

Budget Policy Brief

SOMALIA

Horn Economic and Social Policy Institute - HESPI
June, 2024





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Prepared by the staff of the Horn Economic and Social Policy Institute
(HESPI)

June 2024

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Preface

This Budget Policy Brief was prepared by the Horn Economic and Social Policy Institute (HESPI) and presents the macroeconomic framework for Somalia for the recent period through the first quarter of 2024 (Q1). It covers the performance of the budgetary operations of the Federal Government of Somalia (FGS) and a brief overview of the operations of the Federal Member States (FMS). The Budget Policy Brief analyzes the implications of the fiscal indicators of domestic resources mobilization and public expenditure with a view to facilitate an open and informed public dialogue on the national economy and management of public finance in particular. The Brief is organized into the following sections: Recent Macroeconomic development; Government Budget Operations; Financial developments Outturn through 2024 Q2; Comparison of Fiscal Operations between 2023 Q1 and 2024 Q2; Federal Member States (FMS) Financial Operations; and Summary of Findings and Conclusions.

The analysis underlying the Budget Policy Brief is based on publicly available data produced by the FGS. This Policy Brief is the first of four (4) Budget Policy Briefs for the country commissioned by the Ministry of Finance of Somalia under the World Bank supported Public Finance Reform project. The public finance project aims to strengthen resource management systems, intergovernmental fiscal frameworks, services delivery in health and education in eligible FMS, and citizen engagement and feedback. The civil society focused component of the project recognizes the importance of public participation in ensuring transparency and accountability within the budgetary processes and by empowering citizens and informing them.

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Key Messages

Issues	Recommendations	Action Responsible party
Very Low Revenue to GDP ratio, evidences the urgency for domestic resource mobilization	<ul style="list-style-type: none"> • Increase domestic Revenue Mobilization through urgent reform of tax policies and strengthened administration • Establish and operationalize the national Revenue Authority that has be under consideration for many years 	Ministry of Finance, Directorate of Revenue.
The unpredictability of donor funding flows inhibits sound budget performance	<ul style="list-style-type: none"> • Enhance the predictability of donor finance disbursements and thoroughly assess pledges efficacy Strengthen the absorptive capacity of responsible government ministries, departments and agencies 	Ministry of finance, director General, and Budget Department Use of Country Systems and PFM compliance Office
Non-existent spending on essential social services delivery, and very low spending on capital investments and projects	<ul style="list-style-type: none"> • Augment financial resources access through augmented domestic revenue generation and/or external funding • Limit the non-essential spending on recurrent budget, and the leakage from all public spending, which burden the recurrent budget operations. • Provide higher priority to social sectors spending and to capital investments that generate future earnings that could support government operations. 	Ministry of Finance, Director General and Director of Budget
Extremely low revenue base of Federal Member States	<ul style="list-style-type: none"> • Diversify and broaden the revenue the revenue base of the Federal Member States. • Increase financial transfers from the FGS to the Federal member states 	Ministreis, Departments, Agencies (MDAs) of the Federal Member States
Participation of the public in the budget processes is extremely limited, and transparency oversight should be also improved	<ul style="list-style-type: none"> • Strengthen public participation, transparency and oversight in the government budget planning, formulation and execution processes. 	Ministry of Finance, Parliament, and Auditor General

1. Recent Macroeconomic Developments

Since the collapse of the central government in 1991, Somalia has grappled with a host of significant challenges. These include widespread insecurity, evidenced by frequent terrorist attacks and piracy, socio-economic instability marked by high unemployment rates and rampant poverty, and extreme climate risks such as prolonged droughts and devastating floods. The cumulative effect of these challenges has been the erosion of governance institutions and the loss of human and physical capital.

Despite the challenges, Somalia has made significant strides in rebuilding its state institutions and the economy. The establishment of the Provisional Constitution in 2012 marked a crucial step, leading to the creation of a Federal Government of Somalia (FGS) and Federal Member States. However, the conditions for lasting stability and enhanced socio-economic governance, including building conducive federal cooperative federalism is a work in progress.

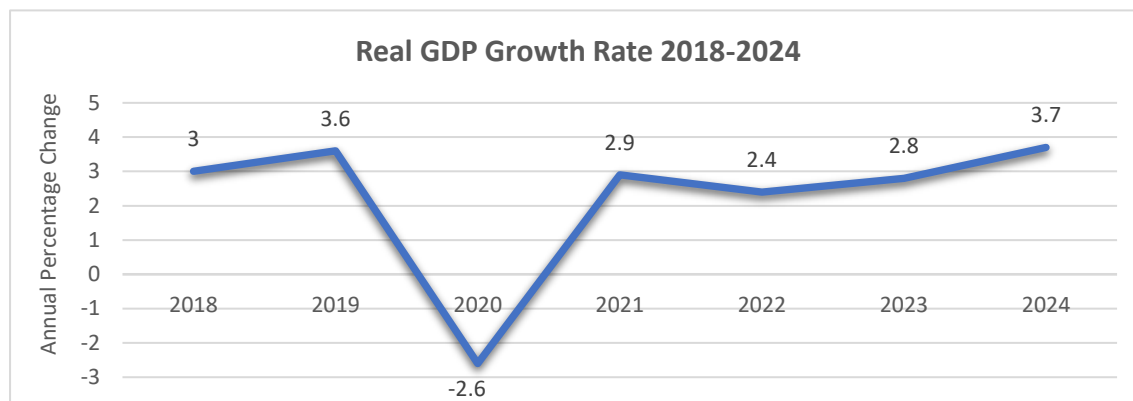
More recently, the country has been pursuing wide-ranging reforms to strengthen critical economic and financial institutions to recover from the persistent shocks related to the recurrence of extended insecurity, severe droughts and floods, and the impact of the COVID-19 pandemic. During 2018-22, the growth rate remained at very low single digits because of the adverse effects of the prevailing insecurity on agriculture and other productive sectors.

In part reflecting the improving rain fall leading to modest recovery in agriculture, significant inflow of remittances, and higher investments, the real GDP is projected to grow by 3.7 percent in 2024, from 2.8 percent in 2023 (table 1 - Key Macroeconomic Indicators). Nevertheless the country continues to face significant challenges including those owing to economic, security and climate risks in generating sustainable; high and inclusive growth.

TABLE 1: Key Macroeconomic Indicators

Economic Indicator	FY 2022	FY 2023	FY 2024
GDP, Nominal	10,420	11,515	12,489
Real GDP Growth (%)	2.4	2.8	3.7
Per Capita	667	667	673
Average annual inflation	6.8	6.1	4.8
Debt to GDP (%)	37.4	6.6	6.1

Sources: FGS and IMF staff estimates and projections 2024.

