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<u>THIS ACTION IS FUNDED BY THE EUROPEAN UNION</u>

<u>ANNEX 1</u>

to the Commission Implementing Decision on the financing of the multiannual action plan in favour of the Federal Republic of Somalia for 2023-2024

<u>Action Document for Somalia State and Resilience Building Contract – Phase 2</u>

MULTIANNUAL PLAN
This document constitutes the multiannual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

1 SYNOPSIS

1.1 Action Summary Table

1. Title **CRIS/OPSYS business reference** **Basic Act**	Somalia State and Resilience Building Contract – Phase 2 OPSYS: ACT-61862 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	No
3. Zone benefiting from the action	The action shall be carried out in Somalia
4. Programming document	Somalia multi-annual indicative programming document – MIP 2021-2027
5. Link with relevant MIP(s) objectives / expected results	This Action will contribute to MIP Specific objective 1, namely "to strengthen state capacity to deliver core functions". In terms of expected results and associated indicators under the MIP, it will contribute to: Somalia reaching HIPC completion point [indicator: Number of countries supported by the EU to strengthen revenue mobilisation, public financial management and/or budget transparency (EURF/GERF 2.19)
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	This action will be entirely financed under Priority Area 2 of the MIP (Inclusive and green economic growth), specifically Sector 2.1. Economic and financial governance
7. Sustainable Development Goals (SDGs)	Main SDG: 16 "Peace, Justice and Strong Institutions" Other significant SDG: SDG 4: "Quality Education"
8 a) DAC code(s)	51010 general budget support-related aid – 100%
8 b) Main Delivery Channel	12001 Central Government
9. Targets	☐ Migration ☐ Climate ☐ Social inclusion and Human Development ☒ Gender ☐ Biodiversity ☒ Education ☒ Human Rights, Democracy and Governance

10. Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	☐	☐	☒
	Aid to environment	☒	☐	☐
	Gender equality and women's and girl's empowerment		☒	☐
	Trade development	☒	☐	☐
	Reproductive, maternal, new-born and child health	☒	☐	☐
	Disaster Risk Reduction	☒	☐	☐
	Inclusion of persons with Disabilities	☒	☐	☐
	Nutrition	☒	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity	☒	☐	☐
	Combat desertification	☒	☐	☐
	Climate change mitigation	☒	☐	☐
	Climate change adaptation	☒	☐	☐
11. Internal markers and Tags:	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation	☒	☐	☐
		YES	NO	
	digital connectivity	☐	☐	
	digital governance	☐	☐	
	digital entrepreneurship	☐	☐	
	digital skills/literacy	☐	☐	
	digital services	☐	☐	
	Connectivity	☒	☐	☐
		YES	NO	
	digital connectivity	☐	☐	
	energy	☐	☐	
	transport	☐	☐	
	health	☐	☐	
	education and research	☐	☐	
	Migration (methodology for tagging under development)	☒	☐	☐
	Reduction of Inequalities (methodology for marker and tagging under development)	☒	☐	☐
	Covid-19	☒	☐	☐
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): BGUE-B2023-14.020121 Total estimated cost: EUR 20 000 000 Total amount of EU budget contribution: EUR 20 000 000			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	**Direct management** through: Budget Support: State and Resilience Building Contract			

1.2 Summary of the Action

In line with the orientations spelled out under Priority Area 2 of the EU Multi-annual Indicative Programme for Somalia 2021-2027, the proposed Action contributes in particular to: Specific Objective 1 - to strengthen state capacity to deliver core functions), and Specific Objective 2 - To strengthen the education and training systems for delivery of inclusive quality education and training.

The main SDG targeted by the action is SDG 16 “Peace, Justice and Strong Institutions”, while also contributing to SDG 4 “Quality Education”.

This State and Resilience Building Contract (SRBC) will further support Somalia’s state building process by serving as an entry point to:

- Progress with the implementation of intergovernmental agreements required to reach a constitutional settlement
- Increase Somali Government(s) contribution to funding and managing education service delivery
- Improve Domestic Revenue Mobilisation and Public Financial Management systems

This action will therefore build on the ongoing SRBC - the first operation of its kind in Somalia - to promote **political settlements on power and resource sharing**, in order to increase state capacities for enhanced service delivery (including in newly liberated areas).

This will be achieved by strengthening Somalia federated governments’ **capacity and allocation of financial resources to perform core state functions** as enshrined in the provisional constitution and any new political agreements emerging out of National Consultative Council (NCC) discussions.

The proposed programme will seek **to increase public investments into Somalia’s education system, thereby increasing citizen perceptions of the state as a provider of basic public goods.** Additionally, the action will support reforms to strengthen **revenue mobilisation and public financial management and accountability.**

2 RATIONALE

2.1 Context

The overall situation in Somalia continues to be fragile and volatile. Notwithstanding the positive momentum created with the election of a new President, political tensions and deep-seated grievances coupled with climate induced shocks, persistent conflicts and socio-economic vulnerability remain key challenges. These factors combined are creating a dire humanitarian crisis, with more than 7.7 million Somalis (roughly half the population) in need of humanitarian assistance and more than 1,200,000 newly displaced. The worst drought in 40 years combined with a sharp increase in food prices has led to famine-like conditions in some areas in Southwest State.

On the **political front**, the government has committed to an **ambitious agenda that advances the state-building process to address reconciliation, the disputed structure of the state and modernise the country**. The President has convened the National Consultative Council (NCC) to serve as the ad hoc forum for the building of trust between the Federal Government (FGS) and Federal Member States (FMS) and political decision-making with the aim at reaching political settlement on the provisional constitution and the National Security Architecture, the implementation of a Federal Justice Model, the establishment of a constitutional court, and agreement on an improved electoral model. The government also launched an ambitious agenda seeking approval on a number of key legislative pieces (e.g. antiterrorism, extractive industries, electricity and digital ID).

On **security**, the government’s top priority is the fight against Al-Shabaab (AS) on 3 simultaneous fronts: military, financial and ideological. The Somali National Army (SNA), with help of local militia and assisted by Special Forces supported by US and Turkey, has opened fronts in Hiraan, Middle Shabelle and Galgaduud. In parallel, a number of measures have been put in place to undermine AS financially, including freezing of suspicious bank accounts and pressuring the population to resist extortion combined with a call for tipoffs.

The government is committed to this very ambitious strategy and has undoubtedly created **momentum in the fight against AS**. It is nevertheless under pressure to earn credibility and meet citizens’ expectations in terms of providing security and services in liberated areas. As AS comes under increasing pressure, it has scaled up its asymmetric warfare with an increased number of brutal attacks. The implementation of Somalia’s Transition Plan (STP) is a challenge, as the Somali security forces remain heavily dependent on international support.

The **political tensions between the FGS and FMS and deep-seated grievances** at various levels also represent a significant obstacle to achieving progress on the security front. Despite recent setbacks on the battlefield, Al-

Shabaab continues to control significant parts of the country and carries out regular attacks against civilians as well as Somali and AMISOM forces. Despite the commitment in the Somalia Transition Plan (STP) to take over the country's security responsibility by 2023, Somali security forces remain heavily dependent on international support and cannot ensure the protection of the population.

On the **economic front**, Somalia achieved an important milestone in March 2020 by reaching **HIPC Decision Point**, which in turn resulted in the **normalisation of the relationship with international financial institutions and the unlocking of significant financial resources** most notably from the World Bank and the IMF. This notwithstanding, the political developments during 2020 to mid-2022 led to the de facto suspension of direct budget support. In 2021, the Government of Somalia benefited from the IMF's global new SDR creation exercise, which created fiscal space that allowed the financing of priority spending until the resumption in international budget support from mid-2022.

Somalia is now at the cusp of reaching HIPC Completion Point. The HIPC process has been extremely helpful to focus policy efforts and provide an **anchor for an ambitious economic reform programme**. A new strategic framework needed to sustain the reform momentum post HIPC Completion Point still needs to be formulated.

2.2 Problem Analysis

Though the election of the President marked the end of the most recent drawn-out political crisis, the **root causes of instability remain acute**. In the absence of a finalized constitution and structures to ensure the Government abides by it, the country remains at risk of being exploited by a political elite that has limited incentive to change the status quo. While there has been incremental progress in implementing financial and fiscal management related reforms in recent years, Somalia's fiscal institutions remain weak as DRM and PFM practices are still developing (from a very low/non-existent basis).

Both horizontal and vertical **accountability mechanisms are weak**, which facilitates the capture of institutions by political elites. This is fuelling distrust and reinforces patterns of fragility, as the country remains trapped in a "low-trust non-cooperative social equilibrium" (World Bank) with a constant risk of relapse into conflict and reversal of the state building gains achieved to date.

