

FEDERAL GOVERNMENT OF SOMALIA



**2022 BUDGET  
POLICY FRAMEWORK PAPER**

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### *Abbreviations*

BCC	Budget Call Circular
BPF	Budget Policy Framework Paper
BRA	Benaadir Regional Administration
CBS	Central Bank of Somalia
COFOG	Classification of the Functions of Government
COVID-19	Coronavirus pandemic
CP	Completion Point
DMU	Debt Management System
DP	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 Countries
IMF	International Monetary Fund
LMTO	Large and Medium Taxpayer Office
MDAs	Ministries, Departments, and Agencies
MoF	Ministry of Finance
MTFF	Medium-term fiscal framework
NDP-9	Ninth National Development Plan
NGO	Non-Governmental Organization
PBB	Program Based Budgeting
PFM	Public Financial Management
SFMIS	Somali Financial Management Information System
SNA	Somali National Army

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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 (BFPF) indicates the link between Government's overall policies and the annual budget. The purpose of this document is to set out how the Government intends to achieve its policy objectives over short to medium terms through the annual budget. In doing so the macroeconomic framework presented in this BFPF forms the basis of resource projections and indicative expenditure allocations. It also forms the basis of the detailed forecasts of revenue and expected expenditure for fiscal year 2022.

Preparation of the 2022 Budget was impacted by delays in completing the federal election process which necessitated preparation of a Supply Appropriation in accordance with Article 22 of the PFM Law. Article 22 authorises the Minister of Finance if both Houses of the Federal Parliament fails to approve the annual budget before the start of the financial year to present a temporary vote on account budget, also known as a supply budget. The Minister of Finance duly presented a Supply Budget for 2022 in the amount of \$206.5 million which authorises Ministries, Departments and Agencies (MDAs) to spend for the period to March 31, 2022. The supply budget is consistent with Parliament's last approved budget, at the level of  $\frac{1}{4}$  of the provisions made in the 2021 Budget. Expenditures incurred during the period of the vote on account shall become part of the approved budget for 2022. Further delays in finalising the elections after end-March 2022 required a Presidential Decree approving a further 3-months interim supply budget. The Presidential supply budget is also incorporated into the 2022 Budget.

The 2022 Budget is consistent with the macroeconomic and structural policies agreed with the International Monetary Fund (IMF). Also, the COVID-19 pandemic currently ravaging Somalia, coupled with the impact of floods in 2021 and the locust infestation, may adversely impact on Somalia's ability to fully meet the FGS's National Development Plan 9 (NDP-9) objectives and meet the Extended Credit Facility (ECF) benchmarks identified in the IMF's Country Report No. 20/85.

Based on the principles and rules guidance implicit in the ECF agreement with the IMF, and in particular, that the budget is zero cash balanced; does not lead to creation of new expenditure arrears; is based on realistic, conservative revenue forecasts derived from the proper application of the tax code; and prioritizes implementation of the NDP-9, a medium-term fiscal framework (MTFF) was prepared with a view to identifying the fiscal space available for new expenditure policies in 2022. The MTFF was updated to cover 2022-2025 and this has informed the 2022 budget preparation and was presented to the Cabinet in companion with a fiscal strategy for 2022. The resulting Cabinet guidance and inputs from was considered in preparing the 2022 Budget.

For 2022 the 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 2020 and 2021:

Description	2020 Actual	2021 Budget	2022 Budget	change	Change %
<b>Revenue and receipts</b>	<b>496.6</b>	<b>376.5</b>	<b>941.7</b>	<b>565.2</b>	<b>150.1%</b>
<b>Expenditure and payments</b>	<b>473.0</b>	<b>459.8</b>	<b>918.7</b>	<b>458.9</b>	<b>99.8%</b>
<b>BALANCE</b>	<b>23.6</b>	<b>-83.3</b>	<b>23.1</b>	<b>106.3</b>	<b>-127.7%</b>
Repayment of external debt	12.3	14.0	15.0		
<b>Financing requirement</b>	<b>11.3</b>	<b>-97.3</b>	<b>8.1</b>	<b>105.3</b>	<b>-108.3%</b>

The impact of the election delays is clearly visible in the accounts for 2021, with the suspension of most budget support until the election process was complete. The increase in 2022 resource levels is detailed later in this report and can be summarised as a return to budget support levels by the international community after the completion of the elections; a large spend in Donor projects; and the bringing on-budget of project spendings made by United Nations (UN) agencies.

The opening cash balance at 1 January 2022 was \$42.7 million, which will be utilized in part to cover the excess of forecast spending over revenue of \$11.5 million and the \$15 million in loan repayments due in 2022.

The 2022 Budget Policy Framework Paper is arranged in the following chapters:

- Chapter 2 - The 2022 Budget Strategy which outlines the NDP-9 priorities to be addressed in the budget; and the principles, fiscal rules, and targets applied in preparing the budget. The chapter also presents the recently updated MTFF (2022-2025), the status of expenditure arrears, and risks and assumptions.
- Chapter 3 – Economic Conditions, which provides the recent economic context for the budget.
- Chapter 4 – 2022 Revenues, with a discussion on the policy framework and proposed new revenue measures, forecasts for 2022 in detail.
- Chapter 5 – 2022 Expenditures presents the 2022 estimates in detail; outlines the government’s response to continue implementing the NDP-9 poverty reduction strategy.
- Chapter 6 – an essay on the financing of the budget in 2022; and
- Chapter 7 – Special presentations, which provides a presentation of the budget consistent with the international (UN) Classifications of the Functions of Government (COFOG); and details on the budgets of sub-national governments.

## 2. Budget Strategy for 2022

A budget strategy paper was submitted to the Council of Ministers on August 31, 2021 for the financial year (FY) 2022 which outlined the economic and political climate and recommended resource ceiling within which the FY2022 Budget was to be prepared. The paper adopted a medium-term strategic view, providing an assessment of the macroeconomic outlook for Somalia over the medium-term (i.e., from 2022 to 2025). It provided a summary analysis of the FGS fiscal performance over the FY2016 to FY2021 period, as well as a forward-looking discussion of fiscal risks and assumptions drawing on this performance assessment. With an understanding of the macroeconomic outlook and historical fiscal performance, the paper then presented a fiscal forecast for the medium-term, outlining FGS budget principles, fiscal rules, and outlining the overall indicative resource ceiling for this period. Finally, the paper concluded by applying the indicative resource ceiling to the FGS's MDAs to derive detailed expenditure ceilings for each entity over the medium-term, as well as indicate a timetable for FY2022 Budget Preparation. Key elements from the 2022 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>).

### Macroeconomic Policy Framework

As articulated in the Government's National Development Plan (NDP9), the FGS's macroeconomic policy objectives are to:

- Promote economic growth in an environment of low inflation.
- Achieve a sustainable fiscal position through the preparation of balanced budgets.
- Minimize the trade deficit to ensure a favourable current account balance; and
- Accumulate foreign exchange reserves.

On the monetary policy side, the Government's focus continues to seek to build the Government's capability to enact monetary policy by countering the pervasive dollarization of the economy. Reforms have already been implemented to introduce a new currency with a view towards ending counterfeiting of the Somali Shilling (SOS). To this end, all legal and operational measures necessary for the introduction of new tender have been concluded, and a first round of small denomination bills have been introduced with a second round of larger denominations planned for issuance over the medium-term. Through an increasingly capable Central Bank of Somalia (CBS), the Government seeks to recapitalize the CBS so that the entity can fulfill its regulatory function. There has already been some progress made on this front, with the CBS initially focusing on enforcing international obligations on anti-money laundering and combating the financing of terrorism (AML/CFT), a critical step towards ensuring Somalia is able to operate in global financial markets and properly regulate capital flows into the country to avoid funds falling into illicit hands.

On the fiscal policy side, the FGS has embarked on an ambitious reform program to enhance domestic revenue mobilization, improve the quality of expenditure controls, and increase transparency and accountability in the management of public resources. Implementation of these reforms has contributed to increased domestic revenue collections, more realistic national budgets, and improved execution of the budget, helping to improve predictability and credibility of the budgeting process. As the 37<sup>th</sup> country to achieve debt relief under the HIPC initiative, Somalia's current priority is to achieve all reforms required by the IMF to reach the completion point under the Extended Credit Facility and Extended Fund Facility (ECF/EFF) benchmarks.

Significant progress has also been achieved with regards to fiscal federalism and intergovernmental transfers. The Intergovernmental Fiscal Forum (IGFF) has been revitalized and is leading to fruitful discussions between the FGS and FMSs on fiscal flows from the FGS to the nascent and established FMSs. A newly established Financial Reporting Unit within the Federal Ministry of Finance has led efforts to work alongside Federal Member States to harmonize the Chart of Accounts between levels of government, and, for the first time, consolidated public reports for budgetary central government and state governments fiscal

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operations are publicly disclosed on the Ministry's website. Issues, however, remain, particularly with regards to the harmonization of taxes and harmonization of fiscal, budget, and accounting frameworks, and with regards to revenue sharing. Further clarifying functional assignments of the FGS and FMSs, mechanisms for revenue sharing, management of natural resources, and borrowing powers are pending resolution but are being addressed through the on-going review of the Constitution under the Constitution Review process.

Overall, the NDP9 macroeconomic strategy for the Government is three-fold:

- Creating an enabling environment for the private sector, to promote increased growth, increased employment, and increased competition.
- Building Government's capacity to increasingly play its role, in terms of regulation, enforcement, a fair playing field, regional trade, resilient and transparent operations, within a sound macro-economic framework; and
- Ensuring through collaboration between the Government and its development partners, that the excluded and vulnerable segments of society are empowered participants.

### Macroeconomic Risks and Assumptions

The SARS-COV-2 and COVID-19 pandemic is having a serious impact on Somalia and the world at large, most notably during the significantly larger second wave of the pandemic in Somalia in March 2021. The outbreak of the novel coronavirus, coupled with slow vaccination roll-out, frames most macroeconomic risks and assumptions used to develop the macroeconomic and fiscal forecasts. In particular, the following risks are of serious concern:

- **COVID-19:** The outbreak of the virus is likely to lead to lower household consumption, declined domestic economic activity in both formal and informal sectors and an increased reliance on imports.
- **Development Partner's Economic Growth:** Somalia's remains heavily reliant on official development assistance flows from its development partners. With the US and Eurozone focused on ensuring macroeconomic stability in their own economies, it is highly likely that aid flows may be significantly negatively impacted.
- **Inflation:** Late mid-year rains and a forecast dry season through October and December are likely to negatively impact on domestic food production, exacerbating challenges stemming from an already under-performing sector. That said, significant efforts to re-introduce the Somali Shilling and curtail hard-currency flight are expected to reduce inflationary pressures in the medium-term.
- **Exchange Rate:** The US Dollar continues to be the safe-haven currency for investors during periods of recession. Strengthening of the US dollar has an adverse effect on the strength of the Somali Shilling, and as such it is likely that the currency will continue to depreciate over the medium term.
- **Net Exports:** The cancellation of the hajj in 2021 significantly impacted on Somalia's exports. With demand largely dependent on the Middle East, and the Hajj in particular, it is highly likely that demand will remain suppressed over the medium term. Furthermore, as domestic production declines based on erratic weather patterns, imports are likely to increase, contributing negatively to overall aggregate demand.
- **Public Debt:** Clearance of arrears to the World Bank and African Development Bank and the announcement of debt relief by the Paris Club in the first quarter of 2020 have reduced the explicit contingent liability of the Government in the short-term. However, as part of the debt relief process, Somalia is now required to demonstrate timely payment of interest and token principal payments against outstanding obligations, further curtailing already limited fiscal space.