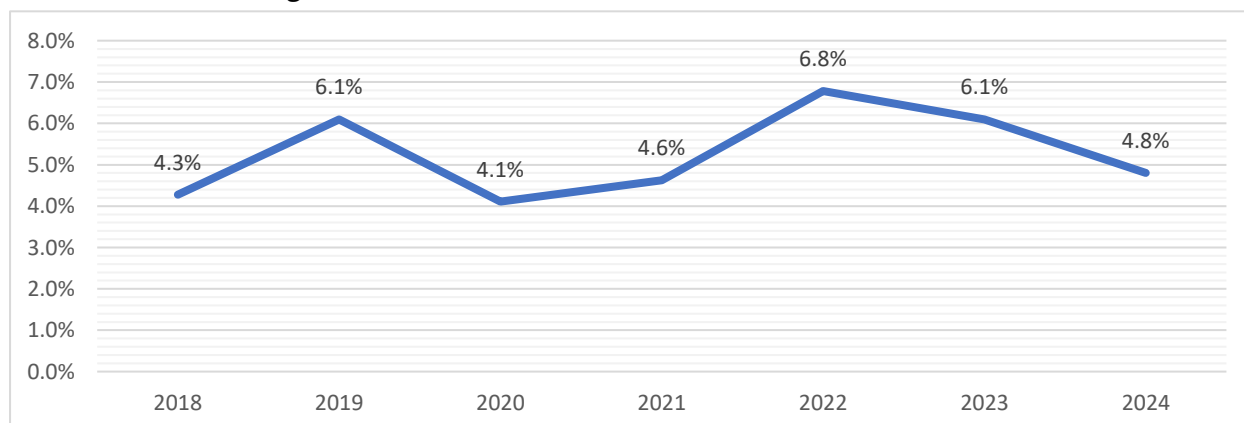
FIGURE 1: Real GDP Growth Rate

Source: SNBS and IMF projections, 2024

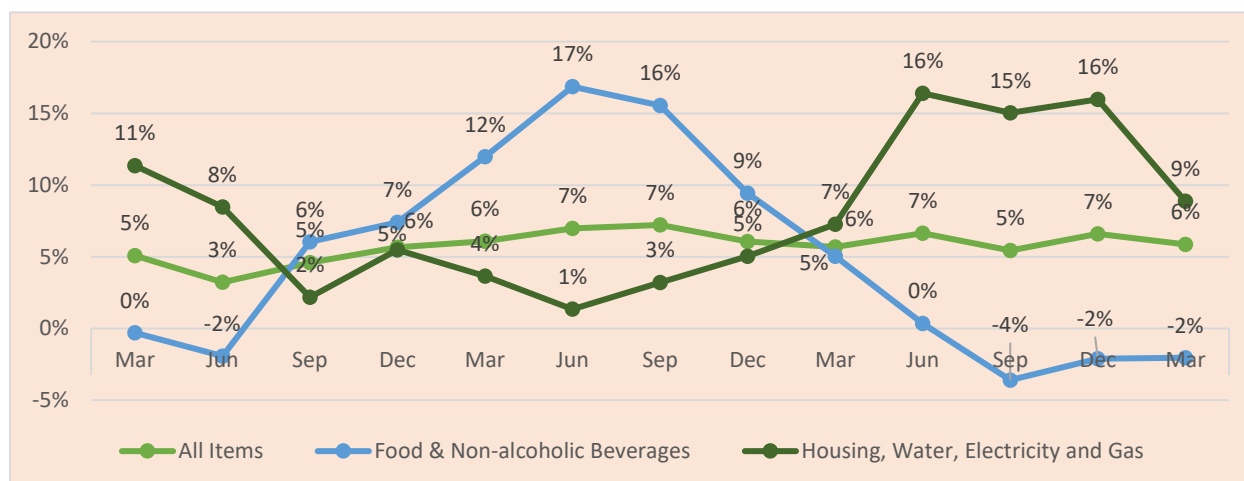
Somalia is confronted with a complex web of challenges that are intricately interconnected, making the task of generating sustainable and inclusive growth a formidable one. These challenges, which range from the need to stabilize and secure vast rural areas, the volatility in domestic political stability, the uncertainties in the global environment, and the risks posed by adverse climate conditions, are all compounded by weak general governance and the imperative for effective cooperation and coordination across all levels of government. Furthermore, the widespread food insecurity and the scarcity of employment opportunities are not only severe impediments to poverty alleviation but also hinder the country's transition to sustained and higher economic growth rates.

Average Inflation Rate

Since 2018, the average annual inflation rate has remained in single digits and declined from 6.8 percent in 2022 to 6.1 percent in 2023 and is projected to fall further to 4.8 percent in 2024, based on better crop production and reduced commodity prices. In the first quarter of 2024, the average inflation rate recorded 5.9 percent, from an average of 5.6 percent in the same period last year. The main drivers of inflation in this quarter were mainly the increase in clothes prices for March 2024, which was the month before the celebrations of Eid Al Fitr.

FIGURE 2: Annual Average Inflation Rate

Source: SNBS and IMF estimates, 2024

FIGURE 3: Monthly (Year on Year) Inflation (2021 – 2024)

Source: SNBS and IMF estimates, 2024

In the months between June 2023 and end March 2024, sharp decline in food and non-alcohol prices contributed to stability in the all-item recorded rates, while housing, water, electricity and gas increased at a much faster rate than average monthly prices.

Somalia Debt Burden

The country's journey to the Highly Indebted Poor Countries (HIPC) debt relief completion point in December 2023 is a testament to its commitment to fiscal responsibility. This commitment has significantly reduced Somalia's national debt-to-GDP ratio from a burden of over 60 percent in 2018 to a promising level of 6 percent in December 2023. In concrete terms, the public debt decreased from US\$5.3 billion at the end of 2018 to US\$0.6 billion at the end of 2023. This decline in public debt sets a positive trajectory for the country's financial future.

TABLE 2: Somalia Debt Burden (Before and After HIPC Program)

	2018		2022		2023	
	In millions of US\$	% of GDP	In millions of US\$	% of GDP	In millions of US\$	% of GDP
Total Public Debt	5,345.1	64.6	3,894.8	37.4	766.3	6.6
Total External Debt	5,268.1	63.6	3,827.0	36.7	698.4	6.0
Multilateral	1,535.7	18.6	1,074.9	10.3	467.7	4.0
Bilateral	3,730.1	45.1	2,749.5	26.4	230.3	2.0
Paris Club	3,037.6	36.7	2,004.5	19.2		
Non-Paris Club	692.6	8.4	745.0	7.2		

Source: IMF Estimates and Projections, 2024.

