

FEDERAL BUDGET 2018



BUDGET SPEECH

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Federal Government of Somalia

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Bismillahir-Rehmanir-Rahim

Introduction

1. Mr. Speaker, today, Allah has honored us to present the 7th Budget of the Federal Government of Somalia since the promulgation of the 2012 Constitution.
2. Since taking office nine months ago, our Administration has been working to align the meager resources available to the Federal Government to address our most critical problems and better serve the people of Somalia. In this regard I would to thank His Excellences the President, and the Prime Minister, for the leadership and direction they have constantly provided and continue to provide to our Government. I also thank my colleagues in the Council of Ministers for their support and cooperation in preparing this budget.
3. Mr. Speaker, when we reflect on the numerous challenges that this country has faced since 1991, and the journey that was started in 2012 when Somalia promulgated a new Constitution, we thank the blessings of Allah bestowed upon us, Alhamdulillah, for enabling us to get where we are today. While the dangers faced to the economy are not yet over, the country is slowly but surely getting out of the woods, and on the path to stability and eventually growth.
4. To substantiate, I would like to outline a few milestones that have been achieved so far over the recent years, in terms of economic performance. The key milestones include the following:
 - (i) The Gross Domestic product (GDP), which measures the value of goods and services produced in the country, has increased from 2.3% in 2013 to 3.2% in 2015 before it declined to 2.5% in 2016. The decline in 2016 was largely as a result of the almost one year long drought that severely affected the country in the last half of 2016 and first quarter of 2017. Growth is projected to rebound from a 2.5% GDP performance in 2017 to 3.5% in 2018, on account of improved performance of the telecommunications and construction sectors.
 - (ii) Per Capita Income which stood at \$429 in 2013 is projected to increase to \$445 in 2017, showing a growth of 4% in dollar terms.
 - (iii) Inflation has averaged around 1.5% between 2013 and 2016, before it increased to 2.7% in 2017 due to drought. Inflation is projected to slow down to 1.9% in 2018 and 2019.
 - (iv) Domestic revenue has increased from \$84.3 million in 2014 to \$112.7 million in 2016. For the fiscal year 2017 the target for domestic revenue was fixed at \$137 million and considering the collections to-date, Inshallah this target may be achieved. The Revenue/GDP ratio has increased from 1.9% in 2013 to 3.8% in 2017, and is projected to improve to 4.3% in 2018.

- (v) Exports were \$801 million in 2013. In 2016 exports were recorded at \$1,052 million compared to \$1,012 million in 2015, showing an increase of 4%. Projections show a further growth in exports in 2017 and 2018, at \$1,114 million and \$1,173 million respectively.
 - (vi) Imports have grown from \$2.78 billion in 2013 to \$3.56 billion in 2016. Although the value of imports is far higher than the value of our exports, it is worth noting that the percentage of imports of construction related materials and plant and machinery constitute higher percentage of the imports, which is an indication of renewed investment in the economy.
 - (vii) Private remittances, which are a major source of funding for both households and businesses in Somalia, have increased from \$1.30 billion in 2013 to an estimated \$1.49 billion in 2016, which is an increase of 13% over the four year period. In 2017 remittances are projected at \$1.58 billion, for which efforts of the Somalis in the diaspora are highly appreciated and admired. Official remittances have likewise increased from \$1.20 billion in 2013 to \$1.67 billion in 2017, which represents a 28% increase.
 - (viii) The Exchange Rate has oscillated between Sh.So. 22,200 and 23,000 per US dollar between 2015 and 2016. For a dollarized economy like ours, this exchange rate is anyhow inconsequential.
 - (ix) The number of active commercial banks has increased from two in 2013 to currently seven. Plans are also underway for the reestablishment of Somalia's monetary policy, and the introduction of a new Somali currency, which will go a long way in rebuilding the credibility of Somalia's financial sector as well as our economy.
5. This brief review clearly demonstrates that we are on track towards our goal of rebuilding Somalia's macroeconomic infrastructure, which will eventually put the country on the much desired path to growth. With Allah's blessings we remain committed to see the total rebuilding and take-off of the economy and this budget will reflect our commitment.
6. Mr. Speaker, allow me to extend our heartfelt gratitude to our donors for their continued support and standing with us in this endeavor.

