



BUDGET OUTLOOK PAPER FOR FY2024



Macroeconomics & Statistics Department

Ministry of Finance Development



Table of Contents

| | |
|---|-----|
| LIST OF TABLES | II |
| LIST OF FIGURES | III |
| EXECUTIVE SUMMARY | IV |
| 1. INTRODUCTION | 1 |
| 1.1. OVERVIEW OF THE BUDGET PREPARATION PROCESS | 1 |
| 1.2. THE ROLE OF THE BUDGET POLICY COMMITTEE (BPC)..... | 2 |
| 1.3. THE BUDGET CALENDAR | 3 |
| 2. GLOBAL SYNOPSIS | 4 |
| 3. MACROECONOMIC OVERVIEW | 5 |
| 3.1. ECONOMIC PERFORMANCE..... | 5 |
| 3.1.1. <i>Gross Domestic Product (GDP) 2022</i> | 5 |
| 3.1.2. <i>Inflation and Exchange 2022</i> | 5 |
| 3.1.3. <i>Remittances 2022</i> | 7 |
| 3.1.4. <i>Trade in 2022</i> | 7 |
| 3.1.5. <i>Travel and Tourism in 2022</i> | 9 |
| 3.1.6. <i>Investment</i> | 10 |
| 3.2. FISCAL PERFORMANCE 2022 | 11 |
| 3.2.1. <i>Revenue Outturn against Target</i> | 11 |
| 3.2.2. <i>Expenditure Outturn against Budget</i> | 13 |
| 3.2.3. <i>World Bank Aid FY2022</i> | 15 |
| 3.2.4. <i>External Aid FY2018 - FY2022</i> | 16 |
| 4. MACROECONOMIC OUTLOOK | 19 |
| 4.1. ECONOMIC OUTLOOK FOR 2023 | 19 |
| 4.1.1. <i>Inflation</i> | 19 |
| 4.1.2. <i>Exchange Rate in 2023</i> | 20 |
| 4.1.3. <i>Remittances in 2023</i> | 21 |
| 4.1.4. <i>Trade and Travel in 2023</i> | 21 |
| 4.1.5. <i>Investment in 2022 and 2023</i> | 24 |
| 4.2. GLOBAL AND LOCAL ECONOMIC IMPACTS..... | 26 |
| 4.2.1. <i>Economic And Social Impact From The War Ukraine - Global Impact</i> | 26 |
| 4.2.2. <i>Economic And Social Impact From The War In Las'anod</i> | 28 |
| 4.3. FISCAL OUTLOOK 2023 | 29 |
| 4.3.1. <i>Q1 FY2023 Revenue Outturn</i> | 29 |
| 4.3.2. <i>Q1 FY2023 Spending and 2023 outlook</i> | 35 |
| 4.3.3. <i>Medium-Term Revenue Forecast</i> | 37 |
| 5. BUDGET FRAMEWORK FOR FY2024 | 39 |
| 5.1. PROPOSED REVENUE POLICY MEASURES FOR 2023 | 39 |
| 5.2. PROPOSED EXPENDITURE MEASURES FOR 2023..... | 40 |
| 5.3. PROPOSED TARGET MEASURES FOR 2024..... | 41 |
| 6. APPENDIX | 42 |
| APPENDIX 1: LIVESTOCK EXPORT IN 2020, 2021 AND 2022 | 42 |
| APPENDIX 2: EXPENDITURE SUMMARY ON GOVERNMENT FUNDED PROJECTS IN Q1 OF 2023, SLSH | 43 |



LIST OF TABLES

| | |
|--|------|
| Table 1: Medium-Term Government Collections by Revenue Category, Optimistic Scenario, In SLSh | VIII |
| Table 2: Medium-Term Government Collections by Revenue Category, Pessimistic Scenario, In SLSh | VIII |
| Table 3: Key economic metrics at a glance, 2021 - 2022 | IX |
| Table 4: Real GDP growth, and CPI around the world, 2022 - 2024 | 4 |
| Table 5: Livestock Exports in 2021 and 2022 | 8 |
| Table 6: Import Values in 2022 (SLSh) -- Quarterly Basis | 9 |
| Table 7: Number of Passengers that arrived and departed by Air per quarter in 2021 and 2022 | 10 |
| Table 8: Number of Registrations in Quarters of Business, 2021 and 2022 | 12 |
| Table 9: Fiscal Summary of 2022 | 13 |
| Table 10: Breakdown of Annual Spend by Sector, SLSh | 15 |
| Table 11: Spend on World Bank Funded projects in 2022, SLSh | 17 |
| Table 12: External Aid for 2018-2022 | 18 |
| Table 13: External aid projects in the budget 2023 | 19 |
| Table 14: YoY and MoM Inflation Rate in the first three months in 2022 and 2023 By Major Category, Base Year, 2012 | 21 |
| Table 15: Somaliland Shilling exchange rate against the US Dollar in the first quarter of 2022 and 2023 | 22 |
| Table 16: Livestock exports in the first quarter of 2021, 2022 and 2023 | 23 |
| Table 17: Import value per quarter in 2022 and 2023, SLSh | 24 |
| Table 18: Number of Passengers that arrived and departed by Air in Q1 of 2022 and 2023 | 25 |
| Table 19: Number of Business registrations, Q1 2021 – 2023 | 26 |
| Table 20: Number of New and Renewed Business Licenses in the first quarter of 2022 and 2023 | 28 |
| Table 21: Fiscal summary (SLSh), Q1 in 2023 | 31 |
| Table 22: Actual Revenue Collection vs Budget Forecast in SLShs, Jan-March 2023 | 32 |
| Table 23: Total revenue by responsible agency compared to forecast (SLShs), Q1 2023 | 34 |
| Table 24: Customs' revenue performance by location in SLShs, Q1 2023 | 36 |
| Table 25: IRD revenue performance by location in SLShs, Q1 2023 | 37 |
| Table 26: Expenditure performance (excl. WB grants) by Chapter between Q1 2023, (SLSh, Billions) | 38 |
| Table 27: Medium-Term Government Collections by Revenue Category, Optimistic Scenario, In SLSh | 40 |
| Table 28: Medium-Term Government Collections by Revenue Category, Pessimistic Scenario, In SLSh | 40 |



LIST OF FIGURES

| | |
|---|----|
| Figure 1: Budget preparation process | 3 |
| Figure 2: Somaliland Real GDP and GDP Per Capita 2013 -2021, constant prices (million USD) | 5 |
| Figure 3: Monthly inflation rate by category, Jan 2020 – Dec 2022 | 6 |
| Figure 4: Somaliland Shilling Exchange rate against the USD, Jan 2018—Dec 2022 | 7 |
| Figure 5: Inflow and Outflow of Remittances in Somaliland, US\$ Millions | 8 |
| Figure 6: Total Livestock Export per Month since 2020 | 9 |
| Figure 7: Import Value and Duty in 2022 (billions SLSh) | 10 |
| Figure 8: Number of Passengers that Arrived and Departed by Air per Month from 2019 to 2022 | 11 |
| Figure 9: Number of Tourists per month in 2021 and 2022 | 11 |
| Figure 10: Business Registration by Location (Left) and Company Type (Right) in 2022 | 12 |
| Figure 11: Annual Fiscal Summary, 2019 - 2022 (SLSh) | 14 |
| Figure 12: Share of collections of IRD, Customs and other GOSL agencies, 2021-2022, SLSh Billions | 14 |
| Figure 13: Spend by Chapter in 2022, billions SLSh, % represent Actual Spend against Revised Budget | 16 |
| Figure 14: Spend of 2019 to 2022 by Quarter, SLSh | 16 |
| Figure 15: Spend on WB Funded Projects in 2022, Billion SLSh | 18 |
| Figure 16: External Aid for 2018-2022 | 19 |
| Figure 17: External aid projects in the budget 2023 | 20 |
| Figure 18: Annual Inflation rate, base year=2012 | 21 |
| Figure 19: Somaliland Shilling exchange rate against the US Dollar in 2022 and the first quarter of 2023 | 22 |
| Figure 21: Composition of livestock exports in the first quarter of 2021 & 2022 (left) and total export (right) | 24 |
| Figure 22: Import value per month, Jan 2022- Mar 2023 (Billions SLSh) | 25 |
| Figure 23: Number of Passengers that arrived and Departed by Air per month, Jan 2020 - Mar 2023 | 26 |
| Figure 24: Business registrations by location (left) and by sector (right) in Q1 of 2023 | 27 |
| Figure 25: Number of Business registrations per month, Jan 2020 - Mar 2022 | 27 |
| Figure 26: New Business Types Issues in the first quarter of 2023 | 28 |
| Figure 27: Fiscal summary including the supplementary budget (excl. Grants), SLSh, Q1 in 2023 | 32 |
| Figure 28: Tax and Non-Tax collection between Jan-March of 2023 and 2022, SLSh | 33 |
| Figure 29: Top 5 over and underperforming revenue items against forecast in SLShs, Jan-March 2023 | 34 |
| Figure 30: Total revenue collection by responsible agency (bn SLShs), Q1 2023 | 35 |
| Figure 31: Customs and IRD revenue composition by station and office, Q1 2023 | 36 |
| Figure 32: Expenditure performance (excl. WB grants) by Chapter between Q1 2023, (SLSh Billions) | 38 |
| Figure 33: Expenditure performance (excl. WB-funded & JPLG Projects) by Sector in Jan-March 2023, SLSh Billion | 39 |
| Figure 34: Total spending per quarter in 2019 - 2023, (SLSh, Billion) | 39 |
| Figure 35: Somaliland Revenue-to-GDP Ratio 2018-2023 | 41 |



Executive Summary

The Budget Outlook Paper (BOP) serves to inform the Budget Policy Committee's (BPC) discussions on key decisions for the 2024 budget. It provides a contextual framework upon which policies that reflect current economic and social developments are taken. This document introduces the role of the committee and the budget process. It provides an overview and outlook of the global and domestic economy. It subsequently provides a forecast of revenue collection for 2023 and 2024 before concluding with a framework for the 2025 budget.

The BOP will assist the Committee to:

1. Establish a ceiling for the central government spending for the 2024 budget;
2. Agree on the size of the *Contingency Reserve* and on the operational guidelines of the reserve;
3. Set the government's expenditure policy with respect to the main expenditure heads: wages, recurrent and capital / development expenditure;
4. Outline the government's priority investments in line with National Development Plan III sectors;
5. Advise on proposed revenue policy measures; and
6. Advise on the direction of macroeconomic policy for the 2024 budget year.

Proposed Revenue Measures for 2024

- ⇒ Improving tax compliance and enforcement;
- ⇒ Improving collections through broadening the base of taxpayers and Implementing the Withholding Tax;
- ⇒ Enforcing monthly filing for the employment income and Goods and Services Taxes;
- ⇒ Strengthening and supporting the enlargement strategy the customs collections especially in the eastern regions;
- ⇒ Utilizing the newly elected councils to strengthen the IRD taxes collected by Local Governments;
- ⇒ Using the head counting registration system to increase business, payroll and rentals income tax collections;
- ⇒ Implementing the enacted penalties and stamp duties (with tickets), and ensuring that each IRD office meets its revenue collection targets;
- ⇒ Implementing Goods and Services Taxes (GST) in factory productions;
- ⇒ Installing GST devices in medium and large business establishments, telecoms, electricity etc. to GST at the point of sale; and
- ⇒ Implementing amended Revenue Act provisions and enforcing the tax laws fully.

Proposed Expenditure Measures for 2024

While investment priorities are set to remain unchanged, the short-term focus should be in improving the performance of spending (i.e., by better targeting and allocating resources) in meeting citizen's needs within the required timeframe. This means, the government will continue to prioritize the following nine objectives in the budgets for the coming three years.

- ⇒ Encouraging employment, particularly of young people;
- ⇒ Promoting domestic food production;
- ⇒ Protecting local industries;
- ⇒ Improving balance of payments;
- ⇒ Stabilizing prices and foreign exchange;
- ⇒ Ensuring security and justice;



- ⇒ Ensuring free and fair elections;
- ⇒ Improving access to basic social services – water, health & education; and
- ⇒ Protecting the environment.

Table 3: Key Economic Metrics at a Glance, 2021 – 2022

| Metric | 2021 | 2022 | Change (%) |
|---------------------------------------|-----------------------|--------------------|------------|
| Macro Economy | | | |
| Real GDP (USD bn) | 2,483 | 2,533 | 2% |
| GDP per capita (USD) | 775 | 853 | 10.1% |
| Core annual inflation | 4.6% | 10.1% | 119.6% |
| Average SLSh / USD exchange rate | 8507 | 8483 | -0.3% |
| Trade | | | |
| Heads of livestock exported | 1,997,971 | 2,235,470 | 11.9% |
| Import Value (SLSh bn) | 11,093 ^{Est} | 9,861 | -11% |
| Import Duty (SLSh bn) | 1795 | 1580 | -12% |
| Business and Travel | | | |
| Arrivals | 73,224 | 101,324 | 38.4% |
| Departures | 90,788 | 121,372 | 33.7% |
| Tourists | 454 | 441 | -2.9% |
| Business registrations | 939 | 1,952 | 107.9% |
| Fiscal Metrics | | | |
| Domestic Revenue Collection (SLSh bn) | 2,169 | 2,302 | 6% |
| Actual spending (SLSh bn) | 2,129 | 2,389 | 12.2% |
| Fiscal balance (SLSh bn) | 87 | 0.484 | -99.4% |
| External Aid (USD mn) | 346.7 | 381 ^{Est} | 9.9% |
| Revenue-to-GDP ratio | 9.3% | 8.5% | -0.08% |

Key Economic Metrics at a Glance, Q1 2022 – 2023

| Metric | Q1 - 2022 | Q1 - 2023 | Change (%) |
|---------------------------------------|-----------|-----------|------------|
| Annual inflation | 6.46% | 10.53% | 63% |
| Average SLSh / USD exchange rate | 8,499 | 8,563 | 0.75% |
| Heads of livestock exported | 410,077 | 174,246 | -58% |
| Imports Value (SLSh bn) | 2,288 | 2,227 | -3% |
| Import Duty (SLSh bn) | 434.0 | 370.2 | -14.7% |
| Arrivals | 21,494 | 24,233 | 12.7% |
| Departures | 27,875 | 26,254 | -6% |
| Business registrations | 369 | 456 | 24% |
| New | 279 | 325 | 16.5% |
| Renew | 73 | 236 | 223% |
| Fiscal Metrics | | | |
| Domestic revenue collection (SLSh bn) | 632.6 | 541.5 | -14.4% |
| Actual spending (SLSh bn) | 565.7 | 456.8 | -19.2% |
| Fiscal balance (SLSh bn) | 213 | 17.8 | -92% |



The value of annual Gross Domestic Products (GDP) at 2017 constant prices in absolute terms increased to 2,533 million USD in 2022 from 2,483 million USD in 2021, equivalent to an increase of 2%. On the other hand, GDP per capita amounted to 852 USD in 2022, compared to 775 USD in 2021.

The average annual headline inflation increased 8.1% in 2022 compared to the record in 2021. The most significant quarterly price increases were observed in food and non-alcoholic beverages. The drivers of annual food inflation were fish and sea food that slightly declined to 3.6% in Dec 2022 compared to the 6.1% registered during the Nov 2022.

The average exchange rate was 8,483 S/US\$ in 2022, whereas it was 8,507 S/US\$ in 2021. It shows that Somaliland shilling appreciated against the dollar in 2022 by 0.28%. In the fourth quarter of 2022, the average market exchange rate of the Somaliland shilling to the US dollar was 8,483 S/US\$.

The total amount remitted to Somaliland in 2022 decreased by 11%, while the total amount remitted out increased by 16% compared to record in 2021, respectively. Thus, remittances remain critical to the Somaliland economy, particularly during economic downturns and external shocks, as they stabilize household consumption and act as a cushion against shocks (counter-cyclical properties).

The global economy has faced successive challenges in the past few years, ranging from the COVID-19 pandemic, the war in Ukraine, and global supply chain issues and inflationary pressure that resulted from these. However, 2023 and looking ahead to 2024, it is possible the worst of these difficulties have now been overcome, but it remains uncertain how smooth this recovery will be. The IMF predicts global growth will be 2.8% in 2023 and 3% next year. Likewise, inflation will recover, down from 8.7% globally in 2022, to 7% and 4.9% respectively in 2023 and 2024. Overall, growth in Sub-Saharan Africa is projected at 3.6% in 2023 and 4.2% in 2024.

Somaliland's economy is projected to recover in 2023 from the challenges in the previous years that affected the supply side of the economy, such as the Covid-19 pandemic and the Waheen Market fire. However, there has been an additional strain this year from the conflict in Las'anod. The average annual headline inflation increased 8.1% in 2022 compared to the record in 2021. The most significant quarterly price increases were observed in food and non-alcoholic beverages.

Somaliland's economy continues to be dependent on livestock exports, which fortunately have recovered well, in part from higher rainfall, and the global easing of pressure on supply chains. In 2022, the total livestock exported was 2,235,470 heads, an increase of 12% compared to 1,997,971 in 2021. The number of Sheep & Goats exported accounted for 195,932 in 2022—representing a 10% increase from 2021, whereas the camel and cattle export in 2022 significantly increased by 67% and 22% respectively. **The nominal value of Somaliland imports in 2022 was approximately 9.861 trillion S/US\$.** This value is based on the invoice values submitted by importers. On a quarterly basis, imports increased by 11% in the fourth quarter, while there were a 32% decrease in the third quarter compared to Q2 of 2022.

Improvements to domestic revenue mobilisation and expenditure have continued. Domestic revenue collection was 2.302 trillion S/US\$ (excluding grants and the supplementary budget) in 2022. Total revenue collection was 4% or 86 billion more than the 2021 collection.



On the expenditure side, the government spent 2.389 trillion SLSh or 95% of the 2.518 trillion SLSh budget approved for 2022. This approved budget includes the 107.7 billion SLSh supplementary budgets— approved in the year—in addition to the original 2.4 trillion SLSh National Budget. The government spent nearly all of what was allocated for Loan Repayment, a total of 52.97 billion SLSh.

The government received 37.5 billion SLSh from the World Bank, which is 31.5% less than allocated in the approved budget for 2022. On the expenditure side, 37.5 billion SLSh were spent on the four World Bank-funded projects such as the DRM&PFM, CSSP, Biyoole and SEAP projects¹, which represents a -45.7% underspend. The most challenging task on these projects continues to be the acquisition of time-consuming, high-value goods and services.

In the Q1 of 2023, the average headline inflation was to 10.53%, compared to 6.46% in the same period of last year (Q1-2022). The average monthly headline inflation in the first quarter of year 2023 increased 0.49% compared to the record same quarter of last year (Q1-2022).

In the Q1 of 2023, the average exchange rate of the Somaliland Shillings (SLSH) in the foreign exchange market was 8,563/USD in the fiscal year of 2023, showing a 0.75% annual depreciation. The Somaliland Shilling weakened by 0.75% in the first quarter of 2023 compared with 8,499 in a similar quarter in 2022.

Inward and outward remittances in Somaliland were higher in the Q1 of 2023 compared to the same period in 2022. More specifically, inward and outward remittances increased by 97% and 7.32% respectively. Also, compared to the Q4 of 2022, both inward and outward remittances increased significantly in the Q1 of 2023—by 122% and 16.4%, respectively.

Somaliland's economy is heavily dependent on livestock exports. Therefore, in the first quarter of 2023, the total livestock exported were 174,246 heads, representing a significant decrease of 58% compared to Q4 of 2022 which were recorded 410,077 livestock exports.

The nominal value of Somaliland's imports in the Q1 of 2023 was approximately 2.23² trillion SLSh, representing a 3% decrease compared to the first quarter of 2022 and 5% decrease in Q4 of 2022. On a monthly basis, there was a decrease in the import value occurred in Q1 2023.

In Q1 of 2023, Somaliland registered 24,233 passengers' arrivals by air compared to the 21,494 recorded in the same period of 2022. On the other hand, there were 26,254 passengers that departed in the first quarter. Arrivals were higher around 13% whereas the departures were lower 6% in the first quarter compared to the same period in 2022.

In Q1 of 2023, there was registered 456 businesses, representing 87 more compared to the Q1 registrations in 2022. Generally, there is 24% increase in the Q1 of 2023 business registrations, compared to the record in the Q1 of 2022.

² This value is based on an invoice value submitted by the importers.



In Q1 of 2023, there were 325 new and 236 renewed business licenses issued by the Ministry of Trade, representing a decrease of 0.4% new licenses and an increased 223% renewed licenses compared to the record of Q1 in 2022. The information shows a positive trend in the Q1 2023 of the renewed business licences being issued.

Somaliland's investment in international trade has seen it become embedded in the global economy. As such, it has also been affected by the adverse impact from the war in Ukraine. Somaliland continues to run a trade deficit. The reliance on imported goods has meant that the rise of the price of these goods has expanded the trade deficit. More specifically, imports decreased 5% in Q1 2023. The heightened trade deficit has also had an inflationary impact, with inflation increasing from 6.5% in Q1 2022 to 10.5% in Q1 2023.

Since the beginning of February 2023, there has been heavy fighting in the Somaliland eastern city of Las-Anod between the troops of Somaliland and external militia/troops from the regional administration of Puntland which is one of the federal states of Somalia. The war had immediate social and economic consequences that adversely affected the Somaliland economy. The economic impact can be seen in the Customs and Inland Revenue collections. In the Q1 of 2023 budget, the Somaliland Ministry of Finance forecasted that Las'anod customs should collect 2.3 billion SSh, whereas the actual collection was only 6.11 million SSh, a 73% decrease. Likewise, the inland revenue forecast and actual collections in the first quarter of 2023 budget were 1.158 billion SSh and 68 million SSh respectively, this indicates a 94% decrease. The information shows a heavy revenue deficit for both the customs and inland revenue collections caused by the unexpected Las'anod crisis.

In Q1 of 2023, the Somaliland government collected 541 billion SSh in domestic revenue—representing a 4% decrease from the 562 billion SSh collected in the same period in 2022. Collections from non-taxes increased by 29% (+19.6.8 billion SSh) while tax collection decreased by 8% (-40.2 billion SSh).

In Q1 of 2023, the government of Somaliland spent SSh 456.8 billion from the general government fund, which represents 18.05% of the annual budget of SSh 2.53 trillion. However, the expenditure was 19.24% below the allocated amount for the quarter, or SSh 108.8 billion. Expenditures were well below target across all major spending categories, except for subsidies and compensation of employees.

Based on the MoFD's 2023 medium-term fiscal framework, for the optimistic scenario, the government expects to collect 2.732 trillion SSh in 2024 and 2.925 trillion SSh in 2025. On the other hand, based on the estimated actual in 2023, for the pessimistic scenario, the government expects to collect 2.42 trillion SSh in 2024. These estimates are expected to be revised in the upcoming update to the Medium-term Fiscal framework. The revenue-to-GDP ratio is currently estimated to be 9.7%, significantly below the 14% threshold suggested by the IMF as necessary to sustainably fund public investment in inclusive growth and development. Based on the Government's Multi-annual Fiscal Framework 2021-23, it is estimated that the revenue-to-GDP ratio will have reached 11% by end of 2023.



