FEDERAL GOVERNMENT
OF SOMALIA

Financial Governance Report

May 2022

WORLD BANK GROUP

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CONTENTS

TABLES

FIGURES

BOXES

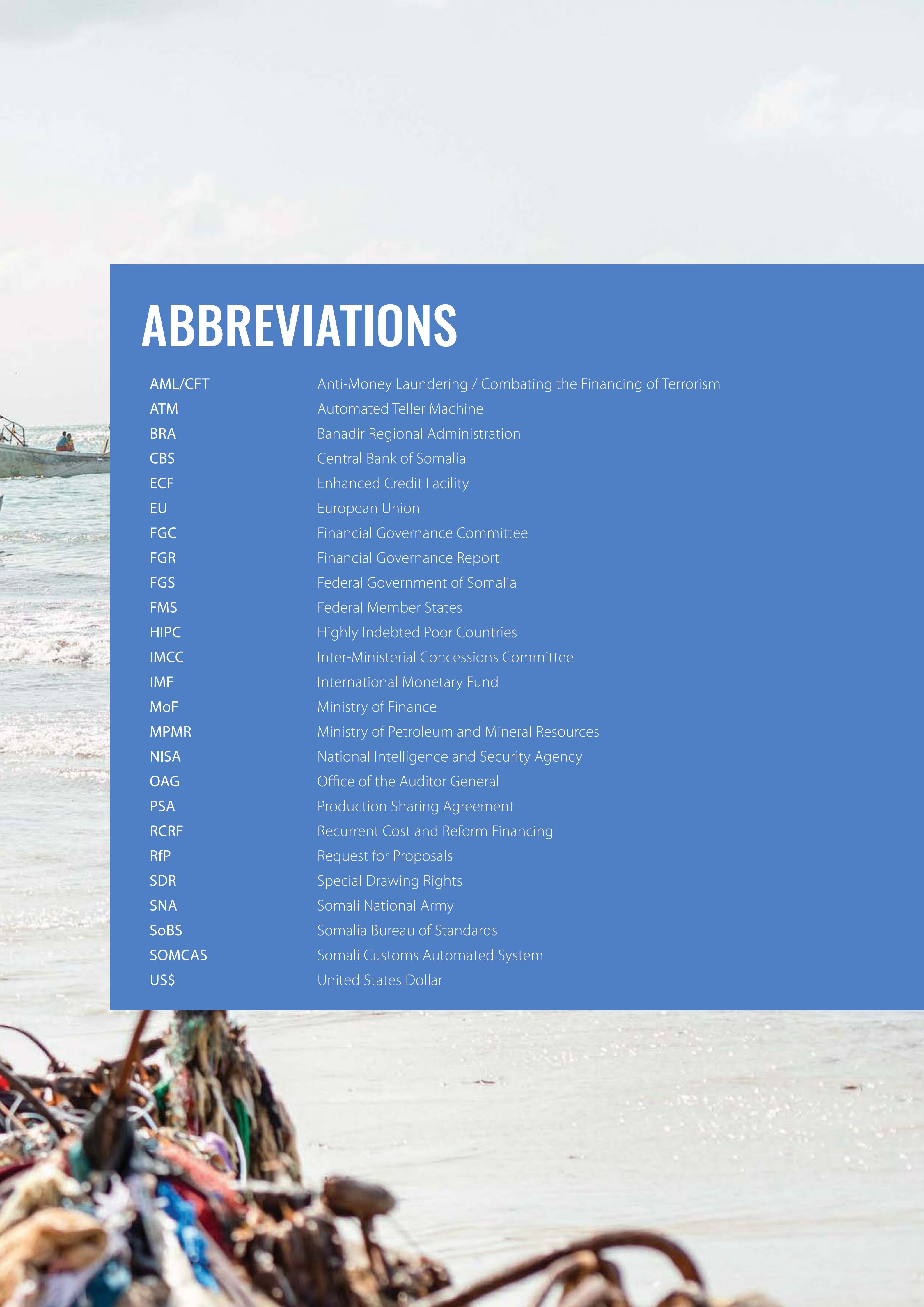
ANNEX

PREFACE

The 2022 Financial Governance Report (FGR) is the sixth annual report of the Financial Governance Committee (FGC). It presents the collective view of FGC members on developments in financial governance in Somalia over the past year, and priorities for the year ahead. Previous FGRs are available on the FGC website.[1]

Work by the FGC Secretariat in producing this report is gratefully acknowledged.

[1] See website for further information: https://mof.gov.so/the-ministry/financial-governance-committee



ABBREVIATIONS

AML/CFT	Anti-Money Laundering / Combating the Financing of Terrorism
ATM	Automated Teller Machine
BRA	Banadir Regional Administration
CBS	Central Bank of Somalia
ECF	Enhanced Credit Facility
EU	European Union
FGC	Financial Governance Committee
FGR	Financial Governance Report
FGS	Federal Government of Somalia
FMS	Federal Member States
HIPC	Highly Indebted Poor Countries
IMCC	Inter-Ministerial Concessions Committee
IMF	International Monetary Fund
MoF	Ministry of Finance
MPMR	Ministry of Petroleum and Mineral Resources
NISA	National Intelligence and Security Agency
OAG	Office of the Auditor General
PSA	Production Sharing Agreement
RCRF	Recurrent Cost and Reform Financing
RfP	Request for Proposals
SDR	Special Drawing Rights
SNA	Somali National Army
SoBS	Somalia Bureau of Standards
SOMCAS	Somali Customs Automated System
US$	United States Dollar

EXECUTIVE SUMMARY

The Financial Governance Committee (FGC) provides the Federal Government of Somalia (FGS) with a forum for dialogue and confidential advice on sensitive financial governance issues. The FGC's role is purely advisory; it does not have executive powers. By agreement with the FGS, the FGC reviews all concession agreements and all procurement contracts above US$5 million in value. The annual Financial Governance Report (FGR) reviews progress on issues that have been discussed by the FGC during the past year.

Financial governance risks during the political transition

Somalia was due to hold elections by February 2021. The timetable was subject to repeated slippages because of disagreement among the FGS, the FMS, and opposition parties over the electoral model and process. New members of the eleventh Parliament were eventually sworn in during April 2022, and a new President was elected in May 2022 for a four-year term.

The uncertainty created by the extended period of political transition greatly increased financial governance risks during 2021 and into 2022. The FGC monitored these risks closely and provided regular advice to the FGS on how to mitigate them.

Acute budget pressures

Major sources of budget support were put on hold once the February 2021 electoral deadlines was missed. The substantial drop in inflows created acute financial pressure for the FGS, which did not have enough revenue to pay salaries and operational expenses. Domestic revenues supported less than fifty percent of total government spending in 2021 and the FGS faced an average monthly funding deficit of US$8 million.

The Ministry of Finance (MoF) was forced to find alternative sources of financing to continue paying salaries and security sector rations on time, and to avoid accumulating arrears in accordance the IMF programme requirements. It had no recourse to external borrowing, and limited scope to cut expenditures given the dominance of the wage bill in total spending.

Initially the MoF utilised unspent budget support funds from 2020 and drew down funding from a buffer account. It then took out a temporary loan from the Central Bank of Somalia (CBS), as permitted by the CBS Act. An unexpected windfall from the global

allocation of IMF Special Drawing Rights (SDRs) in August 2021 helped alleviate the fiscal pressure. The SDRs were used to repay the MoF's loan from CBS and interest charges on World Bank debts, after which the remainder was divided equally between the MoF and CBS. This provided FGS with just enough funding to cover the monthly deficit until the second quarter of 2022.

Despite these actions, non-salary funding to FGS institutions was highly constrained in 2021 and early 2022. FGS funding to the FMS and Banadir Regional Administration (BRA) was also severely curtailed, with the drop in funding was particularly acute for the newer FMS, who have limited own-source revenues. The squeeze on operational funding for FGS institutions and transfers to the FMS will likely continue for the remainder of 2022.

The incoming FGS administration will need to reach an early understanding with major budget support donors to enable the resumption of budget support funding, otherwise it will be unable to pay FGS salaries on time or in full within a few months.

Reform delays

Implementation of some elements of the FGS's economic reform programme continued despite the political uncertainty. The Office of the Auditor General (OAG) completed a statutory audit of the FGS's 2020 financial statements, compliance audits of 24 FGS institutions, and two special audits. The CBS made progress on financial sector reforms, including licensing of mobile money providers, implementation of the National Payment System, and development of the Somali Payment Switch. The MoF made progress on customs reforms through development of a Customs Automated System (SOMCAS), and continued to work to enhance revenue mobilisation in the telecommunications sector.

Other important reforms have been put on hold, however. Consultations on proposed revisions to the Federal Constitution have stalled since early 2020. More than 20 draft FGS laws were returned to the Cabinet following the expiry of the parliamentary term, including important financial governance laws such as the Extractives Industries Income Tax (EIIT) Bill and the Targeted Financial Sanctions Bill.

Electoral delays have tested the limits of the legal framework for financial governance. The FGS was not able to present the 2022 budget for appropriation before the start of the financial year, because the Parliament's term had expired. The PFM Act does not contain provisions for continued expenditure after ninety days beyond the past financial year. The Cabinet therefore approved a budget for the second quarter of the year and the President approved it by decree.

