

REPUBLIC OF SOMALILAND



MACROECONOMIC AND FISCAL FRAMEWORK

Ministry of Finance Development



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Table of Contents

LIST OF TABLES	II
LIST OF FIGURES.....	III
EXECUTIVE SUMMARY	IV
1. INTRODUCTION	7
2. EXTERNAL SHOCKS.....	8
2.1. GLOBAL IMPACT OF COVID-19	8
2.2. LOCUST SWARM.....	9
3. SOMALILAND’S POLICY RESPONSE TO COVID-19	9
4. MACRO-FISCAL PERFORMANCE	11
4.1. MACROECONOMIC PERFORMANCE	12
4.1.1. Inflation.....	12
4.1.2. Exchange Rate.....	13
4.1.3. Trade and Travel	14
4.1.4. Investment.....	19
4.1.5. Public Sector Employment.....	20
4.1.6. Precipitation—Rainfall	21
4.2. EXTERNAL AID 2018	21
4.3. FISCAL PERFORMANCE (JAN – JUNE 2020)	22
4.3.1. Domestic Revenue	22
4.3.2. Expenditure.....	24
4.3.3. World Bank Projects (government executed).....	26
4.3.4. Revised 2020 Revenue Forecast	27
5. ECONOMIC OUTLOOK OVER THE MEDIUM-TERM.....	29
5.1. GDP.....	29
5.2. INFLATION	30
5.3. EXCHANGE RATE.....	31
5.4. TRADE.....	32
5.4.1. Import	32
5.4.2. Livestock export	33
6. FISCAL OUTLOOK OVER THE MEDIUM-TERM	34
6.1. ESTIMATES OF TOTAL GOVERNMENT REVENUE FOR THE COMING THREE YEARS.....	34
6.1.1. Additional revenue raising measures for 2021	35
6.2. FISCAL & MONETARY POLICY IN THE MEDIUM-TERM	37
6.3. PRIORITY AREAS IN THE 2021 BUDGET	38
6.4. ESTIMATES OF TOTAL GOVERNMENT EXPENDITURE FOR THE COMING THREE YEARS.....	39
7. APPENDIX	41
APPENDIX 1: Aid by INGOs and UN agencies to Somaliland in 2017 and 2018, US Dollars	41
APPENDIX 2: Aid from GIZ in 2017 and 2018, US Dollars	41
APPENDIX 3: World Bank disbursed funds in 2017 and 2018, US Dollars	41
APPENDIX 4: SDF disbursed funds in 2018, US Dollars	41
APPENDIX 5: Investment priorities at national, regional and district levels, 2020-2023	42

List of Tables

Table 1: Summary forecast of key macro indicators, 2020-2023.....	V
Table 2: Estimate of Government Revenue and Expenditure in the next three years, SLSh	VI
Table 3: AfDB’s Real GDP and Inflation rate forecasts for a select list of Somaliland’s trading partner countries, 2019 – 2021	9
Table 4: Restrictions on spending lines in the 2020 National Budget	11
Table 5: YoY and MoM inflation by major category, base year=2012.....	13
Table 6: Exchange rate and YoY percent change, SLShs per USD (Jan – June 2019 and 2020)	13
Table 7: Livestock export between January and June 2019 and 2020	15
Table 8: Somaliland Import value, January - June 2019 and 2020 (SLSh)	16
Table 9: Somaliland Import Duty, January - June 2019 and 2020 (SLSh)	16
Table 10: Top 10 Import Products by Value between January and June 2020, SLSh	16
Table 11: Top 10 Import Products by Duty between January and June 2020, SLSh.....	17
Table 12: Number of Containers and Ships that arrived at the Berbera Port, Jan-June 2019 and 2020	17
Table 13: Type and number of Ships/Vessels that arrived at the Berbera Port, Jan-June of 2019 and 2020	18
Table 14: Country of Origin of Containers at the Berbera port, Jan-June 2019 and 2020	18
Table 15: Number of Passengers Arrived and Departed by Air, January-June 2019 and 2020	19
Table 16: Number of business licenses issued between Jan-May 2019 and 2020	20
Table 17: Public sector (civil servants) employment from 2012 to 2020	20
Table 18: External Aid funds disbursed to Somaliland in 2017 and 2018, US Dollar.....	21
Table 19: Fiscal Summary, Jan - June 2020 (SLSh).....	22
Table 20: Actual Revenue Collection vs Budget Forecast in SLShs, Jan - June 2020	23
Table 21: Government Spend at the chapter level, Jan–June 2020 (SLSh)	25
Table 22: Government spend by Sector, Jan–June 2020 (SLSh).....	26
Table 23: Forecasted 2020 government revenue collections by major type, for both scenarios	27
Table 24: Range of growth forecasts for Sub-Saharan Africa from World Bank, UNECA and IMF.....	29
Table 25: Medium-term scenarios for Somaliland’s economic growth	30
Table 26: Medium-term scenarios for price levels in Somaliland	31
Table 27: Medium-term scenarios for the development of the budget exchange rate of the SLSh per USD.....	32
Table 28: Medium-term scenarios for the growth in the total value of imports to Somaliland	32
Table 29: Medium-term scenarios for the growth of livestock export levy collections.....	33
Table 30: Selected macroeconomic indicators for MFF 2021-23.....	34
Table 31: Total government collections over the medium term, optimistic scenario, in SLSh billions.....	35
Table 32: Medium-term government collections by revenue category, optimistic scenario, in SLSh	35
Table 33: Additional Revenue raising measure in 2021	36
Table 34: Government's Fiscal and Monetary Policies for the medium-term	37
Table 35: Government expending priorities in the 2021 Budget	38
Table 36: Breakdown of estimated annual expenditure at the chapter level in 2020-2023.....	39
Table 37: share of total Budget and YoY growth, 2020-2023.....	40

List of Figures

Figure 1: YoY Inflation by major category, base year=2012	12
Figure 2: Somaliland Shilling exchange rate per USD and Annual Headline inflation, Jan 2018—June 2020	14
Figure 3: Livestock export in Somaliland since 2018	15
Figure 4: Monthly Number of Containers and Ships/Vessels that arrived at the Berbera Port since 2018	18
Figure 5: Number of Passengers that Arrived and Departed by Air per month (Jan 2019 to March 2020)	19
Figure 6: Number of Business Licenses Issued per month since 2018	20
Figure 7: Public sector (civil servants) employment from 2012 to 2020	20
Figure 8: Rainfall level (mm) registered by Location in Somaliland in the first quarter of 2020	21
Figure 9: Total revenue collection by responsible agency (billions SLSh), Jan–June 2020	23
Figure 10: Customs (Left) and IRD (right) revenue collection by location, Jan–June 2020	24
Figure 11: Top 5 over and underperforming revenue items against forecast in SLSHs, Jan–June 2020	24
Figure 12: Government Spend by chapter, Jan–June 2020 (SLSh)	25
Figure 13: Government spend by Sector, Jan–June 2020 (SLSh)	26
Figure 14: World Bank Projects' budget performance, Jan–June 2020	26
Figure 15: Forecasted 2020 government revenue collections and shortfall, in SLSh billions	28
Figure 16: Monthly profile of forecasted revenues, in billions SLSh, incl. % shortfall against budget	28
Figure 17: GDP growth trend and medium-term scenarios (constant prices)	30
Figure 18: Inflation rate trend and medium-term scenarios	31
Figure 19: Trend and medium-term forecast of the exchange rate, compared to the inflation rate	32
Figure 20: Trend and medium-term scenarios for the growth in the value of imports into Somaliland	33
Figure 21: Medium-term scenarios for livestock export levy collections in Somaliland	34

Executive Summary

The main objective of the Macro-Economic and Fiscal Framework is to lay out the government’s fiscal and monetary policies and to provide an outlook of key macro-fiscal indicators for the next three years.

It starts off by providing an economic overview of the Somaliland economy and a fiscal review of the first six months of 2020—in light of the COVID-19 and locust swarms. It subsequently provides an outlook for the economy before laying out the government’s monetary and fiscal policies along with fiscal estimates for the next three years.

The Government of Somaliland has been quick with its response to the COVID-19 and locust swarms. A partial lockdown was enforced between March and June to stop the spread of the virus which affected most sectors and businesses. The government also banned the import of Khat and closed Khat shops for a month—coinciding with the Ramadan. While these measures put a significant strain on economic activities, they were necessary to stop the spread of the virus and should be seen as an investment in the long-term human and economic health. The government has also introduced several fiscal policy measures to support those most affected (i.e. small businesses and the wider population). These include: a reduction of import tax on main import goods (i.e. Rice, Sugar, Pasta and Flour), tax exemption for imports of medicines and medical equipment and setting-up funds and allocating US\$3.5 million to support poor families and small businesses.

Global economic outlook for 2020 looks gloomy. With the COVID-19 inflicting high and rising human costs worldwide (i.e. over 14 million cases and more than 600,000 deaths), containment measures enforced all over are significantly straining economies. This has led to supply chain disruptions, loss of income and unemployment, business closures, loss of government revenue and reallocation of expenditure away from most pre-COVID-19 development priorities. The unprecedented nature and impact of the COVID-19 has led the IMF to revise down their initial forecasts. World output is now projected to decline by -4.9% in 2020 before growing by 5.4% in 2021. These represent downward revisions of -1.9% for 2020 and -0.4% for 2021 compared to the April estimates. Economies in Sub-Saharan Africa are also projected to contract by -3.2% in 2020 before growing by 3.4% in 2021. The African Development Bank (AfDB) for its part estimates that Africa’s GDP is likely to contract by -1.7% under a baseline scenario and -3.4% under a worst-case scenario.¹ A partial recovery of 3% is anticipated in 2021 but is unlikely to make up for the estimated cumulative GDP loss ranging from \$173.1 and \$236.7 billion for 2020 and 2021 due to the pandemic. Growth in Somaliland’s trading partner countries like Kenya, Ethiopia, Djibouti and Uganda is projected to be much slower as a result of the pandemic; while Saudi Arabia, United Arab Emirates, Thailand and Malaysia are projected to contract significantly in 2020.

Somaliland’s economy is set to contract in 2020 due to the dual shock of the COVID-19 and locust swarm with outlook for the medium-term very uncertain. While current data show that the effects of the COVID-19 have so far been moderate in Somaliland, the economic effects of these crisis are expected to worsen in the next quarters as contractions in the rest of the world spill over into Somaliland—through shifts in international trade, investment and in the domestic business sector. Two scenarios have been developed to ascertain the outlook of key macroeconomic indicators, as per Table 1 below—with both predicting an economic contraction in 2020. An optimistic scenario assumes an early recovery in 2021 in which most indicators return to pre-COVID-19 levels. While a conservative scenario suggests continued economic

¹ The baseline scenario assumes that COVID-19 will be contained by the third quarter of 2020 while the worst-case assumes it will persist until the end of 2020

decline in 2021 followed by a stronger recovery in 2022 and 2023. The MoFD has also significantly revised down its initial 2020 revenue forecasts with an estimated shortfall of 10% (-202 billion SLSh) under the conservative scenario and 8% (-170 billion SLSh) under the optimistic scenario.

Table 1: Summary forecast of key macro indicators, 2020-2023

	SCENARIO 1 (OPTIMISTIC)				SCENARIO 2 (CONSERVATIVE)			
	2020	2021	2022	2023	2020	2021	2022	2023
GDP GROWTH	-2.0%	2.7%	2.0%	2.0%	-3.60%	1.50%	3.00%	2.00%
INFLATION RATE	6.00%	7.00%	7.10%	7.10%	4.50%	5.00%	6.50%	7.10%
EXCHANGE RATE	8500	8500	8000	7500	8500	7500	7250	7250
IMPORT GROWTH	-6.50%	10.00%	6.60%	6.60%	-10.50%	5.00%	8.00%	6.60%
LIVESTOCK EXPORT GROWTH	-16.3%	20.0%	5.0%	5.0%	-20.5%	15.0%	10.0%	5.0%

Government’s Monetary and Fiscal Policies for the next three years. Several fiscal objectives have been identified, which need to be addressed through the budgets for the coming three years. Spending will be directed to areas with the highest returns that will induce a faster recovery from the COVID-19 and locust plague and induce long-term growth (i.e. health, security, production, industry, youth development and employment, etc.). While provisions were made in the 2020 budget to start investing in priority technical areas and fill gaps at specific administrative levels, the downward revision of the 2020 revenue forecasts, reprioritization of spending toward COVID-19 responses and the significant budget restrictions means that progress in this area is likely to fall short of target. As a result, provisions will be made to fund spending shortfalls from the 2020 budget to ensure we reach our targets. In addition to this, the MoFD aims to continue contributing to the contingency fund in order to safeguard the government’s future fiscal position and increase its ability to respond to unexpected shocks. To help achieve these broad objectives, the MoFD aims to increase the Inland Revenue’s share of tax collection (e.g. by improving collection efficiency), reduce government debt, increase transfers to local authorities for efficient service delivery and end all unlawful fees—all while maintaining a balanced budget. Furthermore, monetary policies have been identified to support the government’s fiscal targets. These include stabilizing the inflation rate at around 7%-7.5%, the exchange rate around 8,000-8,500 SLShs/USD and closing the gap between the official and market exchange rate.

Huge uncertainty around estimates of revenue and expenditure for the coming three years. The MoFD has taken the optimistic outlook (scenario 1) in drawing up the initial forecasts for Government revenue collections over the medium term. The estimates assume that the Government does not change the budget exchange rate, meaning the 2021 budget is drawn up at an exchange rate of 7,000 SLSh per USD. In this scenario, forecasted revenue for 2021 is 0.5% higher than the original budget target for 2020 (set at 2,046 billion SLSh), though significantly higher than the revised estimated collections for this year. This scenario would reflect that the Government of Somaliland will resume its impressive year-on-year increases in revenue collections, following a temporary downturn this year. The MoFD has also provided a few measures to further raise the 2021 revenue by 39.2 billion SLSh. These include aligning tax rates on electricity, cigarettes, tobacco and cement to those denoted in the 2016 Revenue Act and reducing tax expenditures by better managing tax exemptions on imports. On the expenditure side, the MoFD has made tentative allocations based on the spending restrictions currently enforced in the 2020 Budget to free-up funds for COVID-19 responses and by the government’s fiscal priorities in the medium-term.

Table 2: Estimate of Government Revenue and Expenditure in the next three years, SLSh

	2021 Budget forecast	2022 Budget forecast	2023 Budget forecast
Total Revenue forecast	2,056,144,191,331	2,204,356,305,045	2,365,023,877,303
<i>Income and profits</i>	46,481,689,849	50,746,354,083	55,402,339,939
<i>Payroll and workforce</i>	93,607,426,003	95,462,998,518	97,355,353,900
<i>Goods and Services</i>	642,107,281,598	687,677,885,095	737,162,800,345
<i>International Trade</i>	1,024,655,435,757	1,110,970,363,258	1,204,678,464,135
<i>Other Taxes</i>	88,028,589,762	95,669,956,332	103,974,651,457
<i>Other Revenue</i>	161,263,768,362	163,828,747,758	166,450,267,528
Total Expenditure estimate	2,056,144,191,331	2,204,356,305,045	2,365,023,877,303
<i>Compensation of employees</i>	986,249,005,406	1,001,070,216,777	1,017,136,974,003
<i>Employer Social Contributions</i>	9,227,527,200	9,227,527,200	9,227,527,200
<i>Costs for Using goods and services</i>	560,695,325,650	597,748,354,079	637,915,247,143
<i>Routine Maintenance of Assets</i>	24,794,987,344	26,591,134,697	28,538,226,789
<i>Government Projects</i>	180,222,455,785	224,762,370,738	272,962,642,415
<i>Subsidies</i>	6,617,507,884	6,617,507,884	6,617,507,884
<i>Grants</i>	53,132,390,800	56,981,297,910	61,153,659,708
<i>Assets</i>	165,915,271,261	202,968,299,690	243,217,884,087
<i>Loan Repayment</i>	59,289,720,000	65,425,353,796	72,076,614,355
<i>Contingency Fund</i>	10,000,000,000	12,964,242,274	16,177,593,719
YoY Budget Increase (%)	0.5%**	7.2%	7.3%

**This is the increase from the original Budget (2.046 trillion SLSh). The increase from the revised budget (1.871 trillion SLSh) is 9.9%.

1. Introduction

As the world is reeling from the impact of the COVID-19 and uncertainty about the future, citizens around the world are looking to their governments to show their mettle and capacity. In drafting the following Macroeconomic and Fiscal Framework, the Ministry of Finance Development aims to focus the government's policies and objectives around current pressing demand while adhering to the NDPII and Vision 2030. The government will pursue medium-term fiscal and monetary policies that will ensure stability, mitigate the expected economic contraction in 2020 and induce a fast-economic recovery.

