



Institute of Public Finance
Somalia

Somalia's Fiscal Data Analysis

Report

Institute of Public Finance – Somalia (IPF-S)



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Abstract

This report presents a detailed fiscal analysis of Somalia for the period 2018-2022, focusing on revenue trends, expenditure patterns, fiscal balance, and the ensuing policy implications. Amidst the challenges of post-conflict economic reconstruction, Somalia has embarked on significant fiscal reforms aimed at enhancing revenue generation, optimizing public expenditure, and ensuring fiscal sustainability. Utilizing a range of data sources, including official government publications, international financial institutions' reports, and economic analyses, this report employs quantitative and qualitative analytical tools to dissect the fiscal landscape of Somalia.

Key findings reveal a gradual increase in domestic revenue, attributed to tax reforms and administrative improvements, alongside fluctuating external grants that underscore the volatility of external support. Expenditure analysis indicates a prioritization of recurrent spending, with a growing emphasis on capital expenditures to support long-term development objectives. The fiscal balance analysis highlights periods of both deficits and surpluses, reflecting the dynamic interplay between revenue performance and expenditure commitments. A persistent financing gap poses challenges to fiscal sustainability, necessitating strategic debt management and fiscal discipline.

The report recommends further tax base broadening, enhancement of tax compliance, expenditure rationalization, and the adoption of a medium-term fiscal framework to bolster fiscal stability and economic growth. By addressing these challenges through targeted fiscal policies and reforms, Somalia can enhance its fiscal discipline, promote economic stability, and pave the way for sustainable development.

Term	Definition
Domestic Revenue	income generated by the government from internal sources, including taxes (income tax, corporate tax, sales tax), customs duties, and other fees collected within the country.
External Grants	Non-repayable funds or goods received by the government from foreign countries (bilateral donors), international organizations (multilateral donors), or non-governmental organizations to support various projects and programs.
Total Revenue and Grants	income generated by the government from internal sources, including taxes (income tax, corporate tax, sales tax), customs duties, and other fees collected within the country.
Total Expenditure	The total spending by the government, including recurrent and capital expenditures, within a fiscal year.
Fiscal Balance	The difference between total revenue (including grants) and total expenditure. A positive balance indicates a surplus, while a negative balance indicates a deficit.
Recurrent Expenditure	Government spending on ongoing operational costs, such as salaries, rent, utilities, and routine maintenance. It does not include capital spending on long-term assets.
Capital Expenditure	Government spending on acquiring or maintaining fixed assets, such as buildings, infrastructure, and equipment, intended to benefit future periods.
Fiscal Deficit	A situation where total government expenditure exceeds total revenue (excluding borrowing) over a fiscal period, indicating the need for borrowing or use of saved reserves.

Fiscal Surplus

A situation where total revenue exceeds total expenditure over a fiscal period, allowing for savings or debt repayment.

Financing Gap

The shortfall between available funding (from revenue and grants) and the funding required to meet planned government expenditure and development projects.

Debt Management

The process of establishing and executing a strategy for managing the government's debt to ensure it can meet its financial obligations on time, at a sustainable cost, and with a manageable level of risk.

Public Financial Management (PFM)

The system by which government financial resources are planned, directed, and controlled to enable and influence the efficient and effective delivery of public services.

Public-Private Partnerships (PPPs)

Collaborative agreements between government entities and private sector companies to finance, build, and operate projects, such as public transportation systems, parks, and educational facilities, typically for a period.

Sustainable Development Goals (SDGs)

A universal set of goals, targets, and indicators that UN member states are expected to use to frame their agendas and political policies over the next 15 years, aiming for sustainable development in three dimensions: economic, social,



01 Introduction

Somalia's fiscal landscape is a pivotal element in understanding its broader economic and governance context. Emerging from decades of conflict and instability, the country has embarked on a path towards recovery, stabilization, and sustainable development. Central to this journey is the management of the nation's finances, encompassing revenue generation, expenditure allocation, and the balancing of fiscal accounts. This introduction provides an overview of Somalia's fiscal context and underscores the critical role of fiscal data in evaluating economic health and informing policy decisions.

Overview of Somalia's Fiscal Context

Somalia operates within a challenging fiscal environment characterized by limited domestic revenue bases, reliance on external grants, and the need to address substantial development and security needs. The fiscal framework is further complicated by factors such as volatile security situations, climatic vulnerabilities, and the ongoing need for reconstruction and development. Despite these challenges, there have been concerted efforts by the Federal Government of Somalia, with support from international partners, to enhance fiscal governance, expand revenue collection, and manage public expenditures more effectively (Federal Government of Somalia, 2022; World Bank, 2022).