The emerging federal governance structures are still contested politically, and struggling to perform core state functions. Continued international pressure is required to **strengthen nascent governance structures and ensure that the state meets its obligations vis-à-vis its population.** Notwithstanding positive steps by the new administration to convene and reconcile FGS and FMS leadership and a degree of political will on all sides to advance the ambitious state-building agenda, the capacity at both FGS and FMS levels to deliver on these objectives is weak and in need of support and **state legitimacy vis-à-vis Somalia's citizens remains low**.

Government capacity remains extremely weak at managerial and technical levels, collection of domestic resources very limited (around 5 per cent of GDP), emerging federal institutions are still being defined, and political instability - and associated security concerns - continue to hamper reform efforts. Hence the role of the state remains very limited, and as a result it is not surprising that Somalia ranks dismally in key human development indicators, despite heavy inflows of donor aid.

The EU is considered a key partner that supported Somalia's economic reform programme from the outset, as a result of which Somalia may reach **HIPC Completion Point** in the course of 2023. As an immediate result of the first SRBC, IFIs reengaged with Somalia, with in particular the World Bank now disbursing hundreds of millions of dollars worth of IDA each year. However, Somalia is yet to invest any own public resources into service delivery, with current spending largely limited to wages of security personnel and staff in administrative structures at central and state levels. At present, service delivery is either funded by external aid resources or provided by private sector operators.

By providing un-earmarked fiscal space, this SRBC will **enable greater public spending on social service delivery** in the interest of building public trust in nascent public institutions at FGS and FMS levels. It is expected that this operation will contribute to a gradual **improvement in citizens-state relations and help address core drivers of conflict and political instability**: increasing the state's effectiveness and responsiveness in delivering public goods to Somali citizens will in the long term, facilitate a gradual move away from a traditional (and largely exclusionary) clan-based social contract to a more inclusive and sustainable one.

To date, SRBC-1 and other IFI interventions/conditionality have largely focused on establishing core state administrative functions and capacities in "centre of government" functions (such as PFM/DRM, mainly at FGS level). By focusing on a critical social sector, in addition to progressing the fiscal settlement and reforms in core aspects of PFM/DRM, this operation intends to facilitate more explicit linkages between improvements in country systems and enhanced fiscal resources for more and better public services. This echoes findings from a recent World Bank (WB) study on Somalia's Social Contract regarding the **need for formal structures to start meeting citizens' expectations when it comes to providing basic public goods such as security and education.** The **focus on education** is justified by the fact that with an estimated 62% of children currently out of school (GER for primary education is just 27.4%), the needs are enormous while the sector remains hugely underfunded. Education is also a sector in which gender inequalities are profound. Reversing this situation is a shared priority of the new FGS administration and of the EU, and a critical enabler of other key priorities, such as stimulating economic growth through the creation of foundational skills, and improving the condition of women and girls in Somalia. Expanding the public provision of education services over the medium-term requires significant additional resources. An EU budget support operation will strengthen the case of the Minister of Education to push for additional budget allocations. Currently FGS allocates only around 4% of the budget to education. Much of donor financing is channeled through NGOs, and there is a need to better incorporate into public policy the role of non-state actors in the provision of education services. More generally, the SRBC II could provide a platform to pursue critical reforms that pave the way for sector budget support in the future, moving away from the current NGO dominated delivery model, which has been the EU approach to supporting education in Somalia for the last 30 years.
Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action: The Federal Republic of Somalia authorities (both at federal and member states levels), particularly the Ministries for Finance (MoF), and for Education, Culture and Higher Education (MoECHE); the Office of the Auditor General of Somalia (OAGS); the World Bank and the IMF; EUMS (particularly Germany, Finland and Italy) and other likeminded development partners such as FCDO and USAID; NGOs/CSOs and other non-state actors active in the delivery of education services and in the scrutiny of economic and financial affairs. The EU is considered a well-respected partner in the Education sector, enjoying the trust of both FGS and FMS, as well as other actors in the sector. In light of recurrent FGS-FMS political tensions, this is a critical aspect for strengthening intergovernmental arrangements needed to establish basic building blocks of Somalia's embryonic education system e.g. reaching agreements on school financing via conditional transfers; or the application of uniform standards for curriculum and examinations, teacher proficiency, school supervision etc. The current education portfolio consists of projects implemented by NGOs for direct service delivery, and TA to strengthen the capacity of the Education Ministry. The EU is also the coordinating agency for the Global Partnership for Education. Engagement on some key sector policy areas as part of the first SRBC has also been successful, and the overall portfolio and leadership role in policy dialogue positions the EU as a key interlocutor in the sector.

2.3 Additional Areas of Assessment

2.3.1 Public Policy

Somalia's National Development Plan (known as NDP-9) remains the overarching policy document for guiding and coordinating Somalia's development efforts: it builds on the progress made and lessons learned from 2017–2019 NDP, and presents a comprehensive strategy to reduce poverty. It also includes an implementation arrangement framework with associated risks and a strategy to fill the large data gaps. The NDP-9 is organized around four pillars of **inclusive politics, security and the rule of law, economic development, and social development, with building resilience to climate shocks as a cross-cutting theme**. It is informed by good analysis of the drivers of poverty, which include political fragility, conflict, insecurity and lawlessness, and climatic shocks. Importantly, it implements the action plan developed in the 2018 Recovery and

Resilience Framework, and was developed through extensive consultations with civil society, private sector representatives, FGS and FMS line ministries, national and state parliamentarians, members of the judiciary, and development partners. SDGs are mainstreamed into the NDP-9.

A joint IMF/WB appraisal confirmed that the document **meets the standards of an interim poverty reduction strategy** (a HIPC DP requirement) in terms of its underlying analysis, topics and policy discussions, extent of stakeholder consultations, and articulation of strategies. An implementation report was issued for 2020. As this was an HIPC CPT it had to be formally reviewed by the IMF and WB. This joint assessment is still being finalised [TBC]

However, protracted violence by Al-Shabaab, recurring climatic hazards such as droughts and floods (and associated displacement), unclear distribution of roles and responsibility and limited geographic reach of the government remain huge challenges in executing the ambitious development agenda laid out in the plan.

The health, economic and social impact of Covid-19 have compounded existing challenges and delayed implementation. The plan's ambitious objectives are also not prioritised nor integrated within a medium term fiscal framework and annual budgets (to ensure high-level costings are linked to estimates of expected resources). In practice, NDP implementation efforts are largely **contingent on sustained financing from international partners** given the limited short/medium term potential to create fiscal space through enhanced DRM or improved PFM systems that can ensure greater growth payoffs from quality public expenditure.

Government effectiveness for Somalia is assessed amongst the lowest in the world: the bureaucracy's weaknesses reflect partial or absent policy and regulatory frameworks, , weak administrative and enforcement capacity (as well as low pay of civil servants), and limited availability of reliable data and of codified knowledge/information.

Coordination of institutions across and between levels of government is still inadequate. This situation prevails at both Centre of Government Institutions as well as line ministries. A public service pay and grade structure policy was passed in November 2022 and will contribute to address some of the critical challenges with civil service payroll management, in turn affecting fiscal sustainability given the size of the wage bill (which currently absorbs the totality of DRM).

NDP implementation monitoring will continue to be hampered by **significant data gaps**. Although a National Bureau of Statistics (SNBS) is now operational and its Director General appointed, Somalia does not yet have an official national statistical system capable of producing regular economic, financial, and social statistics. There is no updated population census informing design and implementation of development strategies, although efforts are underway to plan one using hybrid approaches. The Government is mainly relying on external sources (i.e. WB for socio-economic indicators, FSNAU-FEWSNET for food security and nutrition, etc.). Due to lack of systematic collection and multiplicity of sources, there is a high risk of inconsistent data questioning the validity of policy results. That said, statistical and data collection capacity is gradually but steadily improving, thanks to statistics/M&E capacity development initiatives by various donors: data sets are gradually being updated (e.g. GDP, CPI, fiscal and trade related and the evidence base around poverty and vulnerability has also improved thanks to the realisation of High Frequency Surveys and a first Demographic and Health Survey.

With regards to public policy eligibility in the **education sector**, a sector strategic plan sets out key strategic issues, and the newly appointed Minister has laid out an ambitious agenda that involves a significant upscaling of Government efforts in the education sector.

This SRBC will also provide a useful entry point to other pressing policy issues such as school financing, teacher management (recruitment, deployment, training, supervision, payroll etc.); and sector governance in a federal context.