The delays have highlighted that greater legal clarity on transition provisions would be valuable. These include the circumstances under which the departing administration may make new contractual commitments or new personnel appointments.

Electoral delays have also put successful implementation of the IMF programme at risk, as the IMF was not able to complete a programme review by May 17, 2022. The IMF Board granted a one-off three-month extension to the review deadline. If the programme is not reviewed by August 17, 2022, it will automatically terminate. Termination would delay agreement on budget support financing, thereby aggravating current budget pressures, and would also substantially delay the timeline for achieving debt relief.

Poor contracting practices

The protracted electoral transition heightened the risk of a deterioration in government contracting practices. To mitigate the risk of FGS institutions seeking improperly to push through contract awards before the change in administration, the President issued a decree prohibiting all FGS institutions from signing agreements with international companies until after the elections.

The FGC nonetheless became aware of several attempts by FGS institutions to award concession contracts on a non-competitive basis without following the requirements of the Procurement Act. The Ministry of Ports proposed to award a ship registration and certification concession that was poorly specified and had not been subject to any tender process. The Ministry of Commerce attempted to award a concession for import conformity assessment services on a sole-source basis. Legal opinions issued by the State Attorney General's Office appeared to endorse these actions, even though the office does not have powers under the Procurement Act to waive its provisions. Following interventions by the MoF and the OAG, it appears that neither contract proceeded to signature.

Oil and gas licensing has been the most problematic and unpredictable area of government contracting during the transition period. In November 2021, the Ministry of Petroleum and Mineral Resources (MPMR) submitted a model oil and gas Production Sharing Agreement (Model PSA) to the Inter-Ministerial Concessions Committee (IMCC) for approval, in line with Somali legal requirements. The Model PSA is intended to support the conduct of an oil and gas licensing round. In February 2022, before MPMR had started the licensing round, the Minister of Petroleum unexpectedly announced the direct award of seven oil and gas PSAs to Coastline Exploration.

The Model PSA establishes a relatively low petroleum royalty rate of five percent. The profit share ratios between government and the contractor are not fixed, and contractors are required to propose ratios as a part of their licensing round bids. Obtaining competitive profit share ratios is necessary to ensure that the FGS receives an adequate overall return from petroleum production. The FGC has not received copies of the Coastline PSAs from MPMR. It has therefore been unable to assess whether the commercial terms, which have not benefited from competition, protect the financial interests of the FGS.

Although the Petroleum Act gives the Minister of Petroleum the authority to sign PSAs, the process of tendering, negotiating, and awarding PSAs must be consistent with all other applicable laws. MPMR did not request IMCC authorisation to conduct direct negotiations with Coastline, as required by the Procurement Act. Nor did it share an evaluation report recommending the award of each PSA with the IMCC after contract negotiation.

The President and the Prime Minister rejected the Coastline awards, on the basis that they were unauthorised and did not follow the required legal process. The Auditor General also concluded that a number of required procedures had not been followed. The Ministry of Foreign Affairs sent formal notification to Coastline Exploration that the FGS considers the awards null and void. Coastline has since indicated that it considers the contracts to be valid.

Priorities for the incoming administration

Continuation of economic and financial reforms

The incoming administration needs to reach immediate agreement with the IMF on the terms of the continuing ECF programme. Amongst other things, this will mean that FGS will need to agree targets for domestic revenue and the fiscal balance, and will need to avoid incurring any debts or accumulation arrears. Satisfactory implementation of the IMF programme is a pre-condition for budget support disbursement by major donors.

Accordingly, MoF will need to focus strongly on mobilising revenues and prioritising key areas of expenditure. The new administration must resist political pressure either to ease revenue reforms or to accommodate new expenditure priorities at the expense of existing obligations. It must also avoid any non-essential expansion of the salary base.

Commitment to due process in procurement and concessions

It is important that the incoming leadership makes a clear and early commitment to due process in awarding public procurement and concession contracts. All FGS ministers and institutions should be made aware of this requirement by the Prime Minister. The MoF should issue a circular explaining the tendering and oversight procedures that apply to public procurement and concessions.

The incoming administration is advised to continue the current practice of requiring FGS institutions to work with the MoF's Procurement Department when conducting high-value procurement and when developing concession contracts. The incoming administration should also demonstrate its commitment to competitive procurement by immediately launching new tenders for security sector rations and fuel contracts.

The new administration will need to pay special attention to oil and gas contracting. The MPMR and the Somalia Petroleum Authority (SPA) should prepare a transparent and competitive licensing round for oil and gas awards that meets all applicable FGS legal requirements. SPA should only enter into negotiations for direct oil and gas awards *after* the licensing round is complete, and *only* in cases where direct negotiations have been authorised as per FGS's legal framework, including the Procurement Act. The incoming administration will need to examine the seven PSA awards to Coastline and deal with any potential legal dispute arising from their nullification.

Finally, the new administration should seek to prevent repetition of the problems encountered during the recent transition by developing a detailed definition of the 'routine duties' that may be conducted by a caretaker government, as well as clear rules for contracting in the pre-electoral period.

I. INTRODUCTION

Role of the FGC

The Financial Governance Committee (FGC) was established in early 2014 by mutual agreement between the Federal Government of Somalia (FGS) and the international community. Its purpose is to provide the FGS with a forum for dialogue and confidential advice on sensitive financial governance issues. The FGC's role is purely advisory; it does not have executive powers. By agreement with the FGS, however, it reviews all FGS concession agreements and all FGS procurement contracts above US$5 million in value.[2]

The FGC meets on a regular basis[3] and provides advice to the FGS through a combination of dialogue, written advisory notes, and commissioned technical assistance. The existence of the FGC provides the international community with assurance that the FGS is receiving confidential expert advice on financial governance policy issues and major contracts. Their general expectation is that the FGS will give the FGC's advice serious consideration and will seek to implement it unless there is a compelling reason not to do so. The FGC's continued functioning has been a safeguard measure in the budget support agreement between the FGS and the European Union (EU).

[2] Concession agreements grant an interest in a public asset to a private entity for a specified period in return for a fee, royalty, or other consideration, whereas procurement contracts govern the purchase of public goods, works, and services.

[3] The FGC has held 54 meetings since 2014.

The FGC is chaired by the Minister of Finance, and other FGS members include the Governor of the Central Bank of Somalia (CBS) and representatives of the President and the Prime Minister.[4] Other FGS officials may attend FGC meetings by invitation. International members of the FGC include representatives of the International Monetary Fund (IMF), African Development Bank, World Bank, and bilateral development partners (including the EU). The FGC receives expert support from a dedicated Concessions Adviser and an FGC Secretariat. Funding for FGC operations is provided by the World Bank[5] and the EU.

FGC discussions are confidential, but meeting summaries are published on the Ministry of Finance (MoF) website following each meeting.[6] Individual FGC advisory notes may be made available to other stakeholders at the discretion of the FGC Chair. The FGC's international members periodically brief the international community on the FGC's work and any emerging issues.

The FGC was initially established for a two-year period. Its mandate has subsequently been renewed on an annual basis, subject to mutual agreement between the FGS and the international community. The continuation of the FGC after the end of the current FGS administration will need to be agreed between the incoming administration and the international community.

Purpose of the Financial Governance Report

The FGC's annual Financial Governance Report (FGR) reviews progress on issues that have been discussed by the FGC during the previous year. It does not attempt to provide a comprehensive report on all economic and financial governance issues in Somalia, beyond those discussed within the FGC. The FGR sometimes includes an additional 'spotlight' chapter that goes into greater depth on a specific financial governance issue of concern to the FGC, identifying lessons over a multiyear time period, persistent barriers to progress, and potential reform priorities.[7]

