

FEDERAL GOVERNMENT OF SOMALIA



2023 SUPPLEMENTAL
BUDGET POLICY
FRAMEWORK PAPER

Abbreviations

AfDB	African Development Bank
ATM	Air Traffic Management
BCC	Budget Call Circular
BPPF	Budget Policy Framework Paper
BRA	Brnaadir Regional Administration
COVID	Coronavirus pandemic
CP	HIPC Completion Point
CRP	Constitutional Review Program
DMU	Debt Management Unit
DP	HIPC Decision Point
ECF	Extended Credit Facility
FGS	Federal Government of Somalia
FMS	Federal Member States
FY	Financial Year
GDP	Gross Domestic Production
HIPC	Heavily Indebted Poor Country
HQ	Headquarters
ICT	Information & Communication Technology
IMF	International Monetary Fund
LMTO	Large and Medium Taxpayer Office
MDA	Ministries, Departements & Agencies
MOECH	Ministry of Education and Higher Education
MOF	Ministry of Finance
MOIFA	Ministry of Interior and Federal Affairs
MTFF	Medium-term Fiscal Framework
NDP	Ninth National development Plan
NGO	Non-government Organization
PBB	Program Based Budgeting
PCU	Project Coordination Unit
PDO	Project Development Objective
PFM	Public Financial Management
RCRF	Recurrent Cost and Reform Financing Facility
RIP	Road Infrastructure Program
SCAA	Somali Civil Aviation Authority
SELRP	Locust Response Project
SFMIS	Somali Financial Management Information System
SMP	IMF Staff Monitored Program
SNA	Somali National Army
SURP	Somalia Urban Resilience Project
UN	United Nations
WB	World Bank

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1. EXECUTIVE SUMMARY

This report is prepared in accordance with the requirements of the Public Finance Management Law No. 17 of December 25, 2019, Article 18 which provides guidance on the form and content of the documents required to be prepared and submitted to the Parliament in support of budget proposals.

The budget is the key instrument through which the Federal Government of Somalia (FGS) implements its policies, and the Budget Policy Framework Paper (BPFP) indicates the link between Government's overall policies and the annual and supplemental budgets.

For 2023, a supplemental budget is needed in order to bring the approved 2023 Budget expenditures into line with the targets in the Extended Credit Facility (ECF) agreed with the International Monetary Fund (IMF) at the 4th Review of the ECF conducted in September 2022.

The 2023 Supplemental Budget adjustments included in the 2023 Supplemental Budget Bill and outlined in this document are now consistent with the macroeconomic and structural policies agreed with the International Monetary Fund (IMF). The primary adjustment required in the supplemental budget was to reduce compensation, goods and services, and contingency expenditures to meet the indicative target for 2023 set under the ECF. The opportunity is also taken to update the forecast spending plans for on-budget donor-funded special projects.

To monitor compliance with the ECF agreement the IMF Board have included a Structural Benchmark in the ECF program which requires *submission to Parliament of a Supplementary Budget for 2023 that presents a balanced fiscal position based on realistic domestic revenues and budget support grants, and that is consistent with the performance criteria (PCs) in the ECF-supported program (end-June 2023).*

For 2023 the adjusted resources available to deliver goods and services to the citizens from the Federal Budget are indicated in the following table, with comparisons to the actual resources delivered in 2021 and 2022; and provided earlier in the 2023 Budget:

Table 1: Summary of FGS Budget, 2022 - 2023

Description	2022 Actual	2023 Budget	2023 Revised	change	Change %
Revenue and receipts	720.9	950.7	917.3	-33.4	-3.5%
Domestic Revenue	261.7	283.3	283.3	-	0.0%
Donor revenue	459.2	667.4	634.0	-33.4	-5.0%
Expenditure and payments	719.6	977.6	917.3	-60.4	-6.2%
Operating expenditure	444.7	480.9	456.9	-24.0	-5.0%
Donor-funded Special projects	274.9	496.8	460.4	(36.4)	-7.3%
BALANCE	1.3	-27.0	0.0	27.0	-100.0%
Repayment of external debt	11.8	14.2	14.2	-	0.0%
Financing requirement	-10.5	-41.2	-14.2	27.0	-65.5%
Cash balance at 1 January	42.7	51.8	0.0	(51.8)	-100.0%

The 2023 Supplemental Budget Policy Framework Paper is arranged in the following chapters:

- Chapter 2 – Budget strategy for 2023, provides comments on the National Development Plan; an explanation for the rationale for this supplemental budget; an update of the 2023 Budget; the principles, fiscal rules, and targets applied to prepare the forecasts; and a listing of revenue and expenditure measures in the budget.
- Chapter 3 – Economic Conditions, which provides the recent economic context for the supplemental budget.
- Chapter 4 – 2023 Revenues, with a discussion on implementation of the proposed new revenue measures, and tax exemptions statement.
- Chapter 5 – 2023 Expenditures, presents the 2023 adjusted estimates in detail; including details of the government’s response to implementing the NDP-9 poverty reduction strategy and identifies the new activities to support NDP-9 priorities. In addition, details are included on funding within MDA baseline estimates that explicitly address NDP-9 priorities.
- Chapter 6 – Special presentations, which provide details on the budgets of sub-national governments

2. BUDGET STRATEGY FOR 2023

2.1. Background

Key elements from the 2023 Budget Strategy paper are repeated in the following paragraphs of this chapter and the document can be accessed from the Ministry of Finance website (<https://mof.gov.so>).

This chapter seeks to update the FGS budget strategy for the financial year 2023 and the priorities required to meet the country's development and reconstruction agenda while addressing current fiscal challenges and other economic constraints, and remaining consistent with the targets and benchmarks agreed to in the ECF program.

2.2. The National Development Plan

The Ninth National Development Plan (NDP9) targets the achievement of three goals namely, to increase political stability, to reduce insecurity and strengthen the rule of law, and to foster economic growth. The implementation of NDP9 was disrupted by the COVID pandemic that created havoc since early 2020 and ended up slowing economic activities in the country and threatened Somalia's progress towards reconstruction of the economy. Business activities and people's livelihoods were disrupted, meanwhile the full recovery to pre-COVID activity levels is being threatened by new pandemic waves. The implementation of the NDP9 priorities was further disrupted by the nearly two-year delay to conduct parliamentary elections, which, in addition to the covid pandemic, contributed to the slowing down of most economic and social activities in the country during November 2020 to May 2022. The elections impasse also caused suspension of donor budget support until election were completed in May 2022, which ended up slowing down government activities.

In Chapter 4 information is provided that clarifies the level of resources being delivered through the budget to support the NDP9 strategy. This information on costings allocated to the NDP9 through the 2023 Budget are included since the NDP9 strategy is assessed as the Poverty Reduction Strategy which is a -Completion Point (CP) trigger under the Highly Indebted Poor Country (HIPC) process.

2.3. Adjusting Spending to Meet ECF Indicative Targets

Somalia's fiscal management is conducted in close consultation with the IMF under an ECF program which has delivered significant resources in the form of Special Drawing Rights (SDRs). The USD equivalent of the SDRs have been used by the Central Bank of Somalia (CBS) to support the balance of payments and the Ministry of Finance (MoF) to provide budget support and fiscal buffers to protect essential and non-discretionary spending from short-run revenue fluctuations.

The ECF program comes with pre-agreed conditions, benchmarks, and targets, each designed to assist Somalia reach a sustainable budget in the medium term. As part of the 4th Review of the ECF in 2022 agreement was reached with the IMF on a target for running costs spending in 2023 – running costs being defined for this purpose as *compensation payments, spending on goods and services, and contingency provisions*. The cap was set at \$352 million, however the final approved 2023 Budget allocated \$408 million to these spending areas.

At the 5th Review of the ECF program in March 2023 it was agreed with the IMF that a 2023 Supplemental Budget would be prepared. That supplemental budget would seek to bring the running costs provisions back into line with the spending indicative target in the ECF.

The following table illustrates the movement in forecasts for the categories of spending covered by the indicative target from the time the target was agreed (the 4th Review of the ECF, and the 2023 approved budget):

Table 2: Change in Expenditure Estimates

\$'million	4th Review	2023 Budget	Difference
Compensation of employees	258.1	281.7	23.6
Use of goods and services	86.6	123.7	37.1
Travel and conference	9.8	11.1	1.3
Operating expenses	24.4	26.1	1.7
Rent	2.5	3.5	1.0
Other operating expenses	11.9	31.2	19.3
Army operations	4.8	12.2	7.4
Other General Expenses	33.1	39.5	6.4
Contingency	2.5	2.5	0
TOTAL	347.2	407.9	60.7
Indicative target	352.0	352.0	
Budget compacted to Indicative target	-4.8	55.9	

During the 5th Review of the ECF it was recognized that whilst some of the additional spending is supportive of growth, security, and development, the balance of the additional expenditure was not. IMF Staff subsequently recommended to the IMF Board at the formal review of the ECF that the indicative target for these running costs be revised to \$380 million. The increase reflected costs associated with the addition of 8,000 soldiers and 3,000 teachers to the budget.

The task therefore for the 2023 Supplemental Budget is to reduce spending on running costs to \$384 million. At the same time the opportunity is taken, in line with the PFM Law, to advise Parliament of changes required to other heads of expenditure, and to update the forecasts for domestic revenue and donor grants.