A recent evaluation of EU funded interventions in the education sector notes that whilst there have been positive results in expanding educational access and participation, greater efforts are required to ensure a more coordinated and aligned approach, including provision of **system strengthening** elements to augment the positive outcomes.

The current **projectized approach does not provide for sustainability in operations** nor a stable environment to allow for long-term development of the sector. This operation would thus support such gradual shift to system level support in the uniquely complex Somalia operating environment, including through working jointly with the FGS on the recently unveiled National Teacher Initiative. Education-specific VT performance indicators and targets will also test the ground for compliance at sector level for a possible sector budget support in the future.

As part of its strategy to combat AS, the new administration is keenly aware that **the provision of education services is key to strengthen both the legitimacy of the Government and life prospects for Somalia's youth**, in an effort to deter them from joining terrorist organizations. This commitment is underpinned by a recently announced nationwide initiative to hire and deploy 3000 teachers, followed by a substantial increase in the sectoral allocation in the 2023 federal budget. This marks an important milestone, as hitherto the role of the Government had been limited to developing policies, including critical issues like a unified curriculum and national examinations.

In addition, related to fiscal federalism, the Ministers of Finance from the FGS and FMS took some tentative steps forward in January 2023 by agreeing on a revenue sharing formula that would apply to budget support received from international partners. This agreement foresees a 60/40 split between FGS and the FMSs, and in addition spells out that FMSs would use 50% of their allocation to finance the delivery of social services and good governance. However, respective functional assignments in the education sector remain to be agreed, including expenditure responsibilities and role of local communities in school construction and financing.

Overall, these positive trends provide useful entry points for a constructive engagement with this new budget support operation. In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.3.2 Macroeconomic Policy

According to the most recent IMF report, following a COVID-19-related contraction in 2020, the Somali economy rebounded by 2.9 percent in 2021, with growth largely driven by household consumption and private investment and supported by robust remittance inflows and credit growth.

However, economic activity has slowed down in 2022, with IMF growth projections downgraded from 2.7 to 1.9 percent. This was the result of the global economic slowdown, coupled by the impact of the recent drought on agriculture and exports and of slowing remittances (with a ripple effect on domestic consumption and investment). **Growth forecast for 2023 is 3.1 percent, assuming a return of normal rainfall patters, continued access to large-scale donor funding, and strong remittances** and credit (upon which the construction sector is particularly dependent). As such this projection is subject to considerable uncertainty, and also assumes a non-deterioration security situation (an ever-present risk in Somalia).

Rising food and fuel prices are expected to increase average annual inflation from to 4.6 in 2021 to 9 percent in 2022, with an expectation that it will go back to the 4 percent region in 2023 and 2024 as commodity prices are expected to recede.

Mainly due to the recovery in donor grants, the current account deficit is projected to narrow to 14.3 percent of GDP, from 17.1 percent in 2021.The **external position of Somalia remains highly vulnerable to changes in international prices of its main exports and imports, global demand, aid flows and remittances**. The risk of climate and fiscal shocks is constant. In recent years, the impact of the global Covid-19 pandemic, flooding, draught and desert locusts have compounded the challenges posed by protracted insecurity, political instability and weak governance. Enhanced financial deepening and financial inclusion in Somalia would allow farmers, businesses, and households to cushion shocks.

On the fiscal side, vulnerability derives largely from **grant volatility and low tax collection (in turn a function of the political and security situation), as well as poor budget execution and commitment controls.** A fiscal shock would mainly impact on salaries of government employees (civil servants and security forces), and likely lead to the fresh accumulation of arrears. Domestic revenue and expenditure in 2022 have been in line with projections and, following protracted federal elections and the accompanying political instability, disbursement of significant budget support grants (notably by the World Bank) have resumed. 2022 saw good performance of custom duties and non-tax revenues (with khat import taxes also picking up after resumption of imports from Kenya), which compensated for underperformance of taxes on goods and services.

Somalia is heavily reliant on external grants: external grants finance roughly half of the budget, with the World Bank providing around 82 percent of total grants in 2022. However, these are expected to decline significantly after the country attains HIPC Completion Point, possibly as early as late 2023, and lowers its debt distress risk to "moderate": while debt relief will certainly have important **investor confidence effects and facilitate Somalia's access to new sources of financing, it will also entail a change in IDA from grant to (concessional) loans**.

The **financial sector has continued to develop**, with significant support from the IFIs. Deposit and credit growth has been strong in recent years, and reported capital adequacy and liquidity ratios remain sufficient. Three mobile money operators have been granted licenses and two new foreign banks were granted restricted licenses. However, many challenges remain and **credit to the private sector remains low** as a percent of GDP and 2022 has seen a rise in nonperforming loans with several smaller/newer banks facing losses. Given the potentially high impact on remittances flows and disruption to payments and transactions, the main risks associated with the financial system remain the **limited regulation of mobile money operators and poor AML/CFT compliance**.

Total public debt stands at $5.3 billion, or 109 percent of 2019 GDP, nearly all of which is external and in arrears ($5billion). Most of the debt is owed to Paris Club creditors (58%), followed by multilaterals (29%) and non-Paris Club bilateral creditors (11%). Negotiations with creditors on external public debt restructuring are advancing. Debt relief and restructuring agreements have been reached with almost all Paris Club members and discussions are underway with non-Paris Club creditors, particularly Gulf States. Domestic debt is just 1.5% of total and consists largely of government wage arrears to civil servants.

Accordingly, **Somalia is considered to be in debt distress and needs to secure the debt relief that will be provided at HIPC "completion point" to restore debt sustainability**. At that point, and assuming post-CP borrowing is contracted on highly concessional terms, all debt burden indicators would be significantly below their respective thresholds in 2023, and Somalia would be expected to achieve a moderate risk rating. In the interim HIPC period (i.e. prior to Completion Point), whilst FGS does not yet have the scope to incur new debt, Somalia will have to remain current on debt not in arrears and any debt restructured within the HIPC framework. In this context, the MoF has been strengthening its debt management capabilities to maintain proper recording and reporting of outstanding debt and debt service schedules to ensure timely payment. For instance, debt servicing obligations of about US$14m per year has resumed to IDA.

Overall, the **Somali authorities maintain their commitment to advance the economic reform agenda and make progress toward the HIPC Completion Point**. Between 2016-2020, Somalia successfully implemented four consecutive staff monitored programs (SMPs). The satisfactory track record and clearance of arrears to IFIs (including through significant EU support) enabled approval of the HIPC Decision Point in March 2020, which offered Somalia access to interim debt relief; promotion to an IMF Extended Credit Facility (ECF) arrangement; and new and very large flows of development finance from IFIs. **The ECF programme, which recently underwent its 4th review, remains on-track.** Following the expiry of the current ECF programme at the end of 2023, the IMF expects to agree a successor programme with Somalia.

The **macroeconomic policy framework is therefore assessed as adequate, assuming continued commitment to the reform agenda anchored in the HIPC initiative**, particularly when it comes to efforts to enhance fiscal discipline by not borrowing and improving expenditure controls; improving DRM; and strengthening intergovernmental fiscal cooperation. Continued budget support (especially by the WB) is also an important assumption, if Somali authorities are to continue meeting obligations under the HIPC process and gradually create fiscal space to fund more pro-poor expenditures. As argued in section 2.2, over time this will be a critical factor in enhancing state legitimacy and mitigate conflict drivers, a key precondition for sustainable state building.

However, the limited short-medium term potential to boost the tax to GDP ratio (see next section for more details), and the expected switch in IDA financing from grant to loans pose particular downside risks to the fiscal outlook, insofar as grant funding is currently largely utilised to fund recurrent and social spending, rather than capital investment that can boost Somalia's productive potential (and debt repayment capacity).

Post-HIPC Completion Point, a new economic reforms and policy framework that takes into consideration the aforementioned risks and opportunities will likely be discussed between the authorities and stakeholders engaged in macro-fiscal support and PFM/DRM TA (including in the context of EU budget support).

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.3.3 Public Financial Management

The FGS has been **gradually rebuilding core PFM functionalities** over the last years through a significant range of reforms. DRM has seen notable progress, although much remains to be done to strengthen tax policy and administration (particularly in the fields of customs modernization and income taxation), as well as to strengthen control and transparency of tax exemptions. Despite seeing an **increase from about 1 percent to 3 percent of GDP between 2013 and 2021**, current federal tax capacity is insufficient to even cover mandatory recurrent expenditure, which has seen a sharp rise in recent years. **Somalia's tax revenue is the lowest in Africa**, reflecting a large informal economy, dependency on international trade taxes (two-thirds of tax revenue), and low tax administration capacity (especially for collection of taxes on income and goods and services).