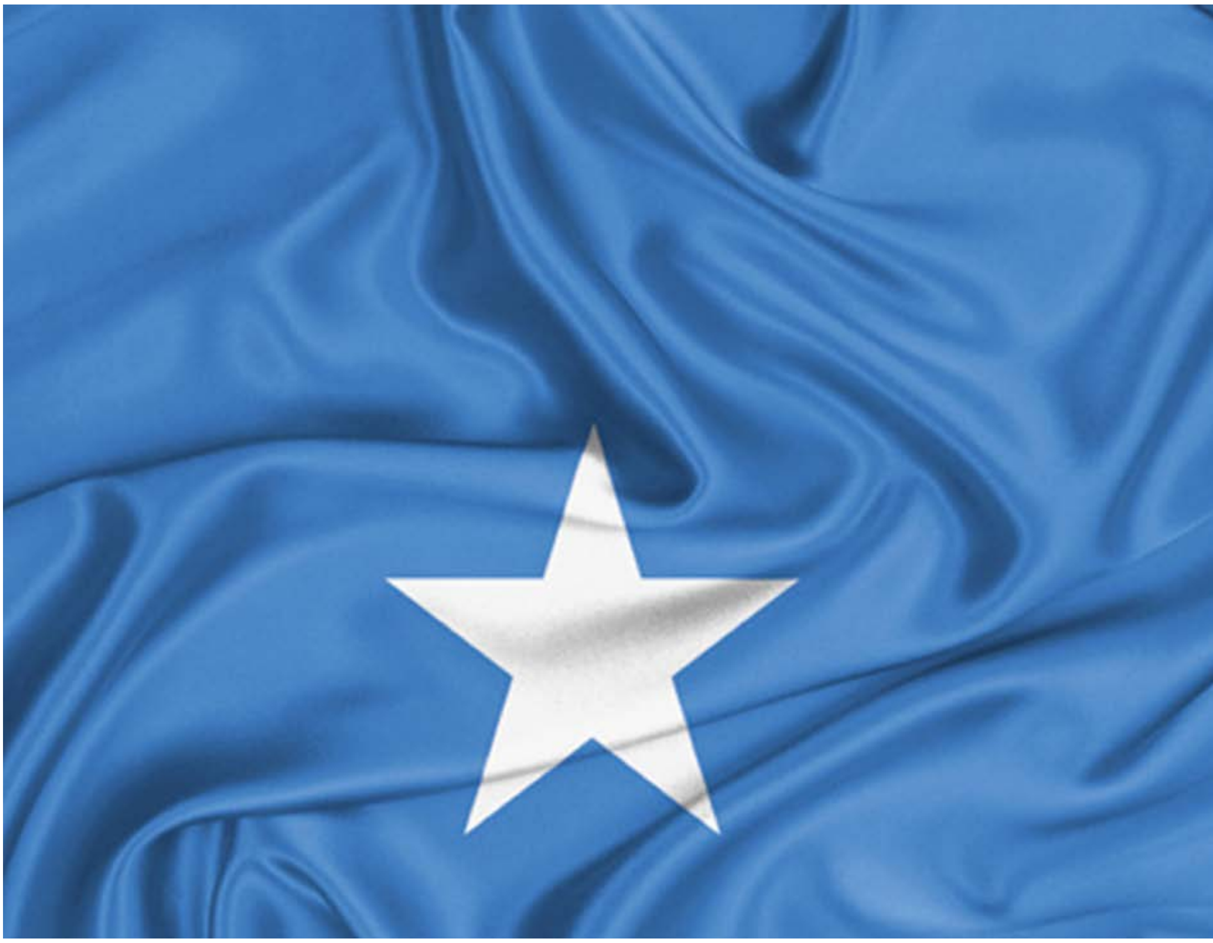
Since 2022 is a transition year following the country's extended timeline for elections and political changeover, the 2022 FGR covers the period from July 2021 to the end of the current FGS administration, rather than a fixed twelve-month period. Chapter II focuses on the financial governance risks that have emerged during the political transition and reflects on lessons learned. Chapter III identifies major financial governance priorities that require early attention and action from the incoming administration. Annex A provides an overview of progress made in implementing the priorities identified in the 2021 FGR. Annex B provides details on all contracts and concessions reviewed by the FGC since 2014. Annex C provides a list of the draft laws sent back to Cabinet by the Parliament on the expiry of the parliamentary term.

[4] The Chair of the Budget Committee of the Lower House of Parliament and the State Attorney General (Garyaqaanka Guud) are also nominated members of the FGC, but have not attended meetings in recent years.

[5] World Bank funding to the FGC is provided through the Multi Partner Fund, which is funded by the EU, Finland, Germany (KfW), Denmark, Norway, Sweden (Swedish International Development Cooperation), the United Kingdom, Italy, Switzerland (Swiss Agency for Development Cooperation), the United States (United States Agency for International Development), and the World Bank.

[6] See website for further information: Financial Governance Reports | Ministry of Finance - Somalia (mof.gov.so)

[7] The 2020 FGR included a spotlight chapter on FGS procurement and concessions, while the 2021 FGR included a spotlight chapter on improving sector alignment with financial governance reforms.



2. FINANCIAL GOVERNANCE RISKS DURING THE POLITICAL TRANSITION, JULY 2021 TO MAY 2022

Electoral delays

Somalia was due to hold elections in advance of the expiry of the federal administration's four-year term on February 8, 2021. However, the timetable for the electoral process was subject to repeated slippages. Delays were initially caused by a lack of consensus over the electoral model. In February 2020, President Mohamed Abdullahi Mohamed (Farmajo) signed an electoral law that paved the way for elections by universal suffrage. The law was criticised, however, for lacking detail on issues such as the definition of constituencies and the number of seats to be allocated to each constituency.[8] The Chairman of the National Independent Electoral Commission indicated that preparing elections by universal suffrage would take more than twelve months,[9] implying that a term extension would be required to complete the electoral process.

These timelines led to significant political tensions between the President and several Federal Member States (FMS), and a fall-out between the President and his Prime Minister, Hassan Kheyre, who subsequently resigned after a no-confidence vote by Parliament in July 2020. The President appointed a new Prime Minister, Mohamed Roble, in August 2020, and mandated him to resolve the electoral impasse. In September 2020, the FGS reached an agreement in principle with the Federal Member

[8] Heritage Institute for Policy Studies. 2020. "Expanded Participation Model: Alternative for Somalia's 2020 One-Person One-Vote Plan." Policy Brief (May 2020) Available at: https://heritageinstitute.org/expanded-participation-model-alternative-for-somalias-2020-one-person-one-vote-plan/ (accessed April 19, 2022).

[9] Africanews. 2020. "Impossible to hold 2020 polls - Somalia elections boss." June 27.

States (FMS) that elections would be held on an indirect basis rather than by universal suffrage,[10] and that they would be completed by February 2021. However, owing to a lack of agreement between the FGS, the FMS, and opposition parties over the way in which indirect elections would be managed, elections were not held in advance of the expiry of the administration's four-year term in February 2021. The administration therefore continued in office.

In April 2021, the President endorsed a proposal by a group of lawmakers to extend his term by two years to enable preparations for elections by universal suffrage. This proposal was met with widespread opposition and created a political rift between the President and the Prime Minister, Mohamed Roble. The lawmakers reversed their proposal at the request of the President, allowing for the resumption of indirect elections. However, implementation continued to be delayed by political disagreements. In October 2021, the President and the Prime Minister agreed to speed up the electoral process in order to conclude elections by December 2021. As a result of delays in organising elections for the Lower House at FMS level, new members of the eleventh Parliament were finally sworn in on April 14, 2022. Presidential elections were held on May 15, 2022, twenty months after the initial electoral agreement between FGS and the FMS in September 2020. Hassan Sheikh Mohamud was elected as President for a four-year term.

The uncertainty created by the extended period of political transition significantly increased financial governance risks during 2021 and into 2022. The FGC identified the emergence of three main risks:

- Acute budget pressures;
- Reform delays; and
- Poor contracting practices.

The FGC monitored these risks closely and provided regular advice to the FGS on how to mitigate them. Its advice focused particularly on preventing non-compliant contract awards. Formal FGC outputs included advisory notes and contract reviews (Box 1). The main challenges and developments linked to each of these risks are discussed below.

BOX 1 FGC advisory notes and contract reviews 2021-22

International delegates to the FGC prepared 8 advisory notes for discussion at the 2 FGC meetings held between July 2021 and May 2022.

- Lessons learned from the 2021 security sector rations and fuel tenders (July 2021)
- Updated details on Somali Bureau of Standards Request for Proposals (July 2021)
- Somalia Civil Aviation Authority proposal to expand the scope of the draft tender for collection of unpaid air navigation charges to include development and management of a new entry permit system (November 2021)
- Somali Bureau of Standards Request for Proposals (RfP) and Draft Contract Revised Version: 14 October 2021 (November 2021)
- Review of the November 2021 Approved Petroleum Model Production Sharing Agreement and next steps for Oil and Gas Licensing (December 2021)
- Review of draft RfP and Contract for the provision of import conformity assessment services (Revised version, 18 November 2021) (December 2021)
- Review of the draft contract for a proposed concession agreement for statutory certification and registration services for maritime vessels (December 2021)
- Next steps for the Tendering, Negotiation, and Award of Production Sharing Agreements in the Petroleum Sector (March 2022)

[10] Somalia's indirect electoral process involves the selection of 54 members of the Upper House (Senate) and 275 members of the Lower House (House of the People). Seats are assigned on a clan/sub-clan basis, and clan elders endorse the nomination of candidates competing for each seat. Lower House candidates are selected by an electoral college of 101 voters, while Senate members are voted in by the legislatures of their respective FMS. Once all Lower and Upper House representatives have been elected, they convene to select the Speakers of their respective Houses. The Speakers then arrange a bicameral process for the election of the President.

Acute budget pressures

The FGS received record levels of budget support in 2020, amounting to US$180 million and accounting for 60 percent of all on-budget donor support that year. This support enabled the FGS to offset the revenue impact of the COVID-19 pandemic in 2020 and to provide additional financing to the FMS.[11] Once the 2020 electoral deadlines were missed, however, major sources of budget support (from the EU and World Bank) were put on hold. As a result, budget support inflows in 2021 amounted to just US$38.4 million, primarily from the World Bank's Recurrent Cost and Reform Financing (RCRF) facility and supplemented by US$2.5 million from the Turkish government (Table 1). Budget support inflows in the first three months of 2022 amounted to US$6.3 million.

