

SOMALILAND BUDGET ANALYSIS BRIEF

AUGUST 2020

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1. Introduction

Somaliland Network for education for all (SOLNEFA), founded in 2010 by a group of intellectuals and educationists is non-political non-profit humanitarian Coalition/Network of member organizations with primary common goal- to advocate and facilitate access to quality education for all. One of their key objectives is to influence education sector policies and planning to embrace friendly atmosphere to achieve Education for All (EFA) and SDG goals particularly goal 4/5 in Somaliland.

To achieve this objective, the coalition advocates to influence government decisions related to policy changes, by emphasizing inclusivity and financing of policies is influenced at local and national policy spaces. In relation to that, this budget analysis is carried out to use for advocacy work.

The Ministry recognizes that an effective, efficient, inclusive and participatory budgetary process is a major factor in ensuring timely and cost-effective service delivery to the citizens. Article 55 (sub 4) of the Somaliland constitution mandates the executive branch of the government to prepare the annual fiscal budget as well as the ensuing final accounts, while the House of Representatives reviews, debates and has the power to make amendment before it is finally approved. The Public Finance Accountability law 2016 also seconds executive and the parliament roles in budget process. The ISIR 2019 Somaliland Budget brief:

- Analyses the extent to which the Government's budget addresses the national development plan 2017-2022 and whether we are on the path toward Somaliland vision 2030.
- Presents the planning, allocations and overall government ambitions to address gap in development and where funds to finance the 2019 budget are expected to come from.
- Seeks to answer, though not directly, the extent to which the budget is driven by sound planning. The focus is largely on the big-ticket expenditure items and their implications on the budget vis-à-vis the financing aspect.
- Will better inform the public and citizens as we closely look at bases of budget allocations in fiscal year 2019 and the effectiveness of public wage bills (expenditure analysis)
- Also aims to provide recommendations to the government for future policy changes.

2. Budget Preparation Process

Somaliland budget is based on the recurrent expenditure of the government. Under the PFMA act, there is a budget calendar which dictates steps, procedures, actions and actors involved in budget development process, without thinking any question, see the below glance for a retreat. The budget cycle consists of three broad stages: first, budget formulation and approval (appropriation); second, budget execution, including the budget revisions that take place during execution; and third, budget reporting, auditing and evaluation. The budget year corresponds to the calendar year.

A national budget is an annual statement of a country's expected revenue and expenditure. It is the most important tool that Government uses to translate development aspirations of the nation into reality. The main objective of the recent reforms instituted was to use the budget as a tool of fostering poverty reduction methodologies and ultimately a strategic national development. The budget in Somaliland is prepared using the yearly budget approach that involves no top-down or bottom-up processes.

