made considerable efforts over the past year to regularise a number of its security sector rations contracts, most of which had not been procured in line with due process, and suffered from a number of contractual deficiencies. These efforts provide further evidence of FGS's steadfast commitment to following due process in contracting, in spite of the highly politicised business space currently prevalent in Somalia. The ongoing retendering processes need to be completed satisfactorily in the coming months, and adequate internal control and verification measures need to be put in place within the security sector agencies to ensure that rations are delivered and utilised as intended.

Nonetheless, in the FGC's view, procurement remains a financial governance priority. Current weaknesses in the legal framework and FGS's procurement capacity urgently need to be addressed before FGS experiences a significant increase in resource inflows, for example from petroleum or debt relief. Given current limitations in procurement capacity across Government, the FGS has proposed amendments to the 2016 Procurement Act to enable additional oversight of high-value contracts and non-standard bidding methods. In the FGC's opinion, these amendments propose pragmatic solutions to some of the greatest challenges that FGS currently faces in conducting procurements in accordance with the law, in an environment where procurement capacity is extremely limited. Development partners need to focus further on how their current support to the FGS and the FMS can support increased procurement capacity.

In the fisheries sector, FGS issued tuna licenses to 31 vessels operating under the Chinese Overseas Fishing Association (COFA) in July 2018. The licenses were issued at a cost of $1.045m, and the revenues were placed on a special account in the Central Bank of Somalia, pending agreement on their distribution between the FGS and FMS. In March 2019, FGS reached an interim eighteen-month agreement on revenue sharing from tuna licensing with the FMS, enabling distribution of the revenues earned from the 2018 tuna licensing round. Although the sums yielded to date from tuna licensing are modest, the achievement is nonetheless significant, as it signals that Somalia's fishing sector is starting to be managed in accordance with the law after decades of illegal fishing. FGS and FMS agreement on fisheries revenue sharing also represents a milestone in intergovernmental fiscal relations. The gains made to date remain fragile, however, and it will be important that FGS retains the confidence of the FMS as it conducts new annual license rounds whilst continuing to actively promote artisanal fishing.

In the petroleum sector, FGS and the FMS reached an agreement in Baidoa on petroleum and minerals ownership, management and revenue sharing in June 2018. The Baidoa Agreement has also been hailed as a milestone in intergovernmental fiscal relations. The amendments to the 2008 Petroleum Act recently passed by the House of the People require petroleum revenues to be shared in line with the Baidoa Agreement. However, the revenue shares set out in the Baidoa Agreement have significant implications from a financial governance perspective, as they raise the prospect of highly unequal resource allocation across FMS. Under the Baidoa revenue sharing terms, oil-producing FMS are likely to receive between 10 and 17 times more revenue than non-producing FMS, which is a large disparity by international standards. The Baidoa Agreement also does not clarify that revenues will be shared net of any savings for future investment or fiscal stability, as required by the PFM Bill. Given that the revenue shares set out in the Baidoa Agreement have far-reaching implications for vertical (between FGS and FMS) and horizontal (among FMS) revenue distribution and equity, as well as fiscal sustainability, it is important that space remains for the Agreement to be revisited in future. The FGC has recommended that the revised Constitution expands the current article on Natural Resources to require that revenue sharing arrangements are periodically reviewed, and to establish the principle that a portion of natural resource revenues may be saved for economic sustainability and future investment.

More broadly, the current Constitutional Review process potentially provides an opportunity to establish a mechanism for equalising revenue shares across FMS, so that overall revenue shares are not entirely determined by individual sector agreements. However, agreement between the FGS and FMS on a credible political framework for inter-governmental relations, including revenue sharing, continues to be a critical challenge. The FGC has recently provided advice on the structure and possible content of the Public Finance Chapter to help inform technical discussions between the Ministry of Finance and Ministry of Constitutional Affairs.

FGS has taken steps to start generating revenue from the Petroleum Sector. In February 2019, it launched its first oil and gas 'license round', with the aim of concessioning fifteen offshore oil blocks. The February launch was accompanied by a revised Model Production Sharing Agreement (PSA). The new Model PSA contained many changes from the previous Model PSA, which had been subject to FGC review in 2016, including changes to its fiscal terms. The launch was conducted in advance of revisions to the petroleum legal framework, which were subsequently passed by the House of the People in May 2019. A number of FMS expressed concern that they had not been adequately consulted in advance of the licence round or the revisions to the Petroleum Act. The FGC subsequently advised the Ministry of Petroleum and Mineral Resources to adjust the license round timetable so that the licensing process adheres to the requirements of the 2016 Procurement Act, and to enable time to undertake stakeholder consultation and establish the necessary regulatory institutions. The Minister of Petroleum and Mineral Resources committed to adjusting the license round timetable and agreed to an FGC review of the changes that had been made to the Model PSA. However, the Ministry of Petroleum will still require significant technical and legal support to conduct the license round effectively. While FGS's efforts to develop a significant new revenue stream are entirely understandable, revenue raising efforts need to be compatible with sound financial governance and long-run fiscal sustainability. Adequate institutional capacity, a fully established legal framework, and stakeholder consensus are also essential pre-requisites for sound oil and gas development.

Assisting the FGS and CBS in recovering legacy assets held in banks abroad has been an area of focus for the FGC since its inception. Progress in the past year has been extremely slow. Assets have been identified in Italy and Switzerland, but little progress has been made in recovering them. The FGS is trying to use diplomatic channels to pursue further dialogue with the relevant authorities. Assets have also been identified in the UK, but their ownership has not yet been established.

FGS's solid progress under SMP implementation has been instrumental in helping it gain access to additional external financing from multilateral donors. The FGS's success over the past year in securing EU budget support and IDA pre-arrears clearance financing is a milestone in Somalia's HIPC pre-qualification journey and provides a clear sign that the country is gaining the confidence of multilateral donors in using country systems. However, FGS's success in attracting increasing multilateral financing is also bringing an associated set of co-ordination challenges, as individual financing instruments require identification of reform conditions which have to be met in order to enable funds disbursement. Benchmark co-ordination requires careful management across donors as FGS progresses towards debt relief, to avoid the risk of 'benchmark overload' in a context of relatively under-developed institutional capacity. The World Bank's Recurrent Cost and Reform Financing (RCRF) and the EU's budget support operation have tried to address this challenge by closely aligning their benchmarks. Formulation of new reform benchmarks should be clearly informed by an assessment of the various factors that are required for a reform to be successful, and reform proposals need to be assessed for their long-term cost and sustainability, particularly as regards reform benchmarks that require the creation of new government institutions.

Other donors remain reluctant to bring their funding on budget, in spite of the confidence the World Bank and EU have demonstrated in using country systems. A number of them are currently providing funding to FGS agencies outside of the budget, with funds being disbursed to accounts held in Commercial Banks. Likewise, some donors, sometimes through their implementing partners, provide funding direct to FMS, bypassing the inter-governmental transfer system. These practices lack transparency and undermine the development of country systems. They are also inconsistent with the provisions of the PFM Bill that has recently been passed by the House of the People. The FGC is encouraged that the Global Partnership for Education (GPE) recently brought a substantial part of its funding to the Ministry of Education on-budget and on-treasury following advice from the FGC. The FGC will provide further advice to FGS on how to get other donors to bring their funding to FGS agencies and FMS on-budget in the coming year.

Financial governance priorities for the coming year

The FGC's list of financial governance priorities for the coming year focus on the actions it believes the FGS needs to take in the short term to support its state building agenda, strengthen the legitimacy of all levels of government and demonstrate its continued commitment to reducing the scope for mismanagement of public resources.

The priorities are as follows:

1 **Security sector expenditures –** maintain and build on the registration and direct-to-bank payment system for security sector salaries and rations stipends, complete the re-tendering of rations contracts, and strengthen internal security sector financial controls, including for rations verification and delivery.

2 **Constitutional review –** ensure the provisions of the Fiscal Chapter are informed by existing primary legislation, consult adequately on proposals for resource sharing principles and allocation mechanisms, establish a Constitutional requirement that revenue sharing arrangements are periodically reviewed.

3 **Procurement capacity –** adopt proposed amendments to the Procurement Act, secure donor support for procurement and concessions capacity development, start developing a separate legal framework for concessions.

4 **Legacy contracts –** complete seaport concession renegotiations, resolve other legacy contracts.

5 **Oil and gas –** adjust the licensing round timetable so that the process adheres to the requirements of the 2016 Procurement Act and allows sufficient time to establish the necessary regulatory institutions and consult with stakeholders, acquire technical capacity for the management of the license round process, assess the fiscal implications of the new Model Production Sharing Agreement.

6 **Fisheries –** maintain the annual tuna licensing process, and distribute the revenues to all FMS in accordance with the Addis agreement.

7 **Revenue mobilisation –** ensure FGS-FMS agreement on customs modernisation and harmonisation, as well as the assignment of national taxes proposed in the Domestic Revenue Harmonisation Bill.

8 **Bringing aid on budget –** establish clear procedures for disbursement of donor funds to FGS agencies and FMS.

9 **Controlling the cost of Government –** establish and implement a policy to limit institutional proliferation and monitor implementation.

10 **Financial sector reforms -** develop and implement Mobile Money Regulations, enhance supervision of commercial banks and MTBs to promote financial market integrity, AML/CFT compliance and connectivity to the international financial systems, strengthen the integration of the SFMIS and core banking systems.

