

TOWARDS A REALISTIC MEDIUM TERM MACROECONOMIC AND FISCAL FRAMEWORK AND OUTLOOK FOR THE SOMALI NATIONAL ECONOMY (2017-2019)

Dr. Hashim Al-Ali

Senior Macroeconomic Development Planning Advisor and Somali National Development Plan (SNDP) Lead Expert –UNDP/Ministry of Planning and International Cooperation (MOPIC),
Mogadishu-Somalia

Received 18 September 2017; accepted 15 December 2017; published online 25 December 2017

Abstract

Somalia has a complex political, security, and developmental environment, and much of its recent past has been marked by poverty, famine, and recurring violence. However, in 2012, with the establishment of permanent political institutions and important military offensives, Somalia entered into a new period; a period where longer term peace seems possible. After decades of conflict and instability, a federal government was established, built through national dialogue and consensus. When this Federal Government was formed, Somalia was divided and with no clear path to reconciliation or unification. Somalia faced the significant challenge of simultaneously building a nation and institutions, whilst needing to immediately deliver tangible services to the Somali people. Hence, the challenges that Somalia faces are complex, multifaceted, and differ according to various political, social, and regional contexts.

The socio-economic conditions of the country are quite poor. Poverty cuts across sectors, locations, ethnic groups, and genders, and its forms and causes vary. An understanding of Somalia's geography, recent trends in its economy, and consequences of the civil strife is important when determining the nature and extent of its poverty. Approximately, 69 percent of Somali population lives below the poverty line. Poverty in Somalia is more pronounced in the internally displaced persons (IDP) camps, followed by rural and urban areas.

Notwithstanding, for Somali economy, it is absolutely necessary to efficiently manage and use the human and natural resources which God has given to the nation, to foster and maintain a positive rate of economic growth, reduce the poverty, and lessen the reliance on international donors' assistance. The Government recognizes in order to achieve this goal new effective policies must be implemented and concerted national efforts are needed to encourage and carry out development and expansion of agriculture, livestock, fisheries, mining, infrastructure that facilitate development, especially transportation with different modes, marketing and primary productive sectors' output related and inputs using manufacturing industries, with particular emphasis on value-chain activities and industries in which Somalia enjoys comparative advantages.

The principal objective of this paper is to analyse actual macroeconomic and fiscal characteristics and setting of the Somali economy, and to establish a realistic and consistent medium term macroeconomic and fiscal framework as well as deriving an economic and fiscal

outlook, for the years 2017-2019 which is the time span for the recently completed Somali National Development Plan (SNDP). Such macroeconomic and fiscal framework and outlook, has been quantitatively structured and driven, through formulating and empirically articulating an aggregated macro-fiscal analytical modelling approach.

Key Words: Somalia, Medium Term Macroeconomic Framework, Fiscal Framework, National Development Plan, Aggregate Modelling Approach

JEL Classification: E21; E32; E52; E62

Introduction

For Somali economy, it is absolutely necessary to efficiently manage and use the human and natural resources which God has given to the nation, to foster and maintain a positive rate of economic growth, reduce the poverty and lessen the reliance on international donors' assistance. The Government recognizes achieving these goals require a series of policy and a concerted national efforts to encourage and carry out development and expansion of agriculture, livestock, fisheries, mining, infrastructure that facilitate development, especially transportation with different modes, marketing and productive sectors production related and inputs using manufacturing industries, with particular emphasis on value-chain activities and industries in which Somalia enjoys a comparative advantages.

The government of Somalia will encourage and promote the development and expansion of the private sector's role and participation, in all above activities and sectors, through providing and creating the necessary laws and regulations, policies, facilities and conducive environment and right incentives.

The principal objective of this paper is to analyze actual macroeconomic and fiscal characteristics and setting of the Somali economy, and to establish realistic and consistent medium term macroeconomic and fiscal framework and outlook for the years 2017-2019 which are the time span for the recently completed Somali National Development Plan (SNDP). Such macroeconomic and fiscal framework and outlook, has been quantitatively achieved, through formulating and empirically articulated an aggregated macro-fiscal analytical modelling approach.

Macroeconomic Objective

Macroeconomic Stability is the Main Objective of the Macroeconomic Development and Enhancement in Somalia. This can be defined and brought about by the following policy principles:

- Macroeconomic Stability in any economy means; having created real growth in the economy that accompanied with lower single digit inflation rate and single digit of unemployment rate in the national economy;
- Macroeconomic stability achieved when key economic relationships in the economy are in balance. These, amongst other things, are:

- Balancing domestic demand and output;
- Balance of payments;
- Fiscal Balance: revenues and expenditure;
- Balancing in savings and investment.

However, none of the above required balances for any stable macroeconomic setting, is in existence or being positive in Somali economy and for quite a number of years. Notwithstanding, these aforementioned balances are need not to be in full and exact balance. Though imperative for the economy to be able to finance some of existing imbalances in a sustainable manner. Achieving macroeconomic stability, in Somalia, fully depends on the structural development of the Key Sectors of the Somali economy, particularly, the main productive sectors of the economy and those with high comparative advantage. Accordingly, Somalia needs to support macroeconomic policy with structural reforms that strengthen and improve the functioning of these key sectors.

The Macroeconomic Challenges

There are quite few challenge facing the economy of FRS. These macroeconomic challenges, in addition to the overall challenges facing the country such as; security, political stability, role of the law, amongst other things, are:

- The single sector nature of the Somali economy, where the agriculture at large including livestock and fisheries activities, is the dominant sector of the economy and represent the largest share of GDP at two third of the GDP in 2015, and contributed to over three quarter of the Somali total export. Given the nature of these sectors and their uncontrollable production fluctuation, this would call for serious steps to promote and developed these sectors, in line with the economic potentialities and comparative advantage characterizing these sectors of the economy. This should be pursued with due consideration to lessen the full dependency on these sectors, and adopting an effective development approach based on economic diversification strategy, in order to avoid any distortion of the structure of Somali national economy, and to reducing the existing imbalances;

- High level of economic exposure to outside world is one of the economically negative characteristic of the Somali economy at present. This is brought about by the domination of primary commodity sectors that are not responsive to the increasing domestic demand for goods and services in national Somali market. Neither these sectors can generate a high level of domestic revenue to finance increasing public demand, and/or generating foreign currency to pay for ever increasing size of imports goods and services, which needed to meet the domestic demand. Besides, the impact of these external exposures and likely shocks affecting the Somali domestic economy, are apparent resulting from the increasing reliance of financing the government budget on the international donors contribution and grants;

- Persistently continuous of imbalances in the public account. This is in addition has been characterized with narrow fiscal space, and the annual budget setting is dominated by recurrent expenditure which represented over 98 percent of total budgeted appropriation in 2015. These imbalances have been accentuated when only less than half of these dominated recurrent expenditures can be financed by domestic revenues, during 2015 financial year;

- Domestic private sector is still fragile and its activities far from being strategically development oriented. Hence, the private sector has no strategic role in the Somali economy and its recovery and development so far, apart from quite few public-private partnership (PPP) in telecommunications and Electricity;

- Lack of banking and financial system and the banks are playing no effective role in developing the financial market, encouraging investment and/or lending to productive activities or to SME in the Somali economy;

- The domination of the informal activities on the private sector in Somalia, together with widespread shady, gray and smuggling activities. These are actual source for creating distortions in the aggregated growth trajectories, and generating fluctuation in sectoral development policies and their instrumental variables;

- The traditional nature of the Somali labour market, which is highly unorganized neither following the standard norms of a labour market as an important market that support the growth, and development of other important economic market such as; products market and financial market, which both again lacking the right structural setting and development in Somalia. That said, the labour market in Somalia nothing but reflection of the security, political, economic and social environment of Somalia at present. The market is not responsive at any rate to the increasing Somali labour supply. This is quite an evidence when supply is exceeding demand by far, and the rising of unemployment rate in the economy, particularly, among the young population of the nation. This phenomenon is coupled with a very low growth rate of productivity;

- Lack of full institutional capacity and its capability to, properly and optimally, handle the management requirement for better development and growth. This is in addition to the apparently quite weak and slow steps in a structural framework of anti-corruption and better transparency. Besides, the generally practiced value that encourage, protect and tolerate corruption and related corrupters. These are main factors contributing to curtailing development process, and depressing investment activity, particularly, foreign investment;

- Inequitable and unbalanced income and benefits distribution amongst the population and among the regions (sub-nationals) of the economy, according to these regions potentialities and needs. This is beside the absence of well-structured decentralization of economic development efforts and management. These, however, all attributed to the absence of economic stability and growth in Somalia, for quite many years, and have created a legacy of disparities and imbalances;

▪ In addition to the above detailed challenged, it can be stated as part of macroeconomic challenges; the economic territory is divided, extreme poverty, relatively high external debt, low standard of living, wide national saving-investment gap, inflation –the need for stable domestic supply, total absence of an effective monetary policy, external imbalances –balance of trade, current account balance, balance of payments, contracted absorptive capacity, to mention but a few;

Macroeconomic Policy

The core objective of macroeconomic policy should be the establishment and strengthening of macroeconomic stability. Hence, Policymakers should therefore define a set of attainable macroeconomic targets, such as growth rate, low inflation, low unemployment rate, reducing external debt, enhancing and increasing net international reserves, and so on.

