



**Galmudug State of Somalia**

**Ministry of Finance & Economic Development**

**Quarter 2 Report**

**1<sup>st</sup> April -30<sup>th</sup> June 2019**

**(Unaudited)**

## Contents

1.	Introduction .....	4
2.	Overview of Performance – Fiscal Overview. ....	4
3.	Report on variances to Budget .....	9
3.1	Revenue.....	9
3.1.1	Domestically Raised Revenue .....	9
3.2	Grants .....	10
3.2.1	Grants from international organizations .....	10
3.2.2	Grants from the Federal Government of Somalia .....	11
3.3	Expenditure .....	11
4.	Donor Projects Reports .....	15
4.1	RCRFII Project Report.....	15
4.2	PREMIS Project Report.....	15
5.	Supplementary Budget.....	16
6.	APPENDIX -A- BUDGET REPORT .....	17

## **List of Acronyms**

GSS	Galmudug State of Somalia
FGS	Federal Government of Somalia
MoFED	Ministry of Finance & Economic Development
RCA	Revenue Collection Authority
RCRF	Recurrent Costs and Reform Financing
PREMIS	Public Resource Management in Somalia

## **1. Introduction**

The Quarterly Report is prepared in accordance with Section 31 (4) of the Public Financial Management Act 2018. It presents financial results for the three (3) months ending 30<sup>th</sup> June 2019 for the Galmudug State of Somalia (GSS). Seasonal and timing factors impact the State's finances, especially the timing of Grants revenue and Grant expenses. The accompanying a financial Statement of Consolidated Comparison of Budget and Actual amount has been prepared by the Ministry of Finance & Economic Development using a cash basis of accounting has not been subject to an external audit or review.

This report is not prepared in accordance with IPSAS cash basis of accounting but has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the Ministry, Departments and Agencies and the people of the Galmudug State of Somalia. All amounts in the financial statements are reported in USD\$ and have been rounded to the nearest \$1.

## **2. Overview of Performance – Fiscal Overview**

### **2.1. Revenue**

In overall, the performance of the Quarter 2 Revenue was down with collections year to date of \$943,251 against an annual estimate of \$7,468,547 in ideal situation total revenue collected and received should have been half of the annual revenue estimate. Revenue is received from own source (Domestic) collections and grants form other organizations (including the Federal Government of Somalia)

#### **3.2.1. Domestic Revenue (Taxes, fees and fines)**

Some revenue raised domestically improved while others were down significantly due to political and economic challenges.

The Revenue Collection Authority (RCA) has recently expanded its operations to other Districts such as Guri-el. Turnover tax estimates for example was projected based on this expansion, however, estimates could not be achieved due to challenges relating to the early set-up stages of the operations. There were fewer local flights in comparison to what was

originally estimated which resulted in variances in the local passenger fees collected from the airport.

Road user tax is one of the domestic revenue sources that has the least relative variances under the domestic revenue taxes category indicating a variance of 68% comparing against annual estimate for road tax. This variance is attributed that in quarter 1 roads were unpassable roads during the rainy season which has reduced movement of vehicles combined with insecurity challenges in the region and in quarter 2 this was further impacted by less vehicle movements due to livestock export not commenced.

In comparison, custom duties from khat recorded zero income during this quarter. This resulted from disagreements between the Ministry of Finance and Economic Development (MoFED) and Khat traders. Khat Traders and MoFED have not agreed yet on the tax rate applicable to Khat. Revenue Department has prepared all regulations and documentations required to implement tax on Khat, however, the matter reagree on the Khat rates remains to be resolved. Collections are expected to resume once agreement is reached between the MoFED and Khat Traders.

<b>Revenue Description</b>	<b>Annual Budget</b>	<b>YTD Actual</b>
<b>Taxes on goods and services</b>		
Turnover Tax	179,844	27,645
Local Passenger Fees	100,000	22,778
Road User Tax	1,642,931	519,314
International NGOs registration		500
	<b>1,922,775</b>	<b>570,237</b>
<b>Taxes on international trade and transactions</b>		
Customs duties - KHAT	118,000	
	<b>2,040,775</b>	<b>570,237</b>

### **3.2.2. Grants from International organizations and FGS**

Grants relate to donor funds received from other institutions such FGS, international organizations, donor countries and also other agencies that support the GSS operations. There is a significant variance in the grant budget line particularly grants from the Federal Government of Somalia, where an amount of \$5,170 was received against an annual estimate of \$3,305,170. The large variance in the FGS grant is attributed to the strained relationship

between FGS and GSS however due to ongoing discussions, this is likely to improve in the third quarter. Grants from International Organizations is projected to improve as there are some donor funded projects that are expected to materialize in the last quarters

