FEDERAL GOVERNMENT OF SOMALIA

# BUDGET STRATEGY FOR FISCAL YEAR 2025

# Contents

## INTRODUCTION

1. This Budget Strategy will serve as a guide to the overall planning and budgeting process for FY2025. The overall goal of the strategy is to achieve economic growth rate of at least 3.9% in 2025 and accelerate it to 4.1% over the medium term from undertaking the various post-HIPC reforms agreed upon with the international community, as well as continuing to improve the security environment in Somalia to allow the private sector to flourish and eventually transform the economy.

2. Starting FY2025, Government also aims to significantly increase spending on public investments in productive sectors to generate increased economic activity and create job opportunities especially for the youths, expand the tax revenue base, and improve Somalis' livelihoods among other outcomes.

3. The strategy generally outlines the strategic priorities of the FGS, highlights the current state of the economy, provides macro-fiscal outlook over the medium term together with a summary of Government spending plans as a basis for the FY2025. The strategy also aims to improve the public's understanding of Government's public finances and guide public debate on matters relating to the reconstruction of Somalia's economy.

4. In brief, this 2025 Budget Strategy contains the following:

i) Assessment of recent macroeconomic performance
ii) Economic outlook for 2025 and the medium-term and planned strategies to achieve growth objectives
iii) Medium-term forecasts for revenue, expenditure and fiscal balance
iv) Financing strategies
v) Explanation of revenue and expenditure measures for 2025-2027

## ASSESSMENT OF RECENT MACROECONOMIC DEVELOPMENTS

### Growth in GDP

5. The size of Somalia's economy grew from $10.4 billion in 2022 to $11.5 billion in 2023 and is estimated to increase to $12.5 billion in 2024 and $13.5 billion in 2025. In terms of growth rates, the economy grew by 2.8% in 2023 compared to 2.4% in 2022. Growth forecasts for 2024 and 2025 are 3.7% and 3.9% respectively, although this growth could be tempered by (i) the prolonged Russia-Ukraine conflict (which has disrupted grain supply to Somalia (up to 90% of Somalia's wheat imports come from Russia and Ukraine), (ii) the ongoing Israel-Palestine conflict which has affected the global supply chain leading to inflation both globally and domestically, and (iii) the effects of the recent drought in Somalia.

6. The observed expansion of Somalia's economy of 2.8% in 2023 and 3.7% projected for 2024 are on account of a rebound in agriculture production and exports as crops and livestock recovered more from the effects of drought and floods that weakened agricultural production in 2021 and 2022. Growth in 2025 is expected to rise to 3.9 percent as crops and livestock recover more fully, FDI is expected to trend upwards during the post-HIPC period, and remittances are projected to increase as global inflation eases the pressure on the disposable income of the diaspora community.

## Inflation

7. Inflation has increased over the last two fiscal years. In 2021 and 2022 inflation was 4.6% and 6.8% respectively, mainly driven by challenges in global supply chains (*caused by Russia-Ukraine war which disrupted global food markets and energy prices thereby making Somalia a victim of external price shocks*) and the increase in severe drought conditions which caused widespread damage to livestock and crops thereby disrupting domestic food supply and amplifying price hikes. Average inflation in 2023 was 5.7% and expected to reduce further to 4.1% in 2024 and 3.8% in 2025, due to lower food prices resulting from increased supply following improvements in the weather conditions.

## Private Sector Credit

8. Credit to the private sector is growing. It increased from $206 million in 2019 to $319 million in 2021 to $496 million in 2023. It is estimated at $615 million in 2024 and at $777 million in 2025. The increase in private sector credit reflects the improving business conditions and demand for working capital.

## External Sector Developments

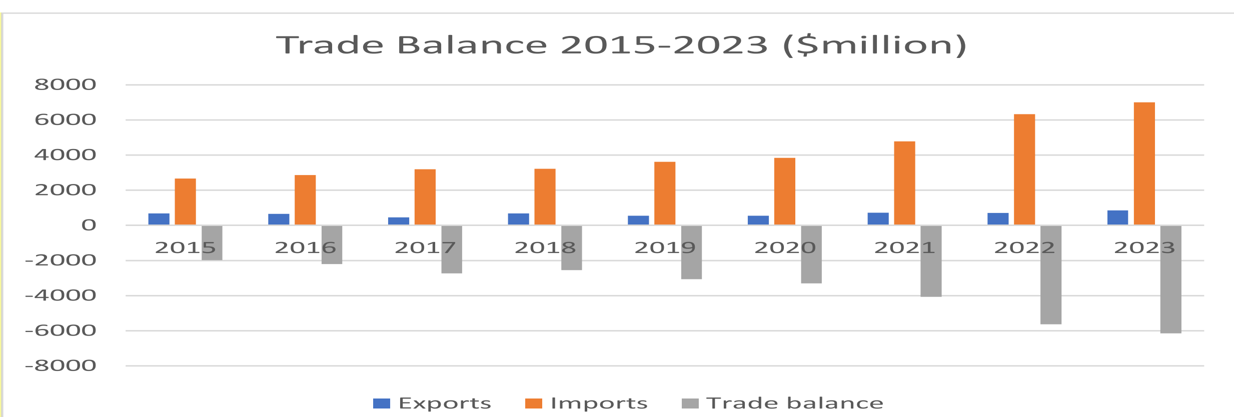
### *External Trade*

9. Exports of goods increased significantly, growing by 22% from $704 million in 2022 to $859 million in 2023. This rise reflects recovery from the effects of the severe drought in 2020 to 2021, which affected livestock production—which is Somalia's main export product. Exports of goods are projected to increase to $884 million in 2024 and $912 million in 2025.

10. Imports of goods also increased, growing by 10.6% in 2022 from $6,340 million in 2022 to $ 7,014 million 2023. This growth was also largely driven by construction materials, food and household articles. Imports of goods are projected to increase to $7,503 million in 2024 and $8,054 million in 2025.

