



TOWARD BUILDING SOMALIA'S SOCIAL CONTRACT

**State affordability, revenue mobilization,
and service delivery in a nascent federal state**



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State affordability, revenue mobilization, and service delivery in a nascent federal state



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Acronyms

AIAI	Al-Ittihad Al-Islami
AS	Al-Shabab
ATMIS	African Union Transition Mission in Somalia
BRA	Banadir Regional Administration
CAS	Customs Automated System
CBS	Central Bank of Somalia
CEC	Community Education Committee
CEMAC	Economic and Monetary Community of Central Africa (Communauté Économique et Monétaire de l'Afrique Centrale)
CHC	Community Health Committee
CIT	Corporate Income Tax
CoA	Chart of Accounts
CR	Country Report
DPO	Development Project Operation
DRM	Domestic Revenue Mobilization
EAC	East African Community
EFT	Enforcement, Facilitation, and Trust
EMIS	Education Management Information System
EPHS	Essential Package of Health Services
EU	European Union
FCDO	Foreign, Commonwealth, and Development Office
FCV	Fragility, Conflict, and Violence
FGD	Focused Group Discussion
FGS	Federal Government of Somalia
FHW	Female Health Worker
FMFF	Financial Ministers Fiscal Forum
FMS	Federal Member State(s)
FPENS	Formal Private Education Network in Somalia
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GSS	Galmudug State of Somalia
GST	Goods and Services Tax
HIPC	Heavily Indebted Poor Countries

HMIS	Health Management Information System
HSS	Hirshabelle State of Somalia
ICT	Information Communication and Technology
IDP	Internally Displaced Person
IFI	International Financial Institution
IFMIS	Integrated Financial Management Information System
IGFF-TC	Intergovernmental Fiscal Federalism Technical Committee
IMF	International Monetary Fund
ITAS	Integrated Tax Administration System
JPLG	Joint Program for Local Governance
JSS	Jubaland State of Somalia
KII	Key Informant Interview
LDF	Local Development Fund
LHS	Left-Hand Side
LIC	Low-Income Country
MDAs	Ministries, Departments, and Agencies
MLSA	Ministry of Labor and Social Assistance
MOECHE	Ministry of Education, Culture, and Higher Education
MOF	Ministry of Finance
MOIFAR	Ministry of Interior, Federal Affairs, and Reconciliation
MOPIED	Ministry of Planning, Investment, and Economic Development
NCC	National Consultative Council
NCSC	National Civil Service Commission
NDP	National Development Plan
NGO	Nongovernmental Organization
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OP	Office of President
PFM	Public Financial Management
PIT	Personal Income Tax
POS	Point of Sale
PSS	Puntland State of Somalia
RCRF	Recurrent Cost and Reform Financing
RHS	Right-Hand Side
SDG	Sustainable Development Goal
SFMIS	Somalia Financial Management Information System
SMEs	Small and Medium Enterprises
SNA	Somalia National Army
SNLR	Shock Responsive Safety Net for Locust Response
SOMCAS	Somalia Customs Automation System
SONOC	Somalia National Oil Company
SPA	Somali Petroleum Authority
SRSNHC	Shock Responsive Safety Net for Human Capital
SSA	Sub-Saharan Africa

SSF	Somali Security Forces
SURP	Somalia Urban Resilience Project
SWSS	South-West State of Somalia
TA	Technical Assistance
TRA	Tanzania Revenue Authority
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development
VAT	Value Added Tax
V-DEM	Varieties of Democracy
WAEMU	West African Economic and Monetary Union

Overview

by Jana Kunicova

State building and state legitimacy in the states emerging from fragility are inseparable from the notion of social contract. In the countries where the youth only know statelessness—or a complete absence of state institutions—building a new social contract from the ground up becomes an even stronger imperative. What can citizens legitimately expect from the state? Should the state provide only the basics—security and observance of social order—or should it also be involved in the provision of broader public goods and services, such as infrastructure, clean water, public health, and education? These questions are inextricably linked to the questions of what is affordable. Most fragile states, given the destruction of state institutions and processes, suffer from very low tax capacity and hence feeble revenue collection and rely disproportionately on often unpredictable donor funds. Yet the ability of the state to collect revenue is also linked to the fiscal bargain side of the social contract. For citizens, paying taxes hinges on the trust that public funds will be translated into key public goods and services. Higher trust means higher willingness to pay taxes.

Social contract is a dynamic agreement between the state and society, delineating mutual roles and responsibilities that are continuously renegotiated based on changing capacities and expectations. It is also understood as an implicit agreement where the state provides security and public goods in exchange for citizens' compliance and support. This concept serves as a framework for understanding how states gain legitimacy, maintain social order, and deliver public goods such as justice, security, and development—supporting an understanding of the local context and the need for tailored approaches to strengthen the social contract in different contexts. While this volume examines the dynamics of building Somalia's social contract, it does not delve into the nature of the bargaining interfaces but rather explores the outcomes of the social contract, including the state's capacity for revenue mobilization and service delivery through its multiple administrative units. Importantly, it provides information on how the alignment of expectations between the state and society and outcomes has evolved over the past few years.

In the present-day Somalia, the questions of state building—including state affordability, tax and service delivery capacity in a nascent federal system, and citizens' expectations and trust—come into a stark relief.

Somalia is emerging from over three decades of being considered a failed state and submerged in an armed conflict. At 2.5 percent of gross domestic product (GDP), its domestic revenue¹-to-GDP ratio is the lowest in the world, and the Somali state is currently dependent on the official development assistance (ODA) for almost half of its budget. However, the state-building efforts have markedly progressed in the past decade. In 2012, a provisional constitution was adopted, creating the foundation for the federal state with the Federal Government of Somalia (FGS) based in Mogadishu and originally five Federal Member States (FMS). Although the functional assignments and revenue-sharing arrangements are still work in progress, the foundational structure has created a framework for public service delivery. Key federal and state institutions—the Central Bank, the Ministry of Finance (MOF), and the Office of Auditor and Accountant General—are functional and their capacity is being built continuously, with the assistance of development partners. As a significant milestone, Somalia reached a Heavily Indebted Poor Countries' (HIPC) Initiative 'completion point' in December 2023, ushering in sovereign debt relief from its creditors underpinning almost a decade of transformational reforms and state-building efforts.

This volume explores key questions for Somali policy makers at this critical juncture of state building. The questions can be organized into three overarching clusters:

1. *What type of state can Somalia afford in the medium term, given its current starting conditions of low revenue base and reliance on ODA?*
 - How can Somalia provide at least a minimal level of services required for state legitimacy given its resource envelope?
 - What expectations should the government and development partners foster among citizens about the types of services the state would deliver?
2. *How can Somalia enhance its domestic revenue?*
 - What are the key revenue reforms required to reach a 4.5 percent tax-to-GDP ratio by 2030, and eventually 9 percent by 2060?
 - How to foster tax compliance among citizens and businesses?
3. *How can Somalia deliver public services in a way that increases trust in the state and hence reinforces its legitimacy and strengthens the fiscal bargain?*
 - In a nascent federal system, how should the national, state, and local governments divide the labor on service delivery?
 - How to ensure that each level is adequately resourced and has the requisite capacity?
 - How does the combination of public and private service provision affect the social contract between the citizen and the state?

The remainder of this overview summarizes the approach to these questions and main findings of the volume.

1. The FGS domestic revenue in 2022 including tax revenue (direct taxes, indirect taxes, taxes on goods and services, taxes on international trade, other taxes) and nontax revenue. The FGS tax-to-GDP ratio stood at 1.7 percent of GDP in 2022.

Achieving state affordability

The first question of this volume, concerning state affordability, is discussed in Chapter 1. The chapter considers several theoretical types of state—minimalist, intermediate, and activist—depending on the extent it is involved in public service delivery. It then compares the current role of the state in Somalia to these theoretical types and concludes that the current service provision in Somalia is below what can be considered the minimal role of the state. Given this baseline, the chapter constructs a simple modeling exercise by considering two types of scenarios. The first set of scenarios involves asking how much it would cost to deliver key public services covering modest, intermediate, and large share of Somali population. The second set of scenarios flips this exercise and instead begins with Somalia's resource envelope, including domestic revenue, external financing, and ODA. It then makes assumptions about the trends in this resource envelope and considers various illustrative combinations of public services Somalia could afford.

The findings show that while Somalia's road to state building remains long, it is possible to map out both the direction and concrete steps to build a viable minimalist state. If Somalia is to decide that its long-term goal is to provide universal publicly financed health and education coverage coupled with adequate levels of security, justice, and social protection, its domestic revenue generation should reach 14 percent of GDP or higher. However, with the current trend of domestic revenues, Somalia can afford to provide only 25 percent of the population with free primary and secondary education and basic health services by 2030. Somalia may still aim to reach 50 percent of the population covered by public education and health beyond 2030, but this will require intensified efforts on the domestic revenue side to reach 9 percent of GDP collectively for the FGS and FMS.

Given the resource envelope limitations, achieving an affordable state in Somalia will require clarity of the government role across service delivery sectors, communication to citizens, and coordination across levels of government and with non-state service providers. The chapter emphasizes that the role of the state can differ across sectors—the government can be a leading provider in one sector, regulator in another, and coordinator yet elsewhere. However, affordability considerations will dictate that an enhanced role in one sector will mean a leaner role in other sectors. In deciding on its role across sectors, the government will have to consider and manage citizens' expectations, communicate the chosen role to citizens, and ensure they have equal and inclusive access to services provided by both state and non-state actors. To deliver on the state's role, Somalia's governments need to clearly define functional assignments at the sectoral level, that is, which level of government delivers what services. It is crucial to understand the cost of each functional assignment and match it with the financing resources available at each level, either through federal transfers or local revenue mobilization efforts. It is also critical to understand the role of non-state actors (development partners, private sector, local communities) and their financing capacities and coordinate at each level.

To sustainably guarantee at least a minimal role of the state in the long term, Somalia will need to focus on five key policy priorities: domestic revenue mobilization (DRM), predictable ODA, public expenditure selectivity, wage bill management, and security sector resource management. First, strengthening domestic revenue generation and management will require comprehensive tax policy reforms and the modernization of tax administration, aiming to increase the domestic revenue-to-GDP ratio to at least 4.5 percent for the FGS and to 6 percent inclusive of FMS by 2030 and to 15 percent of GDP beyond 2030. Defining functional and revenue assignments and implementing a rule-based intergovernmental transfer and revenue-sharing system is critical. Second, supporting a more predictable and sustained level of ODA will require incorporating significant portions of ODA into the national budget for enhanced coordination and efficiency. At a minimum, ODA must be

visibly reflected in the national budget and aligned with the cost of the 10th National Development Plan (NDP10). Moreover, alongside ODA, a coherent strategy for mobilizing private capital in vital service delivery sectors is required. Third, reinforcing public expenditure selectivity, efficiency, and accountability will require fiscal rules as well as enhancing spending efficiency, with a particular emphasis on prioritizing investments in human capital and upholding accountability and transparency in public spending. Fourth, improving its wage bill planning and control mechanisms is key, given that the public sector wage bill still constitutes a significant portion of public expenditures. This includes continued reforms in managing the nonformal wage bill and the implementation of a pay and grading system. Any proposals for increasing the number of administration sector employees or salary levels must undergo rigorous scrutiny against fiscal sustainability considerations, including in the security sector. Finally, defining the shape and form of security sector provision should be prioritized, particularly in the context of the planned African Union Transition Mission in Somalia (ATMIS) drawdown and the lack of agreement over functional assignments in the security sector. Arguably, a 'minimal state' should be one that secures the security and well-being of its citizens, and without making progress on this front it will be challenging for many other areas to progress in Somalia.

Enhancing domestic revenue

The second question of this volume—on how to enhance domestic revenue in Somalia—is explored in depth in Chapters 2 and 3. While Chapter 1 sets the stage for various factors to ensure a sustainably affordable Somali state, none of these factors are more important than ensuring that domestic revenues steadily increase over time. As Chapters 2 and 3 demonstrate, this will require steady tax policy and tax administration reforms as well as working with taxpayers to enhance tax enforcement, facilitation, and trust to improve tax compliance.

Chapter 2 focuses on a selected set of opportunities and constraints for domestic resource mobilization over the short to medium term. It asks to what extent Somalia can move toward relatively sustainable and predictable tax sources (for example, income and consumption taxation), given that the greater part of revenues is currently generated by volatile customs revenues and a range of small and unpredictable taxes and nontax sources. Given the fragile country context, can the current tax system absorb the large set of tax reforms currently on the agenda? Finally, is the implementation of measures to enhance DRM feasible, given that core areas of the fiscal federal framework still need to be completed?

The findings in Chapter 2 provide reasons for cautious optimism on the revenue front. The domestic revenue-to-GDP ratio is projected to reach 4.5 percent by 2030, representing almost a nominal tripling of domestic revenues compared to 2022. The rollout of the harmonized income tax framework and the standardized valuation table and tariff structure at customs will drive the enhanced mobilization of revenues. Other areas, though not yet quantifiable, include the extensive introduction of excise taxes and much higher efficiency in the customs revenues-to-trade ratio. The harmonized customs, including rationalization of tax expenditures, will help increase efficiency of revenue collection. The long-term outlook—2027 and beyond—suggests significant improvements in tax revenues. Somalia ratified the East African Community (EAC) Treaty in March 2024 and the net impact on economic growth and tax revenues is deemed substantial as the country integrates into the East African trade community in the medium to long term. Similarly, perspectives emerge on the extraction of natural resources. The national framework, including core legislation, has been completed and Somalia has launched an initial bidding round on offshore extraction of oil reserves. The promising revenue forecasts are being backed up by the political commitment of the authorities to seek sustainable fiscal reforms during recent years and, in a broader context, the ongoing efforts to ensure peace and security.

To reach the 4.5 percent tax-to-GDP ratio by 2030, Somalia will have to prioritize adapting the national tax system to regional integration with EAC; continue reforms in income tax, customs, and indirect taxation; and finalize harmonization and tax sharing across the federation. First, rapid adaptation of the national tax legislation to EAC protocols and standards will be crucial, since customs revenues constitute the most important revenue source, and alignment on tariff and valuation tables is critical to avoid any disruptions in revenue flows. Second, firm commitment to the ongoing reform programs, including capacity building, in income tax, customs, and indirect taxation must be sustained. The ongoing efforts on customs and income tax reforms, including harmonization across the FGS and FMS, are deemed to provide a structural improvement in revenue generation. However, revenue impact is contingent on the simplification of tax regime and consolidation, including harmonization of tax base definitions. On indirect taxation, it will be important to develop and implement a coherent and comprehensive strategy on excise taxes. Finally, concerted political efforts will be required to sustain the dialogue on implementation of the harmonized tax framework, including tax sharing, across the federation. As a minimum, a tax-sharing arrangement at the federal level, considering own-tax revenue generation at FMS levels, should be developed.

Could Somalia be targeting the '15 percent tax-to-GDP' ratio over the longer term? For quite some time, the 15 percent tax-to-GDP ratio has been seen as a threshold value for countries, to be able to finance public service delivery in a sustainable manner and based on domestic tax revenues. The results of the prudent forecasting in Chapter 2 suggest a minimum of 4.5 percent domestic revenue-to-GDP ratio in 2030, noting as mentioned above that significant reforms under way, EAC integration, natural resources extraction, and further deepening of ongoing reforms have the potential to push the tax-to-GDP ratio up much higher. Exiting the fragility trap, positive global and domestic economic trends and fiscal impact could realistically lead Somalia to double the prudently estimated tax-to-GDP level and move into the band of countries at the 10–15 percent tax-to-GDP level. A consolidated and sustainable revenue generation toward the top of that band seems, however, to require full-scale and closely monitored reform implementation in areas elaborated in Chapter 2, together with the fiscal management reforms, particularly in moving the fiscal federalism structure toward completion, and hence much improved fiscal efficiency and predictability across the federation. In addition, the excessive tax burden on businesses and other taxpayers due to a 'competition of taxation rights' between the FGS, FMS, communities, and militias will need to be addressed.

Improvements in DRM will also require a strong social contract for increased voluntary tax compliance. Given the income tax potential, Chapter 3 analyzes the perspectives of the private sector and citizens on income tax compliance. Limited trust in the tax system in Somalia affects compliance, resulting in a low-level equilibrium in tax collection. The central challenge for reformers in Somalia lies in finding mutually reinforcing strategies for strengthening revenue mobilization, improving trust to enhance compliance, and building political support to enable these reforms. The chapter examines two key questions. First, what are the main challenges faced by large taxpayers to comply with (income) tax, and what is needed to improve their willingness to pay? Second, what drives citizen tax morale across Somalia? The perspective of large taxpayers is central to Somalia's quest for improved revenue performance, while the perspective of Somali citizens is important to ensure political support for reform is broadly shared.

The main findings of Chapter 3 suggest that Somalia has several concrete policy options to address challenges faced by taxpayers, build trust, and improve tax morale. Current taxation practices of large firms, such as tax competition between formal authorities, and between informal and formal authorities, decrease tax morale and compliance. Concrete levers for revenue administrations to support large firms' tax compliance include targeting and improving the effectiveness of enforcement, building administrative capacity for better facilitation, and improving service delivery to build public trust. Citizens report similar levels of tax morale across levels of government (local, state, and national), and beliefs about government are strongly associated with tax morale. Information about low tax collection in Somalia, compared to neighboring countries, can further increase tax morale at the state and national levels of government.

The results of the firm survey provide concrete policy recommendations to improve tax morale and compliance of large taxpayers. First, targeting and improving the effectiveness of enforcement will require focusing on improvement of quality, selection, targeting, and perceived fairness of audits. Second, building administrative capacity for better tax facilitation will include harmonizing payments to fewer institutions; simplifying payment procedures; improving administrative capacity of revenue authorities, including anti-corruption reforms; providing taxpayer education; and improving communication by revenue authorities. Finally, improving service delivery to build more public trust will require improving capacity of government staff, particularly in FMS; improving consistency in applying tax laws (fairness); and improving public service provision (reciprocity). Taxpayers view the government (both the FGS and FMS) as important public service providers, compared to traditional authorities, which are only expected to provide security. This will also contribute to building more conditional understandings of tax morale and ultimately strengthen tax bargaining and political support for reform. Finally, trust can be improved by investing in equity (ensuring large taxpayers contribute most) and listening to and acting on concerns of businesses.

The results of the citizen survey point to further avenues to strengthen the legitimacy of formal taxation and build broader tax morale in Somalia. The survey results suggest that an information campaign focusing on equity—particularly the low level of taxes collected in Somalia compared to neighboring countries—can increase general tax morale at the state and national levels.

Delivering services in a nascent federal state

The third question—concerning service delivery in the federal framework that is still being forged—is the subject of Chapters 4 and 5. Public service delivery is the government's end in the fiscal bargain model of social contract. When citizens pay taxes, they expect the government to use public funds to provide public services. As discussed in Chapters 1 through 3, the federal arrangements in Somalia are work in progress. Decentralization is relevant not only for state affordability and revenue collection but also—and perhaps most importantly—for service delivery. The idea behind decentralization is that the lowest level of government should deliver the most critical services, being the closest to citizen and hence having both knowledge of their needs and accountability.

Somalia's fiscal federalism mostly concerns the agreements between federal and state authorities; meanwhile, local governments are not yet included in the existing framework. FGS-FMS agreements on fiscal federalism have cumulatively created the conditions for regular transfer of resources from the FGS to the FMS and have supported public financial management (PFM) reforms at the FMS level. However, these transfers have not addressed the needs or financing of local governments, even though under the subsidiarity principle established in Article 50 of the Provisional Constitution, local governments are best placed to assume responsibility for primary service delivery.

The two key questions discussed in Chapter 4 concern the rationale for establishing intergovernmental transfers to local governments that are linked to service delivery and the considerations for developing an intergovernmental transfer mechanism for local governments. To answer these two policy questions, the chapter looks at the current fiscal situation of the different levels of government both vertically and horizontally and examines the existing intergovernmental transfers from the federal to state and state to local governments. It also presents the findings from a stakeholder survey in eight districts across four FMS which solicited feedback on the perceived legitimacy of different levels of government, the type of taxes collected by the local governments, and the different types of services desired by communities.

The findings confirm that there is a strong case for providing intergovernmental transfers to local governments.

The survey results show that the local governments have the highest level of trust among the citizens, even though they do not currently provide substantial services. Yet citizens would like their local governments to deliver services in a number of areas consistent with their assigned responsibility. Local governments could usefully play a role in bridging gaps in private sector service delivery, particularly to vulnerable segments of the population that cannot afford to pay for private provision. Local governments have limited own-source revenues with which to provide these services. Funding provided in the form of transfers from higher levels of government (FGS and FMS) could help strengthen stakeholder perceptions of the legitimacy of the state as a whole.

However, to maintain trust in local government and avoid politicization of the transfer system, it will be essential to provide local governments with a voice in fiscal federalism discussions and ensure community participation in the identification of the services to be financed. Capacity gaps at the local government level will also need to be addressed if transfers are to be utilized effectively. Intergovernmental transfers to local governments need to be twinned with capacity support to local government staff and development of systems for transfer utilization and reporting. DRM will also need to be supported to ensure the long-run sustainability of increased local government spending on service delivery.

Against this backdrop, it is clear that service delivery in Somalia must remain a shared task among various levels of government and the private sector. Chapter 5 explores the complex landscape of education and health service delivery, particularly the structure and interplay between private and public facilities. The chapter delves into the trade-offs faced by citizens when accessing these services. It seeks to capture the perceptions of citizens regarding the capacity of the federal, state, and district administrations to deliver on education and health services and how these perceptions influence the legitimacy of these tiers of government. Finally, the chapter investigates citizens' satisfaction with the services they receive and their views on the government's transparency and responsiveness.

Chapter 5 finds that efficient service delivery in health and education serves as a source of legitimacy, alongside provision of security, rule of law, and managing political participation and accountability, and serves as means to build trust between its government and citizens. This chapter establishes that citizens prefer public facilities for public provision, even when they resort to primarily using private and traditional ones. Analyzing citizens' attitudes toward capacity and legitimacy of different administrative levels, the chapter finds that the district government has a comparative advantage in supervision, the state government in provision of services, and the federal government in advocacy for better services. Together, they reinforce each other's credibility in the eyes of the citizen. On whether citizens are satisfied with the services they receive from the government and whether they have avenues to communicate their needs, the chapter finds that some states have more voice than others. If the government promotes avenues for voice, citizen satisfaction improves almost exponentially. The chapter recommends that the different administrative levels of the Government of Somalia collaborate more, delegate roles to states and districts, and encourage dialogue to better deliver on the social contract.

Recommendations in Chapter 5 include creating partnerships among state and private providers to facilitate modernization of service delivery; promoting coordination and collaboration across all tiers of government; and fostering participation and accountability. First, modernization of private facilities entails forging partnerships among governments, nongovernmental organizations (NGOs), and private stakeholders. Often the process of stakeholder interaction, rather than the output of this process, most distinctly shapes state legitimacy. Governments can play a crucial role by offering first platforms for deliberation such as the intergovernmental coordination forums to support collaborative governance and then financial support, technical assistance (TA), and regulations to facilitate the modernization process. Second, it is essential that all levels of

government collaborate and work together to foster synergies in service delivery by strengthening advocacy at the federal level, service provision at the state level, and supervision at the district level. Finally, participation and accountability at the local level can be fostered through grassroots organizations such as community health and education committees. The government can explore whether indeed there are shortages of community committees in the different states, whether they are representative of their communities in terms of marginalized groups, and whether their feedback is taken up by the government to inform policies and programs. Evidence shows that the more such structures exist, and the more citizens share feedback with government, the better social contract outcomes are.

Cross-analysis of the five areas presented in the volume offers high-level policy recommendations for the consideration by Somalia authorities, development partners, academia, and nongovernmental and private sectors as summarized in Table O.1. These are complemented by technical recommendations that conclude each chapter. It is important to note that recommendations are not meant as a direct instruction for action but should rather be considered as evidence-based policy options that should be weighed and broadly discussed with key stakeholders as part of defining Somalia Centennial Vision of 2060. This includes consideration of the size of the state, the model of service delivery and its intergovernmental aspects, and strategies for building a social contract in Somalia.

Table O.1: High-level recommendations

S. No.	Recommendation	Time frame
Toward a model for an affordable Somali state		
1	Agree on the role and size of the state in service delivery across the levels of federation.	Medium term
2	Strengthen domestic revenue generation and management to foster social services delivery outcomes.	Medium term
3	Support a more predictable and sustained level of ODA and private capital mobilization to support Somalia's sustainable development trajectory.	Short term
4	Reinforce public expenditure selectivity, efficiency, and accountability to optimize resource utilization and accelerate progress toward its development goals.	Medium term
5	Improve wage bill planning and control mechanisms to ensure prudent fiscal management and optimize the allocation of resources across sectors.	Medium term
6	Effective security sector resources management.	Medium term
Opportunities and constraints in domestic resource mobilization: 2023–2030		
7	Swiftly adapt national tax legislation to EAC protocols and standards	Short term
8	Make a firm commitment to the contents and timelines of the agreed, ongoing reform programs	Short-medium term
9	Make concerted political efforts and conduct dialogue on implementation of the harmonized tax framework across the federation.	Short term
Improving income tax compliance in Somalia		
10	Focus on improving the quality, selection/targeting, and perceived fairness of audits. This will also help build trust	Short term
11	Harmonize taxation, including payments (to fewer institutions)	Medium term
12	Improve the administrative capacity of revenue authorities, particularly in the FMS. This will also help build trust	Medium term
Somalia's fiscal decentralization		
13	Ensure that local governments have a voice in fiscal decentralization reforms.	Short term
14	Provide TA to the districts to effectively implement identified services. The FMS should provide local governments with TA on revenue raising and recording, budget preparation, budget execution, and reporting.	Medium term
15	Adopt realistic minimum conditions for the local government to access intergovernmental transfers. At the least, the state governments should (i) adopt an organogram with minimum staffing, (ii) open a sub-account of the treasury single account, and (iii) develop a budget that is approved by the district council.	Short term
16	The state governments should adopt a common decentralization policy either by reviewing or updating the federal national decentralization policy or opting for a new policy considering recent agreements.	Medium term
17	A policy is adopted to increase local governments' DRM capacities which should be incentivized through the intergovernmental transfers allocations.	Short term
18	Community consultation mechanisms should be adopted when local governments decide which services are best suited to be financed through intergovernmental fiscal transfers.	Short term
19	Establish citizen engagement platforms to lead the identification of the services to be financed through transfers to local governments and include feedback mechanisms on performance.	Short term
20	Publish local government budgets, and fiscal reports, and provide platforms to engage citizens on transparency and accountability measurements.	Short term
Delivering on the social contract in Somalia		
21	Reduce the need for trade-offs and strengthen the social contract, and the government (federal, state, and district) needs to understand how it can collaborate with private facilities.	Medium term
22	Forge partnerships between governments, NGOs, and private stakeholders, recognizing that often the process of stakeholder interaction, rather than the output of this process, most distinctly shapes state legitimacy.	Short term
23	Adopt digital technologies and information systems to enhance efficiency, transparency, and accountability in service delivery.	Short term
24	Prioritize inclusivity and equity to ensure that marginalized communities benefit from improved services.	Short/long term
25	To achieve effective governance, all levels of government should collaborate and work together to foster synergies in service delivery, by strengthening advocacy at the federal level, service provision at the state level, and supervision at the district level.	Short/long term

Chapter 1

Toward a model for an affordable Somali state

By Alma Nurshaikhova and Margherita Fornasari

Although Somalia² has made significant strides toward building a functional state following 20 years of conflict, it remains fragile and largely dependent on external funds. The foundations of the justice and security system, civil service, public financial management (PFM), financial governance, sectoral policy, and regulations were established, tested, and have proved to be viable. However, Somalia is far from the concept of a ‘minimal state’³ that provides basic public services and goods to its citizens on a sustainable basis. More than half of Somalia’s budget is financed through external grants. In 2023, for the first time since the formation of the Federal Government of Somalia (FGS) in 2012, the FGS tax collection level was barely sufficient to cover its growing public sector wage bill. Investments in basic infrastructure and social services are still financed from external sources. The continued presence of the militia-based opposition, Al-Shabab (AS), in large parts of the country poses a substantial risk to the statehood and demands large investments in the security sector, which Somalia cannot fully afford.

What will it take for Somalia to become a ‘minimal state’? What are the current and optimal sizes of the state in the medium and long term, given development needs and citizens’ expectations in relation to domestic revenue capacity and the external financing trajectory? What can Somalia afford? This chapter explores these questions.

To answer these questions, Chapter 1 constructs two sets of scenarios: the medium term (by 2030) and the long term (by 2060). The first set of scenarios explores the cost of different levels of service delivery depending on the share of population covered by publicly financed basic social services. The second set of scenarios is built around Somalia’s resource envelope, including domestic revenue, external financing, and official development assistance (ODA). The findings show that If Somalia is to decide that its long-term goal is to provide universal publicly financed health and education coverage coupled with adequate levels of security, justice, and social protection, its domestic revenue generation should reach 14 percent of gross domestic product (GDP) or higher.

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2. Somalia is a federal state consisting of the FGS, five FMS, and Somaliland, which self-declared its independence. In this chapter, Somalia refers to the FGS and FMS and their governments collectively, unless otherwise stated.
 3. The concept of a ‘minimal state’ is based on the World Bank ‘World Development Report 1997: The State in a Changing World’ and implies a state that provides only basic public services, such as security and rule of law, macroeconomic stability, property rights, basic education, and control of infectious diseases.

However, with the current trend of domestic revenues, Somalia can afford to provide only 25 percent of the population with free primary and secondary education and basic health services by 2030. Somalia may still aim to reach 50 percent of the population covered by public education and health beyond 2030, but this will require intensified efforts on the domestic revenue side to reach 9 percent of GDP collectively for the FGS and FMS.

This chapter covers the following: (i) an overview of the current context of state delivery and fiscal trends, (ii) a description of policy considerations and a theoretical framework, (iii) the design of medium- and long-term scenarios for service delivery and revenue mobilization, and (iv) conclusions and policy recommendations.

Somalia's state delivery capacity: Current context

Somalia is one of the poorest countries in the world, with negative per capita income growth during shocks and less than 1 percent during years of economic recovery. Recurrent climate-related shocks, elevated international commodity prices, and heightened insecurity and conflict caused the annual GDP growth to drop to 2.4 percent in 2022 from 3.3 percent in 2021.⁴ In 2022, Somalia had a nominal GDP per capita of US\$592.1.⁵ The country's economic growth has had no impact on reducing poverty and boosting shared prosperity. The estimated population of Somalia is 17.6 million, which grows annually by 3.1 percent, further challenging Somalia's sustainable development.⁶ The weak economic growth and demographic pressures challenge job creation in Somalia, limiting the country's capacity to absorb current and future workers (Karamba 2021). With only 33 percent of men and 12 percent of women participating in the labor market, Somalia's labor force participation rate is quite low (World Bank 2024a). Furthermore, 54 percent of the population lives below the poverty line as they consume less than US\$2.06 per day or US\$754 per year (Somalia National Bureau of Statistics 2023). At the same time, the medium-term economic recovery is expected to be modest, with real GDP growth estimated at 3.1 percent in 2023 and forecasted at 4.0 percent in 2026, slightly surpassing population growth estimates (Somalia National Bureau of Statistics 2023).

Since adopting its provisional constitution in 2012, Somalia has made considerable progress in laying the foundations of state building.⁷ It has made incremental headway on fiscal and economic reforms and development of economic governance institutions. Institutional foundations for public resource management were put in place, including (i) enacting a modernized Public Financial Management Law in 2019 and an Audit Law in 2023, (ii) implementing financial management information systems, (iii) establishing and increasing capacity in tax and customs administration, and (iv) establishing the basics of a rule-based intergovernmental fiscal transfer system. The Central Bank of Somalia (CBS) has increased its capacity to supervise and regulate the financial sector, including building a national payment system and licensing and supervising commercial banks and money transfer businesses. Reflecting a good track record of reform, Somalia reached the Heavily Indebted Poor Countries (HIPC) Initiative completion point on December 13, 2023, which provided substantial debt relief, moving Somalia out of debt distress. However, to strengthen its legitimacy and deliver results to its citizens will require much greater efforts and investments, which Somalia is not yet able to afford, as discussed below.

Somalia continues to struggle in delivering two key public goods to its citizens: security and justice. AS retains the capacity to control significant areas of Somali territory using guerrilla warfare and terrorist tactics against Somali and international actors. In areas where it has retained territorial control, it has sought to provide

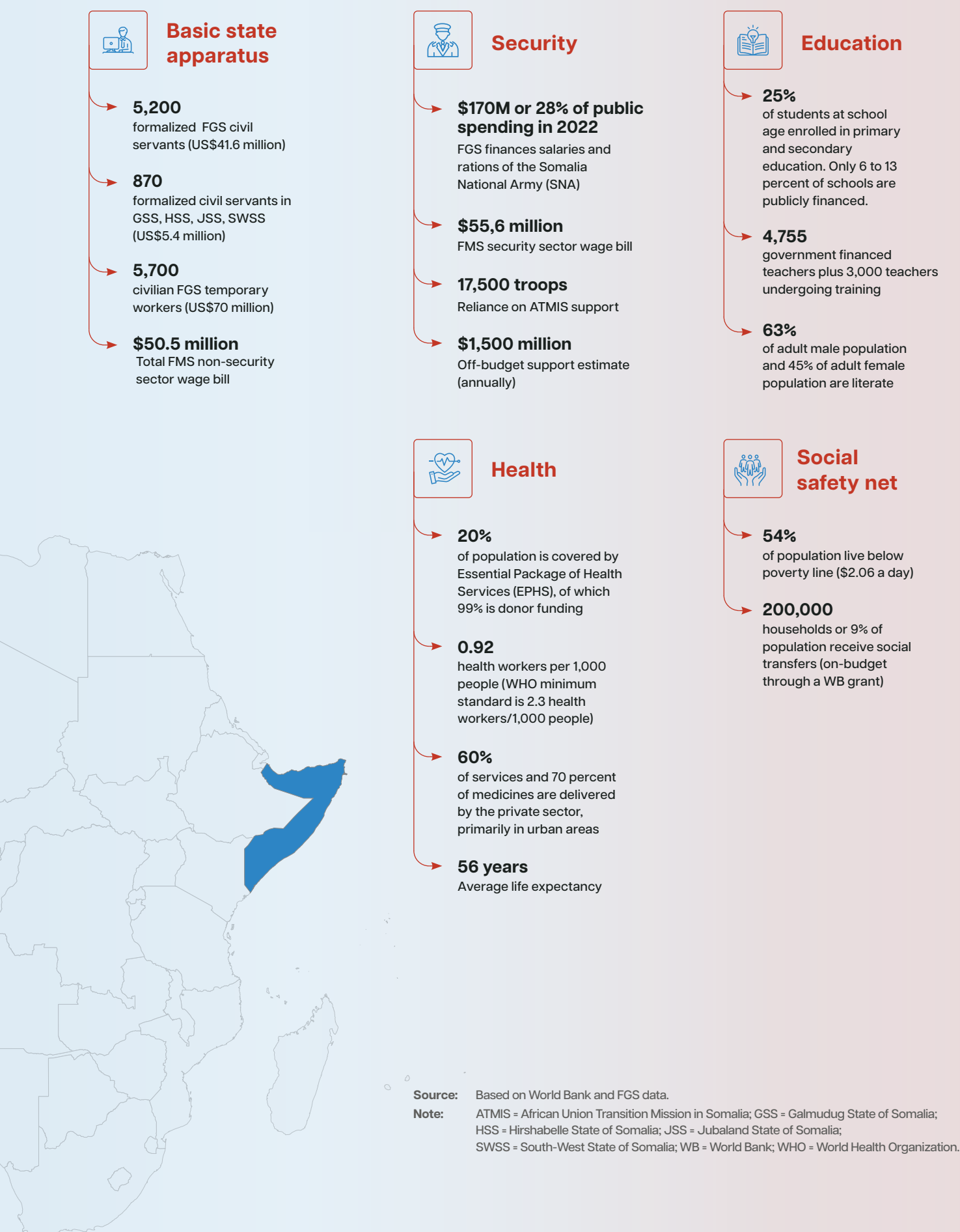
4. See World Development Indicators, 2024, [here](#). The latest observations are from 2022.

5. See World Development Indicators, 2024, [here](#). Latest observations are from 2022.

6. See World Development Indicators, 2024, [here](#). Latest observations are from 2022.

7. This paragraph is based on Somalia Country Partnership Framework (2024–2028) and Office of the Minister, Minister of Finance (2024).

Figure 1.1: Level of FGS service delivery, 2022



its particular governance, setting up political structures, court, and policing functions, while also recruiting members of the local population, sometimes forcibly, to further its military and political objectives. Numerous other informal armed groups and militias also raise millions of dollars in predatory 'taxes' on Somalis each year to pay for themselves. Disputes are resolved by a variety of means, and the application of justice is contingent on an individual's socioeconomic status. In seeking to resolve contests over land and property ownership, access to natural resources, and family and contractual disputes, Somalis are more likely to choose informal institutions using the customary law, known as *xeer*, rather than public institutions, and often resort to AS courts. Some US\$10.5 million is spent on formal provision of justice services each year in a sector that is lacking in a strategic approach to linking customary and formal laws and institutions, as well as unclear 'federal' relations and functions (Zacchia, Harborne, and Sims 2017).⁸

Years of conflict, instability, violence, and a weak governance system have led to meager investments in human capital formation and left several generations of Somalis unable to achieve their potential. Somalia's health indicators remain among the worst in the world, with an average life expectancy of 56 years.⁹ Due to a combination of health service supply and demand challenges, only 32 percent of births are attended by skilled personnel, and only 21 percent occur in health facilities nationwide (World Health Organization 2023). The education system is still evolving and continues to be highly fragmented, leading to weak sector outcomes. Access to education has remained low over the last two decades – less than 25 percent of school-age children are enrolled in primary or secondary schools, with significant variations across Somalia and high drop-out rates. The most disadvantaged, specifically girls, those living in rural areas, and poor households, remain excluded from schooling opportunities.

The FGS faces challenges in ensuring universal access to basic services for its citizens, as illustrated in Figure 1.1. Public spending, including on-budget grants, is not the sole source of financing for citizens' essential needs. Non-state actors have played a crucial, if not exclusive, role in providing basic services across Somalia during years of conflict. For instance, the Somali government minimally offers essential social services such as education and health care, with nongovernmental organizations (NGOs) being primarily responsible for delivery and financing, mainly through on- and off-budget ODA. Indeed, public financing covers only 6 to 13 percent of primary and secondary schools, while the Essential Package of Health Services (EPHS), which reaches just 20 percent of the population, is almost totally reliant on donor funding (see Figure 1.1).

The Somali government does not have the capacity to provide citizens with access to essential services in either the short or medium term, which inhibits its legitimacy. The overall quality of the Somali public sector falls below that of comparable countries. Indicators such as the 2022 Worldwide Government Effectiveness Indicator highlight Somalia's poor quality of public services, low standard of civil service, inadequate performance in policy formulation and implementation, and the credibility of government commitments to these policies (see Figure 1.2).¹⁰ Additionally, the 2022 Bertelsmann Stiftung's Transformation Index indicates that Somalia's governance performance,¹¹ particularly in terms of steering capability, resource efficiency, and consensus building within the government, lags that of regional and structural peer countries, countries affected by fragility, conflict, and violence (FCV), and federal state peer countries, as shown in Figure 1.3. This consistent portrayal underscores an insufficient administrative capacity for service delivery, which raises questions about Somalia's state legitimacy. Indeed, the 2022 State Legitimacy Indicator¹² suggests that the Somali government displays poor representativeness and openness in its relationship with its citizenry compared to peer countries (see Figure 1.4).

8. With updates from the authors.

9. See World Development Indicators, 2024, [here](#). Latest observations are from 2021.

10. See Worldwide Governance Indicator, Government's effectiveness sub-indicator, 2022, [here](#).

11. See Bertelsmann Stiftung's Transformation Index, Government performance sub-indicator, 2022, [here](#).

12. See The Fund for Peace Fragile State Index, State Legitimacy sub-indicator, 2022, [here](#).

Figure 1.2: Government Effectiveness Indicator, 2022

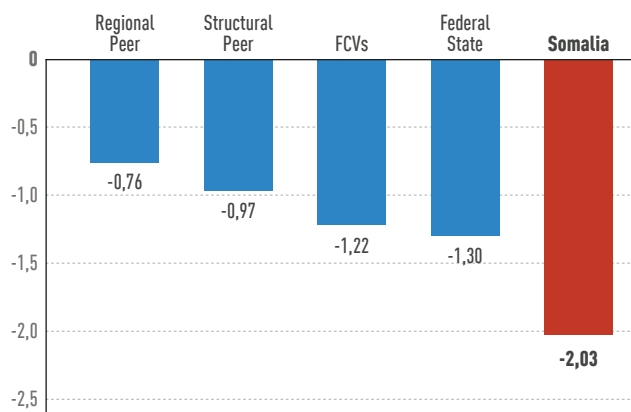
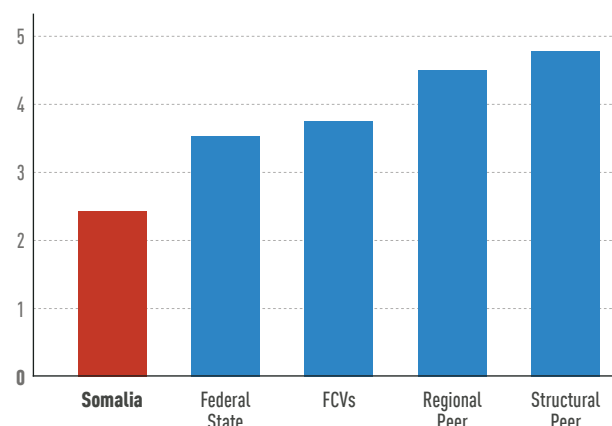


Figure 1.3: Government Performance Indicator, 2022

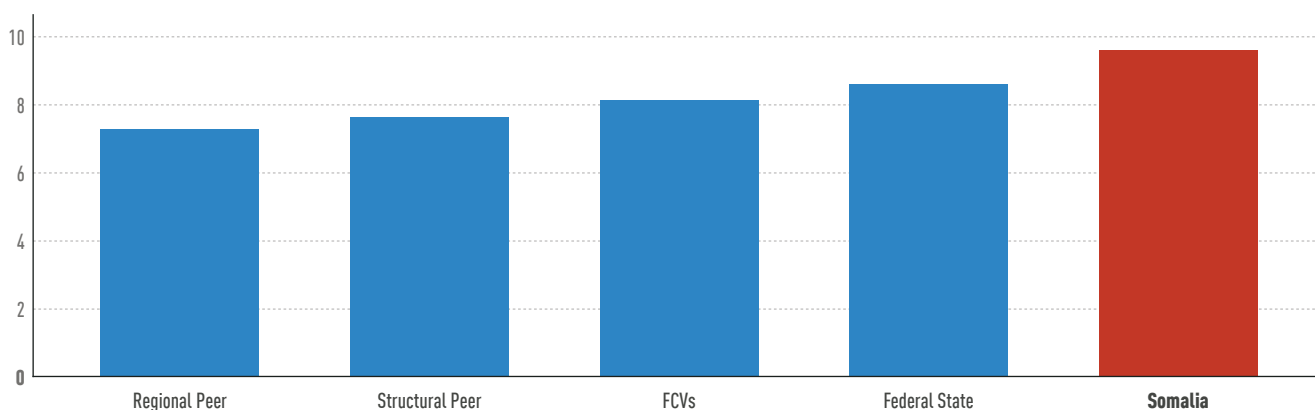


Source: Worldwide Governance Indicator, Government Effectiveness Sub-Indicator, and 2022 Bertelsmann Stiftung's Transformation Index, Government Performance Sub-Indicator.

