



Southwest State of Somalia

Budget Framework Paper

FY 2025

TABLE OF CONTENTS

Introduction	4
1 Macroeconomic and policy background.....	5
1.1 Macroeconomic Policy Framework.....	5
1.2 National Macroeconomy.....	5
1.3 Local Macroeconomy	6
1.4 Local Prices	8
1.5 Policy Background	9
2 FISCAL FRAMEWORK.....	10
3 Expenditure measures and BFP Ceilings.....	15
3.2 Key Initiatives.....	15
3.3 How are ceilings made.....	16
4 Risks to the Budget	23
4.1 Issues to pay heed to going forward	23

TABLE OF TABLES

Table 1 – National Macroeconomic Assumptions	5
Table 2 – Revenue trends SWSS	10
Table 3 – Revenue Actual and Forecasts	12
Table 4 – Components of Fixed Commitments.....	17
Table 5 – FY 2023 Performance against Categories.....	17
Table 6 –FY 2024 Budget against Categories	18
Table 7 – Ceiling Shares and Policy Priorities.....	20
Table 6 – Proposed 2025 Ceilings	22
Table 8 – Forecasted 2025 Expenditure	22
Table 9 - Macro-Fiscal Risk Table	24

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
ICT	Information, Communication and Technology
IMF	International Monetary Fund
SWSS	Southwest State of Somalia
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

INTRODUCTION

The Southwest State of Somalia's (SWSS) Annual Budget is the key instrument through which the Government implements its policies. The Budget Framework Paper (BFP) provides the link between Government's overall policies and the Annual Budget. It lays out the fiscal framework and strategy for the budget year and in the medium-term setting out how the Government will achieve its policy objectives priorities through the FY 2025 Budget.

The BFP's macroeconomic framework then provides indicative expenditure allocations to guide the Ministry of Finance (MoF) and other Ministries, Departments and Agencies (MDA) when preparing expenditure budgets as laid before Parliament. The BFP summarizes Government interventions in FY 2025 and the medium-term and is aligned with the State's Strategic Priorities and the Federal National Development Plan (NDP) 2020-2024 and the upcoming National Transformation Plan. Successfully achieving all remaining stated policy priorities by the end of the FY 2025 fiscal year is ambitious. As such, this BFP prioritizes key strategic objectives related to security and institutional development.

The BFP has following sections:

1. Part 1: MACROECONOMIC OUTLOOK AND POLICY MEASURES

This section provides an overview of Government's macroeconomic policies, an analysis of recent macroeconomic performance, and macroeconomic assumptions over the medium-term. It lists out the priorities listed in the National Development Plan (NDP), and Southwest State Development Plan that is set to end in 2024 and 2025 Respectively. The National Transformation Plan is set to begin in 2025.

2. Part 2: FISCAL FRAMEWORK

This section includes the policy plans for own-source tax and non-tax revenue and external resources from the Federal Government and the State's international development partners consistent with the macroeconomic forecast. It concludes by indicating the resources available to Government for implementation of its strategic objectives and policy priorities.

3. Part 3: BFP ASSUMPTIONS AND EXPENDITURE ALLOCATIONS

This section provides indicative expenditure allocations by function and by Government MDA based on the Government's strategic priorities which include security, Health, and Education and improving the efficiency of public service delivery. This section places a specific emphasis on measures necessary to drive efficient public spending. This BFP does not include specific details of proposed Ministry/Department/Agency policy plans and expenditures. However, as the Government matures, a specific emphasis will be placed on the development of detailed sector plans and expenditures for each MDA.

4. Part 4: RISKS TO THE BUDGET

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

1 MACROECONOMIC AND POLICY BACKGROUND

1.1 MACROECONOMIC POLICY FRAMEWORK

The State’s overarching macroeconomic goal is to create a stable macroeconomic environment to support inclusive and sustainable growth and socio-economic development. Over the medium-term, the specific macroeconomic objectives of the State are to achieve and maintain a rate of real economic growth between 3 – 5% per annum. The 9th national development plan has been formulated to be compliant with the requirements for an interim Poverty Reduction Strategy Paper which allowed Somalia, as a participant of the Heavily Indebted Poor Countries (HIPC) Initiative, to apply for debt relief. This completion point was met in December 2023. The government aims to provide services to its citizens necessary for development. Hence this plan focusses on increasing revenue, improving economic growth, and developing equitable revenue sharing systems. Reducing poverty and improving national resilience underpin its overall agenda.

1.2 NATIONAL MACROECONOMY

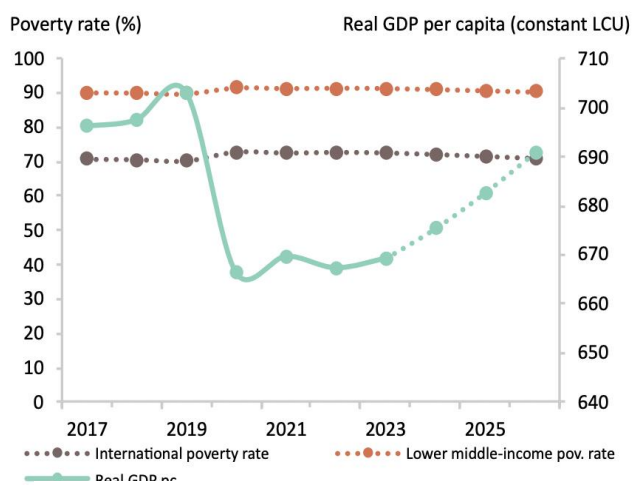
Table 1 details key macroeconomic assumptions underlying the macroeconomic framework for FY 2025, covering Gross Domestic Product (GDP) and consumer prices.

Table 1 – National Macroeconomic Assumptions

	2021	2022	2023	Proj 2024	Proj 2025	Proj 2026	Proj 2027	Proj 2028
Nominal GDP (USD, billions)	9.839	10.42	11.68	12.804	13.891	15.059	16.31	17.638
Real GDP growth (% change)	3.308	2.433	2.8	3.7	3.9	4	4.1	4.3
Inflation, end of period consumer prices (% change)	5.667	6.056	6.601	4.3	3.7	3.5	3.3	3.1
Current account balance (% of GDP)	-6.816	-8.043	-9.577	-8.657	-8.84	10.505	-10.773	-10.366