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- **Federal Member States:** The emerging Federal Member States (JSS, SWS, GSS, and HSS) have made small progress towards mobilizing domestic revenue to financing their recurrent costs since their inception. They remain, nevertheless, heavily reliant on grants from international organizations and the Federal Government to continue their operations. As demonstrated in 2020, COVID-19 threatens to seriously reverse gains made in developing their revenue mobilization capability, and as such it is highly likely that these entities will require further support from the Federal Government to maintain basic administrative capability. Any accumulation of arrears across FMS, particularly to private sector vendors, is likely to lead to further economic downturns as vendors are unable to meet their own downstream commitments to employees and sub-contractors if FMS invoices are not honoured in a timely manner.
  - **The election:** The electoral process in 2021 was not concluded in the timetable anticipated at the time of preparing the 2022 Budget Strategy. Accordingly, and reflecting the absence of the new government as 2021 ended, and the need to continue government operations from 1 January 2022, an interim 3-month Supply budget was prepared. The Supply budget was prepared in accordance with Article 22 of the Public Finance Management Law No.17 of 25 December 2019. Expenditures incurred during the period of the Supply budget are part of this draft budget for fiscal year 2022. A further supply budget for the period to June 30, 2022, was approved by Presidential Decree. The Presidential supply budget is also incorporated into the 2022 Budget.

Against this backdrop, the budget strategy anticipated three macroeconomic scenarios based on the quality and efficacy of health and socio- economic policy responses to the coronavirus pandemic. Under the baseline scenario (Scenario 1), the COVID-19 pandemic subsides globally and in Somalia within the next year, although economic growth is dampened by continued erratic weather patterns. Under the upside scenario (Scenario 2), improved weather conditions and improved political stability support the country to achieve higher economic growth. Under the downside scenario (Scenario 3), the COVID-19 pandemic continues through the medium-term, and its effects on the economy are exacerbated by erratic weather, a renewed locust threat, and deterioration of political stability and security conditions, and the emergence of more virulent mutations of COVID-19.

Based on the latest research by the University of Minnesota’s Center for Infectious Disease Research and Policy, the pandemic is unlikely to subside until 70 percent of the population has developed immunity which they forecast to take anywhere between 18 to 24 months in developed countries. Based on Somalia’s current vaccination roll-out rates, it is highly likely that the country will not reach this threshold level until the end of 2023.

## Principles

The annual 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. The principles 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.



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The approach to the way budget resources are identified and allocated has as the first step the identification of what resources are available based on current (existing) policies, using a conservative approach to estimate realistic revenues. From that the fiscal space is identified and MDAs were provided guiding expenditure ceilings against which they were required to develop their detailed estimates. For 2022, in recognition of the overlap of budget preparation with the election, forecasts were based on existing policies of the government, with 2021 outturns adjusted for the anticipated return of donor budget support in 2022.

### 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 are:

- Debt limit – the budget makes no addition to government debt aside from arrangement 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.

The critical medium-term target for FGS is for domestic revenues to rise to a level sufficient to cover the operating running costs of MDAs.

### Statement on Revenue and Expenditure Measures in 2022

The forecast assumes that the following revenue measures adopted in 2021 will have a positive effect on revenue mobilization in FY2022:

- An increase in the tax rate on khat from \$2.50 to \$4.00 per bundle.
- A surcharge on petroleum products.
- 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 FY2022, as part of the IMF ECF reform program, the Government plans to:

- 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 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 a 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.

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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 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 remains fixed at the levels in the FY2021 Appropriation Act. 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; these figures have been included to derive the fiscal forecast.

## Government Priorities

The Annual Budget is the key instrument through which the FGS implements its policies. For FY2022, the priority government intervention areas are:

- Enabling adequate security and continuing to foster peace.
- Improving the fiscal framework and budget sustainability over the medium-term.
- Identifying fiscal space to reserve funds to deliver the FGS-investment component of the NDP9.
- Increasing the level of transfers in the form of grants to the Federal Member States (FMS).
- Repayment of all expenditure arrears.
- Replenishment of the fiscal buffer through allocation of windfall revenues remaining after the settlement of expenditure arrears.
- Budget for payments to service the rescheduled debt-load under the ECF.

The priorities above are meant to enable fiscal space for the government to undertake its development policy priorities as identified in the NDP9. Priority interventions by sector are identified in the NDP9 and were agreed under the ECF/EFF arrangement with the IMF, and implementation of these priorities is non-negotiable and must be completed to reach the HIPC Completion Point. As such, MDAs were required to take these priority areas into account when framing their detailed budgets for FY2022.

## Medium Term Fiscal Framework

Based on the macroeconomic scenario discussed above, and an application of the revenue enhancement and expenditure savings measures identified in the preceding sub-section, the budget strategy for 2022 derived the following fiscal forecast for the period FY2021 – 2025.

In US\$ Million	2020 Actual	2021 Actual	2022 Budget	2023 Forecast	2024 Forecast	2025 Forecast
<b>Revenue and receipts</b>	<b>496.6</b>	<b>376.5</b>	<b>941.7</b>	<b>493.9</b>	<b>503.8</b>	<b>513.1</b>
<b>Domestic Revenue</b>	<b>211.0</b>	<b>229.6</b>	<b>247.0</b>	<b>276.0</b>	<b>287.4</b>	<b>301.2</b>
<b>Taxes</b>	<b>139.3</b>	<b>162.8</b>	<b>173.7</b>	<b>189.7</b>	<b>198.1</b>	<b>208.7</b>
Tax on income, profit and capital gain	15.4	15.2	15.1	17.7	18.5	20.2
Taxes on property	0.6	0.6	0.7			
Taxes on goods and services	21.3	23.4	30.8	33.6	36.0	39.1
Taxes on international trade and transa	91.1	109.0	111.3	122.1	126.3	130.6
Other taxes	11.0	14.6	15.9	16.3	17.5	18.8
<b>Other revenue</b>	<b>71.7</b>	<b>66.8</b>	<b>73.3</b>	<b>86.2</b>	<b>89.3</b>	<b>92.5</b>
<b>Donor revenue</b>	<b>285.6</b>	<b>147.0</b>	<b>694.8</b>	<b>217.9</b>	<b>216.4</b>	<b>211.9</b>
Budget support	153.5	38.4	209.3	119.9	119.9	119.9
Project support	132.1	108.6	485.5	98.0	96.5	92.0
<b>2. Expenditure</b>	<b>473.0</b>	<b>459.8</b>	<b>918.7</b>	<b>491.4</b>	<b>501.3</b>	<b>510.5</b>
<b>Operating expenditure</b>	<b>354.3</b>	<b>330.8</b>	<b>433.2</b>	<b>393.4</b>	<b>404.8</b>	<b>418.4</b>
Compensation of employees	215.8	240.9	258.1	258.4	259.5	262.0
Use of goods and services	62.2	66.9	82.3	78.4	80.7	83.4
Consumption of fixed capital	7.9	2.8	12.1	11.1	17.9	24.8
Interest and other charges	2.1	0.6	2.5	2.5	2.6	2.7
Subsidies	-	-	-0	-	-	-
Grants	66.2	19.7	75.7	42.9	44.1	45.6
Social benefits	-	-	-0			
Repayment of arrears	-	-	-0	3.0	3.0	3.0
Contingency	-	-	2.5	2.5	2.6	2.7
<b>Donor-funded Special projects</b>	<b>118.7</b>	<b>129.0</b>	<b>485.5</b>	<b>98.0</b>	<b>96.5</b>	<b>92.0</b>
<b>3. Balance</b>	<b>23.6</b>	<b>-83.3</b>	<b>23.1</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>
Repayment of external debt	12.3	14.0	15.0	15.5	29.3	63.6
<b>4. Change in cash balance</b>	<b>11.3</b>	<b>-97.3</b>	<b>8.1</b>	<b>18.0</b>	<b>31.8</b>	<b>66.3</b>
Fiscal buffer and cash balances at 1 January		66.1	42.7			

The change in cash balances forecast in 2022 were anticipated to be covered by cash balances in the Government Main Account and the Fiscal Buffer as of 31 December 2021. This assumption was proved to be correct, as cash balances on 31 December 2021 were \$42.7 million.

## Fiscal Risks and Assumptions

While the FGS has made tremendous progress with regards to improving domestic revenue mobilization, securing debt relief, and increasing sectoral allocations to social spending sectors, it nevertheless faces several fiscal risks that threaten its public financial management reforms undertaken to date. These risks include:

- **Reliance on few revenue streams:** Federal Government own-source revenues are highly dependent on taxes on international trade and transactions, which are known to have highly distortionary effects on the domestic economy and be highly sensitive to global economic trends.
- **Lack of good quality information:** While considerable progress has been made to improve the availability of key macroeconomic information at the Central Bank and at the Ministry of Planning,

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Investment and Economic Development, access to this data in a timely manner remains a challenge and complicates the development of accurate medium-term fiscal forecasts. Lack of quality, timely information further curtails the Government's ability to properly assess and quantify its exposure to fiscal risks should they materialize.

➤ **Excessive earmarking of revenue to security sector expenditure:** Salary and non-salary obligations to the Somali National Army and Police Force continue to account for a significant share of government expenditure. Given the country's precarious security situation, these expenditures are likely to account for a significant share of total government spending over the medium-term as Somalia continues to make cautious progress towards improving peace and stability outcomes.

➤ **Budget Outturns:** Preliminary data for FY2021 and the FY2020 financial statement suggest that the quality of the aggregate budget outturn is deteriorating. This is largely driven by less than anticipated receipts of donor grants against identified commitments. This is not necessarily due to donor delays in releasing funds, however, as the FGS MDAs receiving grants often must complete reform activities and provide evidence of this prior to receipt of funds.

➤ **Cash Management:** Clustering of grants receipts in the last quarter of the year, and in December in particular, places a cash rationing constraint on government operations during the first three quarters of the year.

➤ **Fiscal Flexibility:** Limited domestic revenue mobilization coupled with the balanced budget constraint mean that the Government has little to no fiscal space at its discretion to respond to economic shocks as they occur.

