Ministry of Finance

FY2022 Budget Strategy

August 31, 2021

Abbreviations

CBS	Central Bank of Somalia
CoM	Council of Ministers
DP	Decision Point
ECF	Extended Credit Facility
FGS	Federal Government of Somalia
FMS	Federal Member States
FY	Financial year
IDIQ	Indefinite Delivery, Indefinite Quantity
IMF	International Monetary Fund
MDA	Ministries, Departments, and Agencies
MTFF	Medium-term fiscal framework
SNA	Somali National Army
BRA	Benadir Regional Administration
CMC	Cash Management Committee
G.C.C.	Gulf Cooperation Countries
GDP	Gross Domestic Production
GSS	Galmudug State of Somalia
HIPC	Heavily Indebted Poor Countries
HS	Harmonized System
HSS	Hirshabelle State of Somalia
ICT	Information & Communication Technology
IGFF	Intergovernmental Fiscal Forum
JSS	Jubbaland State of Somalia
NGO	Non-Governmental Organization
PL	Puntland State of Somalia
SL	Somaliland
SMP	Staff-Monitored Program
SOS	Somali Shilling
SWS	South West State of Somalia

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1. Introduction

1.1 Background

This paper presents to the Council of Ministers (CoM) the fiscal strategy for the financial year (FY) 2022 and outlines the economic and political climate and recommended resource ceiling within which the FY2022 Budget is to be prepared. The paper adopts a medium-term strategic view, providing an assessment of the macroeconomic outlook for Somalia over the medium-term. It then provides a summary analysis of the Federal Government of Somalia's (FGS) fiscal performance over the FY2018 to FY2021 (end April) 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 presents 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 concludes by applying the indicative resource ceiling to the FGS's Ministries, Departments, and Agencies (MDAs) to derive detailed expenditure ceilings for each entity over the medium-term, as well as indicate a timetable for FY2022 Budget Preparation.

1.2 Recommendations and Endorsement Requirements

In-line with international best practice for Annual Budget preparation, this fiscal strategy paper is presented to the CoM to solicit their endorsement of:

- FGS priorities for FY2022.
- Fiscal rules to be applied to the FY2022 Budget Preparation process.
- The macroeconomic and fiscal forecast.
- The fiscal space generated through the application of revenue and expenditure measures; and
- Detailed expenditure ceilings for MDAs.

2. Macroeconomic Outlook

2.1 Macroeconomic Trends

Somalia's economy contracted by an estimated 0.3 percent in 2020, driven largely by the concomitant challenges stemming from COVID-19, erratic weather patterns, and the locust infestation. This contraction was significantly less severe than anticipated at the onset of the pandemic, largely due to increased developmental assistance, fiscal policy measures effected by the Government to curtain the impact on the private sector and dampen the risk of price increases of critical foodstuffs, and the extension of significant social protection measures to provide much needed social assistance to the most vulnerable segments of the population. Lifting of the COVID-19 induced lockdown in August 2020 also supported the economy, as the Government cautiously reopened the country to foreign travelers. Additionally, remittance inflows from our diaspora – initially forecast to decrease due to job losses abroad – increased by 17.6 percent, thanks in large part to the counter-cyclical fiscal policy measures adopted by more economically developed nations. Given the speedy global economic recovery from the initial COVID-19 shock, the Government currently estimates a 2.4 percent real GDP growth rate for 2021, and a return to pre-COVID growth rate levels for 2022 (2.9 percent growth) and acceleration thereafter, to roughly 3.2 percent by 2023.

Table 1 – Key macroeconomic indicator trends (2018 - 2023) [Source: FGS, IMF, and WB Estimates]

Item	2018	2019	2020e	2021f	2022f	2023f
Nominal GDP (millions of dollars)	4,721	4,942	4,975	5,402	5,672	5,976
Real GDP growth (percent)	2.8	2.9	–0.4	2.4	2.9	3.2
Nominal per capita GDP (dollars)	332	338	331	350	359	369
Poverty incidence at $1.90/day (purchasing power parity)	69					
Money and prices						
Consumer Price Index inflation rate (end of period)	3.2	3.1	4.1	2.5	2.1	2.1
Private credit (percentage change)	9.2	11.8	6.5			
Private credit (share of GDP)	2.3	3.9	4.2			
Fiscal (central government)						
Total revenue and grants	5.7	6.8	10.1	10.0	11.5	12.5
Of which external grants	1.8	2.2	5.8	5.2	6.2	6.7
Total expenditure	5.7	6.4	9.9	9.6	10.8	11.9
Of which compensation of employees	3.0	3.3	4.6	4.8	5.1	5.5
Of which purchase of nonfinancial assets	0.2	0.3	0.4	0.6	1.0	1.0
Overall net balance	0.1	0.5	0.2	0.4	0.7	0.6
External						
Current account balance	–7.5	–10.5	–13.3	–12.2	–11.9	-11.9
Trade balance	–84.8	–83.0	–91.3	–85.8	–86.9	-83.5
Exports of goods and services	23.7	22.6	14.3	21.8	22.2	22.6
Imports of goods and services	108.5	105.6	105.5	107.6	109.1	106.1
Remittances, private transfers	31.4	31.9	30.8	31.3	31.9	31.4
Official grants	46.6	41.3	47.9	42.9	43.8	40.7
Foreign direct investment	8.6	9.1	9.4	9.2	9.3	9.7
External debt	111.3	107.4	39.3	36.7	35.5	29.4
Exchange rate (shilling/dollar) (end of period)	23,954	25,065	25,761			

Notably, foreign direct investment, total government revenue, and total government expenditure as a percent of GDP has increased at a steady rate since FY2018, reflecting the concerted effort by the FGS to foster improved security and stability in Somalia, as well as to implement a serious reform effort to improve the quality and efficacy of its public financial management and public administration. Concerningly, however, the concomitant impact of COVID-19, locust swarms, and erratic weather patterns contributed to a significant decline in the country's exports, worsening the current account balance, and leaving Somalia with an increasing trade deficit which is not expected to return to 2019 levels until 2023.

2.2 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 favorable 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 37th 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 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. This pre-budget statement seeks to address some of the challenges around revenue sharing, by providing Federal Member States and the Benadir Regional Administration with clarity on the methodology used determine the fiscal envelope for inter-governmental fiscal transfers, as well as indicative transfer ceilings by administrative entity.

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.

2.3 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 will 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.
- **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 honored in a timely manner.

Against this backdrop, we anticipate 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.

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.

