

*Maamul Goboleedka Somalia Hirshabelle*



*Hirshabelle State of Somalia*

# Budget Framework Paper

FY 2024

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## ABBREVIATIONS

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AMISOM	African Union Mission in Somalia
BFP	Budget Framework Paper
EPHS	Essential Package of Health Services
FGS	Federal Government of Somalia
FMIS	Financial Management Information System
GDP	Gross Domestic Product
ICT	Information, Communication and Technology
IMF	International Monetary Fund
HSS	Hirshabelle State of Somalia
MDA	Ministries, Departments and Agencies
MoF	Ministry of Finance
MoPIC	Ministry of Planning and International Cooperation
NDP	National Development Plan
PFM	Public Financial Management
RHMT	Regional Health Management Teams
RMS	Revenue Management System

# INTRODUCTION

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The Hirshabelle State of Somalia's (HSS) Annual Budget is the key instrument through which the Government implements its policies. The Budget Framework Paper (BFP) provides the link between Government's overall policies and the Annual Budget. It lays out the fiscal framework and strategy for the budget, as well as provide medium-term indicative revenue and expenditure projections based on an analysis of prior budget outturns. The BFP's macroeconomic framework then provides indicative expenditure allocations to guide the Ministry of Finance (MoF) and other Ministries, Departments and Agencies (MDA) when preparing expenditure budgets as laid before Parliament. The BFP summarizes Government interventions in FY 2024 and the medium-term and is aligned with the State's Strategic Priorities and the Federal National Development Plan (NDP) 2020-2024

The BFP has following sections:

## **Part 1: MACROECONOMIC OUTLOOK AND POLICY MEASURES**

This section provides an overview of Government's macroeconomic policies, an analysis of recent macroeconomic performance, and macroeconomic assumptions over the medium-term. It lists out the priorities listed in the National Development Plan (NDP) that is set to end in 2024.

## **Part 2: FISCAL FRAMEWOERK**

This section includes the policy plans for own-source tax and non-tax revenue and external resources from the Federal Government and the State's international development partners consistent with the macroeconomic forecast. It concludes by indicating the resources available to Government for implementation of its strategic objectives and policy priorities.

## **Part 3: BFP ASSUMPTIONS AND EXPENDITURE ALLOCATIONS**

This section provides indicative expenditure allocations by function and by Government MDA based on the Government's strategic priorities which include security and improving the efficiency of public service delivery. This section places a specific emphasis on measures necessary to drive efficient public spending. This BFP does not include specific details of proposed Ministry/Department/Agency policy plans and expenditures. However, as the Government matures, a specific emphasis will be placed on the development of detailed sector plans and expenditures for each MDA.

## **Part 4: RISKS TO THE BUDGET**

These risks are specific to Hirshabelle and identify factors that could influence both macroeconomic and fiscal conditions. Key among issues is the ongoing limits on data on macro-fiscal conditions.

# 1 MACROECONOMIC AND POLICY BACKGROUND

## 1.1 MACROECONOMIC POLICY FRAMEWORK

The State's overarching macroeconomic goal is to create a stable macroeconomic environment to support inclusive and sustainable growth and socio-economic development. Over the medium-term, the specific macroeconomic objectives of the State are to achieve and maintain a rate of real economic growth between 3 – 5% per annum. The 9<sup>th</sup> national development plan has been formulated to be compliant with the requirements for an interim Poverty Reduction Strategy Paper which will allow Somalia, as a participant of the Heavily Indebted Poor Countries (HIPC) Initiative, to apply for debt relief. The government aim to provide services to its citizens necessary for development. Hence this plan focusses on increasing revenue, improving economic growth, and developing equitable revenue sharing systems. Reducing poverty and improving national resilience underpin its overall agenda.

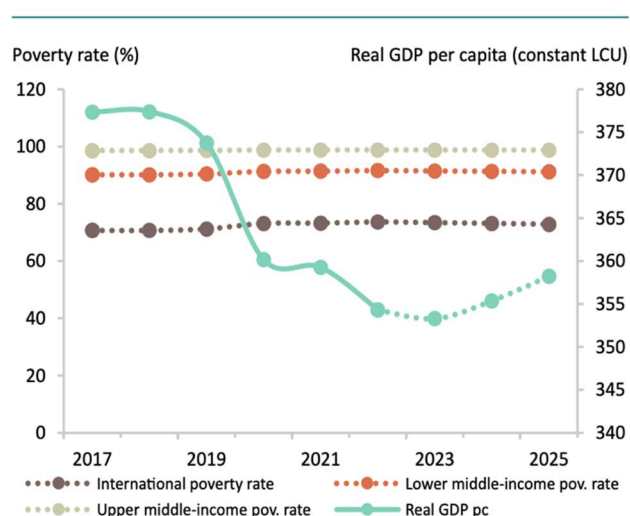
## 1.2 NATIONAL MACROECONOMY

Table 1 details key macroeconomic assumptions underlying the macroeconomic framework for FY 2024 - 2025, covering Gross Domestic Product (GDP) and consumer prices.

Table 1 – National Macroeconomic Assumptions

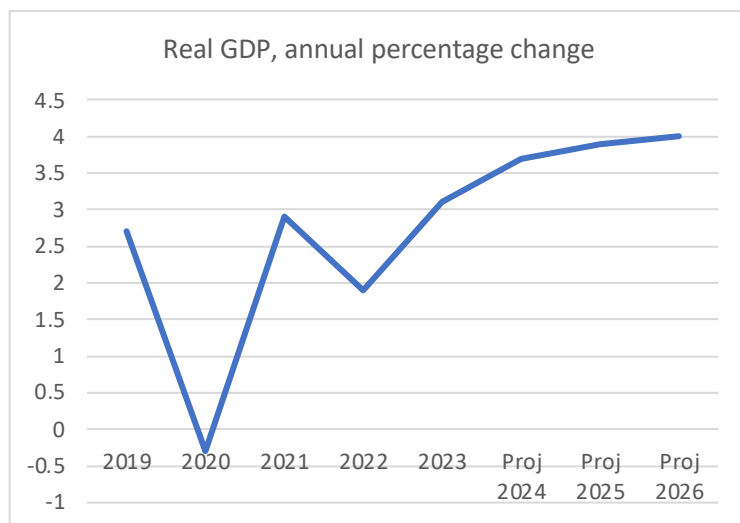
	2019	2020	2021	2022	2023	Proj 2024	Proj 2025	Proj 2026
<b>National income and prices Nominal GDP in millions of U.S. dollars</b>	6,485	6,883	7,628	8,414	9,009	9,806	10,687	11,633
<b>Real GDP, annual percentage change</b>	2.7	-0.3	2.9	1.9	3.1	3.7	3.9	4
<b>Real GDP per capita in U.S. dollars</b>	416	403	404	400	401	405	409	414
<b>CPI (period average, percent change)</b>	4.5	4.3	4.6	9	3.9	4	3.6	3.3
<b>Current account balance</b>	-10.4	-10.8	-17.1	-15.9	-13.6	-14.8	-15.3	-15.1