The substantial drop in budget support inflows in 2021 and the first three months of 2022 created acute financial pressure for the FGS, which did not have enough revenue to pay salaries and operational expenses. FGS domestic revenues increased by 170 percent between 2014 and 2021, but FGS salary expenditures grew by 220 percent over the same period. By 2020, the FGS was reliant on budget support funding to pay salaries in full and to cover core operational expenditures. The increase in FGS salary expenditures was due in part to a pay increase awarded to security sector personnel following the completion of a biometric registration exercise. The establishment of multiple new semi-autonomous agencies also contributed to an expansion in the size of government.[12] The FGS's payroll system has not kept pace with the expansion in salary expenditures, and approximately a third of salary expenditures are not reflected in the payroll.

TABLE 1 Budget support disbursements to FGS, 2019–22 (US$ millions)

Provider country/agency	2019	2020	2021	2022 (to end March)
Turkey	15.0	15.0	2.5	
Algeria	0.1			
Qatar	21.3			
European Union	29.1	7.7		
World Bank – RCRF	23.3	30.4	35.9	6.3
World Bank – DPO		100.4		
African Development Bank		26.2		
Total	**88.8**	**179.7**	**38.4**	**6.3**

Source: MoF.

11 The FGS transferred US$23 million to the five FMS and Banadir Regional Administration (BRA) in September 2020 to help mitigate the impact of COVID-19 on their own revenue bases. This allocation was funded by budget support financing from the World Bank.

12 This issue is covered in greater depth in the 2021 FGR spotlight chapter on improving sectoral alignment with financial governance reforms. The chapter noted that the FGS's 2021 budget included allocations for 18 independent agencies (US$29 million, 11 percent of FGS revenues), with a further 16 new agencies in the pipeline.

TABLE 2 Domestic revenues and government spending, 2014–21 (US$ millions)

	2014	2015	2016	2017	2018	2019	2020	2021
Domestic revenues	84.3	114.3	112.7	142.6	183.4	229.7	211.2	229.6
FGS salary expenditures	77.2	55.4	55.1	124.6	142.4	162.4	227.0	250
FGS total expenditures	151.1	135.5	171.1	245.4	286.1	315.5	494.7	473.8
Domestic revenues as a % of salary expenditures	109%	206%	204%	114%	129%	141%	93%	92%
Domestic revenues as a % of total expenditures	56%	84%	66%	58%	64%	73%	43%	48%

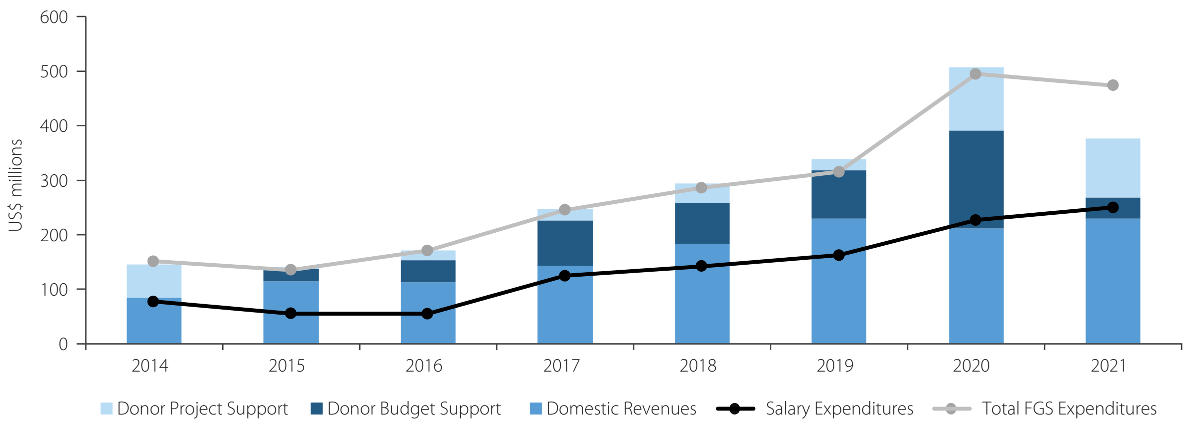
Source: MoF.

In 2021, FGS salary expenditures exceeded domestic revenue collections by US$20 million, even though domestic revenues had to some extent recovered from the economic impacts of COVID-19. Overall, domestic revenues supported less than 50 percent of total government spending in 2021 (Table 2, Figure 1) and the FGS faced an average monthly funding deficit of US$8 million.

The MoF has been acutely aware of the critical importance of paying FGS salaries and core operational expenses on time. Security sector personnel account for just over 50 percent of total salary spending. Failure to pay security sector salaries could have an immediate negative impact on the security situation in Somalia. Continued payment of security sector fuel and rations suppliers is also a key priority given their importance for security sector operations.

Failure to pay salaries on time or to meet other contractual obligations would also jeopardise the implementation of the FGS's programme with the IMF and delay attainment of debt relief. Under the terms of the IMF Enhanced Credit Facility (ECF) programme, which commenced in March 2020, the FGS has committed not to accrue expenditure arrears. If the FGS accrues arrears by failing to pay salaries on time,[13] or by failing to meet other contractual obligations such as payments for the delivery of security sector rations and fuel, the IMF programme is at risk of being declared 'off track.' If the programme goes off track, then FGS progress towards achieving external debt relief will be delayed by at least two years. Satisfactory implementation of the three-year ECF programme is a Completion Point requirement for Highly Indebted Poor Country (HIPC) debt relief (Box 2).

Figure 1: FGS revenues and expenditures, 2014–21 (US$ millions)



Source: MoF

[13] "On time" is defined as within 90 days of the obligation falling due.

BOX 2 IMF ECF programme implementation and achievement of debt relief

To qualify for the HIPC Completion Point, the FGS needs to achieve a number of reform-related 'triggers.' These triggers include: "continued maintenance of macroeconomic stability as evidenced by a broadly satisfactory implementation of the Extended Credit Facility (ECF) supported program."

In general, the FGS is making good progress toward meeting the HIPC triggers,[a] and reaching the Completion Point in the first half of 2023 appears to be a reasonable objective. The trigger on macroeconomic stability could be missed, however, if the FGS fails to meet ECF programme benchmarks (such as paying salaries and other contractual obligations on time) or if the programme automatically lapses (for example, if a programme review is not conducted within the time frames required by the IMF).

Under IMF rules, ECF programme performance must be reviewed successfully every 18 months. The FGS's last formal ECF programme review was completed on November 18, 2020, meaning that another programme review needed to be approved by the IMF Board by May 17, 2022, to avoid programme termination. The FGS was unable to complete a review by May 17, 2022 given the political transition. However, it requested the IMF Board to grant a one-time three-month extension to the review deadline (that is, until August 17, 2022). The IMF Board grants extensions in cases where it appears "imminent" that the authorities and the IMF will reach an understanding on targets and measures to put the ECF-supported programme back on track within the term of the arrangement. An extension was granted on the 9th of May 2022.

If the FGS's current ECF program goes off track or lapses, the HIPC Completion Point would have to wait until the country has satisfactorily implemented a new IMF-supported program. This would take time to negotiate and approve, and FGS would need to demonstrate a strong track record in implementing a new program. These delays could push the Completion Point to 2024–25 at the earliest. This would in turn delay the FGS's renewed access to international finance.

[a] The full list of triggers is set out in Somalia : Second Review Under the Staff-Monitored Program and Request for Three-Year Arrangements Under the Extended Credit and The Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Somalia (imf.org)

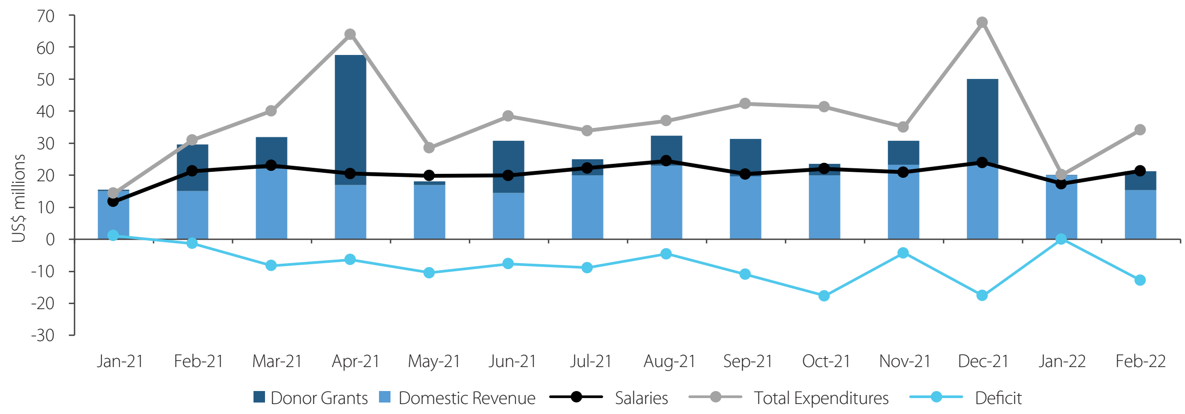
Given the situation, the MoF needed to find alternative sources of financing to compensate for the reduction in budget support beginning in 2021, so that the FGS could continue to pay for salaries and security sector rations on time and to avoid accumulating arrears in order to keep the IMF programme on track. It had to do so in a context in which it had no recourse to external borrowing and limited scope to cut expenditures, given the dominance of the wage bill in total spending.

The FGS's total deficit was US$96 million in 2021 and US$15.9 million in the first three months of 2022 (Figure 2). The MoF continued to pay FGS salaries and other contractual obligations throughout 2021, and into the first few months of 2022, through a series of short-term measures.