2.4. Principles

The budget is prepared in accordance with a set of principles which have been agreed with the IMF under the ECF agreement and which are considered appropriate for sustainable fiscal management in Somalia today. Once Somalia achieves HIPC CP there will need to be a new set of principles agreed to, ones that are more fit-for-purpose in the post-HIPC fiscal environment where Somalia transitions from grants to concessional loans. Work on developing the new principles will commence in early 2023 in time for the 2024 Budget. The current principles that applied to the 2023 Budget are:

- The budget is prepared on a cash basis.
- The budget is managed within a medium-term fiscal framework.
- Budget arithmetic – to prepare realistic budgets founded on conservative revenue projections.
- Grants – projections of grants from donors must be realistic, based on confirmed pledged grants, and ideally cover discretionary spending.
- The budget is limited to the funds that are under the control of the Government; and
- Rules for cash management are included in the appropriations law passed by Parliament.

2.5. Fiscal rules

To assist adherence to the budget principles, a set of fiscal rules is agreed to establish the framework for the fiscal strategy. These rules are long-standing agreements with the IMF and currently are:

- Debt limit – the budget makes no addition to government debt aside from arrangements implicit in the ECF agreements with the IMF, and for within-year liquidity purposes.
- Budget balance – the budget has a zero or greater cash balance after allowance for use of prior year surplus and cash on hand, if required, and this fiscal space will be applied towards the FGS’s investment component of the NDP-9.
- Revenue – maintain a domestic revenue floor as agreed with the IMF whilst reducing dependence on grants over time.
- Revenue increases from improved administration and the introduction of new tax measures will be directed to increased programmatic spending and not administrative costs.
- Windfall revenues - will go toward paying down arrears and, if needed, replenishing the fiscal buffer.
- Fiscal buffer – comprising sufficient funds to cover 2-month of total FGS compensation plus food component for Somali National Army (SNA), and a replenishment trigger of 1-months coverage.
- Expenditure – allow no expenditure arrears.
- Arrears – to avoid arrears accumulation and start paying down outstanding arrears in a transparent manner in the event of windfall revenues and by explicit and affordable annual budget allocations.

These fiscal rules will need to be revisited in line with the principles mentioned above, as Somalia reaches the HIPC CP. The critical medium-term target for FGS is for domestic revenues to rise to a level sufficient to cover the operating and running costs of MDAs.

2.6. Statement on Revenue and Expenditure Measures in 2023

The forecast assumes that the following revenue measures will have a positive effect on revenue mobilization in FY2023:

- An increase in the tax rate on khat from \$2.50 to \$4.00 per bundle.
- Removal of temporary COVID-19 tax relief measures.
- Continuation of higher tax rates on tobacco, plastic bags, and cosmetics.
- Resumption of full tax collection on the sale of electricity; and
- An increase in rental collection outturns, in large part due to increased automation.

Additionally, for FY2023, as part of the IMF ECF reform program, the Government plans to complete reforms in the following areas:

- Adopt and apply a simple import duty tariff schedule at all ports in the Federal Republic of Somalia.
- Enact the Extractive Industry Income Tax Law.
- Implement a tax audit strategy for large and medium taxpayers’ office.
- Introduce the use of harmonized HS codes in the country’s major ports.
- Prepare an ad-valorem tariff schedule to prepare for a single tariff schedule for the country.
- Develop a customs guidance manual.
- Build the capacity of customs staff; and
- Install a common IT system for revenue administration.

On the expenditure side, the Government proposes to implement the following cost-saving measures to reduce

the total outlay on the use of goods and services.

- Internet – Adopt a whole-of-Government Indefinite Delivery, Indefinite Quantity (IDIQ) procurement approach for internet services to MDAs to only pay for what is utilized based on a monthly billing for actual utilization
- Vehicle repairs and servicing – Require vehicle repair and servicing workshops to compete for contracts from each MDA using a centralized pre-qualification mechanism with distribution limited to existing repair suppliers who will then each be placed on a whole-of-government IDIQ framework contract
- Utilities (Water) – Implement a pre-qualification exercise for facilities maintenance at the whole-of-government level with qualified suppliers contracted through an IDIQ contract. Require MDA internal audit units to provide monthly reports on real utilization and potential wastage of resources in MDAs. MDAs to provide statistics on water usage as part of the mandatory documentation attached to expenditure warrants/payment vouchers for utilities
- Utilities (Electricity) – Conduct a cost-benefit analysis on adoption of solar solutions for electricity provision and where the benefit outweighs the cost, pilot hybrid use (solar & grid) in MDAs
- Fuel – Utilize a whole-of-government IDIQ for purchase of fuel to benefit from the locking-in of fuel prices and thus ensure that the required quantity of fuel needed to enable government operations is purchased for the year and is not as sensitive to changes in the price of oil during the FY
- Travel – Use a pre-qualification exercise to identify travel agencies authorized for Government use, and for in-land travel, consider eliminating the use of travel agents and instead procure tickets directly from registered airlines through a framework contract arrangement. Develop and promulgate a travel expense policy that articulates eligible travel expenses and define a timeline for payments of air tickets following ticket issuance
- Bank charges – renegotiate the bank charge rate with the Central Bank of Somalia from 1.5% to a lower rate
- Other General Expenses – allocate expenses to the correct expenditure object code to properly account for spending and identify further saving opportunities

Additionally, to constrain spending on the acquisition of fixed capital assets, the Government plans to:

- Implement an Annual Service and Maintenance Agreement for IT equipment using the IDIQ procurement approach at whole-of-government level to leverage economies of scale and pre-empt premature asset replacement through regular servicing.
- Blacklist suppliers that may supply furniture/equipment that lasts for less than a year.
- Ensure supply contracts include payment retention covering a defects and liabilities period of six months.
- Require all MDAs to maintain asset registers which include details on current asset quality and identify the current assigned user and ensure these registers are updated.
- Develop and promulgate an asset disposition policy that curtails the purchase of new assets to replace functional assets.

Through application of the measures above, the overall ceiling for use of goods and services and consumption of fixed capital is expected to significantly decline in real terms over the medium-term. In accordance with the quantitative criteria set as part of the IMF ECF program to achieve debt relief, spending on compensation of employees is limited by the continued staff and pay freeze, except for the security sector which sees some growth in numbers for the Somali National Army (SNA).

The recent Pay & Grade review of staffing approved by Cabinet is being implemented. As a first step, all employees

irrespective of their employment status as civil servants, temporary workers, appointees, members of Parliament, or security, military, police, and custodians, will all be paid from the MoF payroll system, which will deliver enhanced control and transparency over headcount, and permit alignment of compensation rates. Commencing in this supplementary budget and concluding in the 2024 Budget the salaries of temporary workers will be aligned with permanent workers in a common, expanded scale. The shift to the new pay scale in the Pay and Grade policy will be contingent on it not having upward impact on the expenditure envelope for compensation of employees.

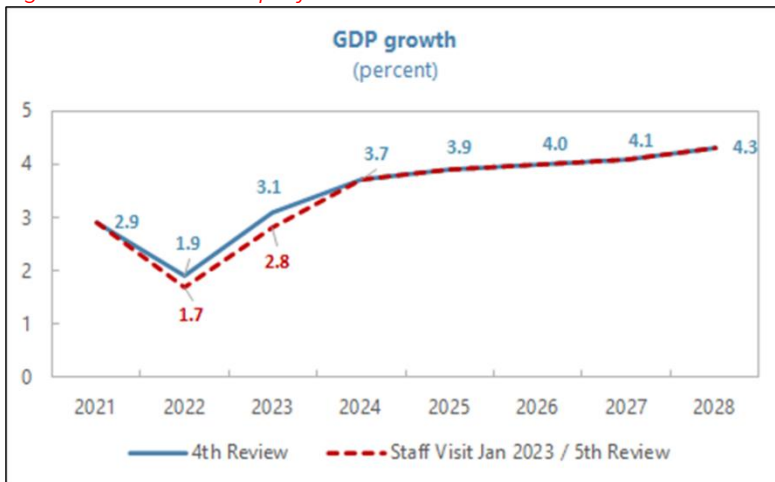
Furthermore, having reached the HIPC Decision Point in March 2020, the Government is now obligated to plan for interest payments and repayment of debt principles in future budget years.

3. ECONOMIC CONDITIONS

The 2023 Policy Framework Paper outlined the economic conditions underpinning the 2023 Budget. The following paragraphs update that assessment in the areas mentioned.

Whilst the Somali economy showed strong growth up until 2021, the concurrent challenges brought about by the COVID- 19 pandemic, flooding, and desert locust invasions have significantly altered Somalia’s medium-term economic outlook at interrupted economic recovery. In 2022 the economy experienced significant headwinds from the domestic challenges of prolonged drought, falling exports, and slowing remittances, and because of international conditions including inflation, disruptions caused by the war in the Ukraine, and weak global growth.

Figure 1: IMF Growth projections to 2028



Growth for Somalia’s economic partners remain moderate with a larger than expected slowdown in global growth for 2022Q4. Monetary policy in economic partner countries remains tight. Somalia has experienced the 5th consecutive failed rainy season with below average rainfall evident in the Gu season. The impact of these conditions has been a slowing in the growth rate of remittances from advanced economies such as the US, UK, Canada and the EU. Exports have contracted in response to the impacts of the drought, and there has been a slowdown in credit growth.