Table 2 – Macroeconomic Assumptions of Nominal GDP

Item	2018	2019	2020	2021	2022	2023	2024	2025
Nominal GDP (Millions of US$) [Scenario 1 - Baseline]	4721	4942	4975	5402	5672	5976	6324	6692
Nominal GDP (Millions of US$) [Scenario 2 - Upside]	…	…	…	…	5726	6090	6506	6949
Nominal GDP (Millions of US$) [Scenario 3 – Downside]	…	…	…	…	5591	5820	6094	6388

2.4 Macroeconomic Forecast

Based on the risks and assumptions above, the table below provides a summary of GDP and revenue estimates for the period FY2016 – 2020 and forecasts for FY2021 – 2025. Aggregate revenue forecasts have been developed through a linear regression approach which estimates tax and non-tax own-source revenue as a function of total GDP, grants have been estimated based on a time-series forecast of grants receipts using 2017 as the base year.

Table 3 – Macroeconomic and Aggregate Revenue Forecasts

Scenario and Indicator		Estimates				Projections			
		2018	2019	2020	2021	2022	2023	2024	2025
Baseline Scenario (Scenario 1)	GDP (millions $)	4721	4942	4975	5402	5672	5976	6324	6692
	Total Revenue (millions $)	276	338	497	311	504	475	484	491
	Domestic Revenue	183	230	211	214	247	257	267	279
	Grants	93	108	286	96	257	218	216	212
Upside Scenario (Scenario 2)	GDP (millions $)	…	…	…	…	5726	6090	6506	6949
	Total Revenue (millions $)	…	…	…	…	506	480	491	502
	Domestic Revenue	…	…	…	…	249	262	275	290
	Grants	…	…	…	…	257	218	216	212
Downside Scenario (Scenario 3)	GDP (millions $)	…	…	…	…	5591	5820	6094	6388
	Total Revenue (millions $)	…	…	…	…	500	469	474	478
	Domestic Revenue	…	…	…	…	243	251	258	267
	Grants	…	…	…	…	257	218	216	212

The remainder of this strategy paper and the following fiscal framework is developed using the baseline Scenario 1 as the basis for calculating the fiscal framework and deriving sectoral and MDA-level aggregate expenditure ceilings. Fiscal frameworks resulting from the upside and downside scenario will be derived by pro-rating the revised domestic revenue targets to the administrative and economic allocations contained in the baseline scenario.

3. Fiscal Trends

To ensure that the presented fiscal forecast in Section 4 below is credible, this section provides a summary analysis of revenue and expenditure trends over the period FY2016 – 2021 (as at the end of April), as well as a discussion of fiscal risks and assumptions used to derive the fiscal forecast.

3.1 Revenue

The tax burden is an important indicator measuring the extent of government intervention in the economy. This indicator is important in the Somali context for two reasons. Firstly, it provides a measure of domestic revenue mobilization efforts which are critical to the Government's sustainability. Secondly, non-oil producing countries with a tax burden of less than ten percent of GDP tend to not develop. Additionally, the indicator allows one to assess the rate of growth of domestic tax revenue controlling for changes in the economy, thereby allowing for an assessment of improvements in tax administration.

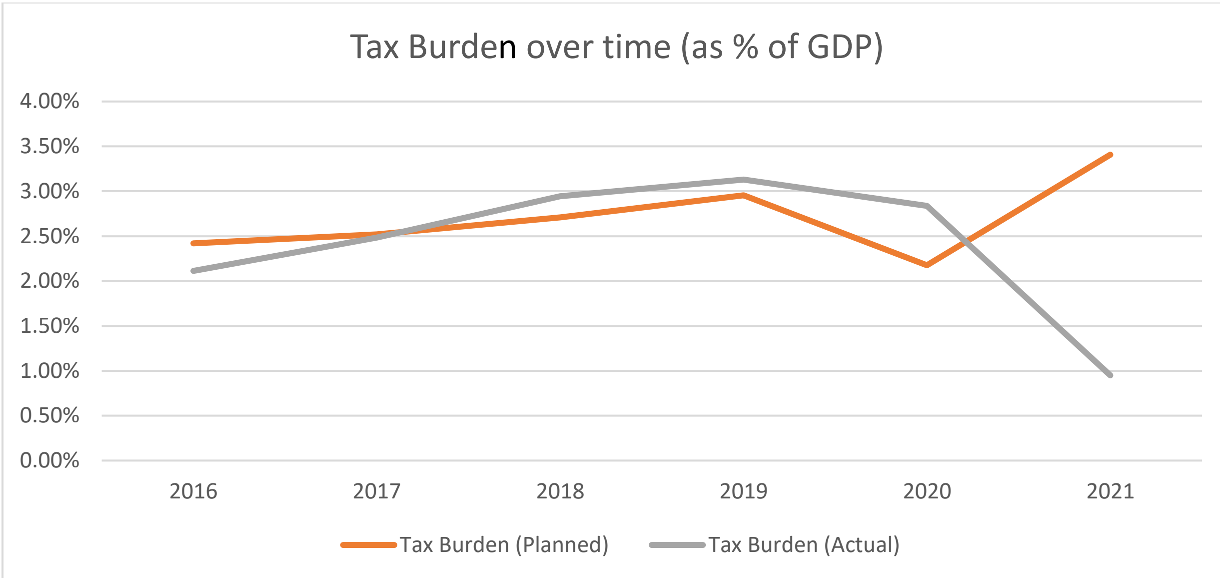

Figure 1 - Tax to GDP Ratios over time

In 2016, the Government did not achieve its fiscal policy objective as the planned tax burden of 2.42 percent of GDP was not achieved, with only 2.11 percent of GDP being collected by the end of the fiscal year. The Government collects taxes as a form of macroeconomic stabilization, and this implies that this objective was not achieved.

In 2017, the planned tax burden of 2.52 percent of GDP was nearly achieved, with 2.48 percent of GDP being collected by the end of the fiscal year. This is the only year where this is the case in the period of analysis.

Between 2018 through 2020, the actual tax burden was higher than our planned tax burden. This is likely to have had a negative impact on the private sector and households, as their actual tax burden was higher than the implied tax burden in the published annual budgets for these years. This is particularly problematic in 2020, when the economy underwent a recession due to the outbreak of COVID-19, locust swarms, and droughts. During periods of recession, Governments typically lower their tax burden to provide relief for their citizens. While the Government attempted to do this through the supplemental budget which lowered the planned tax burden to 2.18 percent of GDP compared to an actual tax burden of 3.13 percent in 2019, this was not fully achieved as the actual tax burden by the end of the 2020 fiscal year was 2.84 percent.

In 2021, Somalia is expected to recover, and so the 2021 annual budget provisioned for an increase to the planned tax burden. However, our actual tax burden as at the end of April is very low at only 0.95 percent of GDP, implying a gap of nearly 2.5 percent of GDP, roughly equivalent to the entire tax burden in 2017. Overall, these figures suggest that domestic revenue mobilization is improving, albeit very slowly, having grown from 2.11 percent of GDP in 2016 to 2.84 percent of GDP in 2020. Projecting that rate of growth forward, it would take nearly 49 years to reach a threshold tax burden of ten percent of GDP.