Table of contents

List of Boxes

List of Tables

Abbreviations and Acronyms

AfDB	African Development Bank
ALSF	Africa Legal Support Facility
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CBS	Central Bank of Somalia
CMC	Cash Management Committee
COFA	Chinese Overseas Fishing Association
DAMC	Domestic Arrears Management Committee
DMU	Debt Management Unit
DFID	UK Department for International Development
DRM	Domestic Revenue Mobilisation
EU	European Union
FGC	Financial Governance Committee
FGR	Financial Governance Report
FGS	Federal Government of Somalia
FMFF	Finance Ministers' Fiscal Forum
FMS	Federal Member States
GPE	Global Partnership for Education
HIPC	Heavily Indebted Poor Countries
ICAEW	Institute of Chartered Accounts for England and Wales
ICAO	International Civil Aviation Organization
ICT	Information and Communications Technology
IDA	International Development Association
IFI	International Financial Institutions
IGFFC	Inter-Governmental Fiscal Federalism Committee
IMCC	Inter-Ministerial Concessions Committee
IMF	International Monetary Fund
MDAs	Ministries, Departments and Agencies
MoF	Ministry of Finance

NDP	National Development Plan
NISA	National Intelligence and Security Agency
PFM	Public Financial Management
PRSP	Poverty Reduction Strategy Paper
PSA	Production Sharing Agreement
RCRF	Recurrent Cost Reform Financing Programme
SFMIS	Somalia Financial Management Information System
SMP	Staff-Monitored Program
SNA	Somali National Army
SRBC	State and Resilience Building Contract
STAR	Stolen Asset Recovery Programme
TSA	Treasury Single Account
UCS	Use of Country Systems
UCT	Upper Credit Tranche
USAID	United States Agency for International Development
WB	World Bank
PRSP	Poverty Reduction Strategy Paper
PSA	Production Sharing Agreement
RCRF	Recurrent Cost Reform Financing Programme
SFMIS	Somalia Financial Management Information System
SMP	Staff-Monitored Program
SNA	Somali National Army
SRBC	State and Resilience Building Contract
STAR	Stolen Asset Recovery Programme
TSA	Treasury Single Account
UCS	Use of Country Systems
UCT	Upper Credit Tranche
USAID	United States Agency for International Development
WB	World Bank

1. Why sound financial governance is important

Good financial governance is an essential element of Somalia's state and institution-building process. It concerns how resources are raised and spent, and supports the following objectives:

i. Ensuring that public resources are used for national priorities, such as combating insecurity and delivering essential services to citizens.

ii. Strengthening trust between the government and the public, between the government and investors, between levels of government, and between government and the international community.

iii. Safeguarding fiscal sustainability and financial stability.

iv. Fostering inclusive growth and social cohesion, generating employment and enabling investment in long-term recovery and development.

v. Strengthening accountability, by holding public officials accountable for the use of state resources.

In the absence of good financial governance, there will remain considerable scope for the misappropriation of public funds for private gain, undermining the chances that state-building efforts will be sustainable. In addition, donor funding will continue largely to be provided through non-government channels, lessening the relevance of the state to its citizens. Economies cannot succeed without the trust of citizens, businesses and donors in how public money is managed. The lack of trust discourages business, deters investment and ultimately lowers tax yields. This is the situation that Somalia found itself in for over two decades following the collapse of the Siad Barre regime. The Federal Government is fully aware that strengthening financial governance is a vital element of its state-building efforts, while also being conscious of the low base from which its efforts are starting, in terms of trust, capacity and systems.

Good financial governance is the responsibility of all levels of government. Lack of consensus over key financial governance issues harms the reputation of Somalia nationally and internationally.

2. Current financial governance challenges in Somalia

In its first Financial Governance Report, published in 2017, the FGC identified seven strategic issues that the Federal Government needs to address in order to strengthen financial governance in Somalia despite the good progress already made. These challenges remain relevant in 2019.

Challenge 1:
Agreeing a coherent way forward on fiscal federalism

Fiscal federalism is the mechanism by which public sector functions and resources are allocated among different tiers of government through agreement on responsibility for taxation and revenue collection, expenditure responsibility and mechanisms for resource equalisation. Although the 2012 Constitution establishes the principle of fair distribution of resources[5], current inter-governmental fiscal arrangements, including tax regimes, still require improvement. Federal Member States (FMS) that have access to port revenues and coastline currently have a significant revenue advantage over the other FMS. The FGS has recently made progress in agreeing revenue sharing arrangements for petroleum and fisheries resources with the FMS. However, under the terms of the 2018 Baidoa Agreement on Petroleum Revenue Sharing, FMS that have exploitable petroleum resources will have a significant revenue advantage over those that do not. Further work is still required to ensure that the overall distribution of resources is equitable and matched to expenditure responsibilities, in line with the principle that 'funding follows function', in order to minimise the risk of fragmented and uneven development across Somalia that undermines state-building.

Box 1:
Provisions in the 2012 Interim Constitution relating to resource sharing

Article 25 (2). Environment "Every person has the right to have a share of the natural resources of the country, whilst being protected from excessive and damaging exploitation of these natural resources"

Article 44. Natural Resources "The allocation of the natural resources of the Federal Republic of Somalia shall be negotiated by, and agreed upon, by the Federal Government and the Federal Member States in accordance with this Constitution"

Box 1 continues next page

5 Article 50 (e)

Article 50. Principles of Federalism in the Federal Republic of Somalia

"The various levels of government, in all interactions between themselves and in the exercise of their legislative functions and other powers, shall observe the principles of federalism, which are:

(a) Every level of government shall enjoy the confidence and support of the people;

(b) Power is given to the level of government where it is likely to be most effectively exercised;

(c) The existence and sustainability of a relationship of mutual cooperation and support between the governments of the Federal Member States, and between the governments of the Federal Member States and the Federal Government, in the spirit of national unity;

(d) Every part of the Federal Republic of Somalia shall enjoy similar levels of services and a similar level of support from the Federal Government;

(e) Fair distribution of resources;

(f) The responsibility for the raising of revenue shall be given to the level of government where it is likely to be most effectively exercised; and

(g) The resolution of disputes through dialogue and reconciliation."

Challenge 2:
Managing natural resources transparently and equitably

Somalia has significant natural resource potential across a wide range of sectors, including petroleum, minerals and fisheries. Access to natural resources revenues could potentially have a transformational impact on the state's finances and prospects for economic development. In the past year, FGS has commenced the process of exploiting Somalia's natural resources by conducting a tuna licensing round and launching its first oil and gas licensing round. However, experience from other countries shows that natural resource exploitation needs to be managed transparently, equitably and sustainably, otherwise it has the potential to generate conflict between communities and their governments, and between levels of government within the federal system. Depending on how they are spent, natural resource revenues have the potential to undermine fiscal sustainability, disrupt economic management, foster corruption and generate inflation. Through the provisions of the PFM Bill, FGS has taken preliminary steps to ensure that natural resource revenues can be managed sustainably. Going forward, it will need to ensure that sectoral efforts to exploit natural resources are transparent, equitable and fully supported by the FMS.

Challenge 3: Raising domestic revenues

FGS has made significant progress in increasing its revenues over the past five years, but still faces a severe resource constraint that limits its ability to support fiscal federalism, deliver core State functions and provide services to the public effectively. The tax base is narrow, many tax rates are low, and the tax collection system has been poorly enforced for many years. Taxes collected from customs at different ports are not centrally pooled and whilst all FMS have committed in principle to harmonising taxes, a full agreement is yet to be reached. At the same time, taxpayers need to be convinced that paying more taxes to the State is in their interests, and that revenues will not be misappropriated. Raising revenues therefore requires a complex set of inter-linked actions; political commitment to tax compliance, dialogue with key taxpayers in key sectors, development of appropriate harmonised legislation, agreement with the FMS and greater technical capacity for collection, administration and compliance.

> *“Effective public financial management requires that decision makers, citizens and other stakeholders, are able to ‘follow the money’ to see how taxes were raised, why decisions to spend it were made, how the money was actually spent and what was bought”*

Source: Public money for the public good: Building trust in the Public Finances ICAEW 2018

Challenge 4:
Strengthening the credibility of public procurement and concessions

Historically, the award of Government contracts has not been subject to open competition, fueling suspicions of corruption and bias in the selection of suppliers. There has been a similar lack of transparency around the disposal of public assets. The FGC has provided support in reviewing high-value FGS contracts and concessions since 2014. Most of the contracts and concessions entered into by FGS up to 2016 resulted from direct negotiations between FGS agencies and contractors. Their terms rarely offered value for money to Government and in some cases appear to have been designed to defraud government. The current administration has made a strong commitment to more transparent and competitive contracting and has made significant efforts to resolve a number of legacy contracts and to follow due process when entering into new ones. However, its efforts face a number of challenges, including shortcomings in the legislative framework (2016 Procurement and Concessions Act), a significant lack of technical capacity for procurement and concessions management within Government, a general lack of understanding of procurement due process amongst most stakeholders, and the political influence of the business community in Somalia. FGS has also taken steps to protect public property, most recently through the establishment of the Committee for the Protection and Restoration of National Property.

Challenge 5:
Improving expenditure management

Historically, Government expenditures, including for salaries, were paid entirely in cash. While this cash-based approach was a function of the weakness of the payment and banking systems, it lacked transparency and created ample scope for diversion of funds. As the capacity of the payment and banking systems has improved, the FGS has embarked on reforms to the payment of salaries (direct to individuals' accounts) and non-wage expenditures (direct to suppliers) to reduce cash handling. In the past year, these reforms have been extended to the security sector with positive initial results. FGS needs to sustain the reforms already made and to further strengthen its mechanisms for verifying the delivery of goods and services; particularly high-value rations contracts. The gains made in improving the transparency of public tendering will count for little if there is limited visibility on whether goods and services are subsequently delivered.