### 3. Economic Conditions

Somalia's economy is estimated to have contracted by 0.7% in 2020 on account of a triple shock brought about by the COVID-19 pandemic, flooding and desert locust infestation. Higher-than-anticipated aid flows, fiscal policy measures put in place by the Federal Government of Somalia to aid businesses, social protection measures to cushion vulnerable households, and higher-than-expected remittance inflows mitigated the adverse effects of the triple shock. The economy is projected to rebound in 2021 with real GDP projected at 1.6%, although the rebound could be subdued by the impacts of a possible third COVID-19 wave, prolonged drought conditions that affect cereal and livestock production, and lower government expenditure because of revenue shortfalls and pause in budget support from development partners. Inflation is expected to remain at 4.3 percent due to domestic and global factors, but with considerable variability in food prices across regions and states. Macroeconomic projections are shown in the table below.

**Table #: Selected Economic Indicators for Somalia, 2019-2024**

Item	2019e	2020e	2021f	2022f	2023f	2024f
Nominal GDP (millions of US\$)	5,061	4,990	5,424	5,888	6,611	7,385
Real annual GDP Growth (%)	2.9	-0.7	1.6	3.9	3.6	3.9
Real GDP per capita (US\$)	311	300	296	299	301	304
Inflation (CPI)	4.5	4.3	4.3	4.0	3.3	3.2
Revenue and Grants (% of GDP)	6.7	10.0	5.7	8.7	9.6	9.1
o/w Domestic revenue	3.1	2.8	2.8	2.9	3.5	3.8
Expenditure as % of GDP	6.2	9.5	7.4	8.9	9.5	11.4
o/w Compensation of employees	3.2	4.5	4.6	4.2	4.5	4.4
Fiscal deficit as % GDP	0.5	0.5	-1.7	-0.2	0.1	-2.3
Current account balance (% of GDP)	-13.1	-17.6	-17.6	-15.9	-11.8	-7.8
Trade balance (% of GDP)	-81.2	-91.1	-86.3	-85.7	-80.8	-75.1
Exports of goods and services (% of GDP)	22.1	16.5	21.7	21.6	21.1	20.8
Imports of goods and services (% of GDP)	103.4	107.6	108.1	107.3	101.9	95.9
Remittances, private transfers (% of GDP)	31.2	32.4	32.4	32.1	31.8	31.5
Official grants (% of GDP)	37.6	41.8	37.1	38.4	37.8	36.4
FDI (% of GDP)	8.8	10.7	10.2	10.6	11.1	11.7
External debt (as % of GDP)	104.9	61.4	59.5	55.4	43.5	21.5
Exchange rate (shilling/dollar)	26,015	26,005	***	***	***	***

Source: MOF

Stronger growth is expected for 2022, though with significant downside risks. Growth is expected to pick up to 3.9 percent in 2022, conditional in a successful conclusion of elections, waning of Covid-19 pandemic, a recovery of exports, and greater implementation of development projects. Beyond 2022, growth would gradually rise to just above 4 percent, bolstered by structural reforms that promote greater physical and human capital investment and private sector-led growth. Near-term risks, however, are tilted to the downside, including the duration of the COVID-19 pandemic, political uncertainties and related budget implications, weather-related shocks, and resurgence of the desert locust infestation. Security risks could increase further given political uncertainties.

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## **Fiscal deficit**

Revenue and grants as percentage of GDP is projected to grow from 5.7% in 2021 to 8.7% in 2022 and improve further to 9.6% in 2023 before declining to 9.1% in 2024 just after the HIPC completion point which is anticipated in 2023. The increase in revenue will largely be on account of implementation of the revenue measures agreed under the ECF program. The decline in revenue and grants as percent of GDP in 2024 will be on account of an anticipated fall in grants, but domestic revenue is projected to grow as shown in the table above. Government expenditure as percentage of GDP is projected to increase from 7.4% in 2021 to 8.9% in 2022 and is anticipated to reach the pre-covid levels (9.5% of GDP) in 2023.

For the past five fiscal years Government has tried to balance its budget however, due to the fiscal constraints brought about by the COVID-19 pandemic, Government has had to operate at deficit of 1.7% of GDP in 2021 but the deficit will decline to 0.2% in 2022. In 2024, as a consequence of the anticipated decline in grants just after reaching the HIPC completion point in 2023, Government is projected to operate at a 2.4% deficit. Under the ECF programme, Somalia is not allowed to add to its public debt. Towards this end, the financing of the above observed deficit will be tackled as follows:

- a) Government shall take appropriate measures to finance the deficit in a way that does not increase the existing public debt.
- b) To the extent possible, Government shall undertake short-term borrowing from the Central Bank of Somalia (CBS) to meet Government's short-term cash flow needs and must ensure that the funds borrowed from the CBS are paid back within a year as stipulated in the CBS Act.
- c) Where the revenues are estimated not to be sufficient to pay back the short-term advance received from the Central Bank of Somalia, Government shall undertake either of the following to be able to pay back the advance within the stipulated statutory time: (i) raise new taxes or rate of existing taxes where feasible, (ii) undertake austerity steps to curtail expenditure or identify savings from within the existing expenditures, or (iii) seek external financial assistance in form of grants, or (iv) undertake a combination of some or all the three measures.

## **Balance of payments**

Somalia's current account deficit as a percentage of GDP widened to 17.1% in 2021 from 13.1% in 2019, largely due to the COVID-19 pandemic which led to closure of business activities to contain the spread of the corona virus. This also included the suspension of livestock exportation for hajj activities, from which Somalia often earns substantial export revenues that help to narrow the country's current account deficit. The trade balance is also projected to improve in 2022, from a trade balance as percentage of GDP of 91.1% in 2020 to 86.3% and 85.7% in 2021 and 2022 respectively and is projected to further narrow to 75.1% in 2024, which will be largely driven by an anticipated higher growth in exports than the increase in imports over the medium term. Remittances, private transfers, official grants, and Foreign Direct Investments (FDI) are also projected to gradually improve (as percentage of GDP) over the medium term.

## **Financial Sector Developments**

In 2020-21, Government undertook several financial sector reforms geared towards addressing the changing financial sector landscape to support Somalia's reconstruction of the state and economy amidst challenges caused by Covid 19. The financial sector remained stable and there has been progress on licensing mobile money operators, although challenges remain. The two largest mobile money operators were granted licenses in 2021 and deposited the equivalent of the mobile money issued in the banking sector as required by the Mobile Money Regulation. As a result, bank assets increased significantly in the first half of 2021. The banking sector is now highly liquid and profitable as a whole. However, some smaller banks have faced losses in the past 2 years, partly due to the pandemic. Bank intermediation remains limited, partly due to the small pool of creditworthy borrowers. The fragile nature of the existing correspondent banking relations also constrains the capacity of the banks to provide financial services.

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The Central Bank of Somalia (CBS) has continued to make strides in its transition to a more policy-oriented central bank. As at end of September 2021, several working level committees have been established to provide support to CBS management in identifying and implementing short-term and medium-term priorities in areas such as financial market development, exchange policy, and monetary operations. The CBS has also continued to strengthen its financial supervision capacity. This has included initiatives to commence the revision of the Financial Institution Law to reflect market developments and the evolution of the central bank mandate. The National Payment System (NPS) has also been launched, enabling a safer and more efficient payment infrastructure. The NPS includes the deployment of an automated clearinghouse, real time gross settlement, and instant funds transfer clearing and settlement capabilities. The NPS is expected to overtime facilitate a higher turnover in the system, which is currently constrained by limited interbank transactions given the high liquidity and limited liquidity management channels. The CBS also played an important role of being a temporary lender<sup>1</sup> to Government, which helped Government to finance a temporary revenue deficit in 2021.

Progress has been made in implementing the strategies for AML/CFT and anti-corruption. This entailed accession to the UN Convention Against Corruption in August 2021, ratification of regional anti-corruption conventions, and operationalizing the National Anti-Corruption Commission, the Integrity Coordination Unit of the Ministry of Justice, and the Judicial Training Institute. The National AML/CFT Taskforce has been operational since February 2021 to support the National Anti-Money Laundering Committee (NAMLC). Resources at the Financial Reporting Center have been strengthened and the GoAML system was successfully deployed in June 2021.

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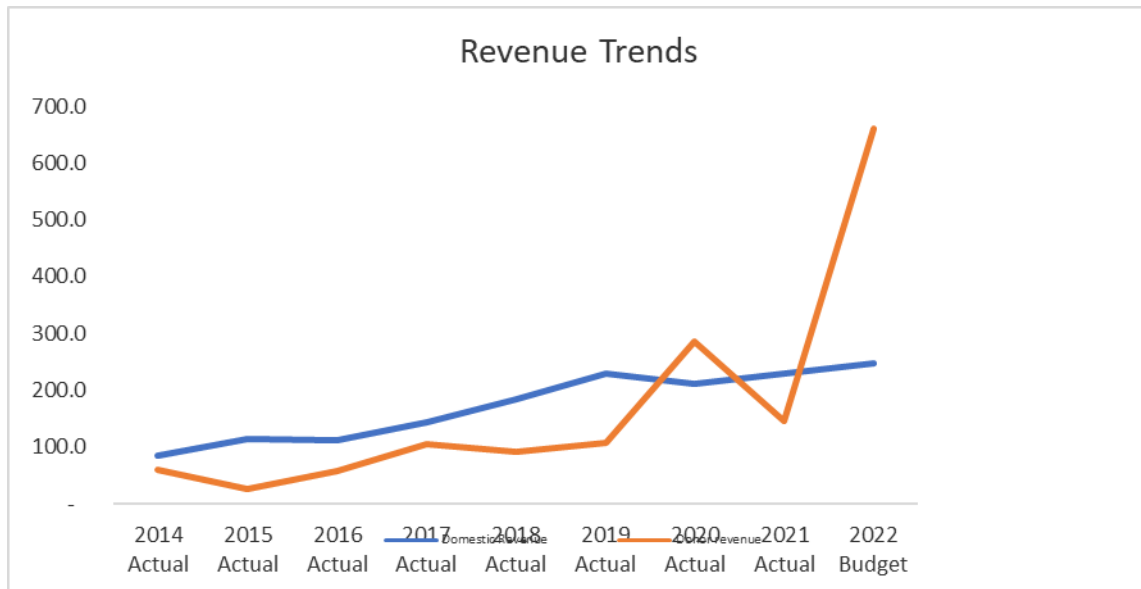
<sup>1</sup> The CBS Act allows temporary lending to the Federal Government of Somalia up to 15 percent of the most recent audited domestic revenue.



