



Galmudug State of Somalia

Ministry of Finance & Economic Development

Quarter 3 Report

1st January -30th Sept 2019

(Unaudited)

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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
NRC	Norwegian Refugee Council
SCI	Save the Children International
CISP	Comitato Internazionale Per Lo sviluppo Dei Popoli

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 30th September 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 3 Revenue was down with collections year to date of \$1,726,952 against an annual estimate of \$7,468,547 in ideal situation total revenue collected and received should have been three over four 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 expanded its operations to other Districts this year 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 with \$896,950 collected against the annual estimate of \$1,642,931, indicating collection 55% year to date against the annual estimate . 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.

Revenue Discription	Annual Budget	YTD Actual
Taxes on goods and services		
Turnover tax	179,844	31,645
Local Passenger Fees	100,000	23,328
Road User Tax	1,642,931	896,950
International NGOs registration		500
	1,922,775	952,423
Taxes on International trade & transaction		
Customs duties-Khat	118,000	
	2,040,775	952,423

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 \$140,370 was received against an annual

estimate of \$3,305,170, equating to 4.2% of the annual estimate 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 is some donor funded projects that are expected to materialize in the last quarter.

Revenue Description	Annual Budget	YTD Actual
Grants from Federal Government of Somalia	\$ 3,305,170	\$ 140,370
Grants from international Organizations	\$ 2,247,302	\$632,679

2.2. Expenditure

In overall, spending at the end of Quarter 3 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

Budget Description	Annual Budget	Year -to- Date Actual
Compensation of Employees		
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	
	4,945,895	807,914

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.

Budget Description	Annual Budget	Year -to- Date Actual
Use of Goods & Services		
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	
	984,687	49,398

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.

Budget Description	Annual Budget	Year -to-Date Actual
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
	1,035,302	10,155

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 an improvement in the revenue collection for quarter 3 of 2019. A total of \$ 783,701 was collected in Q3 in comparison to \$481,606 for Q2.

3.2.1. Domestic Revenue

During Third quarter from 1st July up to 30th September, the revenue collection has improved as per below details.

Turnover Tax

Turnover tax is levied on the commercial business within the Galmudug state. A total collection of \$31,645 was achieved against yearly forecast of 179,844. This means only 17.6% was collected so far. And the reason behind this is 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

\$23,328 was collected since January which is 77% less our annual target of \$100,000. 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 \$895,210 collected during this year which represents a collection of 54.5% 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 3 against budget figures.

Revenue Heads	Budget	Actual Collections
Turnover Tax	179,844	31,645
Local passenger Fees	100,000	23,328
Road User Tax	1,642,931	896,950
Custom Duties Kh	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 \$2,258,302 however, \$632,678 was actually received. The problem is mainly due to civil servants not recruited on time as anticipated. RCRFII was received 529,584 and estimated 1,779,901 while PREMIS received 60,801 and estimated 343,721. Similarly, other grants from international organization were not received due to projects not implemented as planned. Actual collections are projected to improve in the fourth quarter as there are some donor funded projects that are expected to materialize in the coming month 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 apart from \$140,370 which was released in July 2019.

3.3 Expenditure

3.3.1 Employee Compensation

Employee compensation combines all expenses related to the workers of civil servants, 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 \$1,549,901 during the 2019 budget however, the actual amount which have been paid so far is 515,599 resulting in 33% 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 \$512,340 was estimated to be paid to teachers during the Third quarter, 28,750 have been paid to the teachers which equal 6% and this is 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 \$ 892,040 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 we mentioned above 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 this 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 \$51,111 for security operations costs and \$191,474 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 4th quarter 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. \$15,665 a variance of 36% was actually paid for internal travel against budget of \$43,699. Similarly, \$40,260 was budgeted for external travel expenses and only \$950 was paid out. Un-utilization budget is due to a lack of expected fund from donors and shortfall in the collection of domestic revenue.

Expenditure	Budget	Actual
Internal Travel	43,699	15,665
External Travel	40,269	950

Operating Expenses

This refers to all expenses related to the daily operations of GSS such as water, electricity, internet stationary, clearing supplies and etc. However, Operating Expenses was spent a 31%, and under spend of 69% against the yearly 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 \$25,800 incurred which is 49% 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 third quarter was received 4th of Oct and hence the payments will appear in the 4th quarter. Equally, a total amount of \$14,700 was budgeted for other rent however, \$7,185 has been paid.

Description	Budge	Actual
Office Rent	50,100	25,800
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.

Expenditure	Budget	Actual
Consultation fees	143,200	11,969
Staff training and Development	26,000	0
Other Office administrative costs	33,086	9,854

\$143,200 and 26,000 was the budget to be spent on consultation fees and staff training costs respectively, however small percentage was spent during this quarter. Similarly, 30% of office administrative costs have been paid due to the shortage funds.

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 \$31,000 budget of year estimate and only \$5,000 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 year of 2019, a total of \$232,931 had 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 \$46,205 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 six ongoing projects for the third quarter. RCRFII Project and PREMIS Project are the main ones. 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. \$529,584 was actually received against forecasted grants amounting to \$1,779,901 a variance of 70% is yet actualize. Variance is as a result of delayed recruitment of staff and some reform activities such as revenue enhancement and staff capacity development are yet to be funded.

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, office equipment and etc. In the year of 2019, a total of \$343,721 were estimated to be received from PREMIS, however \$60,801 has been received which is 17% compared to the yearly estimate. And this is the cost of internet, rents and staff capacity building. there are also office equipment and computers costs which are supposed to be purchased under this project but its yet to be processed.

4.3 Surge support:

Surge support projects are funds provided by FGS to GSS to implement predetermined projects agreed with the GSS. In the year of 2019, a total income of \$3,305,170 was forecast to be received for the Surge project. However, \$140,370 was received. A political tension 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.

4.4 GSS Teachers Projects support

GSS teachers receive support for incentives and educational materials from international organizations such as CISP, NRC, SCI and Care International. Below table summarizes fund that had been estimated and actual amounts received by the GSS.

Expenditure	Budget	Actual
CISP	47,480	11,640
NRC	10,800	5,400
Care International	26,400	13,206
SCI	50,000	20,000

Since the teachers' salary is monthly basis, the funds is received monthly and deposited into their accounts as per their entitlements. Therefore, the variances are expected to be received during fourth quarter as per agreements.

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 flowing 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 were expecting to receive the required funds to pay for budgeted operational costs and still there is a hope of getting some of them.
- 2) 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 three quarters of this year.

APPENDIX -A- BUDGET REPORT

