



GOVERNMENT

BUDGET

2023 BUDGET IN BRIEF
HOW YOUR MONEY IS
ALLOCATED

Executive Summary

The annual budget is the government's most important policy instrument that shows the government's policy priorities. It covers all the government's proposed revenues and expenditure. The budget documents clearly show where the money is generated from and how the public money is spent with in the Fiscal calendar that runs from January to December.

The Budget preparation goes through rigorously process starting from strategy setting by Minister of Finance and ends the legislature approval of the budget. According to Public Financial Management act, article 17 annual budget preparation, the Minister of Finance must submit the proposed annual budget and Appropriation Bill to Parliament on 30th October. However, the budget was submitted to parliament on December, 2022. After three-week debate and discussions on budget by committee level and in-house session chaired by the Speaker of the house of the people. Finally, on 28 December, a jointly session by the two houses, the Members of the parliament approved the national budget.

The Government Budget has been growing progressively over the last decades. This year the federal government budget had reached nearly a billion budget. The 2023 budget is project to be 977 M, which is 4 Percent higher 2022 Budget. The recurrent expenditure is budget for 480.4 M. while, 496.8 Million goes the project expenditure. The federal government only covers 30 percent of total expenditure, the rest will be financed through donor fund.

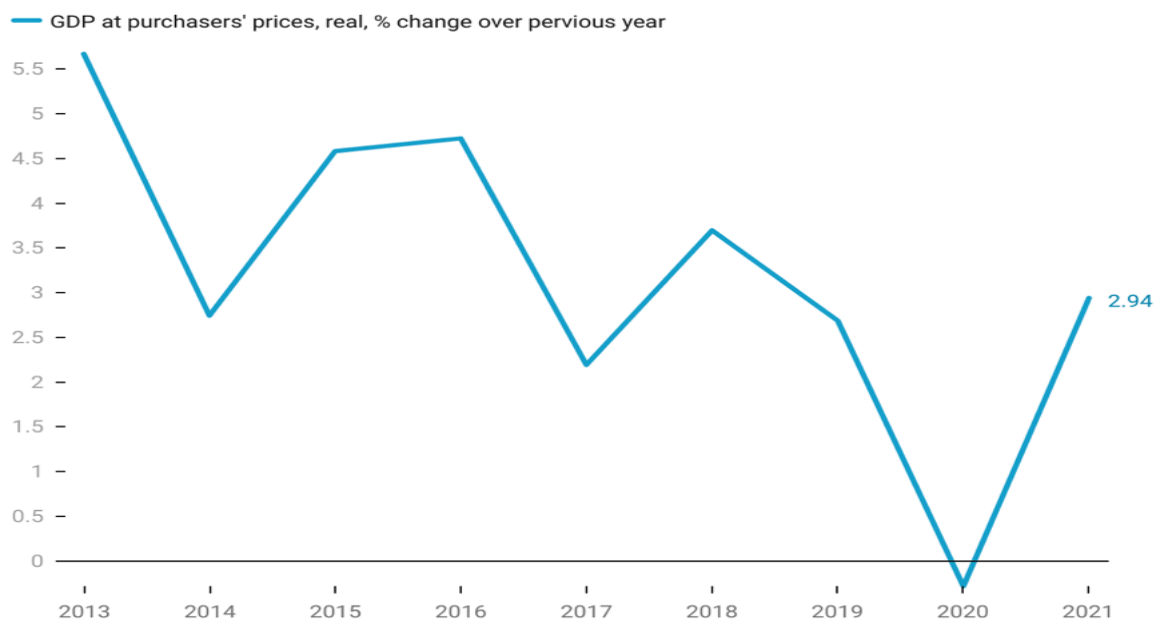
This budget brief aims to explain the 2023 budget, particularly, it analyzes how the money will be raised and spent in 2023 fiscal year, the sectoral allocations of the budget, additionally the brief gives a snap shot of Somali's macroeconomic Developments and propose some suggestion to move forward.

1. Macroeconomic Developments

a. Annual Gross domestic product

Somalia is experiencing severe climate shocks as a result of unprecedented droughts, which have impacted key productive economic sectors, particularly livestock and agriculture production. Nevertheless, the Somali economy has been making progressive progress. The real GDP increased by 2.9 percent in 2021, compared with a decrease of 0.3 percent in 2020. This growth rate is higher by 0.5 percent than the 2021 projections. The growth is driven by the recovery from the COVID-19 pandemic. A recovery mode is likely to continue for the coming three years. The annual GDP growth rate was projected to grow by 3.6 percent and 3.7 percent in 2023 and 2024, respectively (World Bank, 2022). A boost in consumption and investment levels due to the increase in trading activities from partners is likely to support economic growth.