Revenue generation in Somalia is predominantly from domestic sources such as taxes and customs duties, with a significant contribution from external grants and aid (IMF, 2022). The country's expenditure priorities include recurrent costs such as public sector salaries, security, and social services, alongside capital expenditures aimed at rebuilding critical infrastructure and fostering economic development. Managing the balance between these revenue sources and spending priorities is a delicate task, requiring careful fiscal planning and management.



Importance of Fiscal Data in Assessing Economic Health and Policymaking

Fiscal data serves as the backbone for assessing a country's economic health and the effectiveness of its governance. In Somalia, the collection, analysis, and dissemination of fiscal information are crucial for several reasons:

Economic Stability and Growth:

Fiscal data provides insights into the government's capacity to generate revenue, manage expenditures, and sustain economic activities. It helps identify trends in economic performance, areas of growth, and sectors needing attention, facilitating informed decisions to promote stability and growth (African Development Bank, 2022).

Policy Formulation and Evaluation:

Accurate and timely fiscal data is essential for crafting policies that aim to enhance revenue collection, prioritize expenditures, and manage public debt. It enables policymakers to assess the impact of current policies and make evidence-based adjustments to achieve fiscal and economic objectives (United Nations Development Programme, 2022).

External Financing:

Fiscal data provides insights into the government's capacity to generate revenue, manage expenditures, and sustain economic activities. It helps identify trends in economic performance, areas of growth, and sectors needing attention, facilitating informed decisions to promote stability and growth (African Development Bank, 2022).

Transparency and Accountability:

The availability of fiscal data is key to fostering transparency in government operations. It allows stakeholders, including citizens, investors, and international partners, to monitor fiscal performance, evaluate the use of public funds, and hold the government accountable for its fiscal management (Transparency International, 2022).

In conclusion, Somalia's fiscal context is integral to understanding its economic and governance challenges. The strategic collection and analysis of fiscal data are paramount in steering the country towards fiscal sustainability, economic stability, and growth. This data not only informs policy decisions and promotes accountability but also plays a vital role in building the confidence necessary for domestic and international investment, setting the foundation for a prosperous future.

02 *Methodology*

The methodology section outlines the approach taken to analyse Somalia's fiscal data from 2018 to 2022. This analysis aims to provide a comprehensive understanding of the country's fiscal trends, identifying key patterns, challenges, and opportunities within its economic framework. The methodology is structured around the data sources utilized, the analytical tools employed, and the criteria set for evaluation.

Data Sources

The fiscal analysis is based on data drawn from a variety of credible sources to ensure accuracy and comprehensiveness. These sources include:

Official Government Publications:

Annual financial statements, budgetary reports, and economic outlooks published by the Federal Government of Somalia. These documents offer detailed insights into government revenue, expenditure, and fiscal policy directions.

International Financial Institutions:

Reports and databases from institutions such as the World Bank, International Monetary Fund (IMF), and African Development Bank (AfDB) provide valuable data on external grants, loans, and assessments of Somalia's economic and fiscal health.

United Nations Agencies:

3.Data and reports from UN agencies, including the United Nations Development Programme (UNDP) and the Food and Agriculture Organization (FAO), contribute information on development aid and sector-specific financial flows impacting Somalia's fiscal landscape.

Non-Governmental Organizations and Think Tanks:

Research and analysis from NGOs and economic think tanks offer independent perspectives on Somalia's fiscal policies, challenges, and performance metrics.

Analytical Tools

The analysis employs a combination of quantitative and qualitative analytical tools to dissect the fiscal data and derive meaningful insights:

Trend Analysis:

Utilizing statistical methods to identify patterns in revenue collection, expenditure trends, and fiscal balances over the five-year period. This includes year-on-year growth rates, compound annual growth rates (CAGR), and variance analysis.

Comparative Analysis:

2. Comparing Somalia's fiscal data against regional benchmarks and similar post-conflict economies. This approach helps contextualize Somalia's performance and identify best practices and lessons learned.

Policy Impact Analysis:

3. Evaluating the effects of fiscal policies and interventions on economic stability, growth, and development. This involves assessing policy outcomes against stated objectives and identifying causal relationships between fiscal measures and economic indicators.

Financial Sustainability Assessment:

4. Analysing the long-term sustainability of fiscal paths through debt sustainability analysis, fiscal gap analysis, and the evaluation of fiscal risks and reserves.



The evaluation of Somalia's fiscal data is guided by several key criteria designed to assess the effectiveness of fiscal management and its impact on economic health:



01

Revenue Generation Efficiency:

Assessing the ability of the government to mobilize domestic resources and attract external funding.

02

Expenditure Prioritization and Efficiency:

Evaluating how well public spending aligns with national development goals and priorities, including the balance between recurrent and capital expenditures.

