



Ministry of Finance

Economic Policy and Planning Directorate

**BUDGET REVIEW
OUTLOOK PAPER –
(BRPOP – 2024)**

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1. INTRODUCTION

1. The 2024 Budget Review and Outlook Paper (BROP) aims to provide a review of the fiscal performance and management framework for the financial year 2024 including adherence to the objectives and principles outlined in the 2024 Budget Strategy Paper (BSP) and Appropriation Bill.
2. The 2024 BROP, specifically, focuses on evaluating the fiscal performance of 2023 and outlines the economic and fiscal outlook for the years 2024 to 2027. The Ministry of Finance 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.
3. This comprehensive review is crucial in ensuring that the Federal Government of Somalia (FGS) aligns its budgetary processes with broader economic goals and fiscal sustainability mandates established in national development strategies, including the post-HIPC policy environment.
4. The preparation of the BROP involves a collaborative process that includes input from various institutions within the Federal Government of Somalia, led by the Ministry of Finance. The process is guided by the Terms of Reference of the FGS Macroeconomic Working Group (MWG), which includes the Ministry of Planning, Investment, and Economic Development, the National Bureau of Statistics, and the Central Bank of Somalia. This collaborative approach ensures that the BROP is comprehensive, reflects the latest economic data, and aligns with national policy frameworks.
5. The 2024 BROP forms the basis for **review and analysis of fiscal performance for FY 2023 in Section I:** which outlines the successes achieved in budget implementation and identifies the factors that hindered its complete execution. This information will help policymakers and those involved in budget preparation and execution to better address these constraints during the current fiscal year's budget implementation and in the formulation and preparation of the FY 2025 and medium-term budgets.
6. **Section II Recent macro-economic development and Outlook:** Discusses recent macroeconomic trends, such as GDP growth, inflation, and sectoral performance, and provides an updated medium-term economic forecast. This section reflects on broader economic developments at the domestic, regional, and global levels.
7. **Section III presents the Resource Allocation Framework:** Outlines the preliminary resource allocation framework for the 2024 budget and the medium term (2025-2027), including medium-term sector ceilings and fiscal projections. This framework is designed to align resources with the government's developmental priorities.
8. **Section IV Key Medium-Term Strategies:** Details strategic interventions in revenue mobilization, expenditure management, and fiscal federalism aimed at addressing the challenges identified in the fiscal review and achieving the outlined fiscal targets.
9. **Section V Conclusion and Next steps:** Summarizes the key findings and provides recommendations on the next steps.

1.1 Guide Budget Preparation

10. One of the key functions of the BROP is to guide the preparation of the Budget Estimates and Budget Strategy Papers (BSP). The BROP 2024 outlines the preliminary resource allocation framework for the 2024 budget and the medium term, setting sector ceilings that align with the government’s developmental priorities. This framework helps bridge the gap between policy intentions and fiscal realities, ensuring that the budget process remains grounded in achievable and realistic fiscal goals.

11. **Resource Allocation Framework:** The BROP 2024 provides a structured approach to resource allocation, prioritizing sectors that are critical to Somalia’s development, such as security, health, education, and infrastructure. By setting sector ceilings, the BROP ensures that resources are allocated efficiently and effectively, reflecting the government’s commitment to enhancing public service delivery and supporting socio-economic development. This framework also aligns with the objectives of the National Development Plan (NDP-9), which emphasizes poverty reduction, economic diversification, and social inclusion.

12. **Sector Prioritization:** BROP 2024 emphasizes the importance of prioritizing spending on essential services and development projects that have the greatest impact on economic growth and social welfare. For example, the BROP highlights the need for increased investment in health and education, which are key drivers of human capital development and long-term economic prosperity. Additionally, the BROP calls for targeted investments in infrastructure, particularly in transport and energy, to improve connectivity and support private sector growth.

13. **Alignment with Strategic Goals:** The resource allocation framework in the BROP 2024 is closely aligned with the strategic goals of the government, including enhancing fiscal federalism, promoting regional equity, and supporting sustainable development. By linking budget allocations to these strategic goals, the BROP ensures that the budget is not just a financial plan but a tool for advancing national development objectives. This alignment is critical for ensuring that public spending delivers the desired outcomes and supports the government’s vision for a prosperous and inclusive Somalia.

2 REVIEW AND ANALYSIS OF FISCAL PERFORMANCE FOR THE FY 2023

2.1 Fiscal Performance

14. Fiscal performance saw improvement in 2023, largely due to sustained efforts in domestic revenue mobilization. Consequently, the budget ended with a small surplus. However, fiscal challenges persist as domestic revenues remain insufficient to meet the country's huge development needs.

15. Fiscal Performance Report for Financial Year 2023 provides a comprehensive overview of Somalia's economic and fiscal performance, offering insights into revenue collection, expenditure management, and budget execution.

16. Import and export figures show growth in both sectors, driven by increased imports of construction materials, vehicles, and food items and higher exports of live animals, particularly to Saudi Arabia.

17. In 2023, domestic revenues rose to 2.8 percent of GDP, up from 2.5 percent in 2022. This increase represents 45 percent of the FGS's total revenues, leaving a substantial portion of public expenditures reliant on external grants. Donor grants made up 55 percent of total revenues in 2023.

18. Additionally, nearly all expenditures are recurrent and non-discretionary, with the wage bill and security costs consuming the majority of FGS spending. Social services spending is primarily financed through external grants. As a result, the FGS's ability to fund investments that could alleviate poverty or spur economic growth is limited.

19. The fiscal landscape of Somalia in 2023 was influenced by various factors, including economic recovery post-COVID-19, ongoing reforms under the post-HIPC initiative, and broader macroeconomic conditions.