Source: WEO Data, IMF, April 2024

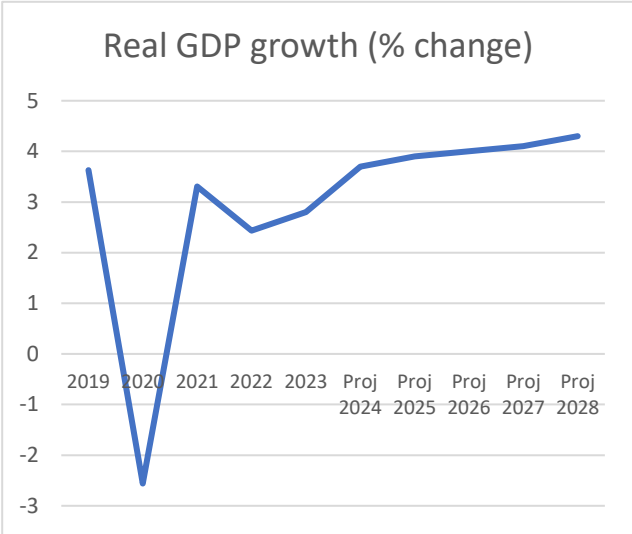
Somalia has completed HIPC Completion Point milestone in December 2023, through which it has been



Source: World Bank MPO, 2024

given debt relief of USD 4.5 billion. This has decreased its external debt from 65% of GDP (2018) to 6% in 2023. It is estimated that is development partner support will reduce after the HIPC completion, so Somalia has the added challenge of funding its capital and recurrent budgets through own source revenue. Average real GDP growth has been under just under 3% between 2021-2023 and is projected to rise marginally in forward years. Somalia’s economic growth is mostly driven by the agriculture and services sectors. Agriculture accounted for over 60 percent of GDP over the last decade (2011 – 2022), making it the largest contributor to the country’s growth. Livestock is the largest subsector within the agricultural sector,

accounting for about 40% of GDP. Somalia’s key export products include live animals that account for approximately 80% of the total export earnings(NEC Somalia, 2023). With continuing rates of poverty – the international poverty rate (\$2.15 in 2017 PPP) as a percentage of GDP is projected to be 72.1% in 2024. Unemployment rate was pegged at 20% in 2022. This means the government has a huge task of finding employment for a large working population. Inflation is projected to decrease compared to higher levels in 2021-2023 (a period impacted by COVID-19 and high international prices due to the Russia Ukraine war). Private remittances play a critical role, forecasted at 20.4% of GDP in 2024.



Source: WEO Data, IMF, April 2024

Domestic revenue mobilisation has improved for the federal government of Somalia but the federal member states have a herculean task of meeting their expenditure needs through own source domestic revenue as international grants may dwindle in the years to come. The World Bank projects that economic reforms and increased public investment with HIPC completion will attract foreign direct investment (FDI) encouraging the private sector. Somalia continues to face fragility, conflict and climate shocks and all these factors will continue to impact growth going forward. The current account balance is buoyed by private remittances and official grants. While exports have recovered faster than imports, especially export of livestock, the trade balance is projected at -58.5 for

2024, driven down by high imports as the country continues to be highly reliant on them. (World Bank MPO, 2024).

The price inflation due to the Russia-Ukraine war, internal conflict and the 2020-2023 drought led to a food price crisis. Favourable rains in 2023 have eased food prices. FEWSNET’s report in May projected that staple food availability is broadly normal across Somalia and retail of imported foods also remains stable. However, areas with internally displaced persons (IDPs) continue to have poor purchasing capacity to access food and essential non-food items.

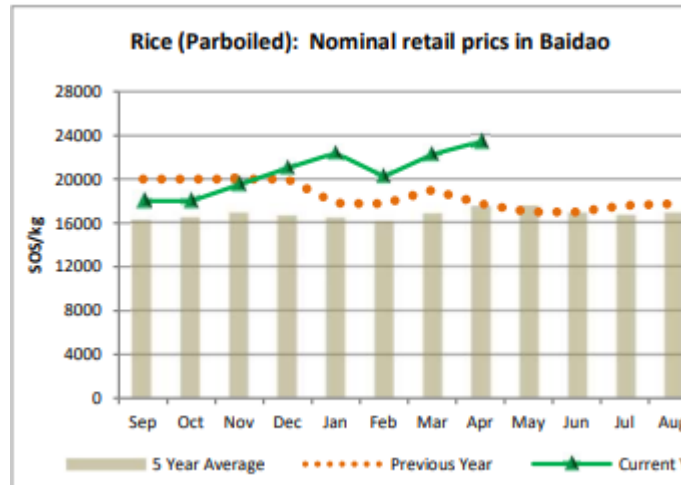
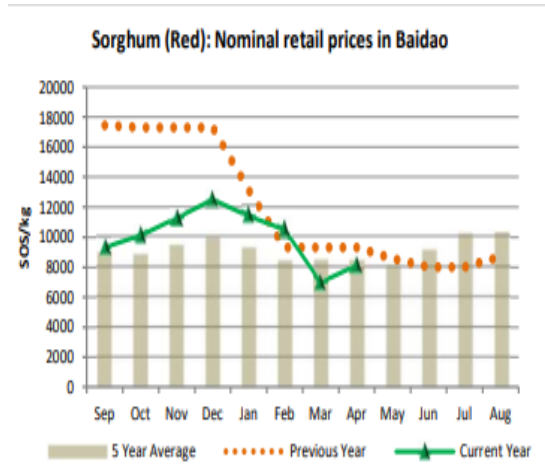
1.3 LOCAL MACROECONOMY

Southwest State contains areas of growth for sorghum, vegetables, maize, and sesame, as well as coastal areas for fisheries with some limited sheep and other livestock (e.g., Sorghum) production. Sorghum production in Southwest State is exposed to the trade route towards sales in Mogadishu. Similarly with goat production, though more of this joins the route towards export to, primarily, Saudi Arabia. As well as camels and cattle, Southwest State Maize, sorghum, rice, and cowpea are the most important staple foods for Somalis. Maize and sorghum are the preferred staples in agricultural areas, while rice is more popular in pastoral and urban areas. Cowpea is an integral component of fall households’ diets. Mogadishu is Somalia’s largest market, with links to most markets in the country. Baidoa is a significant sorghum-producing and consuming area, while Qorioley is a large maize production area.

The Southwest State is currently expanding its economic corridors through constructing new roads, and airports, seaports in the main cities of the southwest state, which will help the local people to start and navigate their business from one place to another, the state is also planning to build new TVET centres which will produce working power that will be part of the state economy.

