FEDERAL GOVERNMENT OF SOMALIA
MINISTRY OF FINANCE

Mid-Year Budget Review Report
Fiscal Year 2022

Prepared by:
Budget Monitoring and Evaluation Section
Budget Directorate

September 2022

Table of Contents

Executive Summary

1. **Execution of the first six months of the fiscal year 2022 was based on two vote-on-account budgets since there was no Parliament to approve the full year budget at the end of the previous year**. This meant that the two vote-on-account budgets were based on the budget figures in the 2021 budget. As such, Government could not implement any of the revenue or expenditure measures it had proposed in the 2022 draft budget. This notwithstanding, the mid-year budget review has been based on the numbers in the full year budget that was approved 30 June 2022.

2. **Midway through the year, Government collected $237.3 million, of which $115.8 million came from domestic tax and $121.5 million were donor grants (see Table 1)**. In terms of performance, the 6-months collection represented 25.1% of the annual target (but far below the 50% prorata expectation). The far lower-than-expected performance was due to the poor performance of donor grants, which performed at 17.5% largely due to suspension of budget support until elections were completed, and the elections-induced uncertainties that brought about a slowdown in government activities (including project activities) during the first half of the year. On part of domestic revenue, the performance was 46.3% which was not very far from the prorata expectation mark of 50%. The lower-than-expected performance in domestic revenue was attributed to a slowdown in business activities including importation of goods as traders were uncertain about the outcome and possible after-effects of the elections. Both domestic revenue and donor grants registered year-on-year growth of 15.6% and 45.7% respectively, which is a possible indicator that tax administration is slowly recovering from the effects of the covid pandemic.

Table 1: Revenue and Expenditure Aggregates January-June 2022, in Million$

Fiscal Variable	2021				2022			
	Budget	Actual	Pfce%	YtY%	Budget	Actual Jan-Jun	Pfce 50%	YtY%
Revenue and Grants	**680.5**	**376.5**	**55.3%**	**-24.2%**	**944.9**	**237.3**	**25.1%**	**29.3%**
Domestic Revenue	269.7	229.6	85.1%	8.7%	250.1	115.8	46.3%	15.6%
Grants	410.8	147.0	35.8%	-48.5%	694.8	121.5	17.5%	45.7%
Expenditure	**664.6**	**473.8**	**71.3%**	**-2.4%**	**929.9**	**265.5**	**28.6%**	**22.5%**
FGS Local Funds	404.3	344.8	85.3%	-6.1%	419.3	179.6	42.8%	17.9%
Recurrent	*372.3*	*342.0*	*91.9%*	*-4.9%*	*408.9*	*179.0*	*43.8%*	*46.2%*
Capital	*32.0*	*2.8*	*8.8%*	*-64.4%*	*10.4*	*0.6*	*6.2%*	*-13.4%*
Donor Funded Projects	260.3	129.0	49.5%	9.4%	510.6	85.9	16.8%	33.3%
Recurrent	*209.8*	*115.7*	*55.2%*	*7.9%*	*480.1*	*82.4*	*17.2%*	*37.4%*
Capital	*50.5*	*13.2*	*26.2%*	*24.6%*	*30.5*	*3.6*	*11.7%*	*-41.9%*
Fiscal Balance	**15.9**	**(97.3)**			**14.9**	**(28.2)**		

3. **Total expenditure amounted $265.5 million during the first six months of the year, of which $179.6 million was from FGS local funds (including budget support) and $85.9 million was donor-funded projects expenditure**. Total expenditure represented 28.6% of the annual target and was 22.5% higher than what was spent during the same period in 2021. The absorption for FGS local funds was 42.8% of the respective annual budget, whereas the expenditure absorption for donor-funded projects was just 16.8%. Absorption of capital expenditure was the worst, both for FGS local funds (6.2%) and projects (11.7%).

Key takeaway messages

i) Government needs to rely less on budget support and focus more on enhancing domestic revenue given the unpredictability of budget support.

ii) Government needs to prioritize capital spending as this will help to generate visible investments that Government can use as showcase to motivate taxpayers to enhance their compliance with paying tax.

iii) Improvements in execution of donor-funded projects should remain on Government's PFM radar until absorption of project funds improves significantly.

iv) Time length of the recent elections affected revenue mobilization and service delivery. This should be a lesson for future elections.