Tax composition can be defined as the share of tax revenue coming from direct taxes and indirect taxes. Direct taxes are taxes which consider the individual circumstances of taxpayers (e.g., income taxes and property taxes) whereas indirect taxes (e.g., taxes on international trade and transactions) do not take this into account. This is important within the context of a poverty-stricken country, as indirect taxes negatively impact on the poor. This is also important, as the level of direct taxes directly demonstrations the effect Government is having on income redistribution.

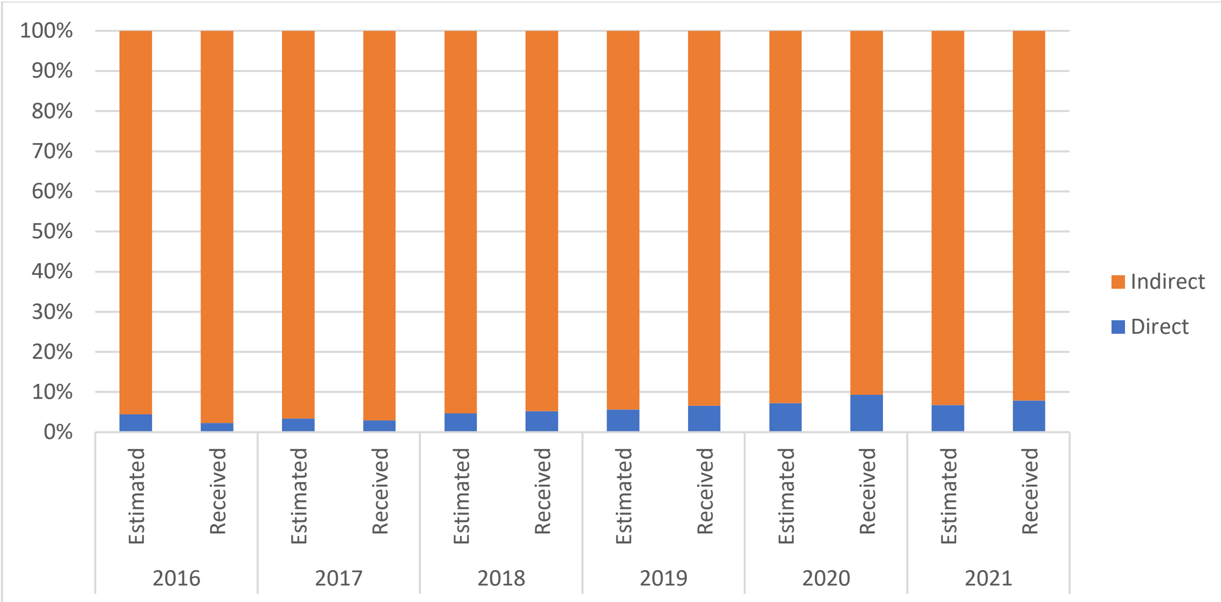

Figure 2 - Composition of tax revenues over time

Overall, we see the ratio of direct tax is very low. If we look at the years 2016 and 2017, the actual share of taxes from direct taxes was less than what was estimated. Since then, however, the share of actual tax receipts in the form of direct taxes have been higher than what was estimated. While not ideal, having a higher share of tax revenue come in the form of direct taxes is beneficial to the poor, as implies overall that the Government's actual tax regime has increasingly been pro-poor in nature given that it takes the individual circumstances of taxpayers into account more than in previous years.

3.2 Expenditure

Government final consumption expenditure is another important indicator that measures the extent of government intervention in the economy, as it shows the extent to which Government impacts on the private sector. This impact has three channels. First, Government spending on compensation of employees translates into household consumption expenditure, as its employees spend their salaries in local markets. Second, the Government directly purchases goods and services from the private sector to meet its operational requirements. Third, the Government also sells goods and services to the public which detracts from private sector sales and increases the cost of production for business, most commonly in the form of licenses and administrative fees.

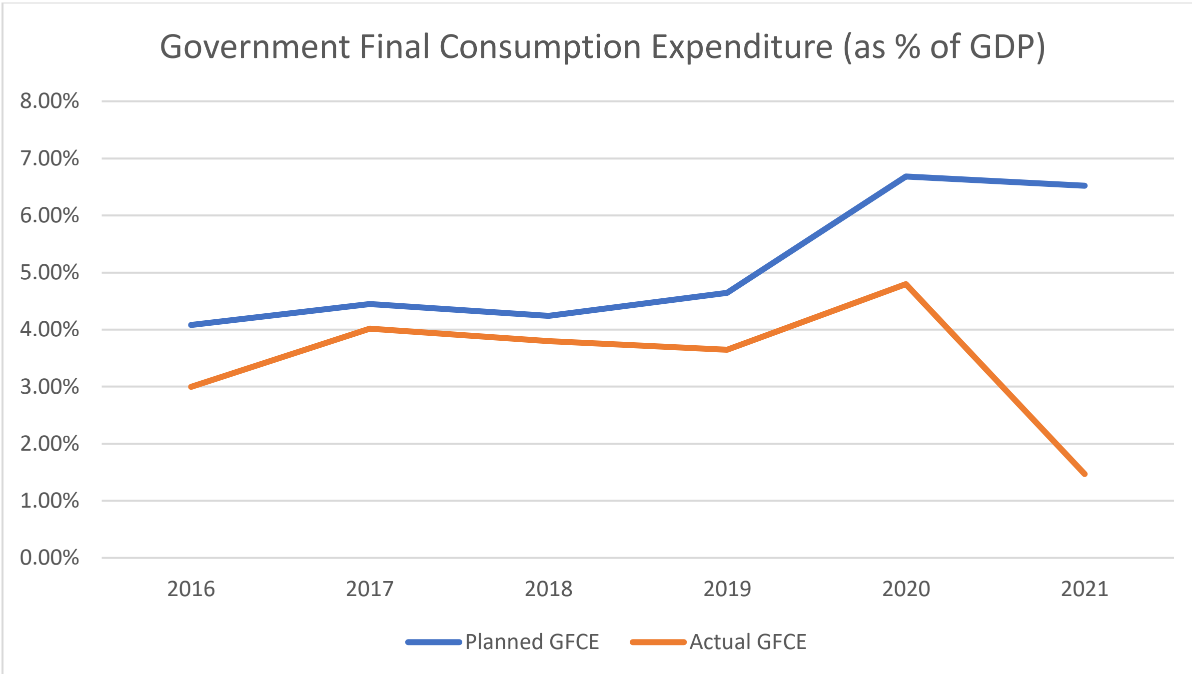

Figure 3 - Government final consumption expenditure over time

Looking at the chart above, actual GFCE is consistently less than planned, and very low when compared to the average for fragile states which is around 11 percent (World Bank Data). Between 2018-2019, the plan was to increase GFCE, but this indicator decreased over this period. This is likely due to revenue shortfalls leading to spending on compensation of employees and on use of goods and services to be less than planned. In 2020, in response to the recession brought about by COVID-19, the Government's plan was to increase GFCE to as to provide stimulus to the private sector. While actual GFCE did increase in 2020 to 4.8 percent of GDP from 3.65 percent of GDP in 2019, it did not increase to the planned 6.68 percent of GDP. This implies that the Government was not able to deliver the planned stimulus measures.

