



**Ministry of Finance Development
Republic of Somaliland**

Fiscal and Economic Implication of COVID-19

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Executive Summary

Somaliland has open borders and an open economy. It shares boundaries with Djibouti on the West, Ethiopia in the South, Somalia in the East, and Yemen to the North. It has a mercantile economy which depends heavily on global trade. Minimarkets in Hargeisa sell apples from Chili, Chicken from Brazil, Kiwi from New Zealand, Honey from Australia, Milk Powder from Holland, cosmetics from France, tea from Kenya, catchup from UAE, Rice from India and all sorts of products from China. It is, therefore, vulnerable to the vagaries of the World economic climate.

COVID-19 caused havoc in the global trade on which Somaliland economy depends. The impact was felt even before the virus landed on our shores. Somaliland suddenly found itself fighting on two fronts: a health front and an economic front.

The infection is still in its earliest stage. Only five cases have been confirmed. That might be due to the limited number of tests carried out. But even if we are at the inception phase, we can expect the infection to grow exponentially in line with the pattern experienced in Africa and other continents. To contain the pandemic, we need intensive public awareness campaigns, large scale testing, isolation and quarantine facilities, intensive care units, laboratories and diagnostic equipment. The Ministry of Health calculated that we need \$15,205,000 to cope with the pandemic in the coming nine months.

On the economic front, COVID-19 has affected all the key pillars of Somaliland's economy i.e. trade, livestock, the Diaspora, the public sector and international assistance. All the supply chains have been interrupted. Both air and maritime traffic declined due to lockdowns and other measures imposed by other countries and Somaliland to slow down the spread of the virus. Remittance on which 40% of Somaliland families rely to meet their basic necessities dropped significantly as family members in Europe, North America and the Middle East could not send money due to lockdowns or loss of employment.

The impact reverberated in the domestic economy leading to a slowdown in activities, closure of business, rising unemployment, loss of livelihoods and increasing poverty. As a result, government revenue which heavily depends on customs duties and business activities was hit hard. We expect the gap between the budgeted revenue and actual income in the second quarter to be no less than 30%. The following table summarizes the financial package, totaling \$110,805,000, required to meet with the pandemic and economic challenges Somaliland faces today.

	Description	Amount (USD)
1	COVID19 preparedness and response	15,205,000
2	COVID19 budget deficit support	36,600,000
3	Economy recovery package	5,000,000
4	Humanitarian assistance to families affected	54,000,000
	Total required	110,805,000

1. Introduction

Somaliland is an independent state in the Horn of Africa which stands for peace, democracy, stability, prosperity, and cooperation in the region. It is not part of the Federal government of Somalia. It has managed its own affairs since 1991 when it dissolved the union with Somalia following a viscous war waged against the people of Somaliland which left ruins where there were cities and mass graves where there were communities. It has a young population of over 4 million, a costal line which stretches over 800km along the Red Sea and an area which covers 176,120 sq. km. The capital is Hargeisa with a population past the 1 million mark.

2. COVID19 – Impact on Global Economy

All the optimistic economic predications for 2020 five months ago have turned into gloomy forecast for the year and beyond.

WTO announced that COVID19 could reduce world trade by up to a third

ILO anticipates COVID19 to cause the equivalent of 195 million job losses

IMF Says that 170 member countries will experience negative per capita income, and expects COVID19 to shove off 1% from global GDP growth in 2020

3. COVID19 – Impact on Somaliland Economy

Somaliland is part of the World economy, and an open economy for that matter. The World Bank indicates that the sum of imports and exports amount to 92% of the Somaliland GDP, a figure which is extremely high. Hence, Somaliland economy is impacted disproportionately.

The Somaliland economy rests on 5 pillars:

1. Trade
2. Livestock
3. The diaspora
4. The public sector and
5. International assistance

3.1 Trade

Somaliland relies heavily on imports including food, building materials, fuel, medical supplies, transport etc. Down the supply chain, wholesale and retail provide most of the employment in Somaliland.

COVID19 is showing its mark in all the aspects of trade. The flow of imports has been affected by lockdown rules on suppliers and shipping agents. The disruption in the supply chain from China has been felt. The total lockdown in India which is the main source of Sugar, rice and

medical imports has already created gaps in supply. The lockdown in the UAE, another major trading partner, has created significant delays in the delivery of orders. The cancellation of flights has drastically reduced the movement of freight cargo and business travel.

The Somaliland economy is more integrated with regional economies than often realized. Berbera port serves as a transit and trade port for Ethiopia to a large extent and Puntland to a lesser extent. Any changes in the economic situation of these countries affect port utilization, trade and the economy in general.

