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Jubbaland State of Somalia

Ministry of Finance

Public Financial Management Act 2017

Applicable from

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Instruction E – Understanding Budget Reallocation Control in the FMIS & Donor Exemptions to the Control

MINISTRY OF FINANCE

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1. Authority, Purpose & Scope

1.1 This Instruction is issued pursuant to Sections 22, Paragraph 1 and Section 26, Paragraph 1 of the Public Financial Management Act, 2017, along with elaborating on the control structure indicated in Section 6 of the annual Appropriation Act.

1.2 The purposes of this Instruction are:

- To provide detailed background on understanding how budget reallocations are systematically controlled within the state's FMIS.
- To review the special reallocation provisions as it relates to donor-funded projects that have been provided for in the annual Appropriation Act.

1.4 This Instruction applies to all agencies, entities and institutions of the JSS of Somalia as defined in Section 1, Paragraph 3 of the Public Financial Management Act, 2017 that are funded from the consolidated fund.

2. Background

2.1 The Appropriation Act for the FMS indicates the following:

"Section 6: Adjustment to Amounts Authorized

The Budget Director may transfer authorized amounts between appropriations for any individual budget line within each Ministry or Agency in Schedule 1 to this Act, provided that the reallocation does not exceed, in total, 10%[1] of the line being reduced. Transfers between Ministries are not authorized without amendment to the Schedule through Supplementary Appropriation measures.

The exceptions to the above rules applies to donor funded projects where donor funding is not allocated to any Ministry or appropriation code and is subject to donor approval for reimbursement or during the course of the fiscal year the donor has advised of an amendment to the original budget allocation. Therefore, with the prior approval of the donor and Budget Director, reallocation between lines and Ministries may occur at the agreed amounts/percentages, not subject to the restrictions indicated above."

To ensure compliance with the Appropriation Act, the FMIS has been configured to control budget reallocations at the rate indicated[2] in the Section 6 of the appropriation act, as well as disallowing transfer between Ministries.

3. Overview

3.1 The overall principle is that control of Budget Reallocations is based on voucher versions – Budget Vouchers (BV) and related Budget Reallocation Vouchers (BRV)[3]. Budget Vouchers (BVs)

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[1] This rate can be modified by Parliament, at its discretion, should it determine, in consultation with the Minister for Finance, that the rate is incorrect. It should be well noted that an excessively high rate would effectively frustrate the will of Parliament by substantially transferring the decision on setting policy spending priorities to the civil servants and not retaining with the policy-making branch of government.

[2] Should the rate change, the controlling rate in the FMIS can be updated in accordance with legal rate.

[3] Refer to *Instruction C, The Use of FMIS, BPM & RMS* systems for detailed discussion of budget voucher and budget voucher reallocation concepts.

create budgets and must use versions, with version 1 being the original appropriation and version 2 being the supplemental. BRVs will also utilize versions. In the PFM Act (Section 19), provision has been granted for a mid-year supplemental appropriation, thus a BV version 2.

3.2 At the beginning of the year, BV_v1 (Budget Voucher, version 1) is used to create the budget. This is known as the prevailing BV version. After this point in time, up to when a new budget version is used (not till the supplementary), all budget reallocations must use a Budget Reallocation Voucher with version 1 (BRV_v1).

3.3 Should a BRV be used with a version other than v1, when the prevailing BR if v1, the system will provide an error message that the BRV version is wrong and cannot be used.

3.4 When a supplemental budget is passed and the line item budget totals updated, version 2 of the BV must be used (BV_v2) to effect these changes. Once BV_v2 is used for the first time, this means all future reallocations must use BRV_v2. Even if numerous lines were not updated with BV_v2, the system views the prevailing BV as version 2. Another way to understand this concept is that those lines that were not updated by the supplemental effectively were updated with a value of "0" in the eyes of the system. If one attempts to use BRV_v1 at this time, the system would provide an error message as it will only recognize version 2 from this point forward. If one tried to use BRV_v3, it would similarly be rejected.

3.5 The budget reallocation vouchers will also not allow one to transfer between ministries and provide an error message if this is attempted.

3.6 Appendix 1 to this Instruction provides detailed practical examples to illustrate how the reallocation control logic functions.

4. Donor-funded Project Considerations for Reallocations

4.1 Applicability

4.1.1 The following considerations are for donor-funded projects that flow their funds through the Treasury Single Account (TSA) and thus utilize the FMS FMIS to execute the project. This Instruction does not apply to 3rd Party donor funding.