03

Fiscal Balance and Stability:

Analysing the fiscal balance to understand the government's financial health and its ability to manage deficits and surpluses sustainably.

05

Debt Management and Sustainability:

5. Evaluating the impact of fiscal policies on achieving macroeconomic stability, promoting economic growth, and improving public service delivery.

04

Debt Management and Sustainability:

4. Assessing the level and management of public debt, including the implications for fiscal sustainability and economic growth.

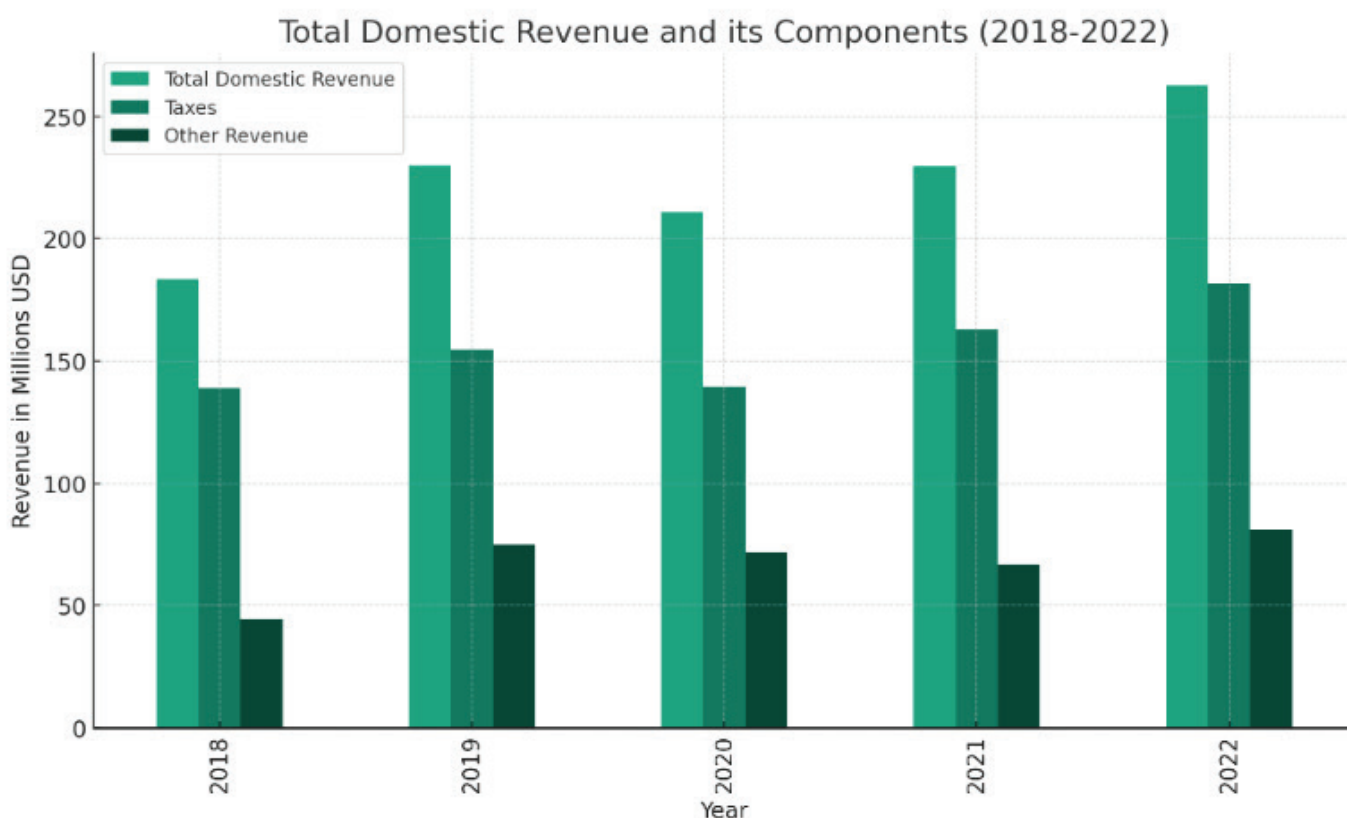
This methodology sets the foundation for a rigorous analysis of Somalia's fiscal data, aiming to provide actionable insights that can inform policy decisions and contribute to the country's economic development and stability.

Analysis of Revenue Trends

3.1 Domestic Revenue Growth

Tax Reform and Administration Improvements

The Ministry of Finance's strategic initiatives to overhaul the tax system have significantly boosted revenue collection. Implementing digital tax collection platforms and enhancing taxpayer services have streamlined tax administration processes, leading to increased compliance and revenue (Ministry of Finance, 2022). International partnerships, such as those with the International Finance Corporation (IFC) and the African Development Bank (AfDB), have facilitated the adoption of best practices in tax administration (World Bank, 2021).