Note: **Structural peers** are Afghanistan, Benin, Cameroon, Central African Republic, Chad, Comoros (not included in Figure 1.3 due to unavailable data), Congo, Dem. Rep., Congo, Rep., Côte d'Ivoire, Ethiopia, Guinea-Bissau, Kenya, Liberia, Madagascar, Malawi, Niger, Senegal, Tanzania, The Gambia, Uganda, Zambia, and Zimbabwe. **Regional peers** are Burundi, Cape Verde (not included in Figure 1.3 due to lack of data), Comoros (not included in Figure 1.3 due to lack of data), Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles (not included in Figure 1.3 due to lack of data), South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe. **FCV countries** are Afghanistan, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros (not included in Figure 1.3 due to lack of data), Congo, Dem. Rep., Congo, Rep., Eritrea, Ethiopia, Guinea-Bissau, Haiti, Kiribati (not included in Figure 1.3 due to lack of data), Lebanon, Mali, Micronesia, Mozambique, Myanmar, Niger, Nigeria, Papua New Guinea, São Tomé and Príncipe, Solomon Islands (not included in Figure 1.3 due to lack of data), South Sudan, Sudan, Syrian Arab Republic, Timor-Leste, Ukraine, West Bank and Gaza (not included in Figure 1.3 due to unavailable data), Yemen, Rep., and Zimbabwe. **Federal States** are Ethiopia, Nigeria, Pakistan, South Sudan, and Sudan.

Government Effectiveness gives the country's score on the aggregate indicator, in units of a standard normal distribution, that is, ranging from approximately -2.5 to 2.5. The Government Performance gives the country's score on the aggregate indicator, ranging from 1 (Low) to 10 (High).

Figure 1.4: State Legitimacy Indicator, 2022



Source: Fund for Peace, Fragile State Index, 2022.

Note: **Structural peers** are Afghanistan, Benin, Cameroon, Central African Republic, Chad, Comoros, Congo Dem. Rep, Congo Rep, Côte d'Ivoire, Ethiopia, Guinea-Bissau, Kenya, Liberia, Madagascar, Malawi, Niger, Senegal, Tanzania, The Gambia, Uganda, Zambia, and Zimbabwe. **Regional peers** are Burundi, Cape Verde, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe. **FCV countries** are Afghanistan, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Dem. Rep., Congo, Rep., Eritrea, Ethiopia, Guinea-Bissau, Haiti, Lebanon, Mali, Micronesia, Mozambique, Myanmar, Niger, Nigeria, Papua New Guinea, São Tomé and Príncipe, South Sudan, Sudan, Syrian Arab Republic, Timor-Leste, Ukraine, Yemen, and Zimbabwe. **Federal States** are Ethiopia, Nigeria, Pakistan, South Sudan, and Sudan.

State Legitimacy Indicator gives country's score on the aggregate indicator, ranging from 1 (High) to 10 (Low).

Fiscal trends

Despite an upward trajectory, the FGS public expenditure-to-GDP ratio significantly lags comparator countries. FGS total public spending quadrupled between 2016 and 2022, displaying a gradual rise before COVID-19 and a sustained increase during the pandemic, peaking at US\$744 million in 2022 (Figure 1.5). However, public expenditures account for only 7.14 percent of GDP, which is half the level observed in comparable federal state countries and one-third the level seen in regional and FCV countries (Figure 1.6).

Figure 1.5: FGS public expenditure trends (US\$, millions)

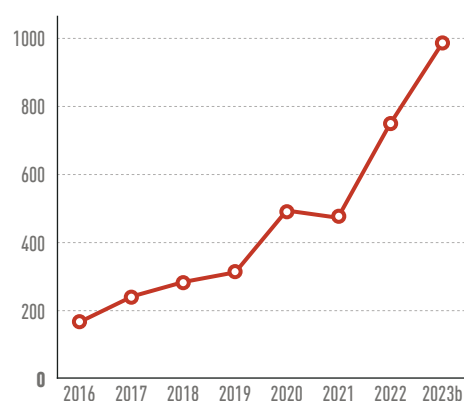
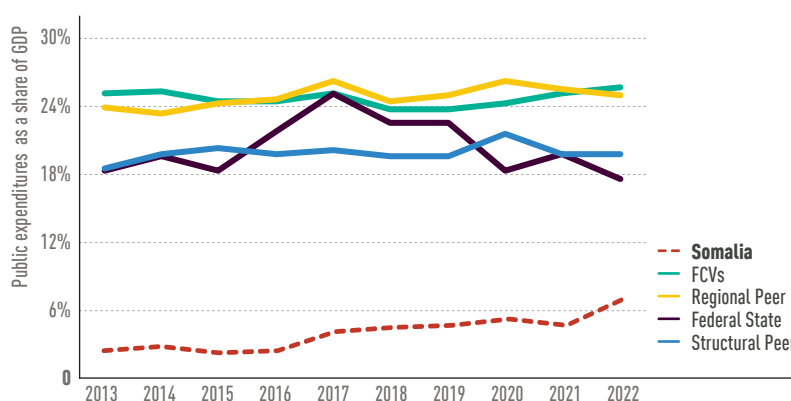


Figure 1.6: Government expenditure-to-GDP ratio in Somalia and peer countries

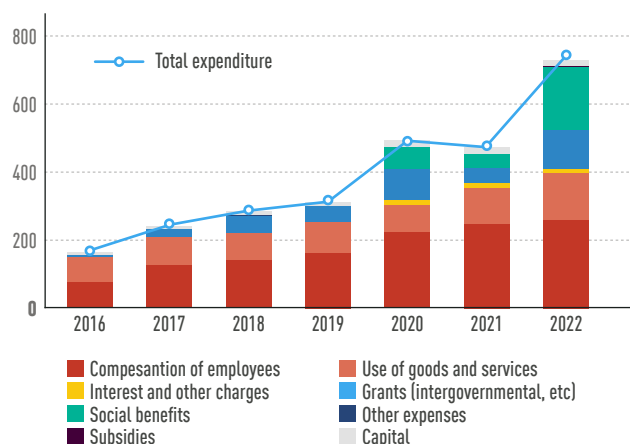


Source: FGS, IMF World Economic Outlook (WEO), 2022.

Note: In Figure 1.6, **structural peers** are Afghanistan, Benin, Cameroon, Central African Republic, Chad, Comoros, Congo Dem. Rep., Côte d'Ivoire, Ethiopia, Guinea-Bissau, Kenya, Liberia, Madagascar, Malawi, Niger, Senegal, Tanzania, The Gambia, Uganda, Zambia, and Zimbabwe. **Regional peers** are Burundi, Cape Verde, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe. **FCV countries** are Afghanistan, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Dem. Rep., Congo, Rep., Eritrea, Ethiopia, Guinea-Bissau, Haiti, Mali, Micronesia, Mozambique, Myanmar, Niger, Nigeria, Papua New Guinea, São Tomé and Príncipe, Solomon Islands, South Sudan, Sudan, Syrian Arab Republic, Timor-Leste, Ukraine, West Bank and Gaza, Yemen, and Zimbabwe. **Federal States** are Ethiopia, Nigeria, Pakistan, South Sudan, and Sudan.

The composition of public expenditures, skewed around public employees' compensation, reflects the state-building process of a country in conflict. According to the International Monetary Fund (IMF), public spending in fragile states is generally driven by public wages, given the vital need to expand public services (Ghandour and Raballand 2020; IMF 2022). At the same time, the structure of public expenditure in Somalia reflects the difficulties the country faces in promoting the growth of a formal private sector capable of creating jobs and employing the workforce. The largest public expenditure item in Somalia is employee compensation, which tripled between 2016 and 2022. Until 2011, the wage bill constituted over half of total expenditures, decreasing to 35 percent in 2022. In 2022, the second-largest expense was social benefits, primarily driven by cash transfers initiated in 2020 and financed through the World Bank Shock Responsive Safety Net for Human Capital (SRSNHC) project. The use of goods and services has doubled since 2016 and remains the third-largest expenditure item in 2022. Intergovernmental transfers have increased from US\$9.4 in 2016 to US\$111.2 in 2022, becoming the fourth-largest expenditure item, reflecting developments in defining Somalia's fiscal federalism structure. The share of capital expenditures (nonfinancial assets) is negligible, as are interest payments and subsidies, as shown in Figure 1.7.

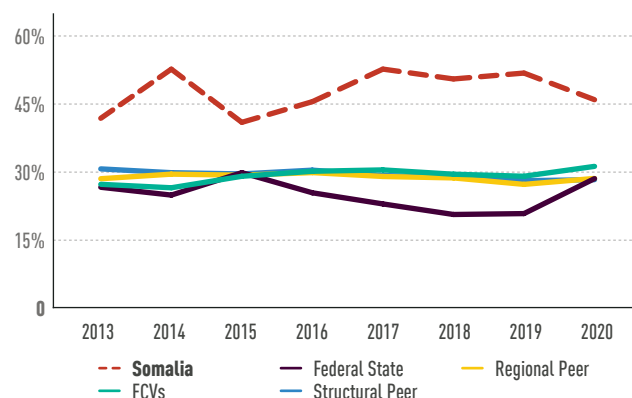
Figure 1.7: FGS public expenditure structure by economic classification (US\$, millions)



Source: FGS, World Bank Worldwide Bureaucracy Indicators (WWBI), 2022.

Note: In Figure 1.8, **structural peers** are Afghanistan, Benin, Cameroon, Central African Republic, Chad, Comoros, Congo Dem. Rep, Côte d'Ivoire, Ethiopia, Guinea-Bissau, Kenya, Liberia, Madagascar, Malawi, Niger, Senegal, Tanzania, The Gambia, Uganda, Zambia, and Zimbabwe. **Regional peers** are Burundi, Cape Verde, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe. **FCV countries** are Afghanistan, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Dem. Rep., Eritrea, Ethiopia, Guinea-Bissau, Haiti, Mali, Micronesia, Mozambique, Myanmar, Niger, Nigeria, Papua New Guinea, São Tomé and Príncipe, Solomon Islands, South Sudan, Sudan, Syrian Arab Republic, Timor-Leste, Ukraine, West Bank and Gaza, Yemen, and Zimbabwe. **Federal States** are Ethiopia, Nigeria, Pakistan, South Sudan, and Sudan.

Figure 1.8: Wage bill-to-public expenditures ratio in Somalia and peer countries



Somalia invests a greater proportion of public resources in the wage bill compared to other peer countries, raising concerns for future wage bill financial sustainability. Somalia's wage bill has significantly increased from 1.29 percent of GDP in 2013 to almost 6 percent in 2021. Similarly, the wage bill, which accounted for 42 percent of public expenditure in 2013, increased to more than 50 percent in 2021. Although the wage bill-to-GDP ratio aligns with that of peer countries, Somalia's public sector wage bill as a share of public expenditures is almost twice as high as all its peer countries (Figure 1.8). Furthermore, security sector salaries and allowances make up over half of the total wage bill. In 2022, 52 percent of the wage bill was distributed to the security sector, of which the vast majority (77 percent) was allocated to cover security sector employees' base salary. The wage bill trend raises concerns for future financial sustainability, given the current poor domestic revenue management practices, the expected increase in security expenditures, and the gradual reduction of Somalia's external grants in the coming years, as further discussed in the following paragraphs.

Although the number of formalized public employees is increasing, the non-security industry is primarily driven by nonformalized public workers.¹³ While the security sector has become largely formalized since 2022, with only 13 percent of nonformal wages, the non-security sector is predominantly based on nonformalized public employees, primarily temporary workers, which grew from 52 percent in 2018 to 63 percent in 2022. Furthermore, temporary staff allowances are the highest nonformalized payroll cost, constituting almost 59 percent of total compensation. These compensation practices may underestimate the actual wage bill of Somalia's government, raising further concerns about its financial sustainability.

Similarly, the sectoral allocation of Somalia's public expenditures, primarily directed toward the administrative and security sectors, aligns with the expected trajectory of state building in a conflict-ridden environment. Prolonged conflict and fragility have significantly weakened Somali public sector institutions and negatively affected the provision of essential public services. Building the capacity of the government administrative

13. Temporary workers that deliver civil service functions but are not formalized as such.

structure across all levels is critical to establishing a government presence and achieving a successful state-building process. Indeed, Somalia has made substantial investments in its general administration sector, which accounted for more than 50 percent of public expenditure in 2018 and 2019, declining to 42 percent in 2021 and 2022. Likewise, to mitigate the ongoing conflicts and sustain political and socioeconomic growth, the security sector has been the second most financed sector until recently, which is a common feature of the state-building process in fragile states (IMF 2022). While social sector expenditure overtook the security sector in 2022 (Figure 1.9), this dynamic is driven mainly by the World Bank SRSNHC and Shock Responsive Safety Net for Locust Response (SNLR) projects (Figure 1.10).

Despite experiencing growth from a low base in recent years, the FGS collects a significantly lower proportion of its GDP in revenue compared to its peer countries. The FGS's domestic revenue, primarily sourced from international trade proceeds, increased by 57 percent between 2016 and 2022. While domestic revenue declined in 2020, it has since rebounded to pre-pandemic levels, reaching US\$262 million in 2022 (Figure 1.11). However, the FGS domestic revenue accounted for only 2.2 percent of GDP in 2022, while the combined FGS and FMS domestic revenue-to-GDP ratio stood at 3.6 percent. The domestic revenues-to-GDP ratio is well below the levels observed in regional countries, structural peers, and FCV peer countries (Figure 1.12). Consequently, only 35 percent of FGS public spending was financed by domestic revenue in 2022, while 62 percent was covered by external grants from international financial institutions (IFIs) and bilateral budget support programs (Figure 1.11). The remaining 3 percent was covered by asset recovery and loan receipts.¹⁴

Somalia's development financing is essentially driven by external aid, allocated primarily to support social development programs. On average, the ODA-to-GDP ratio reached 23 percent between 2020 and 2022. Additionally, 82 percent of total ODA in 2022 was off-budget, which, on average, comprised 121 percent of on-budget expenditures between 2020 and 2022 (Figure 1.13). As shown in Figure 1.14, ODA has been primarily allocated to support strategies and interventions under the Social Development Program of the 9th National Development Plan (NDP9). This indicates the level of off-budget commitments to improve Somali citizens' access to health, education, and other essential services, including social protection systems in times of extreme need.

Figure 1.9: FGS public expenditure structure by administrative classification (US\$, millions)

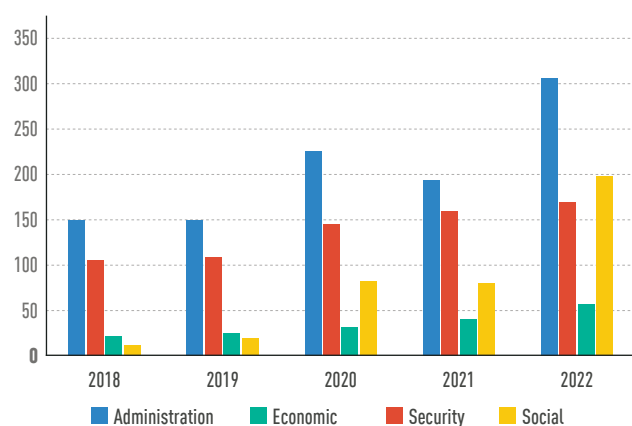
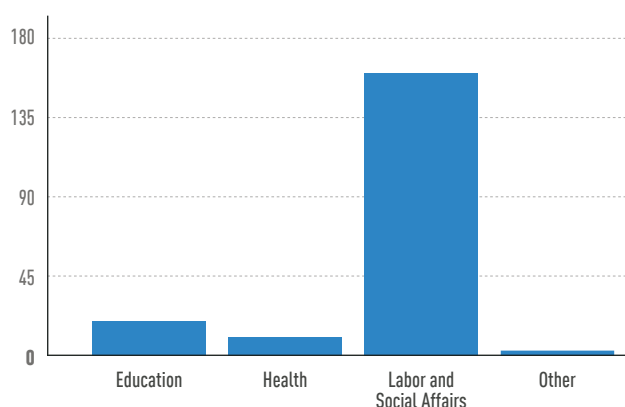


Figure 1.10: FGS social sector expenditure, 2022 (US\$ million)



Source: FGS, Somalia Financial Management Information System (SFMIS).

Note: In Figure 1.10, expenditures are driven by the SRSNHC and SNLR projects.

14. Somalia Annual Consolidated Unaudited Statement, 2022.

Figure 1.11: FGS Domestic Revenue Trends (US\$, millions)

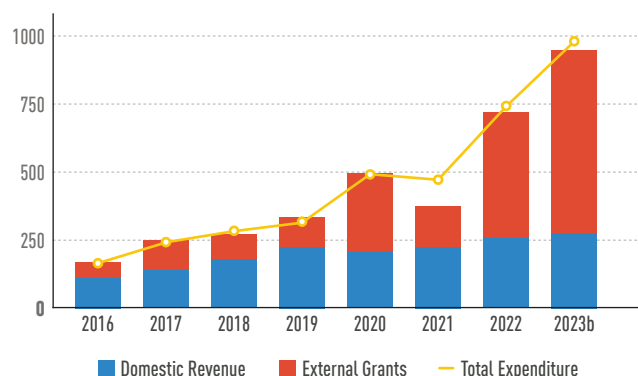
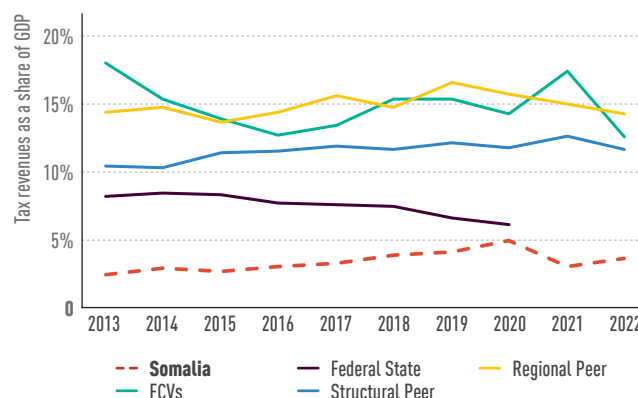


Figure 1.12: Domestic revenue-to-GDP ratio in Somalia and peer countries



Source: FGS World Development Indicators (WDI), 2022, International Centre for Tax and Development (ICTD), Government Revenue Dataset (GRD), 2022.

Note: In Figure 1.11, revenues and total expenditures in 2023b refer to the amounts budgeted in the original 2023 Appropriation Act. In Figure 1.12, figures correspond to total government revenues, excluding grants.

In Figure 1.12, **structural peers** are Afghanistan, Benin, Cameroon, Central African Republic, Chad, Comoros, Congo Dem. Rep., Côte d'Ivoire, Ethiopia, Guinea-Bissau, Kenya, Liberia, Madagascar, Malawi, Niger, Senegal, Tanzania, The Gambia, Uganda, Zambia, and Zimbabwe. **Regional peers** are Burundi, Cape Verde, Comoros, Djibouti, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe. **FCV countries** are Afghanistan, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Dem. Rep., Congo, Rep., Eritrea, Ethiopia, Guinea-Bissau, Haiti, Mali, Micronesia, Mozambique, Myanmar, Niger, Nigeria, Papua New Guinea, São Tomé and Príncipe, Solomon Islands, South Sudan, Sudan, Syrian Arab Republic, Timor-Leste, Ukraine, West Bank and Gaza, Yemen, and Zimbabwe. **Federal States** are Ethiopia, Nigeria, Pakistan, South Sudan, and Sudan.

Figure 1.13: ODA versus FGS revenue (domestic and external), (US\$, millions)

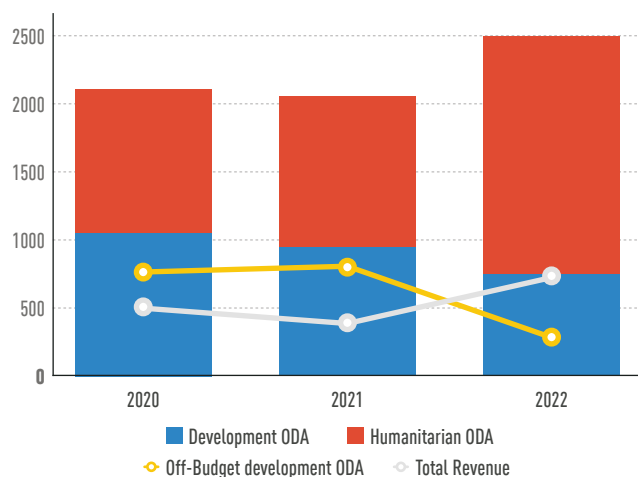
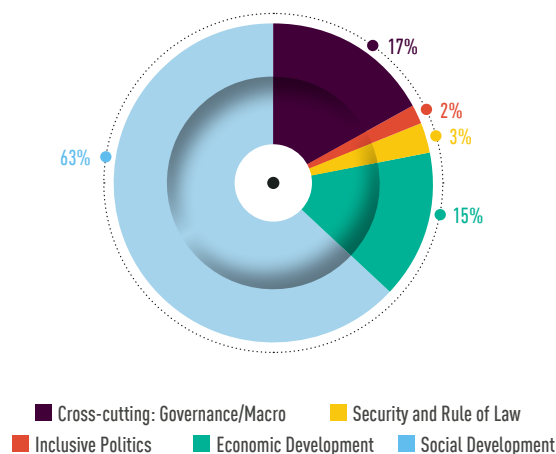


Figure 1.14: ODA allocation by NDP9 sectors, 2020–2022



Source: Based on the Annual Official Development Assistance Report 2022, FGS MPED.

Note: In Figure 1.13, off-budget development ODA is estimated as development ODA without including external grants captured in the annual SFMIS reports. It may not represent the actual but is used for illustration only.

Medium- and long-term financing challenges

With Somalia having achieved the HIPC Initiative completion point, the FGS now needs to make critical policy choices. Those choices will have to balance the decreasing reliance on external grant financing with an increasing demand for domestic revenue mobilization (DRM), while also aligning with anticipated shifts in long-term development strategies. In December 2023, Somalia reached the completion point for HIPC, relieving the country from most of its previous external debt, which fell from 64 percent of GDP in 2018 to less than 6 percent by the end of 2023.¹⁵ Following HIPC completion, Somalia has regained access to global financial markets and external borrowing opportunities. However, there may be a gradual reduction in external grants after the IDA20 cycle ends in June 2025. Consequently, the government must navigate critical policy choices regarding the post-HIPC scenario. Additionally, as Somalia nears the conclusion of the NDP9 cycle, expected to end in 2024, preparations for the development of NDP10 are under way. Hence, the FGS will need to make informed policy choices on the priorities for financing from its domestic revenue, external grants, external borrowing, and off-budget support, considering the long-term fiscal implications of policy and strategic choices.

Medium- to long-term planning in Somalia is a difficult task due to pervasive security risks. In the summer of 2022, the Somali Security Forces (SSF) launched and continue to lead a large-scale military offensive against AS, supported by ATMIS and international partners. Large parts of the Galmudug and Hirshabelle regions were successfully retaken, building on support from clan-based militia, and the government is currently consolidating its hold on the territories it has liberated before continuing to push further in the South-West and Jubbaland regions. The offensive comes amid the planned transition from ATMIS to SNA and SSF in December 2024 as well as the lifting of the arms embargo in December 2023. While discussions are ongoing regarding the transition and follow-up international support, Somalia will inevitably face the need to finance the expanding security sector expenditures post-ATMIS. Sustaining territorial gains in counterterrorism operations demands allocating increased resources for broader stabilization efforts and building foundations for the sustainable provision of critical basic services.

External economic and climate shocks put additional pressure on Somalia's budget. Global conflicts, exemplified by the Ukraine war and the Middle East conflict, have disrupted international and regional trade, impairing revenue generation capabilities. The compounded effects of escalating global food and fuel prices, exacerbated by the aftermath of the COVID-19 pandemic and the prolonged Ukraine-Russia war, have led to a notable rise in inflation rates in the country. Moreover, the geopolitical tensions resulting from such conflicts have negatively affected the agricultural supply chains, exacerbating food insecurity in Somalia. This directly threatens the welfare of vulnerable communities, further requiring the FGS to increase budget spending. At the same time, Somalia is ranked as the most climate-vulnerable country in the world as it faces a wide range of climate risks, including acute climate-induced disasters such as droughts and floods, whose frequency and severity are likely to increase with climate change. Provision of basic public services, investments in human capital and infrastructure, and responses to and mitigation of external economic and climate shocks are all equally important but highly competing priorities for government financing, especially in the face of increased security spending.

15. See IMF press release 23/438 [here](#).

Role and size of the state versus affordability: Policy questions and theoretical framework

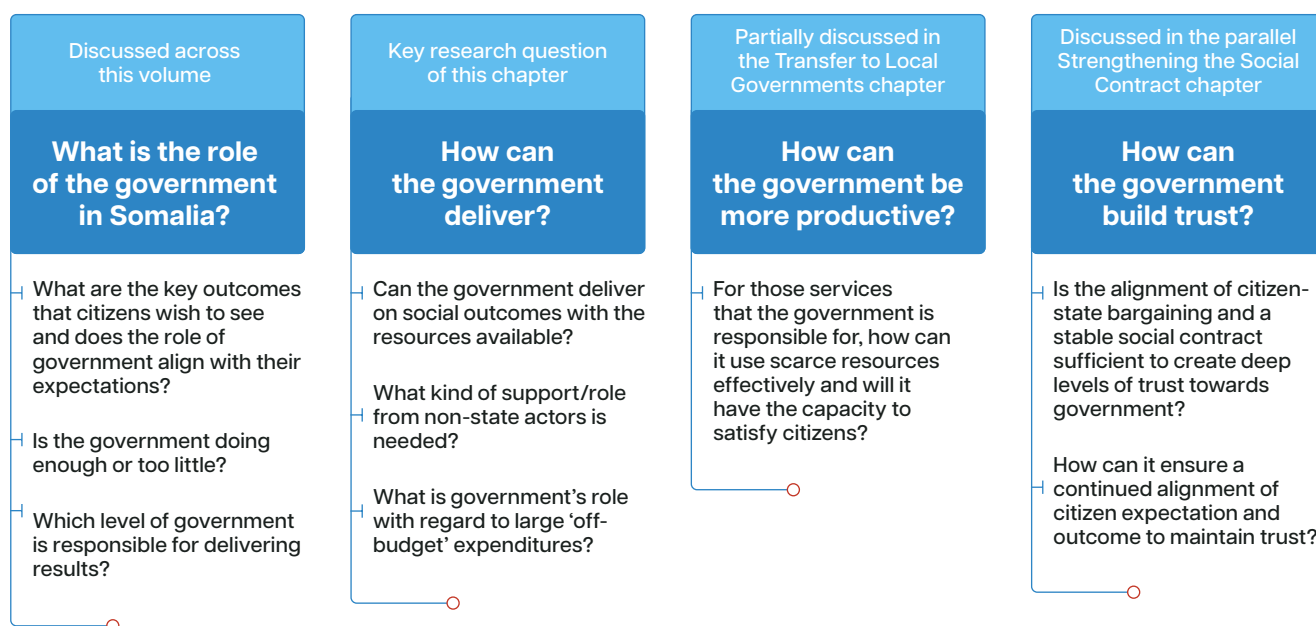
Policy questions

As Somalia is defining its Strategic Vision 2060 and NDP10, it needs to make informed decisions about the size and the role of the state. As outlined earlier, Somalia must carefully assess the fiscal constraints and determine what the government can feasibly afford. Following the analytical framework articulated in a recent World Bank flagship report on the future of the government (World Bank 2022), there are four fundamental questions for the Somali government: (i) what is the role of the government in Somalia? (ii) how can Somalia deliver? (iii) how can the government be more productive? and (iv) how can the government build trust? (see Figure 1.15). While the first question is explored throughout the chapters in this volume, this chapter concentrates on Somalia's delivery capacity over the medium and long term.

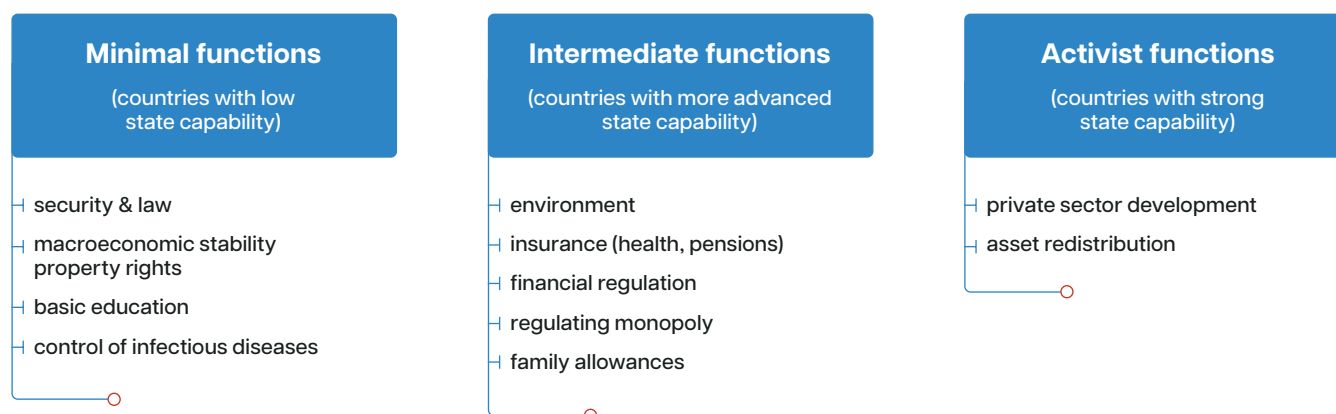
Theoretical Framework

The level of state capability plays a significant role in determining the functions of government and related delivery capacity. The World Development Report 1997 provides a theoretical framework to classify government functions and associated public services delivery capacity based on state capability, which refers to the state's ability to efficiently undertake and promote collective actions (Chhibber et al. 1997). According to this framework, countries with low state capability tend to focus on basic functions, such as providing basic public goods. Once basic services are provided, governments can shift to intermediate functions, such as managing externalities,

Figure 1.15: Analytical framework for identifying future policy areas



Source: Based on World Bank 2022.

Figure 1.16: Theoretical framework for identifying future policy areas

Source: Based on World Development Report, 1997.

regulating monopolies, and providing social insurance. States with solid capabilities can move forward and adopt more activist functions, dealing with the problem of poor private sector development and inefficient asset distribution through active industrial and financial policies (Figure 1.16). The mix of functions may vary based on the country's context and priorities and differ across sectors. For instance, the state may guarantee universal primary education as a minimal function, with universal secondary education being regarded as an intermediate function and tertiary education being addressed once the government assumes an activist function. Additionally, the mix of functions is influenced by the role and involvement of non-state actors, such as the voluntary sector, communities, the private sector, development partners, and NGOs, which often fill gaps in collective goods provision. In such cases, the challenges for the state would be to build on the relative strengths of the non-state actors while considering and improving its own institutional capability (Chhibber et al. 1997).

Adapting the theoretical framework to the Somali context, Somalia is still far from reaching even the minimal role of the state. As already emphasized, the present allocation of public expenditures heavily favors the administrative and security sectors yet fails to ensure minimal coverage of essential public services. These services are predominantly funded by international aid and primarily delivered by NGOs and private sector entities. Despite efforts by the FGS to improve government-led service delivery, its current scope reaches less than 10 percent of the population. Additionally, Somalia continues to face fiscal challenges. While DRM has improved, it remains insufficient to balance the current level of public expenditures. Consequently, Somalia has not yet assumed a full minimal functions role. In the current context, it will require at least 12 years for Somalia to reach a 'minimal state', measured by a domestic revenue/GDP ratio that grows to 10 percent (World Bank 2020). In the post-HIPC scenario, Somalia should determine the extent of the government-led and government-financed service delivery that it can sustain in the medium to long term to achieve a minimal functions role, considering its domestic revenue capacity, the ongoing increasing trends of public expenditures, and concerns regarding debt sustainability.

Within the framework of a minimal functions state, this chapter seeks to provide analytical answers as to the degree of coverage of basic public services that Somalia will be able to afford to provide to its citizens in the medium term (2024–2030) and long term (2030–2060). In the medium-term analysis, four high-level scenarios are compared based on the potential resource envelope projections. In the long-term analysis, the chapter compares the ability of Somalia to finance a near-to-full scope of service delivery and fulfill a minimal role of the state (extended coverage scenario) based on the baseline, optimistic, and pessimistic trends of GDP growth and domestic revenue generation.

State affordability: Medium- and long-term scenarios for service delivery

Medium-term scenarios and assumptions

For constructing state affordability scenarios, five core government functions are chosen with varied degrees of detail of analysis and assumptions:

- **Security** is the basic public good that is the essence of any statehood. Up till now peacekeeping, counterinsurgency, and support to the Somali security sector have largely been supported by external partners, with an estimated annual financing of US\$1.5 billion. In 2022, the FGS spent US\$170 million or 23 percent of national budget and 65 percent of domestic revenue. Security will remain the first spending priority for the years to come in Somalia, especially in view of the ATMIS withdrawal by December 2024. While Somalia is negotiating further bilateral external support to the security sector, it will most likely have to bear most of the security sector costs, including policing services in the medium- to long term.

In the state affordability model, security sector costs are fixed as a percentage of GDP or as a percentage of domestic revenue or are assumed to grow in nominal terms by 14 percent annually (an average growth rate for the last three years). The scenarios are informed by the security sector costing prepared for the Somalia Security Conference in December 2023 and are detailed in Figure 1.17.

- **Policy, regulations, and justice** are the second key function of the government, which is closely correlated with the notion of the size of the state. The costs associated with this function are largely represented by the personnel costs. As discussed earlier, while the public sector wage bill represents a considerable share of public spending in Somalia, its share as a percentage of GDP is at the lower bar compared to its peers.

Figure 1.17: High-level illustrative coverage scenarios

	Scenario 0 Baseline coverage	Scenario 1 Minimum coverage	Scenario 2 Basic coverage	Scenario 3 Expanded coverage
 Policy, Regulations and Justice	Annual spending fixed at 2023 level	Annual spending fixed at 2023 level	5% annual increase	10% annual increase
 Education	6-13% of children are enrolled in publicly financed schools	25% of school-age children enrolled in publicly financed primary and secondary schools by 2030	50% of school-age children enrolled in publicly financed primary and secondary schools by 2030	100% of school-age children enrolled in publicly financed primary and secondary schools by 2030
 Health	20% of population is covered by EPHS (99% financed by external funds)	20% of population is covered by publicly financed EPHS	50% of population is covered by publicly financed EPHS by 2030	80% of population is covered by publicly financed EPHS by 2030
 Social Protection	9% of population (200,000 households) receive cash transfers	2.2% of population (50,000 households) receive cash transfers and 16,000 eligible beneficiaries receive co-responsibility transfers (CCTs)	9% of population (200,000 households) receive cash transfers in addition to 200,000 eligible beneficiaries receiving co-responsibility transfers (CCTs)	15% of population (330,000 households) receive cash transfers in addition to 300,000 eligible beneficiaries receiving co-responsibility transfers (CCTs)
 Security	Annual spending is fixed at 1.8% of GDP - same level as 2023 budget	Annual spending fixed at 69% of DR in 2024-2025, 60% in 2026-2027, 55% in 2028-2030	14% annual increase in spending (avg growth in 2018-2022)	Transition from ATMIS. Frontloading expenditures to 2024-2026

Source: World Bank

Hence, it can be assumed that there is still a scope for some controlled growth in the public sector wage bill, especially if the access to and quality of formal justice services is prioritized over the traditional dispute management mechanisms in the longer term.

When defining the costs of the public good of 'policy, regulations, and justice', it is assumed that this public good is provided by the administrative and economic sectors. The costs include compensation, use of goods and services, and fixed assets but exclude intergovernmental transfers (Object codes 21, 22, 23 for administrative and economic services sectors). In the state affordability scenarios, the cost of the public good is either assumed to be fixed at the 2023 budget level as a percentage of GDP or increased in nominal terms by 5 to 10 percent annually (see Figure 1.17). The detailed costing of the justice sector has not been conducted for this study.

- **Primary and secondary education** is an emerging public sector function in Somalia which has been provided by community-based, private, and NGO-supported schools. Recent FGS initiatives on recruiting government-financed teachers signal Somalia's commitment to increase the share of publicly financed schools. The choice of the education service delivery model—fully government-financed versus a combination of financing sources—will need to be informed by the affordability, quality, and cost-efficiency considerations.

For illustrational purposes, this analysis considers the option of a government-financed primary and secondary education service delivery model with variations in the government share of financing from 25 to 100 percent. The assumption is based on the FGS Ministry of Education, Culture, and Higher Education (MOECHE) estimate of the cost per student of US\$200, which includes teacher salaries, learning spaces, and textbooks. Population growth is factored into the long-term projections but not the medium-term projections.

- **Health care** provision in Somalia has also been dominated by non-state actors, mostly by international and nongovernmental organizations. The Somalia government is still considering several models of health care provision, which range from financing of community health service delivery to outsourcing of health care to NGOs. The premise of the analysis is based on FGS estimates of the EPHS costs (Federal Republic of Somalia Ministry of Health and Human Services 2020) and resource mapping and expenditure tracking exercise conducted by the World Bank Health team in 2023 (Global Financing Facility and World Bank 2023). The scenarios are built around the share of government financing of the EPHS coverage ranging from 20 to 80 percent of population. Population growth is factored into the long-term projections but not the medium-term projections.
- **Social protection** schemes were recently introduced in Somalia through the World Bank's SRSNHC project as discussed above. Financed by the project, the FGS has provided 200,000 households or 9 percent of population with regular cash transfers (US\$20 per household per month). The scenarios assess the FGS capacity to finance the same and expanded levels of safety nets in the medium and long term.

The four high-level scenarios, based on different levels of service delivery, are baseline scenario, and minimum, basic, and expanded coverage scenarios:

- *In the baseline scenario or current state*, Somalia continues to allocate the same level of public expenditures in percentage terms to education, health, and social protection as in 2022. This level of expenditure is sufficient to provide primary and secondary education to only 3 percent of the school-age population and health services to less than 1 percent of the population, while 9 percent of population is covered by social safety nets. Spending on the government function of 'policy, regulations, and justice' is fixed at the 2023 budgeted level.
- *In the minimum coverage scenario*, Somalia increases the share of government-led and government-financed service delivery to provide 25 percent of school-age children with publicly financed primary and secondary education. Likewise, it increases health sector financing to cover 20 percent of the population with Somalia's

EPHS from government sources. It is assumed that the government-financed service delivery would not replace donor financing but would be added to it to further expand the overall population coverage with basic services.¹⁶ The Somali government will also play a more active role in stewarding and coordinating service provision. In this scenario, only 2.2 percent of the population is expected to receive cash transfers as part of the social safety net. Spending on the government function of 'policy, regulations, and justice' is still fixed at the 2023 budgeted level.

- *In the basic coverage scenario*, Somalia is assumed to be able to afford the provision of government-financed public goods to cover an essential share of the population. For instance, 50 percent of school-age children will be able to receive government-financed primary and secondary education; similarly, 50 percent of the population will be covered by government-financed EPHS. Finally, 9 percent of the population will receive cash transfers. Spending on the government function of 'policy, regulations, and justice' grows annually by 5 percent.
- *In the expanded coverage scenario*, the FGS takes the lead in providing essential public services with almost complete coverage of the population, thus achieving the minimal role of the state. Spending on the government function of 'policy, regulations, and justice' grows annually by 10 percent.

Infrastructure investments are not explicitly included in the analysis for several reasons. The required level of infrastructure investments is challenging to quantify given that large parts of the country are under al-Shabab control. All current investments into infrastructure are financed by external grants and implemented through intergovernmental transfers to subnational governments. Intergovernmental transfers are included in the model, but they are either fixed at the 2023 budget level as a percentage of GDP (minimum coverage) or assumed to grow by 5 percent (basic coverage) and 10 percent (expanded coverage) annually.

The comparative analysis of the scenarios for the medium-term coverage of basic public services has been performed within three estimated resource envelope cases, reflecting the post-HIPC fiscal framework. In all three cases, the resource envelope assumes a diminishing trend of external grants and an increasing trend of external borrowing.¹⁷ Furthermore, the GDP projection assumes a GDP growth rate of 4.4 percent, while the domestic revenue trend considers a growth rate of the revenue-to-GDP ratio between 0.2 and 0.3 percentage points per year. The main differences between the cases concern the federal structure of the domestic revenue and off-budget ODA flows. **The first case** estimates the potential resource envelope, where the domestic revenue refers only to the FGS. **The second case** expands the size of the domestic revenue. It accounts for positive outcomes of ongoing domestic revenue reforms and integrates revenues from the FMS. Furthermore, the overall revenue estimations account for mainstreaming tax revenue from newly liberated areas and economic activities into the general taxation system (see Chapter 2 for more details on domestic revenue generation options). **The third case** considers the expanded domestic revenues and off-budget ODA flows in the medium term. Figure 18 provides the high-level illustrative resource envelope cases.

Comparative analysis of the medium-term scenarios

An analysis of the medium-term scenarios involves consideration of the level of expenditure needed to finance each scenario versus the resource envelope available. This is depicted in Figure 1.19, where the level of expenditure is indicated by the bar columns and the resource envelope available by the line. Based on Case 1 projections, by 2030 the resource envelope might be able to finance the minimum coverage scenario. This

16. In this scenario, assuming that development partners, NGOs, and the private sector continue to provide the same level of support, the overall enrollment rate may go up to 47 percent.

17. Estimates calculated based on World Bank (2023).

Figure 1.18: High-level illustrative resource envelope cases

	Case 1 FGS DR only	Case 2 FGS and FMS DR integrated, plus formalized revenue	Case 3 Case 2 + Off-budget ODA
GDP Nominal	GDP growth for 2024-2025 is assumed at 3.5-3.8 and for 2026-30 is assumed at 4.4% per year	GDP growth for 2024-2025 is assumed at 3.5-3.8 and for 2026-30 is assumed at 4.4% per year	GDP growth for 2024-2025 is assumed at 3.5-3.8 and for 2026-30 is assumed at 4.4% per year
Domestic Revenue	FGS DR annual growth is assumed at 0.2-0.3 ppt per year	DR at integrated level of the federation and mainstreamed with formalized tax revenue from liberated areas and economic activities	DR at integrated level of the federation and mainstreamed with formalized tax revenue from liberated areas and economic activities
External Grants	Assumed 0 starting from 2029	Assumed 0 starting from 2029	Assumed 0 starting from 2029
External Borrowing	Calculated based on post-HIPC fiscal anchor recommendation to maintain debt sustainability, assuming a gradual increase from 2% to 3% of GDP	Calculated based on post-HIPC fiscal anchor recommendation to maintain debt sustainability, assuming a gradual increase from 2% to 3% of GDP	Calculated based on post-HIPC fiscal anchor recommendation to maintain debt sustainability, assuming a gradual increase from 2% to 3% of GDP
Off-budget ODA	Not accounted for	Not accounted for	Humanitarian and Development off-budget ODA accounted. Humanitarian ODAs are assumed to be fixed at US\$1 bln year. Development ODAs are assumed to be fixed at US\$600 mln a year (2020-2022 3-year average of off-budget development ODA)

Source: World Bank.

implies public expenditure of at least 7.5 percent of GDP, a ratio similar to the baseline expenditure projections for 2030, and reorientation of public spending structure toward social expenditures.