Source: IMF October 2022, Article IV report



Nearly 74 percent of Somalia lived below the poverty line in 2022, and this expected to remain the case in 2024. Fewsnet reported that households continue to have low foodstock in the first quarter of 2023, but this may improve in Q2 with rainfall expected to improve livestock and cropping yields. IDP communities and arid regions of Somalia are likely to suffer, if the anticipated drop in development partner humanitarian assistance in Q3, 2023 were to materialise.

Source: World Bank, MPO, 2022



Real GDP was hurt by the COVID-19 downturn, with a mild recovery in 2021. The price inflation due to the Russia-Ukraine war, internal conflict and the 2020-2023 drought led to a food price crisis and drove down growth again in 2022, with a 1 percentage point (pp) increase in 2023. Low labour force participation (30% of the population), food insecurity, internal displacement, prolonged drought, decline in merchandise exports are present continued downside risks. In 2024, a moderate increase in real GDP growth is

expected as Somalia edges towards attaining HIPC debt relief. More loans may increase investor confidence. At the same time, the change in financing from grants to loans will necessitate a robust domestic revenue mobilisation plan for a sustainable debt to GDP ratio. Private remittances which finance the trade deficit are expected to remain at similar levels as previous years. The World Bank expects that the harmonisation exercise between the FGS and FMSs could increase political stability and boost investor confidence (World Bank, MPO, 2022)

### 1.3 LOCAL MACROECONOMY

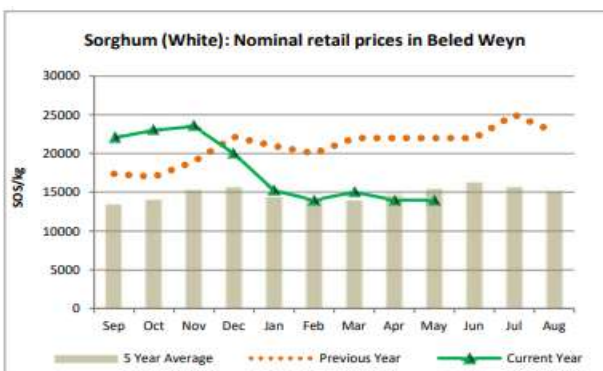
Hirshabelle contains areas of growth for horticulture, oil crops, coarse grains, and sesame; as well as coastal areas for fisheries with some limited sheep and other livestock (e.g., camel) production.

The state is the largest producer of sesame in the country with estimated 150,000 ha under production. The major value chains besides sesame include maize, beans, rice, and horticulture.

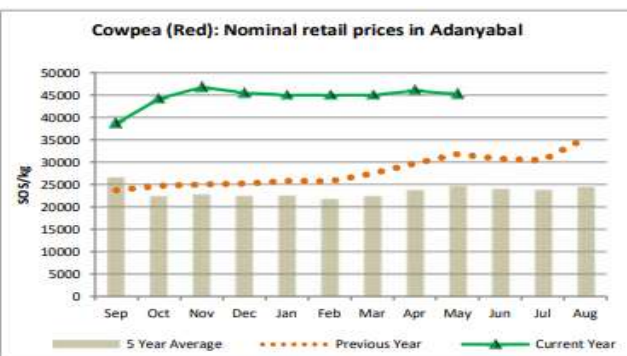
The state includes about 600 km of the river Shabelle. It offers the potential for significant commercial production of coarse grains cotton. Sunflower and soya beans. sizeable areas of agricultural land in the middle Shabelle region are available and affordable. There is one port El macan.

## 1.4 LOCAL PRICES

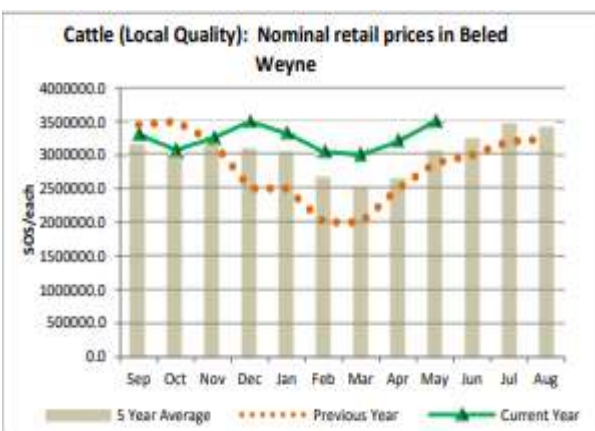
Prices for cattle have increased month by month. These increases have been in line with historic trends. The prices of key commodities purchased like cowpea which jumped in 2022 have remained elevated in 2023. There is a positive new in cattle prices increasing, as Hirshabelle is a net producer, camel milk prices have also started increasing since the start of the year.



The price of sorghum started falling from nov 2022, compared to elevated levels in 2022.



The price of cowpea had reached a maximum of 45,000 SOS/liter in 2023 and has goes similar trends. The security situation/ food shortages may be behind this.



Cattle prices have levelled since Jan 2023 and continue to be constant, however they are higher overall compared to the average prices for last year.

The price of livestock is impacted by dry season, and high prices have been imported from ethiopia.

Source: These charts are draw from FEWSNet Selected Somalia Price Reports

## 1.5 POLICY BACKGROUND

This section sets out the key policy priorities that the Ministries and Agencies intend to achieve for the new fiscal year. The policy priorities are underlined by the National Development Plan. At the Federal Member State level, the Ministry of Planning and International Cooperation (MoPIC) will, in close collaboration with other Hirshabelle Ministries, develop a prioritized plan that is aligned with national priorities but considers the unique, required public investments necessary to achieving longer term

macroeconomic growth and broader stability. In the absence of a state development plan, Hirshabelle uses the NDP to delineate its policy priorities for the fiscal year.