❖ Macroeconomic policies in this environment should be focus on the aspects of fiscal policy and fiscal space improvements, monetary policy and monetary instruments, economic and investment promoting policy that consistent with the defined NDP targets;

❖ In the present conditions of the Somali economy, the national economy have substantial scope for enhancing the level and the quality of growth, and by the main key and potential growth sectors of the economy. This can be achieved through policies aimed at improving income distribution. These policies, by and large, are; land tenure reform, changes in marginal and average tax rates and by type, increases in pro-poor social spending, mobilizing capital funds and enhancing investment spending into the feasible priority areas and sectors, encouraging private sector investment and promote its expansion through policy reform and issuing of legislative regulations, to mention but a few;

❖ Macroeconomic policy in a developing economy like the Somali economy should be poverty reduction supportive policy. Consequently, growth is the most important factor influencing poverty trend in the country;

❖ Capital accumulation by the private sector and enhancing investment derives growth, and hence, reducing poverty. Policy for encouraging Somali private sector activities and investment should be devised and implemented;

❖ De facto macroeconomic stability is the cornerstone of the government successful efforts to promote and increasing private sector development, improvement of productive activities and generating economic growth;

❖ Economic growth is always considered to be the engine of the poverty reduction in the economy. However, for the growth to be the pivot of reducing poverty, two key factors that determine the positive impact of growth on poverty. These are:

- The distribution pattern of the growth's outcomes by Somali different segments of the society and by Somali regions, and;

- The selection of the potentially feasible and economically viable sectoral composition of growth of the Somali economy.

❖ It is a fact in Somalia the main poverty is concentrated in the rural areas, and has wedged harmfully the rural segment of the Somali population. Thus, adopting the right policy that developing, supporting and creating sustainable growth of activities associated with the rural population, is of a paramount importance and high priority, in Somalia. Therefore, devising and implementing policies that focus on developing sectors such as; agriculture, livestock, fisheries, associated infrastructure activities, related manufacturing industries and marketing should take the lead in Somali national development efforts for years to come, starting within the national development plan (NDP) period. However, to gain and capture the positive trends of such sectoral development policy, this policy should be supplemented and supported by appropriate taxation system, particularly, custom duty and trade tariff policy, monetary policy including exchange rate policy, investment promotion strategy, industrial and marketing efficiency, and trade effective policy.

With the above broad macroeconomic, fiscal and financial strategic policy, I would like to, briefly, list some of important policies that would be considered for activation and implementation during the SNDP period and thereafter. These are:

Economic Policies

- Enhancing the productivity of high priority sectors of the economy and related value-chains, including through rehabilitation and expansion of critical infrastructure for transportation, market access, capacity, trade and availability of energy;

- A national fisheries authority (NFA) established and functioned with mandate to manage, conserve and administer the highly migratory pelagic stocks within the Somali national water zone;

- Sustainably increase livelihood support across fishing value-chain;

- Putting in place a comprehensive national agriculture strategy (CNAS) highlighting federal and regional priorities as well as setting out the working arrangement between the sector's stakeholders;

- Reestablishment of agriculture research centers in the country and by region;

- Diversifying and increasing the agriculture crops mix and production;

- Putting in place effective regulations and rules for production and importation of Seeds, Fertilizers and Pesticides and thereafter optimal distribution;

- Enhancing the growth and strengthening the type, quality and level of livestock exportation, as well as establishing nationally linked quarantine, disease control and certification centers complying with international standard. Hence, improving livestock quality, health and production.

Fiscal and Monetary (Financial) Policy:

- Enhancing transparent and accountable revenue generation, and having revenue strategy operational;
- Formation of national commission to harmonize tariffs and taxation in the economy. Preparing, approving and implementing a new and modern tax law;
- Register of business using taxpayer identification number (TIN) policies and structure developed, and implementing revenue management system (RMS) for management of revenue and business registration;
- Strengthening public finance management (PFM) and the associated reforms to enable the different level of government to be better managing financial resources in a transparent and accountable manner, in line with the national overall priorities;
- Enhancing the existing Somali financial management information systems (SFMIS) and make it more inclusive, integrated and comprehensive;
- Developing a budget strategic paper, defining fiscal targets and medium-term expenditure ceilings. This should be done in an alignment with the Somali national development plan (SNDP) sectoral and other priorities and objectives;
- Strengthening the organizational and governance structure of the central bank of Somalia (CBS), implementing new accounting and financial reporting systems and practices at the CBS, and reinforcing the licensing, supervision, and regulation of financial institutions. This is in addition to preparing a medium-term strategy to improve payment systems;
- Enhancing and developing the capacity of the financial institutions and the national professional staff.

Macroeconomic Framework, Outlook and Future Trends of the Somali Economy 2017-2019

Notwithstanding, the challenges that are facing Somalia and have, mostly, listed above, at present time and for some years to come, should not be underestimated. One of these challenges is to create an enabling environment for the private sector to play its envisaged role in the socio-economic development of the nation. This including providing financial and non-financial support mechanisms and regulatory settings that needed to assist in incubating and enhancing growing small and medium scale enterprises (SMSE), together with enhancing the competitiveness and investment attraction policies which are increasingly needed, in a dynamic and highly integrated global economy. Second of these challenges selecting and managing the process of creating prosperity and improved quality of life of the Somali population, without creating economic and social imbalances and stresses. It is an imperative to bear in mind that when inflation becomes entrenched phenomenon, where many bottlenecks are existed to hinder implementation of development projects, and/or public services are lacking behind to cope with the increasing demands, then there will be inevitable risks to sustain planned prosperity, quality

of life and social cohesion. Perceptive and competent economic management and responsive as well as efficient institutions are needed to be in place to soothe and mitigate the likely risks on the economy, and the society at large. Some of these required instruments to mitigate the risks that may facing the implementation of the Somali national development plan's objectives, amongst others, are; flexible market mechanism, creating and enhancing strategic financial reserve, and to some extents, establishing well designed and structured social protection systems. The Somali national development plan (SNDP) is inspired by an overall national desire and vision of the future, that formulated by the political leadership and national economic decision-makers, through extensive discussions and consultations with various stakeholders, regional states, communities and the society at large, which identified and reflected the aspiration of the Somali citizens.

However, the SNDP highlighted the envisaged future directions of the Somali economy may be summarized as follows: By the end of the plan period (end 2019) the Somali economy will be put on the right and sustainable growth track, with enhanced domestic revenue and enlarging the fiscal space, this is together with a well-defined direction and road-map towards creating macroeconomic stability and fiscal sustainability. It would creating work opportunities to citizens, with better quality of education and training systems, better and more accessible health services and health care at all parts of the country, advanced process of having well established public services that necessary to ensure the society welfare while preserving the national positive traditions and nation heritage.

Macroeconomic Variables, their Growth Trajectories and Trends during the SNDP period (2017-2019):

The Trends and the Outlook for the Main Macroeconomic Framework and Sectoral Variables during the National Development Plan Period:

The Federal Republic of Somalia (FRS) is facing with the serious challenges of rebuilding the state institutions in the midst of on-going conflict. Since the collapse of the national government in 1991, Somalia has experienced cycles of destructive conflict that fragmented the country, destroyed legitimate institutions and created widespread impoverishment and vulnerability. Gross domestic product (GDP) per capita and human development outcomes are now among the lowest in the world.

Following the positive transition of mid-2012, Somalia has a full federal government in Mogadishu committed to inclusiveness, reconciliation and peace, based on a provisional constitution. Many observers hail the transition as a genuine break with the past, and the best opportunity for stability for the country that has had widespread and vicious conflict and intense fragmentation for more than two decades.

Somalia's economy has been shaped and sustained in recent years by having a stable government and through implementation of economic development policies and programmes, and supported by the New Deal Compact signed with international development partners of Somalia. As there

is no reliable national statistics that collected and/or disseminated by the national statistical authority so far, it has estimated that the per-capita income in Somalia is about \$418, in nominal term, in 2014, with an estimated GDP growth rate of 3.7 percent in real term, for the same year. However, in 2016, it is expected that the GDP growth rate to decline by a margin of 0.5 to 1.00 percentage point, to be about a rate of 3 percent during 2016. This, by and large, due to severe draughts particularly in the North of the country. Such adverse events may have a direct impact on agro-pastoralist communities. In the south, River Shebelle have dried up creating water shortages and affecting both human and animals. Therefore, animal and crop production may have a direct hit, which consequently, downward, affecting the overall economic performance in the country. Moreover, with the Somali population is growing at a natural growth rate of 2.8 percent, the growth of the per-capita income would, accordingly, be a little less than 0.2 percent. Livestock is the backbone of the economy; about 60 percent of the population derives a livelihood from pastoralism-based livestock production. The export of livestock and meat generates over 80 percent of total exports value of Somalia. These and the Somali abroad remittance transfers are the main sources of foreign currency of the economy, the latter (i.e. remittances) have estimated to reached about \$1.4 billion in 2015 and projected to rise to \$1.5 billion by the end of 2016. However, in the absence of an international standard, formal and credible commercial banking systems, remittance companies have enabled the Somali Diaspora to remitting to families in Somalia, rather than through a well-established formal banking systems. This, notwithstanding, demonstrating that Somalia, at present, a nation that is heavily relying on remittances and international aid.