Annual Real GDP Growth rate

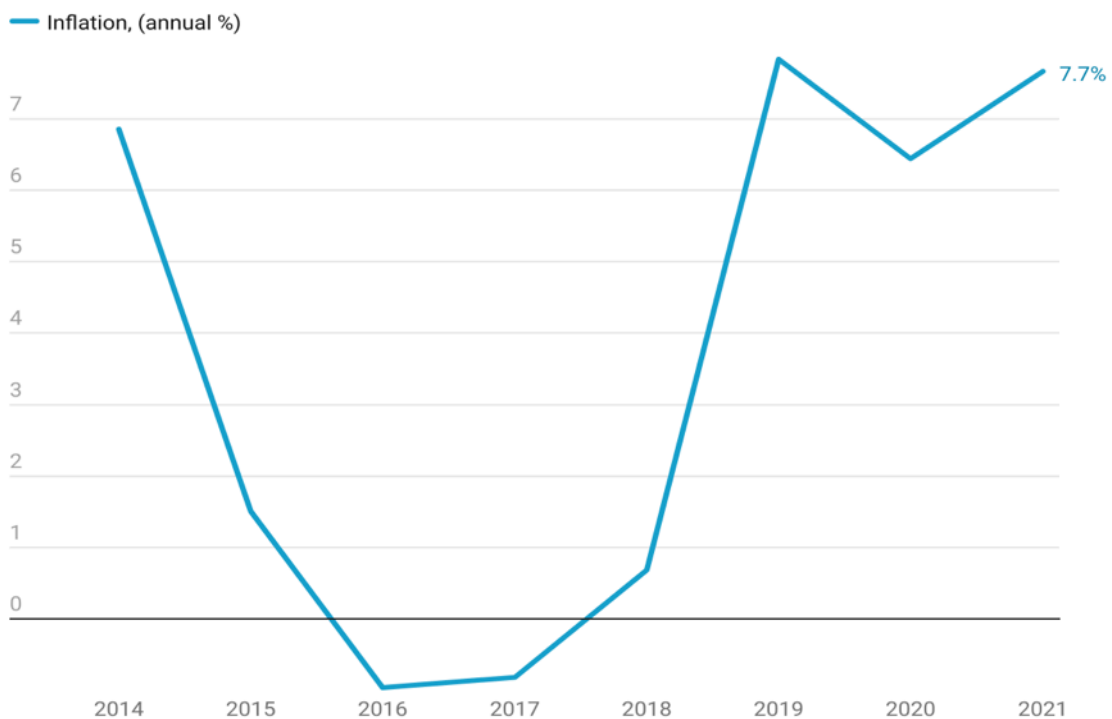


Source, SNSB, 2021

b. Inflation

The domestic inflation rate reached 7.7 percent in the fourth quarter of 2021, which is 1.2 percent higher than the fourth quarter of the previous year, which was 6.4 percent. Inflation continued to accelerate in the first and second quarters of the year due to recent droughts and the war in Ukraine. The food price alone overshoot by 10 percent in the first quarter of 2022 as a result of low agricultural production and a higher global food price caused by the war in Ukraine. The inflationary pressure driven by the increase in world oil prices will be expected to increase domestic inflation. The continued rise in the inflation rate has had a significant impact on the purchasing power of low-income families, worsening inequality.

Inflation, GDP deflator (annual %)



Source: World Development Indicators

2. 2023 National Budget Outlook

The Federal government's Budget has been increasing progressively over the past ten years reaching to a nearly Billion figure Budget. The 2023 approved budget had increased 5 percent compared to 2022 Budget and 47 Percent from the 2021. The theme of the Budget of this year is resourcing the Ninth National development Plan, thus the government budget policy priorities is to finance the national development plan. The Total approved of the 2023 Budget is 977.2M. The recurrent expenditure is budgeted for \$480.4M, whereas the project expenditure is allocated for \$496.7M. The projected budget of 2023 will be financed from domestic revenue from tax and other non-tax revenue and revenue from donor funded projects through bilateral and Multilateral in budgetary and project support programs.

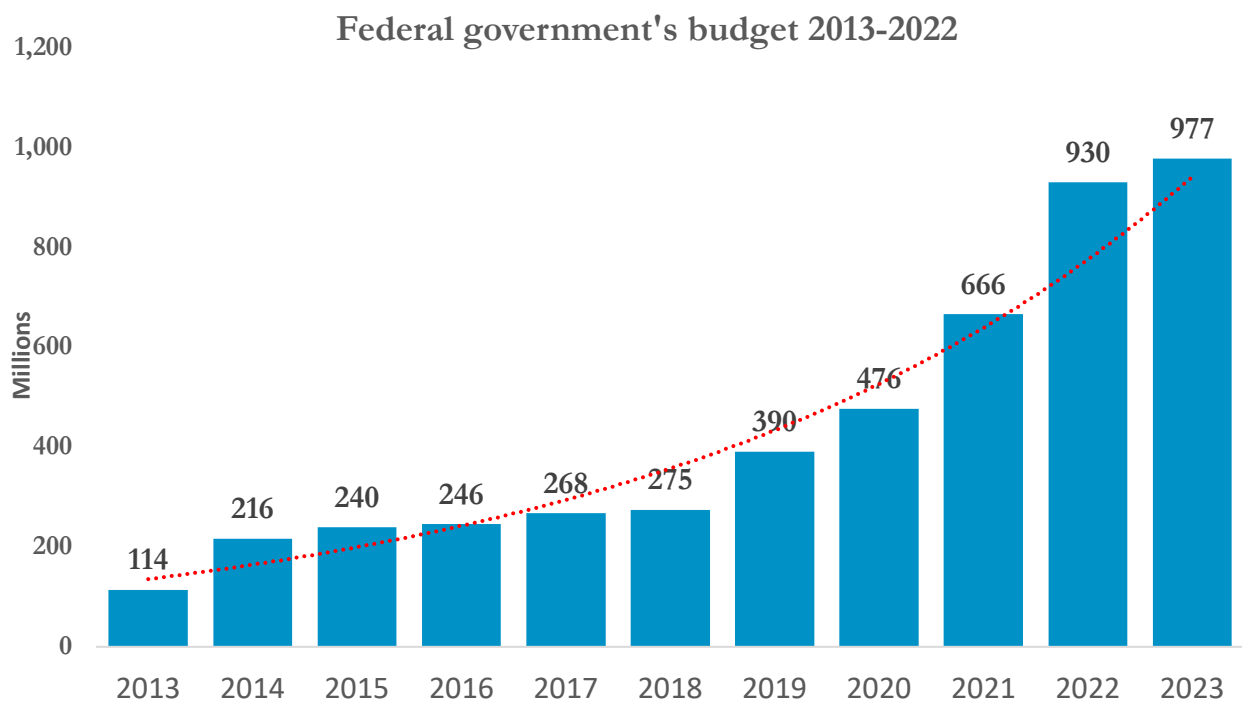
The budget expenditure is to be funded through domestic revenue and revenue from donor funded projects. The donor revenue counts lion's share of the total budget, which is 70.2 Percent of total revenue, while the domestic revenue only covers 29.8 percent of total expenditure.