#### 1.5.1 National and State Development Plan

The NDP is the main policy framework underpinning the Federal Government's socio-economic development policy objectives over the FY2020 to FY2024 fiscal years. The poverty strategy for NDP-9 is organized in four pillars:

- Inclusive and Accountable Politics.
- Improved Security and the Rule of Law;
- Inclusive Economic Growth (including increased employment) and
- Improved Social Development.

By focusing interventions in these four pillars, Somalia will address the root causes of poverty. These organizing pillars align with the three national development priorities identified.

Cross-cutting policies (imperatives) are integrated into each pillar, representing an important strategy for both targeting and prioritizing interventions:

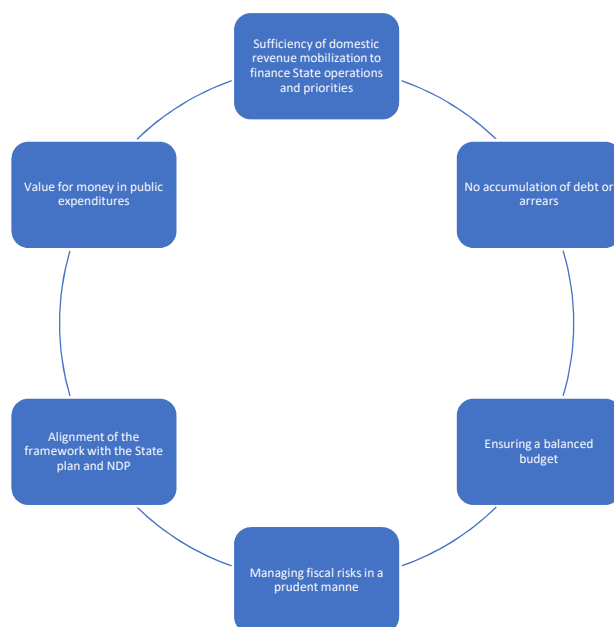
- Strengthen gender, human rights and other kinds of social equity
- Build the resilience of households, communities and the government
- Better manage Somalia's environment and its natural resources
- Prioritise durable solutions to long term displacement
- Strengthen the interface between humanitarian and development planning
- Make governance improvements a priority in each pillar

## 2 FISCAL FRAMEWORK

The section focusses on i) the overall resources for the annual budget, which is broken down into domestic revenue and external grants and borrowing and ii) the revenue enhancement strategy. In Somalia the budget process begins with the calculation of the overall fiscal ceiling for the government, i.e., the resources available for State Budget Expenditure. These are obtained from revenue estimates of own-source tax and non-tax revenue, and federal and international grants. The government is required by law in the PFM Act to limit expenditure to the resources available to achieve its balanced budget objective, which is key to maintaining economic stability as the administration matures.

This overall fiscal ceiling for whole of government leads the way for the setting of individual ceilings for MDAs discussed in Section 3.

For FY2024, the fiscal framework and forecast is underpinned by the following fiscal principles:



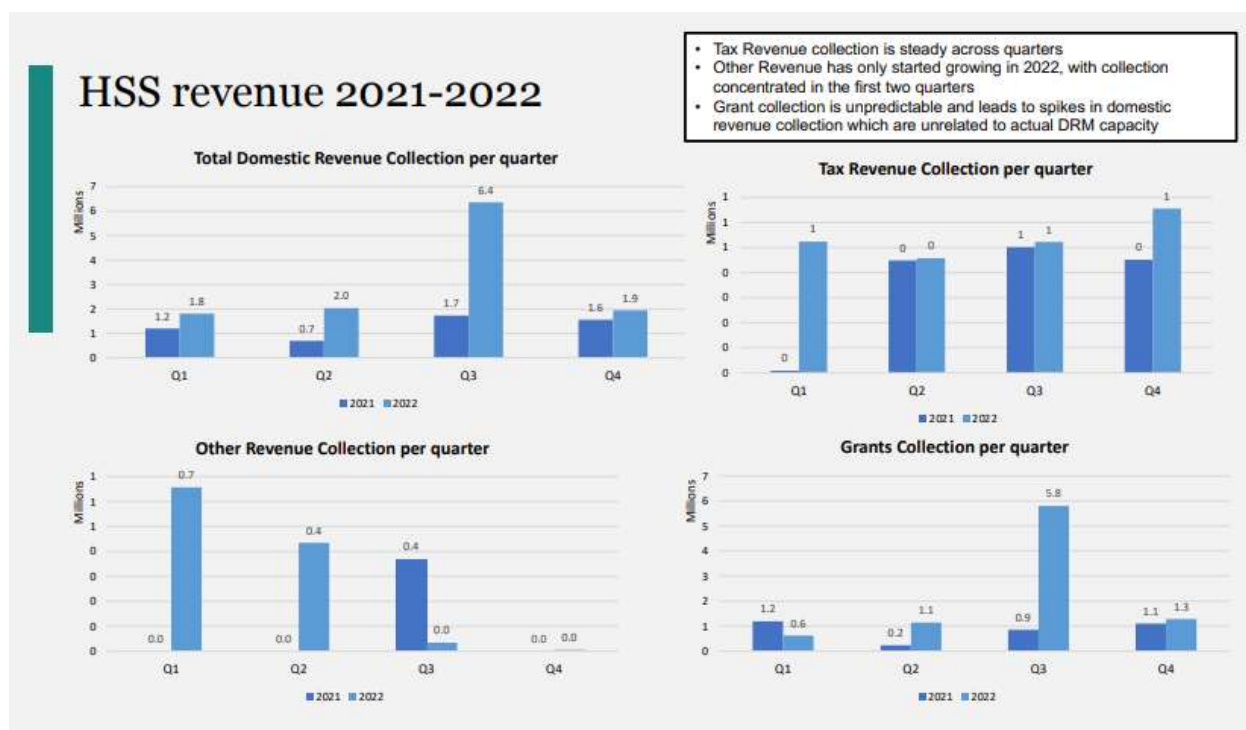
### 2.1.1 Domestic Revenue

On domestic revenue, the focus in the medium-term is to ensure the expanded coverage of the Public Financial Management (PFM) system and improve collections through tax administration compliance.