Challenge 6:
Developing the financial sector

Reforms to the regulation and supervision of Somalia's financial system commenced in 2014. The Central Bank of Somalia's (CBS) reform efforts are focused on capacity enhancement, organizational reforms, and system modernization including ICT infrastructure in order to improve service delivery and restore public confidence in the institution.

To further support formalization of the financial sector, CBS has developed and issued key regulations for Commercial and Banks and Money Transfer Businesses (MTBs) including anti-money laundering (AML/CFT) regulations. Improving the financial sector's AML/CFT compliance is essential for financial market integrity and connectivity to the international financial system. CBS continues to conduct regular onsite and offsite examinations on the Commercial Banks and MTBs to check the effectiveness of the AML/CFT compliance, build confidence in the payment system, and safeguard the continued flow of international remittances to Somalia.

Mobile Money plays a critical role in supporting financial transactions in Somalia, and represents the primary payment instrument used by both individuals and businesses in the country. However, the mobile money system currently has a number of vulnerabilities which need to be addressed in order to mitigate the risks to the wider economy. CBS is currently preparing mobile money regulations that will provide consumer protection, enforce systematic know-your-customer (KYC) requirements, and ensure adequate monitoring of mobile money services.

It is critical that financial sector reforms continue to be supported, politically, financially and technically. They will enable the re-establishment of correspondent banking relationships with international banks, thus safeguarding the flow of remittances into Somalia. They will also improve the FGS's prospects for accessing external financing and will support economic development by enabling the private sector to access credit through the banking system, rather than relying on informal credit networks. Making financial services more inclusive can also help to stabilize Somalia and encourage economic development. The next steps will require increasing access to financial services for those who traditionally have not had access.

Challenge 7:
Increasing access to external financing

FGS has made considerable progress in bringing funding from certain institutions (EU, World Bank) on-budget, but many other donors continue to be reluctant to use country systems. Given its fiscal constraints, FGS needs to bring more aid on budget and to access new external financing in order to consolidate the process of state-building and extend the development agenda. Early stabilization gains may otherwise be jeopardized. Achieving debt relief will be key to unlocking additional external financing, as once FGS has achieved HIPC Completion Point it will be able to access concessional loans from multilateral and bilateral lenders. Good financial governance is essential to persuading creditors and donors of the value of extending additional financing, including debt relief, to FGS. FGS needs to demonstrate that it can manage external financing responsibly and for the benefit of Somalia. At the same time, FGS will also need to strengthen its capacity for macroeconomic and fiscal management, to ensure that future debt and spending levels are sustainable.

3. Key elements in strengthening financial governance in Somalia

Strengthening financial governance in a challenging operating environment such as Somalia's is a complex, long-term undertaking. While efforts to strengthen financial governance need to be led by the executive, their success is likely to be contingent on the involvement of a number of other players, including Parliament, the Federal Member States, the business community, the Somali population and the international community.

In the FGC's assessment, individual initiatives towards stronger financial governance are most likely to make sustained progress when underpinned by the following:

i. Appropriate laws, regulations and policies

ii. Sound implementation processes

iii. Availability of skilled human resources

iv. Financing

v. Clear communication by Government on the objective of the reforms

vi. Stakeholder commitment/acceptance

Evidently, not every financial governance initiative requires all six elements listed above to be available in equal measure. Some are less costly to implement than others, while others require less technical expertise. However, in the FGC's view, the absence of any one of these elements can substantially undermine the chances of an initiative being able to achieve its initial objectives, or the likelihood of it being sustained in the long run. In particular, experience over the last few years has shown that it is essential that FGS makes continuous efforts to explain the purpose of individual reforms to the public and business community, in order to gain their support and acceptance, and increase the chances of sustainability in the long run. This applies as equally to expenditure reforms, including in the security sector, as to revenue reforms.

In addition, as donors start to provide more on-budget financing, and FGS moves closer to the prospect of debt-relief, greater emphasis is being placed on the achievement of financial governance reforms as a pre-condition for international community support. These reform targets need to be formulated holistically, with a clear understanding of all the elements that need to be in place for the reform to be successful. Timelines and sequencing need to be set accordingly, and resources provided as necessary. Technical feasibility alone is not a guarantee of reform success in Somalia.

4. Financial governance developments in the past year

This section reviews financial governance developments in areas that the FGC has been actively monitoring and providing advice on over the past year.

The advice and support provided by the FGC is summarised in Box 2, while progress against the ten financial governance priorities identified by the FGC in the 2018 Financial Governance Report is summarised in Table 5.

Box 2:
FGC support to the FGS over the past year

In the past year, the FGC has prepared advisory notes on the following issues:

- **Baidoa Petroleum revenue sharing agreement between FGS/FMS**
- **Constitutional principles on natural resource sharing in light of the Baidoa agreement**
- **Oil and gas licensing round**
- **Structure/content of the Public Finance chapter of the Revised Constitution**
- **Establishment of policy on the creation of new FGS Commission/Authorities/Agencies**
- **Establishment of a Government Property Valuation Office**
- **Establishment of a Revenue Authority**
- **Procurement Act Amendments**
- **Education Sector Textbook Funding**

It has also reviewed 14 FGS contracts, and 2 tender processes.

Financial governance reforms, including FGS's commitment to tackling corruption and ending financial impunity, are cross-cutting in nature. FGS's reform delivery over the past year has been assisted by the development of roadmaps (known as 'tubtas') in four key areas: Security, Inclusive Politics, Economic Reform and Social Affairs. Implementation of the 'tubtas' has been overseen by the Prime Minister, and they have been instrumental in ensuring that reform efforts are owned by government rather than externally driven.

4.1 Public expenditure management

The FGS has made significant efforts to strengthen expenditure management in the past year. First and foremost, it successfully completed a biometric registration exercise for national security sector personnel, covering all SNA forces, including those based in the FMS, the Somali Police Force at federal level, the Federal Custodial Corps and the National Intelligence Security Agency. The registration exercise enabled the FGS to create a comprehensive payroll register for each force, linked to the Somalia Financial Management Information System (SFMIS). All registered soldiers are paid their monthly salary and a portion of their rations stipend (amounting to $30 per month) direct to their bank account. Electronic payment of security sector salaries, which account for almost half of FGS's overall salary payments, is a significant milestone in FGS's efforts to strengthen expenditure management and reduce scope for leakage of funds.

Likewise, direct payment of a portion of each soldier's rations stipend to their account is a significant step forward in terms of transparent expenditure management. Each soldier is entitled to $60 per month in rations support. Up until 2018, half of the $60 was supplied in kind as dry rations, procured through rations supply contracts, while half was provided in cash to the commanders of each force, for bulk purchase of fresh rations. In some cases, the cash for fresh rations was provided to commanders as a part of the rations supply contracts, and in others, it was provided direct from Treasury Single Account (TSA). The FGC has long been concerned about the lack of transparency in the management of rations cash and has advocated for the regularisation of rations payments. As of February 2019, the FGS started paying $30 per month in rations support direct to the bank accounts of registered soldiers, while the remaining $30 is used to procure dry and fresh rations.

Overall, key factors in the success of the security sector registration exercise have included strong political support from the FGS leadership and the Budget & Finance Committee of the House of the People, clear communication to the forces on the purpose of the registration, establishment of an implementation road map, and delivery through a multi-institutional implementation team. Long term and persistent commitment to see it through was key.

Box 3:
Next steps on security sector registration

FGS is currently embarking on a verification exercise, to check whether the personnel who were registered remain active, and to capture additional personnel details. In order for the benefits of the registration to be sustained going forward, it will be important that the government establishes a robust process for capturing ongoing changes in the payroll register each month so that all personnel continue to be paid through the same system. Such changes include biometrically registering and adding any personnel who missed the registration process for legitimate reasons, as well as new recruits, and removing personnel who have left the service.

The FGS also needs to make further efforts to communicate the results of the registration exercise to the general public and the international community, and to open it to scrutiny. At present, donors who provide stipends to security personnel do so through their own systems. The end objective should be that donor stipends are provided against the FGS's payroll register, using the same electronic payment details. Ideally, such payments should be brought on-budget and routed through the FGS Treasury. In order for donors to be willing to take this step, they will need to be confident that the FGS register is robust, and that adequate systems are in place to keep it up to date. The Auditor General recently completed an Interim Audit of the Security Sector, which looked at the payroll system prior to the registration exercise. A Full Audit would provide a good opportunity to examine the strengths and weaknesses of the payroll system following the registration exercise.

FGS has also taken steps to strengthen the legal framework for expenditure management in the past year. The Public Financial Management (PFM) Bill was submitted to Parliament and has been passed by the House of the People. It will update the legal basis for budget preparation and execution, and the preparation of Government accounts. It will also provide a legal basis for the harmonisation of FGS and FMS budgeting and accounting procedures and establish a clear legal framework for the acquisition and management of Government debt. The latter is important for ensuring debt sustainability in light of FGS's efforts to attain debt relief in the context of HIPC Initiative following successful establishment of track record on policy and reform implementation under IMF program. The PFM Bill will also provide a framework for natural resource revenue management, including provisions for saving a portion of natural resource revenue for future investment and to ensure fiscal sustainability.

The Audit Bill has also been submitted to Parliament. There has been considerable debate, including in the FGC, over whether Parliament should have a role in appointing and dismissing the Auditor General, as is the case in a number of other jurisdictions. During its discussion on the Audit Bill, Cabinet was of the opinion that appointment and dismissal should be the exclusive preserve of the executive, without any role for Parliament, citing the constitutional mandate of the President to appoint the heads of the constitutionally determined Independent Offices.[6] The version of the Audit Bill that has passed the House of the People adopts this approach. However, the Bill provides for direct reporting by the Auditor General to Parliament and will enable modernisation of FGS's audit framework in a number of other respects.

