

SOMALILAND 2019 BUDGET BRIEF

KEY ISIR MESSAGES

1. Efforts to contain **government budget plan to comply** with Public Finance Management Accountability (PFMA) law fiscal requirements and procedure. House of Representatives needs to put pressure on the Government to provide a plan of implementation for PFMA Law.
2. Proper appraisal should inform selection of government financed **development projects** to be funded through strategic and National Development plan led thinking to ensure high yield and mitigate cost overruns in development projects.
3. The almost complete absence of a domestic **“demand function”** outside government for improvements in the budget process and budget outcomes is probably the single most important conclusion of this brief. The analysis has shown that there is no internal pressure, from within Somaliland society that significantly affects the government's behavior. Even on such a major issue as the response to public services such as water, health and Justice which is key national priority area under the NDP 2 (Pillar 3 and Pillar 4).
4. There is a need for **better transparency** on financing in order to allow or facilitate interpretation and dialogue by the public and the media on budget related issues.



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ISIR OBJECTIVES

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

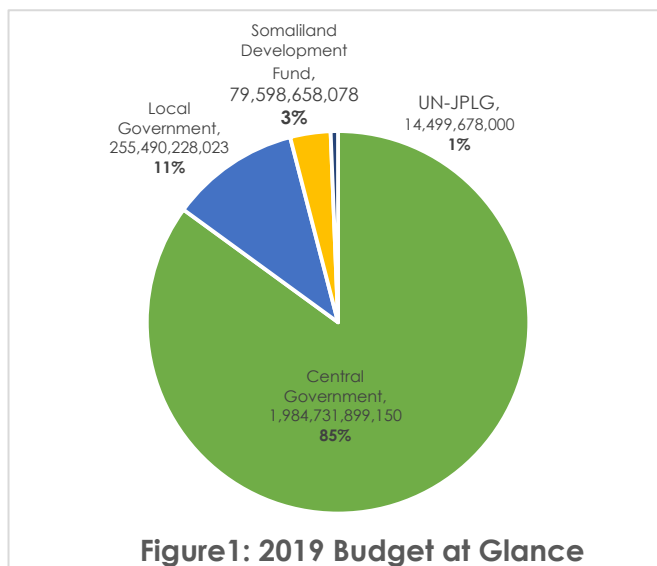
1.0 Synopsis

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 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.

Despite its improving and institutionalization of the national development plans for the past Seven years, budgetary system in Somaliland is manually operated during its preparation and allocation of costs. Although, substantial PFM policy reforms have been undertaken to improve resource allocation for the public service delivery more remains to be done to strengthen the progression of expenditure planning and budget allocations. In terms of organization, this analysis first presents synopsis of the entire 2019 budget, then proceeds with analysis that looks at issues of key spending lines of **Line Ministries** and **Agencies** (LMA) and what this means to public service delivery. Furthermore, the brief covers questions around the worrying signs in budget 2019 and possible options to mitigate them.

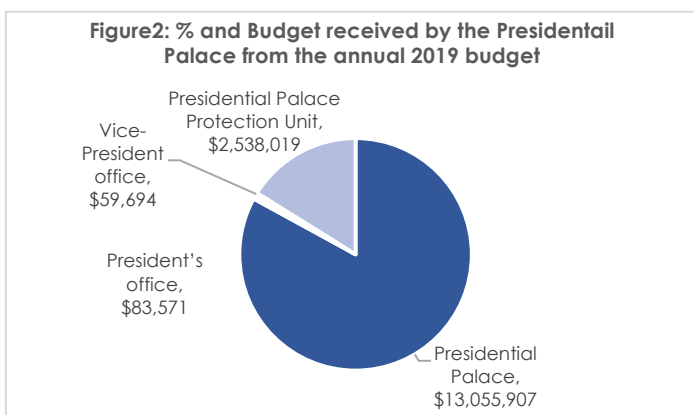
The PFMA Act sets the stage for a modern public finance management system. It demands various changes that will necessitate reforms to manage public finances. The Act stipulates a three-year budget framework which is a significant departure from the annual budget process that is currently in place. Somaliland 2019 budget was endorsed by the cabinet 19th December 2018 and approved by House of Representative on 28th December 2018. 2019 annual budget shows a fine increase of 8% compared to 2018 budget. Using the January 2019 actual market exchange rate of (\$1 = 98,000 SLSH), the annual 2019 budget is categorically allotted as shown in *Figure 1 (in SL SH)*.