11. Figure 1 shows the performance of exports and imports of goods and the trade balance since 2019.

**Figure 1: Goods Trade Balance**




**Source: Data from IMF**

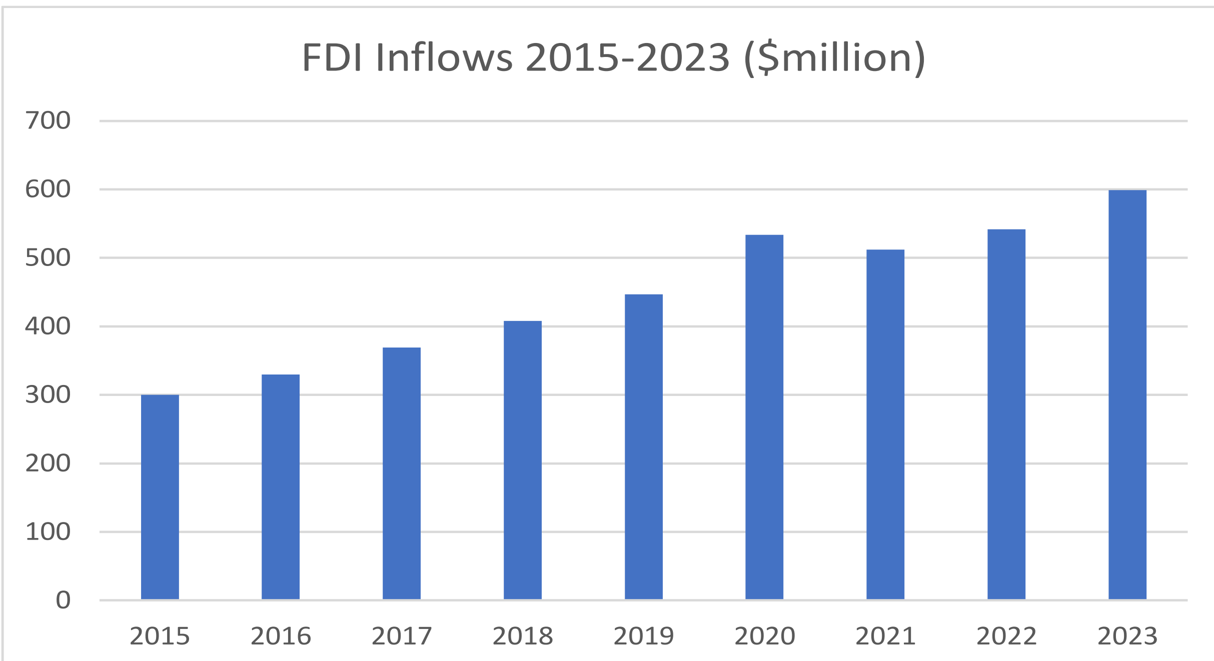
### *Remittances*

12. Remittances have continued to increase since 2021. Remittances increased by 10.5% from $2.14 billion in 2022 to $2.37 billion in 2023 as economic conditions in source countries where the diaspora community lives, continued to improve as the global economy continued its post-pandemic recovery. Remittances are projected at $2.47 billion in 2024 and $2.57 billion in 2025.

### *Foreign Direct Investment*

13. FDI inflows have also continued to increase. FDI increased by 10.5% from $542 million in 2022 to $599 million in 2023 and is projected to further increase to $628 million in 2023 and to $660 million in 2025. The increase is primarily driven by increased investor confidence following giving HIPC debt relief to Somalia which culminated in 2023, and prospects in the petroleum sector.

**Figure 2: FDI Trends 2015 – 2023**




**Source: IMF Data**

### *Trade with East African Community*

14. Somalia joined the EAC in 2023, which is expected to enhance regional trade between Somalia and other countries in the community. Exports to EAC countries amounted to $0.80 million in 2022 and $0.75 million in 2023, a decrease of 6.3%. On the other hand, imports from EAC countries totaled $120.49 million in 2022 compared to $132.34 million in 2021, a decrease of 9%. Imports data for 2023 are not yet available. In the case of financial year 2022, the data show Somalia registered a trade deficit of $119.69 million from its trading with EAC partner countries.

### Table 2: Value of Somalia's Trade with EAC Partner States ($ Million)

| Country | Exports | | | Imports | | |
|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| Kenya | 0.84 | 0.73 | 0.66 | 129.88 | 115.10 | dna |
| Uganda | - | - | - | 1.54 | 3.47 | dna |
| Burundi | - | - | - | - | - | dna |
| Tanzania | 0.00 | 0.03 | 0.06 | 0.59 | 1.13 | dna |
| Rwanda | 0.00 | 0.00 | - | 0.33 | 0.79 | dna |
| Democratic Republic of Congo | 0.02 | 0.04 | 0.03 | 0.00 | - | dna |
| South Sudan | - | - | - | - | - | dna |
| **Total** | 0.86 | 0.80 | 0.75 | 132.34 | 120.49 | dna |

**Source: FGS Revenue Department**

### Table 3: Somalia's Goods Trade by Region ($ Million)

| Region | Exports | | | Imports | | |
|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| **Advanced Economies** | **33.93** | **28.03** | **43.12** | **272.96** | **316.87** | **dna** |
| - o/w Euro Area | 18.07 | 16.61 | 8.89 | 150.85 | 158.44 | dna |
| - o/w United States | 1.09 | 1.08 | 3.00 | 55.45 | 90.21 | dna |
| - o/w Others | 14.77 | 10.34 | 31.23 | 66.66 | 68.22 | dna |
| **Emerging/Developing Economies** | **358.31** | **624.34** | **750.13** | **3,581.60** | **4,164.21** | **dna** |
| - Emerging & Developing Asia | 27.97 | 26.86 | 35.90 | 2,021.31 | 2,351.76 | dna |
| - Emerging & Developing Europe | 24.58 | 23.97 | 2.71 | 424.05 | 456.48 | dna |
| - Middle East & Central Asia | 254.09 | 523.39 | 692.57 | 421.31 | 517.58 | dna |
| - Sub-Saharan Africa | 38.76 | 35.27 | 6.56 | 648.43 | 790.69 | dna |
| - o/w EAC | 0.86 | 0.80 | 0.75 | 132.34 | 120.49 | dna |
| - Western Hemisphere | 12.91 | 14.84 | 12.40 | 66.50 | 47.70 | dna |
| **Total** | **392.24** | **652.37** | **793.25** | **3,854.56** | **4,481.08** | **-** |

**Source: FGS Revenue Department**

## Fiscal Performance

### *Revenue*

15. During FY2023, total revenue and grants amounted to $738.0 million. This was against a target of $950.6 million leading to a performance of 77.6% for both grants and domestic revenue.