Initially, the MoF funded the monthly deficit by utilising unspent budget support funds from 2020 and by drawing down funding previously set aside in a buffer account. In total, funds from these two sources amounted to US$20 million and supported FGS spending until June 2021. The MoF then took out a temporary loan of US$22 million from the CBS, as permitted by the CBS Act, which enables the CBS to make direct advances to the FGS for the purpose of offsetting fluctuations between budget revenue receipts and government payments.[14] The FGS is required to pay interest on each advance, at a market interest rate determined by the CBS. The total amount of advances outstanding at any time may not exceed 15 percent of the FGS's gross recurrent revenue (excluding grants) in the previous year.

[14] CBS Act, Article 29.

Figure 2: FGS monthly revenues and expenditures, 2021–22 (US$ millions)



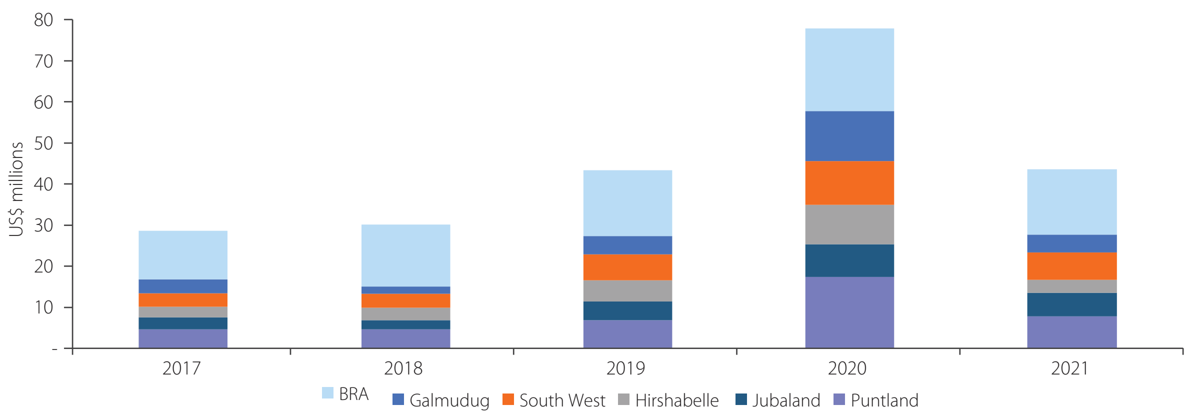
Source: MoF

The CBS funds enabled the MoF to continue covering the deficit until September 2021. At this point, the MoF faced the prospect failing to continue paying FGS salaries in full. The IMF's global allocation of Special Drawing Rights (SDR) in August 2021 provided a lifeline. Somalia's SDR allocation amounted to US$223 million. A portion of the funds was used to repay the MoF's loan from CBS and to pay the interest charges on World Bank debts. The remaining funds, amounting to US$180 million, were divided equally between the MoF and CBS, providing the MoF with sufficient funds to cover the monthly deficit until sometime in the second quarter of 2022. SDRs allocated to CBS were not drawn, but meant to be part of reserve building for the CBS.

Owing to FGS budget pressures, non-salary funding to FGS institutions was highly constrained and FGS funding to the FMS was severely curtailed (Figure 3). In 2020, FGS transfers to the FMS and the Banadir Regional Administration (BRA) amounted to US$78 million and accounted for 16 percent of total FGS expenditures. Of that total, US$75 million was for funding salaries and operational costs, and US$3 million was earmarked for donor-funded projects. In 2021, transfers dropped to US$44 million, equivalent to 9 percent of total FGS expenditures. Of that amount, US$34 million was for funding salaries and operational costs, and US$10 million was earmarked for donor-funded projects. The drop in funding for salaries and operational costs was felt most acutely by the newer FMS, who have limited own-source revenues. The FGS continued to share a portion of monthly customs revenues with BRA.

The squeeze on operational funding for FGS institutions and transfers to the FMS will continue for the remainder of 2022. There is also a risk that that FGS will not have sufficient funding to pay salaries on time. The MoF can arrange for another temporary advance from CBS, but this would not cover the budget deficit until the end of the year, and would need to be repaid within 3 months. It will be imperative for the new FGS administration

Figure 3: FGS transfers to FMS and BRA, 2018 – 2021 (US$ millions)



Source: MoF

to reach an early understanding with major budget support donors to enable the resumption of budget support funding. Central to that understanding will be a renewed commitment by the FGS to financial governance reforms and to the IMF ECF programme upon which budget support disbursements are based. Unless the FGS reaches such agreements with its international partners, the new administration will be unable to pay FGS salaries on time or in full within a few months.

Reform delays

Some elements of the FGS's economic reform programme continued to be implemented despite the political uncertainty caused by protracted electoral delays. Notably:

- The Office of the Auditor General (OAG) completed a statutory audit of the FGS's 2020 financial statements, compliance audits of 24 FGS institutions,[15] and two special audits on fisheries and on the use of COVID-19 funds. These reports were submitted to Parliament and made available online in November 2021.[16] The FGS has now met the HIPC Completion Point requirement to publish at least two successive years of audited financial accounts.
- The CBS has continued to make strong progress on financial sector reforms. Three mobile money providers have been licensed since the start of 2021.[17] All 13 licensed commercial banks are now connected to the National Payment System, enabling them to transact with each other electronically. Work is ongoing to launch the Somali Payment Switch during 2022, which will further facilitate the effectiveness of the banking system by supporting automated teller machine (ATM), debit card, and bank-to- mobile-wallet transactions. The CBS continued to issue annual and quarterly economic reports[18]. It also finalised its 2020 financial statements and, for the first time, received a clean audit opinion.
- The MoF continues to make progress on customs reforms. It has developed a Customs Automated System (SOMCAS) that enables electronic processing and reconciliation of import documentation and the computation of taxes due using an *ad valorem* tariff. System piloting began at Mogadishu Port and Airport in February 2022, as a precursor to full implementation in the second half of the year. Piloting is expected to commence in Puntland and Jubaland in the second half of 2022, followed by adoption in early 2023, supporting progress towards the HIPC Completion Point trigger: "adopt and apply a single import duty tariff schedule at all ports."
- The MoF is working to enhance revenue mobilization in the telecommunications sector. It is working with the National Communications Authority to develop a spectrum fee schedule for telecom operators so that the collection of fees can commence in early 2023.

Other important reforms have been put on hold, however. In particular:

- Consultations on proposed revisions to the Constitution have stalled. In January 2020, the Parliamentary Oversight Committee endorsed a draft version of the revised Federal Constitution prepared by the Independent Constitutional Review Commission. Among other things, the draft proposed revisions to the fiscal chapter to align it with primary legislation. In addition, it proposed the establishment of a Revenue Sharing Commission responsible for making recommendations on the fair and equitable distribution of resources between the FGS and the FMS, including revenues from natural resources. Consultations on the draft commenced with the FMS in March 2020 but have not progressed since then.

[15] The compliance audits also covered the BRA and three FGS diplomatic missions.

[16] See http://oag.gov.so/audit-reports/

[17] Hormuud Telecom received a licence in February 2021, Somtel in June 2021 and Somlink in March 2022.

[18] See http://centralbank.gov.so

- Important financial governance laws have not succeeded in passing through Parliament. More than 20 draft laws were returned to the Cabinet following the expiry of the parliamentary term (Annex 3). These include the Extractives Industries Income Tax Bill, enactment of which is a HIPC Completion Point requirement, and the Targeted Financial Sanctions Bill, enactment of which is an IMF programme benchmark.

Electoral delays have tested the limits of existing financial governance legislation to cope with protracted transitions. The FGS was not able to present the 2022 budget to the Lower House for appropriation before the start of the financial year on January 1, 2022, because the Parliament's term had expired. The PFM Act provides a basis for government expenditure if Parliament has failed to approve the budget before the start of the financial year; FGS may continue spending on the basis of the previous year's approved budget for a period of 90 days.[19] The 90-day period has now elapsed, however, and the PFM Act does not contain provisions for continued expenditure after the end of this period. In March 2022, in order to provide a continued basis for government spending, the Cabinet approved a budget for the second quarter of the year equivalent to the budget for the first quarter. The President approved the budget by decree to enable spending to continue from April to June 2022.

Electoral delays have also highlighted a number of issues where legal clarity on transition provisions would be valuable. These include the circumstances under which the departing administration may make new contractual commitments, or make new personnel appointments.

Electoral delays have also put successful implementation of the FGS's IMF programme at risk, as explained in Box 2. The IMF was not able to complete a programme review by the statutory deadline of May 17, 2022 because programme commitments for the coming reviews need to be endorsed by the administration which will be responsible for implementing them. The IMF Board granted a one-off three-month extension to the review deadline, meaning that the programme will now automatically terminate if the review is not completed by August 17, 2022. Termination would delay agreement on budget support financing, which for most donors is contingent on an IMF programme being in place, thereby aggravating current budget pressures. It would also substantially delay the timeline for achieving debt relief (and thus allowing again for much needed foreign-financed domestic investment), as satisfactory implementation of a three-year programme is a HIPC Completion Point requirement.

[19] PFM Act, Article 22.

