HIRSHABELLE STATE OF SOMALIA

Public Financial Management Law 2018

Applicable from
31 March 2018

Regulation #2

**Regulation on Establishing the Budget Classification
Structure for Budget Preparation & Execution**

1. Authority, Purpose & Scope

1.1   This regulation is issued pursuant to Section 7, Section 8, Paragraph 2 and Section 30, Paragraph 4 of the Public Financial Management Law 2018. This regulation is a "disallowable instrument" as defined in the PFM Act and in accordance with Section 7 is subject to a review period not to exceed ten (10) days by Parliament.

1.2   The purpose of this regulation is to promulgate the standardized Budget Classification Structure (BCS) that must be used both for budget preparation and budget execution.   The budget classification structure is designed to meet international standards.

1.3   This regulation applies to to all agencies, entities and institutions of the Hirshabelle State of Somalia as defined in Section 1, Paragraph 3 of the Public Financial Management Law 2018.

2. Background

2.1   A budget classification structure is a means of classifying the government's accounting data in a way that leads to better management and accountability, through clarity, consistent presentation and transparency of operations.

2.2   Major classifications of accounting data for government are revenue, expenditure, assets, liabilities and capital. Within each major classification, further sub-classification occurs, e.g., expenditure may be sub-divided into accounts for salaries and wages, goods and services, other operating expenses etc.   The necessary level of sub-classification depends on the nature of the accounting entity and the needs of users of the accounting information. In addition to standard organization between the traditional economic classifications noted above (often referred to as a *Chart of Accounts*), governments also classify financial information across other relevant data points and organize them into segments in the BCS such as Fund, Organization, Project and Location. These additional classifications

will be discussed in greater detail is other articles of this regulation and form an integral part of the underlying logic upon which the Hirshabelle State of Somalia BCS is based.

2.3   The BCS for government financial operations has been designed to capture sources and uses of funds in sufficient detail to satisfy the reporting requirements for all users of the financial information, which includes government users (Ministries, Departments, Agencies), Parliament and any oversight government bodies, as well as the public. The categories provide a structure within which the individual financial transactions are recorded in a consistent manner with a logical means of aggregating each set of related transactions. The structure determines the limit of reporting financial information because data cannot be easily reported unless the relevant category has been created in the BCS. The government's BCS promulgated in this regulation is founded on the guiding principles for developing a budget classification structure and can be found in an IMF Technical Guidance paper on the subject[1].

3.   Singularity of Budget Preparation and Budget Execution BCS Structure

3.1   For both budget preparation and budget execution purposes, the BCS as described in this regulation must be used. At no time will the BCS utilized for budget preparation purposes be different from the BCS used for budget execution purposes and vice-versa.

3.2   All financial transactions (for budget preparation or execution) must conform to the BCS coding structure (see below), and the *Chart of Accounts* as promulgated by the Ministry of Finance. Transactions will be identified in segments by the source of **Funds,** the **Organization** and sub-unit involved, **Location**, **Project** and **Account (Chart of Accounts)** detailing the Expenditure, Revenue, Assets and Liabilities economic coding structure.   For budget preparation purposes, the use of **Location** is not required, however it is required for budget execution transactions.

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[1] **PFM TECHNICAL GUIDANCE NOTE NO. 41 BUDGET CLASSIFICATION** Prepared by Davina Jacobs, Jean-Luc Hélis, and Dominique Bouley February 2008 https://www.imf.org/external/pubs/ft/tnm/2009/tnm0906.pdf

4. Chart of Accounts

4.1 The Chart of Accounts, one segment of the BCS which provides the economic coding structure to be used by the government, is hereby deemed to be the accounts which are in full compliance with the Government Finance Statistics Manual 2014 (GFSM 2014)[2], as promulgated by the International Monetary Fund (IMF), as amended by IMF from time to time.
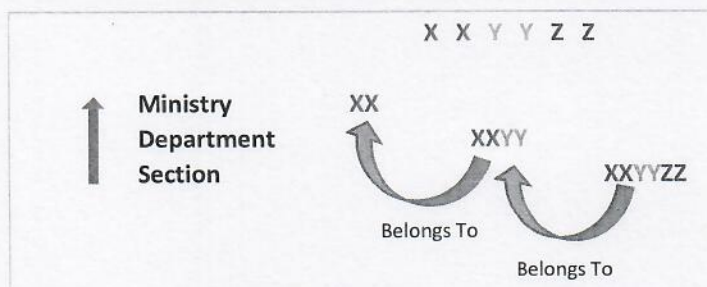
5. BCS Coding Structure

5.1 Overview

5.1.1 Each Segment within the structure shows the "Belongs To", or roll-up structure developed mainly for reporting purposes. There are two specific levels in the structure identified for (1) transaction processing and (2) for budget ceiling and control purposes. These are displayed in Red (Budget Control) and Blue (Transaction level) which will be used on all transactions [see attachments 1 & 2 to this regulation for a schematic depiction of the BCS structure). Note that even for budget preparation purposes, the lowest level of each segment is used, however for budget control purposes within the FMIS, the noted higher levels will be used to control budget execution.

