



# Governance Brief 22

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## Summary

The federal government of Somalia's budget for 2023 was approved by the parliament in a joint session on December 28, 2022. The 2022 budget totals \$977 million, a 4 percent increase on last year's \$929 million budget. Although the theme of this year's budget is 'Relying on Our Domestic Revenue', 68 percent of the budget (\$667 million) is expected from donors through project support (\$496 million, or 74 percent) and budget support (\$170 million, or 25 percent), while domestic revenue is \$283 million, or 29 percent. 26.6 percent of the budget goes to social service delivery; 20 percent goes to defense and security sector institutions; and 17 percent is allocated to economic development institutions. This brief analyzes the 2023 federal budget and its main allocations for the administration, security, social services, and economic development sectors. Finally, the brief outlines key recommendations including increasing accountability, building public trust, improving social services, encouraging domestic production and international trade, and expediting the debt relief process.

## About Somali Public Agenda

Somali Public Agenda is a nonprofit public policy and administration research organization based in Mogadishu. Its aim is to advance understanding and improvement of public administration and public services in Somalia through evidence-based research and analysis.

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## Review of the Federal Government of Somalia's Near Billion-dollar Budget for 2023

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### Introduction

On November 16, 2022, the Federal Council of Ministries approved the Federal Government of Somalia's 2023 appropriated budget, which was up to \$967 million drafted by the Ministry of Finance. The House of the People (HoP) and the Upper House of Somalia's Federal Parliament jointly approved, on December 28, a \$977 million budget for 2023 (a slight addition to the cabinet-approved budget), which is also a 4 percent increase over the 2022 fiscal year's \$929.9 million. This commentary presents and analyzes the sources of revenue and focus of expenditure in Somalia's federal government's 2023 budget.

### Revenue generation sources

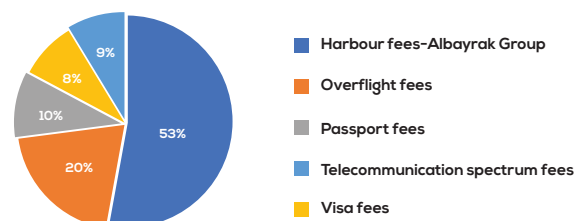
While the theme of the 2023 federal government budget is 'Relying on Our Domestic Revenue', it actually demonstrates the opposite—a continued strong dependence on donor funding. International donors will cover 68 percent (\$667 million) of the budget; only 29 percent (\$283 million) of the budget is anticipated to be covered by domestic revenue, resulting in a fiscal deficit of 3 percent (\$27 million). This is usually covered through the Special Drawing Rights (SDR) of the International Monetary Fund (IMF). Domestic revenue, which is expected to increase by 14 percent from \$229 million actual revenue in 2022 (projected domestic revenue for 2022 was \$250 million) to \$283.3 million in 2023, will primarily be generated from the following sources:

**Taxes on international trade:** The 2023 budget expects to generate \$123 million in revenue from customs duties and levies on the large amount of goods that are imported and exported through Mogadishu's two main ports of entry: the Aden Adde International Airport (AAIA) and the Mogadishu Seaport. The budget doesn't classify the revenue from import and export separately but expects to collect \$20 million through khat imports alone.

**Administrative fees:** \$93 million is anticipated to be gained through licenses and immigration fees, which will come from visa fees (\$6 million), passport fees (\$7 million), airport fees (\$2 million), overflight fees (\$14 million), business and professional license fees (\$1 million), fishing license fees (\$5 million), telecommunication sector (spectrum) fees (\$6 million), harbor fees (Albayrak) (\$37 million), customs harbor fees (\$4 million), other license fees (\$700,000), administrative charges (\$5 million), and work permit taxes (\$700,000).

The budget expects only \$5 million from fishing license fees, despite Somalia having the longest coastline in Africa. Somalia issued the license in 2018 for the first time in more than two decades and collected \$1 million in revenue in 2019. This indicates that fishing license fees have been increasing by an average of \$1 million per year.