Somalia is also characterised by strong **heterogeneity in collection and tax potential** between FGS (confined largely to the Mogadishu region) and FMS, as well as across FMS (as a function of whether they have ports and can collect trade taxes). **Competition for taxation between FGS, FMS local communities and armed militias** is another feature, meaning that real tax incidence is often higher than what is officially reported.

In terms of customs reform, while progress has been observed with enacting an **ad-valorem tariff schedule** in 2022 and developing an automated customs administration system (with EU support), acceleration of key reforms is needed to enable the rollout a common valuation table across Mogadishu and the FMS ports (Bosasso and Kismayo), and applying a **single tariff schedule across Somalia** (a HIPC CP trigger).

In 2022 a spectrum fee schedule for telecom operators was approved, and while this is expected to yield US$6 million per year, further efforts are required to harness the revenue potential of the highly profitable Somali **telecoms sector**. Other reforms that are being introduced with IFI support are the operationalisation of POS machines at some large taxpayers and **introduction of turnover taxes** with at least 2000 newly registered taxpayers planned in 2023. While the potential to increase revenues may be limited in the short and medium term, the successful development of the petroleum sector is a potential game changer.

The implication is that **spending increases need to be carefully prioritised**, in line with a viable vision as to the role of the state in Somalia, within the newly established (and still contested) federal framework of governance. Failure to agree on the basic contours of fiscal federalism means that FGS and FMS currently collect and spend almost all revenues pertaining to their geographic area of responsibility. This arrangement places FMS that have access to port revenues at a great advantage, and also limits the potential FGS role in managing revenue redistribution to pursue equalisation goals. Securing agreement between FGS and the FMS on a credible **political framework for managing fiscal federalism** (including revenue management and sharing mechanisms), continues to be a critical PFM challenge and a key constraint to sustainably enhance DRM.

While PFM has been steadily improving, further efforts are needed to improve **public expenditure quality**, so as to ensure greater growth payoffs from investment and social spending. The FGS approved its first budget in 2013 and has since been enhancing its ability to implement a meaningful budget, which so far essentially covers the recurrent costs of the federal administration and security sector and limited – but growing – fiscal transfers to the sub-federal level of government.

The FGS has been building a modern **PFM legal framework**, and the Somalia Financial Management Information System (**SFMIS**), in place since 2014, has **supported expenditure controls and regular reporting**, boosting in particular efficiency and controls around payroll(s) and payments by the central treasury function. However, a recent assessment has raised as a serious issue that needs to be urgently addressed, the lack of adequate governance policies necessary for ensuring and sustaining the system's integrity.

Domestic arrears are now under control thanks to improved budget preparation and cash management. A Single Treasury Account is being gradually operationalised, with the consolidation of all bank balances of MDAs via the SFMIS, enabling a reduction of cash advances to MDAs for non-salary expenses. Cash planning and revenue management functions are being automated through the SFMIS and the recent introduction of an invoice tracking will strengthen the monitoring of accumulation of unpaid invoices and arrears, and report on these in a timely fashion.

At the same time, significant issues persist with the compensation of civilian temporary workers (outside the formal payroll and civil service pay scale, and not subject to adequate payroll controls enabled by the automated payroll system and electronic payments through the SFMIS). At 22 percent of total compensation in 2021, this issue calls for the urgent **integration of the payroll and stronger payroll controls** to ensure a more affordable wage-bill. Rules and processes for governing **intergovernmental fiscal relations,** notably a credible **fiscal transfers system**, are still at a nascent stage including the arrangements for harmonized fiscal and financial reporting. Implementation of the new **public procurement (and concessions) legal and regulatory framework** is also problematic as compliance is weak.

The **credibility of the budget needs to be improved:** significant in-year adjustments at MDA level, inadequate time given to MDAs to submit proposals after the budget ceiling is issued, and wide variation in donor revenues pose challenges to budget execution. There is also much room for improving cash management and commitment controls, especially through more accurate forecasting and better adherence to forecasts. A recent PFM assessment by the WB notes additional critical areas where PFM procedures need improvement to achieve efficiencies in public spending, namely: manual, duplicate and cumbersome payment processes that lead to delays in payments and an increase in the cost of services; and monthly budget releases for all expenditure categories, which provide an inadequate time horizon to plan commitments — and may ultimately lead to payment arrears. In terms of transparency and accountability the following issues persist: the **absence of a legal backing on OAGS ability to operate as an independent accountability institution**; expenditures incurred through cash advances or advances to bank accounts outside of the main TSA account, hence bypassing the internal controls embedded in the FMIS. Additionally, a large portion of donor-funded operations implemented by MDAs are still off-plan and off-budget.

More generally, state-building efforts signify that the **size of the public sector has been growing**. Indeed, it will continue to grow, as the state expands its operations in the security, economic and social sectors. As such, the government is confronted with new PFM challenges of both scale and technical complexity as it benefits from scaled-up development finance post-HIPC Decision Point. **Donor funded TA and capacity development has been instrumental** in the significant progress to date, but further sustained support is needed to continue and deepen the implementation of PFM reforms which need to focus on strengthening the legal and regulatory framework; improving PFM procedures for effective budget implementation; and promoting greater transparency and financial accountability. To guide reform efforts, several assessments have been conducted (especially by the WB), and the FGS has also issued a detailed PFM Action Plan capturing ongoing and planned activities for strengthening PFM. WB and IMF conditionalities also target pressing PFM/DRM challenges. Starting from this year, regular FMS-specific diagnostics are also planned, to inform agreements on fiscal transfers (a recently agreed formula for determining horizontal allocations foresees progress against three PFM dimensions as one of the criteria). Going forward, a new large WB programme (US$ 75m) will support nationwide reform efforts in PFM, DRM and civil service reform, complemented by TA projects by the African Development Bank and FCDO (with a focus on customs and subnational PFM).

The EU will engage in this space through upcoming programmes in support of the external audit function, of vertical financial accountability through support to CSOs, as well as a contribution to the IMF Somalia Country Fund, which will provide TA in the areas of macro-fiscal policy, PFM, DRM, Central Banking operations and AML/CFT. These interventions will be funded under a complementary decision (the "Economic Governance and Anti-Corruption Programme").

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.3.4 Transparency and Oversight of the Budget

The entry point is considered to be met: the FGS publishes both the Executive's budget proposal and the enacted budget on the Ministry of Finance website (https://mof.gov.so/publications/appropriation-act-2023-budget). Overall, budget **transparency and oversight remain very weak by international standards**.

However, there have been **important improvements in recent years in the transparency and comprehensiveness of the budget**, availability of financial reports, and quality of oversight by the OAGS (thanks in part to EU funded TA). These were reflected in improved scores in the 2022 OBI's transparency and budget oversight dimensions.

Budget documentation and the structure of the budget covers the basic elements to meet minimum levels of transparency and the SFMIS facilitates the production of regular financial and fiscal reports. The FGS has been publishing quarterly budget execution reports and annual financial statements on a timely basis; monthly consolidation reports of fiscal outturns for the FGS and the FMS are also now issued on the MoF's website.

Important **progress in the establishing a modern external audit function** has also been observed in recent years. OAGS is aligning the audit methodology to international standards. Annual OAG reports on the annual accounts of the FGS have been gradually enhancing their alignment to international standards and the coverage of audited entities has also greatly increased, as has the number and scope of compliance and special audits.

These notable achievements have occurred in the absence of a modern legislative framework that can ensure adequate SAI independence. A new Audit Bill that had been submitted for presidential assent under the two previous legislatures, has yet to be signed into law, based on disputed interpretations over procedures for appointing and removing the Auditor General. **Audit follow-up also remains very limited**, and parliament does not formally scrutinise audit reports, despite these being submitted to the legislature annually and in a relatively timely manner.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The Overall Objective (Impact) of this action is: to improve the effectiveness and responsiveness of nascent Somali public institutions in performing core state functions

The Specific Objective (Outcome) of this action is: improved Government capacity and allocation of resources to deliver basic social services (with a focus on education)

The Induced Outputs to be delivered by this action contributing to the corresponding Specific Objectives are:

- Progress with the implementation of intergovernmental agreements required to reach a constitutional settlement
- Increased Somali Government(s) contribution to funding and managing education service delivery
- Improved Domestic Revenue Mobilisation and Public Financial Management systems

3.2 Indicative Activities

Activities relating to Induced Outputs 1.1

For all the induced outputs, budget support and TA (funded via a complementary decision – see PFM eligibility section for details) will support policy dialogue and reforms in the three policy areas identified by this operation, namely fiscal federalism, education and PFM/financial governance; the common thread being an intent to **strengthen capacity at federal and state levels to perform core government functions for enhanced state legitimacy**. The agreement of **specific performance indicators and annual targets** will contribute to guide the policy dialogue and monitor progress in the implementation of key reforms in those areas. In many cases this will be done jointly with the World Bank and IMF, so as to strengthen signalling for greater impact, while ensuring a common analytical basis and monitoring framework (by aligning with a number of policy benchmarks from the ECF programme and WB's Recurrent Cost and Reform Financing-RCRF programme).