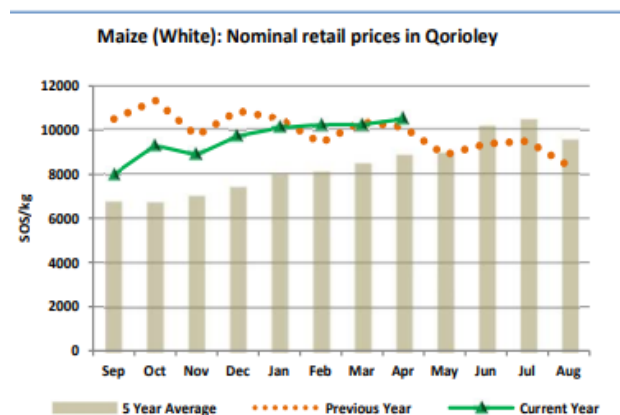
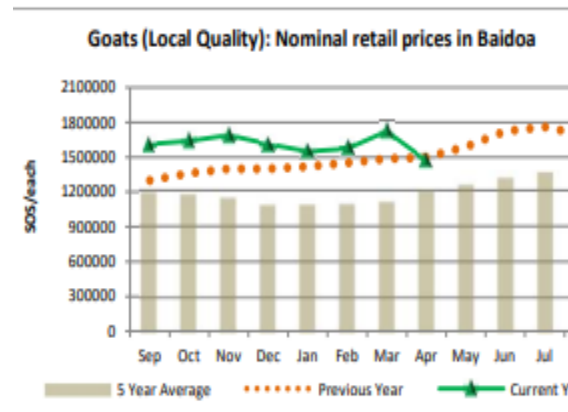
1.4 LOCAL PRICES

Prices for goats have remained in line with historic performance. The prices of key commodities purchased like rice and Sorghum which jumped in 2022 have started reducing in 2023. There is a positive new trend in goat prices increasing, as Southwest is a net producer.



The price of Sorghum has Decreased sharply from December 2023 to March 2024 this year, and started to rise again in April due to cultivation period and failed GU raining seasons.

SWS imported rice price is exposed to global crises and prices remain high since last year Q4 2023 through the beginning of 2024, but there was a slight decrease in February 2024, and again started to rise again in march and April 2024 and it's expected to remain stable through the end of the Q3 2024.



Prices of goats remained stable in the beginning of the year 2024, and price had spiked in march due to high demand from Mogadishu market and started to fall again April, where its expected raise again May and June due to Eid-Adha animal sacrifices.

The price of maize had remained stable through Dec 2023 to April 2024. Local demand remained stable. Due to flooding, the maize has not been exported from Qorioley.

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

1.5 POLICY BACKGROUND

Fiscal Policy in FY2024 and the medium term will continue to support the maintenance of security function, Given the needs this year caused by price spikes the focus of the budget is on expansions of revenue sources and develop the public resource management and to continue humanitarian support to help maintain welfare and livelihoods. This is reflected in the extra resourcing going to Health, Internal Security, and Water and Energy specially through donor funds.

1.5.1 National and State Development Plan

The NDP is the main policy framework underpinning the Federal Government's socio-economic development policy objectives over the FY2020 to FY2024 fiscal years. The poverty strategy for NDP-9 is organized in four pillars:

- Inclusive and Accountable Politics.
- Improved Security and the Rule of Law.
- Inclusive Economic Growth (including increased employment) and
- Improved Social Development.

By focusing interventions in these four pillars, Somalia will address the root causes of poverty. These organizing pillars align with the three national development priorities identified.

1.5.2 National Transformation Plan

The key objectives of the NTP:

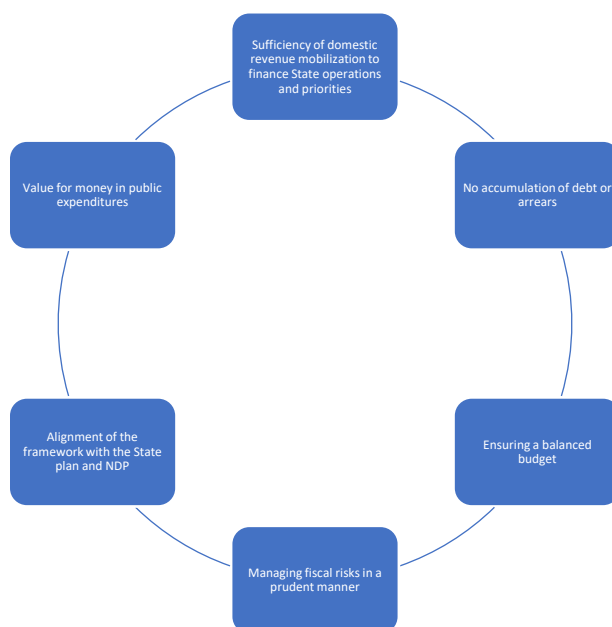
- Provide guidance to the Federal Government of Somalia (FGS) for development interventions and investments over the next five years (2025-2029).
- Function as a structured roadmap for Somalia's socio-economic advancement. Promote alignment and synergy among various development initiatives across the Federal Republic of Somalia.
- Encourage collaboration among stakeholders involved in development and humanitarian planning.
- Empower Somalia to address and overcome developmental challenges.
- Offer direction for resource allocation to drive national development and prosperity. The NTP represents a shift from a traditional development plan to a more focused transformation strategy.

2 FISCAL FRAMEWORK

The section focusses on i) the overall resources for the annual budget, which is broken down into domestic revenue and external grants and borrowing and ii) the revenue enhancement strategy. In Somalia the budget process begins with the calculation of the overall fiscal ceiling for the government, i.e., the resources available for State Budget Expenditure. These are obtained from revenue estimates of own-source tax and non-tax revenue, and federal and international grants. The government is required by law in the PFM Act to limit expenditure to the resources available to achieve its balanced budget objective, which is key to maintaining economic stability as the administration matures.

This overall fiscal ceiling for whole of government leads the way for the setting of individual ceilings for MDAs discussed in Section 3.

For FY2025, the fiscal framework and forecast is underpinned by the following fiscal principles:



2.1.1 Domestic Revenue

On domestic revenue, the focus in the medium-term is to ensure the expanded coverage of the Public Financial Management (PFM) system and improve collections through tax administration compliance.

The following table below indicate that that Southwest like other FMS is highly dependent on grants. Total domestic revenue collection has been increasing in collecting own source (Tax and Non-Tax Revenue) from 2020 to 2023.

