



# 2013 Budget Policy Framework Paper

Ministry of Finance and Planning and International  
Cooperation



**Federal Republic of Somalia**  
**Ministry of Finance and Planning and International**  
**Cooperation**

**2013 Budget Policy Framework**

**New Beginning**

*“Enhancing State Capacity for Peace, Justice, Economic  
Recovery and  
Public Finance Integrity”*

# 2013 Budget Policy Framework Paper

---

## Forward

Over the past two decades Transitional Federal Governments have come and gone with little or no success in establishing and sustaining key public institutions. Governments operated with budgets that were formulated informally without any legal framework. This is the first full year Federal Government of Somalia budget to be formulated within the provisional Constitution of the Federal Republic of Somalia<sup>1</sup>. Article 124 of the Constitution sets the stage within which a new Public Financial Management (PFM) Law has been drafted by the Ministry of Finance and is being presented to Parliament for discussion and consideration. The PFM law sets the stage for an entirely new system of public accountability and efficiency. Improved public financial management is vital in order to meet the objectives set in the new Government's program. I am pleased to present this budget policy framework Paper, which is an important element in the planning cycle and aims to improve the budget process by providing the, economic and fiscal context for the 2013 National Budget.

The information contained in this policy framework paper will guide the budget process, ensuring that the expenditure focus on our set priorities as set in the six pillars.

The Government presenting herewith the resource forecasts alongside the policy priorities the resource will be used to meet. The Government aimed to rebuild capable institutions to better deliver needed services to the Somali public. The new Government inherited a country whose economy is in shambles with broken civil service and a dysfunctional public financial management system bereft of any real controls such as credible internal and external audit functions.

---

<sup>1</sup> A three month mini-budget for October-December 2012 was approved by Parliament in October 2012.

## 2013 Budget Policy Framework Paper

---

Since the 10<sup>th</sup> September 2012 the Government through its policy strategy on the “Foundations of New Beginning” has clearly set the path to meet the needs and aspirations of the Somali people. This strategy revolves around six “Pillars”, which shed light on the Government’s budget priority to alleviate the suffering of the citizens and lay strong foundations for building reliable and effective public institutions. Continued Development Partners support is essential if Somalia is to effectively meet the objectives set out in this Policy Framework Paper. As PFM reforms are central, the draft Public Financial Management Bill will be presented to the Parliament by the Ministry of Finance for consideration and approval with the 2013 Budget in December 2012. Our program of reform is raising the bar to ensure that taxpayer and Development Partners resources will be used effectively and efficiently, and that we live up to our commitment to transparency and accountability in PFM.

The Budget Framework Paper presents an important step in implementing the Public Financial Management Act. It comes at a crucial time, as the Government aims to mobilize all available resources for the implementation of its programs.

## Contents

Forward.....	3
Introduction .....	7
1. Policy Priority of the 2013 National Budget.....	10
1.1 Supremacy of the Law and Good Governance.....	11
1.2 Economic Recovery .....	12
1.3 Peace building – Social Reconciliation.....	13
1.4 Services Delivery .....	13
1.5 Building Collaborative Relations and Positive National Image .....	13
1.6 Unity and integrity of Somalia .....	14
2. The Challenges of Public Financial Management .....	14
2.1 Improving Public Financial Management .....	15
2.2 Public Financial Management (PFM) Law .....	15
3. Recent Economic Developments.....	16
3.1 Macroeconomic Framework .....	17
3.2 Economic Forecasts.....	18
4. Fiscal Policy.....	20
4.1 Revenue Mobilization .....	20
Opportunities for Revenue Mobilization.....	22
4.2 Review and Performance of 2012 Measures .....	22
External Assistance .....	23
4.3 Proposed Measures for 2013 Budget .....	24
4.4 Tax Revenue Estimates in the 2013 Budget.....	25
(ii) indirect Taxes .....	28
Customs Duties .....	29
5. External Grants .....	33
5.1 Measures being considered for Effective Mobilization of Revenues .....	34
5.2 Conclusions .....	35
6. Expenditure Framework and 2013 Budget Priorities.....	37
6.1 Introduction .....	37
6.2 Expenditure Outturn in 2012 Fiscal Year .....	38
6.3 The 2013 total Budget Expenditure .....	39
6.4 Recurrent Budget .....	40
6.5 Earmarked Funds.....	42

# 2013 Budget Policy Framework Paper

---

6.6	Emoluments structure.....	43
6.7	Purchase of Goods and Services .....	47
7.	Capital outlay.....	<b>50</b>
7.1	Financing Requirement.....	50
7.2	Recommendations .....	51
A.	The Proposal Budget Cycle for Somalia.....	<b>53</b>
A.1	Planning Cycle.....	53
B.	The Budgeting cycle .....	<b>54</b>
B.1	Stages of Budgeting .....	55

# 2013 Budget Policy Framework Paper

---

## Introduction

This budget Framework Paper was prepared in accordance with Article 124 of the Provisional Constitution of the Federal Republic of Somalia and the draft Public Financial Management Bill. The policy framework guides the detailed formulation of 2013 National Budget and provides revenue and expenditure projections. It presents the steps undertaken by the Government to reform public financial management to ensure that all available resources are mobilized to meet the crucial economic, security and social goals set out in the new Government's program presented to Parliament by the Prime Minister.

The Policy Framework Paper sets out the basic principles of the 2013 National Budget and provides specific measures for attaining sound budget performance. The 2013 budget Framework is shaped by key principles of sound public financial management as established in the Provisional National Constitution and the PFM Bill, and these are:

- Compliance with the Public Finance Management Act and Directives: The government has established a legal framework for budget management and public finance administration. The annual budget for 2013 has been prepared and will be implemented in compliance with the current Financial Legislation, Regulations and Directives.
- Linking public expenditure to government policy: Integrated policy, planning and budgeting is fundamentally about having expenditure programs that are driven by policy priorities and disciplined by budget realities.
- Management of public expenditure: The national annual budget is aimed at comprehensively managing public revenue and expenditure, and all public monies as mandated by law (The Budget Proclamation Act No. \_\_ 2013) will be placed in a Consolidated Fund and that all disbursements from the consolidated Fund must be approved by the national Parliament through appropriation.

## 2013 Budget Policy Framework Paper

---

- Limiting expenditure to domestic revenue and external funding: The Ministry of Finance has estimated the domestic revenue and financing projections for the national annual budget and established the expenditure ceilings based on the resources available taking into account economic stability and other macroeconomic targets.
- The expenditure of the government will be limited to actual collection of domestic revenue and external assistance realized by the Federal Republic of Somalia (FRS). The Government of Somalia will establish line item budgeting system, which will be closely based on programs and sub-programs.
- Lack of adequate information is one of the characteristics of budgeting in a post-conflict situation. This usually begins with inadequate information on revenue and expenditure, which is crucial to decision making and effective expenditure control.
- The audit function plays an important role in ensuring compliance of budget execution with established legislation and procedures. Audit features that are crucial, but often missing are the management of executive agencies; external audit, independent of the executive; and timely audit reports to Parliament.
- Transparency underpins accountability, whether this is in specifying ex-ante performance targets, or transparency in the form of timely reports on budget performance, and reliable ex-post external audits.
- Transparency demands that the reasons for decisions and the results of these decisions are accessible, clear and communicated to the wider general public. Decision makers must be held responsible for the exercise of the authority provided to them. Transparency requires that decision makers have all relevant issues and information before them when they make decisions. In summary, decisions made, the basis upon which they were made, and their results must be made available to the public.



## 2013 Budget Policy Framework Paper

---

This Policy Framework Paper provides an overview of the 2013 National budget and identifies the following main issues:

- The 2013 budget considers the key issues and challenges the country is facing at this time and sets a limited number of targets. These include improving the level of adequate security; strengthening the application of justice, enhancing financial resource management, and rebuilding the capacity of the public institutions to deliver social services.
- The budget is expected to follow clear and well defined budget procedures, which include: comprehensiveness, accountability, transparency; predictability and control in budget execution; accounting and reporting, and external oversight.
- The budget intends to re-establish and strengthen key economic management institutions, which are required to formulate strategies, and monitoring and evaluation through participatory processes.

# 2013 Budget Policy Framework Paper

---

## 1. Policy Priority of the 2013 National Budget

After the democratic election of the new President and appointment of the Prime Minister with formation of the Council of Ministers, the Government launched a new Program based on a six Pillars of the Foundation of New Beginning. This program set out the Government's overall vision for the future of the new Somalia. The Government's central objectives for the four-year period of the new administration are to:

- a) firmly establish a stable and secure environment across liberated and to be liberated areas, which is conducive for peace, security and economic recovery;
- b) establish responsible institutions of security, justice, human rights and governance;
- c) rebuild institutional capacities and provide opportunities for young people who are the greatest assets of the Somali people; and
- d) be on a path toward rapid, inclusive and sustainable growth and development of the Somali society.

The Government program is structured in six-pillar framework, with implementation of reforms and programs under each pillar being pursued simultaneously, the pillars are:

- i. Good Governance
- ii. Economic recovery
- iii. Peace Building – Social reconciliation
- iv. Service delivery
- v. International relations, and
- vi. Unit and integrity of the country.

In the 2013 fiscal year, Government will focus on putting in place public administration systems and processes that are lacking after more than two decades of conflict and mismanagement. In the first place Government intends to make progress in improvements in public financial management of which this Budget

## 2013 Budget Policy Framework Paper

---

Framework is a key part and in parallel and subsequently address other key policy areas as listed above.

The Government's program is structured in six-pillars, with implementation of reforms and programs under each pillar being pursued simultaneously. The following sections highlight the specific priorities for the 2013 fiscal year. The Government's key targeted priorities are mutually reinforcing as progress in one area facilitates progress in others. Indeed, progress in reforming public financial management enhances the Government's ability to focus resources on improving the nation's security, economic recovery and delivery of basic services.

### **1.1 Supremacy of the Law and Good Governance**

The purpose of this pillar's policies is to ease and eliminate the plight of the people by creating an enabling environment whereby citizens control the government through transparent and accountable policies.

**Security:** A key government priority during the 2013 fiscal year is to strengthen security, without which other objectives underpinning this budget would not be easily achieved. Security is in fact an essential prerequisite for proper governance to function and also for reconstruction and development. Lack of security is a significant factor hindering the rebuilding of public institutions and delivery of essential social services to the public, both of which are factors required for poverty reduction and for economic and social reconstruction.

The security strategies are to be pursued by strengthening the capacity of the relevant institutions by providing them with high quality training and needed security equipment. The security situation will be enhanced by pursuing the reconciliation process and inclusion of all the stakeholders in the peace process. The government's intention is to ensure application of the rule of law throughout the country and in this context it will allocate adequate funding to the security sector to achieve this objective.

## 2013 Budget Policy Framework Paper

---

**Judiciary:** is another key priority area the Government intends to strengthen the effectiveness and integrity of legal and judicial institutions; expand access to Justice and enhance the protection and promotion of human rights under the laws of Somalia, so citizens can trust and support the state.

**Good Governance:** The goal of the Government is to build and operate efficient and effective institutions and systems, in partnership with citizens, Government were uphold inclusive and democratic principles and accountability in order to strengthen peace and stability. A key objective under governance is to increase citizens' participation and ownership of government policy formulation and implementation; these include laying the foundation for accountable and efficient local and regional governance structures to facilitate the formation of states and regions across the country.

