



Transitional Federal Government of Somalia (TFG)

Annual Financial Report 2009

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OFFICE OF THE PRIME MINISTER

(In Consultation with the Horn Economic and Social Policy Institute [HESPI])

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I am pleased to introduce this financial report which is a useful and straightforward review of the work carried out in Somalia by the Public Finance Management Unit, the Office of the Prime Minister. I am also pleased to present this 2009 Financial Report which highlights among other issues, the activities implemented and the specific challenges faced during the annual implementation.

In the absence of a comprehensive national public finance management system and financial plans, coordination with line ministries and institutions of integrity and finance was essential for PFM project success. The presence of the Public Financial Management (PFM) Unit strengthened line ministries major planning and coordination and played a leading role in engaging constructively public institutions on important issues of public financial and the budget process.

Since April 2009, TFG has made some progress in rebuilding PFM, but the public administration continues to be dogged by low levels of capacity, resources and accountability. The lack of strong internal and external control of how public resources are spent allows for a PFM system in which abuses can and do occur without the risk of sanctions. Despite all of this the Unit has made a preliminary assessment of immediate needs in order to make it possible for the Auditor General and the Accountant Generals offices to function for the coming years. The Somali public administration system needs to be rebuilt from its very foundation.

Rebuilding is a long-term challenge that requires strategic focus coupled with tactical flexibility and an ability to respond to both crises and opportunities. Challenges remain in strengthening PFM Unit to improve compliance and ensure transparency. This is what the TFG aims to achieve with the help and support of international community. A key Government priority during the 2009 budget was to strengthen security, as without it all other objectives underpinning this budget would not be easily achieved. The budget allocations were therefore informed by this principle focus of enhancing national security.

Finally, I hope that the International Community and readers of this annual financial report will find it useful and informative. My government understands that international financial support is not entitlement. It's something a country earns by demonstrating a commitment to accountability, and the promotion of transparency. It is also expected that the report will help our partners know the report is presented fairly according to established standards and its efforts of ensuring that any future governmental audit is transparent, bipartisan and disseminated in a form that enhances public understanding of the operations, capacity and limitations of line ministries.

H.E. Omar A. A. Sharmarke
Prime Minister





Information contained in this report is based on figures and descriptions supplied by motivated local personnel and the relentless monitoring and coordination work of the Head of Public Finance Management Unit (PFMU), in Mogadishu. These personnel are: the Permanent Secretary of Ministry of Finance, Director of Treasury/Deputy Accountant General, Auditor General, Budget Director of Ministry of Finance, Head of Department of Customs of the Ministry of Treasury, Director of Administrative and Finance of the Central Bank and the Head of Public Finance Management Unit Office of the Prime Minister. This report will serve as a basis for future comparison, and as a tool for analysis over subsequent years.

The aim of this report is to illustrate the results achieved by the Public Finance Management Unit thus far, and to show how public funds have been utilized. Results achieved in the institutions of financial integrity and finance sector can also be counted as another well-justified source of pride in the work accomplished by the staff in a country where financial reporting culture in all government ministries are overlooked or assigned a low priority.

Wherever possible, a comprehensive overview of new financial pledges or primary commitments made during the fiscal year of 2009, as well as actual expenditure in 2009 has been reflected. The PricewaterhouseCoopers (PWC) report for 2009 provides one of the sources of information on the type and amount of external assistance allocated to Somalia during the fiscal year of 2009. The PWC report covers the 6 months ended 31 December 2009.

Although we know that there is still much more work to be done and that even greater efforts will be required, the demand by the international community in respect of the financial operations implemented so far is enough to motivate us to continue to report quarterly or annually.

Sharif Hassan Sheikh Aden
Deputy Prime Minister/Minister of Finance



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1. Introduction

The Transitional Federal Government (TFG) of Somalia has made significant progress since February 2009, but remains largely fragile. Conflict remains a real risk unless economic growth increases and people's quality of life improves. Poverty remains wide-spread and health indicators are very poor. Among the factors causing persistent fragility are: the inability by the Transitional Federal Government to deliver basic services, including education and health services in the country; weak accountability to citizens and donors by public institutions and lack of employment opportunities for the youth.

The Sharmarke administration, which came into power in 2009, inherited a country without effective public institutions. Warlords ruling over individual swaths of territory replaced unifying public institutions as the basis of Government and social services, and most importantly there has been lack of security. Therefore, the expenditure side of the recurrent¹ budget is mostly dedicated to security sector, reestablishing key public institutions for macroeconomic management and integrity institutions, such as the Accountant General and the Auditor Generals Offices, Parliamentary Committees on economy, National Civil Service Commission, and the Public Finance Management Unit Office among others. The first step of the new administration was to establish institutions that would provide effective security that is a basic condition for bringing peace and promoting a conducive, environment for achieving reconciliation, and effective socioeconomic development that will benefit all Somalis.

