

## SOMALILAND BUDGET BRIEF 2020



The Institute for strategic initiatives and Research (ISIR) is an independent not-for profit think tank dedicated to contributing building of democratic, pluralistic societies and effective public institutions in the Somali Horn of Africa region through research and policy analysis.



# CONTENTS

**02**

**MACROECONOMIC  
TARGETS**

**02**

**SOMALILAND  
G.D.P**

**03**

**EMPLOYMENT  
RATE**

**03**

**INFLATION  
RATE**

**03**

**EXCHANGE  
RATE**

**05**

**REVENUE  
ANALYSIS**

**06 EXPENDITURE ANALYSIS**

**06 PUBLIC EXPENDITURE**

**08 SECTORAL HIGHLIGHTS**

**11 RECOMMENDATIONS**



## Budget Highlights

- ▶ The approved budget for 2020 is anticipated to increase to S245 million. This is an increase of (15%) from the 2019 budget.
- ▶ The economy is expected to grow by 2% which is the same growth rate experienced in 2019. This essentially means that the government has not met its **NDPII** target of 5% economic growth
- ▶ Development projects were only allocated 8% of the budget which is a low allocation compared to government expenditures on recurrent activities that account for more than 73% of the total budget. Capital investments were allocated 15% of the total budget.
- ▶ 3.5 Million USD is allocated for elections in 2020 amidst Guurti approving two-year term extensions for the House of Representatives.
- ▶ The 2020 budget includes the implementation of **GST** taxes as part of new measures proposed to increase Government Revenues - the telecommunications, hotel and electricity sectors are set to be affected.
- ▶ The Government of Somaliland intends to spend funds amounting to 9 million USD on debt financing from the 2020 budget. The information regarding the parties owed and the total national debt is not in the public domain yet.
- ▶ The National Budget as a percentage of the country's GDP is 10% which is lower than most other countries in the region. Thus revenue collected is still insufficient to meet the budgetary needs for improving service delivery
- ▶ The 2020 budget introduces the creation of a "youth fund" that channels funds aimed to finance youth development programs.



## MACROECONOMIC TARGETS

### MACROECONOMIC TARGETS

Somaliland Ministry of finance issued a Budget Outlook Paper (**BOP**) in July this year, aimed at providing a macro-economic outlook for the 2020 budget year and which would be used as a basis for the evaluation of budgetary performances. Given the scarcity of relevant, accurate and current information on macroeconomic indicators specific to Somaliland, the ministry of finance should be commended for releasing the 2020 budget outlook and Budget performance of 2019 which played a key role in the budget analysis.

According to the Africa Development Bank, East Africa is leading the continent in economic development with an estimated GDP growth of 5.7% in 2018, followed by North Africa with an estimated GDP growth of 4.9%. West Africa comes in 3rd with 3.3% GDP growth, followed by Central Africa with a 2.2% growth and Southern Africa with a 1.2% estimated GDP growth. Ethiopia is in the lead as the fastest growing economy with a predicted 8.2% economic growth in 2019, while Rwanda is a close second at 7.8%; Tanzania follows at 6.6%; Kenya at 6%, Djibouti at 5.9% and Uganda at 5.3%.

The speedy economic growth in the horn of Africa presents great trading opportunities keeping an eye on the expansion project of Berbera Port.



Target	2018	2019	2020
Real GDP growth	2%	2%	2%
Inflation rate	8%	5%	5%
Budget deficits	10%	3%	