<b>Revenue Description</b>	<b>Annual Budget</b>	<b>YTD Actual</b>
Grants from Federal Government of Somalia	\$ 3,305,170	\$ 5,170
Grants from international Organizations	\$ 1,892,939	\$367,843

From the table above annual grants estimate from FGS was \$ 3,305,170 while actual received to date is \$ 5,170. This is less than 1% of the annual estimate, GSS expectation was to receive 50% of GFS transfer by end of June, however due to political standoff between GSS and FGS for the first six months of the year, transfers from FGS were not received as originally forecast.

## **2.2. Expenditure**

In overall, spending at the end of Quarter 2 was down with year-to-date spending of \$908,582 against an annual estimate of \$7,468,547. This represents 13% of the total annual budget compared to expected execution rate of at least 50% by the end of June. This underspend is due to low revenue collections.

**Compensation of employees/regular staff** relates to payments to GSS permanent employees. This budget is predominantly funded by the RCRFII project with \$287,640 paid out against an annual budget of \$1,082,238, a 73.4% variance overall. The reason for this variance is due to recruitment plans for Ministries, Departments and Agencies (MDA's) have not been implemented as planned and there is delay in recruitment of staff for some MDAs due to political issues whereby recruitment of DGs have been delayed.

**Security forces** costs of \$517,274 comprised of 53% of total expenditure for the period and was a 47% spend which is in line with the security forces annual budget of \$1,095,186

<b>Budget Description</b>	<b>Annual Budget</b>	<b>Year -to-Date Actual</b>
<b>Compensation of Employees</b>		
Permanent employees/Regular staff	1,082,238	287,640
Contract employees	22,200	3,000
Wage workers	842,680	
Security Forces (Police, Intel Force)	1,095,186	517,274
Salaries to Ministers and Statutory	516,678	
Remuneration to Politicians	1,225,200	
Accommodation Allowance	1,350	
Security Operational Allowances	20,000	
Regular Food Provision	140,363	
	<b>4,945,895</b>	<b>807,914</b>

Spending on **Use of goods and Service** was \$94,543 which was 8.99% of the annual budget of \$1,050,587. There has been no spending against the contingency budget of \$232,931 as there has been no urgent or unforeseen costs for this period. Other costs were down as a result of lack of available funds from revenue collections not meeting revenue forecast and budget support funds not received from the FGS.

<b>Budget Description</b>	<b>Annual Budget</b>	<b>Year -to- Date Actual</b>
<b>Use of Goods &amp; Services</b>		
Internal Travel	43,699	5,480
External Travel	40,716	
Local conferences	3,300	
Water	8,602	230
Electricity	18,080	1,006
Mobile Phone Expenses	2,250	
Internet	21,503	6,690
Diesel	25,600	
Stationary	9,446	848
Books	1,410	
Published fees	1,460	
Meeting Supplies	8,480	250
Security Operational Allowances	31,111	
Publications	3,070	948
Cleaning Supplies	2,983	
Computer Consumable	800	
Maintenance of Vehicles	8,400	
Maintenance of buildings and rep	2,400	
Maintenance contracts	5,000	
Vehicle Hire/car rental	33,560	3,700
Cleaning Services	1,000	100
Office Rent	50,100	16,200
Other Rent	14,700	7,185
Consultation Fees	148,000	
Audit Fees	20,000	
Staff Training and Development	26,000	
Other Office Administrative Cost	33,086	386
Non-consultancy Service Fee	126,000	
Television and Newspaper Adver	29,900	2,375
Marketing & Promotion	100	
Conflict Resolution Expenses	31,000	4,000
Contingency	232,931	
	<b>984,687</b>	<b>49,398</b>

### **Non-Financial Assets**

Non financial assets are the properties those have life time benefits such as, buildings, land, Computers, machines, cars, office furniture and etc. the table below shows you of them in the budget 2019.