Table 1: Medium-Term Government Collections by Revenue Category, Optimistic Scenario, In SLSh

| DESCRIPTION | 2022 | 2023 | 2024 | 2025 |
|-----------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Actual | Estimate | Forecast | Forecast |
| Income and profits | 44,615,233,140 | 86,947,970,416 | 95,078,083,297 | 103,208,196,178 |
| Payroll and workforce | 133,023,379,048 | 130,748,912,919 | 134,201,343,866 | 137,653,774,813 |
| Goods and Services | 791,380,476,392 | 890,919,564,303 | 957,921,550,612 | 1,024,923,536,921 |
| International Trade | 1,048,492,238,985 | 1,095,448,024,655 | 1,187,973,241,256 | 1,280,498,457,857 |
| Other Taxes | 95,119,341,197 | 123,281,042,818 | 133,789,990,029 | 144,298,937,240 |
| Other Revenue | 138,777,824,961 | 211,563,820,652 | 223,053,758,371 | 234,543,696,090 |
| TOTAL | 2,253,333,493,723 | 2,538,909,335,763 | 2,732,017,967,431 | 2,925,126,599,099 |
| % Growth | 7.80% | 5.33% | 7.61% | 7.07% |

Table 2: Medium-Term Government Collections by Revenue Category, Pessimistic Scenario, In SLSh

| Description | 2023 | 2024 | 2025 |
|-----------------------|--------------------------|--------------------------|--------------------------|
| | Estimated actual | forecast | Forecasted |
| Taxes | 1,928,642,488,147 | 2,109,016,150,902 | 2,292,069,695,511 |
| Income and profits | 62,088,030,986 | 63,670,742,810 | 65,995,694,576 |
| Payroll and workforce | 137,589,437,718 | 143,425,524,755 | 152,550,418,121 |
| Goods and Services | 482,005,442,198 | 542,721,200,251 | 573,095,967,022 |
| International Trade | 1,021,911,865,226 | 1,113,179,216,765 | 1,252,308,050,612 |
| Other Taxes | 225,047,712,019 | 246,019,466,321 | 248,119,565,180 |
| Other Revenue | 276,476,339,127 | 303,614,904,031 | 321,801,478,517 |
| Sum of Revenue | 2,205,118,827,274 | 2,412,631,054,933 | 2,613,871,174,028 |
| % Growth | | 9% | 8.3% |

Source: Medium-Term Fiscal Framework FY2022



1. Introduction

The following budget outlook paper aims to provide the Budget Policy Committee with a contextual framework for the economy in order to ensure that policy decisions for 2024 and the medium-term are reflective of current domestic and international developments. The Ministry of Finance Development 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. The following BOP is therefore intended to assist the Budget Policy Committee (BPC) in their decision making for the 2024 National Budget and resource allocations for the medium-term.

The Budget Outlook Paper is divided into five main sections. The first part gives a clear and concise overview of the budget process—as set out in the Public Financial Management Act, No.75/2016—and the role of the Budget Policy Committee. The second, third and fourth section provides a macroeconomic overview and outlook of the global and domestic economy, respectively. The fifth section provides a framework for the 2024 budget.

The Ministry of Finance Development looks to the Budget Policy Committee to reach a consensus on the government’s expenditure priorities—recurrent and capital expenditure—, fiscal policies, the size of the contribution to the contingency fund, and on monetary policy framework for the 2023 fiscal year.

The aim of the paper is therefore to:

- ✓ Introduce the budgetary process;
- ✓ Provide a Macro-Overview of the global and domestic economy;
- ✓ Provide a summary macroeconomic outlook; and
- ✓ Offer Potential policy options that the Budget Policy committee could consider.

1.1. Overview of the Budget Preparation Process

According to Article 55(4) of Somaliland’s Constitution, “the procedures for the preparation of the National Budget shall be determined by law”—namely by the Public Financial Management Act 75/2016 and the comprehensive operation procedure accounting manual & financial regulation issued in 2019. The following Budget preparation process has been set to be compliant with the PFMA Act:

- The BPC selects the Government’s macroeconomic and fiscal policy & expenditure priorities.
- The MoFD estimates the volume of financial resources available to the government for the coming financial year in the Macroeconomic and Fiscal Framework (MFF).
- The MoFD formulates the initial expenditure ceilings for each MDA in the Medium-Term Budget Framework (MTBF), and submits them to the Council of Ministers and House of Representatives.
- The MoFD communicates the coming year’s expenditure ceilings to the MDAs through a budget circular along with guidelines on how to submit their budgets.



- MDAs, with help from the MoFD’s Budget & Planning department, submit their budget to the MoFD using the budget submission template provided to them and through the IFMIS system.
- Budget negotiations take place between MoFD and MDAs after which the Budget is drafted.
- The Minister of Finance Development presents the National Budget to the House of Representatives after approval from the Budget Policy Committee/Council of Ministers.
- The House of Representatives debates, amends and approves the Budget set out by the Minister of Finance Development.

1.2. The Role of the Budget Policy Committee (BPC)

The BPC’s role is to approve the government’s macroeconomic policy and expenditure priorities in the coming year. The MoFD will use the Budget Policy Committee’s decisions on fiscal policy and expenditure priorities to construct a set of initial expenditure ceilings for each MDA. These ceilings will be included in the Budget Framework which will then be presented—along with the Macroeconomics and Fiscal Framework—to the Council of Ministers and House of Representatives.

Budget Policy Committee’s Decisions on the 2024 Budget Expenditure Priorities

Decision 1: Establish a ceiling for the central government spending

Decision 2: Size of the Contingency Reserve.

Decision 3: Expenditure Policies on:

- a) Recurrent Expenditure.
- b) Development/Capital Expenditure.

Decision 4: Government Priority investments by NDP Sector.

Decision 5: Revenues Policy measures.

Monetary Decisions

Decision 6: Money Supply and Principles of Monetary Framework



1.3. The Budget Calendar

Figure 6: Budget Preparation Process

| | | | |
|----|-----------------------|---|---|
| 1 | May 15 th | MoFD - Macroeconomic Department | Prepares Budget Outlook Paper |
| 2 | June 15 th | Budget Policy Committee | Establishes expenditure priorities |
| 3 | June 20 th | MoFD - Macroeconomic Department | Prepares Macroeconomic and Fiscal Framework (MFF) |
| 4 | June 20 th | MoFD – Budget Department | Prepares Medium-Term Budget Framework (MTBF) |
| 5 | June 25 th | MoFD - Minister | The Minister shares the MFF and MTBF with the Cabinet |
| 6 | June 30 th | House of Representatives’ (HoRs) Economic and Finance Sub-Committee | The Minister consults with the house of Representatives Economic Committee |
| 7 | July 15 th | MoFD – Budget Department | Organizes Public Hearings |
| 8 | July 30 th | MoFD - Minister | The MoFD sets indicative expenditure ceilings |
| 9 | Aug | MDAs | Prepare and submit their budgets to the MoFD |
| 10 | Sept | MoFD – Budget Department | Negotiates with MDAs |
| 11 | Sept 25 th | MoFD – Budget Department | Prepare and submit the Budget to Cabinet |
| 12 | Oct 1 st | MoFD – Minister and Budget Department | Presents Budget approved by Cabinet to Parliament |
| 13 | Oct – Nov | HoRs’ Economic and Finance Sub-Committee | Discusses with MoFD issues of concern which reflect the Parliament’s reaction to the submitted Budget |
| 14 | Oct – Nov | HoRs | Votes to approve the Budget |
| 15 | Oct – Nov | Chairman of HoRs | Issues a letter of Approval |
| 16 | Nov – Dec | President | Authorizes Budget execution |
| 17 | Jan next year | MoFD - Minister | Invites MDAs to spend the approved Budget |
| 18 | Jan – Dec next year | MDAs | Execute the Budget |
| 19 | Jan – Apr next year | MoFD – Accountant General | Prepares the government’s annual financial statements |
| 20 | May – June next year | Auditor General | Audits the Budget Financial Statements |



2. Global Synopsis

The global economy has faced successive challenges in the past few years, ranging from the COVID-19 pandemic, the war in Ukraine, and global supply chain issues and inflationary pressure that resulted from these.

However, in 2023, and looking ahead to 2024, it is possible the worst of these difficulties have now been overcome, but it remains uncertain how smooth this recovery will be. The IMF predicts global growth will be 2.8% in 2023 and 3% next year. Likewise, inflation will recover, down from 8.7% globally in 2022, to 7% and 4.9% respectively in 2023 and 2024³. The below table shows the breakdown of growth and inflation for the key economies that interact with Somaliland.

This welcome recovery reflects the exit from the pandemic, plus supply chains recovering, falling oil and gas prices from the peak at the outset of the Ukraine war, and China re-opening their economy. However, inflation is stickier than expected, perhaps due to the secondary effects of a wage-price spiral, and thus is declining more slowly than the IMF predicted in 2022.

The monetary policy tightening to combat inflation has also had implications for the financial sector, where the sharp interest rate adjustment has incurred losses for long-term fixed income assets. This has resulted in a series of bank failures in the US, and if this materialised in to a full financial crisis, it would prove to be yet another setback to the global economy.

Table 4: Real GDP Growth, and CPI Around the world, 2022 - 2024

| | Real GDP Growth (%) | | | Annual Inflation (%) | | |
|-------------------------------------|---------------------|------|------------|----------------------|------|-------------|
| | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 |
| Advanced Economies | 2.7 | 1.3 | 1.4 | 7.3 | 4.7 | 2.6 |
| Emerging and Developing Asia | 4.4 | 5.3 | 5.1 | 3.8 | 3.4 | 3.0 |
| China | 3.0 | 5.2 | 4.5 | 1.9 | 2.0 | 2.2 |
| India | 6.8 | 5.9 | 6.3 | 6.7 | 4.9 | 4.4 |
| Middle East and Central Asia | 5.3 | 2.9 | 3.5 | 14.3 | 15.9 | 12.0 |
| Saudi Arabia | 8.7 | 3.1 | 3.1 | 2.5 | 2.8 | 2.3 |
| UAE | 7.4 | 3.5 | 3.9 | 4.8 | 3.4 | 2.0 |
| Sub-Saharan Africa | 3.9 | 3.6 | 4.2 | 14.5 | 14.0 | 10.5 |
| Ethiopia | 6.4 | 6.1 | 6.4 | 33.9 | 31.4 | 23.5 |
| Kenya | 5.4 | 5.3 | 5.4 | 7.6 | 7.8 | 5.6 |
| Djibouti | 2.5 | 4.0 | 6.0 | 5.5 | 3.2 | 3.2 |
| Somalia | 1.7 | 2.8 | 3.7 | 6.8 | 4.2 | 3.8 |

Source: IMF World Economic Outlook, April 2023

³ IMF World Economic Outlook, April 2023



3. Macroeconomic Overview

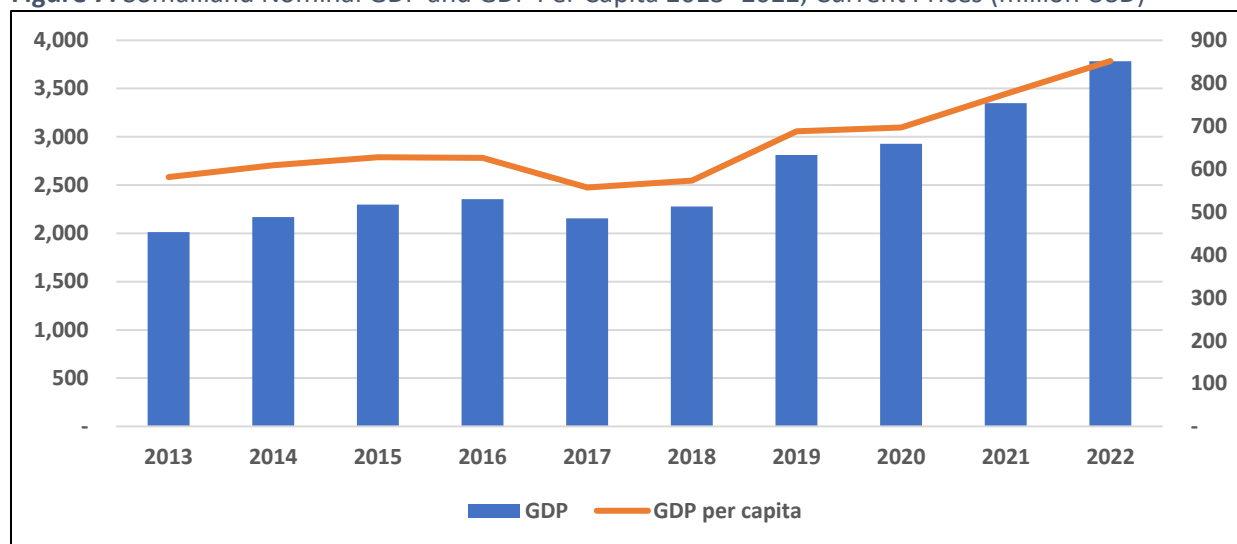
3.1. Economic Performance

3.1.1. Gross Domestic Product (GDP) 2022

Annual Growth Domestic Products at current prices in absolute terms for year 2022 increased to 3,782 million USD from to 3,348 million USD in 2021. Moreover, the value of annual Gross Domestic Products at 2017 constant prices in absolute terms increased to 2,533 million USD in 2022 from 2,483 million USD in 2021, equivalent to an increase of 2 percent.

GDP per capita amounted to 852 USD in 2022, compared to 775 USD in 2021. GDP per capita measures the share of GDP each person would get if equally distributed among all residents in an economic territory. It is derived by dividing GDP by population.

Figure 7: Somaliland Nominal GDP and GDP Per Capita 2013 -2022, Current Prices (million USD)



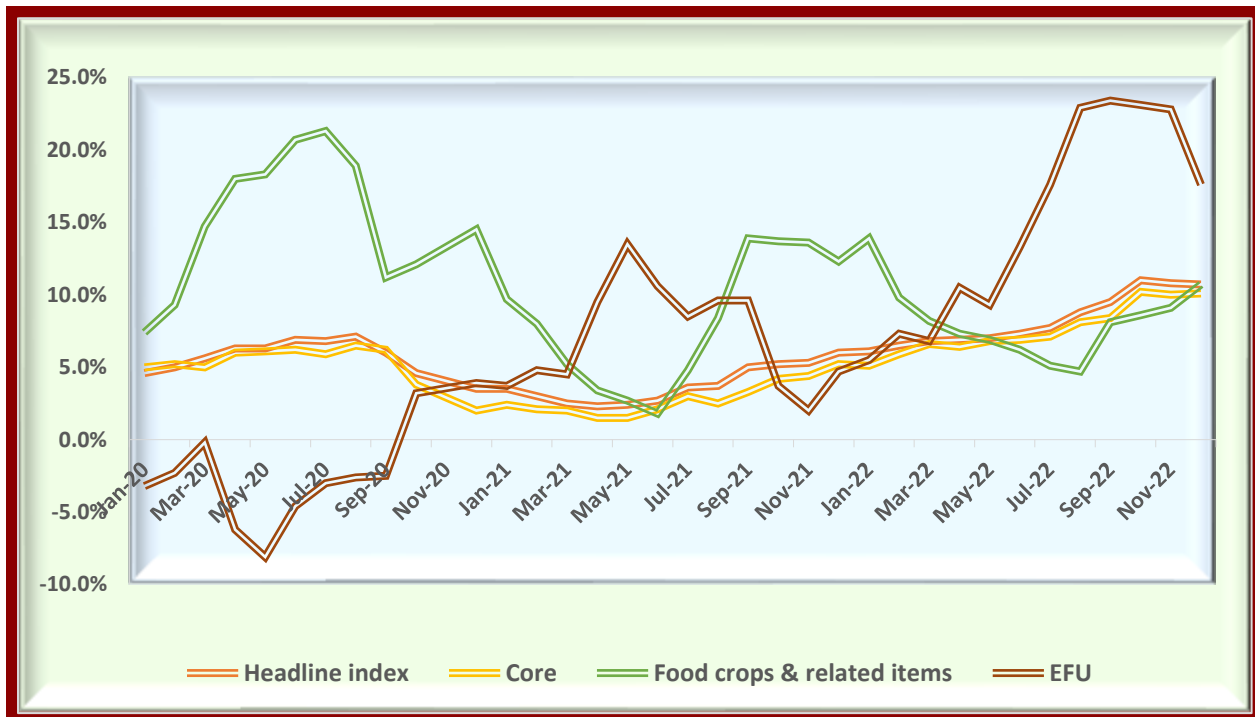
Source: Somaliland Ministry of Planning & National Development (MP&ND)

3.1.2. Inflation and Exchange 2022

Inflation: The average annual headline inflation increased 8.1% in 2022 compared to the record in 2021. The most significant quarterly price increases were observed in food and non-alcoholic beverages. The drivers of annual food inflation were fish and sea food that slightly declined to 3.6 percent in Dec 2022 compared to the 6.1 percent registered during the Nov 2022. In addition, milk, cheese & egg inflation registered a 15.8 percent increase in December 2022 compared to the 14.8 percent recorded in Nov 2022. Also, all remaining foods like bread, oil and fats, vegetables, and food productions increased as a percentage in Dec of 2022 compared to the previous month Nov 2022. The Annual Core Inflation also increased to 10.1% in fourth quarter of 2022, compared to 4.6% in the same quarter of last year (2021 - Q4).



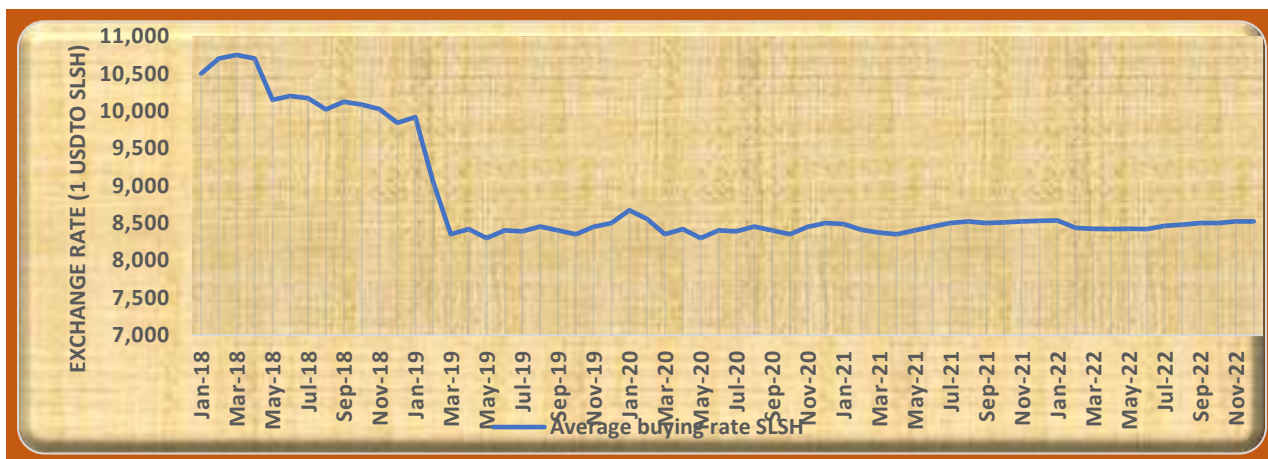
Figure 8: Monthly Inflation Rate by Category, 2020 –2022



Source: MP&ND

Exchange Rate: in 2022, the average exchange rate was 8,483 S/US\$ whereas it was 8,507 S/US\$ in 2021. It shows that Somaliland shilling appreciated against the dollar in 2022 by 0.28%. In the fourth quarter of 2022, the average market exchange rate of the Somaliland shilling to the US dollar was 8,483 S/US\$. The S/US\$ fluctuation against the dollar was 8,500, 8,520, and 8,513 in October, November, and December, respectively. The Bank of Somaliland in collaboration with the Ministry of Finance and relevant stakeholders have managed to stabilize the exchange rate against the USD and have taken actions including restrictions on the two big mobile money service providers—by banning USD denominated transactions that are worth less than \$100, resulting in very small rate fluctuations since March 2019.

Figure 9: Somaliland Shilling Exchange Rate Against the USD, Jan 2018—Dec 2022



Source: Central Bank of Somaliland

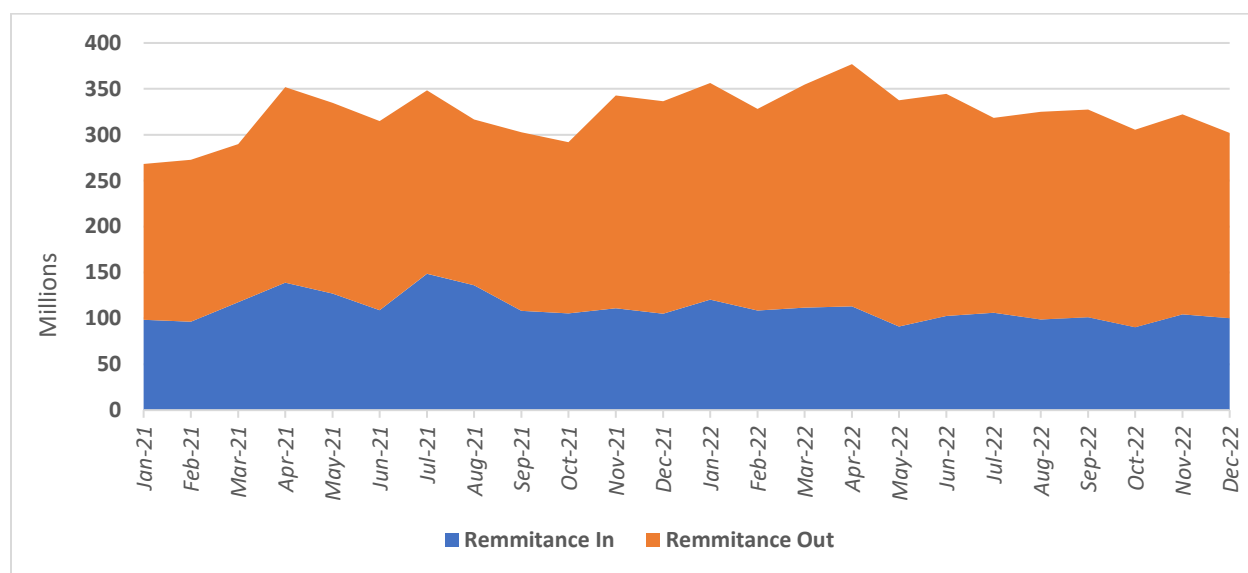


3.1.3. Remittances 2022

According to data from the four main banks and seventeen remittance companies in Somaliland, the total amount remitted to Somaliland in 2022 decreased by 11%, while the total amount remitted out increased by 16% compared to previous 2021, respectively. Thus, remittances remain critical to the Somaliland economy, particularly during economic downturns and external shocks, as they stabilize household consumption and act as a cushion against shocks (counter-cyclical properties).

The MoFD expects both inward and outward remittances in the next year of 2023 to exceed 2022 levels. This is likely to occur with businesses around the world continuing to return to full capacity.