16. However, the performance of domestic revenue for FY2023 was largely on target at 116.3% totaling $329.5 million against a target of $283.2 million. This performance was mainly attributed to improved tax administration for all revenue sources except non-tax revenue where the performance was only 63.7%. Income tax performed at 132%, taxes on local trade 105% and customs 163.3%.

17. In FY2024, the outturn for revenue and grants is projected at $747.3 million against a target of $986.6 million implying a projected performance of 75.7%. Outturn for domestic revenue is projected at $357.5 million against a target of $345 million, implying a projected performance of 103.6%. External grants are projected at $389.8 million against a target of $641.5 million, implying a projected performance of 60.8%.

18. The observed slower than anticipated inflow of grants in 2024 is mainly due to two issues—continued slow absorption constraints among projects financed by multilateral agencies, and, in the case of budget support from bilateral governments, reduced revenues in source countries due to challenges related to the ongoing Israel-Palestine conflict. In addition, budget support grants are anyway expected to decline now that Somalia has received the HIPC debt relief in 2023.

19. Government has nonetheless stepped up its efforts to improve domestic revenue mobilization and this effort will continue throughout the medium term. The strategic objectives include:

- **i) Increase domestic revenue annually by at least 0.3 percentage points of GDP.**
- **ii) Cover operational costs with domestic revenue by 2027.**

20. The key priority interventions in improving domestic revenue mobilization over the medium term include:

- i) Digitization of the Non-Tax Revenue Management System;
- ii) Enhancing tax audits to prevent tax evasion;
- iii) Harmonizing FGS and FMS tax systems as per fiscal federalism principles.
- iv) Implement the use of EAC Customs External Tariff (CET) starting 2026 as part of EAC regional commitments;
- v) Build capacity of Revenue staff;
- vi) Strengthening the social contract of the tax system by ensuring visibility of service delivery to justify to Somalis why they should voluntarily pay taxes.

### *Expenditure*

21. Total FGS expenditure amounted to $687.1 million in FY2023. This was against the appropriated budget of $977.4 million, implying a performance of 70.3%. The lower than targeted expenditure was due to donor funded project expenditure which was lower by $258.9 million. Expenditure on donor funded projects was lower than planned mainly due to absorption constraints faced by implementing agencies, leading to slower disbursement by donors.

22. In FY2024, projected expenditure outturn is $755.6 million against a budget of $1,079.3 million, implying a projected performance of 70.0%. Expenditure financed from domestic resources is projected at $490.6 million against a budget of $592.8 million, implying a projected performance of 82.8%. Donor funded project expenditure is projected at $264.9 million against a target of $486.5 million implying a projected performance of 54.5%. Absorption constraints within projects remains the main reason for the lower-than-expected performance for donor funded project expenditure.

### *Fiscal Deficit*

23. Projected expenditure in 2024 is slightly higher than the projected revenues and grants thus there will be a projected fiscal deficit of $8.2 million at the end of FY2024, which is equivalent to 0.007% of GDP. The projected deficit of $8.2 million is far lower than the deficit of $38.5 million which Government had anticipated at the beginning of FY2024. The lower than planned deficit for FY2024 is envisaged to be due to improved performance in domestic revenue mobilization.

### *Public Debt Performance*

24. Total public debt declined to $706 million, or 6.1% of GDP at the end of 2023 from $3.9 billion or 37.4% of GDP at the end of 2022. In 2024, preliminary estimates indicate that the nominal stock of public debt is projected to remain within the 2023 levels as no borrowing is expected during 2024. In the medium term, Government is committed to remaining within the targets set out in the iPRSP through prudent management of public debt to ensure fiscal sustainability.

# ECONOMIC OUTLOOK FOR FY2025 AND MEDIUM TERM

## Growth forecast for 2025

25. The economy is projected to grow at 3.7% in FY2024, 3.9% in FY2025 and accelerate to an average of at least 4.1% over the medium term. This will be driven by growth in remittances, construction activities, and trade. This will grow the size of Somalia's GDP from $11.5 billion in 2023 to $12.5 billion in 2024 and to $13.5 billion in 2025. This envisaged higher growth rate over the medium term is expected to translate into improved economic activity and creation of employment opportunities, assuming the macroeconomic assumptions will hold and policy reforms [included in the sections below] will be implemented effectively and sustainably.

26. The macroeconomic assumptions on which this economic outlook is based are summarized in the table below.

**Table 4: Macroeconomic Assumptions for the Medium-Term 2025-2027**

| Variable | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|
| Nominal GDP (m$) | 9,420 | 9,204 | 9,839 | 10,420 | 11,515 | 12,489 | 13,541 | 14,686 | 15,913 |
| Real GDP (m$) | 9,915 | 9,885 | 10,172 | 10,420 | 10,711 | 11,108 | 11,541 | 12,002 | 12,495 |
| Growth (% ) | 2.7% | -0.3% | 2.9% | 2.4% | 2.8% | 3.7% | 3.9% | 4.0% | 4.1% |
| Inflation (% ) | 4.5% | 4.3% | 4.6% | 6.8% | 5.7% | 4.1% | 3.8% | 3.6% | 3.4% |
| Exports (m$) | 1,120 | 970 | 1,532 | 1,804 | 2,080 | 2,394 | 2,749 | 3,096 | 3,468 |
| *o/w Exported Goods* | *554* | *545* | *717* | *704* | *859* | *1,020* | *1,205* | *1,392* | *1,590* |
| *o/w Exported Services* | *566* | *425* | *815* | *1,100* | *1,221* | *1,374* | *1,544* | *1,704* | *1,878* |
| Imports (m$) | 5,239 | 5,381 | 6,544 | 8,182 | 9,099 | 9,983 | 10,877 | 11,806 | 12,891 |
| *o/w Imported Goods* | *3,622* | *3,849* | *4,790* | *6,340* | *7,014* | *7,678* | *8,339* | *9,027* | *9,839* |
| *o/w Imported Services* | *1,617* | *1,532* | *1,754* | *1,842* | *2,085* | *2,305* | *2,538* | *2,779* | *3,052* |
| Remittances (private, $m) | 1,427 | 1,618 | 2,118 | 2,142 | 2,367 | 2,607 | 2,867 | 3,157 | 3,501 |
| Official Development Assistance (ODA, $m) | 1,904 | 2,084 | 2,265 | 3,442 | 3,605 | 3,894 | 3,917 | 4,025 | 4,235 |
| *o/w On-budget aid* | *87* | *229* | *147* | *459* | *420* | *518* | *291* | *200* | *100* |
| *o/w Off-budget aid* | *1,817* | *1,856* | *2,118* | *2,983* | *3,185* | *3,376* | *3,626* | *3,825* | *4,135* |
| FDI | 447 | 534 | 512 | 542 | 599 | 674 | 731 | 793 | 859 |