### 1.2 Economic Recovery

The people of Somalia suffered over two decades of no effective Central Government and inoperative financial and other public institutions. The nation continued to operate under informal and difficult economic conditions combined with complex and unpredictable security conditions. Somalia has suffered prolonged insecurity and total destruction of public assets, such as economic and social infrastructure. This included devastation of all forms of public institutions, public utilities, such as power supplies, water and sanitation facilities. Most of the social infrastructures: schools, hospitals and related facilities were damaged or destroyed. The continued insecurity contributed to impoverishing the population, displaced large numbers of the citizens and endangered the survival of millions of Somalis, particularly in the face of a severe drought in 2011.

The Government believes that Somalis have been resilient in surviving under very difficult circumstances, and have the opportunity to learn and devise appropriate forms of governance institutions will avoid relapses and offer a chance at economic and financial recovery. We are committed to creating conducive environment under

## 2013 Budget Policy Framework Paper

---

which individuals can develop a sense of self-worth and security, which will ensure that the society does not live under the threat of violence, injustice and poor governance. After more than two decades of war economy, controlled by warlord and militias we aim to build economic and financial institutions operate a formal and functional economy. In particular, Government will strive to:

- reconstruct a solid national economy that operates under international economic best practices and based on the principles of free market and private ownership;
- Rehabilitate key economic infrastructure, such as public buildings, ports, airports, roads, irrigation canals energy and water facilities.

### **1.3 Peace building – Social Reconciliation**

In peace building, the goal to improve and establish dialogue that facilitates social reconciliation at the local and national levels; and empower traditional leaders to smooth the progress of healing process of the past misdeed. Government will endeavor to facilitate social reconciliation at the local, state, and national levels.

### **1.4 Services Delivery**

The goal of Government is to improve access to quality and adequate social services to all members of the Somali society. A high priority for the 2013 budget is to improve the capacity of the social sector ministries to provide support for children, women and other vulnerable members of the society. Government's focus will include but not necessarily be limited to rehabilitation of schools, health facilities and other social services infrastructure. Also, an effective and lean structure of civil servants will be rebuilt with well trained and adequately remunerated personnel to run and operate government services.

### **1.5 Building Collaborative Relations and Positive National Image**

Government is committed to build positive diplomatic and economic relations with neighboring countries and the rest of the world. Our key focus is to create an environment where bilateral and multilateral parties join efforts to support recovery

## 2013 Budget Policy Framework Paper

---

and reconstruction of Somalia; institutionalizing relation with the Somali Diasporas so that they can effectively participate in the reconstruction and development of the country; and build a solid diplomatic relations that is based on partnership and development that promote positive and frank partnership among nations.

### **1.6 Unity and integrity of Somalia**

Government will keep the country safeguard and united through peaceful means and reconciliation through dialogue among all stakeholders at all levels of the Somali society, we will build on the focus on reconciliation and trust building. We will pursue ceaselessly the negotiations to heal the past and clear outstanding obstacles so that a new beginning is made possible for brighter future for all Somalis.

### **2. The Challenges of Public Financial Management**

Public Financial Management involves the effective mobilization of public resources and efficient administration of expenditures. The priorities in resource mobilization and allocation include: planning to achieve policy goals, establishing financial control over inputs to ensure compliance with rules and regulations, managing operations with, efficiency and integrity, and ensuring accountability to the public at large. Prudent public financial management is a key ingredient of good governance and plays an essential stable macroeconomic environment that promotes inclusive and sustainable growth.

Government recognizes the importance of improving public financial management in order to meet the goals set in its program and is mobilizing both financial and human resources needed to establish and reform the public financial management system. As well as improving the day-to-day management of public finances, these reforms are designed to ensure that domestic and donor resources are channeled to Government expenditure programs and projects that meet the needs of the Somali people, as embodied in the approved Government program.

# 2013 Budget Policy Framework Paper

---

## **2.1 Improving Public Financial Management**

The key objective of the Government initiatives on financial reforms is to improve the efficiency and effectiveness of public financial management processes, and systems in order to provide timely, transparent and accurate financial information across public sector. Government intends to undertake several measures, including publication of the Budget Policy Framework, background budget documents, and periodic implementation of the national budget.

The aims of Public Financial Management in Somalia are to:

- Improve transparency and openness of the national budget process;
- Enhance fiscal discipline through internal and external controls;
- Focus public expenditure on priority areas of Government programs;
- Enhance efficiency and effectiveness of public expenditures; and
- Strengthen overall financial management and accountability.

## **2.2 Public Financial Management (PFM) Law**

Article 124 of the Somali Constitution provides the framework for a PFM law to be enacted by Parliament. The Draft Law prepared by the Ministry of Finance which updates and builds on the financial laws of the country submitted to Parliament for consideration and approval. The PFM law provides the basis of improved public financial management and addresses weaknesses across a whole range of past legislation and systems; including budget preparation, and execution. The PFM Bill articulates clearly the roles and responsibilities of the different institutions and individuals involved in public finance management, including the Minister of Finance, Auditor General and others.

## 3. Recent Economic Developments

Despite the lack of effective national governance, law and order and sound macroeconomic policies, Somalia has maintained a healthy informal economy, largely based on livestock, remittance/money transfer companies, and telecommunications. Although current reliable economic data are unavailable, agriculture is the most important sector with livestock roughly accounting for nearly half of GDP and most of export earnings. Livestock products fish and bananas are Somalia's principal exports, while sugar, sorghum, corn, chat, and machinery and equipment are the principal imports. The country's small industrial sector, based on the processing of agricultural products, has largely been destroyed in the civil war. The services sector has grown; telecommunication firms provide wireless services in most major towns and offering the lowest international call rates in Africa. In the absence of a formal banking sector, money transfer/remittance services have sprouted throughout the country, handling an estimated \$1.6 billion in remittances annually.

Because of crippling inflation mainly linked to an influx of fake currencies printed in or outside the country, prices of basic commodities rose sharply in Somalia. Other factors that contributed to economic instability were: insecurity in many parts of the country piracy along the Somali coast, and uncontrolled money circulation.

The Somali shilling has been losing ground steadily for most of the period since the crisis in the 1990s. The exchange rate went up to about 33,000 - 39,000 shillings to the dollar by the end of April 2008 from as low as Ssh5000 in 1993. This trend continued up to the end of 2010, but improved after the visit of the Turkish Prime Minister and the interventions of support provided by Turkish Government on both humanitarian and development programs. These and other initiatives from some Islamic countries injected in the market a large amount of dollars that helped the Shilling to strengthen and achieve a rate of Ssh20,000 – 22,000 per dollar by the end 2011. This gave a big push for reconstruction and economic recovery combined with



the security improvement as the AMISON and the Government soldiers managed to expel Al Shabaab from Mogadishu and other key areas across the country.

### **3.1 Macroeconomic Framework**

The country is confronted with interlocking and mutually exacerbating constraints. In security, and weak public institutions as well as related problems will need to be addressed urgently starting with the 2013 Budget. Enduring solutions can be achieved overtime through measures to solve the problem of security and peace building and develop institutional capacity, improve economic management, stimulate private savings and investment. . Until significant progress is made in these areas, the economy will continue to depend heavily on remittances and international aid. If dependency on foreign aid, remittances and insecurity are ever to be reduced or eliminated, effective reforms are essential including the following:

- A major obstacle to state-building in Somalia is the extreme modest domestic revenues from taxes. Most efforts at state revival have relied on external sources of funding, which have been inadequate, unpredictable and unsustainable;
- Low budget revenues restrict budget expenditures leading to unacceptable low salaries and incentives to government officials and consequently lead to corruption and inefficiency.
- Low export receipts and inadequate private transfers and capital inflows limit foreign exchange imports, thereby forcing the Government to make difficult choices such as between petroleum supplies and private sector requirements for raw materials and spare parts.

All interlinked problems must be addressed with comprehensive integrated policies and programs combining measures to deal with longer-term constraints. Proposing to defer long-term strategies until short-term problems are eliminated would limit the chance for success. Since these problems are interrelated the program for 2013 – 16 is presented within a medium -term macroeconomic framework.

## 3.2 Economic Forecasts

An overall real growth of 7 to 10 percent per annum is the central objective of the next decade. If the goal of 10 percent real GDP growth is to be achieved by 2016, it will depend on optimum and steadfast implementation of macroeconomic framework and sectoral policies on the part of Government with a leading role played by the private sector and generous support by development partners. The support has to be sufficient in magnitude and effectively focused on the specific resources and expertise required to ensure (political reconciliation, peace – building, the revitalization and reestablishment of public institutions, particularly those related to public financial management).

A gradual diversification of the economy is expected to occur as a result of policies and sectoral strategies as well as the dynamic private sector participation in the reconstruction and development program. Livestock will remain the primary sector but it is expected to grow somewhat more slowly than other sectors. The sectors of higher than average projected growth rates include crop production and fisheries, manufacturing, building and construction, telecommunications, trade and commerce, financial sector and other services.

The overall objective of macroeconomic policy is to restore sustainable high economic growth, low inflation, high domestic saving and investment.

In the following sections, we give the explanations and assumptions on the economic forecasts for the period 2011 - 16 for key macroeconomic variables. The forecasts is consistent with post conflict economy and also with the expected internal (improved security, reconciliation and political stability), external environment especially trading partner growth and price levels, key commodity exports and imports and expected external support for peace building, economic revitalization and recovery.

- Real economic growth is expected to rise from the currently estimated 2 percent to 6 percent in 2013 and rise to 10 percent by 2016;

## 2013 Budget Policy Framework Paper

---

- Domestic savings is targeted to increase to about 10 percent of GDP by 2013 and to 15 percent by 2016. Private savings are projected to account for the domestic savings and the government to eliminate any dissolving on its account.
- Gross fixed capital formation is projected to increase from 18 percent in 2013 to 23 percent of GDP by 2016.
- Exports and imports are expected to be a major factor in the growth outcome. Livestock exports are expected to response quickly to peace and stability, while the rehabilitation of irrigation channels is expected to promote agricultural output which will import of food items.
- Inflation: the Federal Government will follow conservative monetary policy, which will allow Somalia to keep inflation under control and make it comparable with that of Somalia trading partner's inflation. This will allow for maintenance of stable nominal exchange rate policy. Low inflation as well as balanced budget is expected to allow interest rate to be kept low as to encourage private sector investment.

The Government in the medium term will have to invest in essential infrastructure and human resources development to re-establish required public institutions, which are expected to create auspicious environment for private sector investment. In addition, economic and social infrastructure rehabilitation is necessary to attract private investment. However, the medium-term economic strategy calls for the private sector to be the primary engine of economic growth.

# 2013 Budget Policy Framework Paper

---

## 4. Fiscal Policy

The Government's fiscal policy objective is to support the achievement of an inclusive growth strategy, peace and prosperity, maintaining macroeconomic stability and by aligning public expenditure to Government program objectives. To meet this fiscal objective Government intends to:

- Broaden the tax base through policy reforms, and modernization of tax and customs administration;
- Maintain cash-based balanced budget preventing build-up of delays in payments;
- Rationalize the allocation of the current expenditure and direct it towards the Government's program objectives;
- Improve efficiency, transparency, accountability and control of fiscal processes, and ensure compliance with Government policies and procedures through implementation of the PFM Act upon parliament approval.