6 Article 114 of the Provisional Constitution identifies the Independent Offices as the Auditor General, Attorney General and Federal Central Bank

FGS has also implemented other important initiatives to strengthen expenditure management. In particular tangible progress has been made on cash, arrears, and debt management. The Ministry of Finance has started developing a cash forecasting framework and has established a cash management committee (CMC), domestic arrears management committee (DAMC), and a debt management unit (DMU). The Ministry has also taken steps to strengthen the Treasury Single Account (TSA). All accounts belonging to Government agencies (MDAs) have been identified. Unnecessary accounts have been closed and active accounts have been transferred to the CBS and mapped with SFMIS, marking a significant step towards TSA implementation. However, further work is needed to automate the interface between the SFMIS and the CBS core banking system, to enhance payment efficiency and reduce the scope for manual errors in payment processing. Likewise, steps need to be taken to reduce paper-based systems for expenditure approval that operate in parallel to SFMIS.

Box 4:
Findings of the 2019 Interim Security Sector Audit

The Auditor General's recent interim audit of security sector expenditures demonstrates that expenditure management procedures within spending agencies in the security sector remain basic and prone to documentation gaps. Some agencies were found to have entered into commitments outside of their cash allocations in the SFMIS and had made funds reallocations without the approval of the Ministry of Finance. In addition, processes for asset management, particularly vehicles, were found to be non-existent.

The audit was conducted on 2018 expenditures, in advance of a number of security sector reforms such as personnel registration going into effect. The findings will be updated once the Auditor General conducts a Full Audit of the security sector. However, they nonetheless indicate that efforts to strengthen expenditure management need to go beyond the Ministry of Finance, to spending agencies, and need to encompass the development of capacity and procedures for internal audit and asset management.

4.2 Domestic revenue mobilisation

FGS has made domestic revenue mobilisation (DRM) a key financial governance priority, and is receiving substantial donor support to strengthen customs (IMF, EU, DFID and USAID) and domestic revenues (IMF and World Bank). It has made steady progress in increasing revenues over the past year. Domestic revenue collections amounted to $183m in 2018, representing an increase of $41m (29%) compared to 2017.

Table 1: FGS domestic revenues ($m)

Revenue Source	2014	2015	2016	2017	2018
Customs	64.3	71.1	76.3	92.8	100.3
Other Tax Revenues	9.5	11.2	12.3	19.2	38.7
Non-Tax Revenues	10.5	31.9	24.1	30.6	44.4
Total	**84.3**	**114.3**	**112.7**	**142.6**	**183.4**

Source: FGS Budget Documents, Ministry of Finance

FGS's efforts to broaden the tax base contributed to this increase, with sales tax on imports constituting a significant new tax revenue stream, in spite of initial opposition to the tax from sections of Parliament and the business community.

Likewise, FGS achieved modest increases in personal income tax and corporation tax payments from the private sector. Its efforts to ensure that non-tax revenues collected by FGS agencies are remitted to the Single Treasury have also yielded positive results. However, it was unable to realise an increase in revenues from the telecoms sector, in spite of the passage of the National Communications Act in 2017.

FGS has also taken a number of steps in 2019 which should enhance its longer-term capacity for DRM. The Revenue Administration Bill and Revenue Harmonisation Bills have been submitted to Parliament. Once enacted, these pieces of legislation should significantly improve the national tax base and enable modernisation of the framework for domestic tax collection and provide clarity on the assignment of domestic taxes between FGS and the FMS. It will also be essential that the FMS are fully appraised and supportive of this legislation, as a number of taxes that are currently collected by FMS will, under the current text of the draft Bills, be designated as national taxes falling under the authority of FGS, and their collection will be required to adhere to the provisions of the Revenue Administration Bill. Further discussions will also be needed on the assignment of revenue collected from national taxes in the FMS. Unless the FMS are supportive of the legislation, the likelihood is that FGS's jurisdiction over national taxes will only apply to taxes collected in Mogadishu.

FGS has also submitted an amendment to the 1961 Customs Act to Parliament, in order to pave the way for modernisation of the customs tariff, which is currently levied on a volume rather than value basis. Import duties are designated as national taxes in the Revenue Harmonisation Bill, and in order to be effective, modernisation of the customs tariff needs to be rolled out in all ports on a harmonised basis, rather than being limited to Mogadishu. This means that close collaboration between FGS and the FMS will also be an important factor for the success of customs reforms. However, inter-governmental dialogue on revenue issues has generally been limited in the past year as a result of overall difficulties in the political dialogue between FGS and the FMS. In order to be successful, good technical progress will need to be matched by political will to cooperate. Technical discussions between FGS and FMS ministries of finance took place in Addis Ababa in June 2019 at the technical Inter-Governmental Fiscal Federalism Committee (IGFFC), including reaching agreement on a Customs Reform Action Plan for FGS, Jubbaland and Puntland Somalia. Re-establishing political-level dialogue and agreement, including through the Finance Ministers' Fiscal Forum (FMFF), is now an urgent priority. FGS will also need to ensure continuous communication with the public to strengthen support for revenue reforms and improve revenue compliance.

FGS has taken steps to secure an important new source of non-tax revenue in 2019, in the form of overflight fees. In 2018, FGS took back responsibility for managing Somalia's airspace from the United Nations' specialised body for civil aviation (the International Civil Aviation Organisation, ICAO), which had been managing it since 1995. During this period, all overflight fees accruing from planes flying over Somalia were paid to ICAO and used to defray the costs it incurred in managing Somalia's airspace. In November 2018, FGS came to an agreement with ICAO for direct payment of overflight fees to FGS commencing in 2019. FGS is currently in the process of operationalising the arrangements and anticipates that it will start to receive overflight revenue in the second half of 2019. While some of the overflight fees will likely need to be invested in further development of Somalia's capacity for airspace management and airport infrastructures, bringing them on-budget will be a significant step forward in terms of financial governance. Rising levels of traffic in Somalia's airspace also means that there may be some balance of funds available for financing general budgetary needs. The FGC has recommended to the FGS that past revenues and their expenditure need to be audited.

Box 5:
The Rising Cost of Agency Creation

While FGS is making considerable progress in increasing its domestic revenues, the FGC is concerned that that these revenue gains will be partially or wholly absorbed by an increase in the cost of Government. In particular, the FGC is concerned by the rate at which new FGS agencies are being created. Over 20 Independent Commissions, Authorities and Agencies are currently in existence in FGS or due to be established shortly. Eleven of these bodies were established by the 2012 Provisional Constitution, while a number of others are legacy institutions whose existence predates 2012. Several new Authorities and Agencies have also been established by recent FGS sectoral legislation (Procurement Authority, Communications Authority, Disability Agency), while others are planned under legislation currently before Parliament (Statistics Agency, Petroleum Authority) or being drafted by FGS (Fisheries Authority).

While the creation of such institutions may appear to be technically justified, the overall question facing FGS is whether their creation is necessary or desirable at this point in time. The considerations are not just financial. The creation of new Agencies, Authorities and Commissions also has capacity implications for FGS; scarce human resources are likely be diverted into the establishment of new

Box 5: continues next page

institutions when existing sector ministries are not yet fully established and functional. There is also a possibility that the creation of new institutions will undermine policy coherence across Government as a result of overlapping and ill-defined institutional mandates.

However, unless there is an explicit policy decision by FGS to the contrary, the likelihood is that new Authorities and Agencies will continue to be created in the coming years, either at the instigation of sector ministries as they develop their legislation or under pressure from donors. The FGC has recommended that FGS establish a policy that determines the conditions under which the creation of a new agency is justifiable. The FGC has also recommended that the current Constitutional Review process be used as an opportunity to revisit whether all 11 Independent Commissions established in the 2012 Constitution are still required. FGS should also strengthen and finalise the Establishment Control Guidelines that are currently being developed.

4.3 Public procurement and concessions

FGS has made extensive efforts over the past year to renegotiate or otherwise resolve a number of the contracts entered into by the previous administration without due process. In particular, it has made considerable efforts to renegotiate the concession agreements for management of the port and airport, which were entered into with two Turkish firms (Al Bayrak and Favori) in 2013. These efforts have been led by multi-institutional FGS negotiation teams, supported by lawyers funded by the Africa Legal Support Facility (ALSF) and technical and financial advisers funded by ALSF (for the airport concession) and the World Bank (for the port concession). The objective of the renegotiations has been to clarify the contract terms, establish a fair commercial basis for revenue sharing and agree the investments that need to be undertaken at the port and the airport during the remainder of the contract period.

Renegotiation of the port and airport contracts was the subject of a structural benchmark under the IMF's third Staff Monitored Programme (SMP) which ran

from May 2018 to April 2019. FGS was unable to meet the benchmark, which required the contracts to be renegotiated by the end of December 2018, as the renegotiation discussions took considerably longer than anticipated. However, FGS continued with the negotiations in spite of missing the benchmark and was able to bring the airport contract renegotiation to a successful conclusion in May 2019. The revised contract was negotiated on a commercial basis and its terms ensure that government revenues from the airport are fair. They also increase transparency around revenue payment. The contract establishes a clear investment plan and sets out requirements for the contractor's operational performance. Requirements for monitoring and reporting are also clearly specified, as are provisions for termination. In the FGC's opinion, the revised contract with Favori represents a considerable improvement over the initial concession agreement signed in 2013, and its agreement is a significant milestone in FGS's efforts to strengthen and regularize Government contracts.