Net Operating Balance is the changes to Government net worth. This is important for future debt sustainability analysis as it shows whether a government is increasing its net worth through asset acquisition when positive or decreasing its net worth through asset disposal when negative. When this indicator is consistently negative, it may become more difficult to borrow and debt may not be sustainable as it suggests that the Government is consistently incurring expenses higher than its revenue.

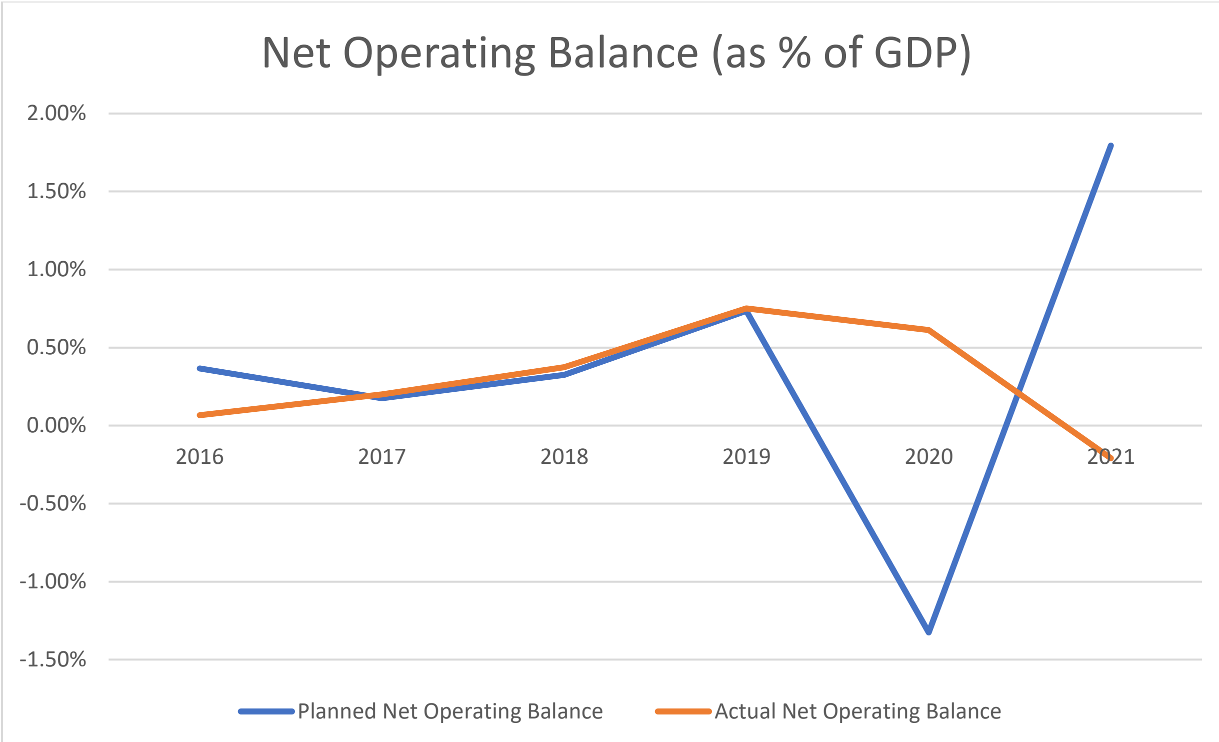

Figure 4 - Government Net Operating Balance over time

In 2016, the actual Net Operating Balance is lower than planned, which suggests that the Government did not improve its net worth as planned for in the 2016 Annual Budget. Improving the stock of assets is important as it directly affects the costs of borrowing. The higher the stock of assets available to a government, the lower the costs of borrowing tend to be as the Government has more collateral available.

In the 2020 supplemental budget, the Government planned to run a deficit, with planned expenses being higher revenue, resulting in a negative net operating balance to provide a stimulus to the economy in response to the recession. Instead, the net operating balance for 2020 was positive, implying that the Government had space to accumulate more assets, did not run a deficit, and may not have provided the level of stimulus to the economy as was provisioned for in the supplemental budget. These assets acquired through the positive net operating balance in 2020 are likely to have been in the form of financial assets in the form of deposits in the Central Bank of Somalia. Based on the 2021 net operating balance as at the end of April, it is likely that these financial assets have been utilized, explaining the current negative net operating balance.

Based on the analysis above, the following policy issues and recommendations have been reflected into the proposed fiscal framework for the medium-term:

1. **Tax Burden**: Based on the analysis, the tax burden only grew by 0.73 percent of GDP between 2016 and 2020. Based on this rate of growth, it would take nearly 49 years to reach a threshold of ten percent of GDP which is understood to be a minimum floor needed to ensure developmental progress. As such, the Government plans to seriously revise its tax administration and revenue enhancement plans.

2. **Tax Composition**: As a heavily poverty-stricken country, it is important that the Government's tax policy and revenue enhancement plans are considerate of the impact of these policies on the poor. As such, plans consider how to substantially increase the share of tax revenue coming in the form of direct taxes.

3. **Net Operating Balance**: After reaching the HIPC completion point, the Government will again be eligible to borrow to meet its significant financing needs to support the country's development. This will be challenging if a strong track record of positive net operating balances (and so of asset acquisition) is not undertaken today. As such, the Government aims to develop more reliable and credible budgets that accurately reflect revenue and expense requirements and leave enough room for financial and non-financial asset acquisition.

4. **Government Final Consumption Expenditure**: Planned Government spending on compensation of employees and on use of goods and services, as well as its planned sales of goods and services are important signals to the private sector. When the budget is announced at the start of the year, these figures give private firms an indication of how much business they can expect from Government, and as such it is critical that these figures are as realistic as possible to support their planning. Additionally, as these plans are approved by Parliament in the form of the Annual Appropriation, it is important that the forecasts are realistic as it is currently difficult to show that they are being fully implemented.

3.3 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, 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.

Given the contextual analysis done above to identify macroeconomic and fiscal risks, we make the following baseline assumptions to derive the fiscal framework:

- **Revenue:** The Government continues to improve on revenue collection as a share of GDP.
- **Sectoral Allocations:** Sectoral allocations continue to reflect an increase in spending in social sectors.
- **MDA Allocations:** MDA allocations with a sector are held constant as a percentage share of the total FY2021 budget.