### 4.1 Revenue Mobilization

Securing lasting peace and stability in Somalia is the utmost priority of the state and it requires serious attention in the rebuilding the foundation for solid financial system in the country. Hence, organizing and rebuilding the administrative and financial institutions of the state could not be viewed apart from the primary function of mobilization of adequate domestic revenue. This could be achieved by enhancing the administration and other capacities for mobilizing domestic and external financial sources. The 2013 budget requires a thorough investigation of sources of potential revenue and setting up effective administrative arrangements to collect legitimate revenues.

In a post conflict situation where adequate data are not available, such as in the case of Somalia, revenue forecasting requires considering a number of factors that are peculiar to fragile states. The revenue estimation involves searching for the economic activities that are significant sources of receipts and reviewing revenue generating

## 2013 Budget Policy Framework Paper

---

practices and the existing social, economic and political realities on the ground. The revenue estimation for 2013 budget is based on approval of the Public Financial Management Act and its implementation; and the review of taxation policies, and collection procedures, and assumptions that influence the revenue for the year.

The current tax administration in Somalia is weak and has several deficiencies. One of the most striking characteristics of the Somali tax system is its excessive reliance on customs duties from the few actively functioning and accessible ports and airports. Almost over 85 percent of the total Government revenue consists of taxes on imports.<sup>2</sup> In contrast direct taxes on income, including income from private enterprises, account for less than 3 percent as there are a limited number of qualified personnel working for the Government. This imbalance is the result of structural and administrative deficiencies of the tax system.

Another shortcoming of the tax system is its nature of being specific rather than ad-valorem. Specific Import duties range from zero for some food items to over US\$1,000 on imported vehicles and some luxurious items. The specific nature of the tax system on the one hand reduces the problem of under-invoicing, but on the other hand is not responsive to inflationary pressures, thus adversely affecting the real value of tax collections.

The customs valuation of imports is one of the weakest areas of Somalia's tax system. Since the collapse of the Somali state in 1991, value-based customs duties are not applied imports duties are collected based on the size of the container and not the value of its contents as goods imports are not financed with a letter of credit through the banking system, given the fact that there are no banks operating in the country, and the value of invoices is not reliable as they are or could be manipulated by importers.

---

<sup>2</sup> Besides the revenue classified under import taxes, a proportion of revenue from stamp taxes and administrative duties is also generated by imports.

## **Opportunities for Revenue Mobilization**

Government is committed to improve the administrative efficiency of the tax system and bring about structural changes in the system of taxation, which would help diversify the tax base. Currently Revenue administration collects revenue from both international trade and domestic economic activities. Taxes partially collected include those levied directly on people's incomes and not yet collected are on their consumption. The various taxes collected by the revenue administration are generally defined under three major groupings of international trade, domestic turnover and direct taxes. In addition, Government collects non-tax revenues especially fees and licenses, which are often retained at the point of collection.

There's a lot of untapped revenue as well as unregistered taxpayers. Examples include: bringing the services sector and domestically produced goods in to the tax net i.e. telecommunication companies, money transfer companies, construction companies, utilities and small scale industry. Also, important is enforcing and professionally assessing and collecting income tax from big importers and exporters, hotels, airlines, and professional services providers. Furthermore, landlords who do not pay rental income tax and presumptive tax on small businesses mostly in the informal sector have to be brought into the tax collection system.

## **4.2 Review and Performance of 2012 Measures**

### **Domestic Revenue**

The revenue collection outturn and practices is a good base for forecasting state revenue. Based on incomplete information available, the performance of collection has been inadequate. The proposed target measures in the 2012 budget have not been achieved to the extent envisaged in budget, largely because the 2012 budget was not approved by Parliament, except for the last quarter Mini-budget formulated by the new Government and approved by Parliament. Comparing the budgeted and the estimated actual receipts for 2012, and the projected domestic revenue in 2013 are shown in table 1.

## 2013 Budget Policy Framework Paper

**Table 1: Summary of Government Revenue in 2012 and Estimates for 2013 (in US\$)**

No	Description	FY 2012 Revenue Budgeted	FY 2012 Actual Revenue	FY 2013 Projections	Remarks
	<b>Total Revenue</b>	<b>94,482,000</b>	<b>39,474,027</b>	<b>84,386,600</b>	
1	Domestic Revenue	<b>46,418,000</b>	<b>28,482,027</b>	<b>53,908,000</b>	
1.1	Tax Revenue	39,204,000	28,482,027	51,364,000	
	Inland Revenues	11,754,000	3,840,000	18,000,000	
	Customs	27,450,000	24,642,027	33,364,000	
1.2	Non-Tax Revenue	7,214,000	- -	2,544,000	
2	External Loan and Credit	- -	- -	- -	
3	External Assistance	<b>48,064,000</b>	<b>10,992,000</b>	<b>30,478,600</b>	Through PWC
3.1	Bilateral Assistance	41,614,000	7,690,200	23,875,000	Through PWC
3.2	Multilateral	6,450,000	3,301,800	6,603,600	Through UNDP
	UNDP Administered Trust Fund for the Police	6,450,000			
	Multilateral (EU and Others)		- -	- -	

The performance of Government Revenue during the 2012 was dismal; as shown in table 1 the actual revenue achieved only 42% of the targeted budget. This was explained by the fact that tax administration was very weak and lack of capacity to implement tax laws, and general insecurity situation contributed to poor tax collection.

In 2013 Government intends to make substantial efforts to levy charges on goods that are imported into the country at all the major entry points (Mogadishu port, airport and all small ports and airports across the country). The flow of goods across the main entry points and collection of fees from air, land and sea transport services are to be improved and collected properly. Government will make all appropriate efforts to collect in land revenue in the year ahead including on private companies and hotels. Service charges will be strengthened and all Government revenue will be transferred to the consolidated Government Account.

### **External Assistance**

A key challenge in managing public finances in Somalia today stems from the significant proportion of resources that comes in the form of external assistance, where factors beyond the Government's control have a significant impact on the precise timing and/or size of the receipts. Any delay of receipts can cause challenges

## 2013 Budget Policy Framework Paper

---

for expenditure planning. The size of support is decided by donors and the timing is sometimes linked to the implementation of certain reforms.

The attainment of external assistance targets performed poorly as commitments made by development partners could not be translated into actual disbursements. In some other cases, such as the UN agencies there is a complete lack of information on both their budgeted funds and their disbursements. Accordingly, this area of resource flows has been unpredictable as most of the commitments made by the development partners did not materialize during the 2012 financial year. The 2013 budget will include only commitments that are expected to be realized during the financial year and exclude all those that do not have clear and scheduled disbursement.

### **4.3 Proposed Measures for 2013 Budget**

The following measures are proposed to be undertaken during the 2013 budget period:

- Inland revenue administrative will be re-established and strengthened in all areas with assured security;
- Taxpayers registration numbers for eligible businesses and individuals will be introduced;
- Appropriate measures will be put in place and procedures for income tax to be collected from wages and salaries;
- A sales tax on domestic transactions will be introduced where applicable and possible;
- The Custom duty structure will be examined and introduced a uniform low ad valorem (percentage) rate of 5 percent introduced on most imports while a few specified goods, which are either of luxuries nature or have harmful effects on health or the environment will be taxed at higher rates of 10 to 50 percent;



## 2013 Budget Policy Framework Paper

---

- Inspection on imported goods, and warehouse services will be introduced so as to identify actual value and prohibited goods by law;
- Improve valuation of imported goods for assessment of the exact amount of customs duties and other taxes that should be applied;
- Sales tax and excise taxes will be collected on imported goods at the time of importation; and
- Importers and exporter's registration and identification will be re-established.

### **4.4 Tax Revenue Estimates in the 2013 Budget**

The key factors Government is committed to address in the tax administration include the:

- Limited capacity of tax and customs administration, which relies on outdated procedures for collecting customs duties, and traditional practices of collection of other duties and taxes;
- Lack of clear and transparent legal framework, in particular custom legislation and its procedures;
- Improving of information on tax policies, that leads to poor understanding and awareness from the taxpayers and citizens ; and
- Simplification of cost effective methods of tax collection;

The revenue estimates for the 2013 budget are based on Government recognition of the continuing state capacity and improving security in the country. Government also takes into consideration key factors affecting predictability of major socio-economic activities. The forecasting for domestic revenue is grouped into tax and non-tax components, and the tax revenue is composed of direct and indirect taxes.

## 2013 Budget Policy Framework Paper

### (i) Direct Tax

#### a) Taxes on wages and salaries

Income tax on wages and salaries constitute a major source of receipts in the revenue structure of most governments, and is cost effective tax as it is collected by withholding. Consequently, one of the revenue areas Government will strengthen is the collection of payroll taxes. The estimation of payroll taxes includes the public and private sectors, as well as from non-governmental organizations in some instances. Taxes from wages and salaries have been estimated according to the number of civil servants and the employees of large private and some non-governmental entities. The average monthly earnings taking into account the current economic situation and estimates based on the interim tax rates are shown below. Total payroll taxes at national level are estimated at US\$0.8 million in 2013.

**Table 2: Payroll tax receipts in 2012 and Projections for 2013 (in US\$)**

Description	Budgeted 2012	Actual 2012	Projection 2013
Wages, Salaries and Allowances (Public Sector Payees)	673,698	-	236,173
Wages and Salaries (Private Sector Employees)		- -	590,400
Profit Tax from Business	136,010		1,953,000
Taxes on Interest Income	- -	- -	- -
Capital Gain	- -	- -	- -
Rental Income	- -	- -	- -
Other Taxes on Income	- -	- -	756,000
<b>Total</b>	<b>809,708</b>		<b>3,536,000</b>

Table 3 below provides the income bracket and the proposed rates to be used to tax each income level.

**Table 3: Proposed Employment Tax Rates Schedule in 2013**

Income bracket (in US \$)	Tax Rate (%)	Assessment Formula
0-200	0	Exempt
201- 800	6	Income above US \$ 200
801-1,500	12	Income above US\$ 800
1,501-0ver	18	Income above US \$ 1,501

## 2013 Budget Policy Framework Paper

---

### **b) Taxes on Business Profits**

Government's policy on income taxes of companies during the financial year 2013 is to improve collection and compliance from private entities. Key policy issues that need to be addressed consist of introducing proper legislations, accompanied by improved accounting and recording procedures. This will require Government to strengthen its assessment and auditing capability and for the private sector to improve their accounting and recording capacity. Government intention is to improve its capacity to collect taxes on profits and related activities: corporate taxes and business profit taxes from non-corporate.

As improved financial records and proper audited accounts are likely to be available, government expects to collect income taxes on a presumptive basis. This approach is simple, cost effective and a useful tool used in similar situations as the one prevailing in Somalia. The presumptive business tax is imposed on the turnover or aggregate transactions of business firms, and is applied at very low rates to avoid noncompliance. Currently there are many business enterprises of different shapes and sizes operating in Somalia these include large, medium and small scale, including telecommunications, and money transfer companies; light industries, hotels, livestock exporters, and fishing companies. In this context, Government will collect specific corporate taxes on a low rate of a presumptive base and charge it on the turnover of the companies.

Corporate profit taxes if properly assessed and collected would constitute a significant portion of the Government receipts. Large corporate companies including telecommunication, money transfer companies, airlines, power and water supply are expected to contribute to the national treasury. The method of corporate tax collection should be made simple so that companies could pay the dues on a presumptive basis where accounts are non-existent. The tax which is estimated to be collected is US\$ 5.3 million as shown below in table 4. Profit taxes from non-corporate business are assumed to be collected by state Governments. The receipts

## 2013 Budget Policy Framework Paper

from small businesses have not been accounted for in the Federal Government revenue estimates.

