

A review of Somalia's 2023 annual budget: Continued dependency on external support

Summary

The Federal Parliament of Somalia endorsed the 2023 annual budget in a joint session on December 28, 2022. The Federal Government of Somalia's (FGS) annual budget for 2023 has made slight increase from 2022 spending plans of \$929.9 million to \$977.2 million in 2023. Hence, 283.3 million (30%) of the entire revenues will be mobilized through domestic revenue while \$667.3 million (70%) will be received as bilateral and multilateral support from donors to supplement domestic revenue. This shows a decline of \$27.4 million (-4%) from the 2022 pledged donor grants.

However, the donor dependent budget proposal shows domestic revenue collection weakness to fund the huge expenditure. In the 2023, the expenditures were divided into administration (35%), social service (27%), defense and security (20%) and economic sector (18%). Nevertheless, the FGS annual budget has increased with time since 2013.

In addition, this analysis examines the disparities in the 2023 annual budget, in terms of expenditure and revenues with recommendations to meet debt relief completion point triggers.

A review of Somalia's 2023 annual budget: Continued dependency on external support

Introduction

After the ending of the transitional period in 2012, and adaption of the new Provisional Constitution that formed the Federal Government of Somalia (FGS) and the Federal Member States (FMS), Federal Parliament of Somalia has been approving the federal annual budget.

2023 annual budget

Though the provisional constitution describes general principles of parliamentary approval; however, the legal framework for budgeting is primarily governed by the public Financial Management Act (2019). The budget calendar year runs from 1st January to 31st December. Each year, the executive through the Ministry of Finance presents a statement of revenues and expenditures for the coming financial year to the federal parliament for legislative review and approval before coming into law. Ideally, the budget translates a government's policies and objectives into decisions on how to mobilize revenues, and how to use this money to meet the country's competing priorities.

On November 14, 2022, the cabinet approved an amount of \$967.7 million for 2023 fiscal year. On November 30, the Minister for Finance, Hon. Dr. Elmi Nur tabled 2023 FGS fiscal budget to a joint session of federal parliament (House of the People and Upper House). The Minister presented to the joint session a spending plan of \$967.73 million of which \$462.2 million will be used for recurrent expenditure while \$505.4 million for development

projects. This represents a slight growth from 2022 fiscal budget estimates (\$929.9 million).

The minister noted that in 2023, a 283.3 million (30%) of the revenues will be mobilized through domestic revenue collection. The Federal Government of Somalia (FGS) will receive \$667.3 million (70%) of external revenue for the 2023 fiscal budget through bilateral and multilateral assistance to complement domestic revenue.

The federal parliament assigned a joint Budget and Finance committee to review the proposed budget and to submit a report to the joint session. There is no definitive timeline in the constitution or parliamentary standing orders that provide a specific period for the committee to submit a review report to the parliament. On December 25, the joint budget committee submitted the review report to the joint session of the parliament. The committee report suggested some changes to the budget figures. MPs debated the committee findings in the house plenary.

Hence, final approved annual budget by the federal parliament increased \$11 million to the earlier executive submitted proposal. However, the joint budget committee report, noted that changes were made to some expenditure heads as well as additions of new money from the EU which was not included earlier in the revenue estimates after the executive submission of the budget. The committee report further highlighted that changes also occurred to the project funds by reducing \$8.7 million less of the executive submitted estimates. The MDAs where new additions occurred include ministry of defense (SNA, army hospital), ministry of health (Banadir and

De Martino hospitals), ministry of education (recruitment of new 3,000 teachers), the presidency office, House of the People, National disaster management agency, ministry of Petroleum, ministry of religious affairs and endowment, ministry of youth and sports, NISA, auditor general office, and the attorney general office. On December 28, the federal parliament approved the 2023 annual budget.

Besides, the federal government of Somalia merged ministry of constitution into the ministry of justice and dissolved the Ministry of Humanitarian and Disaster Management while introduced a new line ministry of Environment and Climate Change in the new council of Ministers.

