



**SOMALI REGIONAL STATE OF ETHIOPIA
BUREAU OF FINANCE**

MACRO-ECONOMIC FISCAL FRAMEWORK FOR 2016 EFY

**Bureau of Finance
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TABLE OF CONTENTS

1. Message of Finance Bureau head	iii
2. Executive Summary.....	v
3. Introduction.....	1
4. Macro-Economic Performance.....	2
5. Economic Growth Performance of somali region.....	3
5.1 Overview.....	3
5.2 Regional GDP Analysis	4
Agriculture Sector	5
Industry Sector.....	6
Service Sector.....	7
Real and Nominal RGDP Per Capita in Birr and USD.....	8
Sectorial Sources of Growth and Structural Shift of the RGDP.....	10
Annual Regional GDP of Somali Regional State – Billion Birr (At Current Basic Prices).....	11
5.3 Poverty Status	11
5.4 Inflation	13
5.5 Employment	18
5.6 Employment	19
Employment in Somali Region	19
Unemployment in Somali Region.....	21
6. FiSCAL PERFORMANCE.....	22
a. External Resource mobilization	22
b. Government expenditure performance.....	22
c. Fiscal Performance of the Region (Out-Turn) Analysis.....	24
d. Regional Revenue Generation.....	24
e. Fiscal performance and budget out-turn	25
f. Tax Administration Reforms.....	26
g. Inter-Governmental Fiscal Transfers	27
h. Public Financial Management Performance.....	28
7. Macro-Economic Plan.....	29
a. Strategic Direction.....	29
7.2 Objectives of the Plan	30
7.3 Plan of the economic growth.....	31
7.4 Fiscal strategy of Somali region	35

1. MESSAGE OF FINANCE BUREAU HEAD

I am pleased to introduce a publication titled “Macroeconomics and Fiscal Framework Policy,” created by the bureau of Finance of the Somali Regional State (SRS, BoF). This report is considered the prominent series of its kind produced by the bureau to shed light on the fiscal policy of the region and its practical implementation. Readers will be able to gain insight into SRS's fiscal policy's overall objectives and strategies. We expect that this publication, which highlights recent developments in fiscal policy, will further strengthen future policy initiatives to achieve the region's long-term aspirations for structural transformation.



**Mr. Abdirahman Ahmed
Hasan**
SRS Head bureau of finance

The Somali regional state, being an essential component of Ethiopia, has witnessed remarkable economic progress across various sectors during the reporting years. The federal and regional government's substantial investment, partly supported by external borrowing and internal revenue, was the primary driving force behind this growth. These ambitious public investments have significantly expanded the region's infrastructure, laying a robust groundwork for future development.

In light of the ten-year development plan goals, I would like to seize this chance to reiterate the Somali regional state administration's dedication to driving economic progress while preserving macroeconomic stability. Our commitment aligns with the plan's objectives, emphasizing the shift from temporary to sustainable and reliable sources of financial resources. Additionally, we strive to reduce the burdensome development costs in areas where funds are allocated, enhance operational efficiency, and foster increased domestic savings. We will focus on strengthening resource mobilization through domestic channels to accomplish economic growth and development objectives, specifically by boosting tax revenues. The Somali regional State will prioritize investments in education and capacity development while promoting access to essential healthcare services and enhancing infrastructure. A key aspect of our approach will involve establishing robust institutions, fostering good governance, and ensuring the principles of democratization and decentralization are upheld to reduce poverty further and enhance our citizens' welfare.

In the years ahead, there will be a greater emphasis on ensuring the inclusivity of the transformation process by prioritizing the quality of growth in all areas. Our primary focus will be on enhancing the quality of essential services, such as education and healthcare. Additionally, we will strive to optimize the allocation of resources by minimizing wastage through our fiscal policy. We will conduct comprehensive feasibility studies, diligent follow-ups, and effective monitoring and evaluation to streamline project implementation and reduce delays. Furthermore, our fiscal policy will maintain prudence and act as a catalyst for rapid, sustainable, and wide-reaching

growth by implementing fair and progressive taxation, enhancing expenditure management, and adopting sound financing practices at the regional level.

I sincerely appreciate the immense effort put into preparing the report. As a result, I am delighted to express my deep gratitude and thanks to all individuals directly and indirectly involved in producing this report. Their exceptional coordination and guidance in finalizing the report and the invaluable contribution of the Somali Regional State bureau of Finance staff members, directors, senior officials, and experts, who provided sector data and constructive comments, deserve recognition.

I hope you will find this report engaging and insightful. The SRS bureau of finance office and I eagerly await your comments, suggestions, and any other relevant feedback. This humble attempt to enhance our future reports has been undertaken sincerely.

2. EXECUTIVE SUMMARY

Ethiopia places significant emphasis on domestic revenue generation, resource allocation, and addressing budgetary deficits as part of its fiscal policy. Despite facing challenges such as foreign exchange shortages and the impact of COVID-19, the government is committed to achieving stability and prosperity. In line with this, the fiscal policy of the Somali Regional State is focused on driving long-term economic expansion by promoting sectors that contribute to growth and poverty alleviation. Remarkably, the Somali Regional State experienced an impressive GDP growth rate of 5.2% in 2014, with every sector making a positive contribution. Particularly, the service sector witnessed the highest growth rate of 20.1%, primarily driven by the expansion of hotels and restaurants. Furthermore, the industrial sector also exhibited growth at a rate of 8.9%.

The objective of the ten-year plan is to sustain Ethiopia's double-digit economic growth and promote structural transformation through strategic macroeconomic planning, investment, job creation, and poverty alleviation efforts. In order to achieve this, the Somali Regional State (SRS) has recently provided estimates of the Real Gross Domestic Production (RGDP) for the period of 2008EFY-2014EFY. These estimates encompassed all economic sectors except for fishing, as there was insufficient official data available in that specific sector. As part of their analysis, the Somali Regional State has released a comprehensive report on the region's GDP, taking into account the contributions from each economic sector, with the exclusion of the fishing sector due to the absence of reliable official data.

The region's fiscal policy is focused on generating optimum revenue to meet the necessary expenses for fostering fast, sustainable, comprehensive, and fair development. The main aim of the ten-year plan is to attain an economic growth rate of 10% in the base scenario and an impressive 13.2% in the high scenario. This audacious objective is motivated by the significant advancements witnessed in the past five years and the flourishing influx of investments.

The fiscal policy of the Somali Regional State aligns with that of the Federal Government, employing a medium-term macroeconomic framework and fiscal strategic plan.

3. INTRODUCTION

Most of the government's development policies, particularly those with a medium to long-term scope, require a predictable and sustainable flow of funding to yield benefits over several years. However, relying solely on the annual budget process, with its one-year timeframe, can lead to short-term thinking and incremental budgeting, hampering the effective implementation of such policies. Recognizing these limitations, the Somali regional government has adopted the Medium-Term Macroeconomic and Fiscal Framework (MEFF) as a key tool for planning and managing its finances.

The MEFF extends the budgeting horizon beyond the annual cycle, typically encompassing a period of 3-5 years. This longer-term perspective allows the government to:

- Assess spending decisions in the context of future resource needs and commitments.
- Make more informed and strategic choices, prioritizing investments aligned with the home grown economic reforms and other long-term goals.
- Avoid short-term fluctuations and maintain a predictable flow of funds for vital programs and projects.
- Enhance fiscal transparency and accountability by clearly outlining the government's spending plans for the medium term.

By imposing fixed constraints on expenditure within the MEFF framework, the government can ensure fiscal discipline and prevent excessive budgeting. This also promotes greater coordination and collaboration between sector ministries, encouraging them to align their spending priorities with the overall development objectives.

Ethiopia's ambitious development agenda hinges on the successful implementation of multi-year programs, requiring sustained financing beyond the limitations of annual budgets. Macroeconomic and Fiscal Framework (MEFF), designed with a medium-term perspective, yield benefits over several years. Recognizing this, the Ethiopian government, like the Government of Somali Region, has adopted the Macroeconomic and Fiscal Framework (MEFF) as a crucial tool to guide sustainable fiscal planning and resource allocation, ensuring adequate funding for long-term goals and program completion.

The MEFF serves as a crucial tool for the Somali regional government to effectively implement its development agenda, promoting sustainable and equitable economic growth.

4. Macro-Economic Performance

According to the African Development Bank, the real GDP growth of Ethiopia fell to 5.3% in 2022 from 5.6% in 2021 but remained above East Africa's average (4.7% in 2021 and 4.4% in 2022). The supply-side drivers of growth were industry and services, and demand-side drivers were private consumption and investment. Inflation rose to 34% in 2022 from 26.6% in 2021 due to internal conflict, drought, and the effects of Russia's invasion of Ukraine on commodity prices. The fiscal deficit widened to 4.2% of GDP in 2022 from 2.8% in 2021 due to weak revenue performance. The current account deficit deteriorated to 4.0% of GDP in 2022 from 3.2% in 2021 due to higher prices for commodity imports. International reserves declined to about 1 month of import cover in 2022 from 2.2 months in 2021. Public and publicly guaranteed debt declined to 50.1% of GDP (with external debt at 23.6% of GDP) in 2022 from 51.0% in 2021. The GDP is projected to grow 5.8% in 2023 and 6.2% in 2024, driven by industry, private consumption, and investment. The peace dividend, rebounding tourism, and prospect of liberalizing more sectors are expected to boost the growth outlook. Inflation is projected to decline to 28.1% in 2023 and 20.1% in 2024, following the peace dividend. The fiscal deficit is projected to grow to 3.1% in 2023 and 2.5% in 2024 due to the expected increase in government revenue driven by domestic resource mobilization improvements, implementation of the fiscal consolidation strategy, and resumption of donor inflows. The current account deficit is expected to narrow to 3.7% of GDP during 2023–24 as merchandise and service exports and foreign direct investment rise and imports of capital inputs continue to decline.

According to the United Nations Conference on Trade and Development (UNCTAD), Ethiopia's economy has experienced remarkable growth under the Growth and Transformation Plan (GTP) I and GTP II. The real GDP growth rate was 10.14% during GTP I and 8.2% during GTP II. The Ten-year Development Plan aims to maintain macroeconomic stability, ensure sustainable job opportunities, and accelerate the path to prosperity through a private sector-led pragmatic market economy. The plan also focuses on maintaining a stable macroeconomic environment, reducing poverty, and improving the welfare of the Ethiopian people by investing in education, healthcare, infrastructure, and governance.

5. ECONOMIC GROWTH PERFORMANCE OF SOMALI REGION

In Somali region, real GDP grew on average 6.0% during 2008-2014 efy. As per this estimates the real annual average growth rates of major sectors i.e. Agriculture, Industry and Services were 4.1 percent, 20.1 percent and 8.5 percent respectively, while their shares out of the total annual average GDP were about 75.4 percent, 8.4 percent and 16.2 percent respectively. The performance of the economy was high in 2011EFY due to robust growth in ariculture, service and industry sectors productivity.

5.1 Overview

The Gross Domestic Product (GDP) for the Somali Regional State in 2014EFY increased by 5.2% from the previous year's 82.1 billion Birr, reflecting a steady annual growth rate of 5.2%. The growth rate of 6.5% in 2013EFY experienced a slight decline due to a severe drought, causing significant livestock losses and crop failures. However, the estimated GDP for 2014 reached 104.1 billion Birr, a 13.0% increase compared to the previous year. The nominal GDP at market prices surged from 60.9 billion Birr in 2008EFY to 104.1 billion Birr in 2014EFY, and the real GDP value experienced a remarkable growth rate of approximately 29.5% within the past seven years, indicating substantial economic progress and development. Major economic sectors contributed varying growth rates, with real annual growth rates for these sectors standing at 1.4%, 55.7%, and 8.5%, respectively. The Somali Regional State (SRS) has estimated the RealGross Domestic Production (RGDP) for the years 2008 EFY to 2014 EFY, covering

the value added by all sectors of the economy, including Agriculture, Industry, and Services.