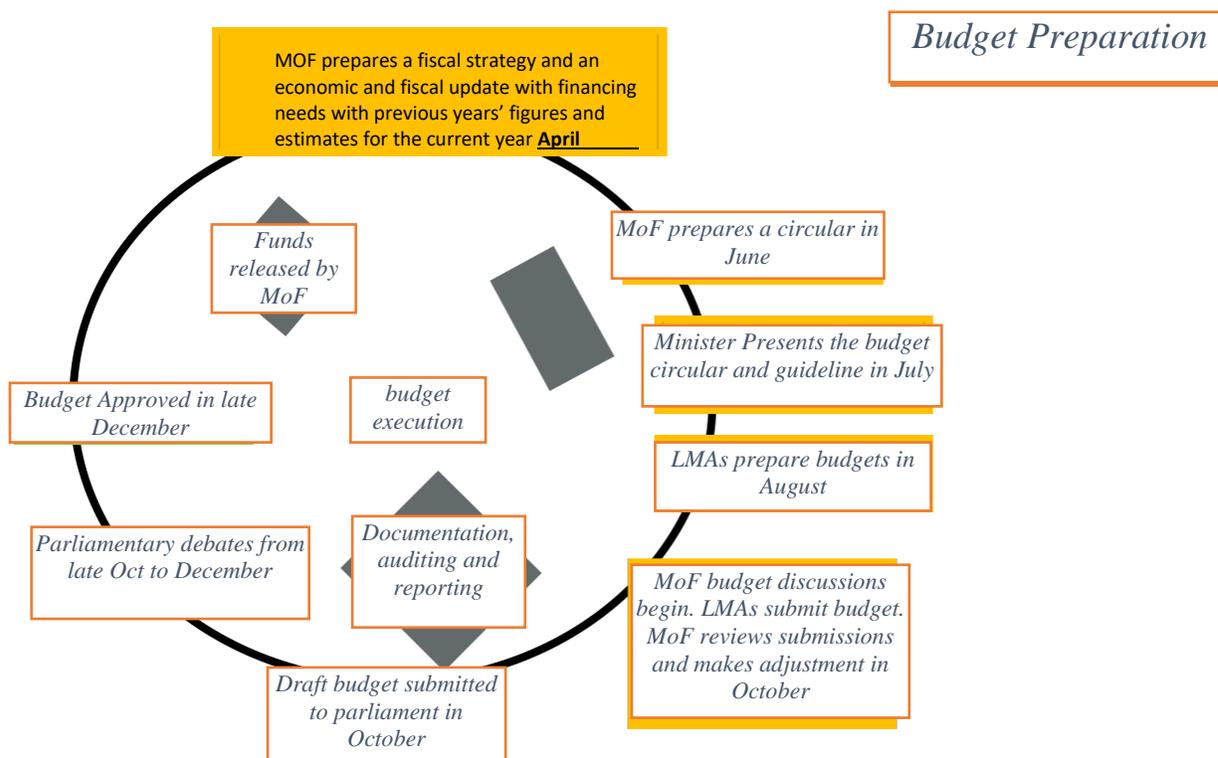


Figure 1; preparation process

The budget process needs to pave the way and include the central elements of the multi-year budget to meet the goals of the NDP II. Somaliland is muddled between the fiscal ceilings, cost estimates and meeting the priorities of the development plan within the fiscal envelope derived through the annual budget. One common scenario is when the costs of the priorities exceed the fiscal envelope; priorities need to be revised by intra-ministerial and inter-ministerial committees.

3. Budget calendar

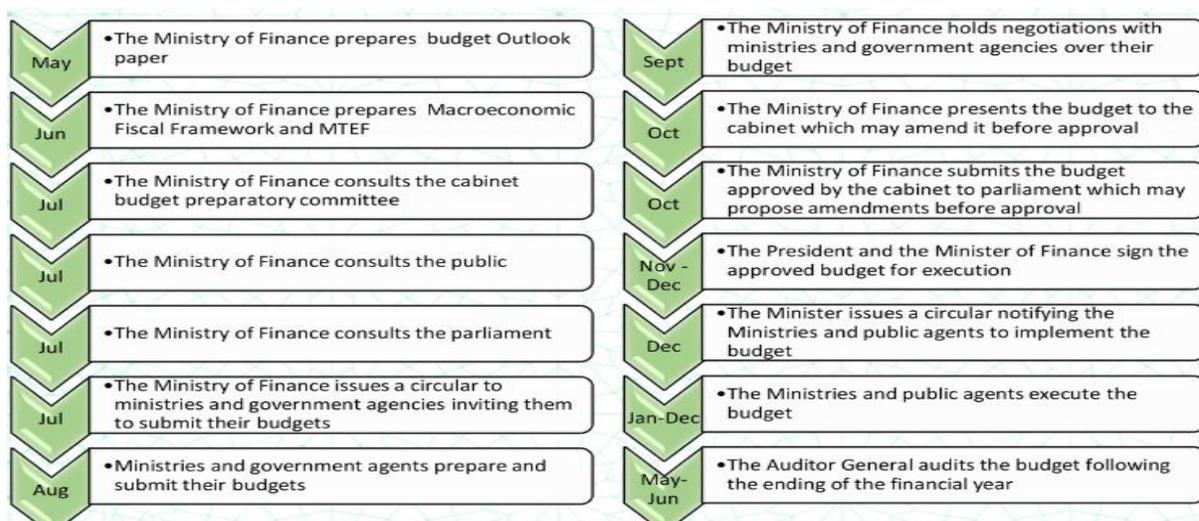


Figure 2; budget calendar

4. Sources of Government Budget

In the national planned budget in 2020, the government of Somaliland planned to collect 323,682,927 USD (including grants)—a 12% increase from the 323,682,927 USD planned in the corresponding 2019 year. Tax and non-tax revenue accounted for 74% and 26% of total collection respectively. The government of Somaliland improves the policies and procedure to mobilize domestic resources since the main source of revenue comes from domestic taxes and non-tax sources.