Source: Federal MOF; IMF reports

## Budget strategy to achieve envisaged growth

27. To achieve the strategic objectives of growing Somalia's economic growth and a faster reconstruction of the economy, the budgets for FY2025 and the medium term will be focused on the following:

i) Ensuring security, which is the foundation for sustainable economic growth and stability;

ii) Promoting macroeconomic stability especially through implementation of interventions such as:

   a. *Prioritizing spending on investments and poverty reduction,*
   b. *Prudent borrowing to finance fiscal deficits while avoiding unsustainable debt burden,*
   c. *Building resilience to shocks,*
   d. *Strengthening PFM institutions critical for improving the monitoring, accountability, and transparency of spending;*

iii) Boosting SMEs and household incomes through effective implementation of Somalia Development and Reconstruction Bank, Gargaara, and Somalia Chamber of Commerce and Industry;

iv) Boosting agricultural production through rehabilitation of relevant infrastructure;

v) Investing in Somalis through better education and health in line with the strategic plans for education and health sectors;

vi) Reconstructing Somalia's energy and road infrastructure by prioritizing areas that have immediate high growth impact to lower the cost of doing business;

vii) Implementing measures to improve efficiency, effectiveness, coordination and productivity of the civil service and public expenditure in FGS and FMSs. This will include among others:

   a. ***Require every MDA to develop a five-year strategic plan,***

   b. ***Implement program-based budgeting on a pilot basis,***

   c. ***Require every MDA to provide to OPM with a copy to MOF a quarterly budget utilization report including performance against key performance indicators,***

   d. ***Developing the Somalia National Transformation Plan;***

   e. ***Allocate transfers to FMSs based on agreed grants allocation formulae (see formula in Annex 2)***

viii) Implementing regional integration commitments expected to boost growth in export and import trade (to and from EAC) following Somalia's entry into the East African Community;

ix) Implementing climate change interventions to mitigate the adverse effects on livestock and food security e.g., development of a climate change policy, promoting use of alternative clean sources of energy for cooking, etc.

## Priority areas to be funded in 2025

### *Strengthening security*

28. Government will continue prioritizing funding to the security sector to finance the following activities among others:

i) Continue implementing the security sector reform to increase effectiveness of Somali forces;

ii) Enhance security coordination among Somali forces and international partners;

iii) Strengthen capacity of key security institutions to address emerging security threats;

iv) Implement the Somali Transition Plan to transfer security responsibilities from AU Mission to the Somali security forces and institutions;

v) Addressing the welfare of personnel in security uniforms including pension for retiring personnel;

vi) Enhancing maritime surveillance to prevent illegal fishing.

### *Boosting SMEs and household incomes*

29. **Government plans to allocate $2.5 million in 2025 to enable the Somalia's Development and Reconstruction Bank (SDRB)** to kick off its operations to increase access to capital. The main of SDRB will be to provide financial and technical assistance to small and medium sized, privately owned enterprises, concentrating 75% of bank effort on agriculture, fisheries, livestock and energy sectors; also, to issue sukuk bonds for investment purposes.

30. **Government will continue mobilizing funds for Gargaara** to continue providing concessionary financing to commercial banks and micro-financial institutions on an on-lending basis, targeting productive sectors including farming, livestock, fishery, renewable energy, agricultural processing, healthcare, education, manufacturing, hospitality, and transport. Also offers business development services to MSMEs in business management, market studies, preparation of business plans, delivery of bankable proposals to financial institutions, etc.

31. **Government will continue allocating 0.5% of the revenue from Mogadishu Seaport to finance the activities of Somalia Chamber of Commerce and Industry (SCCI)**, which include fostering a vibrant and prosperous business climate to attract new investments, connecting businesses and professionals with one another (locally, regionally, internationally) ultimately helping businesses grow and succeed and increase exports, supporting entrepreneurs to launch new businesses and create jobs, creating training programs that cater to the needs of the business community, and collecting and arrange data related to the business and production in Somalia.

### *Boosting agricultural production*

32. Government plans to allocate $3 million every year over the medium term to boost infrastructure for agriculture by investing in the following:

i) Construction/rehabilitation of water points for livestock in areas of greatest need to increase access to water for agricultural production including supporting irrigation development;

ii) Construction/rehabilitation of livestock vaccination points to improve disease and pest control;

iii) Support Regional Administrations to maintain feeder roads to enable farmers evacuate their produce to the markets in real time.

### *Support to social sectors*

***Education***

33. Government will allocate $10 million each year over the medium term to finance the following priority activities:

i) Improve the quality and relevance of Early Childhood Education (ECE)
   a. Develop ECE policy strategy and standardized ECE curriculum framework
   b. Construct new ECE classrooms within existing primary schools
   c. Provide a school feeding program for ECE learners

ii) Improve the quality and relevance of primary education
   a. Construct new public primary schools in underserved areas
   b. Construct new classrooms in public primary schools
   c. Provide school feeding for pupils from poor families

iii) Improve quality and relevance of secondary education
   a. Conduct a study on existing educational barriers to secondary education
   b. Construct new public secondary schools in underserved areas
   c. Construct new classrooms in existing secondary schools
   d. Renovate existing classrooms for public secondary schools
   e. Provide scholarships to disadvantaged groups including girls and children with disabilities (CwD)

iv) Increase access to affordable, quality, and relevant TVET
   a. Rehabilitate existing TVET centers
   b. Provide monthly running costs to TVET centers

v) Increase access to quality of higher education
   a. Develop minimum standards for university programs
   b. Rehabilitate existing SNU campuses
   c. Develop scholarship strategy and implementation guidelines including selection criteria for higher learning
   d. Provide local and international scholarships for higher learning
   e. Allocate funds for research and innovation in higher education
   f. Provide ICT infrastructure and facilities to SNU campuses

***Health***

34. Government will provide $5 million per year to finance the following priority activities over the medium term:

i) Bridge the gap in health infrastructure scarcity to work towards creating the minimum health infrastructure assets that can provide the necessary operational environment for effective service delivery taking into consideration the health infrastructure imbalances between regions.

ii) Ensure availability of essential medicines that satisfy the priority health care needs of the vulnerable population.

iii) Continue developing a well-trained and motivated health workforce that addresses the priority health needs of the Somali population.