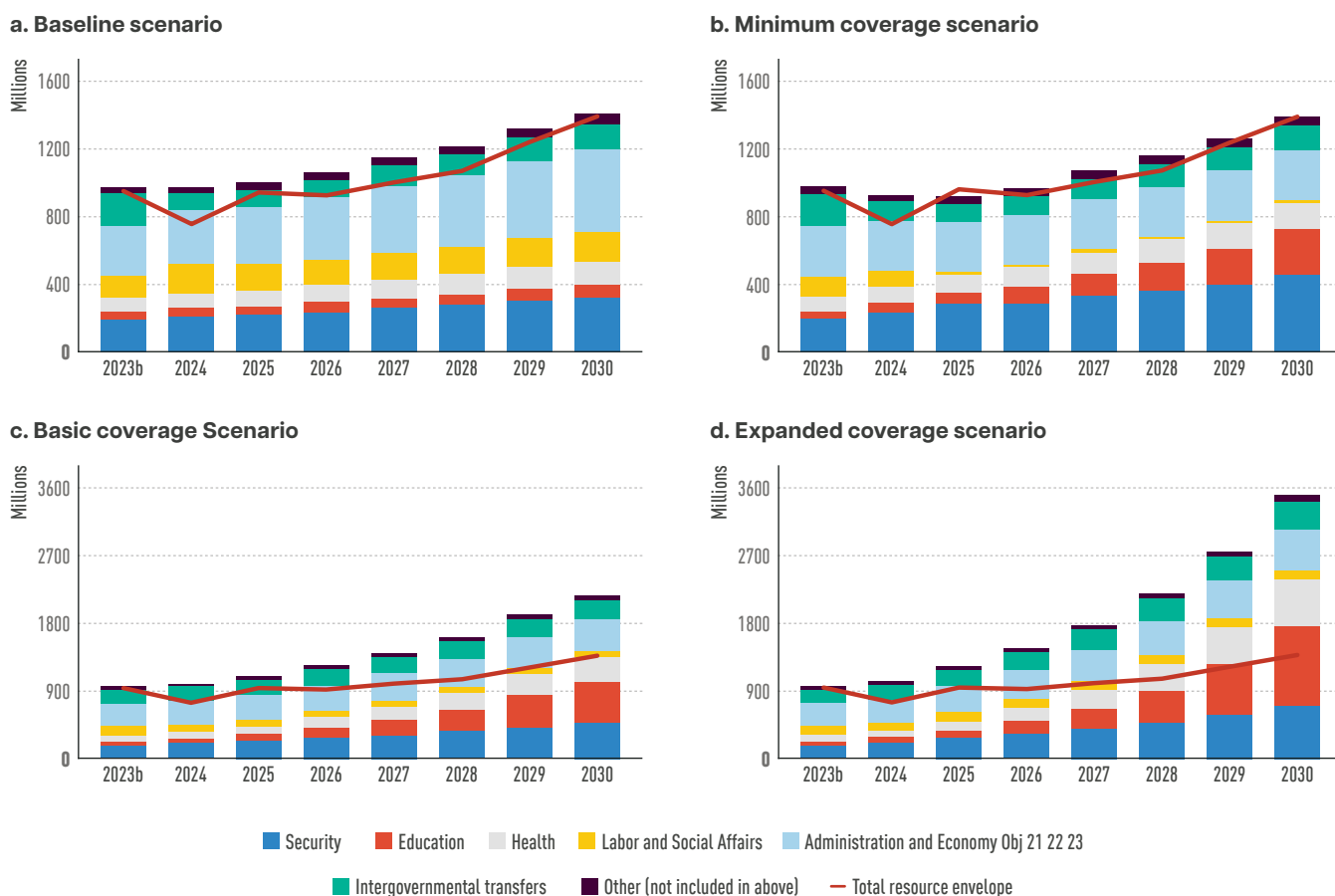
In addition to increasing the level of public expenditure, the structure of allocations by sector will also need to change. As shown in Figure 1.19a and Figure 1.19b, the allocation of public expenditures across sectors varies significantly between the baseline and minimum coverage scenarios. For example, while Somalia can afford to finance 8 percent of public primary and secondary schools in the baseline scenario, the minimum coverage scenario requires 25 percent of school enrollment in schools funded by the State. Likewise, to guarantee the coverage of essential public services envisaged by the basic and expanded coverage scenarios, the public spending-to-GDP ratio would be required to increase to 12 and 17 percent, respectively.

Increased levels of public expenditure can be sustainable only with corresponding increases in domestic revenue. Indeed, both the basic and expanded coverage scenarios require more optimistic public financing trends. The basic coverage scenario, which implies public spending at 12 percent of GDP, could materialize if domestic revenues increase to at least 9 percent of GDP (Figure 1.19c). The expanded coverage scenario requires public spending at 17 percent of GDP, which can be affordable if domestic revenue reaches 14 percent by 2030 (Figure 1.19d).

The FGS can achieve a role between minimum and basic coverage if impacts from domestic revenue reforms, FMS revenue, and even potential revenue from liberated areas are included in the estimated resource envelope (second case). As shown in Figure 1.20, the estimated resource envelope can offset public expenditures between the minimum and basic coverage scenarios, with domestic revenues rising to more than 6 percent of GDP¹⁸ and external borrowing fixed at 3 percent of GDP. For the detailed analysis of domestic revenue options, see Chapter 2.

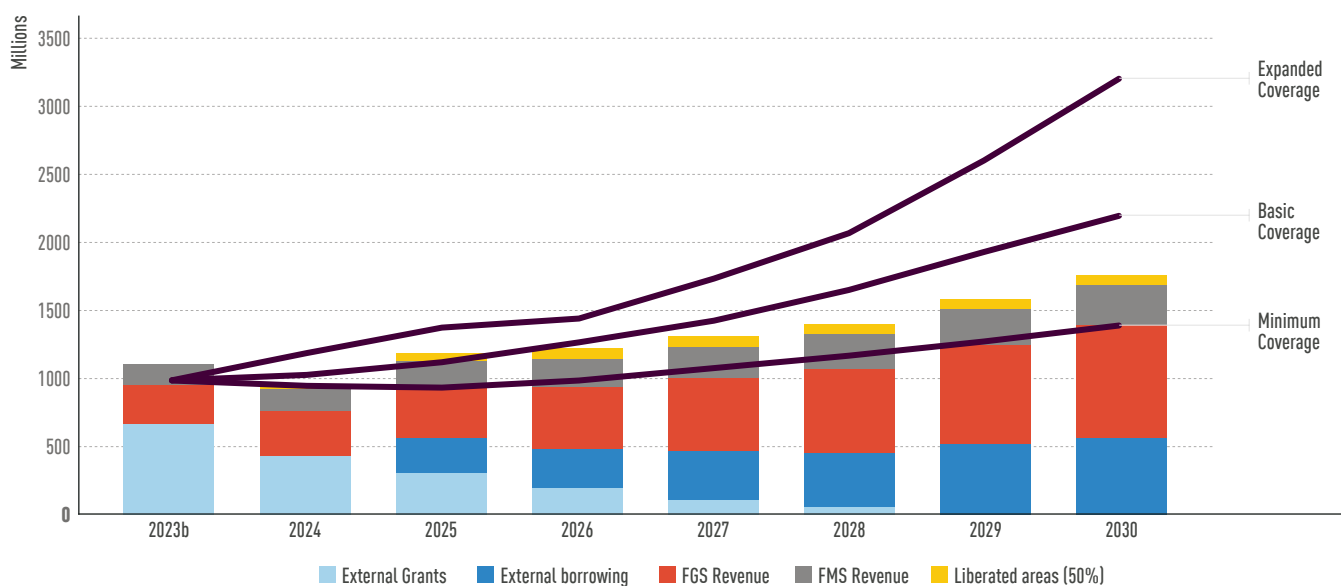
18. The 6 percent tax-to-GDP ratio including the 4.5 percent FGS tax-to-GDP ratio and the 1.5 percent combined FMS tax-to-GDP ratio.

Figure 1.19: Medium-term scenarios with FGS estimated resource envelope



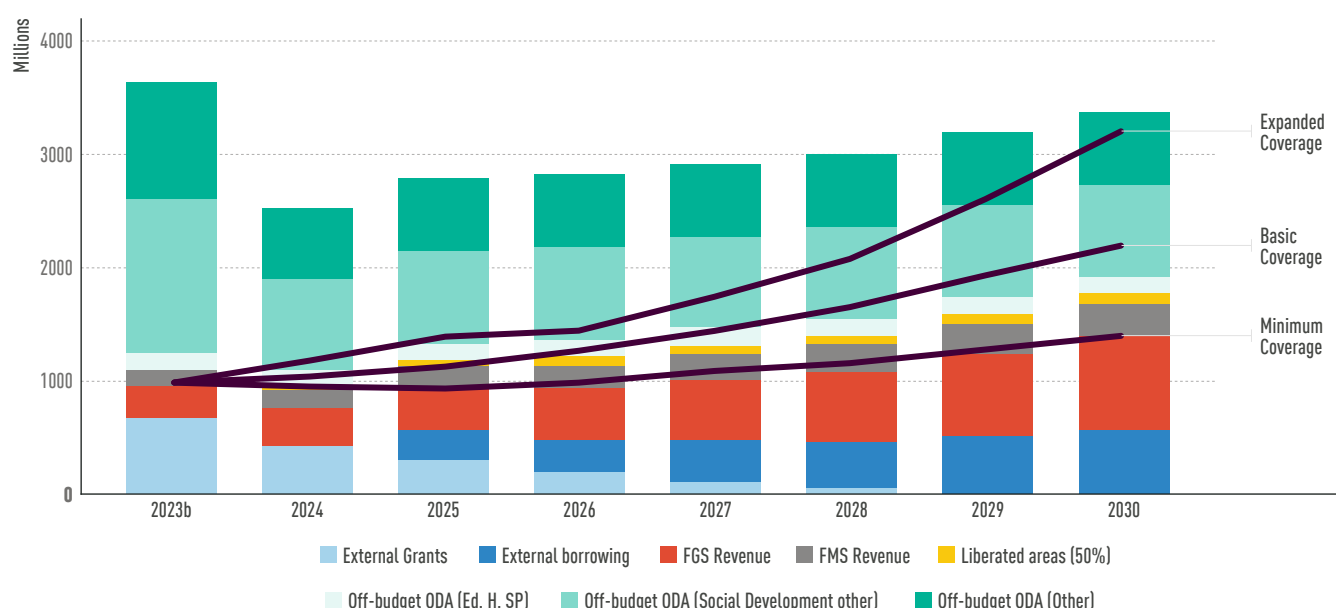
Source: World Bank

Figure 1.20: Medium-term scenarios with FGS estimated resource envelope and integrated level of domestic revenues



Source: World Bank

Figure 1.21: Medium-term scenarios with FGS estimated resource envelope, integrated level of domestic revenues, and off-budget ODA



Source: World Bank

The estimated resource envelope can afford basic and expanded coverage if off-budget ODA is considered with the integrated level of domestic revenues. Figure 1.21 shows that accounting for humanitarian and development off-budget ODA raises the resource envelope to a sufficient level to cover the public expenditures required by the basic and expanded coverage scenarios. However, this analysis does not come without caveats. Indeed, off-budget ODA flows are unpredictable, and existing records of off-budget ODA data are not credible. Furthermore, Somalia does not fully control ODA regarding, for example, priorities, delivery modes, and geographic distribution. Therefore, the analysis adopts simplistic assumptions. First, off-budget development ODA is fixed at a three-year average (2020–2022) level and excludes World Bank grants, while off-budget humanitarian ODA is set at US\$1 billion. Additionally, off-budget ODA to education, health, and social protection (excluding World Bank grants) is set at the three-year average (2020–2022) level of US\$150 million annually. Lastly, ODA flows to social development are fixed at 60 percent of off-budget ODA estimates.

The structure of public expenditure by sector changes considerably in all three scenarios compared to the baseline. Figure 1.22 compares the structure of public expenditures in the baseline, minimum, basic, and expanded scenarios. On-budget education sector expenditures should increase from 0.2 to 1.4, 2.9, and 5.7 percent of GDP to achieve 20, 50, and 100 percent of the enrollment rate in publicly financed schools by 2030, as required by the minimum, basic, and expanded scenarios, respectively.¹⁹ Likewise, health expenditure should grow from 0.2 to 0.8, 1.9, and 3.4 percent of GDP to cover 20, 50, and 80 percent of the population by the EPHS, respectively.²⁰ State apparatus size, intergovernmental transfers,²¹ and security expenditures²² are assumed to grow modestly by 2030 in all scenarios compared to the baseline; hence, their shares are modestly shrinking while advancing with the coverage scenarios due to the increasing public expenditure trends.

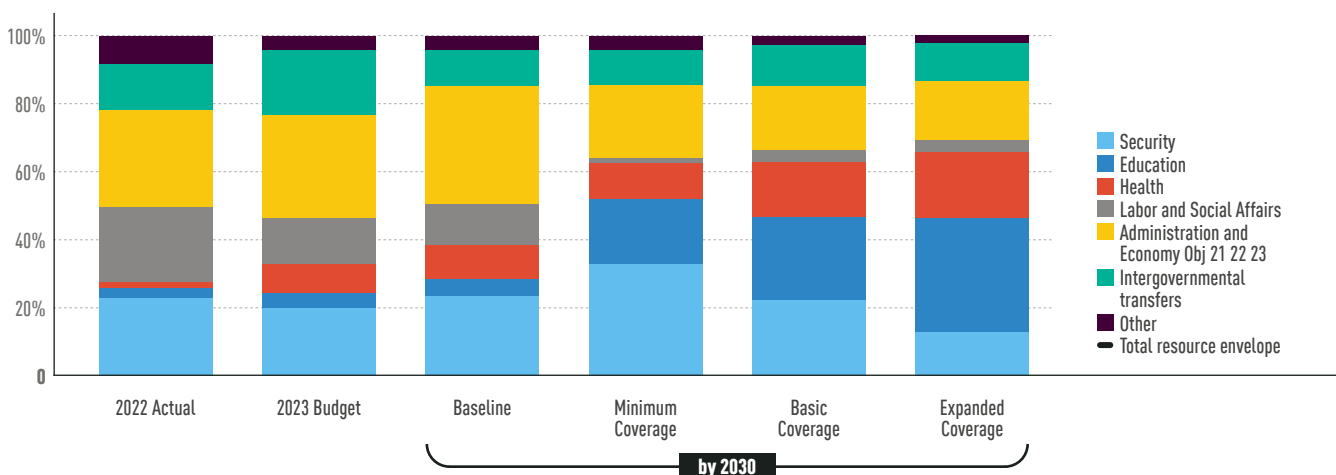
19. The estimates do not consider population growth.

20. The estimates do not consider population growth.

21. Intergovernmental transfers are assumed at 0.8 percent of GDP for the minimum scenario, 5 percent annual growth for the basic scenario, and 10 percent annual growth for the extended scenario.

22. Security sector expenditures in nominal terms are almost at the same level by 2030.

Figure 1.22: Expenditure structure by administrative classification, as a percentage of public expenditure



Source: World Bank.

Long-term scenarios

The long-term analysis compares the expanded coverage scenario across baseline, optimistic, and pessimistic GDP growth and domestic revenue generation trends. In the expanded coverage scenario, the FGS is assumed to take a leading role in delivering essential public services, effectively reaching nearly the entire population and thereby fulfilling the minimal state function, as discussed in the section on theoretical framework. Therefore, the analysis assumes that Somalia will aim to afford expanded coverage of basic public goods by 2060. On the other hand, the total resource envelope is estimated following a conservative approach, without considering revenues generated by FMS, newly liberated areas, and off-budget ODA flows. However, the total resource envelope projections will be estimated using baseline, optimistic, and pessimistic GDP and domestic revenue growth assumptions.²³

If GDP and domestic revenue generation grow at a baseline speed, Somalia will not be able to afford to deliver an expanded coverage of basic public goods to its population. The baseline long-term vision assumes a real GDP growth of 4.4 percent between 2030 and 2039, 4 percent between 2040 and 2049, and 3 percent between 2050 and 2060. Furthermore, the World Bank estimates that Somalia's tax-to-GDP ratio will reach 9 percent in 2060, and external is assumed to be fixed at 3 percent. If security sector expenditures are fixed at 2.2 percent of GDP between 2030 and 2060,²⁴ Figure 1.23 shows that Somalia cannot fully finance a near-to-full scope of basic public service delivery by 2060.

The long-term scenario can be revisited, depending on how the security situation unfolds and Somalia's ambition to develop its military force. If security sector expenditure is fixed at 2.2 percent of GDP as per Figure 1.23, the financing gap is 3.4 percent of GDP. But if security sector expenditure is fixed at 1 percent of GDP, the financing gap is equal to 2.17 percent of GDP. This level of deficit will require borrowing to be increased from 3 percent to 5.17 percent of GDP, which may not be fiscally sustainable between 2030 and 2060.

23. All three scenarios keep external borrowing at 3 percent of GDP. At the same time, the total resource envelope considers that the population will grow 3 percent annually in the 2030s and 2 percent annually in the 2040s, before stabilizing from 2050 onward. Inflation will reach 4 percent, on average, between 2030 and 2039 and 3 percent afterward.

24. The average ratio of security sector spending to GDP is 2.2 percent in FCV countries according to Harborne, Dorotinsky, and Bisca 2017.

With an optimistic long-term vision of GDP and domestic revenue generation growth, Somalia can more than afford to deliver expanded coverage of basic public goods to its population and start moving toward intermediate government functions. The optimistic long-term vision assumes real GDP growth of 5.5 percent between 2030 and 2039, 5.2 percent between 2040 and 2049, and 4.8 percent between 2050 and 2060. Furthermore, the optimistic scenario assumes that Somalia's tax-to-GDP ratio will reach 20 percent in 2060. At the same time, external borrowing is expected to reach 3.5 percent in 2030 and start decreasing after 2040. With these optimistic projections, Somalia will be able to not only finance a full scope of basic public service delivery by 2060 but also afford capital investments starting in 2045 (Figure 1.24).

Figure 1.23: Long-term resource envelope with baseline GDP and domestic revenue growth scenario

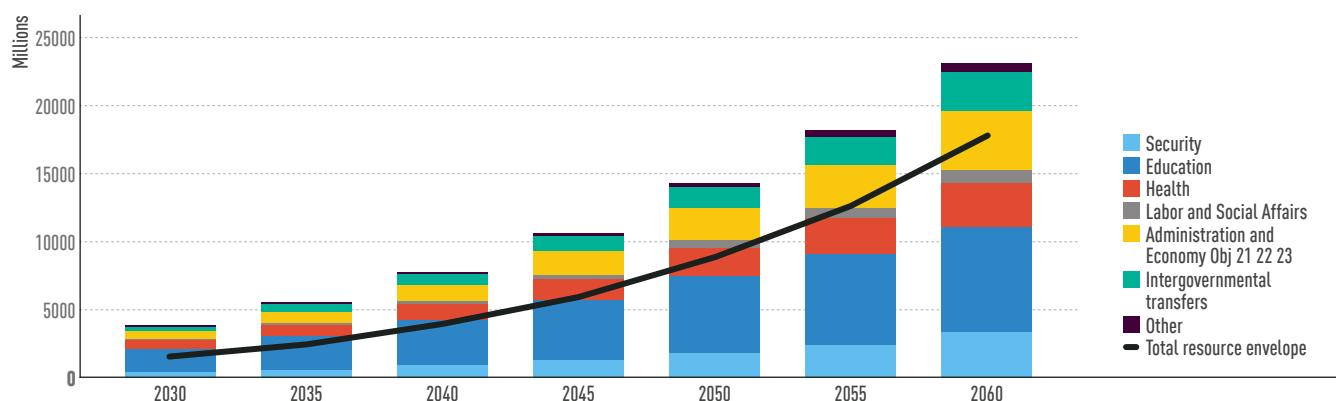
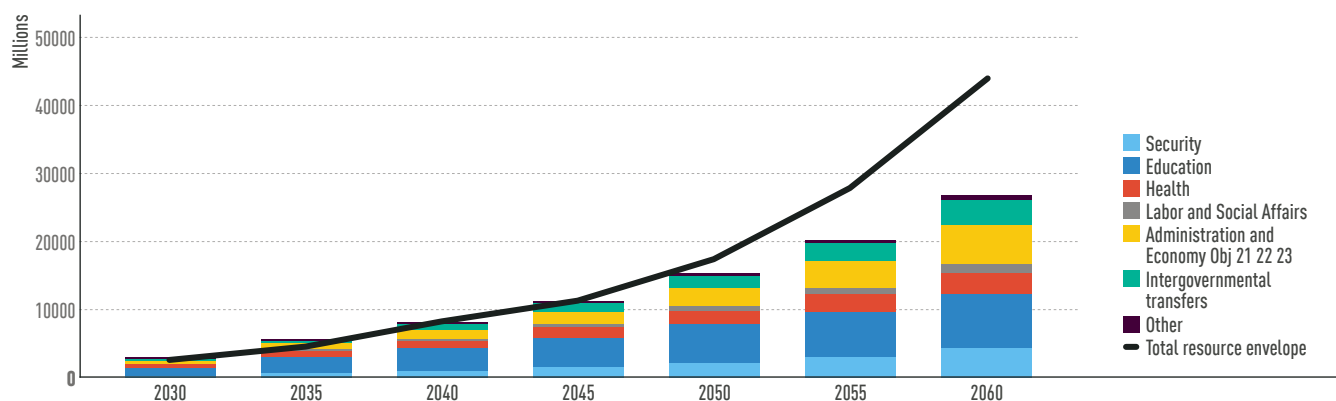


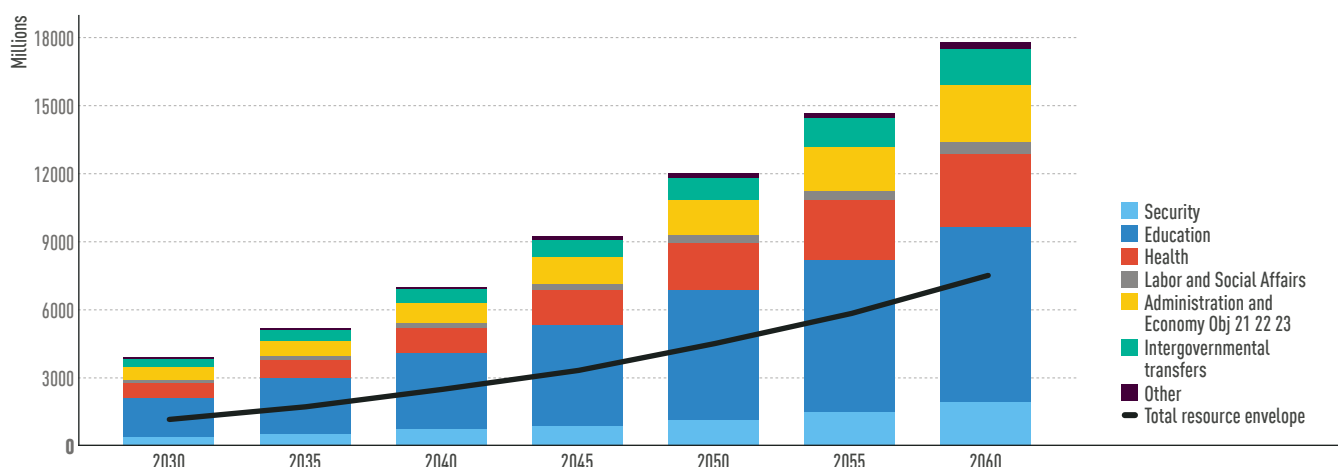
Figure 1.24: Long-term resource envelope with optimistic GDP and domestic revenue growth scenario



Source: World Bank.

Looking at more pessimistic GDP and revenue growth trends, Somalia will not be able to cover public spending envisaged by the expanded scenario. The pessimistic long-term vision assumes real GDP growth of 3 percent between 2030 and 2039, 2.5 percent between 2040 and 2049, and 2.2 percent between 2050 and 2060. Furthermore, the scenario assumes that Somalia's tax-to-GDP ratio will reach 7 percent in 2060, while security sector expenditure is fixed at 2.2 percent of GDP. In this case, Somalia is not expected to afford a full scope of basic public service delivery by 2060 (Figure 1.25).

Figure 1.25: Long-term resource envelope with pessimistic GDP and domestic revenue growth scenario



Source: World Bank.

Conclusions and recommendations

This chapter has explored Somalia's public sector expenditure and domestic revenue, suggesting that the government is still struggling to reach a minimal state level of service delivery and raising concerns about its state legitimacy, especially in the post-HIPC scenario. Somalia's public expenditures, primarily allocated to cover the public wage bill, are rapidly increasing at a speed that domestic revenue generation cannot meet. Indeed, public spending is mainly financed by external grants and off-budget support. Despite Somalia's financial commitment and efforts to expand social development services, the current level of public expenditure guarantees citizens only limited access to essential services, putting its state legitimacy at risk. Furthermore, with the post-HIPC scenario and expected increase in security expenses, Somalia must make informed policy choices on the priorities for public financing.

As previously mentioned, the objective of the chapter is not to provide specific recommendations but offer evidence-based options for Somalia to choose from considering several factors. While some of these factors are known to some extent, such as the historic macro-fiscal trends, estimated external assistance trends, government reform agenda and plans, and citizens' expectations over the state's role in service provision, the unknown factors are prevailing. The latter include the security trajectory, political settlement, global and regional economic trends, and other external shocks. As Somalia has embarked on defining its 2060 Centennial Vision and adopting NDP10, it is the right time to realistically assess its revenue generation capacity and decide on its public service delivery model.

The medium- and long-term analyses suggest that Somalia may not reach the minimal state level even by 2060, a scenario that strongly depends on the evolution of the security situation and future trends of economic growth and domestic revenue. According to the FGS's own projections, the FGS may realistically collect domestic revenue equal to 4.5 percent by 2030. When FMS revenue and revenue from liberated areas and economic sectors are accounted for, the tax-to GDP ratio may reach 5.5–6 percent of GDP by 2030. Still, as the scenarios suggest, with this level of domestic revenue, Somalia can afford only the minimum level of service delivery, which will provide only 25 percent of the population with free primary and secondary education

and basic health services. Somalia may still aim to reach the base coverage level (50 percent of the population covered by public education and health) beyond 2030, but this will require intensified efforts on the domestic revenue side to reach 9 percent of GDP collectively for the FGS and FMS. Full or expanded coverage is only viable in the longer term with the optimistic scenario in mind, where GDP grows annually 5.5 percent and domestic revenue reaches at least 14 percent of GDP.

If Somalia was to decide to cover 50 to 100 percent of its citizens with free basic education and health services and social assistance programs, its spending structure and revenue generation capacity would need to be aligned with Table 1.1.

Table 1.1: Illustrative framework for making decisions on allocations by sector

Sector	% of GDP	% of public expenditure	Structural peer countries' average/ recommended minimum
Security	Current: 1.6% Aspirational: Not more than 1% in 2060	Current: 23.2% (2022) Aspirational: Not more than 7% in 2060	Security sector spending average for FCV countries: 2.2% of GDP (Harborne, Dorotinsky, and Bisca 2017)
Non-security public sector wage bill	Current: 2% Aspirational: Not more than 2.5%	Current: 28% Aspirational: Not more than 15%	Non-security sector spending average for structural countries: 3.7% of GDP ²⁵
Education	Current: 0.2% Minimum: 2.9% Aspirational: 5.7%	Current: 2.7% Minimum: 24% Aspirational: 33%	At least 4 to 6% of GDP and/or at least 15 to 20% of total government expenditure (World Bank 2015)
Health	Current: 0.1% Minimum: 1.9% Aspirational: 3.4%	Current: 1.6% Minimum: 16% Aspirational: 19%	Increase health spending by at least 3.9% of GDP ²⁶ and/or 15% of total government spending ²⁷
Domestic revenue	Current: 2.5% Minimum: 9% Aspirational: 14%	Current: 36% (2022) Aspirational: 82%	Minimum is a 15% tax-to-GDP ratio ²⁸

Keeping the above considerations in mind, the Somali government needs to consider the following as it deliberates on the policy questions raised earlier in this chapter:

Policy Question 1: What is the role of the Somali government? The role of government can be different in different sectors. For instance, the Somali government may decide to provide all school-age populations with free public education but keep the health service delivered by non-state providers. Alternatively, it may provide free education only to the most deprived strata of the population, while focusing on policy and regulations to enhance quality and access to education run by non-state actors. In short, the government needs to decide on its role for each sector, and this should cover not only health and education but also social security, basic infrastructure, and so on. The role to be chosen can include a leading provider, regulator, and coordinator.

Policy Question 2: How can the government build trust and legitimacy? In deciding on its role, the government needs to consider and manage citizens' expectations. Given the tight resource envelope in the short to medium term, the government cannot provide free basic social services sustainably. At the same time, in the following chapters, we argue that for strong social capital and greater voluntary tax compliance, the government needs to deliver tangible results. Therefore, it is essential to communicate the chosen role to citizens and ensure that they have equal and inclusive access to services provided by non-state actors.

25. It refers to the average wage bill-to-GDP ratio for the non-security sector for the following countries: Afghanistan, Benin, Kenya, Liberia, Niger, Uganda, and Zambia. The indicator is calculated based on the BOOST dataset for Afghanistan, Benin, Kenya, Niger, and Uganda, using the latest available year and the 2023 data provided by the Ministry of Finance for Zambia.

26. The IMF estimated that health spending would have to increase in 2030 by 3.9 percentage points in low-income developing countries and nearly 3.1 percentage points in emerging market economies to make progress along Sustainable Development Goal (SDG) 3 (Ensure healthy lives and promote well-being for all at all ages). See Mauricio et al. 2023.

27. Abuja Declaration on HIV/AIDS, Tuberculosis and Other Related Infectious Diseases (OAU/SPS/ABUJA/3). 2001, [here](#).

28. According to Junquera-Varela et al. (2017), the 15 percent tax-to-GDP ratio is viewed as the minimum required to fund basic state functions, such as health care, education, public safety, and transportation.

Policy Question 3: How can the Somali government deliver? or what are the most viable, effective, and cost-efficient models of service delivery that Somalia can adopt from international experience? Given resource limitation in the short to medium term, it is critical to agree on the role of non-state actors (development partners, private sector, local communities) and their (co-)financing capacities. At this early stage, when the public sector has not hired many civil servants, extensive international evidence on how best to deliver learning in schools and health care in clinics may help Somalia achieve more with less funds. In addition, FGS and FMS governments need to define functional assignments clearly at the sectoral level—that is, which level of government delivers what services. While the National Consultative Council (NCC) in Baidoa reached an agreement on functional assignments in 2023, there is still much scope for operationalizing these agreements. Furthermore, it is crucial to understand the cost of each assigned function and match it with the financing resources available at each level through federal transfers but mostly through local revenue mobilization efforts. Chapter 4 discusses this aspect in more detail.

Policy Question 4: How can the Somali government be more productive? Somalia's government should regularly review its central and FMS expenditures to reduce inefficiencies and maximize results. National planning and budget planning should be closely aligned. At the same time, every governmental reform and draft legislation must be scrutinized for its cost implications and impact on fiscal sustainability. Proper mechanisms should be established for accountability and transparency of resources, preventing corruption and misuse of funds in all forms.

Regardless of the role of the state model to be chosen, **Somalia will need to focus on the following five policy priorities summarized in Table 1.2, as identified by this high-level analysis.**

Table 1.2: Recommendations for an affordable Somali state

No.	Recommendation	Responsible agency	Time frame	Priority
Objective 1: Strengthen domestic revenue generation and management to foster social services delivery outcomes				
R1	Comprehensively reform tax policies and modernize administration to achieve 4.5% domestic revenue-to-GDP ratio for the FGS and 6% for FMS by 2030 and 15% beyond 2030 (see Chapter 2).	MOF	Medium to long term	High
R2	Improve transparency by integrating FMS domestic revenue into overall domestic revenue, clearly delineating resource utilization for nationwide service delivery objectives.	MOF	Medium term	Medium
R3	Implement a rule-based system for intergovernmental transfers and revenue sharing, clearly defining functional assignments to reflect the state's role.	MOF/Sectoral MDAs/FMS	Medium term	High
Objective 2: Support a more predictable and sustained level of ODA and private capital mobilization to support Somalia's sustainable development trajectory				
R1	Ensure that a substantial part of ODA is included in the national budget and utilize government systems to improve coordination and efficiency, while also strengthening the government's ability to effectively manage these resources. At the very least, ODA should be clearly shown in the national budget and should be in line with the costs outlined in the NDP10.	MOF/MOPIED	Short term	Medium
R2	Conduct detailed costing and resource mapping exercises for each sector and come up with a financing strategy that includes a role for the non-state actors.	MOF/Sectoral MDAs	Short term	High
R3	Design and implement a coherent strategy for mobilizing private capital in vital service delivery sectors, accompanied by explicit commitments to finance existing gaps in service delivery.	MOF/Sectoral MDAs	Medium term	High
Objective 3: Reinforce public expenditure selectivity, efficiency, and accountability to optimize resource utilization and accelerate progress toward its development goals				
R1	Reinforce selectivity in public spending while prioritizing it judiciously in alignment with its defined role in the state.	MOF/Parliament	Medium term	Medium
R2	Enhance spending efficiency, with a particular emphasis on prioritizing investments in human capital, given the exponential growth of public expenditures.	MOF	Medium term	Medium
R3	Uphold accountability and transparency in public spending, including open budget initiatives, to ensure expenditure efficiency and foster public trust in the government fiscal management.	MOF/Parliament	Medium term	Medium

Table 1.2: Recommendations for an affordable Somali state

No.	Recommendation	Responsible agency	Time frame	Priority
Objective 4: Improve wage bill planning and control mechanisms to ensure prudent fiscal management and optimize the allocation of resources across sectors				
R1	The public sector wage bill should be at the heart of budget proposal discussions as it accounts for a significant portion of public expenditures. Therefore, any proposals to increase the number of administrative sector employees or raise salary levels must undergo rigorous scrutiny in terms of fiscal sustainability.	MOF/MLSA/NCSC	Short term	Medium
R2	Assess the organizational structure, staffing, and efficiency of the public sector as well as implement a robust pay and grading system, to ensure the fiscal sustainability of the wage bill.	MLSA	Medium term	High
R3	Ensure better management of the nonformal wage bill.	MLSA	Medium term	Medium
Objective 5: Effective security sector resources management				
R1	Agree on the shape and form of security sector provision.	OP/MoD/MNS	Short term	High
R2	Enhance spending efficiency through establishing proper PFM and procurement systems.	FGS and FMS MoDs, MNS	Short term	High
R3	Effective management of human resources in the security sector.	OP/MoD/MNS	Continuous	
R4	FGS and FMS to agree over functional assignments in the security sector.	FGS and FMS OPs	Medium term	High
R5	Regular reviews of security sector spending as a necessary step to prevent budget allocations from being inflated unnecessarily.	MOF/OP	Medium term	Medium

Source: MDAs = Ministries, departments, and agencies; MLSA = Ministry of Labor and Social affairs; MoD = Ministry of Defense; MOF = Ministry of Finance; MNS = Ministry of National Security; MOPIED = Ministry of Planning, Investments, and Economic Development; NCSC = National Civil Service Commission; OP = Office of the President.

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Chapter 2

Opportunities and constraints in domestic resource mobilization 2023–2030

By Leif Jensen and Joseph Massad

As the state-building processes in Somalia are gaining more traction than in recent decades, domestic resource mobilization needs to be enhanced. The domestic financing of public services is critical to sustainable state building. Similarly, predictable revenue generation is vital in seeking an improved and sustained level of fiscal balance, which in turn is vital in avoiding the negative impacts on state building in the form of semi-permanent fiscal shocks and uncertainties, including high dependency on external financing.

However, the challenges in achieving higher domestic revenues in Somalia are daunting. This chapter reviews a selected set of opportunities and constraints related to efforts to forecast tax revenues over the short to medium term. It considers the following questions:

- To what extent will Somalia be able to move toward utilization of relatively sustainable and predictable tax sources (income taxation, consumption taxation), given that the greater part of revenues is currently generated from volatile customs revenues and a range of small and unpredictable taxes and nontax revenue sources?
- Mindful of the fragile country context, to what extent can the current tax system (tax instruments and tax administrative capacity) adapt to and absorb the large set of tax reforms currently on the agenda?
- Is the implementation of measures to enhance DRM feasible, given that core areas of the fiscal federal framework still need to be completed?

Somalia's domestic revenue-to-GDP²⁹ ratio of 2.5 percent and tax-to-GDP ratio of 1.7 percent in 2022 constitute a low level of revenue generation, even in comparison with peer countries. The taxation profile is tilted heavily toward customs revenues and small tax sources, including fees and charges on road usage. Peer countries have, to a larger extent, diversified tax revenues toward classic income and consumption tax sources, allowing for less volatile and more predictable revenue generation.

29. This chapter reviews opportunities and constraints in domestic revenue mobilization. While the focus is on the tax instruments, revenue generation from 'nontax sources' is included where appropriate. Domestic revenues to GDP are assessed using FGS data only, while the chapter also reviews specific features of the domestic revenue generation in the FMS.

The domestic revenue-to-GDP ratio is projected to reach 4.5 percent by 2030, representing almost a nominal tripling of domestic revenues compared to 2022. The rollout of the harmonized income tax framework and the standardized valuation table and tariff structure at customs will drive the enhanced mobilization of revenues, aligning taxation more closely to East African Community (EAC) standards. Other areas, though not yet quantifiable, include the extensive introduction of excise taxes and much higher efficiency in the customs revenues-to-trade ratio. Somalia is lagging peers by an efficiency loss of 50 percent, and the harmonized customs, including rationalization of tax expenditures, will help close that gap.

The long-term outlook–2027 and beyond—suggests significant improvements in domestic revenues, if supported by bold reforms to expand the revenue base and improve effectiveness of revenue administration. Somalia ratified the EAC Treaty in March 2024 and the net impact on economic growth and tax revenues is deemed substantial as the country integrates into the East African trade community. Similar perspectives emerge on the extraction of natural resources. The national framework, including core legislation, has been completed and Somalia has launched an initial bidding round on offshore extraction of oil reserves. The quantification of revenues in these two areas, however, is not feasible at this stage.

The chapter covers the following: (i) a discussion of the feasibility of enhanced domestic revenues by situating Somalia in the fragile country context and the related implications, (ii) a technical review of current revenue performance, (iii) an assessment of specific opportunities and constraints in enhanced revenue generation, (iv) a suggested model outlook on short- to long-term revenue growth, and (v) recommendations on the core actions required to achieve enhanced revenue generation.

Domestic revenue forecasting in the context of fragility: Taxation in focus

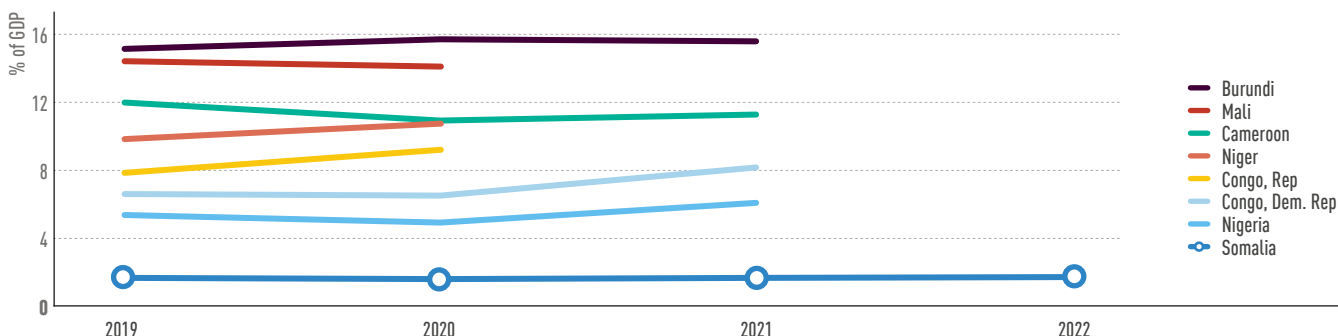
A review of taxes shows that tax generation-to-GDP in Somalia is substantially lower than the vast majority of low-income countries (LICs) in Sub-Saharan Africa (SSA). A review of IMF Government Finance Statistics (GFS) data on 13 LICs in SSA shows that the yearly tax-to-GDP ratio was 14–16 percent for each year between 2019 and 2022 (IMF GFS 2023 and World Bank). Over this same period, Somalia's tax-to-GDP ratio was approximately 1.6 percent of GDP.³⁰

A look at Somalia's comparator countries confirms the assessment of a very low tax revenue collection. While low levels of revenue generation can be expected from FCV countries, Somalia is exceptional for how little it generates. Between 2019 and 2022, it averaged a tax-to-GDP ratio of about 1.6 percent. Burundi, the Democratic Republic of Congo, Mali, and Niger are four similarly low-income Sub-Sahara African countries with FCV status. Over this period, for which there are data, this group averaged a tax revenue of approximately 14 percent of GDP—with the lowest performer, Nigeria, still averaging more than triple Somalia's ratio, at 5.5 percent of GDP. Figure 2.1 shows the recent trend in tax-to-GDP ratios and just how much higher other LIC, SSA, and FCV countries have performed.³¹

30. For consistency, when adding nontax revenues of approximately 0.8 percent to GDP, the domestic revenue mobilization in Somalia stood at 2.5 percent to GDP in 2022, as indicated earlier in the paper. In general, though, data availability and reliability are persistent challenges in developing countries and the fragility in Somalia exacerbates many of these issues. In addition to IMF data, this chapter uses the most recent and consistent data series for tax revenue: the MOF SFMIS data, available on the MOF website, which is divided between the FGS and FMS. Only the central government (FGS) is presented here.

31. The ratio of 'tax revenues per capita' confirms the trend. Over 2009–2018, Somalia generated only 7–8 percent in tax revenues per capita, which was around 50–100 percent below FCV countries in SSA (World Bank 2020, figure 1).

Figure 2.1: Tax-to-GDP performance by Somalia and selected peers, 2019–2022



Source: IMF GFS (2023) for Burundi, Cameroon, Congo, DR, Congo, Rep., and Mali, OECD Rev Stats (2023) for Nigeria and Niger, and FGS and FMS consolidated data MOF SFMS data from MOF website (2023) for Somalia.

In search of explanations on the low tax-to-GDP ratio, the responsiveness of taxation to economic growth provides a critical entry point. The generation of robust and predictable revenues depends on the extent to which the tax instruments, in terms of base definitions and rate mix, are selected and designed to capture the underlying economic growth. Similarly, any efforts by countries to close a tax gap, identified as the difference between potential and actual revenue generation, are deemed to be more efficient when the taxation framework is more responsive to economic growth. While achieving a high level of responsiveness is a fiscal challenge for any country, LICs and FCV countries face particular difficulties.

Efforts to establish and eventually sustain responsive taxation face severe obstacles in Somalia, similar to other FCV countries. On the one hand, the economy remains poorly diversified, with a continued focus on agriculture and some trade and service sectors, and in combination with a high level of informality, robust domestic tax bases are emerging very slowly. As shown below, Somalia remains highly dependent on trade taxation, with little revenue generated through domestic consumption, including excises, and even less through domestic income taxation. Taxation of trade provides for a volatile tax base and tax revenues, and as Somalia will be integrating into the EAC, the tax harmonization framework for all EAC countries may raise additional short-term challenges for Somalia, given the prevalence of trade tax revenues in the total revenue profile.