Source: SNBS, IMF Staff calculations

Food insecurity since 2021 due to the prolonged drought, and aggravated by conflict, remains server and worsening. In 2021, the proportion of the population living in food insecurity was assessed as 39 percent. This proportion has grown and is now forecast in April-June period of 2023 to reach 68 percent, with 4 percent in catastrophic insecurity and a further 16 percent assessed as in emergency insecurity.

Looking forward the factors affecting growth include:

- Negative impact on growth:
 - Recovery of exports is expected to be muted owing to the continuing impact of the drought and resulting in a more gradual increase in export performance
 - Remittance inflows are unlikely to pick up in the context of moderate growth of real disposable income in advanced economies
 - Although global economy anticipated to recover more strongly than anticipated, continued monetary policy tightening in 2023 to curb inflation is expected to moderate growth.

- Positive impact on growth:
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- Investment in the construction sector expected to remain buoyant
- Political stability, post-election, should increase confidence levels in business and households.

Downside risks to growth include:

- Somalia experiences a sixth season of below-average rainfall from March-May 2023 (Dehr season)
- The elevated global food and fuel prices inflation continue
- Tighter global monetary conditions prevail
- More countries face recession which would affect remittance inflows
- Intensifying conflict/elevated insecurity situation
- Policy slippages that could delay reaching the HIPC CP

The assumption on the HIPC CP is it will occur at the end of 2023 and therefore its impact on the economy will be in 2024.

Macroeconomic projections are shown in the table below:

Table 3: Macroeconomic projections

Table 1. Somalia: Selected Economic and Financial Indicators, 2021-2028											
Population: 15.6 million, 2022 estimate											
	2021	2022		2023			2024	2025	2026	2027	2028
	Est.	4 th ECF Review	Est.	4 th ECF Review	Proj.	Proj.					
National income and prices											
Nominal GDP in millions of U.S. dollars	7,628	8,414	8,129	9,009	8,691	9,400	10,223	11,094	12,031	13,030	
Real GDP in millions of U.S. dollars	6,131	6,250	6,235	6,443	6,410	6,647	6,906	7,182	7,477	7,798	
Real GDP, annual percentage change	2.9	1.9	1.7	3.1	2.8	3.7	3.9	4.0	4.1	4.3	
Real GDP per capita in U.S. dollars	404	400	399	401	399	403	407	412	418	426	
CPI (period average, percent change)	4.6	9.0	6.8	3.9	4.2	3.8	3.6	3.3	3.2	3.0	
CPI (e.o.p., percent change)	5.7	8.3	6.1	3.8	3.7	3.9	3.7	3.4	3.3	3.1	
(Percent of GDP)											
Central government finances 1/											
Revenue and grants	4.9	6.7	8.9	6.8	7.3	3.9	4.1	4.3	4.6	4.7	
of which:											
Tax	2.1	2.0	2.2	2.1	2.2	2.3	2.6	2.8	3.0	3.1	
Grants 2/	1.9	3.8	5.6	3.7	4.1	0.5	0.3	0.2	0.2	0.1	
Expenditure (FGS)	6.0	6.8	8.9	7.2	7.9	6.1	6.0	6.1	6.1	6.3	
Compensation of employees 3/	3.3	3.1	3.2	3.0	3.4	3.3	3.3	3.3	3.3	3.3	
Purchase of non-financial assets	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2	
Overall balance	-1.1	-0.1	0.0	-0.5	-0.5	-2.1	-1.9	-1.7	-1.5	-1.5	
Net change in the stock of cash	-0.3	0.4	0.5	-0.6	-0.7	0.0	0.0	0.0	0.0	0.0	
Stock of domestic arrears	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.6	0.5	
Public debt 4/, 5/	45.9	42.5	43.8	7.3	7.5	10.2	11.2	12.0	12.5	12.8	
(Percent of GDP)											
Monetary Sector											
Net Foreign Assets	-3.2	-3.7	-3.2	0.3	1.0	0.7	0.7	0.7	0.6	0.6	
Central Bank claims on non-residents 6/	2.9	3.6	4.4	3.4	3.5	2.9	2.7	2.5	2.3	2.1	
Net Domestic Assets	14.9	13.9	13.9	10.0	9.4	10.1	10.9	12.1	12.9	14.4	
Credit to the private Sector	3.5	4.0	4.0	4.6	4.6	5.5	6.7	8.3	9.8	11.9	
Broad Money 7/	11.7	10.2	10.7	10.4	10.4	10.8	11.5	12.7	13.5	14.9	
Net International Reserves (program definition, in millions of U.S. dollars)		-345.4	-345.0 [†]								
(Percent of GDP)											
Balance of payments											
Current account balance	-17.1	-15.9	-17.7	-13.6	-16.4	-16.7	-17.3	-17.3	-17.2	-17.2	
Trade balance	-70.9	-70.3	-74.9	-69.3	-73.0	-70.7	-70.8	-70.7	-70.6	-70.5	
Exports of goods and services	17.2	16.7	16.8	16.8	17.0	17.1	17.2	17.4	17.5	17.6	
Imports of goods and services	88.0	87.1	91.7	86.1	90.0	87.9	88.0	88.1	88.1	88.1	
Remittances	27.3	27.3	27.7	27.8	28.2	28.4	28.4	28.4	28.4	28.4	
Grants	27.0	27.7	30.0	28.5	29.0	26.1	25.5	25.4	25.4	25.3	
Foreign Direct Investment	8.0	7.8	7.7	7.8	7.8	7.8	7.8	8.0	8.0	8.0	
External debt 4/, 8/	45.3	41.2	42.7	6.4	6.6	9.5	10.7	11.5	12.0	12.5	

Sources: Somali authorities; and IMF Staff estimates and projections.

4. REVENUES

4.1. Introduction

There has been no significant upwards expected change to revenue forecasts since approval of the 2023 Budget. The risk is more on the downside with potential delays in implementing key revenue measures together with the natural disaster in Turkey suggesting revenues in aggregate will remain close to the forecast.

4.2. Recent Trends in Revenue to 2022

Recent trends in revenue, compositionally and in total, have been impacted by natural disasters – the locust plague; floods and drought; and COVID – as well as the pre-election period which saw a suspension of significant donor budget support grants and a reduction in payment of legislated taxes that are due.

A summary of the trends in revenue was included in the 2023 Policy Framework Paper and is not duplicated here.

For 2023, collections of domestic revenues to the end of March totaled \$64.9 million, which indicates collections are likely to be consistent with the budget forecasts for domestic revenue for 2023, despite some delays with implementation of planned 2023 revenue measures (see below). Strong collection trends are evident in the categories of Customs and other import duty, including Khat, and taxes on goods and services; collections consistent with forecasts are evident in taxes on income, profit, and capital gains; offset by weaker growth in other taxes and non-tax revenues.

4.3. 2023 Revenue Forecasts

The revised forecast for revenue in 2023 is shown in the following table, with comparisons to the unaudited results for 2022; and the 2023 budget:

Table 4: Revenue 2021 - 2023

Description	2021 Actual	2022 Actual	2023 Budget	2023 Revised	change	Change %
Revenue and receipts	376.5	720.9	950.7	917.3	(33.4)	-3.5%
Domestic Revenue	229.6	261.7	283.3	283.3	-	0.0%
Taxes	162.8	180.7	189.9	189.9	-	0.0%
Tax on income, profit and capital gain	15.2	18.0	18.6	18.0	(0.6)	(0.03)
Taxes on property	0.6	0.6	-	0.64	0.6	
Taxes on goods and services	23.4	24.8	33.1	33.1	-	0.0%
Taxes on international trade and transactions	109.0	116.2	123.2	123.2	-	-
Other taxes	14.6	21.1	14.9	14.9	-	0.0%
Other revenue	66.8	81.0	93.4	93.4	-	0.0%
Donor revenue	147.0	459.2	667.4	634.0	(33.4)	-5.0%
Budget support	38.4	171.4	170.6	173.6	3.0	0.02
Project support	108.6	287.8	496.8	460.4	(36.4)	-7.3%
proportion of domestic funds	61.0%	36.3%	29.8%	30.9%		

No significant change in domestic revenues is forecast in 2023. Taxes on property of \$640,000 are shown under the more appropriate head of revenue.

Donor project revenues have been updated with more recent advice from the donor community to better reflect the anticipated revenues (and spending) in 2023.

4.4 2023 Revenue measures update

4.4.1 Income tax law

The government will submit for Parliament approval a new Income Tax Law (ITL), which is currently at an advanced stage of preparation, awaiting final policy decisions on the rates, enforcement aspects, and installment payments, amongst other issues. Once enacted, the new ITL will streamline definitions of taxable income and deductions and is expected to increase income tax collection over the medium-term. The likely revenue impact from the new Income Tax Bill has not been modelled yet.

4.4.2 Integrated tax administration system (ITAS)

Implementing regulations of the Revenue Management Law are being prepared, which will cover a range of enforcement issues (including the Taxpayer Identification Number, Large and Medium Taxpayers Offices, and tax audits), and facilitate harmonization of revenue administration functions across the FGS and FMS. To leverage information and communication technologies for revenue administration, the government will develop the Integrated Tax Administration System (ITAS). Once

operationalized, the ITAS will enable the collection and use of third-party data and enhance tax audits, automate collection processes, and improve inland tax administration effectiveness. The ITAS system will interface with the Somali Financial Management Information System (SFMIS). At the time of preparing this statement the procurement action for ITAS had not commenced, as the agreement with FMS still to be finalized.