20. Total revenue collection reached \$738.02 million, with domestic revenue surpassing targets at \$329.49 million (116% against the budget \$283.31 million), driven by successful revenue administration strategies and increased tax compliance.

21. However, grants received were lower than expected (\$225.44 million), attributed to delays and reduced contributions.

Table 1: Government Fiscal Operations 2021-2023 (US\$ Million)

Fiscal Variable	2021				2022				2023			
	Budget	Actual	Pfce %	Y-t-Y%	Budget	Actual	Pfce %	Y-t-Y%	Budget	Actual	Pfce %	Y-t-Y%
Revenue	589.51	414.81	70.4%	0.0%	944.86	719.65	76.2%	73.5%	917.27	738.02	80.5%	2.6%
Domestic Revenue	178.71	229.56	128%	-18.1%	250.10	262.67	105%	14.4%	283.31	329.49	116%	25.4%
Grants	410.80	163.26	39.7%	36.4%	694.76	456.98	65.8%	179.9%	633.97	408.53	64.4%	-10.6%
Expenditure	660.52	473.90	71.7%	0.0%	929.92	729.04	78.4%	53.8%	917.38	720.28	78.5%	-1.2%
Fiscal Balance	-71.01	-59.09			14.94	-9.39			-0.11	17.74		

2.2 Revenue Performance

22. The FGS collected \$738.02 million in revenue in 2023, 80.5% of the annual target and 2.6% more than the previous year.

23. Domestic revenue contributed \$329.49 million, 116.3% of the target and 25.4% more than the amount collected last year (see Above Table 1). While falling short of the target, this still represents a substantial portion of the projected revenue. All revenue sources performed above the target, except ‘other taxes,’ which comprised stamp duties on invoices and road tax.

24. This over-performance indicates a positive trend in revenue generation from within the Country, driven by improved tax compliance and effective revenue administration strategies.

25. The Federal Government of Somalia’s total revenue decreased by (3%) from USD\$769.23 million in 2022 to USD \$746.04 million in 2023. See the revenue type performance in the table below:

Table 2: Summary of 2023 Receipts

Revenue Type	2023 USD	2022 USD	2021 USD
Taxes	224,631,762	181,691,842	162,766,994
Non-Taxes	104,859,950	80,977,903	66,794,410
External Grants	408,531,180	459,241,797	146,975,019
Loan receipt	8,000,000	44,040,950	96,365,574
Nonfinancial Assets	12,500	3,285,354	-
Total	<u>746,035,392</u>	<u>769,237,846</u>	<u>472,901,997</u>

2.3 Expenditure Performance

26. Total government spending was \$720.28 million compared to a budget of USD 929.9 million, resulting in underspending of USD 209.6 million (22.5%), with recurrent spending dominating expenditures. While some sectors met or exceeded targets, capital spending fell short, highlighting the need for prioritization and improved project execution, particularly in donor funded projects.

27. Sector Expenditure - the most significant spending sectors were Administration and General Services, Security, Economic Sector, and Social Services Sector, with varying levels of expenditure performance compared to targets.

28. Grants contributed \$408.53 million against a target of \$633.97 million, which was 64.4% of the target and -10.6 lower than the grants received in the previous year. The decrease was primarily due to the number of grants not being received as expected from the donors this leads to underperformance in grant revenue

29. The budget is split into two spending funds—Donor Project Fund (DPF) and Government Own Source Fund (OSF). Regarding performance, under the OSF, Expenditure amounted to \$471.34 million against a budget of \$456.89 million, which was 103.2% of the target and 7% higher than the OSF spending in the same period of

the previous fiscal year. Under the DPF, Expenditure in 2023 totaled 248.94 million against a target of \$460.38 million, which was 54.1% of the target and 133.3% higher than the project expenditure of the same period of the last year (see Table 3).

Table 3: Summary expenditure by source of funds 2021-2023

Code	Description	2021				2022				2023			
		Budget	Actual	Pfce100%	YtY%	Budget	Actual	Pfce100%	YtY%	Budget	Actual	Pfce75%	YtY%
A.	Government Fund	404.31	344.83	85.3%	-6.1%	429.12	438.65	102.2%	27.2%	456.89	471.34	103.2%	7%
21	Compensation of employees	246.28	240.83	97.8%	11.2%	259.71	257.94	99.3%	7.1%	288.11	290.11	100.7%	12%
22	Use of goods and services	99.11	66.92	67.5%	7.6%	96.29	93.54	97.1%	39.8%	98.37	95.71	97.3%	2%
23	Consumption of fixed capital	31.99	2.82	8.8%	-64.4%	12.03	7.76	64.5%	175.1%	12.37	5.22	42.2%	-33%
24	Interest and other charges	2.50	14.61	584.2%	1.1%	2.50	12.69	507.6%	-13.1%	5.80	13.20	227.6%	4%
26	Grants	24.42	19.66	80.5%	-70.3%	57.34	66.72	116.4%	239.5%	52.24	67.10	128.4%	1%
28	Other expenses	0.00	0.00	0.0%	0.0%	0.00	0.00	0.0%	0.0%	0.00	0.00	0.0%	0%
27	Social benefits	0.00	0.00			1.26	0.00	0.0%		0.00	0.00		0%
B.	Donor Fund (Projects)	262.18	128.97	49.2%	9.4%	500.80	287.67	57.4%	123.1%	460.38	248.94	54.1%	133.3%
21	Compensation of employees	12.77	9.25	72.4%	-11.1%	4.73	1.64	34.6%	-82.3%	6.01	2.13	35.5%	30%
22	Use of goods and services	83.56	39.14	46.8%	111.5%	131.99	47.10	35.7%	20.3%	108.77	42.49	39.1%	-10%
24	Interest and other charges	0.00	0.00	0.0%	0.0%	0.00	0.00	0.0%	0.0%	0.00	0.00	0.0%	0%
23	Consumption of fixed capital	50.56	13.25	26.2%	24.6%	28.66	5.45	19.0%	-58.9%	41.06	9.18	22.4%	69%
25	Subsidies	8.05	1.27	15.8%	-41.2%	7.55	0.00	0.0%	-100.0%	9.00	5.40	60.0%	0%
26	Grants	46.52	26.19	56.3%	86.5%	60.31	44.52	73.8%	70.0%	105.55	59.18	56.1%	33%
27	Social benefits	60.72	39.86	65.7%	-35.8%	267.56	188.94	70.6%	373.9%	189.98	130.55	68.7%	-31%
	Other expenses	0.00	0.00	0.0%	0.0%	0.00	0.03			0.00	0.00		-100%
	TOTAL	666.48	473.80	71.1%	-2.4%	929.92	726.32	78.1%	53.3%	917.27	720.28	78.5%	-1.2%