On the other hand, the domestic institutions arranging for and collecting tax revenues are often particularly weak and incomplete in FCVs. Security and external shocks, such as migration or drought, are particularly difficult to deal with in a coherent revenue generation policy, due to the absence of national identity and the traditional 'checks and balances' institutions, including a strong and unified national leadership at the executive level of government. The particular FCV context on taxation in Somalia may be summarized (World Bank 2020) as follows: (i) strong heterogeneity in tax bases across the federation, particularly due to customs revenues being available only for the FGS and two FMS (Jubbaland and Puntland); (ii) strong competition on taxing powers, by the FGS, FMS, communities, and armed militias; and (iii) modest revenue mobilization enhancement over the short term. However, should the extraction of oil resources emerge, the medium- to long-term revenue generation may look brighter.

Within the context of fragility, this chapter reviews a selected set of opportunities and constraints in improving domestic revenue generation in Somalia. The revenue forecast of 4.5 percent of GDP ratio is underpinned by this review. In addition, as tax policy and tax administration remain severely capacity constrained, a range of taxation reforms are being envisaged, designed, and implemented in parallel, to achieve enhanced tax revenue generation over the short term. The ability of the Somali authorities to implement these reforms

is critical to achieving improved revenue generation. The FGS and FMS will have to transition out of the existing tax framework, as elaborated over time state by state, into harmonized taxation across the federation on core tax sources, such as income, customs, and eventually consumption. This calls for an unprecedented level of coordination and collaboration within and across the federation.

Ongoing prospective revenue reforms in Somalia and their status, as summarized by the IMF Country Report on Somalia (CR) No. 23/438 (December 2023), are as follows:

- Single import duty tariff schedule at ports and airports (not met as of December 2023)
- Standardized valuation table on customs items, including ad valorem valuation (implementation much advanced but not completed, also due to the specific political situation of Puntland in the broader federation)
- Point-of-sale (POS) machines in telecom and tourism sectors, with gradual rollout to other sectors (50 machines operationalized in tourism, while so far none in the telecom sector as of December 2023)
- Turnover taxes (in July 2023 for US\$167,000, generated from 420 small companies and 327 micro enterprises)
- Income tax bill, including harmonization of tax rates across income taxation in the FGS and FMS (to be submitted by end-June 2024)
- Revenue Administration Roadmap (due end-June 2024)
- Integrated Tax Administration System (ITAS) (yet to be finalized)
- Automation of 'other tax' and nontax sources, including road and rental income (initiative under way; new schedule on rental income included in the outline of harmonized tax rates across the federation)
- Expansion of business registration (including the use of third-party collections)
- Gateway for tax payments through private banks (update awaited).

Revenue forecasting on Somalia is a difficult undertaking, given its fragility and the extensive reform environment. The reforms include transforming the current state-level revenue administration to meet the modern principles of responsive taxation in a harmonized format across the federation. The traditional link between GDP and revenue generation is only partially at play in FCV countries, as the revenues are affected by a range of drivers not immediately related to developments in GDP, at least not quantifiably. Short- to medium-term growth in domestic revenues to GDP in fragile countries may be as low as 0–0.5 percentage points year on year, different from growth rates of 0.5–2.0 percent in LICs (Drummond 2012, cited in World Bank 2020).

Revenue outlook for Somalia: Current revenue performance and the drivers underpinning the revenue scenario

This section provides a technical review of current domestic revenue performance, assesses specific opportunities and constraints in enhanced revenue generation, and sets out a model to forecast short- to long-term revenue growth, underpinned by the observations and findings in the previous two subsections.

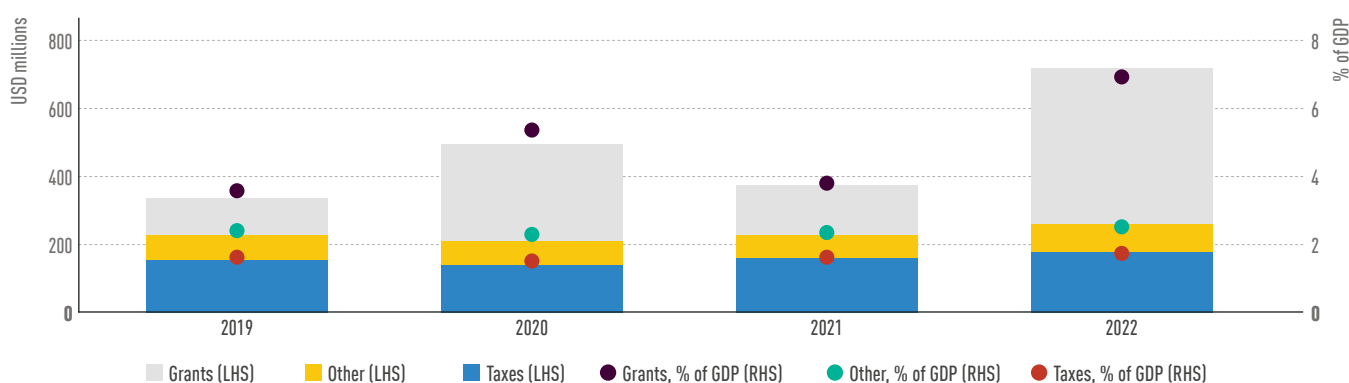
Baseline on revenue performance in Somalia

The domestic revenue-to-GDP ratio in the FGS stood at 2.5 percent in 2022, practically flat over 2019–2022. As shown in Figure 2.2, revenue amounted to US\$230 million in 2019 or 2.4 percent of GDP but this dropped to US\$211 million (2.3 percent) in 2020, presumably due to the impact of COVID-19 on the primary sources of tax and nontax revenue. Domestic revenue rebounded after 2020, reaching US\$263 million (2.5 percent) in 2022, mirroring the growth in GDP, especially in the revenue-contributing sectors. Total revenues—domestic and

external—however, were very volatile in the same period; external grants tripled from a ratio of 1.7 percent to GDP in 2019 to 5.5 percent in 2022, with 2020 and 2022 representing the peaks and 2021 dropping back to the 2019 level. Developments in grants were, to a large extent, driven by the resumption of donor budget support, after the completion of the prolonged parliamentary and presidential elections.

The composition of tax revenue in Somalia is distinguishable from peer countries as it predominately relies on customs duties related to cross-border trade. Figure 2.3 shows the tax revenue profiles of each comparator country by year. While Somalia raises most of its tax revenue at customs, the peer countries' tax generation stems from direct taxes and goods and services taxes (GSTs), with a tendency to raise more from indirect taxes as it is an easier tax to manage in terms of revenue collection. Corporate income tax adds a significant portion of revenue, usually more than 2 percent of GDP across the comparators, as opposed to less than 0.1 percent of GDP in Somalia.

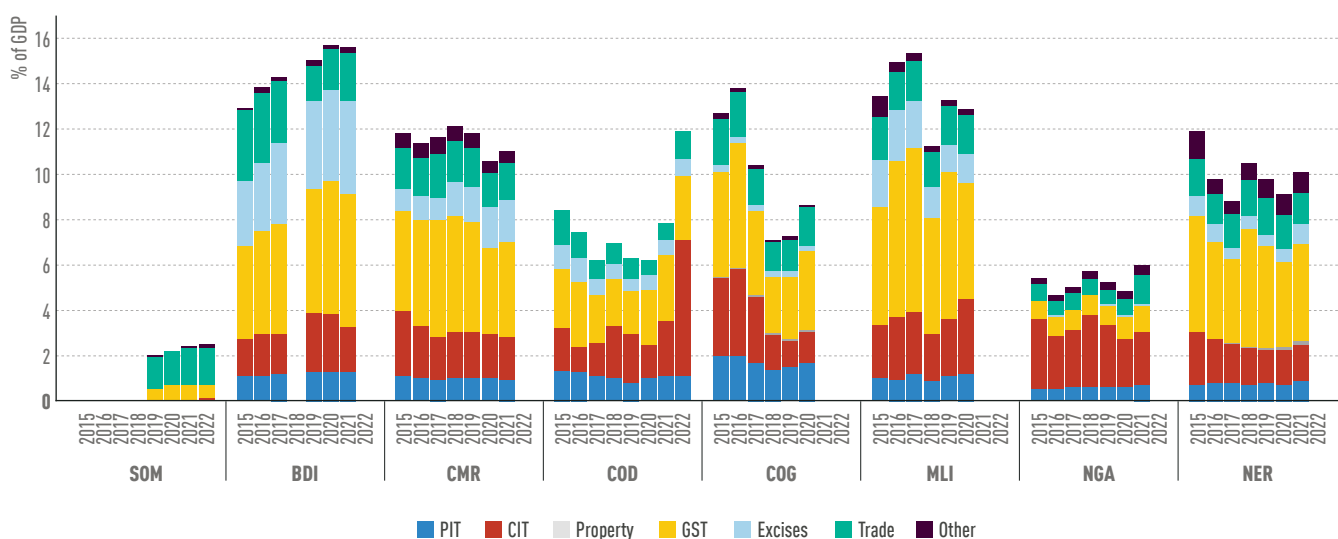
Figure 2.2: Somalia (FGS) - Trend in revenue profile, 2019–2022, by US\$ millions (LHS) and % of GDP (RHS)



Source: FGS consolidated data MOF SFMIS data from MOF website (2023) and authors' calculations.

Note: LHS = Left-hand side; RHS = Right-hand side.

Figure 2.3: Tax revenue profiles by year for Somalia and peers, 2015–2022

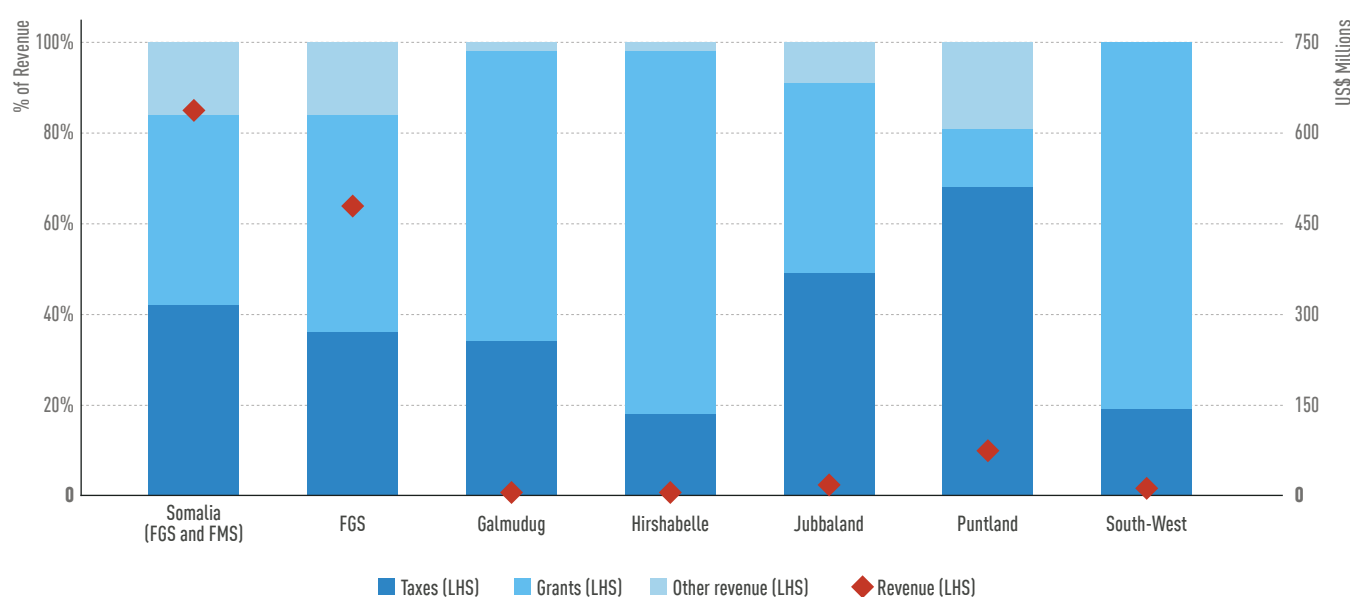


Source: IMF GFS (2023) for Burundi, Cameroon, Congo, DR, Congo, Rep., and Mali, OECD Rev Stats (2023) for Nigeria and Niger, and FGS and FMS consolidated data MOF SFMIS data from MOF website (2023) for Somalia.

Customs duties are the primary tax revenue source, followed by indirect tax revenues. In 2022, customs revenues made up 44 percent of all taxes (US\$116 million out of US\$263 million), followed by indirect taxes (12 percent). Taking into account 'other tax revenues,' the proportion of income tax revenues in the overall tax revenue generation is negligible. Looking at the distribution of revenue generation across the FGS and FMS, the FGS generates the vast majority of income tax revenues, while Puntland and South-West generate the bulk of payroll tax revenues (Table 2.1). The very low point of departure on income taxation may raise concerns about short-term ability and capacity, as well as taxpayer willingness, to scale up revenue generation in income tax sources. On the indirect taxation, Galmudug generated close to 85 percent of all its revenues from this source in 2022, compensating for the absence of customs duties and the very modest income tax revenues. In addition to customs duties and indirect tax revenues, fees and charges (classified either as nontax revenues or 'other taxes') may also make up important revenue sources, which is the case in Jubbaland, Hirshabelle, and, notably, in the FGS.

The FGS generates the vast majority of domestic revenues across the Somali federation. As shown in Figure 2.4, the FGS generates roughly two-thirds of all revenues. If the customs duties generated by Jubbaland and Puntland are added to the FGS total, then the proportion of tax revenue generation comes close to 80 percent of all tax revenues. For 'land-locked' states, with no customs revenues from the port, reliance on grants is very high, at around 80 percent for SWSS and Hirshabelle, and somewhat lower, at 65 percent for Galmudug.

Figure 2.4: Revenues by source and FGS/FMS in % (LHS) and US\$ millions (RHS), 2019–2022 average³²



Source: FGS and FMS consolidated data MOF SFMIS data from MOF website (2023) and World Bank.

32. Due to the challenges of data quality in Somalia, some caveats on data reliability and validity underpin the assessment of revenue performance. The distinction between 'other taxes' and 'nontax revenue' is relatively unclear. Categorization of taxes varies between the FMS and FGS and remains indeterminable whether tax items are genuine taxes or cost recovery mechanisms, such as with the road user tax, which is classified as either one, depending on the year and level of administration. The largest sources of nontax revenues are fees for use (such as airport, harbor, and road fees), licensing and permit fees (for example, telecoms), and administrative charges (for example, visa and passport processing fees). For this reason, little emphasis is placed on their differentiation. Grants, which constitute the bulk of Somalia's total revenues, refer to external grants from IFIs and bilateral development aid for the FGS, while for the FMS, grants are usually—though not always—intergovernmental transfers from the FGS. Occasionally, the FMS receive grants directly from international organizations. Social security contributions are not considered in this report. The consolidated data from the MOF SFMIS website for FGS and the FMS did not contain all regions of Somalia, such as Benaadir and Somaliland, so they were excluded from the visualizations and discussion.

Table 2.1: Revenue profile by FGS and FMS, 2022 (US\$ millions)

Region	Revenue	Taxes	Taxes on income, profits, and capital gains	Taxes on payroll and workforce	Taxes on property	Indirect taxes	Customs	Other taxes	Nontax revenue	Grants
FGS	660.3	181.7	18.0	0.0	0.6	32.8	116.2	14.1	81.0	397.6
Puntland	111.0	65.7	0.7	6.8	0.0	13.1	42.7	2.4	16.9	26.9
Jubbaland	38.4	15.7	0.3	0.7	0.0	4.6	10.1	0.0	3.2	19.5
SWSS	22.9	3.2	0.1	1.7	0.0	1.2	0.3	0.0	0.2	19.5
Galmudug	24.3	7.3	0.2	0.5	0.0	6.5	0.1	0.0	0.6	16.3
Hirshabelle	12.1	2.5	0.0	0.3	0.0	1.9	0.2	0.1	0.8	8.8
Total	869.0	276.2	19.3	10.0	0.7	60.1	169.5	16.6	102.7	488.6

Source: FGS and FMS consolidated data MOF SFMIS data from MOF website (2023) and World Bank.³³

High volatility and low yields in revenue sources constrain predictable and sustainable levels of revenue mobilization

The revenues generated are subject to volatility and with marked differences across the FGS and specific FMS. Somalia depends on only a few categories of revenue sources, and these are unresponsive in the sense of providing ‘automatic drivers’ of robust and sustained levels of revenues year by year. Such volatility can be seen in the tax revenues (Figure 2.5) as well as in other revenues (grants and nontax revenues [Figure 2.6]). Some key observations regarding volatility are as follows:

- *Domestic revenues.* Although the fluctuations are modest for the FGS, they are significant for the FMS. In addition, no pattern seems to emerge in terms of an increase in one source aligning with a decrease in another source, to ensure a certain stability in domestic revenues, FMS by FMS.³⁴
- *Grants.* The fluctuations for grants are less extreme than for domestic revenues, with the FGS and most FMS seeing an increase of ‘only’ 100 percent or more in 2020 and 2022 and with sharp declines across the board in 2021.
- *Suggested rationale for fluctuations.* While the fluctuations in external grants are driven by specific developments in budget support and enhanced humanitarian and project grants, the volatility of domestic revenues is partly driven by internal or external shocks (for example, inflationary pressures, trade shocks, and drought), while other parts of the fluctuations are more difficult to explain.

33. In Table 2.1 and Figure 2.5, with a view to avoiding double-counting, pass-through grants (that is, grants from the international community which the FGS then passes on to the FMS) have been netted out and hence appear only in the account of the final recipient. These grants totaled US\$61.6 million (about half a percentage point of GDP) in 2022. However, similar to other areas, data issues appear here as well. The table below highlights the difference in the net numbers across the two datasets: the Integrated Financial Management Information System (IFMIS) from the MOF on FGS expenditure and consolidated datasheets with FGS and FMS revenue and expenditure. As an example from the table, the IFMIS FGS expenditure on ‘Transfers from the Federal Government’ in 2022 is 50 percent higher than it is in the consolidated datasheet.

Pass-through grant amounts by IFMIS and dataset calculation

Year	Source	Total from FGS to FMS
2019	IFMIS FGS expenditure	43,572,380
2019	2019_mapping (FMS revenue)	14,088,090
2020	IFMIS FGS expenditure	79,663,473
2020	2020_mapping (FMS revenue)	49,194,490
2020	2020_mapping (FGS expenditure)	57,796,897
2021	IFMIS FGS expenditure	44,652,622

Year	Source	Total from FGS to FMS
2021	2021_mapping (FMS revenue)	19,384,330
2021	2021_mapping (FGS expenditure)	27,724,762
2022	IFMIS FGS expenditure	97,214,927
2022	2022_mapping (FMS revenue)	54,389,461
2022	2022_mapping (FGS expenditure)	61,574,450

34. Some of the variations between years and the FMS are due to inconsistent data classification over the years. Although these are harmonized over time, the addition of new taxes increases the likelihood of discrepancies between the FMS.

As a result, fiscal accountability and commitment to revenue generation targets become difficult to establish and practice in such a volatile environment. Similarly, efforts to establish sound and relatively firm options on measures to improve tax revenues over the short term become equally difficult.

In addition to the volatility in revenue generation, revenue mobilization is further constrained and compounded by a multitude of low-yielding other taxes and nontax sources. In Somalia, the current classification of revenue sources does not allow for a stringent and robust distinction between ‘other taxes’ and ‘nontax’ revenues. Nontax revenues³⁵ are in many situations meant to recover costs, such as fees on the use of roads or a fee for issuance of a passport or a driver’s license, and hence, gross revenues are allocated in the budget toward the relevant expenditure items. Revenues are, therefore, not available in the global domestic revenue pool, as is the case with tax revenues, and do not contribute to fiscal sustainability targets. Since the extent to which the Somali authorities generate and apply nontax revenues in a cost recovery framework is not clear, for practical purposes, all nontax revenues are included in the ‘other tax revenues’ category. In addition to the issues on cost recovery, such fragmentation in revenue generation, based on nonresponsive and immaterial tax bases, is diluting efforts to establish sound and predictable revenue streams, both in the current year and in the forecasts. Taxation on such sources may leave the impression of ‘gap filling’—revenues are generated, with any considerations on relative distortions or benefit/costs in collection processes, with a view to meeting any revenue collection targets. The tax burden, including the administrative burden to comply, may become excessive for businesses.

The issue of revenue source fragmentation is affecting the overall revenue generation efforts in Somalia, particularly the FGS and Jubbaland. The top 10 revenue sources in the FGS are a mix of volatile customs duties, such as the import tax on khat or customs tax on petroleum products, fees and charges, such as ‘signature bonus’, or items embedded in the ‘public sector’ or ‘private sector’ categories (Figure 2.7). None of these sources related to fees and charges are linked to responsive taxation, with revenue generation being closely aligned with the underlying development of GDP. Beyond the top 10 sources, the remaining 36 taxes, as imposed by the FGS,

Figure 2.5: Year-on-year change in taxes by FGS and FMS, 2019–2022

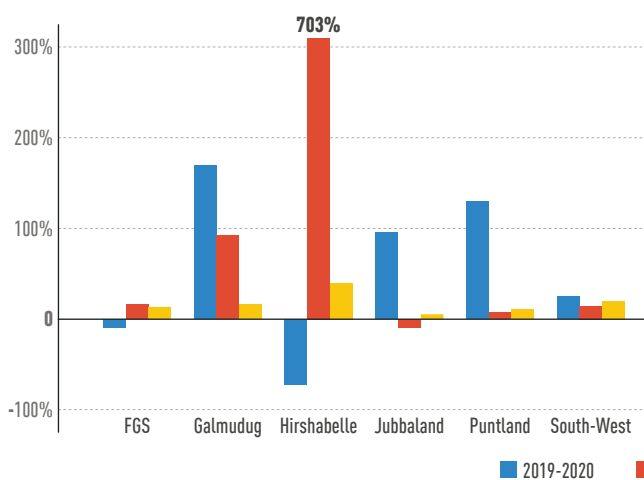
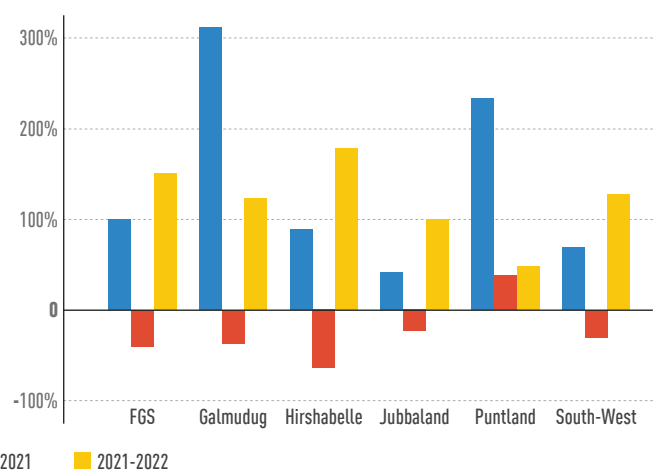


Figure 2.6: Year-on-year change in the sum of grant and other revenues by FGS and FMS, 2019–2022



Source: FGS and FMS consolidated data MOF SFMIS data from MOF website (2023) and World Bank.

35. The GFS definition of nontax revenues covers, on a gross basis, the receipt of fees and charges paid in exchange for noncapital goods and services that are not of an industrial nature, and receipts from departmental enterprise sales to the public whose costs are not separately identifiable. This category includes both payments in exchange for goods and services of a nonregulatory nature and compulsory payments for regulatory services. Fees and charges out of all proportion to the cost or distribution of government services provided to the payer are classified as taxes rather than as nontax revenues.

account for close to 40 percent of the total tax revenues. In Jubbaland, the concentration of revenue on the core top 10 sources is somewhat higher. As indicated in Figure 2.8, income tax sources, including payroll and property tax, feature among the top 10, together with road user fees, and passenger and landing fees. With customs duties being very important in the revenue-generating landscape (generating over 60 percent of revenues), the concentration within the top 10 is high, and only 17 different taxes are applied beyond the top 10, accounting for less than 10 percent of total revenues in Jubbaland in 2022.

Figure 2.7: FGS fragmentation, 2022, revenues in US\$ (LHS) and % (RHS)

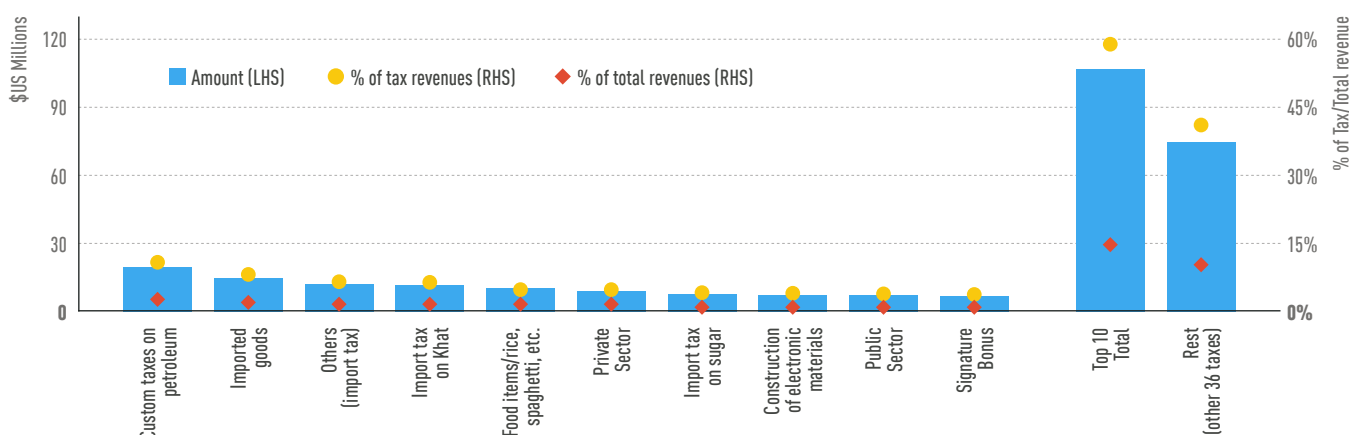
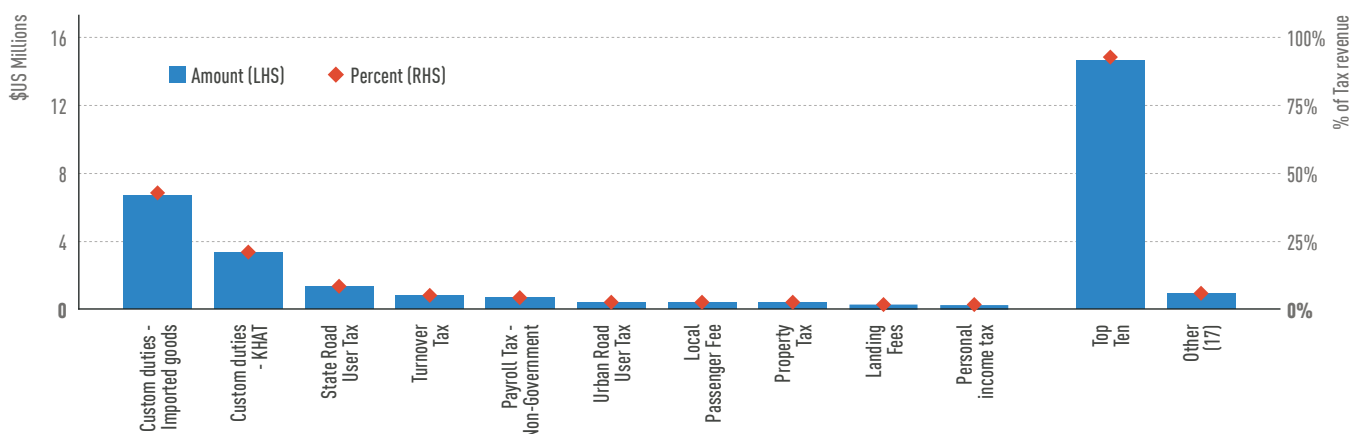


Figure 2.8: Jubbaland fragmentation, 2022. Revenues in USD (LHS) and % (RHS)



Source: FGS and FMS consolidated data MOF SFMIS data from MOF website (2023) and World Bank.

In aggregate, similar to other FCV countries, a responsive and predictable DRM in Somalia is constrained by the absence of broad-based revenue sources, due to the low diversification of the economy. Primary sectors, particularly agriculture, are dominant in the economy. Very little economic diversification is seen, though certain service sectors are emerging and hence providing more robust tax bases. In combination with a large informal sector, robust and broad-based tax bases in income and consumption areas are not established. Revenues are dependent on volatile sources, including customs duties, which are not closely linked to any underlying movements in the economy, thus preventing any 'automatic' and predictable drivers of revenues. Furthermore, revenue generation is fragmented, including relying on a range of low-yielding and relatively

unpredictable sources, including fees and charges and other nontax revenues. These features add to the presence of FCV characteristics as mentioned above, the strong heterogeneity in access to tax bases, and the competition on taxation between the FGS, FMS, communities, and armed forces of AS.

Enhanced domestic revenue generation: Ongoing reform opportunities and technical constraints due to lack of federal tax-sharing arrangements

This section reviews, by tax source, the specific opportunities and constraints in achieving enhanced revenue generation. The ongoing reform efforts, that is, on income taxation and customs revenues, are discussed with a view to identifying the critical conditions for implementing the reforms successfully to achieve improvements in revenues. Other areas, such as excise taxes, seem to be significantly underutilized, and so the chapter suggests how the authorities can expand the tax bases for indirect and other taxes.

Income taxation

A series of income tax reforms has been under way in recent years. A modern income tax law is being drafted, with technical assistance (TA) provided by the IMF. The law will provide the basic principles on income taxation and set out an aligned framework within which tax policy reforms on the various sources of income may be established going forward. In addition, a draft Income Tax Bill was signed by the Ministers of Finance from the FGS and FMS (apart from Puntland) in August 2023. The bill is expected to be submitted to Parliament toward the middle of 2024. Since the bill will require the preparation of details on interpretation and actual implementation, including TA by tax legal experts, its approval is not expected to have any immediate revenue impact.

Income tax harmonization across the FGS and FMS is slated for implementation. At the 20th session of the Finance Ministers Fiscal Forum (FMFF) (August 2023), Ministers endorsed the harmonized income tax schedule across the federation, with harmonized rates on personal income tax (PIT), corporate income tax (CIT), rental income, and capital gains tax. The harmonized rates will be incorporated in the draft Income Tax Bill mentioned above. Details of the federal tax rate structure are in Table 2.2.

Table 2.2: Harmonized income tax rates in Somalia, August 2023

Type of taxes	Adopted rates	Start date
Personal income tax	I. 0–100	0%
	II. 101–500	6%
	III. 501–1,500	12%
	IV. 1,501 and above	18%
CIT	I. Income tax for medium and large companies	18%
	II. Small business income tax (US\$10,001–50,000)	1.5%
	III. Small business profits tax (US\$10,000 and under)	US\$150 flat rate
Rental income tax	Rental income tax	5%
Capital gain tax	Capital gains tax	15%

Source: Finance Ministers Fiscal Forum adopted communique

The rollout of the harmonized tax rate schedules in the FGS and FMS will require substantial modifications of current income taxation. These modifications include a need for comprehensive technical capacity building to achieve efficiency gains and improved revenue mobilization. For example, the current corporate income taxation is applied on turnover-based delineations and classifications of the tax bases, which vary substantially from one FMS to another and between the FGS and FMS. Efforts to agree on a harmonized classification of large and medium taxpayers across the FGS and FMS have suggested sizable differences in base definitions and classifications, with a mix of turnover, number of employees, and economic sectors determining the classification of the enterprises and hence the statutory tax rate to be applied.

Various factors are considered in determining the classification of businesses and hence their income tax liabilities. Figure 2.9 illustrates the classification of A grade businesses in SWSS. According to the 2018 Revenue Act, businesses are classified according to size into five grades to be designated: A, B, C, D, or E. In determining this classification, the ministry may consider the following factors: *area of premises, number of employees, daily turnover, nature of activities, and location of the business*. As indicated in Figure 2.9, (i) a threshold of business volume may be introduced, as part of the classification across A–E (6); (ii) the threshold varies by business sector, as a function also of the tax source; and (iii) income from rental of accommodation or vehicles are included in the grade A classification. In addition, going forward, a separate rental income tax of 5 percent is being established, and these businesses will need to be separated out from the tax bases on the CIT rate of 18 percent.

Figure 2.9: Classification of A grade businesses in SWSS

Schedule 9. Businesses automatically classified as A Grade	
sn	Category of business
1	First class Accomodation Hotels rated 3,4 or 5 star
2	Telecommunications Service providers with annual turnover exceeding USD 12 Million
3	International Money transfer companies
4	Bulk Electricity suppliers with annual turnover exceeding USD 4 Million
5	Water factories with annual turnover exceeding USD 4 Million
6	Bulk Fuel suppliers with sales above 20 barrels (200 liter) per day
7	International Banks
8	Business or individuals offering accommodation for rent.
9	Business or individuals offering vehicles for rent.
10	International companies.

Once the classification A–E is established in SWSS, the imputed personal incomes and turnovers of businesses are then established, by grade and by economic sector (Table 2.3).

In aggregate, it is currently unclear how the new rate of 18 percent on large and medium enterprises may be applied across the variety of tax base definitions and delineations in the FGS and FMS. Revenue impact will differ depending on whether tax base definitions are being harmonized as well or whether each state, including the FGS, continues to apply some discretion in the tax base classification and delineation. In terms of revenue yield and efficiency, harmonization is clearly preferable, though revenue generation may suffer over the short term, as the base definitions and classifications are being aligned. If some discretion is allowed, the effective rates will most likely differ substantially across the FGS and FMS, where the statutory 18 percent is being modified by the economic sector, size, and other dimensions, in light of the specific definitions in each FMS and in the FGS.

Table 2.3: SWSS annual payroll and turnover, by grade and economic subsector

Name	Payroll				Turnover			
	A grade	B grade	C grade	D grade	A grade	B grade	C grade	D grade
Warehouses	5,760	2,880	1,440	960	28,800	14,400	7,200	2,400
Shops	5,280	1,680	1,440	720	39,000	18,000	6,000	3,000
Hotels with restaurants	7,680	2,400	960	480	90,000	36,000	15,000	3,000
Cosmetics	4,320	2,160	1,440	720	36,000	15,000	6,000	2,400
Restaurants	3,600	2,400	1,920	960	18,000	9,000	5,400	3,000
Money transfer companies	96,000	12,000	1,440	0	600,000	42,000	8,400	0
Electricity	168,000	120,000	48,000	24,000	900,000	600,000	240,000	150,000
Pharmacies	4,320	2,160	1,440	720	36,000	21,000	8,400	3,000
Stationeries	3,840	2,400	1,680	720	18,000	10,800	7,200	3,600
Travel Agents	2,400	1,680	720	480	15,000	8,400	6,600	3,000
Furniture	6,000	2,400	1,440	720	30,000	15,000	6,000	3,000
Private Hospitals	4,800	2,880	1,920	960	18,000	12,000	9,000	4,800
Hardware	6,000	3,360	1,680	960	24,000	12,000	6,000	2,400
Spare Parts	5,280	2,880	1,440	720	27,000	9,600	4,800	3,000
Electronics	7,200	2,400	1,200	720	36,000	21,000	7,200	4,800
Snacks & Drinks	3,600	2,160	960	720	12,000	7,200	4,800	1,800
Water Factories	7,680	3,600	1,440	960	120,000	30,000	10,800	6,000
Telecommunications	14,400,000	1,200,000	120,000	36,000	54,000,000	7,200,000	600,000	210,000
Internet Service Providers	40,080	19,920	11,760	4800	158,400	109,800	80,400	9,000

Furthermore, a turnover tax is being established for small and micro-businesses, which will substantially simplify the current tax schemes. As shown in Table 2.2, a flat rate of US\$150 is established for micro-businesses (although it is unclear whether this refers to turnover or profit), while a rate of 1.5 percent on turnover is established for any small business up to US\$50,000. While the simple rate structure is a major achievement compared to the existing tax scheme, the effective tax burden may be excessive when moving from one category to another and may disincentivize taxpayers to 'graduate' to higher rates in the income tax mix. In terms of revenue impact, the IMF is estimating US\$0.2 million in additional revenues.³⁶ Peer experiences suggest a relatively modest benefit-cost ratio, with additional revenues being marginal, in terms of both the number of taxpayers recruited and the overall revenue impact. Additionally, tax administrative costs may be high, also in terms of opportunity costs in capacity-constrained tax administrations, by not addressing compliance issues in the existing portfolio of taxpayers. Start-up issues are particularly prevalent.³⁷

Fiscal management of tax expenditures needs to be harmonized, with a view to seeking rationalization

The application of tax expenditures in income taxation needs to be revised and standardized across the federation, including the authorizing environment to award exemptions. The harmonized statutory rate of 18 percent may be significantly weakened by the application of exemptions in the tax bases, and a continuation of the current practice of tax expenditures, as being awarded at the state level, would potentially lead to disparities

36. "The authorities registered 2,597 taxpayers for the turnover tax by end July 2023. A collection of US\$166,650 from 420 small and 327 micro enterprises was received in July (SB#3, implemented with delay, was due end-May 2023)." IMF CR 23/438, 2023.

37. A recent World Bank study on Tanzania (2019) found that "Registered taxpayers on presumptive income tax represent around 45 percent of the total Tanzania Revenue Authority (TRA) population of registered taxpayers. In 2016/17, however, the revenues from the presumptive tax contributed around 0.7 percent of total tax revenues, emphasizing the need for improvements in the buoyancy of the tax handle, also seen relative to the revenues/administrative costs ratio of handling 45 percent of registered taxpayers."

in effective income tax rates across the federation. This would ultimately lead to a 'race to the bottom' scenario, with lower effective rates in corporate income taxation being part of attracting enterprises to do business in the FGS or the specific FMS. Such an impact is similar to the issues raised above on the classification and other matters of definition and delineation of the tax bases on income.

Currently, only the FGS is preparing regular reporting on tax expenditures.³⁸ Although most tax exemptions in the FGS relate to humanitarian- and project-related aid, revenue loss also is incurred on tax exemptions provided to the private sector. These exemptions, which are made at the ports and in some domestic indirect taxes, have an overall bearing on the profitability and hence income tax liability of the businesses in question. The awarding of tax expenditures may not come across as being prepared on the basis of benefit-cost criteria. Table 2.4 on the private sector bears witness to this point, with one company benefiting 95 percent of the revenue forgone, while exemptions awarded to other enterprises are immaterial in size and might eventually be discontinued.

Table 2.4: Private sector tax expenditures (US\$)

No.	Production industries		Freq	Total tax expenditure
1	Private sector	Warshadda Marina Seafood	3	13,135
2		Warshadda Universal and Printer	1	24,205
3		National Salt	2	28,557
4		Coca Coola	1	2,755
5		Warshadda Valleyseed	1	4,692
6		Barhel Cement Company	7	1,121,739
7		United Bottling Company (Coca Cola)	14	41,746
8		Somali Plastic Factory	24	68,209
			53	1,305,038

Source: FGS reporting on 2021.

Reporting on tax expenditures as a regular activity is beginning to emerge in Jubbaland, as the Income Tax Act in Puntland provides for tax expenditures. Tax exemptions on income taxation in **Jubbaland** are restricted to (i) the primary sectors (agriculture, fisheries), where "Income earned by engaging in a range of following commercial activities is forever free from income tax," and (ii) an individuals or business "...who makes a minimum investment in agriculture and fishing will be exempted from business income no matter the investment amount." Determination of eligibility is left to the tax authority and the entitlement is discretionary and subject to the fulfillment of prescribed conditions. In **Puntland**, article 17 of the Income Tax Act lays out the temporary exemption of industrial and agricultural business from income tax as follows:

- "The Ministry of Finance may, as an exceptional measure, and for a period not exceeding 10 years, wholly or partly exempt new industrial or agriculture enterprises from income tax, on the proposal of the Ministry of Industry and Commerce as regards industrial activities or on the proposal of the Minister of Agricultural and Animal Husbandry as regards agricultural activities
- The exemption shall only be granted where the entrepreneur concerned proves that he will run an extraordinary risk, and that he will either produce new goods or, in producing goods, will use a more advanced technique which was not previously used
- Exemption shall also be granted where the entrepreneur proves that he will run an extraordinary risk in carrying on industrial or agricultural activities which, without involving any actual processing of goods, preserve or condition such goods thereby increasing their economic value."

38. The FGS published the annual report on tax exemptions as part of the 2023 budget package and the quarterly report for 2022Q4 in January 2023.

Exemptions in the bases on PIT vary across the FGS and FMS. The main variations concern the specific categories of public staff being partially or fully exempted (military, security, and certain categories of government officials more broadly).

In aggregate, the policy design and fiscal management of tax expenditures will need to be harmonized. Such harmonization should include the centralization of access to award tax exemptions in the income tax bases at the FGS level. The broad-based income taxation needs to be guaranteed in the sense of keeping the statutory rates (at the modest level of 18 percent in the CIT) equal to the effective rates. If access to awarding tax expenditures at the FMS level remains as is, income tax rate harmonization may be substantially watered down.

Customs revenues

The ongoing harmonization of customs duties is a top priority, given that such revenues remain the single most important source of domestic revenue in Somalia. Efforts in recent years to modernize and enhance technical capacity have focused on the customs schedule—to harmonize the tariffs across ports in the FGS and FMS; to introduce a common valuation table, based on the *ad valorem* concept at valuation of goods and services; and in general, to improve customs administration. All three elements are being brought together in the Customs Automated System (CAS), in line with good international practices.

The efficiency of customs revenue remains lower than Somalia's comparator group. Somalia imported a substantial amount of goods and services, at an average value of approximately two-thirds of GDP between 2019 and 2022 (WDIs 2024) yet only generated an average of 1.5 percent of GDP in tax revenue from these imports over this period (MOF SFMIS 2023). Somalia is lagging peer countries by an efficiency gap of around 60 percent (3.3/5.5 percent), since the same set of comparator countries had an import and export tax efficiency of over 5.5 percent, compared to Somalia's 2.2 percent. The assumption in the forecasts is based on US\$15–18 million in customs revenues per month. As a conservative guess, if the efficiency gap were closed by half of the value, monthly customs revenues might be US\$20–24 million.

