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## Hirshabelle State of Somalia

### Budget for the period 1 January to 31 December 201X

Dear Minister

The Ministry of Finance of the Hirshabelle State of Somalia advises that it is commencing the budget preparation process for the financial year ended 31 December 201X.

All Ministries are therefore requested to note their ceiling budget as outlined in **Annex 1** to this circular and provide estimates of their proposed expenditure requirements during the period 1 January to 31 December 2018. Budgets can be allocated against any budgetary account but the Ministry budget must remain within the ceiling budget. Any proposed additional spending must be included separately and details provided to justify any new spending, refer to **Form 6**.

In Accordance with Section 23 of the Public Finance Management Law 2018, Ministries are now required to submit an Annual Revenue and Spending Plan to the Minister for Finance no later than 30 days after the submission of the proposed budget to Parliament. These plans are in a monthly format which will assist with the forecast of the Hirshabelle State of Somalia cash flow and will also be the basis for which each Ministry and Agencies budget allocation will be based upon. This Plan will be sent out later in the budget preparation period.

The budget requests will be assessed by the Ministry of Finance, in consultation with each Ministry, taking account of forecasts of projected revenue, **Form 6** request and the total proposed budget.

The attached Budget Circular provides guidance on the information required by the Ministry of Finance. Accompanying the Budget Circular are the forms to be used for submitting budget estimates. The forms are to be prepared in accordance with the instructions in this circular and submitted to the Minister of Finance no later than **31 August, 201X**.

As the revenue resources of the Hirshabelle State of Somalia are limited, Ministries are requested when submitting their budgets to set out their spending priorities. The final decision on the Hirshabelle State of Somalia Budget for 201X will be made by the Hirshabelle Parliament.

Please contact the Budget Department, Phone: **XXXXXXXXXX** Ministry of Finance if you require assistance.

Yours sincerely,

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## Budget Circular

Federal Republic of Somalia  
Hirshabelle State of Somalia  
Ministry of Finance & Economic Development

### 201x/Hirshabelle State of Somalia/MOF/1

#### Budget preparation for the period 1 January to 31 December 201X

This Budget Circular is designed to assist Ministries and Agencies in understanding their responsibilities in regard to the preparation of budget estimates.

This Circular requires each Ministry and Agency to provide information about their recurrent and capital expenditure estimates, proposed staffing details, and any proposed development projects. Estimates are to be provided in US dollars (USD\$)

#### 1. Dates for the 2018 Budget process

**31<sup>st</sup> Aug, 2017** – deadline date for submission of budget estimates to the Budget Department, Ministry of Finance

**20<sup>th</sup> Sept, 2017** – Ministry of Finance consolidation of budget estimates

**10<sup>th</sup> Oct, 2017** – Budget Department consultation with Ministries and Agencies

**15<sup>th</sup> Oct, 2017** – Draft budget presented to President and Council of Ministers

**31<sup>st</sup> Oct, 2017** - Proposed Budget submitted to Parliament

**By 30<sup>th</sup> Nov, 2017** – Ministries and Agencies to submit their Annual Revenue and Spending Plans to the Minister of Finance (Issued under a separate Instruction)

**31<sup>st</sup> Dec, 2017** – Budget approved.

Estimates may be submitted in soft copy (Excel file) or hard copy but must be in the format provided with this Budget Circular.

Should a ministry/Agency fail to submit their budget estimates with in the specified deadline, the budget department in the Ministry of Finance has the discretion to prepare a budget estimate on behalf of the said Ministry based on the ceiling communicated to the Ministry/Agency in this budget circular.

#### 2. Budget Documents to be submitted

Budget documents to be submitted by Ministries and Agencies to the Budget Department, MoF are:

**Form 1**– Estimated Ministry revenue - **Annex 2**

**Form 2** – Estimated recurrent expenditure – **Annex 3**

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- Form 3** – Staffing estimates. Details of current and proposed Ministry staff by position and grade. – **Annex 4**
- Form 4** – Estimated capital expenditure requirements – **Annex 5**
- Form 5** – Proposed Development Project Expenditure. Details of specific capital projects your Ministry has identified. ALL donor funding received both through the TSA and 3<sup>rd</sup> party by the Ministry must be included – **Annex 6**
- Form 6** - New Spending Requests. Provide details of proposed new spending, giving details of why additional budget is required – **Annex 7**

An Annual Revenue & Spending Plan is required to be completed within 30 days of the proposed budget submitted to Parliament. This form will be sent out by **10<sup>th</sup> Nov 2017** for completion by each Ministry and Spending Agency to enter in their monthly forecast.