3.2 Livestock

Livestock is the backbone of the Somaliland economy. It accounts for the biggest share of the GDP. The pandemic did not have much impact on the production side of animal husbandry. The herds are healthy and in good condition following exceptionally good 2019 rainy seasons.

COVID19 is, however, showing its impact on livestock trade. Saudi Arabia has been always the principal market for livestock exports, but there is a ban on livestock exports from Somaliland and Somalia which is usually lifted during the Hajj season, when the port of Berbera handles nearly two million heads. This year, the government of Saudi Arabia closed all the grand mosques and suspended Umrah pilgrimage visits. There is also the possibility of cancelling the Hajj pilgrimage in an effort to halt the spread of Corona Virus. That will spell disaster for the Somaliland economy which is already reeling from reduced demand and restrictions from other Middle East Markets.

3.3 Diaspora

After Livestock and trade the Diaspora plays the biggest role in the economy. The Diaspora support the economy in three ways: it

1. supports families
2. invests
3. Spends during visits

A study by FSNU (FAO) shows that 42% of all families in Somaliland receive remittance from relatives and friends in the Diaspora. 53% of urban families receive remittance whereas only 33% of rural families do. Total annual remittance to Somaliland amount to about \$600 million Dollars. Total forex inflow in 2019 was \$1.3 billion including trade transactions, remittance, foreign direct investment and international assistance. Family support accounts for about 70% of the remittance while the remaining 30% goes to investment, mainly in property. In 2019, 119,660 passengers arrived in Hargeisa. They come usually during the summer time when they bring the local economy to live.

COVID19 affects all the aspects of Diaspora involvement in the economy. The lockdown orders and layoffs in Europe and North America hit hard the ability of the Diaspora to send money physically and financially. According to a recent study by the Central Bank of Somaliland

remittances showed a worrying decline in March. Diaspora investment will decrease by even greater proportion, while visitors from the Diaspora are expected to be a fraction of what they were in 2019.

3.4 International Assistance

Gross International assistance or the sum of externally funded projects is between \$150-200 million per year, which is about 5-6% of GDP. The funds support humanitarian, social services, resilience, and development projects.

COVID19 has affected international assistance in many ways. Expatriate consultants have either returned home or are in lockdowns; contractors are in the same situation causing delays in project startups; interruptions in payments due to bottlenecks in disbursement processes are contributing to delays and slowdowns in project implementation and spending.

3.5 Public Sector

The public sector accounts for about 7-10% of the GDP. It is a major employer. The total government payees in all sectors are about 60-65,000. The government does not receive any budgetary support. It relies on taxes in the form of customs duties and Inland Revenue to pay salaries which provide significant injection into the economy.

COVID19 is having an impact on government revenues from ports, airports, and businesses. Hargeisa International airport is literally closed, the volume of international trade is on a downward trend, and businesses are feeling the economic slowdown. The sectors particularly hit hard are:

1. Retail
2. Wholesale
3. Food and beverages
4. Hotels/hospitality
5. Travel and transport
6. Education and
7. Construction

The economy and government revenues are affected not only by external factors but also by domestic measures taken by the government to prevent the spread of the virus including:

1. Closure of schools – education is one of the biggest employers in the country
2. Banning of meetings and public events which deprived hotels main source of revenue
3. Social distancing
4. Working from home

The uncertain climate, falling stock market share prices, and tumbling oil prices have also significant impact on both domestic and foreign direct investment in the country.

4. The Fiscal Dimension of COVID19

Somaliland does not receive budgetary support and does not have the luxury of borrowing money to cover fiscal deficits. It has a balanced budget. On the revenue side, customs duties and levies account for 77.6% of government income (see Table below). This is a source which heavily depends on international trade. Therefore, any interruption in international trade will have significant impact on the government's ability to balance its budget. In the first quarter of the year (Jan-March), income from customs was down by 9%. Increases from Inland Revenue made up for some of the losses, but other sources suffered from drastic reduction, leading to a 7% 1st quarter net deficit.