<b>Budget Description</b>	<b>Annual Budget</b>	<b>Year -to-Date Actual</b>
Non-residential Buildings	500,000	
State House and Ministry Offices	430,000	
Cars	40,000	
Information ,Computer & Teleco	14,385	3,585
Machinery and Equipment not el:	35,198	620
Furniture & fixtures	15,319	5,550
Computer software	400	400
	<b>1,035,302</b>	<b>10,155</b>

### **3. Report on Variances to Budget**

#### **3.1 Revenue**

GSS revenue is received from two main revenue streams: Grants and Domestic revenue. Grants are donations received from the Federal Government of Somalia and International Organizations. The Revenue Department of the MoFED oversees the monitoring and collection of revenue for GSS. For the FY2019, Domestic revenue collections were from four main sources, namely; turnover tax, local passenger fees, road user taxes and custom duties from Khat. There was a total decline in the revenue collection for the second quarter of 2019. A total of \$ 315,994 was collected in Q2 in comparison to \$627,257 for Q1.

##### **3.2.1. Domestic Revenue**

During Second quarter from 1<sup>st</sup> April up to 30<sup>th</sup> June, the revenue collection was very low and not in line with what GSS forecast.

##### ***Turnover Tax***

Turnover tax is levied on the commercial business within the Galmudug state. A total collection of \$20,302 was achieved for the first quarter with \$ \$7,343 collected in quarter 2. Turnover tax was not collected as forecast due to some businesses are yet to be registered in Abudwak, Galkacyo and Adado districts, and there were political tensions that caused some district administrations to boycott collecting turnover tax.

##### ***Local passenger Fees***

\$7,560 was collected in quarter 1 with \$15,218 collected in quarter 2. This Collections were only from only two (2) out of six (6) airports: Dhusemareb and Guri'el are operated by the Ministry of Finance & Economic Development with Adado, Abudwak and Galkacio and Hobyo are currently privately managed by agencies/people who do not pay taxes to GSS. GSS is yet to superintend these Airports and impose local passengers' fees.

### ***Road User Tax***

Road tax is charged on vehicles using the GSS roads. Tax rate is based on total weight (tonnage) of goods the vehicle is carrying. This occupies the largest amount of collected revenue compared to other heads of revenue, with \$300,492 collected during quarter 1 and \$218,822 collected during quarter 2, which represents a collection of 32% against the annual revenue estimate. This deficit in road user tax collection is attributed to political disagreements which hindered the operations of the Revenue Collection Authority.

### ***Custom Duties (KHAT)***

This revenue was scheduled to commence collection at the beginning of this financial year. So far, the tariff has been developed and is currently at the implementation stage. However, due to ongoing discussions between the Ministry of Finance & Economic Development and the Khat merchants the implementation of this revenue has been delayed. Dialogue is ongoing and the government is expected to conclude the discussions soon. The collection process will commence immediately once an agreement is reached between the government and the Khat merchants.

Following is a table summarizing the domestic revenue collections performances for quarter 2 against budget figures.

<b>Revenue Head</b>	<b>Budget</b>	<b>Actual collections</b>
Turnover tax	179,844	27,645
Local passenger Fees	100,000	22,778
Road user tax	1,642,931	519,314
Custom duties-Khat	118,000	0

## **3.2 Grants**

### **3.2.1. Grants from international organizations**

The GSS receives grants from international organizations to support GSS operations. A multi partner donor project administered by World Bank (RCRF11) pays for GSS staff salaries. There are also other funds received from PREMIS which supports office rents, internet and other operational costs. In 2019, GSS had budgeted \$1,808,259 however, \$367,843 was actually received mainly due to civil servants not recruited on time as

anticipated. RCRFII was received 321,554 and estimated 1550,238 while PREMIS received 46,289 and estimated 258,021. Similarly, other grants from international organization were not received due to projects not implemented as planned. Actual collections are projected to improve in the third and fourth quarter as there are some donor funded projects that are expected to materialize in the second half of the year.

### **3.2.2. Grants from the Federal Government of Somalia**

Due to political disagreement between FGS and GSS, GSS has not received FGS monthly budget support and Surge fund since August 2018. Even though a total of \$ 880,000 was estimated for the quarter nothing was received for the period leading to a 100 percent variance.

## **3.3 Expenditure**

### **3.3.1 Employee Compensation**

Employee compensation combines all expenses related to the workers of civil servants and salaries of ministries and security forces. It consists of many heads of expenditures and are broken down into the following:

#### ***Permanent Employees/Regular Staff***

Ministry of Finance & Economic Development planned to pay to the civil servants \$1,082,238 during the 2019 budget however, the actual amount paid 1<sup>st</sup> half year 287,640 resulting in 26.58% of the total budget was paid. Recruitment plans did not materialize leading to delay in recruitment process and hence the budget underspend.