Fiscal Performance for 2017

Revenue performance

7. Revenues for 2017 are projected at \$197 million against a target of \$260 million, which represents an under performance of \$63 million. In comparison to the previous financial year 2016, total revenue has increased by 15%. Tax revenue are projected at \$129 million, accounting for 64% of total projected revenue. Non tax revenues are projected at \$27.3 million against a target of \$24 million, while donor Grants are projected at \$50.7 million against a target of \$122 million.

Grants will account for 26% of total revenue compared to a contribution of 34% in 2016.

Expenditure performance

8. As per the fiscal rule that requires the budget to be balanced, total expenditure for 2017 is projected at \$197 million compared to \$171 million in the previous year 2016. Of this, recurrent expenditure accounted for 85% compared to a share of 93% in 2016. Much of recurrent spending goes to salaries and allowances, which accounted for 58% of total expenditure in 2017 compared to a share of 49% in 2016. Goods and services are projected to account for 24% of total expenditure in 2017 compared to 23% in 2016. Transfers to State Governments accounted for 7% of total expenditure in 2017 which is an improvement over the share of 5% in 2016. Capital expenditure is projected to account for 15% in 2017 compared to 7% in 2016.

Budget Strategy for 2018

9. Mr. Speaker, we are mindful that the public's trust demands that we use our meager resources wisely and transparently. We are committed to this expectation and, our budget approach, which is aligned with the government's strategic priorities, reflects that commitment. In the next financial year, the Government's budget strategy will therefore focus on working towards the achievement of priority programs that are related to the pillars of the National Development Plan, and other Government objectives. The main elements of our budget strategy is presented below.

Continued Focus on Security

10. Security has been the Government's focus since 2012. The country continues to face insecurity from Al-Shabaab. There should be no relenting until total peace returns to Somalia. Without security, sustainable economic activities cannot take place. The Budget will therefore continue according security a high priority in 2018 and in the medium term while being mindful of our limited resources.

Strengthen public administration and public finance management systems

11. While we have made some strides towards the rebuilding of government institutions, there remains a lot to be done. In the area of public finance management, many challenges related to budget realism and budget interference need to be tackled. Lack of budget realism has especially resulted in the accumulation of expenditure arrears, currently estimated at about \$100 million. Budget interference has especially manifested in ways such as;
 - (a) Lobbying for tax exemptions to politicians that otherwise earn handsomely, which, when granted, sends the wrong signal to taxpayers, creates inequity, and shrinks the tax base;

- (b) Exerting pressure on the Ministry of Finance to take up selective repayment of arrears thereby creating a perception of favoritism;
- (c) Demanding for bigger budgets for some ministries without giving regard to how the budget can be balanced; and
- (d) Continued lobbying for implementation of negotiated taxes.

12. Budget interfere generally undermines fiscal performance and puts economic reform, macroeconomic stability, and the SMP at risk, and should thus be tackled.

13. Mr. Speaker, success in tackling the challenges related to public finance management will depend on whether the August House enacts the new public finance management bill which was submitted to Parliament November 1 for consideration and eventual enactment. We count on you Mr. Speaker to expedite the enactment of this Bill.

14. In the area of public administration, we need to make continuous effort to find solutions and provide tools that are needed to make government efficient and effective in delivering services to the Somali citizenry.

Fight Poverty and Unemployment

15. The World Bank in 2016 published household survey findings which estimated about 69% of Somalis to be below the poverty line, and youth unemployment at 43%. The Budget for 2018 has therefore been formulated with these realities in mind. We must start to invest in programs and services that get the young people into meaningful employment, as well as stimulate economic activities that can help Somalia earn more and more from trade in addition to ensuring food security.

Development of ICT Sector

16. The key constraint in the development of this sector has been the absence of a law to regulate ICT related activities. Now that the Telecom Law is in place, a few initiatives that urgently need to be implemented have been given priority in the 2018 Budget and more financing will be programmed in future budgets to implement other initiatives.