4.4.3 Point of sale machines

The distribution of POS (Point of Sale) machines to the retail sector, including telecommunications companies, is expected to commence in 2023, with an initial distribution of 5,000 machines planned. Finalizing details of the distribution modality and contracts for the procurement of the machine has been delayed and the machines are now anticipated to begin to be delivered in Q2 2023. Modelling of the anticipated lift in collections is underway, however a revised estimate is not expected to be known in time for this supplemental budget. On completion of these reforms, The FGS plan to introduce additional revenue measures, such as excise taxes on airtime, to mobilize further revenue from the telecom sector over the medium-term.

4.4.4 Telecommunications sector

It is intended to speed up the pace of revenue mobilization from the telecom sector, which offers significant revenue potential for the government. Bringing effective tax rates on the telecom sector up to a level comparable to that of peers and other countries in the region is essential to achieve the domestic revenue targets. In September 2022, a spectrum fee schedule for telecom operators approved by the NCA Board in agreement with the MoF was issued. When determining spectrum prices, it is planned to maintain a proper balance between revenue mobilization and market development and ensure that the government receives an adequate return on assets.

4.4.5 Customs reforms

The 1960 Customs Law has been updated with a new law. A single tariff schedule has been agreed for all Mogadishu, Bosaso, Garowe and Kismayo ports and airports, based on the East African Community Common External Tariff in 2020. The new schedule of taxes payable is revenue neutral in 2023. During 2023 a common valuation table will be implemented at the same location.

In 2024, the common valuation table schedule will change to an ad valorem tax i.e. is a tax whose amount is based on the value of a transaction or of property, rather than a set rate in a commodity schedule. The ad valorem rate will be based on the data contained in the commercial invoice. Reference tables will be used to determine if the invoice value is correct.

Administration of customs will be enhanced in 2023 with the implementation of a Customs Automation System (CAS) which is now expected to go live in Kismayo in the third quarter of 2023, but implementation dates for Bosaso and Garowe remain unclear. The CAS has been piloted successfully in Mogadishu, however some identified technical bugs and IT fixes are required with an implementation expected by June 2023. CAS will be linked via an interface system to the SFMIS (Somali Financial Management Information System) and the ITAS (Integrated Tax Administration System) which controls taxpayer identification.

4.4.6 Khat

Collection from the import of Khat from Kenya resumed in 2022 and is forecast to return closer to levels experienced in 2019. During 2022 the planned \$4 a bundle tax rate increase was deferred considering cost-of-living pressures exacerbated by the drought. The increased collections in 2023 reflect the full-year return of trade with Kenya, and the expectation that the deferred tax rate increase will be re-applied in some form, either as a per-bundle tax or an excise option. receives economic value from use of its spectrum assets.

4.4.7 Turnover taxes

Turnover taxes were introduced from March 1, 2023, with 4,000 newly registered taxpayers operating as small traders and the like expected to commence tax contributions in 2023.

4.5 Tax rates for 2023

The tax rates published in the 2023 Policy Framework Paper are unchanged.

4.6 Tax exemptions

4.6.1 Introduction

Exemption is a policy (apart from taxation) by which governments facilitate the mandated functions by assisting state, local and international organizations to facilitate citizens' jobs and government services and economic growth.

Article 48 of the Tax Exemption Law No. 21 issued on 05/02/2020 applies to all: (a) Embassies and offices of foreign diplomats operating in the country; (b) The UN and its agencies; (c) International organizations; (d) Government agencies; (e) Citizens of the country return their personal belongings and f) Charitable organizations that come to help the country.

The Public Financial Management Law, 2019 provides (Article 5) the Minister of Finance with the power to exempt taxes and fees. Reporting of exemptions granted must include: (a) the individual to whom the tax exemption was granted; (b) Reasons for the exemption; (c) Total taxes due to the Government but not paid; and (d) Benefits to the Government arising from this tax exception.

4.6.2 Benefits of Tax Exemptions

The implementation of international agreements (Vienna Convention), and the regional one, the implementation of the agreements will enhance the diplomatic relations between FGS and the international governments and the exchange of public policy information.

The implementation of international agreements and the implementation of their terms have created trust and confidence in the government and financial institutions such as the IMF, UN, and the World Bank, which has led to large-scale economic development support (IDA).

Finally, the tax reduction in particular sectors of industry facilitate production resulting in increased growth and creates job opportunities, which helps the country to reduce unemployment and promote economic development. These industries pay various taxes that raise government revenue.

4.6.3 Laws approved for tax exemptions in 2023

- All Article 48 of the Tax Exemption Law No. 21 was issued on 05/02/2020.
- Law No. 26 issued on 10/11/1961 which is the law for the encouragement of Industries, Agriculture, Research & Mineral Exploration ETC.
- Law No. 8 issued on 19/11/1984 allows a 50% reduction in import duty on raw materials and unfinished industrial products. (Semi manufactures)
- Law No. 18 issued on 14/6/1962, which is a law intended for the implementation of public works funded by International Organizations and foreign governments such as the Development Fund of Qatar. (The Enez and Fenon company is implementing the road Mogadishu-Afgoye, Muq-Jowhar and many more.
- Law No. 109 issued on 18/11/1980, Exemption from tax on goods brought to the Red Crescent organization.
- Law No. 9 issued on 27/06/1966, which is the immigration law, exempts government employees and internationals who come to benefit the country from the payment of fees.

The table below shows the different categories that have been approved for tax exemption in 2021, and the frequency of exemption in each category and the amount of revenue foregone.

Clusters	How often	US\$
UN agencies	964	6,569,465
Embassies and Diplomatic Mission Offices	245	912,846
Industries & Raw Materials they supply	53	1,305,038
Government agencies	145	691,254
Aid Organizations	186	397,246
		9,875,849

As 2023 is the first time for publishing in line with the PFM Law we have included data for the fiscal year 2021. In subsequent reports in the Policy Framework Paper, it is envisaged that reports on tax exemptions will cover the period of July-December of the preceding fiscal year, and January-June in the current fiscal year. For example, in this document for the 2024 Budget it is intended to include tax exemption data for the 12-month period July 1, 2022, to June 30, 2023

5. EXPENDITURE

5.1. The 2023 Estimates

The revised planned 2023 Budget expenditures, compared with 2022, and the original 2023 budget are presented in the following table:

Table 5: Summary of Expenditures, 2022 to 2023

Description	2022 Actual	2023 Budget	2023 Revised	change	Change %
Expenditure and payments	719.6	977.6	917.3	-60.4	-6.2%
Operating expenditure	444.7	480.9	456.9	-24.0	-5.0%
Compensation of Employees	257.9	282.2	288.1	5.9	2.1%
Use of goods and services	93.6	124.5	97.2	-27.4	-22.0%
Purchase of non-financial assets	7.8	15.5	12.4	-3.1	-20.1%
Interest	0.9	5.8	5.8	-	0.0%
Grants (transfers)	84.5	50.4	52.2	1.8	3.7%
Other expenses	-	2.5	1.2	-1.3	-51.7%
Donor-funded Special projects	274.9	496.8	460.4	-36.4	-7.3%
compensation as share of operating costs	58.0%	59.2%	63.3%		

Overall spending is now forecast to decline by \$60.4 million, reflecting a reduction in operating expenditure of \$23.0 million and a decrease in spending on donor projects of \$36.4 million.

The reduction in running costs¹ spending to \$384.0 million brings it into line with the IMF ECF program indicative targets discussed during the 5th review of the program in March and subsequently approved by the IMF Board on May 22.

The table below displays the FGS budget in terms of the Classifications of the Functions of Government, which reflects a set of international classification rules developed by the OECD and adopted by the UN and IMF that facilitates international expenditure comparisons.

¹ Compensation; G&S; and the contingency

Table 6: Expenditures by the Classification of the Functions of Government (COFOG), 2022 to 2023

Functions of Government (US\$ m)	2022 Actual	2023 Budget	2023 Revised	Proportion 2023
1. GENERAL PUBLIC SERVICES	281.8	315.3	303.6	33.1%
2. DEFENCE	170.0	198.0	195.8	21.3%
3. PUBLIC ORDER AND SAFETY	22.5	29.9	28.4	3.1%
4. ECONOMIC AFFAIRS	38.4	74.2	68.2	7.4%
5. ENVIRONMENTAL PROTECTION	-	1.9	1.3	0.1%
6. HOUSING AND COMMUNITY AMENI	18.6	96.7	76.8	8.4%
7. HEALTH	11.4	83.8	67.5	7.4%
8. RECREATION,CULTURE AND RELIGIO	2.8	4.3	3.8	0.4%
9. EDUCATION	20.2	45.1	39.9	4.4%
10. SOCIAL PROTECTION	164.9	128.4	132.0	14.4%
Grand Total	730.5	977.6	917.3	100.0%

5.1.1. Compensation of employees

Table 7: Staff costs, 2023

	Description	2023 Budget	2023 Revised	change	%
21	Compensation of employees	288.0	294.1	6.1	2.1%
211	Wages and salaries	288.0	294.1	6.1	2.1%
2111	Wages and salaries in cash	168.7	168.4	-0.3	-0.2%
2113	Allowances in cash	99.7	99.1	-0.6	-0.6%
2114	Other employees costs	19.7	26.7	7.0	35.6%

The significant change is the addition of \$5.9 million to the budget of the Ministry of Education and Higher Education for the employment of teachers, offset in part by a reduction in cash payments of \$0.3 million. These funds were included in the 2023 Budget under goods and services (as consultant fees), and this change reflects a shifting of these funds to the correct expenditure category and not an increased provision. Delays in the establishment of the Public Procurement Authority is reflected in removal of the budget provision of \$384,000 for wages costs. Other minor adjustments are also included, including addition of \$0.1 million for the compensation costs of donor projects.