Source: Ministry of Finance and 2020 National Budget

## Somaliland G.D.P

### Somaliland G.D.P



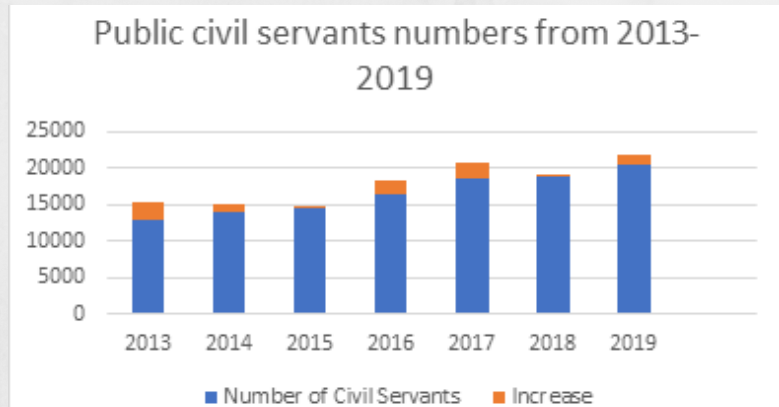
- Somaliland's GDP amounted to 2,573 million US Dollars in 2017, while GDP per capita amounted to 675 US Dollars.
- From 2018 to 2019 – the economy saw an average annual growth rate of 2 percent.
- In 2017, and as a result of the drought experienced in the country, GDP decreased by 1 percent, following a substantial decrease in exports of livestock
- Imports amounted to 1,154 million US Dollars in 2017, with the volume increasing by 19 percent from 2012 to 2017.
- National Development Plan II 2017-2021 sets sights to Sustain GDP per capital growth rate of 5% per year.
- Investment is low (latest number - 11% of GDP). Imports are very high.

## Employment Rate



### Employment Rate

- There are no current labor force surveys since 2012
- Public civil servants' numbers continue to increase every year. Current figures stand at 20,338.



Source: Ministry of Finance and 2020 National Budget

## Inflation Rate



### Inflation Rate

- The annual inflation rate in 2019 fell to 4.5% in June from the 5.1% registered in May 2019 and 6.6% registered in April 2019.
- The average inflation rate in the second quarter of 2019 was 5.4% down from 7.3% as registered in the first quarter of 2019 and significantly lower than 17% as registered in the second quarter of 2018

## Exchange Rate



### Exchange Rate

- In the second quarter of 2019, the average exchange rate for the Somaliland Shilling against the USD was SLSH 8,372 against \$1
- This was an 8% appreciation from the average rate recorded in the first quarter of the year. When compared to the second quarter of 2018, this represents a 19% appreciation.

# Public Debt



## Public Debt

- The Government of Somaliland intends to spend funds amounting \$10 million USD on debt financing from budget 2020. The information regarding the parties owed and the total national debt is not in the public domain yet.
- It has become a norm for the Somaliland government to allocate funds in every fiscal year for Public debt payment. Since 2012 total debt payment reached \$37 million

Public Debt Payment Records			
Year	Debt in Budget in SLsh	Exchange rate	Debt in Budget in USD
2012	40,836,096,697	6,464	\$ 6,317,465.45
2013	2,039,602,385	6,838	\$ 298,274.70
2014	6,273,987,760	7,129	\$ 880,065.61
2015	12,488,257,180	7,564	\$ 1,651,012.32
2016	9,919,200,000	7,556	\$ 1,312,758.07
2017	13,000,000,000	9,328	\$ 1,393,653.52
2018	82,400,000,000	10,189	\$ 8,087,152.81
2019	62,700,000,000	8,794	\$ 7,129,861.27
2020	84,099,600,000	8,350	\$ 10,071,808.38
<b>Total</b>	<b>313,756,744,022</b>		<b>\$ 37,142,052.14</b>



Source: Ministry of Finance and 2020 National Budget

# Revenue Analysis



## Revenue Analysis

- Domestic revenue projected for the 2020 budget constitutes the largest share of government revenue at 95%. This follows after Government reported 2019 funds expected from donor institutions experienced a downward trend. Total funds for other sources of revenue for budget 2020 accounts just 5%
- It is also worth taking note that Somaliland does not receive significant Foreign Aid, Grants or loans from the rest of the world.
- The rent fees for the use of Berbera air base by the United Arab Emirates is not reflected in the Government revenue sources.
- Taxes charged on imports (custom taxes) claims the largest source of taxes with the Berbera custom leading. Meanwhile the estimated sources of Inland revenues increases in 2020 with government planning to implement goods and services taxes with Hargeisa custom leading the way.
- A number of Independent Agencies still collect revenue from the provision of services, for instance, the Water agencies, Central Bank, National Printing Agency, Berbera Oil Terminal, and Berbera Port Authority. Revenue collecting agencies should address this in an effort to improve transparency and accountability.