The following table and figure below indicate that that Hirshabelle like other FMSs is highly dependent on grants. Total domestic revenue collection has grown every year since 2017, except 2019 (reduction in tax –customs- and non-tax revenue) and 2021 where there was a reduction in grants.

Aggregate Revenue	2018	2019	2020	2021	2022	trends over time
<b>Tax Revenue</b>	<b>669,061</b>	<b>797,607</b>	<b>-</b>	<b>1,410,981</b>	<b>2,160,268</b>	
Payroll Tax - Government	-	-	-	-	68,611	
Payroll Tax - Non-Government	-	273	-	18,790	223,396	
Property Tax	-	-	-	-	24,364	
Turnover Tax	-	-	-	740,205	99,808	
Local Passenger Fees	-	-	-	-	1,260	
Road User Tax	533,269	797,333	-	651,986	1,459,207	
Customs duties - KHAT	135,792	-	-	-	190,000	
Revenue Collections from local Government	-	-	-	-	93,621	
<b>Grants</b>	<b>2,615,476</b>	<b>5,183,746</b>	<b>10,074,411</b>	<b>3,392,187</b>	<b>8,842,759</b>	
Current Grants From International Orga	258,476	653,946	385,814	203,281	127,636	
Grants from Federal Government of So	2,357,000	4,529,800	9,688,597	3,185,906	8,715,123	
Grants from Local Government - Hirsha	-	-	-	3,000	-	
<b>Other Sources of Revenue</b>	<b>4,502</b>	<b>3,472</b>	<b>-</b>	<b>370,000</b>	<b>1,129,586</b>	
Local NGO's Registraton	-	-	-	-	11,400	
Education services fees	-	-	-	-	31,186	
Business and Profession Licenses	-	400	-	-	120,000	
Fishing Fees	-	-	-	30,000	27,000	
Landing Fees	-	-	-	90,000	20,000	
Livestock Fees	4,502	3,072	-	250,000	130,000	
Agricultural Fees	-	-	-	-	15,000	
Election Registration Fee	-	-	-	-	775,000	
<b>Total</b>	<b>3,289,040</b>	<b>5,984,825</b>	<b>10,074,411</b>	<b>5,173,168</b>	<b>12,132,613</b>	

There was not any tax revenue in 2020 because of political instability but in 2021 and 2022 tax revenue has grown steadily. Other source of revenue in 2022 has increased and that increase was driven by election registration fees, which will not be collected in 2023 and will account for a drop in 2023 Other Source of Revenue collection.



Grant projections are announced by federal government in Q3 only. **A new revenue model introduced in 2023 developed** domestic revenue projections for own source revenue (tax and non-tax) and demonstrates **the shortfall in target expenditure that must be met by grants**. The final revenue projections for 2023 and 2024 were calculated, using methods of inverse and median, and average collections.

Own source (tax and non-tax revenue) is expected to decrease by 5 percent in FY2023 compared to FY2022. HSS does not have enough own source domestic revenue resources to meet its budget of USD 25.4 million for FY 2023. In 2023, it needs USD 22.3 million in FGS and donor grants to achieve its expenditure target.

Based on Jan-July 2023, the own source revenue collection for 2024 was revised to USD 5.5 million. If the same budget as 2023 was assumed for FY2024, the government would have a deficit of USD 20.2 million which would have to be financed by grants and development partner funding.

Table 2 – Revenue Actual and Forecasts (Initial)

	Actuals	2023		2024
Tax revenue	2,160,268	2,575,315	19%	5,182,296
Non Tax Revenue	1,484,171	742,086	-50%	268,246
<b>Total</b>	<b>3,644,439</b>	<b>3,317,401</b>	<b>-9%</b>	<b>5,450,542</b>
Budget 2023		25,643,219		25,643,219
Deficit		22,325,818		20,192,677

The government has decreased its budget envelope from 2023 to improve budget credibility. Due to new information on revenue sources and an improving security situation, the government has revised

its revenue projects to USD 7,072,420 million and will balance the expenditure according to it. With a budget of USD 20,013,663, the deficit will be USD of USD 12,941,243 which be financed by external sources.

Table 3 – Revenue Actual and Forecasts (Revised)

	2022 FINAL PROJECTIONS		Increase 2023/22	FINAL PROJECTIONS
	Actuals	2023		2024
Tax reveue	2,160,268	2,575,315	19%	6,751,220
Non Tax Revenue	1,484,171	742,086	-50%	321,200
<b>Total</b>	<b>3,644,439</b>	<b>3,317,401</b>	<b>-9%</b>	<b>7,072,420</b>
<b>Budget</b>		<b>25,643,219</b>		<b>20,013,663</b>
<b>Deficit</b>		<b>22,325,818</b>		<b>12,941,243</b>

### 2.1.2 External Resource Commitments

During FY2024, a total of \$12,941,243 of external assistance is projected to support the budget, of which \$ 11,141,243 is anticipated from international organizations, and \$ 1,800,000 is anticipated from the FGS. This meets the complete budget requirements for FY 2024 which stand at \$20,013,663.

### 2.1.3 Risks from Volatile Financing

Prior year reliance on external assistance has meant that revenue estimates have failed to meet expectations, often due to political, managerial, and technical issues and a lack of absorptive capacity within our institutions. Low levels of grantor disbursements are largely in response to low absorption by our Ministries particularly because of non-compliance with donor requirements. For Somalia to achieve debt relief through the HIPC initiative, the form of development partner funding will change from grants to loans, and DRM improvement will be crucial to ensure that it is able to meet its debt commitments.

### 2.1.4 Revenue Enhancement Strategy

The State remains committed to incrementally raising the revenue to GDP ratio from the current 0.1 percent to internationally comparable benchmarks of between 10 – 15%. However, in the medium-term the target is unlikely given that our tax/GDP ratio remains stable between 0.1-0.2 percent. Previously, Somalia has increased revenue through the introduction of new taxes, initially through the State's Revenue Decree and then through the Revenue Act. Given the recent enactment, any pressures to radically modify the tax system through rate revision or the introduction of new tax sources will be resisted in the short and medium-term. Given the inherent challenges in increasing tax rates, DRM will be reliant on enhancing efficiency measures.