## 4. Revenue

### Recent Trends in Revenue

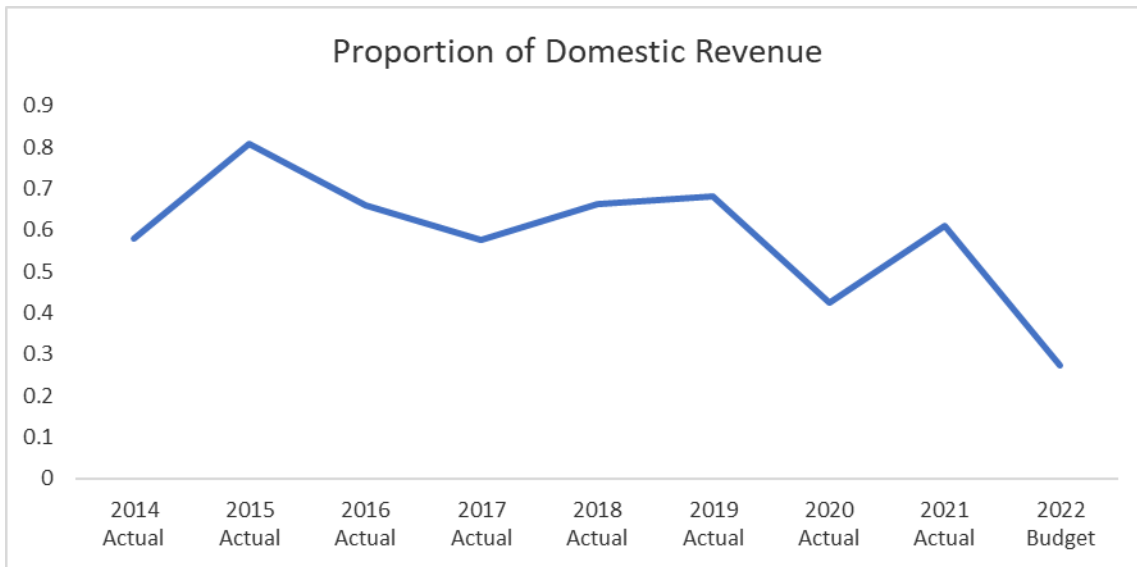
Recent trends in revenue, compositionally and in total, have been impacted by recent natural disasters – the locust plague; floods and drought; and COVID – as well as recently, the pre-election period, which saw a suspension of significant donor budget support grants. Additionally, a few taxpayers see the election as an opportunity to not pay the legislated taxes that are due. Recent trends in revenue are illustrated in the Chart:



The total for revenue and receipts have grown by about 3 and a half times between 2014 and 2020, growing from a total of \$145.2 million to \$496.8 million during the period. In 2021, domestic revenue was higher in nominal terms over 2020 however donor support was well below budget forecasts.

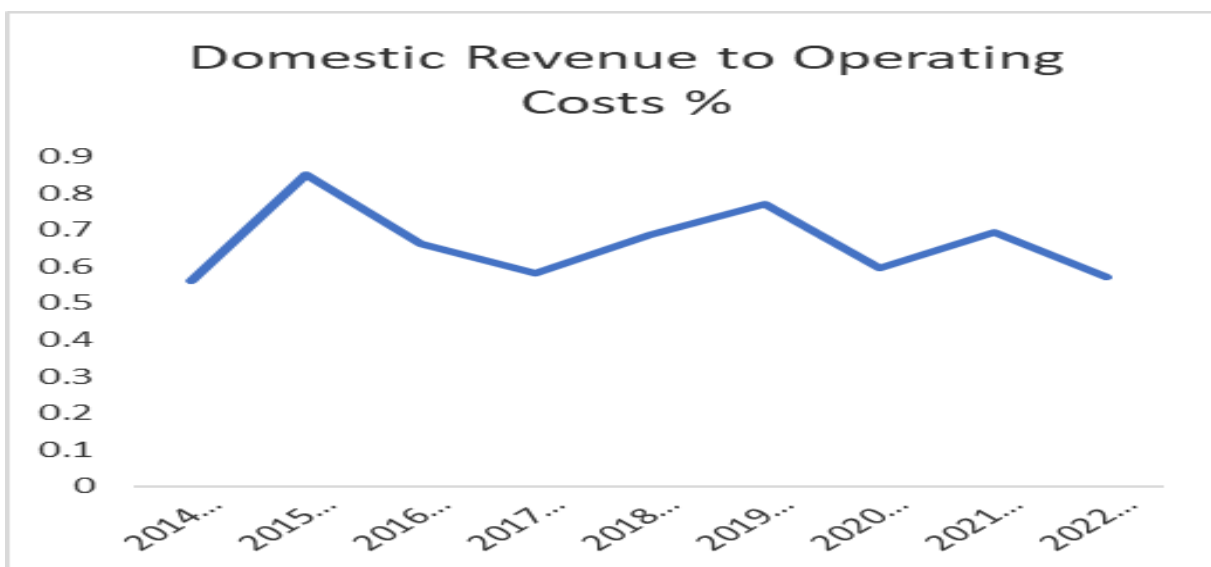
In 2022, following the completion of the election process, donor support is forecast to return to normal arrangements. The large increase in donor support reflects: resumed budget support funding from the World Bank and European Union following the pre-election suspension in 2021; increased resilience and social safety programs; new health and COVID donor support programs; and the bringing on budget of the support programs of the United Nations agencies.

The proportion of domestic revenue in the total of revenue is shown in the following chart:



Whilst the level of domestic revenue is expected to return to growth in 2021 after falling in nominal terms in 2020 over 2019, the share of domestic revenue to the total revenue has decreased significantly since 2019 where it was about 69 percent. This recent trend reflects primarily the significant increase in income support payments to the population during the disasters of flood, drought, locusts and COVID as well as increased donor project activity. In 2022 the United Nations is bringing all its Somalia projects on budget.

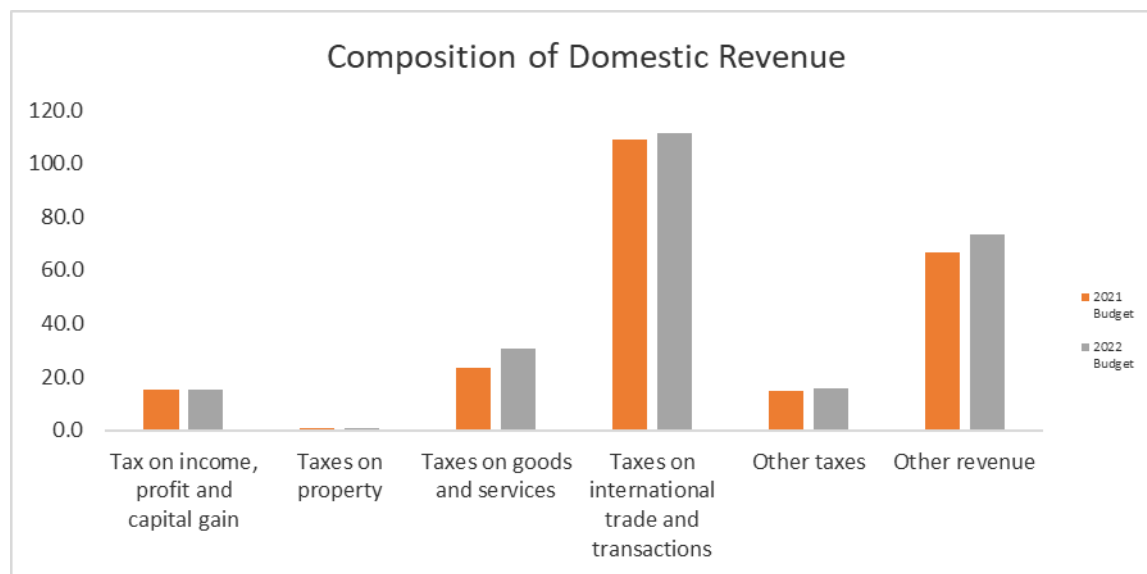
The proportion of domestic revenue that is able to cover the operating costs (excluding non-capital and donor projects) of the government is illustrated in the following chart:



The level of coverage has fluctuated in recent years, with 2019 showing 77 percent of operating expenses covered by domestic revenue collections. In 2020, coverage was just under 60 percent, broadly in line with prior year trends to 2018. In 2021 coverage increased to almost 70 percent, reflecting the strict limits needed to be placed on non-discretionary domestic spending in response to

the suspension of most donor budget support payments as the election delays impacted relations. For 2022, the ratio is anticipated to be 57 percent. The long-run strategy is to close the gap so domestic revenues are able to cover 100 percent of the government’s operating expenses.

Trade taxes continue to dominate domestic revenues – taxes from imported goods, including Khat. The following chart illustrates the composition of the main categories of revenues expected in 2022 compared to collections in 2021:



### 2022 Revenue Forecasts

The 2022 Budget has been prepared against the backdrop of an election; hence the nature and policies of the new government were not evident at the time of budget preparation. Accordingly, much of the policy settings in the draft 2022 Budget reflect the existing policies of the retiring government which were previously announced and implementation had commenced.

That said, the forecast assumes that the following revenue measures adopted in 2021 will have a positive effect on revenue mobilization in FY2022:

- An increase in the tax rate on khat from \$2.50 to \$4.00 per bundle.
- A surcharge on petroleum products.
- 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 FY2022, as part of the IMF ECF reform program, the Government plans to:

- 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.

## Summary of Revenue

The forecast for revenue in 2022 is shown in the following table, with comparisons to the 2021 and 2020 actual collections:

Description	2020 Actual	2021 Budget	2022 Budget	change	Change %
<b>Revenue and receipts</b>	<b>496.6</b>	<b>376.5</b>	<b>941.7</b>	<b>565.2</b>	<b>150.1%</b>
<b>Domestic Revenue</b>	<b>211.0</b>	<b>229.6</b>	<b>247.0</b>	<b>17.4</b>	<b>7.6%</b>
<b>Taxes</b>	<b>139.3</b>	<b>162.8</b>	<b>173.7</b>	<b>10.9</b>	<b>6.7%</b>
Tax on income, profit and capital gain	15.4	15.2	15.1	-0.1	-0.6%
Taxes on property	0.6	0.6	0.7	0.1	12.1%
Taxes on goods and services	21.3	23.4	30.8	7.3	31.3%
Taxes on international trade and transactions	91.1	109.0	111.3	2.3	2.1%
Other taxes	11.0	14.6	15.9	1.3	9.1%
<b>Other revenue</b>	<b>71.7</b>	<b>66.8</b>	<b>73.3</b>	<b>6.5</b>	<b>9.7%</b>
<b>Donor revenue</b>	<b>285.6</b>	<b>147.0</b>	<b>694.8</b>	<b>547.8</b>	<b>372.7%</b>
Budget support	153.5	38.4	209.3	170.9	445.7%
Project support	132.1	108.6	485.5	376.8	346.9%
proportion of domestic funds	42.5%	61.0%	26.2%		

Nominal domestic revenues are forecast to increase in 2022 by \$17.4 million to \$247.0 million. Donor revenue is forecast to increase substantially over 2021, with budget support increasing by \$209.3 million, reflecting a return of donor support after the election period delays. Project support is forecast to increase by \$485.5 million, reflecting the bringing on-budget of UN Projects (\$14.4 million) and large increases in World Bank project support, including for crisis recovery (\$58.8 million); social safety net (\$150.1 million); Locust response (\$40.2 million); health projects (\$22.7 million); COVID-19 response (\$22.0 million); and resilience (\$21.0 million).

