



FISCAL OUTTURN ANALYSIS

July – Sep 2020

EXECUTIVE SUMMARY

Significant revenue shortfalls are likely to cause severe underspend against the FY2020 Budget priorities. Projecting the current rate of revenue collections forward, the State is likely to achieve only half its estimate. As such, a supplementary for the FY2020 Budget should be considered and a more conservative revenue estimate for the FY2021 Budget prepared.

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1. Fiscal Analysis by MDA

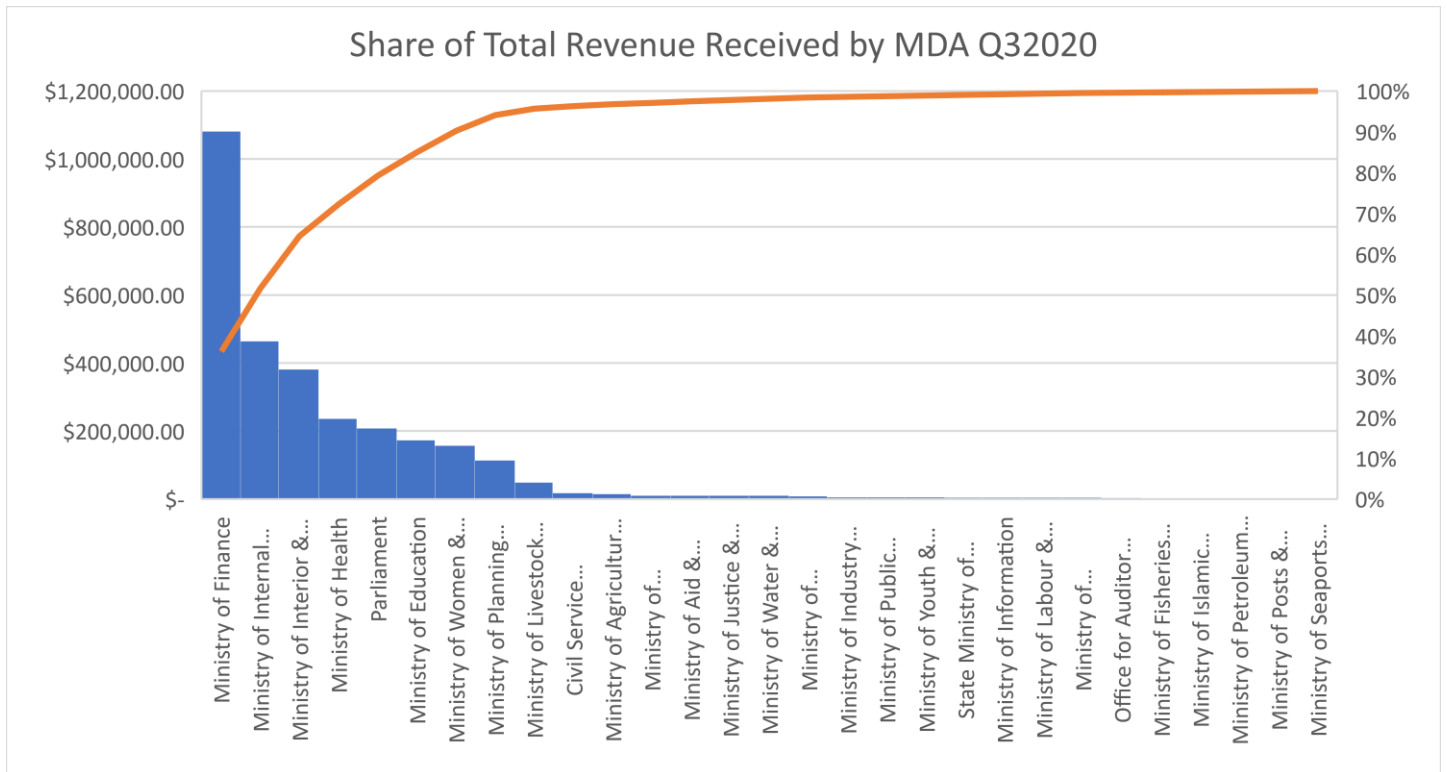
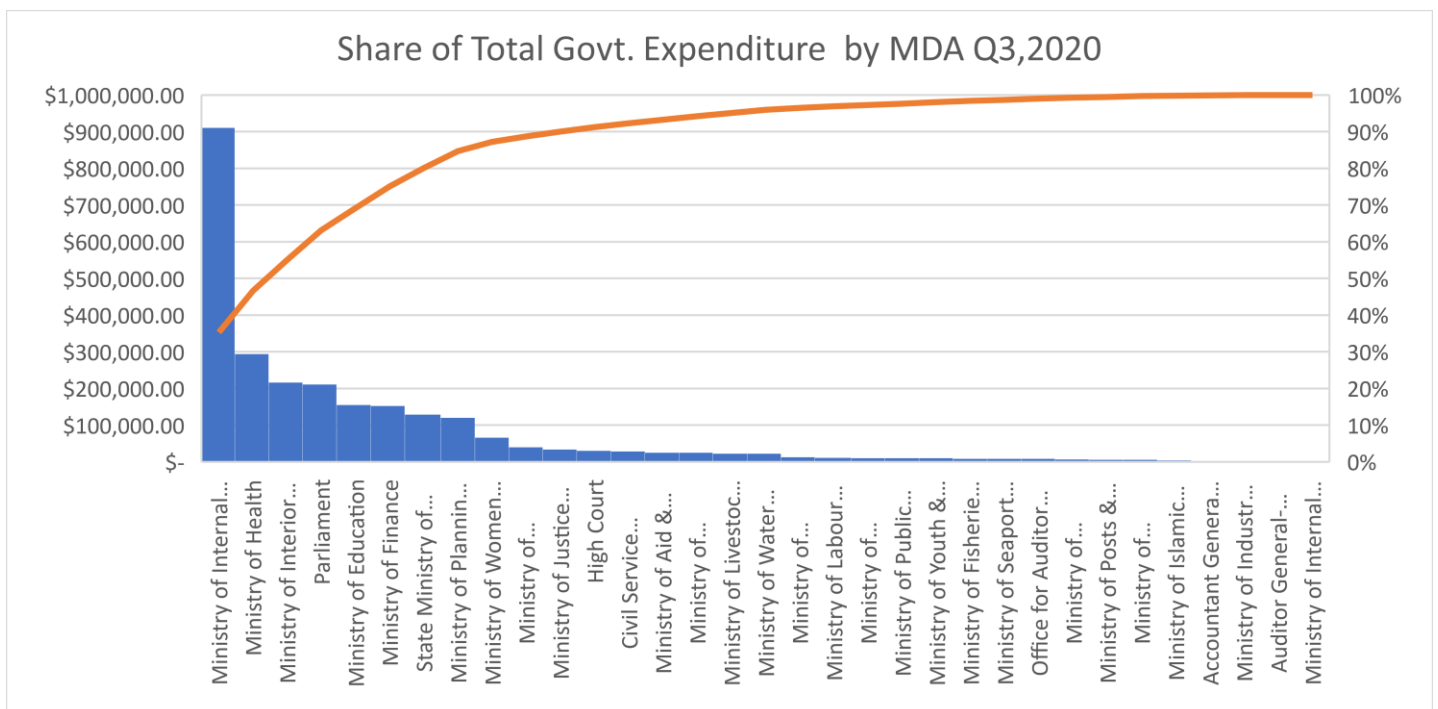