The main objectives of the Macro-Economic and Fiscal Framework over the medium-term are:

- ✓ To lay out the government's Monetary and fiscal policies over the medium term
- ✓ To provide an overview and outlook of macroeconomic and fiscal indicators for the next three years
- ✓ To ensure that domestic revenues are adequate to finance the government's recurrent spending and development project priorities
- ✓ To translate government priorities into the Budgets and ensure conformity of actual expenditures
- ✓ To allow the public to monitor the implementation of the government's policies

The government's fiscal targets are guided by three thematic indicators: fiscal position, fiscal sustainability and vulnerability. They take into account the fact that there needs to be enough cash inflow to finance—in a non-inflationary way—any budget deficit while reducing public debt. In addition to this, the government's fiscal policies (i.e. spending, taxes) needs to be sustainable in the medium to long-term without having to default on expenditure commitments. Finally, the government's fiscal position needs to be resilient during downturns in order to avoid failing to meet fiscal policy objectives.

The rest of the Macroeconomic and Fiscal Framework document is divided into four main sections. The first part provides an impact analysis of the COVID-19 and locust pandemic. The second and third part provide an overview and assessment of recent macroeconomic developments and an outlook for the Somaliland economy. Lastly, the fourth part lays out the government's fiscal and monetary policies and estimates the National Budget in the next three years.

2. External Shocks

Somaliland is very much connected to the rest of the world through increased economic and diplomatic dealings and with the diaspora dispersed all over. Economic contractions in the rest of the world—as currently brought about by the COVID-19 and locust swarm—will therefore have severe impacts on the local economy (i.e. through reduced trade, remittances, Aid, government resources, etc.). Understanding the extent and direction of these shocks is important for Somaliland when it comes to forecasting macroeconomic variables and selecting effective fiscal and monetary policies for the medium-term.

2.1. Global Impact of COVID-19

Since December 2019, the COVID-19 has been inflicting high and rising human costs worldwide—with over 14 million confirmed cases and 600,000 deaths to date. Protecting lives and allowing health care systems to cope have required the enforcement of quarantines, social distancing, country wide lockdowns and widespread business closures around the world. These measures have had a rapid and severe adverse impact on global economies through: supply chain disruptions, loss of income and rising unemployment, business closures, loss of government revenue and reallocation of expenditure away from most pre-COVID-19 development priorities. Another significant impact of the current pandemic is on oil prices which are expected to remain below US\$45 a barrel through 2023—about 25% lower than the average price in 2019—reflecting weak global demand. While the fall in oil prices will have severe impacts on oil exporting countries, oil-importing countries like Somaliland stand to benefit.

Responses in developed countries if successful will help reduce the impact of the pandemic on developing countries which rely heavily on remittances and on Aid. The IMF is pointing to huge uncertainty surrounding the resumption in global growth as this will depend, among other things, on the pathway of the pandemic, finding a vaccine, the efficacy of containment efforts, easing of restrictions, behavioral changes, and volatility in commodity prices. The unprecedented nature and impact of the COVID-19 has led the IMF to revise down their initial growth forecasts. According to their June 2020 revised forecasts, world output is projected to decline by -4.9% in 2020 before growing by 5.4% in 2021. These represent downward revisions of -1.9% for 2020 and -0.4% for 2021. Economies in Sub-Saharan Africa are also projected to contract by -3.2% in 2020 before growing by 3.4% in 2021. The African Development Bank (AfDB) for its part estimates that Africa's GDP is likely to contract by -1.7% under a baseline scenario and -3.4% under a worst-case scenario.² A partial recovery of 3% is anticipated in 2021 but this recovery is unlikely to make up for the estimated cumulative loss to Africa's GDP ranging from \$173.1 and \$236.7 billion for 2020 and 2021 due to the pandemic. Growth in Somaliland's trading partner countries like Kenya, Ethiopia, Djibouti and Uganda is projected to be much slower as a result of the pandemic (see table 3 below); while Saudi Arabia, United Arab Emirates, Thailand and Malaysia are projected to contract significantly in 2020.

² The baseline scenario assumes that COVID-19 will be contained by the third quarter of 2020 while the worst-case assumes it will persist until the end of 2020

Table 3: AfDB’s Real GDP and Inflation rate forecasts for a select list of Somaliland’s trading partner countries, 2019 – 2021

		WITHOUT COVID-19			WITH COVID-19 (BASELINE)		WITH COVID-19 (WORST CASE)	
		2019	2020	2021	2020	2021	2020	2021
KENYA	Real GDP (%)	5.7	6.0	6.2	1.4	6.1	0.6	5.7
	Inflation (%)	5.1	5.1	5.2	5.6	4.9	5.7	4.6
ETHIOPIA	Real GDP (%)	9.0	7.2	7.1	3.6	5.5	2.6	3.1
	Inflation (%)	15.8	12.1	9.1	15.3	8.6	15.5	9
DJIBOUTI	Real GDP (%)	6.0	6.0	6.2	1.0	5.5	-0.5	5.2
	Inflation (%)	2.2	2.0	1.8	2.7	1.0	3.5	1.4
UGANDA	Real GDP (%)	5.0	6.2	6.1	2.5	3.5	1.6	4.2
	Inflation (%)	2.9	3.8	4.5	4.6	4.8	5.3	5

Source: AfDB’s African Economic Outlook 2020 Supplement

2.2. Locust Swarm

Somaliland and a few East African and Asian countries are currently experiencing a dual shock to their economies and to the livelihoods of their citizens. In the midst of the current COVID-19 pandemic, whereby most government responses are focused on mitigating the social and economic impacts of the virus, the locust swarms are somehow getting less traction. Nevertheless, the threat posed by the locust can be devastating. Earlier this year, a wave of locust swarms tore through East Africa destroying agricultural produce. At their peak, the swarms were destroying 1.8 million tons of vegetation a day. They were thought to have spread rapidly in January and February through East Africa, including in Kenya, Ethiopia, Somaliland and Somalia. The FAO is expecting a new wave in the coming weeks with Ethiopia, Sudan, South Sudan, Pakistan and India specifically warned to be on high alert over June and July.³

The locust swarms are expected to lead to significantly lower agricultural output in the affected regions, to higher food prices and to reduced income for farmers. This in turn should be exacerbated by the supply chain disruptions and falling average incomes brought about by the COVID-19. Consequently, food insecurity is expected to rise with millions of people facing the risk of falling into poverty. As a result of this, coordinated efforts between governments in affected countries, donors and international organizations, need to be intensified in order to avoid a disaster.

3. Somaliland’s Policy response to COVID-19

The government of Somaliland has been proactive with its response to the COVID-19 and locust swarms with the introduction of several containment measures and the re-allocations of funds to support those most affected. A partial lockdown was enforced in March until June 30th to stop the spread of the virus which affected most sectors and businesses. The government also banned the import of Khat and closed Khat shops for a month—coinciding with the Ramadan. While these measures put a significant strain on economic activities, they were necessary to stop the spread of the virus and should be seen as an investment in the long-term human and economic health. To help mitigate the economic impact of the

³ <http://www.fao.org/ag/locusts/en/info/info/index.html>

COVID-19 and locust swarms, the government also introduced several fiscal policy measures to support small businesses and the general population. These measures include:

1. Setting-up and allocating US\$1.5 million to a **COVID-19 health fund** to help fund preventive measures. To date, the government has disbursed 5 billion SLSh.
2. Setting-up and allocating US\$1 million to a **fund to support poor families**. Small and Medium sized enterprises and Major Merchants have each committed to matching the government's contribution. The size of the fund is set to be US\$3 million and is intended to feed 60,000 families.
3. Setting-up a fund and allocating US\$1 million **to support small businesses** adversely affected by the COVID-19. The government estimates that at least 20% of small businesses in the country are currently suffering from the COVID-19.
4. Reducing the Import tax on the following goods (i.e. the main goods imported):
 - a. Flour
 - b. Rice
 - c. Sugar
 - d. Pasta
5. Tax clearance for health equipment such as:
 - a. Medical Isolation sets
 - b. N95 Respirators
 - c. Surgical Masks
 - d. Surgical Gloves
 - e. Temperature scan (Head)
 - f. Temperature scan (Body)
 - g. Sanitizers
 - h. Oxygen ventilators
6. The Government has also asked large traders/merchants, landlords and Banks not to put pressure on their customers on debt repayment. They have also asked them to help encourage investment.
7. Moreover, the government is also closely monitoring market prices for food, medical equipment in order to respond quickly and effectively.

In light of the above policy measures and in anticipation of lower revenue collection in 2020, the government temporarily restricted a few expenditure lines in the National Budget in April—including spending on development projects. These budget restrictions have been revised effective July as shown in table 4 below. A few agencies are exempt from these restrictions including the Army Force, Lower Courts, National Disaster Preparedness and Food Reserve Authority and the Ministry of Agriculture and livestock. These spending restrictions will be reviewed regularly in line with monthly revenue collection performance and developments with the COVID-19.

Table 4: Restrictions on spending lines in the 2020 National Budget

No	Description	Restriction status effective April 2020	Restriction status effective July 2020
1	Buildings	100%	30%
2	Purchase of fixed Assets	100%	30%
3	Developmental Projects **	100%	20%**
4	Maintenance of Assets (Minor)	100%	100%
5	Expenditure of decoration offices	100%	100%
6	Debt Payments	100%	50%
7	Expenditure of laws reform	80%	0%
8	Master plan expenditure	80%	0%
9	Foreign travel allowances	80%	80%
10	Training and examination allowances	70%	0%
11	Research, Feasibility studies, project preparation and design	50%	50%
12	Unexpected Expenses (not contingency fund)	50%	0%
13	Maintenance of vehicles	50%	0%
14	Search for recognition	50%	30%
15	Hospitality allowances	50%	50%
16	Reward allowances	50%	0%
17	Consumer price index evaluation expenses	30%	30%
18	Petrol, fuels and oils	30%	30%
19	Stationary	30%	0%
20	PFM- expenditure	30%	0%
21	Local travel allowances	30%	30%
22	Outstanding bills	30%	30%
23	Security expenditure	20%	0%
Total restricted amount		393,852,774,829 SLSh	

**Spending restrictions on the following five projects have been fully lifted: *Erigavo & Lasanod Hospitals Project, Support for Dayaxa and Lasanod Schools, Support for JPLG, National Service Program, Recreational & Sports Expenses*

4. Macro-Fiscal Performance

Following years of sluggish and intermittent growth, Somaliland’s economy was trending upwards. The Government’s policies had helped stabilize prices at their lowest level in two years and led to an appreciation of the Somaliland Shilling. Growth had resumed and trade volumes were increasing. The strengthening of the economy, along with government fiscal reforms, had led to an increase in the resource envelop and enabled the government to deliver much needed projects and services for Somaliland’s citizens. In 2020 and the medium-term, the MoFD was forecasting GDP to grow by 2% per year and was expecting further increases in the fiscal envelope and a significant increase in development spending—thanks in part to continued tax reforms. However, the COVID-19 and locust swarms are set to put a significant dent on this momentum. The implementation of the government’s development projects has already been delayed (i.e. through the reprioritization of expenditure). Moreover, the recent performance of key macro-indicators show an increasingly more apparent impact of the COVID-19 and locust swarms on the Somaliland economy.

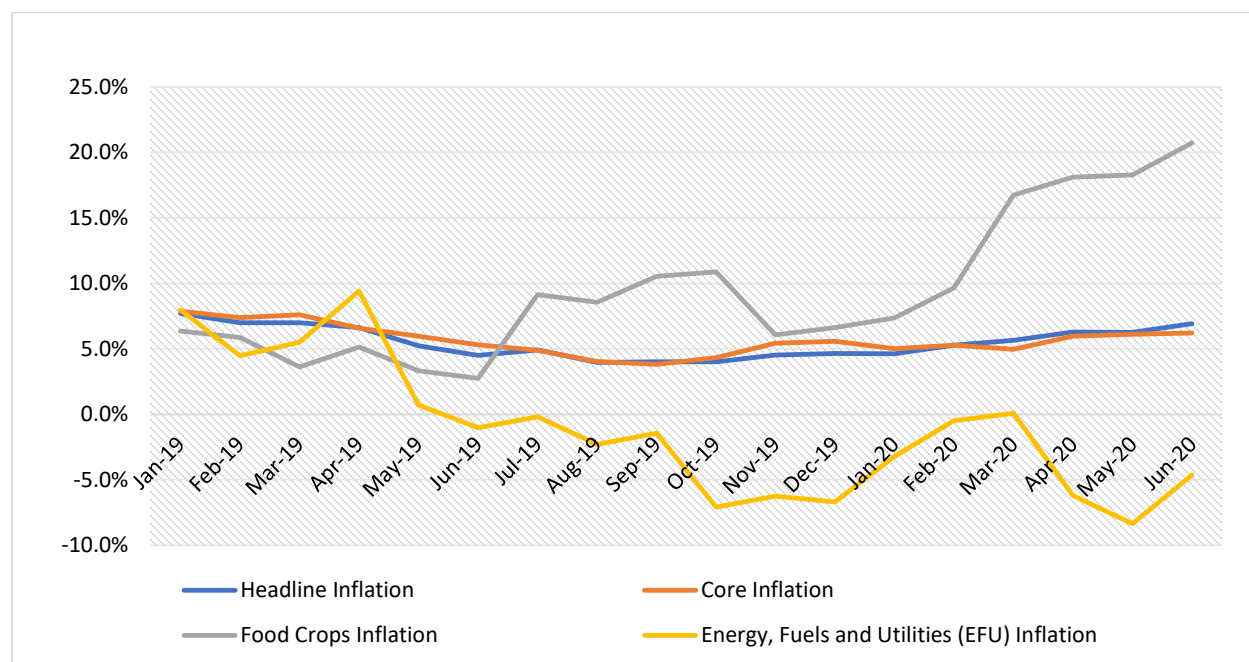
4.1. Macroeconomic Performance

4.1.1. Inflation

Average prices in Somaliland have been increasing at a faster rate in the first half of 2020 compared to the same period in 2019. The annual headline inflation in June 2020 was 6.9%, up from the 6.0% in April and the 4.6% registered in January 2020. On a monthly basis, the headline inflation rate increased by 0.73% on average in the first quarter and by 0.87% in the second quarter of 2020, compared to the 0.33%, 0.46% and 0.57% average recorded in Q1, Q2 and Q4 of 2019. The increase in the average price levels between January and June 2020 can mainly be attributed to the sharp increase in the Food & Crops inflation in March. The Food & Crops inflation increased to 16.7% in March from the 9.7% registered in February—representing a 7.3% month on month increase. As of June 2020, the annual Food & Crops inflation was 20.7%, its highest level since March 2018. The annual Energy, Fuels & Utilities (EFU) inflation rate was also trending upward in the first quarter of 2020—possibly as a result of the introduction of the GST on electricity in November 2019. However, it saw a sharp decrease in April—likely a result of the fall in oil prices around the world. As of June 2020, the annual EFU inflation was -4.6%.

The increase in the average price levels in the first half of 2020 can mainly be attributed to supply chain disruptions brought about by the COVID-19 and the locust plague. The sharp increase in the Food & Crops inflation in March 2020 coincided with most countries introducing various social distancing measures and trade restrictions—which significantly disrupted supply channels, and raised the cost of doing business and led to panic buying in some instances (i.e. during the Ramadan).