### 3. Instructions for Preparing FY 2018 Budget Proposal

Ministries may prepare their budget proposals on hardcopy or softcopy forms and submit them to the Ministry of Finance. The Ministry of Finance will enter this information into the Budget Preparation Module.

If Ministries wish to complete their forms in soft copy the Ministry of Finance will provide excel files for each form. The spreadsheets are available in Somali and in English. Information may be entered only in the cells that are colored yellow. The results of calculations will be shown in the cells that are colored grey.

#### Form 1– Estimates of Recurrent Revenue – Annex 2

All revenues and moneys raised or received by the Hirshabelle State of Somalia should be accounted for in the budget estimates e.g. Taxation proceeds, Customs duties and government charges. When preparing the revenue budget estimates Ministries review to ensure all sources of revenue that the Ministry currently manages or proposes to manage in the budget year are included. These estimates will be provided by the Revenue Department in consultation by each collecting agency

Where any increases in revenue are expected as a result of an increase in the rates being charged, or if the collection coverage is increased, or where a Ministry is intending to commence collecting revenue in the budgetary period, full details of the type of revenue collected and the date of commencement of collection is to be included. In accordance with Section 12 (1) (c) of the PFM Act an instrument outlining any change(s) in the tax and non-tax revenue policy regimes, is to be presented no later than the date of submission of the budget estimates to Parliament.

Where no revenue account item detail is included in budget template a full description of the revenue source is to be provided so that the appropriate revenue item code can be assigned

The sources of revenue that Ministries may be responsible for include:

- Taxes on the use of goods and on permission to use goods.
- Grants from International Organizations or other bodies
- Rental income
- Administrative fees
- Fines and penalties

To complete Form 1

- Enter the name of the Ministry
- Enter the code assigned to the Ministry. The codes for each Ministry are provided in **Annex 1**.
- All the sources of revenue that the Ministry or Agency currently manages or proposes to manage in the FY 2018 budget period should be shown on Form 1 against the relevant category. If the revenue item is not listed on the form, enter the details as 'other' and provide details to the Ministry of Finance.
- For each item of revenue enter the amount that is expected to be collected during the period 1 January – 31 December 2018.

#### Form 2 – Estimates of Recurrent (Operational) Expenditure – Annex 3

Recurrent expenditure is the cost that is required to keep the Ministry operational in order to carry out its day to day activities on the basis that there is no change in role or function from year to year. Annual estimates need to be realistic and reflect the actual cost of running the



Ministry with priorities on the Ministry's objectives for the budget year. Expenditure must be kept within the ceiling per **Annex 1**. Amounts can be allocated within any of the budgetary account codes. Any anticipated new spending must be detailed in **Form 6**.

If budget estimates have been submitted for expenditure on capital items, the recurrent expenditure to maintain these assets must be included in the budget. For example, purchase of a printer will require a budget to purchase paper and printer cartridges, purchase of a vehicle will require a budget for fuel costs.

Recurrent expenditure is the cost that is required to keep the Ministry operational in order to carry out its day to day activities. Recurrent expenditure includes:

- Employee wages and salary payments and other employee compensation
- Operating expenses, for example utility costs, travel, or materials and supplies.

#### *Wages and salary costs*

The estimate of the Wages and Salaries budget for civil servants and other staff funded by State revenues for inclusion in **Form 2** will be calculated in **Form 3** and based on last years recruited positions. Positions funded by RCRFII budget as approved by the World Bank will be entered into Form 5 (Development Project Expenditure). See the instructions below for completing **Form 3**.

#### *Other operating expenses*

**Form 2** lists the items of expenditure that may be required to perform the functions of a Ministry. Please provide estimates of any amounts you may need in these categories in the twelve months from 1 January to 31 December, 2018.