Poor contracting practices

Background

The FGC has advised the FGS on contracting practices since early 2014. The FGC's advice in this area encompasses high-value public procurement contracts (through which the FGS purchases goods, works, and services from a private sector entity) and all concession contracts (under which the FGS contracts a private sector entity to manage a government asset or service in return for a share of its value).[20]

There have historically been major shortcomings in the FGS's contracting practices. Until 2016, contracts were awarded without competition, usually after a firm had approached an FGS institution with an unsolicited proposal. Contract documents generally lacked clear specifications, adequate performance standards, and key provisions such as termination clauses. As a consequence, the FGS received poor value for money, had limited power to enforce contracts, and faced the risk of contract disputes. Moreover, a lack of transparency in contract awards fuelled allegations of corruption.[21]

In the period running up to the 2017 elections, several FGS institutions awarded concession contracts on a sole-source basis without following due process. The contracts outsourced government services to third parties in return for a share of resulting revenues. The FGC only had an opportunity to review these contracts after they had been awarded. The incoming administration took early action to review and cancel some of them, although others continue to be effective.[22]

Since 2017, the FGS has made progress in improving its contracting practices, largely through increased MoF enforcement of the requirements of the 2016 Procurement Act, which applies to the award of all government contracts, including both procurement and concessions. Different tendering and oversight procedures apply to each of these processes. Major achievements include the competitive tendering of security sector rations contracts[23] and the renegotiation of the port and airport management concessions.[24]

However, many FGS institutions have limited capacity to meet Procurement Act requirements. They often underestimate the time it takes to develop a tender process and lack the capacity to develop clear contract specifications. They have a limited understanding of the tendering and approval processes for concession contracts, which are subject to the oversight of the Inter-Ministerial Concessions Committee (IMCC). In some cases, FGS institutions resist the applicability of Procurement Act requirements to concession awards and circumvent the role of the IMCC.

Attempts to award contracts without following due process during the transition

The protracted electoral transition heightened the risk of a deterioration in government contracting practices. To mitigate the risk of FGS institutions seeking to avoid Procurement Act requirements in order to push through contract awards before the change in administration, the President issued a decree on August 7, 2021 prohibiting all FGS institutions from signing agreements with international companies until after the elections.[25] His decree was similar to that issued by his predecessor President Hassan

[20] Article 108 of the Procurement Act defines as a concession as the grant of an interest in a public asset by the government or its agency to a private sector entity for a specified period, during which the asset may be operated, managed, utilized, or improved by the private sector entity, which pays fees or royalties under the condition that the government retains its overall interest in the asset and that the asset will revert to the government agency at a determined time.

[21] Kaunin Ronan. 2017. "Somalia: Overview of corruption and anti-corruption." U4 Helpdesk Answer. Chr. Michelsen Institute. Available at: https://www.alnap.org/system/files/content/resource/files/main/somalia-overview-corruption-and-anticorruption.pdf (accessed April 19, 2022).

[22] Concessions for road tax, property transfer tax, and vehicle licensing were cancelled. Contracts for visa issuance and airport taxi services are still in effect.

[23] Competitive tenders were held in 2019 and 2021.

[24] The revised airport concession agreement was signed in 2019, and the revised port agreement was signed in 2020. Both agreements reflect good international practice.

[25] Villa Somalia on Twitter: "H.E President @M_Farmaajo issues a Presidential decree barring all government institutions from signing any form of agreements involving our republic and other countries, institutions, and international companies until after the conclusion of elections." Available at https://t.co/Pm1p9WnPKY (accessed April 20, 2022).

Sheikh on September 1, 2016, which prohibited FGS institutions from entering into new contracts during the election period.

On August 8, 2021, however, Prime Minister Roble instructed all FGS institutions to carry out their normal duties as part of a caretaker government, in accordance with Article 103 of the Provisional Constitution.[26] Article 103 enables a caretaker government to carry out 'routine duties,' but it does not define what activities constitute 'routine duties.'

From September 2021 on, the FGC became aware of several attempts by FGS institutions to award concession contracts on a non-competitive basis without following the requirements of the Procurement Act. Legal opinions issued by the State Attorney General's Office appeared to endorse these actions, even though the office does not have powers under the Procurement Act to waive its provisions. The contracts in question suffered from various shortcomings, for example:

- The Ministry of Ports proposed to award a ship registration ('flagging') and certification concession that was poorly specified and had not been subject to any tender process. It also lacked adequate supporting legislation, as the FGS has not yet updated the Maritime Legal Framework for Somalia.
- The Ministry of Commerce attempted to award a concession for import conformity assessment services on a sole-source basis, disregarding several months of effort by the Somalia Bureau of Standards (SoBS) to prepare a competitive tender that complied with Procurement Act requirements. The award notice lacked any specification of services or contract terms.

Following interventions by the MoF and the Auditor General's Office, it is believed that neither contract proceeded to signature. The SoBS has continued preparing a competitive tender process for import conformity assessment services, which it intends to issue once the new administration is in place.

Contested award of seven oil and gas contracts

Oil and gas licensing has been the most problematic and unpredictable area of government contracting during the transition period. The FGS can expect to earn revenue from petroleum production in two main ways: by requiring the contractor to make an annual royalty payment, and by receiving a share of the contractor's profit. Over the past few years, the Ministry of Petroleum and Mineral Resources (MPMR) has been developing a model oil and gas Production Sharing Agreement (PSA) for use in an oil and gas licensing round. In November 2021, following lengthy discussions between MPMR and MoF on the royalty rate, the IMCC finally approved the Model PSA, sending a positive signal that MPMR was preparing to conduct an oil and gas licensing round in line with Somali legal requirements.

[26] Abdulkadir Khalif. 2021. "Somalia: PM Roble Contradicts President Farmaajo as Rift Grows." AllAfrica.com, August 9. Available at: https://allafrica.com/stories/202108100103.html (accessed April 20, 2022).

[27] Somalia: PM Roble Contradicts President Farmaajo as Rift Grows - allAfrica.com

The Model PSA establishes a relatively low royalty rate of 5 percent. Profit share ratios are not fixed. Instead, contractors will be required to submit their proposed profit share ratios as a part of their bid during any licensing round. The more competitive the licensing round, the higher the profit share ratio FGS can expect to achieve. Given the relatively low royalty rate in the Model PSA, competitive profit share ratios are necessary to ensure that the FGS receives an adequate overall return from petroleum production.

In February 2022, the Minister of Petroleum unexpectedly announced the direct award of seven oil and gas PSAs to Coastline Exploration. These awards took place before MPMR had commenced the oil and gas licensing round. The FGC had previously advised that direct negotiations should only be conducted after an oil and gas licensing round has taken place, so that direct negotiations are supported by information from the licensing round to guide profit share ratio negotiations. It is not in the FGS's best interests to agree profit share ratios in direct negotiations before it has a clear understanding of prevailing market rates; there is a risk that the profit shares agreed may be unnecessarily favourable to the contractor. The FGC has not received copies of the Coastline PSAs from MPMR. It has therefore been unable to assess whether their commercial terms, which have not benefited from competition, protect the financial interests of the FGS.

The Petroleum Act gives the Minister of Petroleum the authority to sign PSAs.[28] However the process of tendering, negotiating, and awarding PSAs still needs to be consistent with all other applicable laws. MPMR did not request IMCC authorisation to conduct direct negotiations with Coastline, as required by the Procurement Act, nor did it share an evaluation report recommending the award of each PSA with the IMCC after contract negotiation.[29] Instead, MPMR relied solely on the provisions of the Petroleum Act to make the awards, even though the concessions section of the Procurement Act explicitly applies to oil and gas concessions.[30] The FGC had previously commissioned independent legal advice that determined that the Petroleum Act and the Procurement Act can and should be read together to govern the award of PSAs in Somalia.[31]

The President and the Prime Minister swiftly rejected the Coastline awards, on the basis that they were unauthorised and did not follow the required legal process.[32,33] The President noted that they contravened his decree of August 7, 2021.

At the request of the Prime Minister, the Auditor General's Office conducted a rapid review and concluded that the signature of the awards had violated various laws and decrees, including the Prime Minister's Decree No. 047/2018, the Procurement Act, and the Petroleum Act.[34] The Prime Minister's Decree sets out a procedure for Cabinet clearance of all agreements with international companies, while both the Procurement Act and the Petroleum Act establish specific procedures for direct negotiation of PSAs. The Auditor General concluded that none of these procedures had been followed.

The Ministry of Foreign Affairs sent formal notification to Coastline Exploration that the FGS considers the awards null and void. However, Coastline has subsequently indicated that it believes the contracts to be valid.

28 Petroleum Act: Article 24.1.

29 The IMCC approved the Model PSA to be used in a competitive licensing round in November 2021. However, approval of the Model PSA does not substitute for approval of the specific PSA to be used as a basis for negotiations with individual companies.

30 Procurement Act, Article 110.1 (b) (viii).

31 FGC Advisory Note 2021/003.

32 Villa Somalia on Twitter: "The Presidency FGS hereby declares nullification of Petroleum pact signed by the Minister on behalf of FGS. The deal contravenes Presidential Decree 7/8/2021 which bans the inking of deals during elections so as to protect public resources from exploitation during the elections." Available at: https://t.co/ATcFqUCw6g (accessed April 20, 2022).