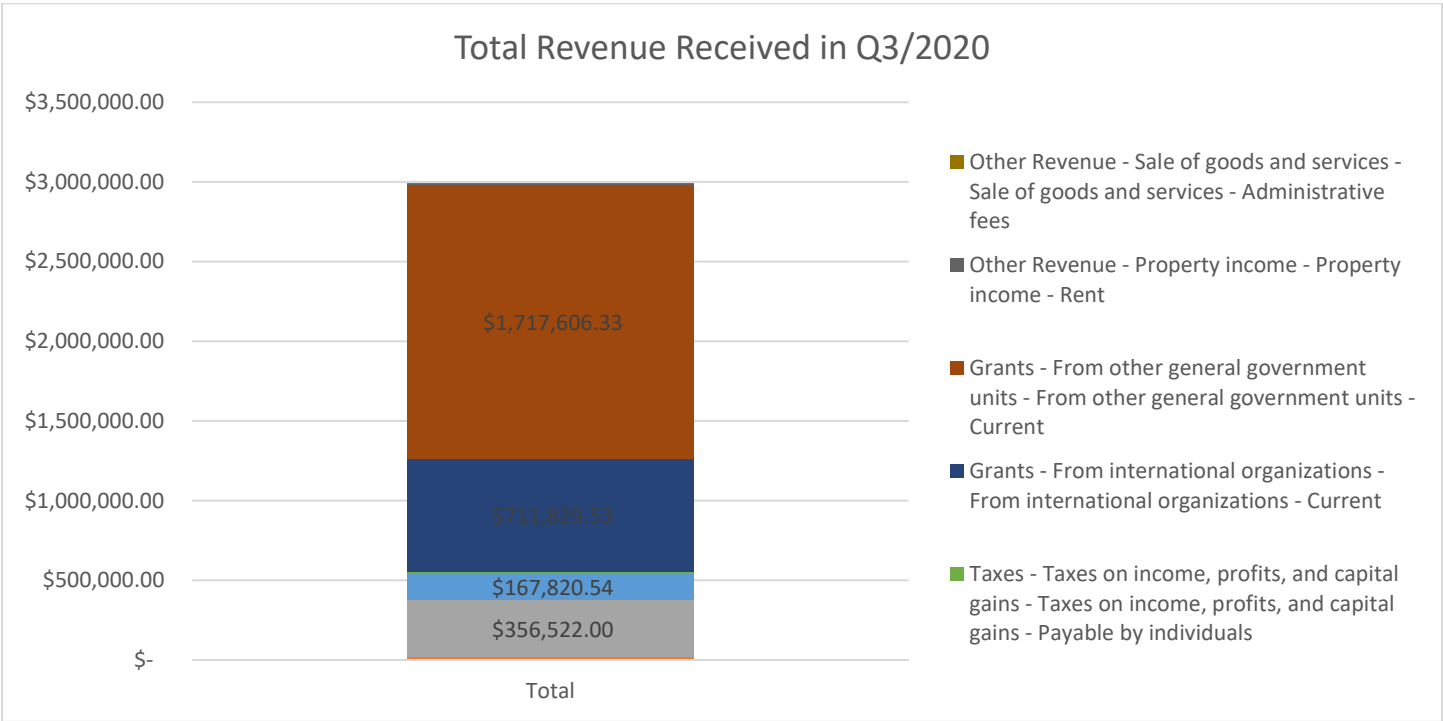
Figure 1

Based on figure 1, the analysis of revenue receipts by MDA, we find that 90% of government revenues are currently collected by the Ministry of Finance, with the Ministry of Interior & Local Government, Internal Security, Health, Parliament, Ministry of Education and Ministry of Women accounting for the majority of remaining revenue receipts. This represents a continuation from previous fiscal reporting periods, and is reflective of an early public financial management environment where revenue collection and recording is still predominantly undertaken by the Ministry of Finance.



An analysis of total government expenditure by MDA, on the other hand, shows a more promising trend. Currently, Ten ministries account for 90% of total government spending: Ministry of Internal Security ,Ministry of Health, Ministry of Interior, Parliament, Education, Finance, state Presidency, MOPIED, MOWFHR., This represents a marked improvement away from a concentration of spending in the Ministry of Internal Security towards more General Public Service sector organizations.

2. Fiscal Analysis – Revenue



A comparison of revenue estimates and revenue received is very concerning but better than last year. All revenue streams (tax and other revenue) are significantly below their estimate and based on a projection of current trends, are unlikely to meet their targets. Tax revenue streams, which are more directly within the State’s control, are particularly worrying given that significant tax revenues from taxes on goods and services, on international trade and transactions, and on payroll and workforce have not been realized. Grants receipts are also More than estimated, with Grants from FGS being significantly higher than Grants from International Organizations.