The annual report for the financial year 2009 of the Transitional Federal Government is prepared by the Public Finance Management Unit (PFMU)², Office of the Prime Minister, and after approval by the Auditor General is the first of its kind of financial report since the fall of Siad Barre. The financial report gives a picture of major activities to be covered in the annual report. It is compiled in consultation with the Ministry of Finance, the Central Bank, Auditor and Accountant Generals Staff³. The annual report for the financial year 2009 of the TFG provides available data on Government receipts and outlays, based on government reporting. The combined statement of receipts and outlays is the official data of the actual operations of the TFG that have been channeled through the government accounts and systems. We expect to prepare more comprehensive reports of this type annually in accordance with legislative mandates given to the Public Finance Management Institutions, including reports from Public Finance Management Unit.

¹It mainly covers salaries and wages

²Each government Ministry does not perform its own accounting function and does not submit any report to the Office of the Accountant General of the Ministry of Finance. In addition, each Ministry does not have a designated Head of Finance (Principal Accountant as in the region referred to) that reports directly to the Accountant General. Concomitant, the Ministry of Finance through the Accountant General does not prepare a comprehensive Annual Financial Report (CAFR) on annual basis. Reasonable assurance of quality reporting was not confirmed for the field audit function. PFMU identified a risk in the recording of transactions and events. This lack of documentation has been addressed prior making this report and refresh training for all field auditors is planned for the new future. Because of this the report has to be carried out by the Head of Public Financial Management Unit.

³The final Report was discussed with HIESPI Associates.

The PFMU has set out measures aimed at enhancing reporting regularly in order to gain support of the International Community. With a view to this goal, the PFMU has adopted a specific measurement method Generally Accepted Accounting Principles (GAAP) – developed according to the best practices used in some countries, including among others the US and Canada. This report forms the basis of the accounts of revenue and expenditure which will be laid before Steering Committee of donors in 5th of May 2009.

The 2009 annual report is divided into three sections: Section 1 provides Introduction of the report; Section 2 provides the details of the 2009 financial statement; and Section 3 provides the framework of accounting policies.

2. The highlights of Financial Statement of TFG in 2009

a. Revenue Performance

As detailed in Tables 1-4, below, the Transitional Federal Government of Somalia's fiscal operations were constrained by multiple factors. Foremost among the constraints faced was the lack of adequate financial resources from own sources as the domestic tax base was practically negligible. Non-existent tax administration capacity includes lack of tax accessories, auditors and collectors was a major limiting factor. Also, poor tax compliance partially attributed to nearly two decades of insecurity, and absence of sanctions on non-complying tax payers has proven endemic. Leakage of government revenue collected by customs and other government agents also remains a problem. In the circumstances, the TFG is cognizant that strengthening of its capacity to collect domestic revenue is of a high priority in order to establish effective economic and financial governance.

In view of the constraints faced, the 2009 budget contains very little domestic revenue. The revenue collected in 2009 reflected inadequate capacity of Government to collect taxes in the limited areas under its control. As a consequence in 2009 no inland revenues were collected. In particular:

- Taxes on profits were not collectable due to security
- Taxes on salaries and wages for public sector employees were attempted but were not possible to collect in view of poor administrative capacity.
- Attempt was made to collect sales taxes in the areas under the Government control, but it was not possible owing to insecurity and weak administrative capacity.

Table 1: Highlights of Financial Statements of TFG in 2009

RESOURCE BASE	
DOMESTIC REVENUE	
TAX REVENUE	
Customs Receipts (Mogadishu Port)	\$ 6,242,682
Airport Departure Tax (Aden Adde Airport)	351,920
Levy on Chat (KM.50 Airstrip)	114,348
Domestic Loans	1,500,000
TOTAL DOMESTIC REVENUE AND LOANS	\$ 8,208,950
EXTERNAL ASSISTANCE	
Bilateral Assistance ⁴	2,875,000
Multilateral (co-managed with UNPOS) ⁵	-
Multilateral (co-managed with UNDP)	-
Multilateral (EU and Other)	-
TOTAL EXTERNAL ASSISTANCE	2,875,000
TOTAL REVENUE	\$ 11,083,950
EXPENDITURE⁶	
Recurrent Expenditure	
Office of the President	285,000
Office of the Prime Minister	216,000
Office of the Speaker - running costs	300,000
Parliament - Stipends for 550 MPs	2,640,000
Ministries (39)	1,404,000
National Security	6,143,309
Auditor & Accountant General	28,000
Central Bank	12,000
Constitutional Commissions & Bodies	42,000
TOTAL RECURRENT EXPENDITURE	11,070,309
SURPLUS	\$ 13,641

Sources: Data collected by Government Institutions.