4. Fiscal Forecast

4.1 Statement on Budget Principles and Fiscal Rules

The Annual budget is to be prepared in accordance with a set of principles which have been agreed with the IMF under the SMP and ECF agreements and which are considered appropriate for sustainable fiscal management in Somalia given its current capacity and macroeconomic and fiscal considerations. The Budget Principles are:

- The Annual Budget is prepared on a cash basis.
- The Annual Budget is managed within a medium-term fiscal framework presented in this strategy paper.
- The Annual Budget must be credible and prepared based on conservative revenue projections. Furthermore, projections of grants from donors must be realistic and based on confirmed pledged grants, and ideally cover discretionary spending. Expenditure projections should be credible to prohibit the creation of new expenditure arrears.
- The Annual Budget is limited to the funds that are under the direct control of the Federal Government; and
- The Annual budget is implemented based on the rules for cash management which are included in the annual Appropriations Act passed by Parliament following development of the detailed Appropriations Bill developed by the Executive.

To support adherence to these Budget Principles, a set of fiscal rules is recommended to establish the framework for the fiscal strategy. These rules are:

- **Debt limit:** The Annual Budget makes no addition to Government debt.
- **Budget Balance:** The Annual Budget has a zero or greater (i.e., a cash surplus) overall balance.
- **Revenue:** The Annual Budget must maintain a domestic revenue floor as agreed with the IMF whilst reducing dependence on grants over time. Any windfall revenues – that is, revenue receipts greater than the revenue projections in this document resulting from improved macroeconomic performance above the outlook or through improvements in tax administration efficiency – are to be allocated towards repayment of outstanding arrears and thereafter to replenish the fiscal buffer; and
- **Fiscal buffer:** A fiscal buffer comprising sufficient funds to cover two (2) months of the total FGS compensation of employees' budget, the food component for the Somali National Army (SNA), and a replenishment trigger of one month's coverage shall be established and maintained.
- **Fiscal space:** Any fiscal space generated through the application of revenue and expenditure measures presented in section 4.2 below are to be applied towards the FGS's investment component of the NDP9 following any payments towards outstanding arrears and replenishment of the fiscal buffer.

4.2 Statement on Revenue and Expenditure Measures

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.

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 token interest payments and repayment of debt principles in future budget years; these figures have been included to derive the fiscal forecast.

4.3 Fiscal Forecast

Based on the macroeconomic scenario discussed above, and an application of the revenue enhancement and expenditure savings measures identified in the preceding sub-section, we derive the following fiscal forecast for the period FY2022 – 2025.

Table 4 – Fiscal Forecast FY2022 – 2025

In US$ Million	Actual			Budget	Forecast			
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Revenue	**276.3**	**337.8**	**496.8**	**648.1**	**503.9**	**475.4**	**483.6**	**491.2**
Domestic Revenue	**183.4**	**229.7**	**211.2**	**260.1**	**247.0**	**257.5**	**267.2**	**279.2**
Tax Revenue	**138.9**	**154.7**	**139.5**	**182.9**	**173.7**	**181.7**	**188.9**	**198.2**
Taxes on income, profits, and capital gains	8.6	11.7	16.2	13.8	15.8	17.7	18.5	20.2
Taxes on goods and services	22.1	25.0	21.3	30.0	30.8	33.6	36.0	39.1
Taxes on international trade and transactions	100.3	107.0	91.1	128.0	111.3	114.1	117.1	120.1
Other Taxes	7.9	11.1	11.0	11.0	15.9	16.3	17.5	18.8
Non-tax Revenue	**44.5**	**74.9**	**71.7**	**77.3**	**73.3**	**75.7**	**78.3**	**81.0**
Donor Revenue	**92.9**	**108.1**	**285.6**	**388.0**	**256.9**	**217.9**	**216.4**	**211.9**
Budget Support	65.4	90.2	153.4	166.0	149.9	119.9	119.9	119.9
Project Support	27.5	18.0	132.2	222.0	107.0	98.0	96.5	92.0
2. Expenditure	**296.0**	**333.4**	**617.5**	**647.6**	**502.3**	**473.8**	**481.9**	**489.3**
Operating Expenditure	**268.5**	**315.5**	**485.3**	**425.6**	**396.9**	**375.8**	**385.4**	**397.2**
Compensation of Employees	143.1	162.9	227.0	246.9	246.9	246.9	246.9	248.3
Use of Goods and Services	80.6	92.4	80.7	98.3	78.6	74.8	76.7	79.1
Consumption of Fixed Capital	9.9	14.8	18.6	32.2	23.3	10.0	16.7	23.5
Interest	0.0	0.0	14.4	2.5	0.9	0.8	0.7	0.6
Subsidies	0.0	0.0	2.2	0.0	0.0	0.0	0.0	0.0
Grants	30.8	45.0	80.3	43.2	43.0	40.9	41.9	43.2
Social Transfers	0.0	0.0	62.1	0.0	0.0	0.0	0.0	0.0
Contingency	4.1	0.4	0.0	2.5	2.5	2.4	2.4	2.5
Repayment of Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Donor-funded Special Projects	**27.5**	**18.0**	**132.2**	**222.0**	**107.0**	**98.0**	**96.5**	**92.0**
3. Fiscal Space	**-19.7**	**4.4**	**-120.6**	**0.5**	**0.0**	**1.6**	**1.7**	**1.9**
Drawdown of cash balances								
Contingent expenditures								
POST_HIPC_DP (debt servicing principle)					12.8	12.5	12.1	11.9
4. Fiscal Space - including debt repayments	**-19.7**	**4.4**	**-120.6**	**0.5**	**-12.8**	**-10.9**	**-10.3**	**-10.0**

4.4 Resource for the Annual Budget

Based on the forecast provided in section 4.3 above, the indicative resource ceiling for available for recurrent operating expenditure in the FY2022 Annual Budget is understood to be $396,873,587.22. Including earmarked project support funds, the overall ceiling for the FY2022 Annual budget is thus $503,873,486.86.

4.5 Indicative Resource for Inter-Governmental Fiscal Transfers

The indicative resource envelope for inter-governmental fiscal transfers is derived from the bottom-up, based on extant revenue sharing arrangements. Currently, the following revenue sharing arrangements are in vigor:

- 15 percent of all customs revenue from the Mogadishu port is transferred to the Benadir Regional Administration.
    - The customs revenue from Mogadishu port for FY22 is forecast as $95,264,709. Accordingly, the Benadir Regional Administration would receive $14,289,706.36, contingent on the accuracy of the forecast.
- Federal Member States who do not have ports through which to realize customs revenues are entitled to an annual sum of $1,800,000.
    - Accordingly, Galmudug, Hirshabelle, and South West State would each receive $1,800,000
- Revenues from fishing licenses fees, as agreed in the Addis Agreement, are entitled to shares from this revenue. Puntland is entitled to 18 percent; Jubbaland to 13 percent; South West to 13 percent; Galmudug to 13 percent; and Hirshabelle to 14 percent.
    - The fishing license fees revenue for FY2022 is forecast as $1,000,000. Accordingly, Puntland would receive $180,000; Jubbaland, South West, and Galmudug would receive $130,000 each; and Hirshabelle would receive $140,000, contingent on the accuracy of the forecast.

