

Maamul Goboleedka Somalia South West



South West State of Somalia

Budget Framework Paper

FY 2022

*“Expanding service delivery through the
state”*

Prepared by: Macro-Fiscal Department

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ABBREVIATIONS	
AMISOM	African Union Mission in Somalia
BFP	Budget Framework Paper
EPHS	Essential Package of Health Services
FGS	Federal Government of Somalia
FMIS	Financial Management Information System
GDP	Gross Domestic Product
IMF	International Monetary Fund
MDA	Ministries, Departments and Agencies
MoF	Ministry of Finance
MoPIC	Ministry of Planning and International Cooperation
NDP	National Development Plan
PFM	Public Financial Management
RHMT	Regional Health Management Teams
RMS	Revenue Management System

EXECUTIVE SUMMARY

Key focuses on this budget is education, reflected in its increased share of the budget, and the operation of key Government services and central administration (which is again reflected in the expansion of this sector). The government has a substantial program in education (set out in the Policy Framework section below), that will expand opportunity within the state.

Macroeconomic conditions are weakened due to COVID, and the demand falls in key markets. Pressures on the budget will come from risks including continued instability and concerns over reliability of grant revenue and costs. We expect that world conditions will improve in 2022, as well as conditions in the state. This will support an expansion of activity across the services sector, which this Budget Strategy focuses around.

This budget reflects a cautious revenue estimate – to account for some of the downside risks. This revenue forecast has been analysed for risk, in order to determine what the likely value at risk is. In line with previous years, we will run a balanced budget to maintain fiscal discipline.

The ceilings reflect at least enough to cover minimum needs for Ministries, plus some additional to support new initiatives in core areas – this year this has particularly focused around health, education and security.

Finally, the theme for this year is *“Expanding service delivery through the state”*. Crucial to our ongoing development aims is to have more of the core services provided to the people provided at the state level. We have ongoing research work that will be completed this year to help assess the level of spending likely needed over time.

1 MACROECONOMIC BACKGROUND

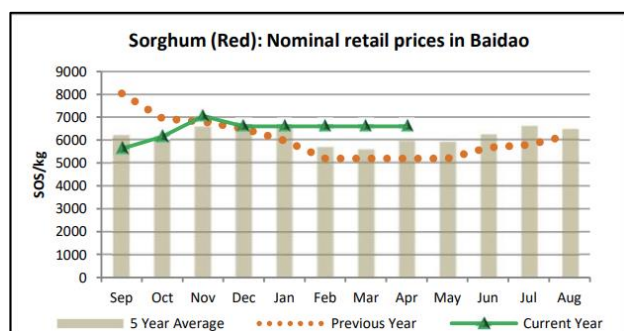
1.1 NATIONAL MACROECONOMY

Table 1 – National Macroeconomic Assumptions

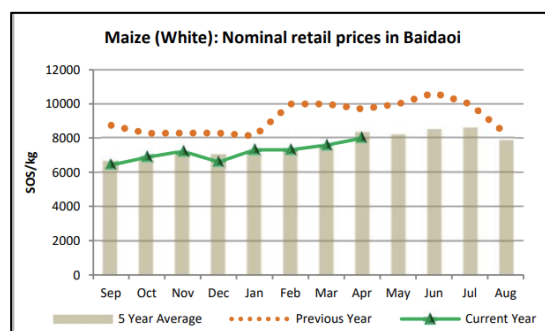
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Real GDP (% Change)	3.5	2.9	1.4	2.8	2.9	-1.5	2.9	3.2	3.4	3.6	3.9
Nominal GDP (US\$ billions)	4.0	4.2	4.5	4.7	4.9	4.9	5.4	5.7	6.0	6.3	6.7
GDP Deflator (Index)	98.2	99.0	104.9	106.8	108.7	109.8	116.4	118.8	121.2	123.7	126.3
GDP Deflator (% Change)		0.8	5.9	1.8	1.7	1.0	6.0	2.1	2.1	2.1	2.1
Inflation, End of Period (% Change)	0.3	1.2	6.1	3.2	3.1	3.0	2.5	2.2	2.2	2.2	2.2
Current account balance (% GDP)	-8.3	-9.3	-9.7	-7.6	-10.5	-12.8	-12.9	-12.9	-13.2	-15.2	-15.0