REVENUE PERFORMANCE

4. Government realised $237.28 million as at end June 2022. This was only 25.1% of the annual target and far below the 50% prorata expectation. The weak performance was largely due to the weak performance of external grants which performed 17.5% as at end of June 2022 due to the suspension of budget support by donors until elections were concluded. On part of domestic revenue, the half-year performance was 46.3% (in comparison to annual budget) and 15.6% higher than the collection in the same period last year (2021), with only income tax performing beyond the 50% prorata mark, at 52.8%. The rest of the major revenue heads performed below the 50% prorata expectation (taxes on international trade 49%, taxes on local goods and services 39.1%, other taxes 42.7%, and non-tax revenue 44.7%). Analysis of the performance for each of the revenue sources at the GFS 4-digit level is provided in the section below.

Table 2: Revenue and Grants as of end June 2022

Fiscal Variable	2021				2022			
	Budget	Outturn	Pfce	YtY%	Budget	Outturn Jan-Jun	Pfce	YtY%
Revenue and Grants	**680.5**	**376.5**	**55.3%**	**-24.2%**	**944.9**	**237.3**	**25.1%**	**29.3%**
Domestic Revenue	**269.7**	**229.6**	**85.1%**	**8.7%**	**250.1**	**115.8**	**46.3%**	**15.6%**
Income taxes	**13.8**	**15.8**	**114.4%**	**-2.3%**	**15.8**	**8.3**	**52.6%**	**27.8%**
Individual income tax (PAYE)	11.7	14.3	122.2%	15.1%	12.9	7.2	55.6%	18.0%
- Public Sector	*5.2*	*6.5*	*125.6%*	*16.8%*	*5.8*	*3.4*	*57.9%*	*23.9%*
- Private Sector	*6.5*	*7.8*	*119.4%*	*13.7%*	*7.1*	*3.8*	*53.6%*	*13.2%*
Corporate tax	1.5	0.9	61.3%	-71.1%	2.3	0.8	37.2%	340.0%
Rental income	0.6	0.6	96.6%	4.1%	0.7	0.3	47.0%	11.1%
Taxes on local goods and services	**30.0**	**23.4**	**78.0%**	**10.0%**	**30.8**	**12.0**	**39.1%**	**4.3%**
Hotels	0.9	1.1	118.8%	2.8%	1.2	0.5	42.9%	-11.7%
Telecommunications	5.2	3.7	70.8%	124.1%	5.0	1.7	33.0%	-16.7%
Electricity Companies	1.3	0.0	0.2%	-60.5%	1.3	-	0.0%	
Imported goods	18.0	17.7	98.1%	-2.1%	18.5	8.4	45.2%	-2.7%
Airline tickets	1.3	1.0	73.7%	85.7%	1.1	1.5	134.4%	293.6%
TV Cable providers	1.3	-	0.0%	-100.0%	1.3	-	0.0%	
Sales taxes - Other	-	-			2.3	-	0.0%	
On goods and services	2.0	-	0.0%		-	-		
Taxes on international trade	**128.0**	**109.0**	**85.1%**	**19.7%**	**111.3**	**54.5**	**49.0%**	**13.1%**
Customs duty (all items except khat)	91.0	97.4	107.0%	13.8%	95.3	48.9	51.3%	8.6%
Import duty on khat	37.0	11.6	31.3%	110.8%	16.0	5.6	35.2%	76.9%
Road tax and stamp duties	**11.0**	**14.6**	**132.4%**	**32.2%**	**15.9**	**6.8**	**42.7%**	**5.6%**
Stamp duty (notary)	1.5	3.5	236.2%	134.6%	3.0	1.2	40.6%	10.5%
Road tax	1.6	1.5	94.1%	-11.1%	1.8	0.6	34.5%	-23.5%
Stamp duty on customs	3.9	4.0	103.1%	6.2%	4.8	2.1	43.4%	11.1%
Other stamp duty	4.0	5.5	137.4%	36.4%	6.4	2.9	45.5%	8.3%
Non Tax Revenue	**86.8**	**66.8**	**76.9%**	**-6.8%**	**76.4**	**34.1**	**44.7%**	**24.4%**
Rent of Land and Buildings	-	-			-	0.2		
Administrative charges	2.0	5.6	277.6%	81.9%	5.7	2.3	40.7%	1.3%
Visa charges	4.0	3.9	96.4%	-51.4%	3.5	3.2	92.6%	101.7%
Passports fees	4.7	7.3	156.9%		5.5	3.7	67.5%	44.5%
License fees - Commerce and industry	1.5	1.3	83.6%	6.6%	1.6	0.5	31.4%	9.2%
Work permits and other fees	1.2	0.7	56.6%	-6.6%	0.6	0.2	38.0%	-30.4%
Harbour fees - Albayrak	28.5	25.6	89.8%	-18.4%	31.4	10.7	33.9%	-0.9%
Airport fees - Favori	3.3	2.8	84.6%	-14.8%	2.6	1.3	51.2%	9.7%
Fisheries license fees	2.1	2.6	124.3%	18.9%	1.0	0.0	0.2%	-99.7%
Telecommunication Spectrum fees	12.6	1.2	9.1%	-33.6%	1.7	0.2	13.6%	-35.9%
Overflight fees (IATA)	12.4	11.3	90.8%	-28.4%	15.7	7.0	44.6%	40.4%
Customs harbour fees	5.0	4.7	94.8%	4.5%	4.7	2.4	51.0%	7.3%
Election Registration Fee	9.6	-	0.0%		2.3	2.3	100.0%	
Grants	**410.8**	**147.0**	**35.8%**	**-48.5%**	**694.8**	**121.5**	**17.5%**	**45.7%**
Grants from foreign governments	30.0	2.5	8.3%	-83.3%	39.6	29.6	74.7%	
Grants from international organizations	380.8	144.5	37.9%	-46.6%	655.2	91.9	14.0%	10.2%