Based on the current state of balance of payments fragility with a very limited range of basic commodity for exports and reliance on imports to meet the demand for most of its consumer and capitals goods the credit worthiness of the country is questionable. In order to avoid the case of many countries falling into debt stress soon after HIPC relief is realized. Somalia need to take exceptional care to contract any significant amounts of external loans, until it builds administrative capacity to manage external indebtedness.

2. Government Budget Operations

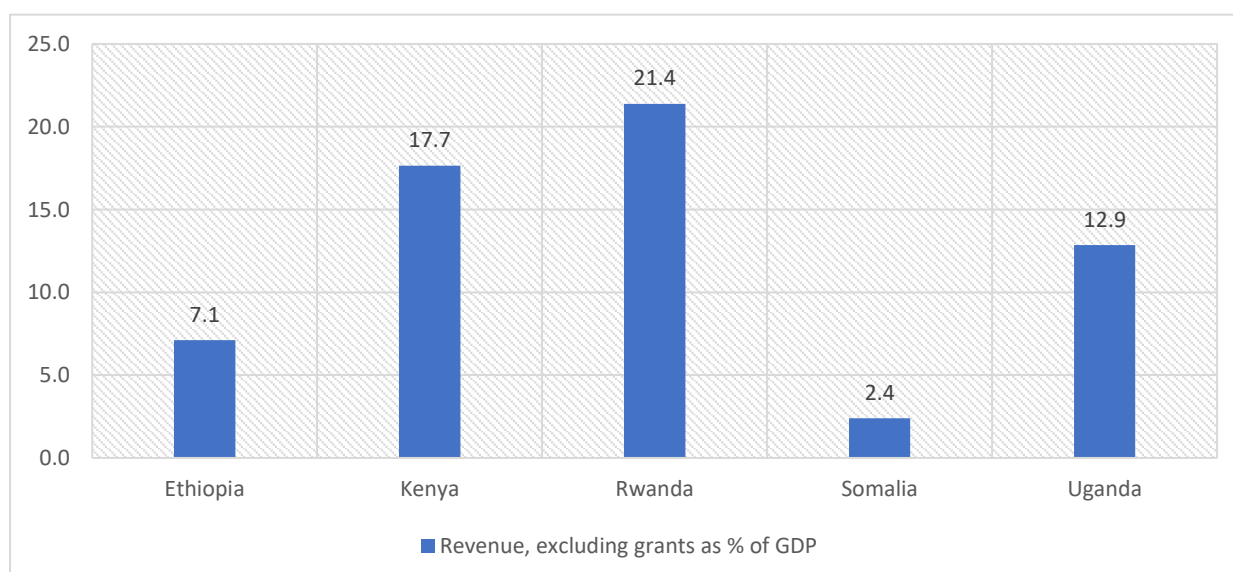
2.1 Recent fiscal development

Somalia has recently operated under an extremely difficult fiscal environment characterized by inadequate domestic revenue mobilizations, limited delivery of essential public services, and overwhelming dependence on external grants to meet its basic operating commitments, let alone deliver the much-needed social services and essential capital investments. The government's attempts to reform this difficult fiscal picture have been undertaken with significant international support but have yet to yield major results, as demonstrated by the public database of the past five years, as shown below. Nevertheless, public finance management improvements should prioritize increased domestic revenue and focus on strengthening expenditure controls, public participation, and financial transparency and accountability.

Revenue and expenditure trends: The annual domestic revenue in 2019-23, averaging 2.4 percent of GDP and ranging from 2.3% to 2.7% annually (Table 2), with tax revenue averaging 1.68 percent of GDP annually. Non-tax revenues yielded a modest amount of 0.8 percent of GDP annually during the five years ended 2023. The challenges in domestic revenue generation are not just severe, they are urgent and demand immediate attention. Despite numerous reform efforts, the strengthening of domestic resources mobilization has remained slow and immensely inadequate. The causes for this state of affairs are complex, including the generalized insecurity and instability, and apparent weaknesses in both tax and non-tax administration.

Somalia's revenue (excluding grants) in GDP is not just low, it's alarmingly low, standing at a mere 2.4 percent. In comparison, for a sample of Eastern African countries, Somalia is an extreme outlier in its limited capacity to raise domestic revenue. Rwanda, for instance, is a leading positive performer with its revenue share of GDP at a staggering 21.4 percent, followed by Kenya at 17.7 percent, Uganda at 12.9 percent, and Ethiopia at 7.1 percent of GDP. This stark contrast underscores the severity of the situation.

FIGURE 4: Government Revenue (Excluding Grants) as % of GDP



Source: World Bank Database

The limited domestic revenue and overwhelming dependence on external grants with unpredictable disbursement schedules have constrained the evolution of the country's fiscal expenditures. As shown in Table 2 fiscal accounts summary, the overall annual expenditure of FGS ranged from 2.9 percent of GDP in 2019 to 4.1 percent in 2022 over the past five years. Recurrent expenditure of the FGS accounted for about 80 percent of the total public spending annually, with the compensation of employees taking the last share of the total, equivalent to almost 70 percent of aggregate expenditures. Modest amounts were thus spent on goods and services or as transfers to the federal member states.

In view of the limited revenue performance and the relatively high demand for employees' compensation, domestic revenues were insufficient to cover employees' compensation alone. Even including the annual budget support grants received for five years ended in 2023, no resources were available for the delivery of essential public services, including education, health, and social protection support, during the period.

The fragile fiscal profile is further demonstrated by the evidence that the entirety of capital expenditures during the period was funded by external project grants and that total reordered public sector capital investments fluctuated from 0.2 percent in 2019 to 2.8 percent of GDP in 2022. Recorder capital expenditures from the government's normal operating budget have been practically nonexistent recently.