Table 2 – Revenue trends SWSS

Aggregate Revenue	2015	2016	2017	2018	2019	2020	2021	2022	2023	Trends over time
CHANGE R.NO. COLUMN A- IT IS LINKED TO	202,897	682,191	1,260,291	2,750,007	1,704,341	2,175,552	2,429,940	2,977,145	4,536,549	
Personal Income tax	-	-	-	-	10,018	30,775	58,173	63,849	104,002	
Payroll Tax - Government	-	-	189	-	-	-	-	-	-	
Payroll Tax - Non-Government	-	-	28,160	229,927	487,784	711,271	1,124,575	1,693,384	2,847,798	
Turnover Tax	-	-	75,645	2,004	86,213	160,308	218,742	296,458	356,282	
Fuel Tax	-	-	-	-	-	8,563	1,400	-	15,539	
Property Tax	-	-	-	-	-	-	-	8,000	-	
Radio & Television Licenses	-	83	-	-	-	-	-	-	-	
Licenses for permits for households	18,176	19,532	17,320	1,000	-	-	-	-	-	
Local Passenger Fees	-	-	25,035	161,451	111,536	60,455	194,421	206,093	98,203	
Road User Tax	184,721	662,576	739,309	1,433,339	502,607	876,361	611,437	342,208	333,217	
Urban Road User Tax	-	-	-	-	53,900	105,000	34,500	37,200	150,426	
Roll Number Fees-Schools	-	-	-	-	-	74,587	48,720	69,317	-	
Customs duties - KHAT	-	-	372,302	891,671	440,785	140,449	126,238	247,046	523,030	
Stamp duties on invoices and contracts	-	-	-	-	-	-	-	-	39,397	
Customs duties - Cigarettes	-	-	2,331	30,616	11,498	7,785	11,734	13,590	9,198	
Road use levies	-	-	-	-	-	-	-	-	-	
Building /is this new name for property	-	-	-	-	-	-	-	-	59,457	
Grants	10,000	1,444,440	6,311,998	6,913,697	7,516,301	12,841,452	8,560,530	19,542,910	15,874,680	
Current Grants From International Orga	10,000	627,940	4,122,888	4,647,557	1,713,636	1,940,782	2,871,145	5,805,326	5,090,425	
Grants from Federal Government of So	-	816,500	2,189,110	2,266,140	5,786,435	10,900,114	5,689,385	13,727,827	10,784,255	
Grants from South West State	-	-	-	-	16,231	556	-	9,757	-	
Current grants in kind	-	-	-	-	-	-	-	-	-	
Other Sources of Revenue	71,500	149,318	104,788	273,061	226,952	229,336	342,208	451,866	426,366	
Rental income from Organizational Off	-	-	-	3,232	5,192	2,512	902	1,586	3,910	
Vehicle Hire/car rental Tax	-	-	-	-	-	10,621	21,634	47,020	38,302	
Rent of land and buildings	-	-	-	-	-	-	-	119,400	-	
Visa Fees	-	-	-	-	1,800	-	-	-	-	
Birth Certificate Fee	-	-	-	-	-	-	20	-	-	
Death Certificate Fee	-	-	-	-	-	-	40	-	-	
Land Certificate Fee	4,000	-	-	-	-	-	-	-	-	
Number Plate Registration	5,700	-	-	12,780	7,700	10,000	-	-	-	
Marriage Certificate Fee	-	-	-	-	-	-	150	50	-	
Clearance Letter Fee	-	950	-	-	180	10,342	23,720	15,093	17,102	
Market Fees	-	-	5,792	-	-	-	-	-	-	
Bidding Documentation fees	-	-	-	-	-	2,800	900	-	-	
Boat Registration Fees	-	-	-	-	-	-	-	1,150	390	
Fines/Penalties	-	-	-	-	13,635	-	16,100	-	-	
Court Filing Fees	-	-	-	-	-	-	5,446	2,347	521	
Local Contribution	47,700	144,418	50	-	-	-	-	-	-	
Individual Donations	-	-	-	-	-	-	-	500	-	
Port docking Fees	-	-	400	-	-	-	-	-	-	
Landing Fees	14,100	2,950	79,824	135,650	89,500	32,120	80,750	138,600	201,950	
Institutional Donations	-	-	-	-	-	-	-	6,177	5,000	
International NGOs registration	-	-	-	26,000	20,000	26,500	28,500	21,000	8,000	
Local NGO's Registration	-	-	-	33,500	26,594	29,050	27,466	12,300	500	
Local Companies Registration	-	-	-	-	2,500	-	-	-	-	
Work Permit Licenses	-	-	-	15,823	19,310	13,003	13,435	5,348	16,609	
Livestock Fees	-	-	-	35,545	12,887	58,645	87,872	31,000	22,000	
Passport fees	-	-	-	-	8,154	6,944	17,073	18,445	24,410	
Business & Professional Licenses	-	1,000	18,722	10,531	19,500	26,800	18,199	31,850	18,484	
Examination fees	-	-	-	-	-	-	-	-	63,188	
Fines	-	-	-	-	-	-	-	-	6,000	
Total	284,397	2,275,949	7,677,077	9,936,765	9,447,593	15,246,340	11,332,679	22,971,921	20,837,595	

Grant projections are announced by federal government in Q3 only. **A new revenue model introduced in 2023 developed** domestic revenue projections for own source revenue (tax and non-tax) and demonstrates **the shortfall in target expenditure that must be met by grants**. The final revenue projections for 2024 and 2025 were calculated, using methods of inverse and median, and average collections.

Own source (tax and non-tax revenue) is expected to increase by 11 percent in FY2024 compared to FY2023 and by 25 percent in FY2025 compared to 2024. Southwest needs 24.5 million from Grants to achieve its expenditure target in FY 2025.

Table 3 – Revenue Actual and Forecasts

	2023 Actuals	FINAL PROJECTIONS 2024	Increase 2023/24	FINAL PROJECTIONS 2025	Increase 2024/25
Tax reveue	4,536,549	6,073,338	34%	6,181,287	2%
Non Tax Revenue	846,732	662,234	-22%	518,006	-22%
Total	5,383,281	6,735,572	25%	6,699,293	-1%

2.1.2 External Resource Commitments

During FY2025, a total of USD **31,381,473** of external assistance will support the budget, this is the total of Grants anticipated from international organizations, foreign governments, and anticipated from the FGS. It is critical to note that these estimates are based estimates received from FGS or international donor partners.

2.1.3 Risks from Volatile Financing

Prior year reliance on external assistance has meant that revenue estimates have failed to meet expectations, often due to political, managerial, and technical issues and a lack of absorptive capacity within our institutions. Low levels of grantor disbursements are largely in response to low absorption by our Ministries particularly because of non-compliance with donor requirements. For Somalia to achieve debt relief through the HIPC initiative, the form of development partner funding will change from grants to loans, and DRM improvement will be crucial to ensure that it is able to meet its debt commitments.

2.1.4 Revenue Enhancement Strategy

After the completion point of the Heavily Indebted Poor Countries (HIPC) initiative, the Federal Member States (FMS) of Somalia continues to tackle domestic revenue mobilization reform. This involves the preparation of a tax policy statement and amendments to existing revenue laws. Efforts are underway to increase domestic revenue, which is instrumental in increasing development expenditure, and reduce over time the dependency on external budgetary contributions. The revision of the revenue law and the tax policy statement are critical to support these reform initiatives.