Figure 10: Inflow and Outflow of Remittances in Somaliland, US\$ Millions 2021-2022



Source: Central Bank of Somaliland

3.1.4. Trade in 2022

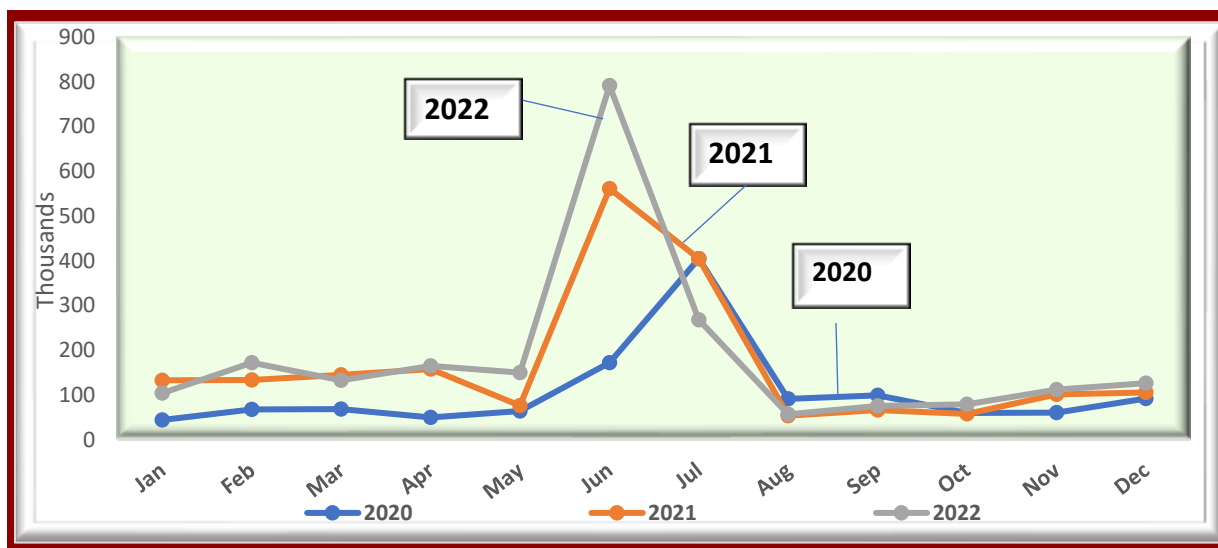
Livestock Export: Somaliland’s economy is heavily dependent on livestock exports. In 2022, the total livestock exported was 2,235,470 heads, an increase of 12% compared to the 2021, where it was recorded 1,997,971 livestock. The difference in number of Sheep & Goats exported accounted for 195,932 in 2022—representing a 10% increase from 2021, whereas the camel and cattle export in 2022 significantly increased by 67% and 22% respectively. The livestock export increase in 2022 compared to 2021 reflects the recovery of Somaliland’s livestock sector. Higher rainfall levels in 2022 compared to 2021 meant that plenty of grazing land and water was available for the livestock.

Table 5: Livestock Exports in 2021 and 2022

| Livestock Exports | Units | 2021 | 2022 | Difference | YoY Change (%) |
|-------------------------------|--------------|------------------|------------------|----------------|----------------|
| Camels | Heads | 27,960 | 46,630 | 18,670 | 67% |
| Cattle | Heads | 102,346 | 125,243 | 22,897 | 22% |
| Sheep & Goats | Heads | 1,867,665 | 2,063,597 | 195,932 | 10% |
| Total Livestock Export | Heads | 1,997,971 | 2,235,470 | 237,499 | 12% |



Figure 6: Total Livestock Export per Month since 2020



Source: MoFD/ Customs Department

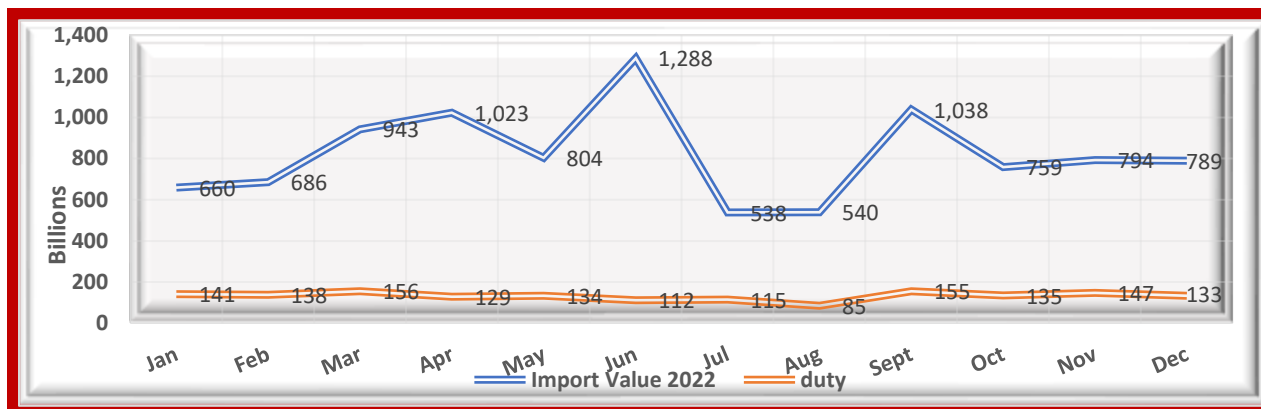
Import: The nominal value of Somaliland imports in 2022 was approximately 9.861 trillion SLSh. This value is based on the invoice values submitted by importers. On a quarterly basis, imports increased by 11% in the fourth quarter, while there were a 32% decrease in the third quarter compared to Q2 of 2022. Additionally, the amount of Duty collected on these imports was 1.58 trillion SLSh, representing a significant 12% decrease compared to the collected duties in 2021. Table 6 below shows quarterly imports by value and duty in 2022. In 2023, the MoFD is currently forecasting imports to grow by 1.6%.

Table 6: Import Values in 2022 (SLSh) -- Quarterly Basis

| Quarter | Value | % Change | Duty | % Change |
|--------------|--------------------------|----------|--------------------------|----------|
| Q1 | 2,288,120,155,965 | - | 434,009,491,384 | - |
| Q2 | 3,115,392,692,388 | 36% | 375,011,610,466 | -14% |
| Q3 | 2,116,125,344,009 | -32% | 355,231,897,255 | -5% |
| Q4 | 2,341,735,164,877 | 11% | 414,956,500,287 | 17% |
| Total | 9,861,373,357,239 | | 1,579,209,499,392 | |



Figure 7: Import Value and Duty in 2022 (billions SLSh)



Source: MoFD/ Customs Department

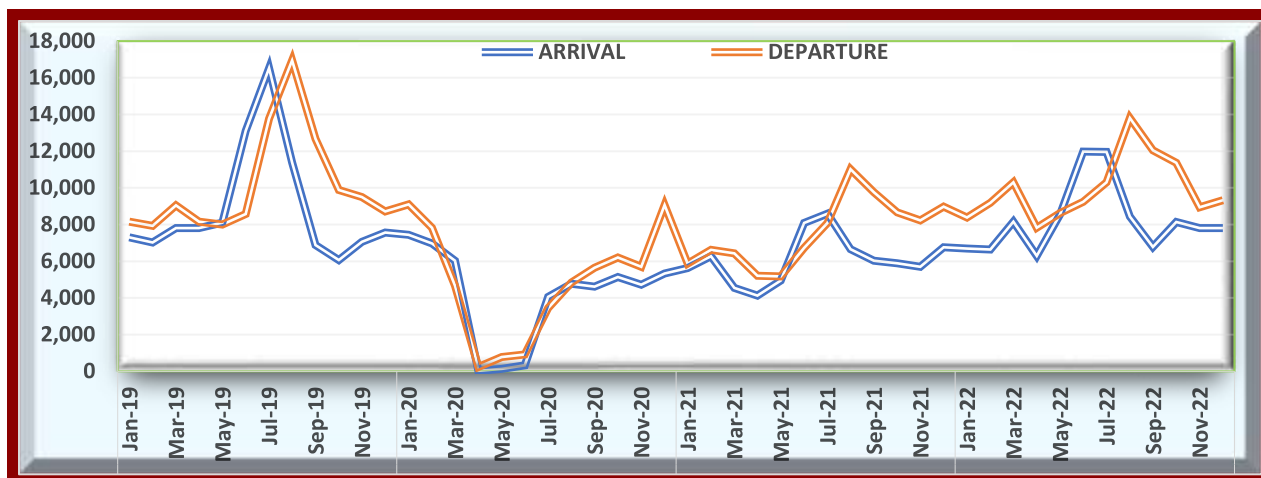
3.1.5. Travel and Tourism in 2022

Travel: In 2022, the total number of arrivals were 101,324, whereas there were 73,224 passengers in 2021 that arrived in Somaliland by air— representing a 38% increase in year to year change. On the other hand, the total number of departures were 121,372 passengers in 2022. This is a 34% increase compared to the departures record in 2021. In Somaliland, the highest numbers of arrivals and departures are always registered during the summer times of June and July when the diaspora tends to come back for the holidays.

Table 7: Number of Passengers That Arrived and Departed by Air Per Quarter In 2021 And 2022

| | ARRIVALS | | | | DEPARTURES | | | |
|--------------|---------------|----------------|---------------|------------|---------------|----------------|---------------|------------|
| | 2021 | 2022 | Difference | YoY (%) | 2021 | 2022 | Difference | YoY (%) |
| Q1 | 16,444 | 23,516 | 7,072 | 43% | 18,922 | 29,897 | 10,975 | 58% |
| Q2 | 17,158 | 26,830 | 9,672 | 56% | 17,115 | 25,678 | 8,563 | 50% |
| Q3 | 21,272 | 27,193 | 5,921 | 28% | 28,880 | 36,158 | 7,278 | 25% |
| Q4 | 18,350 | 23,785 | 5,435 | 30% | 25,871 | 29,639 | 3,768 | 15% |
| Total | 73,224 | 101,324 | 28,100 | 38% | 90,788 | 121,372 | 30,584 | 34% |

Figure 8: Number of Passengers that Arrived and Departed by Air per Month from 2019 to 2022

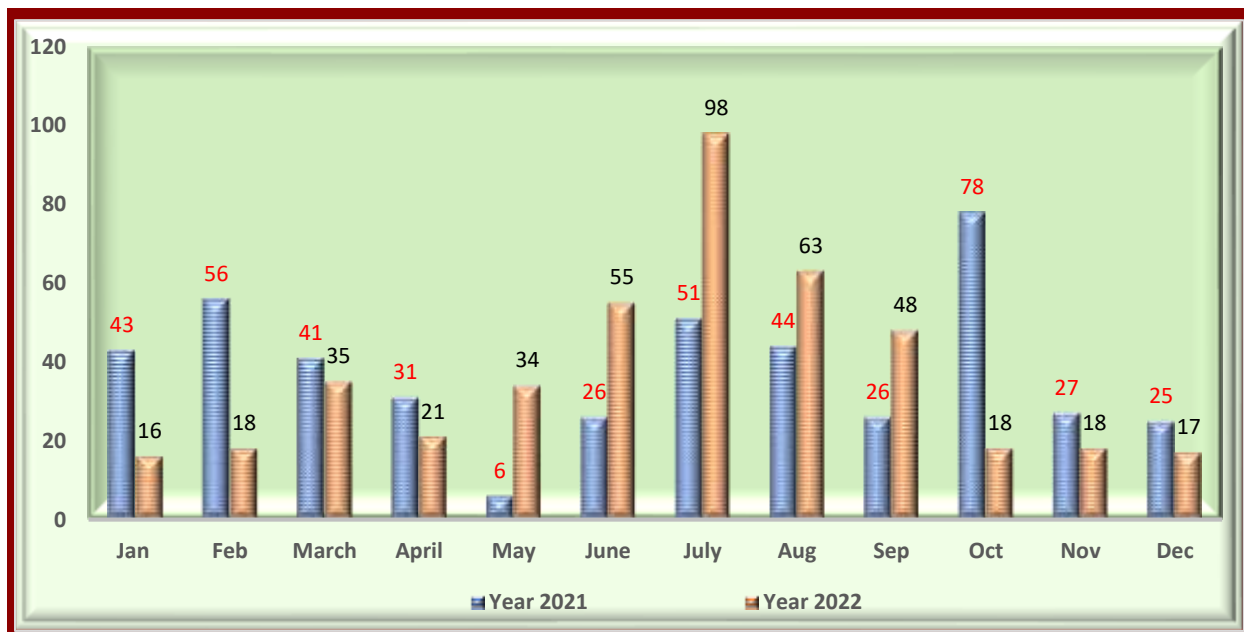


Source: Somaliland Immigration Agency



Tourism: The total number of tourists recorded in 2022 were 441 compared to the 454 in 2021—representing a decrease of 13 (2.9%). As can be seen in the figure 9 below, in the fourth quarter of 2022, the number of tourists declined. Over 85% of the visitors are foreigners, whereas only 15% were native Somalilanders. The tourists come from a range of countries such as USA, UK, Sweden, Germany, Czech Republic, Ireland, Italy and Kenya. The majority of the visitors were headed to Laas-Geel.

Figure 9: Number of Tourists per month in 2021 and 2022



Source: Ministry of Trade and Tourism

3.1.6. Investment

Business Registration: In 2022, 1,952 businesses were registered, a 108% increase of the business registrations in 2021. In the fourth quarter of 2022, the Ministry of Trade & Tourism (MOTT) registered 505 businesses, representing 114 fewer compared to the Q3 registrations in 2022. On the other hand, there were 259 more registrations compared to the Q4 in 2021.

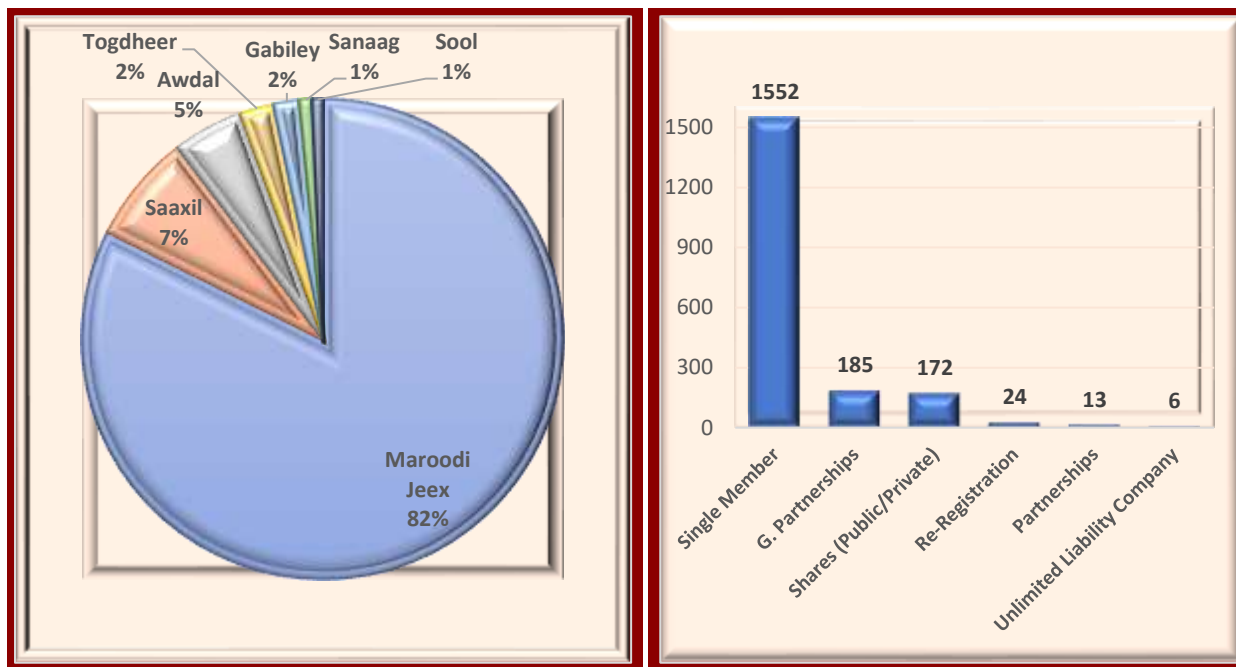
Table 8: Number of Registrations in Quarters of Business, 2021 and 2022

| Quarters | 2021 | 2022 | Percentage change |
|--------------|------------|--------------|-------------------|
| Q1 | 227 | 369 | 63% |
| Q2 | 182 | 459 | 152% |
| Q3 | 284 | 619 | 118% |
| Q4 | 246 | 505 | 105% |
| Total | 939 | 1,952 | 108% |

Source: Ministry of Trade and Tourism



Figure 10: Business Registration by Location (Left) and Company Type (Right) in 2022



Source: Ministry of Trade and Tourism

3.2. Fiscal Performance 2022

3.2.1. Revenue Outturn against Target

The resilience of government revenue collection has continued in 2022. Domestic revenue collection was 2.302 trillion SLSh (excluding grants and the supplementary budget). Total revenue collection was 4% or 86 billion more than the 2021 collection. On the expenditure side, the government spent 2.4 trillion SLSh or 95% of the 2.518 trillion SLSh budget approved for 2022. This approved budget includes the 107.7 billion SLSh supplementary budgets— approved in the year—in addition to the original 2.4 trillion SLSh National Budget. The government received 37.5 billion SLSh from the World Bank, which is 31.5% less than the approved budget for 2022. On the expenditure side, 37.5 billion SLSh were spent on the four World Bank-funded projects such as the DRM&PFM, CSSP, Biyoole and SEAP projects⁴, which represents a -45.7% underspend. The most challenging task on these projects continues to be the acquisition of time-consuming, high-value goods and services. To improve budget execution for these projects, the government will continue to address this issue.

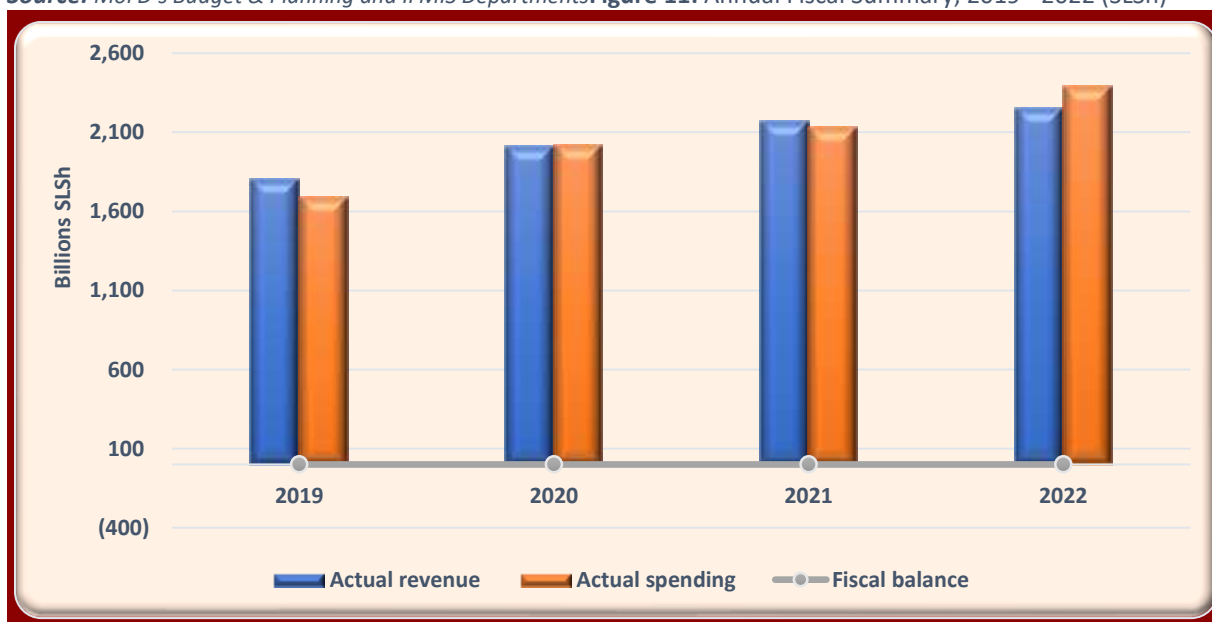
⁴ **DRM:** Domestic Revenue Mobilization
PFM: Public Financial Management
SEAP: Somaliland Electricity Access Project
CSSP: Civil Service Strengthening Project.



Table 9: Fiscal Summary of 2022

| | Budget | YTD Actual | Difference | Diff. % |
|-------------------------------|--------------------------|--------------------------|-------------------------|---------------|
| Total Revenue | 2,607,175,394,950 | 2,445,065,467,209 | -162,109,927,741 | -6.22% |
| Domestic** | 2,410,452,894,335 | 2,302,524,589,379 | -107,928,304,956 | -4.48% |
| Supplementary Budget | 107,704,700,885 | 87,193,094,540 | 0 | 0.00% |
| WB Projects | 69,123,738,410 | 37,536,622,900 | -31,587,115,510 | -45.70% |
| JPLG Project | 19,894,061,320 | 17,811,160,390 | -2,082,900,930 | -10.47% |
| Total Expenditure | 2,607,175,394,950 | 2,429,973,324,459 | -177,202,070,491 | -6.80% |
| General Gvt Fund Spend | 2,518,157,595,220 | 2,389,240,549,999 | -128,917,045,221 | -5.12% |
| WB Projects | 69,123,738,410 | 31,411,877,070 | -37,711,861,340 | -54.56% |
| JPLG Project | 19,894,061,320 | 9,320,897,390 | -10,573,163,930 | -53.15% |
| Fiscal Balance | | 15,092,142,750 | | |
| Domestic | | 484,397,082 | | |
| Grants (WB & JPLG) | | 14,615,008,830 | | |

Source: MoFD’s Budget & Planning and IFMIS Departments Figure 11: Annual Fiscal Summary, 2019 - 2022 (SLSh)

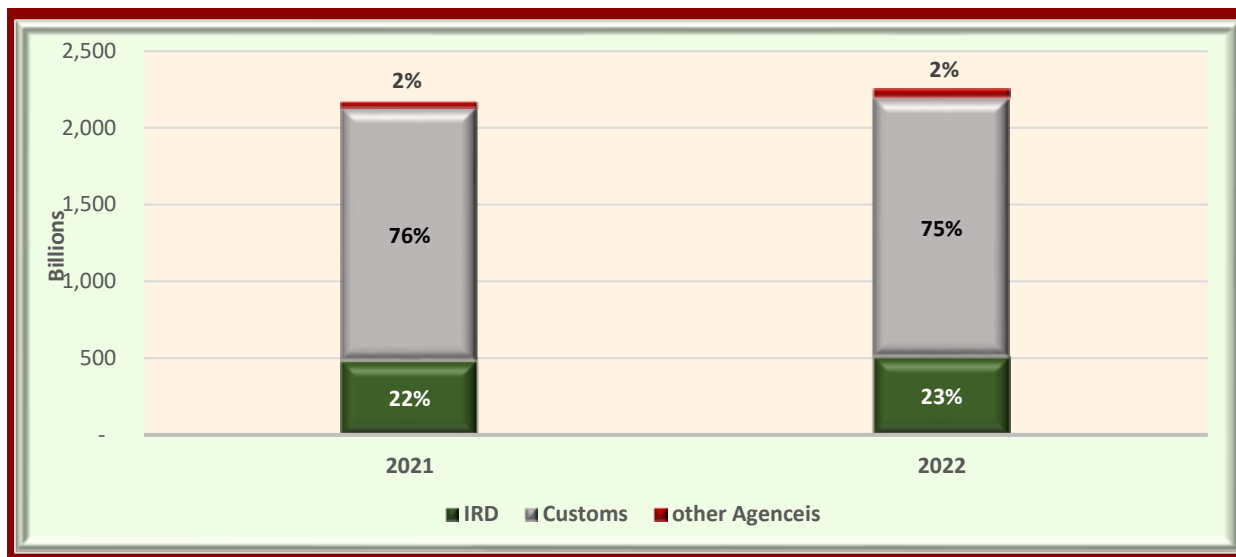


Source: MoFD/ Budget & Planning and IFMIS Departments

During this period of consistent revenue growth over the last decade, the profile of revenues has remained very steady as shown in figure 12 below. Revenue collections in Somaliland are largely from custom duties and a significant number of fees and levies that are collected by the Customs Department at the moment of importation – these on average comprise over 70% of revenue collections. The Inland Revenue Department collects a broad range of inland taxes and fees, which amount to 20-30% of revenue collections.