***Reconstructing Somalia's energy and road infrastructure***

35. Government plans to mobilize and allocate $10 million in 2025 to finance the following:

i) Conduct feasibility and analytical studies towards improving energy supply with a view to increase access to energy from 15% to 50% of the population over the medium term;

ii) Finalize development of energy policy, strategy and regulatory framework;

iii) Support Regional Administrations to maintain existing road networks;

iv) Conduct feasibility studies towards upgrading of selected strategic roads from earth to bituminous surface;

v) Rebuild road bridges washed away by recent floods in Beledweyne, Qardho, Jawhar, Balcad, Afgooye, Mahadaay, Jalalaqsi, Buule-burde, Baardheere, Buurdhuubo, Doolow and Luuq.

## MEDIUM TERM FISCAL FRAMEWORK

### Financing Strategies

36. Funding the interventions identified in this strategy will require the following financing framework:

i) Improve fiscal sustainability by fast-tracking the numerous efforts underway to increase domestic revenues, including:

*a. Digitization of the Non-Tax Revenue Management System;*

*b. Enhancing tax audits to prevent tax evasion;*

*c. Harmonizing FGS and FMS tax systems as per fiscal federalism principles.*

*d. Implement the use of EAC Customs External Tariff (CET) starting 2026 as part of EAC regional commitments;*

*e. Build capacity of Revenue staff;*

*f. Strengthening the social contract of the tax system by ensuring visibility of service delivery to justify to Somalis why they should voluntarily pay their tax liabilities.*

ii) Effective implementation of post-HIPC reforms agreed under the ECF arrangement, including:

*a. Integrate all compensation of employees into a single payroll included in the SFMIS;*

*b. Rollout program-based budgeting to improve productivity of government expenditure by linking expenditures to results;*

c. *Streamline budget execution and treasury management process in order to enhance financial controls and reporting;*

d. *Undertake effective cash forecasting and management to facilitate optimal utilization of available resources;*

e. *Further strengthen public debt management framework by articulating and disseminating procedures for initiating loan negotiations and entering into loan agreements;*

f. *Amend PFM Regulations to require costing of the NDP in annual and supplementary budgets;*

g. *Build a Public Investment Management system including a strong legal and fiscal institutional framework for PPPs to promote investments;*

h. *Strengthen capacity of MDAs in carrying out open and transparent public procurement;*

i. *Finalize and implement a harmonized legal framework for the extractive industries.*

iii) Introducing internal audit function across all large MDAs to improve internal controls and identify/eliminate wasteful expenditure;

iv) Undertaking policies to reduce inefficiencies across MDAs (e.g., absenteeism of government staff), and to curtail non-essential spending;

v) Improving efficiency in the execution of donor funded projects to improve absorption of funds to enhance their contribution to the economy. There is currently a concern regarding inability of projects to absorb donor funds available to them. Key issues include:

a. *Delayed initiation of activities at project execution stage and lengthy procurement processes,*

b. *Limited involvement of beneficiaries in project activities,*

c. *Late request for funds from the project financiers,*

d. *Weak project planning,*

e. *Inadequate capacity of contractors.*

vi) Pursue sources of development finance including concessional financing (loans and grants), climate finance, institutional finance (social security funds), etc.

vii) Provide a framework for partnership with the private sector in financing public investment programs and projects.

## Forecasts of Revenue and Expenditure 2025-2027

37. The indicative forecasts of revenue and expenditure and the deficit over the medium-term are presented in Table 5 below.