Since 2014, the state has been raising revenue from a wide range of sources under laws and regulations enacted by the state. The revenue has been collected by the Ministry of Finance and authorised tax collection agents, and is accounted in its annual audited accounts.

The state is refocussing its efforts on revenue collection, following national agreement on revenue stream allocation, on streams that are exclusive to the state (key streams are: property tax, property transfer tax, state road tax, agricultural and market fees, and vehicle registration and licensing fees). In addition, the state will adopt a harmonised collection of revenue from shared taxes, including personal income tax, corporate income tax, sales tax and rental income tax.

The state will look to harmonise its tax base (what or who is taxed) and its tax rates (the amount of tax that is paid), in step with other states and the Federal Government. Initially, it has adopted nationally agreed rates of tax for personal income tax and will further harmonise the tax base (for PIT, the types of employees and their income). With this harmonisation objective in mind, the state has undertaken a revenue potential study to identify the potential revenue over the medium term (the next 3 to 6 years), taking account of state circumstances.

The state is preparing new legislation that will give effect to the harmonised revenue streams and tax rates. The new legislation will impose fairer, simpler and more effective taxes on these revenue streams, so that tax is neither excessive nor difficult to understand and comply with. In the medium-term, revenue collection will focus on personal income tax on employees, an estimated turnover tax for business, road user taxes, vehicle registration fees and a number of service fees and charges. The revenue streams will be reviewed regularly to take assess performance and take account any new federalism and harmonisation commitments.

Customs revenue

Significant changes have occurred since 2023, including Somalia's signing of two international agreements: the Greater Arab Free Trade Agreement (GAFTA) and the East African Community (EAC). These agreements involve Free Trade Agreements (FTAs) that eliminate tariffs on goods traded between member countries. The **National Economic Council Working Paper, October 2023: Assessing the Viability of Somalia's Integration into the East African Community states that:**

- Somalia's domestic income primarily comes from customs taxes.
- It is crucial for Somalia to diversify its revenue sources and reduce dependence on customs duties.
- Suggested areas for increased taxation include goods and services (VAT), income, profits.
- Customs revenues are expected to decline as a percentage of total revenue in states joining the EAC. However, the decline may be minimal due to increased intra-EAC trade and adherence to EAC Customs Union Protocol provisions, potentially enhancing revenue collection from international trade and domestic taxes.
- FGS has promulgated regulations which will improve compliance, leading to improved revenue yields; among these are:
- Customs Broker Regulations. These regulations will improve governance of Customs Brokers, ensuring all Brokers have the required qualifications to act as a Broker by passing an examination before being issued with a license.

- Customs Enforcement Regulations. These set out core powers and duties to enable customs officers to administer the Customs Law. The regulations provide the powers to seize goods and apply penalties when a Customs offence has been committed.

SOMCAS is in the process of full implementation in FGS, PL, and JSS, hopefully to be achieved in July/August 2024. Implementation of trade facilitation measures has been provided new impetus with the joining of the EAC. Somalia is expected to adopt and implement the EAC Elimination of Non-Tariff Barrier Act 2017 and accede to the WTO and ratify the WTO Trade Facilitation Agreement. These measures will improve the efficiency of the movement of goods across Somalia's borders and encourage international investment. Somalia will also be required to implement the WTO Valuation Agreement, by aligning with EAC valuation rules and calculating the Customs value of goods using the price paid or payable.

Any potential loss of Customs revenue through the TFAs may be mitigated by the implementation of many of the above measures.

3 EXPENDITURE MEASURES AND BFP CEILINGS

This section focusses on expenditure measures for FY 2025 and the BFP ceiling model. The assumptions for the MDA ceilings model are explained and provisional individual ceilings are presented.

3.1.1 Expenditure

The BFP provides the minimum need for each ministry (fixed commitments and salaries) and accounts for an additional top up provided to each ministry based on its policy priority status. The total expenditure ceiling is balanced with the own source revenue for each state. After this, additional grants from FGS, donors for projects and salaries are considered in the calculation of the total allocation available to each ministry

The 2025 budget will focus on a few key initiatives.

3.2 KEY INITIATIVES

The 2025 will focus on few key initiatives:

the focus of the budget is on urgent humanitarian support to help maintain welfare and livelihoods. This is reflected in the extra resourcing going to Health, Internal Security, and Water and Energy.

- MoF: Public resource management
- Health: Building the ministry of Health main office, Damal Cafimaad project implementation, Recruit Female Health Workers, Building new MCH.
- Ministry of Internal Security: Recruitment, training, and facilitation of the police force
- Education: Building School, Recruitment of School Teachers and Training them. Rehabilitate school infrastructure with appropriate girl-friendly facilities based on the identified mapping needs, provide school feeding to schools, Recruit and train qualified Teachers. Continuation of Bar ama Baro (BAB) project, continuation of GPE project.
- MoEWR: Rehabilitation of boreholes and shallow wells, Water Trucking for IDP camps.
- Ministry of Environment: Tree plantation across the state, Awareness of climate change
- MoWHRD: Recruiting social workers for giving awareness on child drug addict, Rehabilitation program for the homeless children, Gender inclusion programs.
- Ministry of Environment: Tree plantation across the state, Awareness of climate change programs
- Ministry of Agriculture & Irrigation: More than 3 Million will be invested in the development of the state Agriculture sector and Human Capacity development.
- Ministry of Livestock & Veterinary: similarly the state is also committed in the development of Livestock by investing more than 3 Million on the enhancement of livestock value chain Development.
-

THE BFP

This BFP has attempted to reconcile the Federal NDP, the international Sustainable Development Goals, and State priorities and plans. In subsequent years, this process will be a whole-of-government effort with all State MDA involved in a planning process, each developing comprehensive, detailed business plans that articulate specific policy objectives, activities, key performance indicators, and cost proposals. In the

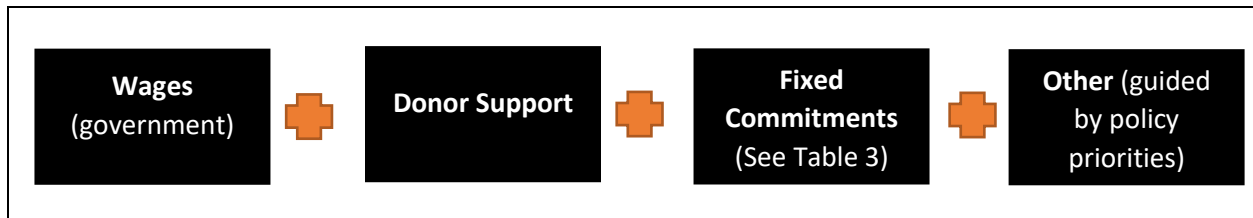
absence of these plans, developing sectoral allocations and ascertaining intra-policy priorities will remain challenging and a high-level exercise.