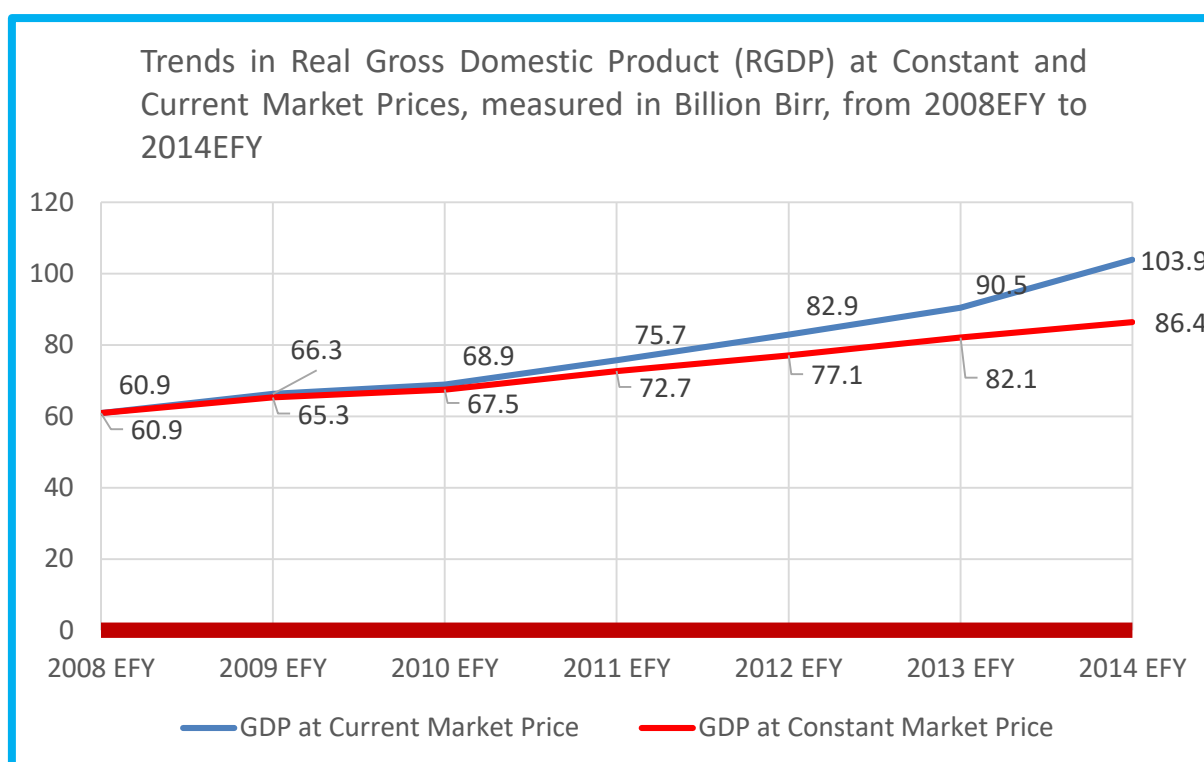
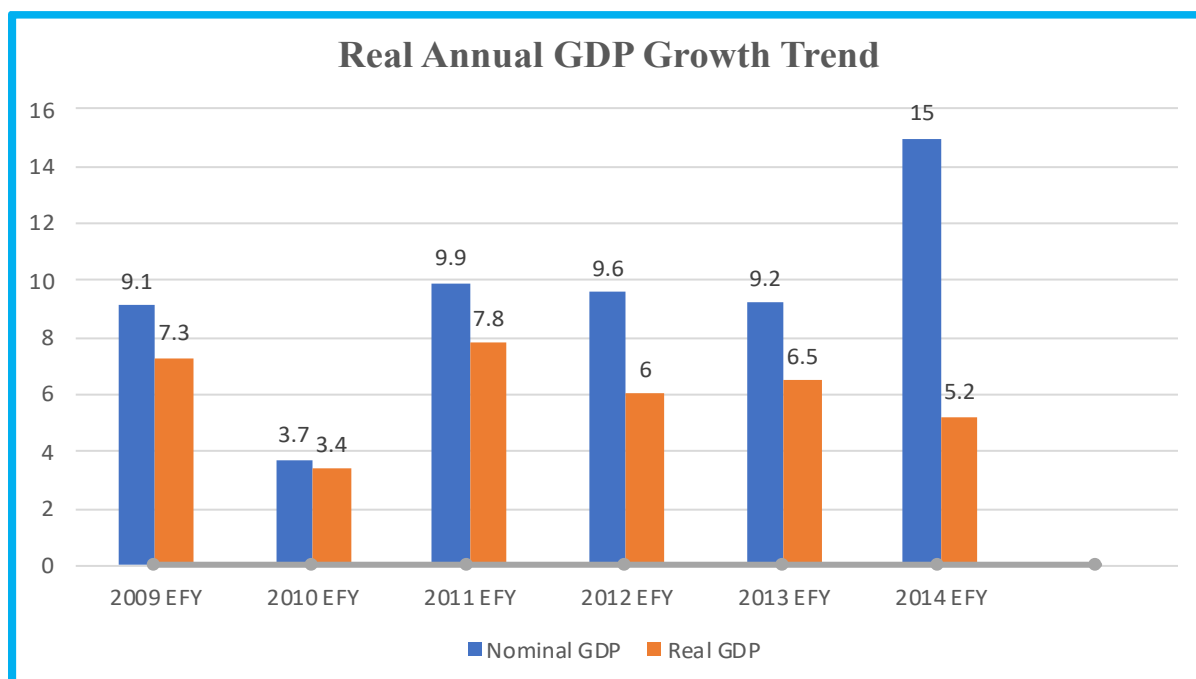
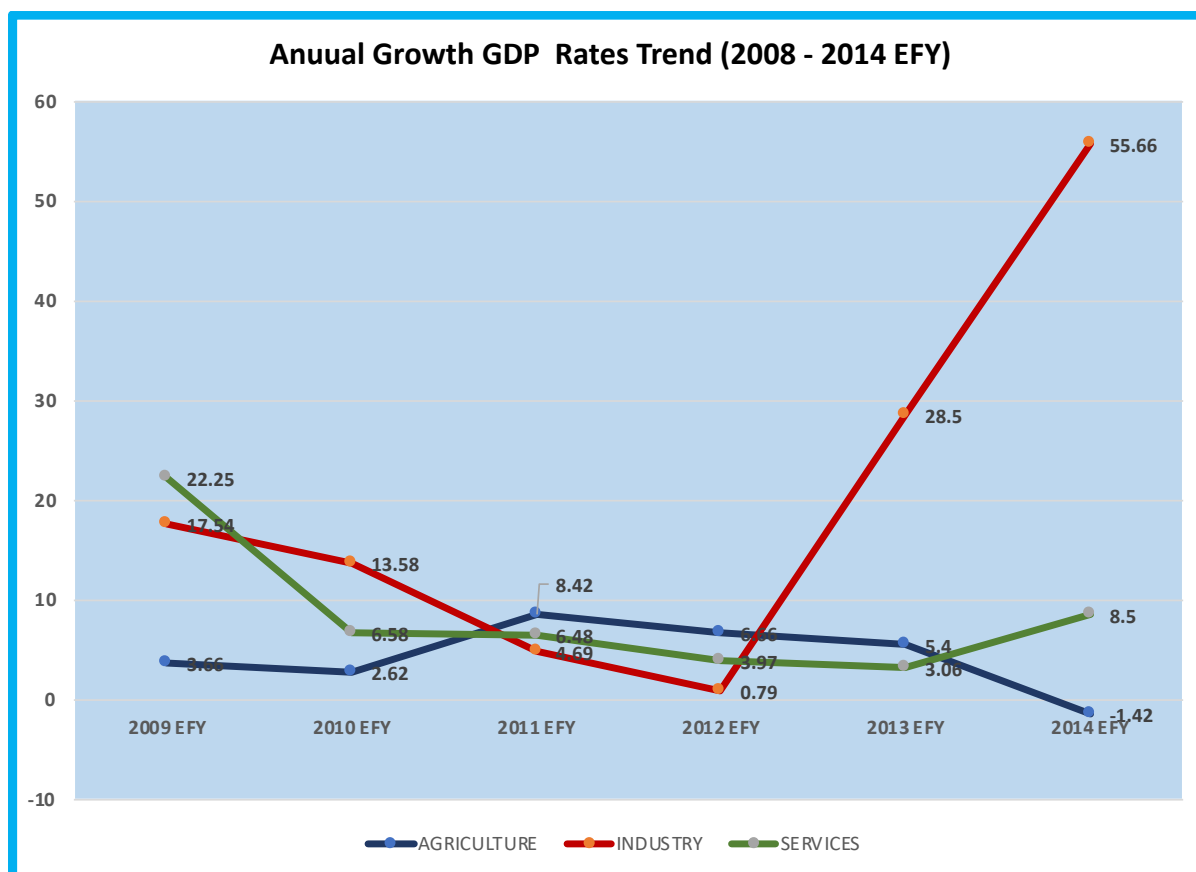


Figure 1: Trends in Real Gross Domestic Product (RGDP) at Constant and Current Market Prices, measured in Billion Birr, from 2008EFY to 2014EFY

5.2 Regional GDP Analysis

The Somali Regional State (SRS) has compiled estimates for the Real Gross Domestic Production (RGDP) from 2008 EFY to 2014 EFY. These estimates encompass the value added by all sectors of the economy, namely Agriculture, Industry, and Services. However, it is important to note that the fishing sector could not be included in the analysis due to a lack of official data. In the subsequent sections, we will delve into the individual contributions of each sector to the overall GDP of the region. This document aims to provide valuable insights into the performance of economic growth and is tailored for the audience of a fiscal period report. To visualize the trends in annual growth rates of real GDP for major industrial sectors during the period from 2008 EFY to 2014 EFY, please refer to the figure presented below.



Agriculture Sector

The regional economy of SRS is primarily driven by agriculture, with an average contribution of 75.4 percent annually. The livestock sub-sector accounts for 98.1%,

while the Crop and Forestry sub-sectors contribute 1.6 and 0.2%, respectively. Despite a decline in agricultural contribution to real RGDP over the past seven years, agriculture remains the stronghold of the regional economy due to its crucial role in the livelihoods of the majority of the population. A regional economic development policy should focus on modern livestock production and productivity to enhance the growth and sustainability of the regional economy. The Crop and Forestry sub-sectors contributed 4.4 percent and 0.5 percent, respectively, to the overall output from 2008EFY-2010EFY. Agriculture and allied activities experienced a significant real GDP growth rate of 15.1% in 2008, which decreased to 6.7% in 2010. The agriculture sector's average growth rate stood at 5.7% over the last three consecutive years. Livestock production played a dominant role in contributing to the region's agricultural GDP, with an average share of 95.2% annually.

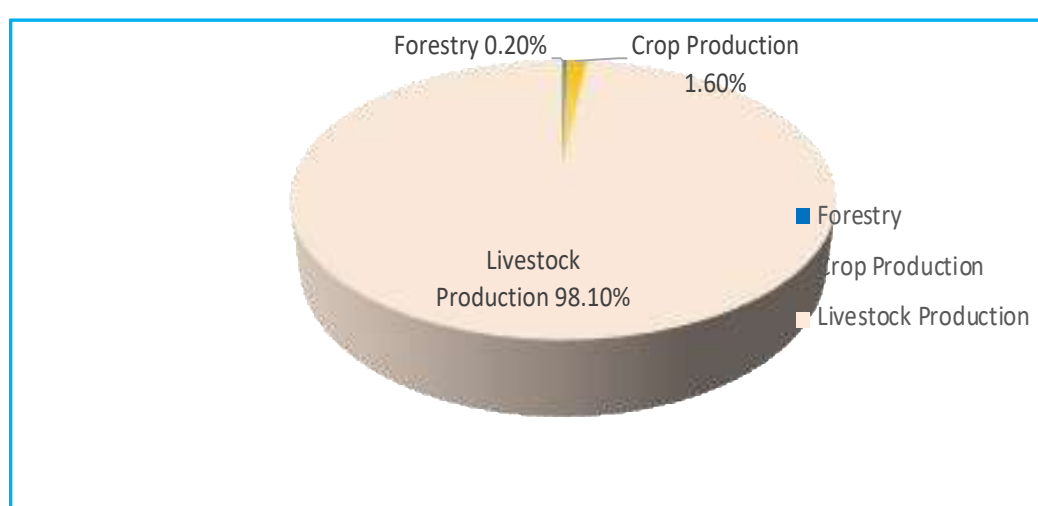


Figure 2: Average Contribution of Sub-Sectors to Total RGDP of Agriculture at Constant

Industry Sector

According to estimates from 2008EFY to 2014EFY, the industry sector has made an average contribution of 8.4 percent to the real GDP of the Region. Out of this, construction activity accounts for about 38.7 percent, while Mining and Quarrying activities contribute 41.2 percent. The electricity and water sub-sectors have a yearly average contribution of 17.6 percent, while the rest, 2.6 percent, comes from the manufacturing sector. This information is part of an Economic Growth Performance report and is intended for the Fiscal Period Report audience.

To achieve robust economic growth in the future, it is vital to promote private investment in manufacturing enterprises of all sizes, ranging from large to micro. This will result in an increased value-added and job creation. It is crucial for the manufacturing industry to expand rapidly and assume a more prominent role in the

overall economy, leading to a substantial structural transformation of the regional economy.

Table 1: Average Contribution of Sub-Sectors to Total RGDP of Industry at Constant

Sector	Percentage
Construction	38.70%
Mining and Quarrying	41.20%
Electricity and Water	17.60%
Manufacturing	2.60%

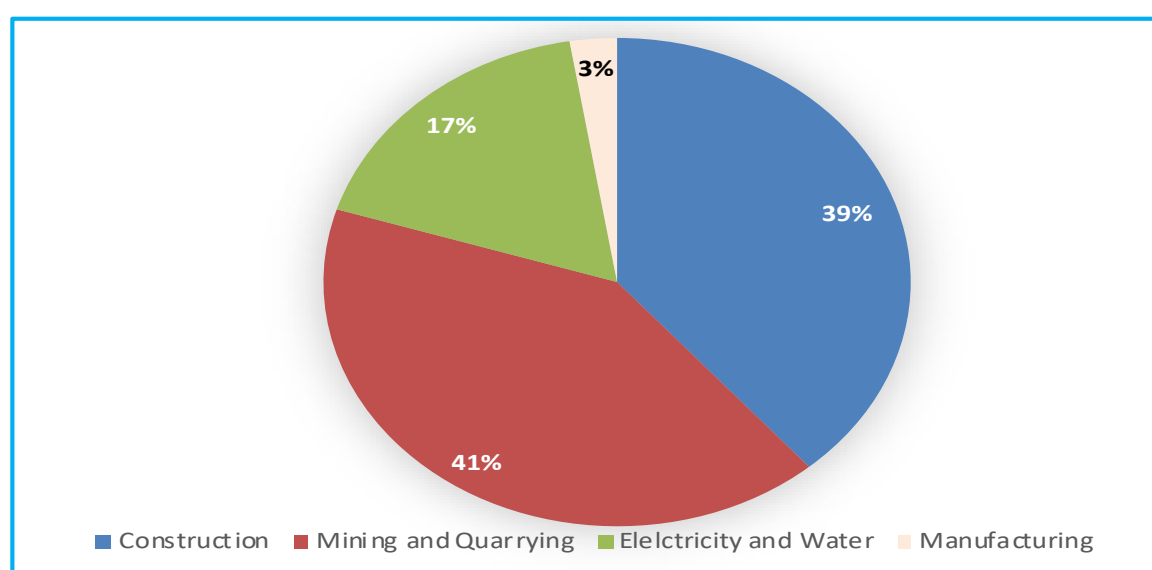


Figure 3 Average Contribution of Sub-Sectors to Total RGDP of Industry at Constant

Service Sector

During the EFY2008-EFY2010 RGDP estimates, the service sector contributed an average annual contribution of 28.5% to the real GDP of SRS. The majority of this contribution came from the Whole Sale and Retail Trade sub-sector, followed by the Transport and Communications sub-sector, and the health sub-sector. Other sub-sectors included Financial Intermediation, Real Estate, Renting and Business Activities, and Education. The service sector experienced growth rates of 12.0%, 17.7%, and 5.9% in EFY2008, 2009, and 2010, with an average annual growth rate of 11.8%.

The growth in the service sector was primarily driven by the expansion of these sub-sectors, which accounted for about 16.6% of overall growth in regional GDP during

the last three years. The Whole Sale and Retail Trade sub-sector was the second-largest source of growth after livestock production.

During the period from 2008 to 2014, the service sector experienced significant growth. This growth was primarily driven by the expansion of several sub-sectors, including Wholesale and Retail Trade, Real Estate, Renting and Business Activities, Public Administration, Health, and Education. These sectors played a crucial role in driving economic growth during this period. This information is important for the Fiscal Period Report, which aims to provide an overview of the economic growth performance during that time frame.

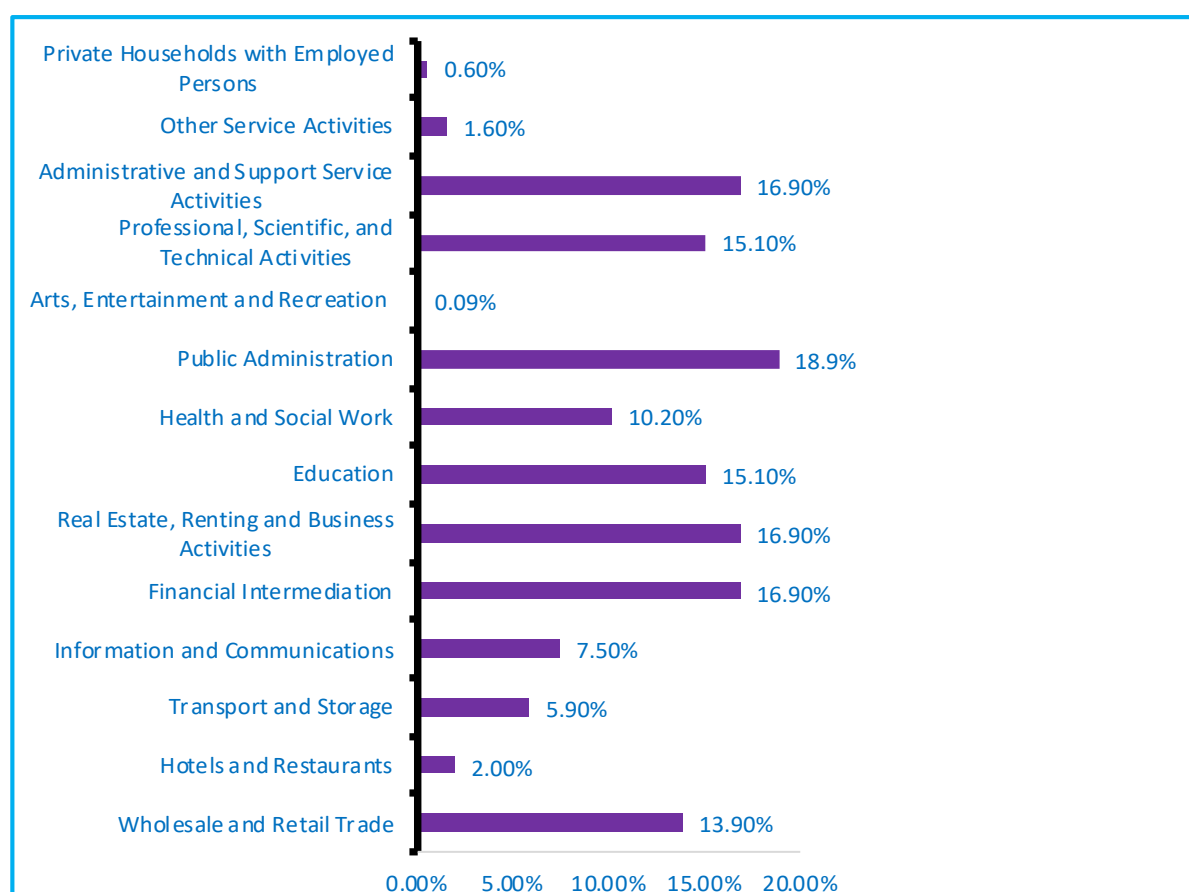


Figure 4: Avg. Contribution of Sectors to RGDP at Constant Prices 2008EFY-2014EFY