Table 4: Fiscal operations at sub-national governments

Economic Codes	PSS		JSS		SWS		GSS		HSS	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Revenue and grants	111.0	95.9	38.4	47.8	22.9	20.5	24.3	22.8	12.1	15.4
Domestic revenue	84.1	85.1	8.9	29.5	3.4	5.0	7.9	8.4	3.3	4.0
Trade taxes	42.7	43.1	10.1	15.0	0.3	0.5	0.1	0.3	0.2	0.4
Taxes on goods and services	13.1	14.4	4.6	5.9	1.2	1.0	6.5	6.5	1.9	2.8
Taxes on income and profits	7.5	7.0	1.0	1.8	1.8	3.0	0.7	0.8	0.3	0.5
Other taxes	2.4	2.2	-	0.1	-	0.0	-	-	0.1	0.3
Other revenue	18.4	18.4	3.2	6.7	0.2	0.4	0.6	0.7	0.8	0.1
Grants	26.9	10.8	19.5	18.3	19.5	15.5	16.3	14.4	8.8	11.4
Expenditure	113.1	98.0	37.5	46.5	22.3	20.7	23.3	22.7	12.1	14.6
Wages and salaries	56.6	47.3	18.1	24.4	12.4	11.7	11.5	11.0	8.5	6.6
Goods and services	31.3	34.2	11.6	16.2	5.5	8.0	8.1	9.5	2.2	5.2
Transfers	1.3	0.5	0.3	-	-	-	0.1	0.3		
Other expenses	2.1	2.1	6.6	4.5	0.3	0.0	0.0	0.1	1.2	1.8
Social benefits	2.0	1.3	0.1	0.1	0.6	-	0.1	-	-	0.5
Capital	19.8	12.6	0.8	1.3	3.5	1.0	3.6	1.8	-	-

Source: FMS Ministries of Finance data.

Note: GSS=Galmudug State of Somalia; HSS=Hirshabelle State of Somalia; JSS=Jubaland State of Somalia; PSS=Puntland; SWS=South-West State of Somalia.

3. REVIEW OF FINANCIAL PERFORMANCE AND OUTLOOK (FY 2024 – 2027)

30. The Budget Review and Outlook Paper (BROP) of 2024 outlines the economic and fiscal projections for the Federal Government of Somalia (FGS) over the upcoming year and the medium term (2024-2027).

31. This review of the budget outlook for 2024 provides an analysis of the anticipated fiscal environment, including key projections for revenue, expenditures, and fiscal balance. It also highlights the potential risks to the fiscal outlook and proposes mitigation strategies to ensure the sustainability of public finances.

3.1 Economic and Fiscal Context

32. The 2024 budget outlook is framed within the context of Somalia's ongoing economic recovery, post-HIPC reforms, and efforts to enhance fiscal discipline. The economy is projected to grow moderately in 2024, supported by improvements in domestic security, increased foreign investment, and structural reforms aimed at enhancing public financial management.

33. However, the fiscal outlook remains constrained by challenges such as dependence on external grants, the need for significant public investment in infrastructure and social services, and vulnerabilities to external economic shocks.

Macroeconomic Projections for 2024:

34. **GDP Growth:** The economy is projected to grow by 3.5% in 2024, reflecting continued recovery from the impacts of COVID-19 and drought. Growth is expected to be driven by increased remittances, higher domestic private investment, and ongoing public investment in infrastructure.

35. **Inflation:** Inflation is projected to moderate to 4.2% in 2024 from 9.0% in 2023, as food and energy prices stabilize, and domestic supply conditions improve.

36. **Exchange Rate:** The Somali Shilling is expected to depreciate slightly against the US dollar, with the average exchange rate projected at SOS 27,649 per USD, reflecting global currency trends and ongoing domestic inflationary pressures.

3.2 Revenue Projections for 2024

37. Total revenue for 2024 is projected to increase to USD 981.4 million, driven by continued improvements in domestic revenue mobilization and external support. The government's revenue strategy focuses on expanding the tax base, enhancing tax compliance, and improving the efficiency of tax administration.

Table 5: Projected Revenue Composition for 2024 (US\$ Million)

Revenue Source	2023 Actual	2024 Projection	Growth Rate (%)
Total Revenue	738.1	981.4	32.9
Domestic Revenue	329.5	400.0	21.4
Tax Revenue	224.8	285.0	26.8
Non-Tax Revenue	104.7	115.0	9.8
External Grants	408.6	581.4	42.3

38. **Domestic Revenue:** Domestic revenue is projected to grow by 21.4%, reaching USD 400.0 million in 2024. This growth is expected to be driven by:

- I. **Expansion of the Tax Base:** Ongoing efforts to formalize the economy and bring more businesses and individuals into the tax net.
- II. **Enhanced Tax Administration:** Continued implementation of the Integrated Tax Administration System (ITAS) and improvements in customs administration through the Somalia Customs Automated System (SOMCAS).
- III. **Increase in Non-Tax Revenue:** Improvements in the management and collection of fees, charges, and other non-tax income sources.

