



Somaliland Development Fund – Phase 2 (SDF2)

Financial Management and Accounting Manual
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**MINISTRY OF
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List of Abbreviations

CAB	Crown Agents Bank
GoSL	Government of Somaliland
NDP	National Development Plan
PMT	Project Management Team
SDF	Somaliland Development Fund

1. Introduction

1.1 Somaliland Development Fund

Somaliland's National Development Plan 2 (NDP2) provides the medium-term strategy for achieving a stable, democratic, and prosperous country for the period 2017 to 2021. However, implementation of the NDP2 is confronted with a major funding gap. The NDP2 is costed at USD 2.1 billion for 2017-2021, whereas projections indicate that the level of investment available from the Government will be low, with around USD 12 million available in 2017, and up to USD 81 million over the full five-year period. This will require the Government to leverage more external funding to realise the aspirations of the people of Somaliland as set out in the NDP2.

The Somaliland Development Fund (SDF) was established in 2012 to provide a single vehicle through which development partners could support Somaliland's development goals. During the period 2013-2018, the SDF supported the Government of Somaliland (GoSL) filling a critical gap through funding projects that are fully aligned to the National Development Plan (NDP) while at the same time recognizing the role of GoSL in the delivery of basic services. During the period 2013-2018 (Phase 1), the SDF provided USD 59m for the funding of 12 projects throughout Somaliland. The funding was provided by DFID, DANIDA, Norway and the Netherlands.

The Somaliland Development Fund – Phase 2 (SDF2) covers the period 2018-2023. SDF2 is conceived as an inclusive economic development programme. It supports the GoSL in delivering infrastructure that is relevant for inclusive economic development. It focuses on sustainable investments that spur job creation and fast growth, while at the same time laying the foundation for long-term resilience and development, leading to a more stable and peaceful Somaliland. SDF2's ambitions are fully aligned with the NDP2 and also reflect the priorities set out in Somaliland Vision 2030.

The objectives of the SDF2 are threefold:

- Support increased inclusive economic growth through investment in productive, strategic infrastructure to enhance economic growth and revenue generation.
- Strengthen and maintain the capabilities of the government of Somaliland to prioritise and manage the sustainable and equitable development of Somaliland's infrastructure.
- Support strong government ownership of development priorities aligned with the National Development Plan.

SDF2 focuses on sustainable infrastructure investments. It will only invest in projects that are supported by robust Operations and Maintenance (O&M) systems and budgets, thereby ensuring the longer-term sustainability of economic assets. This will also require more thorough economic analyses, while at the same time addressing regional equity and social inclusion with a particular focus on girls, women and youth.

SDF2 will continue putting a heavy emphasis on skills transfer. Continuous support to strengthening the skills of civil servants through a learning-by-doing approach will ensure that the Government is consolidating its existing capacity to plan and manage SDF2 investments. SDF2 will also look at the broader skills sector,

working to strengthen Government capacity as well as the wider workforce in the infrastructure and productive sectors.

The SDF2 continues to be touted by the GoSL as the preferred aid instrument for the Government post Somaliland Special Arrangement of the New Deal. Like in SDF1, all support will be aligned with government priorities as defined in Somaliland's second National Development Plan (NDP2) 2017-2021. While building upon the foundation of SDF1, SDF2 will have some distinctive features:

- No greater use of country systems but retaining shadow systems through a Fund Manager.
- Health and education are relatively well-supported sectors, and therefore the focus should be on infrastructure rather than service delivery.
- The SDF phase 2 will focus on infrastructure investments that are sustainable and supported by operations and maintenance systems and budgets.

BMB Mott MacDonald has been contracted as the SDF2 Fund Manager and will provide the SDF2 Secretariat responsible for the day-to-day management and administration of the Fund. Specific responsibilities include Project Development, Procurement, Financial and Fiduciary Risk Management, Monitoring and Evaluation, and Communication.

1.2 Objective of the Manual

This Financial Management and Accounting Manual provides the policies and procedures for the management of the Programme Funds of the SDF2. The Manual will be reviewed on a regular basis, any changes will require approval from the Joint Steering Committee.

2. Basic principles of financial management and accounting in the SDF

The Fund Manager has the fiduciary responsibility for all funds of the SDF. As such, the Fund Manager must ensure that funds are used for their intended and specific purposes. To this end, all funds should be administered and supervised in accordance with due diligence to economy, efficiency and effectiveness, and compliance with the financial management policy and guidelines from the development partners.