#### ***Wage Workers***

Wage workers relates to GSS teacher salaries paid through the RCRFII project. This component is managed by the Ministry of Education. A total \$150,160 was estimated to be paid to teachers during the second quarter, but nothing has been paid due to delay in the mandatory teacher selection process

#### ***Security forces***

Security forces salaries occupies the largest portion of expenditure for the quarter. This is warranted by the security situation of the state. A total of \$1,095,186 for this year however \$ 517,274 was paid out which is in line with the annual budget

#### ***Salaries to Ministers and Statutory Appointments,***

This relates to salaries paid to Ministers and other statutory appointees. A total of \$516,678 was budgeted for the year, however nothing was paid out. Salaries to Ministers and Statutory appointees were majorly contributed by the FGS as in Q2 there was no FGS budget support provided resulting in lack of funds for payment of salaries to the Ministers and statutory appointees. See also 3.22, grants from Federal government of Somalia.

#### ***Remuneration to politicians***

This relates to payments made to GSS members of parliament. Previously, FGS grants covered the salaries of the parliamentarians. Parliamentarians were not paid during the quarter, since there were no FGS grants receive. GSS is expected to conduct a new parliamentary election in the 3<sup>rd</sup> quarter of 2019 and in the process is expected to resolve the current FGS stalemate relationship that has currently suspended the FGS grants.

#### ***Security operation allowance and Regular food Provisions***

Security operation relates to costs incurred when the security forces are conducting an operation within the state while regular food provisions are in-kind food rations that are provided to the security forces. In the 2019 budget , GSS budgeted to pay a total of \$31,111 for security operations costs and \$140,363 for regular food operation, however there were no actual payments for both the budget lines. Due to declining revenue collections and lack of budget support from FGS, GSS could not pay for security operations costs and regular food provisions to the forces. This is expected to improve in the 3<sup>rd</sup> and 4<sup>th</sup> quarters once Budget Support funds are received from FGS.

### **3.3.2 Use of Goods and Services**

This expense relates the day to day operations of the GSS and consist of the flowing expense categories:

#### ***Travel and Conferences***

Travel expense relates to both internal and external travel. Table below illustrates the breakdown for the travel and conference category. \$5,480 was actually paid for internal travel against budget of \$43,699 which represents a variance of 12.54% for whole year and 25.08% for the 1<sup>st</sup> half year utilization. Similarly, \$40,716 was budgeted for external travel expenses but nothing was paid in the quarter and first half year. Un-utilization budget is due to a lack of expected fund from donors and shortfall in the collection of domestic revenue.

<b>Expenditure</b>	<b>Budget</b>	<b>Actual</b>
Internal Travel	43,699	5,480
External Travel	40,716	0

### ***Operating Expenses***

This refers to all expenses related to the daily operations of GSS such as water, electricity, internet stationary etc. However, Operating Expenses was spent a small percentage, and under spend of 90% against the quarterly budget. This was as a result of lack of low domestic revenue collections and temporary suspension of FGS grants, which means that spending was focused in priority areas such as employee compensation and payment of security personnel.

### ***Rents***

Office rent was budgeted to be \$50,100 for the year 2019 with actual spending of \$16,200 incurred which is 63.91% less than our budget. Both office rent and other rent of GSS is paid for by PREMIS. The underspend was as a result of the Office rent for the second quarter received in July and hence the payments will appear in the third quarter. Equally, a total amount of \$14,700 was budgeted for other rent however, \$7,185 has been paid.

<b>Description</b>	<b>Budge</b>	<b>Actual</b>
Office Rent	50,100	16,200
Other Rent	14,700	7,185-

### ***Other Operating Expenses***

Other Operating Expenses consist of consultation fees, Staff Training and Development, and Other Office Administrative Cost, the following table summarizes other operating costs Budget and actual expenditure.

<b>Expenditure</b>	<b>Budget</b>	<b>Actual</b>
Consultation fees	148,000	0
Staff training and Development	26,000	0-
Other Office administrative costs	33,086	386

\$148,000 and 26,000 was the budget to be spent on consultation fees and staff training costs respectively, however nothing was spent during the quarter. Similarly, office administrative costs has been paid small percentage.

***Conflict Resolution Expenses.***

This relates to costs associated with resolving conflicts within GSS. These conflicts can arise from within GSS state or on its borders with other states in particular Puntland. There were no conflicts or tensions and as a result, with a total of \$3,000 budget for the first half year and nothing been paid during this period reported on.