5.1.2. Use of goods and services

The table below shows, for both operating and project expenditures, the breakdown of the planned goods and services (operating costs) of the FGS for 2023:

Table 8: Goods and Services Expenditures, 2023

	Description	2023 Budget	2023 Revised	change	%
22	Use of goods and services	227.3	199.3	-28.0	-12.3%
221	Travel and conference	23.9	19.5	-4.4	-18.3%
2211	Travel and conference expenses	23.9	19.5	-4.4	-18.3%
222	Operating expenses	33.0	27.9	-5.1	-15.4%
2221	Utilities	8.6	7.2	-1.4	-16.3%
2222	Communications	0.7	1.1	0.3	41.9%
2223	Fuel and lubricants	9.5	9.1	-0.3	-3.5%
2224	Materials and supplies	9.5	8.0	-1.5	-15.8%
2225	Maintenance and repairs	4.7	2.5	-2.2	-46.4%
223	Rent	4.4	3.3	-1.1	-25.7%
2231	Rent	4.4	3.3	-1.1	-25.7%
224	Other operating expenses	112.9	100.7	-12.2	-10.8%
2241	Education and training expense	11.1	9.9	-1.2	-10.6%
2242	Consulting and professional expense	93.7	83.0	-10.7	-11.4%
2243	Financing costs	7.7	7.0	-0.7	-9.3%
2244	Advertisement and subscriptions	0.3	0.6	0.3	85.3%
2245	Insurances charges and premium	0.2	0.2	0.0	28.1%
225	Army operations	12.2	12.2	0.0	0.0%
2251	Police - Materials, supplies and services	0.1	0.1	-	0.0%
2252	National Security - Materials, supplies and services	8.0	8.0	-	0.0%
2253	Military - Materials, supplies and services	4.1	4.1	-	0.0%
226	Other General Expenses	40.9	35.7	-5.2	-12.7%
2261	Other General Expenses in goods and services	40.9	35.7	-5.2	-12.7%

The table includes funds anticipated to be spent by donor funded projects on goods and services to show the likely impact on the domestic economy of this level of consumption in the various categories.

In 2023 the government's goods and services costs have been reduced from the budget provisions in aggregate by \$28.0 million or 12.3 percent. The primary driver for this change has been the need to bring running costs² into line with the

² Defined as Compensation of employees, Goods and Services, and the Contingency fund

indicative targets agreed with the IMF under the ECF Program, as mentioned earlier in this document. At the same time, some adjustments have been made to the anticipated spending needs of donor projects.

The main changes to the provisions for MDAs are:

- A reduction in the travel budgets of most MDAs by a total of \$4.4 million
- Reduced provisions for utilities in some MDAs, totaling \$1.4 million
- Adjustment to fuel and lubricant provisions for some MDAs by a total of \$0.3 million
- Reduced provisions for materials and supplies (\$1.5 million) and maintenance and repairs (\$2.2 million)
- Provisions for rents are reduced by \$1.1 million
- Education and training expenses are reduced by \$1.2 million
- Consultant costs are reduced by \$10.7 million however \$5.8 million of this reduction reflects the shift to the compensation vote for proposed teachers' wages (mentioned above)
- Funds for other general expenses are reduced by \$5.2 million.

Further details of additional expenditures measures are outlined in Chapter 5.4 below.

5.1.3. Acquisition of non-financial assets

Acquisition of non-financial assets (capital spending) for the government's operating expenditures is shown in the following table.

Table 9: Expenditure on the Acquisition of non-financial assets, 2023

	Description	2023 Budget	2023 Revised	change	%
23	Acquisition of non-financial assets	53.8	53.4	-0.4	-0.8%

The FGS forecast spending on the Acquisition of non-financial assets is decreased \$0.4 million.

5.1.4. Grants

Details of proposed grant payments from FGS excluding specific donor projects are shown in the table below:

Table 10: Planned Transfers to FMS, 2022 - 2023

	Funding source/recipient	2022 Actual	2023 Budget	2023 Revised
010502	General Activities for the Government			
	Federal Member States			
2000	Somaliland State of Somalia	15,130,633	3,000,000	3,000,000
3000	Puntland State of Somalia	14,991,724	8,550,422	6,550,422
4000	Jubaland State of Somalia	10,429,876	6,659,791	4,659,791
5000	South West State of Somalia	9,358,217	5,890,389	3,890,389
6000	Galmudug State of Somalia	9,182,912	5,938,829	3,938,829
7000	Hirshabelle State of Somalia	8,972,668	5,847,629	3,847,629
8000	Benadir Regional Administration and LG	15,358,951	17,477,883	18,284,962
1001	Development Bank of Somalia	511,966	455,000	455,000
1002	Chamber of Commerce	511,966	455,000	455,000
	sub-total	84,448,912	54,274,943	45,082,022
010700	Ministry of Interior and Federal Affairs			
5000	South West State of Somalia	200,000	1,800,000	1,800,000
6000	Galmudug State of Somalia	200,000	1,800,000	1,800,000
7000	Hirshabelle State of Somalia	200,000	1,800,000	1,800,000
	sub-total	600,000	5,400,000	5,400,000
	Total	85,048,912	59,674,943	50,482,022

The earmarked payment to BRA is based on 15 percent of customs collections at the Port of Mogadishu and is estimated to total \$18.3 million for 2023. The remaining grants to FMS are funded from general budgetary support and paid through the Ministry of Interior and Federal Affairs, and by the Donor community, paid through the MoF appropriation for “Other activities of the State”, with the latter category subject to performance agreements based on PFM reforms and other conditions

Grants are also paid to the Somali Chamber of Commerce and to the Development Bank of Somalia, with each grant forecast to total \$455,000 in 2021.

Donor project grants are forecast to decrease by \$41.7 million (see 5.1.7 below).

5.1.5. Social Benefits

Donor project payments for social support are now expected to be \$11.3 million lower in 2023. Details of donor project support are shown below in section 5.1.7.

5.1.6. Contingency

Access to the fund is limited to payments that are judged to be urgent and unforeseen at the time of the budget. International accounting treatment for access to a contingency fund appropriates the money to the MoF, for administrative control. Once access to the fund is approved, the accountability for the appropriation is transferred to the responsible MDA and recorded as a budget allocation to that MDA. This facilitates Parliament accountability for the spending. A reduced provision of \$1.2 million is provided for in 2023.

5.1.7. Donor funded Special Projects

The revised 2023 appropriation for on-budget donor special projects is summarized in the following table.

In total, Donors are anticipating spending \$460.4 million on special projects in 2023. The composition of this spending by main object of expenditure include:

- \$190.0 million for social benefits;
- \$108.8 million for the running costs of the projects, including consultancy, training and banking costs;
- \$41.1 million in capital expenditure;
- \$105.6 million in grants to FMS; and
- \$9.0 million in subsidy payments.

Table 11: Donor funded on-budget projects, 2023

	Project and MDA	2023 Revised Budget
		460,377,989
0100	Administration Section	145,882,556
Office	Office of the Prime Minister	1,000,000
70201	Capacity Injection and Institutional Strengthening Project	-
70291	UNDP	1,000,000
Ministr	Ministry of Finance	103,118,703
70202	Special Financing Facility (WB-MPTF and UN)	210,500
70203	Domestic Revenue Mobilization and PFM Capacity Strengthening Project	-
70204	Economic and Financial Governance Institutional Support Project	856,504
70205	Recurrent Cost & Reform Financing Facility	-
70206	Somali Core Economic Institutions and Opp. Prg (SCORE) Project	-
70214	Somali Capacity Advancement, Livelihoods & Entrepreneurship, Through Digital Uplift (SCALED - UP) Project	21,545,900
70215	Somalia Strengthening Institution For Economic Policy Mgmt and Infrastructure Development (SIEPMID)	1,262,600
70219	Regulatory Authority For Energy Sector Project	1,101,851
70221	Somali Crises Recovery (SCRIP) Project	61,162,032
70225	Somalia Recurrent Cost and Reform Financing Project - Phase III	4,946,740
70234	Somalia Strengthening Accountability and Debt Management Project (SADMS)	1,331,876
70230	De-Risking, Inclusion and Value Enhancement of Pastoral Economies	6,400,700
70238	Somalia Enhancing Public Resource Management Project	4,300,000
Ministr	Ministry of Planning, Investment and Economic Development	26,629,400
70220	Biyoole Project (Water for Agro-pastoral Productivity and Resilience)	4,501,400
70239	Barwaaqo Project (Water for Rural Resilience)	19,463,000
70291.1	UNDP	2,665,000
Nation	National Bureau of Statistics	8,095,738
70222	Somali Integrated Statistics and Economic Capacity Building Project	4,763,309
70236	Statistics Development Support Project for Somalia	2,782,429
70291.1	UNDP	550,000
Ministr	Ministry of Interior and Federal Affairs	5,093,365
70207	Support Stabilization Project (S2S)	-
70218	Somalia Urban Resilience Project PH2 (PCU)	4,512,715
70213	Somali Urban Investment Planning Project - Additional Financing (SUIPP-AF)	-
70208	Somalia Urban Resilience Project (SURP)	-
70291.1	UNDP	580,650
Somal	Somali Disaster and Humanitarian Management Agency	50,000
70291.1	UNDP	50,000
Ministr	Ministry of Religious Affairs	600,000
70291.1	UNDP	600,000
Ministr	Ministry of Justice	1,220,000
70291.1	UNDP	1,220,000
Nation	National Independent Electoral Commission	75,350
70291.1	UNDP	75,350