Progress on tariff harmonization and other reform steps at customs has not been straightforward. The harmonization of tariffs is at the core of the reforms, as stressed by the trigger in the HIPC Completion Point agreement: “Adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia (to also foster greater trade).” However, a setback in tariff harmonization occurred over the summer of 2023 due to the unilateral tariff increases by the FGS. But the 20th meeting of Finance Ministers in August 2023 reiterated the commitment to reform, with the Communique stating: “The Ministers, by considering the challenge observed concurred in principle to issue and adopt a single tariff through harmonizing the tariff schedules.”³⁹

As regards enhanced domestic revenue due to the harmonized tariff and valuation base, an assessment of short- to medium-term revenue trajectories is difficult to establish. Higher tariffs in some ports may lead to a reduction in imported goods and services, and customs revenues in general are highly sensitive to economic developments, including external shocks. In addition, as discussed in detail in the section on ‘income taxation’, tax expenditures need to be harmonized across the ports, eventually by a centralization of access to award tax expenditures. The modalities in current practice on tax exemptions at customs differ across the FGS, Jubbland, and Puntland, in terms of targeted sectors and the specific terms provided. In any case, the efficiency gap in

39. A detailed status on customs reforms is provided in the most recent IMF country report (CR 23/187), indicating that “The customs regulations on valuation and declarations were issued in September 2022 and the *ad valorem* tariff schedule was enacted in June 2022. The CAS is being piloted in Mogadishu port and airport. The next step is for the CAS to be rolled out to Bosaso, Garowe, and Kismayo, together with a common valuation table. However, a hiatus in 2022 of the external technical support for the project has led to technical delays in the implementation of the CAS at Mogadishu ports and the rollout of the system to FMS ports (SB#4, due end-July 2023). In addition, Puntland is currently not cooperating on the project.”

current customs duty generation is largely linked to too generous and expensive exemptions in the customs bases. Finally, uncertainty about the timing of the actual rollout of the harmonized tariff schedule and valuation base also affects the estimation of revenue impact, including in the context of the EAC affiliation, starting March 2024.

Indirect domestic revenue sources

The procurement of the POS machines, which is a key component of the tax administrative measures on general sales taxes (GSTs), is under way. This is to be followed by immediate rollout in the telecom and tourism sectors. The use of POS machines implies an enhanced capture of the revenue base and the transactions related to indirect taxation, which in turn normally results in enhanced revenue generation.

Box 2.1: Fiscal impact of EAC accession

At the EAC Summit of Heads of State on November 24, 2023, Somalia was formally admitted to the EAC, and with the ratification of the Treaty completed only 3–4 months later, on March 4, 2024, Somalia became a full member of the regional organization. With Somalia on board, the EAC brings together eight economies, with trading and FDI opportunities reflected in the size of the combined GDP, which exceeds US\$310 billion. In accordance with a recent report (RSM [Eastern Africa] Consulting Ltd. 2024), the EAC economies are projected to grow at 5.2 percent in 2025.

The net economic impact of the regional membership will emerge over the coming years. The EAC tax harmonization framework will apply to the areas laid down by the EAC, which include customs and consumption taxation. The valuation tables and tariff schedule of Somalia will have to be aligned with the EAC framework, and any unilateral modifications, such as the tariff adjustments by the FGS in July 2023, will have to comply with EAC standards. Similarly, a deepened use of excises in Somalia would also have to comply with EAC excise standards, including harmonized rates, with a view principally to avoiding any protective measures of domestic manufacturing and services through differentiated excise rates on domestic and imported goods and services. In general terms, a standard assessment would suggest a positive correlation between the open markets within the EAC and the enhanced economic activities and growth, including enhanced tax revenue generation. Similarly, though of longer-term interest, enhanced trade and foreign direct investment would imply that the income tax bases become more mobile, making tax collection and compliance more difficult and eventually leading to revenue loss on income tax areas, particularly where tax administrations are capacity constrained.

Excise taxes may provide an option for enhanced revenue mobilization in Somalia. Excises are taxes levied on products or services, imposed at any stage of production or distribution, and are usually assessed by reference to the weight, strength, or quantity of the product but sometimes by reference to value. Excises may be levied at customs, as surcharges on customs tariffs, or in domestic taxation, and revenues are collected from a limited number of providers, including companies already paying customs at the border. Different from the broad-based GST, excise taxes typically target selected products or services, by adding a price layer on the products, with a view to having the consumer contribute to the costs of any harmful or negative behavior. Well-known examples are excises on tobacco, alcohol, and soft beverages; on the consumption of hydrocarbon oil, other energy sources, and second-hand vehicles with a high pollution impact; and, as a wealth tax, on consumption of luxury goods, such as luxury vehicles, jewelry, and cosmetics.

With the current poor visibility on excise taxation and the related revenues on ‘other taxes’ and nontaxes, Somalia is encouraged to develop a coherent strategy on excise taxation. Some excises have been established by the FGS, at exportation and importation, including on sugar and khat.⁴⁰ In the domestic taxation, excises are imposed on telecom services, though in some situations as an integrated part of the turnover-based income taxation of telecom companies. The excise strategy should also incorporate the excise tax harmonization framework of the EAC, as Somalia is entering the regional community. An excise strategy should pay careful attention to the tax policy design, seeking coherent application across taxpayers (importers versus domestic firms) and products. Excises in some countries and on some product/service lines (such as telecom services) tend to establish tax rate differentials between like or highly substitutable goods. Such practice distorts consumer choices and may eventually lead to an over-taxation of certain services or products.

Somalia’s revenues from excise taxation need to be increased in line with the EAC tax harmonization framework. Revenues on excises to GDP are material in peer countries, standing at 1.8 percent of GDP in SSA in 2020.⁴¹ Revenues vary across subregions, with the Economic and Monetary Community of Central Africa (*Communauté Économique et Monétaire de l’Afrique Centrale*, CEMAC) and West African Economic and Monetary Union (WAEMU) countries somewhat lower, while excise taxation has been a core revenue source in EAC, particularly in Tanzania and Kenya. Current revenue statistics do not allow for a sound estimation of revenues from excises in Somalia (World Bank 2020). However, as Somalia is initiating its membership of the EAC, an enhanced use of excise taxation, as supported by the EAC harmonized tax framework, should be envisaged.

Other tax areas and nontax revenues

While ‘other taxes’ and ‘nontax revenues’ constitute important domestic revenue-generating instruments, an assessment of their contributions in the medium-term revenue outlook is difficult to apply. As mentioned above, the revenue bases are fragmented, consisting of a range of small, occasionally very small, revenue sources, and in some cases, such as fees and charges, the net revenue gain may be difficult to assess, since these are normally applied on a ‘cost recovery’ basis and the underlying expenses to provide the service are unknown. Furthermore, revenue enhancements on these sources often take the form of ‘one-off’ initiatives, which are difficult to predict and assess, as they are different from revenue improvements to structural tax policy measures on core income and consumption taxes.

40. In the context of tax reforms 2019–2020, the World Bank (2020) refers to “introduction of sales taxes on imported goods,” without going into details. According to the IFMIS data set, FGS started collecting revenues on revenues in 2023, while already in 2019 excises were listed in IFMIS on ‘mineral water and other beverages,’ but with no actual revenues being collected. Furthermore, “Rate is supposed to depend on the good, but in reality, a uniform 5 percent rate is being applied. Government unable to collect on a certain subset of goods.” (World Bank 2020, 12). The 5 percent may refer to the rate of the GST, which is set at 5 percent, and hence, in reality, revenues on excises are merged into the collection of GST revenues. The need for a coherent and comprehensive strategy on excises is also well justified looking at the current practices within the FMS. Puntland was the only FMS to collect revenue from excises, and the amounts collected were small (for example, under US\$400,000 in 2021 and under US\$700,000 in 2022) and on items not representing core items in an excise tax base, such as ‘sin taxes’:

2020–2022 Puntland excises (US\$)

Code	Name	Amount	Code	Name	Amount
114201	Tax on manufacturing product	36,561	114204	Excise duty of imported goods	441,183
114202	Tax on fish, lobster, and frankincense	149,117	114200	Excise total	682,134
114203	Tax on other local products	55,273			

41. Data in the WoRLD dataset, in IMF SDN, 23/006.

The larger domestic revenue sources of nontax revenues and other taxes include the following: (i) the ‘fishery agreement’ remains a core income source where the revenues are distributed to the FMS in a formula further to prior agreement. The agreement currently generates around US\$1.5 million per year, which intuitively may seem on the lower side of the tax potential; (ii) the ‘road taxes, fees, and charges’ are material revenue-generating sources; however, they are unevenly distributed across the FGS and FMS, as indicated earlier; and (iii) future royalties on extractives may provide relatively important revenues over the medium to long term. An income tax law on extractive industries was enacted in 2023 (IMF CR 23/438), and as the underlying regulatory framework emerges and bidding processes are brought to closure, estimations of income tax revenues and royalty revenues, including flow and trajectories over time, will become feasible.

Table 2.5: IMF assumptions in CR 23/438 on domestic revenue increases (US\$, millions)

Source	2023	2024
Increase in domestic revenue	44.8	36.2
New measures/better enforcement	16.8	24.1
Tax on international trade (including customs duty increase in May 2023, SOMCAS implementation, khat import tax)	16.8	12.1
Other tax revenue (including turnover tax, POS machines)	0	0
Nontax revenue (including spectrum fees, fishing license, automation of road tax and rental income)	0	12.1
Ongoing policies	28.0	12.1

Source: Somalia. IMF CR 23/438 (December 2023) and World Bank.

Note: SOMCAS = Somalia Customs Automation System.

Issues in the still emerging fiscal federal framework constrain efficient tax revenue generation and allocation

As fiscal federal relations gain importance in the overall fiscal policy design and implementation in Somalia, the constitutional deficiencies and the related constraints in the further allocation of mandates, expenditures, and tax revenues become evident. This misbalance has an overall bearing on the fiscal sustainability framework in Somalia. This subsection further outlines these aspects of the misbalances and suggests a tax-sharing framework to be established as an urgent measure of Somalia’s tax reforms.

On the one hand, the level and composition of FMS financing have changed dramatically in recent years. The growth of domestic tax revenues in Hirshabelle in 2021 exceeded 700 percent year on year, while Puntland and Galmudug registered increases of more than 100 percent in 2020. In terms of grant revenues, Puntland and Galmudug saw exponential revenue growth, at over 1,800 percent and 400 percent in 2020, respectively, while growth rates on grant revenues were well below 100 percent in Hirshabelle, Jubbaland, and SWSS in 2020. While less excessive, all five FMS registered growth in grant revenues of more than 100 percent in 2022. Looking at developments in financing profiles, year-on-year changes in tax revenues are highly volatile and do not seem to follow any pattern or trajectory of grants received. In 2021, where changes in grant revenues, year on year, were negative in all FMS, save Puntland, compensatory financing in the form of tax revenue generation is observed only in Hirshabelle and partly in Galmudug, with no reactions in the other FMS. Any robustness of the FMS’ fiscal accountability and predictability in terms of the level and profile of financing seems very difficult.

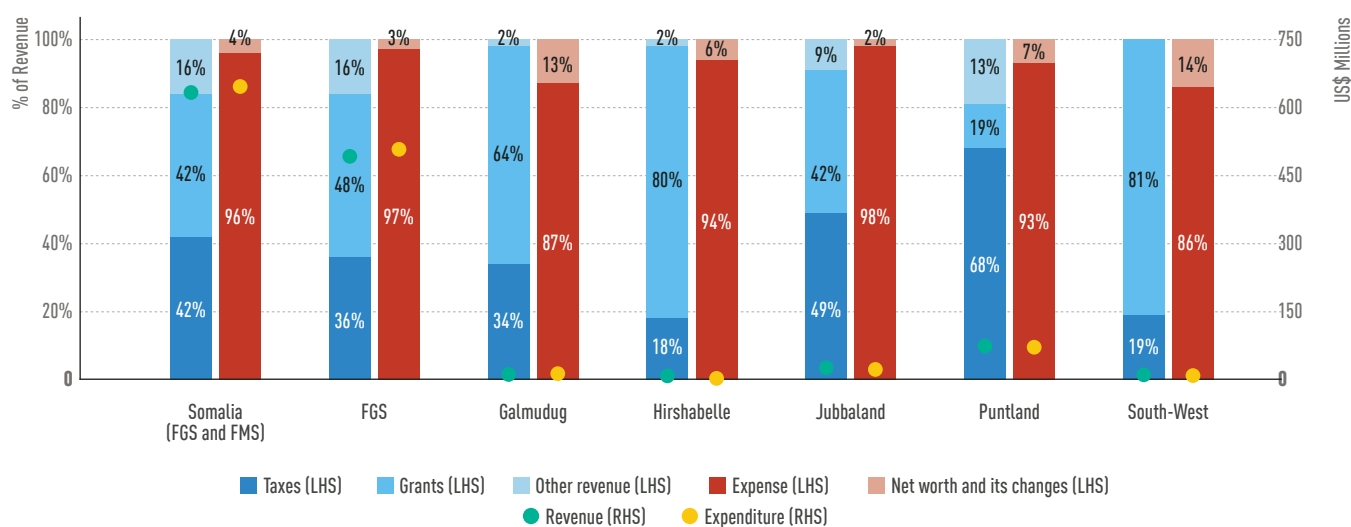
On the other hand, the Constitution in Somalia does not provide support for the management of fiscal sustainability issues. The Somali Provisional Constitution does not provide for a division of resources or a system of intergovernmental transfers. It states that the distribution of resources is to be ‘fair’ and responsibility for the raising of revenues shall be given to the level of government “where it is likely to be most effectively exercised” (World Bank 2018). Unlike the constitutions of other federations, it does not constrain the functions of

the federal government or define the revenues of the states. This applies to the allocation of tax resources and the design of any specific system of fiscal transfers across the federation, horizontally and vertically. However, the Constitution stresses the need for collaboration and negotiation between the federal government and the FMS. On the financing of the FMS, it states, among others, that “in the spirit of intergovernmental cooperation, the federal government shall consult the FMS on negotiations relating to foreign aid” and commits the Federal Parliament to enact a “framework for financial management” (Frank et al. 2015; World Bank 2018).

In the spirit of the ‘intergovernmental cooperation’, the 20th FMFF (August 2023) confirmed the allocation criteria on World Bank Development Project Operation (DPO)-2 grants—60 percent to the FGS and 40 percent to FMS. The meeting also noted that the 40 percent grant funding for the FMS was to be allocated in accordance with the five criteria applied on earlier occasions. This practice is very different from financing agreements and criteria in other federations, and it weakens the opportunity to create fiscal accountability at the FMS level, including boosting efforts on own-tax revenue generation.

The establishment of predictable and technically underpinned tax-sharing arrangements across the federation is urgent, given the variance in own-source revenues. Predictable and transparent revenue-sharing arrangements are core in the efforts to ensure the effective use of fiscal resources across any federation; however, these are currently not in place in Somalia. Over 2019–2022, the own-source revenues covered approximately 40 percent of own revenues (96 percent in expenditure column), leaving the federation with a vertical fiscal gap of around 60 percent to close, in the form of grants and other types of financing (Figure 2.10, LHS).⁴² The own-source financing varies considerably across the FMS with own-source taxation covering 59–87 percent of their financing needs over 2019–2022, as seen against 18 percent in both South-West and Hirshabelle. Galmudug is similarly reliant on grants, which represent almost two-thirds of the state’s revenue. The sizable differences in own-source revenue generation are linked to access to customs duties, where Jubbaland and Puntland generate more than 40 percent of revenues at customs. This stresses the need for redistribution mechanisms of the customs duties across the federation (revenue capacity equalization transfers) as well as the need for harmonization of income and consumption taxes, taking into account the uneven distributions of

Figure 2.10: Assessment of vertical fiscal gap in Somalia, 2019–2022 average



Source: FGS and FMS consolidated data MOF SFMIS data from MOF website (2023) and World Bank.

42. The vertical fiscal gap calculation in Figure 2.10 needs to be interpreted cautiously. Eventual classification issues may have an impact on the own-source tax revenue calculations. On the denominator, it is not clear whether the fiscal deficit is being taken fully into account.

tax sources across the states and between the FMS and FGS. As an example, both Galmudug and Hirshabelle generate more than 50 percent of their own-source revenues on 'road user taxes' (in Galmudug, US\$5.2 million of US\$7.3 million or 71 percent of own-source revenues; in Hirshabelle, US\$1.4 million of US\$2.5 million or 59 percent of own-source revenues), bearing witness to the low capacity and effort to collect tax revenues on income or on consumption. Such under-diversified taxation in these two states needs to be reflected in the vertical gap assessments and addressed in the allocation of transfers. The design and implementation of tax-sharing arrangements across the federation should, therefore, be a priority.

Model forecasting of domestic revenue in Somalia: Projected revenue-to-GDP ratio to reach 4.5 percent in 2030

Somalia has considerable scope to continue to enhance its domestic revenue generation in 2023–2030. Despite more than doubling the tax and nontax revenue between 2016 and 2022, from US\$113 million to US\$263 million, significant potential remains. The results and the assumptions in the revenue forecasts in Figures 2.11 and 2.12 follow different assumptions, as described in more detail in Table 2.7.

The simpler model, the base case, assumes a constant trajectory in revenue yields through 2030 and predicts revenues to be 85 percent higher than in 2022.⁴³ Under this forecast, reflecting the GDP forecasts, domestic revenue is projected at approximately US\$388 million by 2027 or 2.6 percent of GDP, in roughly similar proportions to the current revenue profile. By 2030, this amount is forecasted to increase to US\$463 million, standing at a close-to-flat level of 2.6 percent of revenue-to-GDP compared to 2027. No policy or administrative capacity changes are explicitly factored in, and the base case should be considered a lower limit of future revenue mobilization.

In the high case scenario, the medium-term outlook on revenue generation suggests an enhanced revenue generation of US\$838 million, a tripling of 2022's domestic revenue, which represents the forecast of a 4.5 percent revenue-to-GDP ratio in 2030. This amount does not consider the integration of the reporting of FMS revenue generation in the total revenue revenues, which would add substantively to the total reported revenue-to-GDP ratio.

The high case projections are more optimistic than the domestic revenue instrument forecasts, since it continues to predict an increase in the revenue-to-GDP ratio of 0.2 percentage points per year through 2030. The 0.2 percentage point assumption captures the revenue impact of tax and nontax reforms. While these projections are generally aligned with the December 2023 IMF forecast (CR 23/438), one major difference relates to the growth of direct tax revenue: the high case projects an increase of only 83 percent over the 2022 amount by 2027 as opposed to the IMF's tripling. Since the direct tax base is relatively small, the more impactful changes are shown in the row indices. Key observations include the following:

- The high case projects slightly higher nontax revenue and customs amounts but nearly three times more for other taxes.
- Customs is the largest tax instrument and expected to grow the most through 2030, reflecting both increased capacity and refined policy implementation.
- Reform steps on consumption taxation have not been quantified at this stage, bolstering the robustness of the high case estimations.

43. Although the forecasted changes in GDP were determined independently, the results were very similar to the assumption that revenues grow proportionally to GDP—that is, each tax and nontax instrument had a buoyancy close to 1, which has been historically true too.

- Excise taxation is relatively simple to implement and Somalia is lagging its peers quite significantly in terms of revenue collection. Excise tax reforms would thus have a revenue impact over the short to medium term.
- The reduction in the efficiency gap in customs, compared to Somalia's peers, has also not been quantified in the model forecast.
- Going forward, adding the reporting of FMS revenues in the official statistics on revenues-to-GDP would result in substantial gains for total reported revenue collection in Somalia. For instance, FMS revenues contributed between 17 and 110 percent of 2022's revenues. To reemphasize, however, only the FGS revenues are used in the current expressions on revenue-to-GDP developments.

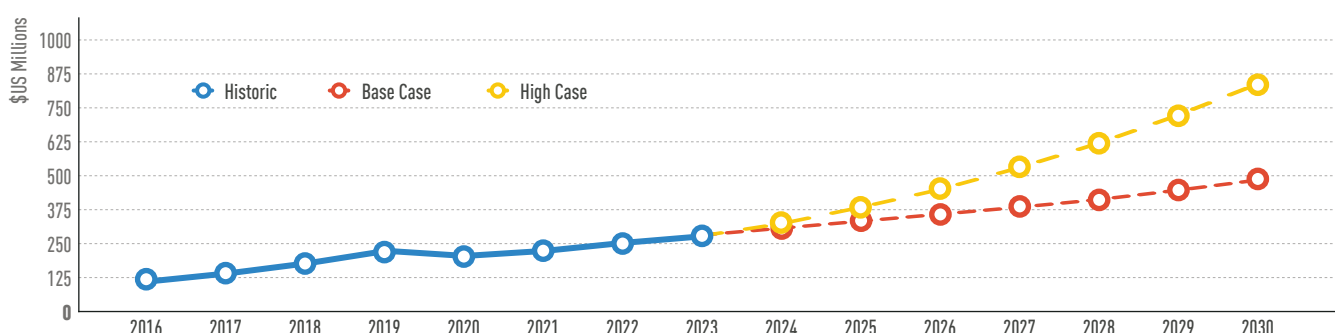
Table 2.6: Summary of revenue impact 2023–2030 (US\$ million) - Base case and high case

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Base Case, USD millions/index															
Total revenue	112.7	142.6	183.4	229.7	211.2	229.6	262.7	287.7	312.7	337.7	362.7	387.7	418.1	451.3	487.2
Direct tax	2.4	3.4	8.6	11.7	16.2	15.8	18.7	21.4	24.1	26.8	29.5	32.2	34.8	37.5	40.5
Indirect tax	9.9	5.3	22.1	25.0	21.3	23.4	32.8	36.6	40.4	44.2	48.0	51.9	55.9	60.4	65.2
Customs	76.3	96.4	100.3	107.0	91.1	109.0	116.2	122.8	129.5	136.1	142.7	149.4	161.1	173.9	187.7
Other tax	0.0	6.9	7.9	11.1	11.0	14.6	14.1	16.4	18.8	21.1	23.5	25.8	27.8	30.1	32.4
Non-tax revenue	24.1	30.6	44.5	74.9	71.7	66.8	81.0	90.5	99.9	109.4	118.9	128.4	138.4	149.4	161.3
Index. Total revenues. 2022=100	42.9	54.3	69.8	87.5	80.4	87.4	100	109.5	119.0	128.6	138.1	147.6	159.2	171.8	185.5
Index. Direct tax revenues. 2022=100	12.7	18.5	46.2	62.7	86.6	84.6	100	114.6	129.1	143.7	158.2	172.8	186.3	201.1	217.1
Index. Custom duties. 2022=100	65.7	83.0	86.4	92.1	78.4	93.8	100	105.7	111.4	117.2	122.9	128.6	138.7	149.7	161.6
High Case, USD millions/index															
Total revenue	112.7	142.6	183.4	229.7	211.2	229.6	262.7	285.0	330.0	388.0	454.0	533.0	623.0	725.0	838.0
Direct tax	2.4	3.4	8.6	11.7	16.2	15.8	18.7	21.1	20.8	24.8	29.1	34.1	39.9	46.4	53.6
Indirect tax	9.9	5.3	22.1	25.0	21.3	23.4	32.8	36.2	35.6	41.1	48.1	56.5	66.0	76.9	88.8
Customs	76.3	96.4	100.3	107.0	91.1	109.0	116.2	121.7	169.0	196.3	228.4	267.6	313.4	365.4	424.0
Other tax	0.0	6.9	7.9	11.1	11.0	14.6	14.1	16.2	16.5	20.2	24.5	29.3	34.9	40.6	46.9
Non-tax revenue	24.1	30.6	44.5	74.9	71.7	66.8	81.0	89.5	88.1	105.5	123.9	145.5	169.5	195.8	223.7
Index. Total revenues. 2022=100	42.9	54.3	69.8	87.5	80.4	87.4	100	108.5	125.6	147.7	172.8	202.9	237.2	276.0	319.0
Index. Direct tax revenues. 2022=100	12.7	18.5	46.2	62.7	86.6	84.6	100	113.0	111.4	133.1	155.7	182.8	213.7	248.6	287.4
Index. Custom duties. 2022=100	65.7	83.0	86.4	92.1	78.4	93.8	100	104.8	145.4	169.0	196.6	230.3	269.8	314.5	365.0
Summary - Total revenue (% of GDP), Somalia															
Base Case (FGS), % of GDP	1.5%	1.7%	2.2%	2.4%	2.3%	2.3%	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
High Case (FGS), % of GDP	1.5%	1.7%	2.2%	2.4%	2.3%	2.3%	2.5%	2.5%	2.7%	3.0%	3.3%	3.6%	3.9%	4.2%	4.5%
FMS, USD millions/index (not included in the model)															
Total revenue				45.4	90.6	111.6	117.7	139.7	162.1	184.7	207.2	229.8	247.8	267.5	288.8
Index. Total revenues. 2022=100				38.5	77.0	94.8	100	118.8	137.8	157.0	176.1	195.3	210.6	227.4	245.5

Table 2.7: The two revenue forecasts - Model assumptions by category

Models/variable	Tax and nontax revenue
Base case	Extends the 6-year (2016–2022) trend through 2030, reflecting the GDP growth forecasts
High case	An FCV country in the post-HIPC period is forecasted to grow at a rate of 0.2 percentage points per year for total revenue as suggested by historic revenue trends. The underlying growth is not explicitly disaggregated at the instrument level but captures the total revenue impact of the reform steps. By 2027, direct taxes will have increased by 40% (in nominal terms); however, it takes time to get the policy and administration up and running, so changes are only made in the three years before 2027 (with an increase of 20%, 30%, and 40% over the 2023 benchmark) at which point it remains until 2030. All other taxes extend the 3-year (2019–2022) trend forward, excluding grants. For the assumptions on other sources, please refer to the body text and footnotes.

Figure 2.11: Domestic revenue forecasts by the base case and high case (US\$ millions)



Source: IMF GFS (2023) for Burundi, Cameroon, Congo, DR, Congo, Rep., and Mali, OECD Rev Stats (2023) for Nigeria and Niger, and FGS and FMS consolidated data MOF SFMIS data from MOF website (2023) for Somalia.

Longer-term revenue projections beyond 2030: Some qualitative assessments

Based on the robust projections of a 4.5 percent revenue-to-GDP ratio in 2030, the longer-term projections on revenues in Somalia may provide some additional optimism regarding domestic resource mobilization. The emerging extraction of natural resources, with the resulting impact on growth, and the revenue generation due to EAC membership appear as potent examples of solid tax base expansion. The eventual phasing out of double taxation between public authorities and private agencies (AS armed forces) could also have an impact on revenue generation.

The new legislation on natural resources lays the foundation for a modern framework on revenues from royalties in the extractive industries, and it may have a significant positive revenue impact going forward. A World Bank study (Raballand and Knebelmann 2020, 17) suggested, as a minimum, a reserve of 600 million barrels, equal to oil revenues of US\$20 billion or higher (2020 price levels). The legal and administrative framework on extraction is well advanced. The 2020 Petroleum Law has been enacted, establishing the Somali Petroleum Authority (SPA) and the Somalia National Oil Company (SONOC) with a view to ensuring national interests in exploration of the oil reserves. Furthermore, the government launched the first round of offshore bidding on the ultradeep blocks in August 2020. As of January 2024, the amount, sequencing, and specific terms of income tax revenues and royalties will depend on a range of technical aspects, which will become known as the bidding process advances over the coming years. With no specific assessments available on these technical aspects, it is currently not feasible to forecast anything on the level and phasing-in of revenues from natural resources. It should be mentioned, however, that the efficient allocation of any revenues requires the fiscal federal framework to be further established, to set allocation criteria across the FGS and specific FMS, including compensation to jurisdictions hosting the extraction activities.

The economic net impact, including on tax and nontax revenues, of EAC membership cannot yet be soundly estimated. As detailed in Box 2.2, the increase in trade and foreign investments in the EAC is expected to be material and, in turn, result in economic growth and improved fiscal balance in Somalia. The 2025 growth rate of the EAC exceeds the current estimated growth rate in Somalia. Somalia will have to join and abide by the EAC tax harmonization, which in the short term may put some tariff and valuation bases under pressure. On the other hand, the EAC harmonized taxation will support Somalia's efforts to rationalize its costly tax expenditures and roll out joint valuation tables and tariff rates across customs in its three ports.

The AS taxation provides a parallel framework on tax bases, tax rates, and revenue generation in Somalia. Two recent surveys have laid out the details of this parallel tax system (Box 2.2). While the two surveys deem the revenue generation by the parallel taxation to be very substantial, it is not in any way possible to estimate the eventual revenue impact for the authorities of an eventual mainstreaming of the double taxation. It seems clear, however, that such competition on taxation between the Somali authorities and AS adds significantly to the tax burden on businesses, either by duplicating taxation by the governments or by extending the tax reach of the AS taxation to tax sources not covered by the governments, that is, taxation of wealth.

Box 2.2: AS taxation

With reference to observations and findings in two recent surveys (Mubarak 2020; Terror and Taxes 2022), the AS tax system and its revenue performance may be summarized as follows:

The AS taxation covers practically all tax bases, including tax bases only marginally, if at all, covered by the authorities, such as the taxation of agriculture. As an example, agricultural products are taxed twice, at harvest and at sales; and another example is a separate wealth tax of 2.5 percent imposed by AS on 'accumulated wealth'. Up till now, no wealth tax has been included in the Somali tax system. Tax on land sales and development also appears as an 'exclusive AS' tax source.

The taxation may be linked to certain specific services, such as 'pass-through authorization of vehicles' and the 'administration of licenses on exportation of agricultural items'. In these cases, the nature of taxation may come close to the classic 'fees/charges for services'.

The nature of the AS taxation is recognized as a parallel tax system, with taxpayers in reality paying taxes to 'two governments' (Hiraal 2020). Road taxes, as an example, are imposed by AS and by the Somali authorities on identical tax bases (main transportation routes), and the AS system appears more advanced and less costly to taxpayers (Hiraal 2020).

According to the said sources, the vast majority of large businesses contribute. In particular, tax payments appear impossible to avoid or evade in situations where the enterprises are doing business in an area under AS's control.

The apportioning of revenues across the federation varies largely as a function of AS's presence or control. Estimations indicate that the generation of revenues is substantial in the southern part of Somalia, particularly in Jubbaland in the context of road traffic and proximity to the border to Kenya (2022 report, 6f). The main routes of transportation in and out of the ports are other examples.

Revenues generated by AS are estimated in both the 2020 and the 2022 reports and evidently need to be interpreted cautiously. About US\$150–180 million of tax revenue in 2020 is the estimate in the 2020 report. Revenues on sources 'exclusive to AS' (agriculture, wealth tax, land sales) are estimated to be at least equal to customs duties collected by the government. The 2022 report focuses on road taxes only, and it estimates, according to 'conservative estimates by most analysts' that the annual total check point revenues are about US\$100 million per year (2022 report).⁴⁴ In comparison, road taxes generated by the FGS and FMS totaled nearly US\$17 million in 2021 or only 17 percent of the estimated AS checkpoint revenues.

44. While these amounts evidently are difficult, if not impossible, to verify, the assessments have been undertaken by the 'sanctions investigators' at the UN Security Council, or local think tanks, based on broad and deep surveys and research. In addition, the reviews provide evidence that persistently large amounts of revenues are being reported. In a UN report in 2011, the 'exportation' tax on sugar for Kenya, as collected by Al-Shabab, was estimated at US\$400,000–800,000 annually (see 2022 report). The UN estimated that (i) in 2018, road checkpoints in one single region generated around US\$10 million per year, and (ii) in 2021, US\$5.5–11 million in road taxes was generated at the Kamsuuna bridge. Based on field observations, the 2022 report suggests that one single road checkpoint generated US\$3.2 million per year.

Reaching for a 4.5 percent revenue-to-GDP ratio and beyond in 2030: Conclusions and policy recommendations

The high case scenario for the medium-term outlook suggests an enhanced revenue generation of US\$838 million. This amount could be higher as it does not take into account (i) the reporting of FMS revenue generation in the total revenues; (ii) the quantification of core reforms on revenue impact, including the implementation of consumption tax reforms, such as on excise taxes; and (iii) the reduction of the efficiency gap in customs. In addition, the emerging framework and activities related to the extraction of natural resources and the dynamic net fiscal impact of EAC affiliation are expected to enhance the tax revenue-to-GDP ratio.

The promising revenue forecasts are backed up by the political commitment of the authorities in recent years to seek sustainable fiscal reforms. In a broader context, the forecasts are also supported by the ongoing efforts to ensure peace and security, as reflected in the numerous bilateral and multilateral agreements being concluded, which help integrate Somalia into the larger international community.

The revenue forecasting exercise took into account the features of Somalian taxation as embedded in the context of state building in fragile countries. The heterogeneity of the tax base calls for a reallocation, or reaffirmation, of tax revenue mandates across the entire federation. As an initial step, it is necessary to roll out the harmonization of customs rates and base valuations as well as the harmonized taxation of income by large taxpayers. Furthermore, the framework on revenue sharing needs to be finalized; this should incorporate the own-tax revenue generation of the FMS to provide fairness and transparency in short- to medium-term revenue sharing across the federation.

Could Somalia be targeting the '15 percent tax-to-GDP' ratio over the longer term? For quite some time, the 15 percent tax-to-GDP ratio has been seen as a threshold value for countries, to be able to finance public service delivery in a sustainable manner and based on domestic tax revenues. While initially established as a simple 'rule of thumb', the threshold value has become a good country practice, benchmarking country performance against the 15 percent as the minimum level of required tax-to-GDP ratio.⁴⁵ The results of the prudent forecasting in this paper suggests a minimum of 4.5 percent tax-to-GDP ratio in 2030, noting, as mentioned above, that significant reforms under way, EAC integration, natural resources extraction, and further deepening of ongoing reforms have the potential to push the tax-to-GDP ratio up much higher. The fiscal impact, including on the tax-to-GDP level, cannot be quantified for now. However, the positive economic and fiscal impact could realistically lead Somalia to double the prudently estimated tax-to-GDP level and move into the band of countries at the 10–15 percent tax-to-GDP ratio. A consolidated and sustainable revenue generation toward the top of that band seems, however, to require full-scale and closely monitored reform implementation on areas mentioned in this chapter, together with the fiscal management reforms, particularly in moving the fiscal federalism structure toward completion and, hence, much improved fiscal efficiency and predictability across the federation.

45. As an example, the World Bank Group Scorecard (2024) refers to the 15 percent tax-to-GDP ratio as a results indicator.

Proposed policy recommendations

Achieving the ambitious revenue improvements, however, hinges on the authorities' continued and focused commitment to design and implement tax reforms. Based on the findings of the present analyses, several reform areas can be considered as priorities for action:

High Priority Action 1 (short term): Swiftly adapting national tax legislation to EAC protocols and standards.

Since customs revenues constitute the most important revenue source, alignment on tariff and valuation tables is critical to avoid any disruptions in revenue flows. Equally important is the swift implementation of the customs reform as already approved in Somalia, including close attention to reducing the efficiency gap through rationalization of overly generous tax expenditures in customs.

High Priority Action 2 (short to medium term): Making a firm commitment to the contents and timelines of the agreed, ongoing reform programs, including capacity building on the core areas of the tax authorities.

The main observations in this chapter include the following:

- **The ongoing efforts on income tax reforms, including harmonization across the FGS and FMS, will provide a structural improvement on revenue generation.** This is forecast to amount to 40 percent by 2027. Revenue impact is contingent on the simplification and consolidation of the tax regime, including harmonization of tax base definitions and restrictions on the access to awarding tax expenditures in the FGS and FMS.
- **Rollout of the customs reforms, which are already at an advanced stage, suggests an adjusted baseline of US\$15–17 million per month (IMF CR 23/438, December 2023).** Follow-up on the customs reforms must be taken as a matter of urgency. The revised estimate on customs duties is integrated into the high case scenario, without factoring in, at this stage, the reduction of the efficiency gap and any net positive revenue impact of EAC affiliation.
- **On indirect taxation, the Somali authorities are encouraged to develop and implement a coherent and comprehensive strategy on excise taxes, supplementing reform considerations on a broad-based GST or eventual value added tax (VAT).** While a specific revenue target may not yet be established, a deeper application of excises would eventually provide important revenue enhancements, both at the border and in the domestic taxation.
- **The completion of design and implementation of the tax framework on the sector of natural resources to be addressed as a matter of urgency.** In addition to setting up the principles and practical implementation of a modern fiscal framework on natural resource taxation, in the short term, particular focus on tax expenditure is suggested, keeping these to a minimum, underpinned by positive benefit-costs estimations.

High Priority Action 3 (short to medium term): Making concerted political efforts and conducting dialogue on implementation of the harmonized tax framework, including tax sharing and fiscal governance of tax expenditure, across the federation. The still emerging fiscal federal framework complicates any efforts to seek responsive and efficient taxation. It remains incomplete, and, for now, hard budget constraints on the FMS' revenue generation are not feasible. Furthermore, an efficient transfer system, established in the context of the 'divisible pool' practices in federations, is not in place. These features pose a drag on the fiscal performance of the federation, and the issues are set to worsen, as the revenue generation is being expanded at the FMS level. Specific actions to be taken would include

- **Development, as a matter of urgency, of a tax-sharing arrangement at the federal level, taking into account own-tax revenue generation at FMS levels and**
- **Establishment of firm rules and oversight on access to awarding tax expenditures, at the FGS and FMS levels.** Fiscal competencies on awarding tax expenditure have to be clarified and laid down by law across the federation, along with obligations and standards for reporting of revenue loss.

Table 2.8: Table of recommendations - Opportunities and constraints in DRM

No.	Recommendation	Responsible agency	Time frame
Objective 1: Swiftly adapting national tax legislation to EAC protocols and standards			
R1	Alignment on tariff and valuation tables to EAC standards is critical to avoid any disruptions in revenue flows.	FGS	Short term
R2	The swift implementation of the customs reforms as already approved in Somalia, including close attention to reducing the efficiency gap through rationalization of overly generous tax expenditures at customs.	IGFF and FGS	Short term
Objective 2: Making a firm commitment to the contents and timelines of the agreed, ongoing reform programs			
R1	The ongoing efforts on income tax reforms, including harmonization across the FGS and FMS, will provide a structural improvement on revenue generation. Revenue impact is contingent on the simplification and consolidation of the tax regime, including harmonization of tax base definitions and restrictions on the access to awarding tax expenditures in the FGS and FMS.	IGFF	Medium term
R2	The Somali authorities are encouraged to develop and implement a coherent and comprehensive strategy on excise taxes, supplementing reform considerations on a broad-based GST or eventual VAT.	IGFF	Short term
R3	Completion of design and implementation of the tax framework on the sector of natural resources to be addressed as a matter of urgency. In addition to setting up the principles and practical implementation of a modern fiscal framework on natural resource taxation, in the short-term particular focus on tax expenditure is suggested, keeping these to a minimum, underpinned by positive benefit-costs estimations.	FGS	Short to medium term
Objective 3: Making concerted political efforts and conducting dialogue on implementation of the harmonized tax framework across the federation. The still emerging fiscal federal framework complicates any efforts to seek responsive and efficient taxation. It remains incomplete, and, for now, hard budget constraints on the FMS' revenue generation are not feasible.			
R1	Development, as a matter of urgency, of a tax-sharing arrangement at the federal level, taking into account own-tax revenue generation at the FMS levels.	IGFF	Short term
R2	Establishment of firm rules and oversight on access to awarding tax expenditures, at the FGS and FMS levels. Fiscal competencies on awarding tax expenditure have to be clarified and laid down by law across the federation, along with obligations and standards for reporting of revenue loss.	FGS	Short to medium term

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Annex 2.1.

Base case and high case, percentage of GDP

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Domestic Product															
GDP, nominal (millions of USD)	7,391	8,252	8,278	9,420	9,204	9,839	10,420	11,202	12,051	12,778	13,754	14,819	15,981	17,252	18,623
Nominal dollar GDP growth (%)		12%	0%	14%	-2%	7%	6%	8%	8%	6%	8%	8%	8%	8%	8%
Base case, % of GDP															
Total Revenue	1.5%	1.7%	2.2%	2.4%	2.3%	2.3%	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.5%	2.5%
Direct tax	0.0%	0.0%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Indirect tax	0.1%	0.1%	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Customs	1.0%	1.2%	1.2%	1.1%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%	1.0%	1.0%	0.9%	0.9%
Other tax	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Non-tax revenue	0.3%	0.4%	0.5%	0.8%	0.8%	0.7%	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%	0.8%
High Case, USD millions/index															
Total Revenue	1.5%	1.7%	2.2%	2.4%	2.3%	2.3%	2.5%	2.5%	2.7%	3.0%	3.3%	3.6%	3.9%	4.2%	4.5%
Direct tax	0.0%	0.0%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%
Indirect tax	0.1%	0.1%	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.5%
Customs	1.0%	1.2%	1.2%	1.1%	1.0%	1.1%	1.1%	1.1%	1.4%	1.5%	1.7%	1.8%	2.0%	2.1%	2.3%
Other tax	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%
Non-tax revenue	0.3%	0.4%	0.5%	0.8%	0.8%	0.7%	0.8%	0.8%	0.7%	0.8%	0.9%	1.0%	1.1%	1.1%	1.2%
FMS, % of GDP (not included in the model)															
Total Revenue	...	...	...	0.5%	1.0%	1.1%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.6%	1.6%	1.6%

Chapter 3

Improving income tax compliance in Somalia: Private sector and citizens' perspectives

By Anna Custers, Nicolas Orgeira Pillai, and Christopher Hoy

The Somali government revenues remain very low, yet they are central to the state-building process. While revenue collection is essential, it is not an end in itself. DRM is only desirable if it results in efficient, productive government spending and service delivery. Increases in taxation may spur greater accountability and contribute to state building. This is not a given, however; research shows that strong connections among taxation, responsiveness, accountability, and state building are far from guaranteed. As a result, there is often limited trust in tax systems in LICs. This limited trust, in turn, affects compliance, resulting in a low-level equilibrium in tax collection (Dom et al. 2022). Somalia is caught in such a low-level equilibrium. The central challenge facing reformers in Somalia therefore lies in finding mutually reinforcing strategies for strengthening revenue mobilization, improving trust to enhance compliance, and building political support to enable these reforms.

The main findings of this chapter show that Somalia has a number of concrete policy options to address the challenges faced by taxpayers, build trust, and improve tax morale.⁴⁶ Current taxation practices relating to large firms, such as tax competition between formal authorities and between informal and formal authorities, have a negative impact on tax morale and compliance. Concrete levers for revenue administrations to support large firms' tax compliance are (i) targeting and improving the effectiveness of enforcement, (ii) building administrative capacity to better facilitate paying taxes, and (iii) improving service delivery to build public trust. There is considerable scope to improve the fiscal contract in Somalia through public service delivery. Citizens report similar levels of tax morale across the levels of government (local, state, and national), and beliefs about the government are strongly associated with tax morale. Information about low tax collection in Somalia (compared to neighboring countries) can further increase the tax morale at the state and national levels of government.

The chapter proceeds as follows: First, it discusses the context and presents political challenges and technical constraints to improving income tax compliance in Somalia. It then presents the methodology and results of the two tax compliance surveys, with an emphasis on the private sector survey. It concludes by discussing the policy recommendations that follow from these results.

46. Tax morale can be defined as 'the intrinsic motivation to pay taxes'.

Context and motivation

Increasing corporate income taxation is a reform priority in Somalia. At US\$19.3 million, taxes on income are minimal and represent about 7 percent of taxes collected by the FGS and FMS in 2022 (see Table 2.1). To diversify revenue away from a heavy reliance on (indirect) taxation collected mainly through customs administrations, increasing revenue from large taxpayers is a reform priority. Both World Bank and IMF analyses show that Somalia's tax revenue potential from large companies is considerable. Revenue projections vary from a 40 percent increase of direct revenue over the 2023 amount by 2027 (World Bank) to a tripling of revenue during the same period (IMF) (see Chapter 2). This projected rise in direct tax revenue primarily consists of corporate income taxation, which mostly comes from large taxpayers.

In terms of revenue instruments, corporate income taxation has only recently received much political interest. Revenue administrations have, in recent years, focused on low-hanging fruits, such as increasing revenue from khat⁴⁷ and road taxes. These are mostly seasonal taxes, however, and there has been a clear push to diversify taxation toward a broader, more stable tax base. Over the past few years, the engagement between revenue departments—particularly the FGS—and the private sector has increased. The private sector anticipates that income tax will be strengthened and harmonized, and discussions currently revolve around the income tax rate.