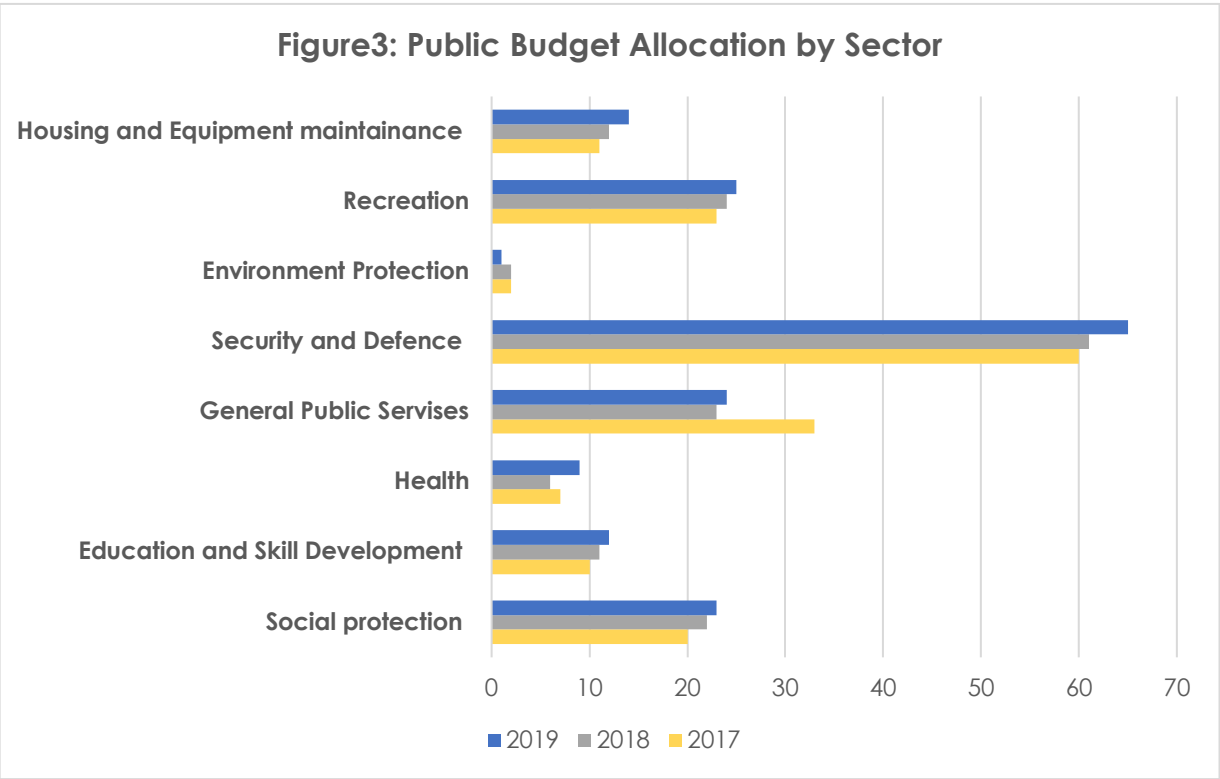


2.0 Expenditure and Revenue Analysis

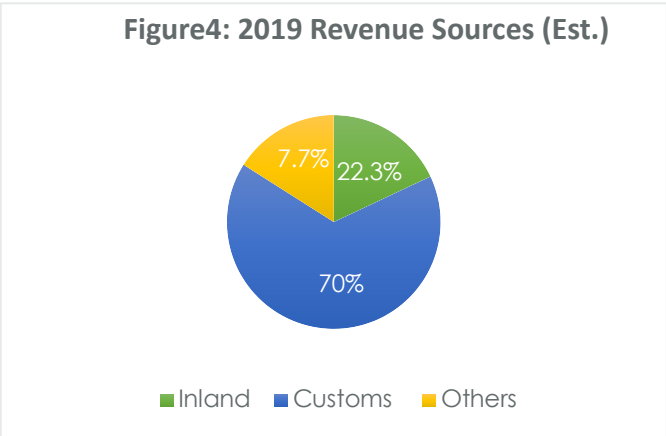
The questions of public budget management decorum need understanding. From analysis of 2019 budget, ISIR learned 2019 budget includes increase in public spending on non-essential elements and this risks fiscal deficits which in turn may hinders the realization of national priorities stipulated in the Somaliland national development plan 2017-2022. These wastages include:-

