



Is Somalia really a rising nation?

By Liban Farah

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Prime Minister Hassan Ali Khayre in his address to the General Assembly of the United Nations on 22 September 2017 made the following [statement](#):

“We will continue to formulate measures to strengthen Somalia's progress including in revenue generation, however, there are some serious challenges beyond the control of the Somali government. Debt relief would have the effect of unlocking concessional financing, attracting foreign investment and providing an opportunity that is critical to sustaining our reform efforts and consequently reinvigorate our economy.”

Reviewing the 2017 Budget Proclamation of the Federal Government of Somalia, however, deals a big blow to the prime minister's credibility in reducing Somalia's economic challenges to lack of government revenues and investment ensuing from its inability to borrow.

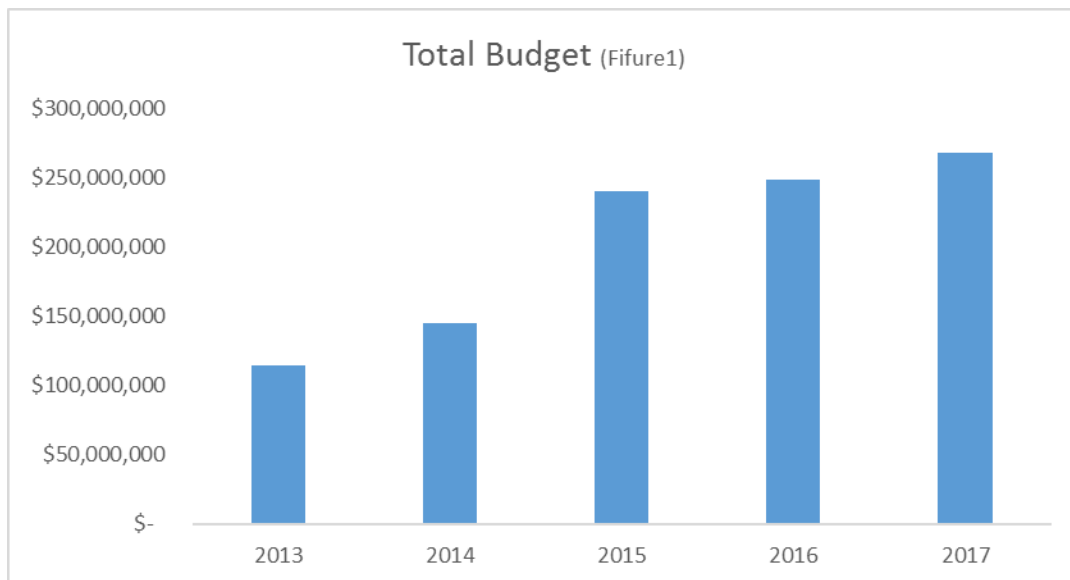
We'll make here a brief independent overview of the government budget in order to assess what it means for future investment and general prosperity of the country.



Budget

I won't bore you with the specific details and budgetary appropriation for various government departments, because there's no end to its inappropriate priorities and systematic mismanagement of resources. Suffice to note that Somalia has one of the lowest budgets in the world; indeed the lowest of any country worthy of that epithet and by any account, this budget would make an embarrassing reading to anyone.