**Table 5a: Projections of revenue and expenditure and fiscal balance for 2025-2027**

| Fiscal Variable | Actuals | | | | | Projected | Projection | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| **Revenue and Grants** | **337.8** | **506.7** | **392.8** | **719.6** | **738.0** | **747.3** | **744.7** | **743.2** | **789.5** |
| **Domestic revenue** | **229.7** | **211.2** | **229.6** | **262.7** | **329.5** | **357.5** | **423.5** | **515.1** | **602.0** |
| Income taxes | 11.7 | 16.1 | 15.8 | 18.7 | 24.6 | 26.2 | 30.9 | 32.4 | 36.9 |
| Taxes on local trade | 25.0 | 21.3 | 23.4 | 25.8 | 34.8 | 47.0 | 51.7 | 56.1 | 65.7 |
| Taxes on international trade | 146.3 | 134.0 | 146.1 | 158.3 | 201.2 | 209.3 | 234.0 | 292.9 | 349.0 |
| Non-tax revenue | 46.8 | 39.8 | 44.2 | 59.9 | 69.0 | 75.0 | 107.0 | 133.7 | 150.5 |
| **Grants** | **108.1** | **295.5** | **163.3** | **457.0** | **408.5** | **389.8** | **321.2** | **228.1** | **187.4** |
| Multilateral | 71.7 | 280.5 | 160.8 | 419.9 | 407.7 | 361.7 | 291.2 | 198.1 | 157.4 |
| Bilateral | 36.4 | 15.0 | 2.5 | 37.1 | 0.8 | 28.1 | 30.0 | 30.0 | 30.0 |
| **Expenditure** | **319.0** | **495.2** | **490.2** | **731.4** | **720.3** | **755.6** | **783.4** | **802.2** | **828.9** |
| **Government Local Fund** | **300.8** | **399.4** | **383.6** | **456.5** | **471.3** | **490.6** | **524.0** | **540.4** | **557.0** |
| Compensation of employees | 162.2 | 225.6 | 247.8 | 257.9 | 290.1 | 306.7 | 332.7 | 337.4 | 342.3 |
| Use of goods and services | 89.8 | 70.5 | 69.7 | 93.5 | 95.7 | 102.4 | 99.4 | 106.0 | 113.2 |
| Consumption of fixed capital | 0.1 | 1.5 | 0.8 | 7.8 | 5.2 | 5.5 | 2.3 | 2.5 | 2.6 |
| Interest and other charges | - | 14.4 | 14.6 | 12.7 | 13.2 | 2.2 | 13.0 | 12.9 | 12.7 |
| Subsidies | - | - | - | - | - | - | - | - | - |
| Grants | 48.3 | 87.3 | 50.7 | 84.5 | 67.1 | 73.8 | 76.5 | 81.7 | 86.2 |
| Social benefits | - | - | - | - | - | - | - | - | - |
| Other expenses | 0.4 | - | - | - | - | - | - | - | - |
| **Development Partner Fund** | **18.1** | **95.7** | **106.6** | **275.0** | **248.9** | **264.9** | **259.3** | **261.8** | **271.9** |
| Compensation of employees | 0.6 | 1.4 | 2.3 | 1.6 | 2.1 | 3.8 | 5.4 | 5.7 | 6.1 |
| Use of goods and services | 16.1 | 20.5 | 42.5 | 47.1 | 42.5 | 47.8 | 51.8 | 56.2 | 60.9 |
| Consumption of fixed capital | 1.1 | 6.7 | 9.2 | 5.4 | 9.2 | 11.4 | 82.1 | 112.9 | 143.7 |
| Interest and other charges | - | 2.2 | 1.3 | 5.1 | - | - | - | - | - |
| Subsidies | - | - | - | - | 5.4 | 6.2 | 6.2 | 6.2 | 6.2 |
| Grants | 0.2 | 2.8 | 11.4 | 26.7 | 59.2 | 88.8 | 71.0 | 56.8 | 45.4 |
| Social benefits | - | 62.1 | 39.9 | 188.9 | 130.6 | 107.0 | 42.8 | 24.0 | 9.6 |
| Other expenses | - | - | - | 0.0 | - | - | - | - | - |
| **Fiscal Balance** | 18.8 | 11.5 | (97.4) | (11.8) | 17.7 | (8.2) | (38.6) | (59.0) | (39.5) |

Source: Federal Ministry of Finance

## Table 5b: Projections of revenue and expenditure and fiscal balance as % of GDP

| Fiscal Variable | Actual | | | | | Projected | Projection | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| **Revenue and Grants** | **3.59%** | **5.51%** | **3.99%** | **6.91%** | **6.41%** | **5.98%** | **5.50%** | **5.06%** | **4.96%** |
| **Domestic revenue** | **2.44%** | **2.29%** | **2.33%** | **2.52%** | **2.86%** | **2.86%** | **3.13%** | **3.51%** | **3.78%** |
| Income taxes | 0.12% | 0.18% | 0.16% | 0.18% | 0.21% | 0.21% | 0.23% | 0.22% | 0.23% |
| Taxes on local trade | 0.26% | 0.23% | 0.24% | 0.25% | 0.30% | 0.38% | 0.38% | 0.38% | 0.41% |
| Taxes on international trade | 1.55% | 1.46% | 1.49% | 1.52% | 1.75% | 1.68% | 1.73% | 1.99% | 2.19% |
| Non-tax revenue | 0.50% | 0.43% | 0.45% | 0.58% | 0.60% | 0.60% | 0.79% | 0.91% | 0.95% |
| **Grants** | **1.15%** | **3.21%** | **1.66%** | **4.39%** | **3.55%** | **3.12%** | **2.37%** | **1.55%** | **1.18%** |
| Multilateral | 0.76% | 3.05% | 1.63% | 4.03% | 3.54% | 2.90% | 2.15% | 1.35% | 0.99% |
| Bilateral | 0.39% | 0.16% | 0.03% | 0.36% | 0.01% | 0.22% | 0.22% | 0.20% | 0.19% |
| **Expenditure** | **3.39%** | **5.38%** | **4.98%** | **7.02%** | **6.26%** | **6.05%** | **5.79%** | **5.46%** | **5.21%** |
| **Government Local Fund** | **3.19%** | **4.34%** | **3.90%** | **4.38%** | **4.09%** | **3.93%** | **3.87%** | **3.68%** | **3.50%** |
| Compensation of employees | 1.72% | 2.45% | 2.52% | 2.48% | 2.52% | 2.46% | 2.46% | 2.30% | 2.15% |
| Use of goods and services | 0.95% | 0.77% | 0.71% | 0.90% | 0.83% | 0.82% | 0.73% | 0.72% | 0.71% |
| Consumption of fixed capital | 0.00% | 0.02% | 0.01% | 0.07% | 0.05% | 0.04% | 0.02% | 0.02% | 0.02% |
| Interest and other charges | 0.00% | 0.16% | 0.15% | 0.12% | 0.11% | 0.02% | 0.10% | 0.09% | 0.08% |
| Subsidies | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Grants | 0.51% | 0.95% | 0.52% | 0.81% | 0.58% | 0.59% | 0.57% | 0.56% | 0.54% |
| Social benefits | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other expenses | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| **Development Partner Fund** | **0.19%** | **1.04%** | **1.08%** | **2.64%** | **2.16%** | **2.12%** | **1.92%** | **1.78%** | **1.71%** |
| Compensation of employees | 0.01% | 0.01% | 0.02% | 0.02% | 0.02% | 0.03% | 0.04% | 0.04% | 0.04% |
| Use of goods and services | 0.17% | 0.22% | 0.43% | 0.45% | 0.37% | 0.38% | 0.38% | 0.38% | 0.38% |
| Consumption of fixed capital | 0.01% | 0.07% | 0.09% | 0.05% | 0.08% | 0.09% | 0.61% | 0.77% | 0.90% |
| Interest and other charges | 0.00% | 0.02% | 0.01% | 0.05% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Subsidies | 0.00% | 0.00% | 0.00% | 0.00% | 0.05% | 0.05% | 0.05% | 0.04% | 0.04% |
| Grants | 0.00% | 0.03% | 0.12% | 0.26% | 0.51% | 0.71% | 0.52% | 0.39% | 0.29% |
| Social benefits | 0.00% | 0.68% | 0.41% | 1.81% | 1.13% | 0.86% | 0.32% | 0.16% | 0.06% |
| Other expenses | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| **Fiscal Balance** | **0.20%** | **0.13%** | **-0.99%** | **-0.11%** | **0.15%** | **-0.07%** | **-0.29%** | **-0.40%** | **-0.25%** |