The revenue administration has prepared a Medium-Term Revenue Strategy that will be considered by the incoming government. The draft strategy was completed in December 2021 and has as its underpinning objective achieving a revenue to GDP ratio of 15%.

More detailed analysis on each revenue head is provided in the sections below.

<b>Tax on income, profit and capital gain</b>					
Description	2020 Actual	2021 Budget	2022 Budget	change	%
<b>Tax on income, profit and capital gain</b>	<b>15.4</b>	<b>15.2</b>	<b>15.1</b>	<b>-0.1</b>	<b>-0.6%</b>
<b>Payable by individuals</b>	<b>12.2</b>	<b>14.3</b>	<b>12.9</b>	<b>-1.4</b>	<b>-9.9%</b>
Public Sector	5.5	6.5	5.8	-0.7	-11.3%
Private Sector	6.6	7.8	7.1	-0.7	-8.8%
<b>Payable by corporation and other enterprises</b>	<b>3.2</b>	<b>0.9</b>	<b>2.3</b>	<b>1.3</b>	<b>144.7%</b>
Payable by corporation	3.2	0.9	2.3	1.3	144.7%

The expected fall in collections from public employees reflects the continuing impact of the wage and staffing freeze, and a cap on the number of temporary staff an MDA can hire each year.

A project to review and modernize the Income Tax Act 1963 is underway, with the assistance of the IMF. Stage 1, a stocktake of existing concessions, exemptions and processes is complete. Stage 2, involving stakeholder discussions is underway. The final stage 3, drafting the new law, is planned for completion in 2023. An Integrated Income Tax Administration System is planned for development, based on the new law, and the system will interface with the Somali Financial Management Information System (SFMIS).

Collections from private employees is expected to decrease slightly reflecting lower staffing levels in NGOs due to the COVID situation.

Collections of corporate tax are anticipated to return closer to pre-COVID levels.

<b>Taxes on property</b>					
Description	2020 Actual	2021 Budget	2022 Budget	change	%
<b>Taxes on property</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.1</b>	<b>12.1%</b>
<b>Recurrent taxes on immovable property</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.1</b>	<b>12.1%</b>
Rental income	0.6	0.6	0.7	0.1	12.1%

Collections of rental income have stabilised after accessing the Baanadir Regional Authority database of property ownership.

<b>Taxes on goods and services</b>					
Description	2020 Actual	2021 Budget	2022 Budget	change	%
<b>Taxes on goods and services</b>	<b>21.3</b>	<b>23.4</b>	<b>30.8</b>	<b>7.3</b>	<b>31.3%</b>
<b>General taxes on goods and services</b>	<b>21.3</b>	<b>23.4</b>	<b>30.8</b>	<b>7.3</b>	<b>31.3%</b>
Hotels	1.1	1.1	1.2	0.1	7.8%
Telecommunications	1.6	3.7	5.0	1.4	36.9%
Electricity Companies	0.0	0.0	1.3	1.3	51925.5%
Imported goods	18.0	17.7	18.5	0.8	4.7%
Airline tickets	0.5	1.0	1.1	0.2	16.1%
TV Cable providers	0.0	0.0	1.3	1.3	#DIV/0!
Sales taxes - Other	0.0	0.0	2.3	2.3	#DIV/0!

The full-year impact of measures commenced in 2021 to enhance collections of taxes on goods and services are expected to be realised in 2022. The distribution of POS (Point of Sale) machines to the retail sector, including telecommunications companies, is bearing fruit. The roll-out of these POS “gadgets” was expected to be completed by March 2022. The major telecommunication companies have submitted their 2020 financial statements which will facilitate inspectors to start conversations

of retrospective collection of taxes payable. Post-election, it is anticipated that compliance levels will increase.

#### Taxes on international trade and transactions

	2020 Dhabta	2021 Kutalagalka	2022 Kutalagalka	Farqiga	%
<b>Taxes on international trade and transactions</b>	<b>91.1</b>	<b>109.0</b>	<b>111.3</b>	<b>2.3</b>	<b>2.1%</b>
Customs and other import duty	85.5	97.4	95.3	-2.1	-2.2%
Import tax on Khat	5.5	11.6	16.0	4.4	37.8%

The 1960 Customs Law was amended in 2020 although the new schedule of taxes payable is revenue neutral in 2022. In 2023, the 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.

Collections from Customs are anticipated to soften slightly, reflecting the impact COVID has had on international supply chains.

Collection from the import of Khat from Ethiopia is forecast to return closer to levels experienced in 2019. Imports from Kenya are not anticipated to recommence during 2022.

#### Other taxes

	2020 Dhabta	2021 Kutalagalka	2022 Kutalagalka	Farqiga	%
<b>Other taxes</b>	<b>11.0</b>	<b>14.6</b>	<b>15.9</b>	<b>1.3</b>	<b>9.1%</b>
<b>Other taxes payable solely by business</b>	<b>1.5</b>	<b>3.5</b>	<b>3.0</b>	<b>-0.5</b>	<b>-15.4%</b>
Stamp duties of invoices and contracts (notary)	1.5	3.5	3.0	-0.5	-15.4%
<b>Other taxes payable by other than business or unidentifiable</b>	<b>9.5</b>	<b>11.0</b>	<b>12.9</b>	<b>1.9</b>	<b>16.9%</b>
Road tax	1.7	1.5	1.8	0.3	16.7%
Other stamp duty	4.0	5.5	6.4	0.9	16.2%
Stamp duty on customs	3.8	4.0	4.8	0.7	18.0%

The trends in other taxes are largely expected to remain consistent in 2022, offset by a small drop in stamp duties from invoices and contracts.

#### Sales of goods and services

Description	2020 Actual	2021 Budget	2022 Budget	change	%
<b>Administrative fees</b>	<b>71.7</b>	<b>66.8</b>	<b>73.3</b>	<b>6.5</b>	<b>9.7%</b>
Administrative charges	3.1	5.6	5.0	-0.6	-10.8%
Visa charges	7.9	11.2	3.5	-7.7	-68.8%
Passports fees	0.0	0.0	5.5	5.5	189871.3%
License fees - Commerce and industry	1.2	1.3	1.6	0.3	27.6%
Work permits and other fees	0.7	0.7	0.6	-0.1	-11.0%
Harbour fees - Albayrak	31.3	25.6	31.4	5.8	22.7%
Airport fees - Favori	3.3	2.8	2.6	-0.2	-7.1%
Fisheries license fees	2.2	2.6	1.0	-1.6	-61.7%
Telecommunication Spectrum fees	1.7	1.2	1.7	0.6	50.5%
Overflight fees (IATA)	15.7	11.3	15.7	4.5	39.7%
Customs harbour fees	4.5	4.7	4.7	-0.1	-1.7%
Election Registration Fee	0.0	0.0	0.0	0.0	#DIV/0!

The major variations are due to harbour fees (+\$5.8 million) reflecting a return closer to normal shipping levels post COVID; and overflight fees (+\$4.5 million) showing a return to 2020 activity levels post COVID; offset in part by reduced visas and passport fees (-\$2.2 million).

Grants					
Description	2020 Actual	2021 Budget	2022 Budget	change	%
<b>Grants</b>	<b>285.6</b>	<b>147.0</b>	<b>694.8</b>	<b>547.8</b>	<b>372.7%</b>
<b>Budget support</b>	#REF!	#REF!	#REF!	#REF!	#REF!
<b>Grants from foreign governments</b>	<b>15.0</b>	<b>2.5</b>	<b>30.0</b>	<b>27.5</b>	<b>1100.0%</b>
Current grants in Turkey	15.0	2.5	30.0	27.5	1100.0%
<b>Grants from international organizations</b>	<b>138.5</b>	<b>35.9</b>	<b>169.7</b>	<b>133.8</b>	<b>373.3%</b>
World Bank - RCRF - Budget support	30.4	35.9	34.7	-1.2	-3.2%
World Bank - Development Policy Financing (DPF)	100.4	0.0	100.0	100.0	#DIV/0!
European Union	7.7	0.0	35.0	35.0	#DIV/0!
Intergovernmental Authority on Development (IGAD) Support	0.1	-	-	-	#DIV/0!
<b>Project support</b>	<b>132.1</b>	<b>108.6</b>	<b>485.5</b>	<b>376.8</b>	<b>346.9%</b>
World Bank (WB)	100.4	102.4	454.9	352.5	3.4
African Development Bank (AfDB)	27.8	4.3	14.2	9.9	2.3
United Nations (UN)	-3.9	2.0	16.4	14.4	7.3

Budget support grants were largely suspended during 2021 due to the delays in the election process. With the election completed it is expected this level of support will return to normal as spelt out in the various agreements with international partners.

Details of the project support grants is included in the expenditure chapter below.

## 5. Expenditure

The 2022 Budget as presented to Parliament is largely reflecting the existing and on-going policies of the government, and a return to more normal operating budget spending reflecting the resumption of donor budget support grants.

The aggregate spending plan for 2022 is shown in the following table:

Description	2020 Actual	2021 Budget	2022 Budget	change	Change %
<b>Expenditure and payments</b>	<b>473.0</b>	<b>459.8</b>	<b>918.7</b>	458.9	99.8%
<b>Operating expenditure</b>	<b>354.3</b>	<b>330.8</b>	<b>433.2</b>	<b>102.4</b>	<b>30.9%</b>
Compensation of Employees	215.8	240.9	258.1	17.2	7.2%
Use of goods and services	62.2	66.9	82.3	15.5	23.1%
Purchase of non-financial assets	7.9	2.8	12.1	9.2	327.3%
Interest	2.1	0.6	2.5	1.9	313.1%
Grants (transfers)	66.2	19.7	75.7	56.0	285.0%
Other expenses	0.0	0.0	2.5	2.5	#DIV/0!
<b>Donor-funded Special projects</b>	<b>118.7</b>	<b>129.0</b>	<b>485.5</b>	<b>356.5</b>	<b>276.4%</b>
compensation as share of operating costs	60.9%	72.8%	60.2%		

The operating expenses of the Federal government are forecast to increase by \$102.4 million to \$433.2 million, an increase of 30.9 percent over 2021 actual spending. \$56.0 million of the increase reflects higher grant payments to the Federal Member States; \$15.2 million in expenses on goods and services for MDAs; \$16.0 million in increased employee costs; and \$10.8 million additional for the purchase of assets. Other expenses include provisions for the contingency fund with allocations in previous years allocated to their primary head of expenditure. The major increases to grants and capital spending is reflected in the share of compensation as a proportion of running costs returning to a similar level as in 2020. In 2021, reduced donor budget support required significant cuts in discretionary spending to ensure the no expenditure arrears rule was protected.