Table 1: Revenue Budget 2020

	Description	Amount SI.Sh.	%
1	Customs	1,587,276,793,973	77.6
2	Inland revenue	338,963,620,313	16.6
3	Other	119,759,585,714	5.8
4	Total	2,046,000,000,000	100

Table 2: Revenue Jan-March 2020

	Description	Budget forecasted	Actual	Difference	%
	Customs	398,030,733,708	360,933,696,460	(37,097,037,248)	(9%)
	Inland Revenue	84,740,905,073	89,696,221,672	4,955,316,594	6%
	Other	27,009,906,037	18,346,385,023	(8,663,521,014)	(32%)
	Total	510,712,500,000	472,700,123,862	(38,012,376,138)	(7%)

We believe that the worst is to come. For the 2nd quarter we anticipate 30% reduction in revenue. We hope the situation will improve in the 3rd quarter and losses will come down to 20%. We calculate that the global economy will show strong signs of recovery, and government 4th quarter budget deficit will not exceed 10% (see the Table below).

Table 3: Revenue Forecast and Deficit: 2020

	Description	Budget forecast	Actual/expected	Difference	%
	1 st Quarter	510,712,500,000	472,700,123,862	4,955,316,594	(7%)
	2 nd Quarter	510,712,500,000	357,498,750,000	153,213,750,000	(30%)
	3 rd Quarter	510,712,500,000	408,570,000,000	102,142,500,000	(20%)
	4 th Quarter	510,712,500,000	459,641,250,000	51,071,250,000	(10%)
	Total	2,042,850,000,000	1,698,410,123,862	311,382,816,594	(15.4%)

- Balance brought forward is excluded

Despite the above optimistic scenario, the expected budget shortfall for the year 2020 will be SI.Sh. 311,382,816,594 which is 15.4% of the total annual budget. In Dollar terms, that is equivalent to \$36.6 million in today's market exchange rate. But the impact of COVID19 on the economy is far greater than the above anticipated fiscal deficit.

To bring the virus under control, the government needs to carry out massive awareness campaign, make available protective gear to the public and frontline health workers, provide test kits, prepare quarantine and isolation places, establish intensive care units and build adequate facilities to receive those who need medical attention. The Ministry of Health prepared a national COVID19 preparedness and response plan, whose implementation in the coming 9 months will cost \$15,205,000 (see the attached document for detail).

The lockdown, and the ensuing economic down turn has led to a surge in unemployment, the number of closed business and bankruptcies. Before the pandemic started, we expected the economy to grow by 2% and the budget was based on that assumption. Now, we believe that it will shrink by at least 5%. This in line with the 3.9% contraction in Africa's economies forecasted by McKinsey, the global consultancy firm, under the scenario of global outbreak including Africa. To mitigate the hardship caused and instigate a recovery program, we need to help the workers and the families who lost their livelihoods and support the affected businesses. If we assume that only 10% of families in Somaliland need humanitarian assistance for the rest of the year and each family needs a \$100 equivalent of basic necessities, we will have to support 60,000 families at a total cost of \$54,000,000.

Micro and small businesses bore the brunt of the damage caused by the pandemic. Recovery will be slow and elusive unless a recovery package which provides capital injection is implemented. If we assist only 5,000 businesses with an average grant or concessionary loan of \$1,000, the package will cost US 5,000,000.

5. Conclusion

Covid19 is already with us and in the region. Reported suspected cases and positive test results are on the rise. It is just a matter of time before we have full explosion of the pandemic given the pattern followed in other countries and continents. But even before we get to that point, the impact is being felt by the people, the economy and the budget. We reckon that we need \$110,805,000 to deal with the consequences of the COVID19 (see the Table below for detail)

Table 4: Resources Required to Deal with the Cost of COVID19

	Description	Amount (USD)
1	COVID19 preparedness and response	15,205,000
2	COVID19 budget deficit support	36,600,000
3	Economy recovery package	5,000,000
4	Humanitarian assistance to families affected	54,000,000
	Total required	110,805,000

Somaliland alone cannot cope with the burden of the pandemic. It has very little room for maneuver within its budget which commits 75% of the total to cover salaries and operational costs (see the table below). The government can only lean on the development budget before resorting to layoffs.

Table 5: Expenditure Budget 2020

	Description	Amount SI.Sh.	%
1	Salaries	991,159,240,274	48.4
2	Operational cost	535,720,823,610	26.2
3	Projects and capital investment	330,440,545,316	16.2
4	Other	188679390804	9.2
5	Total	2,046,000,000,000	100

The government can ill afford to stop funding development projects, but faced with declining revenues it is forced to halt all development initiatives for the time being. Unless adequate and immediate assistance is provided:

1. The corona virus will take its toll
2. The economy will shrink
3. Unemployment will rise
4. Many families will sink below the poverty line
5. Children from poor families will drop from school
6. Crime will rise
7. Democracy will suffer
8. Migration will increase and
9. Extremism will find a fertile train

We have a choice: to 'act' or 'not to act'. Between the two, 'not to act' is far more expensive.