The domestic revenue is projected to increase by 14.2% in 2023 compared to the forecasted revenue in 2022, which was \$248.1 M, while the budget revenue from domestic in 2023 is \$283.3M. However, the projected domestic revenue counts 29.8% of the total budget revenues. The domestic revenue's share of the of the total revenue in 2023 is higher by 3.40% than 2022 projections, which was 26.50%.

The total donor revenue is projected to be 667.4 M, the revenue from donor is generated through either budgetary or as project support, 170.6M comes through budgetary support, while project support is allocated 496.8 M. It counts 52.3 percent of the donor revenue. Although, the donor revenue has decreased by 3.40%, (2023 is projected to be 70.2 %, of the total revenue compared to

2022 projections which was 73.50%). The revenue from donors still covers largest of the government's budget by 70.2 of the 2023 budget.

As the graph shows that the government's budget rises rapidly during decade from 114.3M reaching to 977.2M. within ten years the budget figure had grown by 755 percent, from 114.3 M to 977,2M.



Source: Ministry of Finance, Budget Document

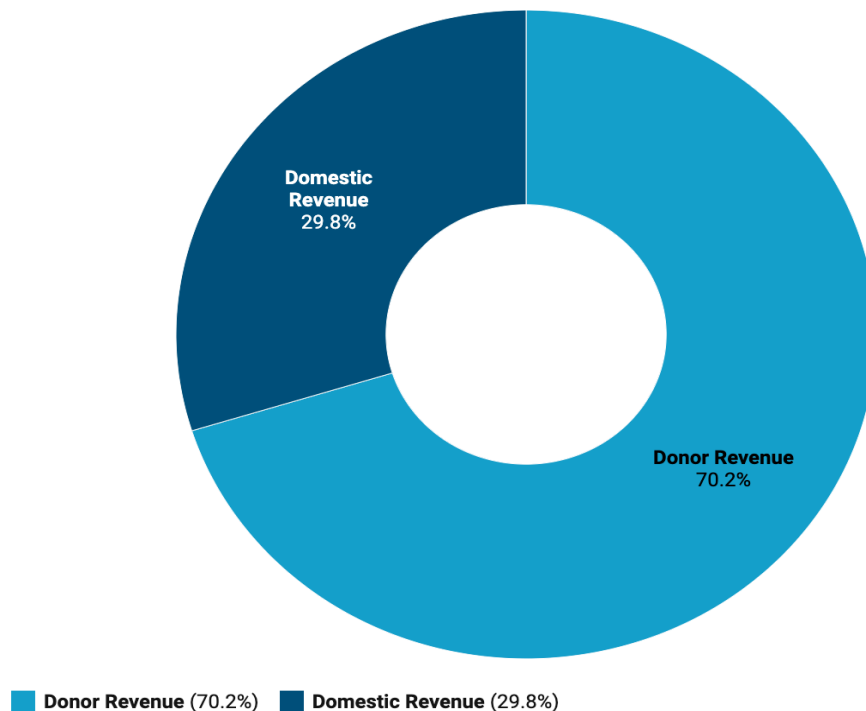
3. Where does Money come from: Revenue Analysis

The annual budget contains total revenues and expenditure projected during the government's fiscal year. The governments expenditures are to be financed by the revenues collected in that year. The revenue is mobilized through revenue generated domestically and donor revenue in the form of budgetary support and Budget support projects.