39. **External Grants:** External grants are projected to increase by 42.3%, reflecting renewed commitments from development partners to support Somalia’s recovery and development agenda. However, this projection remains contingent on the timely disbursement of pledged funds and continued donor engagement.

3.3 Expenditure Projections for 2024

40. Total expenditure for 2024 is projected at USD 1,079.3 million, reflecting a 49.9% increase over 2023 actual spending. The expenditure framework prioritizes investment in key sectors, including security, health, education, and infrastructure, in line with the government’s development objectives.

Table 6: Projected Expenditure Composition for 2024 (US\$ Million)

Expenditure Category	2023 Actual	2024 Projection	Growth Rate (%)
Total Expenditure	720.3	1,079.3	49.9
Recurrent Expenditure	444.5	584.3	31.5
Compensation of Employees	292.2	320.0	9.5
Use of Goods and Services	138.2	200.0	44.7
Development Expenditure	285.8	495.0	73.2

41. **Recurrent Expenditure:** Recurrent expenditure is projected to increase to USD 584.3 million, driven by:

- I. **Salaries and Wages:** The government aims to maintain current staffing levels while introducing modest salary grading to keep pace with inflation.
- II. **Goods and Services:** Increased spending is expected to support the provision of essential public services, including health and education, and to enhance operational efficiency across government ministries and agencies.

42. **Development Expenditure:** Development expenditure is projected to grow significantly, reaching USD 495.0 million in 2024. Key drivers of this growth include:

- I. **Infrastructure Investment:** Continued emphasis on rebuilding and expanding critical infrastructure, including roads, ports, and energy projects, to support economic growth and improve connectivity.
- II. **Social Sector Spending:** Increased investment in health, education, and social protection programs to enhance human capital development and improve living standards.

3.4 Fiscal Balance and Deficit Financing

43. The fiscal outlook for 2024 projects a deficit of USD 97.9 million, reflecting the ambitious expenditure plans relative to projected revenues. The deficit is expected to be financed through a combination of domestic borrowing and external concessional loans.

Table 7: Fiscal Balance Projections for 2024 (US\$ Million)

Fiscal Indicator	2023 Actual	2024 Projection	Variance
Total Revenue	738.1	981.4	+243.3
Total Expenditure	720.3	1,079.3	+359.0
Fiscal Balance	17.8	-97.9	-115.7

Deficit Financing Strategy:

44. **Domestic Borrowing:** The government plans to issue domestic securities to partially finance the deficit, aiming to develop the domestic capital market and reduce reliance on external financing.

45. **External Concessional Loans:** External financing will be sought primarily from multilateral and bilateral partners on concessional terms to minimize the cost of borrowing and ensure debt sustainability.

3.5 Medium-Term Economic Outlook (2024-2027)

46. The medium-term economic outlook for Somalia projects a gradual improvement in economic performance, driven by structural reforms, increased investment, and enhanced macroeconomic stability. The government's commitment to fiscal discipline, public financial management reforms, and infrastructure development are expected to underpin economic growth.

Table 8: Medium-term revenue projection in millions of USD

	2021	2022	2023	2024	2025	2026	2027
Description	2021 Actual	2022 Actual	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast	2027 Forecast
Domestic Revenue	229.4	262.9	329.5	357.4	423.5	513.4	602.0
Tax Revenue	162.6	182.1	227.8	253.4	295.3	369.9	435.7
Income tax	15.8	18.7	24.4	27.6	38.0	50.7	66.9
Sales tax	23.4	25.8	34.9	47.2	50.6	64.3	78.8
Customs	108.9	116.6	154.1	162.7	186.2	221.1	252.0
Other taxes	14.6	21.1	14.4	15.9	20.4	33.7	38.0
Non-tax Revenue	66.8	80.8	101.7	104.0	128.2	143.5	166.3

Table 9: Key Economic Indicators (2022-2027)

Indicator	2022 Actual	2023 Projection	2024 Projection	2025 Projection	2026 Projection	2027 Projection
GDP Growth (%)	2.4	3.1	3.5	3.7	3.9	4.0
Inflation Rate (%)	9.0	4.2	3.8	3.5	3.3	3.0
Exchange Rate (SOS/USD)	26,832	27,649	28,478	29,050	29,500	29,900

4. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

47. This section provides an in-depth review of recent economic developments in Somalia and outlines the medium-term economic outlook for the country. The analysis focuses on key macroeconomic indicators such as GDP growth, inflation, exchange rates, and sectoral performance. It also examines the factors driving these trends and discusses the implications for the fiscal outlook and economic policy.

4.1 Economic Performance in 2023

48. The Somali economy showed signs of recovery in 2023, supported by increased remittances, higher domestic private investment, and foreign direct investment facilitated by post-HIPC debt relief. Despite these positive trends, the economy remains vulnerable to external shocks and domestic challenges, such as climate-related disruptions and security concerns.

GDP Growth:

49. In 2022, Somalia's GDP growth slowed to 2.4%, down from 3.3% in 2021, primarily due to severe drought conditions that affected agricultural output and reduced overall economic activity.

50. Economic growth is projected to improve to 3.1% in 2023 as the country recovers from drought and benefits from increased investments and remittance inflows.

51. Key drivers of growth in 2023 include the service sector, particularly telecommunications and trade, and modest improvements in the agricultural sector as rains return to some regions.

Table 10: GDP Growth Trends in Somalia (2020-2024)

Year	GDP Growth (%)
2020	-1.5
2021	3.3
2022	2.4
2023	3.1
2024	3.7 (Projected)

52. The figure above illustrates the GDP growth trends in Somalia from 2020 to 2024, showing the impact of external shocks like the COVID-19 pandemic and severe drought, followed by a gradual recovery supported by improved economic conditions and investment inflows.