Income tax (individuals)

5. A total of $7.15m was collected in the first six months which was 55.6% of the annual budget and 18% higher than the collection in same period last year. The year-to-year growth (of 18%) was attributed to two factors—an increase in government staff headcount from 5,180 in 2021 to 5,214 in 2022 for permanent staff, an increase of temporary staff, and increased enforcement activities that led to an increase in the number of compliant employers in the private sector remitting payroll taxes to Government. Statistics regarding the number of employers that withhold such income tax at source will be compiled and availed by the Revenue Department.

Income tax (payable by corporations)

6. A total of $0.84m was collected in the first six months, which was 37.2% of the annual target and way below the 50% prorata expectation. On the other hand, the performance was almost four times better than the performance in the first six months of 2021 (having registered a 340% year-on-year growth). The improved year-on-year performance was attributed to increased enforcement activities of the Inland Revenue Department mostly through writing to corporate firms to file their income tax returns and pay the tax due. The Department has also written to FGS MDAs asking them not to renew business licenses of enterprises unless there is proof of tax payment.

Rental income tax

7. This source yielded $0.31m at halfway point of the 2022 fiscal year, which was 47% of the annual target (three percentage points shy of the 50% prorata expectation) and 11.1% better than in the same period last year. Although the half-year 50% prorata mark was not reached, the improved enforcement activities initiated during the first half of the year have contributed to the improvements in the administration of the tax.

Taxes on local goods and services

8. A total of $12.04m was realised in the first half of the year, representing 39.1% of annual target and 4.3% better than the collection in same period last year. Apart from sales tax on airlines tickets which performed 134.4% at halfway point of the fiscal year, the rest of the six major items from which this revenue is collected did not reach the 50% prorata expectation. Sales tax on imports performed 45.2%, sales tax on hotels 42.9% and telecoms 33%. The other three sources (sales tax on electricity, TV cable providers and on other assorted items) registered NIL collection. In total they were budgeted to bring in $3.63m (annual target). For sales tax on electricity, the Revenue Department was not well prepared to enforce the tax, besides there was less support for the tax from the tax paying public because it would have increased the electricity tariffs which would have worsened people's welfare at a time of runaway inflation in the country (due to effects of the drought and Russia/Ukraine war).