The total projected revenues and receipts in 2023 was higher than the forecasted in 2022 by 70.9 Percent. The projected revenue of 2023 is \$950.7M, with that amount the domestic revenues counts

29.8 Percent of total revenue. In contrast, the share of donor revenue of the total budget is 70.2 Percent. The increase of the domestic revenue in this year is higher than in 2022 by 5.30%; in 2023, the projected increase in domestic revenue is 14.2%, while, in 2022, it was 8.9%. Yet, the donor revenue counted largest share of the total revenue, the revenue from donor is projected to increase by 165.5% Percent compared to projection in 2022

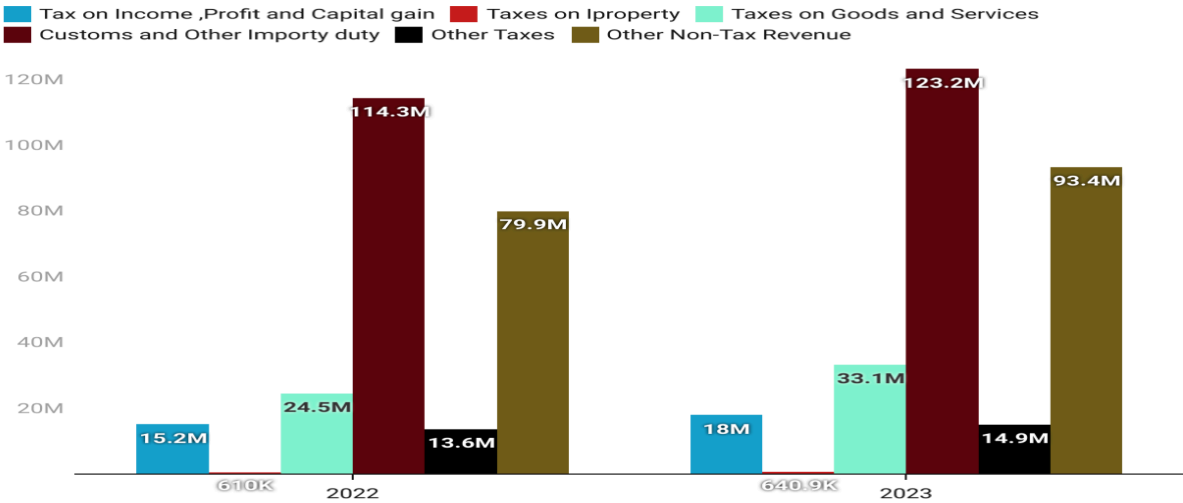
2023 Budget : Revenues



Source: Somali Federal Budget Document ,2023

The domestic revenue comprises Tax on income, profit and capital gain, Tax on property, and Taxes on goods and Services, Customs and Import duties and other taxes revenues and Revenues. The customs and imports are projected to increase by 7.8 Percent compared to 2022 forecasts. Additionally, there is considerable increase on the Tax on income, Profit and Capital gain by 18.7 Percent. The Tax on goods and Services projected in this year is higher 35.2 Percent than the forecasts in 2022, and counts 3.5 Percent of total tax revenue projected in 2023. On other hand, Other taxes is projected to increase by 10.2 Percent in 2023. The Other revenue in this 2023 is higher than forecasts in 2022 by 16.8 Percent but it counted 9.8 percent of the Total domestic revenue.

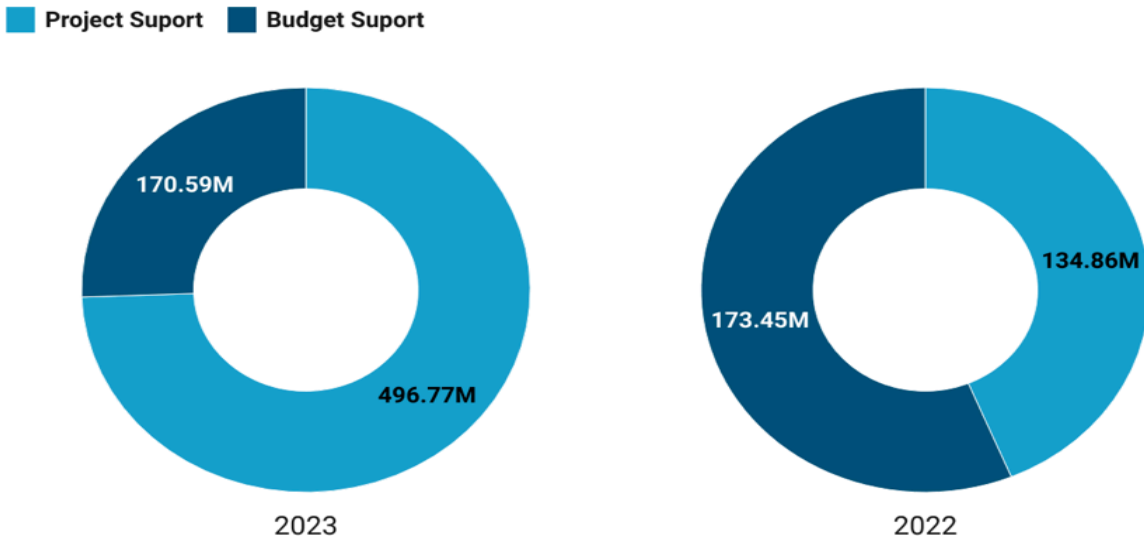
Budget 2023: Domestic revenue



Source: Somali Federal Budget Document, 2023

The donor revenue is generated through either budgetary or project support forms. In the projected donor revenue in 2023, the project supporting funding is increased by 268 Percent compared to 2022, and counts 52.3 Percent of total donor revenue, while the budgetary support is decreased by 1.6 percent to 2022 forecasts but it shares by 17.9 Percent of donor revenue in 2023 projections. The donor funds are generated through Bilateral arrangements from the Turkish Government and Via Multilateral form from the World Bank, African Development fund, and international Organizations.