Source: IMF October 2020, WEO

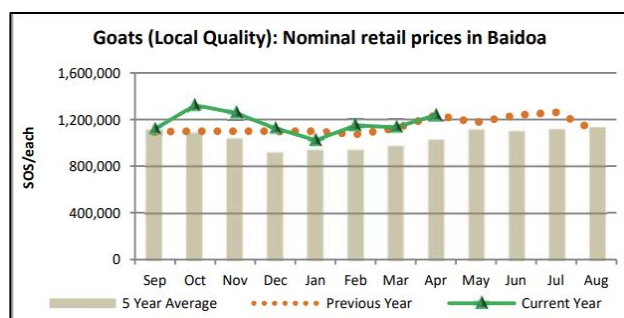
1.2 LOCAL PRICES



Rising prices of Sorghum have leveled off towards the start of 2021, and prices remain below the levels of a year and a half ago. Some price increase towards the end of the year is expected.



Maize prices had been volatile last year but have now stabilized and seen some small increase. No major change is expected.



Prices of goats fell towards the end of last year and the start of this, however prices have begun to pickup. The Hajj and other key events influencing prices are not expected to see a significant improvement this year, but likely will going into 2022, pushing up prices.

Source: These charts are draw from FEWSNet Selected Somalia Price Reports

[TO COMPLETE]

2 POLICY FRAMEWORK

This section sets out the key policy priorities that the Ministries and Agencies intend to achieve for the new fiscal year.

2.1 KEY INITIATIVES

<ul style="list-style-type: none"> - The theme of this budget is to expand service delivery, and the Government will produce a report looking at Health and Education spending to support the level of this investment going forward - [Any More?]

2.2 POLICY MATRIX

	In line with the NDP9	Key sector initiatives:
General Public Services	<ul style="list-style-type: none"> - Encourage heightened levels of women's representation in elections - Work to improve public awareness of the federal system 	<ul style="list-style-type: none"> - Develop outstanding strategic plans for Ministries, and re-develop strategic plans based on new Government priorities - Re-initiate strategic plan for the state for the next three years - Implement the new Office of Statistics - Produce an audit report for the state - Examine changes to tax policies, and conduct analysis on economic and fiscal impact of changes (e.g. for payroll tax, turnover tax etc.)
Public Order and Safety	<ul style="list-style-type: none"> - Support registration of all eligible Somali voters at or above the age of 18 across the country - Enhance rule of law enforcement in the country and develop justice and judiciary institutions at both federal and federal member state levels - Draft, review, amend and translate key legislation required for rebuilding the country in general and for justice institutions in particular - Develop the capacity of judges, public attorneys, prosecutors and judicial officials, including their knowledge and application of gender equity and other aspects of human rights - Increase the representation of women across the judicial system - Promoting the provision of legal aid services for those who cannot afford to pay legal fees 	<ul style="list-style-type: none"> - Expand the number of local councils (beyond the current 3) - Recruit further security personnel to expand security operations - Conduct training for judges, and provide sufficient equipment for court operations - Construction of new prisons - Continue reconciliation programs