9. In the case of sales tax on 'TV cable providers,' the SFMIS indicates zero collections during the first six months which is due to mis-posting of revenue collections on the SFMIS (currently being lumped under sales tax on hotels). Efforts are being done between the Revenue Department and Office of the Accountant General to ensure the mis-posting ceases, and to establish the amount so far collected from the tax source. In the case of 'sales tax other', there was NIL collection because this was a new revenue measure for 2022 but due to delays to conclude parliamentary and presidential elections, the 2022 budget (and therefore the new measure) was only approved in June 2022 and thus its implementation is expected to start in the second half of the year. During the first six months, the Department could only administer revenue sources that had been approved through the vote-on-account which only focused on revenue sources administered in the previous fiscal year (2021).

Taxes on international trade (customs)

10. Half-year performance for customs revenue was 49%, just one percentage point short of the 50% prorata expectation mark. It brought in $54.51m which was 13.1% higher than the collection in the same period last year. Petroleum contributed 17% of the total collection, followed by khat 10%, food item such as spaghetti 8%, vehicles 7%, sugar 7%, electronic construction materials 6%, electronic materials 5%, building material 4%, apparel/clothing/textiles 4%, vegetable oil 4%, beverages 4%, and the rest 34% of which 1% came from export duties. As Table x shows, several import items registered negative year-on-year growth, such as sugar -17.6%, vegetable oils -72%, apparel/clothing/textiles -42.3%, shows -18.1%, vegetables and fruits -91.7%, plastic materials –82.6%, vehicle tyres -96.9%, household materials -32.1%, electronic materials -8.6%, food items -16.3%, cosmetics -94.7%, beverages -17.9% and gold -99.5%.

11. Reasons for the negative growth are basically three. Political uncertainty (due to delayed elections) which caused a slowdown in importation of such goods, overstocking of such goods during the last quarter of 2021 in preparation for any election eventualities, and import substitution for items such as vegetables and fruits, and beverages. On the other hand, four items registered positive year-on-year growth including khat which increased 76.9% (why?), building materials 110.3% due to increased construction activities in the country, soap and cleaning materials 156.8%, whereas tea and poultry registered astronomical growth percentages although the revenue collected from the two items is rather insignificant.

Stamp duty and road tax (1161 and 1162)

12. A total of $6.8m was collected from these sources in the first half of the year, which was 42.7% of annual target (missed the 50% prorata mark by over 7 percentage points), and 5.6% higher than the collection in the same period (Jan-Jun) in 2021. Stamp duties performed better than road tax, with stamp duty on invoices and contracts (notary) performing 40.6% with a 10.5% year-on-year growth, stamp duty on customs papers performing 43.4% with a 11.1% year-on-year growth, and other stamp duty performing 45.5% and increasing 8.3% year on year. Road tax performed 34.5% besides registering a negative year-on-year growth of 23.5%. Reasons for the weak performance of the road tax revenue source rotate around insecurity, which has incentivized several private vehicle owners to park their vehicles at home during day and use public means because of the multiple roadblocks that inconvenience their driving. Dodging of this tax is also a factor, particularly for numerous vehicles that are parked during day but driven at night when tax collectors are not there to enforce tax collection.

Non-tax revenue

13. A total of $34.14m was collected by halfway point of the year representing 44.5% of the annual target and 24.4% higher than the collection in the same period last year. Of the twelve sources for this revenue head, five sources performed well exceeding the 50% prorata half year mark. These include visa charges 92.6%, passport fees 67.5%, airport fees (favori) 51.2%, customs harbour fees 51%, and election registration fees 100%. For visa charges, the higher-than-expected performance was attributed to an increased number of Somali diasporas that visited their families in Somalia following the lifting of covid travel restrictions in most parts of the world. There is also another category of travelers that visited the country to participate in the parliamentary elections that were concluded in the first half of the year. In the case of passport fees, the higher-then-expected performance was largely due to an increase in demand for passports aided by a perceived uncertainty that surrounded the prolonged parliamentary elections. Election registration fees hit the target and no more collections are

expected from the source in the remaining half of the year as the elections were conducted and concluded in the first half of the year.

14. On the other hand, seven of the twelve NTR sources did not meet the 50% prorata half-year mark. These include administrative fees 40.7%, licence fees (commerce and industry) 31.4%, work permits 38%, harbour fees (Albayrak) 33.9%, fisheries licence fees 0.2%, telecom spectrum fees 13.6%, and overflight fees 44.6%. For fisheries licence fees, the payments for the year are usually made in the second[1] half of the year. In the case of telecom spectrum fees, the lower-than-expected performance was attributed to weak enforcement in collection of the tax by the National Communications Authority (which collects the tax on behalf of the Revenue Department).