2023 Budget: Donor Revenue



Source: Somali Federal Budget Document, 2023

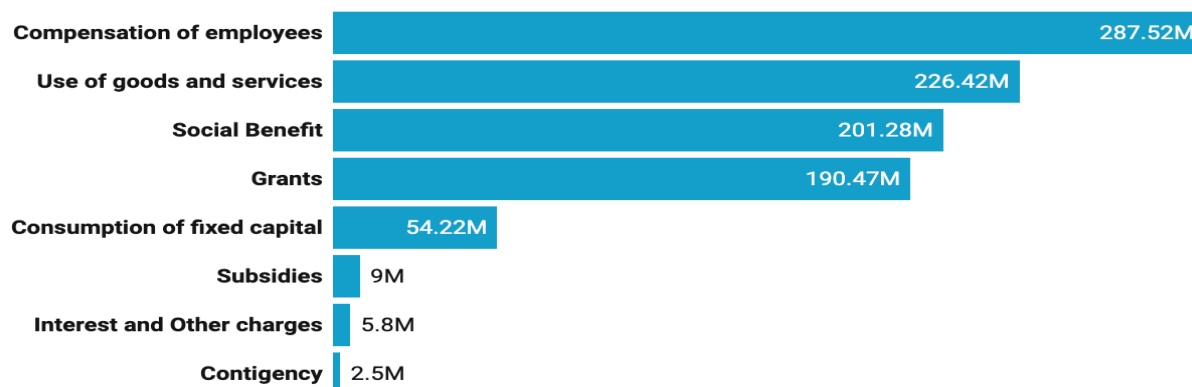
4. How the money is allocated: Expenditure Analysis

The total expenditure in the budget comprises operating expenditures and donor-funded special projects-related expenditures. The 2023 total projected expenditure is projected to be 977.2 M, there is an increase of 77.7 percent compared to 2022 forecasts. The operating expenditure is allocated for 480.4 M, which represents 50.5% of the total Budget expenditure, whereas expenditure related to donor funded was budgeted for 496.8 M, this counts as an increase of 239.7 percent compared to forecasts in 2022.

The allocated budget for operating expenditure goes to compensation and the salaries of the employees, the use of goods and services, consumption of fixed capital, subsidies, grants, and social benefits. 281.7 M of the operating expenditure was allocated to compensation of the government employees, this figure represents a 13.9 percent increase than it was in 2022., and counts as a 29.6 percent share of total operating expenditure. Likewise, the use of goods and services expenditure counts the second largest share of the operating expenditure by 13 percent, an amount of \$123.7M. The consumption of fixed capital was allocated by 15.9M. However, expenditure-related grants given to federal member states via intergovernmental transfers decreased by 40.8 Percent compared to the forecast in 2022, 2023 it allocated 50.9M while the 2022 forecast was 85.9 M.

Moreover, the total project expenditure was allocated 496.8 M, this goes to different expenditure categories. An amount of 5.8M is allocated to salaries for the project's staff and consultants, the use of goods and services was allocated 226.4M, social benefits expenditure counts 201.28M of the total expenditure, while the federal government's transfer to the sates was allocated 190.47M, Expenditure related to consumption of fixed capital, subsidies, interest, and other charges and constituency by 54.22M,9M,5.8M, and 2.5M, respectively.