This will also ensure a **harmonised approach to policy dialogue on shared EU-IFIs reform agendas, and minimise transaction costs** on the FGS side, the capacity of which is already stretched as it grapples with a crowded policy agenda and competing demands from internal and external actors. The FGS request to minimise the number of targets and maximising synergies with other ongoing IFI economic reform programmes is also in line with findings from an evaluation of EU state building contracts 2012-18, which points out the need to reduce the number of VT indicators, which also have a tendency to be overly ambitious and too scattered across policy areas.

Close coordination and collaboration with IFIs will continue to be critical: building on its predecessor programme, this SRBC will continue to support Somalia state building process and progress towards debt relief. In conjunction with the World Bank's planned series of DPOs, the operation will enable the creation of much needed fiscal space, thereby support the FGS in providing **financial assurances to the IMF** (in the framework of the ongoing ECF supported programme) and help **underpin macroeconomic stabilisation measures**.

This will in turn ensure Somalia is able to manage and build resilience to the destabilising effects of external shocks (such as rising food and fuel inflation or the recurrent climate-induced hazards), while **remaining on-track with the IMF ECF arrangement** (a pre-condition of the HIPC process).

Conditionality and policy dialogue linked to Variable Tranche (VT) performance indicators will provide **performance incentives and reinforce government commitment on urgent reforms** required in the three induced output areas. Dialogue around the **eligibility criteria** will be used to ensure that core policy and administrative reforms in PFM/DRM and wider public sector management and accountability (e.g. civil service reform) are sustained. These are benefitting from large scale support/TA from IFIs, and will be indirectly supported through a complementary Decision that will finance a large package of TA to bolster Somalia's external audit function; contribute to the IMF Somalia Country Fund for capacity development; ensure continuity of the Financial Governance Committee-FGC (an important safeguard measure for this operation), as well as CSO call for proposal aimed at boosting vertical accountability on fiscal and financial affairs of public interest.

The latter intervention is also an attempts to implement one of recommendations emanating from an evaluation of EU state building contracts 2012-18, which underscores the importance of strengthening the role of civil society in the implementation of SRBCs, and more broadly in discussing and making more transparent the choices made by the legislative and executive powers.

In terms of **advancing political settlements required to advance the constitutional review process (output 1.1),** the focus of the operation will be on institutionalising inter-governmental fiscal arrangements, which currently are partial, based on ad hoc arrangements and often subject to politicisation.

In particular, VT benchmarks will focus on **advancing a rule-based intergovernmental transfers system** that limits ad hoc allocations and ensures a degree of predictability in financing core functions at state level. By supporting a more equitable distribution of resources across the federation, it is expected that activities supported under this output will also contribute to much needed trust-building that is at the root of any viable political settlement.

Other benchmarks will focus on the **harmonisation of the customs regime** across Somalia, including the implementation of a national tariff schedule across the three major Somali ports. With customs representing the single largest source of revenue in Somalia, a settlement in this area will equally be critical to advance the constitutional review process, given the important political ramifications of proceeding with a unified customs administration in Somalia.

With regards to **supporting Somali authorities to take on greater responsibility for service delivery(output 1.3) in the education sector,** the action will support key institutional reforms for financing the education policy at both federal and states' levels and, more generally, building a viable education system in Somalia. The VT indicators will tackle **foundational aspects of the education system**, with a view to improve Somalia's education outcomes. Benchmarks and policy dialogue will focus on supporting a national initiative for **hiring and training new teachers**; updating the **policy framework for teacher management** (including aspects related to recruitment, deployment, certification of proficiency standards, pre and in-service professional development, supervision and performance management); and developing a national school financing policy (including aspects pertaining to accountability mechanisms and role of non-state actors in funding education service delivery).

In order to **strengthen the overall framework for financial governance (output 1.3),** the operation seeks to **elevate policy dialogue and reward accelerated progress on urgent PFM/DRM reforms** in the following areas:

- **Wage-bill controls and payroll integrity and governance**, a critical area for ensuring fiscal discipline and overall sustainability of public finances
- Greater **transparency in the award of tax exemptions** to ascertain the fiscal policy rationale and ensuring tax expenditures are minimised so as not to undermine the MoF's DRM efforts

Additional technical areas that may be the subject of policy dialogue with the authorities include greater enforcement of existing PFM systems and regulation at subnational level, and coordination and cooperation between federal and state-level external audit offices as a way to strengthen financial accountability.

3.3 Mainstreaming

Environmental Protection & Climate Change

Outcomes of the SEA screening The Strategic Environmental Assessment (SEA) screening concluded that no further action was required

Gender equality and empowerment of women and girls

As per the OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that this action will contribute to building a gender responsive education system to promote gender equality by reducing the gender gap in schooling and enrolling. ., Gender equality and empowerment of women and girls, and the wider trajectory of/commitment to fundamental values, will feature as part of the political level discussions in the context of Article 8 dialogue between the EUD and Somali Authorities.

Human Rights Although this action will not explicitly target disability rights. However, human rights, and the wider trajectory of/commitment to fundamental values, may feature as part of the political level discussions in the context of Article 8 dialogue between the EUD and Somali Authorities. **Disability** As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0. This implies that this action will not explicitly target disability rights. However, disability rights may feature as part of the political level discussions in the context of Article 8 dialogue between the EUD and Somali Authorities. **Democracy** By focusing on the fiscal settlement, nascent state-led service delivery and strengthening DRM and PFM systems, this action strives to contribute to better state-society relations in Somalia (as per the principles embedded in the 2012 Provisional Constitution). By strengthening Somalia federated governments' capacity and allocation of financial resources to perform core state functions, citizens' perception of the state as a provider of basic public goods will be boosted over time, hence contributing to basic social and political cohesion and to a more inclusive state building process in Somalia. **Conflict sensitivity, peace and resilience** It is expected that this operation will contribute to a gradual improvement in citizens-state relations and help address core drivers of conflict and political instability: increasing the state's effectiveness and responsiveness in delivering public goods to Somali citizens will in the long term, facilitate a gradual move away from a traditional (and largely exclusionary) clan-based social contract to a more inclusive and sustainable one. In addition to progressing the fiscal settlement and reforms in core aspects of PFM/DRM, this operation intends to contribute to linking more explicitly improvements in country systems and enhanced fiscal resources to more and better public services, hence supporting formal state structures to start meeting citizens' expectations when it comes to providing basic public goods such as education. **Disaster Risk Reduction** This action will not explicitly target DRR issues **Other considerations if relevant** N/A

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
External environment	Risk 1 **Political instability, conflict and insecurity** undermine the implementation of critical economic and financial governance reforms (including those required to keep the IMF ECF on-track and finalize the HIPC process)	High	High	The EUD will continue to use its programmatic investments and accompanying technical/policy dialogue; its regular engagement with the IFIs and with EU MS in-country; and political dialogue with the FGS (in the context Article 8) to mitigate risks in this area. Externally supported efforts to facilitate technical and dialogue, cooperation and trust-building measures (particularly around resource sharing) at different levels will contribute to mitigate FGS-FMS tensions and de-politicise reform implementation.
	Risk 2 **Extreme vulnerability – despite signs of resilience – to macroeconomic, climatic and pandemic-induced**	High	High	Increase Somali authorities' capacity to manage the macroeconomy and respond to shocks, by enabling the creation of fiscal space to implement policy measures. At the same time, use the operation to mitigate fiscal sustainability risks by