Some upcoming changes that may impact domestic revenue mobilisation include:

- FGS MoF issued a regulation in May 2023 increasing reference values on goods imported into Mogadishu. A 50% rise was applied for most commodities, except foodstuff, medicines, and fuel.
- The Port Authority has increased wharfage/storage fees at Mogadishu Port, which will raise revenues.
- Improved automation in Basasso and Kismayo, through the new customs collection systems (SOMCAS), should help increase revenue as it will lead to tighter control on goods.
- There is indication of more trade facilitation measures, such as pre-arrival declarations and authorised economic operators, but this may take time. Research has shown that this can lead to increase in Customs revenue by encouraging international investment.

- To meet a HIPC trigger point, a single import duty tariff schedule is to be applied at all ports by November 2023, in preparation for the move to ad valorem customs valuation, using 'invoice values. The single duty tariff is to include a common valuation table, with the same reference values to be applied at Mogadishu, Bossaso and Kismayo Ports. In reaching agreement of the common reference values, it is likely that the values will increase in Bossaso and Kismayo.
- If Somalia achieves the move to a 'full' ad valorem system, i.e., calculating the Customs value of goods using the price paid or payable, this will also lead to an increase in revenue as the invoice prices should be higher than the reference values currently used. The reference values will then be applied when the invoice values declared are not accepted by Customs.

### 3 EXPENDITURE MEASURES AND BFP CEILINGS

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This section focusses on expenditure measures for FY 2024 and the BFP ceiling model. The assumptions for the MDA ceilings model are explained and provisional individual ceilings are presented.

#### 3.1.1 Expenditure

The current draft of the BFP provides the minimum need for each ministry (fixed commitments and salaries). An additional top up is provided to each ministry based on its policy priority status. The total expenditure ceiling is balanced with the own source revenue for each state, including additional grants from FGS and donor grants for projects and salaries.

#### 3.2 KEY INITIATIVES

In the 2024 budget, the allocation for health and education has been increased, dedicating 8% of our total budget to health and 18% for education. This signifies a significant investment in core services that directly impact the well-being and future of our citizens.

We continue to allocate more than 50% of the budget towards government operations, including Finance, Parliament, Presidency, and Interior Ministries, as they play a pivotal role in the proper functioning of our government. This allocation ensures the stability and continuity of our government's critical functions.

Economic development is a key driver for achieving our goals. Ministries of importance in this budget include Fishery & Marine Resources, Agriculture and Irrigation, Commerce & Industry, Labor and Employment, Livestock, Forestry and Vegetation, Petroleum and mining, Planning, Investment and International, and Water, Energy and Minerals.

#### THE BFP

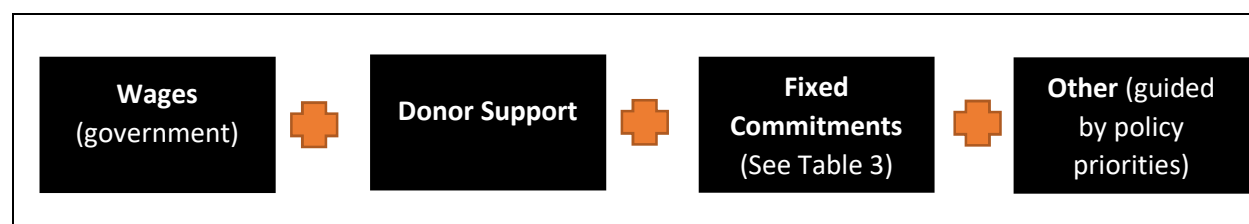
This BFP has attempted to reconcile the Federal NDP, the international Sustainable Development Goals, and State priorities and plans. In subsequent years, this process will be a whole-of-government effort with all State MDA involved in a planning process, each developing comprehensive, detailed business plans that articulate specific policy objectives, activities, key performance indicators, and cost proposals. In the absence of these plans, developing sectoral allocations and ascertaining intra-policy priorities will remain challenging and a high-level exercise.

#### 3.3 HOW ARE CEILINGS MADE

In order to determine the requirements for each Ministry for the new budget we need to break down:

- 1) **Minimum requirement:** What is the requirement to continue current operations and policy, and meet requirements from prior commitments (e.g., rental, water etc)
- 2) **Additional resources:** What are the new priorities for this budget year for the Government: once it has been established what is already committed

Ceilings are built up from:



- **Wages:** are determined by the levels of historic recruitment, we are trying to determine what is a minimum level of wages required to meet current staffing needs, based on 2022 expenditure
- **Donor Support:** allocated to specific ministries, covering RCRF and others.
- **Fixed Commitments:** the amount required to meet the basic operating costs because of prior commitments (e.g., rent of buildings, electricity to power these buildings) based on budget 2023
- **Other:** is the new amount for 2024 that will allow Ministries to expand recruitment, and other important agenda.

The aim of the budget is to allocate new funding, within guidelines.

#### Fiscal Policy Guidelines

- No broad increase in salaries from government budgets. However, a certain portion of salaries is funded by donor projects. The total wage expenditure remains similar to 2023.
- Balanced budget: the revenue will need to equal total expenditure

Table 4 – Components of Fixed Commitments (Total including Donor)

Fixed Commitments	2022 Budget	2022 Actual	Execution	2023 Budget
Bank charges	17,034	49	0%	17,020
Electricity	79,100	4,593	6%	87,300
Gasoline	331,400	39,996	12%	
Internet fees	48,400	288	1%	68,200
Mobile Phone Expenses	12,600	-	0%	
Office Rent	107,400	4,900	5%	93,000
Telephone fees	5,550	-	0%	11,450
Water	47,220	23	0%	56,000
Audit fees	20,000	-	0%	20,000
Maintenance and repair of equipment and heavy machineries	107,500	-	0%	108,000
Maintenance and repairs of building		-		60,000
Maintenance and repairs of furniture and fittings	2,200	-	0%	8,360
Maintenance of equipment		-		
Maintenance of furniture & fittings		-		
Maintenance of Vehicles		-		
Diesel and oil		-		322,200
Maintenance and repairs of vehicles, boats and vessels	440,000	-	0%	440,000
Information, computer, and telecommunication (CIT) equipment	38,700	-	0%	39,000
	<b>1,257,104</b>	<b>49,849</b>		<b>1,330,530</b>

The table above shows the components of fixed commitments at the moment. Below shows the split of the components for the previous 2022 actual and 2023 budget.