4.1.2 Apart from any donor-funded projects flowing through the TSA, this Instruction also specifically addresses managing budget reallocations for the Non-Salary Recurrent Cost (NSRC) component of the Recurrent Cost & Reform Finance project II, administered by the World Bank.

4.2 NSRC

4.2.1 Background

4.2.1.1 The NSRC budget agreed by the World Bank (WB) is an agreement to reimburse costs that have been pre-funded by the TSA, if certain eligibility criteria have been met. The value of this agreed funding, subject to criteria being met, is not budgeted by individual account for which the expenditures are charged, by ministry/agency, but into a single account residing within the Ministry of Finance, Ministry of Education and Ministry of Health. Because of this, special business process and rules need to be introduced to handle the implementation.

4.2.1.2 In addition, donor-funded projects may not operate with the same reallocation rules, therefore they should not be restricted in the same manner. The following sections will also address this issue.

4.2.2 Known issues with NSRC Accounting, Budgeting and Compliance with the Appropriation Act

4.2.2.1 The following paragraphs highlight why the Section 6 of the Appropriation Act required an exemption (second paragraph of Section 6) for donor-funded projects, the RCRF II project in particular, that flow funds through the TSA.

1. 10%[4] control in Bisan
   - First, all costs are budgeted under a single ministry [Ministry of Finance (MoF), Ministry of Education (MoE) or Ministry of Health (MoH)] and if the state wants to utilize for other ministries (those costs budgeted as lump sum within MoF), they would need to transfer budget across ministries, which is not allowed without supplementary appropriation measures per PFM Act. Even if the costs are confined to MoF only, they would only be allowed to transfer from the single cumulative account with a 10% limit.
2. Cost Budgeted per Ministry/Department/Agency (MDA)
   - Secondly, per the NSRC eligibility criteria, the NSRC must be part of the budget per MDA, according to point 5 of criteria (see below). Logically, one would budget the NSRC as one does with civil servant salaries, booking to the correct RCRF project code. Unfortunately, it is not known at time of budgeting which ministries will seek access or for what purpose. To ensure the NSRC budget is captured in the appropriation and reportable, they are to be budgeted as a lump sum, however still budgeting the NSRC by MDA, but funded under the TSA. This effectively results in double budgeting for NSRC only. See further discussion of this in point 3 below.

      5. To be eligible, cost per MDA must be within:
         a. the respective State's annual budget as amended, and
         b. the RCRF budget as presented in the grant agreement and as prescribed by any further amendments.
3. NSRC must first be budgeted under the TSA account and paid, after which the state seeks reimbursement, and if successful, the amount is reallocated to show funding from RCRF (project code). Technically, this means there needs to be a budget under non-RCRF project (000000) first to make the payments, then it can be reallocated. Because the RCRF budget must be loaded into the FMIS so budget reports can show the NSRC approved budget value, one effectively must set up a situation for double budgeting of NSRC costs, one for project 000000 and another for project 25xxxx (or whatever project digits are state relevant). If one just budgeted to 25xxxx and booked against that, although paid with TSA, it would cause a reporting problem where RCRF budget utilization report shows expenditure for RCRF without anything having flowed through the Project Account.

4. Donor projects, run through the TSA, from a practical point of view may have different budget reallocation rules that do not match the current 10% rule the FMS. It can also be assumed that the donor could also change the ministries which benefit as well during the life of a project. This could be an agreement between the donor and government, however waiting for an approved supplemental (mid-year) may not meet requirements of the donor.

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[4] This percentage can be changed, based on Parliament approval, however the principles explained, regardless of percentage amount, remain the same.

This has already happened. Because of this, the FMS needs flexibility in the Appropriation Act to give legal authority to make these changes to budget as donor requires.

4.3 Approach to Budgeting, Accounting & Reporting for Donor-funded Projects

4.3.1 NSRC Budgeting & Accounting

4.3.1.1 Budget in a single account, one account in MoE, one in MoH and another in MoF. The state does not know how it will be spent when budgeting (Ministry or account) however the state knows each MDA has budgeted their operating costs so they have been budgeted per MDA, as required by the eligibility criteria. Because there are scarce TSA resources, the priority will be determined at time depending on cash availability and priorities on TSA funds.

4.3.1.2 When cost is incurred in the MDA, the expenditure will be charged to the unassigned project code (000000) since the TSA will be paying.