Figure 1: YoY Inflation by major category, base year=2012



Source: Ministry of National Planning and Development (MoNPD)

Table 5: YoY and MoM inflation by major category, base year=2012

Month	Headline Inflation		Core inflation		Food & Crops		Energy, Fuels and Utilities (EFU)	
	YoY	MoM	YoY	MoM	YoY	MoM	YoY	MoM
Oct-19	4.0%	0.5%	4.3%	0.7%	10.9%	1.4%	-7.1%	-2.3%
Nov-19	4.5%	0.6%	5.4%	1.3%	6.1%	-4.7%	-6.3%	0.0%
Dec-19	4.6%	0.6%	5.6%	0.3%	6.6%	2.2%	-6.7%	0.9%
Jan-20	4.6%	0.5%	5.0%	0.1%	7.4%	3.8%	-3.2%	0.5%
Feb-20	5.3%	0.6%	5.3%	0.5%	9.7%	1.5%	-0.5%	0.1%
Mar-20	6.0%	1.1%	5.0%	0.1%	16.7%	7.3%	0.1%	1.6%
Apr-20	6.3%	1.1%	6.0%	1.4%	18.1%	1.6%	-6.2%	-6.0%
May-20	6.2%	0.8%	6.1%	0.8%	18.3%	1.3%	-8.4%	-0.7%
Jun-20	6.9%	0.7%	6.2%	0.3%	20.7%	2.3%	-4.6%	2.6%

4.1.2. Exchange Rate

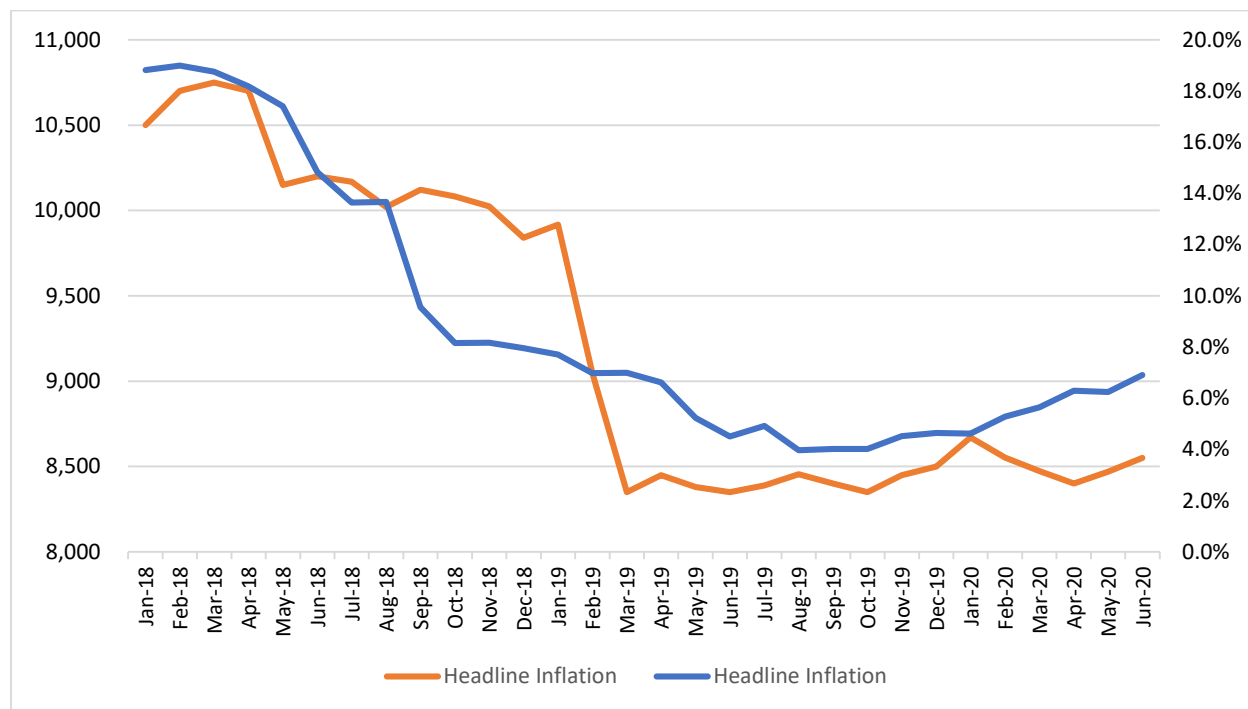
In June 2020, the exchange rate (i.e. the market rate) against the US dollar was 8,550 SLSh/USD, up from the 8,470 SLSh/USD recorded in May—representing a 0.9% depreciation. The Somaliland shilling has been fairly stable in the first half of the year compared to the same period in 2019. The average exchange rate in the second quarter of the year was 8,473 SLSh/USD, representing a 1.1% appreciation from the average in the first quarter, but a 1.0% depreciation from the same period in 2019. The average exchange rate in the first six months was 8,519 SLSh/USD, representing a 2.6% appreciation from the 8,750 SLSh/USD recorded in 2019. Figure 2 below shows that the exchange rate and the inflation rate have moved together fairly closely since January 2018. As can be seen, the depreciation of the Somaliland shilling against the USD over the past two months (May and June) seems to respond to the increasing average prices experienced in the first half of the year. However, given the Bank of Somaliland’s target range for the exchange rate against the USD at 8,000-8,500 SLSh and an expected shift in aggregate demand, we should expect a slight appreciation of the SL Shilling in the coming months.

Table 6: Exchange rate and YoY percent change, SLShs per USD (Jan – June 2019 and 2020)

	2019		2020		YoY
	Exch	MoM	Exch	MoM	
Jan	9,918	0.8%	8,670	2.0%	-12.6%
Feb	9,050	-8.8%	8,552	-1.4%	-5.5%
Mar	8,350	-7.7%	8,473	-0.9%	1.5%
Apr	8,450	1.2%	8,400	-0.9%	-0.6%
May	8,380	-0.8%	8,470	0.8%	1.1%
Jun	8,350	-0.4%	8,550	0.9%	2.4%
Average Q1	9,106		8,565		-5.9%
Average Q2	8,393		8,473		1.0%
Average Jan-June	8,750		8,519		-2.6%

Source: Central of Bank of Somaliland

Figure 2: Somaliland Shilling exchange rate per USD and Annual Headline inflation, Jan 2018—June 2020



Source: Data from the Bank of Somaliland

4.1.3. Trade and Travel

Livestock export

Livestock export in the first half of 2020 was very strong relative to the same period in 2019—with 468,309 heads exported compared to the 367,843 in 2019, representing a 27% increase. May and June 2020 exports were particularly high compared to 2019 by 5% and 332% respectively. This increase was entirely driven by Sheep & Goat export which was very high in June 2020 with a 212% month on month increase. On the other hand, Camel and Cattle export were significantly lower in the first half of the year compared to the same period last year.

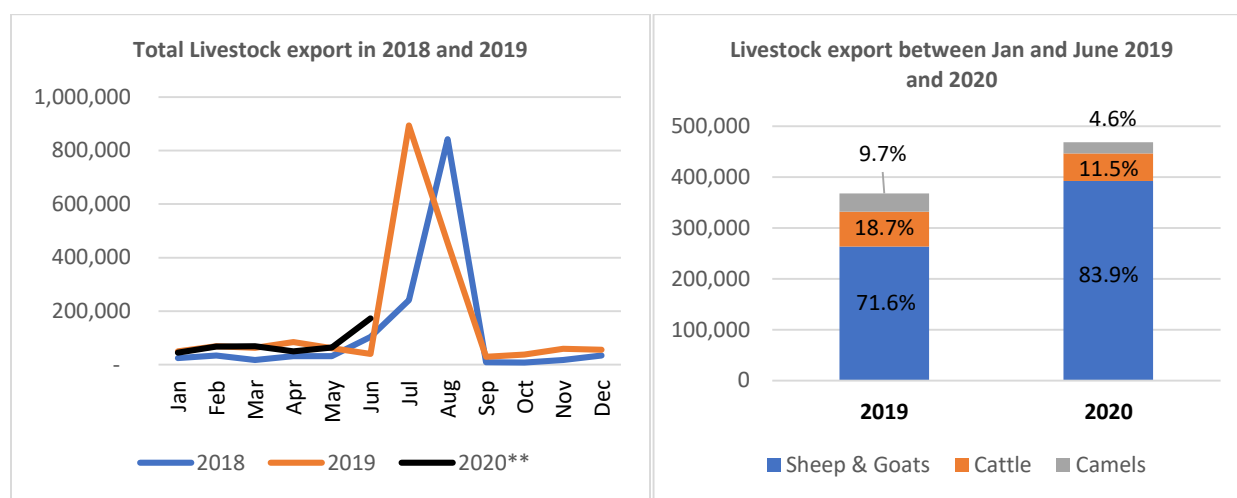
Figure 3 (right) below shows the composition of livestock export in the first six months of 2020 and 2019—with Sheep & Goat export accounting for 84% of the total export compared to the 72% in 2019. Figure 3 (left) on the other hand shows the number of livestock exported by month since January 2018. As can be seen, Somaliland’s export has had a distinctive trend with the third quarter registering a recurring spike in exports due to demand for the Hajj and Eid Al-Adha. Export in the first half of 2020 has followed the same trend albeit with significantly higher levels in the second quarter. This significant increase is a result of the lifting of the livestock export ban and subsequent increased export levels to Saudi Arabia and to Oman. If the ban is not reinstated in the second half, livestock exports—namely Sheep & Goat export—is likely to continue increasing on a monthly basis compared to 2019. Moreover, with Eid Al-Adha expected to fall at the end of July, exports in the third quarter are expected to be much higher than Q1 and Q2 exports. However, with this year’s hajj restricted to all but Saudi Residents and is expected to mobilize at

most 10,000 pilgrims compared to the usual 1.9 to 3.2 million pilgrims per year⁴, third quarter exports are set to be much lower than in 2019.

Table 7: Livestock export between January and June 2019 and 2020

	Units	2019	2020	YoY Change (%)
Livestock	Heads	367,843	468,309	27%
<i>Camels</i>	Heads	35,761	21,631	-40%
<i>Cattle</i>	Heads	68,618	53,960	-21%
<i>Sheep & Goats</i>	Heads	263,464	392,718	49%

Figure 3: Livestock export in Somaliland since 2018



Imports⁵

The total import value in the first six months of the year was 1.61 trillion SLSh compared to the 1.67 trillion SLSh recorded in the same period of 2019—representing a 3.3% decrease. This decrease was observed during the months of January, April and May 2020. However, import values recorded in June 2020 were the highest recorded since the start of the year. Import duties on the other hand decreased by 3.9% in the second quarter of the year compared to the first quarter. However, duties in the first half of the year were 1.3% higher than those collected in the same period of 2019. Table 10 & 11 show that ten of the products imported accounted for 54.6% of the country’s total import value between January and June 2020, while pretty much the same set of products also accounted for 56.8% of the total duties collected. Kat and Cooking Oil accounted for 11.6% and 9.4% of the total import value, while Kat and Cigarette accounted for 26.4% and 5.1% of total duties, respectively.

In the face of the COVID-19 pandemic and the initial social distancing measures and trade restrictions enforced around the world, Somaliland’s imports have been fairly resilient. However, with people’s

⁴ Source: <https://theconversation.com/hajj-2020-coronavirus-pandemic-frustrates-saudi-vision-for-expanded-religious-tourism-141142>

⁵ In Somaliland, imports are valued at set prices rather than real prices—meaning that prices are fixed in the valuation book with few changes each year. Moreover, USD quoted prices in the valuation book are revalued to SLSh through an exchange rate set by the government—which is currently 7,000 SLSh per USD.

income levels expected to be significantly hit as a result of anticipated lower remittances, lower income from livestock export in the second half of the year, lower government spending and decreased investment, we should expect import growth to significantly slow (decrease) in the second half of the year. This would be exacerbated by a second wave which would most likely lead to further social distancing measures, further lockdowns and further supply chain disruptions.

Table 8: Somaliland Import value, January - June 2019 and 2020 (SLSh)

Month	Imports Value 2019 SLSh	MoM Change (%)	Imports Value 2020 SLSh	MoM Change (%)	YoY Change
Jan	282,596,307,584		247,240,297,790		-12.5%
Feb	248,035,470,100	-12.2%	272,971,541,289	10.4%	10.1%
Mar	280,593,948,836	13.1%	311,189,171,835	14.0%	10.9%
Apr	296,340,742,854	5.6%	281,627,372,834	-9.5%	-5.0%
May	314,610,270,489	6.2%	234,074,218,228	-16.9%	-25.6%
Jun	244,750,801,535	-22.2%	264,052,784,159	12.8%	7.9%
Total Q1	811,225,726,520		831,401,010,914		2.5%
Total Q2	855,701,814,878	5.5%	779,754,375,221	-6.2%	-8.9%
Total	1,666,927,541,398		1,611,155,386,135		-3.3%

Table 9: Somaliland Import Duty, January - June 2019 and 2020 (SLSh)

Month	Imports Duty 2019 SLSh	MoM Change (%)	Imports Duty 2020 SLSh	MoM Change (%)	YoY Change
Jan	121,289,122,809		116,984,073,772		-3.5%
Feb	99,609,552,260	-17.9%	123,396,454,209	5.5%	23.9%
Mar	121,967,326,146	22.4%	125,469,657,239	1.7%	2.9%
Apr	121,160,396,065	-0.7%	122,779,249,952	-2.1%	1.3%
May	138,909,386,400	14.6%	97,612,169,543	-20.5%	-29.7%
Jun	100,192,747,830	-27.9%	125,824,869,765	28.9%	25.6%
Total Q1	342,866,001,215		365,850,185,219		6.7%
Total Q2	360,262,530,294	5.1%	346,216,289,260	-5.4%	-3.9%
Total	703,128,531,509		712,066,474,480		1.3%

Table 10: Top 10 Import Products by Value between January and June 2020, SLSh

Description	Value (SLSh)	Value as % of total import value
Kat	186,189,955,714	11.6%
Cooking Oil	150,952,150,427	9.4%
Sugar	145,627,864,007	9.0%
Pasta/Macaroni	92,945,008,247	5.8%
Wheat Flour	60,248,213,121	3.7%
Rice	59,181,297,856	3.7%
Unstitched Cloths	51,160,908,094	3.2%
Stitched Clothes	48,818,407,553	3.0%
Gas Oil	42,304,062,125	2.6%
Milk Powder	41,604,051,300	2.6%
Sub-Total	879,031,918,443	54.6%

Source: MoFD's Customs Department

Table 11: Top 10 Import Products by Duty between January and June 2020, SLSh

Description	Duties (SLSh)	Duty as % of total import Duties
Kat	188,027,199,558	26.4%
Cigarette	36,145,666,407	5.1%
Cooking Oil	35,561,170,721	5.0%
Sugar	34,481,069,939	4.8%
Pasta/Macaroni	25,772,369,988	3.6%
Stitched Clothes	18,981,362,512	2.7%
Saloon Cars	18,002,977,190	2.5%
Unstitched Cloths	17,142,750,177	2.4%
Gas Oil	15,989,161,640	2.2%
Wheat Flour	14,263,967,462	2.0%
Sub-Total	404,367,695,594	56.8%

Source: MoFD's Customs Department

Vessels/Ships and Containers at Berbera Port

In the first half of 2020, there were 188 Ships/Vessels that arrived at the Berbera Port compared to the 170 registered in the same period in 2019—representing an 11% increase or 18 more Ships. Table 13 shows the type and number of Ships that arrived at Berbera. Apart from Doon and WFP vessels, a significant increase from the corresponding 2019 period was observed among all types of vessels. On the other hand, 267 fewer containers were recorded in the first six months at the Berbera port compared to the same period in 2019—representing a 1.1% decrease. About 72% of the containers came from India, United Arab Emirates, China and Turkey.

The outlook for the number of Ships/Vessels and containers arriving at the Berbera Port in the second half of the year is uncertain but should be expected to decrease given that imports are expected to fall this year. Moreover, a second wave of the virus and a reintroduction of travel and trade restrictions would exacerbate this decrease.

Table 12: Number of Containers and Ships that arrived at the Berbera Port, Jan-June 2019 and 2020

	Containers			Ships/Vessels		
	2019	2020	YoY Change	2019	2020	YoY Change
January	3,876	3,270	-15.6%	43	36	-16.3%
February	2,971	3,715	25.0%	49	33	-32.7%
March	4,135	3,828	-7.4%	38	30	-21.1%
April	4,159	5,496	32.1%	40	89	
May	4,124	4131	0.2%			
June	5,019	3577	-28.7%			
Q1	10,982	10,813	-1.5%	130	99	-23.8%
Q2	13,302	13,204	-0.7%	40	89	122.5%
Total	24,284	24,017	-1.1%	170	188	10.6%

Source: MoFD's Customs Department

Figure 4: Monthly Number of Containers and Ships/Vessels that arrived at the Berbera Port since 2018

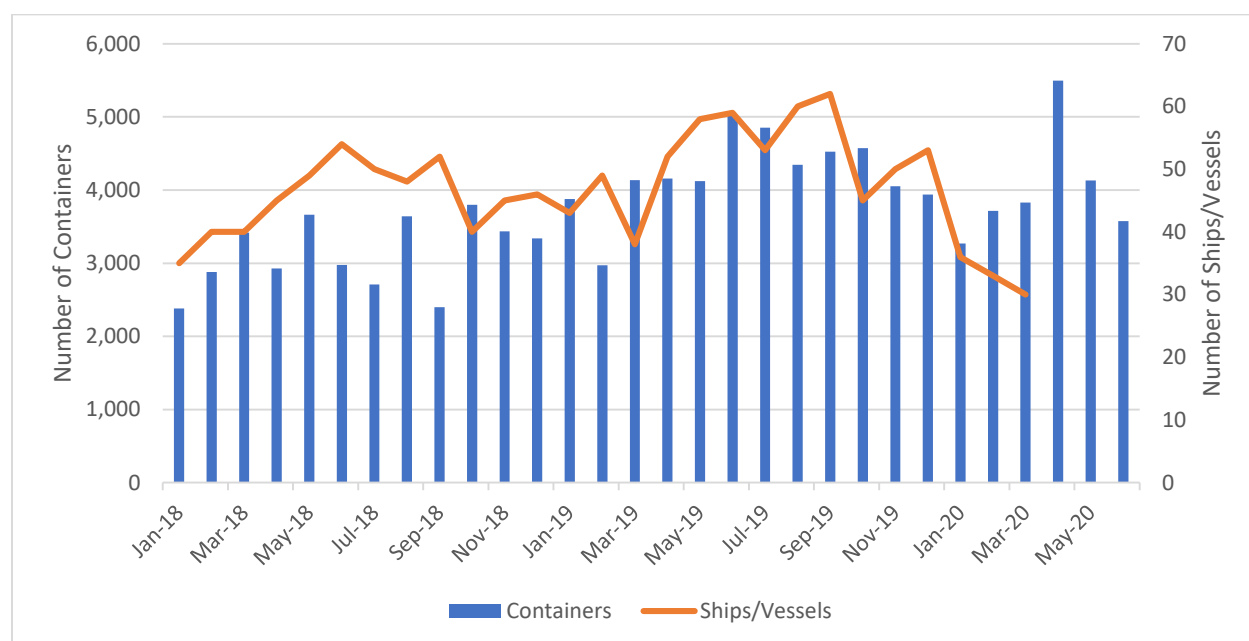


Table 13: Type and number of Ships/Vessels that arrived at the Berbera Port, Jan-June of 2019 and 2020