The Assumed Growth Scenarios during National Development Plan Period (2017-2019)

Given the reality of the existing paucity and unavailability of the minimum national Somali collected and driven statistical data, to feasibly quantify the main variables and to realistically applying some appropriate techniques to forecast future growth patterns and trends, in the economy and by different sectors and activities. As these statistical gaps have restricted the use of any logical approach to analyze and then quantify the likely trends of various macroeconomic variables in a consistent and coordinated interrelated manner. With these constraints in mind, the plan, therefore, has opted to utilize an alternative development scenarios approach, to determine the likely growth and development path and movements of various macroeconomic and sectoral variables within the Somali economy, during 2017-2019.

Given the above reality, it is advisable, at this stage of development in the national economy, to adopt an approach based on two specific Scenarios for growth, during the plan period. And then deriving other main macroeconomic variables behaviour, using rudimentary aggregated macroeconomic model (as we shall see later in this paper). These two scenarios are:

The Baseline Scenario

The baseline scenario assumes the continuity of the status quo conditions of 2016. The GDP real compound growth rate is projected to be, during the NDP period 2017-2019, as the same as the

growth of 2016, of 3 percent per annum. This scenario considers minimum additional productive capacity, minimum increase in investment in the economy, particularly, in the infrastructure sectors, besides few additional employment opportunities would be created during the plan period. It is also assumed that security will continue the main obstacle for a big-push in investment and expansion of private sector activities, including foreign direct investment (FDI), in Somalia. Notwithstanding, the baseline scenario undertakes that the federal government will keep up the efforts to reform the public-sector institutions, providing and enhancing national capacity development and creating an efficient and more effective public service delivery systems. This is in addition to the fact that within this baseline scenario, the government domestic revenues will not substantially be increased. The likely modest rise in revenues, if occurred during the plan period, would be driven by the likely planned reforms by the ministry of finance (MOF) within the public finance management (PFM) strategy 2020, for revenue expansion systems approach. Accordingly, and with view of expanding the tax base and tax compliance in the economy, MOF has developed a strategy, within the PFM plan, to improve revenue collection which is expected to yield results as early as 2017. The baseline scenario in addition assumes that the international development partners and donors community will continue to provide substantive support to finance the government budget gaps and implementing the on-going and committed development projects. Despite the donors commitments to assist Somalia in its striving towards stability and development, significant financial gap will continue to be persisted, and hence, new approach together with new ways and means are needed to be adopted to generate more revenues, as well as enhancing the sources of investment, through private sector development and motivation.

Hopeful Scenario

Under the hopeful scenario, it is assumed the Somali real GDP would grow in 2017, by an annual rate equivalent to **one and a half** of the growth rate calculated for the baseline scenario. While for the years 2018-2019, it is assumed that the GDP would grow by an average compound rate of, as much as **twice** of the baseline scenario's growth rate, in each year respectively. Accordingly, the planned real compound rate of growth of GDP would be 4.5 percent in 2017, climbing gradually to 6 percent during 2018 and 2019. Based on this targeted growth scenarios, the real per-capita income will grow by 1.7 percent in 2017 and thereafter by 3.2 percent in each of 2018 and 2019. Thus, government and private sector activities would be expanded to reflect and to achieve the growth objectives, through emphasizing prioritization and implementing right and effective development programmes in Somalia. Also, government revenue is expected to pick up significantly over the plan period. Besides, it is expected that the government current expenditure would be adjusted to an economically viable share to GDP, and hence, the government medium term and annual budget would be of more developmental and results oriented. Furthermore, the size of capital formation (investment) planned to increase as percentage of GDP, during the NDP period. However, most importantly that the average private sector contribution to total investment would be steadily increased, given the planned efforts of the government to create the sought after enabling and conducive environment for private sector

investment and expanded activities, including those investment activities related to foreign private investors and private-public partnership (PPP) undertaken and associated activities.

It is believed that this hopeful scenario's growth rate is quite plausible and achievable, particularly, when more political stability and improved security situation in the country realised. Together with more investment funds are obtained and directed towards productive sectors and infrastructure activities that facilitate the aimed at expanding of products and growth of the productive sectors, particularly, large-scale and integrated infrastructure development, which focusing on the expansion of the road network, storages, production processes and technologies, and the provision of renewable energy. These including community based infrastructure and development projects. Besides, private sector is promoted, and right and credible environment is created to increase its role in productive investment, economic activities, employment generation and overall growth. This also attainable when financial sector is relatively reformed to create active, reliable and credible banking systems and the right financial institutions, with nationally devised and development oriented monetary policy. This scenario envisages enhancing the expansion of the leading productive sectors, such as agriculture, livestock, fisheries, primary inputs related manufacturing industries, value-chain activities, creating employment opportunities, especially for the young segment of the society, and improving labour productivity through development and expansion of technical education and vocational training coupled with efficient as well as optimal mix of capital and labour in production process and techniques. These all should be supported with growth in investment activities and facilitating, legally and otherwise, the operations of private sector to lead the planned economic growth and development aspiration of Somalis.

Accordingly, the approach we have adopted to achieve a balanced macroeconomic setting and a realistic development path and sustainable growth and outputs during the coming three calendar years (2017-2019), was based on an aggregated and integrated macroeconomic model, linking the level of donors activities to the level of investment, consumption, savings, government spending, exports and imports, and then to the rate of economic growth. The model, however, is developed so that the dualistic nature of the economy is incorporated into the expenditure (demand) functions. This dualism distinguishes between the impact of donors' activities, funds and exports, government expenditures, revenues, and the autonomous economy on other economic variables. To take account of this dualism, the models separate donors' activities and other elements of GDP, and specify the production capabilities accordingly. The aggregated macroeconomic and fiscal model for Somalia specifies the interactions among various components of the final demand.

This modelling approach is an expenditures-based rather than an output- based model. Hence the starting point is the accounting identity. The used aggregated macroeconomic model has been set up such that donor funds serve as the main driving force of the economy. These funds determine the investment magnitudes, government revenues and hence expenditures, and exports/imports. Another element that contributes to total investment is the private sector (donors, NGO's and

local) investment expenditures, which is, itself, affected by total credits, as well as by the level of economic activities at large. Total investment will then determine the GDP by applying an exogenously calculated Somali incremental capital-output ratio (ICOR). While GDP feeds back to determine, in part, the level of private investment. Besides, the aggregate consumption expenditure is derived as a function of income. Also, GDP and employment relationship has been introduced, and the employment elasticity of GDP (output) has been worked out.

The macroeconomic model that has been developed for Somali economy and has been used to derive this paper's results, by and large, is related to the Keynesian and Harrod-Domar type and class of models, with some adjustment, reflecting the prevailing economic conditions in Somalia. Although it is an aggregated macro-fiscal model, it has taken in consideration sectoral distinctions and related functions.

In brief, the approach based on macroeconomic balances between the demand (expenditure) side of the economy, and the supply (products) side. Where the **demand side** is expressed as:

$$GDP_t = C_t + G_t + I_t + E_t - M_t$$

And the **supply side** is presented as:

$$GDP_t = \sum V_t^i$$

Where:

GDP_t : is gross domestic product at year t

C_t : is private consumption expenditures at year t

G_t : is public (government) consumption expenditures at year t

I_t : is total investment at year t

E_t : is total exports at year t

M_t : is a total import at year t

V_t^i : is the value-added of sector i at year t ($i=1,2,\dots,n$)

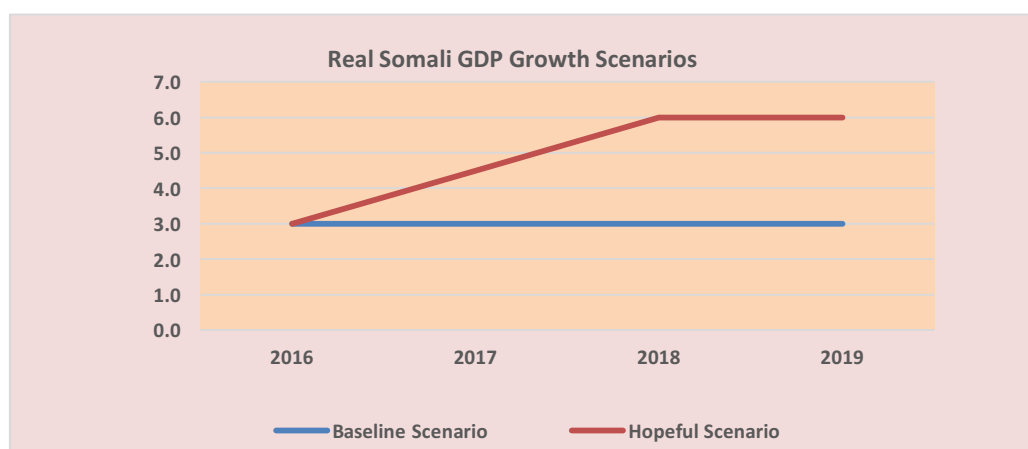
And n is in this case equal 3, where the economy has been disaggregated, in this approach, to three main sectors, namely; Productive Sector, Infrastructure Sector and Social Services and other Services Sector.

However, the above macroeconomic accounting model and the two balancing equations system, have in between a number of equations systems depicting the technical, and the interrelated production, consumption, investment, government expenditure/revenue, trade, employment, productivity and total factor productivity [This total factor productivity (TFP) estimated and calculated as Solow residual in the economy. The Solow residual originated through the works of Robert M. Solow, an American economist and recipient of the Nobel Memorial Prize in Economic Sciences (1987). The Solow residual is a value that measures changes in productivity growth in a Solow growth model, which describes an entire economy's production function. Productivity growth refers to rising output occurring with constant labor and capital input.] and other related

functions. These all have been articulated and solved, simultaneously and in an integral manner, using available, rudimentary and simulated statistical data, for the Somali economy.