As shown in the table, the increase of the national planned budget comes from an increase in revenues from international tax, local government, and international aid. To achieve the planned budget in 2020, the ministry of finance implements short-term fiscal policies to improve domestic resource mobilization; this includes

<i>Sources of revenue</i>	<i>2019 Budget (USD)</i>	<i>2020 Budget (USD)</i>	<i>% difference</i>	<i>% share of 2020</i>
<i>Taxes on income and profits</i>	4,817,931	5,337,220	9.73%	1.65%
<i>Taxes on payroll and workforce</i>	13,080,956	10,977,363	-19.16%	3.39%
<i>Taxes on goods and services</i>	57,932,462	65,562,168	11.64%	20.26%
<i>Tax on international trade</i>	95,276,003	116,416,625	18.16%	35.97%
<i>Other taxes & revenues</i>	38,557,879	42,412,506	9.09%	13.10%
<i>Total Central Government Revenues</i>	209,665,231	240,705,882	12.90%	74.36%
<i>Local government</i>	30,057,674	38,441,009	21.81%	11.88%
<i>Independent agencies</i>	18,912,492	28,474,869	33.58%	8.80%

<i>Donor grants</i>	15,990,541	16,061,167	0.44%	4.96%
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Table 1: sources of government revenue

5. National Budget Allocation

a) Budget Allocation by Administration

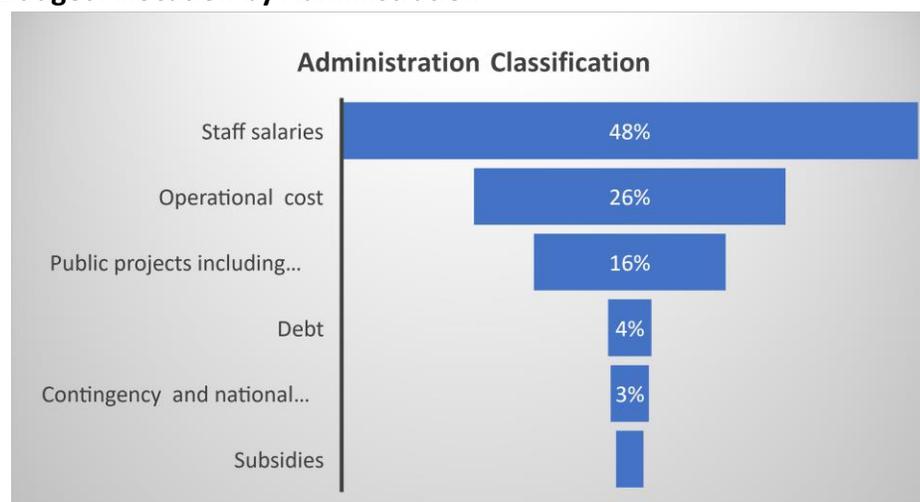


Figure 3: budget allocations

Staff salaries

Total expenditure on staff salaries in the 2020 budget is \$116,606,969.44 USD, which accounts for 48.8% of the total government spending in the 2020 national budget. Besides, comparing to the previous year 7 percent increased against the previous year's budget. The increased budget is intended for the repayment of the debt, an increase of teacher's salaries, new government employees, new military personals, and remuneration of government employees.

Operation cost

Operation spending planned in 2020 for all government bodies accounts for \$63,025,979.25 USD. Comparing to the national budget in 2019, the current budget increases 15 percent against the previous year budget. The incremental budget accounts \$8,539,029.15 USD.