Donor funded special projects are anticipated to increase by \$356.5 million in 2022. Recent history of donor on-budget spending has revealed quite poor execution rates, with 2021 spending being only 53.5 percent of the appropriation. The Ministry of Finance (MoF) has introduced measures for monitoring donor funded projects to help them improve delivery of their planned activities and to improve their execution rates. This is expected to improve the execution rates to at least 75% in 2023 and to at least 95% over the medium term. By contrast the operating costs of the FGS were executed at a rate of 90.0 percent, with compensation of employees executed at 97.6 percent. Cash rationing and absence of donor funding resulted in lower execution rates for grants (45.6%); use of goods and services (68.1%); and capital spending (8.7%). These execution rates reflect the application of the Parliamentary approved sequestration policies in the face of cash shortages.

The sections below provide a more granular analysis and explanation of the provisions.



## Details of Compensation and Goods and Services

	Description	2020 Actual	2021 Budget	2022 Budget	change	%
<b>21</b>	<b>Compensation of employees</b>	<b>227.0</b>	<b>250.1</b>	<b>262.8</b>	<b>12.7</b>	<b>5.1%</b>
<b>211</b>	<b>Wages and salaries</b>	<b>227.0</b>	<b>250.1</b>	<b>262.8</b>	<b>12.7</b>	<b>0.1</b>
2111	Wages and salaries in cash	141.0	150.3	159.1	8.9	0.1
2113	Allowances in cash	72.1	84.0	87.0	3.1	0.0
2114	Other employees costs	13.9	15.9	16.6	0.7	0.0
<b>22</b>	<b>Use of goods and services</b>	<b>80.7</b>	<b>106.1</b>	<b>209.4</b>	<b>103.3</b>	<b>1.0</b>
<b>221</b>	<b>Travel and conference</b>	<b>6.4</b>	<b>5.6</b>	<b>15.9</b>	<b>10.3</b>	<b>1.8</b>
2211	Travel and conference expenses	6.4	5.6	15.9	10.3	1.8
<b>222</b>	<b>Operating expenses</b>	<b>15.2</b>	<b>16.3</b>	<b>32.4</b>	<b>16.1</b>	<b>1.0</b>
2221	Utilities	4.3	2.8	8.1	5.4	2.0
2222	Communications	-	1.3	1.4	0.1	
2223	Fuel and lubricants	5.3	5.8	6.9	1.1	0.2
2224	Materials and supplies	3.2	3.9	12.0	8.2	2.1
2225	Maintenance and repairs	2.3	2.6	3.9	1.3	0.5
<b>223</b>	<b>Rent</b>	<b>2.0</b>	<b>2.1</b>	<b>3.4</b>	<b>1.3</b>	<b>0.6</b>
2231	Rent	2.0	2.1	3.4	1.3	0.6
<b>224</b>	<b>Other operating expenses</b>	<b>22.4</b>	<b>36.5</b>	<b>87.1</b>	<b>50.6</b>	<b>1.4</b>
2241	Education and training expense	2.8	3.9	14.4	10.5	2.7
2242	Consulting and professional expense	13.3	26.5	65.3	38.8	1.5
2243	Financing costs	6.4	6.0	6.7	0.7	0.1
2244	Advertisement and subscriptions	-	-	0.5	0.5	
2245	Insurances charges and premium	0.0	0.0	0.1	0.1	46.5
<b>225</b>	<b>Army operations</b>	<b>6.8</b>	<b>8.6</b>	<b>11.2</b>	<b>2.6</b>	<b>0.3</b>
2251	Police - Materials, supplies and services	0.8	0.3	0.7	0.4	1.7
2252	National Security - Materials, supplies and servic	4.6	7.1	7.5	0.4	0.1
2253	Military - Materials, supplies and services	1.2	1.0	2.6	1.5	1.5
2254	Custodian - Materials, supplies and services	0.1	0.2	-	(0.2)	(1.0)
2255	Conflict resolution	-	-	0.5	0.5	#DIV/0!
<b>226</b>	<b>Other General Expenses</b>	<b>28.0</b>	<b>36.9</b>	<b>59.4</b>	<b>22.5</b>	<b>0.6</b>
2261	Other General Expenses in goods and services	28.0	36.9	59.4	22.5	0.6

### Details of Operating Expenses other than Wages and G&S

	Description	2020 Actual	2021 Budget	2022 Budget	change	%
<b>23</b>	<b>Acquisition of non-financial assets</b>	<b>18.6</b>	<b>16.1</b>	<b>42.4</b>	<b>26.4</b>	<b>1.6</b>
<b>231</b>	<b>Fixed assets</b>	<b>18.6</b>	<b>16.1</b>	<b>42.4</b>	<b>26.4</b>	<b>1.6</b>
2311	Buildings and structures	0.5	2.1	8.5	6.4	3.0
2312	Machinery and equipment	0.3	4.3	6.7	2.4	0.6
2313	Other fixed assets	17.7	9.6	27.2	17.5	1.8
<b>24</b>	<b>Interest</b>	<b>14.4</b>	<b>14.6</b>	<b>2.5</b>	<b>(12.1)</b>	<b>(0.8)</b>
<b>241</b>	<b>Interest to nonresidents</b>	<b>14.4</b>	<b>14.6</b>	<b>2.5</b>	<b>(12.1)</b>	<b>(0.8)</b>
2411	Interest payable to nonresidents	14.4	14.6	2.5	(12.1)	(0.8)
<b>25</b>	<b>Subsidies</b>	<b>2.2</b>	<b>1.3</b>	<b>7.5</b>	<b>6.3</b>	<b>4.9</b>
<b>252</b>	<b>To private enterprises</b>	<b>2.2</b>	<b>1.3</b>	<b>7.5</b>	<b>6.3</b>	<b>4.9</b>
2521	Private non financial enterprises	2.2	1.3	7.5	6.3	4.9
<b>26</b>	<b>Grants</b>	<b>80.3</b>	<b>45.9</b>	<b>120.1</b>	<b>74.2</b>	<b>1.6</b>
<b>262</b>	<b>Grants to international organizations</b>	<b>0.6</b>	<b>1.2</b>	<b>0.7</b>	<b>(0.5)</b>	<b>(0.4)</b>
2621	Current grants to international organizations	0.6	1.2	0.7	(0.5)	(0.4)
<b>263</b>	<b>Grants to other general government unit</b>	<b>79.7</b>	<b>44.7</b>	<b>119.4</b>	<b>74.7</b>	<b>1.7</b>
2631	Current grants to other general government unit	79.7	44.7	107.8	63.2	1.4
<b>27</b>	<b>Social benefits</b>	<b>62.1</b>	<b>39.9</b>	<b>269.1</b>	<b>229.2</b>	<b>5.8</b>
<b>271</b>	<b>Social Security benefits</b>	<b>46.9</b>	<b>6.1</b>	<b>193.1</b>	<b>186.9</b>	<b>30.4</b>
2711	Social security benefits in cash	46.9	6.1	163.1	156.9	25.5
2712	Social security benefits in kind	-	-	30.0	30.0	
<b>272</b>	<b>Social Assistance Benefits</b>	<b>15.3</b>	<b>33.7</b>	<b>76.0</b>	<b>42.3</b>	<b>1.3</b>
2721	Social assistance benefit in cash	15.3	33.7	70.0	36.3	1.1
<b>28</b>	<b>Other expenses</b>	<b>-</b>	<b>-</b>	<b>7.5</b>	<b>7.5</b>	
<b>282</b>	<b>Transfers not-elsewhere classified (Contingency)</b>	<b>-</b>	<b>-</b>	<b>7.5</b>	<b>7.5</b>	
2821	Current transfers not elsewhere classified (Contin	-	-	7.5	7.5	

Donor Project Expenditure plans for 2022:

Sub Head	MDA	2022 Budget
2	Expenditures	485,463,404
01	Administration affairs sector	148,842,846
	Office of the Prime Minister	5,103,466
70201	Capacity Injection and Institutional Strengthening Project	4,650,605
70240	UNDP	110,000
70241	UNICEF	141,000
70243	UNHCR	125,356
70238	FOA	76,505
	Ministry of Finance	109,830,467
70202	Special Financing Facility (WB-MPTF and UN)	2,083,412
70203	Domestic Revenue Mobilization and PFM Capacity Strengthening Project	4,153,000
70204	Economic and Financial Governance Institutional Support Project	1,582,010
70214	Somali Capacity Advancement, Livelihoods & Entrepreneurship, Through Digital Uplift (S	18,478,500
70215	Somalia Strengthening Institution For Economic Policy Mgmt and Infrastructure Developm	2,235,744
70219	Regulatory Authority For Energy Sector Project	1,125,086
70221	Somali Crises Recovery (SCR) Project	73,505,200
70225	Somalia Recurrent Cost and Reform Financing Project - Phase III	4,716,740
70234	Somalia Strengthening Accountability and Debt Management Project (SADMS)	1,281,876
70230	DE-RISKING, INCLUSION AND VALUE ENHANCEMENT OF PASTORAL ECONOMIES IN THE H	668,900
	Ministry of Planning, Investment and Economic Development	15,782,620
70220	Biyoole Project (Water for Agro-pastoral Productivity and Resilience)	15,669,280
70241	UNICEF	113,340
	National Statistics Department	9,897,092
70222	Somali Integrated Statistics and Economic Capacity Building Project	7,941,356
70236	Statistics Development Support Project for Somalia	1,645,736
70241	UNICEF	150,000
70242	UNFPA	160,000
	Ministry of Interior and Federal Affairs	6,808,505
70207	Support Stabilization Project (S2S)	1,871,105
70208	Somalia Urban Resilience Project (SURP)	13,500
70213	Somali Urban Investment Planning Project - Additional Financing (SUIPP-AF)	23,500
70218	Somalia Urban Resilience Project PH2 (PCU)	4,750,400
70241	UNICEF	100,000
70243	UNHCR	50,000
	Somali Refugee and IDPs Commission	840,000
70243	UNHCR	840,000
	Ministry of Religious Affairs and Endowment	50,000
70242	UNFPA	50,000
	Ministry of Justice	358,196
70241	UNICEF	358,196
	Ministry of Humanitarian Affairs and Disaster Management	172,500
70238	FOA	22,500
70240	UNDP	50,000
70242	UNFPA	100,000