Figure 12: Share of Collections of IRD, Customs and other GOSL Agencies, 2021-2022, SLSh in Billions



3.2.2. Expenditure Outturn against Budget

In the fiscal year of 2022, the government spent SLSh 1.3 trillion on Compensation of Employees, or 54.6% of total spending. However, that was SLSh 10.54 billion less than the amount allocated for it, representing a 0.8% underspend. Analysis of this category shows that SLSh 1.29 trillion was spent on Salaries and Wages. Spending on the Use of Goods and Services was SLSh 594.4 billion against an allocation of SLSh 599.5 billion, a decrease of 0.85%. This represented 24.88% of total government spending for the year.

Spending on Government Projects was SLSh 180.5 billion compared to the allocated amount of SLSh 185.2 billion, an underspend of 2.54%. The government spent SLS 121 billion on Assets, which is SLS 22.9 billion or 15.91% less than the allocated amount, double the amount of last fiscal year.

The government spent nearly all of what was allocated for Loan Repayment. In particular, the government spent SLSh 52.97 billion on loan repayments, compared to a target of SLSh 52.99 billion, a 0.04% decrease or SLSh 21.4 million. Grant expenditures amounted to SLSh 77.1 billion. This was an underspend of SLSh 1 billion from the allocated amount, a decrease of 1.28%. A breakdown of this category shows that SLSh 728 million was underspent by the Ministry of Finance Development which was allocated for supporting the National Political Parties. SLSh 221.26 million was underspent by the Ministry of Health Development which 78% of it was allocated for supporting the six regional hospitals, and 20% was allocated for supporting mental hospitals.

The government has spent almost the entire allocated amount for Subsidies (SLSh 7.4 billion) and spent 85.82% of the National Reserve Fund (SLSh 59.95 billion), with underspend of SLSh 8.5 billion.

2022 Supplementary Budget: For 2022, there were two supplementary budgets approved by the parliament totaling SLSh 107.7 billion. In the first quarter of the year, a supplementary budget in the amount of SLSh 87.16 billion was approved to cover expenses that had not been planned for. And in the third quarter, further 20.5 billion SLSh were added to the budget as a supplementary fund provided by



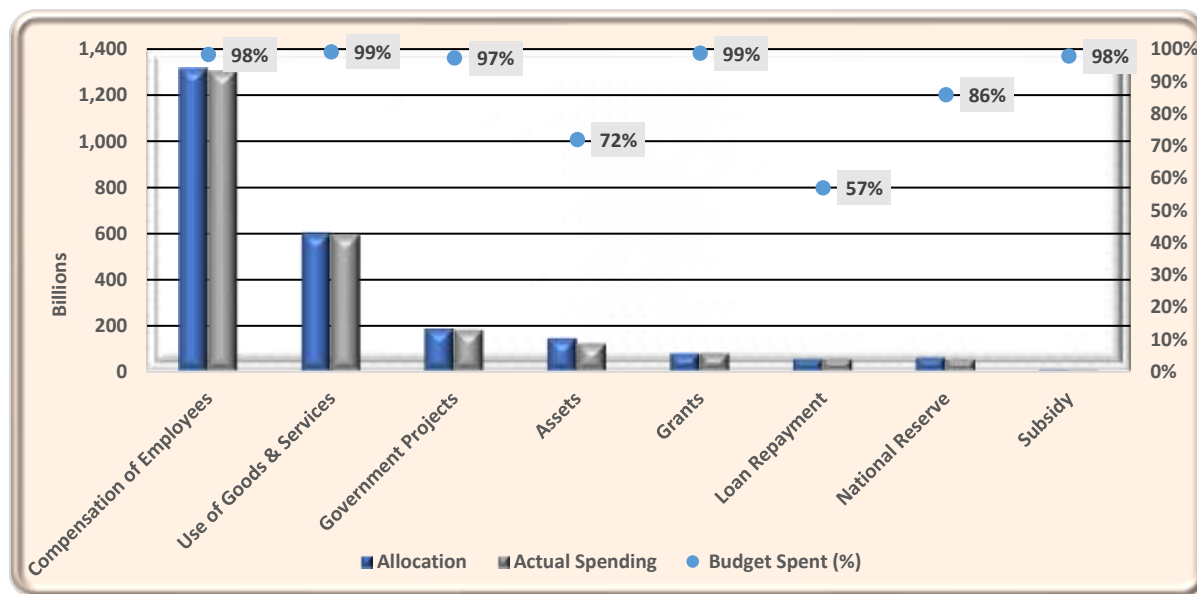
the World Bank. The initial 2022 national budget increased by 4.47 percent as a result of these supplemental budgets. More specifically, it was increased from 2.41 trillion SLSh to 2.518 trillion SLSh for the amended budget for 2022.

The surplus from prior fiscal year budgets and funds from the World Bank served as the supplementary budget's source of revenue. Table 2 below shows that almost 9.95% of the extra budget was distributed for special allowances, a growth in the national reserve fund (30.91%), and the repayment of domestic debts (45.5%). The Ministry of Finance Development received approximately 78.46 percent of the additional funding for MDAs. Given that the Ministry of Finance is in charge of managing the National Reserve Fund and repayment of domestic loans, this is understandable.

Table 10: Breakdown of Annual Spend by Sector, SLSh

| Description | Revised Budget | Allocation | Actual Spending | Underspend (%) | Budget Spent (%) |
|---------------------------|--------------------------|--------------------------|--------------------------|----------------|------------------|
| Compensation of Employees | 1,326,523,515,811 | 1,315,079,314,910 | 1,304,535,726,540 | -0.80% | 98.34% |
| Use of Goods & Services | 599,366,103,066 | 599,529,935,756 | 594,415,296,408 | -0.85% | 99.17% |
| Government Projects | 185,666,024,316 | 185,209,785,303 | 180,510,387,187 | -2.54% | 97.22% |
| Assets | 168,207,681,605 | 143,953,222,006 | 121,051,310,663 | -15.91% | 71.97% |
| Grants | 78,106,908,196 | 78,106,908,196 | 77,104,222,740 | -1.28% | 98.72% |
| Loan Repayment | 92,969,960,317 | 52,988,451,151 | 52,967,070,852 | -0.04% | 56.97% |
| National Reserve | 59,946,817,905 | 59,946,817,904 | 51,446,231,647 | -14.18% | 85.82% |
| Subsidy | 7,370,584,005 | 7,239,040,004 | 7,210,303,962 | -0.40% | 97.83% |
| Grand Total | 2,518,157,595,220 | 2,442,053,475,229 | 2,389,240,549,999 | -2.16% | 94.88% |

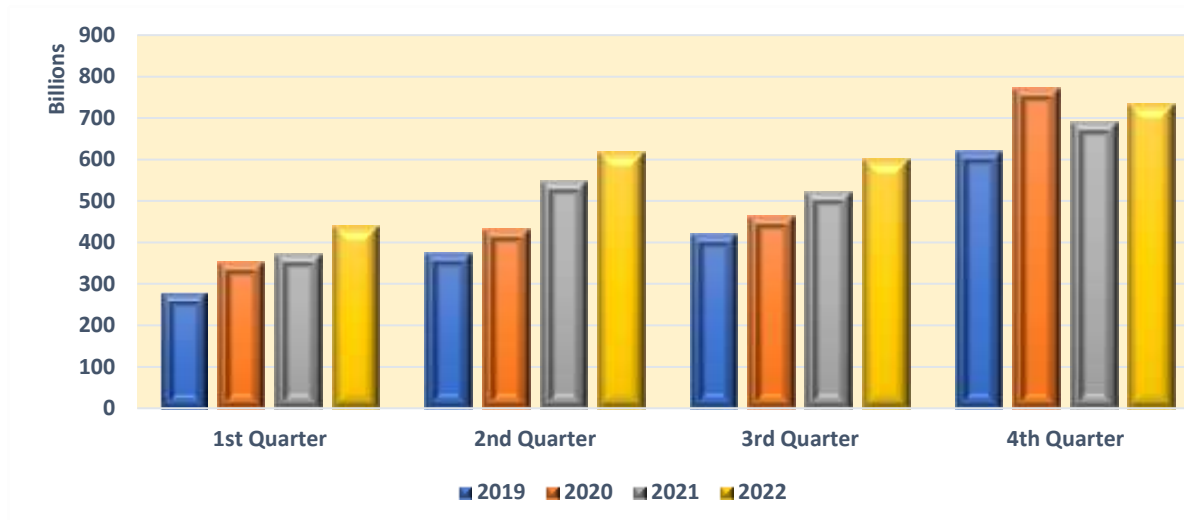
Figure 13: Spend by Chapter in 2022, billions SLSh, % Represent Actual Spend against Revised Budget



*The 2021 expenditure figure includes spend from the supplementary budget



Figure 14: Spend of 2019 to 2022 by Quarter, SLSH



3.2.3. World Bank Aid FY2022

In 2022, the Somaliland government did not meet its spending targets for projects funded by the World Bank, resulting in a significant underspend. Out of the SLSH 69.1 billion budget allocated for World Bank projects, only SLSH 31.4 billion was spent, which is an underspend of 40.75% or SLSH 21.6 billion against an approved allocation of SLSH 53 billion. This means that the government spent only 45.44% of the budget approved by Parliament on World Bank funded projects.

Similarly, the Joint Program for Local Government (JPLG) project also underperformed with only SLSH 9.32 billion spent, an underspend of over 53%.

Delays in the procurement process and non-realization of some budgets due to the COVID-19 pandemic and supply chain disruptions explain most of the under-performance.

To address this underspending, the government needs to identify obstacles to the procurement of high-value assets and the recruitment of qualified consultants. They should also work with the World Bank to improve the procurement process and optimize the allocated budget. The CSSP project's budgeted amount for certain procurement needs was lower than the market value, which could be addressed in future projects.

Thoroughly evaluating the World Bank projects would enable the government to fully utilize the World Bank's budget commitment. By identifying and addressing the issues that contributed to underspending, the government can ensure that future projects are executed effectively and meet the needs of its citizens.

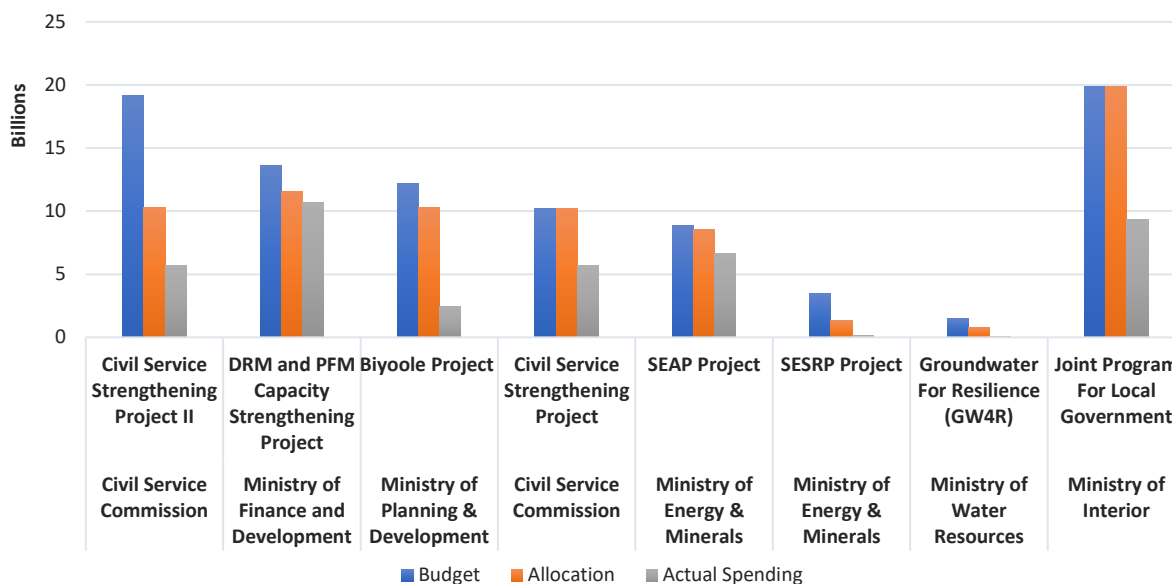


Table 11: Spend on World Bank Funded projects in 2022, SLSH

| Implemented MDA | Project (World Bank Funded) | Budget | Allocation | Actual Spending | Underspend* | Underspend (%) | Budget Spent (%) |
|-------------------------------------|--|-----------------------|-----------------------|-----------------------|------------------------|----------------|------------------|
| Civil Service Commission | Civil Service Strengthening Project II | 19,177,477,200 | 10,256,261,000 | 5,697,090,980 | -4,559,170,020 | -44.45% | 29.71% |
| Ministry of Finance and Development | DRM and PFM Capacity Strengthening Project | 13,631,807,000 | 11,573,667,000 | 10,694,311,390 | -879,355,610 | -7.60% | 78.45% |
| Ministry of Planning & Development | Biyoole Project | 12,208,820,000 | 10,253,120,000 | 2,422,479,780 | -7,830,640,220 | -76.37% | 19.84% |
| Civil Service Commission | Civil Service Strengthening Project | 10,235,744,260 | 10,215,163,000 | 5,709,258,940 | -4,505,904,060 | -44.11% | 55.78% |
| Ministry of Energy & Minerals | SEAP Project | 8,844,729,950 | 8,578,328,000 | 6,632,692,780 | -1,945,635,220 | -22.68% | 74.99% |
| Ministry of Energy & Minerals | SESRP Project | 3,500,000,000 | 1,323,400,000 | 155,800,190 | -1,167,599,810 | -88.23% | 4.45% |
| Ministry of Water Resources | Groundwater For Resilience (GW4R) | 1,525,160,000 | 811,860,000 | 100,243,010 | -711,616,990 | -87.65% | 6.57% |
| | | 69,123,738,410 | 53,011,799,000 | 31,411,877,070 | -21,599,921,930 | -40.75% | 45.44% |

| Implemented MDA | Project | Budget | Allocation | Actual Spending | Underspend* | Underspend (%) | Budget Spent (%) |
|----------------------|------------------------------------|----------------|----------------|-----------------|-----------------|----------------|------------------|
| Ministry of Interior | Joint Program for Local Government | 19,894,061,320 | 19,894,061,320 | 9,320,897,390 | -10,573,163,930 | -53.15% | 46.85% |

Figure 15: Spend on WB Funded Projects in 2022, Billion SLSH



3.2.4. External Aid FY2018 - FY2022⁵

A full accounting of the actual total external aid Somaliland received in 2022 is not yet available. However, the Ministry of Finance Development, Ministry of Planning and relevant stakeholders are working to generate tools that would allow a thorough and timely documentation of this important economic inflow. However, the Ministry of Finance Development has estimated the 2022 external aid value to be \$381,033,731.88, which is around 10% higher the external aid which flowed into Somaliland in 2021.

⁵ This report does not include aid disbursements for the year 2021. However, the Ministry of Finance, Ministry of Planning and relevant stakeholders are working to generate tools that would enable the government to monitor the total external Aid.

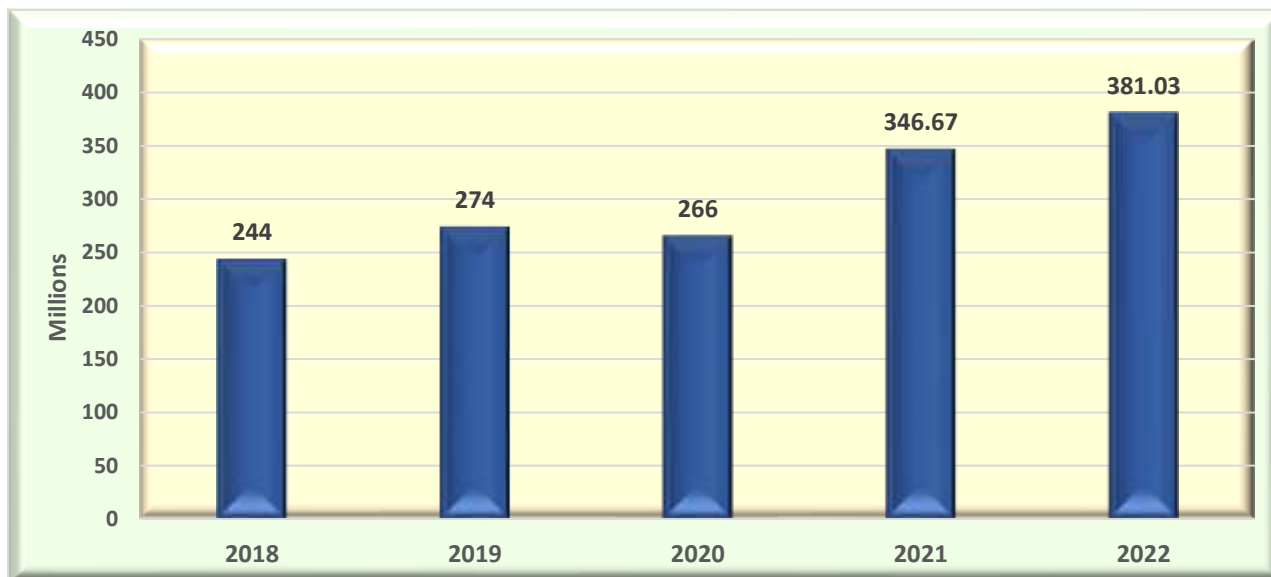


In 2021, Somaliland received \$346.7 million in Aid, representing a significant 31% increase from the \$265.6 million amount received a year earlier. The aid flow was disbursed into the different sectors of the economy and social services.

Table 12: External Aid for 2018-2022

| Year | Amount in Dollar | % Change |
|------|-------------------------------|----------|
| 2018 | \$ 243,580,493 | -- |
| 2019 | 273,580,654 | 12.3% |
| 2020 | 265,564,597 | -2.9% |
| 2021 | 346,670,422.16 | 30.5% |
| 2022 | 381,033,731.88 ^{Est} | 9.9% |

Figure 16: External Aid for 2018-2022



Source: MoN&PD

External Aid in the Government Budget 2023

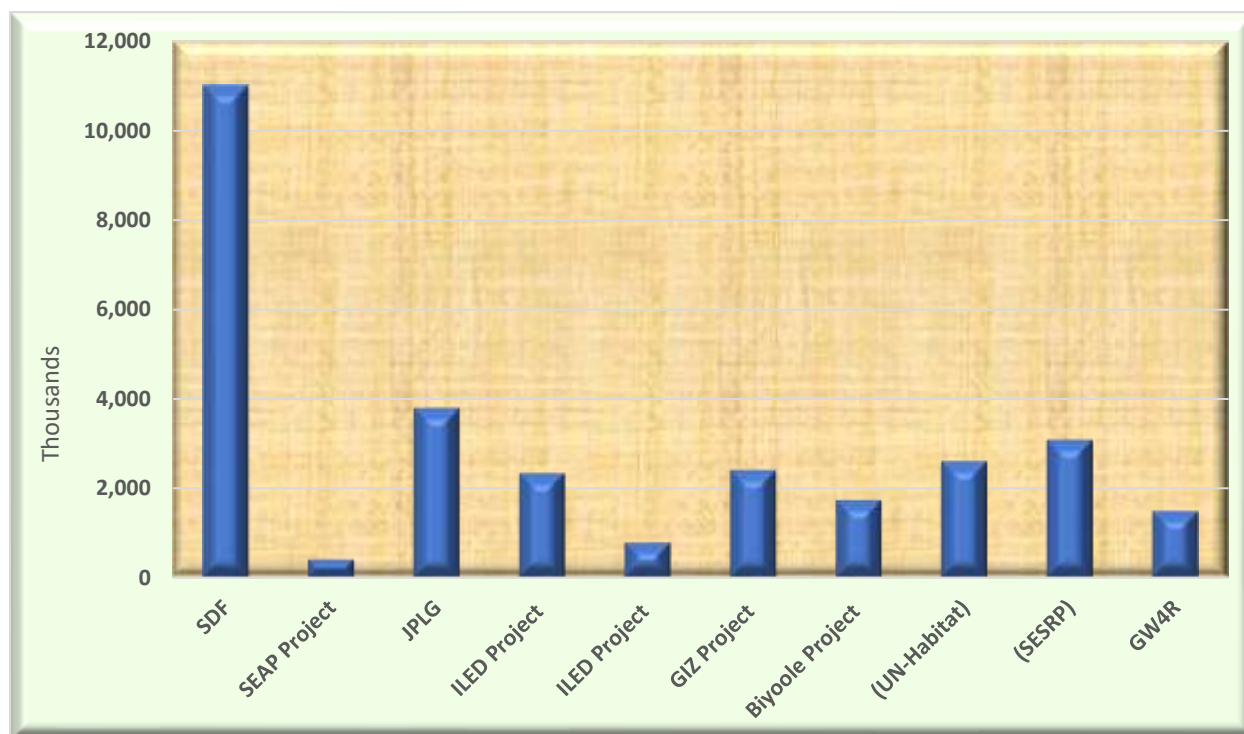
The following projects are the projects funded by Donors which are included in the 2023 national budget and the total was \$33,166,237, of which \$6,964,503 was from supplementary budget. The projects included the Civil Service Strengthening Project; Somaliland Electricity Access Project (SEAP), implemented by the Ministry of Mineral and Energy; Joint Program for Local Governments (JPLG), Somaliland Development Fund (SDF); ILED projects, financed by the EU; GIZ project; and the UN-Habitat project.



