



**ACCOUNTING OFFICERS /
CHIEF FINANCIAL OFFICERS**

**PROVINCIAL TREASURY INSTRUCTION NOTE NO. 25 (AMENDMENT 1 OF 2023):
MANAGEMENT OF DONOR FUNDS (AID ASSISTANCE):**

1. DEFINITIONS

In this Provincial Treasury Instruction Note, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the Public Finance Management Act, 1999 (No. 1 of 1999 as amended by Act 29 of 1999) [PFMA] and the National Treasury Regulations, has the same meaning; and –

“Aid Assistance” means donor funds which comprises of amounts received from local and/or international donors, via the Reconstruction and Development Programme (RDP) Fund;

“Donation” means the provision by contribution, gift or bequest, in cash or kind, without expectation of any benefit in return;

“Donor” means an individual, corporation or organisation that is a principal contributor of cash or other assets;

“Economic assistance” means the transfer of resources, including financial resources, human resources and equipment;

“In-kind” means the provision of goods, services or capital assets such as equipment, buildings, inventories and technical resources;

“MTEF” means the Medium Term Expenditure Framework;

“National Treasury Regulations” means the regulations issued by National Treasury in terms of Section 76 of the PFMA.

“*Provincial Revenue Fund (PRF)*” means a separate banking account into which all money received by the provincial government must be paid and comprises the equitable share, conditional grants, departmental revenue (own revenue) and donor funds that are not part of an RDP agreement. The only exclusion is donor funds that must be paid into the RDP Fund, in terms of legislation or by agreement with the donor;

“*RDP Fund Act*” means the Reconstruction and Development Programme Fund Act (Act 7 of 1994, as amended by Act 79 of 1998) which regulates the disbursement and use of funds to and from the RDP Fund Account.

“*Spending agency*” is defined by RDP Fund Act as any department of state or administration in the national, provincial or local sphere of government; or any other institution exercising a power or performing a function in terms of the Constitution or provincial constitution; or exercising a public power or performing a public function in terms of any legislation.

2. OBJECTIVE

- 2.1** The objective of this instruction note is to provide guidelines to departments on the financial management and accountability of donor funds (Aid Assistance).

3. LEGAL FRAMEWORK

- 3.1** In terms of the PFMA: -

a) All money received by a provincial government must be paid into the province’s Provincial Revenue Fund, except money received by the provincial government from donor agencies which in terms of legislation or the agreement with the donor must be paid to the RDP Fund, in terms of section 22(1)(c).

- 3.2** In terms of National Treasury Regulations, in preparing the annual report, the Accounting Officer must: -

a) Report on the use of foreign aid assistance, detailing the source and intended use of the assistance (including the value of any aid in rand), performance information on the institution’s use of the assistance and any pending allocations for assistance as per section 18(3)(1)(f);

b) Disclose all gifts, donations or sponsorships received during the course of the financial year as a note to the annual financial statements of the institution as per section 21.2.4; and

- c) Deal with Donor funding received in terms of the RDP Fund Act determined by the National Treasury from time to time as per section 21.2.5.

3.3 In terms of the RDP Fund Act, the RDP Fund was established as the main mechanism for transferring donor funds to South African spending agencies in accordance with specific agreements, referred to as technical assistance agreements.

4. ACCOUNTABILITY

4.1 All aid assistance, whether in cash or in-kind, must be approved by the Accounting Officer prior to acceptance, in terms of the relevant Delegation of Authority.

4.2 Proper accounting and recording processes and procedures must be followed to accurately record and monitor the receipt and spending of donor funds.

4.3 All donor funds must be paid into the PRF, except for donor funds received in terms of the RDP Fund Act, that must be paid into the RDP Fund.

4.4 The Accounting Officer of the department is accountable for the utilisation of donor funds transferred to that department via the RDP Fund mechanism.

5. REVENUE RECEIVED

5.1 Aid assistance comprises of amounts received from local or international donors via the RDP Fund. Donations received as per the RDP Fund Act must be paid into the RDP Fund as they are subject to “technical assistance agreements” entered into between departments and relevant donor(s).