Inflation Rate:

53. The overall annual average inflation rate rose sharply to 9.0% in 2022, compared to 4.6% in 2021. The inflation spike was driven mainly by higher food and energy prices, reflecting global supply chain disruptions and domestic factors such as prolonged drought, which reduced food availability and increased costs.

54. In 2023, inflation is projected to moderate to 4.2% as food supply conditions improve and global energy prices stabilize. However, inflationary pressures remain a concern, particularly in urban areas where food and fuel costs have a more pronounced impact on households.

Table 11: Inflation Trends in Somalia (2020-2024)

Year	Inflation Rate (%)
2020	4.0
2021	4.6
2022	9.0
2023	4.2
2024	3.8 (Projected)

Exchange Rate Developments:

55. The Somali Shilling depreciated by 3.8% against the US dollar in 2022, with the average exchange rate moving from SOS 26,039 in 2021 to SOS 26,832 in 2022. This depreciation was influenced by the strengthening of the US dollar due to interest rate hikes by the US Federal Reserve and ongoing inflationary pressures within Somalia.

56. For 2023, the exchange rate is projected to average SOS 27,649 per USD, reflecting continued depreciation pressures but at a slower pace as the Somali economy stabilizes and external financial conditions improve.

Table 12: Exchange Rate Trends (SOS/USD) 2020-2024

Year	Exchange Rate (SOS/USD)
2020	25,500
2021	26,039
2022	26,832
2023	27,649
2024	28,478 (Projected)

57. The figure above shows the depreciation of the Somali Shilling against the US dollar from 2020 to 2024, highlighting the ongoing challenges related to external economic factors and domestic inflation.

4.2 Sectoral Performance

Agriculture:

58. Agriculture remains a critical sector for Somalia, contributing significantly to GDP and employment. However, the sector has been severely affected by recurrent droughts, which have reduced crop yields and livestock production.

59. In 2023, agricultural output is expected to improve moderately as rainfall patterns stabilize, though production levels remain vulnerable to climate variability and inadequate infrastructure.

Services:

60. The service sector, particularly telecommunications, financial services, and trade, continues to be a key driver of economic growth in Somalia. The sector has shown resilience during economic downturns and is expected to expand further in 2023, supported by digitalization and increased urbanization.

61. Growth in the service sector is projected to continue over the medium term, driven by investments in technology and improvements in regulatory frameworks that support business development.

Industry:

62. The industrial sector in Somalia is relatively underdeveloped, with limited manufacturing and processing capabilities. In 2023, modest growth in this sector is expected, driven by small-scale manufacturing and construction activities.

63. The government's efforts to improve the business environment and attract foreign investment are anticipated to support gradual expansion in industrial output over the medium term.

5. RESOURCE ALLOCATION FRAMEWORK

64. The resource allocation framework for 2024 and the medium term (2025-2027) is designed to align fiscal resources with the Federal Government of Somalia's (FGS) developmental priorities.

65. This framework emphasizes enhancing public service delivery, promoting sustainable economic growth, and addressing critical challenges such as poverty reduction and social welfare improvement. The allocation strategy prioritizes sectors that have the most significant impact on economic recovery and social development, including security, health, education, and infrastructure.

5.1 Medium-Term Fiscal Projections

66. The medium-term fiscal projections outline the government's strategy to enhance revenue mobilization while managing expenditures within sustainable limits.

67. The projections reflect the government's commitment to fiscal discipline, aiming to balance the need for critical investments with the imperative to maintain fiscal sustainability.

Table 13: Medium-Term Fiscal Projections (2024-2027)

Year	Revenue (US\$ Million)	Expenditure (US\$ Million)	Fiscal Balance (US\$ Million)
2024	981.4	1,079.3	-97.9
2025	1,021.0	1,110.0	-89.0
2026	1,149.0	1,237.0	-88.0
2027	1,204.0	1,276.0	-72.0

Revenue Projections:

68. **Revenue Growth:** Total revenue is projected to grow steadily over the medium term, reaching USD 1,204.0 million by 2027. This growth is primarily driven by enhancements in domestic revenue mobilization, including improved tax administration and expanded tax base initiatives, as well as continued support from external grants.

69. **Domestic Revenue:** Domestic revenue is expected to constitute a growing share of total revenues, reflecting efforts to reduce reliance on unpredictable external donor grants. Key measures include Tax policy statement, the rollout of digital tax collection systems, increased efficiency in customs modernisation, and measures to formalize the informal economy.

70. **External Grants:** While external grants continue to play a crucial role in the fiscal framework, their share is projected to decline gradually as domestic revenue sources strengthen. It also aims to enhance predictability and timeliness of donor support through improved donor coordination and alignment with national priorities.

Expenditure Projections:

71. **Expenditure Trends:** Total expenditure is projected to increase to USD 1,276.0 million by 2027, driven by the need to invest in critical sectors such as security, infrastructure, health, and education. The government's expenditure strategy focuses on efficiency and prioritization, ensuring that spending aligns with developmental objectives.

72. **Recurrent vs. Development Expenditure:** The share of development expenditure is expected to grow, reflecting the government's commitment to scaling up investments in infrastructure and human capital development. Recurrent expenditures will be carefully managed to ensure sustainability, with a focus on controlling wage bills and optimizing operational spending.

Fiscal Balance:

73. The fiscal deficit is projected to narrow from USD 97.9 million in 2024 to USD 72.0 million by 2027, as revenue growth outpaces expenditure increases. This trend reflects the government's commitment to fiscal consolidation, supported by enhanced domestic revenue Mobilisation efforts and prudent expenditure management.