Revenue status in 2023 annual budget

The annual budget is made up of revenue and expenditure components. However, in 2023, 283.3 million (30%) of the entire revenues will be mobilized through domestic revenue. The budget document estimated a domestic revenue increase of \$33.2 million (13%) from 2022 projected revenue, \$250.5 million, though the budget plan estimates that it will fall \$2 million short as of December 31, 2022 when the books are closed.

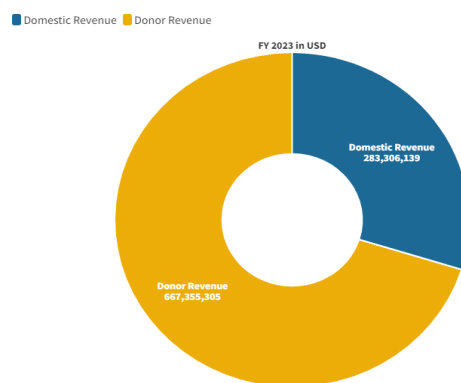
Furthermore, the [2023 budget strategy](#) envisions the implementation of certain measures to improve the domestic revenue collection in 2023. The strategy details that the new measures will include enforcement collection of spectrum fees (\$6 million), increase tax on khat from \$3 to \$4 per kg (\$6 million), sales tax (\$20 million), and corporate income tax collections from large businesses (\$5 million). The strategy

also forecasts that the new measures are expected to increase domestic revenues base in 2023.

On the other hand, the Federal Government of Somalia (FGS) will receive \$667.3 million (70%) external revenue for the 2023 annual spending plans through bilateral and multilateral support to supplement domestic revenue. This shows a decline of \$27.4 million (-4%) from the 2022 pledged donor grants.

On the other hand, the budget document foresees that federal government will only get \$308.3 million external revenues for 2022 annual budget as of December 31, when the accounting books for the fiscal year are closed. This presents a decrease of \$359 million of what 2022 budget anticipated collecting from the donor grants.

The joint budget and Finance Committee report highlighted that the decline was due to the cut off the 2022 budget support from the United Arab Emirates (UAE) and decline of World Bank funds. Furthermore, in 2023, FGS anticipates to fund thirty percent (30%) of its expenditure while seventy percent (70%) will be bankrolled through bilateral and multilateral support.



Source: Ministry of Finance • In 2023, external revenues outweigh domestic revenues.

The 2023 budget motto of “Reliance on our revenue power” and domestic revenue collection estimates sound differently. The 2023 annual budget document shows a big difference in revenues as Somalia expects to receive more than the double of domestic revenue from the donor support to meet demanding priorities.

As the federal budget figures reached its highest in recent years; however, it reflects inconsistencies in revenue mobilization where the external grant takes the major share of the budget while the domestic revenue collection has not expanded in the last decade when compared to the donor budget support. The federal government’s domestic revenues mostly come from Mogadishu as the reach of the tax authorities beyond the capital city is limited.

Sector allocations in the budget

The 2023 budget allocated expenditures in four sections of administration \$346.7 million (35%), defense and security \$197.1 million (20%), economy \$172.6 million (18%) and social services \$260.6 million (27%). The social sector will receive the second highest percentage after the administration in the 2023 expenditure. This social budget increase is due to the social development programs support from the international donors.



Source: Ministry of Finance • The administration sector continues to dominate budget expenditure in 2023.

Recurrent v capital spending in 2023 budget

Federal Government of Somalia (FGS) budget has seen a growth in recent years, it is significant to point out that the majority share of the 2023 annual budget is dominated by recurrent expenditure, while limited funds allocated for the public services delivery. Of the \$977.2 million budgeted for the fiscal year, a total of \$685.1 million (this includes administrative and recurrent expenses for projects) equivalent to seventy one percent (71%) will be spent on recurrent expenditure.

Additionally, the recurrent costs are identical goods and services expenditure across all the budgeted ministries, departments and agencies (MDAs) and includes public sector salaries, allowances, rent, office material, fuel and lubricants, repairs and maintenance, travel, meeting expenses, fixed items, utilities, education and advisory services and so on. On the other hand, \$255 million (26%) of the total expenditure will go to social security benefits for both in-cash and in-kind schemes.