The graphs above present a comprehensive view of Somalia's central government revenue from 2018 to 2022, delineating the trends in domestic revenue, its constituent elements (taxes and other revenues): Total Domestic Revenue and its Components (2018-2022): The bar chart illustrates a general upward trend in total domestic revenue over the five-year period. It shows an increase in both tax revenue and other revenue, indicating improvements in revenue collection mechanisms and tax administration

Economic Expansion

The telecommunications sector's growth has been notably fuelled by regulatory reforms, making it a substantial contributor to tax revenue (International Telecommunication Union, 2022). Moreover, remittances, a critical component of Somalia's GDP, have seen increased formalization, enhancing their impact on the economy (United Nations Development Programme, 2022). Trade sector resilience, particularly through agricultural exports, has benefited from infrastructure improvements, notably in port facilities, which have positively affected tax revenues (African Development Bank, 2022).

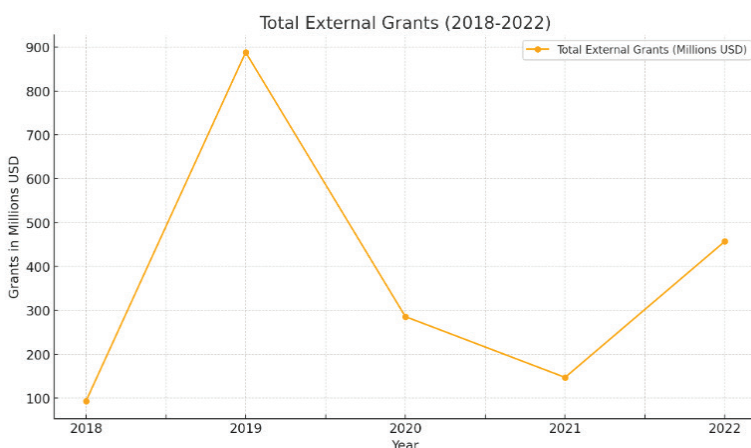
Policy Measures

New tax policies aiming at equity and fairness have been introduced, reflecting a commitment to a more inclusive economic model. Efforts to combat tax evasion and implement a progressive tax system are ongoing, though challenges remain in legislative reform and capacity building within tax administration (International Monetary Fund, 2022).

3.2 External Grants

Key Donors and Impact on Fiscal Stability

The significant role of external grants in supporting Somalia's budget highlights the importance of strategic grant management. Contributions from the European Union, United States, World Bank, and United Nations agencies have been instrumental in sectors critical to Somalia's recovery and development (European Commission, 2022; World Bank, 2022). However, reliance on these grants underscores the need for increased domestic revenue mobilization to ensure fiscal stability (United Nations Economic Commission for Africa, 2022).



The line graph above presents a comprehensive view of Somalia's central government revenue from 2018 to 2022, delineating the trends in total external grants: Total External Grants (2018-2022):

The line graph highlights fluctuations in external grants received by Somalia, with a significant peak observed in 2019 followed by variations in subsequent years. This trend underscores the volatility of external grants and the importance of enhancing domestic revenue mobilization to ensure fiscal sustainability.

These analysis underscore the progress made in domestic revenue generation and the ongoing challenges posed by reliance on external grants, emphasizing the need for strategic fiscal management to support Somalia's economic stability and development goals.