FGS was unable to make the same headway in the renegotiation of the port contract, as the government's negotiation team was unable to come to an agreement with Al Bayrak on revenue sharing and the required level of investment in the port. Given the importance of Mogadishu port for the economy of Banadir region and beyond, as well as for the revenues of FGS, FGS recently held discussions with the Government of Turkey on ways to resolve the impasse. Following these discussions, it is hoped that negotiations will resume with Al Bayrak soon with the aim to reach a fair agreement with Al Bayrak.

Box 6:
Lessons learned from port and airport contract renegotiations

There are a number of important lessons to be learned from the port and airport contract renegotiation processes. While the negotiations have been led at a technical level by the responsible sector ministry, the direct engagement of the Prime Minister's office in the negotiation team has been instrumental in ensuring the necessary linkages between the technical and political aspects of the negotiations. In addition, FGS would have been unable to make a meaningful input into the negotiation discussions without the support of its legal, technical and financial advisers.

The need for technical support does not stop with the conclusion of an agreement. Support will also be needed during contract implementation, in order to monitor that the contractors are abiding by the terms of the revised contract, and to ensure that FGS meets its own obligations under the contract. Otherwise, there is a risk that the renegotiations will have been paper-based exercises, without resulting in any meaningful improvement in contractor performance on the ground.

Lastly, together with the need for funding for additional technical assistance during contract implementation, there is a need to develop the capability of government staff to manage the complex negotiations that are an essential part of maximizing the revenue from government assets.

In addition to the port and the airport, there are also a number of other legacy contracts from the previous administration that the FGS needs to work to resolve. These include contracts for the issuance of passports and visas entered into by the Directorate of Immigration in 2013 and 2016 respectively, as well as a contract issued by the Ministry of Education in 2016 for curriculum development and textbook production. The FGC has undertaken contract reviews of each of these contracts and provided concrete advice to the FGS on the way forward. The FGC has also recently reviewed a number of leases of Government property entered into by the Ministry of Information and Tourism in 2015 and 2016. The FGC has shared its review with the Ministry of Information and Tourism and has also recommended that it be shared with the Committee for Protection and Restoration of National Property, which was established by the Prime Minister in January 2019 following the President's directive the previous year, halting the allocation of land to private individuals.

The FGS has made considerable efforts over the past year to regularise a number of its security sector rations contracts, most of which had not been procured in line with due process and suffered from a number of contractual deficiencies. The largest of these was the SNA rations contract. The previous administration launched a tender for the supply of dry rations to the SNA in 2016, and the contract was awarded in February 2017. However, the contract was summarily cancelled by the SNA commander at the outset of the new administration's tenure in April 2017, and a new contract was issued to a different contractor without following due process. The Ministry of Finance subsequently conducted a legal review in July 2017 which determined that the cancellation and re-award was irregular, and the Economic Committee of the Council of Ministers resolved in September 2017 that the contract should be retendered. The contractor was finally served a termination notice by the Minister of Defence in September 2018, and FGS launched a fresh tender process in October 2018, covering the supply of dry and fresh rations to all SNA sectors. Unfortunately, the tender process was unable to be brought to a successful conclusion, largely because it became evident during bid evaluation that the contract scope was not well specified.

FGS subsequently launched two separate tenders in April 2019 for delivery of dry rations to two SNA sectors, and contracts are expected to be awarded in the coming months. The FGC will review the bid evaluation process for both tenders as well as the final contracts. UNSOM is expected to assist with the supply of rations to other sectors, while fresh rations will be purchased directly by the SNA through a separate procedure agreed by Cabinet.

FGS also launched a competitive tender in April 2019 for supply of dry rations to the Somali Police Force, following the expiry of the previous contract, which had been entered into by the previous administration. The FGC has reviewed the bid evaluation process and will review the final contract. A competitive tender for the supply of dry rations to NISA is also currently in process.

Box 7:
Next steps for sound rations management

Competitive tendering of rations contracts is a positive step towards better financial governance but cannot by itself ensure sounder rations management. Adequate internal control and verification measures also need to be in place within the security sector to ensure that rations are delivered as contracted and utilised as intended. The Auditor General's recent Interim Audit of the Security Sector suggests that such internal controls are lacking and indicates that expired rations were found in the SNA stores. The Auditor General's Interim Audit also found that security sector agencies have entered into fuel supply contracts without following due process. The FGC will review this issue further in the coming year.

Although FGS is making significant efforts to regularise its rations contracts, procurement remains a financial governance weak spot. Weaknesses in the legal framework and institutional capacity need to be addressed before FGS experiences a significant increase in resource inflows, for example from petroleum or debt relief. FGS has struggled to implement the 2016 Procurement, Concessions and Disposal Act, due to the approach to procurement required by the Act, coupled with the extremely limited procurement capacity within FGS. The Act envisages a highly decentralised approach to procurement, whereby each spending agency will have its own procurement unit and procurement committee. Once the procurement unit and procurement committee have been certified by the Procurement Authority, the spending agency will be able to enter into a contract of any value, using any bidding method, without any third-party approval. Further, the Procurement Authority has no powers to decertify a procuring entity in the event of consistent failure to procure in accordance with the Act.

Given current limitations in procurement capacity across Government, the FGS has proposed amendments to the Act to enable additional oversight of high-value contracts and non-standard bidding methods. The proposed Amendments have been approved by Cabinet and have received their first reading in the House of the People. If approved they will enable the Procurement Authority to decertify a procuring entity in the event of consistent failure to procure in accordance with the Act, and to review any contract award. The Amendments also require procuring entities to register contracts with the Auditor General as a condition of contract effectiveness, in line with the Audit Bill currently before Parliament. Finally, the Amendments propose transitional provisions to enable the Act to be implemented effectively in advance of full establishment of the Procurement Authority, which will take some time. These amendments, which have been discussed at length in the FGC, propose pragmatic solutions to some of the greatest challenges that FGS currently faces in conducting procurements in accordance with the law, in an environment where procurement capacity is extremely limited.

In the meantime, in accordance with the Interim Procurement Requirements passed by Cabinet in 2017, the Ministry of Finance's procurement unit is assisting spending agencies in conducting procurements above $100,000 in value. The lack of procurement capacity in most spending agencies underscores the need for continued oversight of procurements, particularly high value procurements, in order to ensure value for money in FGS purchasing. Development partners also need to focus further on how their current support to the FGS and the FMS can support increased procurement capacity. At present, the international community is under-investing in capacity for procurement and concessions development and management.

Box 8:
The legal framework for concessions

The Concessions section of the 2016 Procurement Act proposes a centralized approach to concessions, by establishing an Inter-Ministerial Concessions Committee (IMCC) that is responsible for approving concessions tender processes and awards. The IMCC recently reviewed the revised airport concession agreement with Favori prior to its finalisation. However, there remains limited understanding across FGS of the requirements of the Procurement Act with respect to concessions. Further, FGS does not currently have the necessary capacity to analyze concession agreements.

Box 8: continues next page

Beyond these challenges, the Concessions section of the 2016 Procurement Act suffers from a number of deficiencies, including the absence of any legal process for dealing with unsolicited proposals. To date, most concessions entered into by the FGS have arisen as a result of unsolicited proposals, rather than through any tender process initiated by FGS. Following discussions in the FGC, FGS has concluded that it would probably be more workable to develop a separate Concessions law, rather than trying to amend the Concessions section of the 2016 Act. FGS has requested technical assistance from the World Bank for the development a Concessions Law.

4.4 Tuna licensing

In February 2018, the National Security Council, which comprises the leaders of the FGS and FMS, agreed that the FGS would take responsibility for issuing fishing licences to vessels fishing beyond 24 nautical miles from the Somali coast. Following this agreement, the FGS launched an open process for award of tuna fishing licenses. This culminated in the issuance of tuna licenses in July 2018 to 31 vessels operating under the Chinese Overseas Fishing Association (COFA). The COFA was the only successful applicant to the license round. Although potential applicants from a number of other countries expressed initial interest, they did not eventually submit applications, presumably because they considered

the risk of operation in Somali waters to be still too great. The licenses issued by FGS authorised the COFA vessels to fish in Somali waters beyond 24 nautical miles for a one-year period, while requiring them to report their catch to the FGS. FGS monitors the movement of the vessels through a satellite-based Vessel Monitoring System.

The initial revenue yield from the licensing process was $1.045m, and the revenues were placed on a special account in the Central Bank of Somalia, pending agreement on their distribution between the FGS and FMS. An interim revenue sharing agreement was reached in March 2019, covering an 18-month period. Under the terms of the agreement, 40% of the revenues accruing to FGS and the FMS will be reinvested in the fisheries sector, according to an agreed workplan. The agreed revenue shares are set out in Table 2. Revenues from the 2018 licensing process were distributed to all FMS in May and June 2019 in line with the agreement. The 2019 licensing round is currently underway, and the value of the licenses may be adjusted in light of the catch information received from the COFA vessels.

Table 2: FGS/FMS revenues shares from tuna licensing

	% share
FGS	29
Puntland	18
Jubbaland	13
Southwest	13
Galmudug	13
Hirshabelle	14
Total share	**100**

Source: Agreement on the Management of Fisheries & Revenue Sharing, signed in Addis Ababa, March 2019

Although the sums yielded to date from tuna licensing are modest, the achievement is nonetheless significant, as it signals that Somalia's fishing sector is starting to be managed in accordance with the law after decades of illegal fishing. In addition, the FGS and FMS agreement on revenue sharing represents a milestone in intergovernmental fiscal relations at a time when overall dialogue between FGS and the FMS has been strained. The gains made to date remain fragile, however, and it will be important that FGS retains the confidence of the FMS as it conducts new annual license rounds. More also needs to be done to explain the license process to the general public, including how it compares to other licensing regimes in the region, to combat the inaccurate perception that Somalia's fishing rights have been sold to China for a pittance.[7] The risk of piracy and illegal fishing are factors that affect the pricing of the Somali fishing license. FGS also needs to articulate the Government's longer-term strategy for generating greater revenue from the sector, including from artisanal fishing.