The revenue collections in 2009 covered almost exclusively customs receipts at three locations, and even then a small portion of the potential receipts from these locations was actually collected. The receipts were from customs duties as the key sources of revenue, but there were limited only to Aden Adde Airport, KM 50 Airstrip and Mogadishu port.

As shown in Table 1, the largest share of government revenue in 2009 was collected from customs duties at Mogadishu Port: US\$ 6.2 million equivalent to 76% of the total revenue collection. Government clearly recognizes that with strengthened and accountable customs administration, considerably higher customs receipts could be collected and every effort is being made to ensure better results from the Mogadishu Port and other customs destinations. In addition, an operational Inland Revenue administration needs to be set up urgently.

⁴This is the amount channeled through PWC to the government.

⁵TFG does not have reliable data on other external support of the country.

⁶The breakdown on expenditure is on table 3.

Table 2: Summary of Monthly Receipts and Disbursements of the TFG in 2009 (in USD)

Period	Receipts	Disbursements	Difference
FY 2009			
Bal Dec-2008			67
Jan	30,069	29,708	428
Feb	344,180	344,422	187
Mar	-	-	187
Apr	1,800,000	884,600	915,587
May	2,683,834	3,231,002	368,419
Jun	2,584,900	2,847,687	105,632
Jul	3,280	108,908	4
Aug	625,600	620,400	5,204
Sep	-	5,055	149
Oct	-	-	149
Nov	1,479,799	1,458,701	21,247
Dec	1,532,221	1,539,827	13,641
Sub-Total	11,083,883	11,070,309	
Bal Dec-2008	67	-	
TOTAL	11,083,950	11,070,309	13,641

Source: Office of the Auditor General

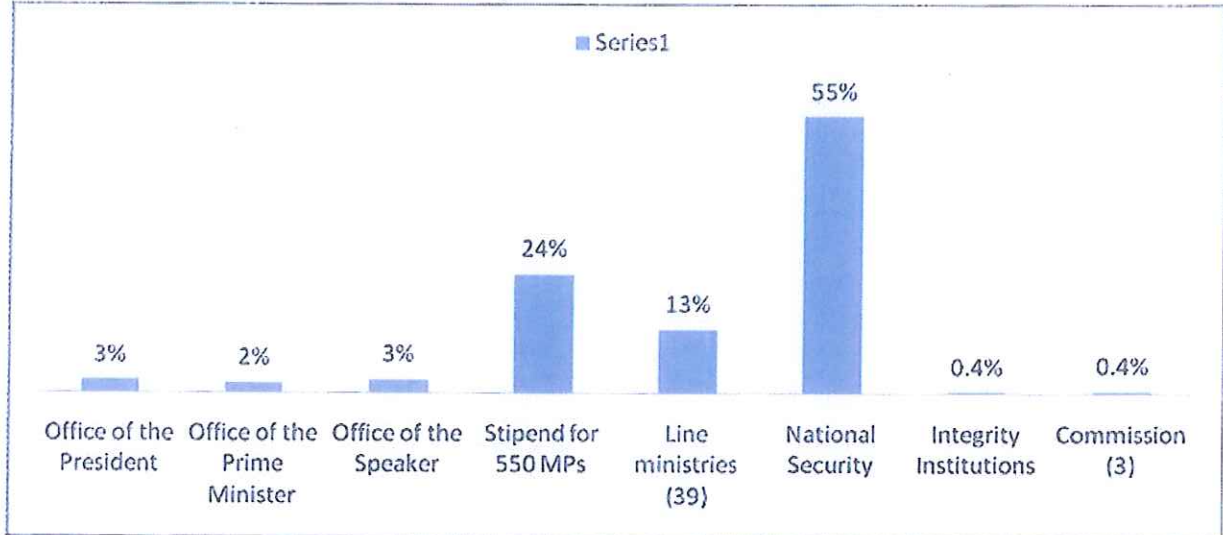
b. Expenditure Performance

With regard to expenditure performance, the 2009 Financial Statements of the TFG underscore several obvious facts:

- i. Because of limited own resources, the Government capacity to authorize expenditure and allocate resources were indeed limited.
- ii. The Government accounts exclude all expenditure that were not under its control and were channeled through Bilateral and Multilateral management. Considerably larger resources were disbursed through UNPOS, UNDP, Amisom and other external agencies especially for security and relief related expenses. But none of these could be recorded, monitored and reported on by the PFMU or other TFG institutions. In this context, the expenditure levels presented in these annual accounts clearly is partial and reflects the resources directly at the disposal of the Government. In the circumstances full accounting for external assistance through non-government channels should be provided by relevant agencies.