3. Planned Tax Burden

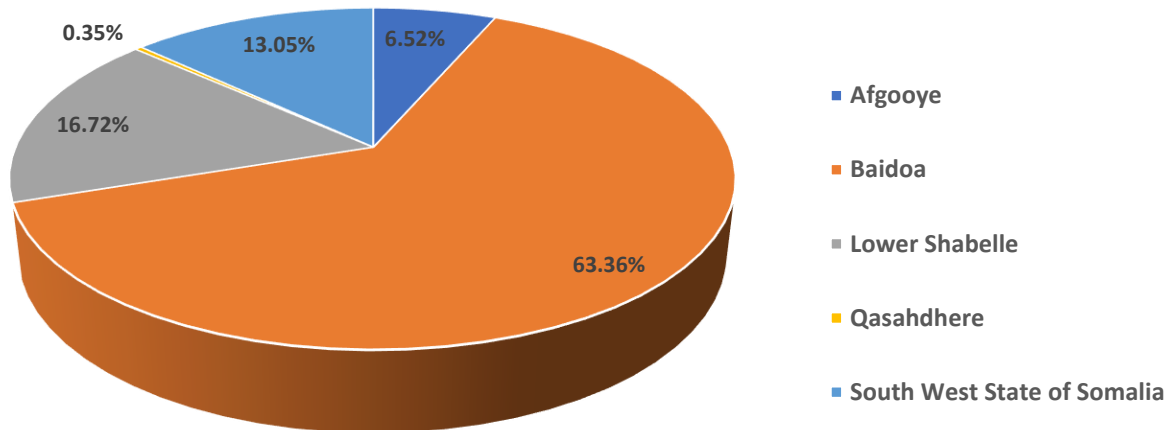
This underperformance in tax revenue receipts has also had a negative impact on citizens, and in particular on the poor. The ratio of direct to indirect taxes is a macro-fiscal indicator for the pro-poor nature of a taxation regime, where a higher share of direct taxes is seen as pro-poor as these taxes inherently take into account the individual circumstances of the taxpayer. As visible from the table below, the planned revenue estimate was not pro-poor, as **98.54%** of planned tax revenues were from indirect taxes. As the few planned direct taxes have not been collected, 100% of tax revenue receipts are in fact from indirect sources and as such do not take into account individual taxpayer circumstances.

Tax Type(Direct/Indirect)	Sum of Q3/20202
Direct Tax	1.46%
Taxes on income, profits, and capital gains	1.46%
Indirect Tax	98.54%
Taxes on goods and services	67.79%
Taxes on international trade and transactions	0.42%
Taxes on payroll and workforce	30.33%
Grand Total	100.00%

4. SWSS Locations for Revenue Collection

Location Name	Total Revenue Q3/20202
Afgooye	\$ 195,044.00
Baidoa	\$ 1,895,033.40
Lower Shabelle	\$ 500,000.00
Qasahdhere	\$ 10,550.00
South West State of Somalia	\$ 390,239.00
Grand Total	\$ 2,990,866.40