A Code Book issued by the Ministry of Finance, by way of an instruction, contains the coding elements of all the BCS segment tables. This book will require updating on a regular basis as the codes are amended.

5.1.2 Each segment of the BCS has a certain number of digits and within this grouping of digits, there are "levels" which "Belongs To" a higher level. This is also called a parent-child relationship. For example, if a segment consists of six (6) digits and three (3) levels, with two digits allotted to each level, understanding the breakdown can be depicted as follows:

Using an organizational structure as an example, the 6-character coding string [XXYYZZ] tells a story, whereby the Section is part of a Department within the Ministry and the Department is part of a Ministry. In this example, there can only be one unique Ministry, however there can be one or more Departments within a Ministry and likewise there can be one or more Sections within a Department that belongs to a Ministry. In the descriptions that follow, this approach to creating coding structures is applied for each segment, including the *Chart of Accounts* segment. See attachments 1 & 2 for a schematic depiction of the BCS structure.

5.1.3 All coding structures utilize numeric characters only and not alpha characters or a mixture thereof.
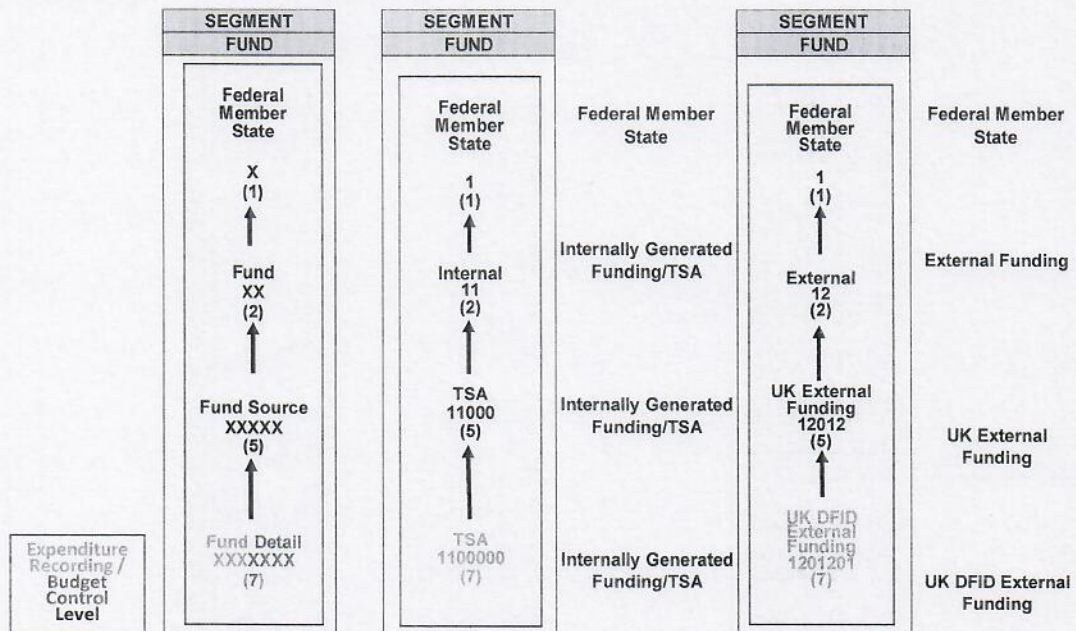
5.2   Fund Segment

5.2.1 The Fund Segment indicates the source of funding for the relevant expenditure and revenue transactions. This will allow identification of Treasury Single Account (TSA) funding (internally generated) and external funding (donor funded).   All funding, whether generated from internal sources or received externally is deposited into the same Treasury Single Account (bank account). The first level of one digit indicates the Total funds received/spent by or for the benefit of the Government. The second digit defines whether the revenue deposited into the TSA is generated from internal sources or received externally. Likewise, it indicates whether the expenditure is processed through the Treasury Single Account (TSA). In a TSA environment, when money is deposited into the single bank account, they are comingled and lose their identity when it comes to identifying the funding source for expenditures made from the account.   All expenditures are funded out of the TSA, regardless of the purpose of expenditure of such funds, and use a single funding source, TSA. If external funders wish to track how their funds deposited into the TSA were spent, the Project segment (discussed later) would be used to track and report on how their particular funds were utilized.