Total operation cost accounts 26.18%, operation cost which planned for the facilitation of government activities, increase operation cost for recognition, travel, transport plate numbers, and other administrative costs.

projects

Planned government budget for development projects of all government bodies, debt, contingency and subsidies accounts 26 percent of the budget in 2020.

b) Sectoral allocation of the budget

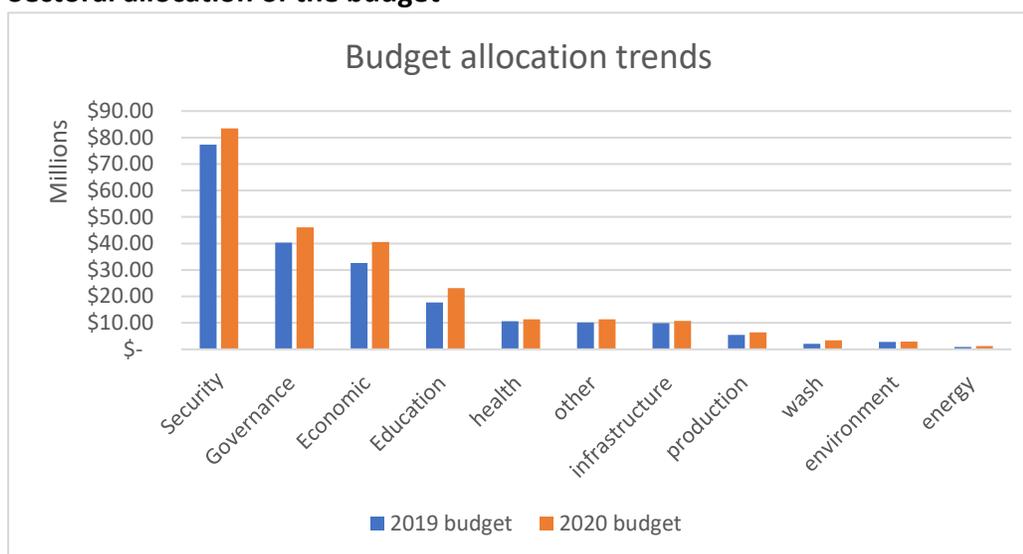


Figure 4; sectoral allocations of the budget

The Government of Somaliland aims to spend \$ 240,705,882.35 USD in 2020 (excluding donor grants), an increase of \$3,104,065.18 USD or 14.8% from the 2019 budget. The allocations of these funds among SDG's not only reflected short-term priorities but also the government's medium-term and long-term goals as specified in the National Development Plan (NDP2) and the National Vision for 2030. World Bank grants in 2020 are expected to be 5,388,827.5 USD reflecting a 9.53% increase from the 4,920,117.7 USD in 2019.

The Security sector was allocated \$83,472,037.38 USD of the budget and spent of the year or equivalent to 35% of its budget. The Governance, Economic, and Education sectors respectively received 19%, 17%, and 10% of the budget and spent \$109,779,987.01 USD. As shown in the figure above, 19% of the budget is allocated to improve the infrastructure, environment, production, and youth employment development