The basic principles of the SDF Financial Management and Accounting are to:

- Ensure that all financial transactions are properly recorded and supported by proper and authentic supporting documents like quotations, invoices and receipts.
- Ensure that funds are used only for their intended purposes in an efficient and economical way;
- Ensure that funds are properly managed and flow smoothly, adequately, regularly and predictably in order to meet the objectives of the fund;
- Enable the preparation of accurate and timely financial reports to provide the SDF with information it needs to meet its fiduciary responsibilities;
- Enable fund management to monitor the efficient implementation of the projects;
- Safeguard the Fund's assets and resources.

3. Banking arrangements

The SDF will maintain two bank accounts:

1. The SDF Main Account is held at Crown Agents Bank (CAB) in the name of Somaliland Development Fund. The account is managed by DFID through its existing Third-Party Money contract. This account will receive all contributions from Development Partners contributing to the SDF. The account is maintained in USD.

All major payment will be processed from this account. The Fund Manager will assist DFID in regular reconciliation of the account.

2. The SDF Local Account is held at Dahabshil Bank International in Djibouti. The account is managed by the Fund Manager. The account will be accessed through Dahabshil International Bank in Hargeisa in the name of BMB Mott MacDonald – SDF Account. This account is maintained in USD. This Account will be replenished through the SDF Main Account held at CAB.

All minor payments will be processed from this account. The Fund Manager will prepare monthly bank reconciliations. Records of the reconciliation will be kept on file for internal control and audit purpose.

4. Donor commitments and disbursements

The SDF is funded by contributions from Development Partners. DFID Somalia, as lead Development Partner, maintains an account at Crown Agents Bank (CAB) for receipt of all contributions. This account is maintained in USD.

Each Development Partner will communicate its planned funding level for the SDF at least 12 weeks before the next financial year, which is calendar year based. Disbursement by Development Partners to the SDF Main Account will be made upon receipt and approval of written disbursement requests from DFID Somalia based on expenditure forecasts prepared by the Fund Manager.

The Fund Manager will maintain an overview of all Commitment and Contributions and assess on a quarterly basis the impact of exchange rate fluctuations.

5. Budgets and forecast

5.1 Project budgets

Project Holders will maintain up-to-date budgets for their projects. Any changes to budgets will require prior approval as follows:

1. Reallocations of budget allocations within Outputs will be proposed by the Project Holder and approved by the Fund Manager
2. Reallocation of budget allocation between Outputs will be proposed by the Project Holder and approved by the Fund Manager
3. Reallocation between projects will be proposed by the Fund Manager and approved by the JSC

The Fund Manager will maintain records of all approved project budgets and consolidate these into the Fund's financial management system.

5.2 Financial forecasts

The Project Holder will maintain up-to-date financial forecasts for their projects. The Project Holder will review the forecast on a monthly basis with the Fund Manager. The Project Holder will explain any major variations and will require prior approval from the Fund Manager.

The Fund Manager will consolidate all project forecasts into one consolidated forecast. The forecast will be updated on a monthly basis and submitted on a quarterly basis to DFID Somalia.

6. Expenditures

6.1 Approval process

6.1.1 Expenditures of Implementing Partners

Expenditures of Implementing Partners are composed of consultancy fees, payments for works, supplies, and grants. Only expenditures against approved project budgets are eligible for payment and committed through appropriate Local Purchase Orders, Contracts, Agreements etc issued by the Fund Manager as Contracting Authority of the SDF.

Implementing Partners shall raise invoice for services, goods and works contracted by the SDF and submit this original copy of invoice to the Project Manager of the Project Holder for approval and the copy to the Fund Manager.

The Project Manager shall verify that goods, works and services have been delivered as contracted. The Project Manager will forward a Payment Request with the approved original invoice together with all relevant supporting documents to the Fund Manager.

The Fund Manager will develop and implement a Standard Operating Procedure for this approval process.

6.1.2 Expenditures of Project Holders

To facilitate the functioning of the Programme Management Team (PMT), the Fund Manager will entrust the Project Holder with an Operating Fund up to a maximum of USD 2,000. This amount will be recorded as an advance/initial deposit for that specific PMT.

The procedure is outlined in Annex 1; the Fund Manager will develop and implement a Standard Operating Procedure for the management of this Operating Fund.

6.2 Disbursement methods

The Fund Manager will review all Payment Request and supporting documents received from the PMTs. Following internal review and approval, the Fund Manager will process the payment using the following disbursement methods:

For major payments, contractors/suppliers/consultants having accounts connected to the SWIFT system:

- Payment through Crown Agents Bank from the Main Account directly into the Implementing Partner's bank account by issuing a Payment Request Letter to DFID for their approval and onward submission to Crown Agents Bank.