**Table 4: Corporate tax estimates 2013 (in US\$)**

Description	Budgeted 2012	Actual 2012	Projection 2013	Remarks
<b>Turnover Tax on Services (Presumptive Tax)</b>				
Telecommunications	5,860,000	- -	1,721,250	
Money Transfer Companies	5,000,000	- -	3,293,414	
Consumer Light Industries	- -	- -	57,600	
Hotels	84,000	- -	129,600	
Consumer Water Industries	- -	- -	124,920	
<b>Total</b>	<b>10,958,257</b>	<b>-----</b>	<b>5,326,784</b>	

### (ii) indirect Taxes

#### a) Sales Tax

Sales taxes have the potential to generate substantial receipts for the Government and expand the country tax base. It is levied on imports, domestic products and services. These taxes have formed a relatively small share in the total revenue during the 2012 financial year. But for the 2013 Petroleum is expected to hugely contribute to these taxes followed by other imported goods, such as sugar, textiles and other domestic goods and products, all will be subjected to sales tax. The sales tax rate is assumed to be levied at 5 percent on relevant products, but is not shown separately because it would be collected with customs duties. This tax is estimated to yield US\$3.7 million for 2013.

**Table 5: Sales taxes in 2012 and estimates for 2013 (in US\$)**

Description	Budgeted 2012	Actual 2012	Projection 2013	Remarks
Petroleum and Its Products	-		1,717,730	
Sugar	332,400		429,600	
Soft Drink	110,800		313,137	
Mineral Water	55,400		58,275	
Textiles and Clothing	83,100		253,286	
Leather and Leather Products	41,550		164,155	
Soap and Cleaning Products	124,650		324,411	
Electronic Materials	166,200		300,000	
Household Materials	332,400		125,000	
Airtime (mobile phone)	-			
Tobacco Products	-		- -	
Other goods	138,500		- -	
<b>Total</b>	<b>1,385,000.00</b>		<b>3,686,000</b>	

## 2013 Budget Policy Framework Paper

### b) Excise Taxes

Excise taxes are another component of the tax system which is proposed to be levied on a selected few numbers of goods like petroleum, tobacco, sugar, vehicles, cosmetic, and electronic goods. The excise taxes to be collected in the budget year 2013 are estimated at US\$0.25 million.

**Table 6: Budgeted and Actual Excise Taxes for 2012 and Estimates for the 2013 (in US\$)**

Description	Budgeted 2012	Actual 2012	Projection 2013	Remarks
Petroleum and Its Products (Gasoline) (at 10 percent)				
Sugar				
Road Vehicles (20 percent)	2,151,000			
Soft Drink (20 percent)	110,000	- -		
Mineral Water	60,000	- -	116,550	
Chat (25 percent)		- -		
Tobacco Products (25 percent)	840,000	- -		
Mattresses			134,400	
Electronic Goods				
Cosmetics and Perfume (20 percent)				
Plastic Product (5 percent)				
<b>Total</b>	<b>3,161,000</b>		<b>251,000</b>	

### Customs Duties

The proposed tax on imports is chosen on simplicity and efficiency of collection, and should be levied at a uniform low ad-valorem (percentage) rate of 5 percent except for some specified goods, which are either luxuries or have harmful effects on health or the environment, at 10 to 50 percent. The rates should be kept low enough so as not to provide a significant incentive to try to smuggle goods to avoid payment of duties or to seek to bribe customs officials to undervalue the goods. Some of the goods for which a higher customs duty rate will be appropriate are: chat, cigarettes, alcoholic beverages, petrol, diesel fuel, and motor vehicles. While some of the goods coming into Somalia are “transit goods”, which are destined to Kenya or Ethiopia, these should also be taxed at the same rate. In the early stages of the new revenue administration, it will not have the capacity to distinguish transit goods from goods destined for the domestic market and to the extent that taxes can be levied on these

## 2013 Budget Policy Framework Paper

---

goods by the Somali Government, it will discourage smuggling into neighboring countries.

There are four important categories of imported goods which many countries either tax at a relatively low rate or completely exempt from duties: basic necessities, medicines, agricultural, and industrial machinery, and raw materials. Government proposes to have a single rate of duty on most other imports, except for luxury and harmful imports, in order to simplify customs administration.

It is normal international practice not to tax exports, because it would put the country's exporters at a competitive disadvantage and it is usually not possible for the exporters to pass on the tax to the foreign consumers. However, since it will not be possible to collect income taxes effectively for a number of years, a 5 percent tax on the following exports will be considered: livestock, fish, frozen meat, hides and skins, fruit and vegetables. Livestock could also be subject to this rate, or it may be easier administratively to levy a roughly equivalent specific duty.

Duties levied on imported items usually form considerable part of the revenue in many developing countries, however, the duty is not now properly collected in Somalia in accordance with international custom practices. The revenue has been estimated based on the current practices (with specific amount per ton, and size) for instance, the estimated actual amount collected for 2012 was US\$ 24.2 million. However, the custom duty will be collected based on the values of imported goods. The estimated projection for 2013 is expected to be around US\$33.3 million.

## 2013 Budget Policy Framework Paper

**Table 7: Customs duties in 2012 and estimates for 2013 (in US\$)**

Description	Budgeted 2012	Actual 2012	Projection 2013	Remarks
Custom Taxes on Petroleum	1,304,765	1,648,370	2,142,882	30%
Custom Taxes on Export Goods		281,501	365,951.04	
Road Vehicles (Salon Cars)	992,938	2,877,947	3,741,331	30%
Import Tax on Sugar	3,414,396	3,196,966	3,516,662	30%
Crude Vegetable Materials	- -	-	-	
Import Tax on Tobacco and Matches	132,669	114,756	172,134	50%
Import Tax on Chat	7,200,000	3,708,577	7,221,150	30%
Flour	1,657,609	1,230,901	1,353,991	10%
Construction Materials	770,220	2,124,512	2,761,866	30%
Cereal Products, Spaghetti	- -	433,310.40	476,641.44	10%
Vegetable Oils	857,007	1,160,875	1,509,138	30%
Soap and Cleaning Products	346,206	826,751	1,074,776	30%
Apparel, Clothing, Textile Yarn	1,009,812	817,462	980,954	20%
Foot Wear	773,787	323,574	355,931	10%
Tea	59,279	95,244	123,817	30%
Vegetables and Fruits	78,502	253,649	329,743	30%
Plastic Materials	517	10,447.20	13,581.36	30%
Rubber Tyres	95,816	157,550	204,816	30%
Poultry and Edible Offals	- -	1,289,761.20	1,676,689.56	30%
Building Materials	612,258	1,114,711	1,449,125	30%
Electronic Materials	16,004	57,488	74,735	30%
Food items /rice, spaghetti. Etc	3,749,379	2,219,748	2,441,723	10%
Household Materials	29,645	482,034	626,644	30%
Cosmetics & Perfume	2,534	46,903	60,974	30%
Others	1,130,134	168,988	659,053	30%
<b>Total</b>	<b>24,233,477</b>	<b>24,642,027</b>	<b>33,334,309</b>	

### Non-Tax Revenue

Non-tax revenue consists of administrative fees and penalties on services provided by Government. The non-tax receipts are estimated to be at about USD 2.5 million for the 2013. The major sources of non-tax receipt are derived from airport and harbor fees, visa charges (airport departure fees) and passports sales. Details of the estimates are given below in table 8.

## 2013 Budget Policy Framework Paper

---

**Table 8: Non-tax Revenues 2012-13 (in US\$)**

<b>Description</b>	<b>Budgeted 2012</b>	<b>Actual 2012</b>	<b>Projection 2013</b>	<b>Remarks</b>
Administrative Charges	39,243		360,000	
Fees and Penalties	120,000			
Airport and Harbor Fees	612,986		540,000	
Sales of Public Goods and Services	2,700,000			Expected return from Somali Airline Assets did not materialize, that's why no actual are given for 2012
Visa Charges and Passports	1,770,000	1,200,000	1,644,000	1.6M charges of issued passports and entry visas
Airports Departure Tax	771,469	480,000		
Other Non Tax Revenue	1,200,000			
<b>Total</b>	<b>7,213,698</b>	<b>1,680,000</b>	<b>2,544,000</b>	

Government is currently not receiving major components of non-tax revenues collected by agencies and departments. Government is committed to eliminate this practice and all agencies withholding public receipts must make sure that all collected non-taxes receipts by Government institutions are deposited at the Consolidated Account at the Central Bank of Somalia, particularly by the civil aviation, airport authorities, and emigration.



## 2013 Budget Policy Framework Paper

### 5. External Grants

The following table summarizes the external assistance received and recorded in Government accounts, which by all estimates is a small portion of the external assistance made available to Somalia. Very few of executing agencies report to the Government the assistance channeled through them. In particular the UN agencies have not provided any information to the Government of Somalia on the sources and amounts they have been responsible for and have disbursed on behalf of Somali people; this is a regrettable development that should be ratified and addressed according to Paris Declaration.

**Table 9: External Grants receipts in 2012 and projections for 2013 (in US\$)**

Description	Budgeted 2012	Actual 2012	Estimate 2013	Remarks
<b>External Assistance</b>	<b>48,064,480</b>	<b>10,992,000</b>	<b>30,479,000</b>	
<b>Bilateral Assistance</b>	<b>41,614,480</b>			
<b>Capital Grant</b>	<b>16,366,100</b>			
USA	1,147,734			
USA	6,650,000			
Denmark	831,366		<b>5,000,000</b>	
Spain	2,737,000			
Germany	5,000,000			
<b>Security</b>	<b>25,248,380</b>	<b>5,690,200</b>	<b>14,875,400</b>	
Italy	5,791,923	2,291,800	6,875,400	Through AU
USA	19,456,457	3,398,400	8,000,000	Through PwC
<b>Program Support</b>			<b>4,000,000</b>	
Spain	- -		4,000,000	Through PwC
Algeria	- -	2,000,000		
China	- -			
UAE				
<b>Multilateral</b>	<b>6,450,000</b>	<b>3,301,800</b>	<b>6,603,600</b>	
UNDP Administered Trust Fund for the Police	6,450,000	3,301,800	<b>6,603,600</b>	Police Force support
Other Multilateral				

## **5.1 Measures being considered for Effective Mobilization of Revenues**

In order to strengthen and enhance tax revenue, Government is committed to enhance security across the country to start operating and enforcing the enacted tax provisions and take specific actions urgently include the following:

- Register eligible businesses for imposition of taxes in all possible and feasible areas of the country;
- Commence tax collection and enforcement, giving priority to private economic units (Telecommunications, water and power companies, hotels, financial services companies, and big industries) in the country;
- Enforce the tax effective application of provisions in all feasible areas of the country;
- Conduct tax awareness campaign to win the trust of the people and to rebuild positive attitude towards taxation; convince people to rely only on the state for security and justice;
- Consolidate the tax collecting bodies with trained and skilled professionals and also provide administration support and needed equipment;
- Provide legal protection and security to the tax collecting bodies;
- Establish regular improved remuneration system for tax officers;
- Ensure all collected taxes and non-tax revenues by Government institutions are deposited at the Government Consolidated Account at the Central Bank of Somalia, particularly by the following institutions: civil aviation, airport authorities, and emigration should urgently deposit in the Central Bank all public money receipts;
- Make sure that all government receipts, be it domestic or external, are deposited at the Ministry of Finance's consolidated account at the Central Bank and are registered in the Accountant General's cash book in accordance with the financial accounting procedures of the state and regulations for the accounts of the state;

## 2013 Budget Policy Framework Paper

---

- Collect customs duty as per the prevailing customs provisions in order to raise the proper amount of revenue;
- Undertake quick amendments with respect of the customs duty and tariff rates to establish value based customs duties; inspection, and assessment of imports;
- Work towards a unified customs administration of the country ; and organize the customs administration according to best international practices;
- Employ well-skilled customs officers and police officials to enforce the customs provisions and safeguard the country from smuggling and other malpractices;
- Introduce warehouse services in the customs areas across all ports of entry;
- Account for all customs receipts, audit them and establish checkpoints for foreign goods coming into the country;
- Prepare and submit an amended tax and duties proposal for Parliament consideration;
- Apply withholding taxes on imported goods until an effective operation of domestic tax collections is set up.