As noted in the introduction, security and stability is the government’s highest priority. As shown in Chart 1, about 55 percent of available resources were allocated to national security agencies. In view of resource limitation, the second largest amount after Security Agencies was allocated to Parliament including the Office of the Speaker (27 percent of total). Modest amounts were also provided to the Offices of the President (3 percent), Prime Minister (2 percent), and 39 Line Ministries (13 percent).

Chart 1: Percent shares in 2009 TFG Expenditure allocations



As shown in Tables 3 and 4, the Modest allocation made by the TFG in 2009 were allocated for security and few other government agents, at the highest level of the constitutional order. No resources were expended on the provision of key economic and social services such as education and health. While government recognizes the importance of providing essential services for its credibility and legitimacy, the resources limitations has imposed a hard budget constraint. In this context, nearly 90% of the Government direct allocations were assigned to wages and salaries, and this left negligible amounts for all other essential administration, economic and social services.

Needles to say, the massive reconstruction and recovery needs of the country could not be addressed through the resources directly available to government.

Table 3: Details of TFG Expenditure by Heads in 2009 Annual Allocation

	In US Dollars									
	Office of the President	Office of the Prime Minister	Office of the Speaker	Parliament Expenses	Line Ministries	National Security	Central Bank	Audit and Accountant General	Commissions and Boards	Total
Total Actual Expenditure	285,000	216,000	300,000	2,640,000	1,404,000	6,143,309	12,000	28,000	42,000	11,070,309
Salaries and Wages	42,900	44,700	59,600	2,640,000	954,018	6,000,000	12,000	23,200	28,800	9,805,218
Rent	-	-	-	-	175,500	-	-	-	-	175,500
Utilities	18,000	9,000	12,000	-	56,160	-	-	1,200	1,800	98,160
Fuel	27,000	13,500	12,000	-	56,160	135,000	-	2,400	7,200	253,260
Travel	200,000	125,000	75,000	-	28,080	-	-	640	-	428,720
Stationery	2,400	3,000	800	-	23,400	-	-	500	1,200	31,300
Other expenses	-	25,000	140,600	-	109,200	8,309	-	60	5,000	288,169

Table 4: Personnel Table

1. OFFICE OF THE PRESIDENT	NO. PERSONNEL	STIPENDS	TOTAL
MINISTER	1	3,600	3,600
CHIEF OF STAFF	1	2,250	2,250
DIRECTOR GENERAL	6	1,725	10,350
HEAD OF SECTION	6	1,200	7,200
TECHNICAL OFFICERS	10	900	9,000
CLERKS	10	600	6,000
AUXILIARY	10	450	4,500
SUB TOTAL	44	10,725	42,900
2. OFFICE OF THE PRIME MINISTER			
MINISTER	1	3,600	3,600
CHIEF OF STAFF	1	2,250	2,250
DIRECTOR GENERAL	6	1,725	10,350
HEAD OF SECTION	6	1,500	9,000
TECHNICAL OFFICERS	10	900	9,000
CLERKS	10	600	6,000
AUXILIARY	10	450	4,500
SUB TOTAL	44	11,025	44,700
3. OFFICE OF THE SPEAKER			
DIRECTOR GENERAL	1	2,200	2,200
DEPUTY DIRECTOR GENERAL	1	2,100	2,100
TECHNICAL OFFICERS	14	1,500	21,000
CLERKS OF PARLIAMENTARY COMMITTEES	15	1,500	22,500
CLERICAL STAFF	6	686	4,116
AUXILIARY STAFF	17	452	7,684
SUB TOTAL	54	8,438	59,600