Vessel Type	2019	2020	% change
BULK CARGO	6	9	50%
BULK FOOD	44	65	48%
CONTAINERS	33	52	58%
DOON	74	33	-55%
FUEL	5	15	200%
OTHERS	2	8	300%
WFP	6	6	0%
Total	170	188	11%

Table 14: Country of Origin of Containers at the Berbera port, Jan-June 2019 and 2020

#	Country	Container 2019	Share of total	Containers 2020	Share of total
1	INDIA	5,731	24%	5,856	24%
2	UNITED ARAB EMIRATES	4,225	17%	4,364	18%
3	CHINA	4,095	17%	3,732	16%
4	TURKEY	2,963	12%	3,260	14%
5	MALAYSIA	746	3%	1,152	5%
6	SAUDI ARABIA	1,016	4%	974	4%
7	UNITED STATES	524	2%	761	3%
8	INDONESIA	525	2%	414	2%
9	EGYPT	300	1%	405	2%
10	DJIBOUTI	308	1%	286	1%
Sub-Total		20,433	84%	21,204	88%

Arrivals and Departures by Air

In the second quarter of 2020, there were 488 passengers that arrived in Somaliland by Air compared to the 20,440 recorded in the first quarter and the 29,024 in the same period of 2019. On the other hand, there were 1,924 passengers that departed in the second quarter, representing a significant decrease

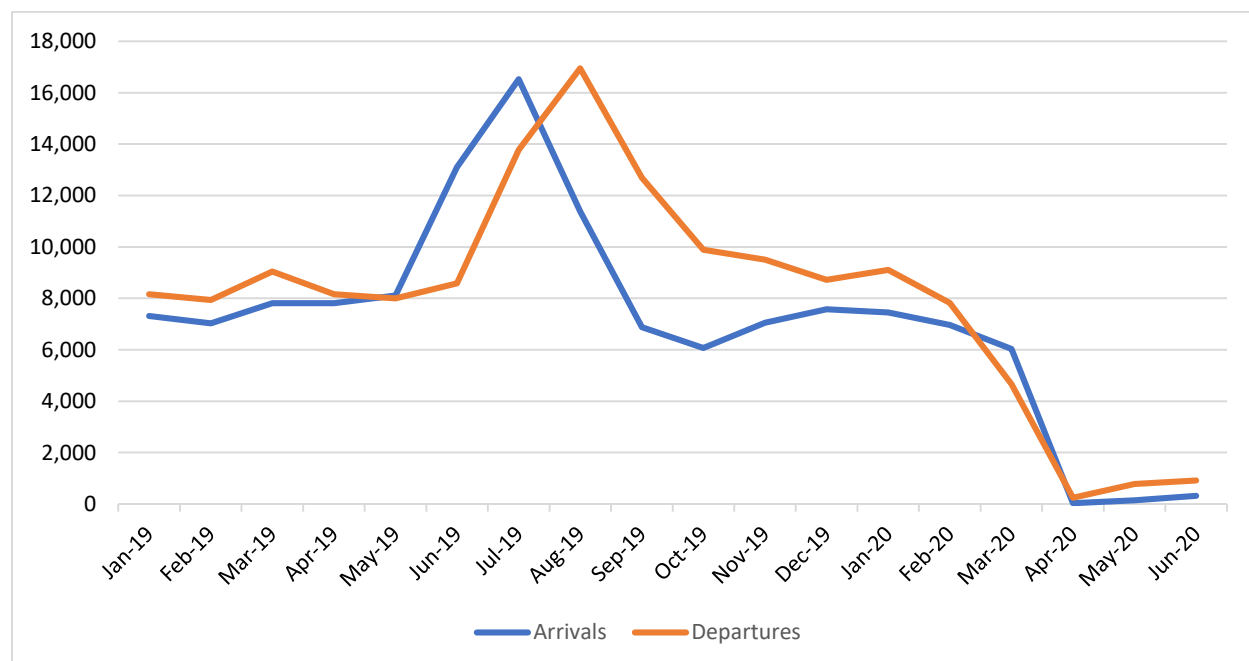
from the 21,598 recorded in Q1 and the 24,728 during the same period in 2019. These low levels were to be expected given the travel restrictions imposed as a response to the COVID-19 from April to June 2020. With Somaliland having lifted their travel restrictions on June 30th and other countries gradually lifting theirs, passenger arrivals and departures should be expected to pick up. However, this resumption is likely to be muted by the continued threat of contamination and a second wave, the increased travel costs (e.g. higher fares, COVID-19 test certificates, quarantines), decreased income levels, etc. As a result of this, a significantly lower arrival and departure numbers should be expected this summer and for the rest of the year compared to 2019.

Table 15: Number of Passengers Arrived and Departed by Air, January-June 2019 and 2020

	Arrivals			Departures		
	2019	2020	YoY	2019	2020	YoY
Jan	7,309	7,444	1.8%	8,162	9,106	11.6%
Feb	7,025	6,964	-0.9%	7,930	7,826	-1.3%
Mar	7,812	6,032	-22.8%	9,049	4,666	-48.4%
Apr	7,812	28	-99.6%	8,158	238	-97.1%
May	8,107	142	-98.2%	7,993	773	-90.3%
Jun	13,105	318	-97.6%	8,577	913	-89.4%
Q1	22,146	20,440	-7.7%	25,141	21,598	-14.1%
Q2	29,024	488	-98.3%	24,728	1,924	-92.2%
Total	51,170	20,928	-59.1%	49,869	23,522	-52.8%

Source: S/Land immigration Department

Figure 5: Number of Passengers that Arrived and Departed by Air per month (Jan 2019 to March 2020)



4.1.4. Investment

The number of business licenses issued between January and June 2020 was 498 compared to the 780 and 524 issued during the same period in 2019 and 2018—representing a 36% and 5% decrease

respectively. Figure 6 below shows that the number of business licenses that were issued per month in 2019 were higher than those in 2018 throughout the year (overall 41% higher)—in line with the resumption of economic growth. While it might be a stretch to assume that the COVID-19 pandemic is the sole cause of the decrease in business licenses issued in the first half of 2020, it is nevertheless safe to expect overall investment in Somaliland to decrease in 2020 as a result of the COVID-19. This is likely to occur because remittances used to finance businesses in Somaliland will most likely significantly decrease as a result of the pandemic. The World Bank is expecting global remittances to fall by 20% this year—a decrease significantly higher than the 5% decrease observed during the 2008-09 financial crisis. In Somaliland, this could also be exacerbated by the expected significant decrease in livestock export in the third quarter because of the cancelation of this year’s Hajj for non-Saudi residents—hence by lower incomes.

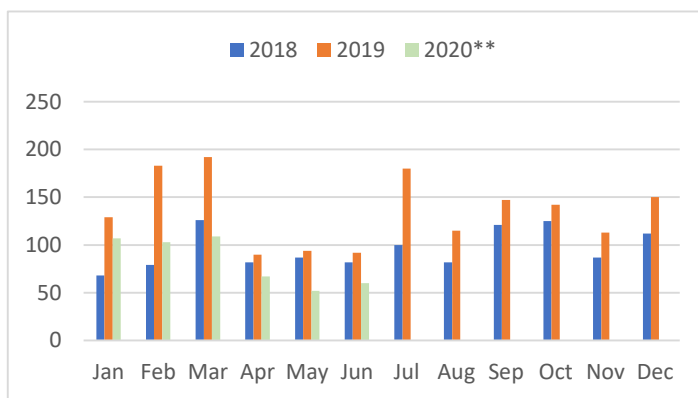
Table 16: Number of business licenses issued between Jan-May 2019 and 2020

	2019	2020	YOY CHANGE
JAN	129	107	-17%
FEB	183	103	-44%
MAR	192	109	-43%
APR	90	67	-26%
MAY	94	52	-45%
JUN	92	60	-35%
TOTAL	780	498	-36%

Source: MoTIT

***only the first 5 months of 2020 are covered

Figure 6: Number of Business Licenses Issued per month since 2018



4.1.5. Public Sector Employment

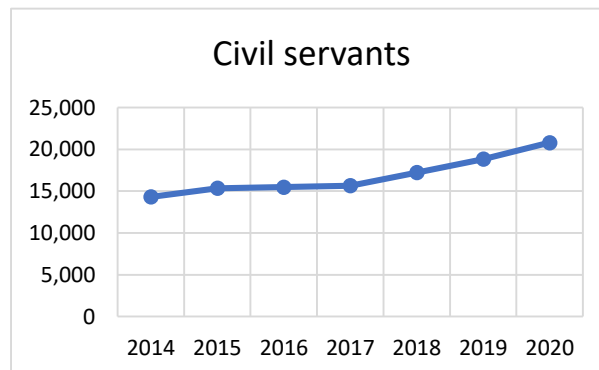
The total number of civil servants has increased by 45% since 2014—from 14,312 to the current 20,805. This reflects the government’s increased service delivery and capacity. As of May 2020, a total of 1,967 additional civil servants were recruited in 2020—representing a 10% increase from 2019. An additional 33 workers will likely be recruited before the end of the year as stipulated in the 2020 National Budget.

Table 17: Public sector (civil servants) employment from 2012 to 2020

Year	Civil servants	% Change
2014	14,312	
2015	15,355	7%
2016	15,487	1%
2017	15,655	1%
2018	17,240	10%
2019	18,838	9%
2020	20,805	10%

Source: MoNPD and MoFD for 2019 and 2020

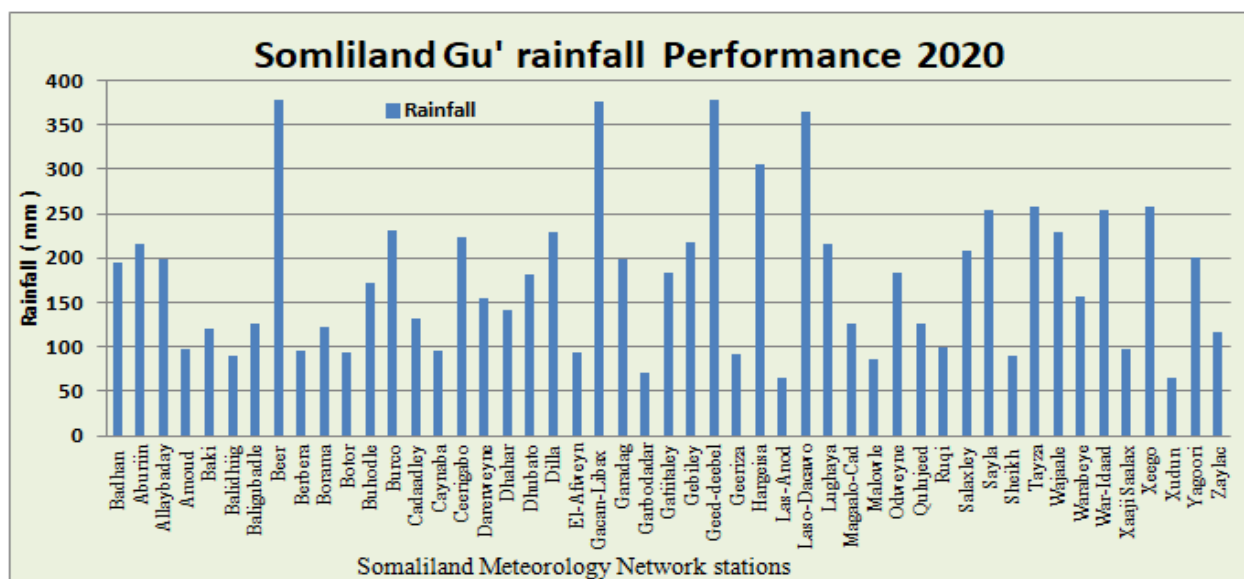
Figure 7: Public sector (civil servants) employment from 2012 to 2020



4.1.6. Precipitation—Rainfall

In the midst of the COVID-19 pandemic and locust plague and the uncertainty about the magnitude of its social and economic impact, Somaliland is registering enough rainfall and is set to avoid a drought. Figure 11 below shows the amount of rainfall registered in 49 locations. As can be seen, the majority of the locations registered enough rainfall in the first half of the year to allow them to meet the minimum 350mm annual rainfall level required to avoid a drought by the end of the year.

Figure 8: Rainfall level (mm) registered by Location in Somaliland in the first quarter of 2020



Source: From the Ministry of Agricultural Development

4.2. External Aid 2018

Somaliland has been the recipient of fairly large sums of Aid, judging by the 2017 and 2018 figures. Excluding funds from the SDF, Somaliland received US\$274.2 million in 2018 from INGOs, UN agencies, GIZ and the World Bank. This was 17% higher than the US\$233.6 million received in 2017. The health sector has been the recipient of just under half of all external aid that Somaliland received in both 2017 and 2018—with 41% in 2018. The Somaliland Development Fund for its part disbursed US\$10.4 million in 2018. Appendix 1 to 4 detail aid received from each institution in 2017 and 2018.

Table 18: External Aid funds disbursed to Somaliland in 2017 and 2018, US Dollar

SECTOR	2017	2018	YOY
GOVERNANCE	\$14,372,904	\$17,127,842	19%
ECONOMIC	\$13,704,548	\$30,297,085	121%
EDUCATION	\$16,408,373	\$28,419,966	73%
HEALTH & NUTRITION	\$110,731,802	\$112,740,938	2%
INFRASTRUCTURE	\$7,788,476	\$11,175,953	43%
ENVIRONMENT	\$5,290,676	\$10,409,740	97%
WASH	\$22,933,504	\$17,589,304	-23%
PRODUCTION	\$14,062,271	\$18,640,389	33%
ENERGY	\$450,845	\$281,342	-38%
OTHER	\$27,883,113	\$27,478,593	-1%
TOTAL	\$233,626,512	\$274,161,152	17%

4.3. Fiscal Performance (Jan – June 2020)

Between January and June 2020, the government of Somaliland collected 921.4 billion SLSh in domestic revenue. This was 10% below target (-98.1 billion SLSh). On the other hand, expenditure from the general government fund was 774.4 billion SLSh against an allocation of 927.3 billion SLSh, representing a 16% underspend (-152.9 billion SLSh). The fiscal balance was 147.0 billion SLSh. As expected, the impacts of the COVID-19 is becoming more evident. On the revenue side, this is particularly noticeable on taxes associated with imports and air travel. While revenue from livestock exports remain below target as a result of the cancellation of the Hajj, the temporary relaxation of the ban on livestock exports to Saudi Arabia during the pandemic has meant livestock exports are higher than expected, going some way to make up the shortfall from the cancellation of the Hajj. On the expenditure side, the government's prudent approach to spending (e.g. temporary restrictions on key spending lines) explains most of the underspend. Furthermore, social distancing measures enforced in government agencies resulted in lower spending on the use of goods and services. Moreover, the deferred salary payments to the new civil servant recruits until 2021 also helps explain the overall underspend level.

Table 19: Fiscal Summary, Jan - June 2020 (SLSh)

Variables	Budget	Target (Jan-June)	Actual (Jan-June)	Difference	Deficit (%)
Domestic Revenue	2,046,000,000,000	1,019,563,089,646	921,454,773,342	-98,108,316,304	-10%
Expenditure (General Government Fund)	2,046,000,000,000	927,333,596,391	774,419,054,770	-152,914,541,621	-16%
Balance			147,035,718,572		

4.3.1. Domestic Revenue

In the first half of 2020, the government collected 869.4 billion SLSh in tax revenue—which accounted for 94% of the total revenue collection. The Customs department and IRD collected about 96% of the revenue for the period—with the customs department alone accounting for 77% of it. Collection from Customs was 11% below target (or -85 billion SLSh) while IRD was 4% above its target (or 6.8 billion SLSh). Regarding the other responsible agencies, collections from the Ministry of Fisheries and Ministry of Public Works overperformed by 234% and 5%, respectively; while the other remaining agencies significantly underperformed. At the item level, *import duties*, the *port rental fee*, *entry fee at the Airport* (for foreigners), the *livestock export levy*, and *livestock export taxes* were the biggest underperformers against their respective targets; while *ports royalty fees/income*, *Tax on housing benefits*, *business income*, *penalties* and *tax on payroll of civilian workers* were the biggest overperformers (see figure 11).

In terms of regional performance, Customs collection in Berbera underperformed target by 54.7 billion SLSh (10% below target) while in Zaylac it was 13.7 billion SLSh or 25% below target. Collection at Egal International Airport was also very low, with a 13.3 billion SLSh or 49% deficit—linked to the slowdown in air travel. Seven Customs stations outperformed their targets with Customs collections in Kalabaydh the biggest overperformer with 9.2 billion SLShs or 7% above target. For IRD, collection from Berbera overperformed by 1.5 billion SLSh or 5% above target. Meanwhile, collection in Burco, Hargeisa, Gabiley and Borama were also all above their forecast amount. Collections in Saylac were below target by 14% or -88 million SLSh. Caynabo and Ceerigaabo underperformed their target, albeit with smaller amounts. On a

monthly basis, total revenue collection for the month of June 2020 was 180 billion SLSh. This was an increase of 31.2% (43 billion SLSh) compared to revenue collected in May, which was a particularly poor month due to the COVID-19 impact on imports and some restrictions imposed by the government during the month of May. The main impact came from the kat import restrictions from Ethiopia, leading to an estimated 12 billion SLSh revenue loss.