3.3 Comparison of Revenue Trends Over the Years

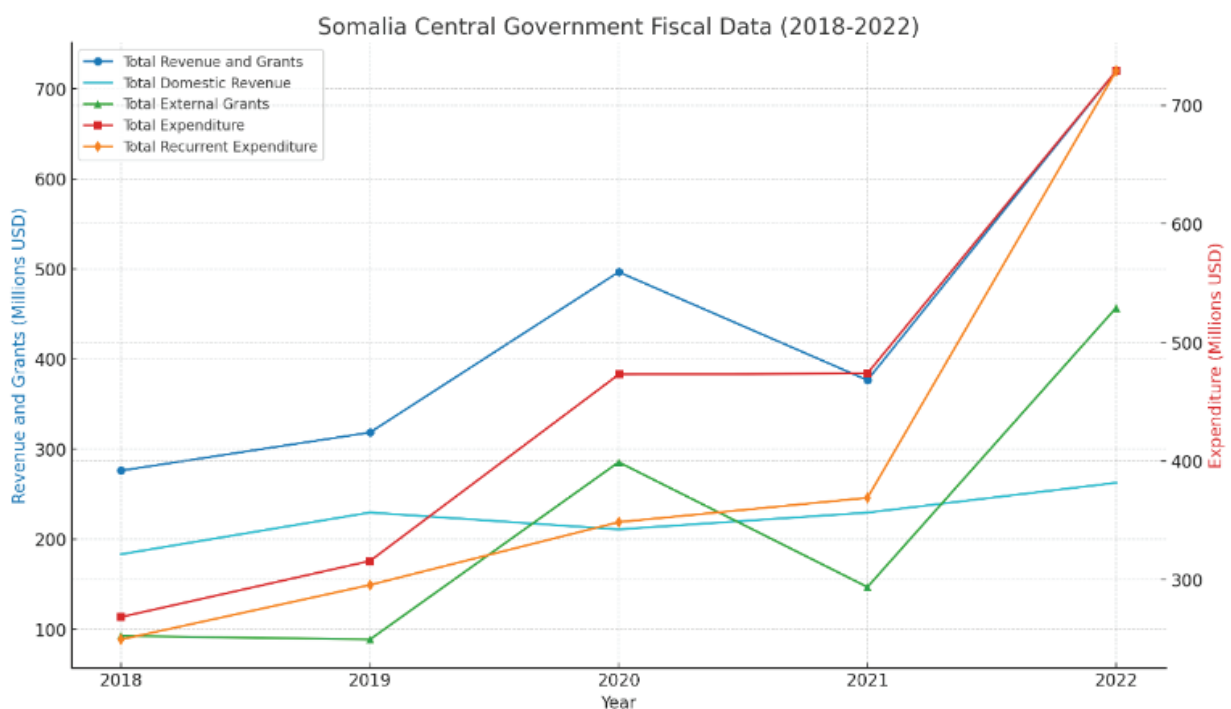
Patterns and Anomalies

The consistent rise in domestic revenue indicates the effectiveness of fiscal reforms and sectoral growth strategies. Nonetheless, the fluctuation in external grants highlights the necessity for a diversified revenue strategy to mitigate dependency on these volatile sources (Somalia National Bureau of Statistics, 2022; IMF Country Report No. 22/087, 2022). Diversification efforts, especially in expanding the tax base and enhancing non-tax revenues, are crucial steps toward fiscal sustainability.

Significant strides have been made in enhancing domestic revenue collection and managing external grants in Somalia. Future policies should continue focusing on tax reform, leveraging economic growth sectors, and developing a robust fiscal framework to support sustainable development. Strategic international collaborations will be vital in building fiscal management capacity and achieving economic stability (Federal Government of Somalia's Fiscal Policy Review, 2022; World Economic Forum, 2022).

04 Expenditure Trends and Analysis

The expenditure trends of Somalia provide critical insights into the government's fiscal priorities, the efficiency of public spending, and the alignment of expenditures with national development goals. This section offers a detailed examination of recurrent versus capital expenditure, assesses the efficiency of these expenditures, and discusses their implications for fiscal sustainability and discipline.



4.1 Breakdown of Recurrent versus Capital Expenditure Trends in Public Spending Areas

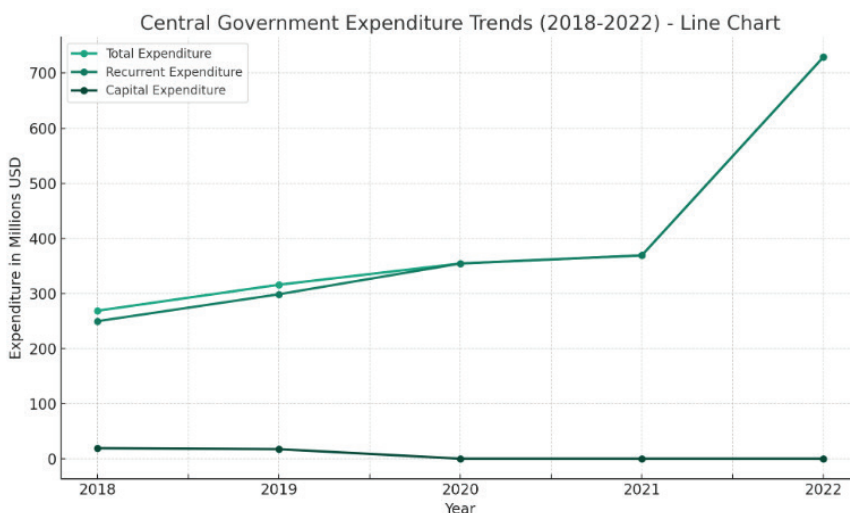
Recurrent Expenditure:

This category, which includes spending on wages and salaries, goods and services, and interest payments, has consistently represented a significant portion of Somalia's total expenditure. The focus on recurrent expenditures reflects the government's commitment to maintaining essential public services, such as security, education, and healthcare. However, it also indicates the challenges of high operational costs and the need for efficient resource allocation to ensure sustainability.