TABLE 3: Somalia Fiscal Accounts (Percent of GDP)

	2019	2020	2021	2022	2023	budget 2024
Revenue excluding projects	3.2	4.0	2.7	4.2	3.8	4.0
Domestic revenues	2.4	2.3	2.3	2.5	2.7	2.8
Tax	1.6	1.5	1.7	1.7	1.9	1.9
Non-tax	0.8	0.8	0.7	0.8	0.8	0.8
Budget support grants	0.7	1.7	0.4	1.6	1.1	1.2
Expenditure excluding projects	2.9	3.7	3.6	4.1	4.0	4.3
Operational expenditure	2.3	3.0	3.2	3.3	3.4	3.6
Compensation of employees	1.7	2.4	2.5	2.4	2.5	2.6
Good and services	0.7	0.6	0.7	0.9	0.8	0.9
Interest	0.0	0.0	0.0	0.0	0.0	0.1
Other expenditure	0.6	0.7	0.4	0.8	0.6	0.7
Transfers to FMS	0.4	0.7	0.4	0.7	0.5	0.6
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	0.1	0.0	0.0	0.1	0.1	0.1
Overall balance excl. projects	0.3	0.3	-0.9	0.0	0.1	-0.3
Projects grants	0.2	1.4	1.1	2.8	2.5	4.4
Project expenditure	0.2	1.4	1.1	2.8	2.5	4.4
Total revenues incl. projects	3.3	5.4	3.8	6.9	6.4	8.4
Total expenditure incl. projects	3.1	5.1	4.7	6.9	6.5	8.7
Overall balance incl. projects	0.3	0.3	-0.9	0.0	0.1	-0.3

Source: Somali Authorities and IMF Staff Estimates

2.2 Fiscal estimates and outlook for 2024.

The Federal Government of Somalia's budget for the fiscal year 2024, with a total resource envelope estimated at US\$1,040.8 million, marks a significant milestone. This is the highest level since 2012, a testament to the government's dedication to economic growth and development, when the FGS adopted its first comprehensive budget. The endorsed 2024 budget, 13 percent higher than the preliminary estimates of US\$917 million in 2023, demonstrates the government's commitment to increasing its financial resources for the betterment of the country. This year's budgeted domestic revenue, which increased by 22 percent compared to the estimated outturn of 2023, further underscores the government's efforts.

The Federal Government of Somalia's financial structure for the fiscal year 2024 is a testament to its prudent financial management. It is primarily supported by a diverse range of sources. Total domestic revenue, mainly from tax revenue, is expected to cover a significant 33 percent of the planned budget estimates. The remaining 70 percent of government operations are funded through external grants, with a significant portion coming from the World Bank and other multilateral institutions' budget support and financing development projects. This balanced financial structure not only reflects the government's efforts to maintain financial stability but also ensures the smooth operation of its programs and services, instilling confidence in the audience about the government's financial management.

During the fiscal year 2024, the government plans to spend US\$1,079.3 million, with a financing gap of US\$38.5 million. The budgeted expenditure, 17 percent higher than that of the 2023 outturn, reflects the government's commitment to investing in the country's development. In 2024, recurrent expenditure is expected to account for more than 90 percent of the planned spending, with the majority allocated to the payroll of civil and security personnel (33 percent) and the use of goods and services (30 percent). This allocation leaves no room for other priority expenditures, highlighting the government's focus on maintaining its workforce and ensuring the smooth operation of its services. Grants allocated to federal member states total 20 percent, and social benefits total 8 percent of the total expenditure allocations, demonstrating the government's commitment to social welfare. The total share of budgeted spending allocated to capital expenditure during the year is US\$ 63.1 million (equivalent to 5.8 percent), indicating the government's investment in infrastructure and development projects. The use of goods and services is envisaged to rise by 57 percent, followed by grants with a growth projection of 37 percent, further highlighting the government's strategic financial planning.

TABLE 4: Government Fiscal Operations and Budget in 2023 – 2024

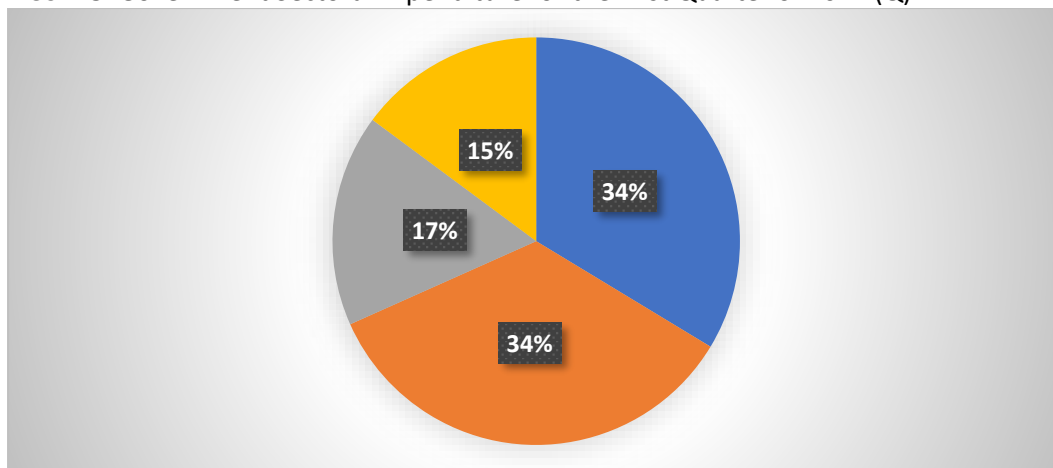
Description	Preliminary estimates 2023	Budget 2024
Total Revenue and Grants	917.3	1,040.8
Total Domestic Revenue	283.3	346.2
Tax revenue	189.9	241.4
Non-tax revenue	93.4	104.8
Total External Grants	634.0	694.6
Current - Grants Bilateral	30.0	68.1
Current - Grants - Multilateral	604.0	626.5
Total Expenditure	922.7	1,079.3
Total Recurrent Expenditure	869.2	1,016.2
Compensation of employees	296.7	361.6
Use of goods and services	208.7	327.6
Interest & Other Charges	5.8	9.8
Grants	157.8	216.4
Social Transfer	190.0	87.7
Subsidies	9.0	13.2
Other expenses	1.2	-
Total Capital Expenditure	53.5	63.1
Consumption of fixed capital	53.5	63.1
Financing Gap / Surplus (-) or (+)	- 5.4	- 38.5

Source: MOF, 2024

Sectoral expenditure allocation priorities

The 2024 FGS expenditure allocations for the administrative sector were the highest, accounting for US\$ 382.9 million (35 percent). The second most significant portion of the budget is allocated to Defense and Security, with US\$ 255.6 million (24 percent). In contrast, the third largest budget is allocated to the economic sector, US\$ 232 million (equivalent to 22 percent.). The social sector's share accounts for 19 percent of the total annual expenditure of Somalia for the budget year 2024.