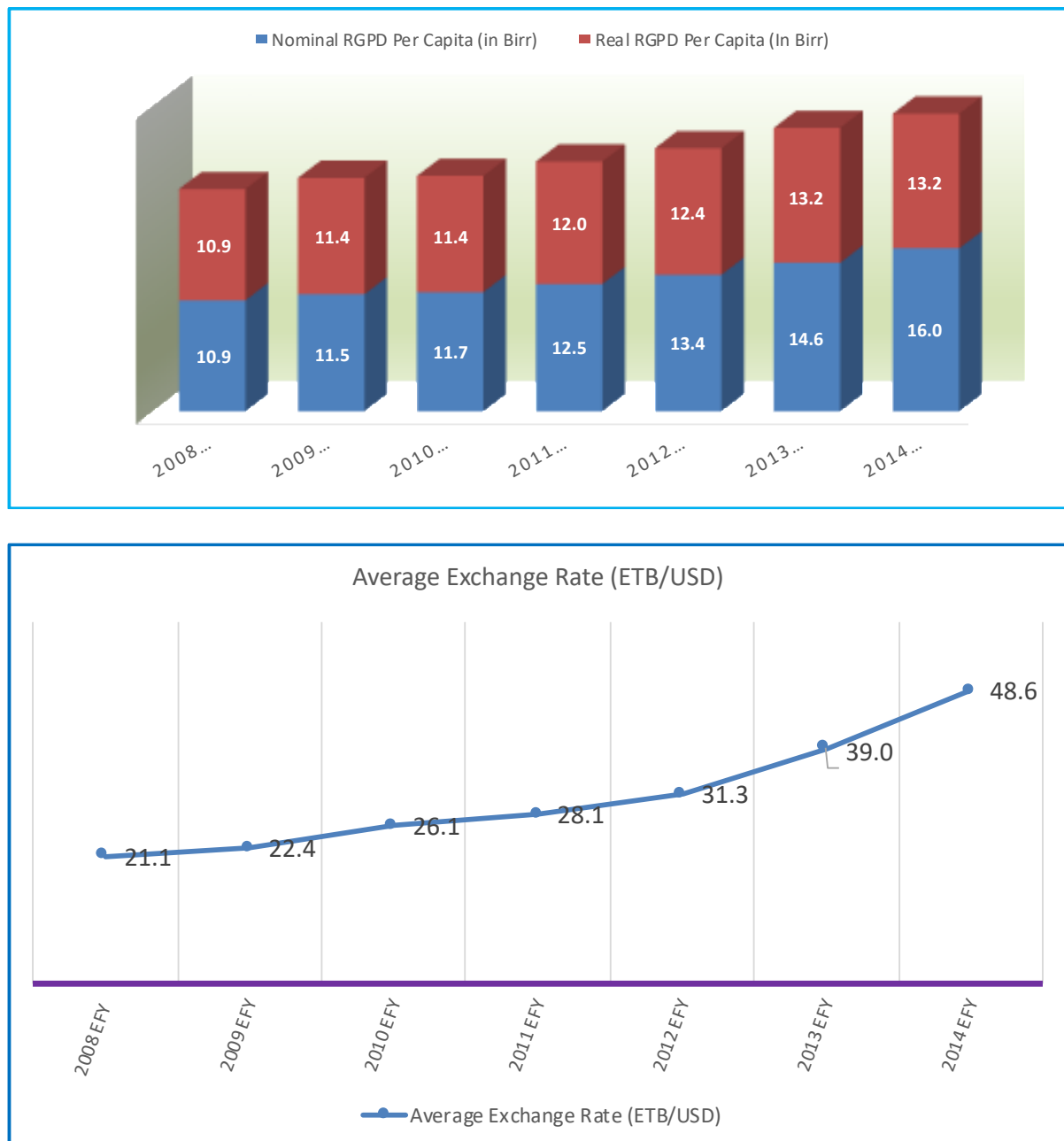
Real and Nominal RGDP Per Capita in Birr and USD

In 2014, the nominal RGDP per capita in the Somali Regional State of Ethiopia was estimated at 16.0 thousand Birr, which was an increase from 14.6 thousand Birr in 2013. This represents a rise of 8.8%. The real GDP per capita for 2014 was estimated at 13.3 thousand Birr, slightly higher than the estimate of 13.2 thousand Birr for 2013. The growth of real GDP per capita in Birr was 0.8% in 2014 compared to the previous year.

The average exchange rate for converting Birr to US Dollars during 2014 was 48.6. Using this exchange rate, we can calculate the per capita RGDP in USD values for both nominal and real terms.

both nominal and real terms.

Figure 5: Trends of Real and Nominal RGDP Per Capita in USD during 2008EFY-2014EFY



Sectorial Sources of Growth and Structural Shift of the RGDP

This section discusses the Real Gross Domestic Product (RGDP) of the Somali Region in Ethiopia from 2008 to 2014 EFY. The report highlights the changes in sector shares in the total RGDP and the key drivers responsible for shaping the changes in RGDP across sectors. The share of agriculture in the total RGDP has decreased from **78.9%** in 2008 EFY to **70.5%** in 2014 EFY, while the industry sector's share has increased from **6.6%** to **13.2%** during the same period. Additionally, the share of the services sector has increased from **14.5%** to **16.5%** in 2014 EFY. Although the economy's structure has not seen a significant shift, there has been a slight increase in the share of the industry and service sectors, while agriculture has declined over the past seven years.

The agriculture sector in the Somali Regional State has consistently made the highest contribution to the total real RGDP of the Region over the last seven years from 2008 to 2014 EFY. This indicates that agriculture, especially livestock production, has been the most dominant sector in the region's economy until recently. Despite changes in the economy's structure, agriculture continues to be the leading and strategic sector in terms of its contribution to the total real GDP of the Region. Some suggest that a regional economic development policy should focus on modern livestock production and productivity to enhance the growth and sustainability of the regional economy.

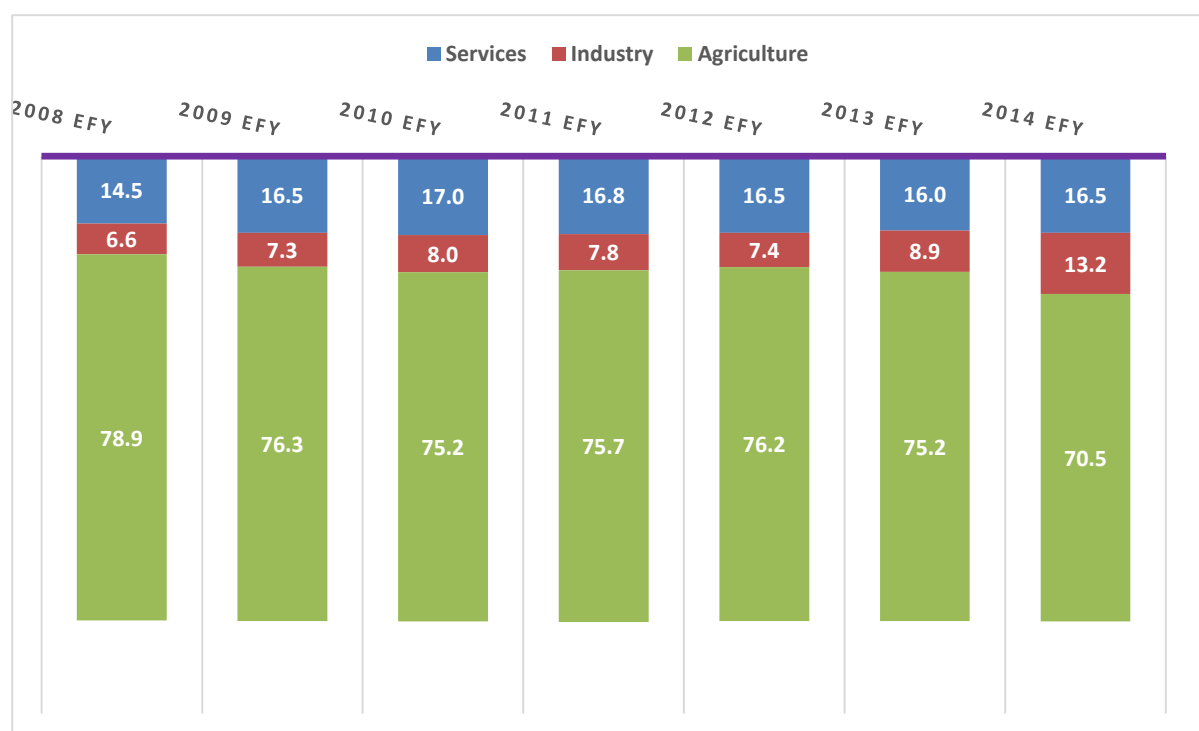




Figure 7: 2008 EFY Share to Real GDP

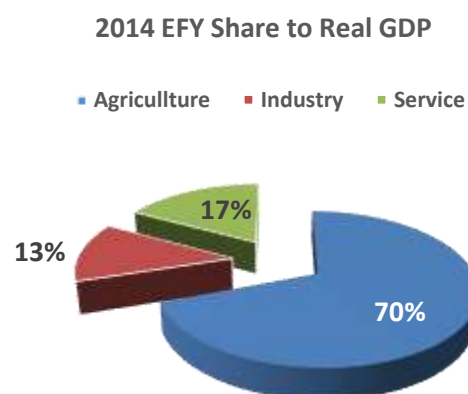


Figure 6: 2008 EFY Share to Real GDP

Annual Regional GDP of Somali Regional State – Billion Birr (At Current Basic Prices)

The Somali Region's GDP and growth rate have been steadily increasing over the last seven years, while Ethiopia's has experienced fluctuating and declining growth in the last two years. The Somali Region's growth rate has been higher than Ethiopia's in every year except 2014, with a year-on-year growth rate ranging from 10.50% to 11.86%.

Ethiopia's overall GDP growth rate has been volatile over the same period, with a high of 10.26% in 2014, a drop to 2.4% in 2019, and a negative GDP growth rate of -0.8% in 2020 due to the COVID-19 pandemic. In summary, the Somali Region's economy has consistently outpaced Ethiopia's overall GDP growth rate over the last seven years. However, the Somali Region's economy remains relatively small compared to Ethiopia's broader economy, and other factors may need to be considered when comparing the two growth rates.

To compare Ethiopia's GDP growth rate, refer to the World Bank's data on Ethiopia's GDP growth rate. The data shows that Ethiopia's GDP growth rate has been volatile over the last seven years, ranging from a high of 10.26% in 2014 to a low of 2.4% in 2019.

5.3 Poverty Status

Though Ethiopia is still among the low-income countries in the world with GDP per capita of \$1608 in PPP terms in 2017 and ranked 164 out of 187 countries, its economic growth has been on an upward trajectory over the past decade or so. The Government in GTP II particularly underlines the importance of sustainable and green economy and creating a skilled and competitive workforce to accelerate and sustain economic growth of the country in an endeavor to realize Ethiopia's Vision of becoming a lower middle-income nation by 2025.

In GTP II period, overall head count poverty level in the region is projected to be reduced by 5.6%. The regional poverty level is projected to be 17.4% at the end of GTP II period. Moreover, the per-capita income of the people in the region is projected to reach 1070 USD at the end of the plan period.

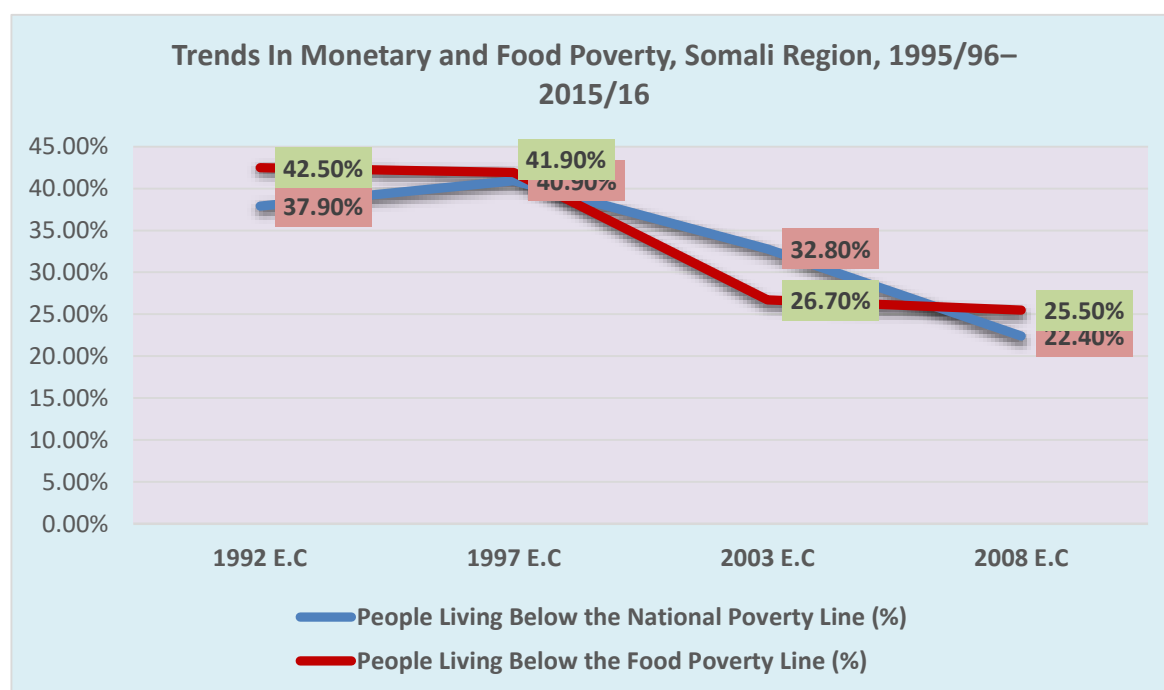


Table 2: Trends In Monetary And Food Poverty, National And Somali Region 1992 to 2008 E.C

Poverty	HICES	1992 EC	1997 EC	2003 EC	2008 EC
People Living Below National Poverty Line (%)	National	44.2%	38.7%	29.6%	23.5%
	Somali	37.9%	41.9%	32.8%	22.4%
People Living Below the Food Poverty Line (%)	National	41.9%	38.0%	33.6%	24.8%
	Somali	42.5%	40.9%	26.7%	25.5%