# Revenue sources

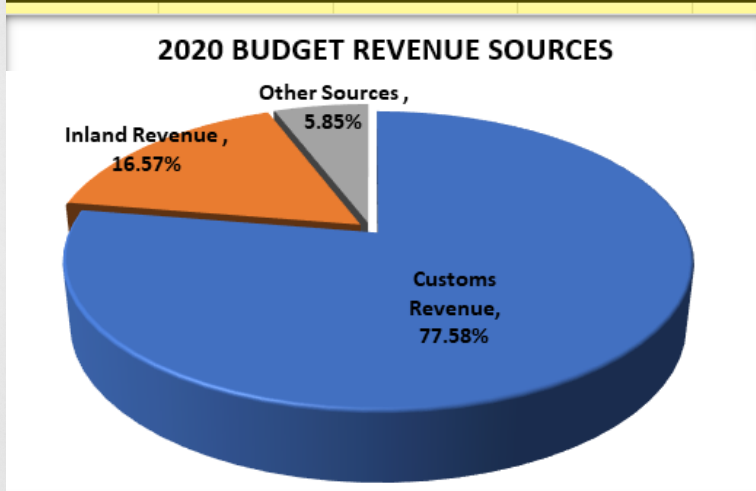


**Revenue - Table 1**

Sources	USD	Percentage (%)
Customs Revenue	\$ 190,093,029	77.58%
Inland Revenue	\$ 40,594,805	16.57%
Other Sources	\$ 14,342,465	5.85%
<b>Total</b>	<b>\$ 245,030,299.40</b>	<b>100.00%</b>

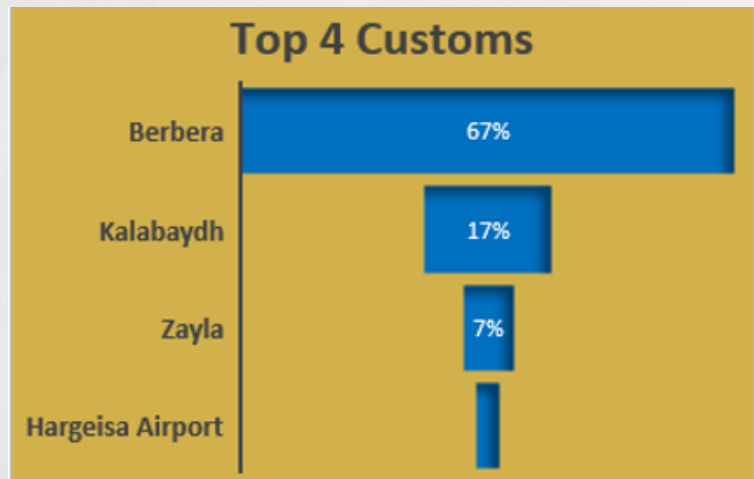
Source: Ministry of Finance (\$1 = 8350 SLSH)

**Graph - Graph 1**



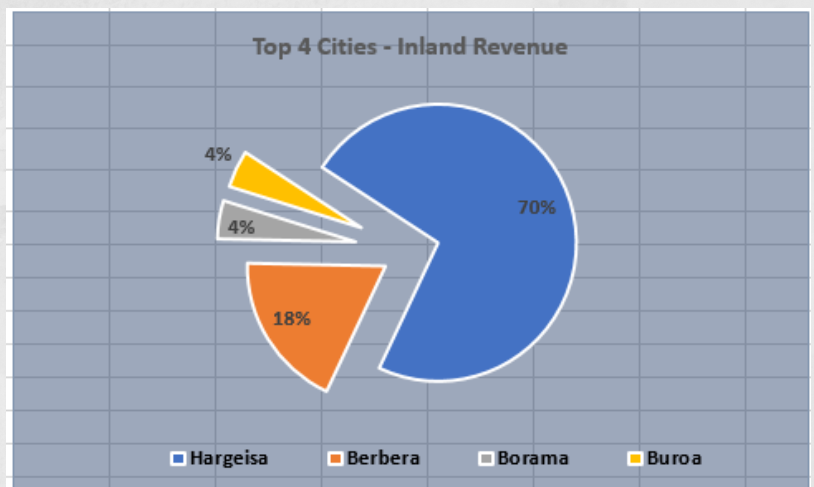
Source: Ministry of Finance and 2020 National Budget