5.2.2 Where the Fund is the TSA, lower level details would not normally apply, so the full code would be 1100000 in this example. However, there is also provision to identify accounts below the TSA that are sub-accounts. Where specific external funding applies, two additional levels are added to the code structure. The first of these is a Fund Source code of a further three digits, to identify the funding country

or multilateral funding source. The specific codes to be inserted here would be the standard global Donor-Agency codes (DAC)[3], compiled by the OECD. The final level would add a two digit Subsidiary Fund code, in which the last two digits identify the specific agency – again drawn from the DAC code schedule. Where a funding country is not identified in the DAC codes a new code can be created, taking care to insert the code into the list in alphabetical order.

5.2.3 For example, funding by the Department for International Development from the UK, would be coded 1201201, with the first two digits (12) signifying an external fund source; the next three digits (012) identify the UK, and the final two digits (01) identifying DFID as the specific UK agency providing the funds.

The full format of this segment is set out below:

SEGMENT		SEGMENT			SEGMENT	
FUND		FUND			FUND	
Federal Member State		Federal Member State	Federal Member State		Federal Member State	Federal Member State
X (1)		1 (1)			1 (1)	
Fund XX (2)		Internal 11 (2)	Internally Generated Funding/TSA		External 12 (2)	External Funding
Fund Source XXXXX (5)		TSA 11000 (5)	Internally Generated Funding/TSA		UK External Funding 12012 (5)	UK External Funding
Fund Detail XXXXXXX (7)		TSA 1100000 (7)	Internally Generated Funding/TSA		UK DFID External Funding 1201201 (7)	UK DFID External Funding

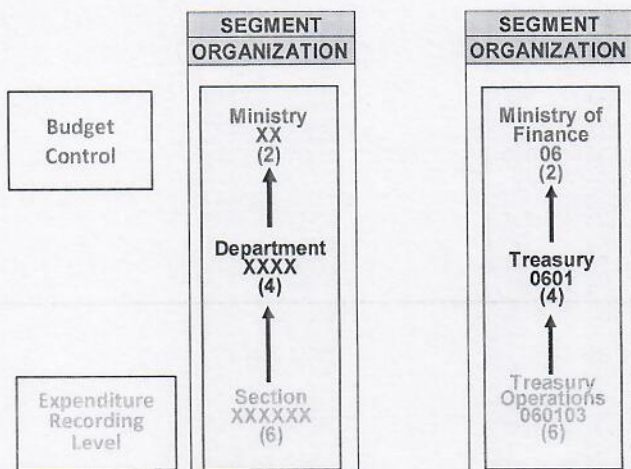Expenditure Recording / Budget Control Level

5.3   Organization Segment

5.3.1 The Organization Segment contains a two-digit code which identifies the highest-level administrative description of the Ministry. The next two digits specify the Department and the last two digits the Section.

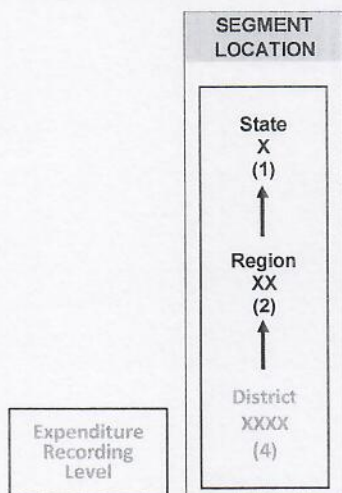The full format of this segment is set out below:

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[3] http://www.oecd.org/dac/stats/dacandcrscodelists.htm

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┌──────────────┐    ┌──────────────┐    ┌──────────────┐
│              │    │   SEGMENT    │    │   SEGMENT    │
│              │    │ ORGANIZATION │    │ ORGANIZATION │
└──────────────┘    └──────────────┘    └──────────────┘
┌──────────────┐    ┌──────────────┐    ┌──────────────┐
│              │    │   Ministry   │    │  Ministry of │
│   Budget     │    │      XX      │    │   Finance    │
│   Control    │    │      (2)     │    │      06      │
│              │    │              │    │      (2)     │
└──────────────┘    │       ↑      │    │       ↑      │
                    │              │    │              │
                    │  Department  │    │   Treasury   │
                    │    XXXX      │    │    0601      │
                    │     (4)      │    │     (4)      │
┌──────────────┐    │       ↑      │    │       ↑      │
│ Expenditure  │    │   Section    │    │   Treasury   │
│  Recording   │    │   XXXXXX     │    │  Operations  │
│    Level     │    │     (6)      │    │   060103     │
│              │    │              │    │     (6)      │
└──────────────┘    └──────────────┘    └──────────────┘
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5.4 Location Segment