Steps have been taken recently to improve tax legislation and administration around income taxation. In 2018, the FGS established a large taxpayer office. This was followed by the FMS, which established large and medium taxpayer offices in 2020. Recently the FGS and FMS managed to harmonize the Taxpayer Identification Number structure and devised methodologies for sharing important information related to taxpayers across different jurisdictions. These are important steps in building technical capacity. On the policy side, the FMFF endorsed a harmonized income tax schedule across the FGS and FMS, with harmonized rates on PIT, CIT, rental income, and capital gains tax in August 2023 (see Table 2.2). However, as of end-2023, the harmonized schedule has not yet been implemented. In parallel, a modern income tax law is being drafted and expected to be submitted to Parliament in 2024. This modern income tax law will provide an aligned income tax framework across the federation.

Despite the progress, several political challenges and technical constraints remain. On the technical side, revenue administrations across the federation differ in capacity and maturity, where a state such as Jubaland is relatively more advanced, and Hirshabelle needs to catch up. Overall, several constraints across the federation emerge:

- The harmonized income tax schedule is not yet operationalized and implemented. Current CIT rates differ across the federation. The FGS applies a rate of 9–30 percent, and in Puntland the CIT rate stands at 12 percent, while the other FMS collect no income tax or collect based on a gentleman's agreement (Jubaland).
- Large businesses face de facto presumptive taxation when it comes to income tax. Collection (and enforcement) are largely done on the basis of negotiations, as financial records are largely absent.
- There is currently no common definition of large taxpayers and taxable income across the FGS and FMS. The definition of large taxpayers varies significantly between federal and state governments.
- Taxpayer registries across the different large (and medium) taxpayer offices are unreliable, with outdated contact details.
- Information exchange capabilities do not exist.

47. *Khat* is a mildly narcotic plant (*catha edulis*) native to the Horn of Africa. The excise tax rate on khat was increased in 2018 (Raballand and Knebelmann 2020).

From a political economy perspective, at least three important issues emerge. First, Somalia has a legacy of low legitimacy of formal taxation. The almost exclusive reliance on informal/local institutions for more than two decades during the Siad Barre regime (1969–1991), marked by a total absence of tax culture in the last years of the regime, makes the task of reinforcing the new federal state's legitimacy very delicate, particularly with respect to taxation and consensual revenue mobilization (Dom et al. 2021; Raballand and Knebelmann 2020). This period was also the time when AS took root, with weak government support for rural communities creating an opportunity for non-state armed groups to gain a foothold.⁴⁸ Formal (central) governmental entities have only been established relatively recently, between 1991 and 2012 (Raballand and Knebelmann 2020). While the confidence of Somalis in state institutions has improved since the establishment of the FGS in 2012, Somalia's state legitimacy remains one of the lowest in the world, as measured by the Fragile States Index.⁴⁹

Second, tax competition between formal and informal authorities and among formal authorities undermines the ability of the government to mobilize tax revenue and results in the double taxation of taxpayers. Somalia's formal authorities are generally thought to lack the legitimacy, trust, and enforcement capacity of the traditional or clan-based and religious systems. Competition from non-state actors undermines the ability of the government to mobilize tax revenue (Dom et al. 2021). AS taxes are more widespread than those implemented by the formal authorities and its system has been very resilient to other actors (government or international) trying to undermine it (Mubarak and Jackson 2023). There is also tax competition among the FGS and FMS. A recent World Bank study by Dom et al. (2021) demonstrates that all three ports in Somalia collect revenues on a stand-alone basis and competition among ports incentivizes the FMS to reduce customs duties at their ports to divert trade from Mogadishu. Similar incentives currently exist for income taxation, until a harmonized income tax schedule is operationalized. More generally, there is a lack of clarity on the revenue assignment: Who should collect what taxes?

Third, as a result of these issues, (voluntary) compliance is weak. Somalia has a large informal economy, much of it currently outside the reach of the tax authorities, as reflected by its low tax-to-GDP ratio. Customs duties are significantly undercharged and negotiable (IMF 2022) and the little revenue that is obtained from taxes on income and goods and services reflects a significant informal economy (Dom et al. 2021).

Policy questions

Against this background, the question arises as to what measures can overcome the existing political challenges and technical constraints, with a view to increasing corporate income taxation in Somalia. To answer this question, two perspectives are relevant: (i) the perspective of large taxpayers, central to Somalia's quest for improved revenue performance, and (ii) the perspective of Somali citizens, to ensure that political support for reform is broadly shared.

This chapter therefore addresses two policy questions: (i) what are the main challenges facing large taxpayers to comply with (income) tax obligations, and what is needed to improve their willingness to pay? and (ii) what drives people's tax morale across Somalia? For both these perspectives—the private sector and citizens—we examine how perceptions differ across levels of government and across the FMS, using a tax compliance survey to cover each perspective. The results of these surveys inform policy dialogue about measures supporting the transition toward harmonization of CIT collection and about state versus federal collection of income tax.

48. Al-Shabab was formed in 2002. Its founders were mainly former members of Al-Ittihad Al-Islami (AIAI), an Islamist group established during the late 1980s, primarily in response to the Siad Barre regime's repression and the subsequent political chaos in Somali (Mubarak and Jackson 2023).

49. <https://fragilestatesindex.org/indicators/pl/>, see also Dom et al. (2021).

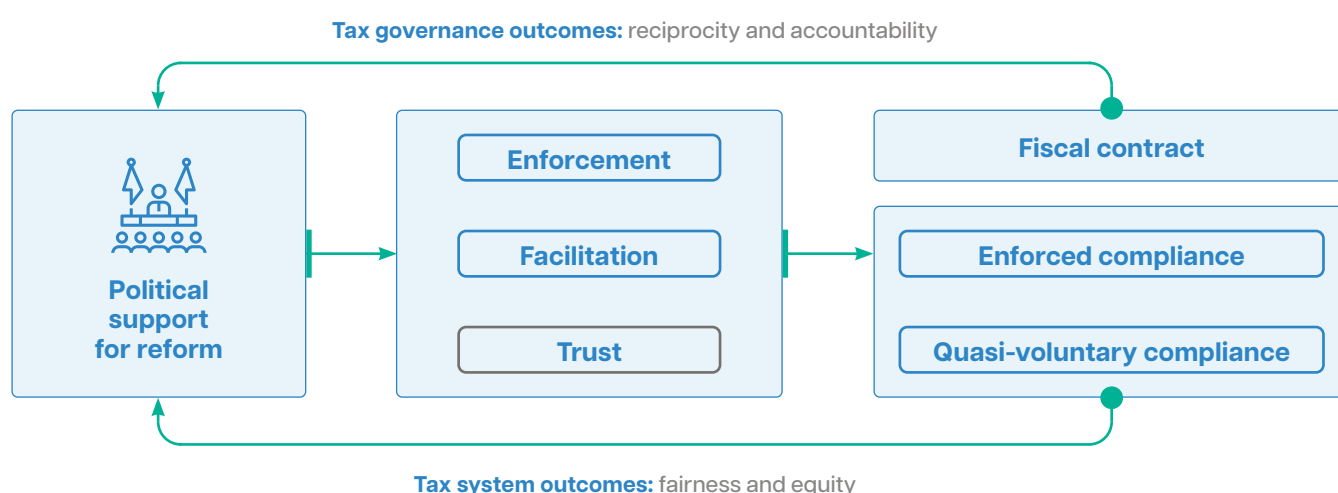
Private sector and citizens' perspectives

The design of the tax compliance surveys was informed by the **Innovations in Tax Compliance framework, developed by the World Bank (Dom et al. 2022)**. This framework approaches compliance from three interrelated angles: enforcement, facilitation, and trust (EFT). These angles provide concrete policy levers for revenue administrations to support tax compliance. Investments in EFT are complementary; in addition to strengthening 'enforced compliance,' reformers can also (a) encourage 'quasi-voluntary compliance'; (b) create conditions conducive to strengthening fiscal contracts; and (c) generate sustained political support for reform (Figure 3.1). The framework can be used to study the tax compliance of different taxpayer segments—for example, individuals and households, high net-worth individuals, large corporations, and small and medium enterprises (SMEs)—and specific tax types.

In this chapter, the framework is used to understand the compliance challenges and barriers to reform when taxing large corporations and strengthening income taxation. By exploring the relationship between large taxpayers and Somalia's revenue administrations, the framework provides the FGS and state revenue administrations with a better understanding of their clients. This is complemented with public perceptions on taxation and tax morale, which can be used to further strengthen the legitimacy of formal taxation.

Both surveys measure variations in responses depending on the level of government, including informal authorities. In the context of a fragile state and multiple tax authorities, as is the case in Somalia, perceptions and attitudes about taxation may vary significantly, depending on the authority. In both surveys, we therefore make a clear separation between the government in general, the national (or federal) government, the state government, and the local government. In the large taxpayer survey, we also distinguish between formal and traditional authorities, to also capture perceptions about taxation by non-state actors such as AS. We use informal and traditional authorities interchangeably to refer to these non-state actors.

Figure 3.1: Innovations in tax compliance



Source: World Bank.

Survey methodologies

Firms

The firm survey was conducted with 80 large and medium enterprises registered with at least one of five revenue authorities: FGS, Jubaland, Galmudug, Hirshabelle, and SWSS. In total, 60 large firms (75 percent of respondents) and 20 medium firms (25 percent of respondents) were interviewed. A firm is defined as large or medium if indicated as such by the revenue authority that provided the contact information.⁵⁰ A total of 40 firms were interviewed in Mogadishu, 12 in Jubaland, 10 in Galmudug, 8 in Hirshabelle, and 10 in SWSS. The coverage is considered significant; in Mogadishu, 71 percent of large taxpayers were interviewed, while for the member states this varies between 100 percent (Galmudug) and 2 percent (Jubaland⁵¹). Puntland was not covered in the survey. In Hirshabelle, respondents were only interviewed in Beledweyne, where revenue officials have less capacity as government representatives are based in Jowha. The field work was carried out during December 2023.

These firms were randomly selected from rosters obtained from the revenue authorities. The authorities were requested to share lists of large taxpayers with the survey firm. This was a two-stage process; initially, the authorities shared a list of 1,467 taxpayers. However, this list did not contain reliable contact details. The authorities then shared new rosters. After cleaning the rosters, keeping only firms for which contact details were complete and dropping NGOs and international humanitarian organizations, 628 firms were left, of which 497 firms (79 percent) were classified as large by the revenue authorities and 131 firms (21 percent) were classified as medium.

Contacting firms and obtaining their consent to participate in the survey proved challenging. The initial plan was to phone companies and make appointments to conduct surveys at a later date. This, however, turned out to be challenging, as reliable phone numbers were not available for about 50 percent of the firms. Enumerators instead made field visits to arrange appointments and conduct interviews. This turned out to be successful but not without challenges because of the security situation. In Mogadishu, for example, 13 large firms, mostly foreign-owned, operate from a high-security zone near Aden Adde International Airport. Access to this zone was difficult for enumerators. The survey firm made sure that enumerators wore personal badges and used a support letter from the Director General of the FGS Revenue Administration. This ensured that 9 out of these 13 firms operating in the high-security zone participated in the survey.

Survey respondents were reluctant to provide answers to questions related to taxation by traditional authorities such as AS. The survey was perceived as a formal exercise and lack of trust played a part. Responses to questions on traditional authorities were perceived as very sensitive. As a result, reported taxes to traditional authorities are negligible, and many respondents answered “don’t know/refuse to answer” in response to questions about traditional authorities. In the first week, the average “don’t know/refuse to answer” rate for questions regarding traditional authorities was 42 percent. After measures were taken to increase trust in the survey—by providing enumerators with personal badges and programming additional reminders about the confidentiality of the survey into the survey tool—the overall “don’t know/refuse to answer” rate for questions regarding traditional authorities improved to 32 percent.⁵²

50. The definition of ‘large taxpayer’ varies considerably across Somalia. When applying alternative definitions to the interviewed firms, the proportion of large firms increases. According to the definition of the FGS (large if yearly turnover is more than US\$200,000), 72 firms (92 percent of respondents) can be considered as large, 3 as medium (3 percent) and 6 (8 percent) could not be allocated. When applying the definition of Galmudug (large if a wholesaler, importer of goods from overseas or from Somalia, or operates in the following industries: accommodation hotels, telecommunications, money transfer companies, electricity suppliers, water factories, fuel suppliers, banks, enterprises offering accommodation for rent, enterprises offering vehicles for rent), 74 firms (93 percent of respondents) can be considered as large, 3 as medium (3.5 percent), and 3 (3.5 percent) could not be allocated.

51. The list received from Jubaland’s revenue authority contained 427 large firms, as per its definition. This is likely to be an overestimation.

52. The overall ‘don’t know/refuse to answer’ rate for the survey was 7 percent.

The respondent of the survey is the most knowledgeable person in the firm about financial and taxation matters. This often was the Operational or Plant Manager (31 percent), the Accountant (28 percent), or the Sales or Marketing Manager (19 percent). The vast majority of respondents were male (96 percent), between 25 and 44 years old (79 percent) and had worked for five or more years for the company (59 percent) (Table 3.1). The survey took 45 minutes on average to complete, with the shortest interview taking 18 minutes and the longest taking 70 minutes.

Table 3.1: Characteristics of firms and respondents

Firms			Respondents		
Characteristics	No.	Share (%)	Characteristics	No.	Share (%)
Firm size			Gender		
Large	60	75	Male	58	96.25
Medium	20	25	Female	2	3.75
Ownership			Position		
Private Somali	51	87.5	Operational manager	19	31
Private Foreign	7	12.5	Accountant	17	28
			Sales manager	11	19
			Other	13	22
Importer/exporter			Age		
Neither import, nor export	15	25	25–34	17	28.75
Yes, import only	38	63.75	35–44	30	50
Yes, export only	0	0	45–54	8	13.75
Yes, both import and export	6	10	55–64	4	6.25
Don't know	1	1.25	≥65	1	1.25
Sector of operation			Years working		
Telecommunications	5	8.75	Less than 1	3	3.75
Banks	10	16.25	1–2	6	10
Money Transfers (nonbanks)	1	1.25	3–4	16	27.5
Utility (electricity) provision	5	8.75	5–7	14	22.5
Water provision	3	5	8–10	12	21.25
Fuel provision	1	1.25	≥11	9	15
Hospitality (hotels)	5	8.75			
Manufacturing/processing	3	5			
Construction	8	13.75			
Retail or Wholesale	6	10			
Transportation and storage	4	6.25			
Education	1	1.25			
Health	1	1.25			
Other (specify)	7	12.5			
No. of employees					
	Mean	Median			
Large taxpayers	428	85			
Medium taxpayers	119	50			
No. of branches					
Large taxpayers	8	2			
Medium taxpayers	5	4			
Annual turnover (us\$)					
Less than 2,000	0	0			
2,000–10,000	1	1.25			
10,000–30,000	3	5			
30,000–50,000	3	5			
50,000–100,000	4	6.25			
100,000–300,000	5	8.75			
More than 300,000	15	25			
Don't know/refuse to answer	29	48.75			

Table 3.1 summarizes the key characteristics of the firms interviewed. As intended, the majority of firms are large. Common sectors of operation include banks, construction, retail or wholesale, hospitality, telecommunications, and utilities. Many firms import (74 percent) and most are privately Somali owned (88 percent). The average firm has been in operation for 15 years (median = 14 years) and has 356 employees (median = 70) and seven branches across the country (median = 3). Annual turnover varies from less than US\$50,000 (11 percent) to US\$50,00–300,000 (15 percent) and more than US\$300,000 (25 percent). Roughly half of respondents did not provide turnover information.

Citizen survey

The purpose of the citizen survey was threefold: (i) to complement the large firm survey with information about the level of tax morale from a broader segment of the population; (ii) to examine differences in citizens' tax morale across levels of government; and (iii) to inform communication strategies about tax compliance at the local, state, and national levels of government.

The citizen survey reached 3,000 respondents across Somalia and this sample is intended to be representative of the internet-using population. Seventy percent of respondents were below 35 years old, roughly half had completed secondary school, and two-thirds were male. Most respondents (47 percent) belonged to the middle-income group, but a significant share (25 percent) belonged to the poorest income group.

To examine differences in tax morale across levels of government, respondents were randomly allocated to be asked questions about the local, state, or national government. This approach of using a survey experiment means that any differences in levels of tax morale across groups of respondents can be attributable to the level of government they are asked about. The two main measures of tax morale that were used related to questions about whether being noncompliant with taxes was wrong and punishable and whether the government has a right to make people pay tax. In addition, respondents were asked about how easy it is to comply with taxes at various levels of government.

To help inform communication strategies about tax compliance, the survey included an additional layer of randomization where information was provided about the level of taxation in Somalia, compared to neighboring countries. Specifically, respondents in the treatment groups were informed that Somalia collects much less in taxes than neighboring countries, that is, Ethiopia, Kenya, and Djibouti, and if more taxes were collected this could help build better roads, hospitals, and schools. Respondents were also asked about their views on the government (for example, how much they can be trusted and how much they represent people like them) to help unpack what drivers are underlying people's tax morale.

In summary

The two tax compliance surveys broadly represent (i) a significant share of the total number of large firms in Somalia and (ii) the internet population in Somalia. The engagement of survey participants was not without challenges, particularly given the security situation in Somalia, and as a consequence, the interpretation of data warrants consideration within these contextual constraints. The sample of the large taxpayer survey (N = 80) limits the degree to which generalizations can be made. Moreover, while the citizen survey has a large number of respondents (N = 3,000), confidence intervals are fairly large, indicating that the sample does not provide a precise representation of the population mean.

The results of the large taxpayer and citizen surveys are presented below. All are reported values. To improve readability, statements about the data are simplified. For example, where it states "40 percent of firms pay," this refers to "40 percent of surveyed firms report that they pay," and so on. While the survey included medium and large firms, this group is jointly referred to as large taxpayers, unless stated otherwise.

Survey results

The current taxation practices relating to large firms, such as tax competition between formal authorities and between informal and formal authorities, affect tax morale and compliance. For example, firms paying tax to more than one institution report lower compliance levels and find it more difficult to pay taxes. In general, the number of institutions paid to and the number of taxes paid vary significantly among firms.

Enforcement is common, but its effectiveness is questionable and can be much better targeted. Facilitation is generally perceived as weak and taxpayers demand harmonization of payments (to fewer institutions), simplification of procedures, and taxpayer education. They see the FGS as the most obvious institution to steer this process. There is a good basis of trust in formal authorities to build on, with clear policy levers to use, such as improving service delivery, the capacity of government staff, and consistency in applying tax laws. Certain practices, such as disruptive audits and taxation by multiple institutions, weaken trust.

The FGS and FMS ‘always have the right to make people pay taxes’, no matter whether service provision is poor or not. In other words, survey respondents’ support for taxation by the FGS and FMS is unconditional in nature. This is not surprising, as research shows that tax morale can become more contractual as the quality of service delivery improves and taxpayers build a more conditional understanding of taxation and tax bargaining (Prichard 2022). This seems to coincide with realities on the ground, with relatively low levels of formal taxation and low expectations in return for it.

There is considerable scope to improve the fiscal contract in Somalia through public service delivery. Taxpayers view the government (both the FGS and FMS) as important public service providers, in contrast to traditional authorities, which are expected to provide only security. Improved public service delivery can contribute to building a more conditional understanding of tax morale and ultimately strengthen tax bargaining and political support for reform.

Citizens report similar levels of tax morale across levels of government (local, state, and national), and beliefs about government are strongly associated with tax morale. When respondents believe that people like them influence the government or are satisfied with public services, they are much more likely to report positive tax morale. Information about low tax collection in Somalia (compared to neighboring countries) can further increase tax morale at the state and national levels of government, but this was not the case at the local level.

The results also raise questions for further research and validation. Contrary to common perception, legitimacy of formal taxation and self-reported compliance to formal authorities seem substantial. Informal taxation in Somalia is generally thought to have the highest legitimacy and compliance rates and is deemed most accountable (as described in the context and motivation section of this chapter). This raises questions about socially desirable reporting. Alternatively, is it perhaps possible that large firms’ perceptions are (slowly) changing, based, for example, on recent administrative changes, security settlements, and so on? Large firms are among the most formal structures in Somalia’s economy (compared to small and medium businesses or individual taxpayers) and are likely to be the first ones to experience a shift in formal tax practices. Their perceptions are, therefore, important harbingers of change. Nevertheless, the survey results cannot distinguish whether reported perceptions are colored by social desirability bias or an indication of a cautious turn in point of view. This warrants further (qualitative) study.

Results of the firm survey

The results of the firm survey provide valuable information on current practices and suggestions from taxpayers on what, in their opinion, could be improved. The discussion of the results is divided into five sections: current taxation practices, tax morale and compliance, enforcement, facilitation, and trust. Each section opens with a box that summarizes the key messages and findings.

Current taxation practices

Box 3.1: Summary of current taxation practices

Key message: The number of taxes paid and the number of institutions involved in collecting these taxes vary significantly. CIT is collected by multiple authorities. Taxpayers suggest training government staff and harmonizing payments to a single institution and request better communication with taxpayers and a simplified and fairer tax system.

General taxation

- (a) The number of institutions firms pay tax to varies significantly.
- (b) Most firms report paying tax to the FGS, followed by state governments.
- (c) Firms headquartered in Mogadishu pay a larger number of taxes compared to firms based in other states.

CIT

- (a) CIT is the most common tax paid, followed by sales tax and rental income.
- (b) CIT is predominantly collected by the FGS and FMS.
- (c) A significant number of firms (50 percent) pay CIT to more than one institution.
- (d) Very few firms have heard about the initiative to harmonize CIT.
- (e) The legal framework for CIT is not sufficiently transparent.
- (f) Complexity of the tax system, payment to multiple authorities, and level of tax rates are highlighted as challenges.

The majority of firms report paying taxes to more than one institution, but there are differences among firms, raising concerns of unfair tax competition. Some firms pay to only one institution (FGS or FMS), while others pay to five institutions. Figure 3.2 summarizes the number of institutions to which firms pay taxes, by state. Roughly one-third report paying taxes to one institution, one-third to two institutions, and two-fifths to more than two institutions. The FGS is the institution to which tax is most commonly paid, followed by the FMS (Figure 3.3).⁵³

The survey suggests that CIT is the most common tax paid, followed by sales tax and rental income tax (Figure 3.4). Respondents were asked to indicate which taxes they had paid in the last year and to whom they had paid this tax. This revealed regional differences. Firms headquartered in Mogadishu seem subject to a larger range of taxes and fees, compared to other states. CIT is predominantly collected by the FGS and FMS (Figure 3.5) and half of the firms report paying CIT to more than one institution (if paying CIT). Fifty percent pay CIT to just one institution, mostly the FGS. One-quarter of firms that pay CIT pay it to two institutions, and one-quarter report paying CIT to more than two institutions. Local authorities and customs do not collect CIT, yet a number of respondents have indicated paying to these authorities. This suggests that some respondents have a limited understanding of what CIT is and who is in charge of collecting it. This is also reflected in the challenges firms report facing to comply with CIT.

53. Underreporting is likely, particularly with respect to payments to customs and traditional authorities. The firm reporting that it does not pay tax to any institution confirmed that all taxes are paid by headquarters based in Mogadishu.

Firms report facing a number of challenges to comply with CIT and also offer solutions. The main challenges are the complexity of the tax system and payment processes, the payment to multiple authorities, and the level of tax rates. Respondents believe that the legal framework for CIT is not sufficiently transparent and very few firms have heard about the initiative to harmonize CIT. The solutions suggested by respondents to overcome these challenges are to train government staff, harmonize payments to a single institution, improve communication with taxpayers, and implement a simplified and fairer tax system. The next section examines what current taxation practices mean for tax morale and compliance.

Figure 3.2: Number of authorities to which taxes are paid

Number of authorities

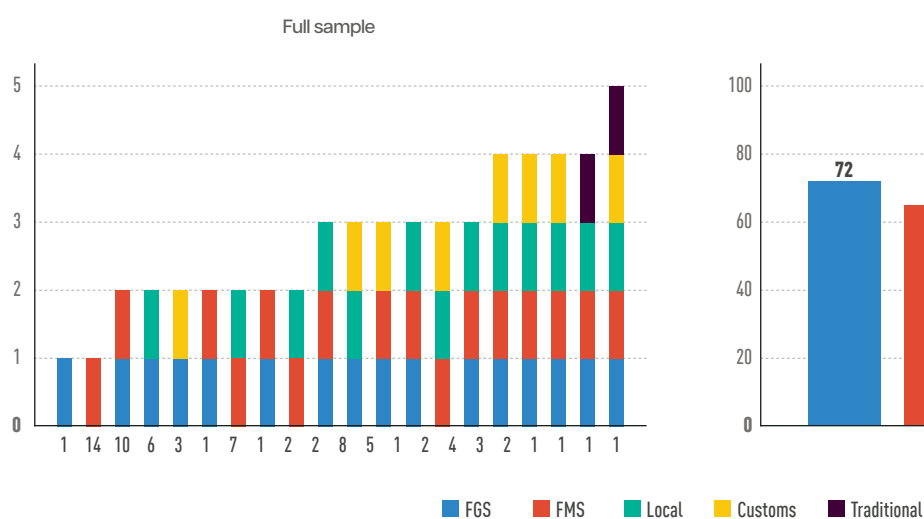


Figure 3.3: Authority to which tax is paid

Percentage of respondents

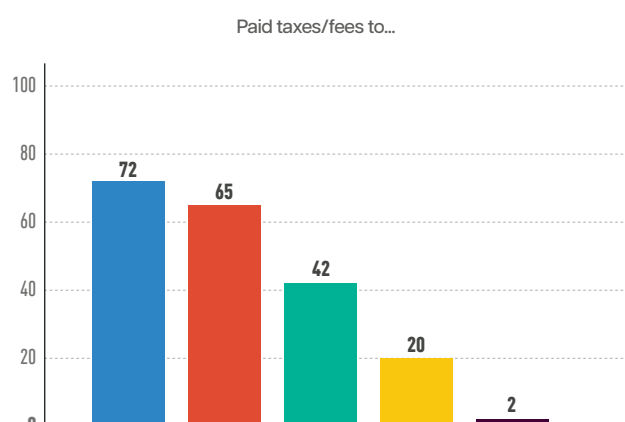
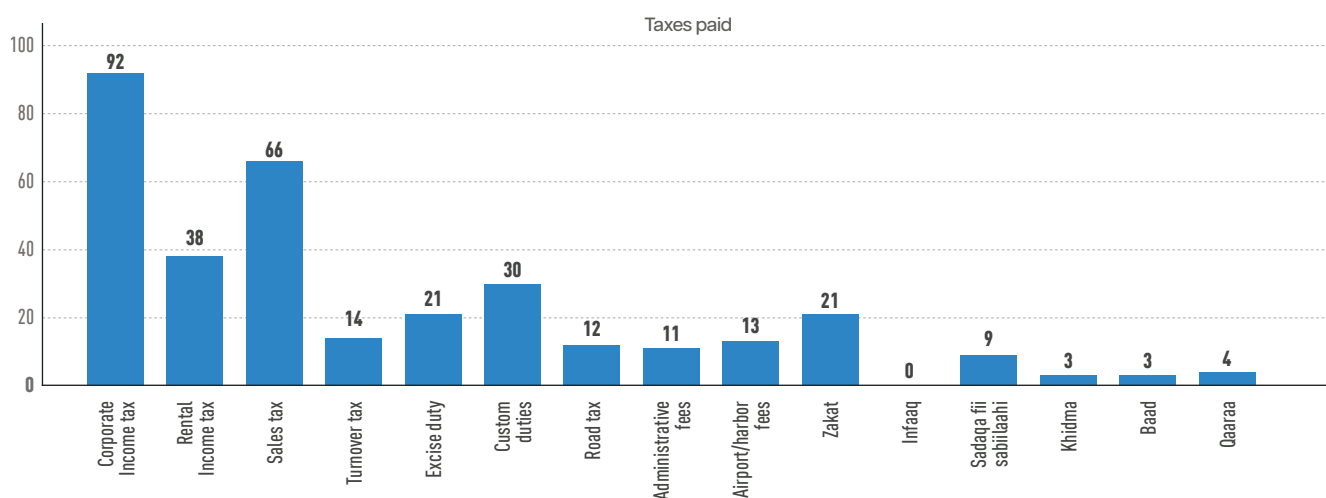


Figure 3.4: Taxes/fees paid

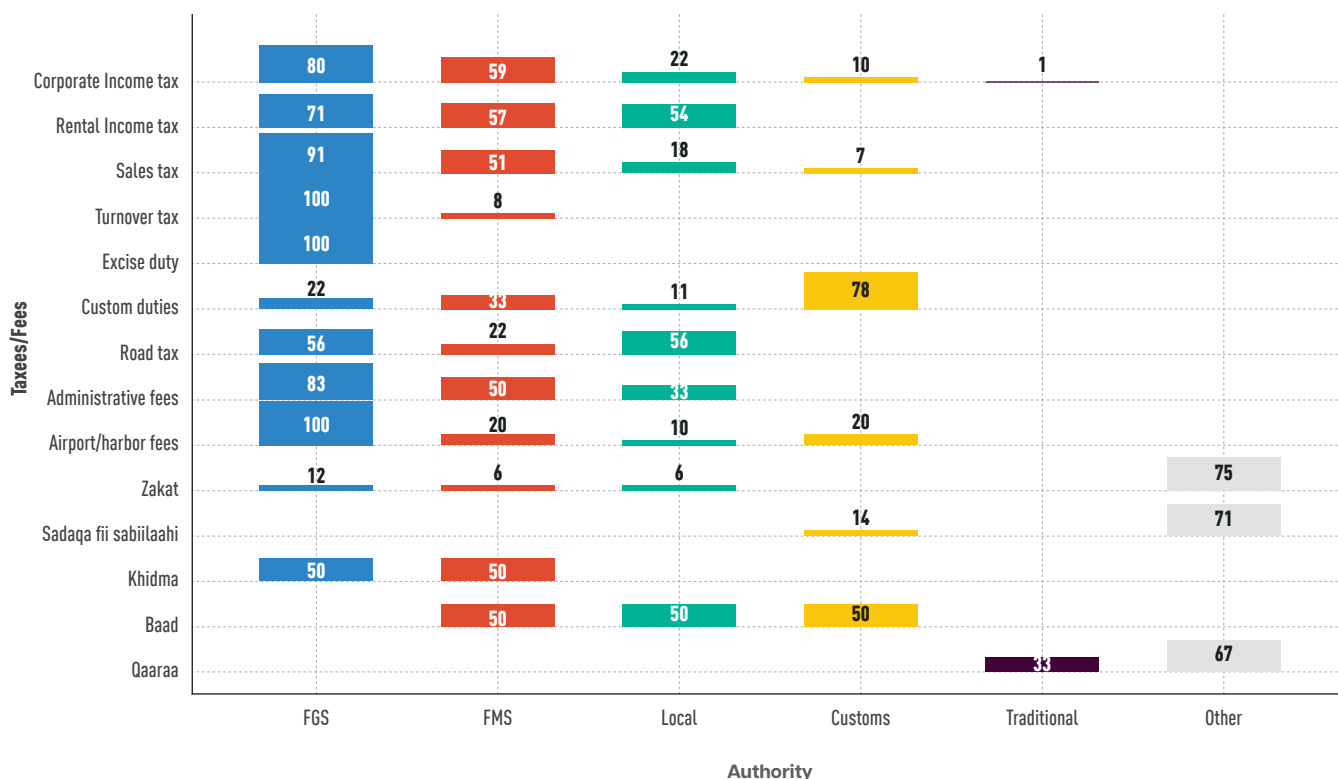
Percentage of respondents



Source: Based on survey data.

Figure 3.5: Taxes/fees paid, by authority

Percentage of respondents by tax type



Source: Based on survey data.

Tax morale and compliance

Box 3.2: Summary of tax morale and compliance

Key message: Contrary to common perception, the legitimacy of formal taxation and reported compliance with obligations to formal authorities by large firms seem substantial.

Tax morale

- (a) Support for taxation (tax morale) by the FGS and FMS is remarkably unconditional in nature.
- (b) Respondents with lower trust in formal institutions demand more conditionality and support taxation less.
- (c) Support for taxation by traditional authorities is low and this is entirely driven by a lack of trust.

Compliance

- (d) Firms are deemed less compliant to traditional authorities, compared to formal authorities.
- (e) Paying to more institutions is associated with lower perceived compliance, except to traditional authorities.

Support for taxation by the FGS and FMS is remarkably strong and unconditional in nature. The majority of respondents believe that not paying the taxes they owe to formal authorities is wrong and punishable and these formal authorities always have the right to tax. Respondents are also unlikely to agree that firms should refuse to pay tax until they get better services from the FGS and FMS. This is not surprising, as research shows that tax morale can become more conditional as the quality of service delivery improves and taxpayers build a more contractual understanding of taxation and tax bargaining (Prichard 2022).

Views of conditionality differ from state to state. This sentiment of strong beliefs in tax compliance, even if dissatisfied with government performance, is particularly evident for firms based in Mogadishu, Galmudug, and SWSS. Firms based in Hirshabelle and Jubaland tend to have a more contractual understanding of taxation and are more likely to believe that taxpayers should pay their taxes only if they are satisfied with government performance. This seems to be driven by lower trust. Respondents with lower trust in the collection agency demand more conditionality and support taxation less (Figure 3.7).

Figure 3.6: Tax morale, by state and by authority

Percentage of respondents by authority

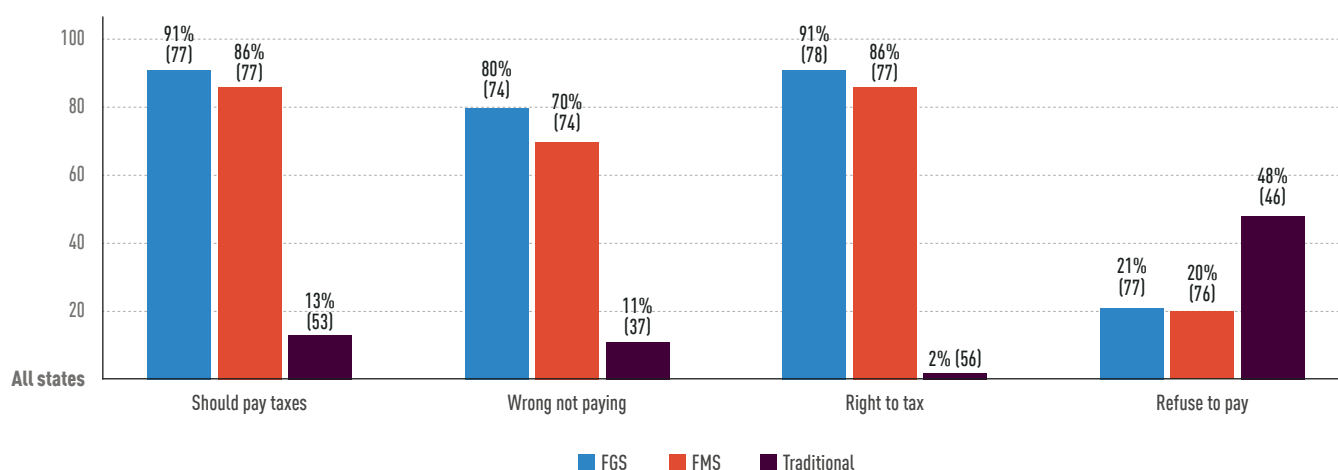


Figure 3.7: Tax morale by trust in FMS

Percentage of respondents by trust (yes/no)

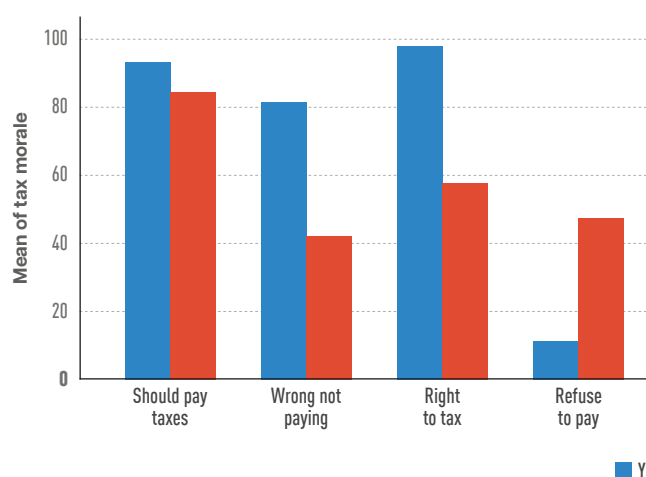
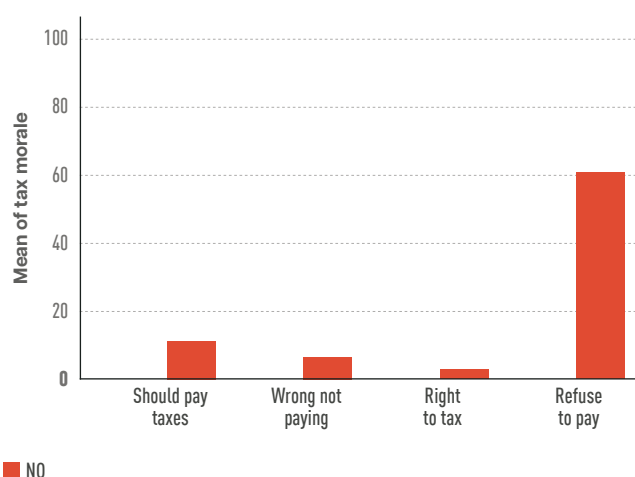


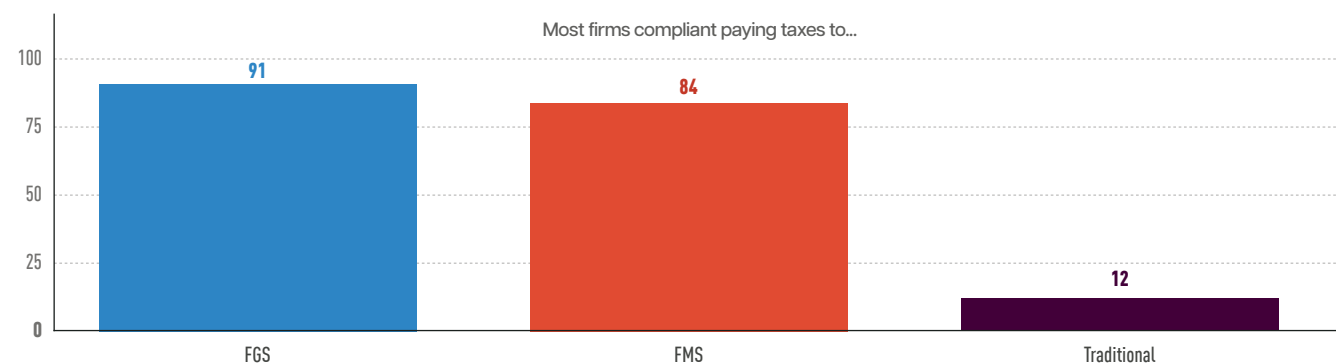
Figure 3.8: Tax morale by trust in traditional authorities

Percentage of respondents by trust (yes/no)



Source: Based on survey data.

Figure 3.9: Compliance by institution



Source: Based on survey data.

The unconditional support for formal taxation contrasts sharply with reported support for taxation by traditional authorities, which is low. Respondents across the board are not supportive of paying taxes to traditional authorities and are more likely to refuse to pay them until better services are received. This is entirely driven by a lack of trust (Figure 3.8). This is in line with the low reported compliance of firms with obligations to traditional authorities, compared to the FGS and FMS. Firms are on average thought to be compliant with the FGS and FMS and noncompliant with traditional authorities (Figure 3.9). While reported compliance with traditional authorities is low, it is not affected by the number of other institutions firms pay tax to. Paying tax to more institutions is, however, negatively associated with perceived compliance with the FGS (Figures 3.10 and 3.11).

Figure 3.10: Compliance with FGS, by number of authorities paid

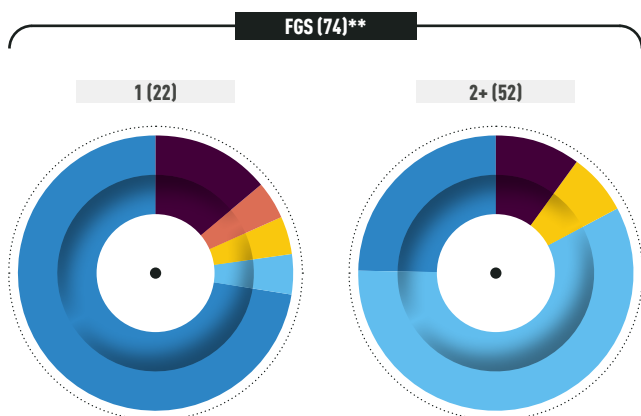
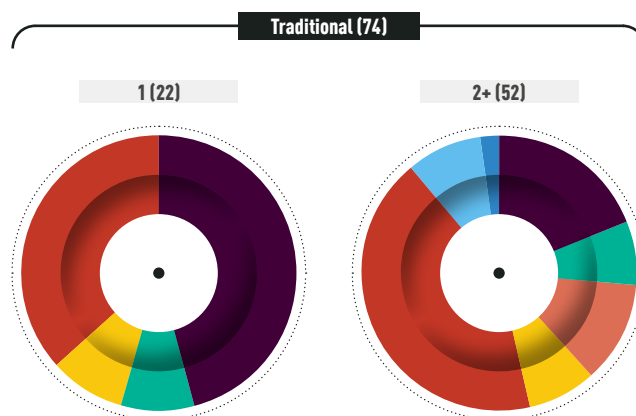


Figure 3.11: Compliance with traditional authorities, by number of authorities paid



Don't know
Refuse to answer
Neither compliant nor non-compliant
Completely non-compliant
Somewhat non-compliant
Somewhat compliant
Completely compliant

Source: Based on survey data.

Note: Sample size in parentheses

These results raise questions about socially desirable reporting. The legitimacy of formal taxation and substantial levels of reported compliance are in contrast with the general perceptions of Somalia, where informal taxation is generally thought to have the highest legitimacy and compliance and is deemed most accountable (as described in the section on ‘context and motivation’ in this chapter). The survey was perceived as a formal exercise and as a result could have invited socially desirable reporting. At the same time, cross-referencing the survey results provides a picture that aligns with signs of formalization—that is, firms headquartered in Mogadishu are subject to a larger range of taxes and fees, compared to firms based in other states. At the same time, large firms in Mogadishu pay fewer institutions, compared to medium firms. Also, there is a relatively high level of trust in formal authorities (see the section on trust below). All these could be signs of an increase in the formalized taxation of large firms, starting with (large) firms based in Mogadishu. The next sections discuss the role of enforcement, facilitation, and trust in compliance and support for taxation.

Enforcement

Box 3.3: Summary of enforcement

Key message: Enforcement in the form of audits is common, but its effectiveness is questionable.

- (a) About 80 percent of firms have been audited in the past two years and the likelihood of being identified or penalized by the FGS/FMS is high.
- (b) The effectiveness of audits is unclear; there is no significant relationship between the perceived likelihood of being identified or penalized and easiness to avoid taxes.
- (c) Audits are generally not very disruptive; however, one-third of firms audited by the FGS (N = 7) found the audits to be (very) disruptive.
- (d) (Very) disruptive audits are associated with no trust at all in any formal institution.

