



TRANSITIONAL FEDERAL GOVERNMENT OF
THE REPUBLIC OF SOMALIA

Financial Report for the first 6 months ended 31 December 2009

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1. Introduction

The Transitional Federal Government (TFG) of the Republic of Somalia is the present internationally and regionally recognized government of Somalia. It was established as one of the Transitional Federal Institutions (TFIs) of government as defined in the Transitional Federal Charter (TFC) adopted in November 2004 by the Transitional Federal Parliament (TFP). The TFG officially comprises the executive branch of government, with the TFP as the legislative branch. The government is headed by the President of Somalia, to whom the cabinet reports through the Prime Minister.

Currently, there are resolute attempts to restore national institutions to Somalia amidst the civil war. Establishment of these institutions is a prerequisite condition to enabling smooth running of TFG. The need for reconstruction has occurred as fundamental economic, political and social problems continue to plague Somalia. Reconstruction supports the creation of new institutions and the redesign of old ones. Reconstruction in Somalia is geared towards supporting and building public organisational structures to work for the peoples' interests and needs.

Effectual reconstruction will convey optimistic indications which in the short and long term are designed to enable a return to stability by way of provision of essential services, facilitation of trade, collection of tax revenue while building momentum for peace and economic governance among the citizenry. To this end building sound institutions is one of the main prerequisites in creating a stable Somalia.

The Somali Reconstruction & Development Programme (RDP) is the policy document guiding current reconstruction efforts. Between 2005 and 2007 a national assessment of reconstruction needs in Somalia was carried out under the auspices of United Nations, World Bank, other donors and Somali Authorities. This resulted in a national plan dapped Somali RDP - a 5 year recovery, reconstruction and development plan containing priority actions and outcomes. The cost of the implementation of the RDP was then estimated to be USD\$ 2.2 billion over five years. Implementation of the RDP began in January 2008. Capacity building and institutional development as a reconstruction theme, is classified as a cross cutting issue in the RDP document.

RDP highlights three key national recovery priority clusters:

- Peace, Security and Good Governance
- Basic Services and Social Protection
- Private Sector led growth to expand employment and reduce poverty

The TFG requires a transparent and efficient system, or joint financial mechanism, to deliver the fiduciary services which will also include capacity building in financial management to ensure sustainability and achievement of the RDP objectives. Multinational organizations like UN, EU, Arab league and concerned states like USA, are trying to put in track the basic institutions for the TFG, through a process of reconstructing the failed state institutions. Since there is no credible entities in the nation yet, pledged and allocated funds for institutional capacity building and development has to be either held indefinitely or allowed to be run by United Nations development program (UNDP).

It is in this context that TFG engaged the services of PricewaterhouseCoopers, an international accounting firm, as the Fiduciary Management Agency (FMA) in June 2009. This was indeed envisaged under Section 4.15 of the RDP document. The firm will manage the funds from development partners and track disbursements to ensure the funds are used as intended. Their terms of reference include: management of the funds, procurement, tracking and monitoring of funds and building capacity in accounting and financial management among public officials.

This arrangement will allow the Government to become more operational in the short term while the legal, financial and policy framework for longer-term solutions can be put in place.

2. Financial Statements

2.1 Fund Accountability Statement as at 31 December 2009

The Fund Accountability Statement includes all funds received and payments made from the TFG Fiduciary Management Account since its establishment in June 2009.