Table 5 – FY 2022 Performance against Categories

	Government Funded Salaries	Donor Funded	2022 Actual Fixed Commitments (Government Funded)	Other	TOTAL
Auditor General's Office	-	70,028	-	-	70,028
Civil Service Commission	-	83,214	-	-	83,214
Hirshabelle Parliament	813,000	468,000	-	-	1,281,000
Ministry of Fishery & Marine Resources	-	-	-	-	-
Ministry of Youth and Sports	-	-	-	-	-
Ministry of Agriculture and Irrigation	-	-	-	-	-
Ministry of Commerce & Industry	-	-	-	-	-
Ministry of Constitution & Federal Affairs	-	-	-	-	-
Ministry of Education and Tertiary	1,410	935,731	5,287	3,760	946,188
Ministry of Environmental and Sea Protection	-	-	-	-	-
Ministry of Finance and Economic Development	16,200	399,533	4,566	1,500	421,799
Ministry of Health and Social Care	-	1,441,023	-	-	1,441,023
Ministry of Humanitarian and Disaster Management	-	400,000	-	-	400,000
Ministry of Information and Culture	-	-	-	-	-
Ministry of Interior and Local Government	-	422,731	-	1,198,451	1,621,182
Ministry of Justice & Judicial Affairs	-	-	-	-	-
Ministry of Labor and Employment	-	-	-	-	-
Ministry of Livestock, Forestry and Vegetation	-	-	-	-	-
Ministry of Petroleum and mining	-	-	-	-	-
Ministry of Planning, Investment and International Cooperation	-	-	-	-	-
Ministry of Ports and Maritime Transport	-	-	-	-	-
Ministry of Postal, Communication and Modern Technology	-	-	-	-	-
Ministry of Public Works and Reconstruction	-	76,066	-	-	76,066
Ministry of Reconciliation and Resettlement	-	150,000	-	200,000	350,000
Ministry of Rehabilitation and Disarmament	-	-	-	-	-
Ministry of Religious and Endowments	-	-	-	-	-
Ministry of Security and Rehabilitation	1,152,132	3,579,000	-	0	4,731,132
Ministry of State Presidency	232,965	318,844	39,996	70,000	661,805
Ministry of Transport, Air and Land	-	-	-	-	-
Ministry of Water, Energy and Minerals	-	-	-	-	-
Ministry of Women & Human Rights	-	-	-	-	-
Ministry of Rural Development	-	-	-	-	-
<b>TOTAL</b>	<b>2,215,707</b>	<b>8,344,169</b>	<b>49,849</b>	<b>1,473,711</b>	<b>12,083,436</b>

N.B. All government funded salaries are from Fund code 11, the donor funded spending largely represent RCRF funds

Table 6 –FY 2023 Budget against Categories

	2023 Budget				
	Government Funded Salaries	Donor Funded Salaries	Fixed Commitment	Other	TOTAL
Auditor General's Office	14,400	67,416	25,400	2,800	110,016
Civil Service Commission	51,900	78,564	2,200	7,300	139,964
Hirshabelle Parliament	2,632,340	-	199,450	378,000	3,209,790
Ministry of Fishery & Marine Resources	64,580	15,420	8,700	21,300	110,000
Ministry of Youth and Sports	64,580	15,420	8,700	21,300	110,000
Ministry of Agriculture and Irrigation	64,580	290,420	8,700	21,300	385,000
Ministry of Commerce & Industry	64,580	15,420	8,700	21,300	110,000
Ministry of Constitution & Federal Affairs	64,580	15,420	8,700	21,300	110,000
Ministry of Education and Tertiary	64,580	1,290,654	8,700	21,300	1,385,234
Ministry of Environmental and Sea Protection	64,580	315,420	8,700	21,300	410,000
Ministry of Finance and Economic Development	587,112	895,109	80,080	572,065	2,134,365
Ministry of Health and Social Care	64,580	1,502,898	8,700	21,300	1,597,478
Ministry of Humanitarian and Disaster Management	64,580	15,420	8,700	21,300	110,000
Ministry of Information and Culture	126,980	15,420	8,700	81,300	232,400
Ministry of Interior and Local Government	64,580	1,055,812	15,400	4,030,420	5,166,212
Ministry of Justice & Judicial Affairs	64,580	15,420	8,700	21,300	110,000
Ministry of Labor and Employment	64,580	15,420	8,700	21,300	110,000
Ministry of Livestock, Forestry and Vegetation	64,580	240,420	8,700	21,300	335,000
Ministry of Petroleum and mining	64,580	15,420	8,700	21,300	110,000
Ministry of Planning, Investment and International Cooperation	64,580	565,420	8,700	21,300	660,000
Ministry of Ports and Maritime Transport	64,580	15,420	8,700	21,300	110,000
Ministry of Postal, Communication and Modern Technology	64,580	15,420	8,700	21,300	110,000
Ministry of Public Works and Reconstruction	64,580	67,410	68,700	21,300	221,990
Ministry of Reconciliation and Resettlement	64,580	15,420	8,700	426,720	515,420
Ministry of Rehabilitation and Disarmament	80,000	-	8,700	21,300	110,000
Ministry of Religious and Endowments	64,580	15,420	8,700	21,300	110,000
Ministry of Security and Rehabilitation	4,304,581	15,420	557,100	23,800	4,900,901
Ministry of State Presidency	768,424	257,904	173,400	599,821	1,799,549
Ministry of Transport, Air and Land	64,580	15,420	8,700	21,300	110,000
Ministry of Water, Energy and Minerals	64,580	515,420	8,700	21,300	610,000
Ministry of Women & Human Rights	64,580	15,420	8,700	21,300	110,000
Ministry of Rural Development	80,000	-	8,700	21,300	110,000
<b>TOTAL</b>	<b>10,131,077</b>	<b>7,389,586</b>	<b>1,330,530</b>	<b>6,612,126</b>	<b>25,463,319</b>
<b>N.B.</b> All government funded salaries are from Fund code 11, the donor funded spending largely represent RCRF funds					

## Factoring Influencing Ceilings

- 1) **Recruitment of new staff from end 2022 to end 2023:** the 2022 actual reflects the level of spending based on all staff employed during the year. 2023 budget represents staffing with planned recruitment.
- 2) **The level of likely revenue,** this determines the overall envelop and how much we have left over to allocate after we have met the needs for baseline salaries and fixed commitments.