***Contingency***

The Contingency Fund relates to costs incurred that are urgent and unforeseen; natural disasters such as earthquakes, floods and famine. In the second quarter of 2019, a total of \$232,931 been budgeted in preparation for floods however, none was spent as forecast floods did not occur.

**3.3.3 Transfers to Lower Level Government**

GSS has local governments that operates under the Ministry of interior which is provided with operational and administrative budget support. Local government collect their own revenue domestically and deposit with the TSA with the Ministry of Interior providing funds through a budget execution process. transfers are made to the local government based on request and budget availability. A total of \$263,000 was budgeted for the year with \$41,115 actually paid. Differences is attributed to the low domestic revenue collections.

### **3.3.4 Medical Treatment**

Medical treatment relates to in-kind treatments provided to GSS security personnel injured in line of duty. Actual treatment costs for medical treatments are on need-basis. A total of \$10,000 was budgeted for the year however nothing was paid to date due to no medical treatment requests.

### **3.3.4 Non-Financial Assets**

Non-Financial assets are fixed assets such as cars, computers furniture and buildings which were planned to be purchased during the quarter.

A total of \$1,125,102 was budget for the annual budget and paid 11,155 however, These budgets are funded by FGS and other donors, the expected funds were not received during this year , due to the delay in implementing projects and ongoing discussion with FGS to resolve political matters.

## **4. Donor Projects Reports**

GSS has two ongoing projects for the second quarter. RCRFII Project and PREMIS Project. Following demonstrates estimates and actual expenses of GSS donor projects

### **4.1 RCRFII Project Report**

The purpose of the RCRFII project is to support GSS in paying its recurrent costs such as employee salaries and development activities such as training employees, revenue enhancements costs and other administration costs. \$175,764 was actually received against forecasted grants amounting to \$295,119 a variance of 40 % was recorded for the quarter. Variance is as a result of delayed recruitment of staff. On the other side, \$312,075 was forecasted to be spent however \$129,006 was actually paid. The 59%variance is attributed to delay in fund transfers from FGS and subsequent delay in recruitment of staff budgeted for quarter.

### **4.2 PREMIS Project Report**

PREMIS funds a number of Special purpose projects designed to support GSS in paying for its operational costs such as rents, internet, stationary and etc. In the second quarter of 2019,

a total of \$14,923 were estimated to be received from PREMIS, however nothing was received for the period. This is due to delay in the procurement process. Comparatively, \$3,000 was spent out of an estimated \$16,675 for the period. GSS could not spend the remaining balance due to delay in the procurement process. Following tables provides a comparison of forecasted estimates against actuals for the PREMIS project.

#### **4.3 Surge support:**

Surge support projects are funds provided by FGS to GSS to implement predetermined projects agreed with the GSS. In the second quarter of 2019, a total income of \$880,000 was forecast to be received for the Surge project however, nothing was received. On the other hand, GSS estimated to spend \$337,500 for the quarter but nothing was paid due to lack funds not provided by FGS. Political tensions between the GSS and FGS is considered as the main cause for this. Projections for the third and fourth quarter are anticipated to improve as tensions are expected to be resolved.

### **5. Supplementary Budget**

Budget review has been conducted at the end of June by the Budget and Treasury Departments as part of the mid-year fiscal review as required under Section 19 of the Public Finance Management Act 2018. A requirement for a supplementary budget was considered with the Ministry of Finance & Economic Development opting not to formulate a supplementary budget due to the following reasons:-

- 1) In quarters Q1 and Q2 there was a shortage of revenue due to the political disagreements between FGS and GSS that caused large portion of grants from the FGS not received. Up until the month of June, there has been political strain between FGS and GSS. In mid-July GSS started receiving budget support grants from FGS while further funds are expected over the remaining quarters. As a result, GSS are expecting to receive the required funds to pay for budgeted operational costs.

There is a reconciliation being carried out in Galmudug State which is led by the FGS. This will make it easy for the Ministry of Finance & Economic Development to reach out and expand its control and operation to other districts such as Hobyo and Abudwak and collect revenue from these Districts. Extra revenue projections from these new districts will offset



for the lost revenue year-to-date and reduce the current low budget execution in the first 2 quarters of this year.

## APPENDIX -A- BUDGET REPORT



Q2 2019-Periodic  
Comparison of Budg



Q2 Report by  
Donor.xlsx