Economic Affairs	<ul style="list-style-type: none"> - Develop administrative and regulatory capacity of the federal and state fisheries institutions - Develop a legal framework for effective management of fisheries resources and marine environment - Promote the development of fish value chains to increase both domestic consumption and export - Establish subsidiary regulations of the National Fisheries Law governing coastal fisheries at a federal member state level - Development of capacity building plan for the federal and members states' ministries of fisheries - Contribute to the national food security strategy, taking special account of the needs of the vulnerable, particularly women and young children - Support efforts at integration of databases and systems for vehicle registration and driving licenses across Somalia - Contribute and engage with Federal government on energy regulation efforts, including the establishment of the national regulatory authority - Contribute and engage with Federal government on water initiatives, including the development of a water master plan 	<ul style="list-style-type: none"> - Develop sector strategies and future plans
Health	<ul style="list-style-type: none"> - Work with the Federal Government to develop ways to strengthen health financing - Health Management Information System: Establish an effective health management information system that will produce quality and timely information for evidence-decision making. - Expand health provision to the most vulnerable groups 	<ul style="list-style-type: none"> - Ongoing response to COVID-19 - Employ new female health workers (120 additional) - Continue vaccination efforts for polio
Education	<ul style="list-style-type: none"> - Improve education provisions and initiatives for the most vulnerable groups - Ensure sufficient O&M budget for provision of education - Engage with the Federal Government on the development of the National Qualifications Framework and Authority 	<ul style="list-style-type: none"> - In co-operation with GPE (Global Partnerships for Education) expand provision of schools, and teachers. - Expand the school feeding program
Environmental Protection	<ul style="list-style-type: none"> - Ensure environmental considerations are build into development planning 	<ul style="list-style-type: none"> - Ensure the sustainable use of land, water, pasture and rangeland
Housing and Community Amenities	<ul style="list-style-type: none"> - Start to improve security of land tenure, with a particular emphasis on durable solutions for displaced persons - Strengthen building standards and health and safety regulation 	<ul style="list-style-type: none"> - Construct 4 new roads (in collaboration with World Bank) - Continue efforts to number houses - Construction of new offices of 5 Ministries (under Biyoley Project) - Further construction of street lighting - Construction of at least 2 new dams
Social Protection	<ul style="list-style-type: none"> - Ensure policy making is done with an eye to improving the lives of vulnerable and under-represented groups, including women and youth 	<ul style="list-style-type: none"> - Introduce training and certification of social workers - Develop a program for youth employment opportunities - Ensure State access and benefit to the Federal cash-for-work projects programme, Joint Programme for Youth, and Youth Employment Framework

3 FISCAL FRAMEWORK & CEILINGS

3.1 REVENUE FORECASTS AND ANALYSIS

The revenue estimate for 2022 is a conservative US\$3.89 million, below the \$6.36m budget for 2021, though more in line with collection to date in 2021 and 49% higher than 2020 actuals. This represents an effort to create a more realistic budget around a more cautious revenue estimate reflecting the data we now have on past performance. The table below outlines some of the analysis supporting this forecast.

Table 2 – State Revenue Actual and Forecasts (excluding Grants)