Table 13: External Aid Projects in the Budget 2023

| | Project Name | Budget 2023 (US Dollar) | % Change |
|--------------|---|-------------------------|---------------|
| 1 | Civil Service Strengthening Project (CSSP)1 | 3,549,900 | 11.1% |
| 2 | Somaliland Development Fund (SDF) | 11,020,929 | 34.5% |
| 3 | SEAP Project | 400,739 | 1.3% |
| 4 | JPLG | 3,794,310 | 11.9% |
| 5 | ILED Project | 2,329,302 | 7.3% |
| 6 | ILED Project | 779,411 | 2.4% |
| 7 | GIZ Project | 2,400,000 | 7.5% |
| 8 | Biyoole Project | 1,727,557 | 1.5% |
| 9 | (UN-Habitat) | 2,600,000 | 8.1% |
| 10 | (SESRP) | 3,074,985 | 9.6% |
| 11 | GW4R | 1,489,104 | 4.7% |
| Total | | \$ 33,166,237 | 100.0% |

Figure 17: External Aid Projects in the Budget 2023



Source: MoFD/Budget Department



4. Macroeconomic Outlook

4.1. Economic Outlook for 2023

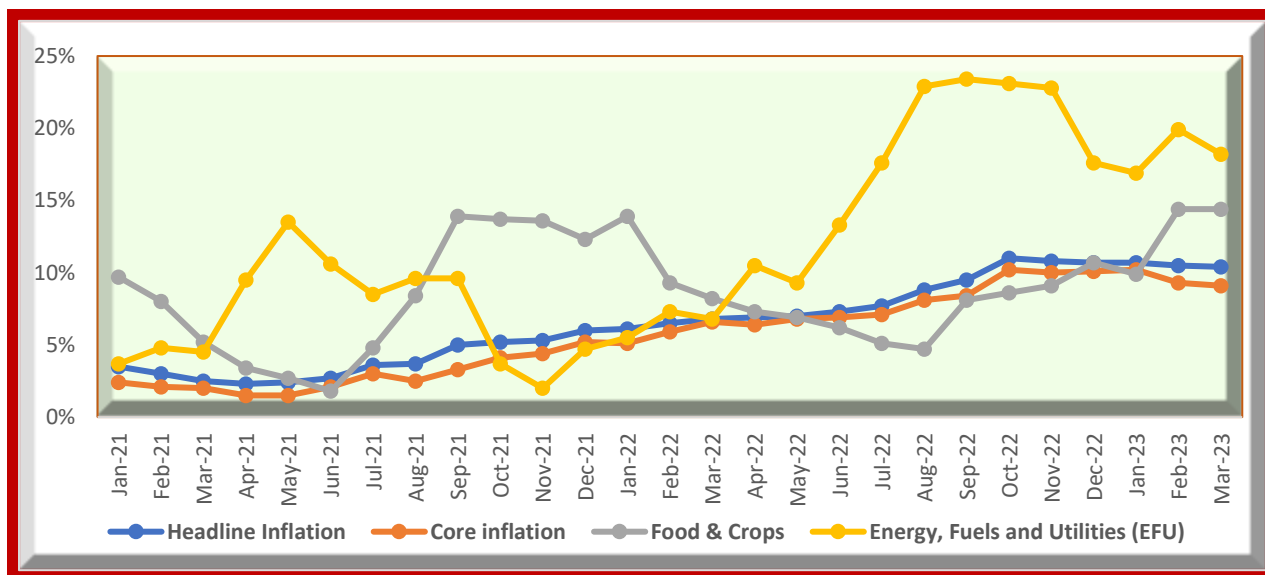
4.1.1. Inflation

In first quarter of 2023, the average headline inflation was to 10.53%, compared to 6.46% in the same period of last year (Q1-2022). As Table 14 below shows, the average monthly headline inflation in the first quarter of year 2023 increased 0.49% compared to the record same quarter of last year (Q1-2022). The most significant quarterly price increases were observed in food and non-alcoholic beverages. In the first three months of the year there were two price-related incidents; one was the period of global inflation, that caused some commodities to rise, and the second was the burning of the main market in Hargeisa (Waheen Market) which severely affected the prices of some commodities.

Table 14: YoY and MoM Inflation Rate in the first quarter of 2022 and 2023 By Major Category, Base Year, 2012

| years | Monthly | Headline Index | | Core | | Food Crops & Related | | EFU | |
|-------|----------------|----------------|--------------|--------------|--------------|----------------------|---------------|---------------|--------------|
| | | YoY | MoM | YoY | MoM | YoY | MoM | YoY | MoM |
| 2023 | January | 10.7% | 0.4% | 10.2% | 0.5% | 9.9% | 0.2% | 16.9% | 0.5% |
| | February | 10.5% | 0.5% | 9.3% | 0.2% | 14.4% | 0.4% | 19.9% | 3.0% |
| | March | 10.4% | 0.6% | 9.1% | 0.4% | 14.4% | 1.1% | 18.2% | 2.0% |
| | Average | 10.53% | 0.49% | 9.52% | 0.34% | 12.71% | 0.44% | 18.29% | 1.44% |
| 2022 | January | 6.1% | 0.5% | 5.1% | 0.3% | 13.9% | 0.8% | 5.5% | 1.0% |
| | February | 6.5% | 0.6% | 5.9% | 1.0% | 9.3% | -3.6% | 7.3% | 3.0% |
| | March | 6.8% | 0.7% | 6.6% | 0.6% | 8.2% | 1.1% | 6.8% | 0.8% |
| | Average | 6.46% | 0.59% | 5.83% | 0.56% | 10.20% | -0.57% | 6.49% | 1.34% |

Figure 18: Annual Inflation rate 2021- Q1 2023, base year=2012



Source: MoN&PD



4.1.2. Exchange Rate in 2023

In the first quarter of 2023, the average exchange rate of the Somaliland Shillings (SLSH) in the foreign exchange market was 8,563/USD in the fiscal year of 2023, showing a 0.75% annual depreciation. The Somaliland Shilling weakened by 0.75% in the first quarter of 2023 compared with 8,499 in a similar quarter in 2022.

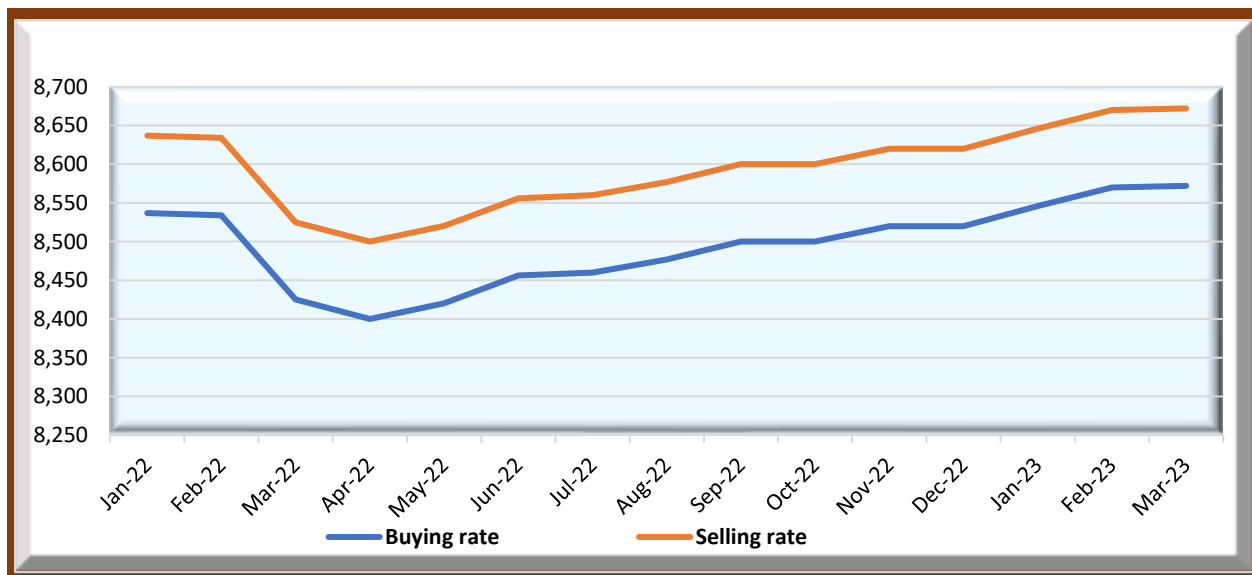
The instability of the exchange rate in Wajale and the Las’anod crisis caused the Somaliland government to expend more than the allocated budget of the first quarter of 2023, and this contributed to an oversupply of Somaliland shillings compared to US Dollars (Bank of Somaliland, 2023).

The Somaliland shillings depreciated against the US dollar by 0.1%, 0.42%, and 1.74% in January, February, and March respectively in 2023 compared to the record in 2022. The Bank of Somaliland has forecasted that the depreciation of SLSH will continue in 2023.

Table 15: Somaliland Shilling Exchange Rate Against the US Dollar in the Q1 of 2022 and 2023

| Period | Quarter | Average Buying Rate | % Change |
|--------|---------|---------------------|----------|
| 2022 | Q1 | 8,499 | -0.25% |
| 2023 | Q1 | 8,563 | 0.75% |

Figure 19: Somaliland Shilling exchange rate against the US Dollar in 2022 and the first quarter of 2023



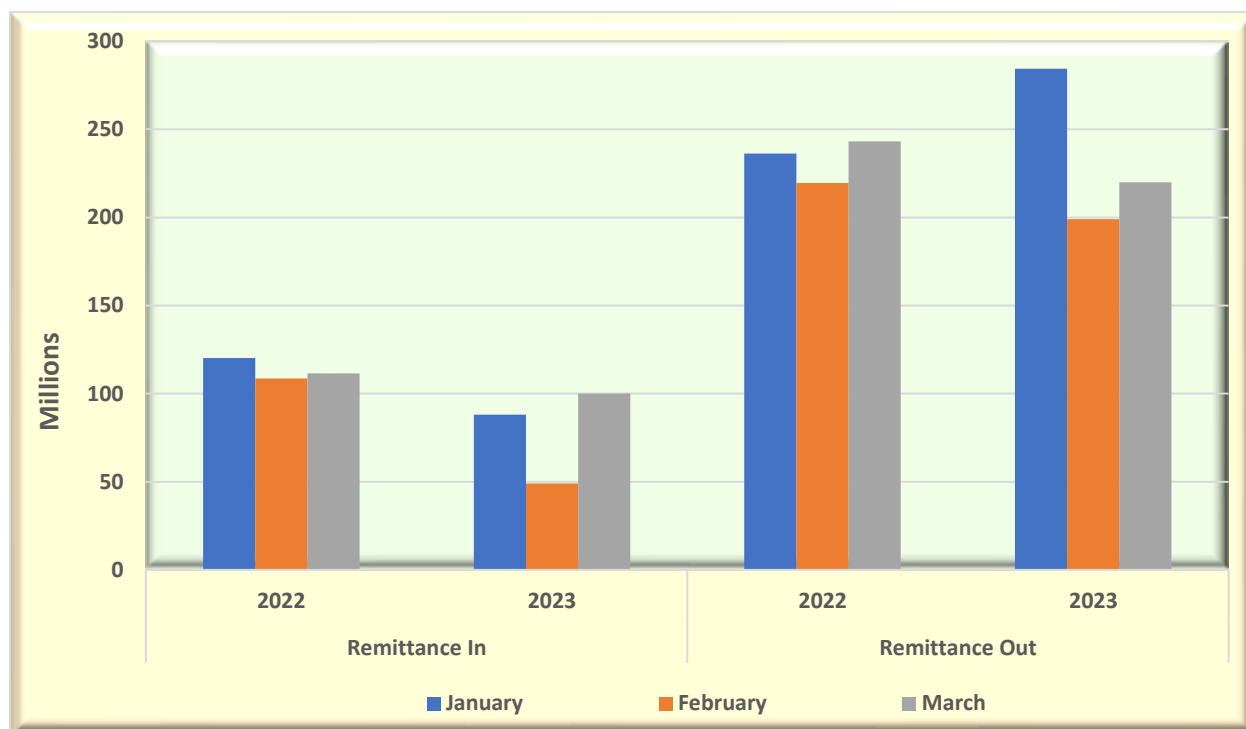
Source: Somaliland Central Bank



4.1.3. Remittances in 2023

Inward remittances in Somaliland were lower 30% in the first quarter of 2023 whereas outward remittances were higher 0.6% compared to the same record in first quarter of 2022. Also, compared to the fourth quarter of 2022, inward remittances decreased 20% whereas the outward remittances increased 11% in the first quarter of 2023. The MoFD expects both inward and outward remittances to be higher in 2023 compared to 2022. More inward remittances are expected from diaspora coming back in the summer months.

Figure 20: Inward and Outward Remittances in Somaliland per Month, Q1 2022 - 2023 US\$ Millions



Source: Somaliland Central Bank

4.1.4. Trade and Travel in 2023

Livestock Exports: Somaliland’s economy is heavily dependent on livestock exports. Therefore, in the first quarter of 2023, the total livestock exported was 174,246 heads of livestock, representing a significant decrease of 58% compared to the previous quarter (i.e., Q4 of 2022) which recorded 410,077 livestock exports. On the other hand, total camels exported for the first three months in 2023 were 22,442 heads, an increase of 36% compared to the same period in 2022. Camels and Sheep/Goats exports were 29% and 64% lower compared to the first quarter in 2022. This reflects that there was a less livestock exports in the first quarter of 2023, but the MoFD expects in this second quarter of this year will be significantly higher due to the yearly export demand from Saudi Arabia during in the 2023 Hajj.

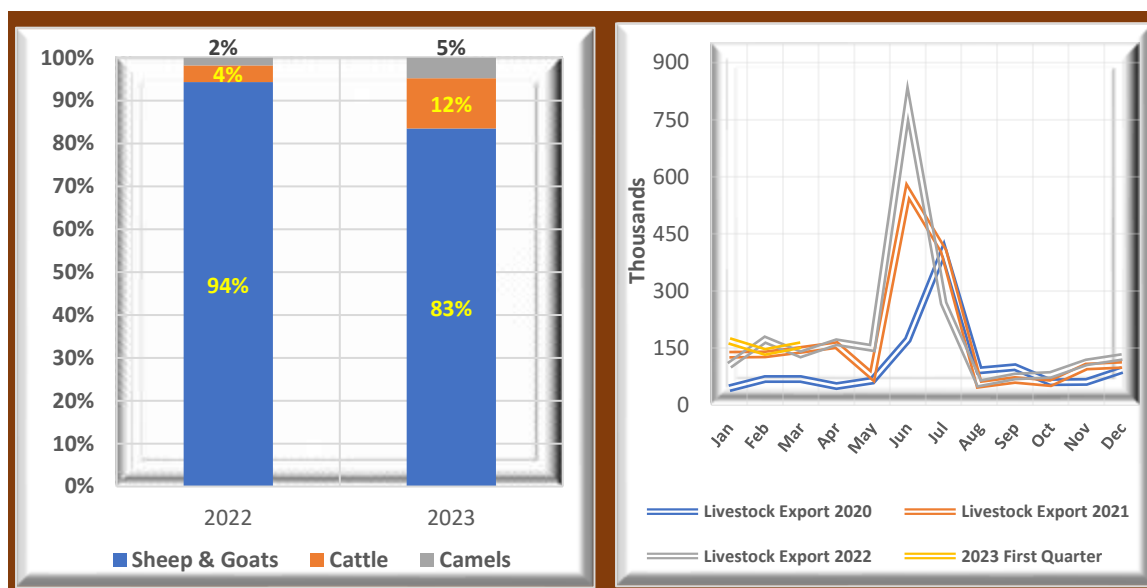


Table 16: Livestock Exports in the First Quarter of 2021, 2022 and 2023

| | Units | 2021 | 2022 | 2023 | Difference | YoY Change (%) |
|------------------|--------------|----------------|----------------|----------------|-----------------|----------------|
| Camels | Heads | 12,309 | 16,486 | 22,442 | 5,956 | 36% |
| Cattle | Heads | 33,808 | 25,575 | 18,111 | -7,464 | -29% |
| Sheep & Goats | Heads | 365,413 | 368,016 | 133,693 | -234,323 | -64% |
| Livestock | Heads | 411,530 | 410,077 | 174,246 | -235,831 | -58% |

Source: MoFD’s Customs Department

Figure 21: Composition of Livestock Exports in The First Quarter of 2022 & 2023 (left) and Total Export (right)



Source: MOFD/ Customs Department

Imports: The nominal value of Somaliland’s imports in the first quarter of 2023 was approximately 2.23⁶ trillion SLSh, representing a 3% decrease compared to the first quarter of 2022 and 5% decrease in Q4 of 2022. On a monthly basis as shown in figure 22 below, a decrease in the import value occurred in Q1 2023. Additionally, the amount of Duty collected on these imports was 370 billion SLSh, representing a significant 15% decrease compared to the collected duties during the same period in 2022. Table 17 below shows quarterly imports by value and duty in 2023, the MoFD is currently forecasting imports to grow by 1.6%.

The lower value of Somaliland’s total imports in the first three months of the year compared to the same period of 2022 can be explained the higher merchandise price in the world market which has been caused by the world supply chain disruption due to the Ukraine war.

⁶ This value is based on an invoice value submitted by the importers.

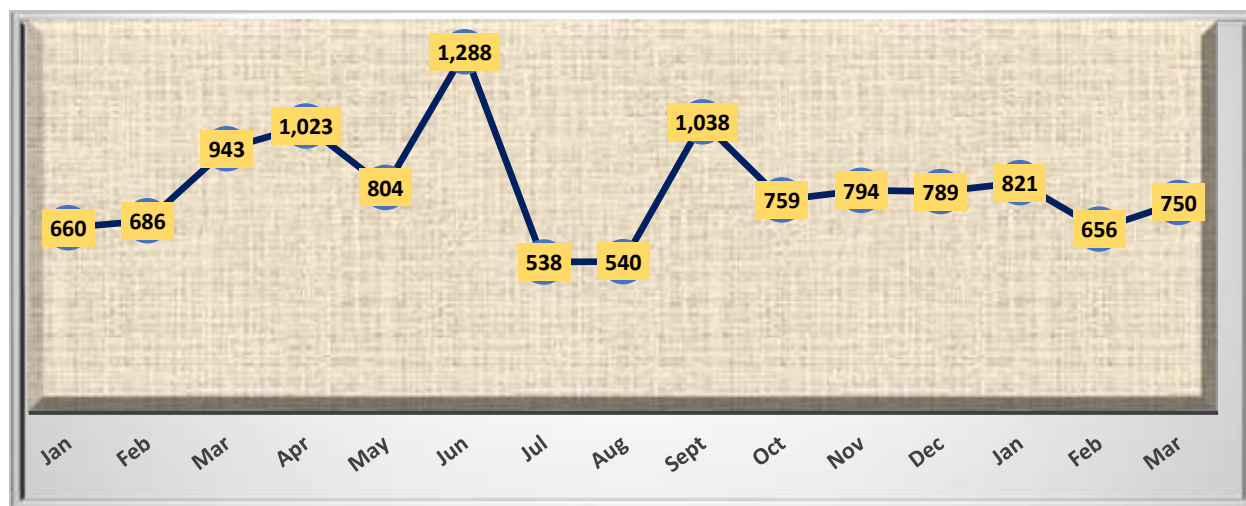


Table 17: Import value per quarter in 2022 and 2023, SLSh

| | Quarter | Value | (%) Change | Duty | (%) Change |
|------|---------|-------------------|------------|-----------------|------------|
| 2022 | Q1 | 2,288,120,155,965 | - | 434,009,491,384 | - |
| | Q2 | 3,115,392,692,388 | 36% | 375,011,610,466 | -14% |
| | Q3 | 2,116,125,344,009 | -32% | 355,231,897,255 | -5% |
| | Q4 | 2,341,735,164,877 | 11% | 414,956,500,287 | 17% |
| 2023 | Q1 | 2,226,633,239,379 | -5% | 370,231,846,196 | -11% |

Source: MOFD/ Customs Department

Figure 22: Import value per month, Jan 2022- Mar 2023 (Billions SLSh)



Travel: In the first quarter of 2023, Somaliland registered 24,233 passengers’ arrivals by air compared to the 21,494 recorded in the same period of 2022. On the other hand, there were 26,254 passengers that departed in the first quarter. Arrivals were higher around 13% whereas the departures were lower 6% in the first quarter compared to the same period in 2022 as shown in table 11 and figure 26 below. The MoFD expects further uptick in travel numbers in 2022 as a result of the significant easing of covid-19 mitigating measures around the world.

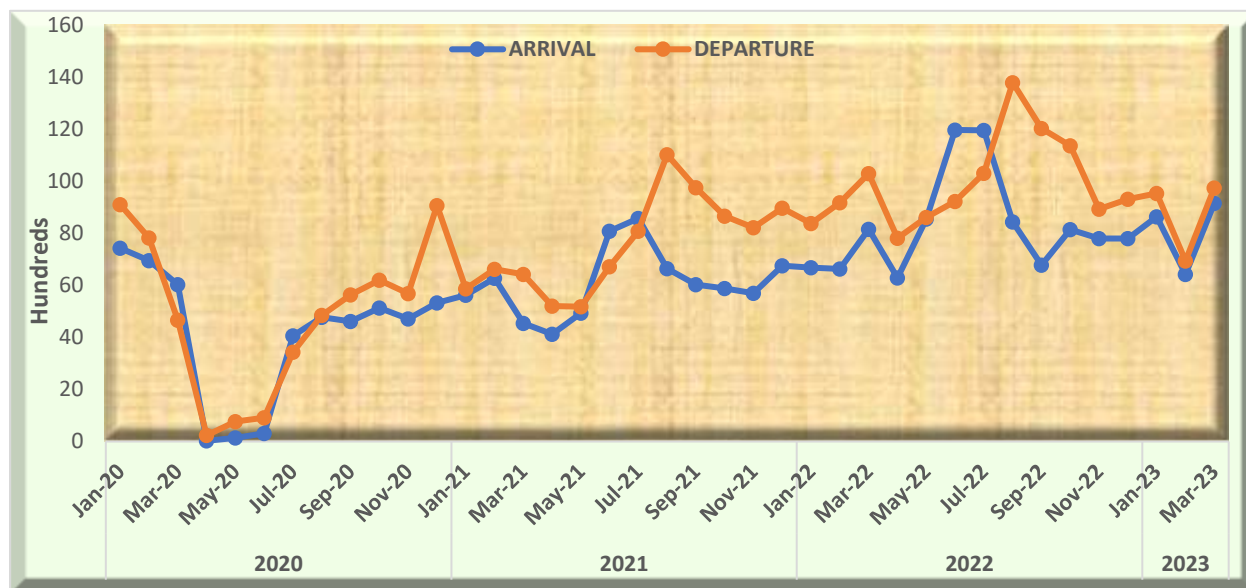
Table 18: Number of Passengers that arrived and departed by Air in Q1 of 2022 and 2023

| Month | Arrivals | | | | Departures | | | |
|--------------|---------------|---------------|--------------|--------------|---------------|---------------|---------------|------------|
| | 2022 | 2023 | Difference | YoY (%) | 2022 | 2023 | Difference | YoY (%) |
| Jan | 6,693 | 8,649 | 1,956 | 29.2% | 8,383 | 9,548 | 1,165 | 14% |
| Feb | 6,640 | 6,428 | -212 | -3.2% | 9,187 | 6,951 | -2,236 | -24% |
| Mar | 8,161 | 9,156 | 995 | 12.2% | 10,305 | 9,755 | -550 | -5% |
| Total | 21,494 | 24,233 | 2,739 | 12.7% | 27,875 | 26,254 | -1,621 | -6% |

Source: Somaliland’s Immigration Agency



Figure 23: Number of Passengers that arrived and Departed by Air per month, Jan 2020 - Mar 2023



4.1.5. Investment in 2022 and 2023

Business Registrations: In the first quarter of 2023, the Ministry of Trade & Tourism (MOTT) registered 456 businesses, representing 87 more compared to the Q1 registrations in 2022. On the other hand, there were 229 more registrations compared to the Q1 in 2021. Generally, there is 24% increase in the Q1 of 2023 business registrations, compared to the record in the Q1 of 2022.