4.3.1.3 When payment is made to reimburse the TSA, the following steps will be required:

1. Transfer budget FROM "bulk account #226000", RCRF project code, MoF TO ministry which incurred the cost, using the same RCRF project code. Use Budget voucher (not reallocation voucher) to make the transfer and call it v1 to override the 10% reallocation rule.
2. Process a Budget Allocation voucher for cost incurred (use prevailing version number)
3. Process the reimbursement from Project Account (PA) to TSA. It is recommended this be done via a physical cheque so the state maintains consistent payment documentation (PRV/PV) and authorization chain for audit purposes. The entry will be:

   PA Accounting
   - Dr. Expense (TSA Fund/Ministry/NSRC Project/Location/Account)
   - Cr. PA Bank (TSA Fund/Ministry/NSRC Project/Location/Account)

   TSA Accounting
   - Dr. TSA Bank Account (TSA Fund/Ministry/Unassigned Project/Location/Account)
   - Cr. Expense (TSA Fund/Ministry/Unassigned Project/Location/Account)

4. Process a negative Budget voucher for the value of the cost reimbursed against the Ministry incurring the cost using the unassigned project code. This reduces the budget on this 6-digit line to ensure there is no double budgeting in the ministry for this account (inappropriately increasing legal appropriation). Keep in mind that the funds allocation from the losing budget line may need to be reduced first before the negative budget voucher can be processed.

4.3.2 Reporting

4.3.2.1 The above policy will mean that all NSRC are grouped into one holding account pending usage by a ministry, after which the amount is transferred out of the holding account into the receiving ministry. The practical implication of this is that this holding account, either in MoF, MoH or MoE, creates a budget duplication for the value NSRC. Without this, the State would not be able to print RCRF budget reports from Bisan that reconciles to the approved RCRF budget. Over time, the budget duplication is reduced by the value of each NSRC claim being deemed eligible and the TSA reimbursed.

4.3.2.2 From a GFS/IPSAS reporting point of view, the disaggregation (account/ministry) will be picked up in the accounts when money is spent and funds are reimbursed.

5. Entry into Force

5.1 This Instruction is deemed to have entered into force on date issued of DD/MM/YYYY

Appendix 1 – Understanding Budget Reallocation Control with Examples

General Principles:

- The losing line time cannot be reduced by more than 10%
- The receiving line is not restricted on the amount that can be added
- Value of BV_v2 (supplemental) = Supplemental Value – [BV_v1 +/- BRV_v1]
- When a line is adjusted due to a supplementary budget being passed, the reallocation percentage begins anew at 10% of the newly adjusted value, defined as: [BV_v2 + BV_v1+/- BRV_v1]
- There can be multiple BVs and BRVs against a line
- When reallocation vouchers are process, the system test is not only the overall 10% rule but the resulting reallocation cannot reduce the free funds available (unencumbered) on a line below zero, even if the overall 10% rule is not breached. Free Funds Available can be defined in two levels:

  Level 1

  Budget [BV_vx + BRV_vx] – Funds Allocation

  Should the reallocation validation pass the 10% test, yet there is insufficient free funds at the above calculated level, the reallocation will be rejected.

  If it is rejected, there may still be level 2 free funds available that can be used to reduce the funds allocation, thus increasing level 1 free funds available. Level 2 free funds are calculated as follows.

  Level 2

  Funds Allocation – CV – PRV – PV

  The value determined by this calculation will provide extra allocated budget that can be freed by simply processing a negative funds allocation voucher up to the value of this amount, thus automatically increasing the Level 1 free funds available

Legend:

- **BV**=Budget Voucher; **BV_vx** = Budget Voucher, version x
- **BRV**=Budget Reallocation Voucher; **BRV_vx**=Budget Reallocation Voucher, version x
- **FAV**=Funds Allocation Voucher
- **CV**=Commitment Voucher; **PRV**=Payment Request Voucher; **PV**=Payment Voucher

Example A for Ministry X:

Facts:

1. Assume 2 line items, A & B, one losing and one receiving
2. BV_v1 @ 1,000 against line A
3. There are no BRVs related to line A
4. Funds allocated (FAV) on line A was 200

Question:

Ministry X wants to transfer 90 from line A to line B , can Ministry X reallocate?

Answer:

Yes, because the desired reallocation is only 9% of the budget balance and there are sufficient unencumbered Level 1 free funds available of 800 [1000-200]

Example B for Ministry X:

Facts:

1. Assume 2 line items, A & B, one losing and one receiving
2. BV_v1 @ 1,000 against line A
3. BRV_v1 was processed against line A which reduced the line by 80
4. Funds allocated on line A amounts to 920 and a PRV is recorded in the system for 920

Question:

After BRV_v1 was processed, Ministry X wants to reallocate another 20 from line A to line B. Can Ministry X successfully reallocate?