5.2 Transfers are made to the spending agency from the RDP Fund in accordance with the relevant technical assistance agreement.

5.3 If a local or international donor donates funds and there is no technical assistance agreement, it must be dealt with as a normal donation or a gift to the state in accordance with Section 76(1) of the PFMA and Treasury Regulations 21.2 and paid into the PRF.

6. MANAGEMENT OF AID ASSISTANCE

This refers to the rules, regulations and procedures relating to the financial management of aid assistance.

6.1 RDP Funds

6.1.1. RDP funds received from donors must be paid into the RDP Fund, as prescribed by the RDP Fund Act.

- 6.1.2. National Treasury will notify the relevant department once the funds have been deposited by the donor.
- 6.1.3. The Chief Financial Officer of the applicable department will complete the requisition form, which is the authorisation to transfer the payment to the department. This is an essential requirement to ensure proper financial control.
- 6.1.4. Once the necessary details have been verified, and all necessary requirements have been complied with, the funds will be transferred by National Treasury, via the PRF, to the department's Paymaster-General (PMG) account.

6.2 Technical assistance

- 6.2.1. Technical assistance is the provision of resources (financial and non-financial) provided by the donor, aimed at transferring technical and managerial skills.
- 6.2.2. Technical assistance is additional to the budget and does not form part of voted funds.

6.3 Counterpart Contributions

- 6.3.1. The Accounting Officer and Chief Financial Officer must ensure that budgetary provision is made from voted funds, in terms of the MTEF budget process, when the department is expected to provide counterpart contributions for donor-supported projects, either in cash or in-kind.
- 6.3.2. If an "in-kind" contribution is required in the form of human resources and equipment, the department must ensure that the nature of the contribution is agreed to.
- 6.3.3. Counterpart funding should be allocated in advance and only disbursed if the supported expenditures are actually incurred.

6.4 Re-current expenditure

- 6.4.1. A critical issue impacting on the viability of donor-supported projects is re-current expenditure that will be incurred as a result of implementing such projects.
- 6.4.2. The department must accurately determine the re-current cost implications and ensure that such expenditure has been provided for from voted funds in terms of the MTEF budget process.
- 6.4.3. The department's ability to absorb re-current financial implications within existing/projected budgetary limitations is one of the most important criteria for deciding on a particular project.
- 6.4.4. Re-current expenditure is usually realised once the project is completed within the agreed period and a department becomes responsible for maintaining the long-term sustainability of the project.

6.5 Direct payment by donor

- 6.5.1. The donor accepts full responsibility for the management of donor supported projects; which occurs when technical assistance is provided by the donor.
- 6.5.2. The department's Accounting Officer is accountable for obligations imposed in terms of the relevant technical assistance agreement; however, the donor is solely accountable for project expenditure when no funds flow through any government bank account.
- 6.5.3. The donor pays directly for the procurement of goods and services, in terms of the procurement provisions of the technical assistance agreement.
- 6.5.4. Government legislative procurement procedures must be followed in the absence of any such procurement provisions by the donor.

6.6 Reimbursive arrangements

- 6.6.1. A Department uses budgeted funds where such provision has been approved by the Accounting Officer/Chief Financial Officer.
- 6.6.2. The expenditure must be claimed from the donor in accordance with the provisions prescribed in the relevant agreement.
- 6.6.3. In terms of cash flow management purposes, departments are required to maintain a strict control of funds expensed (expenditure incurred) and reimbursed.

7. FUNDAMENTAL REQUIREMENTS.

- 7.1 Donor funding is economic assistance that must be aligned with government priorities and strategies, such as poverty alleviation, capacity development and sustainable economic growth and development that may result in improved service delivery.
- 7.2 Donor funding must be aligned to the MTEF and the annual budget planning processes and prioritisation in support of core government development priorities, and must enhance the departments' programmes, activities and operations.
- 7.3 Donor funds must be managed in a transparent and accountable manner to ensure the optimal utilisation of all resources to meet departments' strategic objectives and priorities.
- 7.4 The donor funding process should follow the same budgetary reporting system of the department, unless agreements specifically stipulate additional reporting requirements.
- 7.5 All donor funds must flow through the Provincial Revenue Fund.
- 7.6 Donor funds deposited directly into a department's PMG account by a donor are in contravention of the PFMA.