2023 Budget: Expenditure Categories

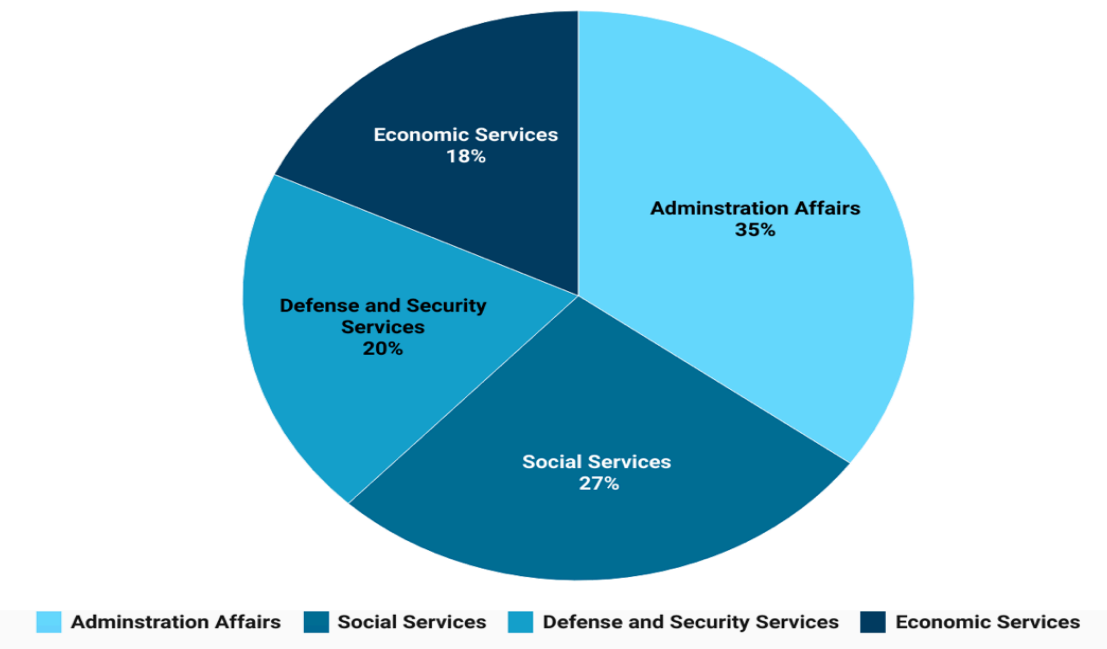


Source: Somali Federal Budget Document ,2023

5. Sectorial Allocations of the 2023 Budget

The 2023 Budget was allocated to four common governmental sectors, namely administrative affairs, Defense and security defense affairs sector, and Economic and Social Services. According to 2023 approved Budget appropriations act, A Significant amount of the budget was allocated to Administrative and Social services at 35 and 27 Percent, respectively, both counting for 607.38M of the total budget. While the remaining amount was allocated to Defense and security and Economic Services by 20 and 18 percent, respectively.

2023 Budget Allocation by Sectors



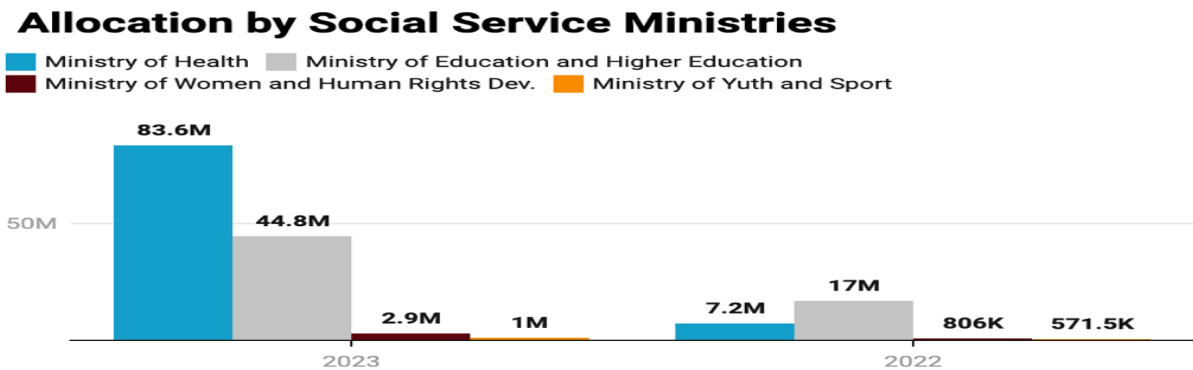
Source: Somali Federal Budget Document ,2023

A significant portion of the 2023 budget allocated to social services- 260.68M goes to the Ministry of Labor and Social Services and the Ministry of Health. About 81 Percent of the 2023 Budget appropriation allocated to the Social service sector goes to the Ministry of Labor and Social Affairs and Ministry of Health by 49 and 32 percent, respectively, while the remaining 48.69M of the Budget allocated to the Social Services sector was given to Ministry of Education and the Ministry of Women and Human rights development by 17.2 and 1.1 Percent, respectively. Only a small portion of the budget goes to the Ministry of Youth and Sport at 0.4 Percent.

The Social service budget is increased by 185 Percent compared to the 2022 revised budget. This increase was justified by the government’s priorities being given to social service delivery. The ministry of health and Ministry of education received the largest share of social sector spending. The budget increase for the Ministry of education is justified by executive plans to improve the education service delivery initiatives. Although there was an increase in the budget allocated to social services, the education sector only counts by 17.2 Percent of the total amount allocated to the Social Services Sector and 4.6 Percent of the Total budget.

Moreover, the overall increase in the budget appreciation for social services also is related to an increase in project expenditure related to specific donor funding projects in the Minister of labor and social services and the Ministry of Health. The Ministry of labor and social services was allocated a staggering amount of 128.36M of the 2023 Budget. The amount of 126.93M of the total budget of the Ministry goes to project expenditure, this represents 98 percent of the ministry’s budget. 95 Percent of capital expenditure goes to Shock-Responsive Social Safety Net for human Capital (Baxnaano Project). Likewise. Similarly, 95% (79.35M) of the budget given to the Ministry of Health is from a specific donor-funded project, and 30 percent of the project expenditure of the ministry was allocated to improving Healthcare Services (Damal Caafimad) Project.

The education Services receive 17.2 Percent of the Budget allocated to the Social Services Sector (44.78M), with this amount, 34.79 Million was given to the ministry of education and Higher education to finance its recurrent expenditure and education development programs .7.2 Million of the minister budget was allocated to Somali National University. Somali Academy Arts and Sciences are budgeted. 1. 4 Million of the sector’s budget .1.36 Million goes to the Intergovernmental Academy of Somali language.