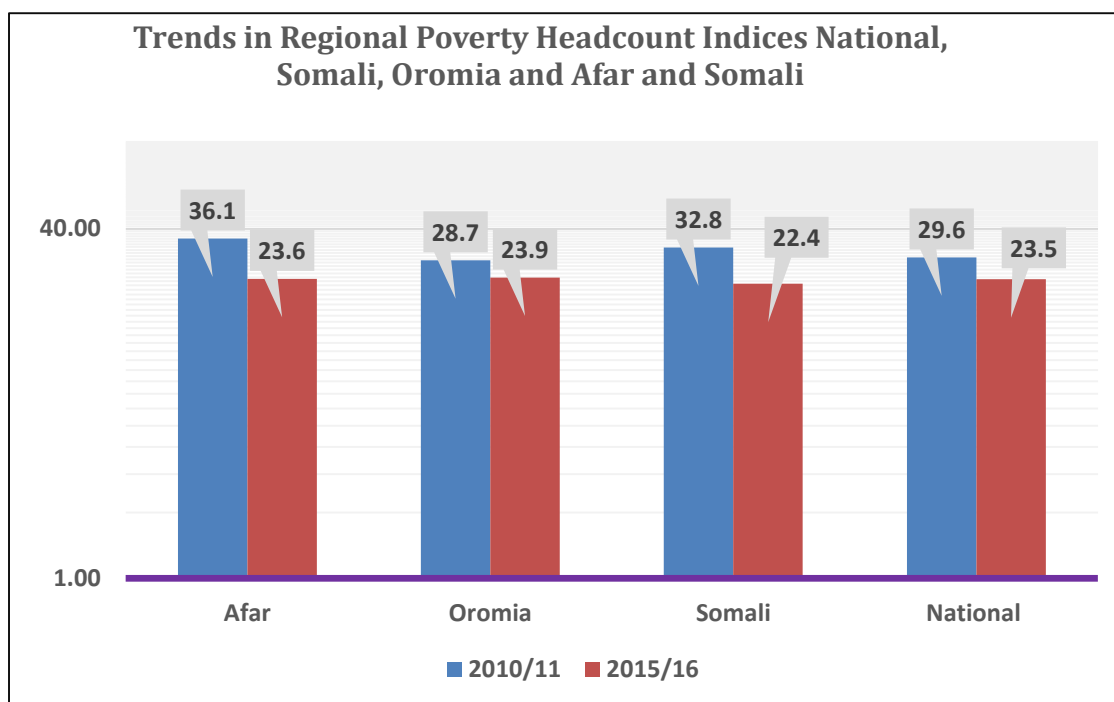


Figure 8: Trends in Regional Poverty Headcount Indices National, Somali, Oromia and Afar and Somali

5.4 Inflation

According to National Bank of Ethiopia report of 2019¹, during the review fiscal year, the regional simple average general inflation accelerated to 11.7 percent from 7.1 percent in the previous year. Following figures show that Somali Region is above some regions. The general rate of the inflation was decreased for 10.5% to 14% (+3.5% change). Somali Region is below the change of national average, which is estimated at 4.6%. Inflation measures the annual percentage change in the cost of a basket of goods and services that the average consumer buys. Ethiopia has faced high inflation in the last five years, which has also affected the Somali region. Here is a brief summary based on the available data: Ethiopian Inflation Trends (2018-2023):

- In 2018, the inflation rate was 13.83%, a 3.15% increase from the previous year (2017).
- In 2019, the inflation rate rose to 15.81%, a 1.98% increase from 2018.
- In 2020, the inflation rate jumped to 20.36%, a 4.55% increase from 2019.
- In 2021, the inflation rate soared to 26.84%, a 6.48% increase from 2020.
- In December 2023, the annual inflation rate reached 28.7%, showing the growing inflationary pressures in the country.

For the Somali region of Ethiopia, getting specific data is hard. However, since the region is part of Ethiopia, it can be assumed that the inflation trends in the Somali region are similar to the national trends. Various factors such as food prices, non-food product

¹ CSA and NBE's staff computation

prices, and the value of the local currency (birr) are expected to influence the inflation rate in the Somali region. Inflation is the rise in prices of goods and services over time, affecting the buying power of money and the living cost. In Ethiopia, the inflation rate for consumer prices was the highest in the Sub-Saharan Africa region, at 26.8% in 2021, mainly due to the COVID-19 pandemic, locust invasion, civil conflict in the Tigray region, and depreciation of the Ethiopian birr. These factors disrupted the supply chains, lowered the agricultural output, raised the import costs, and caused a shortage of foreign exchange.

The Somali region of Ethiopia has an inflation rate estimated at 28.6% in the third quarter of 2022/23, mostly due to its remoteness and dependence on imported goods from neighboring countries. This high inflation rate harms the welfare of the population, especially the poor and vulnerable groups, by reducing their access to basic goods and services, increasing food insecurity and malnutrition, and hindering economic growth and development.

To address the inflation problem in the Somali region, the government of Ethiopia and its development partners need to implement comprehensive policies and interventions. These may include strengthening the macroeconomic stability and fiscal discipline by reducing the budget deficit, controlling the money supply, and managing the exchange rate. Enhancing the agricultural productivity and resilience through inputs, extension services, irrigation, pest control, storage, transportation, and marketing of crops and livestock products, expanding the social protection and safety net programs, and improving the infrastructure through investments in roads, electricity, water, health, education, and communication facilities.

Table 3: Regional Annual Average Inflation (2017/18 EFY)

Regions	2009 E. C (2016/17)			2010 E.C (2017/18)			Change		
	General	Food & Non-Alcohol Beverages	Non-food	General	Food & Non-Alcohol Beverages	Non-food	General	Food & Non-Alcohol Beverages	Non-food
	A	B	C	D	E	F	G = D - A	H = E - B	I = F - C
Oromia	3.3	1.0	6.1	12.2	14.9	9.2	8.9	13.9	3.1
Somali	10.5	11.2	15.0	14.0	14.5	13.4	3.5	3.3	-1.5
Afar	7.8	1.0	15.8	11.4	11.7	11.2	3.6	10.7	-4.6
Regions Average	7.1	7.3	7.6	11.7	14.1	9.4			

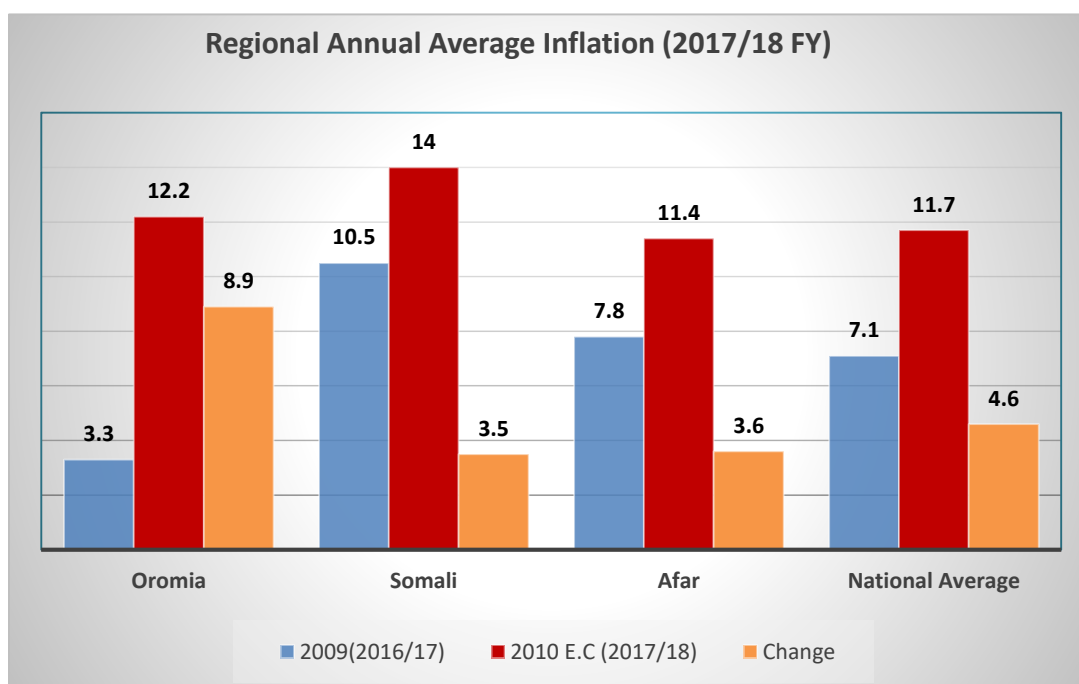


Figure 9: Regional Annual Average Inflation (2017/18 FY)

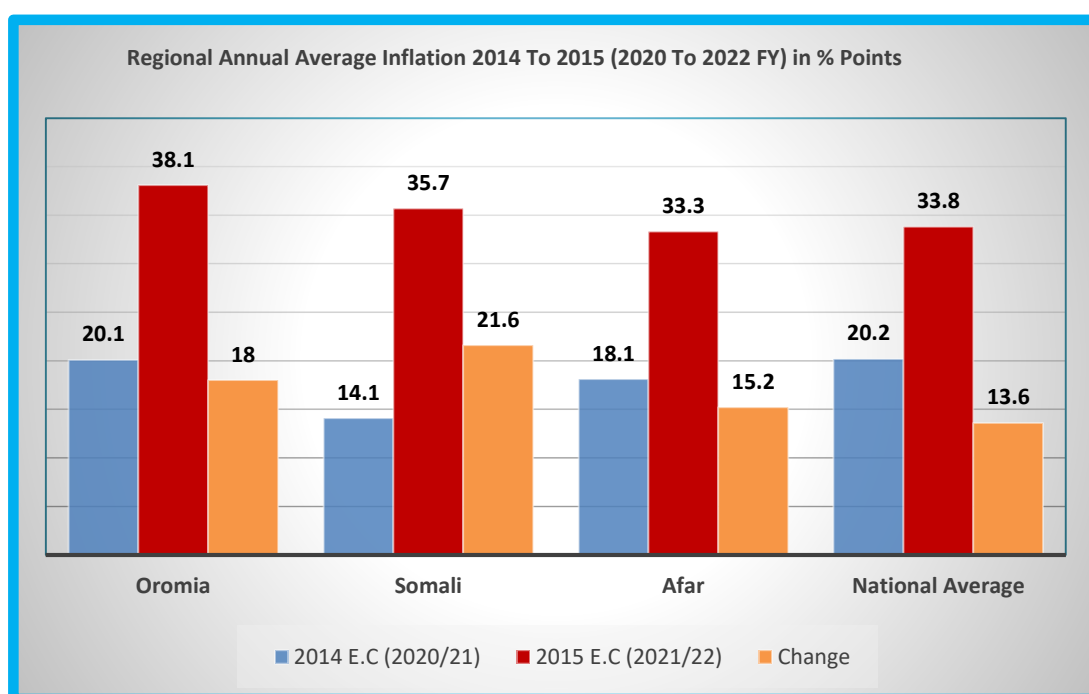


Figure 10: Regional Annual Average Inflation 2014 To 2015 (2020 To 2022 FY) in % Points

Consumer Price Developments

In the fiscal year 2021/22², the average regional headline inflation has surged to 34.9 percent, showing a significant increase from the previous year's rate of 20.4 percent. Several regions, namely Benishanlgul-Gomuz, Oromia, Harari, and Somali, have

² CSA and NBE's staff computation

recorded even higher annual headline inflation rates compared to the regional average. Among these regions, Benishanlgul-Gomuz has witnessed the highest headline inflation rate at 39.5 percent, while Amhara has reported the lowest rate at 29.8 percent. Consequently, there exists a margin of 5.1 percentage points between the regions with the highest and lowest headline inflation rates, highlighting the variation in inflation levels across different regions.

Table 4: Regional Annual Average Inflation (2021/22 FY)

Regions	2014 E. C (2020/21)			2015 E.C (2021/22)			Change		
	General	Food & Non-Alcohol Beverages	Non-food	General	Food & Non-Alcohol Beverages	Non-food	General	Food & Non-Alcohol Beverages	Non-food
	A	B	C	D	E	F	G = D- A	H = E - B	I = F -C
Oromia	20.21	23.80	14.80	38.10	43.50	29.80	18.0	19.70	15.0
Somali	14.1	13.5	14.80	35.70	43.8	25.60	21.70	30.30	10.80
Afar	18.10	22.20	13.50	33.30	41.30	23.70	15.20	19.10	10.20
Regions Average	17.47	19.83	14.37	35.70	42.87	26.37			

Table 5: Consumer Price Index (Regional)

Region	2020/21			2021/22			Change		
	General	Food & Non-Alcohol Beverage	Non-food	General	Food & Non-Alcohol Beverage	Non-food	General	Food & Non-Alcohol Beverage	Non-food
	A	B	C	D	E	F	G=D-A	H=E-B	I=F-C
SNNP	28.3	30.2	25.6	34.9	44.9	20.8	6.7	14.6	-4.8
Harari	22.3	30.2	21.8	37.0	41.5	33.40	15.0	19.2	11.6
Oromia	20.1	23.80	14.8	38.1	43.5	29.8	18.0	19.7	15.0
Tigray	-	-	-	-	-	-	-	-	-
Gambella	22.2	26.1	16.9	34.6	41.5	24.5	12.4	15.4	7.6
Addis Ababa	19.5	26.2	14.4	29.8	36.6	24.1	10.3	10.4	9.7
Dire Dawa	19.7	26.6	13.3	33.4	37.3	29.4	13.7	10.7	16.1
Ben. Gumuz	24.8	28.7	20.7	39.5	44.8	33.7	14.7	16.1	12.9
Somali	14.1	13.5	14.8	35.7	43.8	25.6	21.7	30.3	10.8
Afar	18.1	22.2	13.5	33.3	41.3	23.7	15.2	19.1	10.2
Amhara	15.3	18.6	11.4	32.9	35.9	29.2	17.6	17.3	17.8
Regions Average	20.4	23.8	16.7	34.9	41.1	27.4			
Standard Deviation	4.2	5.0	4.5	2.8	3.4	4.3			
Co-officeint of Variation	0.2	0.2	0.3	0.1	0.1	0.2			

The information provided in the table presents the inflation patterns specifically observed in the Somali region of Ethiopia during the fiscal years 2020/21 and 2021/22. It reveals that the general inflation rate stood at 13.5%, while the inflation rate for food and non-alcoholic beverages reached 25.6%. Significantly, there has been a 12.1% increase in inflation related to food items. Concurrently, non-food inflation in the region escalated from 14.8% in 2020/21 to 43.8% in 2021/22, reflecting a notable 29% surge. These mounting inflation rates can potentially impact the cost of living for individuals residing in the Somali region, as they affect both food and non-food

categories. Further comprehensive data is necessary to gain a complete understanding of the inflation trends prevalent in the region.