Additionally, the World Bank Recurrent Cost Reform Finance program (RCRF) provisions for budget support to support the Federal Member States in developing their nascent administrations, with a growing emphasis on improving fiscal space to enable service delivery in key social sectors (health and education).

Furthermore, the Somalia Chamber of Commerce and the Somalia Development Bank are each entitled to 0.5 percent of forecast customs revenue from the Mogadishu port. Accordingly, each entity would receive a sum of $476,323.55 based on the customs revenue forecast above.

The overall indicative allocation and breakdown to each Federal Member State/Regional Authority/Entity is thus defined in the table below.

Table 5 - Resource envelope and breakdown of inter-governmental transfers (baseline scenario)

FMS/RA/Entity	RCRF	Customs	No Ports	Fisheries License	Total
Puntland	$6,722,669.58	$-	$-	$180,000.00	$6,902,669.58
Jubbaland	$4,327,183.99	$-	$-	$130,000.00	$4,457,183.99
South-West	$3,688,155.99	$-	$1,800,000.00	$130,000.00	$5,618,155.99
Galmudug	$3,481,785.79	$-	$1,800,000.00	$130,000.00	$5,411,785.79
Hirshabelle	$3,419,768.60	$-	$1,800,000.00	$140,000.00	$5,359,768.60
Benadir Regional Administration	$-	$14,289,706.36	$-	$-	$14,289,706.36
Chamber of Commerce	$-	$476,323.55	$-	$-	$476,323.55
Somalia Development Bank	$-	$476,323.55	$-	$-	$476,323.55
Total	**$21,639,563.95**	**$15,242,353.45**	**$5,400,000.00**	**$710,000.00**	**$42,991,917.40**

The figures in the table above are indicative, and subject to realization of domestic revenues. Domestic revenues are tied to the country's economic performance, as are the resource envelope for transfers reliant on domestic revenues. Projected transfers envelope and breakdowns per entity under the upside and downside scenarios are included in Annex 2 along with the alternative fiscal frameworks.

Table 6 - Resource envelope and breakdown of inter-governmental transfers (upside scenario)

FMS/RA/Entity	RCRF	Customs	No Ports	Fisheries License	Total
Puntland	$6,722,669.58	$-	$-	$181,717.49	$6,904,387.07
Jubbaland	$4,327,183.99	$-	$-	$131,240.41	$4,458,424.40
South-West	$3,688,155.99	$-	$1,800,000.00	$131,240.41	$5,619,396.40
Galmudug	$3,481,785.79	$-	$1,800,000.00	$131,240.41	$5,413,026.20
Hirshabelle	$3,419,768.60	$-	$1,800,000.00	$141,335.83	$5,361,104.42
Benadir Regional Administration	$-	$14,426,053.14	$-	$-	$14,426,053.14
Chamber of Commerce	$-	$480,868.44	$-	$-	$480,868.44
Somalia Development Bank	$-	$480,868.44	$-	$-	$480,868.44
Total	**$21,639,563.95**	**$15,387,790.01**	**$5,400,000.00**	**$716,774.54**	**$43,144,128.50**

Table 7 - Resource envelope and breakdown of inter-governmental transfers (downside scenario)

FMS/RA/Entity	RCRF	Customs	No Ports	Fisheries License	Total
Puntland	$6,722,669.58	$-	$-	$177,431.70	$6,900,101.28
Jubbaland	$4,327,183.99	$-	$-	$128,145.12	$4,455,329.11
South-West	$3,688,155.99	$-	$1,800,000.00	$128,145.12	$5,616,301.11
Galmudug	$3,481,785.79	$-	$1,800,000.00	$128,145.12	$5,409,930.90
Hirshabelle	$3,419,768.60	$-	$1,800,000.00	$138,002.43	$5,357,771.03
Benadir Regional Administration	$-	$14,085,816.03	$-	$-	$14,085,816.03
Chamber of Commerce	$-	$469,527.20	$-	$-	$469,527.20
Somalia Development Bank	$-	$469,527.20	$-	$-	$469,527.20
Total	**$21,639,563.95**	**$15,024,870.44**	**$5,400,000.00**	**$699,869.48**	**$42,764,303.87**

All these projections do not include on-going discussions between the Federal Government and the Federal Member States on revenue sharing of budget support funds, which are planned to be agreed within the FY2022 budget preparation period, and as such these figures are provided as an indicative envelope for planning purposes and may change in the Executive Budget Proposal and final Appropriation Act as enacted by Parliament later this year.

4.6 Fiscal Space for Policy Accomodation

If the Government approves and applies the expenditure measures proposed in section 4.2 above, we identify a fiscal space of $1.6 million in FY2022 and FY2023, increasing marginally to $1.7 million and $1.9 million in outer years of the fiscal framework. Based on the requirements of the IMF ECF/EFF arrangements, this fiscal space will be available to finance the FGS's investment component of the NDP9.

5. Government Priorities and Expenditure Allocations

5.1 Government Priorities

The Annual Budget is the key instrument through which the FGS implements its policies. This strategy paper serves to create the link between the FGS's overall priorities and the Annual Budget. 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 token 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 below:

- **General Government & Administration Sector**:
  - Build capability of government structures
  - Strengthen systems to monitor MDA performance
  - Issue PFM regulations
  - Operationalize the Anti-Corruption Commission (ACC)
  - Develop a National Anti-Corruption Strategy
  - Ratify the UN Convention Against Corruption (UNCAC)
  - Strengthen debt management capacity
  - Create and build the national statistics office to publish national statistics
  - Reform justice and judiciary systems
  - Improve women's and other vulnerable groups' access to justice
  - Protect Human Rights
- **Security Sector**:
  - Increase the effectiveness of national army and police forces
  - Develop a pension scheme/social security arrangement for security forces
- **Economic Sector**:
  - Restore livelihoods and agricultural productivity in rural areas badly affected by the 2019/20 locust invasion
  - Build national capacity for early warning and response to locusts/pests' outbreaks
  - Improve the business environment
  - Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector
  - Facilitate financial inclusion of the informal sector through savings accounts, mobile banking, and micro loans, including for the self-employed and producers in rural areas
  - Develop and implement a wages and remuneration policy, and an appropriate minimum wage law
  - Rehabilitate key infrastructure
  - Build a legal, regulatory, and institutional framework for private sector-led economic growth including: implementation of the Company Law; enactment of a PPP law; enactment of an Insurance Law; developing strategies and master plans for energy, livestock, fisheries, urban development water, and agriculture;