Real GDP and Per-Capita Income Growth Trajectories

The Somali National Development Plan (SNDP) 2017-2019 aims at raising the national economy to the level of establishing the beginning of Somali development era, of creating economic self-reliance, sustainable growth and higher opportunities of work, particularly, for the young Somali labour force, within the economy. Hence, it is expected that the real GDP and per-capita income would grow, as per the Hopeful Scenario, by a compound annual rate of 5.5 percent and 2.7 percent respectively. In contrast, the GDP and Per-capita income would only grow by an annual compound rate of 3 percent and 0.2 percent, respectively, based on Baseline Scenario alternative, during the SNDP period, see figure -1- .



This, however, would give the expected result of an annual compound growth rate of GDP of 5.5 percent during the whole period of SNDP. This is the actual composite combination of targeted growth rates progressing from 4.5 percent in the first year of the plan (2017) into 6.0 percent per annum during the last two years of the SNDP period, i.e. 2018 and 2019.

Table -1-: Somali GDP and GDP Per-Capita during the SNDP Period (in 2015 Constant Prices)				
	Baseline Scenario		Hopeful Scenario	
Year	GDP in \$million	GDP Per-Per Capita in \$	GDP in \$million	GDP Per-Capita in \$
2016	6131.6	471.7	6131.6	471.7
2017	6315.5	472.6	6407.5	479.5
2018	6505.0	473.6	6792.0	494.4
2019	6700.2	474.5	7199.5	509.8
Real Compound Annual Growth Rate of GDP and GDP Per-Capita during the SNDP Period (%)				
SNDP Period	3.0	0.2	5.5	2.7

Note: Objectives and forecasts will be reviewed and updated as the plan implementation beginning and monitoring results realized, with better statistics be available .

Source: Integrated Modelling Result

• **The Structure of the Somali GDP by Expenditure (Final Demand) Components**

Development, stability and diversification of the Somali national economy require enhancing both; public and private investment, where investment become the main source and the vehicle for economic growth and development of the nation, and planned to be so during the defined period of the SNDP.

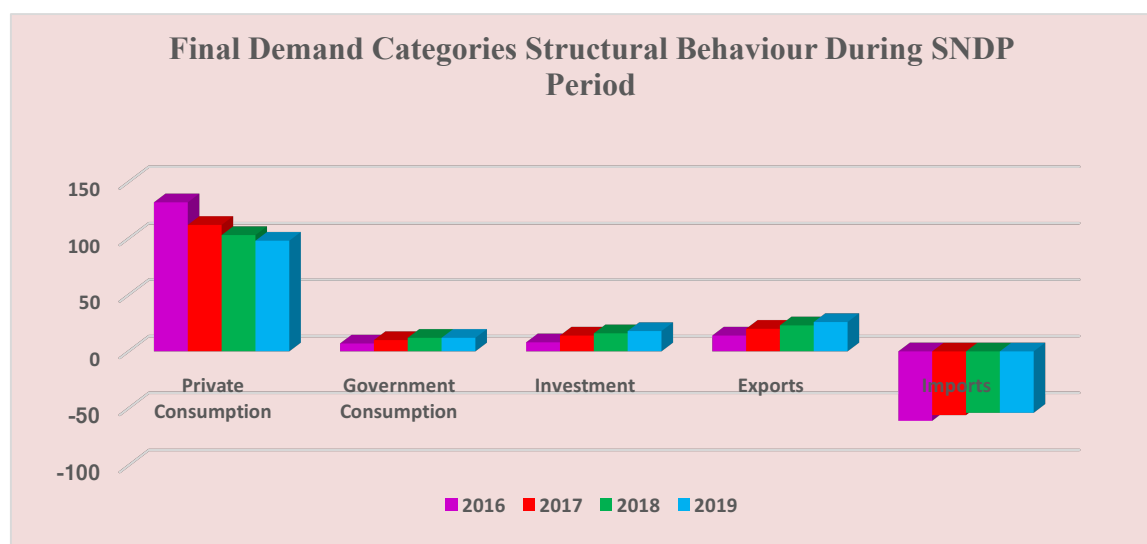
As indicated in table - 2 - and figures -2 -, investment within the economy is expected to grow, during the year 2016 to 2019, by an annual average rate of 27.0 percent using the Baseline Scenario assumptions, and the low existing level of investment in the economy. While the investment will grow by an annual average rate of 38.2 percent during the period 2016 to 2019 (at 2015 constant process), applying the Hopeful Scenario. In contrast, total consumption expenditure would contracted during the plan period for both Baseline and Hopeful Scenarios' assumptions by an annual average rates of contraction of 3.6 percent and 2.4 percent, respectively. Accordingly, the share of investment in GDP is expected to increase from 8.0 percent in 2016 to 15.0 percent in 2019 at the assumption of the Baseline growth Scenario, this is in comparison to total investment share in GDP which expected to increase to 18.0 percent of GDP in 2019 from its existing level of 8.0 percent, when Hopeful Scenario's assumptions adopted. In contrast, the share of consumption expenditure to the GDP has plunged to a share of 114.0 percent and 110.0 percent at the end of the plan period, for both Baseline and Hopeful Scenarios, respectively, from a percentage level points of 139.0 percent in 2016. The table and figure below show the percentage changes in contributions of various final demand components to total GDP during the SNDP period.

Table -2-: GDP by Final Demand Components (in 2015 constant prices)

Baseline Scenario				Hopeful Scenario			
Item	Percentage Share of the GDP		Compound Annual Growth Rate (%)	Item	Percentage Share of the GDP		Compound Annual Growth Rate (%)
	2016	2019	(2016-2019)		2016	2019	(2016-2019)
Consumption	139.0	114.0	-3.6	Consumption	139.0	110.0	-2.4
• Public	7.0	10.0	16.0	• Public	7.0	12.0	26.2
• Private	132.0	104.0	-4.9	• Private	132.0	98.0	-4.5
Investment	8.0	15.0	27.0	Investment	8.0	18.0	38.2
Exports	14.0	23.0	21.5	Exports	14.0	26.0	29.7
Imports	-61.0	-52.0	-2.3	Imports	-61.0	-54.0	1.3
Total	100	100	3.0	Total	100	100	5.5

Source: Integrated Macro Modelling Results

It is worth mentioning that growth in investment will, mostly, come from private investment, where such component of investment is expected to grow at annual rates of 27.0 percent and 38.2 percent during the SNDP period, for each of the Baseline and Hopeful Scenario respectively. This is including domestic private investment, remittance from diaspora [Remittances grew from \$1.3 billion in 2013 to estimated \$1.4 billion in 2016 (IMF Financial Indicators 2013-2017). This indicates 2.5 percent annual compound growth rate, and equivalent to 23 percent of GDP in 2015. More importantly, remittance now far exceed official development aid and FDI. Remittance from Somalis Diaspora are crucial to Somalia's economy, providing a lifeline to large segments of the population. Remittances have been important in cushioning household economies, creating a buffer against shocks (drought, trade bans, and inter-clan warfare). They fund direct consumption, including education and health, and some investment, mostly in residential construction, allowing Somalia to sustain its high consumption rates and to finance a large trade deficit. Remittance also play a very significant role to reduce the balance of payment (BoPs) deficit for the last few years.] and foreign direct investment (FDI). In contrast, there would be very minimum public investment, as there is no investment in the government budget at present and would continue for the next couple of years unless and until there is going to be an operational and effective aid coordination mechanism, where all aid given to the economy considered part and parcel of the federal budget, as well as there would be budget support programmes accepted and financed by various donors [It is worthwhile to mention that there is much public good investments being supported by external donors. However, these are totally outside government direct control, not using country finance systems, and hence, are not part of the budget neither recorder in the public accounts. Besides, statistical data on the totality of such an investment are difficult to determine.]. The Contribution of investment to GDP will increase from less than 8.0 percent in 2016 to 15.0 percent and 18.0 percent of GDP in both assumed scenarios, at the end of SNDP period.



Source: Integrated Macro Modelling Results

The envisaged gradual investment growth and flows during the SNDP period will, undoubtedly, contribute significantly to diversify and expand the domestic productive capacity and total exports. Hence, this would increase total exports by an annual growth rate of 21.5 percent and 29.7 percent for “Baseline” and “Hopeful” Scenarios setting respectively, during the period 2016-2019. Thus, represent about 23.0-26.0 percent of the GDP in 2019, for both assumed growth scenarios. Accordingly, increasing investment and diversification, as well as expanding productive capacity to increase the domestic production of various commodities that characterized with high national comparative advantages, would satisfy important part of the domestic demand, reducing imports through import-substitution strategy and increasing exports. Notwithstanding, such investment required to expand the productive capacity and increasing the level of domestic production, would, undoubtedly, requiring more equipment, tools and inputs materials from the rest of the world, therefore, this will generate an increase in imports, from outside Somalia, to support these investment and inputs requirements of growth and the expansion of the domestic production base. This is in addition to the fact that the expected higher income level would boost the total demand for imports as well. Thus, imports are expected to grow at an average rate of 1.3 percent per annum, in the “Hopeful” Scenario, though its contribution would be reaching 54.0 percent of GDP in 2019, down from 61.0 percent of GDP in 2016. This, by and large, reflects the effectiveness of balanced development policies, and would contribute to the aimed at improvement of the status of the country balance of payments, through 2019.