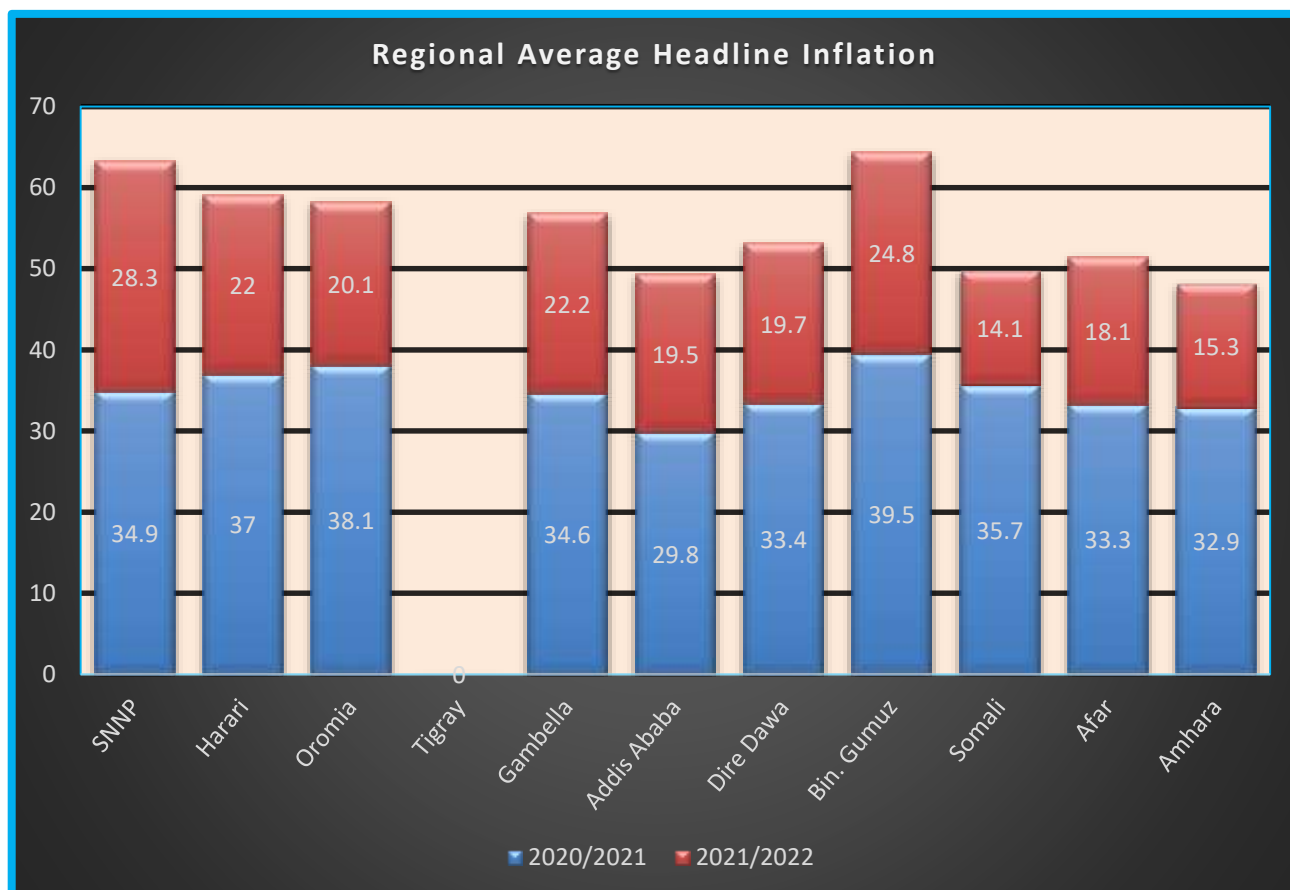


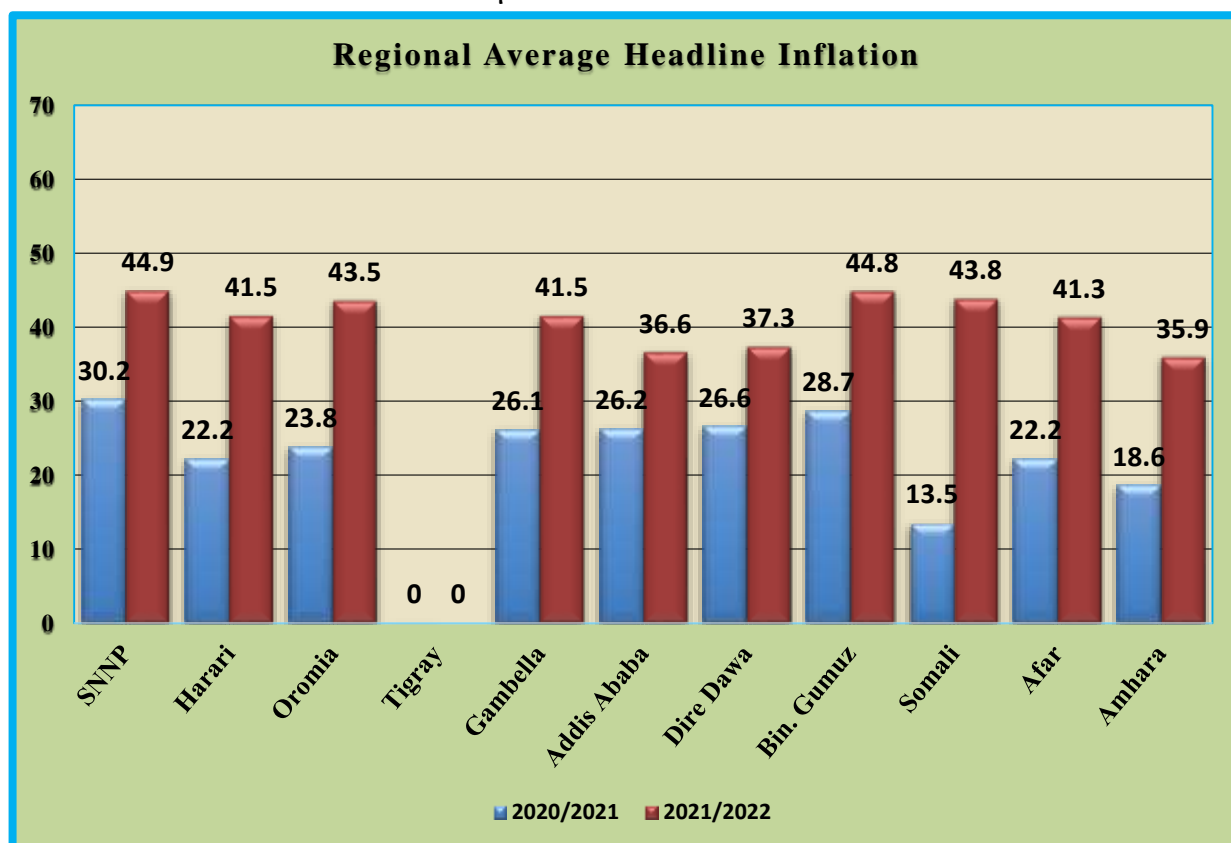
Figure 11: Variation in Regional Annual Average Headline Inflation

Food and non-alcohol beverage

In the fiscal year 2021/22, there was a noteworthy increase in the average regional inflation rate for food and non-alcoholic beverages, reaching 41.1 percent. This represented a rise compared to the previous year's rate of 23.8 percent. Specifically, several regions including SNNP, Benishangul-Gumuz, Somali, Oromia, Harari, Gambela, and Afar reported higher inflation rates for this category in comparison to the regional average. Among these regions, SNNP stood out with the highest inflation rate of 44.9 percent, while Amhara recorded the lowest rate of 35.9 percent. As a result, there was a notable difference of 9.0 percentage points between these regions.

Fig.: Variation in Regional Annual Average Food & Non-alcoholic Beverages Inflation

Sources: CSA and NBE's Staff Compilation



Non-Food

In the fiscal year 2021/22, the average non-food inflation in different regions showed a significant increase, rising to 27.4 percent compared to 16.7 percent in the previous year. Notably, Benishangul-Gumuz, Harari, Oromia, Dire Dawa, and Amhara regional states experienced non-food inflation rates higher than the overall regional average. Among these regions, Benishangul-Gumuz had the highest non-food inflation rate at 33.7 percent, while the lowest rate of 20.8 percent was observed in SNNP. This indicates a notable margin of 12.9 percentage points between the highest and lowest regional non-food inflation rates.

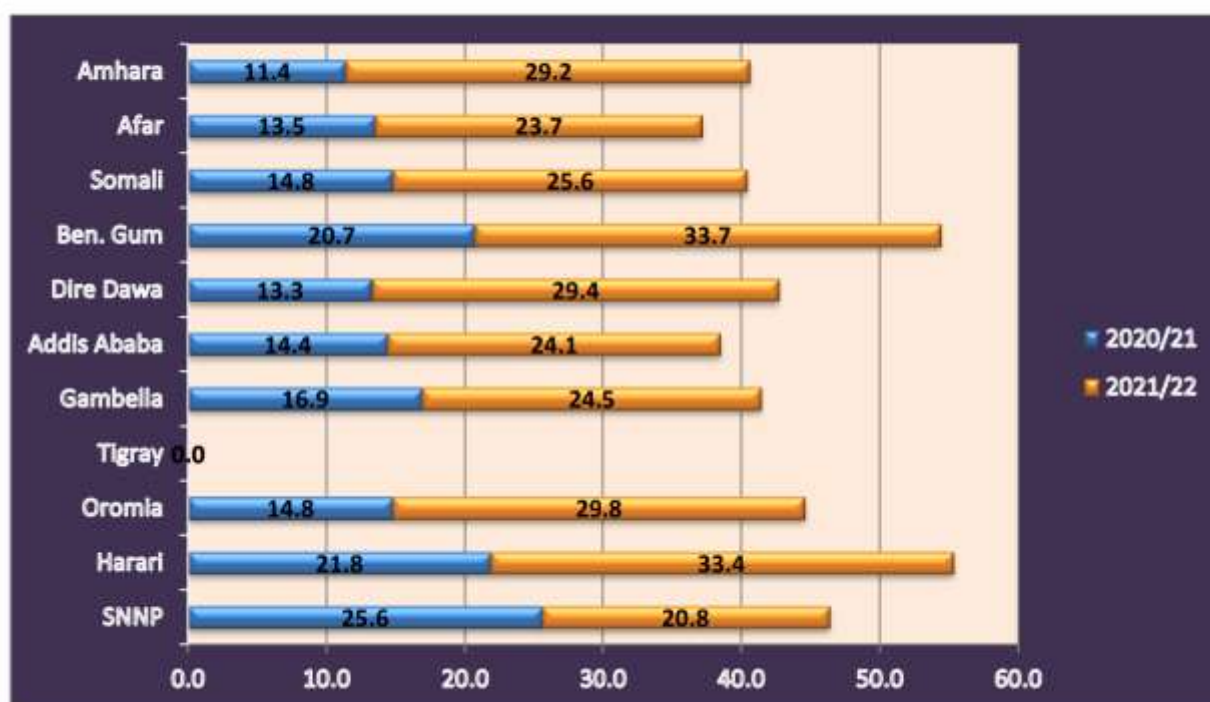
5.5 Employment

Ethiopia, with its growing economy and expanding population, faces the critical task of effectively managing its workforce. Regularly assessing the economy's capacity to accommodate potential labor is essential, alongside implementing appropriate employment policies. Employment and unemployment levels serve as vital indicators of the economy's performance.

To gain insights into the country's workforce potential, conducting labor force surveys becomes crucial. Recently, the Ethiopian Statistics Service conducted the 2022 Urban Bi-Annual Employment Unemployment Surveys (UEUS) across significant towns and

urban areas. In this discussion, we'll focus on the Somali Region and explore employment trends based on the survey findings.

Fig.3.5: Variation in Regional Annual Average Non-food Inflation



Source: CSA and NBE Staff Computation

5.6 Employment

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Employment in Somali Region

In 2022, the Ethiopian Statistics Service undertook a survey centered on urban employment³. This initiative was informed by comprehensive research suggesting that unemployment is predominantly an urban issue rather than a rural one. Given that the country's socio-economic and political structures are

³ Ethiopian Statistics Service, 2023

largely centered around major towns within their respective regions, these areas also house a significant number of key industrial, commercial, and financial institutions. Consequently, the employment data gathered from the urban areas of the Somali region can be viewed as representative statistics for the entire region.

In labor force statistics, the term “economically active population” refers to individuals aged ten years and older who are either currently employed or unemployed. This encompasses all individuals actively participating in the labor market. The term “economically active” is often used synonymously with “current labor force.”

According to estimates from the Ethiopian Statistics Service, the total urban population of the country (excluding the Tigray region and non-conventional households) stands at approximately 22,436,333 individuals. Of this total, 48 percent (10,778,753 individuals) are males, while 52 percent (11,657,580 individuals) are females. Notably, as of June 2022, 76 percent of the entire population, equating to 16,975,163 individuals, are aged ten years and above. The data indicates that the region with the highest activity rate is the Amhara region, reporting 65.3 percent. The Benishangul-Gumuz region, Addis Ababa City Administration, and Harari Region follow closely, all with activity rates above the national average, at 64.1 percent, 63.9 percent, and 61.1 percent respectively. The activity rate in the Somali Region is at 41.2 percent.

Survey findings from February and June 2022, which encompass the annual average, reveal that the employment-to-population ratio in the country’s urban areas is 48.7 percent. This suggests that approximately 49 percent of the urban population aged ten years and above are actively engaged in employment. The employment-to-population ratio in the Somali Region is 35.0 percent. The table below presents the sex-specific annual average ratios alongside the national ratio for comparison.

Table 6: Employment to Population Ratio

Employment to Population Ratio									
Sex and Level	1 st Round, Feb. 2022			2 nd Round, June 2022			Annual Average, 2022		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
National	48.90	60.70	38.70	48.50	61.50	37.0	48.70	61.10	37.80
Somali	35.40	44.70	25.90	34.60	44.20	24.90	35.0	44.40	25.40

Unemployment in Somali Region

According to the ILO, unemployment is measured by three criteria: not having a job, being able to work, and looking for work. However, this definition may not apply to all countries equally. In developed countries, where there are enough jobs and a good system of labor information, unemployment is based on whether people are looking for work or not. This means that people who are not working but have tried to find a job in a certain period are counted as unemployed. On the other hand, in developing countries like Ethiopia, the labor market is not well-developed and most people work for themselves. Therefore, the standard definition of unemployment is too narrow and does not capture the true situation of employment. For this reason, alternative definitions are used to measure unemployment according to the specific conditions of each country.

The broad definition, which considers only whether people have a job or not and whether they are willing to work or not, is more appropriate and realistic for most developing countries. In Ethiopia, the broad definition of unemployment includes people who do not have a job but are ready and willing to work. These people may or may not look for work actively, and some of them may even discourage others from looking for work. Among the unemployed are those who want to work but have given up on finding a job because they think there are no opportunities in the labor market. The unemployment rate is the main indicator of the labor market situation. It is calculated by dividing the total number of unemployed people aged ten and above by the total number of people in the labor force, which includes both employed and unemployed people. According to this method, the average annual unemployment rate in urban areas of the country was 1,951,375, which means 19.2 percent of the labor force was unemployed. This means that about 19 out of every 100 people who can work and are willing to work do not have a job. There is also a big difference in unemployment rates between men and women. The unemployment rate for women is 28.6 percent, which is more than twice as high as the rate for men, which is 10.8 percent. Figure 4.1 shows that the overall unemployment rate has decreased from 19.4 percent in February 2022 to 18.9 percent in June 2022. However, women are still more affected by unemployment than men in the 2022 survey

6. FISCAL PERFORMANCE

a. External Resource mobilization

External resource has been coordinated to ensure equitable socioeconomic development and strengthening co-operation for development projects in the Region. As of reporting period, 130 NGOs (of which 40 are international) were implementing more than 153 projects in the region with a total project budget of ETB 2.0 billion.

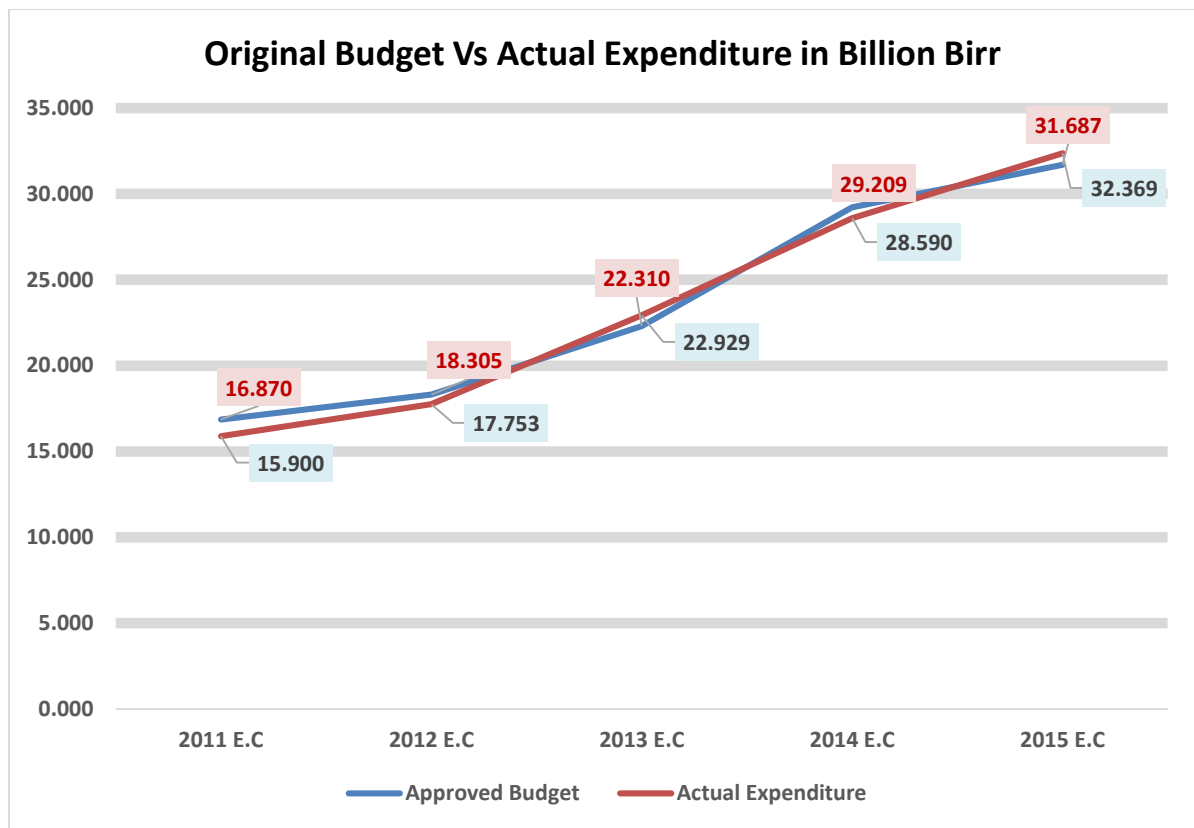
b. Government expenditure performance

From Government expenditure management side, more attention has been given by policy makers to proper administration of Budget allocation. However it is recognized that with the continuously growing size of the government budget, enhancing the efficiency and effectiveness as well as transparency and accountability of the public finance has far reaching implications on development and governance outcomes. Therefore, ensuring efficient and effective public finance utilization and eradicating corruption and reducing wastage of resources, prioritizing budget allocation towards development and proper management of public financial resources remain of highest priority and hence call for high level attention from policymakers. To this end, strengthening of public finance management, procurement and property administration and monitoring systems has been given utmost priority.