Exports Promotion

17. In this budget, some initiatives to incentivize exports and to improve the regulatory regime for export trade will be supported. The initiatives, which have been developed by the Ministry of Trade and Industry, include: (i) Register all importers and exporters and later engage them on how Government can assist them in identifying new markets and expanding the existing ones; and (ii) Expedite the implementation of the SCORE project aimed at encouraging Somalis especially the youth to start Small and Medium Enterprises (SMEs) with a view to engage in export trade.

Fiscal Rules

18. The budget is guided by the following fiscal rules:

- (i) The budget makes no addition to government debt;
- (ii) The budget has a zero cash balance;
- (iii) Prepare realistic budgets founded on conservative revenue projections
- (iv) Maintain a domestic revenue floor whilst reducing dependence on grants;
- (v) Allow no expenditure arrears;
- (vi) To effectively reduce the stock of arrears, start paying down outstanding arrears in a transparent manner in the event of windfall revenues;
- (vii) Grants projections should be realistic, based on confirmed pledged grants.

Fiscal Targets

19. To ensure regular and constant progress is made to improve the compositional and fiscal stance of the annual budget, the following set of fiscal targets has been adopted and used to guide preparation of the 2018 budget:

- (i) Reduce salaries proportion of total spending annually, to not more than 55% in 2018 and by 2025 to reach 35%
- (ii) Increase capital share of total spending annually, reaching to 25% by 2025.
- (iii) Carry out a review of expenditure to identify options to provide compositional balance to the budget in light of anticipated revenue expansion in the near term, improve efficiency, and help better focus spending on poverty reduction. Attention is to be given to expenditures on infrastructure, health, education and social protection as funds become available.
- (iv) Undertake a review of the functions being performed by MDAs in order to inform of overlaps and duplication, gaps in coverage for essential services and policy advice, and to inform of staffing and organizational arrangements.
- (v) Increase the share of domestic revenue to total revenues annually, to cover operating expenditures by 2025.
- (vi) Increase the Revenue to GDP ratio over time to a level comparable to neighboring countries.

Implement the IMF Staff Monitoring Program (SMP)

20. Somalia's SMP with the IMF focuses on capacity-building and economic reforms to help Somalia over time to build its institutions and economic policies which are needed to achieve higher and more inclusive economic growth. The SMP will also establish a track record of policy and reform implementation needed, among other measures, for Somalia to eventually reach debt relief under the HIPC Initiative.

Gender Responsive Budgeting

21. The Government is committed to developing and implementing policies and measures to enhance the socio-economic empowerment of women. Budget allocations are one of the major instruments to strengthen women empowerment. In this regard, we shall be providing sex-disaggregated budget data in the quarterly budget performance reports produced by the Federal Ministry of Finance.

Budget Estimates for 2018

22. Mr. Speaker, now I turn towards the estimates of revenues and expenditures for the next fiscal year.

Revenue Estimates

23. Mr Speaker, total revenue for 2018 is estimated at \$302 million compared with the revised budget of \$260 million in 2017, reflecting an increase of 16%. Tax revenue are estimated at \$137.2 million compared to the revised budget of \$113.6 million for 2017. Non-tax revenue are estimated at \$31.8 million compared to the revised budget of \$24 million in 2017. Grants are estimated at \$133 million in 2018 compared to the revised budget of \$122.6 million in 2017.

Expenditure Estimates

24. Mr. Speaker, as already mentioned, our budgets must be zero cash balanced since borrowing is not allowed due to the large stock of international debt that Somalia has. This is one of the key benchmarks agreed with the IMF under the Staff Monitoring Program (SMP). Accordingly, expenditure for 2018 will be the same as the estimated revenues, at \$302 million.

25. Recurrent expenditure is estimated at \$240.9 million for 2018 against a revised budget \$221.8 million for 2017, showing an increase of 8.6%. Compensation of employees is budgeted at \$124.8 million compared to the revised budget of \$127.9 million for 2017, a decrease of 2.4%. Good and services are budgeted at \$76 million compared to the revised budget of \$64.9 million in 2017.

26. Transfers to State Governments will be \$30.6 million in 2018 compared to the revised budget of \$18.6 million in 2017, showing an increase of 65%. The Federal Government recognizes that State Governments have increased responsibilities and will gradually increase the transfers to States as more revenues become available in the future years. Project expenditure is budgeted at \$36.3 million compared to the revised budget of \$38.3 million in 2017, representing a decline of 5.4%.