## TOP 4 CUSTOMS BY CITIES



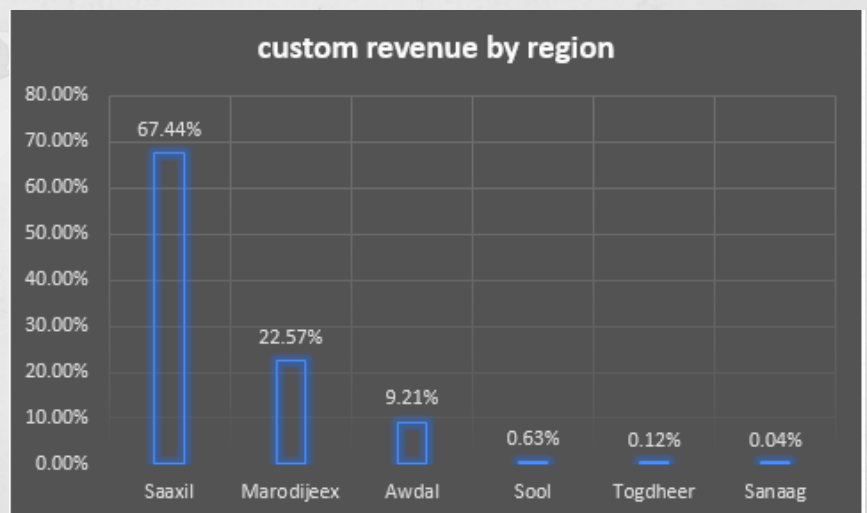
Source: Ministry of Finance and 2020 National Budget

## TOP 4 Inland Revenue



Source: Ministry of Finance and 2020 National Budget

## Custom revenue by Region



Source: Ministry of Finance and 2020 National Budget



## Expenditure Analysis

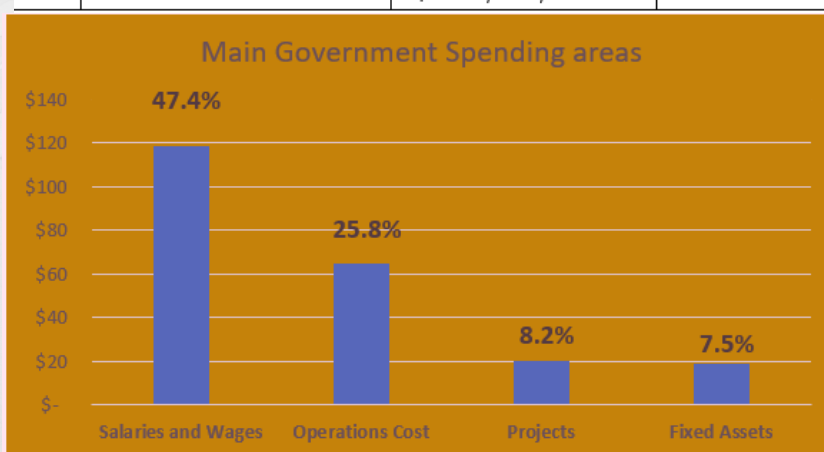


### Expenditure Analysis

- The budget brief 2020 scrutinizes the Government's spending priorities compared to the National Development Plan NDP II indicators
- The listed sectors are selected in line with the Budget Outlook Paper released by the ministry of finance in July 2019
- Key among NDP II prioritize is to increase exports and reduce imports
- Economic data provided by the ministry of Finance indicates otherwise i.e. An upward trend of imports[1] which puts a lot of stress on the GDP.