Figure 5 depicts the actual sectoral expenditures for Q1 2024. The administration (34 percent) and security and defense affairs (34 percent) sectors are both on an upward trajectory. The economic (17 percent) and social affairs (15 percent) sectors shares are comparatively much lower, but are also growing, reflecting the government's commitment to fostering inclusive and equitable development. The available sectoral expenditure allocation data point to the government's commitment to enhancing and improving Somalia's social and economic infrastructure.

FIGURE 5: Government Sectoral Expenditure for the First Quarter of 2024 (Q)

Source: MoF, 2024

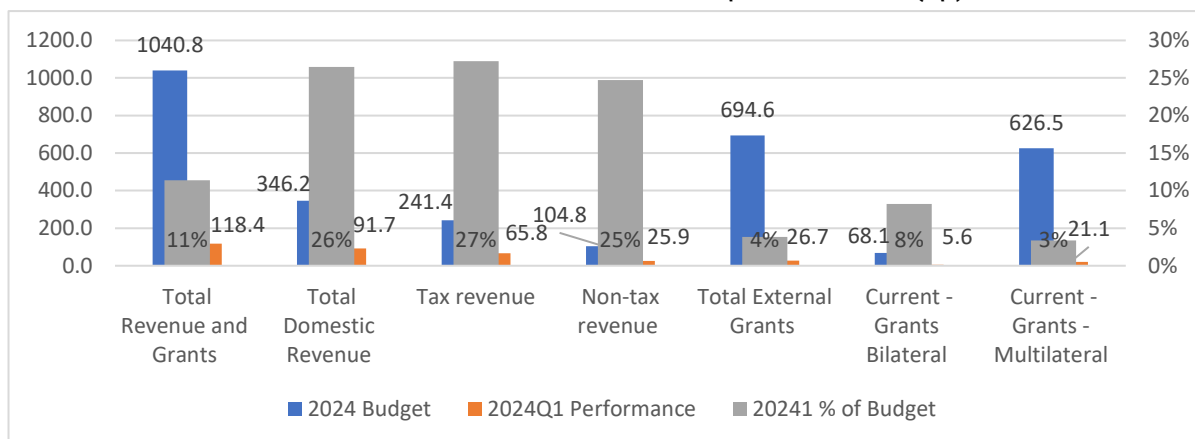
3. Financial Developments Outturn for First Quarter of 2024 (Q1)

Revenue and spending make up the annual budget. Domestic revenue and external grants are the two primary sources of budget expenditure, even though grants are obtained through bilateral and multilateral assistance. The first quarter performance of the Federal Government of Somalia has been analyzed, focusing on the first quarter's actual revenue collected (20 - 25%) and actual expenditure spending in relation to the approved annual budget and its allocation for each quarter.

In the first quarter of 2024, the FGS collected 11 percent of the total revenue and grant target receipts. This is well below the minimum threshold (20 percent) to keep government operations on track, meet the state obligations, and deliver the mandated services. Total domestic revenue recorded 26 percent of the budget target, performing about one percentage point over the quarter of the envisaged budget amount. Tax and non-tax revenue met the budget target (27 percent & 25 percent, respectively).

Donor grants (representing 70 percent of the planned budget resources) underperformed significantly, with only 4 percent of the target being realized. In view of the unpredictability of external grant disbursements, particularly for project funding, lags in commitments or schedules of disbursements of donor pledges or low absorption capacity of government projects by recipient institutions could explain the low performance of external grants.

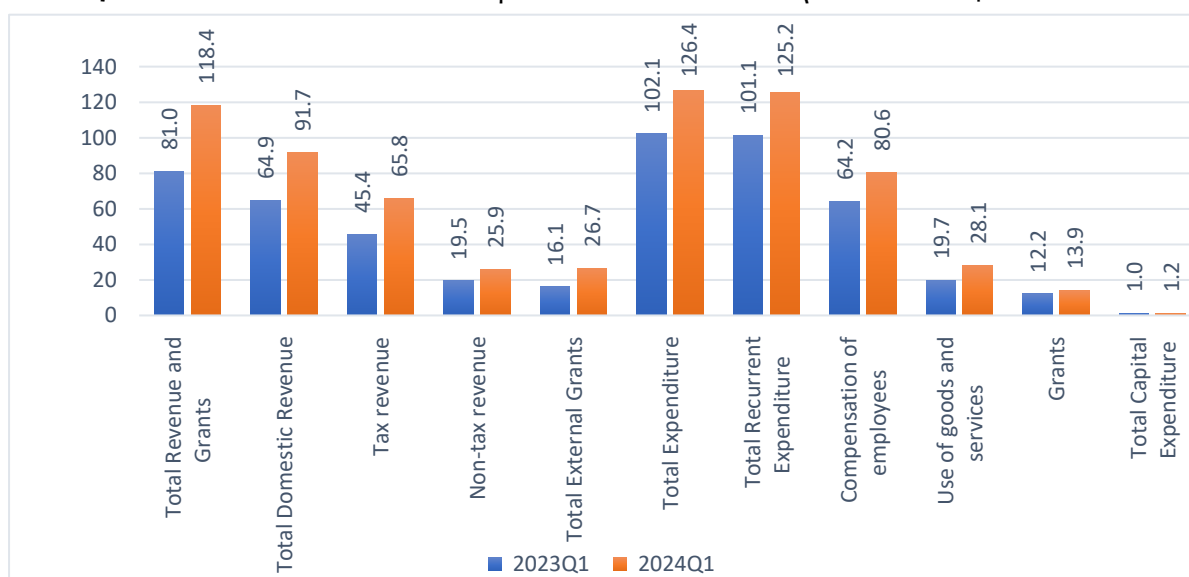
FIGURE 6: Government Revenue Performance for the First Quarter of 2024 (Q1)



Source: MOF, 2024

The amount spent on the FGS expenditures during the first quarter of 2024 was 12 percent of the approved budget target. The leading government spending categories include compensation of civil servants’ salaries and security personnel (equivalent to 22 percent of the aggregate spending target), which represented 64 percent of the total spending during the quarter, followed by expenses on goods and services (amounting to 9 percent of the spending target), which accounted for 22 percent of the total spending. During the first quarter, 99 percent of the total expenditure was for recurrent spending, and only one percent was channeled to capital expenditure.