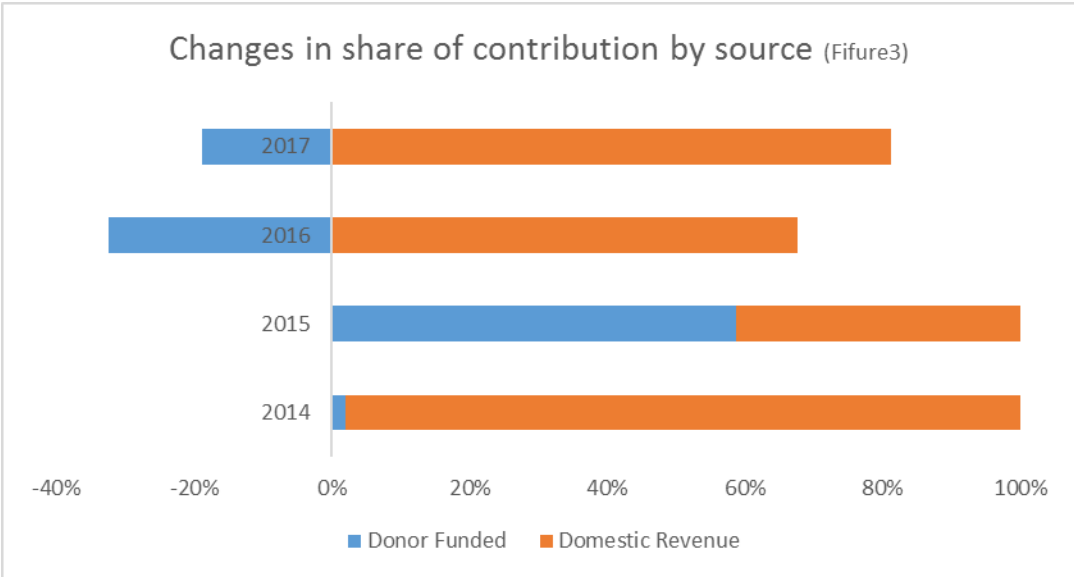
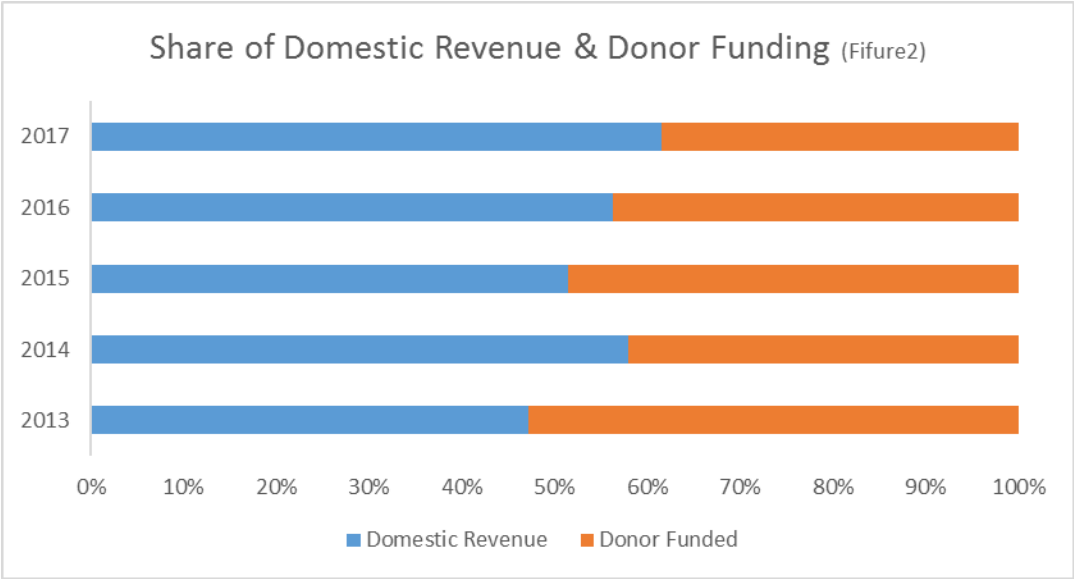
More worrying than the size of the budget is the little prospect of seeing any significant progress judging by its current trajectory of what we have witnessed over the past five years (figure 1).



Average annual budget since 2013 was \$203 million – representing 55% domestic revenues and 45% donor funding over that period (figure 2), with projected \$19.2 million net increase year-on-year over previous budget. This corresponds to 6% growth of domestic revenues, but even accounting for potential windfalls from air navigation charges following a transfer of Somali airspace control, it will still not be enough to absorb \$5.8 million reduction in donor funding whilst at the same time boosting domestic revenues by \$25 million. There will be a gap between planned and realised budget that is highly doubtful whether improving revenue collection efficiencies alone would suffice to fill.

The one caveat we should mention here is that we assume Saudi Arabia, United Arab Emirates will continue supporting Somalia with their direct budgetary contributions as they are, along with Turkey and Norway, top contributing donor funding countries of government budget.

Figures 3 & 4 offer a visual demonstration of proportional shares of revenue source by category in government budget over time.



Even though these sums are peanuts from the perspective of government accounts, it's not by far the biggest shortcoming of 2017 enacted budget. There are numerous other issues, but we will restrict this evaluation to the shocking absence of clear and coherent strategy, policy formulation or a tangible economic philosophy that this government aspires to achieve.

Let's take a closer look at few examples of what that exactly entails, before concluding our observations on how we see this will impact on the country's future.

Currency

The budget is denominated in US dollar instead of national currency! By failing to adequately prioritise tools for a fiscal and monetary policy options, and by simultaneously conflating currency reforms with a very narrow definition of just printing money to replace counterfeit

notes, consecutive governments have committed and continue to commit blunders of immense epic proportions.

Somali government has, by choice or by ignorance, denied itself the possibilities of running current account deficits. That seems to be amusing given that one of the most important privileges of sovereign governments is the ability issue their own currency; a legal tender which allows governments to manage its fiscal operations. We fault the government for its misconceived belief that it has to borrow or obtain “concessional finance” to increase its budget and attract investment as the Prime Minister has said. But issuing nonconvertible national currency is nothing more that IOUs, which in itself is technically another form of borrowing!