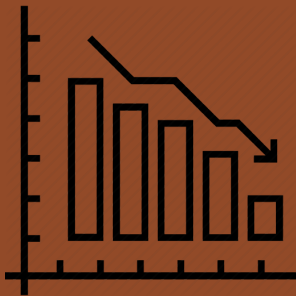
## Public Expenditure

Sn.	Type of Expenditure	Amounts	Overall %
1	Salaries and Wages	\$ 118,639,162	47.4%
2	Operations Cost	\$ 64,568,032	25.8%
3	Projects	\$ 20,546,478	8.2%
4	Fixed Assets	\$ 18,787,719	7.5%
5	Public Debt	\$ 8,982,036	3.6%
6	Emergency Cost	\$ 7,317,365	2.9%
7	National Treasury	\$ 598,802	0.2%
8	Gov Subsidies	\$ 5,590,346	2.2%
	<b>Total</b>	<b>\$ 245,029,940</b>	<b>100.0%</b>



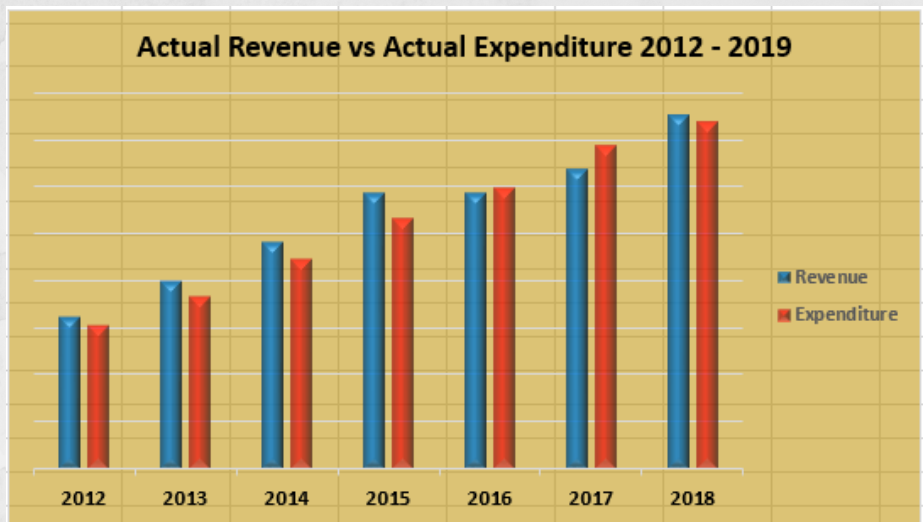
Source: Ministry of Finance and 2020 National Budget

## Budget Deficits



### Budget Deficits

- Somaliland has experienced budget deficits in the past years i.e. 2016-2017 mainly resulting from recurrent droughts and poor revenue forecasting techniques. The government of Somaliland finances its deficits from domestic revenue sources hence the question of budget credibility rises as taxpayers' money demands accountability.
- -Key concerns include habits of disbursement of funds and failure to align with national development plan 2017-2021.