Table 20: Actual Revenue Collection vs Budget Forecast in SLShs, Jan - June 2020

DESCRIPTION	Budget Forecast (annual)	Budget Forecast (to date)	Actual revenue collection (to date)	Difference	%
Taxes	1,871,177,992,995	935,588,996,497	869,391,788,400	-66,197,208,097	-7%
Income and profits	45,366,371,939	22,683,185,970	30,416,318,578	7,733,132,608	34%
Payroll and workforce	93,307,587,842	46,653,793,921	49,887,958,174	3,234,164,253	7%
Goods and Services	603,962,756,750	301,981,378,375	304,258,146,031	2,276,767,656	1%
Sales tax	259,328,849,787	129,664,424,894	128,022,167,634	-1,642,257,260	-1%
Excise	7,111,033,619	3,555,516,810	4,676,940,929	1,121,424,119	32%
Registration taxes	51,565,277,435	25,782,638,718	21,669,180,968	-4,113,457,750	-16%
Other taxes on G&S	285,957,595,908	142,978,797,954	149,889,856,500	6,911,058,546	5%
International Trade	1,041,057,359,003	520,528,679,501	443,622,579,776	-76,906,099,725	-15%
Taxes on imports	872,198,720,274	436,099,360,137	381,828,658,496	-54,270,701,641	-12%
Taxes on exports	74,526,632,143	37,263,316,072	19,585,762,042	-17,677,554,030	-47%
Port taxes	94,332,006,586	47,166,003,293	42,208,159,238	-4,957,844,055	-11%
Other Taxes	87,483,917,461	43,741,958,731	41,206,785,841	-2,535,172,890	-6%
2% tax in Eastern Regions	86,712,472,911	43,356,236,456	41,065,325,689	-2,290,910,767	-5%
Other	771,444,550	385,722,275	141,460,152	-244,262,123	-63%
Other Revenue	167,948,186,298	83,974,093,149	52,062,984,942	-31,911,108,207	-38%
Property Income	35,756,429,739	17,878,214,869	486,350,446	-17,391,864,423	-97%
Sales of Goods and Services	73,310,708,219	36,655,354,110	22,031,175,055	-14,624,179,055	-40%
Fines and Voluntary Transfers	7,748,463,592	3,874,231,796	6,179,179,386	2,304,947,590	59%
Transfers not classified elsewhere	51,132,584,747	25,566,292,374	23,366,280,055	-2,200,012,319	-9%
TOTAL	2,039,126,179,292	1,019,563,089,646	921,454,773,342	-98,108,316,304	-10%

Figure 9: Total revenue collection by responsible agency (billions SLSh), Jan–June 2020

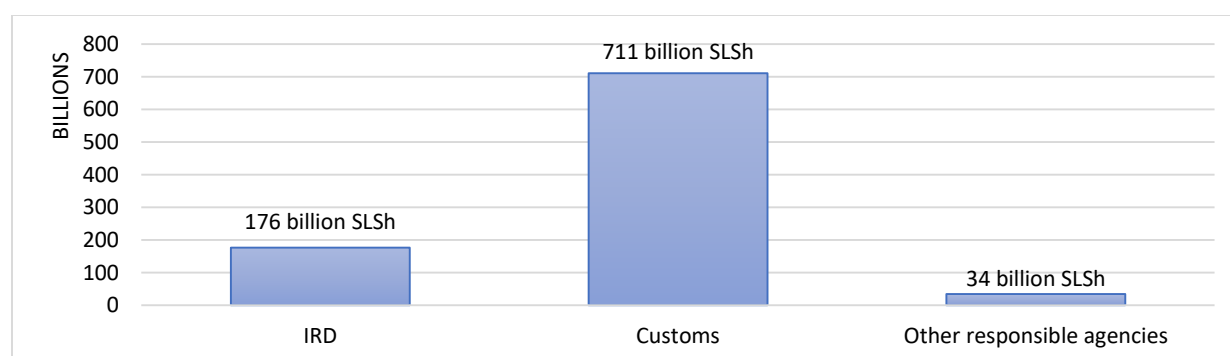


Figure 10: Customs (Left) and IRD (right) revenue collection by location, Jan–June 2020

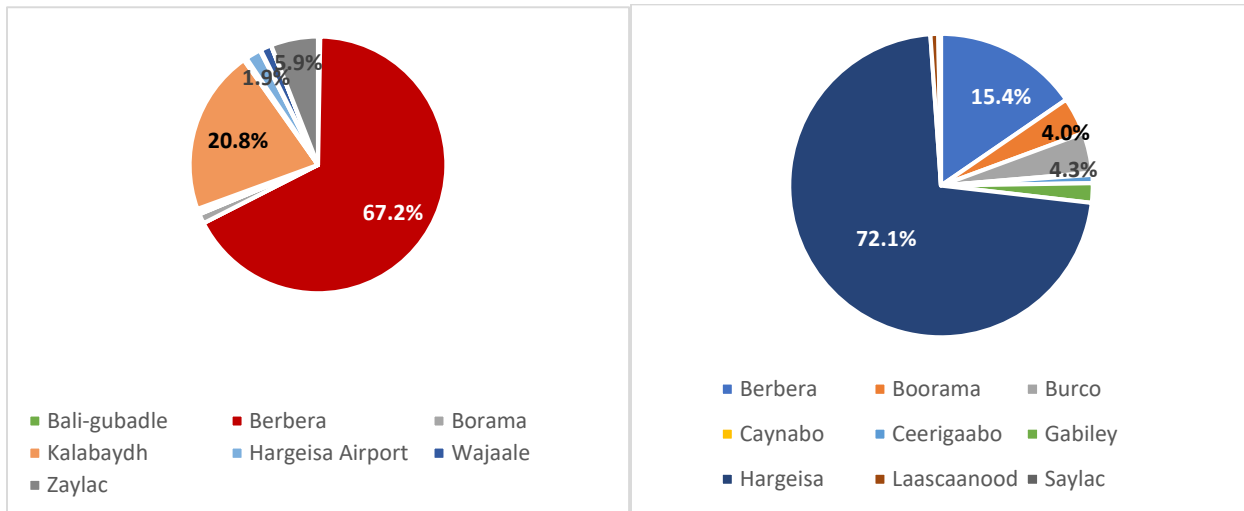
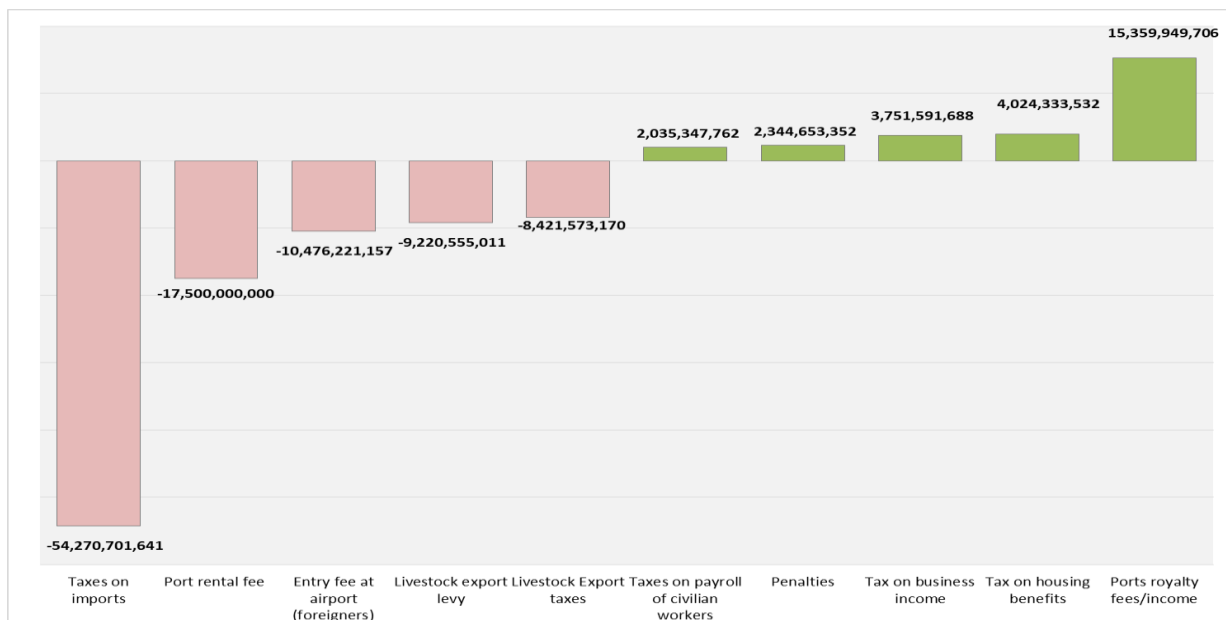


Figure 11: Top 5 over and underperforming revenue items against forecast in SLShs, Jan–June 2020



4.3.2. Expenditure

Between January and June 2020, the government spent 471.8 billion SLSh or 48% of the annual amount allocated for **compensation of employees**. In terms of performance in the first six months, this represents a 4% underspend (or -21.7 billion SLSh) against target. A breakdown of this category shows that 84% of the underspend came from *Personal Allowances paid as part of Salary* (47%) and *Salaries for Permanent Employees* (37%). *Basic Salaries for Temporary Employees* and *Contributions to Social Security and Health Insurance Schemes* accounted for the remaining 16% of the underspend. This below target performance is a result of the spending restrictions on allowances and on the fact that wages for the new civil servant recruits for the first six months are deferred until 2021.

On the other hand, expenditure on the remaining spend categories were expectably well below allocation in the first half of the year. Furthermore, with the exception of **Subsidies**, less than 40% of their respective annual budgets were spent in the first half—with expenditure on **Assets** (8%), **Loan Repayment** (10%) and **Grants** (39%) noticeably very low. **Use of Goods & Services** accounted for 40% of the government’s underspend in the first half of the year. A breakdown of this category shows that most of it came from *operating expenses* and the *cost of using goods and services*. These below target expenditure levels are to be expected given the government’s various budget restrictions in the first half of the year. Moreover, the fact that all non-essential government employees were asked to work from home to mitigate the spread of COVID-19, meant lower spending on **Use of Goods & Services**.

Expenditure at the sector level also mirrored the performance at the chapter level and the government’s budget restrictions in the first half of the year. The Security sector performed relatively very well against its target with 310.9 billion SLSh—representing a 3% underspend and 48% of its annual budget. The remaining sectors all spent less than 40% of their annual budgets in the first 6 months.

Table 21: Government Spend at the chapter level, Jan–June 2020 (SLSh)

Description	Revised Budget	Allocation	YTD Spend	Underspend*	Underspend (%)	Budget Spent (%)
Compensation of employees	986,911,932,926	493,558,298,194	471,815,733,966	-21,742,564,228	-4%	48%
Use of goods and services	579,333,312,994	274,523,859,306	213,649,246,595	-60,874,612,711	-22%	37%
Government Projects	171,563,089,428	62,640,310,864	44,863,933,785	-17,776,377,079	-28%	26%
Assets	160,051,455,888	22,164,542,142	12,913,280,763	-9,251,261,379	-42%	8%
Loan Repayment	84,699,600,000	42,349,800,000	8,380,315,084	-33,969,484,916	-80%	10%
Grants	53,832,390,800	27,217,695,250	20,760,961,649	-6,456,733,601	-24%	39%
National Reserve	5,000,000,000	2,500,000,000	-	-2,500,000,000	-100%	0%
Subsidies	4,608,217,964	2,379,090,635	2,035,582,927	-343,507,708	-14%	44%
Total	2,046,000,000,000	927,333,596,391	774,419,054,770	-152,914,541,622	-16%	38%

*Underspend is YTD spend minus the allocation

Figure 12: Government Spend by chapter, Jan–June 2020 (SLSh)

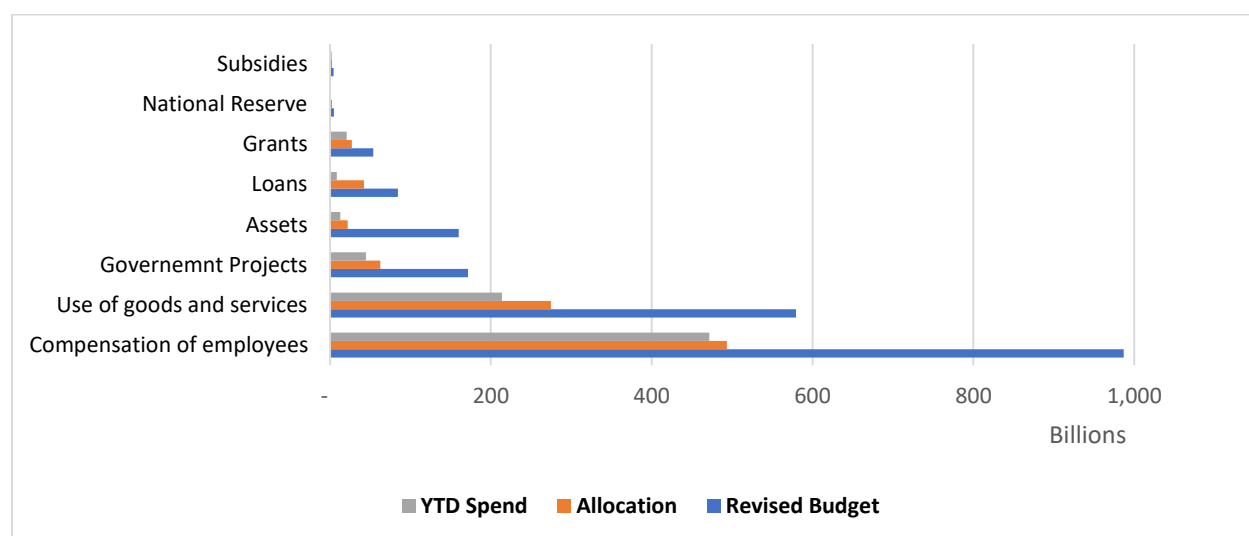
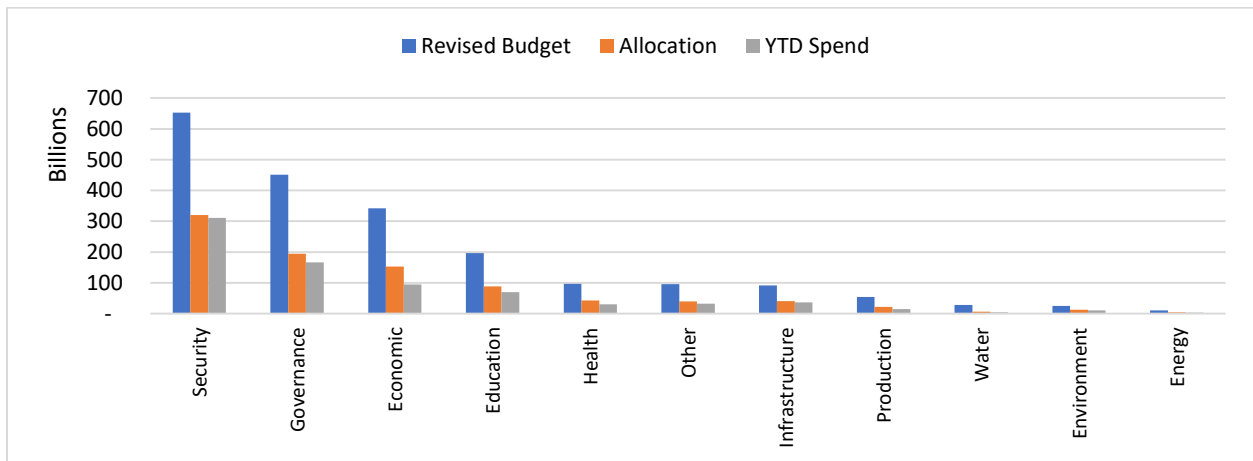


Table 22: Government spend by Sector, Jan–June 2020 (SLSh)

Sector	Revised Budget	Allocation	YTD Spend	Underspend*	Underspend (%)	Budget Spent (%)
Security	652,630,717,712	320,419,415,848	310,969,078,999	-9,450,336,849	-3%	48%
Governance	450,640,678,447	194,649,676,678	166,672,217,802	-27,977,458,876	-14%	37%
Economic	342,405,577,635	153,409,719,702	94,600,463,163	-58,809,256,539	-38%	28%
Education	196,847,233,514	88,547,471,692	70,016,405,369	-18,531,066,323	-21%	36%
Health	96,528,054,269	43,388,418,131	29,978,849,589	-13,409,568,542	-31%	31%
Other	96,127,113,469	40,184,892,215	32,043,622,255	-8,141,269,960	-20%	33%
Infrastructure	91,301,799,108	41,285,302,372	36,417,952,922	-4,867,349,450	-12%	40%
Production	54,254,418,603	22,472,067,156	15,300,244,133	-7,171,823,023	-32%	28%
Water	28,819,080,788	6,154,338,985	4,786,091,250	-1,368,247,735	-22%	17%
Environment	25,371,489,002	12,242,293,962	10,596,954,626	-1,645,339,336	-13%	42%
Energy	11,073,837,453	4,579,999,651	3,037,174,662	-1,542,824,989	-34%	27%
Total	2,046,000,000,000	927,333,596,391	774,419,054,770	-152,914,541,622	-16%	38%

Figure 13: Government spend by Sector, Jan–June 2020 (SLSh)

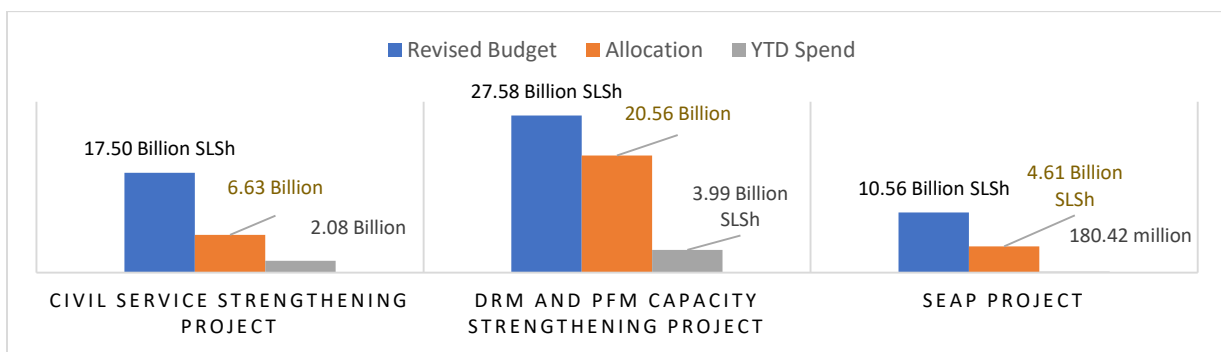


*Percentages represent the percent of the annual budget spent

4.3.3. World Bank Projects (government Executed)

Expenditure on the World Bank projects mirrored the underperformance from the General government fund between January and June 2020. With a 55.6 billion SLSh budget, only 11% (6.2 billion SLSh) was spent in the first half of the year. The Civil Service strengthening Project and the DRM & PFM Capacity strengthening Project spent 12% and 14% of their respective annual budgets, while the SEAP spent 2%.