strengthen the transmission and distribution of electricity; strengthen regulatory bodies for banking, electricity, petroleum and telecommunications; provide support for small and medium-sized enterprises
    - Invest in renewable energy
    - Finalize the legal and regulatory framework governing the oil sector, its fiscal regime, and natural resource revenue sharing arrangements, including through the enactment of an Extractives Industries Income Tax Law
    - Establish an organizational framework for negotiating trade arrangements
    - Establish a trade information portal to streamline trade logistics processes
- **Social Sector**:
    - Establish a national social registry as a functional platform that supports registration and determination of potential eligibility for social programs
    - Establish a social transfer program for the most vulnerable populations and societies at high risk of food insecurity or malnourishment
    - Establish planning for social insurance provision
    - Develop a joint national health sector strategy between FGS and FMSs
    - Develop a strategy to rollout national curricula and examinations at basic and secondary education levels
    - Develop capacity of social workers in housing, health, nutrition, water, sanitation, hygiene, education, child protection, and other key services sectors
    - Support a school feeding program

The priorities outlined above have already been agreed upon 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 at the earliest. As such, MDAs will be required to take these priority areas into account when framing their detailed budgets for FY2022. To support this process, the Ministry of Finance has developed a detailed Budget Preparation Manual which will be disseminated to MDAs along with the Budget Call Circular.

5.2 Expenditure Ceilings

Based on the fiscal assumptions described in section 3.3 above, we define the following indicative expenditure ceilings presented by sector, by MDA, and by economic classification (object code) for the baseline scenario (Scenario 1). Indicative ceilings under the alternative downside scenario (Scenario 2) are included in Annex 2. Given the degree of uncertainty with regards to the macroeconomic outlook given the novel coronavirus pandemic, ceilings are indicative in nature and may be substantively revised as more information becomes available to update the macro-fiscal framework.

Table 8 – Recurrent Expenditure Ceilings by Sector

Sector Code	Sector	2022	2023	2024	2025
100	Administration	$169,624,411.07	$160,613,566.98	$164,728,797.14	$ 169,770,808.68
200	Defense and Security	$162,782,608.00	$154,135,216.44	$158,084,458.72	$ 162,923,100.66
300	Economic Services	$41,234,461.15	$39,043,990.46	$40,044,372.99	$ 41,270,049.34
400	Social Services	$23,232,107.00	$21,997,963.32	$22,561,593.68	$ 23,252,157.92
Total		**$ 396,873,587.22**	**$377,364,760.39**	**$375,790,737.20**	**$385,419,222.53**

Table 9 – Recurrent Expenditure Ceilings by MDA

Sector	Code	MDA	2022	2023	2024	2025
Administration	10101	Office of the Presidency	$9,025,168.50	$8,545,730.51	$8,764,688.65	$9,032,957.85
	10201	Office of Speaker (People's House)	$5,868,973.75	$5,557,200.18	$5,699,586.40	$5,874,039.08
	10202	Member of Parliament (People's House)	$14,644,712.00	$13,866,750.76	$14,222,043.73	$14,657,351.40
	10203	Upper House (Senate)	$4,252,392.00	$4,026,495.03	$4,129,661.61	$4,256,062.11
	10301	Office of the Prime Minister	$6,195,790.00	$5,866,655.19	$6,016,970.24	$6,201,137.40
	10401	Ministry of Foreign Affairs	$3,338,235.33	$3,160,900.49	$3,241,888.87	$3,341,116.46
	10402	Embassies	$6,379,460.00	$6,040,568.22	$6,195,339.25	$6,384,965.92
	10501	Ministry of Finance	$10,080,216.33	$9,544,731.75	$9,789,286.23	$10,088,916.26
	10502	Accountant General	$1,939,580.00	$1,836,544.99	$1,883,600.82	$1,941,253.99
	10503	Other Activities of the State	$62,001,527.32	$58,707,861.67	$60,212,070.61	$62,055,038.93
	10504	Directorate of Financial Reporting Center	$972,000.00	$920,365.09	$943,946.63	$972,838.90
	10505	Public Procurement Authority	$500,000.00	$473,438.83	$485,569.25	$500,431.53
	10601	Ministry of Planning, Investment and Economic Development	$2,083,076.00	$1,972,418.15	$2,022,955.31	$2,084,873.84
	10602	National Statistics Department	$1,447,720.00	$1,370,813.74	$1,405,936.64	$1,448,969.48
	10701	Ministry of Interior and Federal Affairs	$7,212,902.83	$6,829,736.62	$7,004,727.68	$7,219,128.07
	10702	Somali Refugee and IDPs Commission	$722,364.00	$683,990.34	$701,515.50	$722,987.45
	10703	National ID Authority DADSOM	$700,000.00	$662,814.37	$679,796.95	$700,604.15
	10801	Ministry of Religious Affairs	$1,107,196.00	$1,048,379.17	$1,075,240.67	$1,108,151.59
	10901	Ministry of Justice and Endowment	$740,264.00	$700,939.45	$718,898.87	$740,902.90
	10902	Custodian Corps	$10,049,440.00	$9,515,590.32	$9,759,398.15	$10,058,113.36
	11001	Supreme Court	$1,938,472.00	$1,835,495.85	$1,882,524.80	$1,940,145.04
	11002	Benadir Court	$1,777,124.00	$1,682,719.03	$1,725,833.55	$1,778,657.78
	11003	Appeal Court	$751,768.00	$711,832.33	$730,070.85	$752,416.83
	11005	Judiciary Service Committee	$583,244.00	$552,260.72	$566,410.71	$583,747.38
	11101	Attorney General	$1,409,628.00	$1,334,745.27	$1,368,944.03	$1,410,844.61
	11201	Solicitor General	$624,144.00	$590,988.02	$606,130.27	$624,682.68
	11301	Auditor General	$2,428,504.00	$2,299,496.21	$2,358,413.75	$2,430,599.97
	11401	Ministry of Humanitarian Affairs and Disaster Management	$1,224,032.00	$1,159,008.57	$1,188,704.61	$1,225,088.42
	11501	Ministry of Constitution	$2,174,227.00	$2,058,726.99	$2,111,475.56	$2,176,103.51
	11601	Boundaries and Federation Commission	$644,928.00	$610,667.92	$626,314.41	$645,484.62
	11602	National Reconciliation Commission	$501,132.00	$474,510.70	$486,668.58	$501,564.51
	11603	National Independent Electoral Commission	$3,560,000.00	$3,370,884.50	$3,457,253.08	$3,563,072.53
	11604	Human Rights Commission	$100,000.00	$94,687.77	$97,113.85	$100,086.31
	11605	Independent Constitution Review and Implementation Commission	$699,596.00	$662,431.83	$679,404.61	$700,199.80
	11606	National Civil Service Commission	$1,522,594.00	$1,441,710.26	$1,478,649.66	$1,523,908.10
	11607	National Independent Anti- Corruption Commission	$424,000.00	$401,476.13	$411,762.73	$424,365.94
Defense and Security	20101	Ministry of Defense	$1,262,363.00	$1,195,303.34	$1,225,929.32	$1,263,452.51
	20102	Armed Forces	$92,748,634.00	$87,821,610.38	$90,071,769.85	$92,828,682.49
	20103	Military Court	$1,462,000.00	$1,384,335.15	$1,419,804.50	$1,463,261.81