Despite the significant increase in spending on basic service sectors, with the largest share going to capital investment, the infrastructure gap is still wide given the relatively low base, the large geographical area, and the scattered population settlements in the region. Hence, mobilizing and allocating additional resources to narrow the gap for most of the basic service delivery will be the focus areas in GTPII implementation period.

Approved budget and actual expenditure - in billion Birr (2007 EC – 2015 EC)

Fiscal Year	Approved Budget	Actual Expenditure	% Performance	% + or – out of 100%
2007 E.C	6.450	7.350	114%	14%
2008 E.C	8.500	8.780	103%	3%
2009 E.C	10.890	11.220	103%	3%
2010 E.C	15.310	14.780	97%	-3%
2011 E.C	16.870	15.900	94%	-6%
2012 E.C	18.305	17.753	97%	-3%
2013 E.C	22.310	22.929	103%	3%
2014 E.C	29.209	28.590	98%	-2%
2015 E.C	31.687	32.369	102%	2%



c. Fiscal Performance of the Region (Out-Turn) Analysis

Analysis of Fiscal Performance of Somali Region (out-turn)

Indicator	2013 EFY			2014 EFY			2015 EFY		
	Plan	Actual	Out-turn	Plan	Actual	Out- turn	Plan	Estimated Actual	Out-turn
Total Regional Revenue including assistance	21,413.168	23,229.423	1,816.255	28,818.650	28,306.968	-511.681	30,966.090	31,484.483	518.393
Total Domestic revenue	4,200.000	5,535.555	1,335.555	7,600.000	7,088.319	-511.681	9,000.000	9,518.393	518.393
Tax revenue	3,302.696	2,924.664	-378.031	6,626.240	3,494.252	-3,131.99	6,769.018	4,594.164	- 2,174.85
Non-tax revenue	897.304	2,610.891	1,713.587	973.760	3,594.067	2,620.31	2,230.982	4,924.229	2,693.25
Subsidy from MOF	17,051.658	17,650.458	598.800	21,003.703	21,003.703	0.00	21,760.870	21,760.870	0.00
External assistance (from MOF)	161.510	43.410	-118.100	214.947	214.947	0.00	205.220	205.220	0.00
Total expenditure	21,714.723	23,155.662	1,440.940	29,209.304	29,002.943	-206.362	31,687.160	32,629.918	942.76
Recurrent expenditure	4,939.436	4,926.663	-12.773	6,479.156	6,332.581	-146.58	8,469.309	8,702.411	233.10
Capital expenditure	8,416.802	9,870.514	1,453.713	12,107.707	12,047.921	-59.79	11,562.537	12,272.193	709.66
Subsidy to woredas	8,358.485	8,358.485	0.000	10,622.441	10,622.441	0.00	11,655.314	11,655.314	0.00

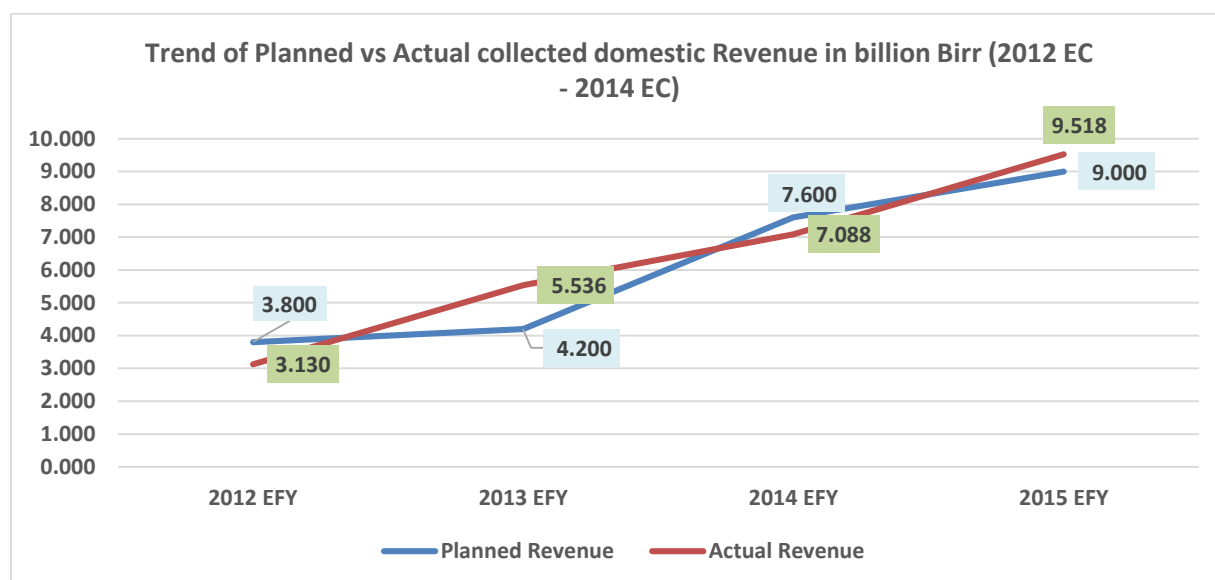
d. Regional Revenue Generation

According to the political change took place in the country as well as in the Somali Region, regional internal revenue has increased from 3.1 Billion Birr in 2012 EC to 9.5 billion Birr in 2015 EC. In 2013, the collected revenue was increased at 132%. In 2014, collected revenue was achieved below the original plan of the regional government (93). And in 2015, collected revenue was increased at 106%. Its expected the regional revenue will continue to be increased since the government of Somali region is committed and took promoted strategies and actions that is aimed to increase the domestic revenue, In 2016 EFY, The government has agreed to take a strong decision to collected an internal revenue of 16 Billion Birr.

Planned and Actual collected domestic revenue (Aggregate Revenue outturn)

Table 7: Planned and Actual collected domestic revenue (Aggregate Revenue outturn)

	2012 EFY	2013 EFY	2014 EFY	2015 EFY
Planned Revenue	3.800	4.200	7.600	9.000
<i>Actual Revenue</i>	3.130	5.536	7.088	9.518
% of performance	-18%	32%	-7%	6%
+ or - out of 100%	82%	132%	93%	106%



Trend of Planned vs Actual collected domestic Revenue in billion Birr (2012 EC - 2014 EC)

e. Fiscal performance and budget out-turn

Over the past three years of the ten-year development plan implementation period, public finance management of the region has shown strong and aggregate expenditure side of the budget performs according to plan and insignificant variations existed so far as shown above tables.

Fiscal Performance and Budget out-turn (2012-2014 EFY)

Indicator	2012 EFY	2013 EFY	2014 EFY	Difference (Out-turn)	
	Adjusted Plan	Estimated Actual	Actual	Birr	Percent (%)
Total Regional Revenue and assistance	30.966	31.484	28.306	3.178	11%
Total Domestic revenue	9.000	9.518	7.088	2.431	34%
Tax revenue	6.769	4.017	3.091	0.927	30%
Non-tax revenue	0.725	4.409	3.258	1.151	35%
Capital Revenue	0.022	0.572	0.339	0.234	69%
Municipality Revenue	1.484	0.520	0.400	0.120	30%
Subsidy from MOF	21.761	21.761	21.004	0.757	4%
External Assistance	0.205	0.205	0.215	-0.010	-5%

The over performance of the regional revenue including federal subsidy and external assistance in 2013 EFY-2015 EFY as compared to 2012 EFY fiscal performance is due to more efforts the region has put in domestic revenue generated from the regional economy. But, over the past years, federal subsidy did not increase.

Non tax revenue of the region has increased by 35%, due the general stability and peace of Somali region caused by the political change of the country and in Somali Region as well.

Table 8: Expenditure out-turn (2013-2015 EFY) in Billion

Indicator	2013 EFY	2014 EFY	2015 EFY	Difference (Out-turn)	
	Adjusted Plan	Estimated Actual	Actual	Birr	Percent (%)
Total Expenditure	33.68	32.51	28.55	3.97	88%
Recurrent Expenditure	17.07	17.15	14.01	3.14	82%
Administration and General Service	9.303	9.300	7.051	2.249	76%
Economic Service	1.876	2.041	1.791	0.250	88%
Social Service	5.894	5.807	5.171	0.636	89%
Capital Expenditure	16.607	15.366	14.533	0.833	95%
Administration and General Service	4.643	4.506	4.466	0.041	99%
Economic Service	8.126	7.077	6.368	0.709	90%
Social Service	3.839	3.783	3.699	0.084	98%

f. Tax Administration Reforms

The following Tax administration reforms have been improving over the past three years:

Tax Information System: during the reporting period, Modern tax information system has been developed and implemented to improve efficiency, supply and usage of tax administration system by using computerized data base. The system provided reliable and fast flow of information within and outside the authority, fast service delivery, controls tax evasion, create a dependable data base, and help for efficient and effective

tax collection. To achieve these, the authority had developed and implemented two data base software, SIGTAS & SIRM databases. In additions, e-Tax payment system has been introduced and currently being implemented at the regional level and at the six city councils (Jigjiga, Tog-Wajale, Kabribayah, Dhagahbour and Godey city councils). Currently the system is moved to FADA, which makes link all TIN registrations with National ID that is started in Somali region

Tax Identification Number (TIN): Under the current tax payers' registration system, all tax payers are expected to have Tax Identification Number (TIN). 60 TIN Registration Centers have been established and automated TIN system has been developed, deployed and supported by biometric finger print system at a Regional level, 6 city councils and 53 woredas. At a total of 150,000 finger print information has been collected.

Cash register system: In the reporting period, additional 3630 tax payers have introduced and used cash register machines in their business operations. This raises the total number of tax payers using cash registers to 300 who have now installed a total of cash register machines. To improve the effectiveness of the introduction of the cash register system, trainings and supports have been provided to various stakeholders.

With regards to implementation of VAT tax Registration and Collection in the Region, 2988 private businesses are registered for value added tax and currently collecting taxes on behalf of Somali regional state revenue authority.

Enhance tax payers' awareness on tax and improve public relation: The main objective here is to enhance awareness of tax payers and there by encourage voluntary compliance, improve taxpayers training and relations system, increase tax payers' registration and improve tax payers' participation and partnership. To achieve this objective, awareness creation and education on tax has been undertaken via electronic and print media as well as via workshops.

Finally, law enforcement is also an important element of the tax administration reform pursued. The Somali regional government has taken visible measures during the GTPII period and the first three years of the 10-year Development Plan to enforce the laws across all taxpayers and there by ensure compliance, fairness and rule of law. For instance, addition 12 regulations, directives and different procedures has been adapted and transiltaed in to Somali Language. A number of prosecutions and enforcement of the tax laws have been undertaken both at regional, city councils and Woreda levels.

g. Inter-Governmental Fiscal Transfers

The regional financial resource should be allocated among the regional bureaus, woredas and towns based on their expenditure obligation and affordable needs, conditioned to bring about measurable outcomes. Since finance is a meager economic

resource, it ought to be used efficiently and effectively. Hence, a need-based/unit-cost-based block grant formula was introduced by the region in EFY 2004 for the horizontal allocation of the subsidies to the woredas and city administrations. The formula has been updated and approved by regional council on 2010 EFY the new formula is effective to date

The very ideas of the need based, outcome conditional and general-purpose grant are to address on the minimum the basic needs in terms of existing commitment and sustainable service expansion for the steady growth of service needs, to give discretion for woredas in their financial management in order to foster their creative engagement and to bring about measurable results.

As it is mentioned above, the fundamental principles that mould the formula are efficiency, equity, adequacy and comprehensiveness, transparency and comprehensibility, non-manipulability, stability and predictability.

Resource has been distributed among woredas and city administrations using the aforementioned grant formula in GTPII period to address the minimum basic needs in terms of existing commitment and sustainable service expansion and also to determine the 'right' level of resource allocation.

h. Public Financial Management Performance

Public Financial Management system in the Somali Region has made a great improvements in the areas of strategic allocation of resources, a multi-year perspective in fiscal planning, expenditure policy and budgeting.

A clear costed sector strategies exist and aligned to regional ten-year plan targets and global sustainable development goals agenda by 2030 G.C,

Comprehensive medium term macro-economic forecasts and underlying assumptions are prepared by BOF to enhance budget planning process.

Aggregate expenditure side of the budget performs according to plan.

There is effectiveness of internal audit both coverage and quality, timeliness and regularity of accounts reconciliation, all bank accounts reconciliations.

Budgetary institutions are able to commit expenditure for six months. Stock of expenditure arrears with their age profile are monitored quarterly,

Advance payments are reconciled monthly, segregation of duties is prescribed through expenditure process and responsibility are clearly laid out.

Effective commitment control applies to all payments.

Financial data integrity process is done, monitored, access and changes to record is restricted.

Complete annual financial reports are prepared and submitted within three months to general audit.

Public Accounts Committee at regional council is currently functional to ensure accountability and review audit reports submitted by the Regional Office of Auditor General.

Budget and Finance Standing Committee carries out review of draft recommended budget submitted by BOF, two months before the end of the year.

The previous practice of cash transfers has been changed to zero balance and single treasury account method, based on cash flow and drawing limit at regional level.

Central Treasury Account and the Z accounts constitute the Treasury Single Account (TSA) and its balances are calculated on a daily basis

A cash flow forecast is prepared annually for the year to come and is updated at least monthly on the basis of actual inflows and outflows.

Currently, regional revenue bureau transfers the collections daily to the regional Treasury single account (TSA) of bureau of finance.

Scope, nature and follow up of external audit has improved, audit coverage has increased to 98% and legislative scrutiny of external audit reports has also improved.

IBEX automation system on Budget and disbursement was introduced in which Budget allocation and disbursement handling steps were minimized,

In addition to that IBEX system has been promoted to online system through establishment of data center at BOF and worda net connections.

7. Macro-Economic Plan

A. STRATEGIC DIRECTION

During GTP II implementation period, Somali regional state has made great strides towards strengthening security, justice, reducing poverty and unemployment and acceleration of equitable economic growth.