6. Expenditure Priorities

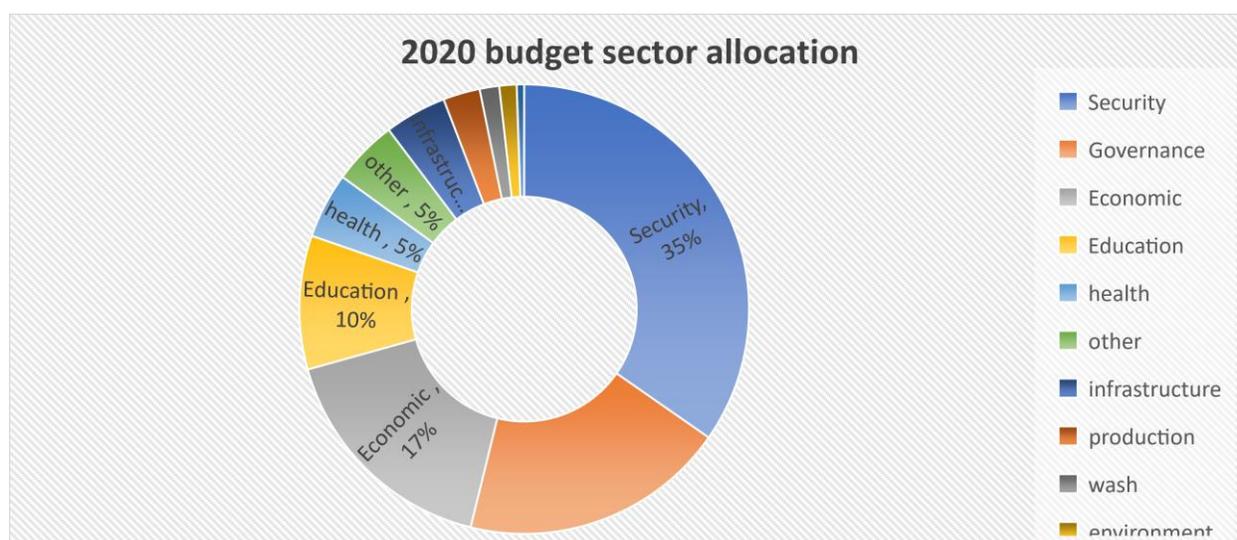


Figure 6: Sector budget allocation

A. Security

Maintaining security for all citizens of Somaliland remains one of the key priorities of the Government. The 2020 budget will support this by improving the wellbeing and equipment of the security forces. \$83,472,037.38 USD is allocated to the Security sector, representing 35% of the 2020 Budget, an 8% increase compared to 2019.

The major important projects under the security sector include the construction of army hospital, procurement of military facilities and equipment's, construction of police station in Sanaag Region, construction and completion of prison in Borama, Gabiley, and Salahley districts, procurement of military vehicles and trucks, procurement of police vehicles, employing security personal for both the military and security sector and improving and construction fire brigade station in Berbera and Erigavo Districts environment, production, and youth employment development .

B. Education

Since 1991, the country has taken great strides in the development of education. Yet literacy and primary enrolment rates are very low. The budget plan aims at expanding and raising the quality of education across the country, the main challenges of this sector include;

- Low net enrolment ratio in primary education
- Lack of adequate financial resources
- Low proportion of pupils completing primary education
- Low literacy rates
- Low ratio of girls to boys attending primary and secondary schools
- Limited classrooms facilities
- Lack of special education provisions
- Limited vocational and adult education facilities
- Insufficient qualified teachers
- Low teacher remuneration
- Lack of specialized teacher training institutions
- Lack of adequate management, planning , supervision, and curriculum development capacity

To create quality education across the nation the government national budget allocates \$23,158,498.06 USD to education sector. As shown in figure 6, government significantly increased by 31 percent comparing to the national budget of 2019. Total budget allocated in education of Somaliland comprises operation expenses and development budget in the education sector, 2020 budget, the government of Somaliland increases the development budget by 70 percent,

Incremental planned budget in this sector is intended to fund; increasing salaries of elementary and secondary teachers, recruitment of 300 new teachers, improving teacher training programs, construction of schools, libraries across the regions.

The government budget allocation is also intended for improving educational development projects in Dayaxa and Las'anod to improve basic education infrastructure with support of Somaliland Development Fund (SDF) Fund in that areas.