Capital Expenditure:

Investment in infrastructure, development projects, and other long-term assets is crucial for Somalia's economic recovery and growth. Capital expenditures have varied over the years, influenced by donor funding availability, security conditions, and prioritization of development projects. Key areas of capital spending include infrastructure development (roads, energy, water), health and education facilities, and agricultural development to ensure food security and support livelihoods. Analysis of Spending Trends The analysis reveals that while recurrent expenditures remain high, reflecting the cost of maintaining essential government functions and services, there is a growing recognition of the need to increase capital investments. These investments are vital for building the physical and social infrastructure necessary for sustainable development.



The above line chart presents of Somalia's central government expenditure trends from 2018 to 2022, illustrating the total, recurrent, and capital expenditures over these years:



Total and Recurrent Expenditure:

The lines show a consistent upward trajectory in both total and recurrent expenditures, highlighting increased government spending over time, particularly in recurrent needs.

Capital Expenditure:

The chart reveals capital expenditures for 2018 and 2019, followed by an absence of reported capital spending from 2020 to 2022. This visualization underscores the fluctuations in government investment in long-term assets and development projects during the period.

This line chart format effectively captures the dynamic nature of government spending in Somalia, offering insights into the allocation priorities and fiscal management strategies employed over the analysed years.

4.2 Evaluation of Expenditure Efficiency Alignment with National Development Goals:

The efficiency of government expenditure is critically assessed through its alignment with Somalia's national development goals, which include poverty reduction, economic growth, and the provision of basic services. Efficiency involves not just the amount of spending but how effectively the funds are used to achieve desired outcomes. Health and Education: Investments in health and education are crucial for human capital development, a key driver of economic growth and poverty alleviation. Assessing expenditure efficiency in these sectors involves evaluating improvements in access to and quality of services, such as increased school enrolment rates and improved healthcare outcomes. Infrastructure: Efficiency in infrastructure spending is evaluated based on the impact of investments on economic activity, including the facilitation of trade, improvement of access to markets, and enhancement of overall productivity. Challenges to Expenditure Efficiency Challenges to achieving high expenditure efficiency in Somalia include limited capacity for project implementation and monitoring, the need for improved public financial management systems, and ensuring that spending decisions are based on rigorous cost-benefit analyses. Addressing these challenges is essential for maximizing the impact of public spending.

4.3 Discussion on Fiscal Sustainability:

Expenditure Management and Fiscal Discipline Fiscal sustainability in Somalia hinges on prudent expenditure management and fiscal discipline. Managing recurrent expenditures, particularly the wage bill and operational costs, is critical to prevent fiscal imbalances and ensure funds are available for capital investments. Fiscal Discipline: Implementing strict budgetary controls, enhancing revenue collection, and rationalizing public spending are essential components of fiscal discipline. This includes prioritizing expenditures that offer the highest social and economic returns and ensuring that borrowing is managed carefully to avoid unsustainable debt levels.

Strategic Prioritization of Expenditures:

Aligning spending with strategic priorities, such as the Sustainable Development Goals (SDGs) and the National Development Plan, is crucial. This involves not only increasing allocations to priority sectors but also ensuring that funds are spent efficiently and effectively to achieve desired outcomes.

Risk Management:

Developing strategies to manage fiscal risks, including volatile revenue streams, external shocks, and emergency spending needs, is essential for maintaining fiscal sustainability. Establishing contingency reserves and implementing risk mitigation measures can enhance fiscal resilience. Finally, while Somalia faces significant challenges in managing its expenditures efficiently and sustainably, opportunities exist to enhance fiscal discipline, prioritize strategic investments, and improve public financial management practices. Achieving expenditure efficiency and aligning spending with national development goals are crucial steps toward fiscal sustainability and economic growth.

05

Fiscal Balance and Financing Gap

The fiscal dynamics of Somalia, characterized by periods of both deficits and surpluses, offer critical insights into the nation's fiscal health and its capacity for managing financial resources efficiently. This detailed analysis explores the nuances of Somalia's fiscal balance, the implications of its financing gap, and the strategies employed to navigate these challenges, all within the context of ensuring fiscal sustainability and supporting long-term development.

5.1 Fiscal Balance Overview

Deficits and Surpluses:

Somalia's fiscal landscape has been marked by fluctuations, with deficits occurring in years where expenditures on public wages, security, and infrastructure development outpace revenue collection. These fiscal deficits highlight the pressure on the government's financial resources and the challenge of meeting the nation's developmental needs. On the other hand, fiscal surpluses, though rarer, signal periods of robust revenue performance and controlled spending, reflecting a healthy fiscal stance. However, these surpluses also prompt a re-evaluation of whether the investment in development sectors is sufficient (IMF Country Report, Somalia, 2022).