### 5.2 Conclusions

The custom revenue estimates for the year 2013 is US\$ 33.3million the existing procedures continue without any substantial reforms. However, Government is committed to exert maximum efforts to improve and sustain the tax administration, collection and procedures including reforming the legal framework and reorganizing tax and customs administration. Assuming the above listed reforms are in place such as the introduction of proposed measures to improve duty collection, the estimated 2013 customs revenue could reach US\$45.2 million. Also with the Government renewed commitment and proposed reforms, the Inland Revenue is expected to reach up to US\$ 40.7 million in 2013. Measures will focus on strengthening tax

## 2013 Budget Policy Framework Paper

---

administrations across the country, fighting corruption and following financial and accounting procedures of the state, In particular all collected funds must be deposited in the Consolidated Account at the Central Bank. The total revenue estimates in 2013 is expected to reach US\$ 53.9 million. In addition, we envisage external assistance of US\$ 30.5 million, amounting to total resources available of US\$ 84.9 million.

## 6. Expenditure Framework and 2013 Budget Priorities

### 6.1 Introduction

Government is faced with multifaceted priorities and challenges in restoring and sustaining peace, security, rebuilding justice and financial integrity institutions. Lack of both human and financial resources is a key constraint facing the Government in formulating and implementing financial and administrative reforms. Moreover Government is faced with competing goals in the allocation of limited resources available.

The Government has many goals, all of which are considered important and all of which compete for allocation of scarce resources, which could only be achieved through transparent budgetary processes. Thus in the 2013 Budget, Government will rely on the total estimated resources envelope and has taken into account the priorities of the government and following general assumptions:

- Proclaiming a salary structure for the existing approved positions as well as for new posts envisaged to be maintained on the basis of the Civil Service Commission Act. The Previous emoluments in the form of allowances will become basic salary;
- Continuing the administrative, economic and social recurrent programs of the government as well as its organs;
- Implementing ongoing and new pro-poor capital programs and projects in the budget year on health, education, agriculture, water, human resource development and for economic infrastructure;
- Strengthening the financial management system in all Government institutions, particularly all levels of Government;
- Improving the external aid flow coordination and utilization; and
- Not allowing for borrowing either from domestic or external sources.

## 2013 Budget Policy Framework Paper

---

The expenditure estimates are mostly devoted to strengthen the capacity of the Government institutions and the delivery of essential public services. This is the corner stone of every Government operation that provides essential services for the community at large.

### **6.2 Expenditure Outturn in 2012 Fiscal Year**

In the 2012 fiscal year, as discussed above, revenues fell short of projections, requiring Government to reduce or to cancel some expenditure programs. In particular projects expected to be funded by donors were not realized, as the development partners' funding fell considerably short of expectations. Also, as domestic revenues also fell short of projections, overall expenditure cuts were necessitated and even components of expenditures including payments of wages and salaries were not met.

The capital budget was substantially under spent because the external funding was not available as expected as well as owing to the following reasons:

- (i) There are difficulties and delays that affect disbursement of funds, sometimes related to reporting and accounting requirements, and sometimes to cumbersome disbursement procedures;
- (ii) Funds may be spent directly by donors but are not reported to the Ministry of Finance officials, accentuating the apparent gap between budget and actual spending. The use of off budget financing channels for externally financed projects that are not directly amenable to Government reporting systems also has had a role to play for incompleteness of reporting on spending under externally financed projects; and
- (iii) Adequate information is not available on envisaged or actual disbursement by donors.

## 2013 Budget Policy Framework Paper

---

It is important that the Government receive better information from donors to feed into the budget process. It is critically important that donors strive to provide more accurate estimates of expected spending. Secondly, there is a need to be more complete and timely reporting on actual spending by donors.

**Table 10: Expenditure Outturns for 2012 and 2013 estimates by functional classification, (in Million USD)**

<b>Functional Classification</b>	<b>2012 Budget</b>	<b>2012 Preliminary Out turn</b>	<b>Outturn as percentage of budget</b>	<b>2013 Budget estimate</b>
Admin and General Service	78.3	21.9	28	91.8
Economic Services	24.8	2.2	9	6.6
Social Services	19.4	0.6	3	9.9
Other	4.0	13	325	6.0
<b>Total</b>	<b>126.5</b>	<b>37.7</b>	<b>365</b>	<b>114.3</b>

### **6.3 The 2013 total Budget Expenditure**

The 2013 fiscal year total expenditure is estimated at to US\$114.3 million, out of which USD 107 million (94 percent) is for recurrent expenditure and the remaining US\$7.2 million (6 percent) is for capital expenditures.

**General Administrative and services**, which comprises all government services including economic and social services, are allocated US\$ 91.8 million (80 percent) of the total budget in 2013. The armed forces and the police, Custodian Corps, office of the Presidency, the Parliament, office of the Prime Minister, Ministry of Interior Ministry of Justice, Ministry of Finance and Embassies are allocated the largest share of about US\$82 million (89 percent) and the rest for other institutions categorized under the administrative and general services.

**Economic Services** include activities related to economic sectors such as agriculture, mining, transportation and communication, and water affairs and other economic infrastructure. The government has allocated US\$6.6 million (6 percent) out of which 73 percent is for salary and allowances and 27 percent for operating expenditures.

## 2013 Budget Policy Framework Paper

---

**Social Services** comprise administration, management, operation and support of health, education, community welfare and related activities. Under this category, a total of US\$2.7 million (2 percent) is allocated for the 2013 fiscal year; out of which (78 percent) is for salary and allowances, and (22 percent) for operating expenditures and it is planned to invest around 7.2 million for capital expenditure..

**Other Expenditures** are those not included in the above classifications, such as contingency. Out of the total budget, the amount allocated for contingency is to be used only for incidental and unforeseen expenditures.

**Table 11: Expenditure Estimates for 2013 by Classification (in Millions USD)**

Functional Classification	Total	Recurrent	Capital
Administrative and General Services	91.8	91.8	---
Economic Services	6.6	6.6	----
Social Services	9.9	2.7	7.2
Contingency	6.0	6.0	-
<b>Total</b>	<b>114.3</b>	<b>107</b>	<b>7.2</b>

### 6.4 Recurrent Budget

Out of the total estimated US\$107 million allocated to recurrent expenditure for the 2013 fiscal year 27 percent is for salaries and allowances and 67 percent is for operating expenditure and 6 percent is for contingencies. Out of the total salaries budgeted 21 percent was allocated to Administrative and General Services, and 2 percent for Social Services and the 4 percent for economic services. In the total operating expenditures 64 percent is allocated to Administrative and General Services, 2 percent to Economic Services, and 1 percent to Social Services as shown in the following table.



## 2013 Budget Policy Framework Paper

**Table 12: Recurrent Expenditure estimate for 2013 by Functional classification (in millions USD)**

Functional Classification	Total	Salary	Operating Expenditure
Administrative and General Service	91.8	21.4	70.4
Economic Service	6.6	4.8	1.8
Social Service	2.7	2.1	0.6
<b>Total</b>	<b>101.1</b>	<b>28.3</b>	<b>72.8</b>

The 2013 National Budget affords limited assured financing for the estimated expenditure. The estimated domestic revenue is equivalent to the budgeted non-security recurrent expenditure and nearly one third of the security related expenses. In this context, the government sequencing and prioritizing of total expenditure is imperative. Even with pro-poor and security sectors as the priority sectors, the total recurrent expenditure is inadequate to meet the immense current needs of Somalia. The 2013 fiscal year revenue, expenditures and financing is shown in the following table:

**Table 12: Summary of the Government Revenue and Expenditure in 2013 (in USD)**

<b>Total Domestic Revenue</b>	<b>53,908,000</b>
Tax Revenue	51,364,000
Non Tax Revenue	2,544,000
<b>Total External Grants</b>	<b>30,478,600</b>
Bilateral	23,875,000
Multilateral	6,603,600
<b>Total Revenue and Grants</b>	<b><u>84,386,600</u></b>
<b>Total Recurrent Expenditure</b>	<b>103,893,092</b>
Administration and General Services	91,841,000
Economic Services	6,607,092
Social Services	2,726,000
Contingency	6,000,000
<b>Total Capital Expenditure</b>	<b>7,182,000</b>
Administration and General Services	-----
Economic Services	-----
Social Services	7,182,000
<b>Total Expenditure</b>	<b><u>114,356,092</u></b>
<b>FINANCING GAP/ Surplus (-) or (+)</b>	<b>(29,969,492)</b>

## 2013 Budget Policy Framework Paper

### 6.5 Earmarked Funds

Consistent with Government commitments to strengthen security, justice, public finance management and regional administration, we have decided to allocate extra resources to these sectors. These additional funds are earmarked for specific restructuring, reforming and developmental activities of each intended institution. These allocations are:

**Table 13: Allocation for the Priority Areas**

Ministry (Priority Area)	Amount in US\$	Remarks
Ministry of Interior	7,700,000	1.2mn to support police and national security and 6.5mn for Covering the running costs of liberated areas and establishment of local administration.
Ministry of Defense	800,000	To liberate still occupied areas and consolidate and support the troops.
Justice	1,500,000	To improve the rule of law
Ministry of Finance and Planning	800,000	Improve transparency and accountability through the introduction and implementation of PFM system
Accountant General	350,000	Improve accounting procedures and accounting automation
Auditor General	350,000	Improve procedures and on time delivery of audit reports

There will not be automatic release of these funds. A part of following financial accounting and procedures for the release of funds, additional requirements attached for the release of these earmarked funds are: each institution must prepare a detailed work-plan of the activities that they intend to implement using the funds and approval must be thought from office of the Prime Minister through the Ministry of Finance and Planning.

# 2013 Budget Policy Framework Paper

## 6.6 Emoluments structure

The human resources estimates take into account the imperative need for the Federal Government of Somalia to establish an effective human resource base and a functional civil service. A timely support by the international community both financially and technically is needed to set up the operational capacity of the civil service. The data on the human resources of the Government, as shown in Table 14 below, are based on the civil service records.

**Table 14: Summary of the Human Resources Data**

<b>Employee Classification</b>	<b>2012</b>	<b>2013</b>
<b>Civil Service</b>	<b>3383</b>	<b>3205</b>
Adm. and General Services	2050	2075
Economic Services	911	830
Social Services	422	300
<b>Non-Civil Services</b>	<b>25929</b>	<b>29,653</b>
Military Army	19661	22,103
Police Force	5670	6,500
Prison Custodians	598	1,050
National Security Service	<b>Not Specified</b>	<b>Not Specified</b>

The following assumptions are made to set the parameters of the principle components of the Government wages and salaries expenditure.