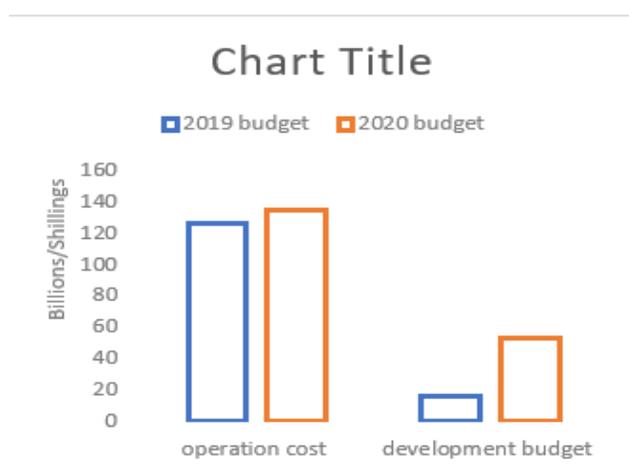


Figure 6: education budget trend

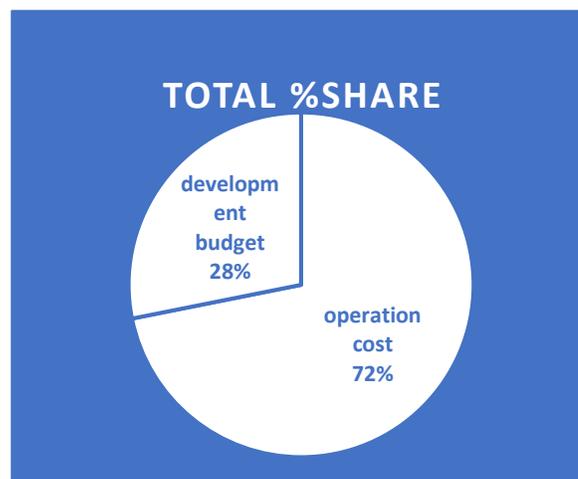


Figure 5: Education budget categories

C. Health

Access to affordable health care is a right, but that is a privilege beyond the reach of many citizens in Somaliland. The National Development Plan aims at improving health care services. National budget of 2020 prioritizes enhancing the national healthcare services, in line with the National Development Plan (NDP2) and National Vision 2030, total national budget of health sector accounts \$11,356,241.68 USD to this sector, comparing to the previous year government increases 7% percent compared to 2019 national budget allocation. Major initiatives under this budget allocation include; Recruit additional medical consultants and specialist doctors, Construction of health center in Hargeisa and Oog Districts 2 in Hargeisa and 1 in Oog and MCH Centers across the regions, improving health facility centers in Buhodle, Badhan, Baligubadle, Arabsio, and Garbo-Dadar, procurement of ambulances and health equipment (i.e dialysis machine for Borama Referral Hospital), providing additional funding demands to support doctors, nurses, hospitals, TP Hospitals across all regions.

D. Water, Sanitation and Health

Access to clean drinking water is essential for the health, sanitation and hygiene of Somaliland's citizens. The 2020 budget aims to address the scarcity of water in the country. The national planned budget for this sector accounts \$3,388,235.29 USD, which is planned to improve Water, Sanitation and Hygiene sector, a significant 64% increase from 2019. Important initiatives include; building of dams and water catchments in Build 2 big dams in Oodwayne, Maroodi and

Awdal, as well as 3 earth dams in Sool, Sanaag and Saaxil, Digging of shallow wells in Kulaal and FiqiFuliye, and purchasing of drilling rig

E. Environment

Protecting Somaliland's environment and wildlife is important for the benefit of the current and future generation. \$2,988,235.29 USD is allocated to the Environment sector in the 2020 budget, to improve environmental sustainability government of Somaliland increases a 8% comparing to the previous year's budget, the main activities planned to allocate this budget are; plantation and restoration of natural trees, Wildlife protection, Increase forestry guards and Setting up a range park reserve in Bancawl and Cashuura.

F. Infrastructure

Better infrastructure, both in terms of roads and better information and communication technology, connects Somaliland's citizens and supports economic activity. The 2020 budget will prioritise on developing key infrastructure. \$10,741,176.47 USD is allocated to the Infrastructure sector, an 8.5% increase from 2019. The key areas of development are; Working on the Erigavo road development project, as well as the Odweyne/Burco and other bridges along the Erigavo road, Introducing e-Government, Establishing ICT centres, Supporting the interconnection between telecoms operators and Purchase of a tug boat for the Berbera port to improve the efficiency of the port and facilities of the port.

G. Youth and Employment Creation

One of Somaliland's most valuable assets is its young and talented population. Offering young Somalilanders opportunities to contribute to building the economy is a priority for the Government. The 2020 budget includes specific projects to promote youth development and job creation, including:

- i. Employing 2,000 National Service graduates
- ii. Contributing 2,000,000,000 SLSh to the Youth development fund
- iii. Expanding and improving job centers and
- iv. Constructing football grounds in Caynabo, Oodweyne, Baligubadle and completing the construction of the Erigabo field