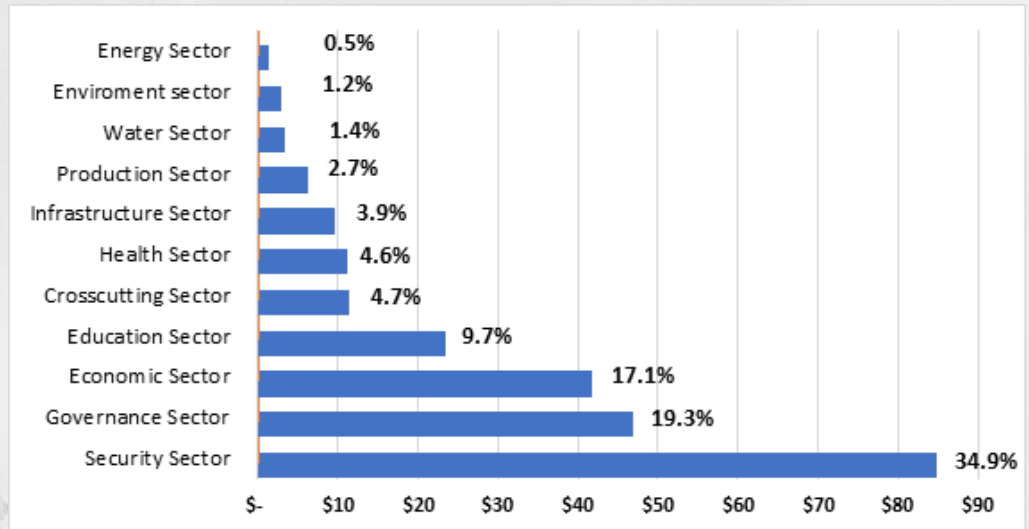


Year	Exchange Rate	Actual Revenue	Actual Expenditure	Difference +/-	Percentage +/-
2012	6464	\$100,516,859	\$95,726,990.58	\$4,789,868.35	5.0%
2013	6838	\$117,160,353	\$108,331,767.03	\$8,828,585.82	7.5%
2014	7129	\$135,895,568	\$126,262,614.86	\$9,632,953.19	7.1%
2015	7564	\$156,187,778	\$141,847,807.11	\$14,339,970.96	9.2%
2016	7556	\$155,638,617	\$159,004,753.88	-\$3,366,136.83	-2.2%
2017	9328	\$137,471,073	\$148,160,793.06	-\$10,689,720.13	-7.8%
2018	10189	\$151,273,074	\$145,732,827.18	\$5,540,246.84	3.7%
2019 (Jan-Oct)	8350	\$177,245,509	\$151,791,914.06	\$25,453,594.92	14%

Source: Ministry of Finance and 2020 National Budget

# Sectoral Highlights

## Sectoral Highlights



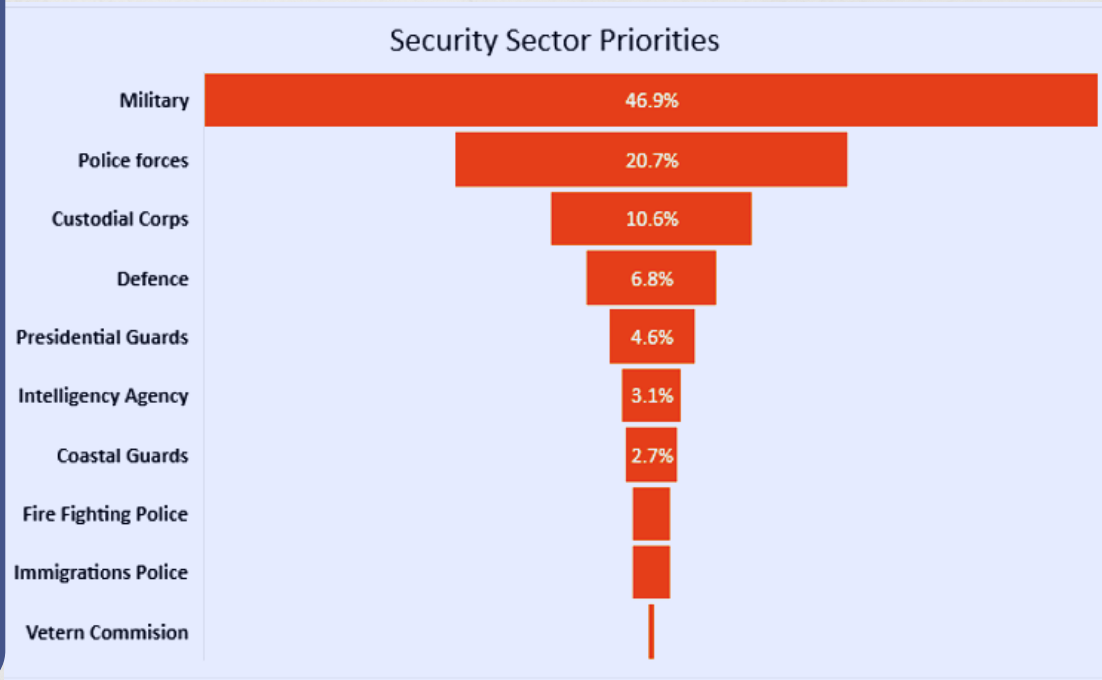
Source: Ministry of Finance and 2020 National Budget

# 1 SECURITY



## 1. SECURITY

The security docket received a 34% Budget allocation. This sector took the biggest percentage of the budget. The security sector is made up of 10 institutions as listed below:



Source: Ministry of Finance and 2020 National Budget

## 2 Governance



### 2. Governance

The Somaliland budget 2020 increased the allocation to the governance sector by 15% from the budget 2019. The allocation to the governance sector now stands at 15% increase to \$4.7 million and accounts for 19% of the total national budget.