- Establishing a realistic and sustainable emoluments (wages, allowances and salaries) structure that would provide adequate incentives to civil servants of all Federal public bodies;
- Ensuring and putting the structure of Federal Government Institutions; and setting a plan uniformly across civil servants for budget allocation;
- Restructuring of the Federal Institutions may occur due to the adjustment of human resources allocation.

As noted, formulation of the human resources numbers of the Federal Institutions are based on current civil service commission records. The overall numbers of civil

## 2013 Budget Policy Framework Paper

service are expected to be 3,205; out of which, 65 percent, 26 percent and 9 percent are for Administration and General, Economic and Social sectors, respectively.

**Table 15: Federal Government of Somalia – Civil Servants by Ministry and Agency 2013**

Head	Institutions	Actual Numbers of Employees 2012	Request from Institutions 2013	Projections for public servants in 2013		Total
	<b>Grand Total</b>	<b>3245</b>	<b>3326</b>	<b>340<sup>3</sup></b>	<b>3205</b>	<b>3545</b>
	<b>General Administration Institutions</b>	<b>2116</b>	<b>2074</b>	<b>260</b>	<b>2075</b>	<b>2335</b>
<b>111</b>	Office of the Presidency	511	511	164	348	512
<b>112-01</b>	Office of the Parliament	51	59	0	59	59
<b>112-02</b>	Members of Parliament	275	275	0	275	275
<b>113</b>	Office of the Prime Minister	140	140	0	141	141
<b>114-01</b>	Ministry of Foreign Affairs	69	91	0	73	73
<b>114-02</b>	Embassies	150	0	0	150	150
<b>115-01</b>	Ministry of Defense	33	40	0	38	38
<b>116</b>	Ministry of Finance and Planning	370	407	60	385	445
<b>117-01</b>	Ministry of Inter. & National Sec.	156	154	36	118	154
<b>118-01</b>	Ministry of Justice & Consti.	76	114	0	84	84
118-03	National Constitution & Fed. Aff.	40	39	0	40	40
118-04	National Reconciliation Comm.	35	38	0	38	38
118-05	Banadir Court	18	97	0	133	133
118-06	Appeal Court	16	16	0	16	16
118-07	Judiciary Service Committee	32	9	0	12	12
119	Supreme Court	33	31	0	40	40
120	Attorney General	39	28	0	40	40
121	Solicitor General	8		0	12	12
122	Accountant General	39		0	43	43
123	Auditor General	25	25	0	30	30
<b>200</b>	<b>Economic Service Institutions</b>	<b>884</b>	<b>940</b>	<b>80</b>	<b>830</b>	<b>910</b>
211	Ministry of National Resource	270	298	0	267	267
212	Ministry of Information & Telc.	434	347	60	375	435
213	Ministry of Public Work & Transp.	114	195	0	130	130
214	Ministry of Industry & Commerce.	66	100	20	58	78
<b>300</b>	<b>Social Service Institutions</b>	<b>245</b>	<b>312</b>	<b>0</b>	<b>300</b>	<b>300</b>
311-01	Ministry of Social Service	220	277	0	265	265
311-02	National Civil Service Comm.	25	35	0	35	35

<sup>3</sup> The above numbers is the special security staff for presidency and ministries which pay to them some allowances and they are not include the civil servant staff.

## 2013 Budget Policy Framework Paper

<b>Table 16: List of FRS Public Servants by their respective Grades 2013</b>								
Head	Institutions	Politicians	A/AY <sup>4</sup>	B/F <sup>5</sup>	C/X <sup>6</sup>	D <sup>7</sup>	Special Security for M&A	Total
	<b>Grand Total</b>	<b>288</b>	<b>692</b>	<b>1017</b>	<b>491</b>	<b>717</b>	<b>340</b>	<b>3545</b>
<b>100</b>	<b>General Administration Institutions</b>	<b>283</b>	<b>435</b>	<b>593</b>	<b>335</b>	<b>429</b>	<b>260</b>	<b>2335</b>
<b>111</b>	Office of the Presidency	1	26	39	68	214	164	512
<b>112-01</b>	Office of the Parliament		17	27	4	11		59
<b>112-02</b>	Members of Parliament	275						275
<b>113</b>	Office of the Prime Minister	1	19	21	56	44		141
<b>114-01</b>	Ministry of Foreign Affairs	1	30	16	6	20		73
<b>114-02</b>	Embassies		60	30	30	30		150
<b>115-01</b>	Ministry of Defense	1	14	11	6	6		38
<b>116</b>	Ministry of Finance and Planning	1	88	219	55	22	60	385
<b>117-01</b>	Ministry of Inter. & National Sec.	1	26	60	17	14	36	154
<b>118-01</b>	Ministry of Justice & Consti.	1	23	29	18	13		84
118-03	National Constitution & Fed. Aff.		30	6	3	1		40
118-04	National Reconciliation Comm.		5	27	3	3		38
118-05	Banadir Court		40	45	28	20		133
118-06	Appeal Court		5	4	3	4		16
118-07	Judiciary Service Committee		4	1	5	2		12
119	Supreme Court	1	11	9	9	10		40
120	Attorney General		10	8	14	8		40
121	Solicitor General		10	0	2	0		12
122	Accountant General		10	23	6	4		43
123	Auditor General		7	18	2	3		30
<b>200</b>	<b>Economic Service Institutions</b>	<b>4</b>	<b>143</b>	<b>324</b>	<b>117</b>	<b>242</b>	<b>80</b>	<b>910</b>
211	Ministry of National Resource	1	65	115	51	35		267
212	Ministry of Information & Telc.	1	41	112	29	192	60	435
213	Ministry of Public Work & Tran.	1	20	68	30	11		130
214	Ministry of Industry & Commer.	1	17	29	7	4	20	78
<b>300</b>	<b>Social Service Institutions</b>	<b>1</b>	<b>114</b>	<b>100</b>	<b>39</b>	<b>46</b>	<b>0</b>	<b>300</b>
311-01	Ministry of Social Service	1	97	88	37	42		265
311-02	National Civil Service Comm.		17	12	2	4		35

<sup>4</sup> A/Ay is the grade level of the employees holding with the university degree or equivalent

<sup>5</sup> B/F is the grade level of the employees holding with the secondary certificate or equivalent

<sup>6</sup> C/X is the grade level of the employees holding with the primary certificate or equivalent

<sup>7</sup> D is the grade level of the lower employees with no education

## 2013 Budget Policy Framework Paper

**Table 17: Recommended Wages and Salaries for Members of Parliament, Council of Ministers, National Commissions and Civil Servants in 2013.**

S/No.	Executive	No.	Salary	Month	Year
1	President	1	\$3,000	\$3,000	\$36,000
2	Prime Minister	1	\$2,500	\$2,500	\$30,000
3	Council of Ministries	10	\$2,000	\$20,000	\$240,000
4	State and Deputy Ministries	25	\$1000	\$25,000	\$300,000
5	Chairman Supreme Court	1	\$2,000	\$2,000	\$24,000
6	Member of Parliament	275	\$1,700	\$467,500	\$5,610,000
	<b>Total</b>	<b>313</b>		<b>\$520,000</b>	<b>\$6,240,000</b>
	<b>Civil Servant</b>				
	<b>Grade Level</b>	<b>No.</b>	<b>Salary</b>	<b>Month</b>	<b>Year</b>
Grade	A/AY	692	\$735	\$508,620	\$6,103,440
Grade	B/F	1,017	\$415	\$422,055	\$5,064,660
Grade	C/X	491	\$330	\$162,030	\$1,944,360
Grade	D	717	\$198	\$141,966	\$1,703,592
	Security for Ministries	340	\$200	\$68,000	\$816,000
	<b>Grand total of Civil Servant</b>	<b>3257</b>		<b>\$1,302,671</b>	<b>\$15,632,052</b>
	<b>Total Grand of Civil and Executive</b>	<b>3570</b>		<b>1,822,671</b>	<b>21,872,052</b>

The wages and salaries component in the 2013 National Budget is a package set for strengthening the Somali civil service. The Government recognizes that no allocation has been built in for establishment wages and salaries structure, and that only modest wages and incentives are being paid in this budget. No additional allowances such as for housing, responsibility and hardship and for more adequate transportation requirements are built in the 2013 budget. Such allowances are beyond the capacity of the Federal Government to meet during this budget year, when security and social services delivery are the highest priorities. In addition, Government is mindful of re-establishing a cash-based remuneration regime for wages and salaries in Somalia in the future. It is proposed to undertake a thorough and comprehensive review of the wages and salaries structure in the course of the 2013 fiscal year.

## 2013 Budget Policy Framework Paper

**Table 18: List of Positions and their Respective Responsibility Allowances**

S/No.	The Name of Title	No.	Allowances	Month	Year
1	President	1	\$4,000	\$4,000	\$48,000
2	Speaker of the Parliament	1	\$3,000	\$3,000	\$36,000
3	Deputy of the Speaker	2	\$1,500	\$3,000	\$36,000
4	Prime Minister	1	\$2,000	\$2,000	\$24,000
5	Ministries	10	\$1,000	\$10,000	\$120,000
6	State and Deputy Ministries	25	\$1,000	\$25,000	\$300,000
7	Member of Parliament	275	\$1040	\$286,000	\$3,432,000
8	Chairman Supreme Court	1	\$1,000	\$1,000	\$12,000
9	Ambassadors	30	\$1,000	\$30,000	\$360,000
10	Consolers	30	\$700	\$21,000	\$252,000
11	Attorney General	1	\$500	\$500	\$6,000
12	Solicitor	1	\$500	\$500	\$6,000
13	Chairman Appeal Court	1	\$500	\$500	\$6,000
14	Chairman Banadir Court	1	\$500	\$500	\$6,000
15	Director General & ETC <sup>8</sup>	28	\$500	\$14,000	\$168,000
16	Director of Departments & ETC <sup>9</sup>	333	\$400	\$133,200	\$1,598,400
	<b>Grand Total :-</b>	<b>741</b>	<b>\$19,140</b>	<b>\$534,200</b>	<b>\$6,410,400</b>

### 6.7 Purchase of Goods and Services

The other recurrent expenditure in the 2013 national Budget of the Government comprises a minimum package of purchase of other goods and services by the Federal Institutions. The budget estimates were built on unit costs for most categories of other recurrent expenditure, which are predicated on a tight budget constraint and the necessity to rely on domestic revenue, to the extent possible. In this context, the non-wage and salary recurrent expenditure includes the provision for office supplies and materials, medical supplies, repair and maintenance, fuel, printing, rent, travel, utilities and other services.

<sup>8</sup> The Allowances of the National commissioner and the Auditor General are the same with the General Director Allowance

<sup>9</sup> The Accountant General, Commission Secretary and the Aviv are the same with the Director of Departments

## 2013 Budget Policy Framework Paper

In the category of purchase of goods and services the following assumptions were made:

- Government will provide for the necessary minimum requirement of Government ministries and agencies in the form of goods and services to start the effective operations of the public institutions;
- Depending on the nature of each public institution, the required equipments and material are identified, quantified and properly listed;
- A detailed listing of common items and the unit costs of each category assumed in the 2013 budget is shown on table below.