Revenue Performance:

The variance in revenue collection is influenced by factors such as economic growth, tax policy reforms, and administrative efficiency. Notably, domestic revenue has seen an uptick, attributed to enhanced tax collection mechanisms and sectoral growth, particularly in telecommunications and trade. External grants, while significant, exhibit volatility, impacted by donor priorities and the global economic climate (World Bank, Somalia Economic Update, 2022).

Expenditure Commitments:

Government spending in Somalia is geared towards immediate social needs, security maintenance, and long-term development initiatives. Balancing these financial commitments necessitates meticulous expenditure management and strategic prioritization to align with available fiscal resources (African Development Bank, Somalia Infrastructure Report, 2022).

5.2 Financing Gap Implications

Impact on Fiscal Sustainability:

The persistent financing gap poses a threat to fiscal sustainability, potentially necessitating increased borrowing, which could elevate public debt to unsustainable levels. Such scenarios underscore the importance of addressing the financing gap through measures that ensure fiscal health while facilitating development objectives (UNDP, Financing Sustainable Development in Somalia, 2022).

Debt Management Strategies:

Domestic Resource Mobilization:

Tax reforms and initiatives to broaden the tax base are crucial for enhancing domestic revenue, reducing dependency on external financing (OECD, Revenue Statistics in Africa, 2022).

Expenditure Rationalization:

Expenditure reviews aim to pinpoint inefficiencies, reallocating resources to sectors with the highest return on investment, such as infrastructure and healthcare (IMF, Public Expenditure Review, 2022).

External Financing:

Managing external grants and loans demands careful negotiation to secure favourable terms, ensuring that such financing aligns with strategic development goals and avoids exacerbating debt levels (World Bank, Managing External Debt for Development, 2022).

Public-Private Partnerships (PPPs):

PPPs are encouraged to fill the financing gap by attracting private investment in development projects, thus alleviating the fiscal load on the government while leveraging private sector efficiencies (Public-Private Partnership Advisory, 2022).

Contingency Planning:

Establishing contingency funds and mechanisms enhances fiscal resilience, providing a safeguard against unexpected fiscal shocks (IMF, Fiscal Monitor, 2022).

Addressing the fiscal balance and financing gap in Somalia requires a comprehensive approach that encompasses strategic revenue mobilization, prudent expenditure management, and innovative debt strategies. By adopting these measures, Somalia can enhance its fiscal discipline, support economic stability, and lay the groundwork for sustainable development. The success of these strategies is contingent upon their implementation and the ongoing evaluation of their impact on Somalia's fiscal health and development trajectory.



6.1 Financing Gap Implications

Somalia's journey toward fiscal reform has highlighted significant strides in tax reform and public financial management. These reforms have laid a solid foundation for economic stability and sustainable development, showcasing Somalia's commitment to fiscal responsibility and governance.

Areas of Strength:

Tax Reform: Somalia's efforts in tax reform have been pivotal, with the implementation of more efficient tax administration systems significantly enhancing domestic revenue collection. This initiative has not only broadened the tax base but also streamlined tax collection processes, leading to an uptick in government revenues. Such reforms have been instrumental in fostering an environment conducive to economic growth and stability.

Transparency and Accountability: The emphasis on transparency and accountability in public financial management has been a cornerstone of Somalia's fiscal policy. These measures have reinforced donor confidence, attracting external support vital for Somalia's development agenda.

Opportunities for Improvement:

Despite these successes, challenges persist, particularly in expenditure management and revenue diversification. The need for a more strategic approach to expenditure, ensuring alignment with national development goals, remains paramount. Moreover, diversifying revenue sources beyond external grants is critical to achieving fiscal autonomy and reducing vulnerability to external shocks.



6.2 Recommendations

To build on these successes and address the identified challenges, the following comprehensive strategies are recommended:

Enhancing Revenue Generation:

Broaden the Tax Base:

Initiatives to incorporate informal sectors into the formal economy and tax emerging areas like digital services are essential. Such efforts should be coupled with strategies to harness natural resources for revenue generation, ensuring sustainable economic development.

Strengthen Tax Compliance:

Leveraging technology and enhancing taxpayer education can significantly improve tax compliance. Incentives for timely tax payment and streamlined processes will encourage greater compliance and reduce leakages.

Adopt Technological Innovations:

The integration of advanced technologies in tax collection processes is crucial for enhancing efficiency. This approach not only reduces administrative costs but also minimizes opportunities for tax evasion, leading to more robust revenue collection.

Improving Expenditure Efficiency:

Strategic Expenditure Review:

Regular reviews of government spending are vital to ensure resources are allocated efficiently, focusing on high-impact sectors such as health, education, and infrastructure development.