Account	Name	2021 Budget	2021 YTD	Estimated 2022	Forecast Checks (2022)			
					Linear Growth	Average Growth	Volatility (17-20)	Error scale (17-20)
111101	Personal Income tax	66,000	21,122	71,220	46,018	40,320	1.42	40,445
112102	Payroll Tax - Non-Government	1,200,000	446,730	1,067,152	1,171,801	335,817	0.82	355,881
114131	Turnover Tax	650,000	123,918	256,726	259,928	1,495,863	1.24	96,418
114201	Fuel Tax	48,000	1,400	14,400	11,132	8,563	2.00	5,837
114521	Business & Professional Licenses	120,690	5,600	16,799	30,509	42,740	0.35	(10,001)
114528	Landing Fees	130,018	30,000	80,500	18,032	26,366	0.50	48,380
114529	Local Passenger Fees	220,000	76,285	193,160	110,640	350,456	0.63	132,705
114530	Road User Tax	1,518,680	354,720	623,268	732,552	1,372,333	0.34	(253,093)
114533	Urban Road User Tax	180,000	29,500	105,000	168,840	398,465	1.27	-
114534	International NGOs registration	79,000	14,500	31,000	43,850	29,056	0.69	4,500
114535	Local NGO's Registration	101,100	11,700	28,500	50,371	25,838	0.68	(550)
114540	Work Permit Licenses	36,750	4,700	26,870	26,907	11,659	0.70	13,867
114541	Livestock Fees	60,000	37,033	109,308	80,416	353,916	0.97	50,664
115104	Customs duties - KHAT	738,547	56,189	133,143	359,587	23,758	1.06	(7,305)
115105	Customs duties - Cigarettes	22,203	6,390	13,845	14,458	2,467	0.96	6,060
114546	Roll Number Fees-Schools	101,556	45,152	90,304	122,536	74,587	1.73	15,717
116202	Stam Duty	24,000	-	24,000	-	-	-	24,000
142206	Land Certificate Fee	125,198	-	125,198	-	-	-	125,198
141502	Rental income from Organizational Offices	18,000	-	2,094	6,058	2,744	0.78	(418)
141503	Vehicle Hire/car rental Tax	30,000	8,575	22,056	17,449	10,621	1.73	11,436
142207	Number Plate Registration	36,126	-	36,126	16,342	9,036	0.72	26,126
142210	Clearance Letter Fee	19,920	7,657	20,532	13,553	8,870	1.95	10,190
114203	Property Tax	750,000	-	750,000	-	-	-	750,000
114544	Passport Service	20,158	6,335	16,705	11,408	6,944	1.73	9,761
115102	Customs duties - Tobacco	3,996	-	3,996	-	-	-	3,996
142201	Visa Fees	5,000	-	-	-	-	-	-
143001	Fines/Penalties	20,000	16,100	16,560	8,181	-	2.00	16,560
143002	Court Filing Fees	40,000	2,429	5,676	-	-	-	5,676
142205	Death Certificate Fee	-	40	160	-	-	-	160
142209	Marriage Certificate Fee	-	90	320	-	-	-	320
142212	Bidding Documentation fees	-	800	3,650	4,600	2,800	-	-
TOTAL		6,364,942	1,325,720	3,888,269	3,325,166	4,633,219		

Revenue forecasts are based around two main assumptions: (1) that 2022 will reflect collection to date in 2021; (2) where there has not yet been collection in 2021 that it will not exceed the budget of 2021.

The volatility measure above reflects the standard deviation over the average collection – i.e. it measures how varied the collection can be year to year. For example “Road User Tax” has seen collections ranging from \$1.2m in 2018, to \$0.5m in 2019 – making it harder to extrapolate and thus more risky. The error scale gives us a measure of how big of an issue that error could be (it is the difference between the 2022 estimate and the 2020 actual). That is, if we are wrong how much could we potentially lose. Finally, the overall value at risk we estimate is around \$835,219. This reflects both the value of the very volatile lines and the error scale of those lines for which we don’t have a volatility calculation (i.e. Property tax).

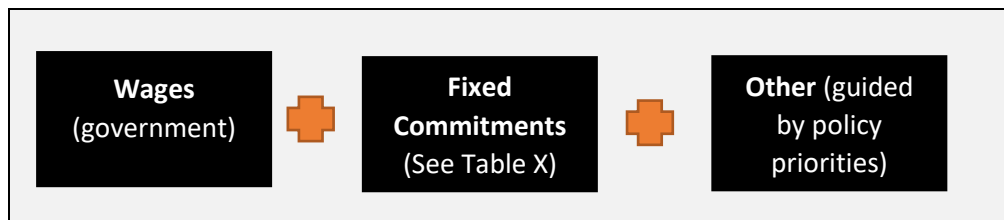
Put simply, our revenue estimate is \$3.89m, however it could potentially be as low as \$3.0m in the worst case scenario.