	shocks, undermine Somalia peace and state building gains (as the ability to cushion shocks is limited by continued dependence on aid and remittances, a narrow tax base and poor integration in the international financial system)			incentivising DRM reform and improving the quality of expenditure. Continued engagement by Somalia in the IMF ECF arrangement and HIPC process will also mitigate risk by supporting improvements in macroeconomic management. Other interventions, particularly under the Economic Governance and Anti-Corruption Decision, will also contribute towards resilience and help address the sources of structural vulnerabilities, particularly those associated with dependence on remittances, lack of access to external capital flows, and weak financial accountability.
Planning, processes and systems	Risk 3 NDP implementation is undermined by **limited data, weak planning capacity and coordination between federal and regional institutions; missing or unclear legislative and regulatory frameworks; unclear distribution of roles and responsibility; limited geographic reach of the government; and limited/non-existing service delivery systems**.	High	High	Support to the constitutional review process, to accelerate the finalisation of the constitution and define the contours of the federal structure of governance, including clarifying functional roles in implementing the NDP (and associated revenue and expenditure assignments) across levels of government. Policy and political dialogue to support FGS-FMS enhanced cooperation on deepening the federal agenda. TA and capacity development support particularly from the World Bank will over time strengthen planning and coordination for long-term development policy making and delivery systems.
People and the organisation	Risk 4 Somalia's limited and fragmented technical, policy and institutional capacity translate into **high fiduciary and corruption risk** and undermines the effective implementation of reforms required to strengthen PFM and oversight systems	High	High	The substantial TA and capacity development support provided particularly by the EU, FCDO and IFIs on economic and financial governance (including maintenance of the FGC mechanism) will over time strengthen PFM and accountability systems, processes and institutions. In particular, interventions under the Economic Governance and Anti-Corruption Decision will support efforts in this area, as will policy dialogue around a post HIPC framework to sustain reform momentum in critical areas of economic and financial governance, and the need for enacting modern SAI legislation that safeguards the OAGS independence.
Legality and regularity aspects	Risk 5 The **new (and incomplete) DRM/PFM/external audit legal framework, procedures and operational systems** limit the government's ability to implement the overall reform programme	High	High	As above
Communication and information	Risk 6 **Insufficient public knowledge and/or inaccurate information**			Proactive strategic communication efforts and EUD engagement at various levels to ensure the instrument is properly understood by stakeholders (including from civil society), and

	propagated about the instrument limit ownership and accountability and are a source of reputational risk to the EU			that results achieved are disseminated to the public on a timely basis e.g. around the release of fixed and variable tranches.

Lessons Learnt:

In terms of the first – and still ongoing - Somalia SRBC, it was broadly successful in supporting core state functions, underpin macroeconomic stabilisation measures and, with the onset of Covid-19 and other concurrent crisis, prevent a serious deterioration of the economic and social situation.

Through enabling the swift plugging of an emerging financing gap in Somalia's arrears clearance process, the operation was also instrumental in supporting Somalia access to the HIPC initiative. Somalia meeting **HIPC Decision Point in 2020 and re-establishing formal relations with IFIs**, opened the door to regular IDA funding (including additional resources from the Turn Around regime window for FCASs) to the tune of $USD 735 million committed to new WB projects just in FY 2022. This is probably unprecedented globally when compared to countries' tax collection rates. IDA also funded $100 million in budget support in 2020 (accounting for almost half of total DRM), and another $100 million in 2022.

Being readmitted as a formal member of the IMF has also meant Somalia could in 2020 graduate from a Staff Monitored Programme to an Enhanced Credit Facility (ECF) supported programme, and was able to benefit from the 2021's global SDR creation exercise. This generated a windfall of US$ 223 million, which essentially prevented salaries from going unpaid and fresh arrears from being accumulated until the finalisation of the much delayed federal elections, in turn paving the way to the resumption of budget support in 2022.

However, results were mixed in terms of using conditionality to support the **concrete realisation of the federal model of governance** (with an emphasis on fiscal elements such as customs and inter-governmental transfers), and to accelerate institutional reforms in the sectors of fisheries, education and security (with a focus on federal police).

In terms of **lessons learnt in the Education Sector**, a recent evaluation of the Somalia Education Sector Support Programme (November 2021) notes that project outcomes have generally been successful, especially in relation to creating expanded educational access and participation, but recommends a more coordinated and aligned approach including provision of system strengthening elements to augment the positive outcomes. The current projectized approach towards development of the education does not provide for sustainability in operations, nor does it provide a stable environment to allow for long-term development of a national education system. A more pronounced shift to system level support is required to phase in the much needed sustainability and accelerate progress in gross enrolment rate and other sector outcomes.

The political crisis in 2021 and the first half of 2022 translated into severe fiscal challenges, as international donors – specifically Turkey, the EU, and the World Bank – suspended budgetary support. However, immediately following the successful elections in 2022 the IMF completed the pending review under the IMF programme, and budget support payments resumed. This now means that for the foreseeable future the FGS will be able to implement a budget comparable to or even higher than pre-crisis levels.

Nevertheless, the crisis revealed the vulnerabilities of relying on external support, and also pointed to the need to reflect on fiscal sustainability issues like the composition of the budget (recurrent vs investments) and controlling the expansion of the wage bill. These issues will be addressed as part of the new operation.

The key contextual risk continues to be the **slow and uneven evolution towards political and institutional stability,** with contestation over power and resources posing a constant risk of increased levels of insecurity and violence (or even a potential revival of conflict).

Lack of sufficient progress on the inclusive politics agenda and finalisation of the constitution may lead to waning international support and negatively impact reforms leveraged by the instrument. Although the new Government has restated its commitment to sustain the reform effort to complete the HIPC initiative, there is a risk that ongoing reforms in critical areas of economic and financial governance are not consolidated and deepened as a consequence of political instability.

Linked to the point above, is the **risk of stagnant revenue mobilisation**, insufficient to ensure a meaningful role of the state in service delivery, coupled with lack of clarity in **functional assignments** across levels of government, and of a viable model for **resource equalisation** via revenue sharing/fiscal transfers from FGS to FMS.

Of particular relevance to budget support to a country with weak PFM and accountability systems, is the risk of misappropriation of public funds, or of the abuse of public resources to pursue narrow political agendas. In particular, there are significant **governance risks associated with the granting exploration rights in the petroleum sector**, in absence of a strong governance and institutional framework, which can ensure transparency and prevent corruption in the concession award process, as well as undue exposure to the risks of future compensation claims, legal dispute and poor value for money. Such risks have partially materialised during the implementation period of the current SRBC.

Rapid increase in external financing channelled via country systems could also place stress on still undeveloped PFM and accountability systems, coupled with weak or absent legal and institutional frameworks and/or basic bureaucratic capabilities; predictable policy development, and reliable data.

As regards PFM and accountability issues, risk mitigation will comprise support to CSOs to perform their vertical accountability function; support to the Financial Governance Committee (FGC) as well as support to the Office of the Auditor General (OAG), and a contribution to the IMF Somalia Country Fund for capacity development. **These are all to be funded from the Economic Governance and Anti-Corruption Programme under AAP 2022.**

The FGC is a specially designed mechanism established jointly by development partners and Somali Authorities to reduce corruption in a limited number of strategic high value procurement and concession contracts. Commitment to the mechanism by the FGS, coupled with dedicated TA, has been part of SRBC conditionality. The effectiveness of the initiative has been widely recognised, and as EU we have been closely engaged through funding the sensitive position of Donor Delegate to the FGC, as well as providing ad-hoc TA to specific transactions under FGC review. Continuing and enhancing our direct engagement in what is de facto Somalia's most effective anti-corruption initiative, will be an important feature of the EU's overall engagement in Somalia.

Support to OAGS will also contribute to risk mitigation, by strengthening external scrutiny of FGS and FMS finances and support the gradual implementation of an effective independent audit function in Somalia. This will build on the encouraging progress made to date with the support of the first SRBC that enabled, for instance, the OAGS to undertake since 2019 (for the first time in its history) financial and compliance audits of FGS institutions, broadly in line with internationally accepted standards. However, the continued absence of a modern legal framework reduces the OAGS ability to discharge its role, particularly with regards to independence from the executive.

3.5 The Intervention Logic

The underlying intervention logic for this action is that IF the activities described in section 3.2 are realised AND the assumptions hold true, THEN the following outputs will be induced:

- Progress with the implementation of intergovernmental agreements required to reach a constitutional settlement
- Increased Somali Government(s) contribution to funding and managing education service delivery
- Improved Domestic Revenue Mobilisation and Public Financial Management systems

IF the above outputs are induced AND the assumptions at the level of Outputs hold true THEN: "Government(s) capacity and allocation of resources to deliver basic social services (with a focus on education) is improved".

IF the above Outcome is achieved AND the assumptions at this level hold true, THEN the action will contribute to the desired Impact or its Overall Objective, namely: "to improve the effectiveness and responsiveness of nascent Somali public institutions in performing core state functions".