Though the allocations for the four sectors in the budget increased, however, the economic and social sectors experienced staggering

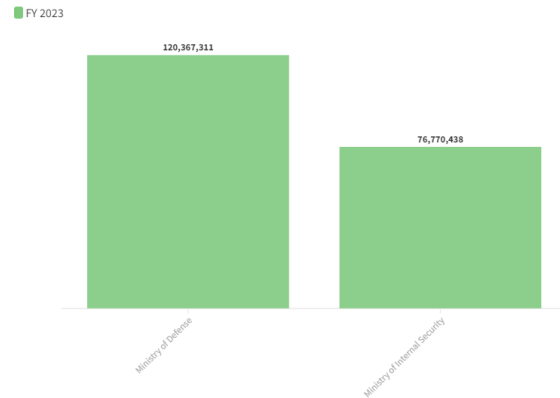
improvement in recent years. While this development deserves to be applauded, disparities still exist in domestic revenue mobilization when compared to the recent upsurge of external budget support.

For Somalia to reach the debt relief completion point in late 2023, FGS needs to increase its domestic revenue base to be able to finance both recurrent and developmental projects which are now partially supported by foreign donors.

Defense and security allocations in 2023

An amount of \$197.1 million, equivalent to (20%) of the whole fiscal expenditure in 2023, is allocated to the defense and security sector. It also shows an increase of \$34.3 million (21%) from \$162.8 million spending in 2022. However, in 2023, \$120.3 million is budgeted for the Defense, and divided Ministry of Defense (\$5.2 million), Somali National Army (\$113.2 million), Military Court (\$1.7 million) and Orphans and Disabled agency (\$115,000). However, there is no explanatory note to reason the increase of defense budget but it may be related to the new offensive war against Al-shabaab and liberations in regions, and allocations for the soldiers trained in Eritrea who is returned into the country.

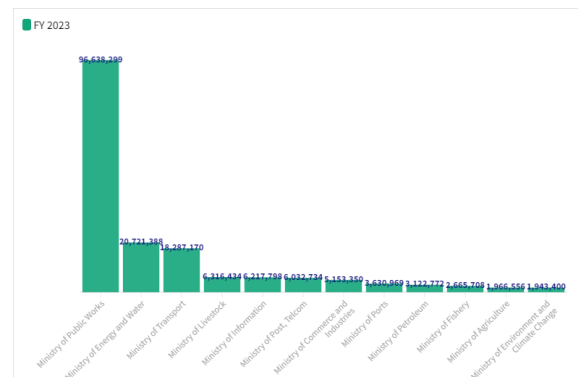
On the other hand, \$76.7 million is planned for the security and distributed to Ministry of Internal Security (\$2.3 million), Somalia police (\$45.8 million) NISA (\$23 million), and Immigration and Naturalization Department (\$5.4 million). There is an increase of \$10.1 million to the security sector expenditure in 2023.



Source: Ministry of Finance • Defense expenditure overshadows the security budget.

Economic sector funding in 2023

In 2023, \$172.6 million (18%) of the whole fiscal budget was allotted to the income generating ministries. However, there is a growth of \$89.6 million (108%) from the 2022 spending plans of \$83.6 million. Furthermore, the budget document estimates that the economic sector will spend up to \$42.9 million as December 31, 2022 when the accounting books close. This presents a decline of \$40.1 million of what was initially anticipated in the 2022 projections. However, this decrease may coincide with the decline of external revenues as the majority share of the economic sector expenditures are developmental projects funded by multi-lateral donors.