H. Production Sector

Somaliland's economy holds many opportunities for growth. The 2020 budget prioritizes the strengthening of key productive sectors, notably agriculture, livestock and fisheries. 54.3 billion SLSh is allocated to the Production sector, a 16.9% increase from 2019. Key initiatives are:

- i. Agriculture projects in Beer, Waajaale and Odweyne to grow maize, sorghum, sesame and other vegetables.
- ii. Seed production to help provide farmers with the best seeds.
- iii. Agricultural extension to help increase farmers production output.
- iv. Plant protection project against insects and other pests

- v. Livestock breeding to improve and expand knowledge on livestock reproduction, as well vaccination, and setting livestock fattening in Qoolcaday and Aroori
- vi. Livestock restocking project to respond to the effect of the 2017 drought and problems faced by nomadic herdsman-around 500 families will be given 20 heads of Sheep & Goats
Construction of fishing centers and storage freezer
- vii. Purchase of fishing boats (1 boat will be allocated to Berbera Fishing University)

I. Recognition

Somaliland strives to be recognized as an independent and internationally recognized nation. \$2,705,882.35 USD has been allocated to support the pursuit of recognition.

J. Election

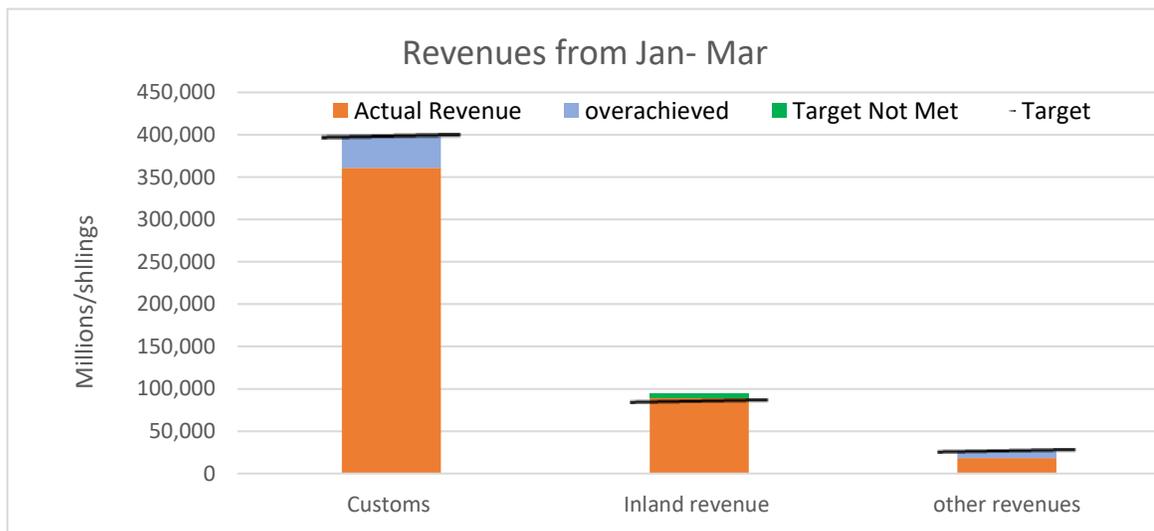
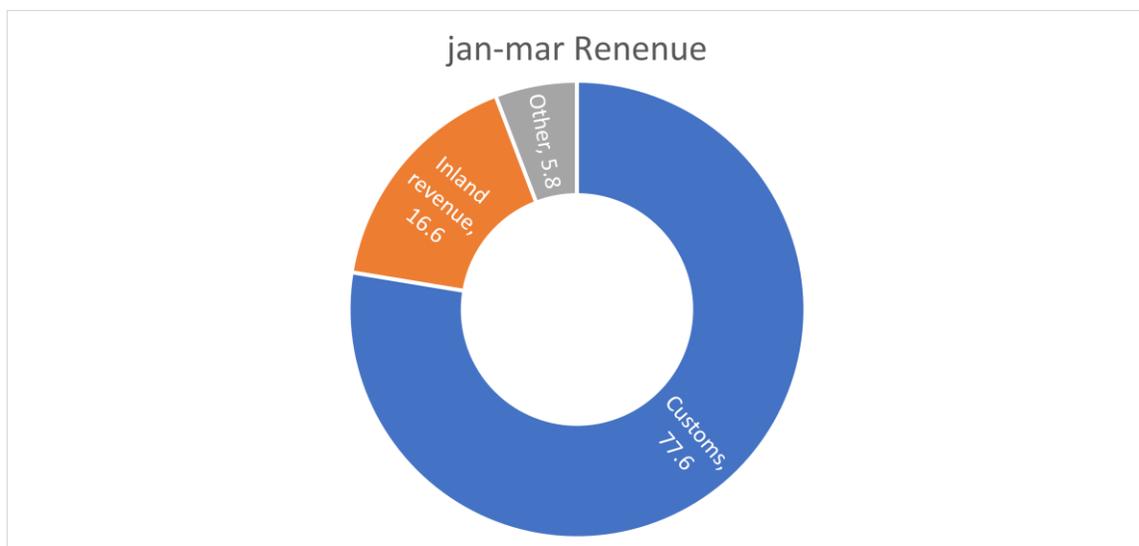
Government is committed to promoting free and fair elections. The 2020 budget will support preparations for the next elections. The government of Somaliland plan to set election in the country and \$3,294,117.65 is allocated for these preparations.