5.2 Sectoral Allocation Priorities

74. The resource allocation framework prioritizes key sectors that are critical to Somalia's socio-economic development. These priorities are aligned with the government's broader objectives of enhancing social welfare, fostering economic resilience, and reducing poverty.

75. The allocation strategy focuses on high-impact projects that can drive economic recovery and growth, improve public service delivery, and support the most vulnerable populations.

Table 14: Sectoral Allocation Priorities (2024-2027) (US\$ Million)

Sector	2024	2025	2026	2027
Security	250.0	260.0	270.0	280.0
Health	150.0	160.0	170.0	180.0
Education	130.0	140.0	150.0	160.0
Infrastructure	200.0	220.0	240.0	260.0
Social Welfare	80.0	85.0	90.0	95.0

Security:

76. Security remains a top priority for the government, given its critical role in ensuring stability and enabling economic growth. Allocations to the security sector are aimed at strengthening defense and law enforcement capabilities, supporting ongoing peacekeeping efforts, and enhancing public safety.

77. Investments in security are expected to provide a stable environment that fosters private sector development, improves investor confidence, and supports overall socio-economic recovery.

Health:

78. The health sector is a critical focus area, with increased allocations aimed at improving healthcare access, quality, and outcomes. Key initiatives include expanding primary healthcare services, strengthening disease prevention and control programs, and investing in healthcare infrastructure.

79. The government's health strategy emphasizes reducing maternal and child mortality, addressing communicable diseases, and enhancing the capacity of health systems to respond to emergencies.

Education:

80. Education is prioritized as a key driver of human capital development and long-term economic growth. The government's allocation strategy focuses on expanding access to quality education, improving learning outcomes, and addressing educational inequalities, particularly for girls and marginalized communities.

81. Investments in education include building new schools, training teachers, and implementing curriculum reforms that align with market needs and global standards.

Infrastructure:

82. Infrastructure development is central to Somalia's growth strategy, with significant investments planned in roads, ports, energy, and water supply. These projects are aimed at enhancing connectivity, reducing transaction costs, and supporting private sector development.

83. Public-private partnerships (PPPs) are expected to play a key role in financing and implementing infrastructure projects, leveraging private sector expertise and resources.

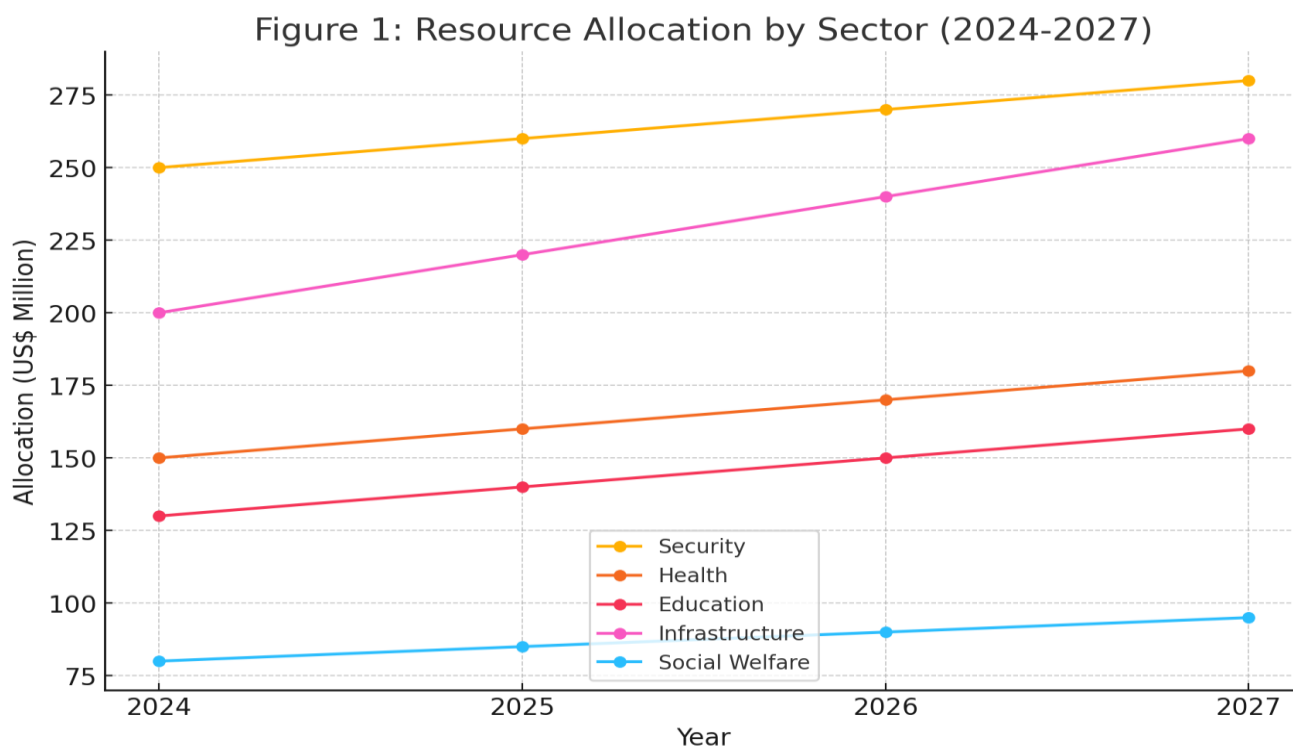
Social Welfare:

84. Social welfare programs are designed to provide support to the most vulnerable populations, including the poor, displaced persons, and those affected by natural disasters. The allocation framework includes provisions for cash transfers, food assistance, and other social protection measures.

85. The government aims to build a comprehensive social safety that addresses immediate needs while also promoting long-term resilience and self-sufficiency.