- The Budget approved by the Parliament for fiscal year 2019 amounted \$233 Million USD. The Somaliland National Budget has increased 8%. Tax Revenues are expected to contribute around 85%.
- Despite of this increase, large amounts have been allocated to recurrent expenditures (both current and capital expenditures) which include wages and salaries as well as other fixed expenditures.
- No significant changes are expected on the structure of revenue composition between 2018 and 2019. In General, tax revenues are expected to contribute more than 85% of the total government revenues, with the remainder of 15% coming from nontax revenues.
- The allocation is overwhelmed by shocking figures shown under the presidential palace heads and sub-heads. As shown below, the Presidential Palace has higher budget allocation than combined total of 18 government institutions (12 Ministries and 6 agencies).
- The Ministry of Information has higher budget allocation than combined Livestock & Fishery and Environment.
- Combined budget allocations for Security sector and Governance sector absorbs more than 60% of the 2019 annual budget. Traditionally, that has been common feature of Somaliland budget distribution.
- The allocated expenditure for invitations and festivals reached close to \$705,032 of which the costs for the presidency again and the occasion of 18 May celebration combined is half of the total figure. In the meantime, the figures budgeted for travel allowances suggest higher numbers than actually would have being expended and many would question whether those trips contribute to any result, proportionally \$474,085 of these figures are mainly depleted by the Ministry of Finance. While this sub head has being reduced by 8% compared to the previous year it is still far from convincing.
- The country has experienced annual budget deficits in number of times, 2019 budget plan shows no different. The shortfall from the 10% of 2018 deficit mainly affected the development projects planned in 2018. The Minister of Finance stated in his letter to the HoR, that 2019 budget will cover the completion of 2018 projects. Analysis show no support to how that could be possible since the funds allocated for 2019 Development projects are less than those of 2018. To add, this is aggravated by the fact that the Ministry of Finance and House of Representatives recently announced 80 Million USD dept carried forward from former government in late 2017.





- An overview of the tax measures indicates that the focus has been to increase tax revenues in 2019 Budget; government has made tax changes mainly on commodities imported including oil.
- Although revenue performance is predicated in line with the economic development and on-going tax reforms, it is clear that over the years, spending growth has outperformed that of revenue. This craze has continually been creating fears among citizens with imminent higher taxes. It's worthy to note the commendable action proposed by the House of Representatives budget committee to nullify the tax increase proposed by bunch of Ministries for 2019 budget. This proposal was approved by the House of Representatives plenary to quash the tax increase for number of Ministries. These include Ministry of Transport and Roads, Ministry of Water, Ministry of Livestock and Fishery, Ministry of Telecommunication, Ministry of Information and Ministry of Environment and Rural Development.
- Having experienced shortfall of revenues for the years 2016, 2017 and 2018 uncertainty remains on whether this will be achieved, particularly given forecasts for poor rainy season which may negatively affect livestock exports.
- ISIR understands that MOF led domestic resource mobilization efforts through taxation may be reaching its limits, largely because of the comparatively high tax efforts compared to low collection capacity. Instead of increasing the tax in every annual budget, ISIR sees better option for the government to pursue citizen friendly alternatives, including improving tax collection systems, other sources of taxes



and increasing compliance. The budget shows significant decrease in the local governments' budget, there is about 2.9 Million USD variations compared to 2018 budget, details on why and how this decrease resulted are missing from the 2019 budget.