Donor Grants

15. A total of $121.49m was received as donor grants by end of June 2022, which was 17.5% of the annual target ($694.76m) and 45.7% higher than the grants received in the same period in 2021. Budget support amounted $38.32m which was 18.3% of budget, whereas project support amounted $83.17m which was 17.1% of annual budget. Budget support was received from Turkey $20m, UAE $9.6m (for drought spending), Capacity Injection Project $0.41m (for targeted salaries), and RCRF Project $8.31m (achievement of disbursement linked indicators). Table x provides a summary of project support revenue by source. The weak performance for ADB projects was caused by delays to commission the road projects in Somaliland due to unclarity as to how the project would be audited since the project area was outside the FGS Auditor General's jurisdiction. The project accounted for 85% of the AfDB budget.

Table 3: Donor project support revenue January-June 2022 in million$

Source	Budget $m	Q1	Q2	Total	Pfce% Cf 50%
WB	375.4	11.2	68.8	80.0	21.3%
AFDB	93.7	1.6	0.6	2.2	2.3%
UN	16.0	1.4	0.0	1.4	8.8%
EU	0.3	0.0	0.0	0.0	0.0%
Total	**485.5**	**14.2**	**69.4**	**83.6**	**17.2%**

Source: MOF

EXPENDITURE PERFORMANCE

16. A total of $265.52 million was spent during the first six months of the fiscal year. This was 28.6% of the annual budget and 22.5% higher than the expenditure in the same period last year. From a prorata spending perspective, the performance should have been 50% but due to the suspension of budget support because of the delay to conclude elections, and the slow implementation of activities for donor funded projects, the performance turned out just 28.6%. As Table 4 shows, expenditure under the FGS consolidated fund performed 42.8% whereas that of donor fund performed 16.8%. Thus, the weak overall absorption of expenditure (28.6%) was largely due to slow absorption of donor funds for the reasons indicated above (temporary suspension of budget support and slow implementation of project activities due to election-induced uncertainties).

[1] In 2021 some fisheries licence fee payments that were recorded in the first half of the year were collections for 2020 but paid in 2021.

Table 4: Summary Expenditure by Source of Funds 2020-2021 and January-June 2022

Code	Description	2020				2021				2022 (Jan-Jun)			
		Budget	Actual	Pfce%	YtY%	Budget	Actual	Pfce%	YtY%	Budget	Actual	Pfce%	YtY%
A.	**FGS Local Funds**	**458.83**	**367.40**	**80.1%**	**32.2%**	**404.31**	**344.83**	**85.3%**	**-6.1%**	**419.29**	**179.60**	**42.8%**	**17.9%**
21	Compensation of employees	222.84	216.61	97.2%	42.1%	246.28	240.83	97.8%	11.2%	252.47	120.09	47.6%	6.4%
22	Use of goods and services	89.16	62.19	69.7%	-23.1%	99.11	66.92	67.5%	7.6%	91.61	29.52	32.2%	29.3%
23	Consumption of fixed capital	12.64	7.92	62.6%	-3.7%	31.99	2.82	8.8%	-64.4%	10.35	0.64	6.2%	-13.4%
24	Interest and other charges	14.56	14.44	99.2%		2.50	14.61	584.2%	1.1%	2.50	6.39	255.7%	-6.8%
26	Grants (transfers to FMS)	119.62	66.24	55.4%	83.6%	24.42	19.66	80.5%	-70.3%	54.60	22.96	42.1%	156.0%
27	Social benefits	0.00	0.00	0.0%		0.00	0.00	0.0%		5.87	0.00	0.0%	
28	Other expenses	0.00	0.00	0.0%		0.00	0.00	0.0%		1.88	0.00	0.0%	
B.	**Donor-Funded Projects**	**224.51**	**117.89**	**52.5%**	**214.6%**	**260.31**	**128.97**	**49.5%**	**9.4%**	**510.64**	**85.92**	**16.8%**	**33.3%**
21	Compensation of employees	12.25	10.41	85.0%	-0.3%	12.67	9.25	73.0%	-11.1%	12.22	4.80	39.3%	43.8%
22	Use of goods and services	64.41	18.51	28.7%	60.3%	82.19	39.14	47.6%	111.5%	132.07	16.02	12.1%	17.3%
23	Consumption of fixed capital	29.27	10.63	36.3%	61.9%	50.54	13.25	26.2%	24.6%	30.52	3.56	11.7%	-41.9%
25	Subsidies	2.21	2.16	97.8%		8.05	1.27	15.8%	-41.2%	7.55	1.16	15.4%	9.3%
26	Grants (transfers to FMS)	22.94	14.04	61.2%	57.4%	46.14	26.19	56.8%	86.5%	60.72	15.57	25.6%	73.5%
27	Social benefits	93.44	62.14	66.5%		60.72	39.86	65.7%	-35.8%	267.56	44.81	16.7%	43.2%
	TOTAL	***683.34***	***485.29***	***71.0%***	***53.8%***	***664.61***	***473.80***	***71.3%***	***-2.4%***	***929.92***	***265.52***	***28.6%***	***22.5%***