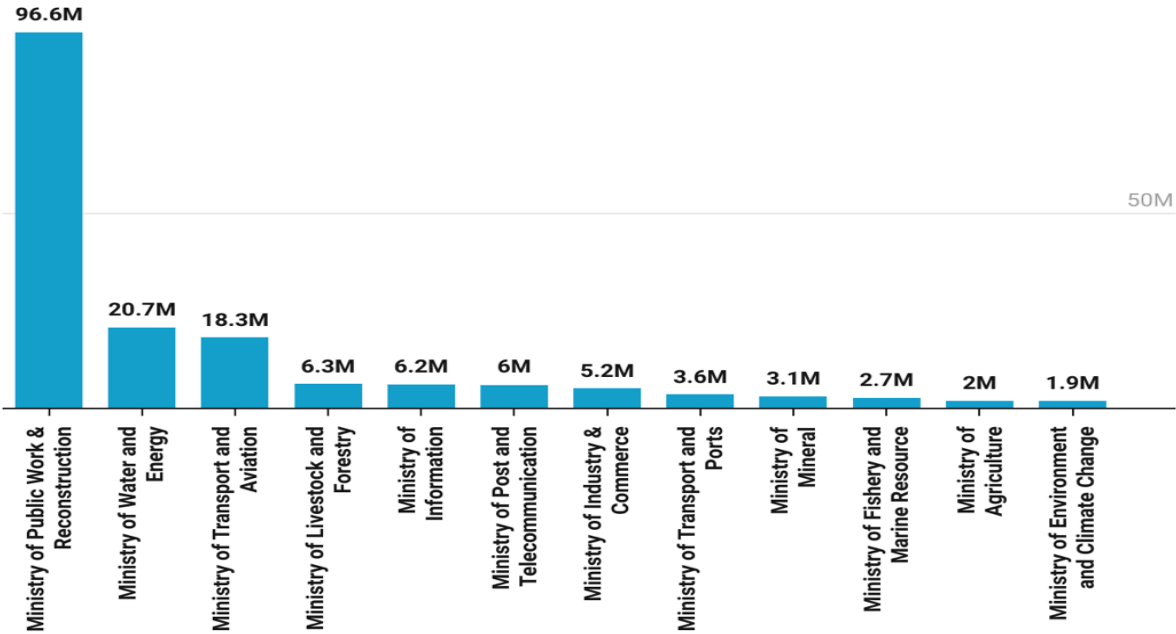


Source: Somali Federal Budget Document ,2023

The economic services sector is allocated 18 percent of the total budget. About 172.69 Million goes to ministers in this sector. Twelve Minister are working under this sector, namely, the Ministry of Water and Energy, Ministry of Mineral, Ministry of Agriculture, Ministry of Livestock and Forestry, Ministry of Fishery and Marine Resource, Ministry of Information, Ministry of Post and Telecommunication, Ministry of Public Work & Reconstruction, Ministry of Transport and Aviation, Ministry of Transport and Ports, Ministry of Industry & Commerce, Ministry of Environment and Climate Change.

The Ministry of Public work and Reconstruction was given the highest share of the sector’s budget, it counts at 56% of the budget, about 96.6 Million. The second largest figure goes to the Ministry of Water and Energy with 20.7 Million of the sector’s budget, whereas, the Ministry of Agriculture and the Ministry of Environment and Climate change was given to less than 2 percent of the sectors budget (1.14, and 1.13 Percent, respectively). Although agriculture is one of the crucial sectors to the development of Somalia’s economy, and securing the country’s food security, spending in agriculture remains the lowest in Economic sector allocation and total spending of the 2023 budget.

2023 Budget: Economic Sector Allocation



Source: Somali Federal Budget Document ,2023

On contrary, the Security sector was budget by 197.2 Million, this represent an increase by 21 percent compared 2022 intern revised projections. 120.4Million of the sector’s budget goes to defense services. The ministry of defense alone was allocated by 5.25 Million. The armed forces were allocated the largest budget of by 113.2Million, there is an increase by 21 increase than in 2022, which was 93.72Million, 1.75 Million of the defense budgets goes to military court, the reaming goes to orphans and Disabled (115 Million). The over increase in defense spending was explained by the governments’ involvement in the offensive war against Al-Shabaab and the liberations in regions.

2023 Budget: Defense service allocations



Source: Somali Federal Budget Document ,2023

Additionally, national security service was allocated 76.8 Million, this shows an increase of 15 percent compared to 2022 projections. The largest budget goes to Police forces (45.8 M). National security service is allocated 23.1M, the remaining amount goes to the immigration department and Ministry of national security by 5.5M and 2.4 respectively.

