

FGC Advisory Note		
Guidance to development partners on how to bring their aid to FGS institutions on-budget and on-treasury in accordance with the 2019 PFM Act		
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This Advisory Note provides guidance on how Somalia’s international development partners can ensure compliance with the 2019 PFM Act and improve the fiduciary oversight of funds they provide to FGS institutions. It responds to requests from a number of international agencies and provides high-level guidance only. Agencies can request further details from the designated Ministry of Finance contact persons. The Ministry may update or re-issue this guidance at a later date.

1. Background on the use of country systems in Somalia

A number of development partners are currently providing funding to Federal Government institutions in Somalia without using government systems. Their funding is not appropriated in the FGS Budget and is disbursed to accounts held in commercial banks without the knowledge of the Accountant General. Expenditures are not managed through the Somalia Financial Management Information System (SFMIS) and are not governed by FGS’s payment procedures. Funding which does not use government systems is classified as ‘off-budget’ and ‘off-treasury’ (see Box 1).

Box 1: Definitions applicable to use of government systems

On-budget means that “aid is integrated into budgeting processes and is reflected in the documentation submitted with the budget to the legislature”

On-treasury means that “aid is disbursed into the government’s main revenue funds and is managed through the government’s systems”

Source: CABRI and Mokoro (2014). Towards a Greater Use of Country Systems in Africa: Recent Trends and Approaches. Synthesis Report, p.2.¹

When development partners provide ‘off-budget’ and ‘off-treasury’ funding to FGS institutions, they undermine efforts by the Ministry of Finance to strengthen the government’s public financial management systems. They also increase their own fiduciary risk, because the Accountant General’s Department in the Ministry of Finance does not oversee the management and expenditure of their funds and the Office of the Auditor General (OAG) does not provide external audit.

These risks are clearly illustrated by a health forensic audit carried out by the OAG in 2020. The audit examined over US\$ 6 million in funding provided by three international agencies to the Federal Ministry of Health between 2017 and 2019. It found that the funding was not appropriated in the FGS budget, did not disburse through the FGS treasury, and was held in bank accounts operated privately outside the Central Bank of Somalia. The audit identified multiple instances of

¹ See: <https://www.cabri-sbo.org/en/publications/towards-a-greater-use-of-country-systems-in-africa-recent-trends-and-approaches-synthesis-report>

fraudulent payments using these funds. A number of senior FGS officials were convicted in August 2020 on charges of misuse of public funds.²

2. Public Financial Management Act (2019) provisions on donor grants to FGS institutions

Following passage of the PFM Act in 2019, it is a legal requirement that donor funds provided to FGS institutions use government systems. The PFM Act requires all donor grants to FGS institutions to be appropriated in the FGS Budget ('on budget') and to be paid into an account held in the Treasury Single Account ('on treasury'). It requires all donor grant agreements with FGS institutions to be signed by the Minister of Finance and registered with the Auditor General.

The relevant specific provisions of the PFM Act are as follows:

- All donor grant agreements, with any FGS institution, must be signed by the Minister of Finance (Article 38:2).
- All donor grant agreements, with any FGS institution, must be registered with the Auditor General (Articles 11:1(c) and 38:5).
- All donor grants received by an FGS institution must be appropriated in the FGS Budget (Articles 4:2, 4:3(g) and 38:1).
- All FGS revenues from donor grants, received by any FGS institution, must be paid into the FGS Consolidated Fund / Single Treasury Account within one working day (Articles 4:2, 4:3(g) and 42:4).
- FGS institutions can only open bank accounts with the written authorisation of the Accountant General (Article 42:3).

3. Actions by donors to ensure compliance with the PFM Act

For many development partners, meeting the provisions of the 2019 PFM Act requires a significant change in the management of their funding to FGS institutions compared to current practice.

Development partners should take the following steps to ensure that they comply with the provisions of the PFM Act when providing funds to an FGS institution:

- 1. Submit the funding agreement to the FGS Minister of Finance for signature. [Contact: Director General, Ministry of Finance]**
- 2. Send a copy of the funding agreement, as signed by the FGS Minister of Finance, to the FGS Auditor General. [Contact: Auditor General, FGS]**
- 3. Inform the Budget Director in the FGS Ministry of Finance *and* the designated official in the recipient FGS institution of planned disbursements in the coming FGS financial year**

² <https://www.garoweonline.com/en/news/somalia/somalia-court-jails-senior-health-ministry-officials-for-corruption>

³ An official e-mail address will be provided in due course.

(January to December), for inclusion in the FGS Budget. [Contact: Budget Director, Ministry of Finance]

Information on planned disbursements should be presented using the following two-digit codes/categories:

- 21 - Compensation of employees
- 22 - Use of goods and services
- 23 - Consumption of fixed capital
- 26 - Grants (transfers)
- 27 - Social benefits

The Budget Director may request the recipient FGS institution to provide further information by category, to enable assignment of budget codes at the four-digit level.

Each project will also be assigned a project code within the Somalia Financial Management Information System (SFMIS). It will also be reflected in the FGS Budget.

4. **Request the Accountant General in the FGS Ministry of Finance to provide the account details for the Central Bank of Somalia, the transfer instructions and the process for disbursement notification.** Development partners may request that a designated sub-account of the Treasury Single Account is opened for an individual project, for ease of traceability. All communications to the Accountant General should be copied to the recipient FGS institution and to the Budget Director. [Contact: Accountant General, FGS]
5. **Inform the Accountant General in the FGS Ministry of Finance *and* the recipient FGS institution of each disbursement or transfer of funds.**

The recipient FGS institution will be responsible for making payment requests to the Ministry of Finance for expenditure against the project funds. These payment requests are made through the SFMIS. Once the payment request has been approved, the Accountant General will authorise payment direct to the vendor from the designated TSA sub-account held in the Central Bank.

Development partners may request the recipient FGS institution to generate project expenditure reports directly from the SFMIS.

4. Expected benefits

Enhanced fiduciary oversight of funding to FGS institutions will be a significant advantage for development partners as they increase compliance with the PFM Act. It is recognised that this strengthened oversight may lengthen the time it takes for the recipient FGS institution to execute their donor-funded expenditures, at least in the short to medium term. Development partners may need to adjust their planning horizons accordingly. However, the aim is to strike an appropriate balance between the speed of delivery and the proper management and oversight of funds.