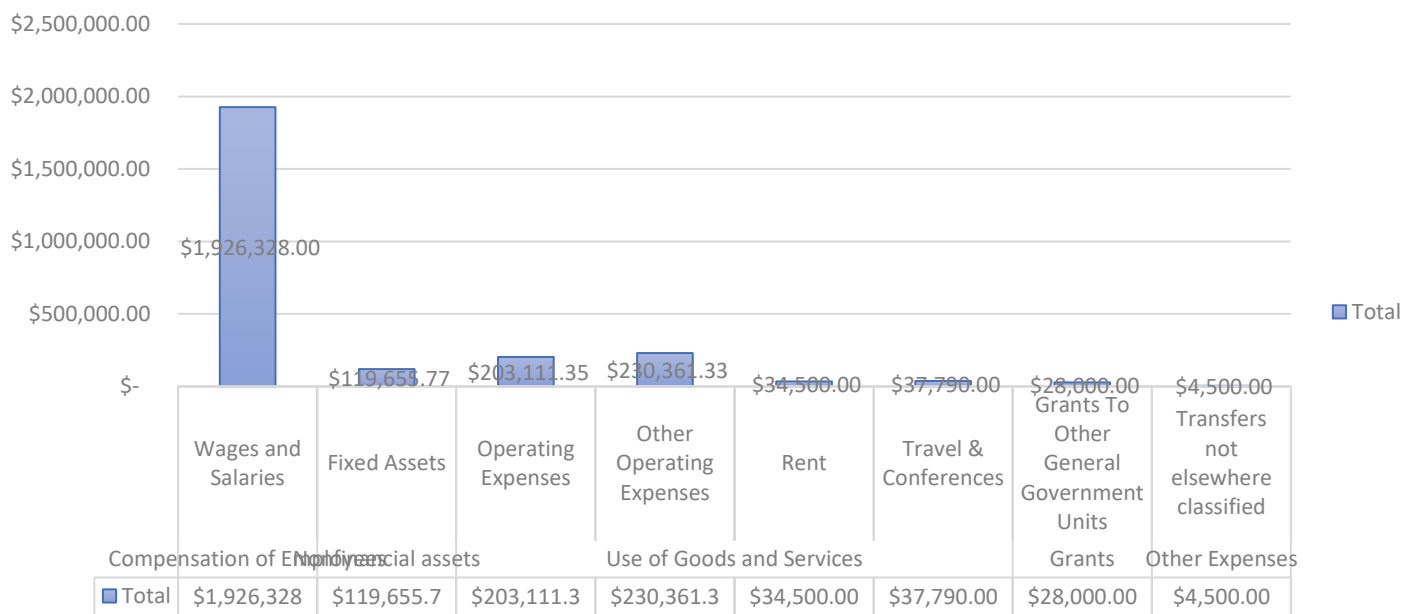
Total of Revenue Q3,2020



Baidoa City is the dominant city for revenue collection a combined by Afgoye, Qasahdhere, this will cause less revenue collection, and for more revenue, collection there should be more locations for revenue generation.