**Table 19: The annual unit cost of each category in the list was set as follows (in US\$):**

No	Good and Service	Unit Cost In US\$
1	Office supplies (Stationary)	3,000
2	Computer	550
3	UPS	80
4	Printer & Scanner	250
5	Photocopy	2,000
6	Fax Machine	250
7	Laptop	750
8	Conference Desk	1,500
9	Office Desk	350
10	Rotating Desk	180
11	Guest Chair	70
12	Chair	30
13	Cupboard	180
14	Air condition	600
15	Fan	40
16	Projector	700
17	Refrigerators	200
18	Fuel & Lubricant Car	2,000
19	Repairing & Maintenance	Lump sum 500
20	Printing & Advertising	Lump sum 200
21	Rent	Lump sum 2,000
22	Travel Allowance & Ticket (allocated each Ministry)	Lump sum 6,000
23	Utilities (Electricity, Water, Telephone & Internet), DHL	Lump sum 1,800



## 2013 Budget Policy Framework Paper

---

The allocation of wages and non-wages expenditure of recurrent expenditure is also based on a classification of the ministries and other public bodies that account for the government's stated priorities as well as the basic social needs of the society.

In accordance with this classification, the special needs of the ministries responsible for security and reconciliation as well as a set of other institutions including the legislative and executive organs (category A) were given preference in resources allocations. All other public bodies (categories B-C) were provisioned less generously as shown in Table 20.

**Table 20: Classification of Government Ministries**

<b>Category Rank A</b>	<b>Category Rank B</b>	<b>Category Rank C</b>
Office of the President	Ministry of National Resource	National Constitution and Federalism Commission
Office of the Speaker	Ministry of Information and Post Telecommunication.	National Civil Service Commission
Office of the Prime Minister	Ministry of Industry and Commerce	National Reconciliation Commission
The Members of Parliament	Ministry of Public Work and Transportation	Supreme Court
Ministry of Foreign Affairs	Ministry of Social Affairs	Attorney General
Ministry of Defense		Judiciary Service
Ministry of Finance and Planning		Solicitor General
Ministry of Interior and National Security		Committee
National Army		Appeal Court
Ministry of Justice and Constitution		Banadir Court
Embassies		Immigration Department
		Accountant General
		Auditor General

## **7. Capital outlay**

The 2013 national Budget affords limited assured financing for capital expenditures. Thus, in this context, most of the Government estimated capital outlays are for the Education and health facilities. The capital budget provides generously for the education and health sectors, in order to permit Government to strengthen the delivery of essential social services. Besides the allocation from own resources, Government urges donors to support such pro-poor expenditure.

### **7.1 Financing Requirement**

In the 2013 budget estimates, the domestic revenue augmented with external grants has covered the recurrent expenditure of the year while a total amount of USD 30 million expenditures is not yet funded which was shown as a financing gap that will be expected to be financed from external assistance.

The government of Somalia has no access to international credits until its relations with creditors (including international financial institutions) are regularized. The budget taskforce strongly recommended that there should be no domestic borrowing to cover the financing gap, specifically borrowing from the Central Bank of Somalia. In this context, the entire financing gap is expected to be met by additional commitments of external grants.

## 7.2 Recommendations

A contingency fund is set non-routine Government operations and for unforeseen circumstances such as natural emergencies and disasters to cover such types of expenditures. It is not allowed to effect payment from this vote on normal and routine Government operations. In other words a request for additional budget backed by substantive justification and explanation to be submitted to the Ministry of Finance for approval and then a transfer will be made to that spending unit. In the event the amount in the contingency is utilized, further requests in excess of approved allocations should be in a supplementary budget to be approved by Parliament.

Government has reconstituted the role of the Central Bank of Somalia as the government's fiscal agent. We fully understood that sound management of government accounts and 2013 budget execution will be more difficult unless all government revenue is deposited in the Consolidated Account at the Central Bank of Somalia. To this effect the budget Act specifically instructs all government agents to deposit Government revenue in its Consolidated Account at the Central Bank of Somalia.

In order to support the sound management of the government budget:-

- The Central Bank will strengthen its capacity in line with international standards;
- Domestic operations for local currency will be established to manage government treasury expenditure;
- Arrangements will be put in place to facilitate all government integrity institutions in collaboration with the Central Bank;

## 2013 Budget Policy Framework Paper

---

- The Central Bank will receive compensation for services extended to Government and any other Banks in the country that facilitate Government transactions should earn income in the form of services charge to transfer money from one area to another area;
- The Ministry of Finance is responsible for supervising all Central Government bank accounts to administer financial resources, which is available for expenditure payments;
- Treasury accounts of public bodies must be opened in the Central Bank of the country and through these accounts Government transactions will be made on all payments to suppliers and beneficiaries;

The transferring of any funds from treasury to the accounts of other public agencies will be done in written form to the Central Bank. The transferred amount will be an input in the Treasury data base to facilitate reporting and recording. The disbursed amount shall be net of any deductions in the form of income tax;

- The Ministry of Finance shall notify the release of money to each public body to facilitate the recording and reporting process of budget execution;
- An aid coordination and management framework shall be established urgently to strengthen grants disbursements and sound end use.

### A. The Proposal Budget Cycle for Somalia

The Budget calendar includes a planning and a budgeting cycle. A Budget calendar clearly defines and adequately schedules tasks so that plans and budgets are linked to each other and are systematically prepared, approved and implemented. An authoritative budget calendar is needed for effective budgeting because budgeting depends on the outputs of the planning cycle. For example, the fiscal plan establishes the ceilings for the government recurrent and planning and budget. Table 1 and Figure 1 present the budget calendar in terms of the planning and budget cycles and the principal tasks in each cycle. Table 2 presents the institutions responsible for each stage. In this section each stage is briefly explained in terms of what is done, when it is done and who is responsible.

#### A.1 Planning Cycle

The planning cycle normally has three stages which are implemented in sequence: (i) multi-year planning through the development of a macro-economic and fiscal framework, (ii) multi-year programming through the preparation of a public investment program and (iii) annual planning through the development of a fiscal plan.

Multi-year planning is based on the preparation of a Medium-Term Expenditure Framework (MTEF) which provides a three year assessment product, public sector expenditure and sources of finance, and the allocation between recurrent and capital expenditure of public bodies. A weakness of current financial management system in Somalia is the absence of a multi-year framework to guide government public bodies.

The second stage is the preparation of the Public Expenditure Review (PER), which provides a public body with a three year planning envelope in which to program its capital expenditure. The programming stage which is done through the Public Investment Program requires a public body to prioritize expenditures based on their rank in achieving the public body's objectives taking into consideration resource availability and the capacity to financially absorb and physically implement. The PER requires public bodies to prioritize their capital expenditures into three categories of projects: ongoing, approved and planned. The financial regulations stipulate that "the priorities established in the Public Expenditure Review set the priorities of the capital budget" and "no capital expenditures shall be included in the capital budget if it has not been approved in the Public investment Program."

## 2013 Budget Policy Framework Paper

---

The third stage of planning is the preparation of the Annual Fiscal Plan. The Fiscal Plan is principally an exercise in estimating the upcoming fiscal year resources and expenditures. The common practice is to use the fiscal plan to forecast revenue and expenditure, to set ceilings for government revenue and expenditure and to make the split between government recurrent and capital expenditure.

The Fiscal Plan involves several tasks. First, there has to be an update of the domestic and external resources available for public expenditure. The second task is to establish the fiscal balance which is the total level of expenditure and the resources available to finance the expenditure. If the government accepts a level of expenditure beyond domestic revenue and external grants, these must be financed by external or domestic borrowing. After the fiscal balance is decided, the third task is for government to proceed to allocate resources by jurisdiction (federal/region), and by type of budget (recurrent and capital).

### **B. The Budgeting cycle**

A key principle of good budgets is that they comprehensively manage public expenditure. The budget cycle involves the preparation, approval, appropriation, implementation and review of the annual budget. The annual budget should have the following three elements: (i) an estimate of financial resources (domestic revenue, external assistance, loan), (ii) the recurrent budget (which includes recurrent expenditure and source of finance), (iii) the capital budget (which includes capital expenditure and source of finance), and (iv) the capital budget (which includes capital expenditure and source of finance). Following the principle that budgets should comprehensively manage public expenditure, in all stages of review, approval and appropriation, a comprehensive budget as defined above will be presented.

The budget cycle has four parts: (i) executive preparation, (ii) legislative adoption, (iii) executive implementation, and (iv) audit and evaluation. Each part of the budget cycle has specific stages. Table 1 and figure 1 outline the parts of the budget cycle and their stages.

In the first part of budgeting, executive preparation, the Ministry of Finance coordinates the preparation of a Recommended Budget for approval by cabinet. The recommended Budget would be comprehensive and have the following elements: an estimate of financial resources; the recurrent budget and the capital budget.

The MoF prepares the recommended estimates of resources and the expenditure budget. The MoF submits this Recommended Budget in turn to Cabinet to review and approve. The cabinet makes adjustments as needed and the Recommended Budget is returned to the MoF for revision. The revised recommended budget is then sent by Minister for Finance to Parliament. At an appointed date in the financial year, the Minister of Finance presents the Recommended Budget to parliament for approval

## 2013 Budget Policy Framework Paper

---

and appropriation. The presentation to the Parliament of the Recommended Budget ends the first part of the budget cycle-executive preparation.

Legislative approval has two stages: (i) approval of the Recommended Budget by the Parliament, and (ii) annual appropriation of the Approved Budget by the Parliament. In the first stages of legislative approval, parliament reviews the Recommended Budget as submitted by the Minister of Finance and makes adjustments as needed and then votes to approve it. In the second stage of legislative approval, Parliament votes an annual appropriation to fund the Approved Budget. In the current circumstances of Somalia the approval and appropriation of Budget funds should be considered in one step. By law public money is deposited into the consolidated fund or special funds established by Parliament. To use public money from the consolidated fund the executive requires a parliamentary appropriation which provides the legal authority to spend. It is the responsibility of the Parliament to vote appropriations which makes available public money from the consolidated fund as needed.

### B.1 Stages of Budgeting

**Stage 1 - Budget Preparation:** The Ministry of Finance will prepare the data bases and the fiscal framework of the Annual budgets including the macro-economic assumptions and objectives of the Government.

**Stage 2- Budget Call:** The second stage of budgeting is the Budget Call which provides public bodies the following: (i) their budget ceiling for recurrent and capital expenditure for the upcoming fiscal year, (ii) the deadline for submitting their budget request (iii) a review of the policies that affect the expenditures of public bodies, (iv) general guidelines for the preparation of the recurrent and capital budget submission and (v) detailed instructions and formats for preparing the request for the recurrent and capital budgets. In brief, the budget call informs public bodies what their ceilings are and how and when to prepare their budget call informs public bodies what their ceilings are and how and when to prepare their budget requests. The budget call will be issued by the Ministry of Finance to promote a common budget calendar and better coordinate the preparation of the recurrent and capital budgets.

**Stage 3 - Budget Request:** The Third stage of budgeting is the budget request which begins when public bodies receive the budget Call. The central task for public bodies during the request stage is to fit their request within the budget ceiling issued in the budget call. To “fit” the request two tasks have to be done by public bodies: (i) adjust their planning and programming based on resource envelope and work plans to the budget ceiling and (ii) prepare a justification of the cost build-up in the work plans of their projects and sub-agencies. Public bodies are responsible for preparing their budget request and one and a half (1½) months is allotted to this stage. The

## 2013 Budget Policy Framework Paper

---

preparation stage will establish for both recurrent and capital expenditure the techniques for cost build-up and the proposed work plans.