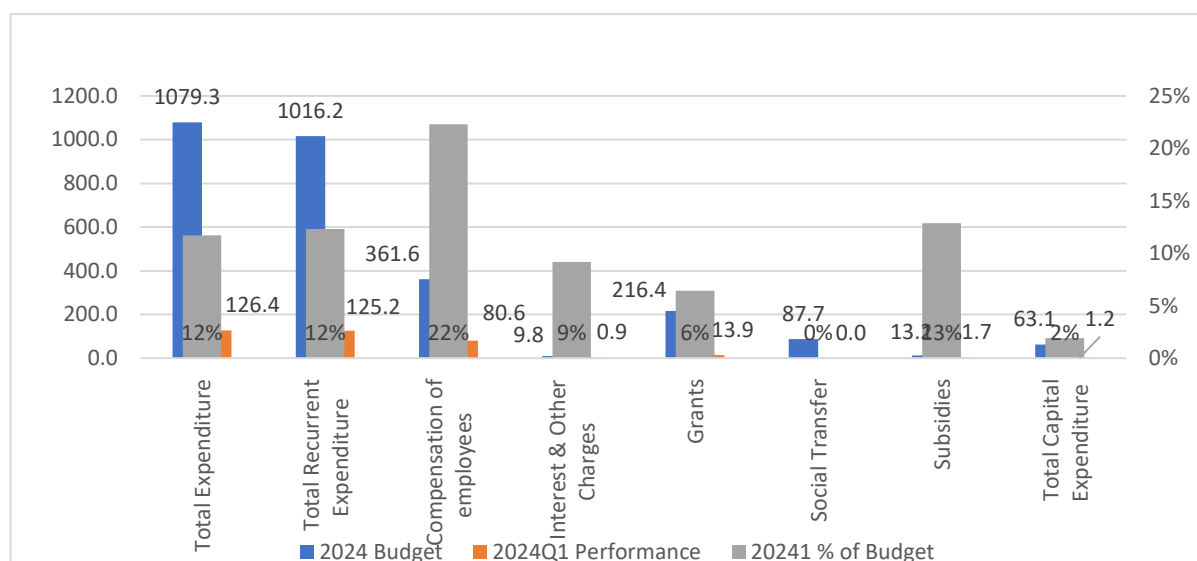
FIGURE 7: Government Revenues and Expenditures for the First Quarter of 2024



Source: Ministry of Finance, 2024

4. Comparison of Fiscal Operations Between 2023 Q1 and 2024 Q1

In general, the performance of 2024 Q1 significantly exceeds that of the same period last year in both revenue and expenditure, except for FGS grants to Federal Member states. The total revenue outturn of 2024 Q1 outperformed the total receipts of the same period in 2023 Q1 by 46 percent. Domestic fiscal receipts rose by (41 percent) compared to the same period last year, while grants recorded an increase of 66 percent compared to the same period the previous year.

FIGURE 8: Quarterly--Comparison (Actual: 2023 Q1 & 2024 Q1)

Sources. Ministry of Finance, 2024

The total expenditure of the FGS in 2024 Q1 amounted to US\$126 million (22 percent higher than the spending of the same period last year), up from US\$102 million recorded in 2023 Q1. The use of goods and services increased by 43 percent, followed by employee compensation (25 percent). The financing gap was reduced to US\$8 million from US\$21 million in 2023 Q1.

TABLE 5: Quarterly Fiscal Operations in 2023 Q1 and 2024 Q1

Description	2023 Q1	2024 Q1
Total Revenue and Grants	81.0	118.4
Total Domestic Revenue	64.9	91.7
Tax Revenue	45.4	65.8
Non-tax Revenue	19.5	25.9
Total External Grants	16.1	26.7
Current-Grants Bilateral	-	5.6
Current-Grants-Multilateral	16.1	21.1
Total Expenditure	102.1	126.4
Total Recurrent Expenditure	101.1	125.2
Compensation of employees	64.2	80.6
Use of goods and services	19.7	28.1
Interest & other charges	1.8	0.9
Grants	12.2	13.9
Social Transfers	3	-
Subsidies	0.3	1.7
Total Capital Expenditure	1	1.2
Financing balance (deficit)	- 21.2	- 8.0

5. Federal Member States Financial Operations

During the first quarter of 2024, the total fiscal receipts of the State of Puntland amounted to US\$26.7 million, the highest among the Federal Member States. This is followed by Jubbaland, with

a total revenue of US\$10.1 million. Galmudug recorded a total fiscal receipt of US\$4.7 million, while Southwest and HirShabelle recorded total revenues of US\$3.3 million and US\$2.7 million, respectively.

On the expenditure side, the Puntland State of Somalia spent US\$24.3 million, the highest expenditure among the Federal Member States, with a financing surplus of US\$2.4 million. The spending of Jubaland State amounted to US\$11.5 million, with a financing gap of US\$1.4 million, followed by Galmudug, with a total expenditure of US\$5.2 million and a fiscal gap of US\$0.5 million. Southwest and HirShabelle spent US\$3.4 million and US\$3 million, with a financing gap of US\$0.1 million and US\$0.9 million, respectively.

TABLE 6: Federal Member States Budget Operations for the First Quarter of 2024

Budget Description	Puntland	Jubaland	Southwest	Galmudug	Hirshabele
Total Revenue and Grants	26.65	10.12	3.34	4.68	2.07
Total Domestic Revenue	25.13	8.23	1.15	2.77	1.47
Tax revenue	21.79	5.90	1.07	2.32	1.43
Non-tax revenue	3.07	2.33	0.09	0.45	0.04
Social contributions	0.27	-	-	-	-
Total External Grants	1.52	1.89	2.19	1.91	0.60
Grants Bilateral	-	-	-	-	-
Grants Multilateral	1.52	1.89	2.19	1.91	0.60
Total Expenditure	24.26	11.48	3.44	5.17	3.01
Total Recurrent Expenditure	19.41	11.38	3.29	4.51	3.01
Compensation of employees	11.56	5.65	2.02	2.31	1.44
Use of goods and services	7.03	3.58	1.27	2.12	0.97
Social benefits	0.37	0.01	-	-	-
Interest & Other Charges	-	-	-	-	-
Subsidies	-	-	-	-	-
Grants	-	-	-	0.09	0.59
Other expenses	0.45	2.14	-	-	-
Total Capital Expenditure	4.84	0.10	0.15	0.66	-
Consumption of fixed capital	4.84	0.10	0.15	0.66	-
Financing Gap / Surplus (-) or (+)	2.39	-1.36	-0.10	-0.50	-0.93

Source: MoF, 2024

6. Summary of Findings and Conclusions

- A critical challenge for the recovery and sustainable development of Somalia is improving revenue mobilization and resource sharing at the federal government and member states.** As a percentage of GDP, the Revenue mobilized by the FGS remained extremely low at 2.4 percent in 2023. Domestic Revenue is currently mobilized from a narrow base, mostly international trade duties, contributing over 80 percent of the total. The challenges of revenue mobilization are attributed to insecurity, governance weaknesses, economic fragility, and weak tax administration.