3.0 Budget allocation for Key Ministries, Departments and Agencies

- The total budget allocated for 23 Ministries is 82,854,367 USD, Ministry of Finance and Ministry of Education is leading the chart of highest Government agencies allocated for budget while, the Ministry of Investment sits the lowest in the second successive year.
- Below figure 5 and 6 shows Key ministries and agencies given the priority in 2019 budget. There are 20 agencies listed in the annual 2019 budget plan, these agencies include the independent commissions, agencies, and independent committees the total sum allocated these three categories is 14 Million USD *Figure 5* and *Figure 6*.
- The ministries and commissions/agencies will use more than 60% of the annual budget of 2019. For each of the 43 government entities listed in the annual budget 2019, 45% of their budget goes to salaries and allowances, 27% for operational cost while less than 23% is allocated for development projects. Technically, there are a number of budget lines that need reconciliations and adjustments, the policy decision towards the increase and decrease is not directed by policy guidelines or detailed microeconomic outline.
- The Ministries of Agriculture, Environment, Livestock, Fishery, Youth, Resources and Energy combined, which oversee issues relating economic development in particular those considered the back bone of the economy will receive less than 4% of the national budget.
- Budget 2019 allocated the ministries leading in social services sector (Health, Education and Employment and Social affairs) a combined \$23,106,912, about 10% of the total budget. Particular attention is given to budget Allocations made to the Ministry of Health and related commissions stands at 3.8% of the national budget, an amount equivalent to 8 Million USD. This suggests government prioritizations when it comes to budget preparation is not in order with that of the national development plan, it is also away below the pledged target of allocating at least 15% of annual budget in Abuja Declaration of 2001 by African heads of states.
- From the below table, the Ministry of Finance leads by far from the other key public service providers, including the Ministry of Health, Ministry of Education, Ministry of Water, Ministry of Justice and Ministry of Foreign Affairs.
- The Ministry of Finance has more than 24 million dollars budget allocated. Evidently, its breakdown shows that it is the single authority with the largest expenditure comparing to the other MDAs. Some of the breakdowns allocated for the Ministry of Finance doesn't, in any way, comes under its mandate. These irrelevant program budgets lines include the national service, eastern regions development funds, Berbera Museum, house construction for the former president, health facility constructions and similar issues. These would have been easily planned and allocated under its respective MDAs.

Figure6: % and the budget received Key selected Departments, Agencies and Commissions from the annual 2019 budget