The vast majority of firms have been audited in the past two years, albeit with regional differences. Audits are very common in Mogadishu, Galmudug, and SWSS but (much) are less common in Jubaland and Hirshabelle⁵⁴ (Table 3.2). Given the high share of businesses that are audited, it is not surprising that the likelihood of being identified or penalized by the FGS/FMS for not paying taxes is high at 80 to 95 percent. However, the effectiveness of audits is questionable, as there is no significant relationship between the perceived likelihood of being identified/penalized and the ease of avoiding taxes (Figure 3.12). Enforcement, therefore, seems largely ineffective in reducing noncompliance.

Table 3.2: Firms audited in the past two years, by state (percentages)

	Yes	No	Total
Mogadishu	85	15	100
Galmudug	90	10	100
Hirshabelle	37.5	62.5	100
Jubaland	66.67	33.33	100
SWSS	100	0	100

Source: Based on survey data.

54. In Hirshabelle, this could also be because interviewed firms were based in Beledweyne, whereas government representatives are based in Jowha.

The majority of audits were deemed not disruptive, but if audited by the FGS, a one-third of firms found the audits (very) disruptive. These very disruptive audits are associated with no trust at all in any formal institution (FGS, FMS, local government, and national court) (Figure 3.13). There are two possible explanations for this: either disruptive audits erode trust, or firms that have low trust are more likely to perceive audits as disruptive. Overall, there seems to be significant room for improvement in the quality of audits, including the targeting of audits and their perceived fairness.

Figure 3.12: Enforcement, by authority

Percentage of respondents, by authority

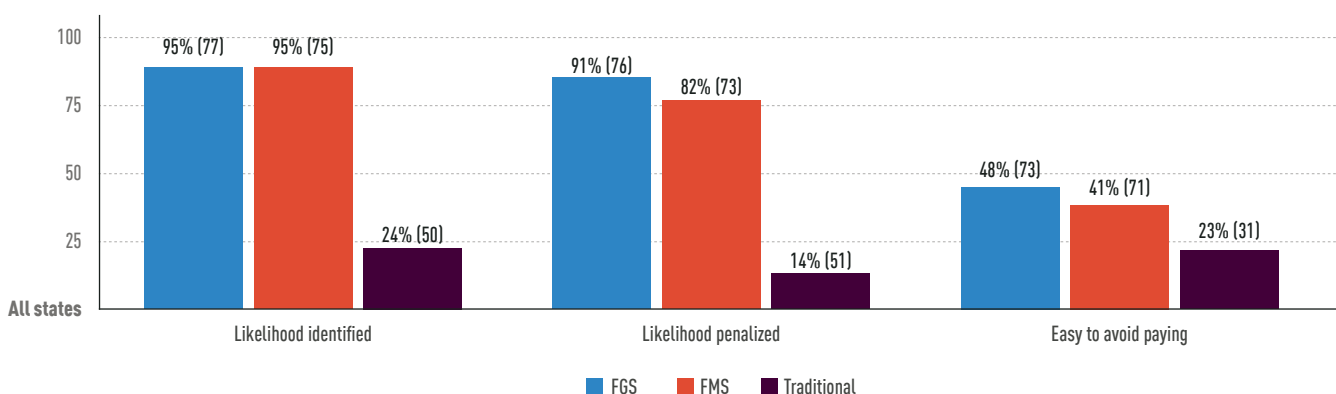
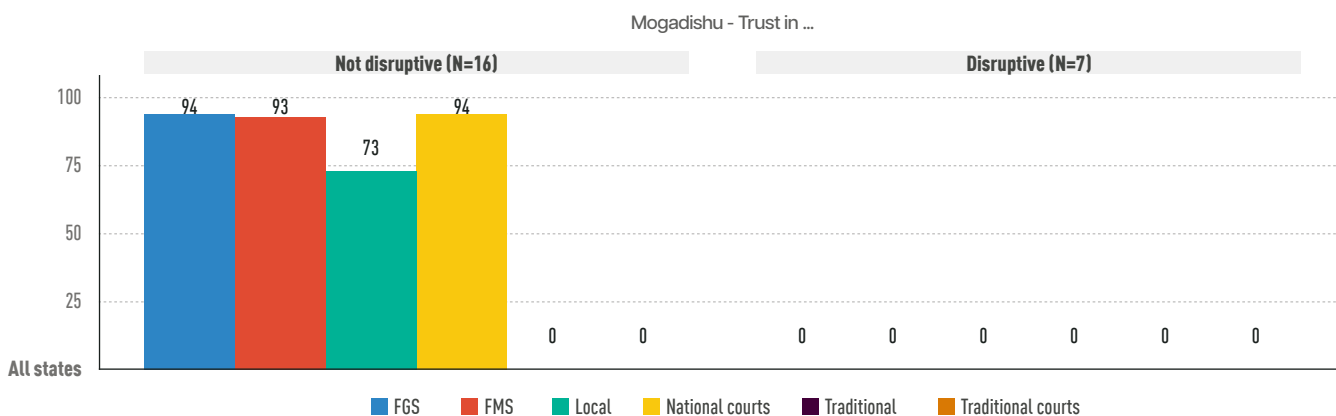


Figure 3.13: Trust, by disruptive FGS audits

Percentage of respondents, by authority and disruptive FGS audit (yes/no)



Source: Based on survey data.

Note: For figure 3.12, sample size in parenthesis

Facilitation

Box 3.4: Summary of facilitation

Key message: Facilitation is generally weak.

- (a) Ease of compliance with taxes varies per state, where administrative capacity seems to make a difference.
- (b) Paying tax to more institutions is associated with lower ease of tax payment.
- (c) Taxpayers demand simplification of the tax system and (payment) procedures, taxpayer education, and improved communication.

The capacity of revenue authorities affects the extent to which respondents are facilitated to comply with tax obligations. Firms find it quite difficult to comply with tax obligations, except in Jubaland and, to a lesser extent, Mogadishu (Figure 3.14). These two states have relatively more advanced revenue administrations. In terms of authorities, firms find it generally easiest to pay taxes to the FMS, followed by the FGS. This contrasts with the perception of citizens, who view the state governments as harder to pay tax to. This may be because the salience of revenue authorities differs, depending on the taxpayer. Whereas for large firms the state and national governments are the most salient tax collection agencies, for citizens, taxes collected at the local and national level are more likely to be salient. Local and traditional authorities are the least easy to pay taxes to, according to firms (Figure 3.15). In general, firms find it difficult to pay taxes in Hirshabelle (any level of government). An explanation for this could be that the FGS and FMS in Hirshabelle do not have the same capacity to collect taxes in Beledweyne, as government representatives are based in Jowha.

Unsurprisingly, paying tax to more institutions is associated with greater difficulty in paying taxes (Figure 3.16). The survey also asked respondents what would make it easier for their firm to comply with tax obligations. The most common responses were as follows: a simplified and more transparent tax system, taxpayer education, simplified (payment) procedures, payment to a single government institution, and improved communication. For a full list of ideas, see Figure 3.17.

Figure 3.14: Ease of compliance, by state

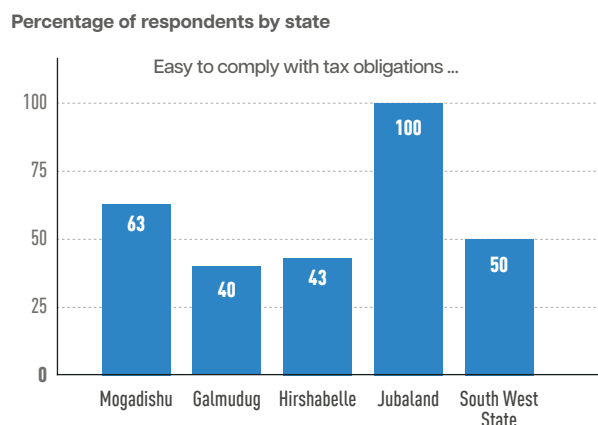
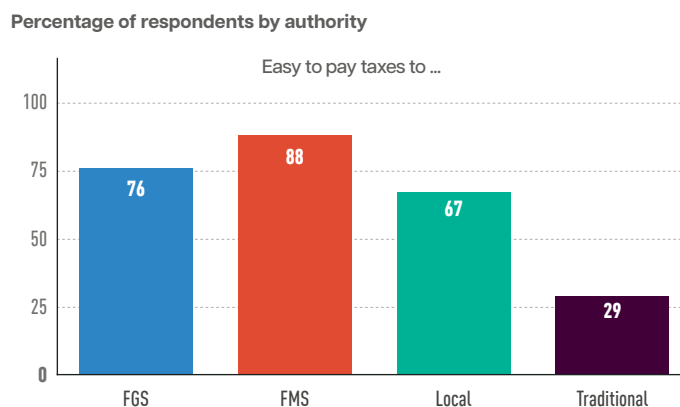


Figure 3.15: Ease of tax payment, by state and authority

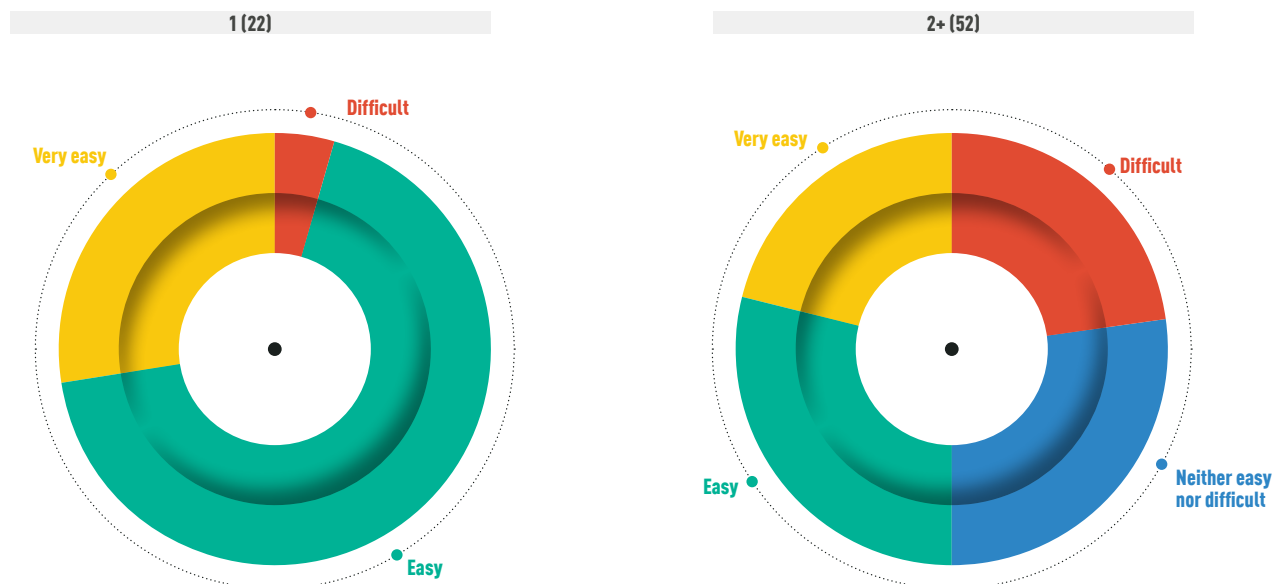


Source: Based on survey data.

Figure 3.16: Ease of compliance, by number of authorities paid to

Percentage of respondents by number of authorities paid to

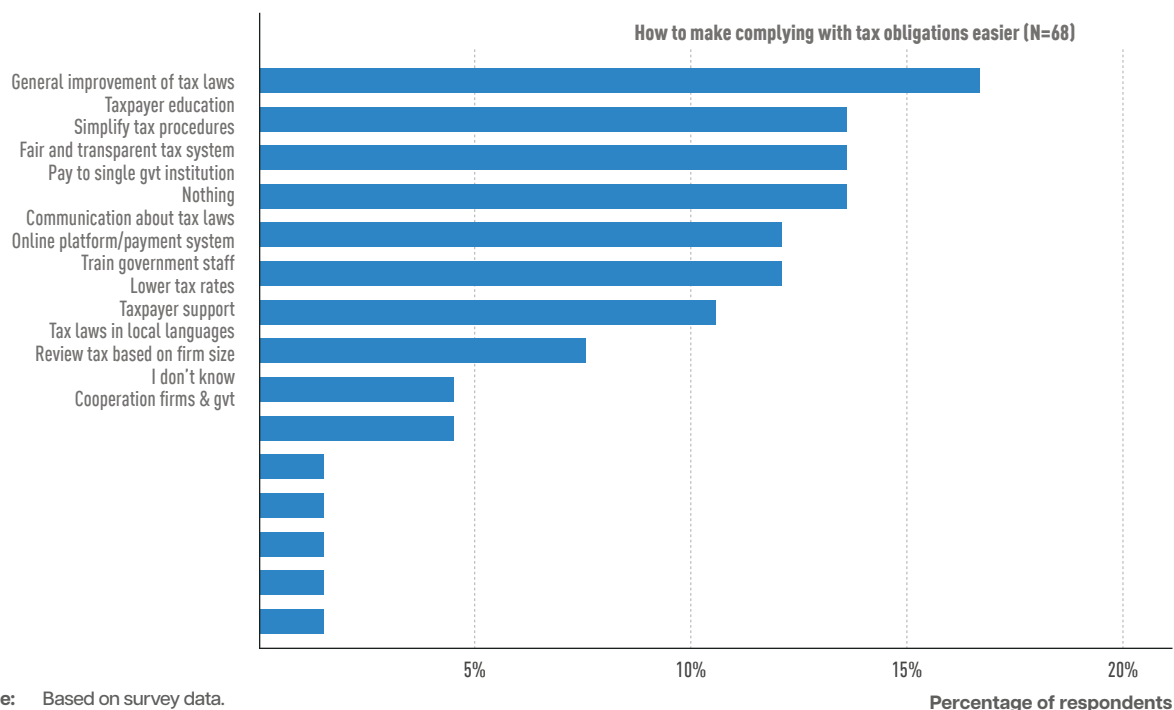
Easy to comply with tax obligations by # institutions paid to (74)**



Source: Based on survey data.

Note: Sample size in parenthesis

Figure 3.17: How to make complying with tax obligations easier



Source: Based on survey data.

Percentage of respondents

Trust

Box 3.4: Summary of trust

Key message: Reported trust is higher than expected. There is a good basis of trust to build on, with clear levers to use, such as improving service delivery, strengthening the capacity of government staff, and improving consistency in applying tax laws. Certain practices, such as disruptive audits and taxation by multiple institutions, weaken trust. The FGS' taxation is seen as the most predictable, fair, and accountable.

- (a) Reported trust in the FGS is relatively high across Somalia, followed by the state and local governments. Trust in traditional authorities is low.
- (b) Regarding the dimensions of trust
 - **Fairness:** The tax system is deemed relatively fair, although tax laws are applied inconsistently.
 - **Equity:** Large firms regard themselves as not yet paying their fair share of taxes, compared to small firms.
 - **Reciprocity:** There remains significant scope for improved service delivery. Firms expect public services such as infrastructure, security, health, and education in return for formal taxation. Firms expect security (or nothing) from taxes paid to traditional authorities.
 - **Accountability:** The FGS is generally seen as more accountable than the FMS. Transparency is weak across the board. Traditional authorities are seen as not at all accountable, except in SWSS.
- (c) Across all these dimensions of trust, the FGS' taxation is perceived as the most predictable and fair and the least negotiable. The FGS is also deemed the most reliable service provider and most accountable. This is followed by the FMS. Traditional taxation is deemed the least predictable and fair and is most frequently negotiable. The local government and customs lie between the FGS/FMS and traditional authorities.

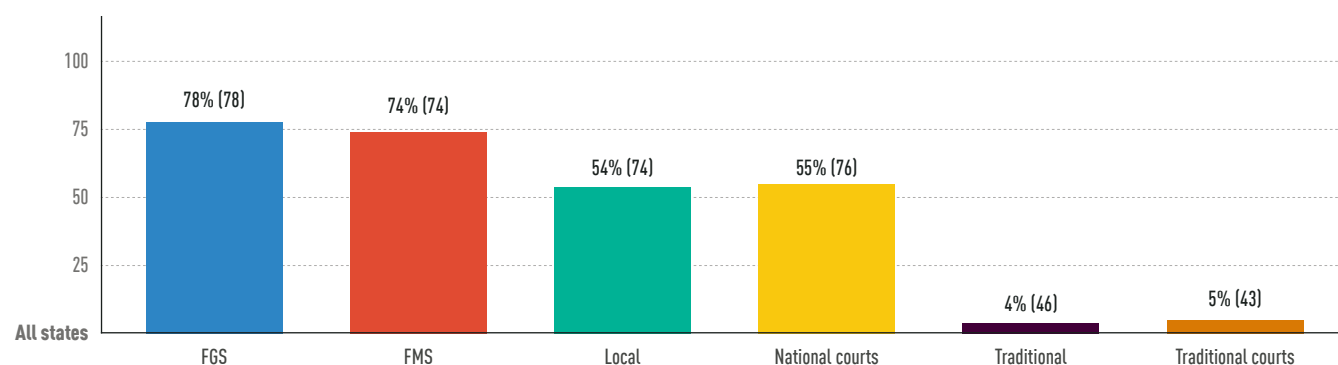
Reported trust is highest in formal institutions, led by the FGS and FMS, and lowest in traditional institutions (Figure 3.18). The survey asked respondents directly how much they trust a range of formal and traditional institutions, such as the FGS, FMS, traditional authorities, and national or traditional courts. The high level of reported trust in formal institutions is remarkable. In the Somalia Customs Compliance Study that was carried out among traders active in one of Somalia's main ports, the pattern was exactly reversed. Somali traders reported highest trust in traditional courts and authorities, and lowest in formal institutions (Dom et al. 2021). Furthermore, stakeholders at the local level report highest trust in local governments, followed by the state and federal governments (see Chapter 4). These results suggest that trust is influenced by engagement. Traders primarily interact with traditional authorities at ports, large firms are more likely to interact with the state and national governments, and local stakeholders engage frequently with local governments at the district level.

The survey also asked about dimensions of trust. The Innovations in Tax Compliance framework followed in this chapter breaks trust down into four key drivers:

- **Fairness** which refers to whether the tax system is fairly and competently designed and administered
- **Equity** which captures to what extent tax burdens are distributed in an equitable manner
- **Reciprocity** which focuses on whether tax revenues are translated into reciprocal publicly provided goods and services
- **Accountability** which captures the extent to which the government is accountable to taxpayers

Figure 3.18: Trust, by authority

Share of respondents by authority



Source: Based on survey data.

Note: Sample size in parenthesis

These components of trust can be mapped naturally to the objectives of tax reform efforts. For example, fairness and equity relate to the functioning of the tax system, whereas reciprocity and accountability relate to the broader use of tax revenue by the government (Dom et al. 2022).

Overall, the functioning of the tax system (fairness and equity) is rated slightly more positively by firms than the broader use of tax revenue by the government (reciprocity and accountability), but there remains significant room for improvement on both these objectives (Figure 3.19). The survey responses indicate the following views on the four components:

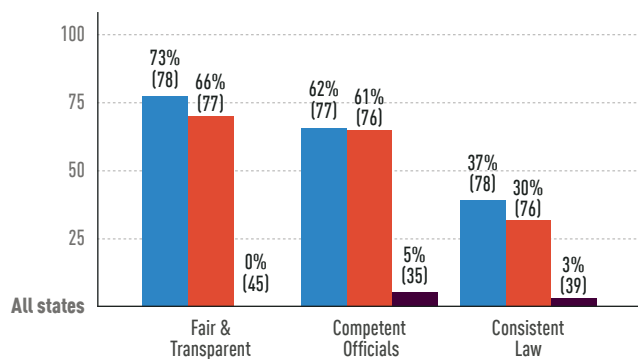
- **Fairness.** Across the four drivers of trust, fairness stands out as the most positive. Officials from the FGS and FMS are deemed competent when it comes to tax matters and are generally thought to collect taxes in a fair and transparent way.
- **Equity.** When it comes to the extent to which tax burdens are distributed in an equitable manner, on average, 57 percent of respondents (large and medium-size firms) believe that small firms are less likely to pay the full amount of taxes they owe than larger firms. In an equitable tax system, larger firms would pay more tax, and would also pay their taxes in full. There still appears to be a general sense among respondents that large firms do not yet pay their fair share, something that aligns with common perception. The exception to this is Galmudug, where firms believe they already pay their fair share.
- **Reciprocity.** Firms expect public services, such as infrastructure, security, health, and education, in return for formal taxation and indicate they expect more in return from the taxes they pay. Firms expect security (or nothing) from taxes paid to traditional authorities.
- **Accountability.** About 50 percent of respondents believe that tax officials from the FGS and FMS are unaccountable and do not listen and act on their concerns. Respondents do not know how taxes are spent, and consistency in applying tax laws, in particular in the FMS, is an issue.

The FGS's trust related scores are generally the best. The FGS's taxation is deemed the most predictable and fair, and the least negotiable.⁵⁵ The FGS is considered to have the most competent tax officials and to do the best job – relatively speaking – in providing public services. This is followed by the FMS. Traditional taxation is deemed the least predictable and fair and is the most frequently negotiable. It is also thought to be the least accountable and least effective in delivering services such as roads or encouraging an investment-friendly environment to businesses.

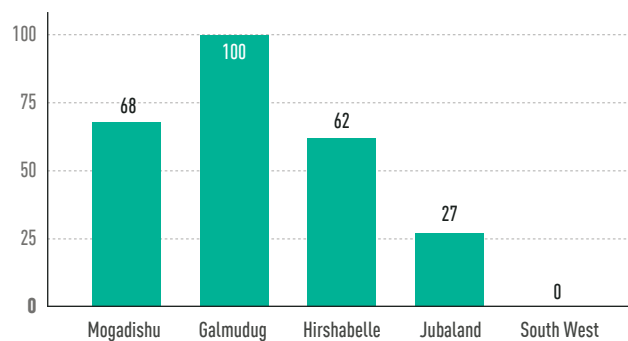
55. Three separate questions, not reported here, asked whether the respondent thought taxes and fees collected by ... were generally predictable, negotiable, and fair. For the FGS, perceptions of fairness are driven by firms which pay only one institution (FGS).

Figure 3.19: Dimensions of trust**Functioning of the tax system**

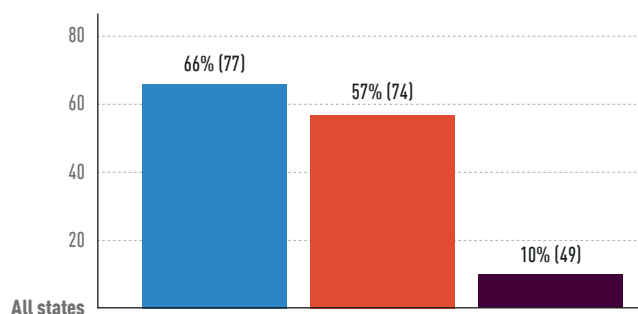
Panel A. Fairness: Share of firms that agree that officials collect taxes in a fair and transparent way, are competent, and interpret tax laws consistently



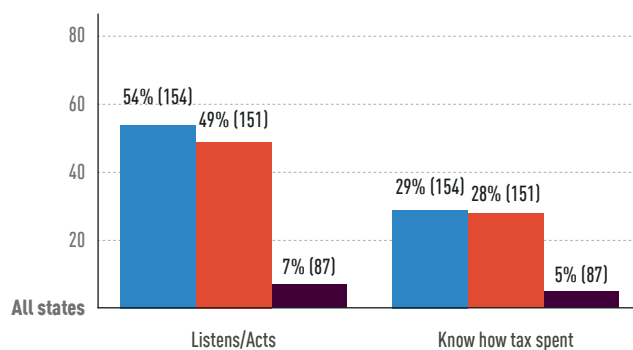
Panel B. Equity: Share of firms that agree that small firms are less likely to pay the full amount of taxes they owe than larger firms

**Broader use of tax revenue**

Panel C. Reciprocity: Share of firms that agree that the government is doing a good job providing public services



Panel D. Accountability: Share of firms that agree that officials listen to complaints or they have a good understanding of what taxes are spent on



■ FGS ■ FMS ■ Traditional

Note: Sample size in parenthesis

Results of the citizen survey**Key messages:**

- Overall, the levels of tax morale are similar across the local, state, and national governments.
- However, the levels of tax morale are much higher at (i) the national level in Galmudug and (ii) the local level in SWSS.
- Beliefs about the government are strongly associated with tax morale, particularly at the national level in Galmudug and SWSS.
- There is suggestive evidence that information can increase tax morale at the state and national levels.
- Respondents claim that state governments are harder to pay tax to.

Overall, the levels of tax morale are similar across the local, state, and national governments. Figure 3.20 presents the share of respondents who report that noncompliance should be punished and the government has a right to make people pay tax, disaggregated by the level of government respondents are asked about. There are no statistically significant differences between the share of respondents expressing support for these two measures of tax morale. However, in both cases, levels of support were slightly lower for the state government, relative to the local and national governments.

The levels of tax morale are higher at the national level in Galmudug and at the local level in SWSS. Figure 3.21 presents the share of respondents expressing positive tax morale based on the two measures outlined above, disaggregated by level of government and the state that respondents reside in. In Galmudug, tax morale was around 10 percentage points higher at the national level compared to the state and local government levels across both measures. This could potentially be because the current president for the national government is from Galmudug. In SWSS, tax morale was higher at the local level (at least for the measure of tax morale based on whether people believe the government has a right to make people pay tax). This may be due to SWSS' limited interaction with the rest of the country. These two states, where there is variation in levels of tax morale across levels of government, are also the ones that do not collect substantial customs revenue.

Figure 3.20: Tax morale by level of government

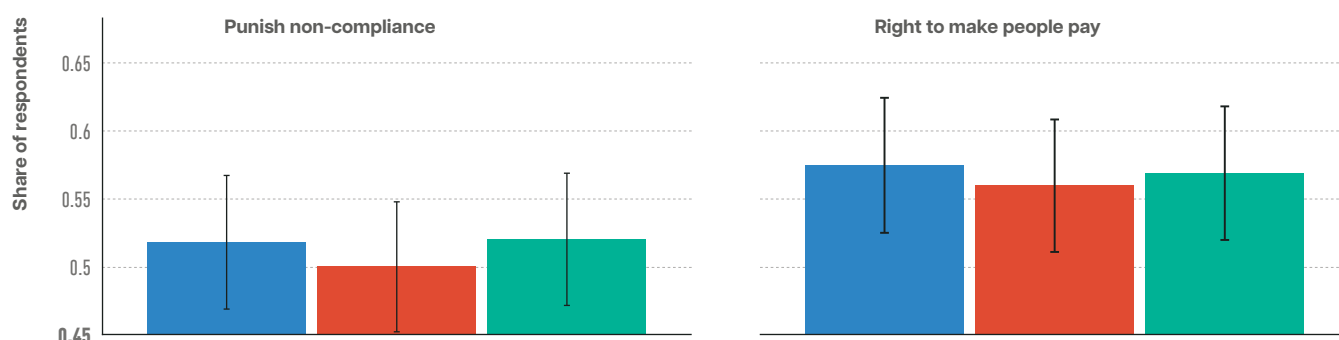
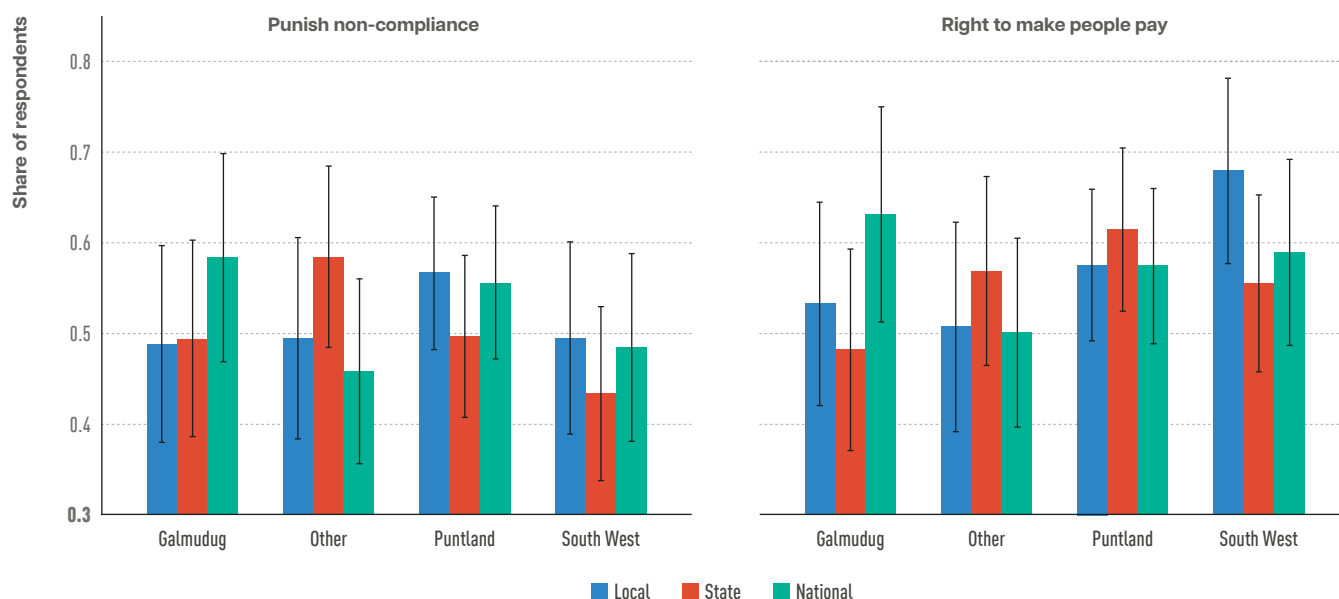
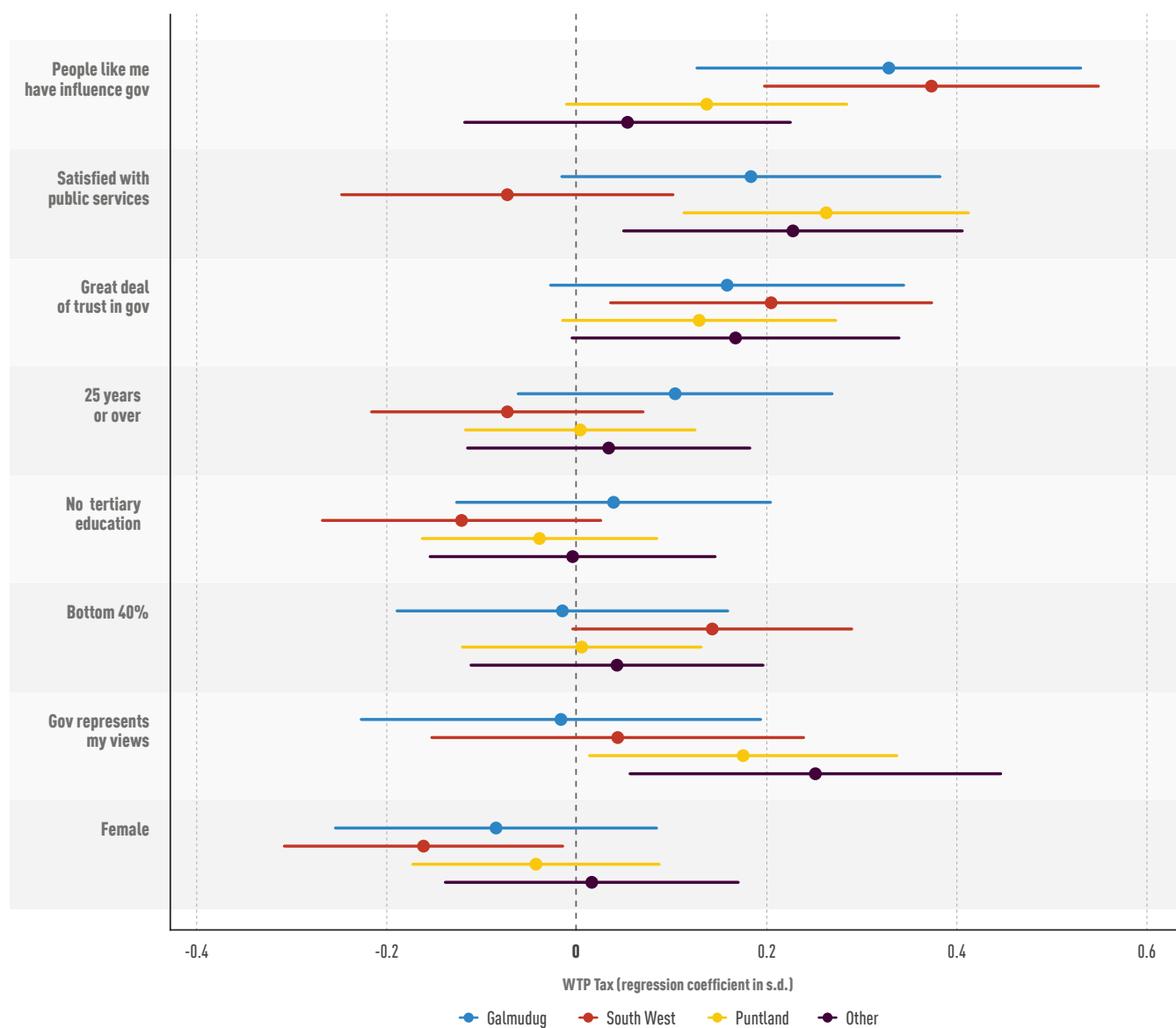


Figure 3.21: Tax morale by level of government, disaggregated by state



Beliefs about the government are strongly associated with tax morale, particularly at the national level in Galmudug and SWSS. Figure 3.22 shows the characteristics associated with higher level of tax morale across each level of government in each state. In Galmudug and SWSS, respondents who reported that people like them influence the government were much more likely to report positive tax morale (and this difference was statistically significant). This result suggests that some form of identity politics may influence tax morale in these settings. In contrast, respondents in the other states were more likely to report positive tax morale if they were satisfied with public services and believed that the government represents their views. These two factors are consistent with the reciprocity and accountability aspects of trust discussed above. Interestingly, these overall patterns were strongest among respondents that were asked about tax morale at the national level.

Figure 3.22: Characteristics associated with higher levels of tax morale, disaggregated by state



Information about low tax collection in Somalia can increase tax morale at the state and national levels.

Figure 3.23 shows the share of respondents expressing positive tax morale after receiving information about how low tax collection is in Somalia compared to other countries (the treatment group) and those who received no information (the control group; see also the section on survey methodologies). The information treatment resulted in higher levels of tax morale (at least on one measure of tax morale) at the state and national levels of government, but this was not the case at the local level. A potential explanation for this difference between levels of government is that the information focused on providing respondents with a reference point at the national level (that is, Somalia relative to Ethiopia and Kenya). As such it is reasonable to expect that this information will be more likely to shift views at the national level compared to the local level.

Respondents claim that state governments are harder to pay tax to. Figure 3.24 shows that, in every state, respondents were less likely to say that it is easy to pay tax at the state level, relative to the local or national levels. This is potentially due to the differences in taxation at these levels of government as, in general, taxes collected at the local and national levels are more likely to be salient for respondents.

Figure 3.23: Impact of information treatment on tax morale

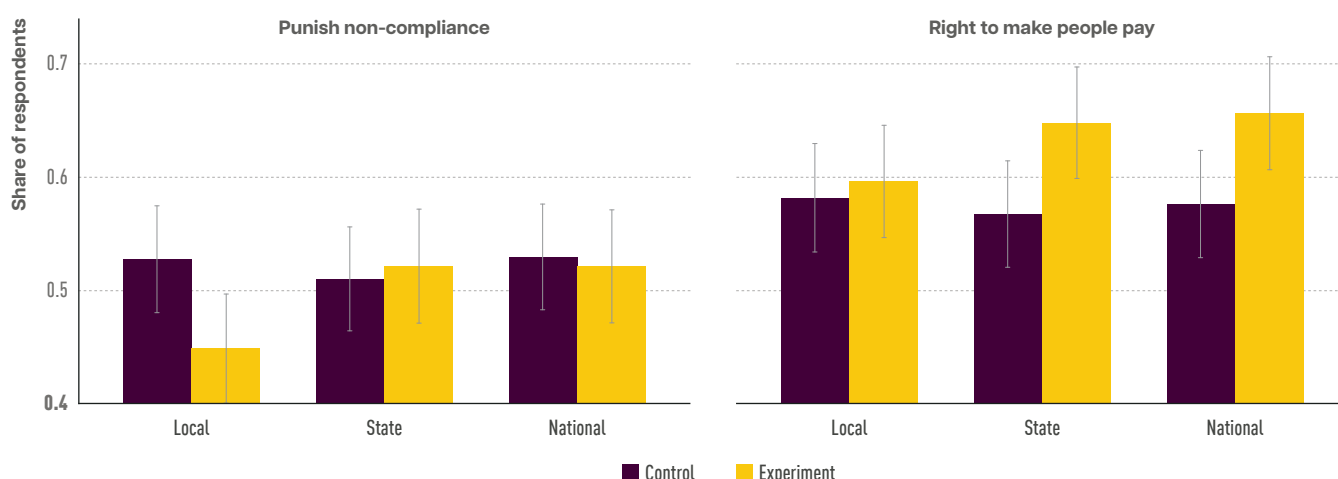
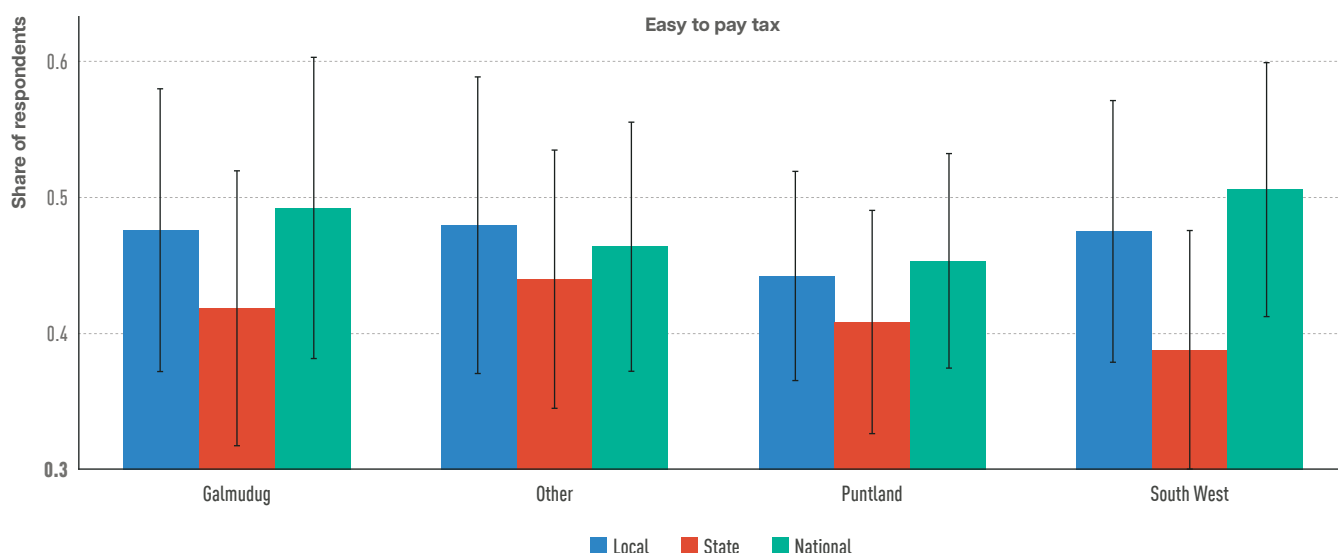


Figure 3.24: Views about ease of paying tax at different levels of government



Policy recommendations

The results of the firm survey provide a number of concrete policy recommendations to improve tax morale and compliance (with income tax) of large taxpayers. These recommendations can be organized into three pillars: (i) targeting and improving the effectiveness of enforcement, (ii) building the administrative capacity to better facilitate payment by taxpayers, and (iii) improving service delivery to build more public trust. These sets of recommendations are mutually reinforcing and are summarized in Table 3.3.

Table 3.3: Recommendations - Improving income tax compliance in Somalia

No.	Recommendation	Time frame	Priority
Pillar 1: Target and improve the effectiveness of enforcement			
R1	Focus on improving the quality, selection/targeting, and perceived fairness of audits. This will also help to build trust (Pillar 3).	Short term	High
Pillar 2: Build administrative capacity to better facilitate taxpayers			
R1	Harmonize taxation, including payments (to fewer institutions)	Medium term	High
R2	Simplify (payment) procedures	Medium term	Medium
R3	Improve the administrative capacity of revenue authorities, particularly in the FMS. This will also help to build trust (Pillar 3).	Medium term	High
R4	Provide taxpayer education and improve communication by revenue authorities	Medium term	Medium
Pillar 3: Improve service delivery to build more public trust			
R1	Improve consistency in applying tax laws (fairness)	Medium term	Medium
R2	Improve public service provision (reciprocity)	Medium term	Medium
R3	Invest in listening to and acting on the concerns of businesses, and in strengthening transparency (accountability)	Short term	Medium
R4	Invest in equity by ensuring large taxpayers contribute most (equity)	Medium term	Medium
R5	Invest in an information campaign focusing on equity to further strengthen the legitimacy of formal taxation and build a broader tax morale (equity)	Short term	Medium

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Chapter 4

Somalia's fiscal decentralization: Making the case for local government participation in state building

By Mohamud Yasin Jama and Fiona Davies

The Somali state is formally structured into two levels of government: the federal government⁵⁶ and FMS.⁵⁷

The FMS level of government, in turn, comprises two components: state governments and local governments. Under Article 54 of the Constitution, the federal government and FMS are required to negotiate and agree on the allocation of powers and resources other than foreign affairs, national defense, citizenship and immigration, and monetary policies, which are assigned to the federal government.

Over the past eight years, the FGS and FMS have come to a series of technical agreements on fiscal federalism, which have helped establish building blocks toward greater intergovernmental coordination.

These agreements have been reached through regular meetings of the FGS MOF with FMS counterparts. Agreements have been reached on tax harmonization, common budget classifications, and expenditure reporting. Agreement has also been reached on the vertical distribution of donor budget support between the FGS and FMS and on the horizontal distribution of the FMS share among the FMS.

FGS-FMS agreements on fiscal federalism have cumulatively created the conditions for regular transfer of resources from the FGS to the state governments and have supported PFM, DRM, and public sector reforms at the FMS level. FGS intergovernmental transfers to the FMS have amounted to US\$415 million since 2017, averaging US\$60 million per year. Most of the intergovernmental transfers have been funded by financial support from international development partners.⁵⁸

56. The FGS was established on August 20, 2012, under the Provisional Federal Constitution, following the end of the Transitional Federal Government.

57. There are five federal member states, that is, Puntland State of Somalia (PSS), JSS, GSS, HSS, and SWSS, as well as the self-declared Republic of Somaliland and Banadir Regional Administration (BRA).

58. An exception is BRA, which receives a 15 percent share of Mogadishu port revenues from the FGS.

Article 50 of the Provisional Constitution establishes the principle of subsidiarity in intergovernmental relations; power and revenue-raising responsibility are given to the level of government where they are most likely to be exercised effectively. However, to date, the intergovernmental transfers from the FGS to FMS have not addressed the needs or financing of local governments, even though, under the subsidiarity principle, local governments are best placed to assume responsibility for primary service delivery.

The establishment of intra-state fiscal decentralization arrangements for local governments to support service delivery is a priority under NDP9. Considerable work will be required to bring this priority to fruition. At present there is no common process or policy across the FMS for providing fiscal transfers to local governments to support service delivery at the district level. The capacity of individual local governments to manage funds accountably and support service delivery also varies considerably.