	Chinese Government	US Government	Libya Government	Rwanda Government	Total
	US\$	US\$	US\$	US\$	US\$
Funds received					
22.09.09 - Chinese Government	500,000.00				500,000.00
05.10.09 - US Government		500,000.00			500,000.00
17.10.09 - Libya Government			1,600,000.00		1,600,000.00
03.12.09 - Government of Rwanda				250,000.00	250,000.00
16.12.09 - US Government (to Ministry of Information)		25,000.00			25,000.00
Sub-total	500,000.00	525,000.00	1,600,000.00	250,000.00	2,875,000.00
Less: Funds disbursed					
Salaries for 550 MPs and running costs for Speaker's office (Note 1)			(735,000.00)		(735,000.00)
Salaries and running costs for the Executive, including President's and Prime Minister's offices (Note 1)			(632,000.00)		(632,000.00)
Food and subsistence supplies to security forces	(400,000.00)		(60,007.00)	(240,000.00)	(700,007.00)
Prime Minister's Office (overhead costs)	(50,000.00)				(50,000.00)
CfC Stanbic A/C: Stipends for security forces (Note 2)		(124,100.00)			(124,100.00)
Purchase of Iway broadband equipment and internet connection		(12,500.00)			(12,500.00)
Sub-total	(450,000.00)	(136,600.00)	(1,427,007.00)	(240,000.00)	(2,253,607.00)
Less: FMA fees & bank charges					
PwC management fees	(20,000.00)		(64,000.00)		(84,000.00)
Bank fees and charges		(10,582.50)			(13,304.35)
Sub-total	(20,000.00)	(10,582.50)	(64,000.00)	-	(97,304.35)
Bank balance 31.12.09	30,000.00	377,817.50	108,993.00	10,000.00	524,088.65

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	Chinese Government	US Government	Libya Government	Rwanda Government	Total
	US\$	US\$	US\$	US\$	US\$
Less: Commitments					
Medical costs for troops			(100,000.00)		(100,000.00)
PwC management fees		(21,000.00)		(10,000.00)	(31,000.00)
Sub-total	-	(21,000.00)	(100,000.00)	(10,000.00)	(131,000.00)
Fund Balance 31.12.09	30,000.00	356,817.50	8,993.00	-	393,088.65
Represented by:					
Bank balance - CfC Stanbic A/C					348,307.35
Bank balance - SCB A/C					158,781.30
Refund due from CfC Stanbic					17,000.00
Less Commitments (not paid)					(131,000.00)
Total					393,088.65
					-

Note 1: The amount of US\$ 1,367,000 was sent to the Central Bank of Somalia for the payment of salaries for Members of Parliament, the Executive and running costs for the Speaker's office, President's office and Prime Minister's office. TFG is preparing the detailed breakdown of the payments made.

Note 2: The amount of US\$ 500,000 was transferred to CfC Stanbic account for payment of stipends to security forces in Somalia. A total of 1,241 soldiers were paid US\$ 124,100 at a rate of US\$ 100 per soldier. A refund of US\$ 17,000 relating to 170 soldiers who did not show up was credited back to the account on 11.01.2010.

2.2 Notes to Financial Statements

2.2.1 US Government Fund Accountability Statement as at 31 December 2009

	(USD)	Period ended 31 Dec 2009 (USD)
Funds Received		
Funds transfer 05/10/09	500,000.00	
Funds transfer 16/12/09	25,000.00	
Total		525,000.00
Expenditure		
Stipends to Somalia TFG Soldiers (Note 1)	(124,100.00)	
Purchase of Internet equipment	(12,500.00)	
Bank transfer charges	(10,582.50)	
Total Expenditure		(147,182.50)
Adjustments		
Commitments – PwC fees		(21,000.00)
Fund balance as at 31 December 2009		356,817.50
Represented by:		
Bank Balance	339,817.50	
Refund due for Soldiers not Paid (Note 1)	17,000.00	
Bank and Cash Equivalents		356,817.50

Note 1

A total of 1,241 soldiers were paid US\$ 124,100 at a rate of US\$ 100 per soldier. A refund of US\$ 17,000 relating to 170 soldiers who did not show up was credited back to the account on 11.01.2010.