Figure 14: World Bank Projects' budget performance, Jan–June 2020



4.3.4. Revised 2020 Revenue Forecast

The Ministry of Finance Development has updated its estimates for revenue collections for the current fiscal year, based on collections to end of June. Different revenue lines will be affected in different ways. Effects across the remainder of the financial year are expected to follow one of two scenarios:

- **Scenario 1:** effects are contained, with trade and consumption remaining relatively stable, including some exports of livestock, and international travel resuming in the second half of the year;
- **Scenario 2:** effects are more significant, with trade and consumption becoming more constrained, minimal livestock exports due to cancellation of the Hajj, and international travel restrictions continuing for the remainder of the year.

Updated estimates indicate a possible revenue shortfall of up to 10% for 2020. This is based on Scenario 2 and equals collections of just over 200 billion SLSH below the budget target across the financial year. Meanwhile, under the more optimistic Scenario 1, collections are expected to fall short of the budget target by around 8% or 170 billion SLSH.

Table 23: Forecasted 2020 government revenue collections by major type, for both scenarios

Tax/revenue types	2020 Budget target	Jan-June actuals	Scenario 1			Scenario 2		
			Revised forecast	SLSH variance	% variance	Revised forecast	SLSH variance	% variance
Income and profits	45	30	42	(3)	-7%	42	(3)	-7%
Payroll & workforce	93	50	91	(2)	-2%	91	(2)	-2%
Goods & services	604	304	596	(8)	-1%	577	(27)	-4%
International trade	1,041	444	906	(135)	-13%	900	(141)	-14%
Other taxes	87	41	78	(10)	-11%	78	(10)	-11%
Other revenue	168	52	155	(13)	-8%	149	(19)	-11%
Total w/o grants	2,039	921	1,869	(170)	-8.3%	1,837	(202)	-9.9%
Grants*	3	2	3	-	0%	3	-	0%
TOTAL REVENUE	2,042	923	1,872	(171)	-8.4%	1,840	(202)	-9.9%

Source: MOFD

* Performance of grant collections is a linear estimate – actual realization is likely lower.

With over 50% of budgeted revenues made up of taxes on international trade, small changes to Somaliland's trade profile will have significant effects on further forecasts. A range of other taxes depend on trade tax collections. Current estimates assume a significant negative impact on imports and exports, with effects ranging from 30-50% on relevant revenue lines: this is in large part due to previously imposed trade and travel restrictions introduced by Government. Current forecasts assume that these measures are not reintroduced but have extended effects.

The forecasted revenue profile estimates that Government revenue collections will on average be 16% below budget targets across the remainder of 2020. The two scenarios diverge based on how exports and imports recover from July onwards. Five revenue lines jointly make up close to 80% of the revenue shortfall, including import taxes, taxes on goods and services, port taxes, livestock export levies, the 2% tax on Eastern regions. Other significantly affected revenue lines include the administration tax, and entry fees on foreigners at the airport.

Revenue performance up to end June suggests that current revenue collections are somewhere between the two scenarios outlined above. It will become clearer whether collections tend towards Scenario 2 based on July revenue data (to be received in August). Estimates will therefore need to be updated regularly, as more revenue collection and trade data become available. Further measures introduced by Government, will also mean that scenarios will need to be adjusted.

Figure 15: Forecasted 2020 government revenue collections and shortfall, in SLSh billions

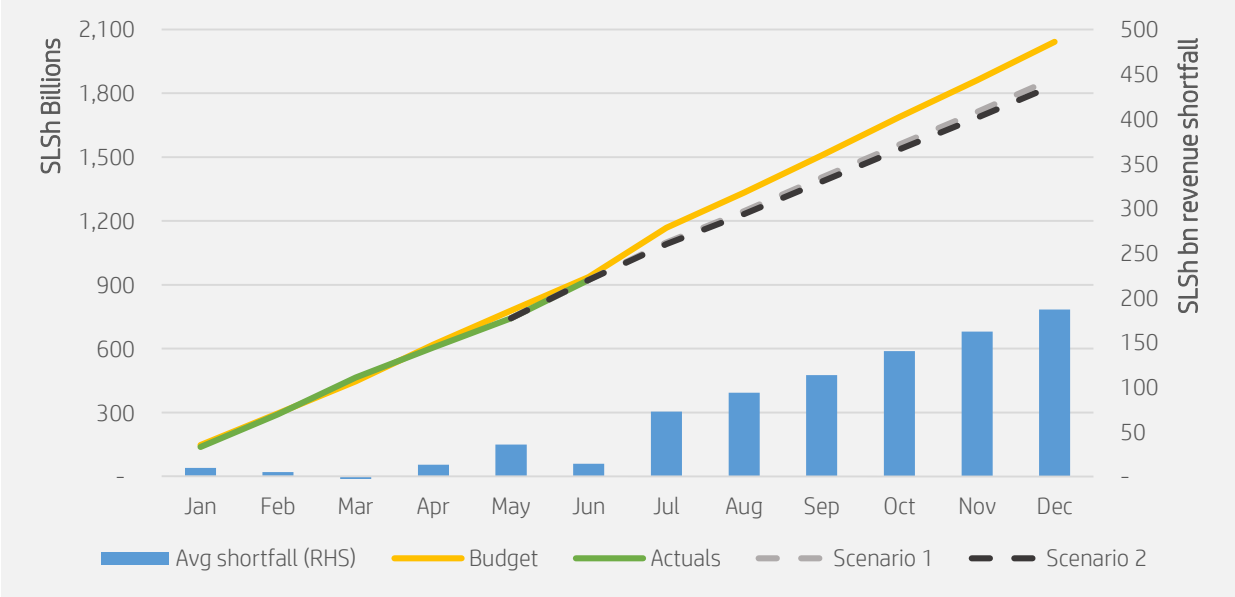
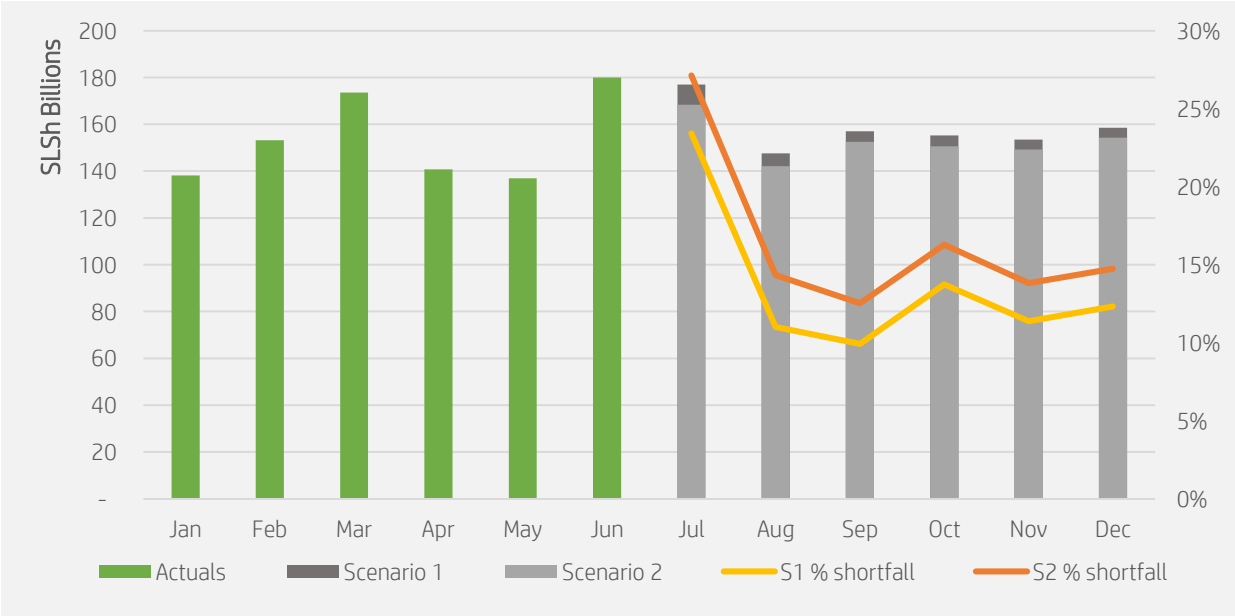


Figure 16: Monthly profile of forecasted revenues, in billions SLSh, incl. % shortfall against budget



5. Economic Outlook Over the Medium-Term

There is currently greater uncertainty of the performance of Government revenue collections than in previous budget processes. Somaliland is faced with exceptional circumstances now and in the near future, as context factors such as the COVID-19 pandemic, the locust plague, shifts in international trade & investment and in the domestic business sector affect the prospects for Somaliland’s economy and the livelihoods of Somaliland’s citizens. In such a context, linear forecasts have limited use: it is important for policymakers in Somaliland to consider a range of scenarios to make informed planning and budgeting decisions. This section considers two scenarios for the near future for each of the key macroeconomic indicators, defined as follows:

- An **optimistic outlook**, with an early economic recovery and most economic indicators returning close to levels previously forecast for 2019 and 2020. In this scenario, the initial spread of COVID-19 is contained and the locust plague are contained, and no ‘second wave’ of coronavirus infections occurs, allowing the Government to lift all response measures. Government relief efforts help businesses to recover. Imports continue at pace with no significant supply chain disruptions for key commodities.
- A **conservative outlook**, suggesting continued economic decline in 2021 followed by a stronger recovery in 2022 and 2023. In this scenario, a ‘second wave’ of coronavirus infections and deaths takes place, and the locust plague significantly affects agricultural production. Government measures need to be extended into 2021, and businesses continue to suffer from a downturn, deepened initially by supply chain shortages for key commodities.

The following sub-sections review how key macroeconomic indicators develop over the medium term in light of these two scenarios.

5.1. GDP

In response to the global pandemic, international organizations have updated their estimates for how economies in Sub-Saharan Africa will grow in the short-term as shown in table 24 below. Whereas the World Bank, UNECA and the IMF estimates vary to some degree, they are consistent in that they each expect an economic downturn in the immediate term—estimates for this downturn range from -0.3% to -3.2% growth in Sub-Saharan Africa; the World Bank’s more pessimistic scenarios for East Africa place growth as low as -4.5% in 2020. Estimates for the speed of recovery range from 3.4% economic growth in 2021 estimated by the IMF, to 2%, by the World Bank.

Table 24: Range of growth forecasts for Sub-Saharan Africa from World Bank, UNECA and IMF

	2020	2021
Optimistic Scenario	-0.3% → -3.2%	2% → 3.4%
Conservative Scenario	-2.7% → -4.5%*	2%

*-4.5% refers to the World Bank’s East Africa estimate, rather than Sub-Saharan Africa

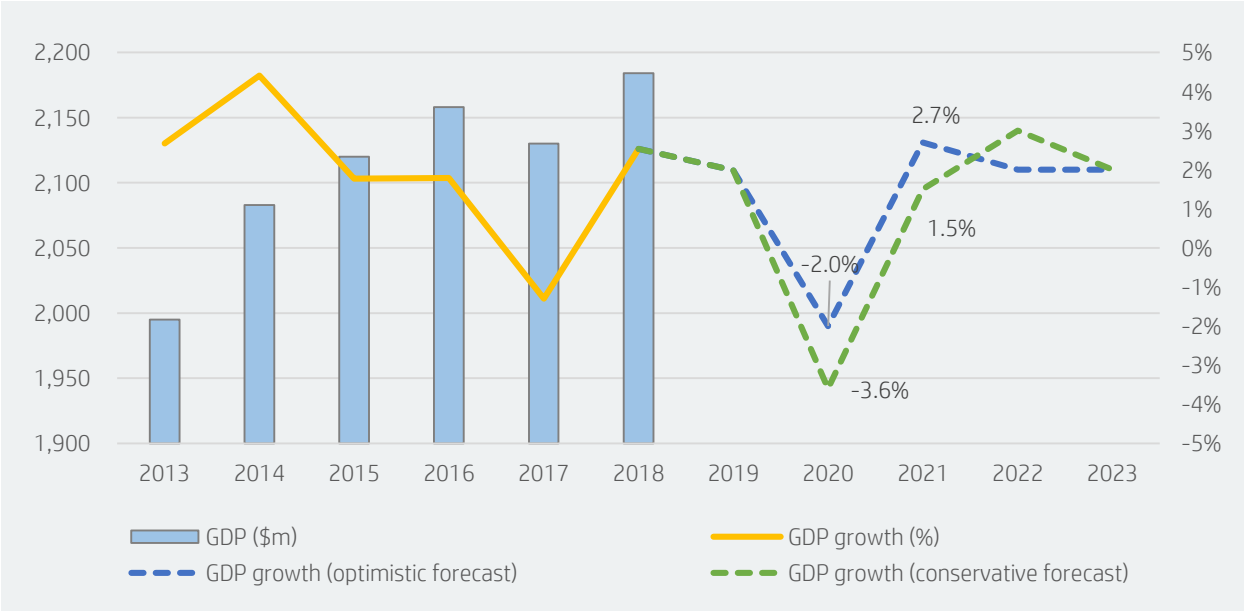
Somaliland currently lacks recent, comprehensive GDP data. The latest GDP figures produced for Somaliland date from 2017, with growth in recent years estimated at approximately 2% per year. Draft

GDP figures for 2018 were produced by the Ministry of National Planning & Development – whereas these are reflected in the table below, the Ministry of Finance Development still expects that these will be updated shortly. Based on these estimates, two scenarios are defined for Somaliland’s GDP growth. The optimistic scenario assumes a small recession in 2020, with negative economic growth, followed by a recovery that brings GDP growth back on track with previous growth estimates. The conservative scenario meanwhile expects a larger recession in 2020, with significant negative economic growth, and a slower recover in 2021 as the effects of the pandemic continue to limit economic growth – medium-term growth for Somaliland would consequently remain below the trend.

Table 25: Medium-term scenarios for Somaliland’s economic growth

	Indicator	2018	2019e	2020f	2021f	2022f	2023f
Scenario 1 (optimistic)	GDP (USD m)	2,184	2,227	2,183	42	2,287	2,332
	GDP growth (%)	2.5%	2.0%	-2.0%	2.7%	2.0%	2.0%
Scenario 2 (conservative)	GDP (USD m)	2,184	2,227	2,147	2,179	2,245	2,290
	GDP growth (%)	2.5%	2.0%	-3.6%	1.5%	3.0%	2.0%

Figure 17: GDP growth trend and medium-term scenarios (constant prices)



5.2. Inflation

Price levels in Somaliland have stabilized in the past year, with inflation averaging at around 5% month-on-month, starting to trend upwards since the last quarter of 2019. Despite the pandemic, price levels have so far remained stable in the first months of 2020, with only the cost of health services and a few key commodities having shown significant and sustained price increases.