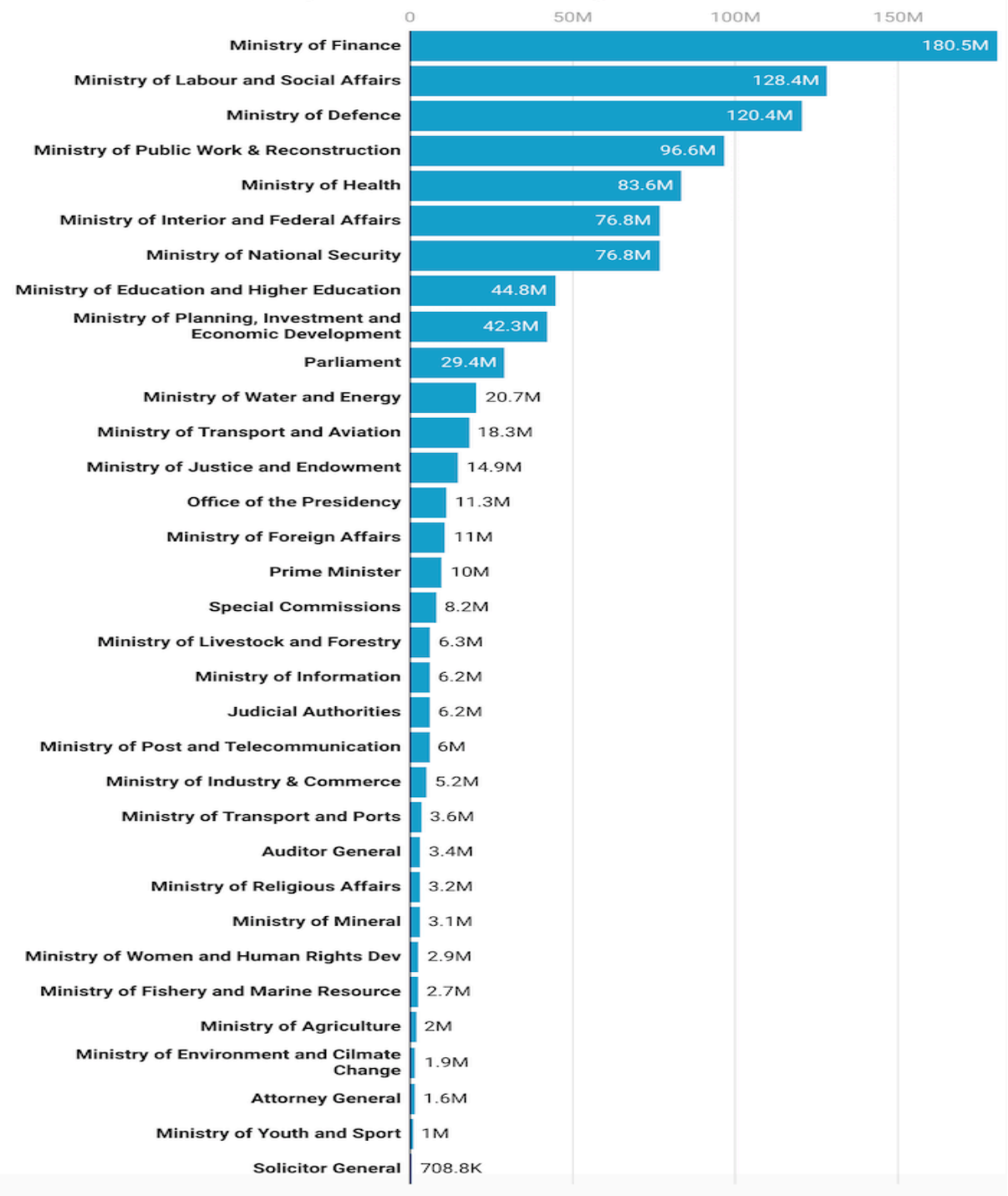
2023 Budget: Security service allocations



Source: Somali Federal Budget Document ,2023

Moreover, according to the 2023 Budget Allocation made to Ministers and Agencies, 60 Percent of the Budget was allocated to five Ministers namely, the Minister of Finance, the Ministry of Labor and Social Service Affairs, the Ministry of Defense, the Ministry of Health, and The Ministry of the National Security. The Ministry of Finance was allocated almost 18.2 Percent of the Budget. However, a large share of the Ministry goes to donor-funded projects, in contrast, the solicitor general counts the smallest amount of the 2023 Budget.

2023: Allocation by Ministers and Agencies



6. The Way forward: What needs to be done

The economy of Somalia is extremely fragile that depends on the informal economic sector. The country's economic capacity is very low due to slowly economic growth as results from extreme climate shocks that had severely affected on the agricultural production and the livestock that worsened the country's export. Additionally, the government's fiscal capacity is very limited due to the lack of revenue mobilization. Currently, the largest domestic revenue comes from the tariffs and custom duties. Yet, the largest share of the budget revenue comes through donor funding via budgetary and project support in the budget.

The donor funded projects continue dominate the government's budget, the donor revenue counts the highest share by 70.2 percent, in contrast to domestic revenue share of 29.8 Percent. Although, the government budget had progressively increased over the past ten years reaching to a billion budget, the donor dependence budget weakened the effort to rise the domestic revenue and to the government's capacity to finance the policy priorities to improve public service delivery. Nevertheless, to avoid the donor reliance and increase domestic revenue, the government must come up concentrate policy reforms and economic restructure initiative to increase revenue mobilization and to strengthen macroeconomic policy.

Moreover, to reach the completion point, the Federal Government must continue its commitment for the economic reforms including poverty reduction strategy and building inclusive economy, promote good governance, improve its debt management, and set sound record system of the country's economic and financial transaction, implement good tax system to improve domestic revenue and fight on rampant corruption.



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