3.2 HOW ARE CEILINGS MADE

In order to determine the requirements for each Ministry for the new budget we need to break down:

- 1) **Minimum requirement:** What is the requirement to continue current operations and policy, and meet requirements from prior commitments (e.g. rental, water etc)
- 2) **Additional resources:** What are the new priorities for this budget year for the Government: once it has been established what is already committed

Ceilings are built up from:



- **Wages:** are determined by the levels of historic recruitment, we are trying to determine what is a minimum level of wages required to meet current staffing needs at the start of 2021
- **Fixed Commitments:** the amount required to meet the basic operating costs because of prior commitments (e.g. rent of buildings we have, electricity to power these buildings)
- **Other:** is the new amount for 2021 that will allow Ministries to expand recruitment

The aim of the budget is to allocate new funding, within guidelines. Donor support is not included, as the ceilings are to guide government funds, and grant data is not yet available.

Fiscal Policy Guidelines

- No broad increase in salaries: salaries are not increased year on year for staff, so salary levels will remain the same as 2020. Only recruitment or promotion will yield higher wage costs.
- Balanced budget: the revenue will need to equal total expenditure

Table 3 – Components of Fixed Commitments

The table above shows the components of fixed commitments at the moment. Below shows the split of the components for the previous 2019 actual and 2020 budget.

Fixed Commitments	2020 Actual	2020 Budget
Bank charges	94.0	5,000.0
Electricity	5,883.1	61,800.0
Gasoline	42,832.0	115,500.0
Maintenance of equipment	-	
Maintenance of Vehicles	4,166.0	40,000.0
Water	6,900.0	30,600.0
Audit Fees		

Office Rent		33,600.0
TOTAL FC	59,875.1	286,500.0

3.3 2022 CEILINGS

The Ceilings below set out sufficient funds for the Ministries to cover their fixed commitments and previous salary costs, as well as allocate some amount of funding (based on policy priority) in addition to these:

Table 4 – Ceiling for 2022

	Government Funded Salaries - Continuing (2020 actual)	Donor	Fixed Commitment Minimum (2021 Budget)	Other, inc new govt funded staff (2020 and planned 2021)	TOTAL
Accountant General Office	7000	0	1800	2705	11505
Civil Service Commission	19950	53976	19200	-3650	89476
High Court	90600	0	1800	110400	202800
Ministry of Agriculture & Irrigation	8000	307776	1800	14780	332356
Ministry of Aid & Disaster Management	14200	87108	1800	3320	106428
Ministry of Education	17615	2825394	9500	132885	2985394
Ministry of Environment & Wildlife	10493	227220	1800	6417	245930
Ministry of Finance	198150	552874	46000	150985	948009
Ministry of Fisheries & Sea Minerals	14200	15420	1800	4199	35619
Ministry of Health	3400	2478370	5400	26856	2514026
Ministry of Industry & Commerce	3400	21444	5400	14200	44444
Ministry of Information	40640	25056	1800	103260	170756
Ministry of Interior & Local Governments	121700	6547116	5400	45091	6719307
Ministry of Internal Security	1306486	610740	105400	341190	2363816
Ministry of Islamic Affairs & Endowments	3400	15420	1800	14480	35100
Ministry of Justice & Judiciary	45800	65016	1800	-22900	89716
Ministry of Labour & Employment	14200	127672	1800	4380	148052
Ministry of Livestock & Veterinary	8000	243010	1800	9700	262510
Ministry of Petroleum and Mineral Resource	6900	15420	1800	3700	27820
Ministry of Planning and International Cooperation	8700	890120	5400	10400	914620
Ministry of Posts & Communications	8000	15420	1800	15000	40220
Ministry of Public Works & Reconstruction	8000	263556	1800	9460	282816
Ministry of Reconciliation & Constitutional Affairs	2800	25056	1800	18739	48395
Ministry of Seaports & Sea Transportation	14200	15420	0	8239	37859
Ministry of Transportation & Airports	14200	31080	0	9020	54300
Ministry of Water & Energy	3400	1954635	0	17720	1975755

Ministry of Women & Human Rights	12100	255280	0	8280	275660
Ministry of Youth & Sports	8000	31080	0	66100	105180
Office for Auditor General	10100	31164	1800	9180	52244
Parliament	0	1267320	7000	-7000	1267320
State Ministry of President	443706	40956	40000	16294	540956
TOTAL	2,467,340	19,040,119	277,500	1,143,429	22,928,388

Over time the Government has focused the government more on core operations beyond just security and will use this as the basis to expand core service delivery.