However, it is worth mentioning that the contracting share of imports in GDP in 2019, is attributed to the expected growth and expansion in domestic production, and hence, GDP during the SNDP period, at a rate higher than the rate of growth of imports into the national economy. Notwithstanding, Table -2- shows expected expansion of the Somali economy, envisaged by the development strategic approach of the national development plan, and its impact on the behavior of different components of the final demand components and expenditure variables of the GDP, in Somali economy, during the SNDP period. At this conjuncture, it is worthy to stipulate the fact that the present exports are based on a number of main commodities and products, such as livestock, fisheries, fruits particularly banana, charcoal [Recently the Government of Somalia has issued a ban on export of Charcoal. This was the case where export of charcoal with such huge quantities has a negative environmental impact. It is considered to present an “environment crime”, where production and export charcoal in such commercial level, would, undoubtedly, contribute to the country desertification and deforestation.], etc. Nonetheless, the SNDP has assumed a high potential for substantive increase in exports during the next three years, as fisheries, banana and other fruits, horticulture and other agriculture and livestock products remain under utilization. Accordingly, there are further opportunities and a wider scope for improving and deepen the production quality, to a given level, to be of international standard and quality, and hence, expanding the volume and increasing the value of the Somali exports to the rest of the world.

It has to be stated that, and under the SNDP assumptions and objectives, these envisaged developments and expanding trends, within the domestic economy of the Somalia, would support and sustaining the aimed at enhancing the level and improving the condition of the domestic

government revenues, which required to finance the public services and development process of the country. This also means that the existing huge gap between the domestic commodities exports and imports is expected to get narrower, in relative sense, through time. Notwithstanding, achieving the planned growth rate of the GDP and realizing the emphasized structure of the expenditure components of the Somali GDP by 2019, revealing tremendous challenges of the nation development, and supporting the sought after enhancing international competitiveness of the national economy of Somalia, given the prevailing fact that the Somali economy is expected to increase its linkages with the world economic system, at large.

• **Somali GDP Structural Changes through Different Sectoral Development Behaviour during SNDP Period**

The sectoral distribution and share of the GDP shown in Table -3- reflects the aimed at objectives for increasing the role of productive and infrastructure sectors, to achieve and enhance the diversification of the Somali economy. Hence, achieving stable and sustainable development through time. This, by and large, depends on the direction and realization of the planned restructuring and growth rather than on the magnitude. Therefore, the assumed structural development of the national economy, which effectively creating the economic growth and stabilization through developing and expanding productive, infrastructure and services sectors is based on sectoral comparative and competitive advantages. Accordingly, The SNDP targets are aiming at enhancing balanced development and ensuring a viable inter-sectoral integration and linkages. This would be approached with special emphasis on developing the needed infrastructure to support the productive sector activities, and to increasing its productivity and role to leading a sustainable development and growth in the economy. Thus, the outcome result is expected that the Infrastructure sector would grow by a compound annual rate of 26.2 percent during the next three years, as it is embarking from quite low base at the initial year of the plan. Such targeted growth would resulting in the infrastructure sectoral share in GDP increasing from 4.2 percent in 2016 to 7.2 percent in 2019. This is of paramount important development step to facilitate the right growth of productive activities, particularly agriculture, livestock and fisheries, which are the backbone of the Somali economy, and are lacking the availability of appropriate physical and marketing infrastructure, as well as related production facilities.

Given the existing physical infrastructure condition in Somalia, and given the need to creating growth and development, as well as generating employment in the country which characterized with high, and above African average, of unemployment rate, especially, among the young and active segment of the national population. Therefore, it is absolutely imperative to expand the infrastructure sectors and other support sectors of the economy, particularly, transportations, ports, energy, communications, storage utilities, and marketing facilities, in order to capture and optimize the economic benefits of the economy's comparative advantage, and those likely benefits of the economies of scale, and hence, to achieve sustainable development and job creation in Somalia. Consequently, the productive sector is expected to grow by an annual compound rate of 4.6 percent during the SNDP period (2017-2019). The table below depicts

likely contributions of the main sectors of the Somali economy to GDP, and each of these sectors resulting compound real annual rate of growth, applying both assumed growth scenarios of GDP, i.e. the Baseline and the Hopeful Scenario, during the period 2016 to 2019.

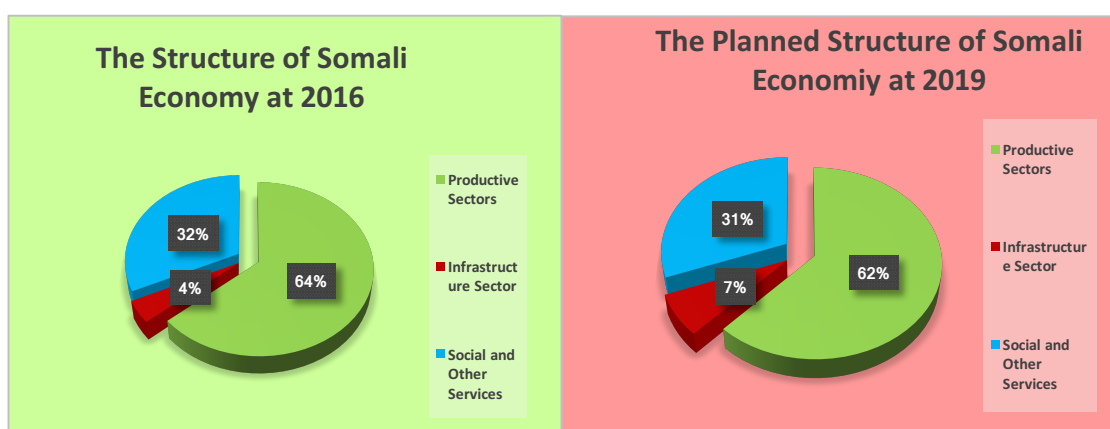
Table -3- The Planned Structure of the Somali Economy during the SNDP Period							
Baseline Scenario				Hopeful Scenario			
Sectoral Clustering	Percentage Share of the GDP		Annual Growth Rate (%)	Sectoral Clustering	Percentage Share of the GDP		Annual Growth Rate (%)
	2016	2019	(2017-2019)		2016	2019	(2017-2019)
Productive Sector	63.8	62.1	2.1	Productive Sector	63.8	62.1	4.6
Infrastructure Sector	4.2	7.2	23.3	Infrastructure Sector	4.2	7.2	26.2
Social and Other Services Sector	32.0	30.7	1.6	Social and Other Services Sector	32.0	30.7	4.1
Total (GDP)	100	100	3.0	Total (GDP)	100	100	5.5

Source: Integrated Macro Modelling Results

Besides, the trade and financial services sectors are expected to play a leading role in economic development and in creating jobs. These sectors would be taking advantage of the opportunities offered through and by developing the road, port, communication, utilities sectors and activities within the national economy during the SNDP period. Within this assuming sectoral setting, the mining and tourism sectors are expected to be developed further, improved and emerged as among the key sectors in the economy, given the favorable location and subject to improved security situation of the Somalia.

The figures below show the dynamic changes in the structure of the Somali economy that are embedded in the SNDP developmental objectives and planned achievable targets.

The Evolving Structure of the Somali Economy during the SNDP Period



• Somali Labour Force, Employment and Unemployment during the SNDP

Based on Population Estimation Survey of Somalia (PESS) of 2014, the Somali population has estimated to be 12.3 million. This estimate reflecting a natural growth rate of 2.8 percent per annum, and over 75 percent of population is of age below 30 years old. Out of this total population, the **working age group** population form 6.8 million of the total population. The economically active population represents the work force that is available in the economy and that goes within the age group of 15-64 years old. This number of economically active population of the working age group, and those are looking for work and willing to work, is usually derived by using a labour participation rate (LPR). This level of the participation rate in labour market of the working age population indicates the progress towards rich jobs generating growth of the economy. The economic participation rate in Somalia is driven to be 45.6 percent in 2014, which is in normal economic standard is a low participation rate. This, by and large, due to the fragile conditions of the economy and due to evil security situation prevailed in the country, instability, lack of investment and few or non-existence of new project that required execution and which generate working opportunities, this is besides, the domination of unskilled group of the Somali population of economically active age. Accordingly, various reports circulated by the ILO and also by the UNECA, estimated the number of employment in Somalia in 2014 as 3.1 million. This would make the unemployment rate in Somali as low as 11.3 percent [With the level of estimated employment in year t (L^e_t) and labour supply at the same year (L^s_t), the level and hence the rate of unemployment can be identified and derived as: $ROU_t = (L^s_t - L^e_t) / L^s_t$, Where; ROU_t is the unemployment rate in the economy at year t .]. This is, by and large, quite unrealistic estimated rate of unemployment in today's Somalia. This, however, has come about as a result of using quite unreliable statistics, together with bias lower estimate of the labour participation rate and overestimating of total employment of 2014.