8. ACCOUNTING TREATMENT

- 8.1** The appropriate accounting treatment for donor funds must be structured in terms of the National Treasury Standard Chart of Accounts (SCOA), implemented with effect from 1 April of a financial year.
- 8.2** Donor fund segments are created on the Standard Chart of Accounts (SCOA) by National Treasury. The fund segments must be used to distinguish between donor revenue and expenditure.
- 8.3** Accounting for funds received from the RDP Fund must be done as specified by National Treasury in the Accounting Framework, i.e. the most recently issued “*Modified Cash Standard*” and ‘*Accounting Manual for Departments*’.

9. UNSPENT RDP DONOR FUNDS

- 9.1** Any funds not spent at the end of the financial year or at the conclusion of a project are determined by the agreement signed between a department and the donor, or in terms of the specifications of National Treasury regarding the RDP Fund.
- 9.2** A donor may stipulate that a department is not required to surrender any unspent RDP Funds at the end of the project back to the donor. The department is however required to surrender these funds to the RDP Fund.

10. REPORTING REQUIREMENTS

10.1 Budget

- 10.1.1** All funds from donors received in cash and in-kind should be reflected in the department’s budget documents, specifically in the Estimates of Provincial Revenue and Expenditure. It should however be noted that funding from donors, in terms of the RDP Fund Act, does not form part of a department’s appropriation and should be dealt with in accordance with the aforementioned Act.

10.2 Quarterly Reporting

- 10.2.1** Departments must provide a summary on donor funding to Provincial Treasury on a quarterly basis (refer to Annexure A).
- 10.2.2** A progress report must be attached (refer to Annexure B) illustrating what has been achieved in terms of service delivery for both financial and non-financial (in-kind) donor funding. This must include a breakdown of both committed and disbursed resources, and a clear distinction between foreign and local aid assistance.

10.3 Year End Reporting

- 10.3.1 Donor funding must be reported in the annual report in the format prescribed by National Treasury.
- 10.3.2 All foreign aid assistance received during the course of the financial year must be disclosed as a note to the annual report, as specified by Section 18.3.1(f) of the National Treasury Regulations, in the format prescribed by National Treasury.
- 10.3.3 Local and foreign donor funding is recognised in the financial records when notification is received from National Treasury or when a department receives cash from the donor/s.
- 10.3.4 A split is made between “received in cash” and “received in kind”.
- 10.3.5 All “in-kind” local and foreign aid assistance is disclosed at fair value in the notes and annexures to the annual financial statements.

11. EFFECTIVE DATE

- 11.1 The amendment to this Provincial Treasury Instruction Note is effective from the date of signature of the Head of Department: KwaZulu Natal Provincial Treasury.



HEAD OF DEPARTMENT: KWAZULU-NATAL PROVINCIAL TREASURY

DATE: 21/09/23

ANNEXURE A

DONOR FUNDING FOR THE FINANCIAL YEAR										
VOTE: DEPARTMENT OF										
DONOR	Roll-Over Previous Donor Funding	Current Donor Funding	Total Donor Funding	Actual Expenditure 1 st Quarter	Projections			Actual Expenditure to Date	Projections Quarter 2 to Quarter 4	Total Expenditure YYYY/MM
					Quarter 2	Quarter 3	Quarter 4			
CASH										
IN KIND										
Total										

ANNEXURE B

DONOR FUNDING PROGRESS REPORT				
Financial Year (YYYY/YYYY): Quarter: 1/2/3/4				
Department of				
Source of Donation	Purpose	Progress Report	Amount R	
			Committed	Disbursed
Foreign				
Local				