Sub Head	MDA	2022 Budget
2	Expenditures	485,463,404
2	Security and defense affairs sector	282,235
	Ministry of Internal Security	282,235
70241	UNICEF	282,235
3	Economic affairs sector	37,979,622
	Ministry of Water and Energy	5,439,380
70211	Somali Electricity Access (SEAP) Project	1,437,620
70231	Somali Electricity Sector Recovery Project (SESRP)	1,496,900
70232	Ground Water for Resilience Project (GW4R)	1,000,000
70240	UNDP	53,000
70241	UNICEF	1,329,060
70238	FOA	122,800
	Ministry of Agriculture	268,420
70238	FOA	122,520
70239	WFP	145,900
	Ministry of Livestock and Forestry	2,417,766
70235	Program To Build Resilience For Food And Nutrition Security In The Horn Of Africa	2,267,766
70232	FAO	150,000
	Ministry of Fishery and Marine Resource	150,000
70232	FAO	150,000
	Ministry of Post and Telecommunication	29,704,057
	Ministry of Public Work & Reconstruction	29,704,057
70217	Road Infrastructure Programme (RIP)	4,055,520
70218	Somalia Urban Resilience Project PH2 (PCU)	22,246,137
70229	Somalia - Horn of Africa Infrastructure Integration Project (SHIIP)&	3,332,400
70244	UN-Habitat	70,000
4	Social affairs sector	298,358,701
	Ministry of Health	54,914,248
70221	Somali Crises Recovery (SCR) Project	6,035,000
70225	Somalia Recurrent Cost and Reform Financing Project - Phase III	4,192,600
70227	Damal Caafimad Project	22,684,646
70228	SOMALIA COVID-19 EMERGENCY VACCINATION PROJECT	22,002,002
	Ministry of Education and Higher Education	12,109,415
70212	Education Sector Program Implementation Grant (ESPIG)	1,507,786
70223	Maximum County Allocation (MCA) Project	2,196,471
70225	Somalia Recurrent Cost and Reform Financing Project - Phase III	2,142,543
70226	Somalia Education for Human Capital Development Project	3,100,000
70233	SOMALIA EMPOWERING WOMEN THROUGH EDUCATION AND SKILLS PROJECT - "RAJO K	1,434,946
70241	UNICEF	1,652,630
70239	WFP	75,038
	Ministry of Labor and Social Affairs	229,995,648
70216	Shock-Responsive Social Safety Net for human Capital (Baxnaano Project)	157,205,500
70224	Somalia Emergency Locust Response Project (SELRP)	72,019,800
70237	SAGAL Project	345,508
70241	UNICEF	202,840
70239	WFP	182,000
70232	FAO	40,000
	Ministry of Youth and Sport	240,000
70242	UNFPA	200,000
70244	UN-Habitat	40,000
	Ministry of Women and Human Rights Development	1,099,390
70241	UNICEF	449,390
70242	UNFPA	500,000
70245	UN WOMEN	150,000

## 6. Financing

### Use of Special Drawing Rights

Under the Extended Credit Facility and Extended Fund Facility (ECF/EFF) of the IMF Somalia gained access to Special Drawing Rights (SDR). The SRD allocation for Somalia is 93 million. In 2021 SDR53.1 million was withdrawn to support the balance sheet of the Central Bank of Somalia and to provide liquidity to the MoF to ensure non-discretionary salary payments were made. On conversion, these SDR were valued at \$74.4 million. A further SDR25.6 million have been withdrawn in 2022, converting to \$35.9 million. The MoF share of these drawdowns have been used to make repayments to the World Bank; fund the fiscal buffer; and support liquidity.

### Public debt

Somalia's large debt remains a critical constraint to positive economic development. The total stock of Somalia's outstanding debt at the end of 2021 is at \$4.5 billion (See Table 1), of which \$1.1 billion is owed to multilateral creditors, \$3.4 billion bilateral, and \$2.4 million is commercial debt.

To address Somalia's high debt burden, the government is seeking debt relief through the Heavily Indebted Poor Countries (HIPC) initiative. In March 2020, Somalia reached the HIPC Decision Point, facilitating the clearance of arrears to international financial institutions. Somalia is now in the HIPC interim period, and will only receive irrevocable debt relief upon reaching the HIPC Completion Point. To advance to that stage, the Somalia must maintain a track record of macroeconomic stability, implement its poverty reduction strategy—the ninth National Development Plan (NDP9)—for at least one year, and complete all HIPC Completion Point floating triggers agreed at the Decision Point. Upon reaching the Completion Point, Somalia will be eligible for irrevocable debt relief. As a percentage of GDP, Somalia's public debt is estimated at 83.1% in 2021 with prospects to reduce to 60.1% in 2024 after reaching the HIPC completion point.

Somalia remains committed to strengthening debt management. The publication of quarterly debt bulletins provides information on how negotiations with creditors are advancing to secure debt relief, and underscores Somalia's commitment to strengthen debt transparency.

Table 1. : Evolution of Somalia's debt stock in million USD

Creditor	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Forecast	Medium-term forecast		
Multilateral	1,529.62	1,113.11	1,080.68	1,076.78	1,059.88	1,038.85	983.92
Bilateral official	3,778.90	3,412.73	3,403.01	3,413.08	3,411.58	3,395.78	3,379.96
Paris Club	3,072.20	2,693.42	2,678.23	2,688.69	2,687.47	2,671.95	2,656.41
Non-Paris Club	706.70	719.31	724.78	724.39	724.11	723.83	723.55
Total Commercial	2.33	2.40	2.44	2.53	2.60	2.67	2.74
Domestic	-	-	-	-	-	-	-
<b>Total Debt Stock</b>	<b>5,310.85</b>	<b>4,528.24</b>	<b>4,486.13</b>	<b>4,492.39</b>	<b>4,474.06</b>	<b>4,437.30</b>	<b>4,366.62</b>

Source: Debt Management Unit, FGS

Table 2. : Evolution of Somalia's debt stock (% of GDP)

	2019	2020	2021	2022	2023	2024	2025
<i>Creditor / type of financing</i>	<i>Actual</i>	<i>Actual</i>	<i>Projection</i>	<i>Forecast</i>	<i>Medium-term forecast</i>		
Multilateral	30.2%	22.3%	19.9%	18.3%	16.0%	14.1%	12.2%
Bilateral	74.7%	68.4%	62.7%	58.0%	51.6%	46.0%	41.9%
Paris Club	60.7%	54.0%	49.4%	45.7%	40.7%	36.2%	33.0%
Non-Paris Club	14.0%	14.4%	13.4%	12.3%	11.0%	9.8%	9.0%
Total Commercial	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>TOTAL</b>	<b>104.94%</b>	<b>90.7%</b>	<b>82.7%</b>	<b>76.3%</b>	<b>67.7%</b>	<b>60.1%</b>	<b>54.2%</b>

Source: Debt Management Unit, FGS

### Debt service

Somalia started in 2020 to service its external debt which was one of the conditions to reach HIPC decision point. Debt service amounted to \$14.45 million in 2020 (See Table 3), In 2021 debt service is projected at \$16.71 million, which has been cleared using Somalia's SDR allocation and government revenue. As per the HIPC program requirement, Somalia only services debt to IFIs.

Table 3. : Evolution of debt service

	2020	2021	2022	2023	2024	2025
	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>Medium-term forecast 1/</i>		
Multilateral*	14.45	16.71	17.40	16.90	21.03	54.93
Bilateral official	-	-	0.28	1.50	15.80	15.82
Paris Club	-	-	-	1.22	15.52	15.54
Non-Paris Club	-	-	0.28	0.28	0.28	0.28
<b>Total debt service</b>	<b>14.45</b>	<b>16.71</b>	<b>17.68</b>	<b>18.40</b>	<b>36.83</b>	<b>70.75</b>
Debt service as percentage of GDP	0.21%	0.31%	0.30%	0.28%	0.50%	0.88%
Debt service as percentage of revenues	2.50%	4.68%	3.07%	2.70%	4.87%	8.45%
Debt service as percentage of exports	1.76%	1.42%	1.39%	1.32%	2.40%	4.18%
Key denominator items:						
GDP (million USD, source IMF)	6,965.00	5,424.00	5,888.00	6,611.00	7,385.00	8,061.00
Revenue (million USD, source MoF Somalia)	578.00	357.00	575.00	682.00	757.00	837.00
Exports (million USD, source MoF Somalia)	823.00	1,177.00	1,272.00	1,395.00	1,536.00	1,693.00

Source: DMU, MOF

As Table 3 shows, debt service is forecasted to double in 2024 and double again in 2025, during which payments for the HIPC deferred debt will start, as well as the principal repayment for IMF ECF for 2024 and 2025. Nonetheless the observed debt service numbers for 2024 and 2025 are likely to drop if Somalia negotiates successfully towards full debt cancellation from the Paris Club creditors and under the Multilateral Debt Relief Initiative (MDRI) by the end of 2023. Since 2020 Government has also intensified efforts to reach out to other multilateral creditors. An agreement was reached with Kuwait Fund for Arab Economic Development. Discussions are ongoing with the Islamic Development Bank, OPEC Fund for international development, Arab Monetary Fund and the Arab Fund for Economic and Social Development (AFESD), as well as the non-Paris Club creditors particularly Abu Dhabi Fund, Saudi Fund for Development, Bulgaria, Romania, Iraq, and Libya in order to obtain a comparable treatment as

that of the Paris Club and debt relief consistent with the burden sharing principle outlined in the HIPC decision point document.

Negotiations are also ongoing with the International Fund for Agricultural Development (IFAD) around the modalities of debt re-profiling. Government also continues to negotiate with the Russian Federation to settle the outstanding debt of the blocked funds under the Paris Club arrangement (Government signed debt restructuring agreements with all Paris Club creditors in 2020 except the Russian Federation).

Reaching full debt cancellation will also partly depend on Somalia’s efforts in fulfilling the HIPC completion point requirements and triggers. Table # provides the progress made towards fulfilling the HIPC completion point triggers (CPTs) as at end of May 2022, with prospects all of them will be achieved by 2023.

Table 4. : Progress in implementation of HIPC Completion Point Triggers (CPTs)

HIPC Completion Point Triggers	Progress
<b>Poverty reduction strategy implementation</b>	
1. Satisfactory implementation for at least one year of Somalia’s full poverty reduction strategy, as evidenced by an Annual Progress Report on the implementation of the poverty reduction strategy submitted by the government to IDA and the IMF.	Progress has been made across the four NDP9 pillars, including social, economic, security, and governance policies. However, the COVID-19 pandemic and lower than expected funding have slowed its implementation in 2021. The Annual Progress Report evaluating the implementation of the National Development Plan in 2020 is expected to be completed in 2022H1.
<b>Macroeconomic stability</b>	
2. Maintain macroeconomic stability as evidenced by satisfactory implementation of the 3-year ECF-supported program.	The 1st review of the ECF-supported program was completed on November 18, 2020. [The 2 <sup>nd</sup> and 3 <sup>rd</sup> reviews are expected to be completed by June 2022.]
<b>Public financial and expenditure management</b>	
3. Publish at least two years of the audited financial accounts of the FGS.	The Office of the Auditor General published <a href="#">the 2019 and 2020 FGS financial accounts</a> .
4. Issue regulations to implement the Public Financial Management Act’s provisions on debt, public investment, and natural resource revenue management.	The PFM regulations—including chapters on debt, public investments, and natural resource revenue management—were prepared by the MoF and approved by the Cabinet in May 2022.