Answer:

No. Although Ministry X is allowed to transfer up to 100 (10%*1,000) and they have only reallocated 80 to date, they would not be allowed to reallocate the additional 20 they are technically allowed because there is Level 1 free funds available. Level 1 free funds available are 0 [1,000-80-920].

Example C for Ministry X:

Facts:

1. Assume 2 line items, A & B, one losing and one receiving
2. BV_v1 @ 1,000 against line A
3. BRV_v1 was processed against line A which reduced the line by 80
4. Funds allocated (FAV) on line A amounts to 920
5. A CV is recorded in the system for 600

Question:

After BRV_v1 was processed, Ministry X wants to reallocate another 20 from line A to line B. Can Ministry X successfully reallocate an additional 20?

Answer:

Yes. The reallocation voucher can be processed, however, a funds allocation reduction voucher must first be processed against line A for a value of 20 or more. If you try to reallocate 20 before, it will be rejected due the reason provided in Example B. However, unlike Example B, the full funds allocation is not utilized. In this example, there is a Leve 2 free funds available of 320 (920-600). In order to create sufficient Level 1 free funds available, the allocation be reduced by up to 320 and not cause a concern. By reducing the funds allocation, this automatically increases the Level 1 free funds available.

Example D for Ministry X:

Facts:

1. Assume 2 line items, A & B, one losing and one receiving
2. BV_v1 @ 1,000 against line A
3. BRV_v1 was processed against line A which reduced the line by 80
4. During the mid-year supplementary budget process, the government determined that line A for Ministry X was no longer needed and the funds could be used elsewhere. It was determined that line A for Ministry X only requires to have a balance of 400.

Question:

What is the value of BV_v2 (supplementary budget) required to adjust line A to balance to 400?

Answer:

BR_v2 for line A is -520, calculated as follows:

BV_v2 (supplemental) = Supplemental Value – [BV_v1 +/- BRV_v1]
-520 = 400 – [1,000 – 80]

Example E for Ministry X:

Facts:

1. Assume 2 line items, A & B, one losing and one receiving
2. BV_v1 @ 1,000 against line A
3. BRV_v1 was processed against line A which reduced the line by 80
4. BRV_v1 (additional BRV processed against line A) that added 15
5. During the mid-year supplementary budget process, the government determined that line A for Ministry X required further funding. It was determined that line A for Ministry X now requires to have a balance of 2,500.

Question:

What is the value of BV_v2 (supplementary budget) required to adjust line A to balance to 2,500?

Answer:

BR_v2 for line A is 1,565, calculated as follows:

BV_v2 (supplemental) = Supplemental Value – [BV_v1 +/- BRV_v1]
1,565 = 2,500 – [1,000 – 80 + 15]

Example F for Ministry X:

Facts:

1. Assume 2 line items, A & B, one losing and one receiving
2. BV_v1 @ 1,000 against line A
3. BRV_v1 was processed against line A which reduced the line by 80
4. BRV_v1 (additional BRV processed against line A) that added 15
5. BV_v2 was processed for 1,565
6. FAV processed for 1,200

Question:

What is the maximum available amount that is eligible for reallocation from line A?

Answer:

250, calculated as follows:

10% * [BV_v1-BRV_v1+BRV_v1+BV_v2]
10% * [1,000-80+15+1,565]
10% * 2,500

Example G for Ministry X:

Facts:

1. Assume 2 line items, A & B, one losing and one receiving
2. BV_v1 @ 1,000 against line A
3. BRV_v1 was processed against line A which reduced the line by 80
4. BRV_v1 (additional BRV processed against line A) that added 15
5. BV_v2 was processed for 1,565
6. FAV processed for 2,300
7. CV processed for 2,000
8. There are no PRVs or PVs

Question:

Can Ministry X reallocate 225 from line A to line B? Please explain the reasons for your answer.

Answer:

Yes, but it is a two-step process. Maximum relocatable is 250 as calculated in Example F. However, Level 1 funds availability is only 200 [2,500-2,300], therefore the system would not allow a reallocation of 250. Level 2 funds availability is calculated at 300 [FAV-CV] or 2,300-2,000. Therefore, before Ministry X can reallocate 225, they must increase Level 1 free funds available. This is accomplished by processing a funds allocation reduction for a value of 25 or more. Once this is processed, this will automatically increase Level 1 funds availability