2.2.2 Libya Government Fund Accountability Statement as at 31 Dec 2009

	(USD)	Period ended 31 Dec 2009 (USD)
Funds received		
Funds transfer 17/10/09	1,600,000.00	
Total		1,600,000.00
Expenditure		
Payment to Members of Parliament	(1,367,000.00)	
Food and Subsistence Supplies	(60,007.00)	
PwC Fees	(64,000.00)	
Total Expenditure		(1,491,007.00)
Adjustments		
Commitments – Medical fund for Troops	(100,000.00)	
Net Adjustments		(100,000.00)
Fund balance as at 31 December 2009		8,993.00
Represented by:		
Bank Balance	108,993.00	
Medical fund for troops	(100,000.00)	
Bank and Cash Equivalents		8,993.00

2.2.3 Chinese Government Fund Accountability Statement as at 31 December 2009

	(USD)	Period ended 31 Dec 2009 (USD)
Funds received		
Funds transfer 22/09/09	500,000.00	
Total		500,000.00
Expenditure		
Food and Subsistence Supplies	(400,000.00)	
Prime Ministers Office Overheads	(50,000.00)	
PwC Fees	(20,000.00)	
Total Expenditure		(470,000.00)
Fund balance as at 31 December 2009		30,000.00
Represented by:		
Bank Balances		30,000.00

2.2.4 Rwanda Government Fund Accountability Statement as at 31 Dec 2009

	(USD)	Period ended 31 Dec 2009 (USD)
Funds received		
Funds transfer 03/12/09	<u>250,000.00</u>	
Total		250,000.00
Expenditure		
Food and Subsistence Supplies	(240,000.00)	
PwC Fees	<u>(10,000.00)</u>	
Total Expenditure		(250,000.00)
Fund balance as at 31 December 2009		<u>Nil</u>
Represented by:		
Bank Balances		<u>Nil</u>

2.2.5 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

a) Grant Income

Income is recognised in the Fund Accountability Statement when received

b) Expenditure

Expenditure is recorded when incurred.

c) Donations in kind

Donations in kind are not recognised in the Fund Accountability Statement.

d) Capital expenditure

Capital expenditure is expensed in full in the year of purchase.

e) Foreign Currency Translation

Grant Income and Project Expenses in currencies other than US Dollars are translated into US Dollars at the exchange rate ruling at the time the grant income is received and project expenses incurred.

f) Reporting currency

The accounts are presented in US Dollars

3. Payment Process for Stipends

PricewaterhouseCoopers Ltd acting as the Fiduciary Management Agent (FMA) established a payment mechanism for payment of stipends for Somalia TFG Troops. The payment mechanism included the following structures;

- Development Partners
- Transitional Federal Government of Somalia
- Financial Management Agent
- Banking Institution
- Money Transfer Agents
- TFG Ministry of Finance and Ministry of Defense
- Stipend Monitoring and Supervision Committee

3.1 The Payment Process

PwC facilitated the payment of 1,241 Somalia TFG troops within one week in December 2009. Each officer was paid US\$ 100 and the total payment amounted to US\$ 124,100.

The payment process was as follows;

1) Receipt of pay instructions from the US Government: - PricewaterhouseCoopers received payment list on 10 December 2009. Following a meeting with the US Government on the same date, the modalities of payment were agreed upon.

2) Review of the payment list: - The finance team reviewed the payment list to ensure that;

- Soldiers paid were above 18 years of age
- On a random basis, that the soldiers are not on the UN Security Council Sanctions list

On 11th December 2009, queries were communicated to the US Government. A total of 15 names were queried, out of which 2 were resolved and the 13 dropped from the payment list.

3) Approval of the payment list: - On 14 December 2009, the US Government issued an approval to pay a total list of 1,411 troops.

4) Issue of Payment instructions to the Bank: - On the 14 December 2009, the same date when the US Government approved the payment, PricewaterhouseCoopers issued pay instructions to CFC Stanbic Bank, for onward payments in Somalia. The bank confirmed receipt of pay instructions.

5) Payment arrangements in Mogadishu: - The PricewaterhouseCoopers agent in Somalia was in Mogadishu by 15 December 2009 to ensure that preparations for the payments of the Soldiers were on course. In the meantime, CFC Stanbic had submitted the payment list to their agent in Mogadishu, namely Amal to make payments to a total of 1,411 TFG troops.

6) Payments: - The CFC Stanbic agents made the payments to the TFG troops as follows;

Date	No. of Soldiers Paid	Rate in US\$	Amount in US\$
17/12/2009	235	100	23,500
18/12/2009	467	100	46,700
19/12/2009	461	100	46,100
21/12/2009	78	100	7,800
Total	1,241		124,100

From the initial list of 1,411 Soldiers, 1,241 were paid. A total of 170 Soldiers did not turn up for the payment.