3.3 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, based on 2022 expenditure
- **Donor Support:** allocated to specific ministries, covering RCRF and others.
- **Fixed Commitments:** the amount required to meet the basic operating costs because of prior commitments (e.g. rent of buildings, electricity to power these buildings) based on budget 2023
- **Other:** is the new amount for 2025 that will allow Ministries to expand recruitment, and other important agenda.

The aim of the budget is to allocate new funding, within guidelines.

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 2024. Only recruitment or promotion will yield higher wage costs.
- Balanced budget: the revenue will need to equal total expenditure

Table 4 – Components of Fixed Commitments

Fixed Commitments	2023 Budget	2023 Actual	Execution	2024 Budget
Bank charges	18,000	102	1%	10,000
Electricity	14,000	7,396	53%	8,400
Gasoline				
Diesel and oil	254,800	250,950	98%	340,000
Maintenance of Vehicles				
Maintenance and repair of equipment and heavy	5,000	4,500	90%	
Maintenance and repairs of building	5,902	5,902	100%	
Maintenance and repairs of vehicles, boats and v				
Water	3,600	2,540	71%	6,800
Audit Fees				
Office Rent				
Satellite fees	62,900	55,900	89%	84,000
Internet fees	22,800	17,400	76%	19,200
TOTAL FC	387,002	344,690	89%	468,400

The table above shows the components of fixed commitments at the moment. Below shows the split of the components for the previous 2023 actual and 2024 budget.

Table 5 – FY 2023 Performance against Categories

	2023 Actual				TOTAL
	Government Funded Salaries (Paid)	Donor Funded Spend Total (paid 2023)	Fixed Commitments (Government Funded)	Other	
Accountant General Office	-	-	-	-	-
Civil Service Commission	3,850	53,112	1,554	0	58,516
High Court	-	-	-	-	-
Ministry of Agriculture & Irrigation	-	236,182	-	-	236,182
Ministry of Aid & Disaster Management	-	251,820	-	-	251,820
Ministry of Education	-	2,707,041	10,000	65,000	2,782,041
Ministry of Environment & Wildlife	-	262,778	-	-	262,778
Ministry of Finance	178,990	513,605	30,354	77,704	800,653
Ministry of Fisheries & Sea Minerals	-	85,287	-	-	85,287
Ministry of Health	-	4,783,267	-	-	4,783,267
Ministry of Industry & Commerce	-	21,444	-	-	21,444
Ministry of Information	23,800	24,696	55,900	-	104,396
Ministry of Interior & Local Governments	39,550	1,366,751	5,902	1,800	1,414,003
Ministry of Internal Security	787,050	2,521,037	-	-	3,308,087
Ministry of Islamic Affairs & Endowments	-	11,089	-	-	11,089
Ministry of Justice & Judiciary	-	40,716	-	-	40,716

Ministry of Labour & Employment	-	129,804	-	-	129,804
Ministry of Livestock & Veterinary	-	306,877	-	-	306,877
Ministry of Petroleum and Mineral Resource	-	15,420	-	5,000	20,420
Ministry of Planning and International Cooperation	-	656,229	-	-	656,229
Ministry of Posts & Communications	-	15,420	-	-	15,420
Ministry of Public Works & Reconstruction	-	255,060	-	-	255,060
Ministry of Reconciliation & Constitutional Affairs	-	23,675	-	-	23,675
Ministry of Seaports & Sea Transportation	-	15,420	-	-	15,420
Ministry of Transportation & Airports	-	31,080	-	-	31,080
Ministry of Water & Energy	-	970,988	-	-	970,988
Ministry of Women & Human Rights	-	258,769	-	-	258,769
Ministry of Youth & Sports	-	96,945	-	-	96,945
Office for Auditor General	3,150	30,728	1,030	-	34,907
Parliament	308,400	31,320	-	-	339,720
State Ministry of President	3,088,090	31,320	239,950	51,945	3,411,305
TOTAL	4,432,880	15,747,881	344,690	201,449	20,726,900

N.B. All government funded salaries are from Fund code 11, the donor funded spending largely represent RCRF funds.

Table 6 –FY 2024 Budget against Categories

2024 Budget					
	Government Funded Salaries	Donor Funded Salaries	Fixed Commitment	Other	TOTAL
Accountant General Office	8,400	-	-	500	8,900
Civil Service Commission	36,600	350,570	1,200	1,800	390,170
High Court	204,000	-	-	-	204,000
Ministry of Agriculture & Irrigation	16,800	3,508,336	-	600	3,525,736
Ministry of Aid & Disaster	16,800	336,480	-	2,400	355,680
Ministry of Education	16,800	5,956,692	-	75,000	6,048,492
Ministry of Environment & Wildlife	16,800	590,547	-	2,400	609,747
Ministry of Finance	168,000	933,074	40,000	369,730	1,510,804
Ministry of Fisheries & Sea Minerals	16,800	221,463	-	2,000	240,263
Ministry of Health	16,800	7,563,976	100,000	2,400	7,683,176
Ministry of Industry & Commerce	16,800	21,444	-	2,500	40,744
Ministry of Information	58,800	25,056	84,000	-	167,856

Ministry of Interior & Local	169,200	1,571,899	2,000	600	1,743,699
Ministry of Internal Security		1,814,601	-	-	2,976,264
Ministry of Islamic Affairs &	16,800	15,420	-	2,400	34,620
Ministry of Justice & Judiciary	16,800	40,716	-	600	58,116
Ministry of Labour & Employment	16,800	347,272	-	2,400	366,472
Ministry of Livestock & Veterinary	16,800	3,476,620	-	2,400	3,495,820
Ministry of Petroleum and Mineral	16,800	15,420	-	600	32,820
Ministry of Planning and	16,800	1,076,905	-	2,400	1,096,105
Ministry of Posts &	16,800	15,420	-	2,400	34,620
Ministry of Public Works &	16,800	480,080	-	2,400	499,280
Ministry of Reconciliation &	16,800	25,056	-	2,400	44,256
Ministry of Seaports & Sea	16,800	15,420	-	600	32,820
Ministry of Transportation &	16,800	31,080	-	2,400	50,280
Ministry of Water & Energy	16,800	5,807,249	-	2,400	5,826,449
Ministry of Women & Human Rights	16,800	335,045	-	2,500	354,345
Ministry of Youth & Sports	16,800	58,065	-	2,400	77,265
Office for Auditor General	15,600	43,584	1,200	1,200	61,584
Parliament	728,000	31,320	-	2,000	761,320
State Ministry of President		83,820	240,000	42,000	2,361,920
TOTAL	4,899,163	34,792,629	468,400	533,430	40,693,622

N.B. All government funded salaries are from Fund code 11, the donor funded spending largely represent RCRF funds.