86. **Figure 1: Resource Allocation by Sector (2024-2027)** shows the allocation of resources across key sectors such as Security, Health, Education, Infrastructure, and Social Welfare from 2024 to 2027. Each sector is plotted with its projected allocation in US\$ million over the four-year period.

Figure 1: Resource Allocation by Sector (2024-2027)



5.3 Alignment with Developmental Priorities

87. The resource allocation framework is closely aligned with Somalia’s national development priorities, including the goals outlined in the Ninth National Development Plan (NDP-9). Key areas of alignment include:

- I. **Poverty Reduction:** Allocations to social sectors, including health, education, and social welfare, are aimed at reducing poverty and improving living standards. The focus is on inclusive growth that reaches all segments of the population, particularly the most vulnerable.
- II. **Economic Resilience:** Investments in infrastructure and human capital are designed to enhance economic resilience, reduce vulnerabilities to external shocks, and create a more diversified and sustainable economy.
- III. **Sustainable Development:** The allocation framework supports sustainable development by promoting environmentally responsible investments, such as renewable energy projects and climate-resilient infrastructure.

6. KEY MEDIUM-TERM STRATEGIES (2024-2027)

88. The medium-term strategies outlined in the Budget Review and Outlook Paper (BROP) 2024 are designed to address the fiscal challenges facing Somalia and to align with the country’s national development goals.

89. These strategies are critical to achieving fiscal sustainability and supporting Somalia’s long-term socio-economic development. The key strategies focus on revenue mobilization, expenditure management, and strengthening fiscal federalism.

6.1 Revenue Mobilization

90. **Objective:** The primary objective of revenue mobilization efforts in the medium term is to increase domestic revenue to support the government’s expenditure needs, reduce dependency on external grants, and create a more stable and predictable revenue base. Key strategies include:

- I. Strengthening Tax Administration
- II. Expanding the Tax Base
- III. Reforming Tax Policy

Table 15: Projected Growth in Domestic Revenue (2024-2027) (US\$ Million)

Year	Tax Revenue	Non-Tax Revenue	Total Domestic Revenue
2024	285.0	115.0	400.0
2025	315.0	120.0	435.0
2026	350.0	130.0	480.0
2027	380.0	140.0	520.0

6.2 Expenditure Management

91. **Objective:** The primary objective of expenditure management strategies is to enhance the efficiency of public spending, improve budget execution, and ensure that resources are allocated to high-priority areas that drive economic growth and social development. Key strategies include:

- I. Enhancing Efficiency in Public Spending
- II. Improving Budget Execution
- III. Prioritizing High-Impact Areas for service delivery

Table 16: Projected Sectoral Expenditure (2024-2027) (US\$ Million)

Sector	2024	2025	2026	2027
Infrastructure	200.0	220.0	240.0	260.0
Health	150.0	160.0	170.0	180.0
Education	130.0	140.0	150.0	160.0
Social Welfare	80.0	85.0	90.0	95.0

6.3 Strengthening Fiscal Federalism

92. **Objective:** Strengthening fiscal federalism aims to ensure that fiscal resources are equitably distributed between the federal government and member states, fostering inclusive development and improving the delivery of public services across all regions. Key strategies include:

- IV. Enhancing Intergovernmental Fiscal Relations
- V. Equitable Resource Allocation
- VI. Capacity Building for Subnational Governments

Table 17: Projected Revenue Sharing with Member States (2024-2027) (US\$ Million)

Year	Federal Government	Member States	Total Revenue
2024	600.0	381.4	981.4
2025	625.0	396.0	1,021.0
2026	700.0	449.0	1,149.0
2027	735.0	469.0	1,204.0

Table 18: Alignment of Key Strategies with NDP-9 Goals

• Strategy	• NDP-9 Goal	• Expected Outcome
• Revenue Mobilization	• Economic Growth	• Increased domestic revenue and reduced dependency on grants
• Expenditure Management	• Efficient Public Services	• Enhanced service delivery and improved project execution
• Strengthening Fiscal Federalism	• Inclusive Development	• Equitable resource distribution and regional development
• Investment in Infrastructure	• Sustainable Development	• Improved connectivity and support for economic diversification

7. CONCLUSION AND NEXT STEPS

93. The BROP 2024 marks a critical step in Somalia's journey towards disciplined and strategic fiscal management, aligning fiscal policy with national development goals and addressing the fiscal challenges that have historically constrained the country's growth.

94. This document provides a thorough review of fiscal performance in 2023, highlighting areas of success and identifying key weaknesses that need to be addressed. The insights gained from this review offer valuable lessons that will shape future budgetary planning, policy adjustments, and the overall approach to managing public finances.

95. After the completion point of the Heavily Indebted Poor Countries (HIPC) initiative, the Federal Government of Somalia (FGS) continued advancing reform efforts to enhance domestic revenue mobilization through the Medium-Term Revenue Strategy (MTRS 2024 – 2027) and amendments to existing revenue laws (Income Tax Bill and Adoption of custom valuation and EAC tariff).

96. The Centennial Vision 2060 provides a long-term blueprint to guide national development plans and strategies. The new Somalia's National Transitional Plan (NTP) and the ongoing efforts to support sustainable economic growth and stability to achieve long term developmental goals.

97. Efforts are underway to increase domestic revenue, which is instrumental in increasing development expenditure, and reduce over time the dependency on external budgetary contributions.

7.2 Recommendations

98. Based on the comprehensive analysis provided in the Budget Review and Outlook Paper and fiscal performance review for the Year 2023 for the Federal Government of Somalia, several recommendations can be made to improve financial management and performance further:

I. Strengthening Mid Term Revenue Strategy 2024-2027 Implementation:

- a. Prioritize Mid Term Revenue strategies roadmap workplan and replicate them in areas where revenue collection fell short of targets.
- b. Increase and diversify domestic revenue sources, establish a comprehensive and unified tax collection system with adequate revenue sharing mechanism, natural resource sharing, and develop a medium-term expenditure framework (MTEF) for budget planning.
- c. Capacity building for revenue administration to enhance efficiency and effectiveness in tax collection.
- d. Explore innovative approaches, such as leveraging technology for tax compliance and implementing electronic fiscal receipt and invoicing systems.
- e. Focus on customs harmonization and transparent natural resource management.