To complete Form 2:

- Enter the name of the Ministry
- Enter the code assigned to the Ministry. The codes for each Ministry are provided in **Annex 1**
- Enter the amounts that have been calculated on Form 3 (see below) for Wages and Salaries for each category of staff listed on the form.
- Enter amounts that are expected to be required in 2018 for the expenditure items listed in Form A. Only some of the items will be required. Others should be left blank.
- Enter forecasts of amounts required for these items during the 2018 Financial Year.

#### **Form 3 Staffing estimates – Annex 4**

In order to determine the wages and salary budget in **Form 2**, details of staff positions need to be completed in **Form 3** first. Information on salary or allowance payments to be made to Ministers and other political or statutory appointees should also be reported on this form.

The total salary cost of all the positions listed in **Form 3** should be reflected in the wages and salary budget in **Form 2** and **Form 5** for positions funded by the RCRFII project. Details and budget of staff funded by RCRFII will be provided by the EAFS Unit and based on the budget approved by / submitted to the World Bank.

To complete **Form 3**:

- Enter the name of the Ministry



- Enter the code assigned to the Ministry. The codes for each Ministry are provided in **Annex 1.**

In Part 1 of the form, list any staff that have been appointed or are expected to be appointed by the Hirshabelle State of Somalia Civil Service Commission before 31 December 2018. These staff will have a civil service position number and grade, and will be paid at the approved Civil Service salary rate. Only positions that have been approved by the Civil Service Commission, or are proposed for appointment by the Civil Service Commission, are to be included in this part. If there is not enough space to include all proposed civil service positions attach a list with the required details (or add rows to the spreadsheet).

For each Civil Service employee:

- Enter the position number assigned by the Civil Service Commission
- Enter the Position Title (Name) approved by the Civil Service Commission
- If the position is currently filled, enter the name of the person who has been appointed to the position. If the position has not yet been filled, leave this blank.
- Enter the grade assigned to the position by the Civil Service Commission
- Enter the salary step applicable to the person holding the position. (In 2018 all staff will be on step 1 of their grade.)
- Enter the salary for the grade and step according to the Civil Service Salary decree (once this has been approved by the Council of Ministers).
- Enter the number of full months the employee will be working during the period January – December 2018. (The maximum number of months will be 12)
- For civil servants the number column will be 1. The total salary for each person for 2018 will be calculated.
- Then enter the number of months that the person is expected to be working during the 2018 financial year. The number of months entered should reflect the likely date when the proposed staff will start work, up to a maximum of 12.

In Part 2 of the form provide details of other categories of workers and other salary payments including:

- Contract employees
- Wage workers
- Temporary employees on 'stipend' payments (not yet appointed by the Civil Service Commission)
- Security services personnel (police, military, prison guards)
- Payments to Ministers and other political appointees

If there is not enough space on the form attach a list providing the details, or add lines to the spreadsheet.

For each category of staff, for each position,

- Provide the title of the position
- If there is one position and the position is filled provide the name of the employee or worker.
- Enter the salary that will be paid for the position
- Enter the number of months for which the position will be paid in 2018 (The maximum number of months is 12)
- If there is more than one person in this position provide the number of people employed.
  - o For example, if there are 10 security guards currently employed as wage workers on the same salary enter the details of the staff in category 211103 Wage Workers and the number 10.



- Then enter the number of months that the person is expected to be working during the 2018 financial year. The number of months entered should reflect the likely date when the proposed staff will start work, up to a maximum of 12.

#### **Form 4 - Capital Expenditure – Annex 5**

Planning your Ministry activities and priorities over the budget period will assist with determining what capital expenditure is required. When submitting budget estimates for capital expenditure any proposed outlay of money for the acquisition of capital assets, such as equipment, furniture need to be included in the capital expenditure estimates in **Form 4**. However, if the acquisition of an asset is included under the development budget (**Form 5**) it should *not* be included under the capital expenditure estimates in **Form 4**.

Capital Expenditure is the cost of the acquisition of assets such as computers, printers, office furniture and vehicles.