7 http://www.worldbank.org/en/news/factsheet/2019/03/07/somalia-issues-fishing-licenses-fees-will-help-develop-fisheries-sector

4.5 Petroleum

The management of the Petroleum sector cuts across a number of the financial governance challenges currently facing Somalia, including managing natural resources transparently and equitably, agreeing a coherent way forward on fiscal federalism and strengthening public procurement and concessions. Over the past year, there have been a number of developments in the sector with significant implications for financial governance.

In June 2018, during a meeting held in Baidoa, the National Security Council reached an agreement on Petroleum and Minerals ownership, management and revenue sharing between the FGS and FMS, referred to as the 'Baidoa Agreement'. The agreement established that petroleum and mineral resources will be jointly managed by the Federal Government and the FMS. It also established a number of revenue-sharing principles, including considering the different needs of regions with access to natural resources and those without;

ensuring that services are delivered equitably; and, taking into account the future requirements of the country when sharing revenues. Finally, it established a set of revenue shares between the FGS and FMS for petroleum and mineral resources. The shares for petroleum resources are shown in Table 3.

Table 3: FGS/FMS petroleum revenue shares as per the Baidoa Agreement

Revenue	FGS	FMS	District	FMS
Percent share		(producing)	(producing)	(all non-producing)
Offshore Profit Oil	55	25	10	10
Onshore Profit Oil	30	30	20	20
Royalty	40	40	10	10
Signing Bonus	40	60		
Surface rent	30	50	20	
License fee	50	50		
Production Bonus	30	50	10	10
Corporate Income Tax	100			
Export Tax	60	40		
Capital Gains tax	50	30	20	
Seismic Data	50	50		
Capacity Building	50	50		
Local Community Devt		30	70	

Source: Agreement on Ownership Management and Sharing of Revenues from the Natural Resources of the Country (Oil & Minerals), signed in Baidoa, June 2018

The Baidoa agreement has been hailed as a milestone in inter-governmental relations, demonstrating the willingness of the FGS and FMS to come together and agree a way forward on the management and sharing of key natural resources. Taken together, the principles set out in the Baidoa agreement imply that producing regions should receive a special share of petroleum and mineral resources, but that overall fiscal disparities between producing and non-producing regions should be relatively modest (to 'ensure that services are delivered equitably'), and that revenues should be managed sustainably ('taking into account the future requirements of the country').

However, the Baidoa agreement does not establish whether the revenue shares are permanently fixed, or open to renegotiation from time to time. Analysis conducted by the FGC indicates that under the current terms of the Baidoa agreement, oil-producing FMS are likely to receive between 10 and 17 times more revenue than non-producing FMS. These disparities are large by international standards. Moreover, in certain scenarios, FGS could receive less revenue than the oil-producing FMS. Further, while the Baidoa agreement mentions that the Ministries of Finance of the FGS and FMS should define the terms for a petroleum revenue investment fund, it does not clarify that the revenue shares established in the agreement should be net of any inflows into the Investment Fund.

Box 9:
Managing the impact of petroleum revenues

The fiscal impact of petroleum revenues in Somalia is likely to be large, and it is therefore important that their management and distribution is compatible with fiscal stability and balanced development across Somalia.

As the FGC pointed out in its 2017 Advisory Paper on Natural Resource Revenue Sharing, well-designed natural resource revenue sharing arrangements can have a number of benefits. They can be used to recognise local claims on natural resources and compensate for any negative impacts arising from resource extraction. They can also promote sustainable economic development, raise living standards and prevent, compensate for or mitigate violent conflict over resources.

However, international experience also shows that revenue-sharing arrangements can create significant risks and challenges, particularly when they have been poorly designed, insufficiently consulted on or badly implemented. These risks and challenges include violent conflict over the terms of an agreement or its implementation; volatile revenue flows that destabilise economic management and service delivery; revenue flows that exceed absorptive capacity to leading to wastage and corruption; regional inequality; and, inadequate resourcing of core functions of the State.

The revenue shares currently set out in the Baidoa Agreement have significant implications from a financial governance perspective, as they raise the prospect of potentially unequal development across FMS. They also raise the prospect of fiscal volatility, with revenues fluctuating year on year in line with fluctuations in the oil price and production volumes. Moreover, oil-producing districts may receive more revenue than they can absorb, raising the prospect of inefficient and wasteful spending.

At this early stage in its development, it is essential that Somalia does not lock itself into an untested set of revenue sharing arrangements for a major revenue stream. The recent amendments to the 2008 Petroleum Act that have been passed by the House of the People explicitly provide for distribution of petroleum revenue in line with the Baidoa agreement. The FGC recommends that the FGS and FMS formally agree that the revenue sharing arrangements established in the Baidoa agreement will be reviewed periodically, possibly every five years, and that the revenue will be shared on a net basis, after any provisions have been made to set aside funds for purposes of future investment and macroeconomic stability. The PFM Bill that has just been passed by the House of the People contains provisions for determining the size and management of such funds. The FGC also recommends that the Revised Constitution expands the current article on Natural Resources (Article 44) to require that revenue sharing arrangements are periodically reviewed, and to establish the principle that a portion of natural resource revenues may be saved for economic sustainability and future investment.

Beyond this, the current Constitutional Review process provides an opportunity to establish a mechanism for equalising revenue shares across FMS, so that overall revenue shares are not entirely determined by individual sector agreements. However, securing agreement between the FGS and the FMS on a credible political framework for inter-governmental relations, including revenue sharing, continues to be a critical challenge. The Constitutional Review process is central to making progress on these issues. The FGC has recently prepared an Advisory Note on the structure and possible content of the Public Finance Chapter to help inform technical discussions between the Ministry of Finance and Ministry of Constitutional Affairs.

The FGS has also recently taken steps towards issuing its first set of petroleum licences for fifteen offshore oil blocks, raising the prospect that oil revenues will start to flow in the near term. In February 2019, the Ministry of Petroleum launched its first oil and gas license round in London, at a meeting held with representatives of the oil industry. The Ministry presented a timetable for the license round, which indicated that it aimed to have signed Production Sharing Agreements (PSAs) in place by January 2020. It also gave an overview of its proposed fiscal terms for oil and gas revenue (royalties, profit share). The following day, the Ministry published the model PSA for the license round on its website as well as the tender protocol detailing the license round timetable, process and application criteria.

The FGC subsequently raised a number of issues arising from the launch of the licensing round with the Ministry of Petroleum. It noted that the license round timetable was extremely ambitious and did not provide sufficient time to adhere to the requirements of the 2016 Procurement Act, or to enable stakeholder consultation. A number of FMS had already expressed concern that they had not been adequately consulted. The timetable also had no apparent link to the passage of key legislation (2008 Petroleum Act Amendments), issuance of regulations or establishment of regulatory capacity (Somalia Petroleum Authority). The FGC further noted that the model PSA issued by the Ministry contained many changes from the previous model PSA, which had extensively reviewed by the FGC in 2016. The FGC had not reviewed these changes, and neither had they been approved by the IMCC, the body designated responsibility by the 2016 Procurement Act for approving concessions tender processes and awards, including in the oil and gas sector. Preliminary analysis by the FGC indicated that a number of changes to the fiscal terms were aimed at increasing the revenue that FGS receives from petroleum in the early years of exploration and production, with relatively less revenue accruing to government in the later years.

The Minister of Petroleum agreed to an FGC review of the changes that had been made to the Model PSA, particularly its fiscal terms. He also committed to adjusting the license round timetable in order to enable proper oversight of the process by the IMCC and to provide sufficient time for stakeholder consultation and establishment of the necessary regulatory institutions. The FGC also noted that it is essential that the Ministry of Petroleum has access to the technical capacity necessary for the management of the license round process. This includes both technical and legal resources to assist the Ministry as it engages with bidders, revises the PSA and tender documentation, evaluates bids, and awards and executes contracts. Otherwise, there is a significant risk that any contracts awarded under the license round will not deliver appropriate value to the FGS. While FGS's efforts to develop a significant new revenue stream are entirely understandable, revenue raising efforts need to be compatible with sound financial governance and long-run fiscal sustainability. Adequate institutional capacity, a fully established legal framework, and stakeholder consensus are also essential pre-requisites for sound oil and gas development.

4.6 Asset Recovery

Assisting the FGS and CBS in recovering legacy assets held in banks abroad has been an area of focus for the FGC since its inception. Progress in the past year has been extremely slow. Assets have been identified in the UK, but the process of establishing their ownership is ongoing. Assets have also been identified in Switzerland, and the CBS is engaging with the Swiss government to see how to approach the recovery process. Considerable assets are known to be held in an Italian bank, but to date, the bank has not been responsive to communication from CBS. The FGS is trying to pursue further dialogue through diplomatic channels. The World Bank Stolen Asset Recovery (STAR) programme is available to help recover identified assets through use of a power of attorney, as successfully occurred with the recovery of assets from Commerzbank in 2017. However, it is no longer providing support to FGS in identifying potential assets for recovery. The FGC will continue its efforts to assist the FGS and CBS in recovering legacy assets in the coming year as a part of its routine agenda.