5.4.1 The Location Segment code allows the expenditure made or revenue collection to be identified by *geographic* location which benefits from the transaction. For this purpose, the Location segment first identifies the state (one digit). The next digit identifies the Region and the final two digits the geographic district within the Region.

The full format of this segment is set out below:

```
                    ┌──────────────┐
                    │   SEGMENT    │
                    │   LOCATION   │
                    └──────────────┘
                    ┌──────────────┐
                    │    State     │
                    │      X       │
                    │     (1)      │
                    │       ↑      │
                    │              │
                    │    Region    │
                    │      XX      │
                    │     (2)      │
                    │       ↑      │
┌──────────────┐    │   District   │
│ Expenditure  │    │    XXXX      │
│  Recording   │    │     (4)      │
│    Level     │    │              │
└──────────────┘    └──────────────┘
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5.5 Project Segment

5.5.1 The Project Segment provides the option to track development projects. This segment starts with a 2 digit Sector code that is the same as the Organizational Ministry code. The next two digits identify the Project and the final two digits identify sub-projects or contract data.
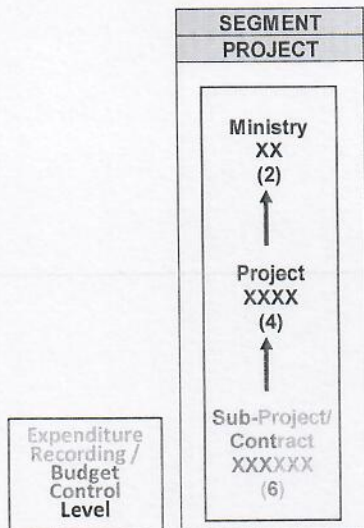
5.6   Account Segment

5.6.1   The Account Segment codes are used to identify expenditure or revenue transactions according to the type of expenditure undertaken or revenue received. It also records assets and liabilities. The coding is compliant with the Government Finance Statistics Manual 2014 (GFSM 2014) issued by the International Monetary Fund (IMF). This ensures that the Hirshabelle State of Somalia can readily provide economic classification of revenue and expenditure data to the Federal Government of Somalia (FGS).

The full format of this segment is set out below:

6.   Entry into Force

6.1   This Regulation is deemed to have entered into force on date issued of **31/03/2018.**

Mr. Mohamed Mohamud Abdulle
Minister of Finance and Economic Development
Hirshabelle   State   of   Somalia

FMS Budget Classification Structure – Complete Structure

		SEGMENT		
FUND	ORGANIZATION	LOCATION	PROJECT	ACCOUNT
Federal Member State X (1) → Fund XX (2) → Fund Source XXXXX (5) → Fund Detail XXXXXXX (7)	Ministry XX (2) → Department XXXX (4) → Section XXXXXX (6)	State X (1) → Region XX (2) → District XXXX (4)	Ministry XX (2) → Project XXXX (4) → Sub-Project/ Contract XXXXXX (6)	1 Revenue 2 Expense 3 Assets X (1) / GFS L2 XX (2) / GFS L3 XXX (3) / GFS L4 XXXX (4) / GFS L5 XXXXX (5) / Account XXXXXX (6)

Budget Control Level

Expenditure Recording Level

Budget Classification Structure -- Budget and Funds Allocation Structure

	SEGMENT			
FUND	**ORGANIZATION**	**PROJECT**	**ACCOUNT**	

FUND	ORGANIZATION	PROJECT	ACCOUNT
Federal Member State X (1)	Ministry XX (2)	Ministry XX (2)	1 Revenue 2 Expense 3 Assets X (1)
↓	↓	↓	GFS L2 XX (2)
Fund XX (2)	Department XXXX (4)	Project XXXX (4)	GFS L3 XXX (3)
↓	↓	↓	GFS L4 XXXX (4)
Fund Source XXXXX (5)	Section XXXXXX (6)	Sub–Project/ Contract XXXXXX (6)	GFS L5 XXXXX (5)
↓			Account XXXXXX (6)
Fund Detail XXXXXXX (7)			

Budget Control Level

Expenditure Recording Level