For minor payments, contractors/suppliers/consultants having accounts not connected to the SWIFT system:

- Payment from Local Account through Transfer Letter in the name of the Implementing Partner or Project Holder;

- Payment from Local Account through Cheque in the name of the Implementing Partner or Project Holder;
- Payments from Local Account / Petty Cash for Government Officials participating in activities related to Project Development (field visits, etc.).

Upon guidance from the JSC, the Fund Manager will explore the possible for the use of government systems for the disbursement of funds. Such procedure will be outlined in a separate Standard Operating Procedure and can only be applied with explicit approval from the JSC.

7. Accounting and records

7.1 Accounting

The Fund Manager is required to maintain an accounting system which can record and report on all commitments, income and expenditures. The system should be able to ensure separate tracking of funds for the various projects being implemented.

The SDF accounts are on a cash basis.

The accounts are denominated in US Dollars.

The accounts are maintained on the cash receipts and payment basis. On this basis, cash receipts are recognised when received and cash expenditures are recognised when paid rather than when incurred.

The Fund Manager uses a Chart of Account to facilitate timely generation of periodic financial management reports allowing for disaggregation of expenditures.

7.2 Records

The Fund Manager maintains the books of accounts manually and electronically, at least as stated below:

- Bank and Cash Book;
- General Ledger;
- Cheque Register;
- Project Register;
- Fixed Assets Register.

SDF shall prepare Payment Vouchers for all transactions with evidence in support of the transactions attached to each payment voucher. Supporting documents are the original bills, invoices, contracts and receipts supporting a transaction.

For all transaction, pre-numbered payment vouchers are applied. However, should this not be possible at the time of the transaction, the voucher number should be given at the time of preparing the vouchers.

As SDF has computerized accounting system, systematic backup system is done regularly so that the accounting data can be restored in case of any malfunction of the storage and retrieval systems.

All Cancelled Cheques are kept in a payment voucher file and recorded in the accounting system as "cancelled," just to ensure tracking of all Cheques is maintained.

8. Reports

The Fund Manager will prepare the following monthly, quarterly and yearly reports providing an overview of the financial status of the Fund:

- Donor – Commitments
- Donor – Disbursements
- SDF Projects – Budget allocations
- SDF Projects – Commitments (contracts)
- SDF Projects – Expenditures

9. Internal control and audit

9.1 Internal control

The internal control system will be compatible to provide reasonable assurance that:

- SDF financial reports are reliable;
- SDF operations are effective and efficient; and
- SDF activities comply with applicable fiduciary risk management.

The Fund Manager will ensure that the controls are reviewed consistently in line with newly developed project document and communicated to all stakeholders. The Fund Manager will ensure that the controls are implemented and followed by all stakeholders.

The internal controls will be categorized following the below specific areas:

- Accounting Records;
- Income/Funding;
- Disbursement/Expenditure;
- Bank Accounts;
- Cash Transactions;
- Physical Controls of Inventories.

The detailed procedure is outlined in the Finance and Accounting Manual – Annex 03.

9.2 Auditing requirements

The Joint Steering Committee will commission an annual financial audit of the SDF. The JSC will request the SDF Secretariat, through funds within the SDF, to contract an annual independent audit. Auditing services will be procured from a reputable audit company and will be conducted in accordance with international recognized auditing standard of the IFAC Code of Ethics for Professional Accountants, which establishes fundamental ethical principles for Auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards.

Annex 1. Management of Project Holder Operating Fund

To facilitate the functioning of the Programme Management Team (PMT), the SDF Secretariat will entrust the Project Holder with an Operating Fund up to a maximum of USD 2,000.

This amount will be recorded as an advance/initial deposit for that specific PMT. Replenishments will be done upon satisfactory completion of the below procedures:

- PMT must prepare a Statement of Expenditure (SOE) together with the Request for Operating Advance. A Statement of Expenditure summarizes eligible expenditures incurred during a stated period, based on individual transactions;
- Original Payment Vouchers and supporting documents are attached to the Statement of Expenditure;
- PMT will be allowed to submit their Request for Operating Advance when 75% of available Operating Fund has been depleted.

In order to be eligible for managing the Operating Fund, the PMT must have the following:

- A dedicated account with a financial institution in Hargeisa;
- The administrative and accounting capability to prepare and maintain appropriate records, and make them readily available for verification;
- Adequate internal control systems to ensure procedures are followed;
- An appropriate authorisation procedure.