33 Mohamed Hussein Roble on Twitter: "The alleged production sharing agreement purportedly signed by the Minister of Petroleum with a foreign entity regarding Somali oil reserves is illegal, unacceptable since it wasn't done through legal avenues. I will take all appropriate measures to protect our national resources." Available at: https://twitter.com/MohamedHRoble/status/1495092094309916677?s=20&t=lt0N-_2hjTWqSV5wsxVXBA (accessed April 20, 2022).

34 SAI Somalia on Twitter: "Lifaaqa hoose ka dheeho war-saxaafadeed uu Xafiiska Hantidhawrka Guud ee Qaranka kasoo saaray heshiiska sharci darrada ah ee Wasaaradda Batroolka ay la gashay shirkadda Coastline Exploration Ltd, isaga oo gal-dacwadeed arrinkan ku aaddan u gudbiyay Xafiiska Xeer-Ilaalinta Guud." Available at: https://t.co/eZDU3Ypo8a (accessed April 20, 2022).

3. PRIORITIES FOR THE INCOMING ADMINISTRATION

The incoming administration will face multiple financial governance challenges, many of which have been exacerbated by the protracted transition period. The new government will need to address these challenges rapidly to prevent them from undermining the beginning of its term. Two priorities will require particular attention:

- Continuation of economic and financial reforms; and
- Commitment to due process in procurement and concessions

Continuation of economic and financial reforms

Without an IMF programme, FGS is unlikely to receive sufficient budget support to close the fiscal gap and make timely payment of salaries. The incoming administration therefore needs to reach immediate agreement with the IMF on the terms of the continuing ECF programme and to commit to further progress on the economic and financial reforms initiated by the previous government.[35] Satisfactory performance of an IMF programme and a credible fiscal framework are essential conditions for budget support disbursement by major donors.

Commitment to the IMF programme is not a one-off undertaking. The new administration will have to commit to the agreed fiscal framework; meet the floor on CBS net foreign assets; meet the ceiling on spending on compensation, goods, and services, and contingency; avoid incurring any new debt; and prevent the accumulation of new domestic arrears. Targets for domestic revenue and fiscal balance will need to be met as well.

[35] Including the reforms outlined in the technical discussion on the second and third review of the IMF-supported programme, initiated in February–March 2022).

The new administration will therefore need to maintain a strong focus on mobilising revenues and prioritising key areas of expenditure. It must resist political pressure either to ease revenue reforms or to accommodate new expenditure priorities at the expense of existing obligations. It must avoid any non-essential expansion of the salary base. Limiting the establishment of new government agencies will be an important tool to keep government expenditure in check.

To ensure successful implementation of the IMF programme following elections, the incoming President and Prime Minister will need to empower the Minister of Financeto oversee revenue collection and execute the budget in compliance with prevailing laws, and to meet the quantitative benchmarks in the IMF programme. The Office of the Prime Minister will need to communicate reform commitments to the rest of government and to coordinate cross-government delivery.

The Office of the Prime Minister, MoF, and international partners will need to conduct outreach to Parliament to explain the importance of its role in passing legislation that is central to reform delivery. Submission of draft legislation should be prioritised in line with its importance to the reform programme. MoF should review the fiscal implications of all pending bills prior to their resubmission to ensure that the new legislative programme does not lead to an unsustainable increase in FGS's fiscal costs.

Commitment to due process in procurement and concessions

Members of the incoming administration may not be familiar with the legal requirements for FGS contracting set out in the Procurement Act. Experience suggests that some ministers may want to cancel contracts awarded by the previous administration without justification, while others may try to award contracts without meeting the requirements of the Procurement Act. Such actions would rapidly undermine the reputation of the new administration, both domestically and with the international community.

It is important that the incoming leadership makes a clear and early commitment to due process in awarding public procurement and concession contracts. All FGS ministers and institutions should be made aware of this requirement by the Prime Minister. The MoF should issue a circular explaining the tendering and oversight procedures that apply to public procurement and concessions.

The incoming administration is advised to continue the current practice of requiring FGS institutions to work with the MoF's Procurement Department when conducting high-value procurement and when developing concession contracts. The risks of a more decentralised approach to procurement remain high, owing to weaknesses in developing contract specifications and limited awareness of Procurement Act requirements. It will also be important for the incoming administration to demonstrate its commitment to competitive procurement by immediately launching new tenders for security sector rations and fuel contracts, which have been on hold during the transition period.

The incoming administration will need to pay special attention to oil and gas contracting. It should require MPMR and the Somalia Petroleum Authority to:

- Prepare a transparent and competitive licensing round for oil and gas awards that meets all applicable FGS legal requirements.
- Enter into negotiations for direct oil and gas awards only *after* the licensing round is complete, so that direct negotiations are guided by competitive price benchmarks and *only* in cases where direct negotiations have been authorised as per FGS's legal framework (including the Procurement Act).

The incoming administration will also need to examine the seven PSA awards to Coastline and deal with any potential legal dispute arising from their nullification.

Finally, the incoming administration should seek to prevent repetition of the problems encountered during the recent transition by developing a detailed definition of the 'routine duties' that may be conducted by a caretaker government, as well as clear rules for contracting in the pre-electoral period.

Annex A: Progress against FGR 2021 priorities

<table>
<tr><th>FGR 2021 priorities</th><th>Progress July 2021 – May 2022</th></tr>
<tr><td>Sustainability of the fiscal position and consolidation of fiscal reforms
• Strengthen revenue collection from key sectors where receipts are falling substantially below policy expectations and/or regional benchmarks. Those sectors or items include telecom operators, airline overflight fees, and khat imports.
• Adopt a policy on the establishment of new semi-autonomous government agencies and systematically review the fiscal implications and affordability of new draft laws.
• Make progress in bringing external financial support to FGS institutions on-budget and on-treasury, in line with the PFM Act.
• Implement existing legal, regulatory, and procedural reforms, translating reforms 'on paper' into routine practice.
• Strengthen the MoF policy function to improve its effectiveness in engaging on cross-cutting and strategic priorities, including use of country systems, rational agency creation, and HIPC completion.
• Encourage the development of a constitutional mechanism and transparent formula-based transfer system to ensure equitable allocation of resources, consistent with delivering a minimum standard of public services.
• Encourage further acceptance and strengthening of the OAG's independent oversight function to improve accountability and transparency in public resource management.</td><td>The OAG has continued to exercise its oversight function, and MoF has continued to work on revenue reforms in key sectors such as telecoms. There has been no progress on developing a constitutional mechanism or transparent formula for resource sharing, or on taking steps to limit agency creation. Steps to bring financial support to FGS institutions from United Nations agencies on-budget and on-treasury have been put on hold, pending the approval of the 2022 Budget.</td></tr>
<tr><td>Transparency and due process in natural resource revenue management
• Ensure that oil and gas contracting complies with the Somali legal framework and commitments to international partners.
• Monitor tuna licensing revenue distribution to the FMS in line with prevailing agreements.</td><td>No progress.</td></tr>
<tr><td>Central bank governance and financial sector development
• Continued CBS implementation of its restructuring plan.
• Continued CBS rollout of the National Payment and Settlement System.
• Continued CBS progress in licensing and regulating mobile money service providers and improving coordination with the National Communications Authority on licensing.
• Continued CBS progress in addressing the structural obstacles to inward money transfers, including correspondent banking relationships, and the operational and legal framework for anti-money laundering and combating the financing of terrorism (AML/CFT).
• Progress towards the first phase of currency reform, centred on a 'currency exchange project' to remove counterfeit banknotes from circulation.</td><td>Three mobile money providers have been licensed since the start of 2021.[36,37] CBS signed an MoU with the National Communications Authority in 2021 to enhance cooperation on regulating mobile money service providers. All 13 licensed commercial banks are now connected to the National Payment System, enabling them to transact with each other electronically. Work is ongoing to launch the Somali Payment Switch during 2022, which will further facilitate the effectiveness of the banking system by supporting ATM, debit card, and bank-to- mobile-wallet transactions. CBS finalised its 2020 financial statements and received a clean audit opinion for the first time. CBS's 2021 financial statements have been prepared and are due to audited in the 2nd quarter of 2022.</td></tr>
<tr><td>Debt management strategy development
• MoF to develop a formal debt strategy to manage the risk exposure embedded in the debt portfolio and to minimise the cost of debt servicing.</td><td>Work due to commence in the second half of 2022.</td></tr>
<tr><td>Compliance and value for money in public procurement and concessions
• Maintain a firm commitment to compliance through application and enforcement of the provisions of the Procurement Act and associated procurement regulations across the FGS.
• Deepen awareness and understanding across FGS institutions of due process in public procurement and concessions.
• Maintain annual competitive tendering of personnel rations contracts in the justice and security sectors, including the Somali National Army (SNA), the Somali Police Force, the Prisons Service, and the National Intelligence and Security Agency (NISA).
• Establish (where needed) and strengthen the capacity of FGS oversight bodies and their accompanying technical units.
• Monitor the implementation of renegotiated concessions to ensure that concessionaires fulfil their obligations, that the FGS achieves the expected fiscal gains/returns, and that the FGS is not in breach of its own obligations.
• Encourage improvements in the technical knowledge and capacity of print, radio, and television media to promote greater transparency and public awareness of value for money in public procurement and concessions.</td><td>MoF has prevented non-compliant award of concessions contracts (import conformity assessment, ship registration and certification). It has been unable to proceed with re-tendering security sector rations and fuel contracts, due to the electoral transition. Temporary supply arrangements have been put in place pending the launch of new tenders once the new administration is in place. A Procurement Portal has been developed to enhance transparency in FGS contracting, and will be finalised in 2022.</td></tr>
</table>

[36] Hormuud Telecom received a licence in February 2021, Somtel in June 2021, and Somlink in March 2022.