Accordingly, corrected, right adjustment and technical measures being used to derive the **labour force** and the **employment** for the base year of the SNDP, i.e. 2016, by deriving the labour-output ratio (LOR) in the economy and by main sectors, and assuming more realistic labour participation rate for Somalia. Such an assumed improvement in the labour participation rate is driven from the fact that; at the recent years security has improved and various regions of the Somali are enjoying better security conditions, stability and forward socio-economic development process, besides such LPR is derived to be compatible with those of other African countries with similar conditions as of Somalia, as well as using and applying experts' views [The simulated labour participation rate (LPR) that used to estimate the labour force (labour supply) in the economy during the years 2016-2019 is 57.1. While the derived labour-output ratio (LOR), is 459 works needed to produce and add \$1 million worth of output (production) in the economy.].

Furthermore, and resulting from lack of statistics to derive, separately, labour participation rates one for male and the other for female, in Somali labour market, the SNDP and in order to bridge the gap in the composition of the economically active population from a gender [It can be stated, by and

large, that at present in Somalia; a high percentage of females are working in a private informal and unprotected jobs. This reality necessitating the need to prepare and implement a social security law that covers all workers in private sector activities.] base perspective, is adopting an approach based on economic empowerment of female through micro finance, private sector development and monetary policies, to enhance and increase female contributions to the development, thus advancing in achieving of equal opportunities between sexes. Table -4- illustrates the summary of the aggregated **labour market** in Somali economy during the plan period.

Table -4-: Structure of the Labour Force and Employment (in thousand)					
Category	2014	2015	2016	2018	2019
Working Age Population	6765.0	6954.4	7149.1	7555.1	7766.6
Labour Force	3003.7	3971.0	4082.2	4314.0	4434.8
Employment	2665.4	2740.0	2816.8	3278.6	3636.5

Source: Integrated Macro Modelling Outcomes

As for the development in the Somali employment and its evolving during the national development plan (NDP), this, by and large, depends on the actual implementation of the planned macroeconomic strategic policies, and the alignment and orientation of the federal Somali budget in term of expenditure allocation between recurrent and investment streams. The latter is the main vehicle that is deriving the increases in the rates of employment in the economy. With special emphasis on the policy of encouraging and supporting investment in those sectors, activities and project which are using labour-intensive techniques in their operation, production and maintenance. Accordingly, the SNDP is aiming at avoiding using or allowing public sector to be the sole generator of employment in the economy, and hence, reducing the disguise unemployment phenomenon at government sector. Therefore, the plan is focussing on promoting public, private and foreign investment in productive activities, physical infrastructure sectors and selective social services sectors that are employment creators, development oriented and leading sectors, in coming years, in Somalia.

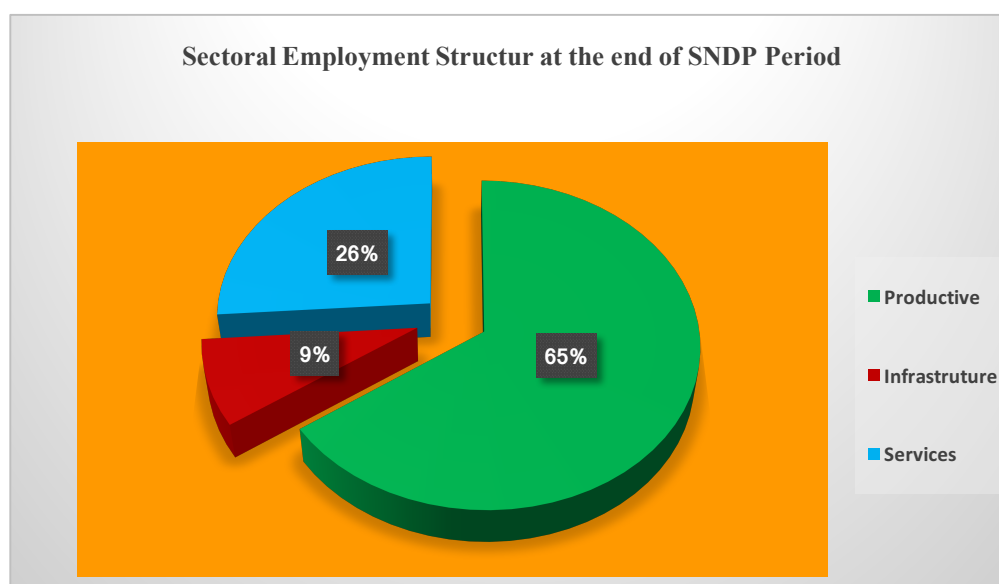
Notwithstanding, Somalia, at present, characterized with lack and absence of the much needed labour market and employment policy. Such national labour policy should be based on feasible, clear and optimal approach, and hence be articulated with national and sub-national/regional accurate statistical data and pertinent indicators, representing national labour force numbers, orientations, level of education, technical skills, number of actual employment by sex, sector and by occupation, and the available job opportunities; by sector, activity, occupation and location. Thus, the absence of the right policies, regulations and constructive planning for the labour force and employment development in Somalia, as well as the lack and nonexistence of the minimum required statistical information on the labour market and employment in the economy, all these can be attributed to and reflected of the existing security, political, economic and social conditions that are prevailing in Somalia, for the last two and a half decades and continuing to date.

Given the above reality of the labour market in Somalia, and given the fact that the emphasis would be focused on utilizing fully the available human resources, and its skill contents, to create and achieve, the aimed at, sustainable national development and growth, the SNDP has attempted to forecasting the employment likely would be generated, by main sector clustering, in the economy for the next few years (2016-2019). This sectoral-employment structuring is derived using relevant parameters and coefficients such as; sectoral planned growth rates, sectoral calculated labour-output ratios (LOR), the likely national and sectoral absorptive capacity and investment, as well as the calculated labour productivity, both level and growth rate, as obtained from solving the aggregated model and shown. The table below displays the employment by main sectors and in the economy as a whole, during the SNDP period.

Table -5-: Projected Percentage of Employment by main Sectors				
Sectoral Clustering	2016	2017	2018	2019
Productive Sector	2033.7	2148.9	2236.0	2378.3
Infrastruture	143.7	175.2	226.2	309.1
Services	639.4	698.0	816.4	949.1
Total Economy	2816.8	3021.5	3278.6	3636.5

Source: Integrated Macro Modelling outcomes

The figure below illustrates the sectoral employment structure of the national economy at the terminal year of the SNDP.



One socio-economic issue that concern most the nation of Somalia is the **unemployment** issue that characterizing the labour market in the country. This socially and economically disturbing problem has, in fact, a negative impact on the standard of living of the population and it is aggravating poverty problem and conditions, as well as widening the segment of the marginalized people of

Somalia. Besides high unemployment rate, particularly, amongst the youngest category of the working age population, would have an exasperating effect on that segment to be violent, unrest and pushing the youth to adopt ways and means far from being peaceful, and could drifting some to be part of prevailed terrorism rings. The result, undoubtedly, would be unsafe and instable environment which would have a negative trickling down effect on the economy, investment, production and growth. Currently, there is a considerable unemployment among youth and in particularly high school graduates, which should constitute one of the principle targets for employment creation during the SNDP. Youth employment, therefore, is critical to government and its capability to achieve the nation's objectives of establishing secure and stable country and economy. Accordingly, an active youth policy is required to ensure that youth of Somalia are fully integrated into the society at large, and establishing related programme of youth development and integration through which transformation of the livelihood of youth, boys and girls, in rural and urban, can be achieved and sustained. The SNDP would, therefore, be the first and constructive steps in this important direction.

However, the following points highlight the quantitative setting and orientations of the **unemployment** in Somalia:

➤ The estimated rate of unemployment in Somali economy for 2014, by few organizations, reflects the lack of the right data as well as lack of full understanding of the Somali labour market in totality. That rate has been quoted as 11.3 percent in 2014 which is far below the likely actual unemployment rate in the economy. Accordingly, this has been estimated and adjusted upward in the SNDP;

➤ After analyzing variety of data and data sources on population, working age population, participation rate, labour force and apparent employment, thus the unemployment rate has been estimated at the year 2016, as the base year of the SNDP, to be around 31.1 percent;

➤ This rate of the apparent unemployment in Somali economy, is expected to be reduced gradually through the SNDP period. This target is, of course, subject to the development objectives and related programmes in some leading sectors of the economy, such as; infrastructure, social and other services and productive sector, that are going to be implemented, realized, and the availability of required funding and resources to close the development funding gap, this is in addition to the need of relaxation of the absorptive capacity constraints in the economy. Accordingly, such planned apparent unemployment rate would be reduced gradually during the period 2017 to 2019, where expected to reach a rate of 18.5 at the end of the year 2019 [Labour productivity has been derived from the existed output and employment statistics. During the national development plan (NDP) period, we assumed moderate improvement of labour productivity, as the main efforts was biased towards planning for more employment generation and reducing the unemployment rate, particularly, amongst the Somali youth, during the coming three years.].