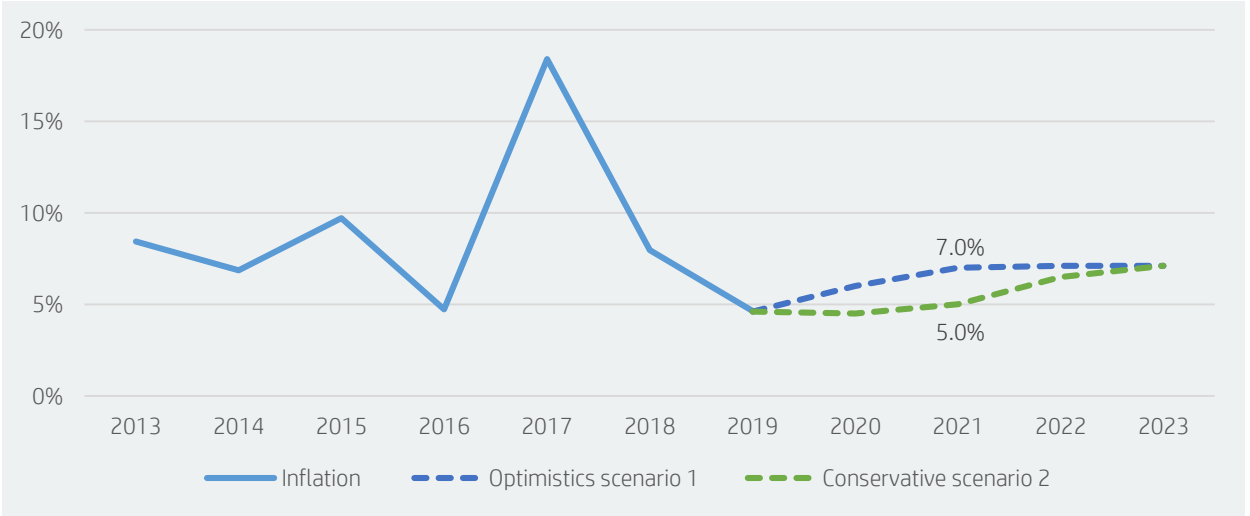
Both increases and decreases in price levels could be expected in the current context in Somaliland: inflation could increase as a result of potential supply chain disruptions and shortages of key commodities.

Meanwhile, price levels may decrease given weaker demand from consumer and lower levels of Government spending. The Ministry expects the latter effect to be greater than the former in both scenarios, as show in table 26 and figure 18. In the optimistic scenario, the Ministry expects downward pressure on demand and lower Government spending to reduce inflation slightly from previously forecasted levels, and for inflation levels to return to trend as of 2022. The conservative scenario expects greater downward pressure on prices in 2020 and 2021, with inflation returning to trend only in 2023.

Table 26: Medium-term scenarios for price levels in Somaliland

	2018	2019e	2020f	2021f	2022f	2023f
Scenario 1 (optimistic)	8.0%	4.6%	6.0%	7.0%	7.1%	7.1%
Scenario 2 (conservative)	8.0%	4.6%	4.5%	5.0%	6.5%	7.1%

Figure 18: Inflation rate trend and medium-term scenarios



5.3. Exchange Rate

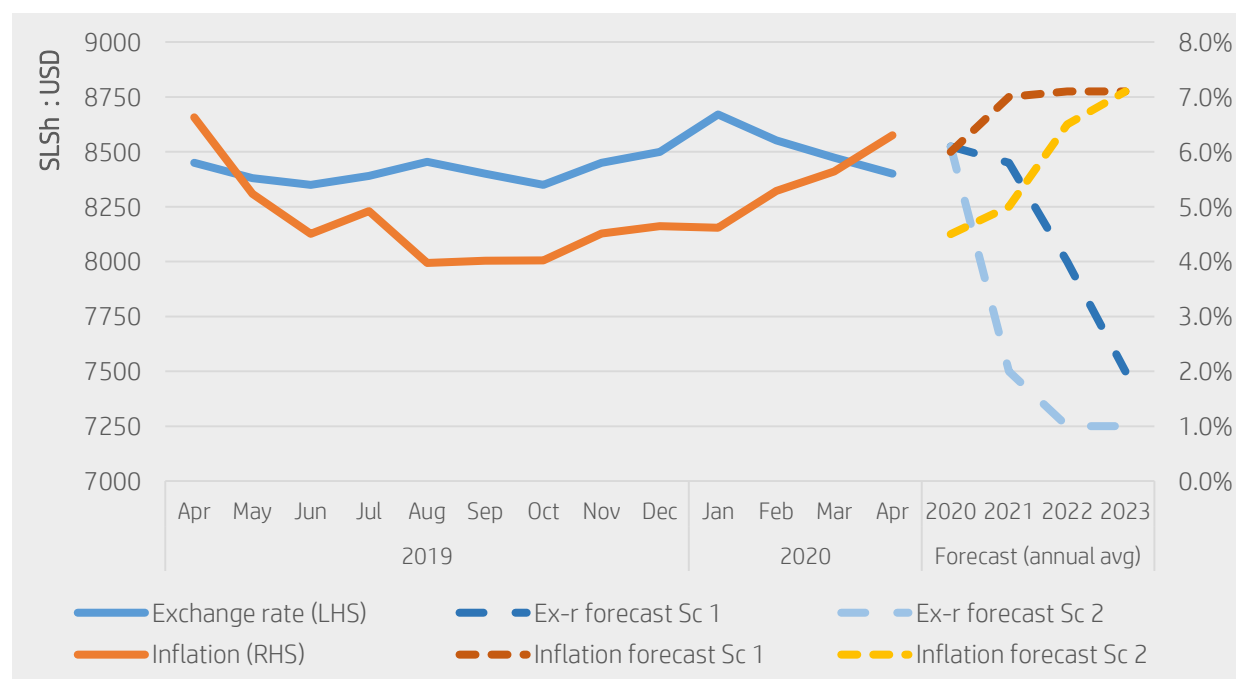
Though the exchange rate of the Somaliland Shilling (SLSH) to the United States dollar (USD) has remained remarkably stable since early 2018, there continues to be a difference between the rate used by Government to develop the budget and convert various prices, and the market exchange rate. In recent years, the Government and Bank of Somaliland have not only successfully appreciated the currency, but sought to gradually close the gap between the official and parallel market rates. The exchange rate continues to have a close relationship with the inflation rate: a higher target rate set by the Government or Bank will likely lead to higher price levels.

In the optimistic scenario, more predictable price changes mean that the Government can continue its policy of gradually unifying the market and budget exchange rate without causing market distortions: the Government would increase the budget exchange rate. In the conservative scenario, greater uncertainty on price levels means that significant increases in Government spending can drive inflation and crowd out investment. The Government can set a target rate lower than the current market rate, in order to manage inflation.

Table 27: Medium-term scenarios for the development of the budget exchange rate of the SLSh per USD

	2018	2019e	2020f	2021f	2022f	2023f
Scenario 1 (optimistic)	6000	6000	8500	8500	8000	7500
Scenario 2 (conservative)	6000	6000	8500	7500	7250	7250

Figure 19: Trend and medium-term forecast of the exchange rate, compared to the inflation rate



5.4. Trade

5.4.1. Import

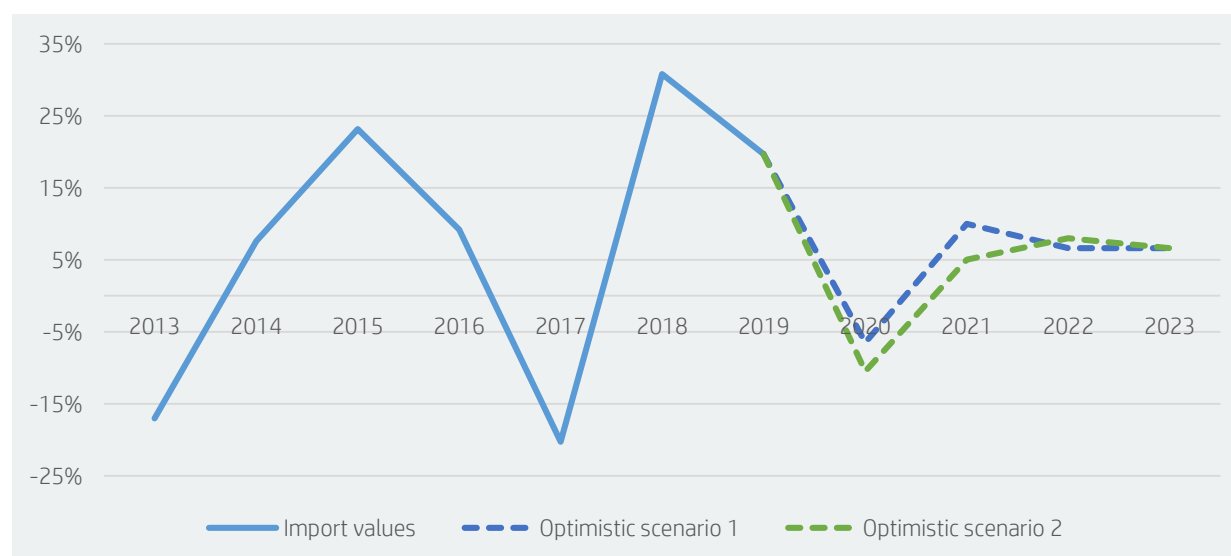
Trade flows are reducing globally, following the effects of far-reaching disruptions to supply chains across a wide range of sectors. In Somaliland, the effects of these disruptions can be felt through a combination of limited spend on government development projects, reduced levels of business activity and a reported reduction in the level of remittances. Each of these factors is lowering the demand for imports at present: compared to the same period last year, the volume of imports is down by 6%.

Developing suitable estimates for the growth of imports is however not straightforward: the quality and availability of trade statistics in Somaliland is very low. The Ministry expects that the reported value of total imports to Somaliland (not the actual value of imports) will be lower in the short-term but recover in coming years. In the optimistic scenario, the demand for imports will bounce back significantly in 2021, whereas in the conservative scenario the continued effects of the pandemic will mean that the growth in imports will remain below trend in 2021, with a stronger recovery expected in 2022.

Table 28: Medium-term scenarios for the growth in the total value of imports to Somaliland

	2018	2019e	2020f	2021f	2022f	2023f
Scenario 1 (optimistic)	30.8%	19.7%	-6.5%	10.0%	6.6%	6.6%
Scenario 2 (conservative)	30.8%	19.7%	-10.5%	5.0%	8.0%	6.6%

Figure 20: Trend and medium-term scenarios for the growth in the value of imports into Somaliland



5.4.2. Livestock export

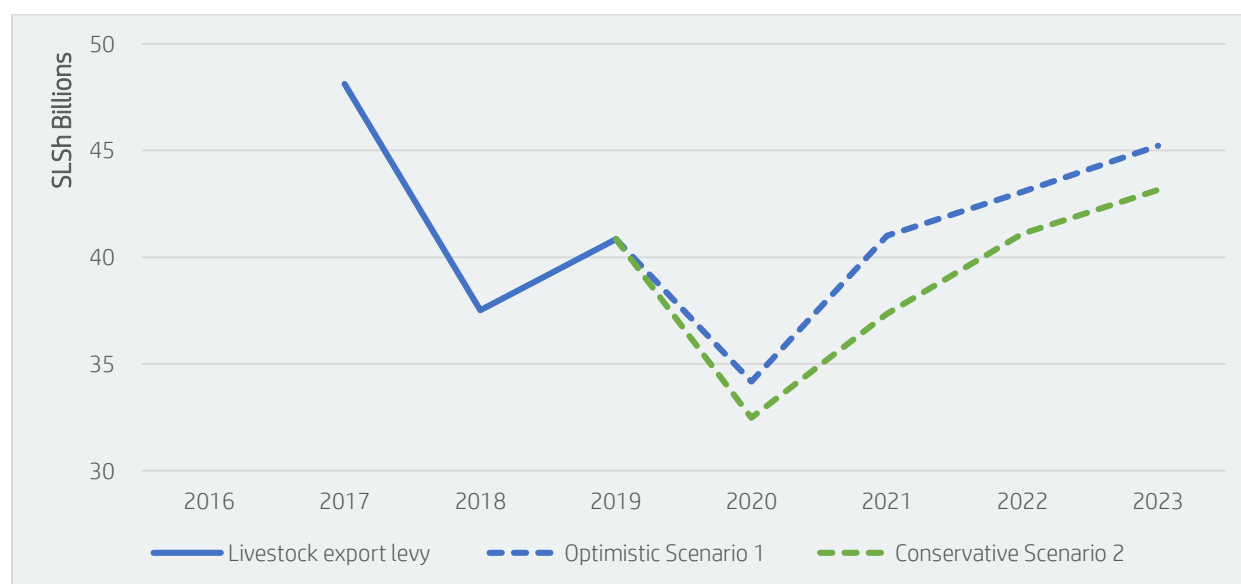
Somaliland has long been expecting a rapid recovery in the demand for livestock from key markets in the Gulf, to supply the annual Hajj. Whereas the livestock ban has at present been largely lifted, the Hajj (in its normal form) is cancelled in 2020. Only substantially scaled back celebrations are expected to take place, reducing the demand for livestock usually witnessed over this period. In addition, several demand-side factors are also expected to limit exports: disruptions in key supply chains to Somaliland are expected to increase the domestic demand for food, as evidenced by the increasing local price of livestock and livestock products. Meanwhile, the ongoing locust plague affecting Somaliland and pastoralist areas close to Somaliland can reduce access to pasture, as can the COVID-19 crisis.

Collections from the livestock export levy are used as an indicator for the volume of livestock exports, as per figure 21 below. In the optimistic scenario, the amount of livestock exported from Somaliland annually will recover rapidly, with revenue returning to just above 2019 levels in 2021, with the hajj forecast to resume as usual. In the conservative scenario, livestock exports will take a longer period to recover, with revenue levels only getting back to 2019 levels by 2022.

Table 29: Medium-term scenarios for the growth of livestock export levy collections

	2018	2019	2020f	2021f	2022f	2023f
Scenario 1 (optimistic)	-22.0%	9.0%	-16.3%	20.0%	5.0%	5.0%
Scenario 2 (conservative)	-22.0%	9.0%	-20.5%	15.0%	10.0%	5.0%

Figure 21: Medium-term scenarios for livestock export levy collections in Somaliland



6. Fiscal Outlook over the Medium-Term

6.1. Estimates of Total Government Revenue for the Coming Three Years

Initial revenue estimates

The Ministry has taken an optimistic outlook in drawing up the initial forecasts for Government revenue collections over the medium term. Officials have used the indicators under Scenario 1 outlined in Section 5 above, and estimates assume that Government does not change the budget exchange rate, meaning the 2021 budget is drawn up at an exchange rate of 7,000 SLSh to 1 USD. The macroeconomic indicators selected for the 2021-23 Multi-Annual Fiscal Framework are summarized in Table 30 below.

Table 30: Selected macroeconomic indicators for MFF 2021-23

	2021 forecast	2022 forecast	2023 forecast
GDP (% annual growth, constant prices)	2.7%	2.0%	2.0%
Inflation (% CPI growth)	7.0%	7.1%	7.1%
Import growth (% increase in total value of imports)	10.0%	6.6%	6.6%
Exports (% growth in livestock levy revenues)	20.0%	5.0%	5.0%
Exchange rate (at which budget is formulated)	7,000	7,000	7,000

In this scenario, forecasted collections for 2021 are again just over 2 trillion Shillings, as per the table below. This is at the same level as the budgeted revenues for the current fiscal year (set at SLSh 2,046 bn), though higher than the forecasted actual collections for 2020. This scenario would reflect that the Government of Somaliland will resume its impressive year-on-year increases in revenue collections, following a temporary downturn this year.

Table 31: Total government collections over the medium term, optimistic scenario, in SLSH billions

	2019 actuals	2020 estimated	2021 forecast	2022 forecast	2023 forecast
Total government revenues	1,805	1,872	2,056	2,204	2,365
% growth compared to previous year	17.1%	3.7%	9.9%	7.2%	7.3%

Total revenue collections for 2020 are expected to be only a little higher compared to 2019, and to grow by just under 10% in 2021, followed by around 7% in both 2022 and 2023. This optimistic forecast assumes that Somaliland will not be exposed to a second wave of COVID-19 infections in 2020 or 2021, and that therefore a rapid macro-economic recovery is possible next year, leading to an estimated 2.7% GDP growth in 2021 and 7% inflation.

Table 32: Medium-term government collections by revenue category, optimistic scenario, in SLSH

Revenue category	2020 estimated	2021 forecast	2022 forecast	2023 forecast
Income and profits	42,299,275,933	46,481,689,849	50,746,354,083	55,402,339,939
Payroll and workforce	91,146,471,278	93,607,426,003	95,462,998,518	97,355,353,900
Goods and Services	595,910,095,676	642,107,281,598	687,677,885,095	737,162,800,345
International Trade	906,378,612,431	1,024,655,435,757	1,110,970,363,258	1,204,678,464,135
Other Taxes	77,937,979,130	88,028,589,762	95,669,956,332	103,974,651,457
Other Revenue	157,889,317,395	161,263,768,362	163,828,747,758	166,450,267,528
Sum of All Revenue	1,871,561,751,842	2,056,144,191,331	2,204,356,305,045	2,365,023,877,303
% growth year-on-year	3.7%	9.9%	7.2%	7.3%

Current trends and scenarios will continue to be monitored, and assumptions updated based on how the key macro indicators for Somaliland evolve during 2020. Notably, the two scenarios will be reviewed in detail following the reporting of August trade and revenue data – this will indicate the extent to which livestock exports have or have not materialized, and give a clearer picture of estimated revenues for 2020 as well as prospects for 2021 and beyond.