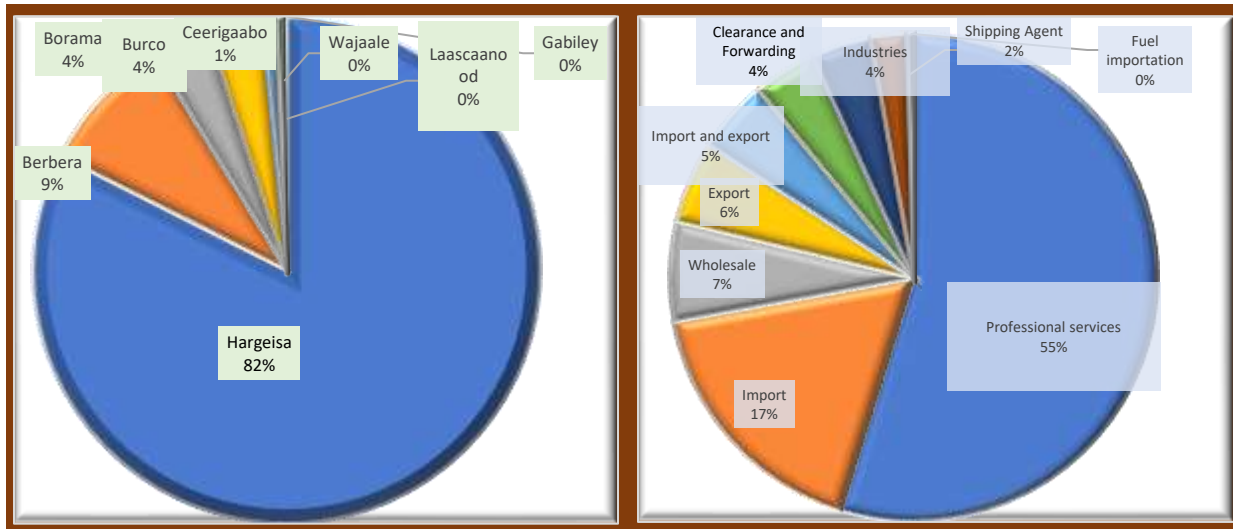
As the figure below shows, the business registration mainly occurs in the capital city of Hargeisa (82%), whereas the professional services (55%) is the most businesses registered in Q1, 2023.

Table 19: Number of Business registrations, Q1 2021 - 2023

| Month | 2021 | 2022 | 2023 | Difference of 2022 & 2023 | % Change |
|--------------|------------|------------|------------|---------------------------|------------|
| January | 68 | 91 | 201 | 110 | 121% |
| February | 82 | 103 | 135 | 32 | 31% |
| March | 77 | 175 | 120 | -55 | -31% |
| Total | 227 | 369 | 456 | 87 | 24% |

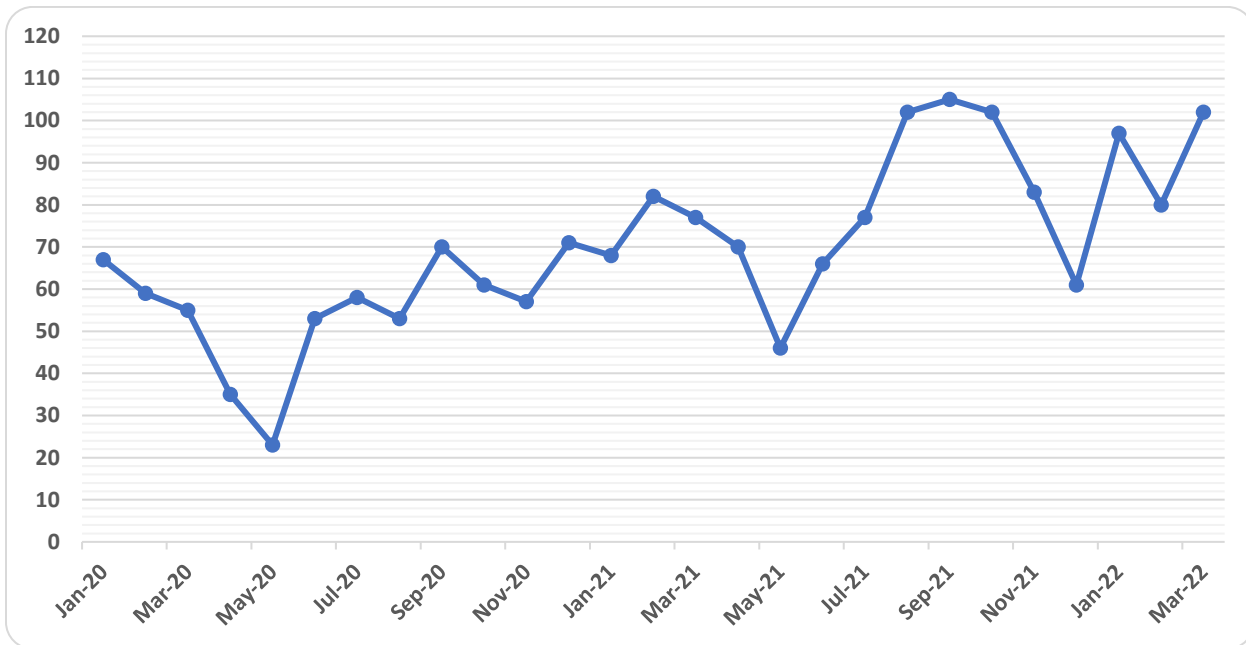


Figure 24: Business Registrations by Location (left) and by Sector (right) in Q1 of 2023



Data Source: Ministry of Trade, Industry and Tourism

Figure 25: Number of Business Registrations Per Month, Jan 2020 - Mar 2022



Business Licenses Issued:

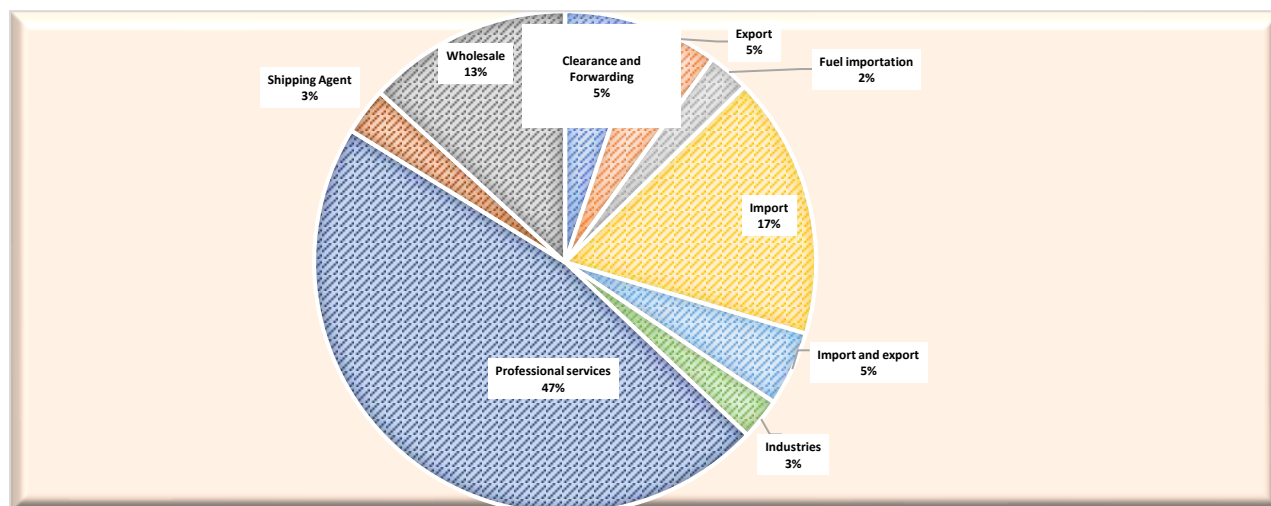
In the first quarter of 2023, there were 325 new and 236 renewed business licenses issued by the MOTT, representing a decrease of 0.4% new licenses and an increased 223% renewed licenses compared to the record of Q1 in 2022. The information shows a positive trend in the Q1 2023 of the new business licences being issued and renewed.



Table 20: Number of New and Renewed Business Licenses in the first quarter of 2022 and 2023

| Months | New | | | Renewed | | |
|--------------|------------|------------|--------------|-----------|------------|-------------|
| | 2022 | 2023 | % Change | 2022 | 2023 | %Change |
| January | 97 | 134 | 1.4% | 22 | 89 | 305% |
| February | 80 | 90 | 1.4% | 18 | 72 | 300% |
| March | 102 | 101 | 1.0% | 33 | 75 | 127% |
| Total | 279 | 325 | 16.5% | 73 | 236 | 223% |

Figure 26: New Business Types Issues in the first quarter of 2023



Source: Ministry of Trade and Tourism

4.2. Global and Local Economic Impacts

4.2.1. Economic and Social Impact from the War Ukraine - Global Impact

In 2022, the global economy was still emerging from the strains of the COVID-19 pandemic, and yet it would be shocked again by the Russian invasion of Ukraine.

The war had immediate social, political, and economic ramifications that adversely affected the global economy, including Somaliland. The three main economic channels were global trade, monetary policy, and the financial sector.

Global trade

The impact from the war has been accentuated due to both Ukraine and Russia being major commodity exporters. Ukraine exported 13.5 million tons of wheat in 2022; being the fifth largest exporter in the world⁷. And Russia is world’s largest exporter of natural gas, a key energy fuel for both western and emerging market economies.

⁷ Statista, 2023



Russia's involvement in Ukraine resulted in the partial destruction of Ukraine's infrastructure, occupation of farmlands, and a blockade of ships leaving Ukraine. This has all seriously affected the availability of grain exports, which is forecast to drop up to 50% this year⁸.

Russia was instead targeted by western economic sanctions in retaliation for the war. This meant a reduction in oil and natural gas being purchased from Russia, and a clear change in future energy policy. This resulted in a worldwide supply side shock to fossil fuels; driving their price up.

The coalition of western countries targeted a range of goods and services in the economic sanctions, and not just energy supplies. This has resulted in a broad disruption of supply chains, and has affected international trade in aggregate. This has resulted in generally higher prices for all imported goods. This downturn in 2022 was compounded by the global shortage of semiconductors for electronic products, and China's continued "Zero-Covid" policy, whereby strict lockdowns continued to hamper their industrial output.

Ethiopia is a key trading partner for Somaliland, and the impact on their economy from the war has direct implications for Somaliland. Ethiopia in 2021 imported \$3bn of petroleum products, \$2bn of fertilisers, and \$400mn of wheat⁹, which are all key commodities that have been disrupted by war. The shortage of food and fertiliser will also exacerbate the damage from the ongoing drought, which is affecting roughly 14 million people in the Horn of Africa.

Monetary policy

The trade disruption, especially to food and energy, has had a significant impact on global inflation. US, Eurozone, and UK annualised inflation were at 5, 7%, and 12.7% at the end of Q1 2023, which is much higher than the relative stability of the past decade; inflation averaged less than 3% in advanced economies between 2000 and 2020¹⁰.

Central banks have had to respond robustly, with the average interest rate across 39 central banks rising from 3.79% to 7.75% between the start of 2020 and the end of Q1 2023¹¹. The sudden increase in interest rates after more than a decade of accommodative monetary policy has had a profound impact on the behaviour of investors and governments worldwide; with investment being dampened due to higher borrowing costs.

The reduction in demand from higher interest rates has not yet induced a recession in developed economies however, in part due to the economic rebound following the pandemic.

Financial sector

The financial sector was a key channel for implementing sanctions upon Russia following the invasion of Ukraine. All aspects of the Russian economy saw a degree of decoupling from western countries, and this was especially the case for financial institutions.

Russian banks were subject to economic sanctions, and had to freeze or sell their foreign operations. This included being removed from the international financial payment and messaging system SWIFT. Furthermore, the Russian Central Bank was sanctioned in March 2022, which stopped them from using their \$70bn of foreign currency reserves to stabilise the price of the Ruble.

⁸ UN Food and Agriculture Organisation, 2023, <https://www.fao.org/3/cb9013en/cb9013en.pdf>

⁹ International Growth Centre, 2022.

¹⁰ IMF, <https://www.imf.org/external/datamapper/PCPIPCH@WEO/OEMDC/ADVEC/WEOWORLD>

¹¹ Bank for International Settlements, 2023.



The increase in interest rates has meant that there have been some aftershocks in the financial sector: US banks were not appropriately hedged against the rapid rise of interest rates, which has resulted in three high-profile bank failures in 2023 to date. The result of this has lowered investor confidence, due a rise in fears that this could be a prelude to a wider financial crisis.

Impact on Somaliland

Somaliland's investment in international trade has seen it become embedded in the global economy. As such, it has also been affected by the adverse impact from the war in Ukraine.

Somaliland continues to run a trade deficit. The reliance on imported goods has meant that the rise of the price of these goods has expanded the trade deficit. Imports decreased 5% in Q1 2023.

The heightened trade deficit has also had an inflationary impact, with inflation increasing from 6.5% to 10.5% in Q1 2023.

Central bank measures that have been taken to reduce demand may have also dampened foreign investment. This is perhaps reflected in the lower foreign business registrations in Somaliland.

Another potential impact channel is regarding foreign aid. Countries such of the UK have included aid to Ukraine as part of the limited budget for international aid. As such, aid to Ukraine may take away from the allocated spending to countries in the global south. This may materialise in lower aid received for Somaliland in 2024.

4.2.2. Economic and Social Impact from the War in Las'anod

Since beginning of February 2023, there has been heavy fighting in the Somaliland eastern city of Las-Anod between troops of Somaliland and external militia/troops from the regional administration of Puntland which is one of the federal states of Somalia.

The war had immediate social and economic consequences that adversely affected the Somaliland economy. The economic impact can be seen in the Customs and Inland Revenue collections. In the first quarter of 2023 budget, the Somaliland Ministry of Finance Development forecasted that Las'anod customs should collect 2.3 billion Slsh, and the actual collection was only 6.11 million Slsh, a 73% decrease. Likewise, the inland revenue estimate and actual collections in the first quarter of 2023 budget were 1.158 billion Slsh and 68 million Slsh respectively, a 94% decrease. The information shows a heavy revenue deficit for both the customs and inland revenue collections caused by the unexpected Las'anod crisis.

It also has had a great effect on the other economic activities of the Somaliland and the Horn of Africa, such as imports, exports, and travel, which in turn has affected governments' revenues collections. Furthermore, the war has also heavily increased government spending and caused many unplanned expenditure transactions.

The war also had caused unexpected social consequences. So far, there are many people who have died and many more who have been wounded in the war. In addition to deaths and injuries, the United Nations estimated that more than 185,000 people have been displaced due to the conflict in Las Anod.



4.3. Fiscal Outlook 2023

4.3.1. Q1 FY2023 Revenue Outturn

In the first quarter of 2023, the Somaliland government collected 541 billion SLSh in domestic revenue—representing a 4% decrease from the 562 billion SLSh collected in the same period in 2022 as shown in table 21 below. Collections from non-taxes increased by 29% (+19.6.8 billion SLSh) while tax collection decreased by 8% (-40.2 billion SLSh). While collections decreased across most revenue categories, a couple saw increases compared to the same period in 2022. These were: Tax on livestock, Fines, and Payroll which increased by 3.7 billion SLSh, 1.2 billion SLSh and 2.7 billion SLSh, respectively. A number of fiscal policies were introduced in the first quarter (e.g., tax exemptions were lifted in order to increase revenue collection efficiency). On the other hand, the \$13.8 billion that the government of Somaliland expects to receive this year has been impacted by the Las-Anod war. However, this percentage represents less than 1% of the government's projected revenue in 2023.

The Customs department and IRD together collected 99% of the total domestic revenue to date—with the customs department alone accounting for the collection of 71% of the total. Nevertheless, Customs’ collections underperformed its target by 93.7 billion SLSh (or -20%) while IRD collected 12.1 billion SLSh above target (or +9%). For the first time in 2023, the Berbera collection has declined to 75 billion, a decrease of 24 percent. Meanwhile, Xariirad has seen a dramatic increase in activity since the government of Somaliland established a customs station there. Additionally, Hargeisa Airport has collected 18 billion SLSh, which is the first time it has collected in several years (i.e., a 10% surplus). The remaining customs stations continue to collect a relatively small portion of overall revenues. In 2023, Hargeisa collected 78.8% of IRD revenues, whereas Berbera contributed 11.1%. The other eight IRD offices contributed the remaining 10.1% of total IRD revenues.

Table 23: Fiscal Summary (SLSh), Q1 in 2023

| | Budget | Target | YTD Actual | Difference | Diff. % |
|-------------------------------|--------------------------|------------------------|------------------------|-------------------------|----------------|
| Total Revenue | 2,530,336,471,861 | 632,584,117,965 | 541,536,662,308 | -91,047,455,657 | -14.39% |
| <i>Domestic</i> | 2,530,336,471,861 | 632,584,117,965 | 541,536,662,308 | -91,047,455,657 | -14.39% |
| Total Expenditure | 2,530,336,471,858 | 565,675,923,883 | 456,831,580,476 | -108,844,343,407 | -19.24% |
| <i>General Gvt Fund Spend</i> | 2,530,336,471,858 | 565,675,923,883 | 456,831,580,476 | -108,844,343,407 | -19.24% |
| <i>Fiscal Balance</i> | | | 17,796,887,750 | | |
| Domestic | | | 17,796,887,750 | | |



Figure 27: Fiscal summary including the supplementary budget (excl. Grants), SLSH, Q1 in 2023

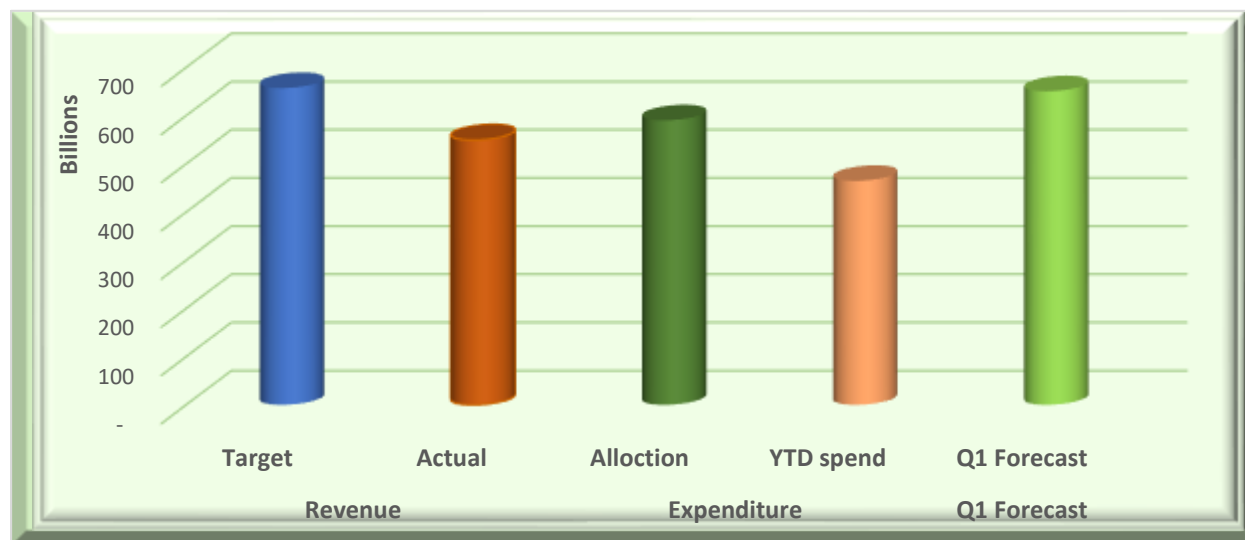
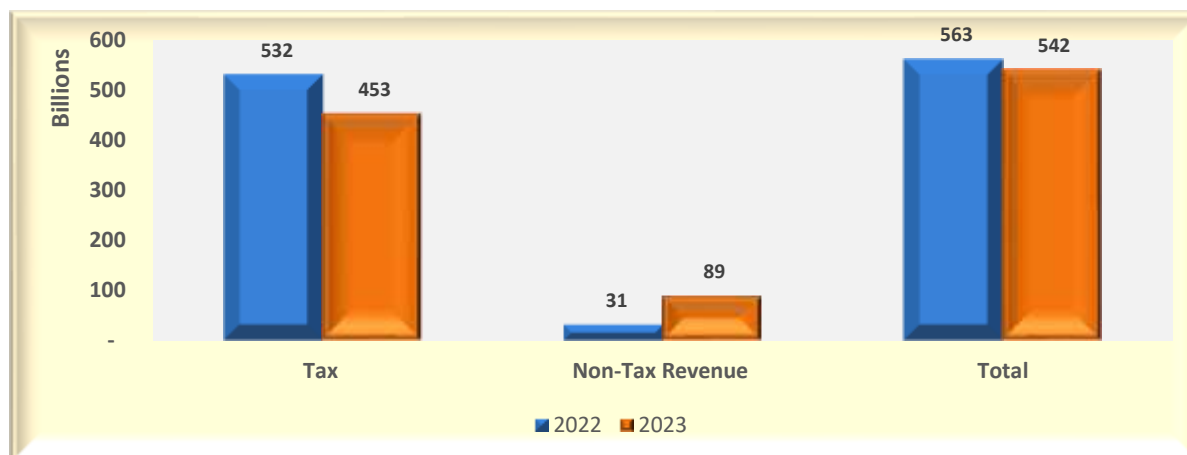


Table 22: Actual Revenue Collection vs Budget Forecast in SLSHs, Jan-March 2023

| DESCRIPTION | Actual revenue collection (Jan-March 2023) | Actual revenue collection (Jan-March 2022) | Difference | % |
|-------------------------------|--|--|------------------------|-------------|
| Taxes | 453,019,021,293 | 493,314,631,007 | -40,295,609,714 | -8% |
| Income and profits | 17,594,594,110 | 15,105,663,976 | 2,488,930,134 | 16% |
| Payroll and workforce | 31,898,556,778 | 29,182,667,445 | 2,715,889,333 | 9% |
| Goods and Services | 114,565,671,779 | 126,304,097,149 | -11,738,425,370 | -9% |
| Sales tax | 69,017,390,595 | 77,189,613,754 | -8,172,223,159 | -11% |
| Excise tax | 5,368,384,795 | 4,757,117,220 | 611,267,575 | 13% |
| Administration tax | 25,266,618,001 | 28,487,538,896 | -3,220,920,895 | -11% |
| Other taxes on G&S | 14,913,278,388 | 15,869,827,279 | -956,548,891 | -6% |
| International Trade | 238,891,325,032 | 268,114,980,945 | -29,223,655,913 | -11% |
| Taxes on imports | 199,765,891,711 | 228,231,842,873 | -28,465,951,162 | -12% |
| Taxes on exports | 18,628,350,840 | 14,840,866,889 | 3,787,483,951 | 26% |
| Port taxes | 20,497,082,481 | 25,042,271,183 | -4,545,188,702 | -18% |
| Other Taxes | 50,068,873,594 | 54,607,221,492 | -4,538,347,898 | -8% |
| 2% tax in Eastern Regions | 21,059,668,455 | 24,422,350,250 | -3,362,681,795 | -14% |
| Other | 29,009,205,139 | 30,184,871,242 | -1,175,666,103 | -4% |
| Other Revenue | 88,517,641,015 | 68,826,431,277 | 19,691,209,738 | 29% |
| Property Income | 58,643,096,215 | 29,276,548,444 | 29,366,547,771 | 100% |
| Sales of Goods and Services | 26,296,685,887 | 37,219,895,555 | -10,923,209,668 | -29% |
| Fines and Voluntary Transfers | 3,577,858,913 | 2,329,987,278 | 1,247,871,635 | 54% |
| Total | 541,536,662,308 | 562,141,062,284 | -20,604,399,976 | -4% |