Capital Spending

27. Mr. Speaker, as already mentioned, the previous years' budgets have largely financed recurrent expenditures with very insignificant spending on development

activities. The share of capital spending to total expenditure has ranged from 1% in 2014 to 6% in 2016 and is projected at 10% in 2017. Much of this spending has supported the establishment of ICT infrastructure in MDAs and construction of government office buildings. In 2018, Government plans to increase the share of capital to total expenditure to 15%.

28. Accordingly, capital spending is estimated at \$12 million in 2018 against a revised estimate of \$12.7 million in 2017. This development spending represents only funds that are managed by the Federal Government. It excludes the off-budget development spending which is directly managed by Non-Governmental Organizations and other donor communities. Details of the off-budget spending is provided in the Budget Policy Framework paper that has been laid before you as part of the budget documentation.
29. The development spending to be managed by the Federal Government will focus on four areas that have been identified to likely contribute most to economic development, under the circumstances. The areas include agriculture, health, education and roads.

Agriculture

30. Government has allocated \$ 1 million in the 2018 budget to provide high yield seeds to farmers to be able to improve their agricultural production in addition to improving the country's food security. Government has also allocated another \$1 million for desilting works on some sections of Lower Jubba and Middle Shabele Rivers. The desilting works are expected to prevent flooding in the areas where those rivers flow, which in the end will facilitate improved agricultural activities.

Health

31. A total of \$xx million has been allocated to construct women and children's healthcare centers in xx Districts. This is expected to contribute towards the improvement in the health of the country's workforce, in addition to empowering women.

Education

32. Government has allocated \$x million to construct at least four classrooms in xx Districts each. Spending in this area is also expected to contribute towards the needed improvements in the country's human capital, against the backdrop that people are the most precious resources of any nation.

Roads

33. Keeping in view the significant role transportation has to play for strengthening the economy of Somalia, the government takes the development of this sector very seriously. Accordingly, we are allocating \$x million to improve the conditions of the road network in both urban and rural areas.

34. In addition to these meager contributions towards development spending, concerted efforts are planned to be made to entice private investments through FDI and promotion of public private partnerships. At this note we would like to thank some sections of the private sector that have been at the forefront in construction of roads, healthcare facilities, education institutions, and water facilities in various areas of the country. That is the way to go and we would like to encourage them to continue to do so as we pull our country from the pits of political and economic ruin.

Revenue Measures for 2018

35. Mr. Speaker, as mentioned above, one of the key strategies and No. 1 priority for the Ministry of Finance is Revenue mobilization. Without collecting more taxes we cannot hope to increase development spending that is crucial for the desired economic growth. I would like now to present the revenue measures that are proposed to be introduced in the 2018 financial year. I am counting on this August House to embrace the proposed revenue measures.

Payroll taxes

36. In accordance with the tax laws, all employers both in public and private sectors as well as Civil Society Organizations and Non-Governmental Organizations will be required to deduct 'pay as you earn' taxes from salary payments, allowances or wage payments made to their employees at the individual income tax rates as defined in the tax law. The taxes deducted from staff shall be remitted to the Ministry of Finance on a monthly basis. Details of how the tax is calculated and where the taxes are to be remitted shall be communicated to all employers by the Department responsible for Inland Revenue. Noncompliance will attract penalties. \$4.85 million

Corporate Profit Tax

37. There has been a grievance from some companies that it is unfair for Government to collect profit taxes from just a few companies that are compliant and leave the others without meeting their obligations of paying their profit taxes. Against this background, all companies will now be required to file their tax returns without fail as required by the tax law. For companies that refuse to comply, it is proposed that the Ministry of Finance will use indirect methods to estimate the tax liability of such companies. \$1.24 million.