Sector	Code	MDA	2022	2023	2024	2025
	20104	Orphans and disabled	$115,000.00	$108,890.93	$111,680.93	$115,099.25
	20201	Ministry of National Security	$1,099,252.00	$1,040,857.17	$1,067,525.94	$1,100,200.73
	20202	Police Force	$43,994,040.00	$41,656,974.05	$42,724,306.28	$44,032,009.90
	20203	National Security Force	$17,505,679.00	$16,575,736.53	$17,000,438.95	$17,520,787.61
	20204	Immigration Department	$4,595,640.00	$4,351,508.89	$4,463,002.96	$4,599,606.36
Economic Services	30101	Ministry of Water and Energy	$1,240,192.00	$1,174,310.11	$1,204,398.21	$1,241,262.37
	30201	Ministry of Mineral	$1,563,772.00	$1,480,700.79	$1,518,639.20	$1,565,121.64
	30301	Ministry of Agriculture	$1,739,756.00	$1,647,336.11	$1,689,544.04	$1,741,257.53
	30401	Ministry of Livestock and Forestry	$1,028,188.00	$973,568.26	$998,512.96	$1,029,075.40
	30501	Ministry of Fishery and Marine Resource	$1,914,536.00	$1,812,831.39	$1,859,279.63	$1,916,188.38
	30502	Somali Marine Research	$507,328.00	$480,377.55	$492,685.76	$507,765.86
	30503	Offshore Fisheries Development Project	$105,976.00	$100,346.31	$102,917.37	$106,067.46
	30601	Ministry of Information	$6,073,806.33	$5,751,151.58	$5,898,507.21	$6,079,048.45
	30701	Ministry of Post and Telecommunication	$1,735,806.00	$1,643,595.94	$1,685,708.05	$1,737,304.12
	30702	Somali National Telecommunications Authority	$1,167,780.00	$1,105,744.80	$1,134,076.12	$1,168,787.87
	30801	Ministry of Public Work & Reconstruction	$1,056,832.00	$1,000,690.62	$1,026,330.25	$1,057,744.12
	30901	Ministry of Transport and Aviation	$2,317,876.00	$2,194,745.02	$2,250,978.64	$2,319,876.49
	30902	Civil Aviation and Metro-Authority	$15,077,374.81	$14,276,429.52	$14,642,219.25	$15,090,387.63
	31001	Ministry of Transport and Ports	$1,584,928.00	$1,500,732.93	$1,539,184.61	$1,586,295.90
	31002	Hamar Port	$1,021,300.00	$967,046.16	$991,823.76	$1,022,181.45
	31101	Ministry of Industry & Commerce	$2,599,010.00	$2,460,944.53	$2,523,998.69	$2,601,253.13
	31102	Somali Bureau of Standards	$500,000.00	$473,438.83	$485,569.25	$500,431.53
Social Services	40101	Ministry of Health	$3,233,656.00	$3,061,876.66	$3,140,327.86	$3,236,446.87
	40201	Ministry of Education and Higher Education	$7,411,971.00	$7,018,229.82	$7,198,050.44	$7,418,368.04
	40202	National University	$6,710,261.00	$6,353,796.29	$6,516,592.84	$6,716,052.42
	40203	Somali Academy Arts and Sciences	$1,062,851.00	$1,006,389.88	$1,032,175.53	$1,063,768.31
	40204	Intergovernmental Academy of Somali language	$1,363,256.00	$1,290,836.66	$1,323,910.40	$1,364,432.58
	40301	Ministry of Labor and Social Affairs	$1,784,032.00	$1,689,260.06	$1,732,542.17	$1,785,571.74
	40401	Ministry of Youth and Sport	$675,436.00	$639,555.27	$655,941.91	$676,018.95
	40501	Ministry of Women and Human Rights Dev.	$890,644.00	$843,330.91	$864,938.68	$891,412.69
	40502	Somali Disabled Agency	$100,000.00	$94,687.77	$97,113.85	$100,086.31
TOTAL			**$396,873,587.22**	**$375,790,737.20**	**$385,419,222.53**	**$397,216,116.59**

Table 10 – Recurrent Expenditure Ceilings by Economic Classification (Object Code)

Object Code	Object	2022	2023	2024	2025
21	**Compensation of Employees**	$246,930,657.00	$246,930,657.00	$246,930,657.00	$248,313,818.19
22	**Use of Goods and Services**	$78,602,023.90	$74,753,414.04	$76,691,432.63	$79,061,161.51
23	**Consumption of Fixed Capital**	$23,348,988.92	$10,036,091.74	$16,698,079.57	$23,460,921.28
24	**Interest**	$2,500,000.00	$816,406.74	$723,500.34	$633,479.08
25	**Subsidies**	$0			
26	**Grants**	$42,991,917.40	$40,877,142.80	$41,936,902.59	$43,232,732.99
27	**Social Transfers**	$-			
28	**Contingency**	$2,500,000.00	$2,377,024.87	$2,438,650.40	$2,514,003.54
Total		**$396,873,587.22**	**$375,790,737.20**	**$385,419,222.53**	**$397,216,116.59**

5.3 FY2022 Budget Preparation Timetable

The following timetable below is proposed for preparation of the FY2022 Budget:

Table 11 – FY2021 Budget Preparation Calendar

S/n	Activity	Timeline
1	Finalize the Medium-term Fiscal Framework/Resource Envelope for FY2022	August 21st
2	Submission of budget strategy and MDA ceilings to Cabinet	August 22nd
3	Discussion and approval of budget strategy and ceilings by Cabinet	August 24th
4	Issuance of Budget call circular to MDAs	August 25th
5	Budget Consultations (MDAs, CSOs, Private Sector, Academia)	August 29th – September 2nd
6	Submission of MDA budget estimates and proposals to the Ministry of Finance	September 9th
7	Budget Hearings	September 18th – 30th
8	Presentation of FY2022 draft budget to Cabinet	October 12th
9	Submission of FY2022 draft budget to Parliament	October 31st
10	Approval of budget by Parliament	December 25th
11	Presidential Assent	December 31st