6.1.1. Additional revenue raising measures for 2021

The scope for the Government of Somaliland to expand the tax base is limited. A very broad ranges of taxes is already being collected in Somaliland, both at national and local level: almost all major tax types included in the Revenue Act 2016 have been introduced and are being collected. The Ministry is also conscious that introducing further taxes, or adjusting rates, may increase the tax burden on vulnerable citizens and businesses, at a time when their incomes are expected to be under pressure from the effects of the COVID-19 pandemic. Further reforms may only raise moderate amounts of revenues in the immediate future, though may bring valuable administrative improvements. **Three targeted measures are proposed to raise additional revenues for 2021**, in a way that will not harm vulnerable citizens and businesses:

1. Increasing and introducing excise tax rates on the imports of cigarettes, tobacco and cement.

Demand for cigarettes and tobacco products is highly price inelastic, and the current excise tax rate on these imports is far below the rate denoted in the Revenue Act 2016. The Ministry proposes to increase the excise rate on these goods (note HS codes) from 15% to 30%. In addition, the Ministry has deferred the introduction of the excise tax on imports of earth and stone imports

– notably cement. The Ministry now proposes to introduce the excise tax to cement imports at the legal rate of 10%.

2. **Aligning the sales tax on electricity services with the legal rate (increasing GST from 3 to 5%).**
The Ministry has transitioned from the previous sales tax to the tax on goods and services (GST) as per the Revenue Act 2016 last year. To ease the burden on citizens and businesses, a reduced tax rate of 3% was applied to electricity firms’ sales during 2020. The Ministry proposes to align the rate with the legal rate of 5% from January 2021 onwards.
3. **Reducing tax expenditures by better monitoring and managing tax exemptions on imports.** A wide range of tax exemptions are granted by the Government each year to investors, businesses and various types of agencies. The recently approved exemptions regulations offer opportunities for the Government to limit unnecessary tax expenditures by government agencies and exemptions issued to businesses, to make sure that exemptions are granted to those activities that provide a tangible and targeted contribution to Somaliland. In addition, the regulations mean that exemptions would only affect import duties, and that other taxes levied on imports would not be exempted.

The estimated additional revenues raised from these policy measures is summarized in the table below, and totals just under SLSH 40 billion. Adding these new revenue sources would mean that total forecasted collections for 2021 would be SLSH 2,095 billion, a close to 12% increase over forecasted collections for 2020.

Table 33: Additional Revenue raising measure in 2021

Description of revenue policy measure	Est'd additional revenues for 2021 (SLSH)	Contributes to COA codes
1a. Raise the excise tax rate on cigarettes & tobacco imports (from 15 to 50%)	27,281,421,446	1140501
1b. Introduce 10% excise tax on cement imports	7,098,352,762	1140501
2. Align GST rate on electricity services with legal rate (from 3 to 5%)	2,206,628,618	1140301
3a. Improve monitoring and management of exemptions on import duties	2,650,548,782	1150101
3b. Exclude other taxes from exemptions granted	1,664,752,927	1140301, 1150601, 1150201, 1410502, 1110201, 1140808, 1140902
Total est'd additional revenues	39,236,951,607	

The greatest scope for revenue gains however lie with improvements in taxpayer compliance. Regular, predictable revenue collections will be critical for the Government of Somaliland to manage the effects of the COVID-19 outbreak and provide vital services to citizens and businesses. A larger and more secure base of monthly revenue collections can be achieved through targeted measures, including easier payment methods, enforcement of late filing and payment penalties, and better risk management. The Ministry will consider the scope for improving compliance on core taxes in later stages during the budget planning and preparation process.

6.2. Fiscal & Monetary Policy in the Medium-Term

With an all but certain contraction of the Somaliland economy in 2020 and an expected fall in remittances, the government’s choice of policies and objectives would go a long way in determining the extent of the contraction and speed of the recovery. As a result, several objectives will need to be addressed through the budgets for the coming three years. These include:

- Encouraging employment, particularly of young people
- Promoting domestic food production
- Protecting local industries
- Improving balance of payments
- Stabilizing prices and foreign exchange
- Ensuring security and justice
- Ensuring free and fair elections
- Improving access to basic social services – water, health & education
- Protecting the environment

To meet these broad objectives, the MoFD is conscious that the needs are many and the demands for resources will likely outstrip what the government can finance in the short term. Government resources must therefore be directed at priority sectors and investments to ensure fiscal objectives are met within the government’s means. To ensure equity and inclusivity, budgeted development projects must also have fair spatial distribution: each district and region will need to be assessed in cooperation with concerned ministries and institutions. These are organized according to NDP II sectors in Appendix 5.

To help achieve these broad objectives, the MoFD will continue working towards increasing the Inland Revenue’s share of tax collection (e.g. by improving collection efficiency), protect local produce, reduce government debt, increase transfers to local authorities for efficient service delivery and end all unlawful fees—all while maintaining a balanced budget. Furthermore, monetary policy measures have been identified to support the government’s fiscal targets. These include stabilizing the inflation rate around 7%-7.5%, the exchange rate around 8,000-8,500 SLSs/USD and close the gap between the official and market exchange rate.

Table 34: Government's Fiscal and Monetary Policies for the medium-term

Fiscal Policy	Monetary Policy
Balance Income and Expenditure	Keep Inflation rate around 7%-7.5%
Increase the share of Inland Revenue tax collection	Maintain the exchange rate between 8,000 and 8,500 SLSs/USD
Provide Protection to Local produce	Reduce the gap between the official and market exchange rate
Reduce Debt	Make all purchase and contracts in Somaliland Shillings
Decentralization—Increase transfers to local authorities	Stabilize the financial market through open market operation
End all unlawful fees	

6.3. Priority areas in the 2021 Budget

In the 2021 National budget, as shown in table 35, spending is being directed to areas with the highest returns that will induce a faster recovery and influence long-term growth (i.e. health, Security, production, industry, Youth development and employment, etc.). While provisions were made in the 2020 budget to start investing in priority technical areas and fill gaps at specific administrative levels, the downward revision of the 2020 revenue forecasts, reprioritization of spending toward COVID-19 responses and the significant budget restrictions means that progress in this area is likely to fall short of target. As a result, provisions will be made to fund spending shortfalls from the 2020 budget to ensure we reach our targets. In addition to this, the MoFD aims to continue contributing to the contingency fund in order to safeguard the government’s future fiscal position and increase its ability to respond to unexpected shocks. MDAs should therefore ensure that their development project bids reflect the spending priorities listed in table 35 below.

Moreover, given the uncertainty about when a COVID-19 vaccine will be available, allocating funds for the purchase of personal protective equipment (PPE) is highly advised. The MoFD has therefore estimated that the Ministry of Health Development would need around 10.9 billion SLSH every 3 months to provide the basic required PPE for its frontline staff. Moreover, investing in the procurement of PPE for agencies that are actively responding to the COVID-19 and those that receive a lot visitors should be considered.

Table 35: Government expending priorities in the 2021 Budget

Pillar	Sector	Detail
1	Elections	Registration
		Voting
	Security	Elections
		Station police posts
		Station police force
		RRU Special units
		Patrol vehicles
		Correction facilities
		Cyber defense force
		Civil defense units
		National ID
	Decentralization	Full allocation of the money collected by the Ministry of finance on behalf of local authorities
		Support for the JPLG program
Strengthening regional offices		
Reforms	Public Finance	
	Civil Service	
2	Energy	National grid & distribution
		Renewable energy
	Water	Hafir dams (rural)
		Urban water systems
	Roads	National network maintenance
		Community road initiatives
	Communication	Interconnection
		Internet
3	Social	Education
		Vocational schools
		Teacher training

		Health	Regional referral hospitals
			National laboratory
4	Production	Agriculture	Research and extension
			National phytopathology laboratory
			Price protection
		Livestock	National laboratory for certifying export livestock
			Marketing
			Health
		Fishing	Cold chain
			Training
			Training vessel for Berbera academy
			National laboratory for certifying fish
Mining	Mapping minerals resources		
	Geological laboratory		
Industry	Industrial Parks		
5	Environment	Rural development	Research center
		Pasture	Reserves
		Wildlife	Parks
		Protection	Forestry police

6.4. Estimates of Total Government Expenditure for the Coming Three Years

Based on the forecasted revenue, government expenditure in 2021 is expected to be 2.056 trillion SLSh—about 0.5% higher than the parliament approved 2020 budget. In the subsequent two years, annual expenditure is expected to increase to 2.204 trillion SLSh in 2022 and 2.365 trillion SLSh in 2023—representing a 7.2% and 7.3% year-on-year increase. Table 36 and 37 below provide an initial breakdown of the central government’s expenditure by main spending line. These tentative allocations are informed by the huge uncertainty around the severity of the distortions the COVID-19 and locust swarm will create. Moreover, they are informed by the spending restrictions currently introduced in the 2020 Budget to free-up funds for COVID-19 responses and by the government’s fiscal priorities in the medium-term.

Table 36: Breakdown of estimated annual expenditure at the chapter level in 2020-2023

CODE	DESCRIPTION	2020 BUDGET*	2021E	2022E	2023E
2110000	Compensation of employees	976,522,115,806	986,249,005,406	1,001,070,216,777	1,017,136,974,003
2120000	Employer Social Contributions	9,227,527,200	9,227,527,200	9,227,527,200	9,227,527,200
2210000	Costs for Using goods and services	553,695,325,650	560,695,325,650	597,748,354,079	637,915,247,143
2220000	Routine Maintenance of Assets	24,794,987,344	24,794,987,344	26,591,134,697	28,538,226,789
2410000	Government Projects	171,563,089,428	180,222,455,785	224,762,370,738	272,962,642,415
2510000	Subsidies	6,617,507,884	6,617,507,884	6,617,507,884	6,617,507,884
2640000	Grants	53,132,390,800	53,132,390,800	56,981,297,910	61,153,659,708
3110000	Assets	160,747,455,888	165,915,271,261	202,968,299,690	243,217,884,087
5210000	Loan Repayment	84,699,600,000	59,289,720,000	65,425,353,796	72,076,614,355
6210000	Contingency Fund	5,000,000,000	10,000,000,000	12,964,242,274	16,177,593,719
TOTAL BUDGET		2,046,000,000,000	2,056,144,191,331	2,204,356,305,045	2,365,023,877,303
ANNUAL GROWTH		14.8%	0.5%	7.2%	7.3%

*In light of the downward revision of the 2020 revenue forecast, the 2020 budget is likely to be less than the 2.046 billion SLSh approved by the Parliament

Table 37: share of total Budget and YoY growth, 2020-2023

Code	Description	Share of Total Budget				Percent growth (%)			
		2020	2021	2022	2023	2020	2021	2022	2023
2110000	Compensation of employees	47.7%	48.0%	45.4%	43.0%	9.6%	1.0%	1.5%	1.6%
2120000	Employer Social Contributions	0.5%	0.4%	0.4%	0.4%	8.0%	0.0%	0.0%	0.0%
2210000	Costs for Using goods and services	27.1%	27.3%	27.1%	27.0%	-2.9%	1.3%	6.6%	6.7%
2220000	Routine Maintenance of Assets	1.2%	1.2%	1.2%	1.2%	85.1%	0.0%	7.2%	7.3%
2410000	Government Projects	8.4%	8.8%	10.2%	11.5%	-	5.0%	24.7 %	21.4 %
2510000	Subsidies	0.3%	0.3%	0.3%	0.3%	-6.4%	0.0%	0.0%	0.0%
2640000	Grants	2.6%	2.6%	2.6%	2.6%	-52.4%	0.0%	7.2%	7.3%
3110000	Assets	7.9%	8.1%	9.2%	10.3%	42.0%	3.2%	22.3 %	19.8 %
5210000	Loan Repayment	4.1%	2.9%	3.0%	3.0%	35.1%	-30.0%	10.3 %	10.2 %
6210000	Contingency Fund	0.2%	0.5%	0.6%	0.7%	4.2%	100.0 %	29.6 %	24.8 %
Total Budget		100.0%	100.0%	100.0 %	100.0 %	14.8%	0.5%	7.2%	7.3%

7. Appendix

Appendix 1: Aid by INGOs and UN agencies to Somaliland in 2017 and 2018, US Dollars

Sector	INGOs			UN		
	2017	2018	YoY	2017	2018	YoY
Governance	\$4,966,307	\$9,742,580	96%	\$6,947,028	\$3,614,716	-48%
Economic	\$7,886,811	\$26,654,210	238%	\$3,774,755	\$2,771,666	-27%
Education	\$8,716,472	\$21,379,757	145%	\$7,660,277	\$6,670,458	-13%
Health & Nutrition	\$16,109,145	\$24,777,281	54%	\$92,322,657	\$87,173,613	-6%
Infrastructure	\$17,000	\$2,921,416	17085%	\$6,686,421	\$6,645,044	-1%
Environment	\$1,739,917	\$8,868,133	410%	\$1,647,726	\$681,777	-59%
WASH	\$14,810,588	\$9,934,121	-33%	\$7,153,424	\$6,829,639	-5%
Production	\$6,189,553	\$569,715	-91%	\$5,072,718	\$15,957,884	215%
Energy	\$350,123	\$195,638	-44%	\$59,150	\$0	-100%
Other	\$20,666,776	\$17,770,892	-14%	\$7,204,441	\$9,707,700	35%
Total	\$81,452,693	\$122,813,744	51%	\$138,528,596	\$140,052,497	1%

Appendix 2: Aid from GIZ in 2017 and 2018, US Dollars

Sector	GIZ		
	2017	2018	YoY
Education		\$301,447	-
Health & Nutrition	\$2,300,000	\$790,045	-66%
Infrastructure	\$1,022,113	\$1,273,106	25%
Environment	\$1,380,000	\$859,830	-38%
WASH	\$600,000	\$380,000	-37%
Production	\$2,800,000	\$2,112,790	-25%
Other	\$11,896		-100%
Total	\$8,114,009	\$5,717,218	-30%

Appendix 3: World Bank disbursed funds in 2017 and 2018, US Dollars

Sector	Bank Executed			Recipient Executed		
	2017	2018	YoY	2017	2018	YoY
Governance	-	\$252,209	-	\$2,459,569.00	\$3,518,337	43%
Economic	\$2,042,982.00		-100%	-	\$871,209	-
Education	\$31,624.00	\$68,304	116%	-	-	-
Infrastructure		\$173,828	-	\$62,942.00	\$162,559	158%
Energy	\$41,572.00	\$85,704	106%	-	-	-
Environment	-	-	-	\$523,033.00	-	-100%
WASH	-	-	-	\$369,492.00	\$445,544	21%
TOTAL	\$2,116,178	\$580,045	-73%	\$3,415,036	\$4,997,649	46%

Appendix 4: SDF disbursed funds in 2018, US Dollars

Name	Disbursement
JSC Management	\$378,906
Marodijeh Upper Catchment SWC	\$517,074
Livestock Holding Ground	\$324,710
Enhanced Capacity Development	\$15,296
Construction of HHW and A1&2	\$1,529,739
Water Resource Development	\$2,323,690
Lafaruk-Berbera-Sheikh Road	\$744,096
Communication Hub	\$61,502
Education in Sool & Sanaag	\$2,252,881
Health in Sool & Sanaag	\$1,893,724
Strengthening Fisheries	\$391,039
Total	\$10,432,656

Appendix 5: Investment Priorities at National, Regional and District Levels, 2020-2023

NDPII Sector	Technical area	Level	Specific Investment project
Governance	Election	National	Parliamentary & Municipal
	Reforms	National	Public Finance
		National	Civil service
	Identity	National	Address system
	Communication	National	Telecoms interconnection
	Justice	District	Courts
	Administration	District	District commission facilities
Security	Defense	National	Civil defense force
	Defense	National	Youth national service
	Defense	National	Cyber force
	Law and order	District	Police stations
	Mobility	District	Patrol vehicles
	Enforcement	District	Correction facilities
Infrastructure	Energy	National	Grid
	Roads	National	Network
	Water	Regional	Hafir dams
Education	Youth	National	Fund
	Technology	National	Research and development
	Teachers	National	Teacher training center
	Technical	Regional	Vocational school
	Recreation	Regional	Sports arena
	Information	Regional	Public library
Health	Prevention	National	Promotion
	Referral	Regional	Hospital
	Primary	District	Health Centre
	Emergency	District	Ambulance
Production	Contingency	National	Food reserves
	Agriculture – technology	National	Research and extension
	Livestock	National	Laboratory for health certification
	Livestock	National	Marketing agency
	Fisheries	National	Cold chain
	Mining - minerals	National	Mapping
	Industry	Regional	Industrial Zones
	Industry	Regional	Technology parks
Agriculture – mechanization	Regional	Equipment rental services	
Environment	Land -law	National	Act
	Land – protection	National	Parks
	Land & rural development	National	Research center
	Land – enforcement	National	Protection police force (Ilaalo)
	Land – sustainability	Regional	Reserves