

Aid instruments for peace- and state-building: Putting the New Deal into practice



Disclaimer

The booklet is a product of the g7+ secretariat and not individual member states. The views expressed in this paper are those of the authors and do not represent any official position of the g7+ or of contributory organisations.

Acknowledgements

The g7+ secretariat would like to thank the case study authors: Gideon Rabinowitz (Overseas Development Institute - ODI), Fiona Davies (ODI), Lisa Denney (ODI), Raphaelle Faure (ODI), Tom Hart (ODI). The overview chapter was drafted by Gideon Rabinowitz and Myra Bernardi (ODI).

The authors would also like to thank everyone who shared information for and commented on drafts of this text. These include representatives of relevant government agencies, the African Development Bank, the Australian Department for Foreign Affairs and Trade, the European Commission, the United Nations Development Programme, USAID and the World Bank.

Report design: Jojoh Faal, eme-designs.com.



About the g7+

The g7+ is a voluntary association of countries that are or have been affected by conflict and are now in transition to the next stage of development. The main objective of the g7+ is to share experiences and learn from one another, and to advocate for reforms to the way the international community engages in fragile and conflict-affected states.

To find out more about the g7+ visit www.g7plus.org.



New Deal case study

Norwegian financing of the Somalia Special Financing Facility (SFF)

1. Somalia – Background, aid context and New Deal progress

After the fall of the Siad Barre regime in the early 1990s, successive transitional governments in Somalia gained a widespread reputation for financial mismanagement and corruption, while failing to establish an effective central administration. The resulting power vacuum led to territorial fragmentation, as individual regional and local administrations sought to impose order within their respective areas, as large areas of South Central Somalia increasingly came under the control of Islamic militants from 2000 onwards.

After numerous efforts to re-establish a Government during the 2000s (including the formation of a series of transitional Governments), concerted efforts by African Union forces led to a relative improvement in the security situation in 2011, which in turn facilitated the formation of the Federal Government of Somalia (FGS) in late 2012.

The majority of aid to Somalia throughout the period since the 1990s has consisted of humanitarian assistance – including in response to regular food crises and famine – delivered predominantly through the United Nations and a range of NGOs. Even since the formation of the FGS donors have avoided delivery of aid through the Government due to lingering concerns about its capacity and accountability.

In an effort to identify clearer national peace-building and state-building priorities and to strengthen international support for pursuing them work began in 2012 on a New Deal-inspired Somali Compact to be agreed between the FGS and the international community. This Compact was adopted in 2014 (FRS 2014) and was accompanied by pledges of €1.8 billion in external assistance and commitments to engage more closely with FGS institutions in delivering this assistance (Reuters 2013).

2. Introducing the Special Financing Facility (SFF)¹

The SFF is a facility which was initiated by the Government of Norway (GoN) in 2013 to provide rapid

funding to support the new FGS to address social and economic challenges and to bolster its credibility and legitimacy as it consolidated its presence. It was conceived as a temporary bridging facility, which would provide funds to FGS in advance of the establishment of a larger, multi-donor facility administered by the World Bank.

The SFF's support has been focussed in two main areas:

- i. Regular payment of civil service salaries
- ii. Direct Government delivery of simple development projects of value to local communities

The basic facility design was fairly simple. It adopted a revolving disbursement model, whereby GoN provided an initial advance to the FGS, who then submitted subsequent eligible expenditures for reimbursement through a Withdrawal Application (WA). An independent Monitoring Agent (MA) contracted by GoN was responsible for assessing whether the expenditures being claimed by the FGS were eligible, and for advising GoN on whether and to what extent the Government's Withdrawal Application should be reimbursed. GoN also contracted a separate Administrative Agent (AA), whose role it was to receive SFF donor funds and disburse them to the SFF operational account held by the Central Bank of Somalia (CBS). In addition, GoN appointed a consultant Supervision Team to carry out regular project supervision on its behalf. This design therefore attempted to balance the FGS's interest in national systems being used and GoN's fiduciary concerns (see next section for more).

The SFF established a range of formal procedures for funding delivery and implementation. In order for salary payments to be made the SFF required FGS employees to be individually registered so that they could access their salaries using a biometric identification system. To ensure local ownership of development projects, the SFF established a process for community consultation and project identification, involving regional Government officials and civil society representatives.

Two temporary SFF units were established in the Ministry of Finance to support SFF operations. The Financial Management Unit (FMU) was responsible for ensuring the compliance of SFF contracts and payments, while the Temporary Implementation Unit (TIU) was

¹ This description is based on insights from interviews and SFF (2013)

responsible for management of the SFF projects component. The Monitoring Agent had an additional function of providing capacity support to these units, as well as to the other Government departments integral to effective SFF operations, including the Accountant General's office, the Civil Service Commission and the Central Bank of Somalia.