The governance sector is made up of 20 institutions, out of which the Office of the President gets a 22.5% allocation of the total governance budget. The institutions of justice led by the Supreme Court are allocated a paltry 10% of the total governance budget.

Office of the Presidency	Justice Sector	Amounts
\$ 10,589,725	Supreme Court	\$ 900,302
	Lower Courts	\$ 3,874,264
	Ministry of Justice	\$ 1,048,573
	Prosecutor General	\$ 1,188,998
	Human Rights Commission	\$ 420,405
	<b>Total Justice sector</b>	<b>\$ 7,432,542</b>

Source: Ministry of Finance and 2020 National Budget

## 3 Education sector



### 3 Education sector

The education sector was allocated 9.6% of the national budget, which amounted to \$23.5 million. This was a 34% increase from the previous year. Consequently, the Ministry of Education resolved to increase primary school teachers' salaries by 25%, and hire an additional 300 primary school teachers to enhance the workforce.

In addition, there was a resolution to increase technical and vocational schools in the country. One major gap is that 95.4% of the sector budget goes to basic Education, with higher education and university subsidies receiving only 4.6% of the total education budget.

## 4 Health



### 4 Health

The health sector was allocated 13% of the overall national budget, which was a 4% increase from last year. This brought the total allocation to \$11 million. The Ministry of Health resolved to use part of the allocation to acquire ambulances for use in remote areas, while building more hospitals across the country.

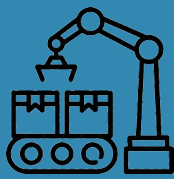
## 5 Infrastructure



### 5. Infrastructure

The budgetary allocation for water resources saw a significant increase, owing to the fact that the biggest percentage of the infrastructure budget (65%) is channeled towards building dams and sinking boreholes. Road networks will be developed at a cost of \$4.5 million, while more budget allocations will be made for the mining industry, aviation and water drilling surveys.

## 6 Production



### 6. Production

The production sector budgetary allocation was increased by 2.4% from last year. Out of the total allocation, \$0.5 million or 26% will be channeled towards agricultural projects to enhance food security.