7) Return of funds not paid to Soldiers: - On 13 January 2009, US\$ 17,000 being funds not remitted to the Soldiers was credited back to the Fiduciary Management Agency Bank account.

3.2 Payment Duration

From the foregoing, it took 7 days from the date when instructions were issued by the US Government to the date when the payment was effected to all the soldiers in Mogadishu.

3.3 Controls during the Payment Process

1) Authorised list: - The CFC Stanbic Agents to pay the soldiers based the payments on authorised payment list. Even though the number of soldiers on the ground was more than those on the pay list, the Bank agents strictly adhered to the list. There were two Agents from the Bank's agent to conduct the payment.

2) Identification Process: - The identification process was conducted by a committee for Stipends payments comprising of 5 members and the commanders to ensure that only Bonafide soldiers are paid. The commanders were critical in identifying the Soldiers that report to them who were on the payment list. **Please see pictures in annex 1**

3) Payment: - All soldiers paid had to acknowledge receipt of payment by either their signatures or thumb print.

4) Pay location: - The pay location was at the AMNISOM camp. This ensured that there was proper security to facilitate the payments.

5) Transit of funds: - The Money transfer agent made security arrangements to transfer money to the camp.

3.4 Challenges and Lessons Learnt

1) Payment list: - There were many soldiers who were not on the payment list. In addition, the list omitted the ranks of the soldiers and their unit. This slowed down the payment process since no commander knew all the soldiers on the pay list.

We also noted that the paying agents wrote the names again on as they made the payments rather than using the original typed list provided. For control purposes, this will be addressed in the next round of payment.

2) Amount paid: - The initial instruction was to pay USD 130 per Soldier. These instructions were changed during the payment process. In future, it would be important to confirm the amounts to be paid especially between the TFG and the Donors, to avoid loss of funds or confusion in the payment process.

3) Stipend Committee: - There were reports that there is no incentive for the stipend committee to participate in the process. Two members of the committee did not participate in the payment exercise. To ensure the success of the payment process, there is need to ensure that this committee continues to participate.

4) Communication Channels: - There is need to create proper communication channels during the payment process. The flow of information should be clear to all parties. Details of payments should be concluded between the TFG and Donors. Once this list has been issued to the Bank, no further changes should be made to ensure consistent flow of documentation and audit trail.

5) Identification Cards: - One of the main challenges in this exercise is the identification process. There is need to issue all TFG soldiers with Identification cards. In addition, the soldiers should be organised in platoons to ease identification by their commanders. This should be discussed with the Minister of Defence.

6) Sustainability: - There is need to provide adequate funds to guarantee regular and consistent payment to the TFG soldiers in order to stabilise the security forces, contain defections and boost their morale. In addition, this will help in the building of trust with the TFG and in the implementation of other programmes.

Annex 1 – photos taken by PwC representative during the payment process



In the picture above, a company commander is calling names; standing next to him is a member of the payment committee, Sharmarke Ahmed from the Prime Minister's office.

Step One: Soldiers congregate at the Camp



In the above picture, soldiers listen as their names are called.

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Step two: - The Soldiers names are read out in groups of about 30. This are identified by the commanders and proceed to a queue awaiting payment.



Identified Soldiers wait on the queue

Step three: - Two to five soldiers proceed to the payment desk



Step four: The identification desk is manned by the TFG Stipend Payment Committee, and leaders of the army, at least a commander of a company and the commander of the brigade



In the above picture, sitting second from right, holding his chin is the commander of the camp, observing the payment process.

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Step five: This step is the payment desk. Every soldier is checked again. When verified, his full name is recorded to the payment list. The soldier acknowledges receipt of funds by signing on the list or thumb mark.



The above picture is the payment list Amal prepares, it has the full name, amount paid and signature (finger print - thumb).

Step six: - Soldiers receive the money



In the above picture Amal agents take finger prints of the paid soldiers.



The above picture is the actual payment is made to a soldier.

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