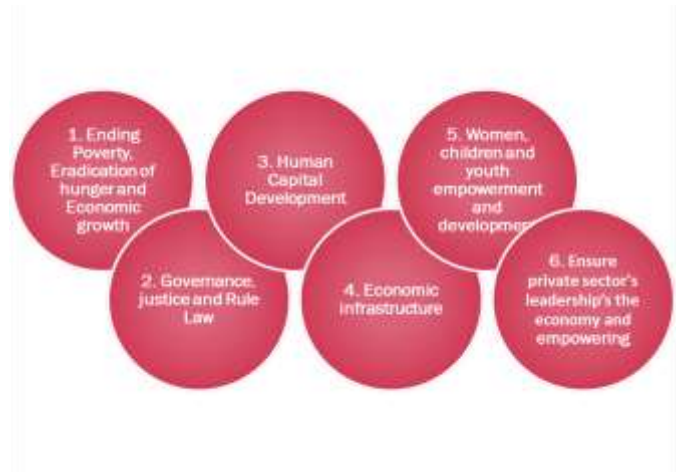
The government of Somali Region, after the completion of the GTP II, it has developed a ten-year development with bases of the following main objectives:

- To ensure and sustain economic development growth.
- To ensure that the hunger is eradicated and poverty is ended.

- To improve the living conditions and livelihoods of the population in the Somali region in order to reduce food insecurity; ensure access to sufficient and quality basic social services; and equitable job creation opportunities.
- To ensure good governance and stable and sustained peace and security environment.

In additions, the ten-year development plan detailed key focus areas (strategic pillars).

These efforts in economic development and common prosperity, and ensuing economic productivity and competencies are to ensure that technological capacity and the digital economy; to develop sustained growth and development finance; to ensure economic growth in the private sector; to ensure a human and natural disaster resistant green economy building green change; to ensure development



benefits and social structure; to ensure that justice is accessible to all; to ensure effective good governance to achieve lasting peace; and building a strong zone of economic cooperation.

7.2 Objectives of the Plan

The following are the main objectives of the ten-year development plan in Somali Regional State:

- To ensure and sustain economic development growth.
- To ensure that the hunger is eradicated and poverty is ended.
- To improve the living conditions and livelihoods of the population in the Somali region in order to reduce food insecurity; ensure access to sufficient and quality basic social services; and equitable job creation opportunities.
- To ensure good governance and stable and sustained peace and security environment.

Achieving these objectives, the population in the Somali region will be expected to reach following outcomes:

- Improvement in income levels and wealth accumulations so that every citizen will be able to satisfy their basic needs and aspirations.
- Basic economic and social services such as food, clean water, shelter, health,

education, and other basic services should be accessible to every citizen regardless of their economic status.

- Creating an enabling and just environment where citizens will be able to utilize their potentials and resources so that they lead a quality life.
- Improvement in social dignity, equality, and freedom where citizens can freely participate in all social, economic, and political affairs of their country regardless of their social background.

7.3 Plan of the economic growth

The economy of the region is nascent with a GDP of only about 80 billion ETB. Despite the moderate economic growth estimated at an average of 7% and improving the socio-economic indicators, there are fundamental economic challenges. More than 22% of the Region's population falls below the 'absolute' poverty line. Close to one fifth of the economically active people are unemployed and thus unproductive. The region has been the hotspot for almost all disasters in the country over three decades and largely had the highest number of needy people requiring humanitarian assistance. The region hosts refugees from Somalia and shares a long border with the country. There is high inflation that is impoverishing the scarce assets at the household level. The current COVID 19 pandemic and the locust outbreak also placed additional burdens on the economy.

For many years, the human capital of the region was one of the least in Ethiopia, having lower road density, limited access to energy, communications and water supply.

The stability and relative peace are encouraging investment and business to navigate the untapped opportunities.

The Federal Government sets policies and strategies that are necessary to promote the national macro-economic stability while the role of the regional government is to direct the public financial management within the region including the efficient and effective utilization of public resources. The role of the sector is to strengthen its ability to lead and manage the overall economic development of the region, coordination and management of the external resource mobilization and other development partners in the region.

The overall objective is to enhance economic growth that will reduce poverty, create jobs and increase the per capita income of all segments of the community. The focus is to increase the production and the productivity of agriculture, including livestock; the manufacturing industry; the service sector, mainly trade and transport; mining; and petroleum.

The target economic growth is 10% at the base case scenario during the planning period. If the assumptions for the high case scenario materialize, the economy of the region is expected to grow by 12%. However, the macroeconomic structure of the region may not transform with the base case scenario as projected. **The agriculture, mainly the livestock sub-sector, will continue to be the major economic engine for the region commanding more than half of the economy.** Nevertheless, the economic growth with the base case scenario is expected to reduce poverty by almost half, reduce the urban unemployment significantly and double per capita income. If achieved, this will allow the Somali Region to become a low middle income region.

To achieve these highly ambitious targets, the government will leverage growth with investments in **infrastructure** with the focus on **roads, energy and communication**. The latter two sectors are the mandate of the federal government, however the regional government will ensure that the regional plans are taken and implemented. To boost the service sectors of the economy, the government will ensure **conducive business environment** by addressing all bottlenecks and enforcing all laws. The government will also work on the **formalization of trade**. The other area of focus is **job creation** using various means including expanding by attracting **investment** particularly in the **manufacturing** sector and expanding the small and micro enterprises (SMEs) using government guaranteed loan funds.

Ensuring a prudent fiscal system will contribute to the envisaged macro-economic growth of the Somali Region. A sound fiscal discipline will be geared towards boosting the economy investing in the infrastructure and pro-poor sectors. The finance sector will be modernized in a sustainable manner to help economic growth. The regional government will mobilize resources to boost spending in the quality of education, commercialization of agriculture and livestock, delivery of water, expansion of health services and expansion of road networks. Similarly, the public expenditure will be essentially aligned with poverty reduction priorities. The economic share of the private sector will gradually increase employing the public-private partnership program.

The Somali Region will increase share of domestic revenue in the GDP more than five times. The taxation processes will be improved by modernizing tax administration system, increase tax base and updating tax structure through appropriate reforms.

Public expenditure policy will be developed to improve commitment of the sector bureau in the funding of priority programs and projects which are vital to achieve the overall objectives of strategic plans.

Underlying assumptions of the economic growth

Base case scenario

The annual growth rate of 10% under base case scenario is considered to achieve the national and regional long term developmental plans and vision to become a low middle income country by 2025. The major strategies envisioned to achieve the 10% growth rate includes, among others, expanding commercial agriculture in major river basins of the region, enhancing the productivity and marketing related issue in the livestock sub-sector, promoting private investment, scaling up the human capital of the region, step up ties with the federal government to work together in areas where there might be gaps in terms of technical, skilled human power and other strategic areas key for economic growth. The growth of the industry sector, particularly the manufacturing sub-sector is expected to be the engine of economic growth.

Real GDP growth Forecast under the Base Case (2015-2019EFY)

Sector	Average Performance	Actual		Sectorial Growth forecast (GPT II)					Average
	(2008-2014 EFY)	2014	EFY	2015 EFY	2016 EFY	2017 EFY	2018 EFY	2019 EFY	(2015-2019 EFY)
Agriculture and Allied Activities	5	4.1	7	8	8	8.5	9	8.5	
Industry	20	2.10	20	20	21.5	22	23	21.5	
Service	9	8.5	9.1	9.2	9.2	9.4	10.2	14.2	
Gross Domestic Product (GDP)	7.2	6.0	7.0	8.0	9.0	10.0	10.0	10.0	

The economic growth is expected to be broad-based, with agriculture, industry and service sectors to grow by 8.5%, 21.5% and 14.2% percent respectively.

In the past five years, agriculture has been the dominant sub-sector in the economy of the Somali regional state, taking an average of 60% share of the regional GDP. The agricultural sector in turn is largely dominated by livestock sub-sector. In the end of GTP II reporting period, for example, livestock sub-sector accounts, on average, 74% of agricultural GDP; with crop and forestry sub-sectors taking 5.6% and 4.45 of agricultural GDP respectively. In the first three years of ten-year plan implementation period, parallel to enhance the production and productivity of the livestock sub-sector, efforts have been underway to diversify the agricultural sector particularly through crop sub-sector development. Forestry and fishing development, works will also be a focus.

To achieve this goal, expanding small scale irrigation, widening up of commercial farming, introducing and widening the practice of small scale farming in the agro-pastoral communities, introducing modern agricultural practices in farming, like fertilizers, introducing modern mechanized farming, scaling up investment in agricultural research and development, experience sharing of best agricultural (particularly in crop sub-sector) practices from other regions, utilizing the immense livestock potential of the region through expanding animal health extension services, re-engineering the livestock market and chain system , among others.

In the reporting period, industry has been growing on average by 6.3%. The performance of industrial sector reveals that construction, mining and quarrying sub-sectors are dominant in the industrial sector, with their respective contribution of GDP.

To achieve industrial sector targets, wide-scale efforts will be underway to attract private investment into the region. In this regard, efforts will be exerted to promote the massive investment opportunities the region has, mobilizing the huge capital and skill that the Ethiopian Somali diaspora possesses will also be the focus of the regional government. As part of attracting the domestic and foreign investment in manufacturing sub-sector, the regional government, in collaboration with the federal government (Industrial Park Development Corporation-IPDC), industrial park will be introduced in the region. In partnership with the federal government, the region will provide conducive working environment to local and foreign companies interested in natural gas and oil explorations; scaling up the financial, technical and skills of those involved in the construction sub-sector will also be done; enhancing the production and productivity of small scale mineral developers through equipping with the modern know-hows and technologies that supports their capacity will be a focus.

In general, the planned 10% growth rate of the regional economy will be achieved through realizing the production and productivity in diverse economic sectors and sub-sectors. The economic growth under base case scenario will be crucial in laying foundations so as to realize the long term developmental plans as envisioned by the regional government in particular and federal government in general.

High Case Scenario

Although the base case scenario establishes an average annual growth of 11% in the coming five years, still the Ethiopian Somali region has immense potential to register even higher growth rate of 13.2% on average. In the context of high case scenario, agriculture is expected to show annual growth, on average, 11%. The industry and service sectors also planned to register a 24.2% and 19.2% growth respectively.

The high case scenario is based on two assumptions: the huge potential of the mining sub-sector, with the natural gas and oil exploration efforts so far has been on the verge of completion. Hence the share of the industrial sector, powered by the mining sub-sector will be backbone of the regional economy. Moreover, the agriculture sector has immense potential to support the growth even more than it has planned in base case scenario.

Real GDP Forecast under the High Case (2015-2019EFY)

Sector	Average Performance	Actual	Sectorial Growth forecast (GPT II)					Average
	(2008-2014 EFY)	2014 EFY	2015 EFY	2016 EFY	2017 EFY	2018 EFY	2019 EFY	(2015-2019 EFY)
Agriculture and Allied Activities	5	4.1	11	10.8	10.8	11.1	11.3	11
Industry	20	2.10	23.8	24.6	24	25.1	23.4	24.18
Manufacturing	9	8.5	23.9	25.3	26.2	26.7	28.4	26.1
Service	7.2	6.0	19.3	19.2	19.1	19	19.6	19.225
Gross Domestic Product (GDP)	5	4.1	12.0	12.2	12.4	12.2	12.0	13.2

7.4 Fiscal strategy of Somali region

The role of proper fiscal policy is to be the key instrument in shaping key macroeconomic variables like economic growth, inflation, level of investment, among others. In line with the federal fiscal policy directions, the government of the Somali Regional State will use fiscal instruments to achieve the planned macroeconomic objectives. In the ten-year plan period, more efforts will be put to enhance the revenue generating capacity of the region through modernizing the tax administration system and implementing tax reforms. Concerted efforts will also be exerted to widen the tax base and hence mobilize creating investments for capital formation, like infrastructure and human resources developments.

Improve public financial management system of the region

The purpose of a good PFM system is to ensure that the policies of governments are implemented as intended and achieve their objectives. An open and orderly PFM system is one of the enabling elements needed for desirable fiscal and budgetary outcomes; aggregate fiscal discipline requires effective control of the total budget and management of fiscal risks. Strategic allocation of resources involves planning and executing the budget in line with government priorities aimed at achieving policy objectives. Efficient service delivery requires using budgeted revenues to achieve the best levels of public services within available resources.

Policy-Based Fiscal Strategy and Budgeting

The fiscal strategy is a key instrument for attaining rapid and sustainable economic growth. The fiscal strategy will focus on enhancing tax revenue by effectively administering existing tax policies and implementing tax reform programs. Efforts will be made to improve efficiency in the tax system and broaden the tax base. Mobilized resources will allow expanding infrastructure investment while increasing budgetary expenditures for pro-poor and growth enhancing sectors.

- 60% of the budget is allocated to pro-poor sectors.
- Fiscal strategy for catalyzing the economic growth is put in place.

The target is to develop and implement a clear fiscal strategy and enhance the ability to develop, assess and determine the fiscal impact of the revenue and expenditure policy proposals that support the achievement of the fiscal goals of the government.

- Capacity developed for economic appraisal, selection, costing and monitoring of public investment projects.
- Enhanced capacity to assess and report fiscal risks which can arise from adverse macroeconomic situations, financial positions of sub national governments or public enterprises, and contingent liabilities.

Expenditure out-turn and forecasting (medium-term expenditure estimates) in billion birr

Description	2013	2014	2015	Budget out-turn		Fiscal forecasting			
	Actual	Actual	Adjusted plan	Birr	%	2016 Budget proposal	2017 Plan	2018 Plan	2019 plan
Total Expenditure	22.929	28.589	33.088	4.499	16%	38.32	47.49	56.211	66.97
Recurrent Expenditure	4.927	6.333	8.708	2.375	38%	9.255	11.055	13.178	16.545
Administration and General Services Development	3.438	4.387	6.290	1.903	43%	6.308	7.308	8.208	9.308
Economic Development	0.273	0.361	0.422	0.061	17%	0.485	0.785	0.988	1.385
Social Development	1.216	1.585	1.996	0.411	26%	2.462	2.962	3.982	5.852
Capital Expenditure	9.871	12.048	12.985	0.937	8%	14.855	17.925	20.525	22.915
Administration and General Services Development	2.335	3.634	3.569	-0.065	-2%	3.392	4.392	4.992	5.182
Economic Development	5.360	5.737	6.578	0.841	15%	7.876	8.876	9.976	10.876
Social Development	2.176	2.677	2.838	0.161	6%	3.586	4.657	5.557	6.857
Woredas Subsidy	8.131	10.208	11.395	1.187	12%	14.207	18.508	22.508	27.508

Current fiscal year's revenue vs revenue proposal for 2016 EFY (Out-turn)

Description	Plan 2015 EFY	Estimated actual 2015 EFY	Plan (proposal)
			2016 EFY
Total Regional Revenue and assistance	30.966	31.484	38.237
Total Domestic revenue	9.000	9.518	16.000
Tax revenue	6.769	5.108	11.500
Non-tax revenue	2.231	4.409	4.500
Subsidy from MOF	21.761	21.761	21.683
On-budget assistance (from MOF)	0.205	0.205	0.554

Current fiscal year Budget and budget proposal for 2016 EFY

Description	2015 EFY		2016 EFY
	Adjusted plan	Estimated Actual	Plan
Total Expenditure	33.088	32.370	38.316
Recurrent Expenditure	8.708	8.702	9.255
Administration and General Development	6.290	6.295	6.308
Economic Development	0.422	0.417	0.485
Social Development	1.996	1.991	2.462
Capital Expenditure	12.985	12.272	14.855
Administration and General Development	3.569	3.461	3.392
Economic Development	6.578	6.168	7.876
Social Development	2.838	2.643	3.586
Woredas Subsidy	11.395	11.395	14.207

Budget proposal for 2016 efy

The total Budget resource of the region for **EFY 2012** is **Birr. 38,395,984,793**, it has **increased 21% as compared to previous year of 2015 efy**. The budget comprises two parts, the first part is the budget that the region allocated to regional Sectors, Zonal sub-agencies, Colleges, Hospitals, Boarding schools, Woredas and City administrations to cover Salary, Operating and Capital expenditures which is **Birr 22,792,270,419**. Second part is the Capital expenditure support for the region to finance only projects that help achieve the **Sustainable Development Goals** at regional irrigation and basin development bureau level which amounts to **Birr 1,397,200,000**. Third part is the other programs under channel one and Channel two (**UN Agencies Supported funds**) through BOFED, which amounts to **Birr 5,478,398,181**.