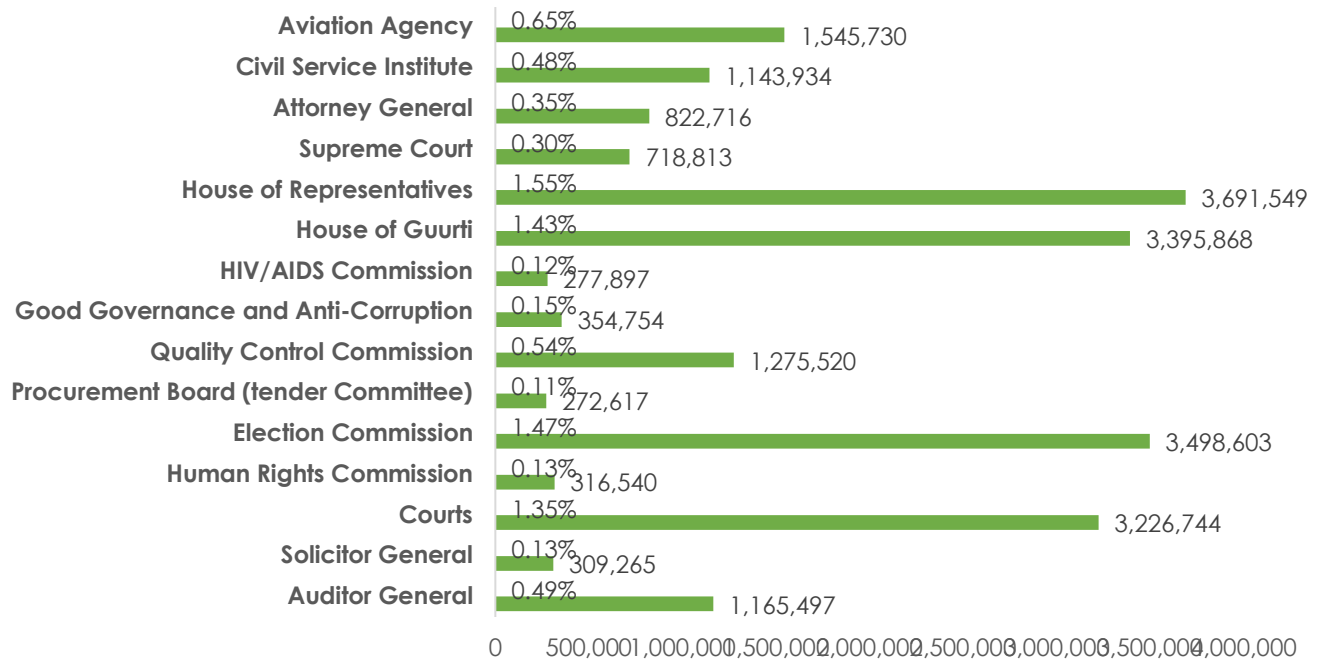
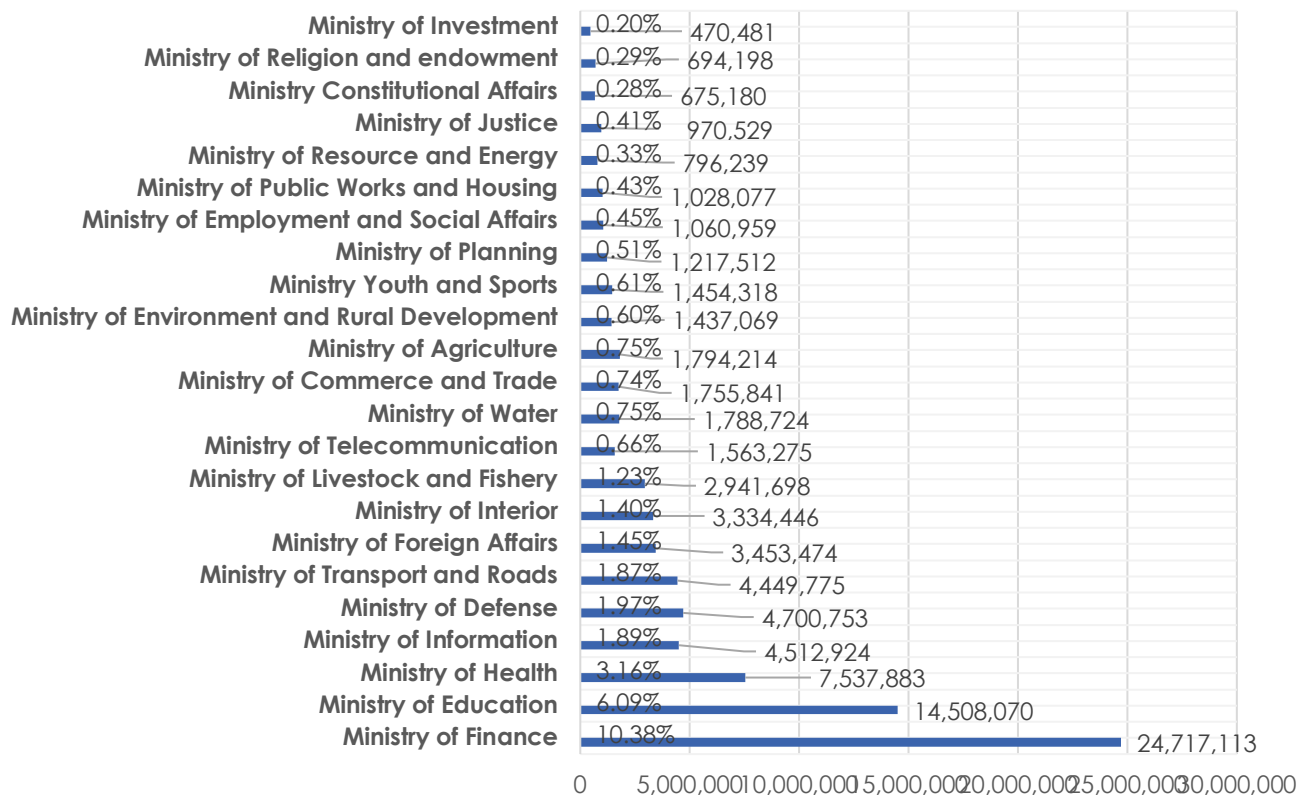