Compensation of employees

17. A total of $120.09 million was spent on compensation of government employees during Jan-Jun 2022. This represented 47.6% of the annual budget and fell short of the 50% prorata expectation by 2.4% percentage points. In comparison to spending in the same period during 2021, the government wage bill increased by 6.4%. This expenditure item is made up of three sub items—wages and salaries in cash, allowances, and other employee costs. As shown in Annex 1, wages and salaries performed 48.2% and increased 4% year on year, allowances performed slightly lower than salaries, at 46.5% (but registered a higher year-on-year growth of 14%), whereas 'other employee costs' registered the weakest performance at 44.1% (and 8.1% year on year growth).

18. Reason for the lower-than-expected absorption of compensation of employees (at end of June) include delays to process some funds in time (which means the absorption rates for future periods of the fiscal year will be higher). The Government's plan of fully covering this expenditure item with domestic revenues did not materialize (at least as at end June 2022) as domestic revenue only covered 96.4% of the salaries and allowances paid to government employees (domestic revenue was $115.79m compared to $120.09m paid as salaries and allowances).

19. On part of donor funded projects, compensation of employees performed 39.3% but registered a higher year on year growth of 43.8%. The performance of 39.3% was quite below the 50% prorata expected spending at half year, largely due to delays to implement various project activities because of election-induced uncertainties, which meant that planned recruitment of project staff did not take place hence the observed slow absorption of funds for salaries of project staff. On the other hand, the observed 43.8% year on year growth in salaries for project staff was due to increase in new projects from 19 in 2021 to 32 in 2022 (see Table 5). If the budget was to be revised, this item would have been recommended for downward revision of the budget numbers.

Table 5: Number of donor-funded projects 2021-2022

	2021	2022
No. of projects (budgeted)	**21**	**41**
• *World Bank*	*13*	*21*
• *AfDB*	*4*	*7*
• *UN*	*4*	*12*
• *EU*	*0*	*1*
No. of projects (disbursed)	**20**	**32**
• *World Bank*	*12*	*21*
• *AfDB*	*4*	*7*
• *UN*	*4*	*3*
• *EU*	*0*	*1*

Source: MOF

Use of goods and services

20. A total of $29.52 million was spent on purchase of goods and services consumed by FGS MDAs (excluding donor projects) by June 2022, which was 32.2% of the annual budget and 29.3% higher than the spending on goods and services during Jan-Jun 2021. The slow absorption of this budget item was due to shortage of funds (effect of suspension of budget support until elections were concluded). The observed year on year increase of 29.3% was largely due to lower spending in the same period in 2021 as most government staff worked from home because of covid (hence running costs were minimal). Generally, all expenditure sub items under goods and services performed poorly—travel and conferences 12.6% *(2.3% year on year growth)*, operating expenses (running costs such as utilities) 21.8% *(71.5% increase)*, rent 16.6% *(-90% decrease)*, finance costs 19% *(133.5% increase)*, specialised materials for security 8.7% *(-90.1% decrease)*, and other expenses 24.1% *(40.7% increase)*. If there was to be a revision of the budget, this item would have been a candidate for downward revision.