II. Improve budget execution process:

- a. Allocate sufficient resources to capital projects in future budgets to support economic growth and infrastructure development.
- b. Ensure timely implementation of capital projects to maximize their impact on socioeconomic development.
- c. Conduct rigorous project appraisal and prioritize investments that align with national development priorities and yield long-term benefits.
- d. Improve coordination and communication with donors to ensure timely disbursement of funds and adherence to project timelines.
- e. Strengthen monitoring and evaluation mechanisms to track project progress and identify bottlenecks early for timely intervention.
- f. Engage International Partners: Collaborate with international partners to sustain reforms and support inclusive growth.

III. Strengthen Budget transparency and citizen engagement:

- a. Enhance budget communication efforts to increase public awareness of government spending priorities and initiatives.
- b. Utilize various communication channels, including traditional media and digital platforms, to engage with citizens and stakeholders on budgetary matters.
- c. Provide clear and accessible information on capital projects to showcase tangible outcomes and promote accountability.

IV. Strengthen Debt Management:

- a. Continue economic reforms and develop a comprehensive debt management strategy to avoid unsustainable debt levels
- b. Formulate and implement a Medium-Term Debt Strategy (MTDS) that aligns with the country's economic goals and ensures debt sustainability. The strategy should outline borrowing plans, risk management strategies, and debt reduction targets

V. Continued Monitoring and Evaluation:

- a. Establish a robust monitoring and evaluation framework to track the implementation of recommendations and assess their impact over time.
- b. Conduct regular performance reviews and audits to identify areas for improvement and address emerging challenges proactively.
- c. Foster accountability and continuous improvement within the Government through transparent reporting and accountability mechanisms.
- d. By implementing these recommendations, the FGS can enhance its fiscal management practices, strengthen financial accountability, and promote sustainable economic development for the benefit of its citizens.

7.3 Next Steps for Implementation

99. Somalia's achievement of the HIPC completion point marks a new chapter in its economic development. By addressing the outlined challenges and leveraging opportunities, Somalia can build a sustainable and inclusive economic future.

100. The successful implementation of the recommendations outlined in BROP 2024 requires a coordinated and systematic approach. The following steps are proposed to ensure that the strategies and recommendations are effectively integrated into the broader budget preparation process:

- I. **To strengthen the link between policy making, planning and budgeting:** There is need to create a more effective coordination mechanism and closer working relations between the FGS Macroeconomic Working Group (MWG) institutions in the process of preparation of the Budget Review and Outlook Paper (BROP), the Budget Strategy Paper (BSP), and the annual budget.
- II. **Availability of accurate and timely data:** The SNBS needs to ensure timely preparation of economic and administrative data which is critical for formulation of a robust medium-term fiscal and macroeconomic framework that underpins budget preparation.
- III. **Complete Reform:** The Ministry of Finance Federal Government of Somalia needs to implement **Section 6 above (Key Medium-term strategies)** to reduce the high dependence on donor resources.
- IV. **Improve Business Environment:** Establish transparent governance, advance intergovernmental fiscal federalism, promote private investment, and create special economic zones or industrial parks.
- V. **Coordination between The Ministry of Finance and the SNBS:** to align their GDP data and national statistical data.

APPENDIX 1: SUMMARY OF FINANCIAL PERFORMANCE

	2023	2022	2021
<i>Financial Performance</i>	USD\$	USD\$	USD\$
Revenue	746,035,392	769,237,846	472,901,997
Expenditure	728,279,426	731,434,866	495,842,745
Suplus/Deficit	17,755,966	37,802,980	(22,940,748)
% Change	2%	5%	-5%
Original Budget	917,267,240	929,924,528	666,484,657
Revised Budget (Mid-year Revision)	917,379,740	929,924,528	666,484,657
Actual Expenditure	728,279,426	731,434,866	495,842,745
Under Spending (Budget Saving)	(189,100,315)	(198,489,632)	(170,641,912)
% Change	-21%	-21%	-26%
Revised budgeted revenue & external assistance	917,271,187	944,859,564	666,484,657
Actual revenues	746,035,392	769,237,846	472,901,997
Shortfall in budgeted revenue & assistance	(171,235,795)	(175,621,718)	(193,582,660)
% Change	-19%	(-19%)	(-29%)

APPENDIX 2: SELECTED ECONOMIC AND POVERTY INDICATORS (% OF GDP UNLESS OTHERWISE INDICATED)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth	3.3	2.4	3.1	3.7	3.9	4.0
CPI Inflation, annual percentage change	4.6	6.8	6.1	3.9	3.7	3.5
Current account balance	-7.3	-8	-9.6	-8.6	-8.8	-10.4
Trade balance	-50.9	-61.2	-58.8	-58.5	-57.7	-56.9
Private remittances	21.5	20.6	20.3	20.4	20.6	21.0
Official grants	23	33	29.3	29.8	28.6	25.9
Fiscal balance	-0.8	-0.1	0.2	-0.4	-1.2	-1.8
Domestic revenue	2.3	2.5	2.8	2.8	3	3.3
External grants	1.5	4.4	3.5	4.3	3	1.5
Total expenditure	4.7	7	6.2	7.5	7.1	6.6
Compensation of employees	2.5	2.5	2.5	2.6	2.5	2.5
External debt	39.9	36.7	5.4	5.0	5.7	7.2