- **Timely implementation of revenue reforms should be undertaken**, by strengthening human resource capacities in tax administration, and tax policy making. Also, efforts are required to widen the tax base, enact appropriate legislation, and review tax rates to ensure they conform to global best practices and implement advanced technology systems for tax compliance.
- **The FGS should establish an autonomous Revenue Authority and enable it to acquire all necessary capabilities for a robust and efficient tax administration.** Harmonizing trade taxes throughout the country and completing the ad valorem customs duties reform is key to augmenting domestic revenues. Tax revenue mobilization from large businesses is also essential to achieve enhanced domestic revenue collection in the country.
- **Strengthened expenditure management through strict controls, transparency, and accountability is required to address personnel payments and procurement excesses.** Impactful civil service reforms and budget expenditure containment are vital for allocating more FGS resources for critical social services and increasing capital expenditure.
- **Development of a cooperative fiscal federalism requires political consensus on assigning expenditure responsibilities and equitable allocation of national resources.** The FGS and FMSs must also put in place a broad assignment of domestic revenue and external resource inflows built on equitable and non-political socio-economic indicators.
- **To maintain national debt sustainability in medium and long term**, policies and processes for contracting external loans should be put in place urgently, and legislation should be enacted to mandate the role of parliamentary approval for all new external borrowing.
- **Public participation in the budgeting process is highly lacking in the formulation, execution, and oversight of the budget processes.** Transparency and oversight of government budget processes, according to OBS global reports findings (in 2021 & 2023), are also low. Accordingly, consultative discussions with civil society members and dissemination of official reports through mainstream and social media outlets should be prioritized.
- **Evidence shows that social spending has not improved much over many years, at 17% in 2020 and 19% in 2024 in total FGS expenditure.** As productivity, quality, and life expectancy depend on adequate delivery of health and education services, the government should prioritize the provision of essential social services in the allocations of available resources.

ANNEX 1: Recent Open Budget Surveys (OBS) of Somalia: Results and Recommendations

1. Introduction

This Annex to the Budget Policy Brief for Somalia summarizes the assessment, findings and recommendations of the 2021 and 2023 Open Budget Surveys (OBS) in the areas of financial transparency, public participation, and budget oversight in the national budget processes and performance.

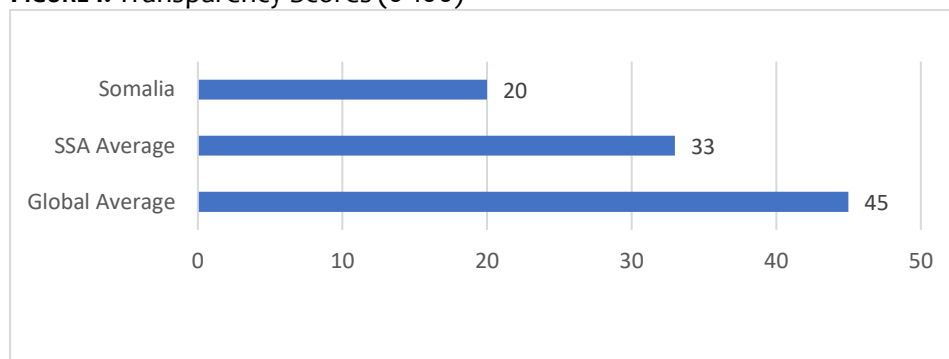
The Open Budget Survey (OBS) is an independent, comparative and fact-based research instrument that uses internationally accepted criteria to assess public access to central government budget information; formal opportunities for the public to participate in the national budget process; in transparent and timely information on public financial operations, on and the role of budget oversight of the legislatures and national audit offices. The most recent OBS survey was conducted for the year 2023 for 125 countries and the comprehensive findings and recommendations announced and disseminated in May 2024. This Annex to the Somalia Budget Policy Brief provides summary of the assessment conducted, the findings and the key recommendations in the three areas of focus: transparency, public participation, and budget oversight in the 2021 and 2023 surveys.

According to the Open Budget Processes (OBS) reports for the last two rounds of 2021 and 2023, it was assessed that Somalia's Budget processes lack effective transparency, participation by the civil society is practically non-existent, and oversight by the legislature and the Supreme Audit Institution is weak. The Auditor General's Office employees are not adequately trained; and the parliament's ability to adequately oversee the budget and financial oversight of the government is hampered by weak procedures and low capacities.

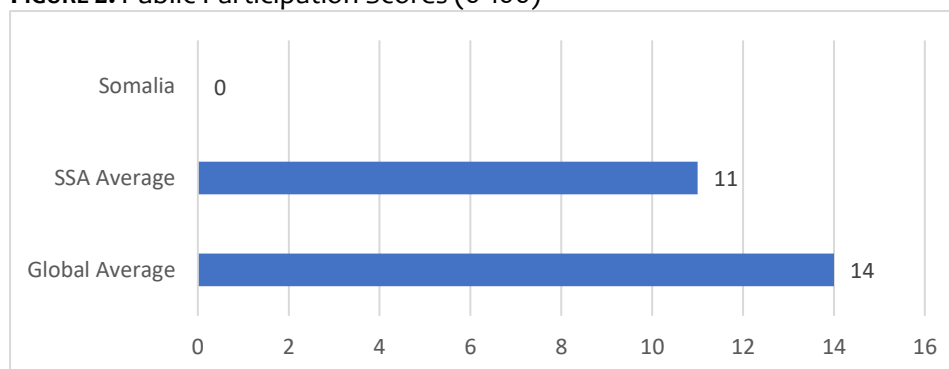
The required reform strategies to enhances public finance management should provide a structured and sequenced framework to carry out specific reform activities, guide the mobilization of resources, and improve coordination as well as sustainability of the reforms aimed at strengthening PFM systems to achieve the highest possible efficiency, transparency and accountability in the allocation of resources, to meet the country's development and economic growth priorities. This requires adequate institutional and individual capacities, which necessitates urgent implementation in addressing the recommendations provided to make progress.