Rental Income Tax

38. Government proposes to increase the rental income tax rate from 5 to 15 percent tax on the rental returns of property owners. \$840,000

Sales Tax on Hotels

39. By law all hotels are required to charge a 5% sales tax at the point of sale of hotel services to their clients. Government appeals to all hotel owners to comply with the sales tax law and remit this tax to the Inland Revenue Department on a

monthly basis. There will be penalties for noncompliance. At least \$800,000 is expected to be collected from sales tax on hotels in 2018. \$600,000

Sales Tax on Telecommunications

40. Since 2014 Telecom companies have been paying a turnover tax that has been determined through negotiations between Government and the Telecom companies. Following the passage of the Telecommunications Law, which this August House enacted in September this year, the payment of 'negotiated' taxes will cease to exist since the circumstances that necessitated negotiated taxes are no more. The negotiated taxes will, starting January 2018, be replaced with a 15% sales tax on telecom services sold in accordance with the sales tax law. Government appeals to all telecom companies to comply with the sales tax law and remit this tax to the Inland Revenue Department on a monthly basis. There will be penalties for noncompliance. At least \$6.5 million is expected to be realized from sales tax on telecommunications services in 2018.

Sales Tax on Manufactures, Electricity and Water

41. The sales tax law also requires the imposition of a 5% sales tax on locally manufactured goods such as mineral water, and on services such as electricity and piped water. The Inland Revenue will enforce the collection of this tax and all the concerned taxpayers are required to comply with the law. At least \$450,000 is expected to be collected from this revenue measure in 2018.

Excise Duty on Petroleum

42. Government proposes to increase excise duties on petroleum imports by 25%. This measure is expected to generate \$2 million in additional revenues.

Import Duty on Khat

43. In line with the recommendation of the Forum for Finance Ministers in Federal and State Governments, import duty on Khat is proposed to be increased from \$2 to \$2.5 per kg of Khat. This revenue measure is expected to generate \$500,000 in additional revenues.

Sales Tax on Imports

44. Until now importers have not been paying the 5% sales tax on imports as required by law. Enforcement of this tax is proposed to start in January 2018. The tax is applicable on imported goods based on the value of the goods, following calculation of customs duties. This revenue measure is expected to generate at least \$20 million in tax revenues. This implies that import duties will now be paid on the basis of the value of the imports. This will not create any additional liability for the importers and only represents a change in valuation and collection methodology.

Departure Fee

45. In the 2017 budget Government had proposed to introduce a departure fee for all passengers on international flights. Indeed this fee was introduced, however a decision was reached to use the proceeds from this fee to assist drought victims. The fee was discontinued when the drought came to an end. Government proposes to continue levying a \$20 departure fee per passenger on outbound international flights. This revenue measure is expected to generate at least \$1.9 million in non-tax revenues in 2018.

Non-tax Revenue

46. Mr Speaker, I also propose to raise rates for various Non-tax Revenue sources, to harmonize them with the prevailing economic conditions.

Taxpayer Education

47. Mr. Speaker, tax administration has been largely constrained by the culture on non-payment of taxes that has developed in the last 25 years of conflict in Somalia. We all need to educate and persuade our taxpayers to comply with tax laws so that we can generate sufficient revenue to redevelop our country. The Ministry of Finance has developed a medium term taxpayers' education plan and its implementation has already begun. We request all Members of this August House to support and even participate in these taxpayer education campaigns. Religious Leaders are also called upon to participate in these campaigns.

Appropriation

48. Mr. Speaker, permit me to reiterate that this budget aims at accelerating the momentum towards the rebuilding of our country and the restoration of peace in the whole of Somalia.

49. Mr. Speaker, by virtue of the responsibility entrusted to me as Minister of Finance, I now present to this August House, the Budget Estimates for financial year 2018, as follows:

- (a) Revenue plus grants: \$301,987,972;
- (b) Recurrent expenditure: \$277,153,785;
- (c) Project expenditure: \$36,272,324;
- (d) Capital expenditure: \$1,067,901;
- (e) Total expenditure: \$277,153,785.

Concluding Remarks

50. Mr. Speaker, I am grateful to this August House that has given me the opportunity to present the next year's budget. The 2018 budget is full of new reforms that the Government is committed to implement. We have to appreciate that the path to reforms is usually long and torturous, and is only traversed by governments that are resilient and show consistency and determination. This is exactly our resolve and we would fulfill its demands. The path on which we are travelling is difficult at this time, but with resilience, courage and steadfastness we have to build a strong, secure and prosperous Somalia. With the ability and

resilience of peace loving Somalis, no destination is unreachable. We pray to Allah that He makes things easy as we strive to rebuild Somalia.