Although the initial plan was for the SFF to be up and running within four months (from when it was proposed, in December 2012), it ultimately took eight months (to August 2013) to become operational mainly due to delays on the GoN side related to the development of the Grant Agreement and the procurement of the Facility's fiduciary agents. The first Government salary payments under the SFF took place in August 2013. The payments were pre-financed by an advance from Government, as the mechanism for transferring the SFF advance to the designated account in the Central Bank was not yet in place.

3. Programme emergence and drivers

This section details the key drivers that facilitated this programme's emergence. Such an analysis is not only of interest for understanding how similar initiatives can be taken forward in Somalia, but can also help to guide political and technical collaboration between Governments and donors to develop innovative programmes in comparable contexts.

Following the re-establishment of the 2012 FGS, the international community was eager to re-establish cooperation with it. In initial discussions on financing modalities to provide such cooperation, donors had expressed a preference for a 'Joint Financial Management Board' approach, whereby provision of direct financial assistance would be contingent on donor co-management of the Government's Public Financial Management (PFM) system. They viewed this as the most effective way of managing fiduciary risks. However, this approach was rejected by the new President of the FGS, on the grounds that it impinged on national sovereignty and risked de-legitimising the new Government in the eyes of the Somali population.

Amongst the donors GoN was the only one prepared to consider a more FGS-led financing mechanism, although it retained significant concerns about fiduciary risk. The design of the SFF was therefore driven by efforts to balance the FGS and GoN positions.

In identifying a design for the SFF which would meet both FGS and GoN needs the design team drew on previous World Bank operational designs for early post-conflict support.² They also reportedly found inspiration from the 2011 World Development Report on Conflict, Security and Development in identifying the main functions of the SFF.

4. How the programme addresses the New Deal principles

This section identifies the primary New Deal principles addressed by this programme and how its design aimed to support their implementation.

SFF financing was explicitly designed to support a country-led transition out of fragility. Its main objective was to assist the government to receive the funds that could be used to build political legitimacy, through regular payment of salaries and the delivery of simple development projects of value to local communities, while meeting international standards for transparency and accountability to donors.

The way in which the SFF was designed directly also addressed three of the New Deal TRUST principles, namely: risk-sharing, use of country systems, and strengthening capacities. The innovation within the country context was to provide financing direct to Government for delivery through Government systems. Where existing systems proved inadequate, support was provided to help strengthen existing processes (as occurred with the salary payment mechanism). Where existing systems were non-existent, support was provided to design new ones (as occurred with the establishment of capacity to identify, design and manage project implementation, as well as the development of an associated procurement process).

² The main inspiration for the SFF design was reportedly the Holst Fund, which provided emergency salary and recurrent cost support to the Palestinian Authority from 1994.

5. Programme impacts and challenges

This section presents an overview of the impacts the SFF has had in Somalia, both in terms of funding civil service salaries and development projects.

Over the period August 2013 to June 2014 the SFF supported ten months of Government salary payments. There were though considerable delays in these salary payments,³ initially due to slow progress in finding a route for transferring payments through the Central Bank (an FGS demand) in a way that satisfied GoN concerns relating to money laundering (which took until October 2014). Then, following the first transfer of funds the Governor of the Central Bank resigned citing concerns over corruption, which led to payments being suspended until an alternative transfer route was in place in March 2014. These bureaucratic issues were also complicated by a change of Government in Norway in the early phase of the SFF's operations.

Despite these challenges the SFF supported a considerable improvement in the salary payment system, which had previously involved Spending Agencies paying their staff in cash with no ex-post verification of whether salaries had reached the intended recipients, or whether those being paid were legitimate civil servants. The previous system therefore created significant opportunities for leakage and resulted in salary payments being very erratic.