Factoring Influencing Ceilings

- 1) **Recruitment of new staff from end 2023 to end 2024:** the 2023 actual reflects the level of spending based on all staff employed during the year. 2024 budget represents staffing with planned recruitment.
- 2) **The level of likely revenue,** this determines the overall envelop and how much we have left over to allocate after we have met the needs for baseline salaries and fixed commitments.

To finalize the ceilings, we need to know:

- 1) What the level of staffing will likely be in 2025, and thus a reasonable estimate for the salary needs in 2025 (with no additional recruitment)
- 2) What is the likely donor support (including RCRF) and how will this be allocated?
- 3) The likely available revenue for 2025
- 4) What factors influence the size of fixed commitments (e.g. inflation)
- 5) Which are the priority Ministries for new spending and new recruitment.

Table 7 – Ceiling Shares and Policy Priorities

	2023 Actual		2024		2025		
	Share of Other	Share of Total	Share of Other	Share of Total	Priority	Proposed Other	Proposed Total
Accountant General Office	0.0%	0.0%	0.1%	0.0%	Medium	0.0%	0.0%
Civil Service Commission	0.0%	0.3%	0.3%	1.0%	High	2.0%	1.2%
High Court	0.0%	0.0%	0.0%	0.5%	Low	0.2%	0.0%
Ministry of Agriculture & Irrigation	0.0%	1.1%	0.1%	8.7%	Medium	0.4%	9.7%
Ministry of Aid & Disaster Management	0.0%	1.2%	0.4%	0.9%	Medium	0.4%	1.0%
Ministry of Education	32.3%	13.4%	14.1%	14.9%	High	6.1%	22.6%
Ministry of Environment & Wildlife	0.0%	1.3%	0.4%	1.5%	Low	0.2%	1.1%
Ministry of Finance	38.6%	3.9%	69.3%	3.7%	High	6.1%	4.7%
Ministry of Fisheries & Sea Minerals	0.0%	0.4%	0.4%	0.6%	Medium	0.4%	0.3%
Ministry of Health	0.0%	23.1%	0.4%	18.9%	High	6.1%	8.7%
Ministry of Industry & Commerce	0.0%	0.1%	0.5%	0.1%	Low	0.2%	0.1%
Ministry of Information	0.0%	0.5%	0.0%	0.4%	Low	0.2%	0.4%
Ministry of Interior & Local Governments	0.9%	6.8%	0.1%	4.3%	High	6.1%	3.0%
Ministry of Internal Security	0.0%	16.0%	0.0%	7.3%	Critical	21.9%	10.0%
Ministry of Islamic Affairs & Endowments	0.0%	0.1%	0.4%	0.1%	Low	0.2%	0.0%
Ministry of Justice & Judiciary	0.0%	0.2%	0.1%	0.1%	Low	0.2%	0.1%
Ministry of Labour & Employment	0.0%	0.6%	0.4%	0.9%	Medium	0.4%	0.5%
Ministry of Livestock & Veterinary	0.0%	1.5%	0.4%	8.6%	High	6.1%	9.2%
Ministry of Petroleum and Mineral Resource	2.5%	0.1%	0.1%	0.1%	Low	0.2%	0.0%
Ministry of Planning and International Cooperation	0.0%	3.2%	0.4%	2.7%	High	6.1%	2.5%
Ministry of Posts & Communications	0.0%	0.1%	0.4%	0.1%	Low	0.2%	0.0%
Ministry of Public Works & Reconstruction	0.0%	1.2%	0.4%	1.2%	Medium	0.4%	0.6%
Ministry of Reconciliation & Constitutional Affairs	0.0%	0.1%	0.4%	0.1%	Low	0.2%	0.1%
Ministry of Seaports & Sea Transportation	0.0%	0.1%	0.1%	0.1%	Low	0.2%	0.0%
Ministry of Transportation & Airports	0.0%	0.1%	0.4%	0.1%	Low	0.2%	0.1%
Ministry of Water & Energy	0.0%	4.7%	0.4%	14.3%	High	6.1%	11.1%
Ministry of Women & Human Rights	0.0%	1.2%	0.5%	0.9%	Medium	0.4%	1.0%
Ministry of Youth & Sports	0.0%	0.5%	0.4%	0.2%	Low	0.2%	0.1%
Office for Auditor General	0.0%	0.2%	0.2%	0.2%	Low	0.2%	0.1%
Parliament	0.0%	1.6%	0.4%	1.9%	High	6.1%	1.7%
State Ministry of President	25.8%	16.5%	7.9%	5.8%	Critical	21.9%	10.0%
Ministry of Rural Development and Durable solution	Created in 2024	Created in 2024	Created in 2024	Created in 2024	Low	0.7%	0.0%

The shares of both the other (i.e. new allocations) and the total allocations align with the Government’s policy priority areas – focused around Security, and key operations (State Ministry of President, Ministry of Internal Security, MoILG, Health, Education, and Finance, the Government also will highly invest in the Development of Agriculture, Livestock for better Economic Development and Job Creation..

2025 Est						
	Government Funded Salaries (Based on 2025 actuals)	Donor Funded	Fixed Commitment (Government Funded) 2023 budget.	Other, inc new govt funded staff (2023 and planned 2024)	TOTAL	Minimum need
Accountant General Office	-		-	7,241	10,400	-
Civil Service Commission	3,850	417,750.00	1,200	103,438	457,350	5,050
High Court	-		-	3,165	96,000	-
Ministry of Agriculture & Irrigation	-	3,690,329.57	-	7,241	3,709,530	-
Ministry of Aid & Disaster Management	-	368,860.00	-	7,241	387,660	-
Ministry of Education	-	8,485,953.00	-	103,438	8,645,953	-
Ministry of Environment & Wildlife	-	415,560.00	-	3,165	434,360	-
Ministry of Finance	178,990	1,466,376.33	40,000	103,438	2,134,891	218,990
Ministry of Fisheries & Sea Minerals	-	116,604.00	-	7,241	136,404	-
Ministry of Health	-	3,108,337.00	100,000	103,438	3,127,537	100,000
Ministry of Industry & Commerce	-	21,444.00	-	3,165	40,244	-
Ministry of Information	23,800	25,056.00	84,000	3,165	167,056	107,800
Ministry of Interior & Local Governments	39,550	1,001,142.75	2,000	103,438	1,148,343	41,550
Ministry of Internal Security	787,050	2,628,604.00	-	374,517	3,790,171	787,050
Ministry of Islamic Affairs & Endowments	-	15,420.00	-	3,165	34,220	-
Ministry of Justice & Judiciary	-	40,716.00	-	3,165	57,516	-
Ministry of Labour & Employment	-	175,456.00	-	7,241	194,256	-
Ministry of Livestock & Veterinary	-	3,381,041.76	-	103,438	3,400,842	-
Ministry of Petroleum and Mineral Resource	-	15,420.00	-	3,165	34,220	-
Ministry of Planning and International Cooperation	-	837,555.40	-	103,438	867,555	-
Ministry of Posts & Communications	-	15,420.00	-	3,165	34,220	-
Ministry of Public Works & Reconstruction	-	203,880.00	-	7,241	223,680	-
Ministry of Reconciliation & Constitutional Affairs	-	25,056.00	-	3,165	43,856	-
Ministry of Seaports & Sea Transportation	-	15,420.00	-	3,165	34,620	-
Ministry of Transportation & Airports	-	31,080.00	-	3,165	50,880	-
Ministry of Water & Energy	-	4,124,751.04	-	103,438	4,143,551	-
Ministry of Women & Human Rights	-	361,936.50	-	7,241	380,737	-
Ministry of Youth & Sports	-	31,080.00	-	3,165	49,880	-
Office for Auditor General	3,150	43,584.00	1,200	3,165	61,784	4,350
Parliament	308,400	231,320.00	-	103,438	961,320	308,400
State Ministry of President	3,088,090	86,320.00	240,000	374,517	3,204,931	3,328,090
Ministry of Rural Development and Durable solution				11,606	16,800	
TOTAL	4,432,880	31,381,473	468,400	1,783,413	38,080,766	4,901,280