Table 5 – Proposed 2021 Ceilings and Policy Priorities (Colour Chart)

	2021 Actual		Priority	2022	
	Share of Other	Share of Total		Proposed Other	Proposed Total
Accountant General Office	0.0%	0.3%	Medium	0.2%	0.1%
Civil Service Commission	0.9%	0.8%	Medium	-0.3%	0.4%
High Court	0.0%	3.3%	Medium	9.7%	0.9%
Ministry of Agriculture & Irrigation	0.0%	0.3%	Medium	1.3%	1.4%
Ministry of Aid & Disaster Management	0.0%	0.5%	Medium	0.3%	0.5%
Ministry of Education	20.9%	2.8%	High	11.6%	13.0%
Ministry of Environment & Wildlife	0.0%	0.4%	Medium	0.6%	1.1%
Ministry of Finance	27.3%	10.3%	Medium	13.2%	4.1%
Ministry of Fisheries & Sea Minerals	0.0%	0.5%	Medium	0.4%	0.2%
Ministry of Health	0.0%	0.1%	High	2.3%	11.0%
Ministry of Industry & Commerce	0.0%	0.1%	Medium	1.2%	0.2%
Ministry of Information	24.1%	4.0%	Medium	9.0%	0.7%
Ministry of Interior & Local Governments	1.4%	4.6%	Medium	3.9%	29.3%
Ministry of Internal Security	1.6%	47.7%	Critical	29.8%	10.3%
Ministry of Islamic Affairs & Endowments	0.0%	0.1%	Medium	1.3%	0.2%
Ministry of Justice & Judiciary	0.0%	1.7%	Medium	-2.0%	0.4%
Ministry of Labour & Employment	0.0%	0.5%	Medium	0.4%	0.6%
Ministry of Livestock & Veterinary	0.0%	0.3%	Medium	0.8%	1.1%
Ministry of Petroleum and Mineral Resource	0.0%	0.3%	Medium	0.3%	0.1%
Ministry of Planning and International Cooperation	0.0%	0.3%	Medium	0.9%	4.0%
Ministry of Posts & Communications	0.0%	0.3%	Low	1.3%	0.2%
Ministry of Public Works & Reconstruction	0.0%	0.3%	Medium	0.8%	1.2%
Ministry of Reconciliation & Constitutional Affairs	0.0%	0.1%	Medium	1.6%	0.2%
Ministry of Seaports & Sea Transportation	0.0%	0.5%	Medium	0.7%	0.2%
Ministry of Transportation & Airports	0.0%	0.5%	Medium	0.8%	0.2%
Ministry of Water & Energy	0.0%	0.1%	Medium	1.5%	8.6%
Ministry of Women & Human Rights	0.0%	0.4%	Medium	0.7%	1.2%
Ministry of Youth & Sports	0.0%	0.3%	Medium	5.8%	0.5%

Office for Auditor General	0.0%	0.4%	Medium	0.8%	0.2%
Parliament	3.6%	0.4%	Medium	-0.6%	5.5%
State Ministry of President	16.9%	17.9%	Medium	1.4%	2.4%

Table 5 outlines the alignment of new/other funding (by each Ministry's share) and the total (by share) and the policy priority areas (e.g. health and education, and security). Table 6 below shows the changes from the original BFP in the allocations.