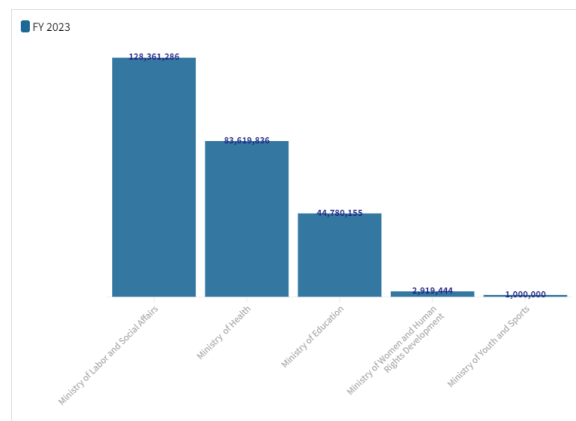
Source: Ministry of Finance • Ministry of Public Works leads expenditure allocations in economic sector with 96.6

Under this sector, the Ministry of Public Works and Reconstruction will get the highest share of \$96.6 million followed by the Ministry of Water and Energy with \$20.7 million and the Ministry of Transport with \$18.2 million. The rest of the ministries in this category will receive around \$6 million or less in the 2023 appropriation. In the new cabinet, a new Ministry of Environment and Climate Change was introduced and added to the economic sector with allocations of \$1.9 million.

The social sector spending in 2023

In 2023 fiscal budget, \$260.6 million (27%) is assigned for the service delivery ministries. Five ministries are under this sector, namely, the Ministry of Labor and Social Affairs, the Ministry of Education and Higher Education, the Ministry of Health, the Ministry of Women and Human Rights Development and the Ministry of Youth and Sport. In 2023, the social sector figures experienced a decline of \$63 million (-19%) from 2022 numbers of \$323.7 million.

However, the budget document estimates that the social sector expenditure will be \$91.4 million as of December 31, 2022. This shows a difference of \$232.3 million from what was budgeted for this sector in the 2022 allocations. The highest percentage of the social sector expenditure depends on external grants through World Bank's International development Association (IDA) intended to finance social programs; however, the 2022 annual budget met a shortfall from the external revenue as the donors put off the budget support due to the prolonged parliamentary and presidential election completion.



Source: Ministry of Finance • Ministry of Labor and Social Affairs still dominates social sector allocations in

In the past years, Social expenditure has continued to experience dramatic change as Somalia received external budget support for the social services programming. It is recognized that this has increased the social sector funding.

In 2023, Ministry of Labor and Social Affairs continued to dominate the social sector allocation with \$128.3 million. This represents a deficit of \$103.3 million from 2022 projections of \$231.7 million. Though this disparity is worth noted; however, the 2023 annual budget document foresees that the Ministry of Labor and Social Affairs will use an expenditure of \$65.8 million as of December 31, 2022 when financial books for the year are closed.

The majority of the funds, \$126.2 million will go for social security benefits programming, while an allocation of \$1.7 million is anticipated for salaries, allowance of the ministry staff and goods and services expenses.

Moreover, the Shock Responsive Safety Net for Human Capital, (also known as Baxnaano) under the guidance of the Ministry of Labor and Social Affairs will receive an allocation of \$120.3 million. The Baxnaano program funded by the World Bank provides Social security benefits (in cash) to targeted poor and

vulnerable households in the federal member states.

Additionally, the Shock Responsive Safety Net for Locust response project is budgeted for \$5.2 million to respond to the locust outbreak by providing Social security benefits (in cash) to poor and vulnerable rural locust affected households, while the balance of \$641,230 thousand goes to Sagal project. All of these projects are implemented by International Aid agencies, and the Federal Government of Somalia (FGS) has limited interventions on the planning and management of the programs.

In addition, \$83.6 million is budgeted for the Ministry of Health to use in 2023 fiscal year. However, this presents a growth of \$25 million from 2022 budget plans of \$58.5 million. Nevertheless, the largest share of \$49.3 million is budgeted for SOM-COVID while an allotment of \$25.2 million goes to Damal Caafimaad, and \$4.7 million to the Recurrent Cost Reform Financing (RCRF III) respectively.

Furthermore, the Ministry of Education and Higher Education will receive an expenditure of \$44.7 million in the 2023 annual budget. It shows an increase of \$14.6 million from 2022 spending plan of \$30.1 million. Of \$44.7 million, \$34.7 million is planned for the Ministry of Education, Culture and Higher Education to finance recurrent expenditure and developmental programs to enhance the education sector.