The major source of the budget is the block grant (subsidy from the federal treasury), regional domestic revenue accounts **42%** of the Total Government budget. Resource has been allocated and transferred to woredas and Cities based on the general pypose **grant formula**. Out of the total budget available for distribution in 2012 EFY, **Birr 14,206,514,373.27**, will go to Woredas and City administrations where as **Birr 24,189,470,419 including SDG and assistance budget** has been allocated to Regional sectors and Zonal Sub-agencies. The following are summary of all general Budget resources of the region by type and source of finance.

Revenue plan for **2016 efy** is **Birr 16 Billion**, which has increased **78%** as compared to revenue plan of 2015 efy. The sources of total revenue plan is shown below

Total revenue plan including subsidy and grants in billion birr

Description	Plan (proposal)
	2016 EFY
Total revenue including subsidy and grants	38.237
Total Domestic revenue	16.000
Tax revenue	11.500
Non-tax revenue	4.500
Subsidy from MOF	21.683
On-budget assistance (from MOF)	0.554

2016 EFY Budget for Basic Service Vs non-basic service in Billion birr

Sector	Total	Budget share in %
Total	38.396	
Basic Sectors	21.702	57%
Non-basic Sectors	16.694	43%

Table 9: 2016 EFY Budget for Basic Service Vs non-basic service in Billion birr

Sector	Total	Budget share in %
Total	38.396	
Basic Sectors	21.702	57%
Non-basic Sectors	16.694	43%

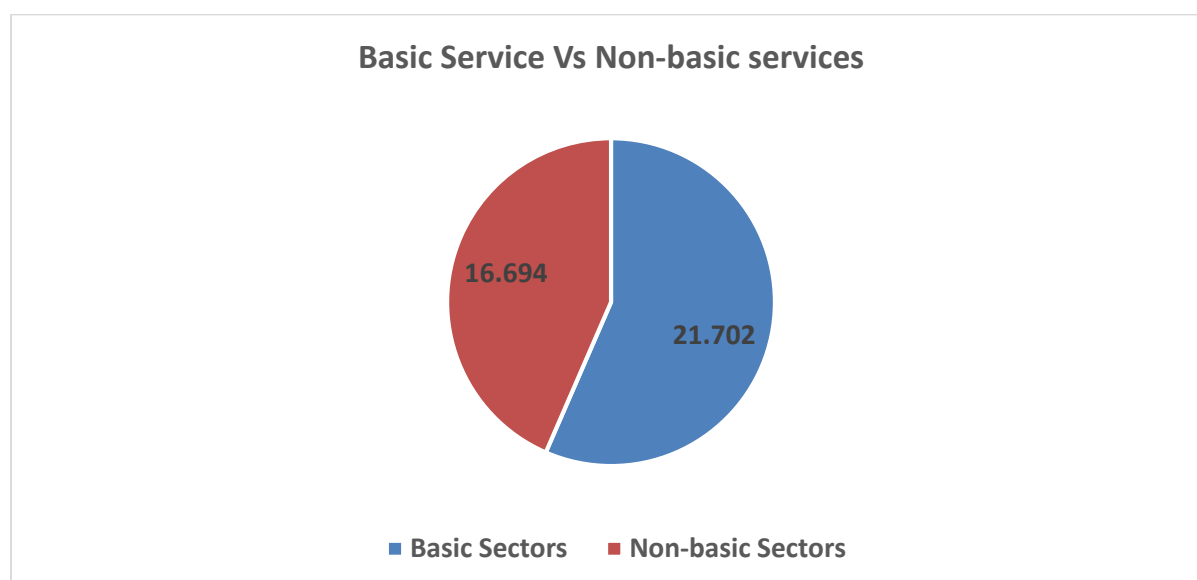


Figure 12: Basic Service Vs Non-basic services in 2016 EFY

2016 EFY Budget allocated for pro-poor sectors in billion birr

Basic Sectors	Budget Allocated (In ETB)		
Type of budget	Recurrent	Capital	Total
Total Regional Budget (Capital+ Recurrent)	19.1294	19.267	38.3960
Total Budget Allocated for Basic Services (Capital +Recurrent)	8.0550	13.646	21.7010
Agriculture and Irrigation Development sector	1.1610	3.575	4.7355
Water Resource Development Sector	0.2450	2.353	2.5980
Urbanization, Housing and Job Creation Development	0.9699	2.744	3.7144
Education Sector	3.7697	2.362	6.1317
Health Sector	2.7366	1.558	4.2946
Rural Roads Sector	0.4659	1.054	1.5198

Table 10: 2016 EFY Budget allocated for pro-poor sectors in billion birr

Basic Sectors	Budget Allocated (In ETB)		
Type of budget	Recurrent	Capital	Total
Total Regional Budget (Capital+ Recurrent)	19.1294	19.267	38.3960
Total Budget Allocated for Basic Services (Capital +Recurrent)	8.0550	13.646	21.7010
Agriculture and Irrigation Development sector	1.1610	3.575	4.7355
Water Resource Development Sector	0.2450	2.353	2.5980
Urbanization, Housing and Job Creation Development	0.9699	2.744	3.7144
Education Sector	3.7697	2.362	6.1317
Health Sector	2.7366	1.558	4.2946
Rural Roads Sector	0.4659	1.054	1.5198

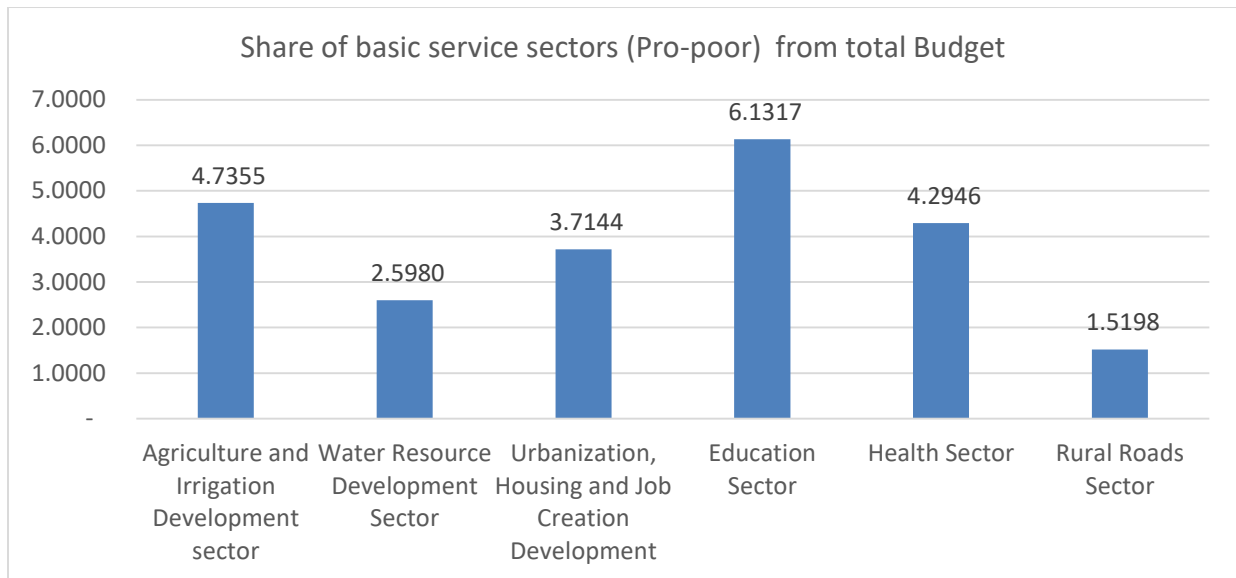


Figure 13: Share of basic service sectors (Pro-poor) from total Budget

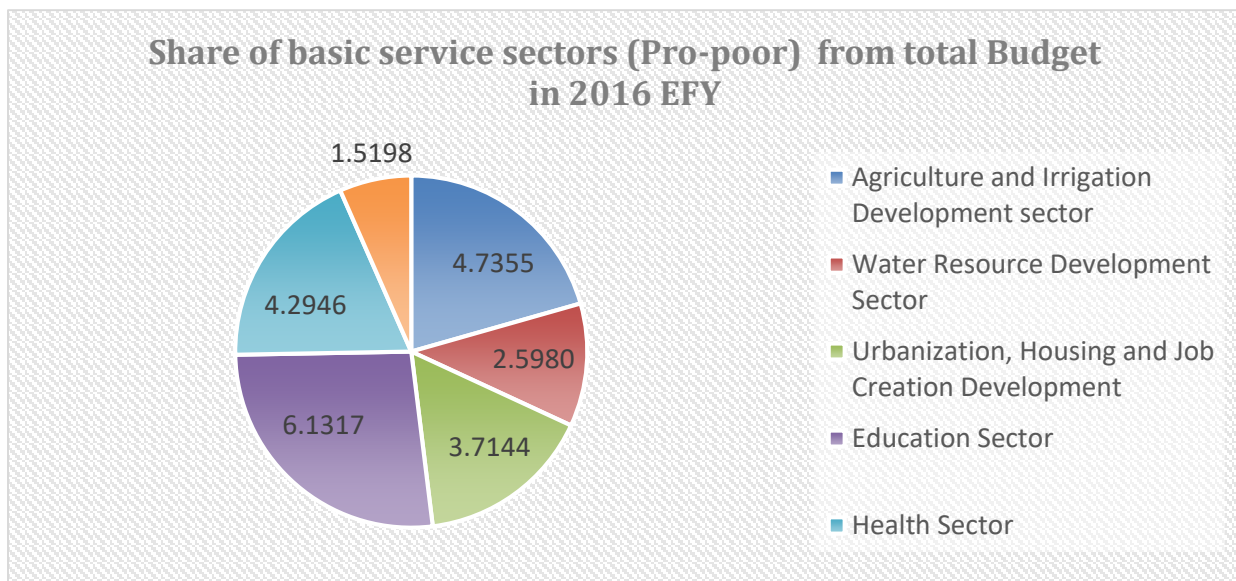


Figure 14: Share of basic service sectors (Pro-poor) from total Budget in 2016 EFY

CHANGES OF BUDGET FORCASTING (CUREENT Vs LAST) FOR 2016 EFY

S/n	BI CODE	Description	2016 efy				
			Current Medium term	Last medium term	Differences	Absolute differences	%
		Grand Total Budget	18,359,727,608	18,714,536,834	-354,809,226	354,809,226	1
	100	Administration and General Service	7,050,349,893	7,188,914,593	-138,564,700	138,564,700	0
1	111	Regional Council	454,961,306	457,761,306	-2,800,000	2,800,000	1%
2	113	Office of the Auditor General	34,468,079	34,768,079	-300,000	300,000	1%
3	115	Office of Regional Administration	499,978,480	509,676,480	-9,698,000	9,698,000	2%
4	117	Diaspora Agency	46,685,169	47,095,169	-410,000	410,000	1%
5	119	Women and Children affairs Bureau	43,404,283	44,004,283	-600,000	600,000	1%
6	121	Bureau of Justice	44,464,835	44,964,835	-500,000	500,000	1%
7	122	Supreme Court	59,713,353	59,783,353	-70,000	70,000	0%
8	123	Sharea Court	54,495,060	54,992,360	-497,300	497,300	1%
9	124	Justice organs Training center	30,387,414	30,767,414	-380,000	380,000	1%
10	126	Compliance and Grievance Handling Commission	34,371,205	35,301,205	-930,000	930,000	3%
11	127	Police Commission	1,257,947,001	1,289,947,001	-32,000,000	32,000,000	3%
12	128	Anti-Corruption and Ethics Commission	39,668,830	39,968,830	-300,000	300,000	1%
13	129	Prison Administration	401,202,068	411,242,068	-10,040,000	10,040,000	3%
14	133	Administration ,justice & security affairs Bureau	559,997,685	569,895,685	-9,898,000	9,898,000	2%
15		Security Affairs	2,239,125,059	2,289,177,059	-50,052,000	50,052,000	2%
16	135	Somali and Oromia bilateral Development Project	5,976,570	6,076,570	-100,000	100,000	2%
17	144	Border Affairs Office	23,673,102	24,073,102	-400,000	400,000	2%
18	152	Bureau of Finance & Economic Development	385,526,003	389,526,003	-4,000,000	4,000,000	1%
19	153	Government Communication Bureau	68,626,798	69,694,798	-1,068,000	1,068,000	2%
20	154	Mass Media Agency	371,346,107	381,046,107	-9,700,000	9,700,000	3%
21	155	Public Service and Human Resource administration Bureau	74,352,571	75,052,571	-700,000	700,000	1%
22	156	Revenue Administration	176,476,760	177,996,760	-1,520,000	1,520,000	1%
23	157	Culture and Tourism Bureau	70,055,279	71,056,679	-1,001,400	1,001,400	1%
24	158	Vital Registration Agency	26,732,303	27,532,303	-800,000	800,000	3%
25	161	Science & Technology bureau	46,714,573	47,514,573	-800,000	800,000	2%

26	200	Economic Development	8,049,024,517	8,228,129,043	-179,104,526	179,104,526	0
27	211	Bureau of Agriculture and Rural Development	387,872,030	389,854,030	-1,982,000	1,982,000	1%
28	212	Livestock and Pastoralist Development Bureau	338,026,387	348,526,380	-10,499,993	10,499,993	3%
29	213	Pastoral and Agro pastoral Research Institute	65,663,980	66,603,980	-940,000	940,000	1%
30	214	Environmental protection bureau	56,916,226	57,986,226	-1,070,000	1,070,000	2%
31	215	Irrigation and basin development bureau	1,458,017,587	1,496,017,587	-38,000,000	38,000,000	3%
32	216	Co-operatives Bureau	50,912,967	51,902,967	-990,000	990,000	2%
33	221	Water bureau	1,606,376,164	1,656,376,164	-50,000,000	50,000,000	3%
34	231	Bureau of Trade, Transport & Industry	169,904,166	170,890,416	-986,250	986,250	1%
35	232	Micro and Small Enterprise Development Agency	364,532,818	369,532,801	-4,999,983	4,999,983	1%
36	235	Investment Office	128,811,409	130,801,409	-1,990,000	1,990,000	2%
37	272	Bureau of Works and Urban Development	2,392,993,099	2,459,629,099	-66,636,000	66,636,000	3%
38	273	Rural Roads Authority	1,028,997,684	1,030,007,984	-1,010,300	1,010,300	0%
39	300	Social Development	3,260,353,198	3,297,493,198	-37,140,000	37,140,000	0
40	311	Education Bureau	1,083,477,159	1,103,477,159	-20,000,000	20,000,000	2%
41	312	TVET Bureau	369,781,186	370,991,186	-1,210,000	1,210,000	0%
42	313	Center of Competence Agency	43,541,408	44,541,408	-1,000,000	1,000,000	2%
43	319	Public Service and Management College	75,077,046	76,077,046	-1,000,000	1,000,000	1%
44	331	Sport Commission	139,468,900	140,468,900	-1,000,000	1,000,000	1%
45	341	Health Bureau	1,020,769,280	1,027,799,280	-7,030,000	7,030,000	1%
46	342	Food, Medicine and Health care management Agency	49,057,389	49,957,389	-900,000	900,000	2%
47	345	HIV/AIDS Prevention and Protection Bureau	41,514,297	41,814,297	-300,000	300,000	1%
48	351	Labor & Social Affairs Bureau	42,019,121	42,719,121	-700,000	700,000	2%
49	361	Disaster Prevention & Preparedness Office	395,647,412	399,647,412	-4,000,000	4,000,000	1%

Explanatory Note:-

As shown on the above table, there is variation between expenditure estimates of the current medium term budget and last medium term budget for the year 2016 efy, total variation is that current estimate is less than Birr 354,809,226, in absolute from last year estimate which is insignificant. But, the reason relates to changes in low performance in macro-economic conditions that affected aggregate fiscal wellness, in 2014 efy there was recurrent drought, internal displacements and also it was predicted that the federal subsidy to the region might be decreased due to existing distress at global level as well as country level. Therefore, sector priorities and expenditure policy has been revised