Table 6. Ceilings change from Original BFP

	Recommended from Original BFP	Recommend with Projects	New	Change
Accountant General Office	11505	11505	11505	0
Civil Service Commission	41308	95284	89476	-5808
High Court	141907	141907	202800	60893
Ministry of Agriculture & Irrigation	13149	320924.6	332355.6	11431
Ministry of Aid & Disaster Management	23339	110447	106428	-4019
Ministry of Education	160000	2985393.85	2985393.85	0
Ministry of Environment & Wildlife	17246	244466	245930	1464
Ministry of Finance	329627	882501	948009.08	65508
Ministry of Fisheries & Sea Minerals	23339	38759	35619.47	-3140
Ministry of Health	95564	2573934	2514026.37	-59908
Ministry of Industry & Commerce	10000	31444	44444	13000
Ministry of Information	66795	91851	170756	78905
Ministry of Interior & Local Governments	194022	6741138	6719306.62	-21831
Ministry of Internal Security	1650000	2260740	2363815.56	103076
Ministry of Islamic Affairs & Endowments	8000	23420	35100	11680
Ministry of Justice & Judiciary	75275	140291	89716	-50575
Ministry of Labour & Employment	23339	151011	148052	-2959
Ministry of Livestock & Veterinary	14000	257010	262510	5500
Ministry of Petroleum and Mineral Resource	13000	28420	27820	-600
Ministry of Planning and International Cooperation	16000	906120	914620	8500
Ministry of Posts & Communications	11000	26420	40220	13800
Ministry of Public Works & Reconstruction	16000	279556	282816	3260
Ministry of Reconciliation & Constitutional Affairs	6000	31056	48394.65	17339
Ministry of Seaports & Sea Transportation	23339	38759	37858.65	-900
Ministry of Transportation & Airports	23339	54419	54300	-119
Ministry of Water & Energy	7000	1961635.22	1975755.22	14120
Ministry of Women & Human Rights	19887	275167	275660	493
Ministry of Youth & Sports	13149	44229	105180	60951
Office for Auditor General	17575	48739	52244	3505
Parliament	10000	1277320	1267320	-10000
State Ministry of President	500000	540956	540956	0

4 RISKS TO THE BUDGET

These risks are specific to the state and identify factors that could influence both macroeconomic and fiscal conditions. Key among issues is the ongoing limits on data on macro-fiscal conditions.

Table 6 - *Macro-Fiscal Risk Table*

Risk	Likelihood	Impact
Stopping of the Hajj reduces livestock exports (e.g. goats) to Saudi	Low – activity appears to have decreased since the COVID-19 downturn, but will likely pick up in 2022	Medium – South West is less exposed to goat exports
Restrictions on bringing livestock to market weaken household incomes	Medium – if they occur restrictions tend to be for limited time	High – most households rely on the market for purchases and sales
Increasing costs of key household goods hurts welfare	Medium - prices of good have been rising, but international restrictions have likely eased	Medium – the cost increases have been wide but are likely limited in size now
Large variances in grants revenue make budget execution difficult	High – grants revenues have historically been difficult to forecast	High – they remain a significant part of the budget
Droughts cause economic downturn	Low – limited evidence that conditions have worsened	High – economy is very reliant on agriculture sector
Floods	High –River floods are common	Medium – impacts the agriculture sector
Locust outbreak impacts farming active	High – outbreaks happen frequently	High – significant damage can be done to crops
Increase in internally displaced	High – displacement happens with regularity	High – can increase costs and cause economic disruption
Loss of remittances due to COVID-19	Low – economic conditions have started to improve around the world	Medium – remittance flows make up a key part of incomes and foreign exchange
Revenue under-performs given the historic volatility of revenue	Low – revenue estimate this year is cautious	Medium – an estimated 23% of revenue is “at risk”
Presidential election create increased demand for spending	Medium – elections usually create spending pressure	Medium – increased demands for certain expenditures

In order to respond to these risks:

- Revenue forecasts incorporated into the budget are conservative, in order to offset the impact of any potential over-estimation
- Government will continue to prioritise spending to support welfare and service provision