[37] Hormuud Telecom received a licence in February 2021, Somtel in June 2021 and Somlink in March 2022

Annex B: Contracts and concessions reviewed by the FGC since 2014

#	FGS institution	Contract	Contractor	Contract type	FGC formal review	Status
1	Central Bank of Somalia	Land lease and redevelopment	Riverside Holding	Concession	2016, 2018	Contract signed but not implemented
2	Central Bank of Somalia	Asset recovery	Shulman, Rogers, Gandal, Pordy & Ecker PA	Concession	Not reviewed	Cancelled
3	Commerce and Industry	Import/export quality assurance	Proje Gözetim Mühendislik (PGM Project)	Concession	2015, 2016	Incorporated FGC recommendations; contract was signed but not implemented
4	Defence	SNA Rations	AGETCO	Procurement		Sole source supply arrangements that were discontinued following recommendation that security sector rations contracts should be competitively awarded
5	Defence	SNA Rations	AGETCO	Procurement	2017	Competitively awarded; subsequently cancelled
6	Defence	SNA Rations	Kasram	Procurement	2017	Contract irregularly awarded; annulled shortly prior to conclusion
7	Defence	SNA Rations – Lot 1	Scandinavian Trading	Procurement	2019	Competitively awarded; concluded
8	Defence	SNA Rations – Lot 2	East Africa Trading	Procurement	2019	Competitively awarded; concluded
9	Defence	SNA Rations – Lot 1	United Group of Companies	Procurement	2021	Competitively awarded; operational
10	Defence	SNA Rations – Lot 2	Scandinavian Trading	Procurement	2021	Competitively awarded; operational
11	Defence	Supply of 6 marine patrol boats	AMO Shipping Company Ltd.	Procurement	2014	Contract was signed; subject to an arbitration claim
12	Defence	Equipping and training Coast Guard	Atlantic Marine and Offshore Group	Procurement	Not reviewed	Contract was signed; subject to an arbitration claim
13	Defence	Logistics	SKA	Unclear	2018	Status unknown; FGC recommended nullification
14	Education	Textbooks	Beder Printing House	Concession	2018	Operational (new amendment signed in August 2020); FGC recommended it should be renegotiated and/or cancelled
15	Education	Certificates	Security Printing Press	Concession	2019	Contract signed; status unknown; FGC recommended nullification
16	Finance	Collection of property transfer registration tax	M&T Solutions Ltd.	Concession	2016	Cancelled
17	Finance	Collection of road tax	Smart General Service Ltd.	Concession	2016	Cancelled
18	Finance	Khat tax collection on behalf of FGS	The ADCO Group of Companies	Concession	2015	Cancelled
19	Fisheries and Marine Resources	Protecting, licensing, and promoting policy and institutional development of fisheries sector	Somalia-FishGuard Ltd.	Concession	2014	Did not proceed
20	Galmudug Regional Government	Oil production sharing agreement	Petro Quest Africa (CN)	Concession	2014	Did not proceed

#	FGS institution	Contract	Contractor	Contract type	FGC formal review	Status
21	Somali Police Force	Police rations	Perkins Logistics	Procurement	2016	Partially incorporated FGC recommendations; contract now concluded
22	Somali Police Force	Police rations	Muna Transport	Procurement	2019	Competitively awarded; concluded
23	Somali Police Force	Police rations	Hanad Construction & General Trading	Procurement	2021	Competitively awarded; operational
24	Immigration Directorate	Visas	Empire Tech Solutions Ltd.	Concession	2018	Operational; FGC recommended it should be cancelled or revised
25	Immigration Directorate	Passport Production	Ebtkaraat Smart System	Concession	2018	Operational (two-year extension signed in 2021);
26	Immigration Directorate	Passport Production Tender Documents		Concession	2020	Tender was cancelled, new tender process recommended
27	NISA	NISA rations	Horn logistics	Procurement	2016	Partially incorporated FGC recommendations: contract has now concluded
28	NISA	NISA rations	Express logistics	Procurement	2019	Competitively awarded; should have concluded in 2020, but still operational
29	Ministry of Internal Security	Scanning services for Mogadishu port	M&T Solutions Ltd	Concession	2016	Contract was signed but not implemented
30	Justice	Prisons rations	Bakhaari Logistics	Procurement	2018	FGC comments were not addressed; contract now concluded
31	Justice	Prisons rations	Bakhaari Logistics	Procurement	2021	Competitively awarded; operational
32	Petroleum and Mineral Resources	Model terms for petroleum exploration, development, and production	Model Oil and Gas Production Sharing Agreement	Concession	2016, 2019, 2021	Approved by IMCC
33	Petroleum and Mineral Resources	Seismic data analysis	Mubadala Oil and Gas Holding Company LLC (CN)	Concession	2014	Agreement expired
34	Petroleum and Mineral Resources	Seismic exploration	Soma Oil and Gas Exploration Limited	Concession	2014	Contract believed to have been concluded; did not incorporate FGC recommendations
35	Petroleum and Mineral Resources	Geospatial analysis	CGG Data Services AG/Robertson GeoSpec International Ltd.	Concession	2014, 2015, 2016	Operational; incorporated FGC recommendations
36	Petroleum and Mineral Resources	Collation, analysis, and marketing of petroleum data	Spectrum ASA	Concession	2015	Operational; incorporated FGC recommendations
37	Petroleum and Mineral Resources	Acquisition, processing, and marketing of geophysical data	TGS-NOPEC Geophysical Company ASA	Concession	2014	Did not proceed
38	Presidency	Rations	Regional Suppliers Company Ltd.	Procurement	2018	Status unknown
39	Ports and Shipping	Management of port operations	Albayrak Turizm Inşaat Ticaret A.Ş.	Concession	2014; 2020	Operational; renegotiated agreement signed 2020
40	Ports and Shipping	Harbour, fishing port, and related infrastructure developments	Great Horn Development Company	Concession	2014	Did not proceed

#	FGS institution	Contract	Contractor	Contract type	FGC formal review	Status
41	Ports and Shipping	Lease and concession for operating Mogadishu port container terminal	Mogadishu Port Container Terminal and Simatech International	Concession	2014	Did not proceed
42	Ports and Shipping	Management and operation of a container yard and freight station at Mogadishu dry port	Mogadishu International Port and Simatech International	Concession	2016	Requires resolution following the renegotiation of the port management contract with Al Bayrak
43	Posts and Telecoms	Telecoms gateway	VBH Holdings SPA	Concession	2016	Did not proceed
44	Power and Water	Electricity generation	Polaris Energy SDN BHD	Concession	2015	Did not proceed
45	Transport and Aviation	Airport operations	Favori LLC	Concession	2014, 2019	Operational; renegotiated agreement signed May 2019
46	Transport and Aviation	Vehicle licensing	Modern Technology Ltd.	Concession	2016	Cancelled
47	Transport and Aviation	Airport taxi shuttle service	Sahel	Concession	2017	Operational; FGC recommended it should be renegotiated
48	Transport and Aviation	Airport hotel	Sat Service LLC	Concession	2018	Interim agreement signed with FGS in early 2020; full contract needs to be developed
49-54	Information, Culture, and Tourism	6 leases for development of property in Mogadishu	Various	Concession	2019	Status unclear; FGC recommended they should be cancelled or revised
55	Transport and Aviation	Overflight arrears debt collection services	TBD	Procurement	NA	Tender being prepared
56	Somali Bureau of Standards	Consignment Based Conformity Assessment Program	TBD	Procurement	2021	Draft contract reviewed; Tender being prepared
57	Ministry of Ports and Maritime Transport	Certification and Registration Services for Maritime Vessels	TBD	Concession	2021	Draft contract; FGC recommended that award of contract should not proceed

Annex C: List of bills and agreements returned by Parliament following the expiry of its term

- Environmental Management Bill
- Agreement Establishing East Africa Standby Forces
- Agreement Establishing East and Southern Africa Free Trade Area
- Patent Registration Bill
- Membership Agreement of the Somali Federal Republic to the Common Market for Eastern and Southern Africa (COMESA)
- Somali Police Force Bill
- Targeted Financial Sanctions Bill
- Extractive Industry Income Tax Bill
- Civil Service Bill
- Civil Servant Retirement and Pension Bill
- Gun Control Bill
- Sexual Offences Bill
- Roads Bill
- Load and Vehicle Limits Bill
- Medicines Bill
- Anti-Piracy and Kidnapping Amendment Bill
- National Defence Bill
- Agreement between Somalia and Turkey on Cooperation, Promotion and Protection of Investments
- Investment and Investor Protection Bill
- Investor Promotion Agency Bill
- Refugee Bill
- NGO Bill
- Immigration Agency Bill
- 2018 Fiscal Year Close of Accounts