Enhance Public Financial Management:

Strengthening PFM systems will ensure more effective budget planning, execution, and monitoring. This includes investing in training and capacity building for officials involved in budget processes to foster a culture of fiscal discipline and accountability.

Capacity Building:

Developing the institutional capacity of governmental bodies involved in budget formulation and oversight is imperative. This effort will enhance the government's ability to manage public finances effectively, ensuring that expenditure aligns with Somalia's strategic priorities.

Improving Expenditure Efficiency:

Medium-Term Fiscal Framework:

Establishing a comprehensive fiscal framework that outlines clear revenue, expenditure, and debt management strategies is essential for guiding sustainable fiscal policies.

Fiscal Rules Implementation:

The introduction of fiscal rules that set limits on deficit and debt levels will enforce fiscal discipline, ensuring long-term fiscal sustainability.

Fostering Public-Private Partnerships:

PPPs represent a viable mechanism for mobilizing private investment in critical infrastructure and services. This approach can alleviate the financial burden on the government while leveraging private sector efficiency.

Building Resilience to Shocks:

Establish Fiscal Buffers:

Creating contingency reserves and emergency funds will provide the fiscal space needed to respond to economic shocks or natural disasters effectively.

Promote Economic Diversification:

Diversifying the economy is crucial for reducing reliance on a narrow revenue base and enhancing resilience to external and domestic shocks.

Somalia's fiscal reforms have laid the groundwork for economic stability and sustainable development. However, continued efforts to enhance fiscal policy effectiveness are required. By adopting the recommended strategies, Somalia can strengthen its fiscal framework, supporting economic stability, and paving the way for inclusive growth and sustainable development.



Conclusion

This comprehensive report delves into Somalia's fiscal data spanning from 2018 to 2022, offering a nuanced exploration of the country's fiscal dynamics, achievements, and ongoing challenges. Through meticulous analysis, it becomes evident that Somalia has made considerable progress in several key fiscal areas, each contributing to the nation's path toward economic stability and sustainable growth.

Key Insights:

Revenue Generation:

The reform initiatives undertaken in Somalia's tax system and administration have significantly boosted domestic revenue, marking a pivotal shift toward fiscal self-reliance. These reforms, including the modernization of tax collection methods and the expansion of the tax base, have not only improved revenue streams but also laid the foundation for a more equitable and efficient fiscal system. The move to enhance tax administration, coupled with targeted efforts to integrate the informal economy into the formal tax framework, underscores a strategic approach to reducing dependence on external grants while ensuring the availability of funds for some critical public services and development initiatives.

Expenditure Management:

Somalia's focus on refining the management of public expenditures reflects a commitment to aligning spending with the broader objectives of national development. The adoption of more rigorous budgeting processes and the implementation of expenditure reviews have been instrumental in identifying and eliminating inefficiencies. Nonetheless, the continuous need for stringent prioritization underscores the complexity of balancing immediate social needs with long-term investment in infrastructure and development projects. The challenge lies in optimizing resource allocation to sectors that yield substantial socio-economic returns, thereby enhancing the impact of public spending on overall development.

Fiscal Discipline and Sustainability:

The emphasis on fiscal discipline emerges as a cornerstone for achieving and maintaining fiscal sustainability. The proactive management of fiscal deficits and the strategic addressing of financing gaps are critical to averting the risk of accruing unsustainable debt. This aspect of fiscal management is particularly crucial for Somalia as it navigates the intricacies of balancing development financing needs with fiscal prudence.

External Support:

The significant role of external grants in supplementing Somalia's budget highlights the importance of international cooperation in supporting the nation's developmental and fiscal goals. However, the inherent volatility of such grants accentuates the need for Somalia to fortify its fiscal framework, aiming for a model of self-sufficiency that can withstand fluctuations in external support.

Addressing Persistent Challenges and Strategic Policy Interventions

Despite the strides made, Somalia faces enduring challenges that necessitate targeted policy interventions. The limited diversification of the economy, susceptibility to external shocks, and areas for improvement in public financial management are issues that require comprehensive and coordinated efforts. Strategic initiatives aimed at enhancing revenue generation, elevating expenditure efficiency, securing sustainable debt management practices, and promoting economic diversification are imperative for Somalia's fiscal and economic resilience.

Supporting Informed Decision-Making

The insights gleaned from this report are intended to inform and guide decision-making processes among policymakers, stakeholders, and international partners. By harnessing these insights, Somalia can bolster its fiscal discipline, stimulate economic growth, and lay the groundwork for sustained development. In the face of existing challenges, strategic and informed fiscal policy decisions are paramount in leveraging opportunities for improvement and steering the nation toward a prosperous and stable future.

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