Public Sector Accounts in Somali Economy and the Medium Term Fiscal Framework

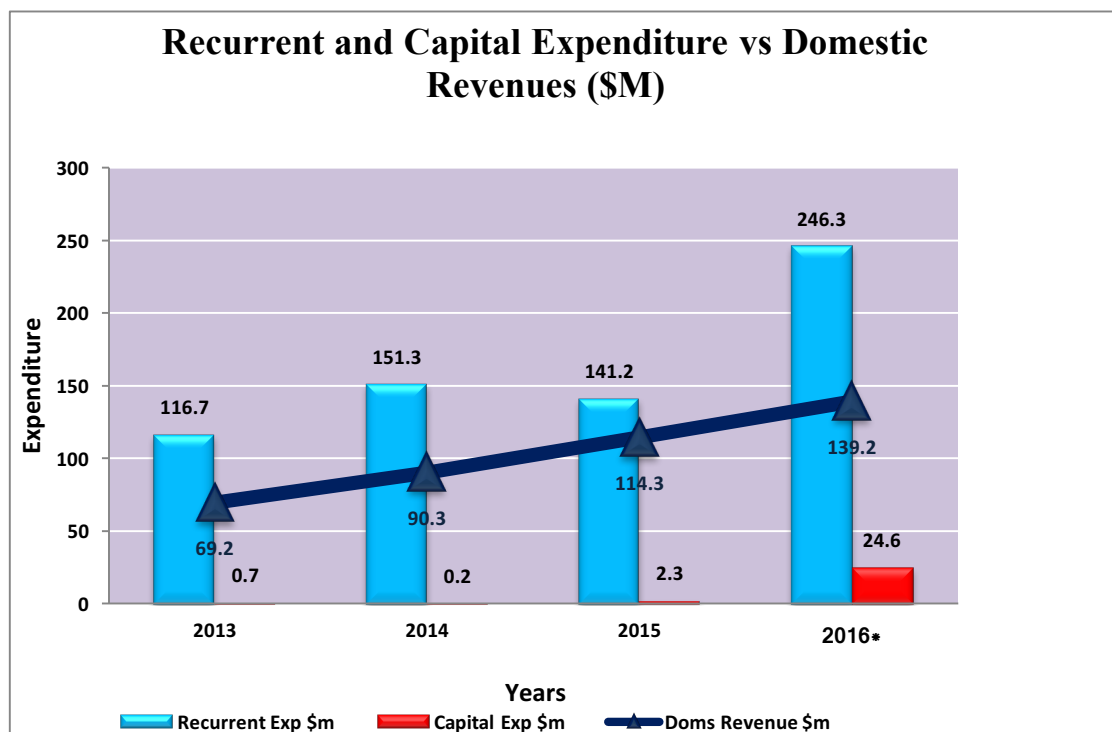
Government of Somalia is re-establishing itself as a functional system of governance after decades of conflict. This is a unique opportunity of building the nation and handling the various state of affairs that the modern government should carry out and implementing. One of these important functions is rebuilding and activating the public finance systems which considered to be of a paramount importance and fundamental for fully functioning government machineries. The significance of having a well-structured public finance system, its evolution and contribution to achieving government responsibilities and fiscal objectives, through a given state of operational activities ranging from establishing a realistic fiscal policy for the economy, to preparing as well as implementing an operational and results oriented budgetary and treasury systems.

Notwithstanding and despite of all existed constraints and bottlenecks, the government has managed to structure and issuing a federal budget since 2013. The 2013 Budget Policy Framework Paper was prepared in accordance with Article 124 of the Provisional Constitution of the Federal Republic of Somalia, and the draft Public Financial Management Bill. However, capacity for policy analysis and development planning was weak to ensure proper alignment of policies with the budget and with the overall development objectives. The budget mainly covers recurrent spending that is largely comprised of salary payments. Consistent with Government commitments to strengthen security, justice, public finance management and regional administration; funds have been earmarked as “Allocation for the Priority Areas” with additional procedures for accessing these funds. These were on the expenditure side. On revenue dimension, it is quite apparent that the revenue base for Somali government is very low, so does the fiscal space. This is resulting of a number of reasons, amongst others; is that most of the ports -main revenue generating source- of Somalia are not under the full control of the federal government. Besides, a lack of a coherent tariff systems for assessment of custom duties. This drawback, however, is exacerbated by the existence of a number of unapproved border points through which goods are brought into Somalia without paying custom duties. That said, the controls for ensuring that revenue is duly collected and fully accounted for are weak, thereby increasing the risk of revenue leakages, where some of the collections are not properly accounted for. Furthermore, there is a lack of reliable database on tax payers. In addition to the fact that there is non-collection of fees from humanitarian airlines and ships by the government. These all been aggravated by the currently disagreement about where to remit the Ports’ fees once collected, as well as the level of Ports’ fees that should be retained by the Port management for running and maintenance costs. All these important revenue enhancement related issues have to be urgently addressed, within a comprehensive revenue and taxation systems laws and regulations.

Government Expenditure and Revenue: An Overview

The recurrent expenditures (spending on wages and services and salaries paid to civil servant, and spending on goods and service), that government inject into the economy is about more than ninety five to ninety nine times of public investment spending, in average, for the last four annual budgets of Somalia (2013-2016). Investment, however, is not included in the annual budget as it is financed

usually by external donors, and what is shown in the budget, if any, is merely the depreciation of some of the existing capital stocks. The other side of the government accounts, is the revenues side. Analyzing this aspect, leads to, somehow, some worrisome results. From the picture emerged on the government revenues for the last four years by source of revenue, it appears without doubt, that the main source of government revenues, is from the external grants. Such grants into the annual budget, has registered an average contribution of more than 40 percent, to the total budget revenue, over the last four years. Such a reliance of the government budget on external grants would, undoubtedly, increase the vulnerability and uncertainty in the national economy.

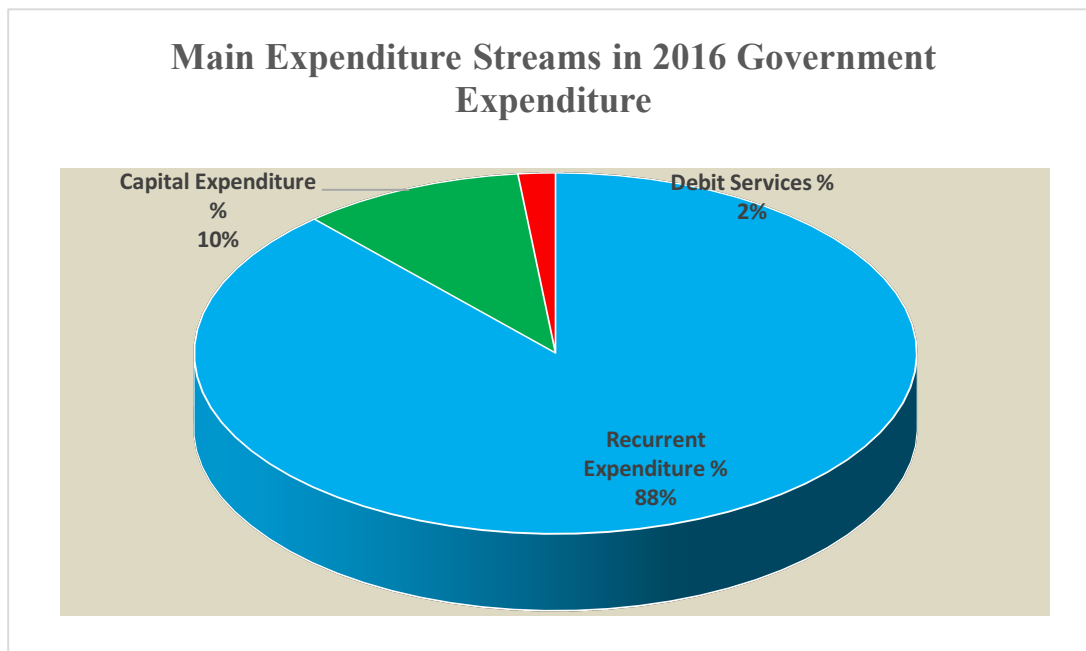


Source: Ministry of Finance, Fiscal statistics, various Spreadsheet

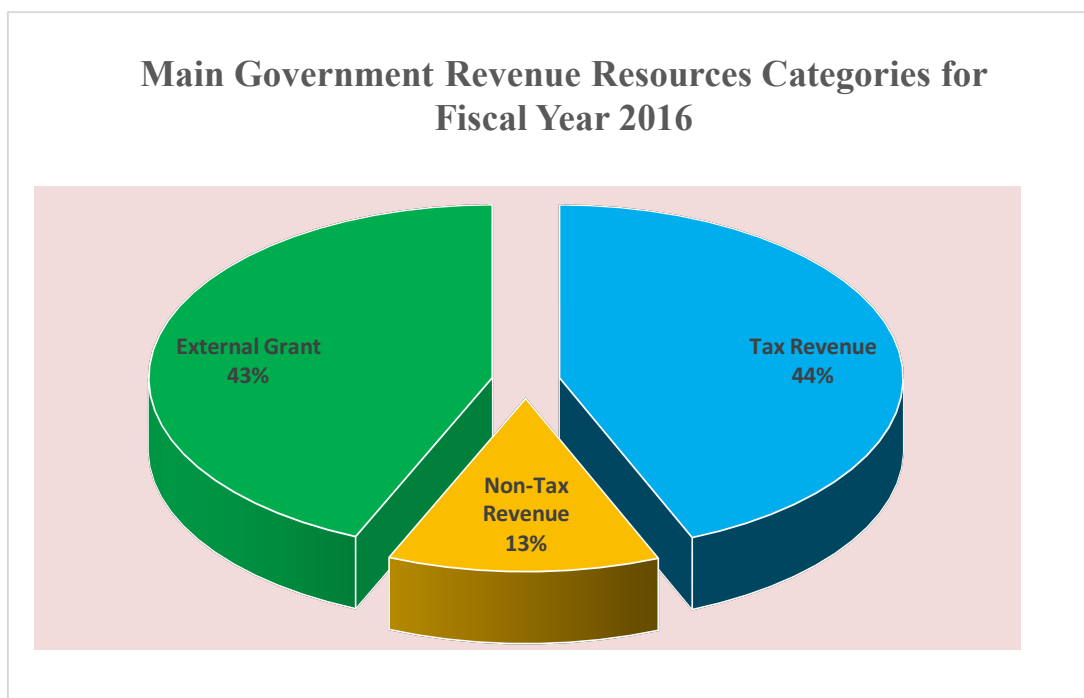
The overall public account balance is another worrisome result, which relates to the continuing occurrence of the government budget deficits at the consolidated level. This is occurred since the first budget of 2013 and continued to be so with persisting higher level of deficits. However, these have resulted from both a weakening in revenues, particularly, the low tax base and tax systems mismanagement, and from pressure whose origin is relatively high recurrent spending on wages and salaries and goods and services.