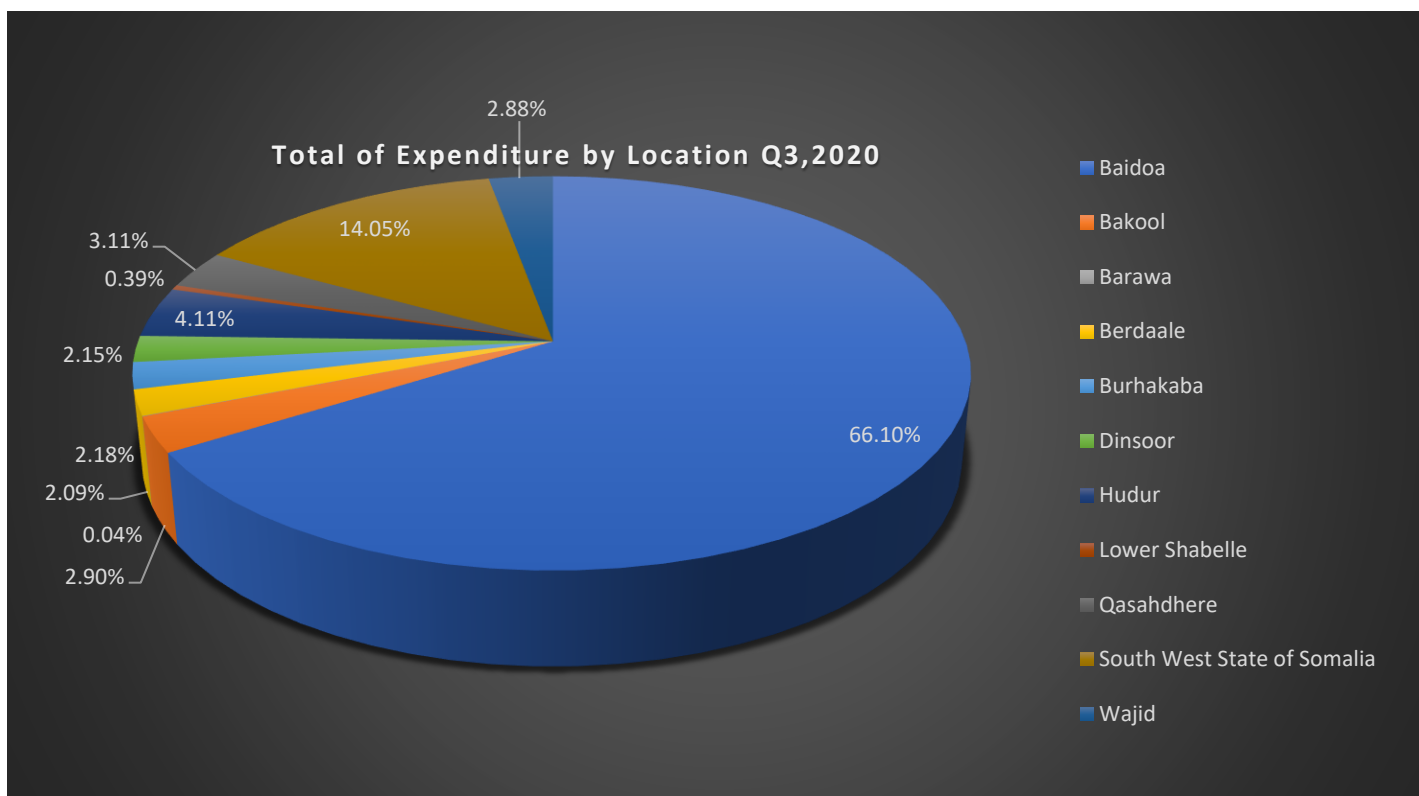
5. Fiscal Analysis – Expenditure

Total of Actual Expenditure Q3/2020



All expenditure streams are significantly on Compensation of Employees Across the board, this is highly suggestive of either significant off-budget activity or a significant accumulation of arrears as compensation of employees and payments to vendors for operational expenses are not realized. This seems not complaint with PFM Policy that Expenditure on Compensation of employees should not be higher than 50% of the Total Expenditure.

6. SWSS Expenditure by Locations



Expenditure is more distributed to a more Districts in SWS, this is a good approach for reaching more districts in SWS and compared to 2019 there is a remarkable change in district expenditure.

7. Issues and Recommendations

Based on the fiscal outturn summary and analysis, we note the following pertinent fiscal issues:

- Issue 1:** Revenue collections are significantly below the estimate. Projecting current collections over the year, the State is likely to realize roughly half of its total revenue estimate leading to significant under-spends in many key sectors and limited fiscal space for capital and developmental spending and an increased reliance on volatile grant funding to underwrite government operations;
- Issue 2:** The Government's taxation policy is not pro-poor by design, as it is reliant on indirect taxes. Creating FY2020 revenue estimates based on this budget year will only reinforce this issue;
- Issue 3:** Government spending remains heavily concentrated in compensation of employees and in the public order and safety sector. That said, there is evidence to show a marked increase in social spending since FY2016.

Against these issues, following discussions with our colleagues in the [List relevant Department(s)], we would recommend the following actions to address these fiscal issues:

- Recommendation 1:** Revenue Department to provide a comprehensive account for why revenue collections have fallen short of estimates and their planned initiatives to address this in the latter half of the year.
- Recommendation 2:** Revenue Department to consider changes to estimates against indirect taxes, and over time move towards increasing the share of direct taxes with respect to total government tax revenue collections;
- Recommendation 3:** Budget Department to consider ensuring that allocative ceilings are not significantly changed from the current FY2019 Budget in the FY2020 Budget, which should allow for the same positive trend to continue. The Government should also consider highlighting its improved social spending to the public and its donors in order to demonstrate service delivery.