7. Short Term Fiscal Policies

The Government is committed to reducing our dependence on taxes on imports and exports, and on small fees and charges: continuing to increase duties, tariffs and small charges is not sustainable, and increases prices for Somaliland's citizens.

8. Impact of pandemic disease on government fiscal performance

Somaliland does not receive budgetary support and does not have the luxury of borrowing money to cover fiscal deficits. It has a balanced budget. On the revenue side, customs duties and levies account for 77.6% of government income (see Table below). This is a source which heavily depends on international trade. Therefore, any interruption in international trade will have significant impact on the government's ability to balance its budget. In the first quarter of the year (Jan-March), income from customs was down by 9%. Increases from Inland Revenue made up for some of the losses, but other sources suffered from drastic reduction, leading to a 7% 1st quarter net deficit.



During the pandemic disease the global economy faces many challenges, which effects all economic systems of governments. For the 2nd quarter government anticipate 30% reduction in revenue. Government hope the situation will improve in the 3rd quarter and losses will come down to 20%. Government calculate that the global economy will show strong signs of recovery, and government 4th quarter budget deficit will not exceed 10% (see the Table below).

Description	Budget forecast	Actual/expected	Difference
1st Quarter	\$ 60,083,823.53	\$ 55,611,779.28	\$ (4,472,044.25)
2nd Quarter	\$ 60,083,823.53	\$ 42,058,676.47	\$ (18,025,147.06)
3rd Quarter	\$ 60,083,823.53	\$ 48,067,058.82	\$ (12,016,764.71)
4th Quarter	\$ 60,083,823.53	\$ 54,075,441.18	\$ (6,008,382.35)
Total	\$ 240,335,294.12	\$ 199,812,955.75	\$ (40,522,338.37)

Table 3: Revenue Forecast and Deficit: 2020

9. Fiscal Decentralization challenges

Inter-governmental funds transfers are largely characterized by many challenges that are widely felt by both local governments and central government institutions. Central government transfers different types of funds to local governments including local governments subsidy, funds for decentralized services of education and health (Service Decentralization Model) which are introduced in number of districts, and Local Development Fund (LDF), of which the latter two are part of Joint Program for Local governance (JPLG).

JPLG program introduced by starting decentralization with Service Delivery Model (SDM) supported by UNICEF where minimum functions of education and health transferred to number of local governments. Keeping business as usual, sector ministries started budgeting allocations to support designated local governments. These funds are under the vote of respective ministries (health and education) However, due to the lack of developed transfer mechanism, the process of transferring fund from vote of respective ministries to local governments goes through long way. Each ministry prepares expenditure warrant to regions of allocated districts, then regional education officer or regional medical officer withdraws funds from regional accountant general through payment voucher where the payee may be regional officer and pays then to respective local government. These redundant processes are time consuming, inefficient, and many times ineffective.

Local authorities claimed irregularities in these including bank deductions and delays where Ministry of Finance claims about tax deductions not returned and lack of financial reports from local governments at all.