### To finalize the ceilings, we need to know:

- 1) What the level of staffing will likely be in 2024, and thus a reasonable estimate for the salary needs in 2024 (with no additional recruitment)
- 2) What is the likely donor support (including RCRF) and how will this be allocated?
- 3) The likely available revenue for 2024
- 4) What factors influence the size of fixed commitments (e.g., inflation)
- 5) Which are the priority Ministries for new spending and new recruitment.

Table 7 – Ceiling Shares and Policy Priorities

	Share of Other		Share of Total		Priority	2024	
	2022 Actual	2023 Budget	2022 Actual	2023 Budget		Proposed Other	Proposed Total
Auditor General's Office	0.0%	0.0%	0.6%	0.4%	Low	-0.1%	0.5%
Civil Service Commission	0.0%	0.1%	0.7%	0.5%	Low	0.3%	0.5%
Hirshabelle Parliament	0.0%	5.7%	10.6%	12.6%	High	13.4%	8.6%
Ministry of Fishery & Marine Resources	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Youth and Sports	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Agriculture and Irrigation	0.0%	0.3%	0.0%	1.5%	Medium	0.5%	1.7%
Ministry of Commerce & Industry	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Constitution & Federal Affairs	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Education and Tertiary	0.3%	0.3%	7.8%	5.4%	Critical	1.3%	18.0%
Ministry of Environmental and Sea Protection	0.0%	0.3%	0.0%	1.6%	Low	0.5%	2.2%
Ministry of Finance and Economic Development	0.1%	8.7%	3.5%	8.4%	High	4.6%	5.6%
Ministry of Health and Social Care	0.0%	0.3%	11.9%	6.3%	High	0.5%	8.3%
Ministry of Humanitarian and Disaster Management	0.0%	0.3%	3.3%	0.4%	Low	0.5%	0.3%
Ministry of Information and Culture	0.0%	1.2%	0.0%	0.9%	Low	2.8%	0.9%
Ministry of Interior and Local Government	81.3%	61.0%	13.4%	20.3%	Critical	52.4%	19.9%
Ministry of Justice & Judicial Affairs	0.0%	0.3%	0.0%	0.4%	Low	1.0%	0.4%
Ministry of Labor and Employment	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Livestock, Forestry and Vegetation	0.0%	0.3%	0.0%	1.3%	Medium	0.5%	1.7%
Ministry of Petroleum and mining	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Planning, Investment and International Cooperation	0.0%	0.3%	0.0%	2.6%	Medium	0.5%	2.4%
Ministry of Ports and Maritime Transport	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Postal, Communication and Modern Technology	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Public Works and Reconstruction	0.0%	0.3%	0.6%	0.9%	Medium	-0.6%	0.3%
Ministry of Reconciliation and Resettlement	13.6%	6.5%	2.9%	2.0%	Medium	6.2%	1.7%
Ministry of Rehabilitation and Disarmament	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.2%
Ministry of Religious and Endowments	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Security and Rehabilitation	0.0%	0.4%	39.2%	19.2%	High	-9.0%	6.2%
Ministry of State Presidency	4.7%	9.1%	5.5%	7.1%	High	19.4%	8.2%
Ministry of Transport, Air and Land	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Water, Energy and Minerals	0.0%	0.3%	0.0%	2.4%	Low	0.5%	9.6%
Ministry of Women & Human Rights	0.0%	0.3%	0.0%	0.4%	Low	0.5%	0.3%
Ministry of Rural Development	2023 ministry	0.3%	2023 ministry	0.4%	Low	-1.0%	0.2%

The most crucial ministries related to interior and local government, state presidency and security and rehabilitation receives the highest share of the budget, followed by ministries of health, education and finance. Note, that policy priorities includes the amount allocated to ministries by the FGS and FMS funding after accounting for minimum need (salaries, basic recurrent expenditure).

Table 8 – Final 2024 budget

	Donor Funded	Fixed Commitment Minimum (2023 budget)	Other, inc new govt funded staff (2023 and planned 2024)	TOTAL	Minimum need
Auditor General's Office	72,420	25,400	(5,900)	91,920	25,400
Civil Service Commission	78,564	2,200	13,700	94,464	2,200
Hirshabelle Parliament	-	199,450	705,550	1,718,000	1,012,450
Ministry of Fishery & Marine Resources	25,056	8,700	25,920	59,676	8,700
Ministry of Youth and Sports	15,420	8,700	25,920	50,040	8,700
Ministry of Agriculture and Irrigation	299,566	8,700	25,920	334,186	8,700
Ministry of Commerce & Industry	15,420	8,700	25,920	50,040	8,700
Ministry of Constitution & Federal Affairs	15,420	8,700	25,920	50,040	8,700
Ministry of Education and Tertiary	3,518,008	8,700	70,710	3,598,828	10,110
Ministry of Environmental and Sea Protection	411,241	8,700	25,920	445,861	8,700
Ministry of Finance and Economic Development	784,453	80,080	243,760	1,124,493	96,280
Ministry of Health and Social Care	1,635,808	8,700	25,920	1,670,428	8,700
Ministry of Humanitarian and Disaster Management	15,420	8,700	25,920	50,040	8,700
Ministry of Information and Culture	15,420	8,700	148,320	172,440	8,700
Ministry of Interior and Local Government	1,214,758	15,400	2,746,860	3,977,018	15,400
Ministry of Justice & Judicial Affairs	15,420	8,700	49,920	74,040	8,700
Ministry of Labor and Employment	15,420	8,700	25,920	50,040	8,700
Ministry of Livestock, Forestry and Vegetation	313,909	8,700	25,920	348,529	8,700
Ministry of Petroleum and mining	15,420	8,700	25,920	50,040	8,700
Ministry of Planning, Investment and International Cooperation	449,880	8,700	25,920	484,500	8,700
Ministry of Ports and Maritime Transport	15,420	8,700	25,920	50,040	8,700
Ministry of Postal, Communication and Modern Technology	15,420	8,700	25,920	50,040	8,700
Ministry of Public Works and Reconstruction	15,420	68,700	(34,080)	50,040	68,700
Ministry of Reconciliation and Resettlement	-	8,700	325,920	334,620	8,700
Ministry of Rehabilitation and Disarmament	-	8,700	25,920	34,620	8,700
Ministry of Religious and Endowments	15,420	8,700	25,920	50,040	8,700
Ministry of Security and Rehabilitation	15,420	557,100	(474,612)	1,250,040	1,709,232
Ministry of State Presidency	226,824	173,400	1,017,635	1,650,824	406,365
Ministry of Transport, Air and Land	15,420	8,700	25,920	50,040	8,700
Ministry of Water, Energy and Minerals	1,879,456	8,700	25,920	1,914,076	8,700
Ministry of Women & Human Rights	15,420	8,700	25,920	50,040	8,700
Ministry of Rural Development	-	8,700	(54,080)	34,620	88,700
<b>TOTAL</b>	<b>11,141,243</b>	<b>1,330,530</b>	<b>5,246,183</b>	<b>20,013,663</b>	<b>3,626,237</b>