MAIN SOURCES OF ADMINISTRATIVE FEES



**Taxes on goods and services:** sales tax on goods and services accounts for \$33 million of the domestic revenue, while imported goods account for \$19 million out of this. \$6 million comes from the telecommunications industry. Despite the country's fragile security situation, which led to many government officials, business people, and people from the diaspora staying in hotels (particularly in Mogadishu) rather than residential homes, the TV cable providers contribute more revenue (\$2 million) than hotels (\$1 million). Intriguingly, given the rising use of social media and the accessibility of the cheapest internet data in Africa, a lot of money is still spent on TV cables. This industry is flourishing in the absence of effective monitoring in relation to social values presented by the entertainment business and digital sites. This lucrative industry also indicates the immediate need for the enactment of an intellectual property rights law.

**Tax on income, profit, and capital gain:** the government plans to generate \$17 million through a tax on income, profits, and capital gains. \$14 million will be paid by individuals, while the public sector provides slightly less income tax revenue (\$6 million) than the private sector (\$8 million). Since the private sector is the largest employer in the country, income tax revenue is still underutilized here. Reasons for this underutilization likely relate to the absence of concrete data on the employed force and the lack of identification cards. It is also partly the government's limited capacity to collect income tax from businesses as well as provide basic services including security. Another impediment to revenue collection is tax aversion, which is exacerbated by the government's weak service delivery and corruption. It is worth noting that the salaried employees who live in the Federal Member States are not accounted for due to the lack of an agreed-upon fiscal federalism model (before the Baidoa agreement on 17 March 2023) between them and the FGS. This is even though the FMSs benefit from some of the social services financed by the federal government budget.

In addition, the 2023 FGS budget expects to increase the corporate tax and other enterprises from \$864,000 in 2022 to \$3 million in 2023, which is more than a tripling. Structural reforms are expected for the nation's essential strategic laws and policies for trade and business and other regulatory frameworks, which would in turn increase the corporate tax. The House of the People and the Upper House of Somalia's Federal Parliament have recently approved the Investors and Investments Protection Bill, the National Identification and Registration Bill, and other 8 bills.

**Table 1: Administration sector budget allocation**

Administration	2022 Budget	2023 Budget
Office of Presidency	\$19 (million)	\$11 (million)
The Two Houses of the Parliament	\$25 (million)	\$29 (million)
Office of Prime Minister	\$11 (million)	\$9 (million)
Ministry of Foreign Affairs	\$10 (million)	\$10 (million)
Ministry of Finance	\$203 (million) (including \$109 million donor-funded projects)	\$180 (million)
Ministry of Planning, Investment, and Economic Development	\$29 (million) (including \$15 million donor-funded projects)	\$42 (million)

## Donor Support Revenue

\$667 million in donor support is expected in the 2023 federal government budget. Nonetheless, the donor revenue's size is determined by the number of active programs, the scale of emergency responses, and on-the-ground security operations. Donor revenue falls under two main categories.

The first category is 'Budget Support,' in which donors assist the Somali government in meeting its budgeted administrative and public expenditures aimed at providing basic public services. The budget support grants are \$30 million from the Turkish government. Also, grants from international organizations including the World Bank and the European Union (EU), contribute \$140 million in budget support to the 2023 FGS budget.

The second category is project support, which totals \$496 million and is provided by the World Bank, the African Development Bank, the United Nations, and the European Union. The project support funds are exclusively spent on humanitarian, development, and security projects run under the federal government or implemented by other local or international third-party organizations. The federal government budget for 2023 reveals the FGS's continued reliance on donor funds (particularly project funds) to deliver key national programs and services.

## Expenditure Areas

The \$977 million approved 2023 federal government budget was allocated to social welfare and government departments. We call attention to the departments or areas that are receiving a notable budgetary allocation for 2023. The most heavily funded areas are administration, social services, economic services, and security.