4. LINE MINISTRIES (39)	NO. PERSONNEL	STIPENDS	TOTAL
MINISTER	44	3,600	3,600
DIRECTOR GENERAL	39	1,500	1,500
DIRECTOR	117	1,200	3,600
HEAD OF SECTION	234	900	5,400
TECHNICAL OFFICERS	195	600	3,000
CLERKS	390	600	6,000
AUXILIARY	117	300	900
SUB TOTAL	1,136	8,700	954,000
5. CENTRAL BANK			
GOVERNOR	1	1,000	1,000
DIRECTOR GENERAL	3	800	2,400
HEAD OF SECTION	6	600	3,600
TECHNICAL OFFICERS	7	400	2,800
CLERKS	4	400	1,600
AUXILIARY	3	200	600
SUB TOTAL	24	3,400	12,000
6. AUDITOR & ACCOUNTANT GENERAL			
ACCOUNTANT GENERAL/AUDITOR G	2	1,000	2,000
DIRECTOR GENERAL	6	800	4,800
HEAD OF SECTION	12	600	7,200
TECHNICAL OFFICERS	14	400	5,600
CLERKS	6	400	2,400
AUXILIARY	6	200	1,200
SUB TOTAL	46	3,400	23,200
7. 3-CONSTITUTIONAL COMMISSIONS & BODIES			
CHAIRMAN	3	1,000	3,000
DEPUTY CHAIRMAN	3	800	2,400
SECRETARY GENERAL	3	800	2,400
COMMISSIONER	11	600	6,600
DIRECTOR	12	600	7,200
TECHNICAL OFFICERS	18	200	3,600
CLERKS	9	200	1,800
AUXILIARY	9	200	1,800
SUB TOTAL	68	4,400	28,800
TOTAL			11,070,309

c. Domestic and External Financing Operations

Domestic Loans

The TFG's capacity to raise domestic loans and credits were extremely limited. First, there are no operative financial institutions in the country to lend to government and the only source available was to borrow small amounts from money transfer or Hawala companies. Accordingly, the domestic loans of the financial 2009 derived from Hawala companies equivalent to US\$ 1,500,000. The TFG incurred during 2009. These domestic loans are expected to decrease during the 2010 as the government manages to bring under its control more revenue facilities, such as ports and airports and strengthens administration around the country. But the TFG's ability to limit domestic borrowing for the years to come will also depend critically on the support from Somalia's development partners.

External Grants

As shown in Table 5, total external grants to TFG through PWC for the financial 2009 that came from development partners is equivalent to US\$ 2,875,000. Total external grants is far above the commitment made by the development partners to support Somalia through PWC, but details of other grants through UNPOS, UNDP, EU and Amisom for example are unavailable.

Table 5: Domestic Loans and External Grants to TFG in 2009 in US Dollar

	Domestic Loans	External Grants
i. Domestic Loans		
Qaran Express (05/09)	275,000	
Dahabshiil (10/10)	700,000	
Business Group (20/11)	525,000	
ii. External Grants		
China (22/09)		500,000
USA (05/10)		500,000
Libya (17/10)		1,600,000
Rwanda (03/12)		250,000
USA (16/12)		25,000
Totals	<u>1,500,000</u>	<u>2,875,000</u>

Sources: Domestic loans data from Ministry of Finance and External Grant data from PWC

3. Framework of Accounting Policies

In view of the paramount nature of security matters in the country, about 55 percent of the Government direct allocations were assigned to National Security Agencies (Chart I); the rest of government expenditures were allocated for political governance institutions, personnel expenses and operations.

In preparing its statutory financial statements TFG complies with the requirements of the Somali Financial Regulation Act 1961 to the extent that the provisions do not conflict with international financial standards.

Statement of Compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) being the standards and interpretations adopted by the International Accounting Standards Board. Therefore, the principal accounting policies adopted in the preparation of these financial statements are set out below.

a. Income

Income is recognized when received.

b. Expenditure

Expenditure is recorded when incurred.

c. Foreign Currency Translation

Currencies are translated into US Dollars at the exchange rate at the time the income is received and expenses incurred.

d. Reporting Currency

The accounts are presented in US Dollars.

Annex

Other contributors to the TFG 2009 Financial Annual Report

Names	Organization	Position
1. Ahmed Mohamud Ahmed (Yaqshid)	Ministry of Finance	Permanent Secretary
2. Amina Sheek Osman	Ministry of Finance	Budget Director
3. Shire Ahmed Jumcale	Ministry of Finance	Director of Administration & Finance
4. Mohamed Hajji Mohamud Abdulle (Leyloon)	Ministry of Treasury	Head of Department of Customs
5. Mohamed Ahmed Olow	Central Bank	Director of Administrative & Finance of the Central Bank
6. Omar Mohamed Muhiadin	Office of the Auditor General	Auditor General
7. Isse Sheikh Mohamed	Office of the Accountant General	Director of Treasury/Deputy Accountant General