On the projects side, it had been intended that these would be implemented in all twelve of the regions of Somalia. However, their implementation has been significantly delayed by a range of factors, including underestimation of the time it would take to develop and procure projects, insufficient support from the Monitoring Agent (partly due to insecurity restricting movement), and severe liquidity problems brought about by delays in disbursements from GoN. As a result, projects have been implemented in only three regions – Banadir, Hiiraan and Galgaduud (see box below) – and it is not clear if further projects will be implemented. Details of the projects implemented in these three regions are presented in the table below. Most of these projects were completed very recently

Region	No. projects	Type of project	Estimated cost in USD
Banadir	6	Road rehabilitation (3 projects) Installation of solar street lights (3 projects)	1 Million
Hiiraan	3	Rehabilitation of regional administration buildings Construction of two markets	0.75 Million
Galgaduud	3	Rehabilitation of regional administration buildings Construction of one livestock market Bush Clearing	0.75 Million
Total	12		2.5 Million

FRS (2015)

and it is therefore not yet clear what their impacts have been. Projects have not been initiated in a further 9 regions, as was originally intended, as the GoN decided not to continue the projects component of the SFF once the salary component was handed over to the World Bank

In delivering and overseeing funding through Government while limiting exposure to fiduciary risk (the SFF's first year received a clean audit), the SFF has demonstrated that it is possible to make use of the FGS's systems. It is hoped that the demonstration effect of the SFF may help shape wider donor support in the coming years..

A practical illustration of this effect has already emerged, in that the SFF has already helped to develop a set of procedures and policies to be utilised by successor funding instruments. For example, the World Bank-managed Recurrent Cost and Reform Financing Facility (RCRF), which has taken over the payment of

³ Despite initially committing to provide reimbursements within 10-20 days, on average GoN took 100 days to approve the reimbursement of the first seven Withdrawal Applications, and a further three WAs were outstanding for 160 days. Due to these delays the FGS had to pre-finance salary payments in a number of months and salaries were not paid at all in December 2013.

Government salaries (since July 2014) using the same system instituted under the SFF. This facility is currently able to process salary payments more quickly than the SFF, and has therefore learnt important lessons from the SFF's experiences. The World Bank has also shown an interest in taking forward the SFF's projects component on a modified basis, in order to use the lessons learned in the design and implementation of future infrastructure programmes.

Finally, it is important to note how the SFF has fed into broader policy and strategic developments related to financial management and aid. The insights gained through the capacity building support of the MA have helped inform the development of the donor-government roadmap to greater use of country systems, including plans for technical assistance in areas such as payroll, banking, financial management information systems and procurement. The lessons learned from establishment of the two temporary SFF units (TIU and FMU) have also helped shape the design of the External Assistance Fiduciary Section (EAFS) within the Ministry of Finance, which is intended to coordinate the management of donor assistance disbursed direct to Government.

6. Lessons learnt

The experience of the SFF shows that it is possible to make adapted use of Government systems in a highly challenging environment without incurring excessive fiduciary risk. Key design features included use of a tested model that permitted sufficient operational flexibility as implementation challenges emerged, the provision of high-quality (and relatively costly) in-field fiduciary monitoring and capacity support, and the employment of a field supervision team well-versed in managing operations of this type in unstable environments.

However, the experience of the SFF also shows that successful programme implementation in fragile states (and elsewhere to a degree) is not contingent on effective design alone; it needs to be accompanied by donor willingness to increase and sustain their risk exposure. GoN initially demonstrated this willingness, by moving ahead of other members of the international community to make a commitment to using country systems. However, other donors lacked the risk

appetite to join Norway in funding the SFF, even when it became clear that the SFF was playing a valuable role in providing a pathway for the implementation of the World Bank's Multi-Partner Fund, to which they were committed. This left the Government of Norway shouldering the risks of using Government systems on its own. GoN commitment to the risk exposure engendered by the SFF became harder to sustain in the face of events such as the resignation of the Governor of the CBS and a change in political leadership in Norway, hence the considerable delays in effecting reimbursements.

Bibliography

Reuters (2013) "Donors pledge 1.8 billion euros for Somalia", Reuters article, September 16 2013; accessed at: <http://www.reuters.com/article/us-somalia-eu-pledges-idUSBRE98FOM520130916>

FRS (2014) "The Somali Compact", Federal Republic of Somalia, 2014

FRS (2015) "Launch of Special Financing Facility (SFF) projects in Hiraan and Galgaduud", Press Release, 18th January 2015

SFF (2013) "Public Financial Management Reform in Somalia - The Special Financing Facility (SFF)"; accessed at: <http://www.slideshare.net/somalitalk/public-financial-management-reform-in-somalia-the-special-financing-facility-the-sff-10-april-2013-version-of-the-sff>

g7plus

Address: Kobe House 2nd Floor, Ministry of Finance,
Avenida Presidente Nicolau Lobato, Dili, Timor - Leste

Telephone: (+670) 331 0126

E-mail: g7plus.secretariat@gmail.com

Facebook: www.facebook.com/g7plus

Twitter: [@g7plus](https://twitter.com/g7plus)

Website: www.g7plus.org