	Project and MDA	2023 Revised Budget
		460,377,989
0200	Defense and Security Sector	118,750
Ministr	Ministry of Internal Security	118,750
70291.1	UNDP	118,750
0300	Economic Section	103,417,856
Ministr	Ministry of Water and Energy	14,713,787
70211	Somali Electricity Access (SEAP) Project	372,711
70231	Somali Electricity Sector Recovery Project (SES RP)	9,644,090
70232	Ground Water for Resilience Project (GW4R)	4,151,400
70242	Households access to Renewable Energy and Advanced Cooking Technologies	467,586
70291.1	UNDP	78,000
Ministr	Ministry of Agriculture	2,870,000
70245	Somali Food Systems Resilience Project	2,870,000
Ministr	Ministry of Livestock and Forestry	6,122,267
70235	Program To Build Resilience For Food And Nutrition Security	6,122,267
Ministr	Ministry of Fishery and Blue Economy	972,945
70246	Somali Sustainable Fisheries Development Project	972,945
Ministr	Ministry of Post and Telecommunication	2,924,500
70291.2	UNDP	650,000
70241	Eastern Africa Regional Digital Integration Project (EA-RDIP)	2,274,500
Ministr	Ministry of Public Work & Reconstruction	75,074,357
70217	Road Infrastructure Programme (RIP)	6,397,851
70218	Somalia Urban Resilience Project PH2 (PCU)	66,988,806
70229	Somalia - Horn of Africa Infrastructure Integration Project (SHIIP)	1,625,200
70292	UN-Habitat	62,500
Ministr	Ministry of Commerce and Industry	740,000
70291.2	UNDP	740,000
0400	Social Section	210,958,827
Ministr	Ministry of Health	63,822,400
70225	Somalia Recurrent Cost and Reform Financing Project - Phase III	4,792,600
70227	Damal Caafimad Project	25,259,800
70228	SOMALIA COVID-19 EMERGENCY VACCINATION PROJECT	33,770,000
Ministr	Ministry of Education and Higher Education	15,920,124
70223	Maximum County Allocation (MCA) Project	985,175
70225	Somalia Recurrent Cost and Reform Financing Project - Phase III	1,351,293
70226	Somalia Education for Human Capital Development Project	8,605,840
70233	Empowering Women through Education and Skills - "RAJO KAABA"	3,334,526
70240	Strengthening Education and Training in Somalia	1,310,690
70244	GPE System Capacity Grant (SCG)	332,600
Ministr	Ministry of Labour and Social Affairs	129,958,303
70216	Shock-Responsive Social Safety Net for human Capital (Baxnaano Project)	122,173,200
70224	Somalia Emergency Locust Response Project (SELRP)	5,545,000
70237	SAGAL Project	818,449
70243	Somalia - Skill, Employability, Inclusion and Productivity Project	1,421,654
Ministr	Ministry of Women and Human Rights Dev.	1,258,000
70291.2	UNDP	1,258,000

5.2 MDA Revised Appropriations for 2023

The following table shows the revised appropriations in 2023 that Parliament is being asked to appropriate under law to MDAs, including donor special projects funding:

Table 12: 2023 Revised Appropriation Summary

	Head	Sub Head	MDA	2022 Actual	2023 Budget	2023 Revised
A			Total Expenditure	730,472,579	977,648,690	917,267,241
01	01		Administration	305,294,568	345,525,791	332,000,275
	0101		Office of the Presidency	12,385,534	10,667,540	10,562,469
		010100	Office of the Presidency	12,385,534	10,667,540	10,562,469
	0102		Parliament	26,828,155	29,354,003	29,119,317
		010201	Office of Speaker (People's House)	22,434,642	23,180,443	23,035,757
		010202	Upper House (Senate)	4,393,513	6,173,560	6,083,560
	0103		Prime Minister	16,857,137	10,056,462	9,239,250
		010300	Office of the Prime Minister	16,857,137	10,056,462	9,239,250
	0104		Ministry of Foreign Affairs	9,640,310	11,028,553	8,872,542
		010400	Ministry of Foreign Affairs	4,148,992	3,804,053	3,703,213
		010401	Embassies	5,491,318	7,224,500	5,169,329
	0105		Ministry of Finance	175,441,832	179,885,346	179,253,835
		010500	Ministry of Finance	65,841,383	114,860,763	114,809,743
		010501	Accountant General	2,509,279	2,952,260	2,750,284
		010502	Other Activities of the State	106,051,221	60,600,324	60,749,355
		010503	Directorate of Financial Reporting Center	1,039,950	972,000	944,452
		010504	Public Procurement Authority	-	500,000	-
	0106		Ministry of Planning, Investment and Economic Development	26,766,060	42,287,851	38,766,521
		010600	Ministry of Planning, Investment and Economic Development	17,641,323	31,738,132	29,383,198
		010601	National Statistics Department	9,124,737	10,549,719	9,383,323
	0107		Ministry of Interior and Federal Affairs	8,132,633	23,841,605	22,037,851
		010700	Ministry of Interior and Federal Affairs	3,945,945	16,496,699	13,483,665
		010701	Somali Refugee and IDPs Commission	703,962	813,200	791,200
		010702	National ID Authority DADSOM	293,523	1,225,072	1,543,072
		010703	Somali Disaster and Humanitarian Management Agency	3,189,203	5,306,634	6,219,914
	0108		Ministry of Religious Affairs	2,131,261	3,221,006	2,810,240
		010800	Ministry of Religious Affairs	2,131,261	3,221,006	2,810,240
	0109		Ministry of Justice and Endowment	10,986,927	14,848,277	13,804,099
		010900	Ministry of Justice and Constitution	1,069,511	4,798,837	3,754,659
		010901	Custodian Corps	9,917,416	10,049,440	10,049,440
	0110		Judicial Authorities	5,078,630	6,188,531	5,789,781
		011001	Supreme Court	2,258,730	2,828,857	2,728,857
		011002	Banaadir Court	1,738,669	2,018,774	1,895,649
		011003	Appeal Court	857,821	1,092,408	936,783
		011005	Judiciary Service Committee	223,410	248,492	228,492
	0111		Attorney General	1,504,644	1,890,008	1,890,008
		011100	Attorney General	1,504,644	1,890,008	1,890,008
	0112		Solicitor General	628,985	708,784	668,784
		011200	Solicitor General	628,985	708,784	668,784
	0113		Auditor General	3,161,134	3,356,420	3,438,420
		011300	Auditor General	3,161,134	3,356,420	3,438,420
	0120		Special Commissions	5,751,325	8,191,405	5,747,158
		012100	Boundaries and Federation Commission	600,144	759,360	724,360
		012200	National Reconciliation Commission	462,053	501,132	479,132
		012300	National Independent Electoral Commission	2,253,475	3,336,130	2,102,506
		012400	Human Rights Commission	-	100,000	-
		012500	Independent Constitution Review and Implementation Commission	562,471	707,099	811,236
		012600	National Civil Service Commission	1,455,490	1,514,924	1,485,924
		012700	National Independent Anti- Corruption Commission	417,693	1,272,760	144,000