The rest of allocations are planned to fund Somali National University \$7.2 million, the Somali Academy of Science

and Arts \$1.4 million, and the Intergovernmental Academy of the Somali Language \$1.3 million.

In addition, \$2.9 million was allocated to the Ministry of Women and Human Rights Development. This shows a growth of \$586,290 from 2022. In 2023, the Ministry is partnered with UNDP for the implementation of \$1.2 million for development project.

Finally, the Ministry of Youth and Sports will get an amount of \$1 million in the 2023 annual budget. This highlights a growth of \$90,540 from 2022 allocations of \$909,460. Though, the budget allocation for other ministries in the social sector experienced a staggering growth in the last several years, the Ministry of Youth and Sports has not attracted the demand to increase budgetary allocations.

World Bank's Somalia poverty and vulnerability assessment report in 2019, articulated that Somalia remains one of the poorest countries in Africa, with nearly seven out of ten Somalis living in poverty and per capita annual income estimated at approximately \$315 in 2018.

According to [RTI](#), International development agency, more than 60 percent of Somalia's population is under the age of 25. Similarly, a report published by [Statista](#) in 2021, indicated that the youth unemployment rate in Somalia is at 34.74 percent; hence, the ministry responsible for the affairs concerning youth development and sports does not attract the Federal Government of Somalia's attention to improve the budgetary allocations.

Way forward

In recent years, FGS annual budget has made staggering growth. This immense progress is worthy to recognize, as the federal government pushes towards cultivating public service delivery and increasing domestic revenue collection base.

In addition, International Monetary Fund, in its [country report 2022](#), noted that Federal Government of Somalia has made steady progress towards the debt relief under the HIPC process which will lay the ground for the Completion Point to be reached in late 2023.

Despite FGS's strong commitment to domestic revenue mobilization reforms and harmonization efforts and the sound progress achieved so far; domestic revenues in the country still remained low.

Conversely, it is worth mentioning that FGS will need to meet Completion Point triggers to reach full debt forgiveness.

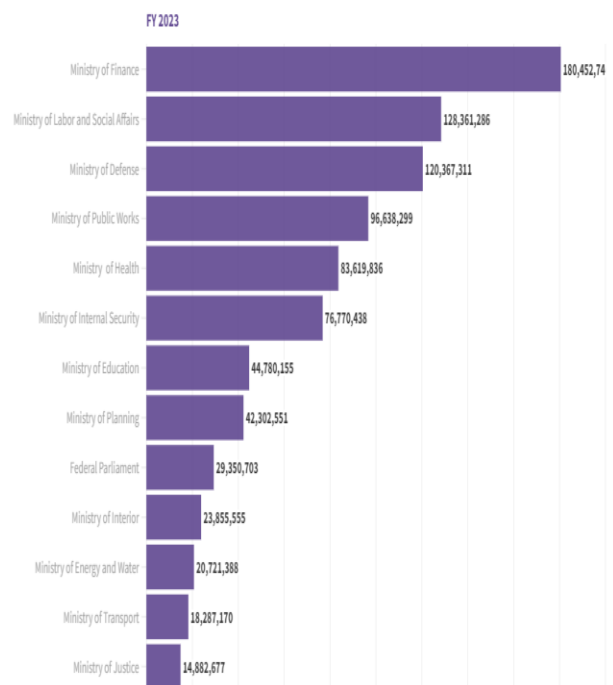
While Somalia has made great strides on the single tariff schedule arrangements, yet again, FGS is obliged to adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia to implement this key trigger for FGS to reach HIPC completion point in late 2023.

The implementation of this trigger will help FGS to expand domestic revenue mobilization as the tax collection base goes beyond Mogadishu.

Finally, Somalia to be fully relieved of debt burden, the FGS should also implement the completion point triggers for Governance, anticorruption, and

natural resource management, Debt management, Social sectors, and Growth/structural and Statistical capacity.

The IMF and World Bank noted that timing will depend on finalizing the completion point triggers and the debt relief agreements with creditors. Failures to meet this completion point triggers may further push-back the debt relief completion point envisioned now in late 2023.



Ministry of Finance • Ministries with highest allocations in 2023 annual budget.