## 7 Environment



### 7. Environment

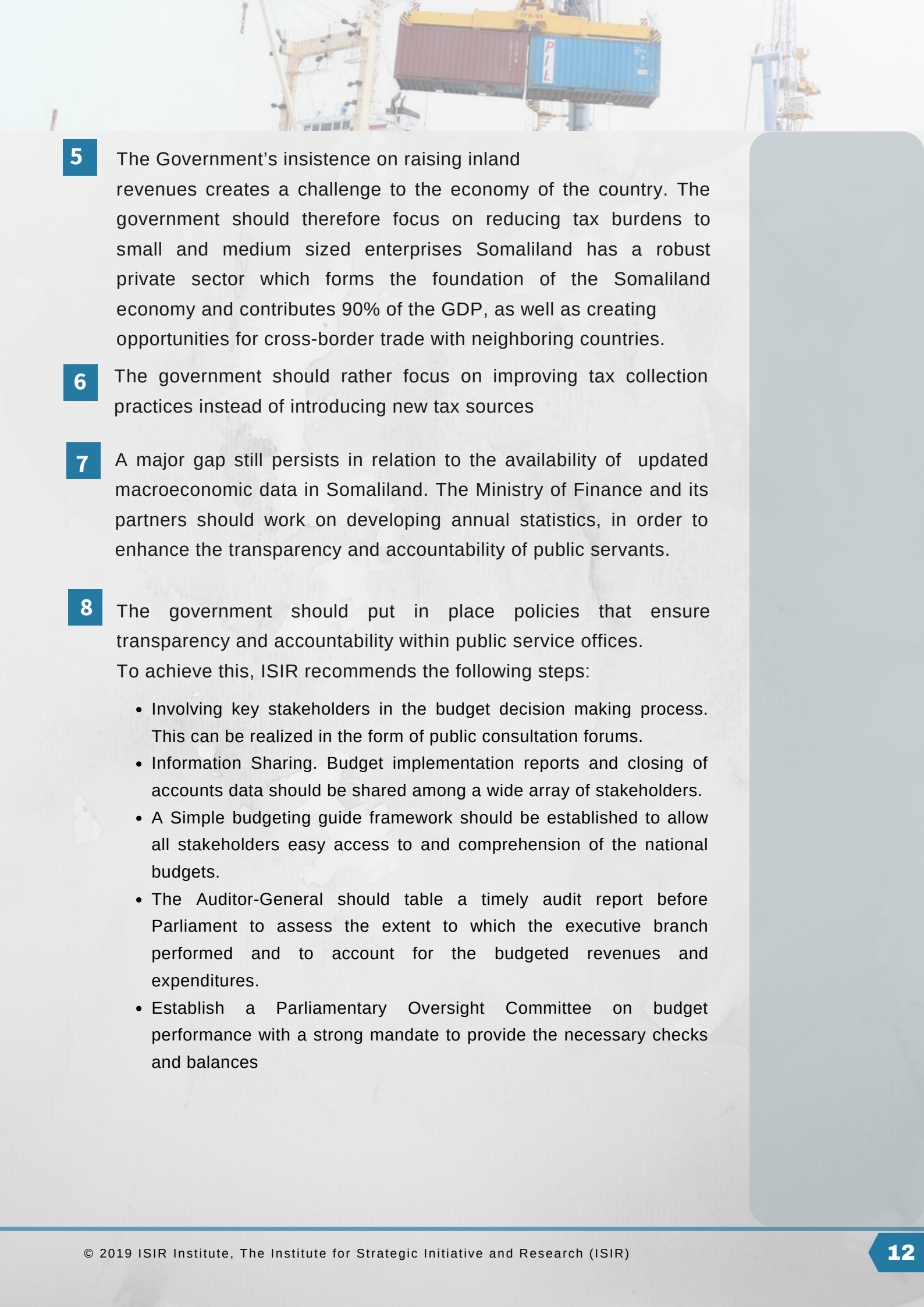
The Somaliland government considers the environment to be one of the pillars of the National Development Plan. However, this sector was allocated a paltry 7.5% of the National Budget. Notably, there was a reduction in the budgetary allocation for the national emergency and disaster preparedness agency, which is a glaring gap in the budgeting priorities.



## Policy Recommendations

After a rigorous and in-depth scrutiny of the Somaliland budget 2020, ISIR Think-tank recommends the following:

- 1** There is a need to build the technical capacity of the institutions tasked with the realization of Somaliland's national plans.
- 2** The government should consider merging the planning and finance ministries into a single ministry. This would effectively act to align their activities, leading to the most prudent allocation of public resources.
- 3** Efforts should be made towards drastic reduction of recurrent expenditures so as to shift from an administrative centered budget to a budget that lays emphasis on public service delivery
- 4** The government should further enhance the capacity of economy-forecasting bodies, in order to achieve accurate estimates of revenue and expenditures and to eliminate the perennial budgetary deficits.



**5** The Government's insistence on raising inland revenues creates a challenge to the economy of the country. The government should therefore focus on reducing tax burdens to small and medium sized enterprises Somaliland has a robust private sector which forms the foundation of the Somaliland economy and contributes 90% of the GDP, as well as creating opportunities for cross-border trade with neighboring countries.

**6** The government should rather focus on improving tax collection practices instead of introducing new tax sources

**7** A major gap still persists in relation to the availability of updated macroeconomic data in Somaliland. The Ministry of Finance and its partners should work on developing annual statistics, in order to enhance the transparency and accountability of public servants.

**8** The government should put in place policies that ensure transparency and accountability within public service offices. To achieve this, ISIR recommends the following steps:

- Involving key stakeholders in the budget decision making process. This can be realized in the form of public consultation forums.
- Information Sharing. Budget implementation reports and closing of accounts data should be shared among a wide array of stakeholders.
- A Simple budgeting guide framework should be established to allow all stakeholders easy access to and comprehension of the national budgets.
- The Auditor-General should table a timely audit report before Parliament to assess the extent to which the executive branch performed and to account for the budgeted revenues and expenditures.
- Establish a Parliamentary Oversight Committee on budget performance with a strong mandate to provide the necessary checks and balances

# ISIR Think tank

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