Source: Federal Ministry of Finance

## Deficit Financing Plan

38. Table 6 summarises the strategies the FGS proposes to undertake to finance the planned deficits for 2025-2027.

**Table 6: Proposed financing strategies 2025-2026**

| # | Financing strategy | 2025 ($m) | 2026 ($m) | 2027 ($m) |
|---|---|---|---|---|
| 1. | Concessional borrowing from IFIs *(to invest in small, viable capital projects to create jobs, grow the economy)* | 35.6 | 47.0 | 24.5 |
| 2. | Domestic borrowing from CBS | 3.0 | 3.0 | 3.0 |
| 3. | Domestic borrowing from social security fund | - | - | 3.0 |
| 4. | Negotiate Public Private Partnerships for viable infrastructure projects | - | 9.0 | 9.0 |
| | **Total** | **38.6** | **59.0** | **39.5** |

## Fiscal Policy Measures for 2025-2027

39. The FGS has proposed a number of revenue measures to achieve the two strategic objectives of increasing domestic revenue **by at least 0.3 percentage points per year over the medium term, and to cover operational expenses of Government with domestic revenue by 2027**. Various expenditure measures have also been proposed to aid Government in strengthening public expenditure management. Table 7 summarises the revenue measures while Table 8 summarises the expenditure measures.

### *Revenue Measures*

**Table 7: Proposed Revenue Measures and Estimated Impact**

| Revenue item | 2025 | 2026 | 2027 |
|---|---|---|---|
| ***Corporate tax*** | | | |
| 1. Require all importers to have a TIN for their goods to be cleared | 414,673 | 427,114 | 439,927 |
| 2. Introduce withholding tax regime at customs | - | - | 2,746,894 |
| 3. Strengthen tax audits (expected to increase revenue yield by 20%) | 820,000 | 844,600 | 869,938 |
| | | | |
| ***PAYE (Payroll taxes)*** | | | |
| 4. Strengthen taxpayer education and registration within the private sector to remit payroll taxes | 631,348 | 1,136,426 | 1,704,639 |
| | | | |
| ***Turnover tax (for small businesses)*** | | | |
| 5. Strengthen taxpayer education, identification and registration to increase turnover tax for small businesses (proposal is to require small taxpayers to pay $150 minimum income tax per year) | 150,000 | 165,000 | 181,500 |
| | | | |

| Revenue item | 2025 | 2026 | 2027 |
|---|---|---|---|
| ***Rental income tax*** | | | |
| 6. Enhance mapping rental properties and strengthening door-to-door enforcement in collection of rental income tax | 983,578 | 1,013,085 | 1,043,478 |
| | | | |
| **Taxes on local trade** | | | |
| ***Sales tax (hotels)*** | ***581,265*** | ***1,273,025*** | ***2,281,343*** |
| 7. Increase hotels sales tax rate from 5% to 7% | 360,000 | 370,800 | 381,924 |
| 8. Strengthen enforcement of POS gadgets | 221,265 | 902,225 | 1,899,419 |
| | | | |
| ***Sales tax (telecoms)*** | ***3,233,859*** | ***4,097,559*** | ***4,956,959*** |
| 9. Strengthen audit of telecom transactions, increase ST rate to 7% | 2,527,893 | 3,293,745 | 4,055,384 |
| 10. Strengthen enforcement of POS gadgets | 705,966 | 803,813 | 901,575 |
| | | | |
| ***Sales tax (soft drinks)*** | | | |
| 11. Introduce digital tax stamps on bottled soft drinks to eliminate counterfeit water ($0.025 per stamp) | - | - | 500,626 |
| | | | |
| ***Excise tax (internet data)*** | | | |
| 12. Introduce 1% excise duty on internet data | 3,825,800 | 3,940,574 | 4,058,791 |
| | | | |
| ***Sales tax (electricity companies)*** | | | |
| 13. Strengthen tax arrears recovery | 647,340 | 276,486 | 84,010 |
| | | | |
| ***Sales tax (airline ticket sales)*** | | | |
| 14. Increase sales tax rate from 5% to 7% | 713,735 | 735,147 | 742,498 |
| | | | |
| ***Sales tax (TV cable providers)*** | | | |
| 15. Enforce collection of sales tax on TV cable providers (to target collection of 1 dollar per month for TV cable service for at least 84000 households) | 997,868 | 997,550 | 997,184 |
| | | | |
| ***Sales tax on imports*** | ***1,714,264*** | ***1,765,692*** | ***5,675,484*** |
| 16. Implement ad valorem rates and valuation methods | 1,714,264 | 1,765,692 | 1,818,662 |
| 17. Implement EAC CET starting 2027 (sales tax revenue on imports to grow by 25%) | - | - | 3,856,821 |
| | | | |
| **Taxes on international trade** | | | |
| ***Import duty (khat)*** | | | |
| 18. Strengthen customs verifications of khat declarations | 217,144 | 896,666 | 1,344,999 |
| | | | |