Table 8 – Proposed 2025 Ceilings

The 2023 actual represents the minimum need for Government funded salaries (without any of the 2024 or planned 2025 adjustment). Donor funding is all pre-allocated to Ministries. Fixed commitments represent an estimated need for key spending like rentals. The total column shows the figure of the ceiling for line Ministries to determine the allocation, that at least provides cover for these minimum requirements.

The 2025 salaries allocation which is **USD 4,432,880** is based on 2023 actual which represents the minimum need for Government funded salaries (without any of the 2024 or planned 2025 adjustment).

Fixed commitments which are **USD 468,400** represent an estimated need for key spending like rentals. For 2025, the 2024 budget is used as a continuing requirement. The Minimum Need column shows the figure needed that covers for these minimum requirements: government salaries and fixed commitment which is **USD 4,901,280**.

Southwest State’s total own source revenue projection for 2025 is **USD 6,699,293**. After accounting for Minimum Need, we are left with **USD 1,798,013**. We use the policy priority ratings of Critical, High, Medium, and Low to assign the remaining resources to ministries based on their priority status. The Others column above essentially denotes the “policy priorities” allocation for each LM and the Total column is a sum of the Minimum need and others column.

More resources on grants from FGS and donor commitments have increased fiscal space, and have been allocated to the ministries based on policy priorities. A total of **USD 31,381,473** will be received in the form of FGS and donor grants.

Table 9 – Forecasted 2025 Expenditure

Total Domestic own source revenue	6,699,293
Allocated Expenditure OSR	
Minimum need	4,901,280
Policy priorities	1,798,013
Total expenditure forecast based on OSR (minimum need + policy priorities)	6,699,293
Allocated Expenditure (grants)	
Donor commitments + Grants from FGS	31,381,473
TOTAL BUDGET 2025	38,080,766

4 RISKS TO THE BUDGET

4.1 ISSUES TO PAY HEED TO GOING FORWARD

4.1.1 Public Financial Management

The State's operations and fiscal sustainability rely on sound PFM; therefore, it will be imperative that all State institutions and staff abide by the principles and procedures enshrined in the PFM Act. All State MDAs shall:

1. Ensure that all public revenues are deposited into the Treasury Single Account;
2. Ensure that the MoF is notified of all new donor commitments in a timely manner; and
3. Ensure that all procurements (for goods, consultancy services, non-consultancy services, and works) are conducted through the MoF's Procurement Department.

These three procedures are critical to ensuring that funds are accurately accounted for and reported.

4.1.2 Public Engagement with the Budget

As the custodian of public monies, it is incumbent on the State to demonstrate to its citizens that appropriated revenues are being effectively deployed to meet citizen socio-economic development objectives. To this end, the MoF publishes the Annual Budget and quarterly fiscal outturn reports on its website to make this information available to the public which includes international donors the citizens of Somalia and the public at large.

4.1.3 Macroeconomic Risks

Deviations from the macroeconomic assumptions underpinning this BFP will pose a significant risk to fiscal policy objectives. Overall, Somalia's medium-term growth forecast depends largely on the absence of droughts or floods, the economic performance of our donor countries, and the stimulatory impact of new development projects conducted by the State and on its behalf. Continued insecurity curtails the State's ability to deliver its plans. State reforms in PFM, the PFM and Revenue Acts, customs reforms are expected to help ensure that available resources are effectively used for committed purposes. An emphasis on robust and well-managed public procurements should ensure efficient execution of policy objectives.

4.1.4 Institutional Risks

Since its inception, the State's performance with regards to implementation of tax measures has been mixed. Limited access to taxpayers, lack of taxpayer information, the ubiquity of illegal checkpoints, poor understanding on the part of taxpayers as to the importance of timely tax payments, diversion of public funds from the Treasury Single Account, and procurements being conducted outside of the legal framework of the PFM Act all pose significant risks to the fiscal sustainability of the State's institutions. To manage these risks, the State continues to place a significant emphasis on the professionalization of its revenue collection activities, underpinned by the Revenue Act and subsidiary regulations and instructions.

4.1.5 Human Resource Risks

Given its resource constraints, the Government struggles to attract qualified professionals to the civil service. As capacity within the Civil Service Commission increases, Ministries will work closely with the Commission to develop staffing plans over the medium-term, to support the budget preparation process by providing an indication and clear rationale for proposed staffing levels.

These below risks are specific to Southwest and identify factors that could influence both macroeconomic and fiscal conditions.

Table 10 - Macro-Fiscal Risk Table

Risk	Likelihood	Impact
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 – Shabelle River floods are common	Medium – impacts the agriculture sector, IDPs and Host Communities
Increase in internally displaced	High – displacement happens with regularity	High – can increase costs and cause economic disruption
Low labour force participation	High – 30% of the labour force is unemployed	High – No enough workforce to drive the economy
Low Remittance	Medium - remittance remain at the same level as last Year	High – can increase cost and cause economic disruption
Delayed Election	High - the election commission does not have final date yet.	High : delay donor funds, project approvals and Bilateral government support
Utilization of grants	High - the state is facing difficulties in utilising the budgeted donor funds.	High - it will exaggerate the budget, and reduces budget credibility.