HIPC Completion Point Triggers	Progress
<b>Domestic revenue mobilization</b>	
5. Adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia (to also foster greater trade integration).	The FGS and the FMS reached agreement on the single tariff schedule, which will be submitted to Parliament for approval. Supporting customs regulations are under preparation. The Customs Automated System (CAS) has been piloted first in Mogadishu port and airport before rolling out to Bosaso, Garowe, and Kismayo.
<b>Governance, anticorruption, and natural resource management</b>	
6. Enact the Extractive Industry Income Tax (EIIT) Law.	Cabinet approved the EIIT Bill in December 2020. The Bill has been harmonized with the Production Sharing Agreement (PSA) to ensure consistency. The Bill will be submitted to Parliament for approval.
7. Ratify the 'United Nations Convention Against Corruption' (UNCAC)	The UNCAC was ratified by the Somali Parliament and assented by the President in December 2020.
<b>Debt management</b>	
8. Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12 months ahead; annual principal payment projections (for at least the next five years); and key portfolio risk indicators (including proportion of debt falling due in the next 12 months; proportion of variable rate debt; and projected debt service-to-revenues and debt service-to-exports for the next five years).	The Ministry of Finance is making progress to improve debt reporting. Quarterly debt bulletins have been published for <a href="#">2020Q4</a> , <a href="#">2021Q1</a> , <a href="#">2021Q2</a> , <a href="#">2021Q3</a> , <a href="#">2021Q4</a> , and <a href="#">2022Q1</a> with Information on the outstanding stock and composition of debt liabilities and financial assets, and, where they exist, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure.
<b>Social sectors</b>	
9. Establish a national unified social registry (USR) as a functional platform that supports registration and determination of potential eligibility for social programs	The authorities are establishing a USR with support from the World Bank, the World Food Program (WFP) and UNICEF. The USR design and development of the platform and infrastructure are progressing well. However, progress is needed on the development of the data protection and data privacy Law and operational guidelines.
10. FGS and FMS Ministers of Education (MOE) adopt an agreement defining their respective roles and	On July 14, 2021, the FGS and FMS MoEs including Puntland finalized and officially signed the revised draft education cooperation MoU at the intergovernmental meeting held in Garowe. A permanent intergovernmental



responsibilities on curriculum and examinations	forum for education has been formalized. Key agreements reached include the formation of national examination, certification, and curriculum boards. An interim committee to develop the criteria for selection of the board members was also established.
11. FGS and FMS Ministers of Health adopt a joint national health sector strategy	The Somalia Health Sector Strategic Plan for 2022-2026 was finalized. FGS and FMS ministers have agreed on a framework for a joint national health strategy.

HIPC Completion Point Triggers	Progress
<b>Growth/structural</b>	
12. Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.	The draft Somalia Electricity Bill was subject to consultations and was endorsed by Cabinet and submitted to the Parliament in December 2020. The bill will be prioritized by the 11 <sup>th</sup> Parliament in its first readings.
13. Issue Company Act implementing regulations on minority shareholder protection to encourage private sector investment	Regulations to the Company Act of 2019 were issued in January 2021. A second set of Regulations to the Company Act were issued in May 2022 specifically covering the issue of minority shareholder protection.
<b>Statistical capacity</b>	
14. Publish at least two editions of the <i>Somalia Annual Fact Book</i> .	The <a href="#">Facts and Figures of Somalia</a> has been published for 2018, 2019, and 2020.

#### Public debt policy for financial year 2022

The Debt Sustainability Analysis carried out in 2020 confirmed that Somalia is in debt distress, as evidenced by the existence of arrears and ongoing debt restructuring. The situation is likely to remain unchanged until Somalia reaches HIPC Completion Point, when Somalia would receive irrevocable debt relief. As agreed under the ECF programme, Government will not add new debt to the existing debt before Somalia reaches the HIPC completion point. In the financial year 2022, Government will undertake the following to ensure it works towards attaining this outcome:

- a) There shall be no contracting of new external public loans, issuance of Government securities in the domestic market, or extending Government guarantees except for the purposes of repayment of debt arrears, where necessary.
- b) The Federal Ministry of Finance will (i) record renegotiated debt with creditors in the debt management system, (ii) continuously update the system to ensure comprehensive and consolidated debt information on Somalia's debt stock and the status of negotiations with creditors is reflected in the system; (iii) prepare and submit to Parliament a monthly debt reports, and (iv) publish updated debt statistics on the MoF website on a quarterly basis.

### Financing from expenditure arrears

One source of financing for budgets can come from non-payment of legal commitments, i.e. where expenditures are in arrears. The government has been monitoring expenditure arrears since 2013 and there has been no expenditure arrears incurred after 2017. The stock of unpaid payments is shown in the following table:

## Federal Government of Somalia

### Ministry of Finance

**Expenditure arrears debt report by type, status and year**  
as at 31 December 2021

Year	Invalid	Salaries	Goods & Services	Total
2013		904,302	-	904,302
2014		-	-	-
2015		14,739,644	-	14,739,644
2016		39,362,338	-	39,362,338
2017		451,930	-	451,930
2018		-	-	-
2019		-	-	-
2020		-	-	-
2021		-	-	-
<b>Total</b>		<b>55,458,214</b>	<b>-</b>	<b>55,458,214</b>

## 7. Special Presentations

### The Classification of the Functions of Government (COFOG)

The table below reorders planned 2022 spending as classified under the UN SNA COFOG presentation, with 2020 and 2021 actuals for comparison.

Functions of Government (US\$ m)	2020 Actual	2021 Actual	2022 Budget	Proportion 2022
1. GENERAL PUBLIC SERVICES	207,529,158	170,453,187	317,986,627	34.6%
2. DEFENCE	145,274,453	159,984,079	167,596,423	18.2%
3. PUBLIC ORDER AND SAFETY	17,481,289	21,199,904	26,846,435	2.9%
4. ECONOMIC AFFAIRS	30,633,360	31,878,772	50,868,034	5.5%
5. ENVIRONMENTAL PROTECTION				0.0%
6. HOUSING AND COMMUNITY AMENITIES	1,373,327	8,146,247	31,302,269	3.4%
7. HEALTH	6,235,712	21,163,991	58,571,704	6.4%
8. RECREATION,CULTURE AND RELIGION	1,603,244	1,886,576	2,279,836	0.2%
9. EDUCATION	14,512,290	17,300,745	30,094,758	3.3%
10. SOCIAL PROTECTION	60,644,413	41,835,466	233,120,676	25.4%
Grand Total	<b>485,287,247</b>	<b>473,848,966</b>	<b>918,666,761</b>	100.0%

### The Budgets of the Federal Member States

This presentation of budget is an ex-ante (before the event) is 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 2021 budgets for FMS, Somaliland and Banaadir.

**Table: 2021 Budgets of the FGS, FMS, Somaliland, and Banaadir Local Government**

Code	Description (\$ million)	FGS	Somaliland	Puntland	Jubaland	Hirshabelle	South West State	Galmudug	Benadir-Mogadishu City	Total Budgets
<b>1</b>	<b>Revenue</b>	<b>907.1</b>	-	<b>0.0</b>	<b>37.7</b>	<b>21.5</b>	<b>21.3</b>	<b>35.0</b>	<b>39.4</b>	<b>1,062.1</b>
<b>11</b>	<b>Tax Revenue</b>	<b>173.7</b>	-	<b>0.0</b>	<b>12.9</b>	<b>13.9</b>	<b>3.3</b>	<b>16.0</b>	<b>12.5</b>	<b>232.5</b>
111	Taxes on income, profits, and capital gains	15.1		-	0.16		0.0	0.3	-	15.6
112	Taxes on payroll and workforce			-	0.4		0.9	0.5	-	1.8
113	Taxes on property	0.7		0.0		0.4			2.2	3.4
114	Taxes on goods and services	30.8		-	4.2	12.8	2.2	9.2	8.0	67.2
115	Taxes on international trade and transactions	111.3		-	8.2	0.7	0.1	6.0	2.3	128.6
1151	Customs and other Import duties	95.3		-	8.2	0.7	0.1	6.0	2.3	112.6
1156	Taxes on Khat	16.0		-						16.0
116	Other taxes	15.9		-			0.0			15.9
<b>12</b>	<b>Social contributions</b>	-	-	-	-	-	-	-	-	-
121	Social security contributions			-						-
122	Other social contributions			-						-
<b>13</b>	<b>Grants</b>	<b>660.2</b>	-	-	<b>24.1</b>	<b>7.1</b>	<b>17.7</b>	<b>18.3</b>	<b>23.4</b>	<b>750.7</b>
131	From foreign governments	35.0		-						35.0
132	From international organizations	625.2		-	24.06	7.1	17.7	18.3	23.4	715.7
<b>14</b>	<b>Other revenue</b>	<b>73.3</b>	-	-	<b>0.7</b>	<b>0.4</b>	<b>0.3</b>	<b>0.7</b>	<b>3.6</b>	<b>79.0</b>
141	Property income			-			0.0		0.1	0.1
142	Sales of goods and services	73.3		-	0.7	0.4	0.3	0.7	3.3	78.7
143	Fines, penalties, and forfeits			-	0.02	0.0	0.0	-	0.1	0.1
144	Other revenue nec			-						-
<b>2</b>	<b>Expense</b>	<b>918.7</b>	-	-	<b>37.7</b>	<b>21.5</b>	<b>21.9</b>	<b>35.0</b>	<b>39.4</b>	<b>1,074.2</b>
	<b>Operating expenditure</b>	<b>433.2</b>	-	-	<b>37.7</b>	<b>21.5</b>	<b>21.9</b>	<b>35.0</b>	<b>39.4</b>	<b>588.8</b>
21	Compensation of employees	256.9		-	21.3	10.7	8.1	16.1	18.5	331.6
22	Use of goods and services	82.0		-	11.0	6.7	6.3	12.7	19.0	137.7
23	Consumption of fixed capital	13.6		-	3.2	0.2	7.4	4.7	1.1	30.2
24	Interest	2.5		-						2.5
25	Subsidies			-			0.0			0.0
26	Grants	75.7		-	0.2	-	0.0	1.3	-	77.2
27	Social benefits			-	0.4	3.9	-	0.2	0.9	5.4
28	Other expenses	2.5		-	1.6		0.0	0.0	-	4.1
	<b>Donor Project expenditure (on-budget)</b>	<b>485.5</b>	-	-	-	-	-	-	-	<b>485.5</b>
21	Compensation of employees	5.1		-						5.1
22	Use of goods and services	127.6		-						127.6
23	Consumption of fixed capital	31.7		-						31.7
24	Interest			-						-
25	Subsidies	7.5		-						7.5
26	Grants	44.4		-						44.4
27	Social benefits	269.1		-						269.1
28	Other expenses			-						-
<b>3</b>	<b>Balance</b>	-	<b>11.5</b>	-	<b>0.0</b>	-	<b>0.6</b>	-	-	<b>12.1</b>