	Head	Sub Head	MDA	2022 Actual	2023 Budget	2023 Revised
02	02		Defence and Security	169,968,796	197,953,199	195,771,196
	0201		Ministry of Defence	99,777,410	121,179,461	120,108,125
		020100	Ministry of Defence	2,159,373	5,223,973	4,174,637
		020101	Armed Forces	96,096,057	113,244,488	113,244,488
		020102	Military Court	1,461,981	2,596,000	2,596,000
		020103	Orphans and Disabled	60,000	115,000	93,000
	0202		Ministry of National Security	70,191,386	76,773,738	75,663,071
		020200	Ministry of National Security	1,246,893	2,357,042	1,684,875
		020201	Police Force	44,965,382	45,839,404	45,824,904
		020202	National Security Force	18,883,570	23,097,652	23,097,652
		020203	Immigration Department	5,095,541	5,479,640	5,055,640
03	03		Economic Services	56,987,837	172,856,661	146,287,123
	0301		Ministry of Water and Energy	3,565,966	20,725,068	16,132,739
		030100	Ministry of Water and Energy	3,565,966	20,725,068	16,132,739
	0302		Ministry of Mineral	2,004,427	3,145,672	2,969,336
		030200	Ministry of Mineral	1,525,926	2,138,632	2,027,796
		030202	Somali Petroleum Authority	478,501	1,007,040	941,540
	0303		Ministry of Agriculture	1,726,101	1,959,206	4,582,206
		030300	Ministry of Agriculture	1,726,101	1,959,206	4,582,206
	0304		Ministry of Livestock and Forestry	1,079,638	6,323,784	7,281,929
		030400	Ministry of Livestock and Forestry	1,079,638	6,323,784	7,281,929
	0305		Ministry of Fishery and Marine Resource	2,191,985	2,665,708	3,143,653
		030500	Ministry of Fishery and Marine Resource	1,528,289	1,935,674	2,446,619
		030501	Somali Marine Research	561,832	619,258	608,258
		030502	Offshore Fisheries Development Project	101,864	110,776	88,776
	0306		Ministry of Information	5,968,131	6,207,248	6,251,336
		030600	Ministry of Information	5,968,131	6,207,248	6,251,336
	0307		Ministry of Post and Telecommunication	2,752,083	6,028,584	5,402,561
		030700	Ministry of Post and Telecommunication	1,839,034	4,868,700	4,554,677
		030701	Somali National Telecommunications Authority	913,050	1,159,884	847,884
	0308		Ministry of Public Work & Reconstruction	18,599,087	96,667,389	76,773,479
		030800	Ministry of Public Work & Reconstruction	18,599,087	96,667,389	76,773,479
	0309		Ministry of Transport and Aviation	13,571,524	18,345,520	14,160,614
		030900	Ministry of Transport and Aviation	2,348,690	4,500,786	4,184,886
		030901	Civil Aviation and Metro-Authority	11,222,834	13,844,734	9,975,728
	0310		Ministry of Transport and Ports	2,181,141	3,645,669	3,419,769
		031000	Ministry of Transport and Ports	1,221,259	2,528,569	2,411,569
		031001	Hamar Port	959,883	1,117,100	1,008,200
	0311		Ministry of Industry & Commerce	3,347,753	5,199,413	4,874,301
		031100	Ministry of Industry & Commerce	2,483,636	3,570,173	3,351,561
		031101	Somali Quality Assurance Agency	864,117	1,629,240	1,522,740
	312		Ministry of Environment and Cilmate Change	-	1,943,400	1,295,200
		031200	Ministry of Environment and Cilmate Change	-	1,943,400	1,295,200
04	04		Social Services	198,221,377	261,313,039	243,208,647
	0401		Ministry of Health	11,375,284	83,804,696	67,542,836
		040100	Ministry of Health	11,375,284	83,804,696	67,542,836
	0402		Ministry of Education and Higher Education	20,176,767	45,142,793	39,937,751
		040200	Ministry of Education and Higher Education	11,041,209	35,145,967	31,215,099
		040201	National University	7,622,028	7,217,499	7,115,334
		040202	Somali Academy Arts and Sciences	1,126,058	1,416,071	1,265,062
		040203	Intergovernmental Acedamy of Somali language	387,472	1,363,256	342,256
	0403		Ministry of Labour and Social Affairs	164,871,758	128,409,356	131,956,229
		040300	Ministry of Labour and Social Affairs	164,871,758	128,409,356	131,956,229
	0404		Ministry of Youth and Sport	648,999	1,033,450	999,450
		040400	Ministry of Youth and Sport	648,999	1,033,450	999,450
	0405		Ministry of Women and Human Rights Dev.	1,148,568	2,922,744	2,772,381
		040500	Ministry of Women and Human Rights Dev.	828,429	2,375,384	2,323,384
		040501	Somali Disabled Agency	320,139	547,360	448,996

The MoF appropriation in the table above shows the cost center “Other Activities of the State” to indicate funds the MoF administers on behalf of the FGS. These amounts are not funding that is available for spending on operational expenses of the MoF. Internationally, budget documentation often distinguishes between administered and departmental items. Administered items are expenses that agencies manage on the government's behalf. Examples of administered expenses in Somalia included in the cost center “Other Activities of the State” are:

- Payment of expenditure arrears from earlier years
- Payments transferred to the Central Bank of Somalia for banking operations of the FGS
- Loan interest charges, and
- Transfer of donor project funds to FMS.

5.3 Ninth National Development Plan (NDP-9)

The Somalia NDP-9 2020 to 2024 was issued on 15 October 2019. The plan is based on extensive consultations, to ensure that the plan's priorities reflect the voices of all Somalis. It offers a path to a just, stable, and prosperous Somalia.

NDP-9 serves firstly as a roadmap for the FGS for interventions and investments over the next five years; secondly, as a source of strategy and alignment for FMS plans, and; thirdly, as a guide for development partners in their planning. Identifying and monitoring the allocation of financial resources—from both external and domestic sources—to NDP-9 priorities through the annual budget process plays an essential role in ensuring that Somalia achieves the objectives laid out in NDP-9.

NDP-9 also serves as Somalia's **poverty reduction strategy** in the context of the country's participation in the HIPC Initiative. As such, NDP-9 provides a roadmap for how Somalia will channel the benefits of debt relief towards long-term poverty reduction. The tables presented below enhance the transparency and accountability of FGS spending on poverty reduction and support Somalia's participation in the HIPC process, as well as Somalia's national planning process more generally.

NDP-9 identifies that development and poverty reduction in Somalia are dependent on making progress on four causes of poverty and under-development: political fragility (inclusive politics), conflict (security and rule of law), weak economy (economic growth and employment), and community vulnerability (social development); all requiring a framework of strengthened governance.

In line with past practice, the complete financial resources of the FGS mapped to these pillars over recent years, and planned allocations for 2023 are shown in the table below against the NDP-9 Pillars (it has been standard practice in budget presentations to include mapping of the entire budget to the pillars of the NDP of that time – refer to the Appendix of BPPF in budgets prior to 2021). This table covers the entire FGS budget for the years shown, and is a broader mapping than the specific activities identified and discussed further below:

Table 13: The 2022 to 2023 FGS Budget mapped to the NDP-9 Pillars

Pillars	DESCRIPTION	2022 Actual	2023 Budget	2023 Revised	Change in Amount	Change %
	Total NDP Costs	730.5	977.6	917.3	- 60.4	-6.2%
1	Inclusive Politics	283.2	315.9	303.2	- 12.7	-4.0%
2	Security and the Rule of Law	189.6	226.4	221.8	- 4.6	-2.0%
3	Economic Development	57.0	170.9	145.0	- 25.9	-15.2%
4	Social Development	200.6	264.4	247.2	- 17.2	-6.5%

Data mapped from MDA budgets

5.3.1. Donor on-budget funding to support poverty reduction

In 2020 a significant increase in donor financing in response to the number of natural disasters impacting Somalia in 2020: COVID-19; drought; floods; and locusts supported a substantial increase in poverty reduction spending through the budget. The revenue source for this resource has been the donor community.

The increased poverty reduction spending increased across all NDP-9 Pillars but was largest in pillars 3 and 4. From the table below the planned funding in 2023 from Donor projects for each of the pillars is illustrated:

Pillar 1 – Inclusive politics

	Inclusive Politics	38,458,101
World Bank	Capacity Injection Project	-
World Bank	Public Financial Management	-
World Bank	ICT Support Project	-
World Bank	Somali Core Economic Institutions and Opportunities (SCORE) Project	-
World Bank	Recurrent Costs and Reform Financing Project	11,090,633
World Bank	Somali Integrated Statistics and Economic Capacity Building Project	4,763,309
World Bank	Somalia Enhancing Public Resource Management Project	4,300,000
World Bank	Eastern Africa Regional Digital Integration Project (EA-RDIP) Project	2,274,500
World Bank	Economic and Financial Governance	856,504
World Bank	Somalia Strengthening Institution For Economic Policy Mgmt and Infrastructure Development (SIEPMID)	1,262,600
World Bank	Somali Strengthening Accountability and Debt Management Project (SADMS)	1,331,876
World Bank	Statistics Development Support Project for Somalia	2,782,429
World Bank	Peace Building Fund (SFF)	210,500
World Bank	UNDP	9,585,750

Pillar 3 – Economic development

	Economic Development	152,313,124
World Bank	Somalia Urban Resilience Project	-
World Bank	Somali Urban Investment Planning Project - Additional Financing	-
World Bank	Somalia Urban Resilience Project PH2(PCU)	71,501,521
World Bank	Somali Electricity Access (SEAP) Project	372,711
World Bank	Somali Electricity Sector Recovery Project (SESRP)	9,644,090
World Bank	Somali Capacity Advancement, Livelihoods & Entrepreneurship, Through Digital Uplift (SCALED - UP) Project	21,545,900
World Bank	Biyoole Project (Water for Agro-pastoral Productivity and Resilience)	4,501,400
World Bank	Somali Horn of Africa Infrastructure Integration Project (SHIIP)	1,625,200
World Bank	Ground Water for Resilience Project (GW4R)	4,151,400
World Bank	Somalia Emergency Locust Response Project (SELRP)	5,545,000
World Bank	De-Risking, Inclusion and Value Enhancement of Pastoral Economies in the Horn of Africa Project	6,400,700
World Bank	Barwaaqo Project (Somalia Water for Rural Resilience Project)	19,463,000
AfDB	Road Infrastructure Program	6,397,851
AfDB	Energy Sector Project	1,101,851
AfDB	District Rehabilitation Project (S2S)	-
AfDB	FAO	-
AfDB	UN-Habitat	62,500

Pillar 4 – Social development

	Social Development	264,342,165
AfDB	Somalia Shock-Responsive Social Safety Net Project	122,173,200
AfDB	Somalia Crisis Recovery Project (SCRCP)	61,162,032
AfDB	Damal Health Project	25,259,800
UN	Somali Education Human Capital Project	8,605,840
UN	COVID-19 Emergency Vaccination Project	33,770,000
UN	Empowering Women Through Education and Skills Project	3,334,526
UN	Program To Build Resilience For Food And Nutrition Security In The Horn Of Africa	6,122,267
UN	Households Access to Renewable Energy and Advanced Cooking Technologies Project	467,586
UN	Maximum County Allocation (GPE-MCA) Project	985,175
EU	Social Transfers to Vulnerable Somali People (SAGAL) Project	818,449
EU	Current - GPE System Capacity Grant (SCG)	332,600
EU	Strengthening Education and Training in Somalia Project	1,310,690