By providing un-earmarked fiscal space, this action will **enable greater public spending in the interest of building public trust in nascent public institutions at FGS and FMS levels, thereby contributing to building a more inclusive and sustainable social contract in Somalia.**

Therefore, it is expected that this operation will contribute to a **gradual improvement in citizens-state relations and help address core drivers of conflict and political instability**: increasing the state's effectiveness and responsiveness in delivering public goods to Somali citizens will in the long term, facilitate a gradual move away from a traditional (and largely exclusionary) clan-based social contract to a more inclusive and sustainable one. In this sense, this action will build on the first SRBC - the first operation of its kind in Somalia - to promote political settlements, and power and resource sharing in order to increase state building capacities for enhanced service delivery in Somalia.

This will be achieved by **strengthening Somalia federated governments' capacity and allocation of financial resources to perform core state functions as per the provisional constitution and any new political agreements emerging out of NCC discussions**. Specifically, the proposed programme will seek to increase public investments into Somalia's education system, thereby increasing citizen perceptions of the state as a provider of basic public goods. To date, SRBC-1 and other IFI interventions/conditionality have largely focused on establishing core state administrative functions and capacities in "centre of government" functions (such as PFM/DRM, mainly at FGS level). By focusing on a critical social sector, in addition to progressing the fiscal settlement and reforms in core aspects of PFM/DRM, this operation intends to contribute to start **linking more explicitly improvements in country systems and enhanced fiscal resources to more and better public services.** This echoes findings from a recent WB study on Somalia's Social Contract regarding the need for formal structures to start meeting citizens' expectations when it comes to providing basic public goods such as security and education.

Logical Framework Matrix

Results	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data
Indicative Impact of the policy	To improve the effectiveness and responsiveness of nascent Somali public institutions in performing core state functions	1. Ibrahim Index of African Governance score for Public Administration (under "Foundations for Economic Opportunity" dimension) and Education (under "Human Development" dimension)	1. 23.2/100 for Public Administration and 12.2/100 for Education (2021)	1. To Be Defined (TBD) in the first year of deployment	1. Mo Ibrahim Foundation index
Expected Outcomes of the policy	1. Improved Government capacity and allocation of resources to deliver basic social services (with a focus on education)	1.1. Change in budget allocations for social sectors (with a focus on education) 1.2. Gross enrolment ratio (GER) at primary level, disaggregated by sex 1.3. Somalia remains on track with the IMF ECF programme and the HIPC process	1.1. Federal Education spending as a share of total federal expenditure was just 2% in 2021 1.2. 23% (2021) 1.3. 4th ECF programme review successfully completed, HIPC Completion Point Triggers on track to be met by 2024	1.1. TBD in first year of deployment 1.2. TBD in the first year of deployment 1.3. Current ECF and IMF successor programme remain on track, HIPC process finalised	1.1. FGS budget documents, IMF, National Development Plan (NDP) reports 1.2. MoECHE and WB statistics 1.3 IMF
Induced Outputs	1.1 Progress with the implementation of intergovernmental agreements required to reach a constitutional settlement	1.1.1. Level of implementation of intergovernmental arrangements on FGS fiscal transfers to FMS	1.1.1. Inter-governmental fiscal arrangements are partial and not institutionalised as part of the annual budget process	**1.1.1. (a) By end-December 2023:** FGS' FY 2024 budget provides for appropriations for FGS' fiscal transfers to FMS/Benaadir Regional Administration (BRA) as per an inter-governmentally agreed formula – *joint with Recurrent Cost and Reform Financing (RCRF) programme* **1.1.1. (b) By end-December 2024 [TBC in 2024]:** FGS' FY 2025 budget provides for appropriations for FGS' fiscal transfers to FMS/BRA as per an inter-governmentally agreed formula – *joint with RCRF*	1.1.1. FGS budget documents, World Bank RCRF programme reports

		1.1.2. Level of harmonisation of customs regimes across Somalia ports/airports	1.1.2. Customs regimes are not harmonised by 2022; different import tariff rates are applied. No system in place to support the uniform administration of a national tariff schedule across major Somali ports/airports.	**1.1.2. (a) By end-December 2023:** The Customs Automated System at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo is operationalised – *joint with IMF ECF* **1.1.2. (b) By end-December 2024 [TBC in 2024]:** A single import duty tariff schedule at all ports in the Federal Republic of Somalia is adopted and applied – *HIPC Completion Point Trigger*	1.1.2. IMF
	1.2 Increased Government(s) contribution to funding and managing education service delivery	1.2.1. Number of teachers hired and trained as part of the National Teacher Initiative (disaggregated by sex) 1.2.2. Status of the policy framework for teacher management 1.2.3. Status of the policy framework for school financing	1.2.1. National Teacher Initiative launched (in 2022), new teachers' selection process ongoing. 1.2.2. Existing policy framework for teacher management is partial and not aligned to the National Teacher Initiative in 2022. 1.2.3. No policy framework in place for regular and equitable school financing (including the role of school grants and of non-state actors in funding education service delivery) undermining GER and other education outcomes.	**1.2.1. (a) By end-December 2023:** 1500 new teachers are hired after successfully completing initial training as part of the National Teacher Initiative **1.2.1. (b) By end-December 2024 [TBC in 2024]:** TBD in first year as per the targets of the National Teacher Initiative **1.2.2. By end-December 2023:** An updated national policy on teacher management - including aspects related to recruitment, deployment, certification of proficiency standards, pre and in-service professional development, supervision and performance management – is approved by FGS **1.2.3. By end-December 2024 [TBC in 2024]** A national school financing policy (including aspects pertaining to accountability mechanisms and role of non-state actors in funding education service delivery) is developed and approved by FGS	1.2.1. MoECHE 1.2.2. MoECHE Reports 1.2.3. MoECHE reports
	1.3 Improved Domestic Revenue Mobilisation and Public Financial Management systems	1.3.1. Extent to which the MoF has an integrated payroll that controls all compensation of FGS civilian employees	1.3.1. By 2021 22% of the FGS civilian employees are temporary workers, whose compensation is not included in the official payroll and	**1.3.1. (a) By end-December 2023:** (i) The SFMIS configured to allow only the MoF to change the payroll entries; (ii) The 2024 Appropriation Bill including a provision	1.3.1. MoF reports and IMF

			not subject to MoF formal controls and supervision	specifying the MoF's authority over the financial clearance of compensation of all FGS employees is approved by the Cabinet – *joint with IMF ECF*	
		1.3.2. Improved FGS payroll management	1.3.2. No payroll management audit has taken place yet	**1.3.2. By end-December 2024 [TBC in 2024]** 70 percent of identified audit recommendations on payroll management are addressed with evidence provided – *joint with RCRF*	1.3.2. OAGS and RCRF reports
		1.3.3. Improved transparency over tax exemptions as per the PFM Law 2019	1.3.3. Tax exemptions are not transparent and not reported to the Parliament, Cabinet, and Auditor General, and not published in annual budgetary documents	**1.3.3. (a) By end-December 2023:** Tax exemptions comply with the requirements of the 2019 Public Financial Management Law to (i) notify the Cabinet and Auditor General within 7 days of granting a tax exemption; (ii) submit to Parliament quarterly tax exemption reports; and (iii) publish in the annual budget (Policy Framework Paper) a statement of tax exemptions - *joint with IMF ECF* **1.3.3. (b) By end-December 2024 [TBC in 2024]** Tax exemptions comply with the requirements of the 2019 Public Financial Management Law	1.3.3. OAGS, Cabinet and Parliament's reports
Direct Output 1	DO 1: Additional Fiscal Space for policy implementation	DO 1.1. Status of Financial Agreement DO 1.2. Volume of EU disbursement DO 1.3. Status of the disbursement schedule	DO 1.1. None by 2022	DO 1.1. Signed and foresaw EUR 20 million budget support	DO 1.1. SRBC FA signed and ratified DO 1.2. Transfer documents DO 1.3. SRBC FA TAPs
Direct Output 2	DO 2: Improved policy dialogue	DO 2.1. Status of a performance assessment framework DO 2.2. Status of the Steering Committee	DO 2.1. No performance assessment framework by 2022 DO 2.2. No SC by 2022	DO 2.1. performance assessment framework agreed with FGS counterparts by 2023 DO 2.2. SC is established and meetings held	DO 2.1. TAPs DO 2.2. SC minutes

4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with Somalia.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 36 months from the date of entry into force of the financing agreement. Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation of the Budget Support Component

4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 20 000 000. No amount is foreseen for complementary support, given that the required activities are to be covered by a dedicated decision (the Economic Governance and Anti-Corruption programme), which foresees a large TA component in support of the OAGS and FGC, as well as a contribution to the IMF Somalia Country Fund for capacity development, and a grant to CSOs to strengthen the vertical accountability function in the area of fiscal and financial governance.