Figure6: % and the budget received by 23 Ministries from the annual 2019 budget

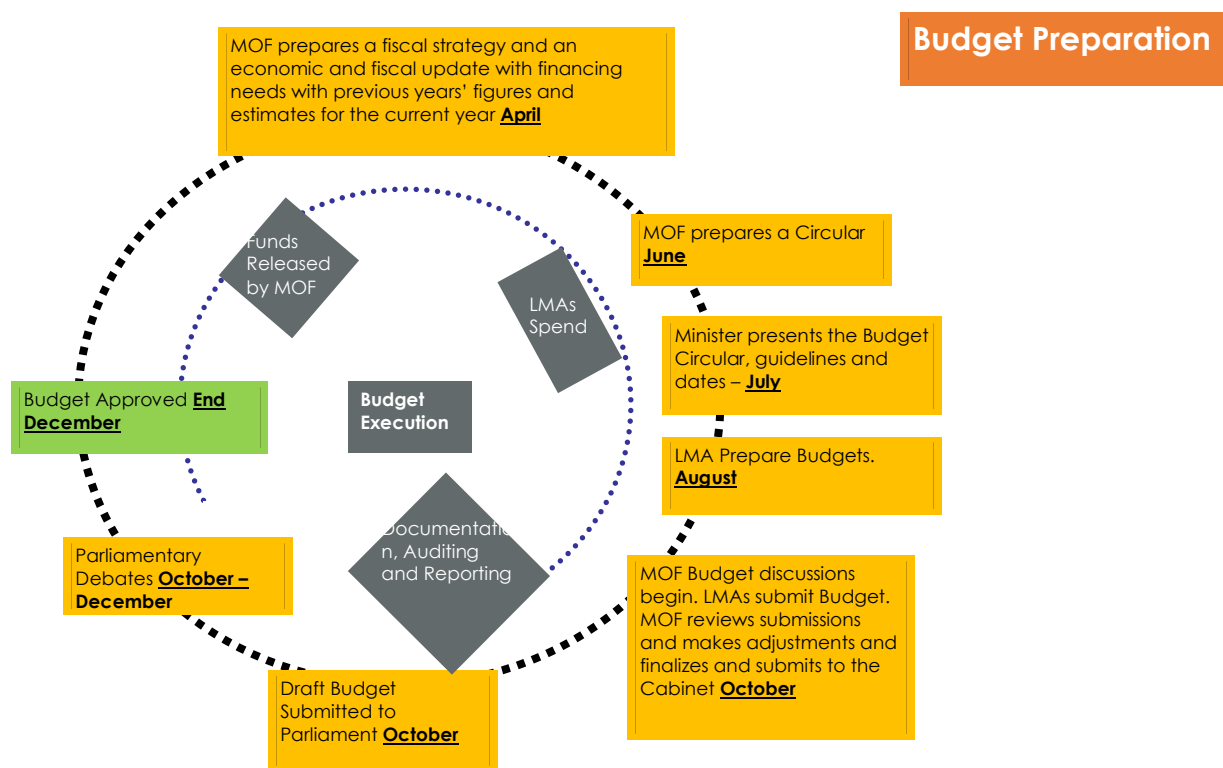


4.0 The Budget Process

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.

Figure7: Budget Cycle requirements under the PFMA Act.



In simple terms, looking at the above figure 7, there are a number of red flags hanging over the 2019 budget. Expect the last House of Representative (HOR) approval date deadline (marked green), the rest of the dates illustrated in PFMA act are desecrated without presenting a reason, why? That is clear violation of the PFMA act approved by the House of Representatives and what makes even very disappointing is that fact the parliament did not hold any one accountable for such breach of law.

Although the PFMA act was approved by parliament in 2017, 2018 and 2019 budget plans, the Ministry of Finance (MOF) and the Government used “Regulation for the Account of the State” for budgetary matters and performance budgeting which never goes in line with Somaliland finance realities and evidences of the dimness of the above two approaches are shown in 2018 budget MOF recital. 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 2. 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.

5.0 ISIR Recommendations:

1. **Weak demand for improved budgeting.** The 2019 budget analysis has brought into belief one striking fact about the budget process in Somaliland that the only actors really involved are the executive and parliament. Civil society organizations (CSO's), regional and district authorities participation is very periodic, despite the liberalization of the CSOs in Somaliland in the past two decades, which has created more “space” for the CSOs to voice their views on policy issues. The media provides no detailed analysis and coverage on budgetary issues, this limited coverage has affected the public reach, and the government feels no pressure to pay attention to it. Parliament, despite its constitutional responsibilities for scrutinizing the budget, has failed to act as an effective check on the executive’s budget policy and performance. The political oppositions have barely attempted to formulate and communicate alternative and gaps in budget policies and even the Medium Term Expenditure Framework (MTEF) transitioning.
2. **Not a competing but complimenting institutions:** The ownership of the NDP 2 rests with the MONPD while the ownership of the budget is with the MOF. A single institution should manage both. The budget should be cohesive where planning and financing are integrally developed.
3. Since the debt and external grant supports are very low or relatively nonexistent, the Government of Somaliland should pursue options to **access development grants** and borrowings to invest in strategic projects with high social and economic impacts, accelerating self-reliance, inclusive growth and development. In particular there is a need to consider a significant increase of the **budget allocated to water, health and education** to meet the demand for basic services.
4. Significantly, reduce the excessive administrative public expenditures in the best interest of hedging the allocations of the major other sectors that undertakes the crucial public services.

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