5.3.2. Funding from the discretionary FGS budget to support poverty reduction

Table 14: Allocation from FGS funds to NDP-9 priorities in 2023

Pillar	Description	2023 Baseline allocation to NDP-9 (\$)	2023 NDP-9 (total) (\$)	Share of total %
	Total NDP Costs	34,168,348	34,168,348	100.0%
1	Inclusive Politics	27,463,642	27,463,642	80.4%
2	Security and the Rule of Law	1,500,000	1,500,000	4.4%
3	Economic Development	5,204,706	5,204,706	15.2%
4	Social Development	-	-	0.0%

Pillar 1 – Inclusive politics

Pillar	Description	2023 Baseline allocation to NDP-9 (\$)	2023 NDP-9 (total) (\$)	Share of total %
1	Inclusive Politics	27,463,642	27,463,642	80.4%
10201	Office of the Parliament - Peoples' House		1,035,765	3.8%
	<i>Committees</i>	<i>1,035,765</i>		
10500	Ministry of Finance		532,448	1.9%
	<i>Renovation of the Revenue Collection Centers.</i>	<i>532,448</i>		
10502	General Activities for the Government		25,895,429	94.3%
	<i>enhancement the domestic revenue generation to achieve the domestic revenue targets.</i>	<i>3,008,370</i>		
	<i>Strengthen inter-governmental fiscal relations, Transfers for core government function and found education and health service delivery mechanism in eligible FMS and Project Management for FMS</i>	<i>22,887,059</i>		

Pillar 2 – Security and the Rule of law

Pillar	Description	2023 Baseline allocation to NDP-9 (\$)	2023 NDP-9 (total) (\$)	Share of total %
2	Security and the Rule of Law	1,500,000	1,500,000	4.4%
20100	Ministry of Defense		1,500,000	100.0%
	<i>Reconstruct of military uniform factory building.</i>	<i>1,500,000</i>		

Pillar 3 – Economic development

Pillar	Description	2023 Baseline allocation to NDP-9 (\$)	2023 NDP-9 (total) (\$)	Share of total %
3	Economic Development	5,204,706	5,204,706	15.2%
030201	Mineral and Petroleum Authority		200,000	3.8%
	<i>Machines and Softwares for Petroleum to manage oil analysis needs in the negotiation report.</i>	<i>200,000</i>		
30600	Ministry of Information		379,058	7.3%
	<i>Media devices and cameras to broadcast live operations against Al-Shabaab.</i>	<i>379,058</i>		
30900	Ministry of Transportation and Aviation		2,000,000	38.4%
	<i>1.Development of Vehicle Registration, driver License and Database software in the country. 2.Modern machines to print the number plate registering with finger print and face detection. 3.The Car Service Book is being on the way out and replace to a Cards (digital records).</i>	<i>2,000,000</i>		
30901	Civil Aviation and Metro-Authority		1,105,648	21.2%
	<i>1. Building new offices rooms for strengthening the capability of the dialy operation. 2.Establish a national institute of Aviation. 3. Upgrade the Remote Tower System.</i>	<i>1,105,648</i>		
31000	Ministry of Transport and Ports		1,000,000	19.2%
	<i>Completion of the MPMT building and provision d</i>	<i>1,000,000</i>		
31101	Somali Quality Assurance Agency		520,000	10.0%
	<i>laboratory for the quality machines in supporting the highest-quality standards to conduct high-quality testing.</i>	<i>520,000</i>		

5.4 Expenditure Measures

As noted in Chapter 2 above, preparation of the annual budget is directed by a set of principles and fiscal rules. The overall objective for fiscal policy for Somalia is to:

- Deliver long-term fiscal sustainability to deliver the desired level of spending over time without threatening solvency or defaulting on liabilities
- Promote economic and social development: security, growth, employment, poverty reduction, good governance
- Protect macroeconomic stability by ensuring fiscal sustainability; limiting excessive demand pressure on external accounts and prices; and implement counter-cyclical policies to reduce growth volatility; and
- Build resilience to climate shocks: fiscal buffers that can be deployed and programs that can be rapidly scaled up in the event of natural disasters.

The task of allocating spending is often seen as incremental, i.e., adding on spending measures and growing aggregates without looking to see if existing spending has a continued relevance. Expenditure analysis of existing activities from time to time are useful tools to re-examine the spending base to ensure it is delivering value for money spent.

Some spending arrangements need examination either for legal reasons or involving poor methodology in their construction.

Firstly, there are instances where MDAs are deducting related expenses from revenue. This practice is in contravention of Article 4 (2) of the PFM Law and Article 12 of the PFM Regulations. At issue here is the possibility that MDAs are being doubly funded for activities. Also at issue is that lack of transparency over spending does not allow testing whether the amounts deducted are at the appropriate level in the circumstances.

Secondly, the budget arrangements include several earmarking agreements linked to the amount of revenue deposited in the single treasury account which, in the light of revenue increases of recent year brings into question the appropriateness of the arrangement. The recommended treatment is to de-link these spending arrangements from the volume of revenues and tie instead to the spending needs of each institution.

6. Special Presentations

6.1. Budgets of the Federal Member States

The Ministry of Finances of the FGS, FMS and the BRA signed a fiscal transfer policy in November 2019. The objective was to achieve the harmonization of the planning and budgeting cycles of all entities to ensure that FMSs' fiscal transfer aspects are appropriately catered for in the FGS budget, and to provide citizens across Somalia with an aggregate picture in the one document of the level of essential goods and services to be provided by all levels of government. Preparing an aggregated budget for the FGS and FMS is a significant reform to federal fiscal arrangement and for budget transparency, and it is an essential next step in the country's budget reforms.

This presentation of budget is an *ex ante* (before the event) presented on an *aggregation* basis, i.e. transfers from the FGS to FMS are shown both as expenditures in the FGS budget and revenues received in the FMS budgets. In *ex post* (after the event) presentations, the data will be presented on a *consolidation* basis.

The following table indicates the planned 2023 budgets for FMS. Budget for Somaliland and Banaadir were not provided.

Table 15: 2023 Budgets of the FGS, FMS, Somaliland, and Banaadir Local Government

Code	Description (\$ million)	FGS	Puntland	Jubaland	Hirshabelle	South West State	Galmudug	Benadir-Mogadishu City	Total Budgets
1	Revenue	917.3	142.6	48.6	25.0	46.5	33.9	-	1,213.9
11	Tax Revenue	189.9	54.8	25.4	13.5	6.2	12.7	-	302.5
111	Taxes on income, profits, and capital gains	18.0	0.2	1.48		0.08	0.2		20.0
112	Taxes on payroll and workforce		0.7	0.7	1.5	2.15	0.6		5.7
113	Taxes on property	0.6			0.4	0.76			1.8
114	Taxes on goods and services	33.1	1.3	7.3	9.2	2.13	6.4		59.5
115	Taxes on international trade and transactions	123.2	49.6	15.3	1.3	0.4	5.5	-	195.3
1151	Customs and other Import duties	103.2	49.6	15.3	1.3	0.4	5.5		175.3
1156	Taxes on Khat	20.0							20.0
116	Other taxes	14.9	3.0	0.6	1.0	0.70			20.2
12	Social contributions	-	8.8	-	-	-	-	-	8.8
121	Social security contributions		4.0						4.0
122	Other social contributions		4.7						4.7
13	Grants	634.0	45.4	15.7	8.7	39.0	19.3	-	762.0
131	From foreign governments	30.0	22.3	2.4		6.2	1.2		62.1
132	From international organizations	604.0	23.13	13.3	8.69	32.8	18.1		699.9
14	Other revenue	93.4	33.6	7.5	2.8	1.2	1.9	-	140.6
141	Property income		11.7	0.1					11.7
142	Sales of goods and services	93.4	19.2	7.5	2.8	1.2	1.9		126.0
143	Fines, penalties, and forfeits		0.3	0.01	0.0		0.1		0.4
144	Other revenue nec		2.5			0.0			2.5
2	Expense	917.3	142.6	48.6	25.0	46.5	33.9	-	1,213.9
	Operating expenditure	456.9	142.6	48.6	25.0	46.5	33.9	-	753.5
21	Compensation of employees	288.1	66.1	20.2	12.5	19.4	14.2		420.6
22	Use of goods and services	97.2	41.6	18.2	8.2	19.9	12.9		197.9
31	Consumption of fixed capital	12.4	29.1	6.4	0.3	7.3	6.1		61.6
24	Interest	5.8							5.8
25	Subsidies	-							-
26	Grants	52.2	1.3	0.1	4.0		0.7		58.4
27	Social benefits	-	2.3	0.1		0.0			2.4
28	Other expenses	1.2	2.1	3.5	0.0	0.0			6.8
	Donor Project expenditure (on-budget)	460.4	-	-	-	-	-	-	460.4
21	Compensation of employees	6.0							6.0
22	Use of goods and services	108.8							108.8
31	Consumption of fixed capital	41.1							41.1
24	Interest	-							-
25	Subsidies	9.0							9.0
26	Grants	105.6							105.6
27	Social benefits	190.0							190.0
28	Other expenses	-	-						-
3	Balance	-	-	-	-	-	-	-	-