21. The absorption of funds budgeted for goods and services for donor projects was also very weak, at 12.1%, which was even worse than for government non-project spending. The reasons for this weak performance were largely three—the delayed implementation of planned project activities due to election-induced uncertainties that affected government operations in the first half of the year, long procurement processes, and budget over estimation for this item. Absorption of these funds is expected to improve in the second half of the year, nonetheless the expenditure item would have been candidate for downward revision of the budget if the national budget was to be revised.

Consumption of fixed capital

22. Government budgeted to spend $10.35 million on investment (capital) activities in 2022 however, halfway through the fiscal year only $0.64 million had been spent, which was 6.2% of the annual budget and -13.4% lower than what was spent on capital activities in the same period last year. Shortage of funds was the explanation for this observed low spending. Given the importance of capital spending in generation of economic growth in countries, it is hoped that the item will receive priority in the second half of the fiscal year as more budget support funding becomes available following the completion of the elections. Nonetheless, to ensure credibility of the budget, the expenditure item would have qualified for substantial downward revision of its annual budget if the national budget was to be revised.

23. Capital spending for donor funded projects also performed poorly at 11.7% of the annual budget halfway through the fiscal year despite registering a 17.3% year on year growth in comparison to capital spending during Jan-Jun 2021. The poor performance was attributed to similar reasons observed under section for purchase of goods and services, i.e., delayed implementation of project activities due to election-induced uncertainties that slowed down much of the work in government in the first half of the year, and due to long procurement processes *(although this should not be a factor if proper procurement planning and execution were being done)*. This spending item too would have been recommended for downward revision of the budget if the national budget was to be revised.

Interest on debt

24. A total of $6.39 million was spent halfway through the fiscal year, which was 255.7% of the annual budget and -6.8% lower than interest paid on debt in the same period last year. Underbudgeting partly explains this higher-than-expected performance at just halfway point of the year. The other reason is misclassification of repayment of the principal during the period under review as interest, yet the budget was for interest on debt and not interest plus repayment of the principal. The item budget would thus have qualified for upward revision if the national budget was to be revised.

Grants

25. Government budgeted to transfer in 2022 a total of $54.6 million to Federal Member States (***this excludes transfers from donor funds***). Halfway through the fiscal year a total of $22.96 million was transferred, which was 42.1% of the annual budget (less than prorata expectation by 7.9 percentage points), and 156% higher than the transfers made to FMS in the same period last year. The high year on year increase was due to the more than doubling of the budget for transfers from $24.42 million in 2021 to $54.6 million in 2022. The lower-than-expected performance (42.1% instead of 50%) was due to lower-than-expected performance in domestic revenues (which performed 46.3% Jan-Jun 2022) and the donor temporary suspension of budget support due to delays to conclude parliamentary elections.

26. The observed lower-than-expected performance for grants from FGS local funds notwithstanding, **donor-fund based grants also performed far below expectations**, at 25.6% of the annual budget at halfway point of the fiscal year, which was far below the prorata expectation of 50%. This was largely due to delayed fulfilment of the requirements for disbursing the transfers on part of the Federal Member States. On the other hand, like in the case of transfers from the FGS local funds, donor-funded transfers also significantly increased year on year, with an increase of 73.5%. This was also due to an increase in the budget for grants to FMS, from a budget of $46.14 million in 2021 to $60.72 million in 2022. This expenditure item would also have been recommended for downward revision of the budget if Government was to revise the national budget.

Subsidies

27. The performance of this expenditure item has continued to lag like it was more or less the case in 2021. A total of $7.55 million was budgeted to be spent on subsidies however at the end of June 2022 only $1.16 million (15.4% of annual budget) had been spent which was far below the prorata expectation of 50%. In comparison to the performance in 2021, the half year spending was 9.3% higher than what was spent in same period last year. Nonetheless, the full year performance for 2021 was just 15.8% as shown in Table 4. This expenditure category relates to subsidies administered by three World Bank funded projects—Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Program (SCALED-UP), Somali Electricity Access Project (SEAP), and Domestic Revenue Mobilization and PFM

capacity Strengthening Project. As it was noted in the end-year report for 2021, significant political support may be needed to reinforce the implementation of key activities in these projects given their importance in the rebuilding of Somalia's economy most especially the provision of start capital for the small and medium enterprises. From a budget credibility point of view, this expenditure item too would have been a good candidate for downward revision if the 2022 national budget was to be revised.