“*Capital Asset*” refers to real or tangible property having:

- A value greater than or equal to the capitalization threshold of the asset, as indicated in Section 1.4 of this Regulation; This regulation applies to all assets with a unit value of \$200 or more
- Is under the control and ownership of the Hirshabelle State of Somalia, and
- An estimated useful life of greater than one year from the time of acquisition.

Note: in relation to budget and reporting purposes, Capital Asset has the same meaning as Fixed Asset per Government Financial Statistics Manual 2014 and have been budgeted and recorded under the Fixed Asset GFS Chart of Account code 311xxx (*see Regulation #2 - Establishing the Budget Classification Structure for Budget Preparation & Execution* for discussion on Chart of Account codes). All such assets must be recorded in the centralized Capital Asset register.

Assets with a unit value of less than \$200 will not be recorded in the centralized Capital Asset Register and will be budgeted and expensed as a Use of Goods and Services, under GFS Chart of Account code 22xxxx (*see Regulation #2 - Establishing the Budget Classification Structure for Budget Preparation & Execution* for discussion on Chart of Account codes as well as the Annual Budget Circular, Section 3, Form 4 for further discussion).

Details of the asset/s proposed to be acquired in 2018 should be provided in **Form 4** for consideration by the Council of Ministers.

To complete **Form 4**:

- Enter the name of the Ministry
- Enter the code assigned to the Ministry. The codes for each Ministry are provided in **Annex 1**.
- If the Ministry is proposing the purchase of capital items, the details should be provided under each category. Enter a description of the item, the estimated cost of the item, and the number of units to be purchased.

Capital purchases needs to be justified providing full details on the reason for the inclusion of capital expenditure in the budget submission

#### **Form 5 - Development Project Proposals – Annex 6**

Development Projects refer to capital investment work that has a finite duration and which once completed, adds to the physical asset or capacity of the government. It can include an outlay of money to acquire or improve capital assets such as buildings and major items of



equipment. Most development projects are funded by donors but must be approved and coordinated by the government. Development projects may also include projects of a recurrent nature, i.e. repairs to building, funding support for recurrent costs (RCRFII)

For RCRFII development projects, the budget amount included in **Form 5** is obtained from **Form 3**, staffing estimates.

RCRFII non-salary recurrent costs are to be included and based on the approved funding as advised by World Bank.

In order that these projects are economically viable and are easy to implement on time, it is stressed that these projects must be adequately planned. Details of the development project in regard to the project objectives, outcomes, timeline and justification of the project needs to be submitted with the budget estimates to enable the Council of Ministers to decide on the overall priority of each project submitted for consideration. In addition, properly planning a project in advance is also important for the successful implementation of the project and allows for monitoring project progress during the project duration. Given the nature of development projects it may be appropriate for Ministries to seek external assistance from donors or NGOs when developing the proposal, particularly the costing component.

Development projects can be funded by donors as '3<sup>rd</sup> Party in Kind' donations. This means that the donor will fund the project directly and funds will not pass through the Hirshabelle State of Somalia Treasury account. *ALL* donor funded projects need to be recorded on **Form 5** and included with budget submissions. If a Ministry wishes to propose a Development Project to be funded by donors, or has already identified a donor that wishes to fund a Development Project, the details should be provided in **Form 5**. A separate Form is to be prepared for each project.

**Form 5** in the budget template should provide sufficient detail to support the project and should include:

- 1) **Objectives:** State the main objectives of the project and what the project will accomplish and who will benefit from the project. As far as possible, aims should be stated clearly to allow setting of targets against which performance can be measured. (e.g. a specific aim to improve roads accessed by the agricultural community could be assessed by the rate of increase in production and income generated for that particular community that the improved road will lead to). Describe and where possible quantify the economic, social, administrative or other benefits that are likely to result from the project. State clearly the assumptions underlying the estimates of project outputs. Do the benefits justify the cost?
- 2) **Activities:** Describe clearly the activities of the project and how it will achieve the objectives specified. If there are a number of distinct sub-activities (e.g. construction, extension training etc.) within the project, describe each and show how they are related to each other. The description should specify size, location, inputs required, phasing and expected results.
- 3) **Duration:** State the expected commencement and completion date. It is critical to ensure that it is administratively and technically feasible to commence and complete the project in the proposed time frame. Duration of the project should be realistic and achievable and allow for any slippages in time delays due to any unforeseen circumstances.