**Note: Ministry of rural development was formed in 2023.**

Donor funding is all allocated to Ministries based on donor programmes. Fixed commitments represent an estimated need for key spending like rentals. The other column can be used as a proxy for policy priorities, i.e. it shows the amount allocated to ministries by the FGS and HSS after accounting for minimum need which is business as usual expenditure. The total column shows the complete amount allocated to line Ministries including minimum need and policy priorities.

Donor funding in 2024 amounts to USD 11,141,243 (includes recurrent and capital expenditure). In, 2024 salaries allocation is USD 6,849,829 which includes donor funded salaries.

Fixed commitments which are USD 1,330,530 represent a minimum estimated need for key spending on things like rentals, maintenance etc. For 2024, the 2023 budget is used as a continuing minimum requirement. The Minimum Need column shows the figure needed that covers for these minimum requirements: government salaries and fixed commitment which is 3,626,237. Note, 2023 salaries are used as the basis for calculating minimum need.

Hirshabelle State's total own source revenue projection for 2024 is **USD 7,072,419**. Donor and FGS support amounts to **USD 11,141,243** and **USD 1,800,000** respectively.

Table 9 – Forecasted 2024 Expenditure

Total Domestic own source revenue	7,072,420
Total FGS grants	1,800,000
Total donor funding	11,141,243
<b>TOTAL REVENUE</b>	<b>20,013,663</b>
<b>Allocated Expenditure</b>	
Minimum need	3,626,237
Policy priorities + donor funding	16,387,426
<b>Total budget 2024</b>	<b>20,013,663</b>

## 4 RISKS TO THE BUDGET

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### 4.1 ISSUES TO PAY HEED TO GOING FORWARD

#### 4.1.1 Public Financial Management

The State's operations and fiscal sustainability rely on sound PFM; therefore, it will be imperative that all State institutions and staff abide by the principles and procedures enshrined in the PFM Act. All State MDAs shall:

1. Ensure that all public revenues are deposited into the Treasury Single Account;
2. Ensure that the MoF is notified of all new donor commitments in a timely manner; and
3. Ensure that all procurements (for goods, consultancy services, non-consultancy services, and works) are conducted through the MoF's Procurement Department.

These three procedures are critical to ensuring that funds are accurately accounted for and reported.

#### 4.1.2 Public Engagement with the Budget

As the custodian of public monies, it is incumbent on the State to demonstrate to its citizens that appropriated revenues are being effectively deployed to meet citizen socio-economic development objectives. To this end, the MoF publishes the Annual Budget and quarterly fiscal outturn reports on its website to make this information available to the public which includes international donors the citizens of Somalia and the public at large.

#### 4.1.3 Macroeconomic Risks

Deviations from the macroeconomic assumptions underpinning this BFP will pose a significant risk to fiscal policy objectives. Overall, Somalia's medium-term growth forecast depends largely on the absence of droughts or floods, the economic performance of our donor countries, and the stimulatory impact of new development projects conducted by the State and on its behalf. Continued insecurity curtails the State's ability to deliver its plans. State reforms in PFM, the PFM and Revenue Acts, customs reforms are expected to help ensure that available resources are effectively used for committed purposes. An emphasis on robust and well-managed public procurements should ensure efficient execution of policy objectives.

#### 4.1.4 Institutional Risks

Since its inception, the State's performance with regards to implementation of tax measures has been mixed. Limited access to taxpayers, lack of taxpayer information, the ubiquity of illegal checkpoints, poor understanding on the part of taxpayers as to the importance of timely tax payments, diversion of public funds from the Treasury Single Account, and procurements being conducted outside of the legal framework of the PFM Act all pose significant risks to the fiscal sustainability of the State's institutions. To manage these risks, the State continues to place a significant emphasis on the professionalization of its revenue collection activities, underpinned by the Revenue Act and subsidiary regulations and instructions.

#### 4.1.5 Human Resource Risks

Given its resource constraints, the Government struggles to attract qualified professionals to the civil service. As capacity within the Civil Service Commission increases, Ministries will work closely with the Commission to develop staffing plans over the medium-term, to support the budget preparation process by providing an indication and clear rationale for proposed staffing levels.

These below risks are specific to Hirshabelle and identify factors that could influence both macroeconomic and fiscal conditions.

Table 10 - *Macro-Fiscal Risk Table*

Risk	Likelihood	Impact
Increasing costs of key household goods hurts welfare	<b>Medium</b> - prices of good have been risen since Russia-Ukraine war.	<b>Medium</b> – the cost increases have been wide but are likely limited in size now
Large variances in grants revenue make budget execution difficult	<b>High</b> – grants revenues have historically been difficult to forecast	<b>High</b> – they remain a significant part of the budget
Droughts cause economic downturn	<b>Low</b> – limited evidence that conditions have worsened	<b>High</b> – economy is very reliant on agriculture sector
Floods	<b>High</b> – shabelle River floods are common	<b>Medium</b> – impacts the agriculture sector
Low labour force participation	<b>High- 30% of the labour force is unemployed</b>	<b>High- not enough workforce to drive the economy.</b>
Low remittance	<b>Medium</b> – remittances remains at the same level as last year	<b>Medium- remittance flows make up a key part of incomes and foreign exchange</b>
Increase in internally displaced	<b>High</b> – displacement happens with regularity	<b>High</b> – can increase costs and cause economic disruption
Loss of remittances due to COVID-19	<b>High</b> – remittance flows will likely slow from the USA and others given economic conditions	<b>Medium</b> – remittance flows make up a key part of incomes and foreign exchange
Small business weakness during COVID impacts turnover taxes	<b>Medium</b> – small businesses have been hurt by the reduction in business through COVID	<b>Medium</b> – government revenue take is dependent in part on these, as are household incomes