Social benefits

28. The absorption of funds budgeted for social benefits in 2022 was also weak for the first half of the fiscal year. A total of $267.56 million was budgeted (full year) but only $44.81 million had been distributed halfway through the year, which was just 16.7% of annual budget and far below the prorata expectation mark of 50% at half-year point. In comparison to the previous year, the half year spending was 43.2% higher than in same period last year, which was due to an increase of the item budget from $60.72 million in 2021 to $267.56 million in 2022. The funds are distributed as cash transfers (income support) to poor, vulnerable and drought-hit households in rural areas of Somalia. The funds are provided by the World Bank through the Shock Responsive Safety Net for Human Capital (BAXNAANO). The lower-than-expected performance of 50% prorata is largely attributed to the slow progress in establishing the cash transfer delivery systems (Unified Social Registry platform) and a Program Management Information System within the Ministry of Labour and Social Affairs (MoLSA). A total of 193,377 poor and vulnerable households across Somalia have so far benefited from the quarterly cash transfers (social benefits) as of 15 June 2022.

Expenditure by Sector

29. Security and administration sectors had the highest funds absorption rates at 46.8% and 44.2% respectively as shown in 'Pfce 50%' column in Table 6. This was largely due to the relative priority that was placed on the two sectors to ensure secure and smooth parliamentary elections that ended in the second quarter of the year. As the table further shows, the two sectors had higher shares to total expenditure in relation to their planned shares. For instance, security was planned to have a share of 41.2% to total budget for FGS local funds but during execution its share increased to 44.3% at halfway point in the year, which reinforces the observation that the two sectors had the first call on resources during the first half of the year, for the reason indicated above. The economic and social affairs sectors had similar absorption rates at 32.2% and 33.2% respectively. Much of the spending in these two sectors comprised salaries and allowances for employees, as there were little funds to spare for their full running costs given the shortage in collection of domestic revenue and 'election-tied' suspension of budget support.

Table 6: Expenditure by Sector FY2022 (in Million USD)

Sector	No. of MDAs	Annual Budget	Actual Jan-Jun	Pfce 50%	%share to total (budget)	%share to total (actual Jan-Jun)
FGS Local Funds	**71**	**413.35**	**179.60**	**43.5%**	**44.4%**	**67.6%**
1. Administration	36	179.57	79.34	44.2%	43.4%	44.2%
2. Security	8	170.12	79.54	46.8%	41.2%	44.3%
3. Economic Affairs	18	43.21	13.93	32.2%	10.5%	7.8%
4. Social Affairs	9	20.45	6.80	33.2%	4.9%	3.8%
Donor-Funded Projects	**32**	**516.58**	**85.92**	**16.6%**	**55.6%**	**32.4%**
1. Administration	14	173.14	27.23	15.7%	33.5%	31.7%
2. Security	0	0.28	0.00	0.0%	0.1%	0.0%
3. Economic Affairs	9	39.85	6.71	16.8%	7.7%	7.8%
4. Social Affairs	9	303.30	51.98	17.1%	58.7%	60.5%
All Funds	**71**	**929.92**	**265.52**	**28.6%**	**100.0%**	**100.0%**
1. Administration	36	352.71	106.57	30.2%	37.9%	40.1%
2. Security	8	170.40	79.54	46.7%	18.3%	30.0%
3. Economic Affairs	18	83.07	20.64	24.8%	8.9%	7.8%
4. Social Affairs	9	323.75	58.77	18.2%	34.8%	22.1%

30. Sector-wise expenditure absorption under donor-funded projects during the first half of the year shows suggests that projects could be facing similar challenges regardless of the sector they belong. For the three sectors that are implementing donor funded projects, execution rates during the first half of the year are almost similar—15.7% for administration sector, economic 16.8% and social 17.1%. As already observed above, most projects suffered from a slow down in government activities during the first half of year because of the prolonged elections. This notwithstanding, cash transfers (under the social sector) should not have suffered from such challenges given the support it provides to the poor, vulnerable and drought-hit communities in the rural areas of the country.