**Stage 4 - Preparation of the Recommended Budget:** The fourth stage of budgeting, preparing the Recommended Budget, is when the budget requests of public bodies are reviewed, adjusted, and consolidated into a budget for both recurrent and capital expenditure by the Ministry of Finance it is at this stage that budget requests that exceed the ceilings are reviewed and necessary adjustments are made in the total ceiling of public expenditure and the ceilings of public bodies. Also prepared at this stage is an estimate of resources (domestic revenue, external assistance, loan) to be used to fund expenditure. The MoF will prepare a draft Recommended Budget which is consolidated and forwarded to cabinet for review and approval. The Recommended Budget has three elements (i) an estimate of resources, (ii) a recurrent budget, and (iii) a capital budget.

**Stage 5 - Approval of the Recommended Budget:** The fifth stage of budgeting is the approval of the Recommended Budget by the cabinet. Only two weeks has been allotted for this stage. This stage can be brief. There are four tasks at this stage. The first task is to assess the reasonableness of the resource estimate. The second task is to ensure that the priorities of the government are reflected in the Recommended Budget. The third task is to ensure that recurrent expenditures are budgeted in accordance to government policy. Changes at this stage in the Recommended Budget go back to the MoF for revision. The MoF makes the revisions to the Recommended Budget.

The approval of the Recommended Budget by the cabinet (Council of Ministers) ends the first cycle of budgeting—executive preparation. The Recommended Budget can now be presented to Parliament for approval and appropriation. The Minister of Finance on a designated budget day will present the Recommended Budget to Parliament for approval and appropriation.

**Stage 6 - Approval of the Recommended Budget by the Legislative:** The Minister of Finance presents the Recommended Budget to Parliament for review and approval. Parliament reviews, revises and then approves the Recommended Budget which is the draft Approved budget. Once approved by Parliament, the Recommended Budget becomes the Approved budget.

**Stage 7 - Appropriation of the Approved Budget:** Parliament votes an annual appropriation which authorizes funds from the consolidated fund for the Approved Budget to be spent for the intended purposes. The Approved Budget is only appropriated by budget type (the total Federal capital and recurrent budget is appropriated). The expenditure details of the Approved Budget, for example the allocation to a Federal public body and the allocations within a public body (by program, sub-agency, etc) are not appropriated. The Approved Budget and its annual



## 2013 Budget Policy Framework Paper

---

appropriation is now the Proclaimed Budget and which was published in the Government Gazette.

The annual appropriation for the annual budget is not the last role the Parliament performs in budgeting. If there is need for supplemental funding above the annual appropriation, the executive agencies must submit to Parliament a Supplementary Budget and Parliament must both approve the Supplementary Budget and approve a supplementary appropriation to fund the supplementary budget. Parliament also performs a role in the final cycle of budgeting, audit and evaluation, through a public budget committee. This committee reviews the performance of public bodies in implementing the Proclaimed Budget and their management of public funds.

**Stage 8 - Notification of the Proclaimed Budget and Executive Implementation:**

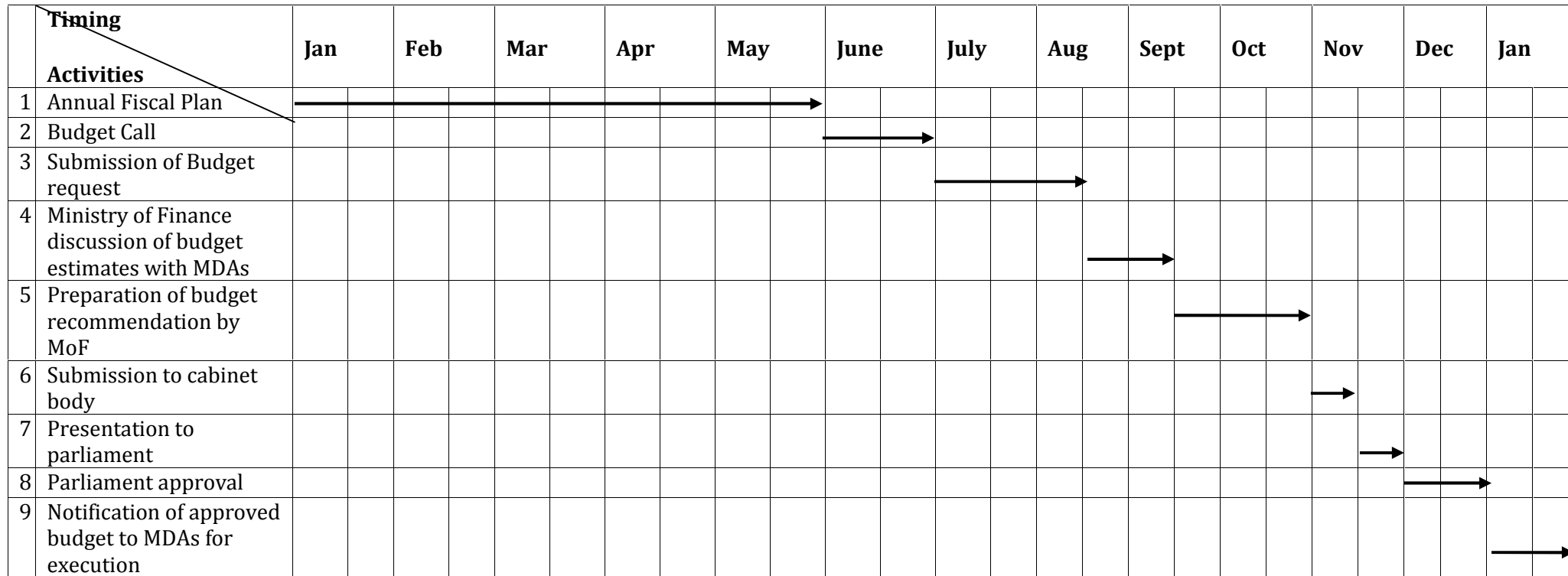
The implementation part of the budget cycle executes the Proclaimed budget. In the notification stage, public bodies are notified by the Ministry of Finance of their Proclaimed Budget in detail down to line item of expenditure.

**Stage 9 - Implementation of the Proclaimed Budget:**

In the Implementation stage the Proclaimed Budget is managed in terms of requests for adjustments (transfers, virement and supplementary) and monitored through financial reports. Transfers are the transfer of funds between public bodies which increase one public body's budget and decreases another public body's budget. Transfers do not change the total government budget. Virement is the reallocation of funds within a public body's budget between items of expenditure (e.g. reallocation from transport maintenance to supplies), between projects, but does not change the total of a public body's budget. Supplementaries are additional funds to a public body(s) which increase the total Government budget and require additional resources and require appropriation.

# 2013 Budget Policy Framework Paper

**Figure 1: Proposed Budget Calendar**



## 2013 Budget Policy Framework Paper

Description	Budgeted 2012	Actual 2012	Projection 2013	Remarks
Custom Taxes on Petroleum	1,304,765	1,648,370	2,142,882	30%
Custom Taxes on Export Goods		281,501	365,951.04	
Road Vehicles (Salon Cars)	992,938	2,877,947	3,741,331	30%
Import Tax on Sugar	3,414,396	3,196,966	3,516,662	30%
Crude Vegetable Materials	- -	-	-	
Import Tax on Tobacco and Matches	132,669	114,756	172,134	50%
Import Tax on Chat	7,200,000	3,708,577	7,221,150	30%
Flour	1,657,609	1,230,901	1,353,991	10%
Construction Materials	770,220	2,124,512	2,761,866	30%
Cereal Products, Spaghetti	- -	433,310.40	476,641.44	10%
Vegetable Oils	857,007	1,160,875	1,509,138	30%
Soap and Cleaning Products	346,206	826,751	1,074,776	30%
Apparel, Clothing, Textile Yarn	1,009,812	817,462	980,954	20%
Foot Wear	773,787	323,574	355,931	10%
Tea	59,279	95,244	123,817	30%
Vegetables and Fruits	78,502	253,649	329,743	30%
Plastic Materials	517	10,447.20	13,581.36	30%
Rubber Tyres	95,816	157,550	204,816	30%
Poultry and Edible Offals	- -	1,289,761.20	1,676,689.56	30%
Building Materials	612,258	1,114,711	1,449,125	30%
Electronic Materials	16,004	57,488	74,735	30%
Food items /rice, spaghetti. Etc	3,749,379	2,219,748	2,441,723	10%
Household Materials	29,645	482,034	626,644	30%
Cosmetics & Perfume	2,534	46,903	60,974	30%
Others	1,130,134	168,988	659,053	30%
<b>Total</b>	<b>24,233,477</b>	<b>24,642,027</b>	<b>33,334,309</b>	

## 2013 Budget Policy Framework Paper

Institution	Approved. Budget 2012	Actual Budget 2012	Total Projection 2013
<b>GARAND TOTAL</b>	<b>76,852,204</b>	<b>41,072,348</b>	<b>114,356,000</b>
<b>General Administration Institutions</b>	<b>65,640,464</b>	<b>25,170,314</b>	<b>91,841,236</b>
Office of the Presidency	2,306,000	1,122,600	2,687,724
Office of the Parliament	1,000,000	444,000	2,713,376
Member of Parliament (Allowance)	5,940,000	2,429,880	9,900,000
Office of Prime Minister	1,476,000	1,419,600	2,100,000
Ministry of Foreign Affairs	446,300	156,000	1,031,320
Embassies	1,980,000	-	4,340,680
Ministry of Defense	319,200	98,040	1,304,276
Military Army	36,588,800	10,075,674	33,326,756
Military Court	216,000	239,520	385,200
Ministry of Finance and Planning	1,436,480	536,400	3,774,452
Ministry of Interior and National Security	595,800	316,740	8,825,504
Police Force	9,394,164	5,612,100	9,765,600
National Security	196,680	180,000	1,980,000
Immigration Department	187,440	136,800	228,000
Ministry of Justice and Constitution	711,600	246,420	2,393,448
Custodian Crops	889,000	1,485,859	2,130,000
National Constitution & Federal Aff. Commission	312,200	55,200	458,736
National Reconciliation Commission	282,600	76,800	337,968
Banadir Court	330,800	72,000	1,176,900
Appeal Court	-	-	248,604
Judiciary Service Committee	163,200	72,000	198,012
Supreme Court	174,000	90,000	442,440
Attorney General	168,600	52,800	408,888
Solicitor General	162,600	48,000	284,520
Accountant General	180,600	101,880	733,604
Auditor General	182,400	102,000	665,228
<b>Economic Service Institutions</b>	<b>3,915,500</b>	<b>2,168,060</b>	<b>6,607,092</b>
Ministry of National Resource	1,021,700	524,700	2,045,520
Ministry of Information, Posts & Telec.	1,899,600	1,163,000	2,847,612
Ministry of Public Work and Transportation	685,800	333,480	1,094,376
Ministry of Industry & Commerce	308,400	146,880	619,584

## 2013 Budget Policy Framework Paper

---

<b>Social Service Institutions</b>	<b>3,243,240</b>	<b>637,164</b>	<b>9,908,000</b>
Ministry of Social Affairs	2,981,640	542,724	9,516,252
Ministry of Women and Family Affairs	261,600	94,440	391,524
<b>Others (Contingency)</b>	<b>4,053,000</b>	<b>13,096,810</b>	<b>6,000,000</b>