Somaliland Development Fund Phase 3

Financial Management and Accounting Manual
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MINISTRY OF FOREIGN AFFAIRS OF DENMARK

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List of Abbreviations

DANIDA	Ministry of Foreign Affairs of Denmark
GoSL	Government of Somaliland
NDP	National Development Plan
PMT	Project Management Team
RDE	Royal Danish Embassy
SDF	Somaliland Development Fund

1. Introduction

1.1 Somaliland Development Fund

The Somaliland Development Fund (SDF) was established in 2012 to provide a single vehicle through which development partners could support Somaliland's development goals. The SDF supports the Government of Somaliland (GoSL) fill critical infrastructure gaps through funding projects that are aligned to the National Development Plan (NDP).

Phase 1 of SDF (2013-2018) provided USD 60m for the funding of 12 projects throughout Somaliland which focussed on rebuilding key infrastructure and public services and strengthening government capacity. The funding was provided by the United Kingdom, Denmark, the Netherlands and Norway.

Phase 2 (2018-2025) provided USD 58M to deliver 10 projects throughout Somaliland with a shift towards sustainable investments, job creation, and resilience-building, particularly in response to climate shocks like droughts. The funding was provided by the United Kingdom, Denmark, the Netherlands and Norway.

Phase 3 (SDF3) covers the period 2025-2028, with the possibility of a two-year extension. Under this new phase, the SDF aims to strengthen the climate resilience of vulnerable communities in Somaliland while creating increased income and job opportunities, thereby helping to reduce poverty. It will focus on three key strategic objectives:

- Increasing climate resilience in integrated water resources management and food systems to recover from or mitigate vulnerability to climate-related shocks such as droughts;
- Increasing economic and employment opportunities for women, young people, internally displaced people, and rural communities; and
- Increasing opportunities for private sector investment in green, climate-smart solutions (i.e. technologies, business, and production models) through linkages to SDF projects or SDF-supported policy changes.

1.2 Development Partners

The SDF has been identified as one of the multi-partner funds that can be used as a development investment vehicle for both aid delivery and operationalising government systems. Funding is currently provided by Denmark, while the United Kingdom (UK), Norway, and the Netherlands remain engaged partners, pending further clarification on their potential to rejoin the Fund at a later stage.

1.3 Objective of the Manual

This Financial Management and Accounting Manual provides the policies and procedures for the management of the Programme Funds of the SDF. The current version has been updated to reflect the commencement of Phase 3 and incorporates requirements from the Lead Donor, the Ministry of Foreign Affairs of Denmark. 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 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. Financial commitments

The SDF is funded by contributions from Development Partners. Denmark is acting as Lead Donor and will enter into Delegation Cooperation Agreements with other contributing Development Partners.

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.

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

4. Banking arrangements

The Fund Manager will maintain a USD account to receive quarterly disbursements from the Lead Donor. This account will be used for all large payments to Implementing Partners.

The Fund Manager will maintain a secondary account in Somaliland which will be maintained in USD. This account will be replenished from the Main Account. All minor payments to Implementing Partners will be processed from this account.

5. Budgets and forecast

5.1 Project budgets

Project Holders will maintain up-to-date budgets for their projects as approved by the Joint Steering Committee. 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 the Lead Donor.

6. Disbursements

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 of the Project Holder shall verify that goods, works and services have been delivered as per contractual agreement. The Project Manager will issue a Non-Objection Letter 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

Expenditure of Project Holders are composed of payments for PMT staff, travel-related expenses and operational expenditures.

Request for payments of staff and travel-related expenses will be submitted by the Project Manager of the PMT to the Fund Manager for review and approval against the project budget.

Payments for operational expenditures will be managed through an Operating Fund provided by the Fund Manager to the PMT for 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

The Fund Manager will review all payment requests and supporting documents received from the PMTs. Following internal review and approval, the Fund Manager will process the payments through its internal systems.

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 accounts are on a cash basis and 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 per approved project budget.

7.2 Records

The Fund Manager maintains the books of accounts manually and electronically.

The Fund Manager 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.

The Fund Manager uses 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.

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;
- Disbursement/Expenditure;
- Bank Accounts;
- Cash Transactions;
- Physical Controls of Inventories.

9.2 Auditing requirements

The Lead Donor will commission an annual financial audit of the SDF. The Leader will request the Fund Manager, 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 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. 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.

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