2. The 2021 OBS Assessment and Findings

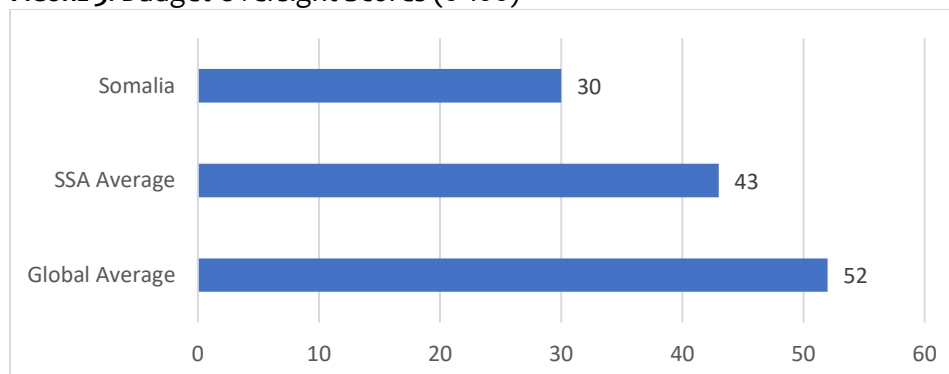
Transparency: A key component of the OBS tool kit is assessing and measuring public access to information on how the central government raises and spends resources. A transparency score of 61 (out of 100) or above indicates a country is meeting the baseline score for transparency by publishing adequate information publicly on a timely basis. Somalia's score for transparency was very low at 20 (out of 100), and was considerably lower than the average scores of the Sub-Saharan Africa (SSA) and the globe at 33 and 45 (out of 100), respectively, in the 2021 survey transparency ratings (figure 1).

FIGURE 1: Transparency Scores (0-100)

Public Participation: One of the three pillars of OBS is also Public Participation which assesses the formal opportunities given to the public for meaningful participation in the different stages of the budget process. Based on 18 equally weighted indicators, countries get scores with a 0-100 range. Figure 2 below presents the assessment scores for public participation in Somalia, in comparison with Sub-Saharan Africa (SSA) and global averages. Somalia score of 0/100 indicates that there was no measurable participation.

FIGURE 2: Public Participation Scores (0-100)

Budget Oversight. The OBS examines the role played by the Legislature and the Supreme Audit Institutions (SAI) or Auditor General's Office in the budget processes and the extent to which they provide oversight. It is a measure based on 18 equally weighted indicators, and countries get scores within a 0-100 range. Somalia's score at the 2021 OBS assessment was 30 (out of 100) and was also significantly below the SSA and global averages of 43 and 52 (out of 100) respectively (figure 3).

FIGURE 3: Budget Oversight Scores (0-100)

3. The 2023 OBS findings and recommendations

Based on the OBS assessment in 2021, public participation, transparency and access to budget information, and external scrutiny were extremely limited in Somalia. Moreover, the recently launched results of the 2023 OBS further confirmed that these more recent findings and conclusions have not materially improved, between the two rounds, except for more availability of information to the public on a timely basis. Accordingly, this section of the Budget Brief Annex summarizes the findings of the 2023 OBS relating to transparency and access to information, public participation, and budget oversight; and focuses on detailing appropriate recommendations and interventions of the latest report in each category.

Transparency findings and recommendations: The public access to information on how the central government of Somalia raises and spends public resources, which defines the transparency indicator) was a score of 37 (out of 100) in the latest assessment. Transparency in Somalia in 2023 improved measurably from the of low score of 20 (out of 100); but was well below the global average of 46/100, and much lower than the required minimum score 61 (out of 100) for desirable performance.

Consequently, for Somalia to improve budget transparency the authorities should prioritize the following actions:

- (i) The Citizens Budget should be published online in the same timeframe as the document it simplifies while the Mid-Year Review should be published no later than three months after the end of the midpoint of the fiscal year it report on.
- (ii) Include in the Executive's Budget Proposal data on the macroeconomic forecast and information on performance and policy. The Executive's Budget Proposal should also present information on how new policy proposals affect expenditures and revenues.
- (iii) Include in the Year-End Report comparisons between borrowing estimates and actual outcomes and comparisons between planned nonfinancial outcomes and actual outcomes.
- (iv) Improve the comprehensiveness of the Audit Report and In-Year Reports.

Public participation findings and recommendations: The practices of the central government's executive, the legislature, and the supreme audit institutions (SAI) weighted indicators, aligned with the Global Initiative for Public Participation in Fiscal Policies were practically none existent. As in the previous round ratings, Somalia has a public participation score of 0 (out of 100) in the recent OBS 2023 assessment. Such lack of participation leads to a lack of public trust and confidence in government operations, and poor perceptions of domestic and international investors, which adversely impacts on sustained recovery.

To strengthen public participation in the budget processes, Somalia's Ministry of Finance should prioritize the following actions:

- (i) Pilot mechanisms to engage the public during budget formulation and to monitor budget implementation.
- (ii) Actively engage with vulnerable and underrepresented communities, directly or through civil society organizations representing them.

- (iii) Somalia's Federal Parliament should prioritize allowing members of the public or civil society organizations to testify during its hearings on the budget proposal prior to its approval, and the public or civil society organizations to testify during its hearings on the Audit Report.
- (iv) Somalia's Office of the Auditor General should establish formal mechanisms for the public to assist in developing its audit program and to contribute to relevant audit activities.

Budget oversight findings and recommendations:

The OBS examines the role that legislatures and supreme audit institutions (SAIs) play in the budget process and the extent to which they provide oversight. These institutions in Somalia, together, provided weak oversight during the budget processes, with a composite oversight score of 30 (out of 100) in the 2023 OBS assessment, and remained unchanged from the 2021 score on the oversight of the preparation, execution and reporting processes of the budget.

Somalia's Federal Parliament thus provides weak oversight during the planning stage of the budget cycle and the implementation stages. To improve oversight, the following actions should be taken:

- (i) The legislature should debate budget policy before the Executive's Budget Proposal is tabled and approve recommendations for the upcoming budget.
- (ii) The Executive's Budget Proposal should be submitted to legislators at least two months before the start of the budget year, and the legislative committees should examine the Executive's Budget Proposal and publish reports with their analysis online.
- (iii) A legislative committee should examine in-year budget implementation and publish reports with their findings online.
- (iv) A legislative committee should examine the Audit Report and publish a report with their findings online.
- (v) To strengthen independence and improve audit oversight by the Somalia Office of the Auditor General, the appointment and removal of the head of the supreme audit institution. Should require legislative or judicial approval. Also, the supreme audit institution should be ensured adequate funding to perform its duties, as determined by an independent body (e.g. the legislature or judiciary).

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