Tax

It’s clear from the “revenue generation” mantra that that this government dogmatically believes that it has to tax first in order to spend. This is an article of faith with no basis whatsoever! In fact, a government has to spend first (create money) in order to tax (generate revenues from economic activities of its spending). It comes down to initially running significant deficits, which is then incrementally recovered by taxing. Whenever the economy is severely under capacity as is ours at the moment, it invariably necessitates spending by the government to expand the tax base, by which at the same time through economic activity (multiplier effects) will favourably raise tax revenues consistent with standard arithmetic progression.

Ignoring these possibilities and blindly following the dictum of multilateral agencies, at the expense of potentially being in a position to build schools and staff hospitals, is no different to sadistically inflicting children and vulnerable Somalis with avoidable suffering. Because you are imposing constrains that any sovereign government need not be handicapped with, you are essentially depriving the government of its ability to spend and improve the quality of live conditions for its citizenry. Yes, there could be theoretical restrictions in the sense that inflationary pressures needs to be managed, but there are plenty of straightforward counter measures that can be used to address such risks.

Federalism

Continued pursuit of a federal government system which clearly isn’t in Somalia’s best interest is also one of the biggest obstacles to establishing a strong working budget. Logically speaking, Somalia cannot be a federal government. This much is clear. The confusing part is why the “international community” along with their faithful local political agents are persisting on leading Somalia down this costly cul-de-sac path. Let’s consider first why this is an important matter for the budget. Although IMF seems to have succeeded in convincing the government that all will be well if they improved fiscal discipline and revenue mobilization, there are clear problems with that.

First, revenue to GDP ratio of Somalia is barely 3% and will fall below 2% if donor funding is excluded, and lower still if only tax revenue ratio to GDP is considered. IMF stated in their [Article IV consultation](#) that 3.8% revenue to GDP was projected for this year. Very implausible, but still extremely low.

Second, and most important, there is little or no scope for increasing tax revenue prospects relative to GDP for Somalia if this system of federal government is kept in place. There are four interlinked components to this:

- 1) The size of the informal economy is a problem that cannot be overlooked, first and foremost, even more problematically so for a federal government. Two countries with the biggest informal economies in Africa are Nigeria (over 60%) and Tanzania (over 50%) – former is a federal government while the latter is confederation. Similar trend for repressive authoritarian federal countries like Ethiopia (over 40%) as well.
- 2) There's evidence that informal economy is inversely correlated with given country's tax revenues; that is to say "informal economic activity severely limits tax revenues for developing countries most in need of a stable tax base" ([Medina, et al. 2016](#)). That explains precisely why the Federal Government of Nigeria's revenue to GDP ratio is only 5.3% and why even if, a very unlikely if, the Federal Government of Somalia matched Nigeria's 5.3%, we'll still have a meagre "salary budget" like today and no functioning government can be sustained with such means.
- 3) In relative terms, Somalia is much worse off than other "decentralised" African countries with bloated informal economies because; a) they have a strong central government which Somalia lacks; b) they have other healthy revenue streams besides taxation such as mining; and c) meaning, in the case of Nigeria, enjoying annual government budget that amounts to \$21.2 billion even with a 5.3% tax revenues.
- 4) And finally, the IMF themselves [concluded](#) that "Somali economy is expected to continue to be sustained by donors' grants" in their February 2017 report! This shouldn't surprise anyone. We have seen many people complain about the fact that Mogadishu port and airport are the main sources for government tax receipts, but unfortunately they are all failing to realise the deliberate structural and political frameworks put in place that is causing the situation we are witnessing.

Plenty of knowledgeable Somalis have commented on this, but whenever a Somali speaks against this obvious madness, they are often viewed through tinted glasses or with suspicion; therefore instead of quoting Somali intellectuals, let us borrow the words of an independent African academic:

"The first best option would be to strengthen Mogadishu as the center of a strong unitary state. But no one wants that. Not the Somali elites running the state-lets that make up the federal state. Not Kenya — whose goal seems to be no more than creating a buffer stable region in Jubaland. Not Ethiopia — whose elites are more concerned about Pan-Somalia irredentism and their own domestic politics. And certainly not the TTCs — who are largely in it for the money and other favors from Washington and Brussels." Ken O. Opalo

Conclusion

The inherent flaws are now manifesting on a daily basis, whether it relates to taxing and revenues or security and foreign policy; spatial fragmentations are sure to magnify and kill off any real hope for a prosperous country. These are not the conductions that might be expected if one is trying to instil confidence and cultivate an environment that can be perceived as conducive for investment without too much risk-taking.

As the Prime Minister made the barefaced announcement to the gathered heads of states at the General Assembly that “Somalia is rising”, we are left to wonder what value these words hold in reality. Maybe it’s one of these ‘glittering generalities’ intended to seduce the sentiments of what Abukar Arman [dubbed](#) the “overenthusiastic youth” – organising a game of football under floodlights also seems to do the trick.

If we are allowed to make any qualified predictions based on a fair assessment of 2017 budget, is this: Somalia is not rising and this is not the budget of a rising nation!

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