## Administration expenses

The administration sector, which is made up of the Office of the Presidency, the Office of the Prime Minister, the two Houses of Parliament, and several ministries, will receive over one-third (\$346 million, or 35 percent) of the federal government's budget for the fiscal year 2023. This is a \$6 million decrease from the budget appropriated for administration sector expenses in 2022 (\$352 million). This is mainly due to the cut of donor-funded programs as shown in table 1. It is important to note that offices and ministers not mentioned below have their own administrative budget allocation that is separate from the 346 million allocated to administration offices. The allocation and a comparison of each component's allocation to the prior year are shown in the table below:

Ministry of Interior & Federal Affairs	\$16 (million) (including \$840,000 donor-funded projects)	\$23 (million)
Ministry of Religious Affairs	\$2 (million)	\$3 (million)
Ministry Of Justice and Consitution	\$12 (million)	\$14 (million)
Judicial Authorities	\$5 (million)	\$6 (million)
Attorney General	\$1 (million)	\$1 (million)
Solicitor General	\$668,000	\$708,000
Auditor General	\$3(million)	\$3 (million)
Special Commissions	\$7 (million)	\$8 (million)

The Ministry of Interior and Federal Affairs' surging budget is owed to the Somali Disaster Management Humanitarian Agency, which currently operates under the Ministry of Interior and has a budget of \$5 million. In 2022, the Ministry of Humanitarian Affairs and Disaster Management, which was dissolved by the Hassan Sheikh government, had a budget of \$1 million. Furthermore, the budget for the national ID program under the Ministry of Interior, which is set to begin this year, has been increased from \$693,000 in 2022 to \$1 million in 2023.

A total of \$14 million has been allocated to the Ministry of Justice and Constitutional Affairs. \$10 million goes to the Custodial Corps, the same as in 2022, while the remaining \$4 million goes to the Ministry of Constitutional Affairs, which is now merged with the Ministry of Justice. Moreover, the Ministry of Endowment and Religious Affairs experienced a budget increase for the first time, and its budget now reaches \$3 million. This could be partly an indication of the FGS's prioritization of the ideological fight against al-Shabaab, which is one of the three pillars of the strategy that the president articulated in the FGS's new offensives against the group.

The budgets of the Ministries of Finance, Ministry of Planning, Investment, and Economic Development, as well as Special Commissions, have been increased. The independent commissions' budgets were slightly increased from \$7 million in 2022 to \$8 million in 2023. Among these are the Boundaries and Federation Commission (\$759, 000), National Reconciliation Commission (\$501, 000), Human Rights Commission (\$100,000), Independent Constitutional Review and Implementation Commission (\$699, 000), National Civil Service Commission (\$1.5 million), National Independent Anti-Corruption Commission (\$1.2 million), and National Independent Electoral Commission National Independent Electoral Commission (\$3 million). The NIEC receives the highest budget among the commissions. Although this is insufficient to organize direct one-person-one-vote elections, it is a promising development for the 2026 parliamentary and presidential elections, though viable steps in terms of appointing NIEC commissioners, agreeing on an electoral model, and revising the electoral law are yet to be taken.

### Budget for defense and security institutions

Institutions of defense and security will receive \$197 million in 2023 (\$170 million in 2022). The defense budget is \$120 million. The armed forces will receive \$113 million, the Ministry of Defense will receive \$5.2 million, the military court will receive \$1.7 million, and the orphan and disabled budget will remain at \$115,000 in 2023, as it did in 2021 and 2022. The largest increase, however, was made for the armed forces, which were allocated a budget of \$113 million (\$96.4 million in 2022 and \$93 million

in 2021). Although the coordination and management of the African Union Transition Mission in Somalia (ATMIS) were put in front of the Somali government, neither its budgetary support by the international community nor the government's expenditures are reflected by this.

The security institutions receive the remaining \$76.7 million. The Ministry per se receives \$2.3 million, the police forces get \$45.8 million, the national security force gets \$23 million, and the Immigration and Naturalization Directorate (IND) gets \$5.5 million.

### Budget for social services

\$260 million of the budget (26.6 percent of the total budget) goes to five social service ministries, namely the Ministry of Labor and Social Affairs, the Ministry of Education and Higher Education, the Ministry of Health, the Ministry of Youth and Sport, and the Ministry of Women and Human Rights Development, which represents a substantial \$63 million decrease from its 2022 budget (\$323 million) since the Ministry of Labor and Social Affairs (MOLSA) allocation for the last year (\$231 million) has been reduced to \$128 million. This is due to a \$37 million reduction in funding for the safety net program (BAXNAANO) (\$157 million in 2022 to \$120 million in 2023) run by MoLSA. On the contrary, funding for the ministries of health was increased (\$83 million in 2023, up from \$58 million in 2022), education (\$44 million in 2023, up from \$30 million in 2022), and women and human rights (\$2 million in 2023; same as last year).