The challenges facing the Somali economy are; i) the continuing increasing in public account deficit (budget deficit excluding the external grants) by a compound annual rate of 20.1 percent during the period 2013 to 2016, whereby the budget deficit (international grants excluded) estimated to reached 1.4 percent of the country GDP in 2016, ii) the persisting domination of the recurrent expenditures of the total fiscal expenditure in the economy, and iii) trade (customs) taxes constitutes 60.3 percent out of the 70.7 percent of contribution of the total indirect tax into

domestic revenue. The diagrams below illustrate these challenges by showing the domination of the recurrent expenditure of the total government expenditure, and the very low share of capital expenditure in the total public spending, as well as the revenue sources in the economy.



Source: MOF – General Government Finance Statistics, Various Spreadsheets



Source: MOF, General Government Finance Statistics, Various Spreadsheets, 2016

Accordingly, and in order to mitigate the negative impact of the external shocks on fiscal environment, within this context, the aim of the Somali government is to achieve fiscal balance and lessen the reliance on external donors' grants, enhancing revenues, widening the fiscal space, achieving a rational and optimal allocation of the limited financial resources, in the future budget(s), in order to curtail the domination of recurrent expenditures, to enhancing the capital expenditures and to developing expenditure priorities for various ministries, government agencies and regional states. Notwithstanding, to achieve these goals, the Ministry of Finance (MoF) has come up with the strategy "Policy and Priorities as well as PFM ACT for the purpose of preparing the general government budgets for years 2016-2020", in compatibility with the basic objectives and strategic focus of the "National Development Plan" document.

Somalia Public Accounts Outlook and the Fiscal Framework during the period 2017-2019

Previous section has highlighted the Government's budget and public accounts process and movements during the period 2013-2016, and how the SNDP is going to assume the direction and trajectories of public sector's accounts components behaviour and path, during the plan period (2017-2019). This section, notwithstanding, would set out the assumptions and main factors that will drive revenue forecasts and the direction of government spending, for the period of the SNDP. These revenue estimates, together with an assessment of the absorptive capacity of the economy and the government's ability to execute its budget, in a sound and effective manner, provide the basis for developing a broad course for Government expenditures, in line with the main macroeconomic objectives and the calculated positive movements of the main macroeconomic variables, and growth trajectories thereof, during the plan period.

It is important to note that, because of the lack of required economic statistical data, it is quite difficult to formulate a feasible revenue forecasting model and to numerically articulating such a model, for the Somali economy at this time, though a mixed approach of qualitative assumptions, embedding experts' views, and simple functional interrelation and correlation, was attempted and calibrated, by the adopted aggregate macro-fiscal modelling approach.

Having said that, and given the lacking and paucity of needed statistical data and other related constraints, an attempt has been made to establish an overall direction and structure of public sector accounts, from both revenue resources perspective and alignment of expenditure trends with the strategic objectives, and envisaged development path during the SNDP period. Accordingly, a consistent, realistic and appropriate approach has been adopted to forecasting and estimating various revenue components, and expenditure streams of the fiscal framework of the Somalia, during the years 2017-2019. Consequently, the statistical data obtained from MOF and supplemented by IMF-SMP report published May 2016, it showed that the main contributors to domestic revenue in 2016 budget were; customs (trade) taxes (duties), non-tax revenue and taxes on goods and services (GST). These have contributed by; 60.5 percent, 25.2 percent and 10.4 percent to the total domestic revenue, respectively. Adding up these three components contribution to domestic revenue, would indicate more than 96 percent of domestic revenue is generated by

these three revenue components. With this existing structure in mind, we have attempted to estimate these components, utilizing their functional correlations with, amongst others; income, GDP and trade volume that have been forecasted and driven for the economy for the period 2017-2019 and presented within the plan macroeconomic framework derived earlier and stated above in this paper. These estimates also based on the assumptions that there would be some concerted efforts by the government to carry out real improvement in the tax regime, including issuance of the new tax-law, increasing tax base and enhancing tax collection and administrative process and capabilities. However, most importantly these revenue estimates are also based on the fact that assumption of the planned and incurring higher level of investment, at different sectors and activities level, in Somali economy, during the SNDP period, would be realized and achieved, particularly, the planned investment in the infrastructure and services sector. This also would be complemented and associated with increased level of imports particularly those of machineries and equipment into the national economy, which needed to support planned investment.

The table below shows the likely public-sector accounts during the SNDP period. This reflects both the likely domestic revenue that can be generated from both taxes and non-taxes sources, and government expenditure that is depicting the main estimates and setting of the Somali macroeconomic framework and outlook. This is besides rationalization and resources reallocation to key areas of priority, and applying the principle of cost-effectiveness in spending of public funds. Thus, this would be based on the assumption of the “hopeful” growth scenario of the economy during the plan period, which would, hopefully, ensure the consistency of government budget with the national economy’s absorptive capacity, and hence, curtailing the level and the rate of likely inflation generated in Somalia, during the coming three years [This is the case in the Somali economy, due to the fact that the economy is fully dollarized economy, and hence, there are full absence of monetary policy instruments. Accordingly, curtailing inflation is quite limited as there is no monetary policy, such as using exchange rate, interest rate and/or money supply regime to tackle inflation, so curtailing inflation in Somalia, in this circumstance, can only be approached through fiscal and other economic related policies.].

Somalia Likely Public Accounts Outlook for the period 2016-2019					
Component	2016 (in \$m)	2019 (in \$m)	Compound Growth Rate (%)	As % of GDP of 2016	As % of GDP 2019
Domestic Revenue	125.2	222.1	21.1	2.04	3.09
Tax on Income, profit and capital gain	5.0	13.9	40.6	0.08	0.19
Tax on goods and services	13.0	39.1	44.3	0.21	0.54
Tax on Trade (Customs Duties)	75.7	132.2	20.4	1.23	1.84
Non-Tax Revenue	31.5	36.9	5.4	0.51	0.51
Recurrent Expenditure	222.2	320.3	12.9	3.62	4.45

Source: Integrated Modelling Results

It is worth mentioning that it is believed that the above forecasted and derived fiscal framework for the Somali economy, particularly, on the likely domestic revenue level and the functionally appropriate pace of recurrent expenditure, during the SNDP period (2017-2019), is economically and fiscally plausible, and the setting is consistent with assumed compound annual growth rate of the national economy, of the “Hopeful” scenario, of the 5.5 per annum during the plan period. These forecasts and outlook factors suggest that a prudent approach should be taken with respect to the actual profile of public expenditures over this period, which should preserve the main planned structure and priorities as stated in the SNDP. Furthermore, the set projection of the three years public accounts and fiscal framework, covering the SNDP period 2017-2019, would, undoubtedly, be useful to set the base of Somali Ministry of Finance (MOF), to starting formulate the much needed rolling-over medium term budget framework (MTBF), for the economy for the same time period of the plan (2017-2019), which in turn to be used as a comprehensive base for the country annual budgets. However, we should bear in mind that there is statistical paucity and inconsistency on various aspects of the public accounts variables, together with their database used in this paper forecasting and projections, therefore, it is expected that there would be a feedback mechanism, for updating the used database, when better and more consistent and accurate data, on these and other used variables became available, through time.

References

- Al-Ali, Hashim (2002) “An Aggregated Macroeconomic Accounting Model and Its Applications for Kosovo Economy”, Central Fiscal Authority (Now Ministry of Finance and Economic Development)/USAID, Pristina, December 2002
- Al-Ali, Hashim (2011) “Macroeconomic Development and Fiscal Management for Timor-Leste Economy”, Ministry of Finance, Dili
- Al-Ali, Hashim (2013) “An Integrated Macro-Fiscal Forecasting Model and Its Applications for the Bangladesh Economy”, The Journal of Economic Science: Theory and Practice, Vol. 70, No. 2, Baku, pp32-66.
- Al-Ali, Hashim (2014) “Towards establishing a viable macroeconomic and medium-term fiscal framework integrated approach for the Iraqi economy”, International Journal of Contemporary Iraqi Studies (IJCIS), Volume 6, Issue 2, November, pp 195...
- Ministry of Planning and International Cooperation, Somalia (2016) “Somalia National Development Plan 2017-2019” Mogadishu, July -various chapters-
- Statistics Department/MOPIC, Somalia (2015-2016) “Various Statistical Reports and Bulletins”, Mogadishu
- World Bank (2015) “Somali Economic Update”, November, Country Report