- 4) **Location:** Show the particular region or area where the project will be implemented and where the benefits will be realised.
- 5) **Implementation Plan and Timeframe:** Show the timing and organization for implementing the various activities in the project. Confirm that capacity exists in the Ministry to implement the project, or what external assistance will be required. Summarize the findings of any feasibility studies that have been undertaken. Give the major milestones (expected dates of commencement and completion, targets etc.) in implementing various activities. Describe how the project relates to other Continuing or proposed projects. Include, wherever relevant, comments from other Ministries or Agencies involved in these related activities. Include a brief description of procedures for monitoring project implementation.

**Total Cost:** Include only costs which directly relate to efficiently carrying out the activities and producing the objectives which are set forth in the proposal. Other associated costs should be funded from other sources. The budget should be realistic. Find out what planned activities will actually cost, and do not assume that you will be able to make do with less. The budget should include all costs associated with managing and administering the project.

A Project Number for each project will be assigned by the Ministry of Finance.

To complete Form 5:

- Enter the name of the Ministry
- Enter the Name of the Project. The name should clearly describe the project.
- Mark the box to indicate whether the project is New or Ongoing. In 2018 all projects will be new (i.e. proposed).
- Mark the box to indicate whether the project is to be funded through the Hirshabelle State of Somalia budget or by a donor as a '3<sup>rd</sup> Party in Kind' donation. (In 2018 only projects confirmed to be funded by a donor will be considered.)
- If the donor is providing the funding enter details as to where the funds will be deposited, ie TSA or a separate bank account.
- If a donor has been identified for the project the name of the donor should be provided (e.g. Somalia Stability Fund)
- Provide information on the objectives of the project in Section 1
- Provide a description of the project activities in Section 2
- Provide the expected start and finish dates in Section 3
- Indicate the main location in which the project will provide benefits in Section 4.
- Describe the proposed implementation plan and time frame in Section 5.
- In Section 5 provide a breakdown of the costs of the project listed according to the category of expenditure and the relevant code. The code for each expenditure category can be found in the Chart of Accounts.
  - o For example, a project to construct an office building would show the cost of the building work using code 311121 Non-residential Buildings.
  - o The estimated cost of the project should include the cost of associated capital equipment such as furniture.
- Section 5 should also show the amount of the funds that will be provided by the donor to cover the cost of the project.



### Form 6 – New Spending Requests – Annex 7

As the initial budget submission is to be prepared within the budget ceiling which is based on prior year spending, some Ministries will anticipate additional spending in line with their increased activities and objectives.

To complete Form 6:

- Enter the name of the Ministry
- Description of the expenditure
- Budgetary code
- Budget expenditure amount for the year
- Priority Ranking. 1 – 5. 1 being a priority. This allows the Budget Department to rank all requests noting that Government funds are limited
- Details – justifying the new spending request

Staffing:

- Position – the new position. This must be approved by the CSC
- Grade: position grade
- Budget expenditure amount for the year
- Priority Ranking. 1 – 5. 1 being a priority. This allows the Budget Department to rank all requests noting that Government funds are limited.
- Details – justifying the new spending request

Further information:

- Full details to support the new spending request. How the budget was arrived at, ie number of months staff are budgeted for. The more information provided will help support the request
- Justification to support the new spending request. This should relate to the Ministry objectives and priorities



## Annex 1: Ministry Ceiling Budget

Code	Ministry	20XX Ceiling Budget
1	Ministry Name	
2	Ministry Name	
3	Ministry Name	
4	Ministry Name	
5	Ministry Name	
6	Ministry Name	
7	Ministry Name	
8	Ministry Name	
9	Ministry Name	
10	Ministry Name	
Next	List ministries as required	



**Annex 2: Form 1**



**Annex 3: Form 2**



**Annex 4: Form 3**



**Annex 5: Form 4**



**Annex 6: Form 5**



**Annex 7: Form 6**