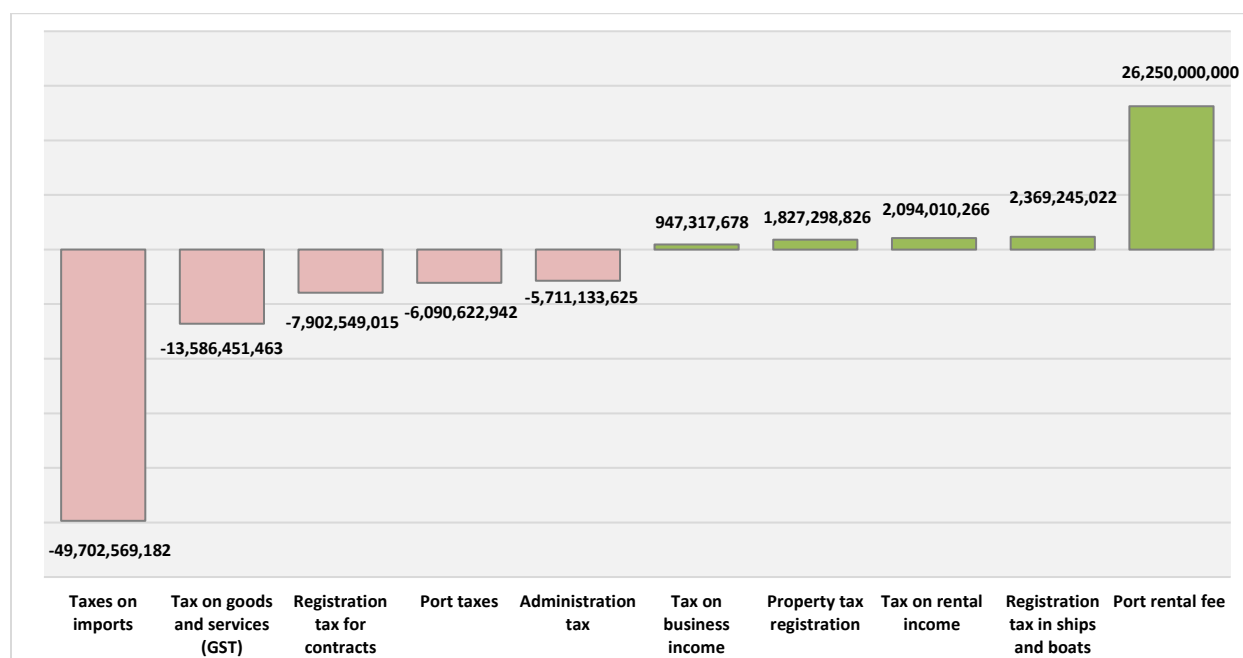
Figure 118: Tax and Non-Tax collection between Jan-March of 2023 and 2022, SLSh



At a more disaggregate level, the top five revenue items with the largest deficit are shown in figure 29 below, along with the top five over-performers. Taxes on imports was the biggest underperformer with a -50 billion SLSh deficit. This was followed by deficits from tax on goods and services GST (-13.5 billion SLSh), 2% registration tax on contracts (-7.9 billion SLSh), port tax (-6 billion SLSh) and Administration tax (-5.7 billion SLSh).

On the other hand, port rental fees (+26.5 billion SLSh), penalties (+3.8 billion SLSh), registration on ships and boats (+2.3 billion SLSh), Tax on rental income (+2 billion SLSh) and Tax on business income (+947 million SLSh) overperformed against their respective targets.

Figure 29: Top 5 Over and Underperforming Revenue Items Against Forecast in SLShs, Jan-March 2023





Performance by Agency

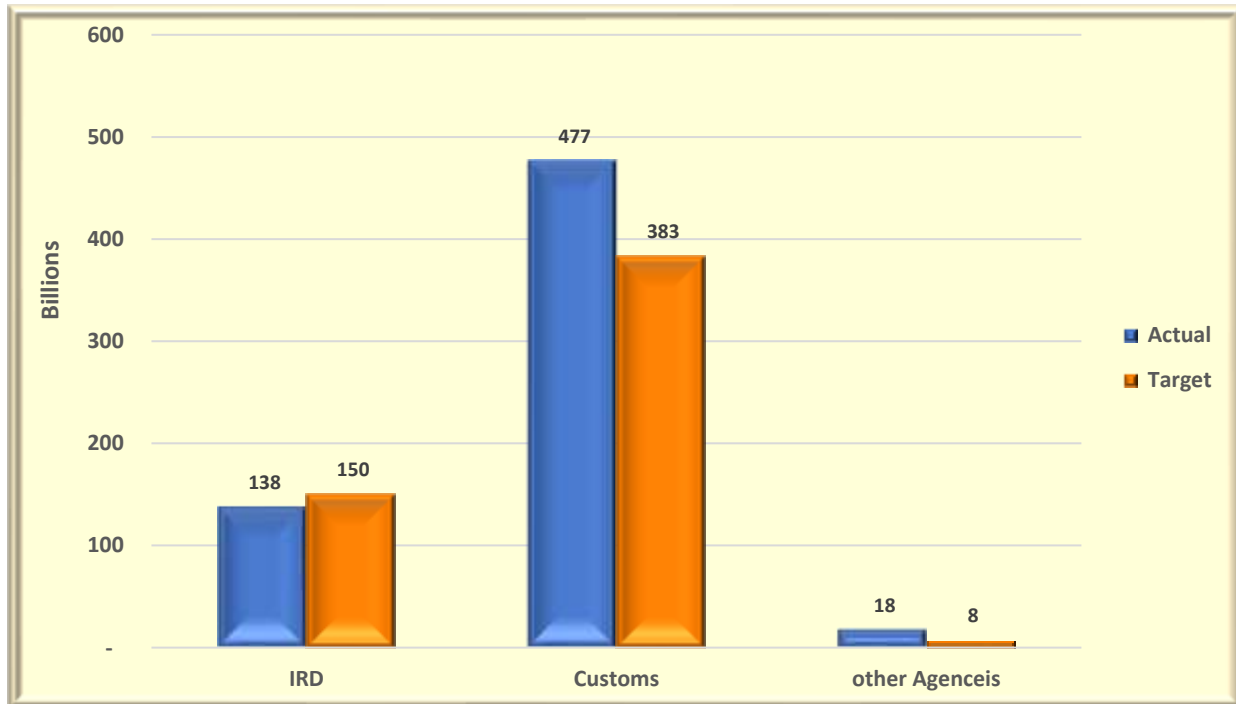
Table 4 and Figure 4 below show total revenue collection by responsible agencies. About 99% of the actual revenue collected between January and March came from the Customs and IRD (excl. grants for the World Bank funded projects). The IRD is above target by 12.1 billion SLSh or 9%. The Customs Department— which accounts for 71% of total revenue to date, was 20% below target (or -93.7 billion SLSh). Regarding the other fifteen responsible revenue collecting agencies, only collections from five met and/or exceeded target. Income from local government supplement (-100%) and income from benefits of money exchange (-100%) have not collected any revenue at all to date in 2023. All the other remaining agencies performed below their target in the first nine months of 2023.

Table 23: Total Revenue by Responsible Agency Compared to Forecast (SLSHs), Q1 2023

| RESPONSIBLE AGENT | Budget Forecast (annual) | Budget Forecast (to date) | Actual revenue collection (to date) | Difference | % |
|--|--------------------------|---------------------------|-------------------------------------|------------------------|-------------|
| IRD | 552,491,402,474 | 138,122,850,619 | 150,279,173,834 | 12,156,323,216 | 9% |
| Customs | 1,907,712,333,179 | 476,928,083,295 | 383,203,172,736 | -93,724,910,559 | -20% |
| Other agencies: | | | | | |
| Ministry of Information and Awareness | 920,417,438 | 230,104,360 | 12,240,552 | -217,863,808 | -95% |
| Ministry of Telecommunications | 7,927,057,906 | 1,981,764,477 | 1,032,990,000 | -948,774,477 | -48% |
| Ministry of Trade | 19,024,420,667 | 4,756,105,167 | 3,790,367,550 | -965,737,617 | -20% |
| Ministry of Agriculture | 291,949,111 | 72,987,278 | 19,161,700 | -53,825,578 | -74% |
| Ministry of Fisheries | 1,261,878,705 | 315,469,676 | 219,598,000 | -95,871,676 | -30% |
| Ministry of Energy and Minerals | 1,214,037,070 | 303,509,268 | 790,298,720 | 486,789,453 | 160% |
| Ministry of Labour and Social Affairs | 5,471,692,282 | 1,367,923,071 | 1,285,550,000 | -82,373,071 | -6% |
| Income from rent-houses \$ stores | 549,898,760 | 137,474,690 | 94,665,000 | -42,809,690 | -31% |
| Income from rent-houses \$ stores | 237,998,286 | 59,499,572 | 38,903,200 | -20,596,372 | -35% |
| Income from sale of real estate | 5,232,701 | 1,308,175 | 7,730,000 | 6,421,825 | 491% |
| Ministry of Justice | 472,760,438 | 118,190,110 | 111,423,000 | -6,767,110 | -6% |
| Ministry of Health | 742,034,019 | 185,508,505 | 90,020,000 | -95,488,505 | -51% |
| Quality Control Agency | 235,409,700 | 58,852,425 | 129,948,000 | 71,095,575 | 121% |
| Ministry of Planning | 862,149,825 | 215,537,456 | 184,170,016 | -31,367,440 | -15% |
| Income from local government supplement | 21,000,000,000 | 5,250,000,000 | 0 | -5,250,000,000 | -100% |
| Income from money exchange | 9,000,000,000 | 2,250,000,000 | 0 | -2,250,000,000 | -100% |
| Ministry of Planning | 915,799,300 | 228,949,825 | 247,250,000 | 18,300,175 | 8% |
| Total | 70,132,736,208 | 17,533,184,052 | 8,054,315,738 | -9,478,868,314 | -54% |
| Total | 2,530,336,471,861 | 632,584,117,965 | 541,536,662,308 | -91,047,455,657 | -14% |



Figure 30: Total Revenue Collection by Responsible Agency (bn SLShs), Q1 2023



Regional Performance

As mentioned above, about 99% of the total revenue collected in January and March 2023 came from the Customs Department and IRD—with the Customs Department accounting for 71% and IRD 28% of the total. Not surprisingly, as shown in Figure 31 below, 68.3% of the Customs collections came from Berbera while 15.8% came from Kalabaydh and 5.9% from Zaylac. For the first time in 2023, the Berbera collection has declined, to 75 billion, a decrease of 24 percent. Meanwhile, Xariirad has seen a dramatic increase in activity since the government of Somaliland established a customs station there. Additionally, Hargeisa Airport has collected 18 billion SLSh, which is the first time it has collected in several years (i.e., a 10% surplus). The remaining customs stations continue to collect a relatively small portion of overall revenues. In 2023, Hargeisa collected 78.8% of IRD revenues, whereas Berbera contributed 11.1%. The other eight IRD offices contributed the remaining 10.1% of total IRD revenues.



Figure 31: Customs and IRD revenue composition by station and office, Q1 2023

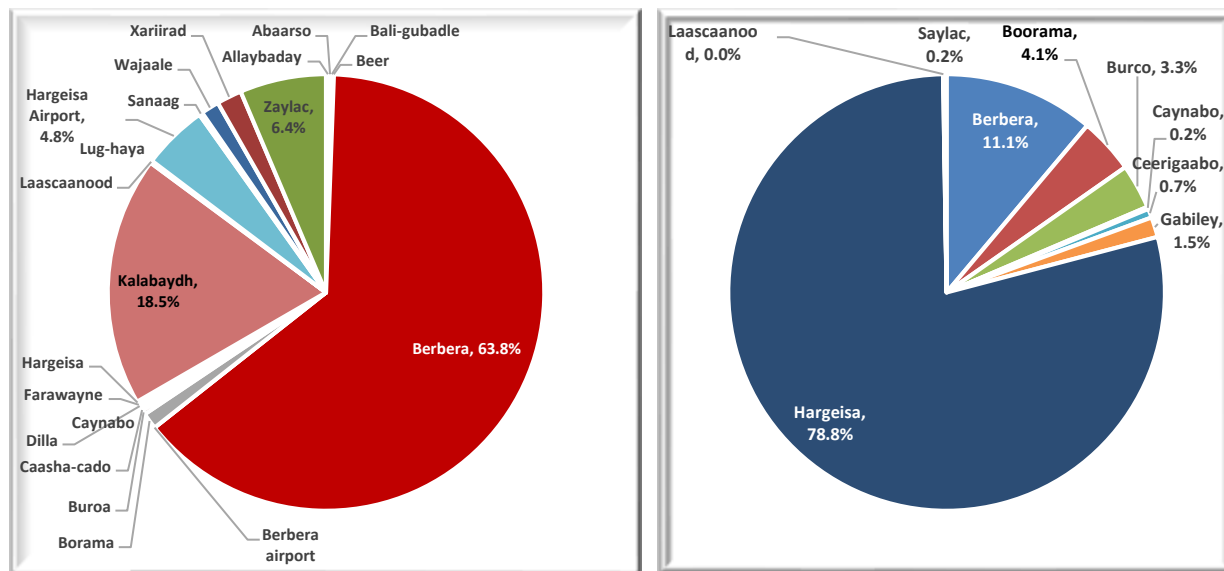


Table 4: Customs' Revenue Performance by location in SLSHs, Q1 2023

| Stations | Budget Forecast (annual) | Budget Forecast (to date) | Actual revenue collection (to date) | Difference | % |
|------------------|--------------------------|---------------------------|-------------------------------------|------------------------|-------------|
| Berbera | 1,285,862,332,061 | 321,465,583,015 | 245,826,257,762 | -75,639,325,253 | -24% |
| Kalabaydh | 313,832,983,780 | 78,458,245,945 | 69,845,162,833 | -8,613,083,112 | -11% |
| B/Gubadle | 34,386,096,950 | 8,596,524,238 | 927,876,459 | -7,668,647,779 | -89% |
| Seylac | 116,575,060,522 | 29,143,765,131 | 24,465,154,929 | -4,678,610,202 | -16% |
| Borama | 29,317,976,636 | 7,329,494,159 | 4,615,612,288 | -2,713,881,871 | -37% |
| Las-Canod | 9,204,617,068 | 2,301,154,267 | 611,514,730 | -1,689,639,537 | -73% |
| Wajaale | 26,379,815,888 | 6,594,953,972 | 5,001,775,083 | -1,593,178,889 | -24% |
| C/Cado | 4,476,492,978 | 1,119,123,245 | 349,458,411 | -769,664,834 | -69% |
| F/Weyne. | 3,464,979,684 | 866,244,921 | 845,820,651 | -20,424,270 | -2% |
| Abaarso | 511,743,179 | 127,935,795 | 117,218,968 | -10,716,827 | -8% |
| Dilla | 74,144,498 | 18,536,125 | 19,332,064 | 795,940 | 4% |
| L/Haya | 27,427,631 | 6,856,908 | 23,075,644 | 16,218,736 | 237% |
| Beer | 294,452,842 | 73,613,211 | 96,439,153 | 22,825,943 | 31% |
| Hargeysa | 1,597,108,492 | 399,277,123 | 556,397,681 | 157,120,558 | 39% |
| C/Gaabo | 2,082,726,379 | 520,681,595 | 901,208,578 | 380,526,983 | 73% |
| Burco | 3,212,815,161 | 803,203,790 | 1,202,236,296 | 399,032,506 | 50% |
| A/Baday | 2,635,643,202 | 658,910,801 | 1,062,875,676 | 403,964,876 | 61% |
| Caynabo | 2,444,914,321 | 611,228,580 | 1,077,439,944 | 466,211,364 | 76% |
| Hargeysa Airport | 67,529,013,228 | 16,882,253,307 | 18,528,254,632 | 1,646,001,325 | 10% |
| Xariirad. | 3,801,988,679 | 950,497,170 | 7,130,060,954 | 6,179,563,784 | 650% |
| Total | 1,907,712,333,179 | 476,928,083,295 | 383,203,172,736 | -93,724,910,559 | -20% |



Table 25: IRD Revenue Performance by Location in SLSHs, Q1 2023

| Stations | Budget Forecast (annual) | Budget Forecast (to date) | Actual revenue collection (to date) | Difference | % |
|--------------|--------------------------|---------------------------|-------------------------------------|-----------------------|-----------|
| Berbera | 87,591,967,354 | 21,897,991,839 | 16,899,672,841 | -4,998,318,998 | -23% |
| Las-Canod | 4,633,754,716 | 1,158,438,679 | 68,440,771 | -1,089,997,908 | -94% |
| Gabiley | 12,588,243,005 | 3,147,060,751 | 2,285,902,855 | -861,157,896 | -27% |
| C/Gaabo | 5,783,609,876 | 1,445,902,469 | 1,010,946,907 | -434,955,562 | -30% |
| Burco | 21,177,562,830 | 5,294,390,708 | 5,052,419,218 | -241,971,490 | -5% |
| Caynabo | 1,262,171,506 | 315,542,877 | 254,869,874 | -60,673,003 | -19% |
| Seylac | 1,383,907,261 | 345,976,815 | 329,031,158 | -16,945,657 | -5% |
| Oodwayne | 653,304,754 | 163,326,189 | 154,838,031 | -8,488,158 | -5% |
| Borama | 22,244,542,620 | 5,561,135,655 | 6,309,410,858 | 748,275,203 | 13% |
| Hargeysa | 395,172,338,552 | 98,793,084,638 | 117,913,641,321 | 19,120,556,683 | 19% |
| Total | 552,491,402,474 | 138,122,850,619 | 150,279,173,834 | 12,156,323,216 | 9% |

4.3.2. Q1 FY2023 Spending and 2023 outlook

Expenditure Outturn against Budget

In the first quarter of 2023, the government of Somaliland spent SLSH 456.8 billion from the general government fund, which represents 18.05% of the annual budget of SLSH 2.53 trillion. However, the expenditure was 19.24% below the allocated amount for the quarter, or SLSH 108.8 billion. Expenditures were well below target across all major spending categories, except for subsidies and compensation of employees.

There was a decrease in spending on assets during the first quarter of 2023 compared to the same period last year, while subsidies, grants, and the national reserve saw a significant increase. Despite this, overall spending in the first quarter of 2023 was higher than that of the previous year, with a 4% increase.

Furthermore, the government introduced a new chart of accounts in 2023 which included the addition of Contingencies as a new category. This proactive move indicates the government's efforts to effectively manage their budget by creating a safety net for any unforeseen expenses that may occur throughout the fiscal year.

The Economic sector had the lowest spending performance with a 33.4% underspend, and the Governance, Security, Education, Health, and Other sectors also had underspends ranging from 8.85% to 27.3%. The funds allocated for loan payments, construction costs, and contingencies contributed to the underspend in the Governance sector, while Foods & Rations and compensation of employees were the major contributors to the Security and Health sectors, respectively. Overall, the six sectors accounted for 91.04% of the total underspend of SLSH 108.8 billion by all eleven sectors.