The **foreseen yearly disbursements amounts to about 3.5% of the budgeted domestic revenues for 2023, and just 1% of 2023's total budget** (including other forms of budget support and on-budget ODA projects, mostly IDA funded). While this amount is significantly lower compared to the previous budget support operation and partly reflects resource constraints on the EU side (as a result of phasing out of the EUTF window), it is deemed appropriate in light of the country's **limited absorptive capacity and still developing PFM system**.

The onset of IDA funded budget and project support by the World Bank at a very significant scale (when compared to the partner country's DRM levels), also implies that FGS financing needs to implement policy priorities and remain on track with the IMF ECF programme are also adequately addressed at present.

Currently, **public expenditures are dominated by recurrent spending, as the FGS has been re-establishing basic core state functions at the central level, and providing limited, but growing, intergovernmental transfers to the sub-federal tier of governance** (these comprised 9% of the total budget in 2021). Social spending has increased dramatically (17% of the budget in 2021), but this has been the result of channelling of IDA project grants (notably for a large social safety net programme) via country systems rather than through the creation of fiscal space induced by stronger tax performance.

It is expected that over time, and depending on the available fiscal space, the FGS will accelerate its efforts to increase expenditures for development priorities. **Rebalancing FGS spending priorities away from central public administration towards frontline service delivery (with a focus on the education sector), is indeed one of the intended outcomes of this operation.**

Given the recent political and security developments in Somalia, the use of the instrument also provides an opportunity to build on a positive momentum to support authorities deliver on their commitments, whilst establishing a closer political and policy dialogue on areas of shared interest.

The first budget support operation has to date enabled the disbursement or commitment to disburse EUR 63 million worth of Fixed Tranche (76% of total), and EUR 19.9 million worth of Variable Tranche. The latter was against an original budget of EUR 30 million i.e. about 10 million worth of Variable Tranche has been withheld as a result of failure to meet agreed indicators (out of a total of 28 yearly targets: 17 were achieved, 2 were partially achieved and 9 were not achieved). This relatively low absorption capacity can be partly ascribed to the experimental nature of the first operation of its kind in Somalia, its overly ambitious technical and policy scope (in terms of number of sectors covered), and of course the long period of political uncertainty from 2020 onwards – that came on top of the challenges brought by the Covid-19 pandemic – and led to a de facto prolonged suspension of disbursements and of the accompanying policy dialogue.

This has informed the design of this successor operation, which is smaller and more focussed, as well as highly complementary to existing projects to drive a specific set of highly strategic reforms in the policy areas set out in the logframe. More generally, this operation should be seen as complementary to other ongoing implementation modalities at sectoral level, with added value emanating from **elevating the policy dialogue with relevant Somali Authorities to the highest strategic level**, increasing the likelihood of achieving lasting results and impact.

This operation envisages the **release of two mixed tranches of EUR 10 000 000 each, to be processed respectively in Q1 2024 and Q1 2025.**

This disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

4.3.2 Criteria for Disbursement of Budget Support

a) Conditions.

The **general conditions** for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the current NDP (and of its successor policy instrument), and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

The **specific conditions** (TBC with the authorities) that apply to all tranches are as follows:

- Sharing of monthly fiscal reports
- Commitment to the Financial Governance Committee (FGC) mechanism over the duration of the EU Budget Support
- Sharing of the draft FGS annual budget prior to submission to Cabinet

b) The performance indicators for disbursement to be used for variable tranches will focus on progressing the constitutional settlement and institutional reforms in core aspects of education service delivery and PFM/DRM (see the logframe for details). Overall, this operation intends to contribute to linking more explicitly improvements in country systems and enhanced fiscal resources to more and better public services, hence supporting formal state structures to start meeting citizens' expectations when it comes to providing basic public goods such as education.

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3 Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into US Dollars will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

The action includes **2 fixed tranches over 2 fiscal years**, with the possibility of adding tranches and extending the implementation timeframe should additional resources be available to top up the operation's budget.

The overall amount of variable tranches is 60% of the total, so as to incentivise delivery against 12 agreed sector policy and reform targets, with EUR 1.2 million assigned to each. The total amount available each year is the same.

	Year 1 (2024)	Year 2 (2025)
Fixed tranche	4	4
Variable tranche	6	6
Total	10	10

The preliminary disbursement schedule is as follows:

- Year 1 disbursement in 2024 (n) based on eligibility assessment of 2023 (n-1)
- Year 2 disbursement in 2025 (n) based on eligibility assessment of 2024 (n-1)

4.4 Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures[1].

4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.5 Indicative Budget

Indicative Budget components	**EU contribution (amount in EUR)**
Budget support - cf. section 4.3	20 000 000
Implementation modalities – cf. section 4.4	N/A
Complementary modalities to budget support – implementation modalities cf. section 4.4.	N/A
Evaluation – cf. section 5.2 **Audit** – cf. section 5.3	may be covered by another Decision
Totals	20 000 000

4.6 Organisational Set-up and Responsibilities

Strategic oversight and direction setting will be ensured through the budget support Steering Committee (SC), of which the MoF, EU and Ministry of Education (for the sectoral component) will be part, as well as IFI representatives in an observer capacity. The SC will meet at least on a yearly basis.

[1] www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

If and when established, joint government-donor working groups established under a revised aid architecture may also be used as fora for sharing information about the instrument with other relevant government and donor stakeholders.

High level policy dialogue through the SC, Article 8 engagements and ad-hoc meetings between HoD/HoC and relevant FGS counterparts will be complemented by regular institutional and routine technical dialogue for the day to day monitoring of the reform work-streams supported through the instrument.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action and may sign or enter into joint declarations or statements, for the purpose of enhancing the visibility of the EU and its contribution to this action and ensuring effective coordination.

5 PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

To feed into policy dialogue and inform decisions on general conditions and variable tranche indicators, the EUD will rely on information made available by the FGS (ministries of Planning, Finance and Education), as well as reports issued by the World Bank and IMF, given the serious weaknesses affecting data quality and nascent government statistical and monitoring systems (see section 2.3.1 for more details). The involvement of civil society organisations may also be considered in the monitoring of public policy and accountability aspects pertinent to the operation. More specifically, the following sources of information will be consulted to monitor progress with this SRBC:

- Annual budgetary documents (draft and enacted budget; quarterly and annual budget execution reports; monthly fiscal reports produced in accordance with the Somalia data reporting requirements to the IMF etc.)
- NDP annual progress reports (assuming these are regularly and timely made available)
- FGS/World Bank annual Somalia Economic Update publication
- World Bank project reports (particularly relating to the RCRF and SERP projects)
- IMF Staff reports for Article IV Consultation ECF (and any successor arrangement) programme reviews
- The annual MoF's Financial Governance Report (published in the context of the FGC arrangement)
- Annual audit reports issued by the OAGS
- Annual Education Joint Sector Reviews
- Any analysis or reporting emerging out of joint government-donor working groups established under a revised aid architecture (if applicable)

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: given the data availability/quality issues highlighted in section 2.3.1, when it comes to specifying variable tranche performance indicators and targets, preference is given to process and output indicators rather than outcome level. More specifically, administrative data collection will be relied upon, particularly fiscal/financial data issued by the MoF and sector specific data (e.g. on the implementation of the National Teacher Initiative) produced by MoECHE. Additionally, the operation will also rely on information regarding progress with policy and reform benchmarks tracked and reported on by the IMF and WB, for which substantive TA will also be at hand to address eventual data quality issues.

5.2 Evaluation

Having regard to the nature of the action, a final evaluation may be carried out for this action via independent consultants contracted by the Commission. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this SRBC is only the second such operation occurring in the complex context of Somalia. The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders. The Commission shall inform the implementing partner at least 14 days in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities. The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments. Evaluation services may be contracted under a framework contract.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources. It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union’s support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states. However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead-be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

Appendix 1 REPORTING IN OPSYS

An Intervention (also generally called project/programme) is the operational entity associated to a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Interventions are the most effective (hence optimal) entities for the operational follow-up by the Commission of its external development operations. As such, Interventions constitute the base unit for managing operational implementations, assessing performance, monitoring, evaluation, internal and external communication, reporting and aggregation. Primary Interventions are those contracts or groups of contracts bearing reportable results and respecting the following business rule: 'a given contract can only contribute to one primary intervention and not more than one'. An individual contract that does not produce direct reportable results and cannot be logically grouped with other result reportable contracts is considered a 'support entities'. The addition of all primary interventions and support entities is equivalent to the full development portfolio of the Institution.

The present Action identifies as Somalia State and Resilience Building Contract – Phase 2

Action level		
☒	Single action	Present action: all contracts in the present action