4.7 Access to financing

The IMF recently commended the FGS for sustained reform implementation and continued satisfactory performance against three successive SMPs.[8] The IMF and the FGS have recently concluded negotiations on a fourth SMP which meets the conditionality standard of an upper credit tranche (UCT) arrangement. Approval by the IMF's executive board of an SMP that is of UCT quality will put Somalia more clearly on the path to debt relief and can, if successful, lead the country to reach decision point under the Heavily Indebted Poor Countries (HIPC) Initiative.

FGS's solid progress under SMP implementation has been instrumental in helping it gain access to additional external financing from multilateral donors. In 2018, the European Union (EU) agreed a State and Resilience Building Contract (SRBC) with FGS which will provide up to €90m in budget support financing to FGS over three years. A portion of the grant will be disbursed on a fixed basis, while the remainder will be disbursed contingent on satisfactory achievement of pre-agreed reform benchmarks. These benchmarks have been aligned with the World Bank's Recurrent Cost and Reform Financing (RCRF) programme. FGS received its first disbursements under the grant, amounting to €13.2m, in the last quarter of 2018, and the second tranche amounting to €13.8m was received in June 2019.

The FGS's progress under SMP implementation, and the increasing prospects of progress to debt relief, have also enabled it to secure $130m of pre-arrears clearance financing from the World Bank in 2018. This financing is being used, amongst other things, to increase the recurrent cost support provided to the budgets of the FGS and the FMS through the Bank's RCRF programme, as well as to provide further technical support for PFM and domestic resource mobilisation as well as financial sector development.

FGS's success in securing EU budget support and IDA pre-arrears clearance financing is an important milestone in Somalia's HIPC pre-qualification journey and provides a clear sign that the country is gaining the confidence of multilateral donors in using country systems. Overall, multilateral financing to FGS doubled in 2018 compared to 2017, helping increase overall grant financing by eighteen percent, in spite of a decline in bilateral support. Multilateral support is budgeted to increase by a further fifty-three percent in 2019, bringing total grant financing to FGS to $154.3m, as compared to $105.6m in 2017, and $124.6m in 2018. See Table 4 for details.

8 https://www.imf.org/en/News/Articles/2019/05/13/pr19164-somalia-2019-article-iv-consultation-discuss-review-visit-staff-level-agreement-fourth-smp

Table 4: Grant funding to FGS budget ($m)			
Donor funding	**2017 (outturn)**	**2018 (outturn)**	**2019 (Approved Budget)**
Bilateral	61.8	43.5	30
Multilateral	43.8	81.1	124.3
Total	**105.6**	**124.6**	**154.3**
Source: Approved FGS Budget, 2019 <http://mof.gov.so/Budget-2019>			

Turkey has been providing funding to FGS for a number of years, and FGS has also previously received budget support from Saudi Arabia and Qatar. However, other donors are still reluctant to bring their funding on budget, in spite of the confidence the World Bank and EU have demonstrated in using country systems. The FGC is concerned that a number of donors are currently providing funding to FGS agencies outside of the budget, with funds being disbursed to accounts held in Commercial Banks. Likewise, a number of donors, sometimes through their implementing partners, provide funding direct to FMS, bypassing the inter-governmental transfer system. These practices lack transparency and undermine the development of country systems. They are also inconsistent with the provisions of the PFM Bill that has recently been passed by the House of the People; the PFM Bill requires external financing to Government to be disbursed into the Consolidated Fund/Single Treasury Account and prevents FGS agencies from opening bank accounts without the authorisation of the Accountant General.

The FGC is encouraged that the Global Partnership for Education (GPE) recently brought a substantial part of its funding to the Ministry of Education on-budget following advice from the FGC. The FGC will provide further advice to FGS on how to get other donors to bring their funding to FGS agencies and FMS on-budget in the coming year.

Box 10:
Aid funding overview

Donor grant funding to the FGS is extremely small compared to other types of aid funding. According to data from the Ministry of Planning, humanitarian funding to Somalia totalled $1.138 Billion in 2018. Off-budget development funding in 2018 amounted to $760m, an amount that was six times greater than the development funding provided through the FGS budget.

The 2019 Humanitarian Response Plan for Somalia prepared by the UN is seeking funding of $1.09 Billion.

FGS's success in attracting increasing multilateral financing is bringing an associated set of co-ordination challenges, as individual financing instruments require identification of reform conditions which have to be met in order to enable funds disbursement. The EU and the World Bank have made efforts to co-ordinate the reform benchmarks established under the budget support and RCRF programmes, to keep the overall set of reform requirements placed on FGS to a manageable level. Nonetheless, benchmark co-ordination requires careful management across donors as FGS progresses towards debt relief, to avoid the risk of benchmark overload in a context of relatively under-developed institutional capacity. Regular feedback among donors in the context of the IMF Staff Monitored Program and discussions of project concept notes and approval by the Somalia Development and Reconstruction Forum (SDRF) continue to provide avenues for streamlining reform benchmarks. This is particularly important to ensure complementarity of donor support in an environment where multiple projects supported by different institutions are under implementation, and at times fall under the same thematic area.

Formulation of reform benchmarks should be clearly informed by an assessment of the specific problem being addressed, its relative strategic importance and the various factors that are required for a reform to be successful, including the commitment of stakeholders beyond FGS and the availability of the requisite expertise for reform implementation. In addition, reform proposals need to be assessed for their long-term cost and sustainability, particularly as regards reforms benchmarks that require the creation of new government institutions.

Table 5: Progress in implementing the financial governance priorities identified in the 2018 FGR

	Priority	Progress in Implementation
#1	Complete registration and payment to bank of all security sector personnel, including cash for fresh rations ('idaan').	Registration process completed, payment of salaries and dry rations stipends made to individual's accounts. Fresh rations cash will be managed by the security forces.
#2	Re-tender SNA and Prisons rations contracts in line with interim procurement requirements and establish a strengthened rations delivery verification mechanism.	Tenders issued; bids received. Evaluation and award process not yet completed.
#3	Renegotiate Port and Airport Concessions, and resolve other outstanding legacy contracts.	Airport concession successfully renegotiated. Port negotiations still underway. A number of other legacy contracts still require resolution.

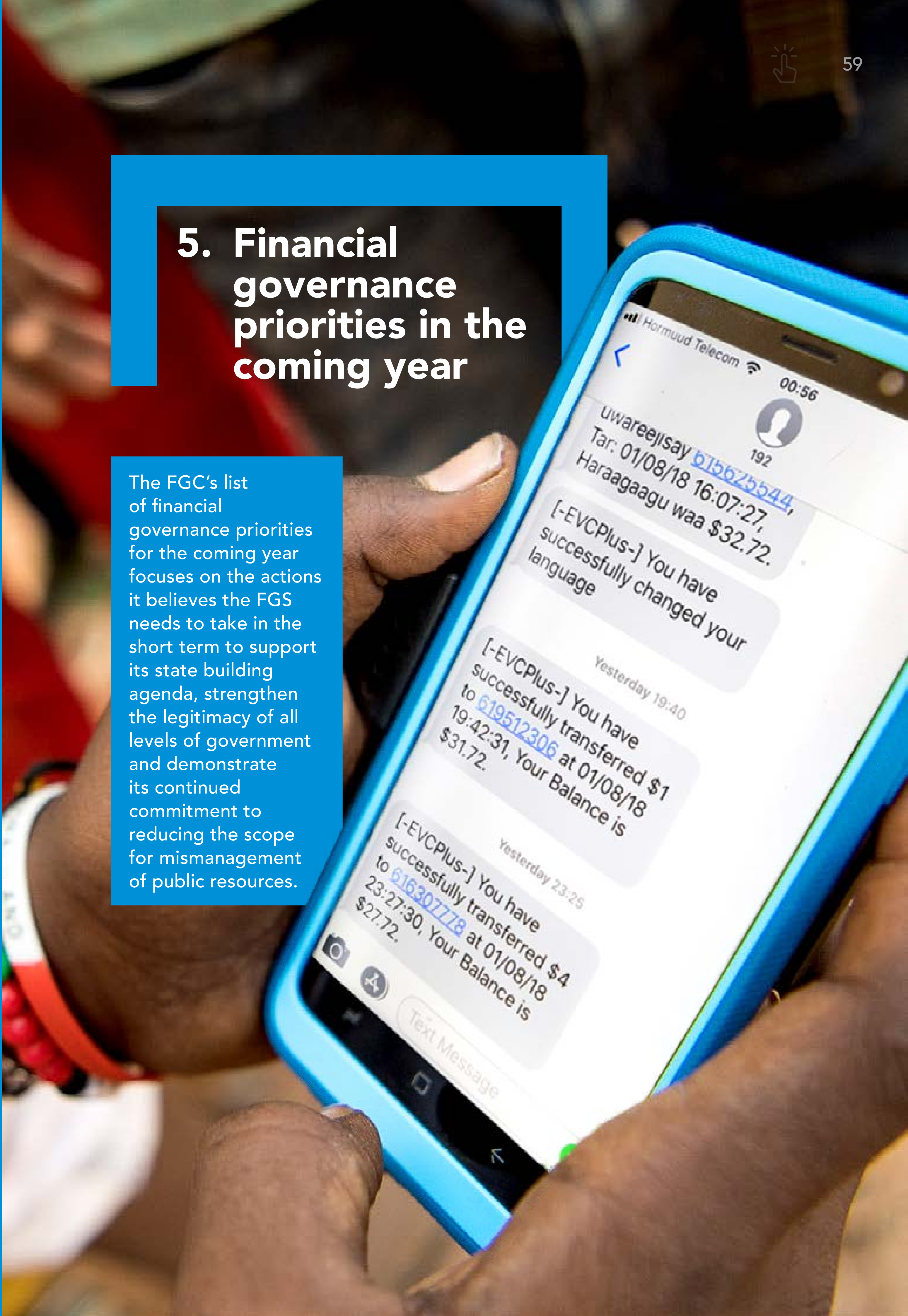
Table 5: continues next page

Table 5: Progress in implementing the financial governance priorities identified in the 2018 FGR