Table 5: Expenditure performance (Excl. WB Grants) by Chapter between Q1 2023, (SLSh, Billions)

| Description | Revised Budget | Allocation | Actual Spending | Underspend* |
|---------------------------|--------------------------|------------------------|------------------------|-------------------------|
| Compensation of Employees | 1,398,546,253,557 | 340,374,104,570 | 323,905,842,232 | -16,468,262,338 |
| Use of Goods & Services | 504,592,125,691 | 131,064,291,319 | 76,064,125,525 | -55,000,165,794 |
| Government Projects | 246,719,006,744 | 30,750,682,332 | 21,852,167,445 | -8,898,514,887 |
| Assets | 123,326,701,121 | 6,229,345,625 | 636,014,666 | -5,593,330,959 |
| Contingencies | 80,071,657,461 | 20,017,779,364 | 15,090,926,160 | -4,926,853,204 |
| Grants | 60,397,939,814 | 14,805,359,953 | 8,227,178,800 | -6,578,181,153 |
| Loan Repayment | 53,515,992,300 | 13,106,250,000 | 2,352,284,469 | -10,753,965,531 |
| Subsidy | 23,515,574,009 | 5,578,110,721 | 5,067,616,719 | -510,494,002 |
| National Reserve | 39,651,221,161 | 3,750,000,000 | 3,635,424,460 | -114,575,540 |
| Grand Total | 2,530,336,471,858 | 565,675,923,883 | 456,831,580,476 | -108,844,343,408 |

Figure 12: Expenditure performance (excl. WB grants) by Chapter between Q1 2023, (SLSh Billions)

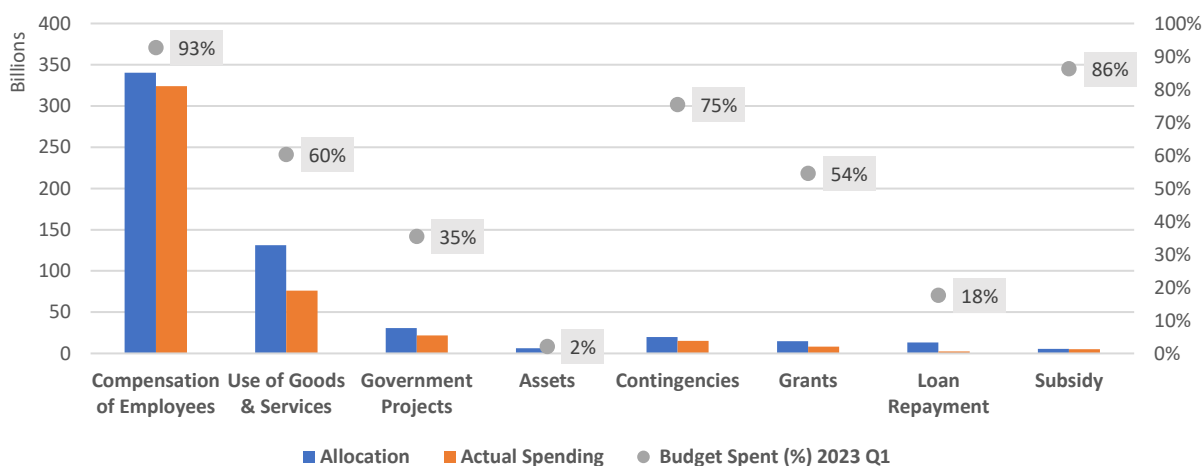


Figure 33: Expenditure Performance (excl. WB-funded & JPLG Projects) by Sector in Jan-March 2023, SLSh Billion

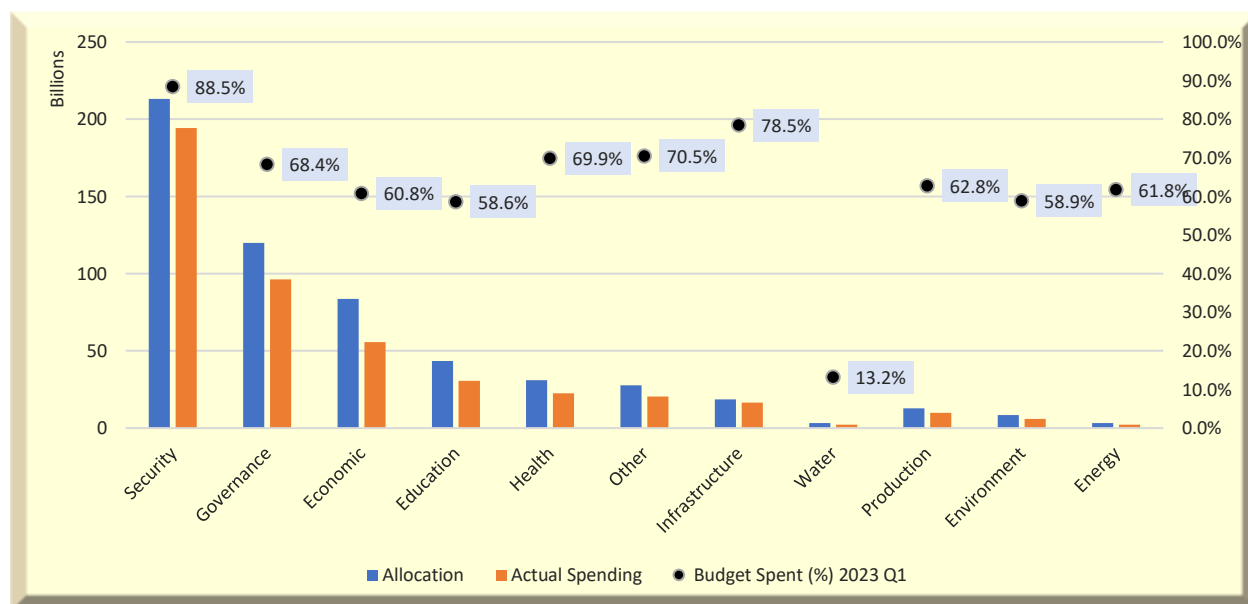
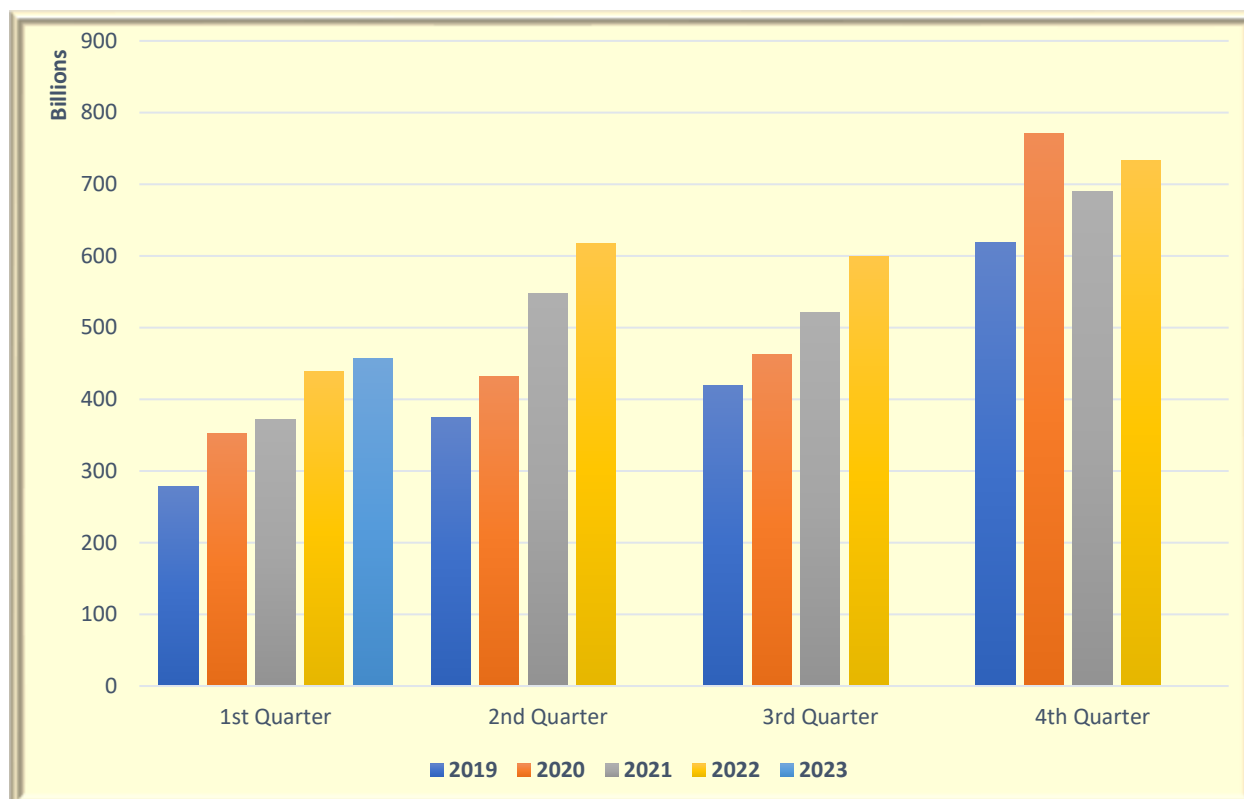




Figure 34: Total Spending Per Quarter in 2019 - 2023, (SLSh, Billion)



4.3.3. Medium-Term Revenue Forecast

Based on the MoFD’s 2023 medium-term fiscal framework, the government is expected to collect 2.732 trillion SLSh in 2024 and 2.925 trillion SLSh in 2025. These estimates are expected to be revised in the upcoming update to the Medium-term Fiscal framework.

Table 27: Medium-Term Government Collections by Revenue Category, Optimistic Scenario, In SLSh

| DESCRIPTION | 2022 | 2023 | 2024 | 2025 |
|-----------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Actual | Estimate | Forecast | Forecast |
| Income and profits | 44,615,233,140 | 86,947,970,416 | 95,078,083,297 | 103,208,196,178 |
| Payroll and workforce | 133,023,379,048 | 130,748,912,919 | 134,201,343,866 | 137,653,774,813 |
| Goods and Services | 791,380,476,392 | 890,919,564,303 | 957,921,550,612 | 1,024,923,536,921 |
| International Trade | 1,048,492,238,985 | 1,095,448,024,655 | 1,187,973,241,256 | 1,280,498,457,857 |
| Other Taxes | 95,119,341,197 | 123,281,042,818 | 133,789,990,029 | 144,298,937,240 |
| Other Revenue | 138,777,824,961 | 211,563,820,652 | 223,053,758,371 | 234,543,696,090 |
| TOTAL | 2,253,333,493,723 | 2,538,909,335,763 | 2,732,017,967,431 | 2,925,126,599,099 |
| % Growth | 7.80% | 5.33% | 7.61% | 7.07% |

Source: Medium-Term Fiscal Framework FY2022



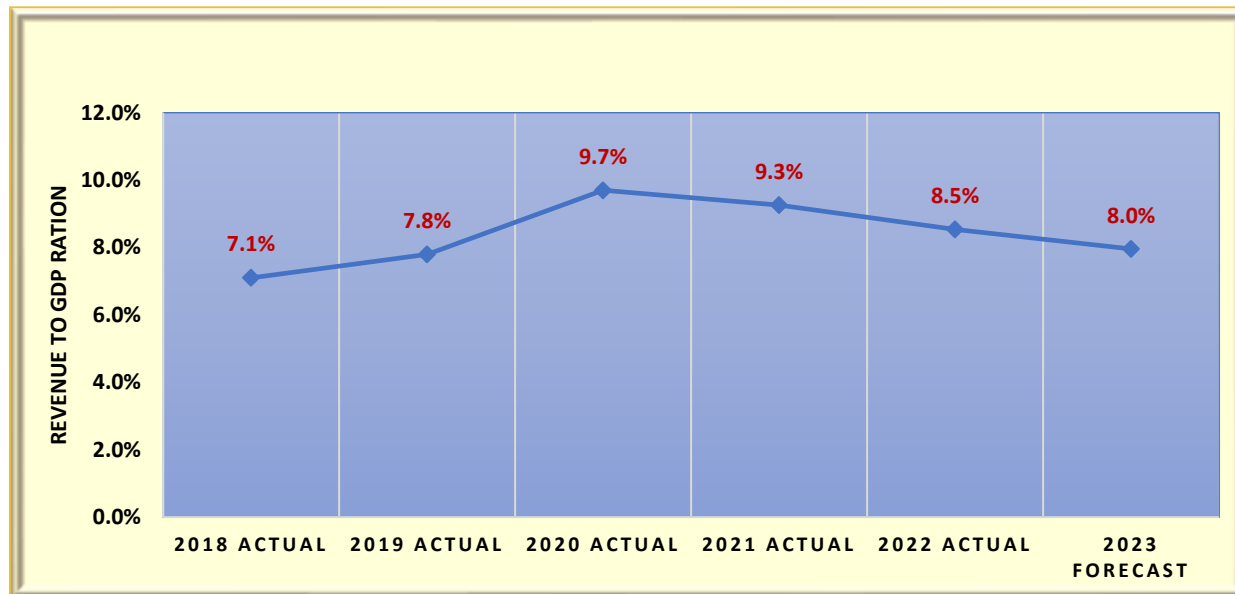
Table 28: Medium-Term Government Collections by Revenue Category, Pessimistic Scenario, In Shls

| Description | 2023 | 2024 | 2025 |
|-----------------------|--------------------------|--------------------------|--------------------------|
| | Estimated actual | Forecast | Forecast |
| Taxes | 1,928,642,488,147 | 2,109,016,150,902 | 2,292,069,695,511 |
| Income and profits | 62,088,030,986 | 63,670,742,810 | 65,995,694,576 |
| Payroll and workforce | 137,589,437,718 | 143,425,524,755 | 152,550,418,121 |
| Goods and Services | 482,005,442,198 | 542,721,200,251 | 573,095,967,022 |
| International Trade | 1,021,911,865,226 | 1,113,179,216,765 | 1,252,308,050,612 |
| Other Taxes | 225,047,712,019 | 246,019,466,321 | 248,119,565,180 |
| Other Revenue | 276,476,339,127 | 303,614,904,031 | 321,801,478,517 |
| Sum of Revenue | 2,205,118,827,274 | 2,412,631,054,933 | 2,613,871,174,028 |
| % Growth | | 9% | 8.3% |

Source: Medium-Term Fiscal Framework FY2022

While revenue collections have increased rapidly since 2018, faster indeed than in neighboring countries, **Government revenue collections are still low when compared to the size of the economy** (as measured by the Gross Domestic Product). As shown in Figure 35 below, the revenue-to-GDP ratio is currently estimated to be 9.7%, significantly below the 14% threshold suggested by the IMF as necessary to sustainably fund public investment in inclusive growth and development. Based on the Government’s Multi-annual Fiscal Framework 2021-23, it is estimated that the revenue-to-GDP ratio will have reached 11% by end of 2023.

Figure 35: Somaliland Revenue-to-GDP Ratio 2018-2023



The line trend suggests that it is not easy to the Ministry will meet the threshold sometime in the 2030s. In order for the Ministry to meet its target of reaching the threshold by 2025, revenue mobilization will need to keep pace and exceed the growth of the economy. Efforts to improve revenue administration, notably compliance with inland tax collection, will need to accelerate in the coming years.



5. Budget Framework for FY2024

The Public Financial Management Act specifies that a Macroeconomics and Fiscal Framework and a Medium-term Budget Framework are to be produced together with the Annual Budget. These are to be finalized and presented to the Council of Ministers and Parliament by the 30th of June.

1. **Macroeconomic and Fiscal Framework (MFF):** Shows the total amount of financial resources available to the Government for the next three years. It also includes an outlook for key macroeconomic variables and a description of the Government's macroeconomic policies.
2. **Medium Term Budget Framework (MTBF):** – Gives an indication of how much expenditure each sector will receive in the coming three years. These expenditure estimates will reflect the Government's expenditure priorities. Each MDA will have a set of expenditure ceilings for year 1 of the MTBF – these ceilings are the core of the Budget negotiations.

To support the production of the MFF and MTBF, the BPC is expected to consider and advise on the government's budget priorities and objectives. More specifically, the BPC should:

1. Establish a ceiling for the central government spending for the 2024 budget;
2. Agree on the size of the *Contingency Reserve* and on the operational guidelines of the reserve;
3. Set the government's expenditure policy with respect to the main expenditure heads: wages, recurrent and capital / developmental expenditure;
4. Outline the government's priority investments in line with National Development Plan sectors;
5. Advise on proposed revenue policy measures; and
6. Advise on the direction of macroeconomic policy for the 2024 budget year.

5.1. Proposed Revenue Policy Measures for 2024

Most provisions of the Revenue Act 2016 have at present been introduced. Revenue collections and compliance are gradually improving, notably for core domestic taxes. The scope for expanding the tax base is limited: most taxes are already being collected, and the Ministry is aware that introducing further taxes, or increasing rates from their current low rates, will disproportionately increase the tax burden on vulnerable citizens and businesses, at a time when livelihoods are recovering from the effects of the COVID-19 pandemic, global inflation and local economic problems. **The greatest scope for revenue gains continues to be improving taxpayer compliance**, both voluntary and enforced.

With the revenue-to-GDP ratio expected to reach 12% by the end of 2024, and only breach the recommended 14% threshold sometime in the 2030's, further reforms are needed in order to sustainably and equitably grow revenue collections in coming years. Of the seven strategic targets noted in the Tax Policy Strategy 2021-25, it is proposed to **focus on reducing the compliance burden; improving citizens' perceptions of tax, and creating a sound and buoyant tax system in 2024**. A few targeted measures are being explored to improve and increase collections in 2024, in a way that will support the most vulnerable citizens and businesses. These include:



1. Improving the tax compliance and enforcement;
2. Improving the collections through broadening the base of taxpayers and improving the tax collection operations;
3. Enforcing monthly filing for the employment income and Goods and Services Taxes;
4. Strengthening and supporting the enlargement strategy of the customs collections especially the eastern regions – (Sanag & Free zone);
5. Minimizing any customs revenue collection leakages in the customs stations and strengthening the anti-contraband activities;
6. Utilizing the newly elected councils to strengthen the IRD taxes collected by Local governments;
7. Using the head counting registration system to increase business, payroll and rentals income tax collections;
8. Implementing the enacted penalties and stamp duties (with tickets) and ensuring that each IRD office meets its revenue collection targets;
9. Implementing Goods and Services Taxes in factory productions;
10. Installing GST (Goods and Services Tax) devices in medium and large business establishments, telecoms, electricity etc. to collect GST at the point of sale; and
11. Implementing amended Revenue Act provisions and enforcing the tax laws fully.

5.2. Proposed Expenditure Measures for 2024

In many ways, the COVID-19 pandemic reiterates the need for the government to deliver on the NDP goals. While awaiting the upcoming review/assessment of the NDPIII following its completion, the government will continue to prioritize the following nine objectives in the budgets for the coming three years.

1. Encouraging employment, particularly of young people;
2. Promoting domestic food production;
3. Protecting local industries;
4. Improving balance of payments;
5. Stabilizing prices and foreign exchange;
6. Ensuring security and justice;
7. Ensuring free and fair elections;
8. Improving access to basic social services – water, health & education;
9. Fiscal decentralization - Healthy and Education;
10. Protecting the environment.

While investment priorities are set to remain unchanged, the short-term focus (i.e., in the remainder of 2023 and 2024) should be in improving the performance of spending (i.e., by better targeting and allocating resources) in meeting citizen's needs within the required timeframe.



5.3. Proposed Target Measures for 2024

1. Increase education budget to 10%;
2. Certify 20% of teachers;
3. Allocate 1% of the total budget to start-up funds;
4. Allocate 1% to contingency fund;
5. Increase the share of public revenue to GDP to 12%;
6. Increase the share of the investment projects in the budget to 15-20%;
7. Pool all the projects into a one fund to be used in line with the priorities of NDPIII;
8. Increase the share of the tax digital payment to 80-90%;
9. Include in the budget all the recognized 60 districts;
10. Increase the share of inland revenue to 25%;
11. Pay vouchers within 3 days;
12. Extension of FMIS application by all MDAs, Autonomous and Local Governments 100%;
13. Call center fully operational 100% in customs and revenue;
14. Keep the inflation rate under 10%;
15. Maintain the exchange rate at around 8,500S/US\$;
16. Include in the budget a report on assets and liabilities; and
17. 100% of autonomous agencies full budget must be in the budget.



6. Appendix

Appendix 1: Livestock Export in 2020, 2021 and 2022

| Quarters | 2020 | 2021 | 2022 | YoY Change |
|--------------|------------------|------------------|------------------|------------|
| Q1 | 181,339 | 411,530 | 410,077 | 0% |
| Q2 | 286,970 | 795,804 | 1,106,961 | 39% |
| Q3 | 595,861 | 525,070 | 400,513 | -24% |
| Q4 | 213,727 | 265,567 | 317,919 | 20% |
| Total | 1,279,917 | 1,997,971 | 2,235,470 | 12% |

Source: MoFD/Customs Department



Appendix 2: Expenditure Summary on Government Funded Projects in Q1 of 2023, SLSh

| Description | Original Budget | Virements | Revised Budget | Allocation | Actual Spending | Underspend* | Underspend (%) | Budget Spent |
|---|------------------------|---------------------|------------------------|-----------------------|-----------------------|-----------------------|----------------|--------------|
| Sports Project | 4,830,000,000 | -25,425,984 | 4,804,574,016 | 1,207,500,000 | | -1,207,500,000 | No Spend | 0.00% |
| Beer, Wajaale & Oodwayne Project | 1,420,000,000 | -300,000,000 | 1,120,000,000 | | | | No Allocation | 0.00% |
| Animal Breeding & Fodder Testing Project | 2,116,000,000 | | 2,116,000,000 | 529,000,000 | 163,800,000 | -365,200,000 | -69.04% | 7.74% |
| Qool Caday & Aroori Project | 791,200,000 | | 791,200,000 | 197,800,000 | 87,200,000 | -110,600,000 | -55.92% | 11.02% |
| Livestock Vaccination Project | 3,680,000,000 | | 3,680,000,000 | 920,000,000 | 301,012,500 | -618,987,500 | -67.28% | 8.18% |
| Reforestation Project | 184,000,000 | | 184,000,000 | | | | No Allocation | 0.00% |
| National Service Project | 20,744,488,000 | | 20,744,488,000 | 4,346,998,000 | 2,428,248,000 | -1,918,750,000 | -44.14% | 11.71% |
| Seed Expansion Project | 920,000,000 | | 920,000,000 | | | | No Allocation | 0.00% |
| Elections Project | 70,000,000,000 | | 70,000,000,000 | | | | No Allocation | 0.00% |
| E-Government Project | 920,000,000 | | 920,000,000 | 230,000,000 | 53,331,000 | -176,669,000 | -76.81% | 5.80% |
| Country Dialling Code Project | 460,000,000 | | 460,000,000 | | | | No Allocation | 0.00% |
| Capacity Building for The Farmers & Giving Extension Services Project | 1,840,000,000 | | 1,840,000,000 | | | | No Allocation | 0.00% |
| Plant Protection & Desert Locust Survey & Controls Project | 1,623,427,400 | | 1,623,427,400 | | | | No Allocation | 0.00% |
| JPLG Project | 8,399,000,000 | | 8,399,000,000 | 255,000,000 | 41,250,000 | -213,750,000 | -83.82% | 0.49% |
| Eastern Regions Development Project | 18,400,000,000 | | 18,400,000,000 | 4,600,000,000 | 4,252,143,000 | -347,857,000 | -7.56% | 23.11% |
| Road Development Project | 30,360,000,000 | | 30,360,000,000 | 7,590,000,000 | 7,590,000,000 | 0 | 0.00% | 25.00% |
| Education Sector | 4,680,000,000 | | 4,680,000,000 | 585,000,000 | | -585,000,000 | No Spend | 0.00% |
| Restocking Project | 3,150,080,000 | | 3,150,080,000 | | | | No Allocation | 0.00% |
| Seasonal Range Reserves Project | 3,450,000,000 | | 3,450,000,000 | | | | No Allocation | 0.00% |
| Wildlife Protection & Maintenance Project | 644,000,000 | | 644,000,000 | | | | No Allocation | 0.00% |
| Ceerigaabo & Laas-Canod Hospital Project | 3,985,800,000 | | 3,985,800,000 | 996,450,000 | 605,195,000 | -391,255,000 | -39.26% | 15.18% |
| Agricultural Data Collection Project | 460,000,000 | | 460,000,000 | | | | No Allocation | 0.00% |
| ICT Centre Project | 460,000,000 | | 460,000,000 | 115,000,000 | 59,638,000 | -55,362,000 | -48.14% | 12.96% |
| Fuel & Mineral Exploration Project | 2,208,000,000 | | 2,208,000,000 | 552,000,000 | | -552,000,000 | No Spend | 0.00% |
| Postal Services Project | 703,427,400 | | 703,427,400 | 175,856,850 | 9,950,000 | -165,906,850 | -94.34% | 1.41% |
| Health Sector | 17,480,000,000 | | 17,480,000,000 | 4,370,000,000 | 4,307,563,614 | -62,436,386 | -1.43% | 24.64% |
| Fishing Development Project | 1,840,000,000 | | 1,840,000,000 | | | | No Allocation | 0.00% |
| Towns Master Plan Project | 1,840,000,000 | | 1,840,000,000 | 460,000,000 | 110,100,000 | -349,900,000 | -76.07% | 5.98% |
| Recognition Campaign & Debates Fund | 10,353,546,600 | | 10,353,546,600 | 2,588,386,650 | 972,295,400 | -1,616,091,250 | -62.44% | 9.39% |
| Ocean Natural Resources & Piracy Protection Fund | 882,659,328 | | 882,659,328 | 220,664,832 | 109,749,752 | -110,915,080 | -50.26% | 12.43% |
| Water Extension Project | 16,180,000,000 | | 16,180,000,000 | | | | No Allocation | 0.00% |
| Job Creation Project | 434,700,000 | | 434,700,000 | | | | No Allocation | 0.00% |
| Islamic School Centres Fund | 2,721,520,000 | | 2,721,520,000 | 430,380,000 | 415,405,429 | -14,974,571 | -3.48% | 15.26% |
| Fund for Service & Coordination of Diaspora | 1,522,584,000 | | 1,522,584,000 | 380,646,000 | 345,285,750 | -35,360,250 | -9.29% | 22.68% |
| Technical Schools Development Project | 7,360,000,000 | | 7,360,000,000 | | | | No Allocation | 0.00% |
| Total | 247,044,432,728 | -325,425,984 | 246,719,006,744 | 30,750,682,332 | 21,852,167,445 | -8,898,514,887 | -28.94% | 8.86% |