Despite the considerable resources invested in enhancing social services, Somalia continues to be one of the countries with the least developed social services. Low enrollment rates in primary schools and the rising number of child and maternal deaths are decreasing human capital. Lower human capital reduces employment, which in turn affects production and efficiency, causing total domestic revenue to fall. The government must accelerate employment and capacity-building reforms, beginning with primary education and health care for all citizens.

### Priorities for economic services

The economic services sector encompasses the production, transportation, and infrastructure sectors of the economy. The sector budget allocation was increased by a staggering \$89 million (from \$83 million in 2022 to \$172 million in 2023). The Ministry of Public Works and Reconstruction receives the biggest share (\$96 million) of the appropriated budget for this section. It is the highest amount the ministry has ever received. The 2022 Ministry of Public Works and Construction budget was \$31.3 million. It is most likely intended as a component of

the stabilization plan, as part of which the government will build roads and other key infrastructures for the newly liberated areas of the country.

The Ministry of Water and Energy sets a high bar of \$20 million, an increase from \$6 million in 2022. An upsurge in the allocation budget was also observed for the Ministry of Livestock and Forestry. Its \$6 million budget for 2023 is nearly double that of \$3 million (including related projects) in 2022. This represents a significant step forward. The ministry needs to put in a lot of effort to improve the health of the livestock and industrialize the production of meat and dairy products instead of exporting livestock on the hoof.

The Ministry of Aviation and Transportation's budget, including the Civil Aviation Authority, follows suit with an \$18 million bar (\$17 million in 2022). The Ministry of Transport and Ports are given \$3 million, of which \$1 million goes to Mogadishu Seaport. The Ministries of Environment and Agriculture (both \$1 million) are the least financed in this sector, which is surprising given that agricultural products make up 60 percent of Somalia's GDP, 80 percent of the country's labor force is employed in this sector, and 90 percent of its exports are made up of agricultural goods.

Furthermore, another pillar of President Hassan Sheikh's political agenda introduced when his government was inaugurated in May of last year was the introduction of a greener Somalia. This was imagined to go hand in hand with the security operations, peace, and political stability among Somalis and with the rest of the world. Droughts, floods, and locusts were common climate-related shocks that posed challenges to the agriculture sector. Furthermore, a devastating situation of food insecurity is predicted in 2023 as a result of the fifth failed rainy season in a row. These two issues imply that the budget, as it has been formulated, does not take this priority or crisis into account.

### Ways forward

1. The federal government must be transparent with its finances. Despite the federal government's efforts over the past few years to raise domestic revenue, the general public still has little faith in state authorities. This is hurting the federal government's ability to collect revenue. Additionally, the legislative body and other accountability institutions must hold the government accountable for keeping track of how the approved budget is being spent, determining whether the intended recipients of the services received them, and finding solutions to any issues that may have arisen along the way.
2. The World Bank's increasing funding for safety net and infrastructure programs could be expanded to include industries that create jobs, allowing the government to start bringing in more domestic revenue from income tax.
3. To increase exports, the government must speed up the manufacturing and industrialization sectors and, concurrently, improve and hone its trade, business, security, and rule of law policies and procedures.
4. As Somalia is in the debt relief process, the government is currently unable to borrow more money because of the previous debt and its processing. Donor funding is typically the primary source of government funding, along with bridge financing to meet requirements. If the debt is irrevocably relieved before the end of this year or sometime next year, the government may be able to borrow money to cover its expenses. However, improving transparency in government spending would be crucial for the sound use of government future loans (Somalia is the most corrupt country in the world according to the Transparency International Corruption Perception Index).
5. A critical assessment and cautious steps must be taken for the government's post-debt financing, which will ultimately determine the effectiveness of this process. To expedite the debt relief process, security forces should capture and hold lands, trade must be enhanced, and food insecurity must be tackled by investing in the agriculture sector. As previously stated, the Ministry of Agriculture receives \$1 million in the 2023 budget, with total travel and meeting expenses allocated to federal government branches and donor-funded projects totaling \$36 million.



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