	Priority	Progress in Implementation
#4	Ensure all new procurements of contracts and concessions are conducted in accordance with the interim procurement requirements.	MoF procurement unit is assisting a number of FGS agencies to undertake procurements above $100,000 in value.
#5	Reach an agreement between FGS and FMS on the principles underpinning revenue sharing.	Individual revenue sharing agreements were reached for petroleum (June 2018) and fisheries (March 2019), but no overall discussion or agreement between FGS and FMS on revenue sharing principles.
#6	Modernise the legislative and administrative framework for inland revenue in consultation with Federal Member States and business community.	Revenue Administration Bill has been submitted to Parliament.
#7	Agree a Customs Modernisation Plan with the Federal Member States which includes a roadmap for from transitioning from volume-based to value-based customs tariffs.	Customs Act Amendments have been submitted to Parliament as a first step.
#8	Institute basic reporting on transfer utilisation and agree an objective basis for 2019 transfer allocations to Federal Member States and Banadir.	Basic reporting on transfer utilisation instituted in the second half of 2018, although further work is required to strengthen its quality/ comprehensiveness.
#9	Compile a full inventory of Federal Government property and begin to review all public property leasing and disposals since 2012.	Task has been assigned to the Committee for Protection and Restoration of National Properties appointed by the Prime Minister in January 2019.
#10	Implement the first phase of currency reform.	FGS still in the process of securing reform financing.

5. Financial governance priorities in the coming year

The FGC's list of financial governance priorities for the coming year focuses on the actions it believes the FGS needs to take in the short term to support its state building agenda, strengthen the legitimacy of all levels of government and demonstrate its continued commitment to reducing the scope for mismanagement of public resources.



The priorities are as follows:

1	**Security sector expenditures –** maintain and build on the registration and direct-to-bank payment system for security sector salaries and rations stipends, complete the re-tendering of rations contracts, and strengthen internal security sector financial controls, including for rations verification and delivery.
2	**Constitutional review –** ensure the provisions of the Fiscal Chapter are informed by existing primary legislation, consult adequately on proposals for resource sharing principles and allocation mechanisms, establish a Constitutional requirement that revenue sharing arrangements are periodically reviewed.
3	**Procurement capacity –** adopt proposed amendments to the Procurement Act, secure donor support for procurement and concessions capacity development, start developing a separate legal framework for concessions.
4	**Legacy contracts –** complete seaport concession renegotiations, resolve other legacy contracts.
5	**Oil and gas –** adjust the licensing round timetable so that the process adheres to the requirements of the 2016 Procurement Act and allows sufficient time to establish the necessary regulatory institutions and consult with stakeholders, acquire technical capacity for the management of the license round process, assess the fiscal implications of the new Model Production Sharing Agreement.

6 **Fisheries –** maintain the annual tuna licensing process, and distribute the revenues to all FMS in accordance with the Addis agreement.

7 **Revenue mobilisation –** ensure FGS-FMS agreement on customs modernisation and harmonisation, as well as the assignment of national taxes proposed in the Domestic Revenue Harmonisation Bill.

8 **Bringing aid on budget –** establish clear procedures for disbursement of donor funds to FGS agencies and FMS.

9 **Controlling the cost of Government –** establish and implement a policy to limit institutional proliferation and monitor implementation.

10 **Financial sector reforms -** develop and implement Mobile Money Regulations, enhance supervision of commercial banks and MTBs to promote financial market integrity, AML/CFT compliance and connectivity to the international financial systems, strengthen the integration of the SFMIS and core banking systems.

Annexes

Annex 1: List of contracts and concessions reviewed by the FGC since 2014

#	FGS Agency	Contract	Contractor	FGC Official Review	Status
1	Central Bank of Somalia	Land lease and redevelopment	Riverside Holding	2016 and 2018	On hold
2	Central Bank of Somalia	Asset recovery	Shulman, Rogers, Gandal, Pordy & Ecker PA	Not required	Cancelled
3	Commerce and Industry	Import/export quality assurance	Proje Gözetim Mühendislik (PGM Project)	2015 and 2016	Operational - incorporated FGC recommendations
4	Defense	SNA Rations	AGETCO	2016	Contract cancelled
5	Defense	SNA Rations	AGETCO	2017	Contract awarded following a tender under the oversight of INPB; subsequently cancelled
6	Defense	Supply of 6 marine patrol boats	AMO Shipping Company Ltd.	2014	Subject to an arbitration claim.
7	Defense	Equipping and training Coast Guard	Atlantic Marine and Offshore Group	Not required	Subject to an arbitration claim.
8	Defense	SNA Rations	Kasram	2017	Contract cancelled, retendering in progress.
9	Defense	Logistics	SKA	2018	MoF has formally notified the PM that the contract did not follow due process and should be considered void

#	FGS Agency	Contract	Contractor	FGC Official Review	Status
10	Education	Textbooks	Beder Printing House	2018	Operational, recommended to be renegotiated and/or cancelled
11	Finance	Collection of property transfer registration tax	M&T Solutions Ltd	2016	Cancelled
12	Finance	Collection of road tax	Smart General Service Ltd	2016	Cancelled
13	Finance	Khat tax collection on behalf of FGS	The ADCO Group of Companies	2015	Cancelled -Contract replaced by direct tax
14	Fisheries and Marine Resources	Protecting, licensing, policy and institutional development of fisheries sector	Somalia-FishGuard Ltd.	2014	Did not proceed
15	Galmudug Regional Government	Oil production sharing agreement	Petro Quest Africa (CN)	2014	Did not proceed
16	Information, Culture and Tourism	6 leases for development of property in Mogadishu	Various	2019	Status unclear, recommended to be cancelled or revised
17	Interior	Police rations	Perkins Logistics	2016	Expiring – partially incorporated FGC recommendations. Tender underway.
18	Interior	Passport Production	Ebtkaraat Smart System	2018	Operational, possibly under a revised agreement which has not been reviewed. Recommended to be retendered.
19	Internal Security	NISA rations	Horn Logistics	2016	Partially incorporated FGC recommendations. The contract has now expired and a tender is underway

#	FGS Agency	Contract	Contractor	FGC Official Review	Status
20	Internal Security	Scanning services for Mogadishu Port	M&T Solutions Ltd	2016	Contract signed but inactive. Recommended to be terminated if possible.
21	Internal Security	Visas	Empire Tech Solutions Ltd.	2018	Operational. Recommended to be cancelled or revised.
22	Justice	Prisons Rations	Bakhaari Logistics	2018	Operational. Recommended to be retendered
23	Petroleum and Mineral Resources	Establish model terms for petroleum exploration, development and production	Model Oil and Gas Production Sharing agreement	2016	Previous draft (2016) incorporated FGC recommendations. More recent draft (2019) included updated terms that have not yet been reviewed by FGC
24	Petroleum and Mineral Resources	Seismic data analysis	Mubadala Oil and Gas Holding Company LLC (CN)	2015	Agreement Expired
25	Petroleum and Mineral Resources	Seismic Exploration	Soma Oil and Gas Exploration Limited	2014	Operational - did not incorporate FGC recommendations
26	Petroleum and Mineral Resources	Geospatial Analysis	CGG Data Services AG/ Robertson GeoSpec International Ltd.	2014, 2015 and 2016	Operational - incorporated FGC recommendations
27	Petroleum and Mineral Resources	Collation, analysis and marketing of petroleum data	Spectrum ASA	2015	Operational - incorporated FGC recommendations
28	Petroleum and Mineral Resources	Acquisition, processing and marketing of geophysical data	TGS-NOPEC Geophysical Company ASA	2014	Did not proceed
29	Presidency	Rations	Regional Suppliers Company Ltd	2018	Recommended to be retendered after expiry

#	FGS Agency	Contract	Contractor	FGC Official Review	Status
30	Ports and Shipping	Management of Port Operations	Albayrak Turizm Inşaat Ticaret A.ş	2014	Operational - under renegotiation
31	Ports and Shipping	Harbour, fishing port and related infrastructure developments	Great Horn Development Company	2014	Did not proceed
32	Ports and Shipping	Lease and concession for operating Mogadishu port container terminal	Mogadishu Port Container Terminal and Simatech International	2014	Did not proceed
33	Ports and Shipping	Management and operation of a container yard and freight station at Mogadishu Dry Port	Mogadishu International Port and Simatech International	2016	Construction complete, not yet operational, pending resolution of Albayrak renegotiation
34	Posts and Telecoms	Telecoms gateway	VBH Holdings SPA	2016	Did not proceed
35	Power and Water	Electricity generation	Polaris Energy SDN BHD	2015	Did not proceed
36	Transport and Aviation	Airport Operations	Favori LLC	2014, 2019	Operational, renegotiated agreement signed May 2019
37	Transport and Aviation	Vehicle licensing	Modern Technology Ltd	2016	Cancelled
38	Transport and Aviation	Airport taxi shuttle service	Sahel	2017	Operational – recommended to be renegotiated
39	Transport and Aviation	Airport Hotel	Sat Service LLC	2018	Draft contract under review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NOKIA
Back

Financial Governance Report

Financial Governance Committee

July 2019