| Revenue item | 2025 | 2026 | 2027 |
|---|---|---|---|
| ***Import duty (other imports)*** | | | |
| 19. Introduce environmental tax on used imported vehicles and other items (to increase duty revenue by 15%) | - | 5,658,602 | 5,828,360 |
| 20. Implement ad valorem rates and valuation methods | 11,180,643 | 39,078,657 | 41,032,590 |
| 21. Increase tax on fuel by 3% | 651,432 | 670,975 | 691,105 |
| 22. Implement EAC CET starting Q4 2026 | - | 11,054,779 | 52,488,354 |
| | | | |
| ***Handling fees (seaport)*** | | | |
| 23. Increase handling charges by 5% | 367,742 | 378,775 | 390,138 |
| | | | |
| ***Handling fees (airport)*** | | | |
| 24. Increase handling charges by 5% | 198,625 | 204,584 | 210,721 |
| | | | |
| ***Stamp duty (customs)*** | ***514,241*** | ***3,100,182*** | ***4,276,725*** |
| 25. Revise stamp duty rates by 30% | 514,241 | 534,296 | 555,134 |
| 26. Enforce use of ad valorem rates and WTO valuation methods | - | 2,565,886 | 3,721,591 |
| | | | |
| **Non-tax revenue** | | | |
| ***Administrative charges*** | | | |
| 27. Implement NTR reforms (NTR collection system/portal, new NTR sources, revised NTR rates) | 4,953,228 | 7,939,376 | 8,744,396 |
| | | | |
| ***Stamp duty (invoices & contracts)*** | | | |
| 28. Revise stamp duty rates upwards starting Q4 of 2025 | 836,699 | 861,800 | 887,654 |
| | | | |
| ***Other stamp duty (food items, etc)*** | | | |
| 29. Implement taxpayer compliance program (planned to start Q4 2025) | 82,306 | 3,683,851 | 4,006,561 |
| | | | |
| ***Urban Road Users Taxes (Trimestral)*** | | | |
| 30. Strengthen enforcement on roads | 463,534 | 523,730 | 591,600 |
| | | | |
| ***Road user charge*** | ***2,368,950*** | ***2,440,018*** | ***2,513,219*** |
| 31. Strengthen enforcement on roads | 2,186,488 | 2,248,434 | 2,312,055 |
| 32. Increase road user charges by 15% | 182,462 | 191,585 | 201,164 |
| | | | |
| ***Visa charges*** | | | |
| 33. Increase visa charges for some countries | | 450,121 | 1,223,841 |
| | | | |

| Revenue item | 2025 | 2026 | 2027 |
|---|---|---|---|
| ***Passport fees*** | | | |
| 34. Digitalize collection of non-tax revenues | 807,157 | 1,371,407 | 1,928,125 |
| | | | |
| ***Work permits*** | | | |
| 35. Increase work permit rates by 15% | | 4,420,981 | 5,827,015 |
| | | | |
| ***Fisheries license fees*** | | | |
| 36. Strengthen maritime/coastal surveillance to prevent illegal fishing | 4,724,757 | 8,282,116 | 13,812,644 |
| | | | |
| ***Telecom spectrum fees*** | | | |
| 37. Revise pricing formula; ensure prices reflect market value and proportional to frequency spectrum size | 6,064,045 | 6,296,301 | 6,327,072 |
| | | | |
| ***Business and Profession Licenses*** | | | |
| 38. Digitalize collection of non-tax revenues | 117,075 | 181,188 | 249,612 |
| | | | |
| ***Local Company Registrations*** | | | |
| 39. Digitalize collection of non-tax revenues | 902,672 | 917,396 | 931,953 |
| | | | |
| ***Other NTRAZSRF yp]*** | | | |
| 40. Digitalize collection of non-tax revenues | 3,123,833 | 3,673,572 | 4,246,230 |

### *Expenditure Measures*

**Table 8: Proposed expenditure measures 2025-2027**

| # | Expenditure measure | 2025 ($) | 2026 ($) | 2027 ($) |
|---|---|---|---|---|
| 1 | Implement pay & grading reforms to reduce wage bill (to save $1m per year) | 1,000,000 | 1,000,000 | 1,000,000 |
| 2 | Penalties for staff absenteeism | 280,000 | 250,000 | 200,000 |
| 3 | Strengthen internal audit and procurement audits (to reduce expenditure by 10% per year) | 9,447,063 | 9,919,417 | 10,415,387 |
| | **Total** | **10,727,063** | **11,169,417** | **11,615,387** |

## Annex 1: Allocation Formula for Transfers to FMSs

### Coverage

This fiscal transfer formula covers only grants from international partners for budget support. It does not apply to resource sharing related to common national revenues which are governed through separate resource sharing agreements (e.g., agreements relating to customs revenue and resources from fisheries, petroleum). This sharing arrangement does not apply to on-budget, on-treasury budget project support financed by donors as these projects will often have their own geographic and technical focus.

### Beneficiaries

Beneficiaries of the fiscal transfer agreement include Puntland, Jubbaland, Southwest State, Galmudug, Hirshabelle, and Banadir Regional Administration.

### Parameters

There are five parameters, expected to support ongoing reforms in the whole federation. They include: equal share, revenue enhancement, expenditure management, reporting and auditing, and fiscal gap equalization.

| Parameter | Description | Weight |
|---|---|---|
| Equal share | Each FMS/BRA entitled to a share of confirmed budget support received by FGS according to the allocated percentage in the equal share parameter. FGS retains 60% of the [57%] of the budget support and the rest (40%) distributed equally between FMS/BRA. | 57% |
| Revenue enhancement | Measures the strength of revenue management in the FMS/BRA so that resources are properly managed and can then be used for service delivery. The measurement focuses on the deviation between approved original budget and end of year outturn for aggregate revenue.<br>*The FMS that ranks 1st gets 21% of the 15% of the funds, 2nd gets 19%, 3rd get 18%, 4th gets 15%, 5th gets 14% and the 6th gets 13%.* | 15% |
| Expenditure management | Measures the strength of each FMS/BRA in regards to legislative scrutiny of the budget, budget process, budget execution, budget credibility, cash forecasting and accountability. The measurement focuses on existence of a fixed budget calendar and the extent to which it is adhered.<br>*The FMS that ranks 1st gets 21% of the 15% of the funds, 2nd gets 19%, 3rd get 18%, 4th gets 15%, 5th gets 14% and the 6th gets 13%.* | 15% |
| Reporting and auditing | Measures the performance of each FMS in relation to ensuring public access to fiscal information and audited financial statement, and the independence of the external audit function—which are essential for ensuring accountability and creating transparency in the use of public funds. The measurement focuses on consistency relating to key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards.<br>*The FMS that ranks 1st gets 21% of the 10% of the funds, 2nd gets 19%, 3rd get 18%, 4th gets 15%, 5th gets 14% and the 6th gets 13%.* | 10% |
| Fiscal gap equalization | This parameter applies to Southwest, Hirshabelle and Galmudug to offset revenue imbalances. It is pegged on annual revenue performance. | 3% |