Service delivery is one of the key sources of state legitimacy, alongside managing political participation and ensuring security. In recent years, the government's delivery in the education and health sectors has been augmented through recurrent cost financing by the World Bank, highlighting the importance of evaluating state performance and its impact on the social contract in these areas. Additionally, citizens have expressed a desire for government services in other critical sectors, including water, agriculture, security, justice, telecom, transport, and sanitation. While this volume may be biased due to the selection of these sectors for analysis, its conclusions and recommendations can be extended to other sectors, as service delivery is a critical component of state building for several reasons. For instance, effective service delivery enhances the state's performance legitimacy, as citizens are more likely to support a government that provides essential services such as health care, education, and infrastructure. Also, when the state delivers services efficiently and equitably, it builds trust among citizens, increasing their willingness to comply with state regulations and pay taxes. Additionally, the ability to deliver services effectively establishes the state's presence and authority, particularly in remote or conflict-affected areas, reinforcing its legitimacy.

International experience suggests that extending fiscal decentralization to local governments can bring concrete benefits. It offers an opportunity to improve public sector efficiency by moving decision-making closer to the people (Boex, Williamson, and Yilmaz 2022), enabling service delivery to be more closely matched to citizen preferences. It also increases scope for accountability, because citizens are closer to local governments and more able to insist that their demands for services are met (Lewis 2021). Depending on citizens' expectations, improved service delivery may also strengthen citizens' trust in government. Trust in government has been identified as one of the most important foundations upon which the legitimacy and sustainability of political systems are built. It is essential for social cohesion and well-being as it affects governments' ability to govern and enables them to act without having to resort to coercion (OECD 2014).

However, it is not a given that fiscal decentralization will improve service delivery, accountability, and public trust at the local government level. The form of local government (selected or elected) and the relationship between executive and legislative bodies at the local government level may influence the effectiveness of fiscal decentralization reforms. Local governments may be subject to elite capture, limiting the extent to which services are directed toward priorities identified by citizens (Lewis 2021). Capacity constraints, weak accountability relationships, and other public sector management challenges can also have an important bearing on the effectiveness of fiscal decentralization (Boex, Williamson, and Yilmaz 2022).

For fiscal decentralization reforms to have a chance of success at the local government level, certain key conditions need to be in place. Local governments require the legal power and administrative discretion to perform their functions. They also need to have the necessary organizational structure, systems, and institutional capacity to discharge them effectively. Accountability mechanisms need to be in place so that citizens can hold them to account for their performance. Finally, arrangements for inter- and intragovernmental coordination and cooperation are required across and between levels of government (Boex, Williamson, and Yilmaz 2022).

The two key policy questions of this chapter are as follows: (i) is there a rationale for introducing intergovernmental transfers to local governments in Somalia that are linked to service delivery? and (ii) what steps are needed to establish the minimum conditions for an effective intergovernmental transfer mechanism for local governments?

To answer these two policy questions, the chapter looks at the current fiscal situation of the different levels of government both vertically and horizontally and examines the existing intergovernmental transfers from the federal to state and state to local governments. It also presents the findings from a stakeholder survey in eight districts across four FMS, which solicited feedback on citizen trust in different levels of government, the type of taxes collected by the local governments, whether services are provided, whether feedback mechanisms are in place, and the different types of services that communities want to have in their localities.

The findings confirm that a case can be made for providing intergovernmental transfers to local governments in Somalia. The survey results show that the local governments have the highest level of trust among the citizens even though they may not be happy with the current performance of their local government. Trust is highest in districts where the local governments provide some form of services. Where services are provided, survey respondents indicated a reasonable degree of satisfaction with their delivery. The areas in which stakeholders would like their local governments to be delivering services are consistent with their assigned responsibility. Local governments lack own-source revenues with which to provide these services.

To maintain trust in local government and avoid politicization of the transfer system, it will be important to give local governments a voice in fiscal federalism discussions. It is also essential that local governments command the broad support of citizens living in the district and communities participate in the identification of the services to be financed. Capacity gaps at the local government level will also need to be addressed if transfers are to be utilized effectively. Intergovernmental transfers to local governments need to be twinned with capacity support to local government staff and development of systems for transfer utilization and reporting as well as stronger feedback and accountability mechanisms for citizens. DRM will also need to be supported to ensure the long-run sustainability of increased local government spending on service delivery.

The chapter is divided into three sections: The first section provides an overview of fiscal federalism in Somalia to date. The second section presents in-depth primary data from the survey conducted in eight districts and analyzes how the findings could inform the development of intergovernmental transfers to local governments. The third section considers the prerequisites for rolling out fiscal decentralization to local governments in Somalia.

Overview of fiscal federalism in Somalia

The legal framework

As explained above, the Provisional Constitution establishes (i) a two-tier government, consisting of the federal government and FMS, and (ii) the principle of subsidiarity. The subsidiarity principle provides a basis for decentralization of service delivery to the local governments to ensure responsive and effective decision-making. The local governments are closest to the people and interact with them more often, thus giving them a comparative advantage over the state or federal authorities in the collection of certain taxes and the delivery of primary services. However, the Provisional Constitution does not establish the parameters of the relationship between the state governments and the local governments.

The framework for engagement between state and local governments is provided through a number of laws and policies at the federal and FMS levels, but they are fragmented and not wholly consistent with one another. They include federal local government law number 116, local government laws in each FMS, federal government policies (for example, the policy framework for participatory federalism and decentralization, the national stabilization strategy, and the national policy for developing the capacity of local governments), and decentralization policies in Puntland and Somaliland.⁵⁹

Existing laws and policies assign various revenues and functions to the local governments. The revenues include agricultural tax, land value tax, land registration, fees for electricity and water provided by the local government, and fees for issuing business licenses. The functions include establishing and managing primary schools and kindergartens; maintaining and repairing streets; town planning; constructing water reservoirs in towns and villages; regulating the construction and demolition of buildings; safeguarding and promoting the improvement and effective exploitation of livestock, agriculture, land conservation, animal husbandry, forestry, and fisheries; and maintaining the register of births, deaths, marriages, and divorces.

However, actual practice varies and the assignment of functions and revenue sources between levels of government is still evolving. In December 2022, the NCC⁶⁰ reached an agreement on functional assignments between levels of government, which is intended to feed into the process of revising the Constitution. The NCC assigned 44 functions to the FGS, 29 functions to the state governments, and 32 functions to the local governments. A further 20 functions were shared between the FGS and state governments. In March 2023, the NCC reached a preliminary agreement on revenue assignments. However, the agreement only assigned revenues between the FGS and FMS. It did not go further to assign FMS revenues between the state and local governments. The expected next steps to operationalize the NCC agreements will include wider consultations with all stakeholders as a part of the constitutional review process.

FGS-FMS fiscal relations

Substantial progress has been made on intergovernmental fiscal relations between the FGS and FMS over the past eight years, paving the way for system strengthening at the state level and increased intergovernmental transfers. Key progress includes the implementation of the harmonized Chart of Accounts (CoA), regular and consistent fiscal reporting, adoption of a fiscal transfer formula for budget support, publishing of fiscal reports, and harmonization of custom regimes, among other intergovernmental-related activities. These reforms have not been rolled out to local governments.

FGS-FMS dialogue on fiscal federalism has taken place at both the technical and policy levels. The Intergovernmental Fiscal Federalism Technical Committee (IGFF-TC) has brought together key technical staff in the FGS and FMS MOFs to discuss key issues in depth and formulate policy proposals for discussion by the FMFF, leading to the adoption and implementation of key agreements. A similar model has now been adopted by the Ministry of Education and the Ministry of Health. However, local governments have not been part of these discussions, and engagement with them has been disjointed and unclear even when the FGS and FMS authorities have reached agreements affecting them, such as the deployment of teachers and health workers.

The formalization of fiscal coordination between the FGS and FMS has enabled the increasing provision of fiscal transfers to state governments. FGS allocations to the FMS (excluding Somaliland) and BRA have increased from US\$29 million in 2017 to US\$91 million in 2023 (Table 4.1). In total, the FGS allocated US\$415 million to the FMS

59. The federal- and state-level laws and policies can be accessed through the official web pages of Federal MOIFAR, some of the FMS, and Somaliland such as <https://moifar.gov.so/en/>, <https://www.moiigr.sw.so/>, and <https://moi.govsomaliland.org/>

60. The NCC, which is an executive body that brings together the leadership of the federal government and FMS, comprises the President of the FGS who is the chair, the Prime Minister, Deputy Prime Minister, the five FMS presidents, and the governor of BRA.

Table 4.1: FGS allocations to the FMS and BRA, 2019–2023 (US\$ millions)

	2017	2018	2019	2020	2021	2022	2023
Puntland	4.66	4.67	6.81	17.36	7.82	20.59	6.5
Jubbaland	2.92	2.20	4.56	8.02	6.20	13.86	17.5
Hirshabelle	2.50	2.99	5.14	9.60	7.49	18.03	15.7
SWSS	3.31	3.40	6.36	10.60	5.33	13.66	11.5
Galmudug	3.45	1.81	4.48	12.22	4.79	10.38	10.9
BRA	11.79	15.04	16.01	20.09	17.73	18.22	28.9
Total	28.62	30.11	43.36	77.89	49.36	94.73	90.93

Source: FGS reporting on 2021.

and BRA across this period, representing 13 percent of total FGS expenditures. Most of these funds were transferred directly to the FMS, although a small portion was paid to third-party providers by the FGS on behalf of the FMS.

Fiscal transfer discussions between the FGS and FMS continue to evolve and acquire greater technical depth and objectivity. In 2023, agreement was reached on a formula-based approach to sharing external budget support funds, replacing the previous system, where funds were shared based on ad hoc agreements. The vertical allocation of budget support funds between the FGS and the FMS/BRA was agreed at a ratio of 60:40, respectively. The horizontal allocation between the FMS/BRA included one equal share indicator, three performance-based indicators, and one equalization indicator. The percentage allocations are equal share (57 percent), revenue enhancement (15 percent), expenditure management (15 percent), audit and reporting (10 percent), and fiscal equalization (5 percent). The FMS have agreed to spend 50 percent of their transfers on service delivery in health and education. Agreement on a formula helps depoliticize the budget allocation process and allows for more predictable transfers linked to ongoing reforms.

The FGS and FMS intergovernmental fiscal transfer system is currently largely dependent on external financing. Other than transfers to BRA, which receives 15 percent of the customs revenues from Mogadishu port, there are no reliable domestic revenue transfers from the FGS to FMS; transfers are almost wholly externally funded, either by donor projects or by donor budget support. The FGS and FMS are not self-sufficient in their budget execution because their revenue-raising capacities are outmatched by their expenditure responsibilities. The FGS and FMS have improved DRM over the years by implementing structural administrative and policy reforms. However, revenue collection continues to be dominated by customs revenues owing to limited territorial control, human resources, and low social contracts. This is reflected in the limited and uneven ability to raise domestic revenues and reliance on external sources of financing to execute their budgets.

Table 4.2: FGS external budget comparison for 2023 and 2024 (US\$ millions)

Year	2023	2024
External support	634	641.6
Total estimated expenditure	922.6	1,025.2
Percentage of external financial allocation	69	63

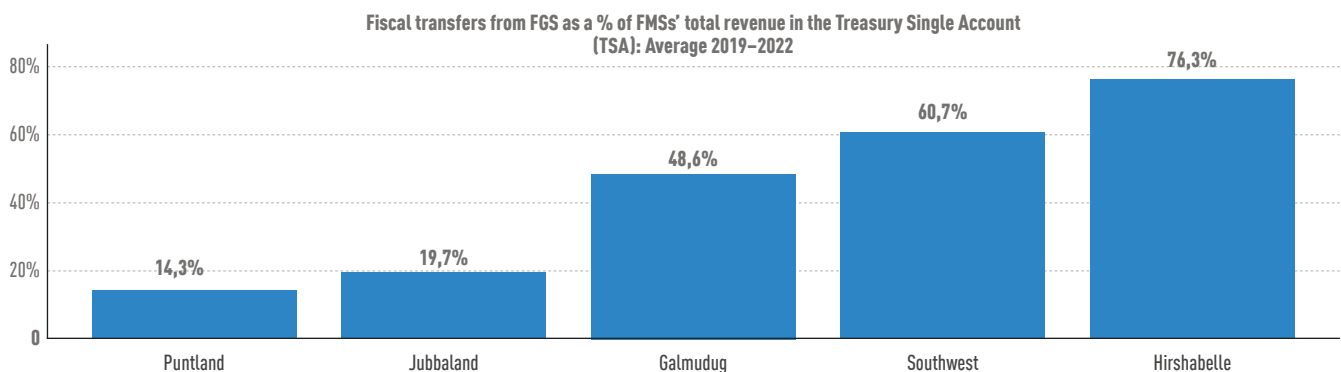
Source: FGS 2024 annual budget.⁶¹

61. FGS 2024 budget: <https://mof.gov.so/publications/annual-budget>

The FGS is dependent on external financing to close its budget deficit, while the FMS are reliant on the transfers they receive from the FGS. The FGS-approved budget in FY2024 estimated it will receive 63 percent financial support from the international community compared to 69 percent in FY2023 to balance its budget (Table 4.2). On the other hand, the FMS rely on intergovernmental transfers from the FGS to balance their budget to varying degrees, depending on their differing revenue bases.

Revenue-raising capacity in the FMS varies considerably depending on whether they have access to a port which can generate customs revenue. Puntland and Jubbaland have ports, whereas South-West, Galmudug, and Hirshabelle do not. The percentage of customs revenue in the FMS against total domestic revenue in FY2022 was 58 percent in Jubbaland and 34 percent in Puntland. In South-West, Galmudug, and Hirshabelle, the customs revenues were lower than 8 percent. On the other hand, the average fiscal transfers from the FGS received by all the FMS between FY2019 and FY2022 shows that Hirshabelle, South-West, and Galmudug received 76, 61, and 49 percent, respectively, while Puntland and Jubbaland received 14 and 20 percent, respectively (Figure 4.1).

Figure 4.1: FGS transfers as a percentage of FMS total revenues



Source: Fiscal reports from the FGS and FMS.

FMS-local government fiscal relations

Intergovernmental transfers from the FMS to the local governments are extremely small and ad hoc. The FMS have not yet developed a systematic framework for intergovernmental transfers to the local governments. FMS governments have a small tax base and are unable to provide substantial transfers to local governments in the short to medium term. Of the few transfers that take place, the majority are funded by external funding. The World Bank Somalia Urban Resilience Project (SURP) supports municipalities in providing services to the people through a fiscal transfer mechanism, which transfers funds from the FGS to FMS and from the FMS to the service providers at the local levels. Thus, although SURP transfers funds for service provision at the local government level, it does not provide funds to the local governments themselves. The UN Joint Program for Local Government (JPLG) provides transfers for small-scale capital grants in 25 districts. These transfers are channeled through the FMS to the districts and include a small co-financing contribution from the state government.

Some FMS governments have streamlined arrangements for local government revenue collection and utilization in state capitals. Under these arrangements, revenues assigned to the local government in state capitals are collected by the local government or collected on their behalf by the state government and deposited in the treasury single account of the state government. The state government then transfers them to the local government's account.

FMS interaction with districts outside major urban centers is limited, especially in rural areas controlled by AS. This poses significant challenges, as a lack of information on the type of taxes collected by district authorities and the services provided, if any, limits the ability of the state governments to formulate policies that can strengthen intergovernmental fiscal relations. In urban areas such as Kismayo, Baidoa, Jowhar, and Dhusamareb, interactions between the state and local governments are supported by various donor interventions such as SURP in the provision of service delivery.

Puntland has established its own policy on intergovernmental transfers to local governments, which was first adopted in 2013 and revised in 2019. The objective of Puntland's fiscal decentralization strategy is to increase transfers to local governments, support service delivery, incentivize reforms, and build the capacities of the local authorities to provide required services to the people. Puntland has categorized its districts into four grades (A to D) based on their population, capacity to collect revenues, and ability to provide core services to the people. These categories are intended to determine the level of transfers made to individual local governments and the involvement of the state government in providing the services directly. However, available evidence suggests that other than contributions to donor-funded programs such as the JPLG, Puntland transfers to local governments have not been guided by the fiscal decentralization strategy and are highly discretionary, inequitable, and ad hoc. The only consistent transfer that Puntland provides is a transfer of 1.5 percent of total domestic revenue to the local government of Garowe. Puntland also contributes no less than 10 percent of the value of the Local Development Fund (LDF) supported by the JPLG.

Intergovernmental transfers from the FMS to the local governments are highest in Puntland, with a total coverage of 68 percent of all FMS transfers from 2019 to 2022 (Table 4.3). Puntland's transfers include JPLG funding which helps explain its higher total allocation. Hirshabelle's higher intergovernmental transfers are an exception, related to the earmarked transfers from the FGS to local governments in Hirshabelle made through the FMS government in support of flood victims in 2020 and 2022. The transfer was earmarked to the districts in Hirshabelle to support the affected communities. This one-time support is a good example to show the possibility of using the country systems in transferring funds to support service delivery from the FGS to the districts, using the state government.

Table 4.3: Intergovernmental transfers trend from the FMS to the local governments (US\$)

FY	Jubbaland	South-West	Galmudug	Hirshabelle	Puntland	Total
2019	58,206	21,000	49,385	491,503	2,043,037	2,663,131
2020	104,789	68,000	238,273	1,775,620	1,236,853	3,423,535
2021	108,638	14,000	184,695	147,511	3,382,272	3,837,117
2022	331,421	—	96,131	1,198,451	3,568,922	5,194,925
Cumulative total	603,054	103,000	568,483	3,613,085	10,231,084	15,118,707
% transfers	4	1	4	24	68	100
Number of LGs in the FMS⁶²	13	18	8.5	10	12.5	
Cumulative average per LG	46,388	5,722	66,880	361,309	818,486	

Source: Based on fiscal reports from the FGS and FMS computed by the author.

Note: LG = Local government.

62. The number of districts is based on the official data received from MOIFAR. It is important to note there are regions that are disputed such as Sool and Sanaag between Somaliland and Puntland and Mudug between Puntland and Galmudug. The data provided here do not include Sool and Sanaag regions.

Because FMS transfers to local governments are minimal, local governments are largely only functional to the extent that they are able to collect revenues to fund their operations. They cannot rely on funding from their FMS government. In most cases, the revenue bases for the local governments are small and uneven with a lot of double taxation between the FMS government and the local governments, constraining the capacity of local governments to deliver services at the district level.

Service delivery, trust, and revenue sources for local governments: What do district residents say?

Provision of intergovernmental transfers to local governments should be informed by the needs of the citizens in those districts as well as the role and capacity of the local governments themselves. To understand the sources of revenue for local governments, as well as their current capacity to provide services to citizens, a primary data collection exercise was conducted from July to August 2023 by surveying citizens in eight districts. The objectives were to understand the current relationship between the citizens and the local government, identify the types of services being provided currently by both the public and private sectors, and ascertain the readiness of local governments to absorb intergovernmental transfers.

The Federal Ministry of Interior, Federal Affairs, and Reconciliation (MOIFAR) and the Ministries of Interior and Local Governments in the FMS were consulted on the data collection and assisted in the identification of eight survey districts. A set of questionnaires was developed and agreed with the FGS and FMS. The FMS Ministries of Interior and Local Government were tasked with the data collection and engagement with all the stakeholders in the eight districts through both workshop format and one-on-one interviews with key local government staff.

Table 4.4: Overview of the eight survey districts

	District	FMS	District characteristics
1	Abudwak	Galmudug	Urban - Galgaduud region - Population estimated at 180,000 - Elected district council - Key commercial hub bordering Ethiopia - Close to 7,000 internally displaced persons (IDPs) coming from neighboring districts and Somali region of Ethiopia
2	Dhusamareb	Galmudug	Urban - Galgaduud region - Galmudug State Capital - Population estimated at 240,000 - Elected district council - Close to 46,000 IDPs present mainly from drought and recent fight against AS. Receives externally financed transfers
3	Jowhar	Hirshabelle	Urban - Middle Shabelle region - Hirshabelle State Capital - Did not have an elected district council at the time of the survey, council was elected shortly afterwards in October 2023 - Population estimated at 396,000 - Close to 23,600 IDPs present mainly from recent drought, floods, and fight against AS in Hiiran. Receives externally financed transfers
4	Warsheikh	Hirshabelle	Urban - Middle Shabelle region - Population estimated at 78,000 - Elected district council - Coastal town with frequent visitors from the capital Mogadishu - Relatively safe with no presence of AS.
5	Baardheere	Jubbaland	Urban - Gedo region - Population estimated at 185,000 - Agriculture and livestock trading are the main economic activities - Close to 23,000 IDPs present - Does not have an elected district council.
6	Kismayo	Jubbaland	Urban - Lower Juba region - Interim State Capital - Population estimated at 420,000 - Close to 75,000 IDPs - Does not have an elected district council. Receives externally financed transfers
7	Baidoa	South-West	Urban - Bay region - Interim State Capital - Population estimated at 620,000 - Close to 340,000 IDPs - receives externally financed transfers - Does not have an elected district council. Receives externally financed transfers
8	Hudur	South-West	Urban - Bakool region - Elected district council - Population estimated at 130,000 - Close to 21,000 IDPs - Main economic activity is trading of livestock - High prices of goods due to blockade by AS.

The primary data collection asked questions on the following issues:

1. Whether respondents are happy with their local government
2. Which level of government respondents trust the most
3. Whether FMS authorities are present at district level
4. The type of taxes collected by the local government
5. Whether services are currently provided by public and private sectors
6. Whether respondents are satisfied with the services provided by the local government, and whether they have avenues for feedback
7. What services respondents would like to see provided by their local government
8. The capacity of the local government and its readiness to absorb intergovernmental transfers

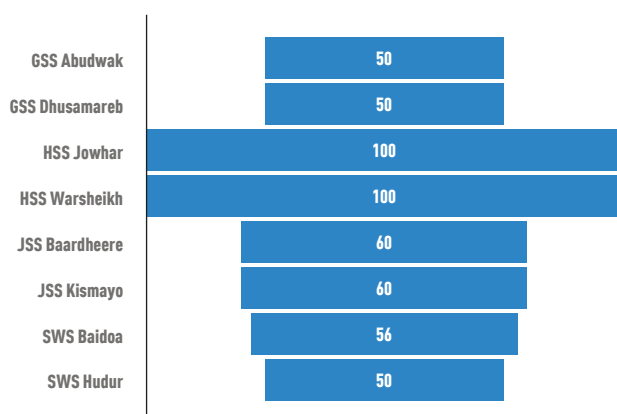
Respondent demographics

The total number of respondents was 518 across the eight districts (Figure 4.2). The gender distribution of respondents was 58 percent male and 42 percent female. The age distribution of the respondents was 21 percent above 45 years, 17 percent below 25 years, 35 percent between 26 and 35 years, and 27 percent between 36 and 44 years (Figure 4.3). The majority of the respondents engaged were self-employed constituting 35 percent while on the other hand, the number of unemployed interviewed represented the second-largest participants standing at 32 percent.

Happiness with the local government in place

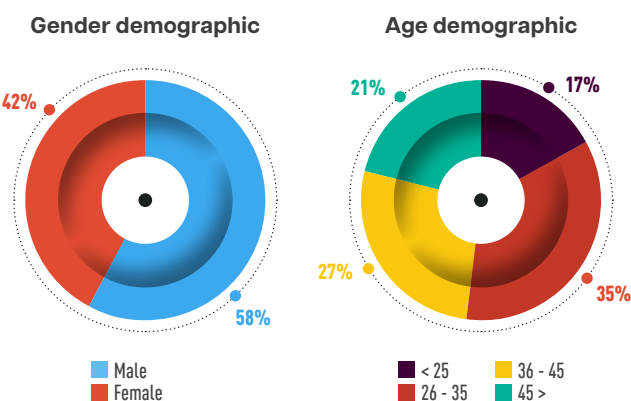
Just under half of survey respondents (48 percent) expressed happiness with their current local government, while just over half expressed unhappiness (52 percent). Happiness varied considerably across districts (Figure 4.4), with respondents living in districts with elected district councils generally expressing greater happiness in their local government than those living in districts where the local council was selected. This finding is consistent with literature, which suggests that the form of government can have an impact on the effectiveness of fiscal decentralization (Lewis 2021). More than three-quarters of respondents living in Dhusamareb, Abudwak,

Figure 4.2: Distribution of the respondents by district



Source: Primary data collected from the districts.

Figure 4.3: Demographic distribution of the respondents



and Hudur, all of which have elected district councils, expressed happiness with their local government. The exception to this was Warsheikh district, where respondents expressed almost universal unhappiness with their local government, even though the council is elected. This may be due to particular local circumstances; revenues in Warsheikh are mainly collected by non-state actors, severely limiting the functionality of the local government. Relatively few respondents living in districts with a selected local council expressed happiness with their local government. The only exception to this was Jowhar district, where just over half of respondents were happy with their local government.

Level of trust in the Federal, State, and Local governments

According to the survey results, the local government is the level of government that is trusted the most by the respondents (58 percent), followed by the state (29 percent) and federal (14 percent) levels (Figure 4.5). The local government was the most trusted level of government in seven out of the eight survey districts (Figure 4.6). The only exception was Baardheere district, where respondents trusted the state government more than the local government. During the workshop discussions, respondents suggested that they trust the local governments the most because they are easily accessible, and the local authorities have been able to settle

Figure 4.4: Distribution of the respondents by district

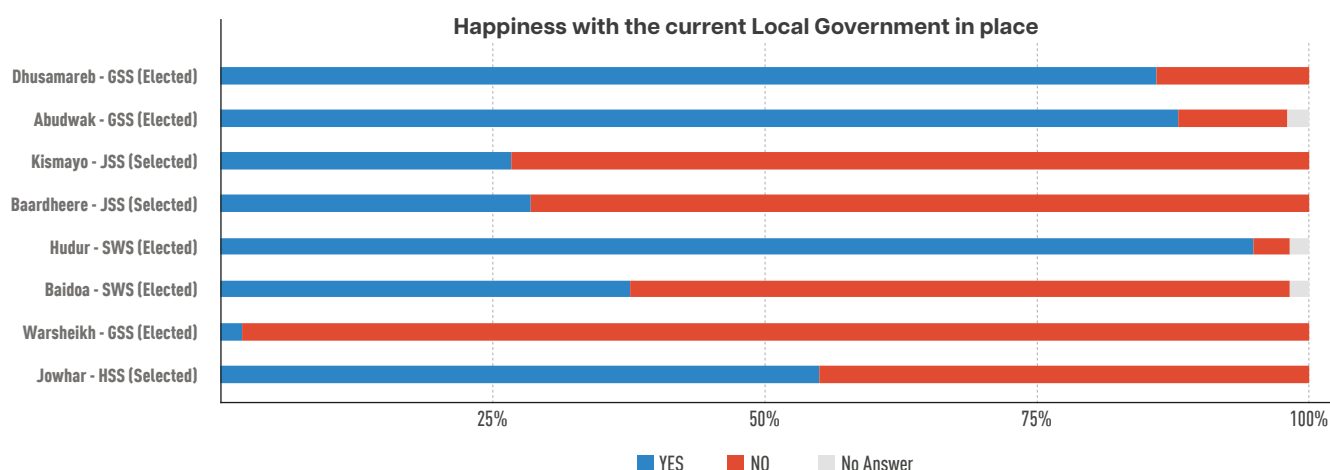


Figure 4.5: The level of government trusted the most

Which level of government do you trust the most

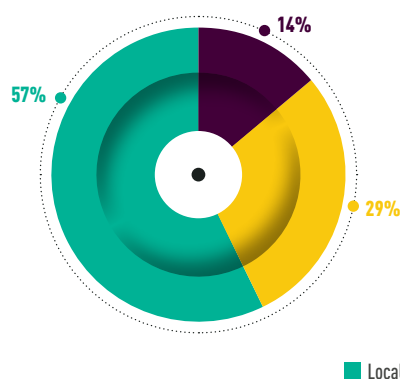
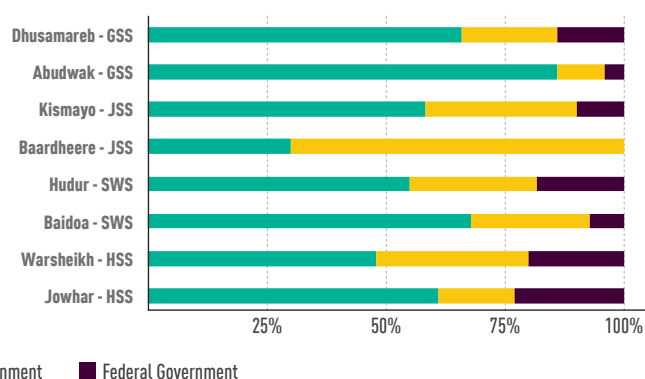


Figure 4.6: The level of government trusted the most - results by district

Which level of government do you trust the most

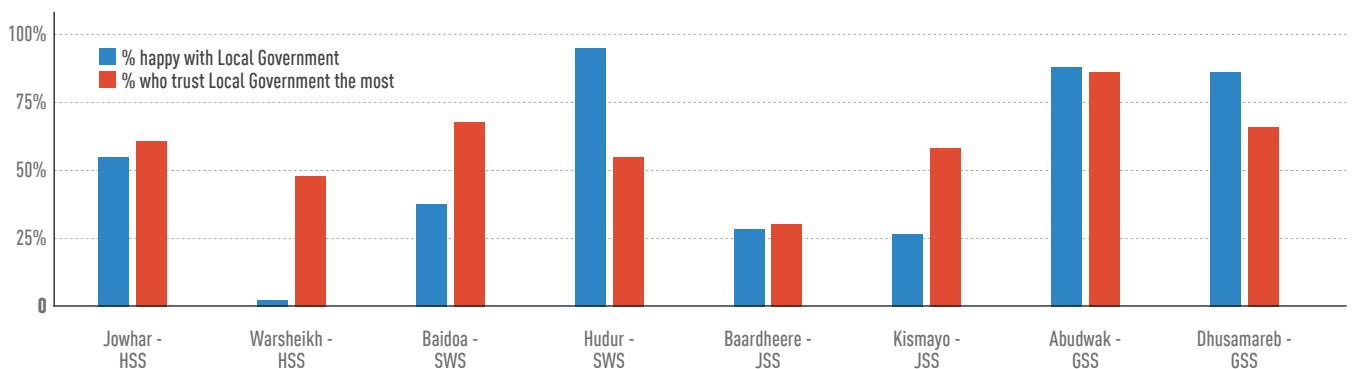


Source: Primary data collected from the districts.

disputes by working with the clan elders and community influencers, leading to peaceful coexistence. The respondents also suggested that they have limited expectations that the local authorities will provide them with the required services but recognize their ability to coordinate with other non-state actors to mobilize resources to support the provision of services provisions such as streetlights, garbage collection, and market cleaning.

Respondents trust local governments more than other levels of government, even when they are relatively unhappy with their current local government in place (Figure 4.7). The only exception to this was Baardheere district, where the state government is more trusted, as the selection of the local government has reportedly been influenced by regional politics and does not command widespread local support. During the workshop discussions, respondents indicated a number of reasons for trusting local government the most: local government representatives are easily accessible; they can be held accountable for promises they make; and, in most cases, representation is from the local population. Respondents also felt that local governments are able to work with important informal institutions such as clan elders to address pressing community needs in a hybrid setting.

Figure 4.7: Comparing happiness with the local government in place with trust in the local government

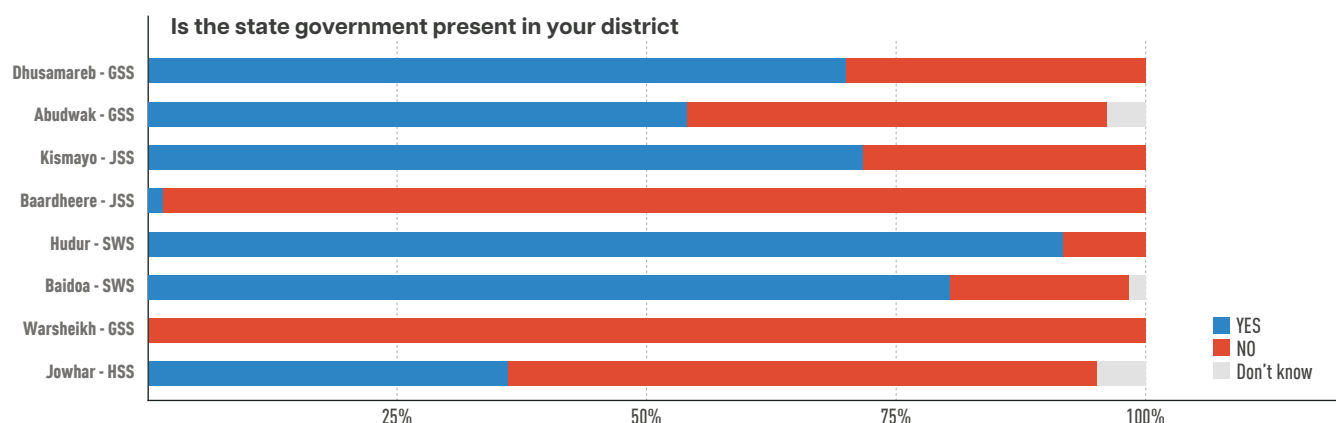
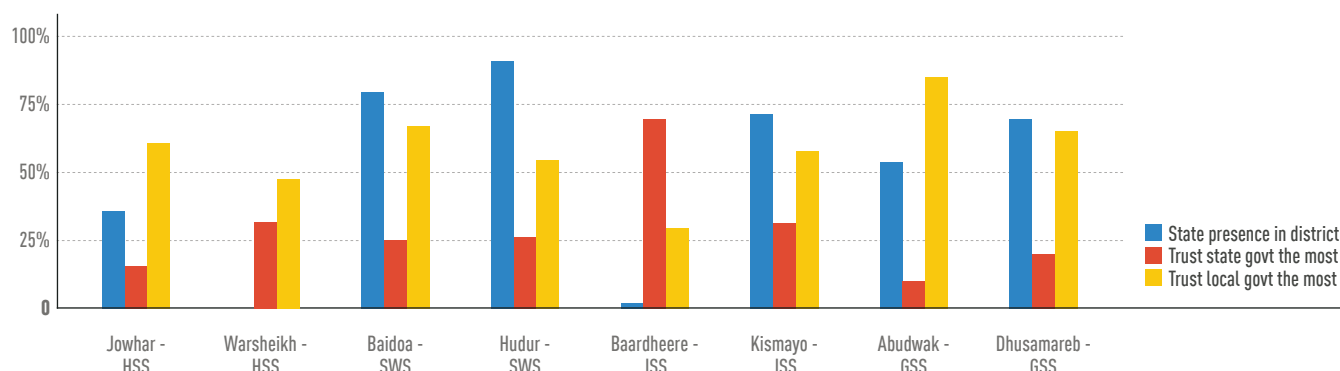


Source: Primary data collected from the districts.

The presence of the state government in the districts

The presence of state authorities varied in the sampled districts (Figure 4.8). The majority of respondents in five districts indicated that state government representatives were present in their district. However, in two districts (Warsheikh and Bardheere), respondents indicated that the state government had minimal to zero presence. During the workshop discussions they indicated that the state government was not meeting their expectations in terms of providing resources to the district. Respondents also reported limited state government presence in Jowhar district, even though it is the state capital of Hirshabelle State. This finding may be a reflection of the relative administrative weakness of Hirshabelle State, which is Somalia's newest and least-resourced FMS.

The presence of state authorities in a district does not appear to lead to higher levels of trust in state authorities (Figure 4.9). In districts where respondents reported high levels of state government presence, the local government was considered the more trusted level of government by a significant margin. By contrast, respondents in Baardheere district reported no state presence but still indicated that they trust the state government more than the local government. This is likely due to lack of local support for the local government appointees in the district.

Figure 4.8: Presence of state authorities in the district**Figure 4.9:** Comparing the presence of state authorities in the district with trust in levels of government

Source: Primary data collected from the districts.

Local government tax collection, service provision, and demand for public services

The primary data collection sought to determine what types of tax the local governments are collecting, whether respondents currently receive services from their local government, and what services they would like to receive. People who pay taxes usually want to see services being provided by the authorities that are collecting those taxes.

The survey responses indicated that the local governments sampled are collecting a variety of taxes from the people. From the survey, the four largest taxes collected are market fees (28 percent), livestock fees (17 percent), business licenses (16 percent), and transport taxes (7 percent) (Figure 4.10). These taxes are in line with the functions assigned to local governments in the Local Government Act and agreed by the NCC. However, some of the taxes collected by the local governments are also collected by FMS governments and even the FGS (in Mogadishu), such as property taxes, road user taxes, and business licenses. This highlights the importance of reviewing current taxation practices across all levels of government and reaching an agreement based on the existing legislation on which level of government should be collecting each type of tax.

Figure 4.10: Types of tax collected by local governments

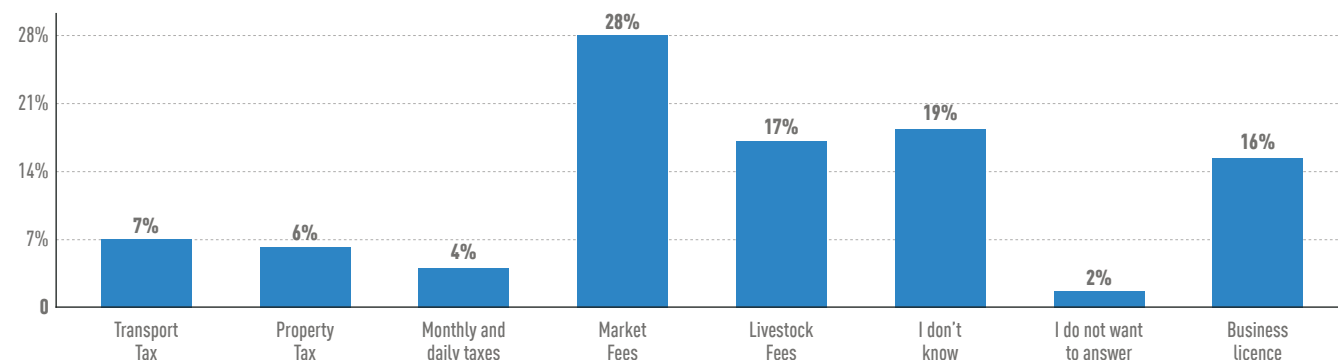


Figure 4.11: Is the local government providing any services in your area

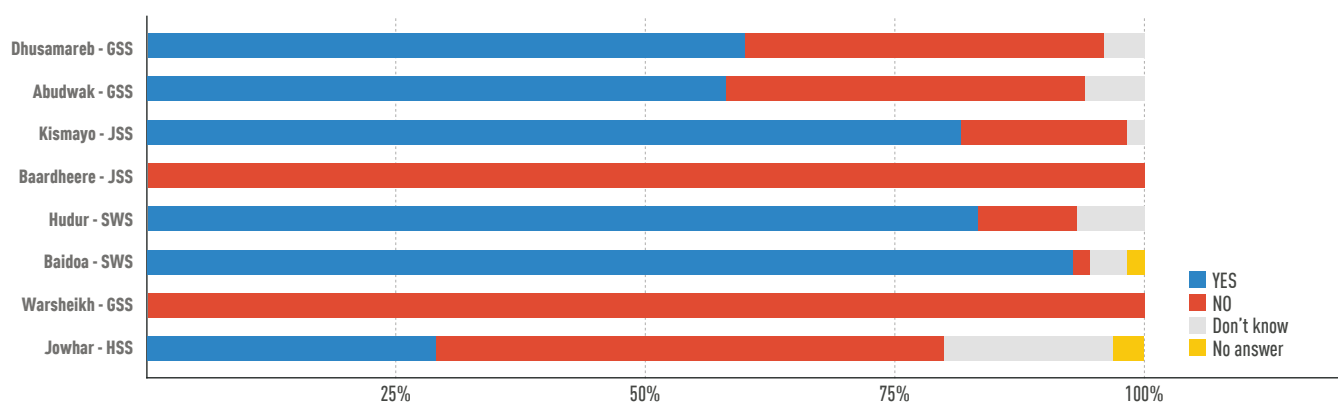


Figure 4.12: Comparing trust in local government with service provision

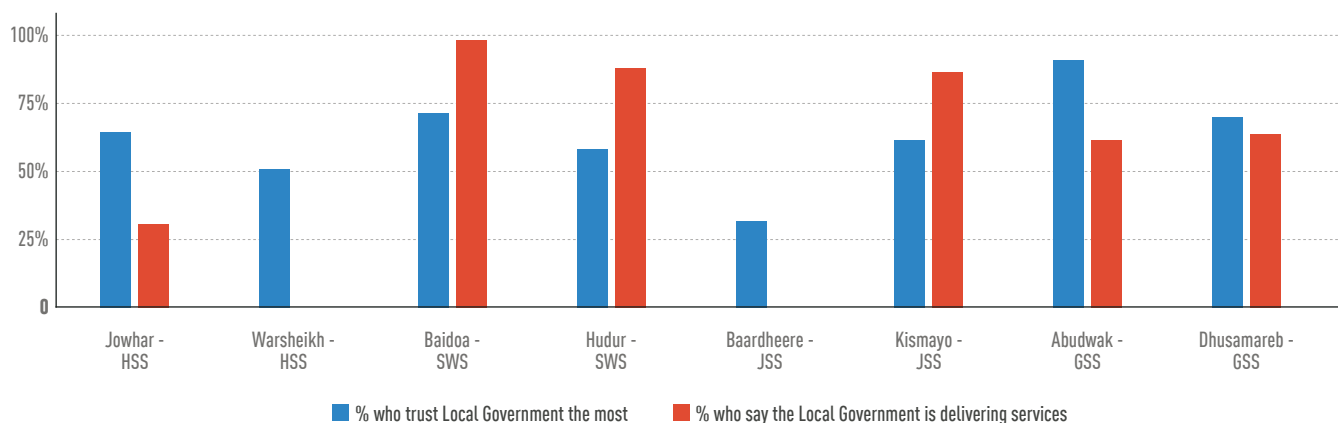
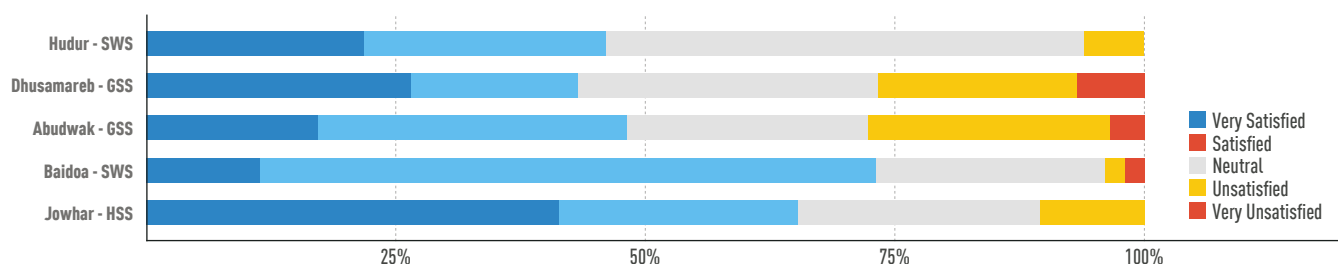


Figure 4.13: Satisfaction with local government service delivery



Source: Primary data collected from the districts.

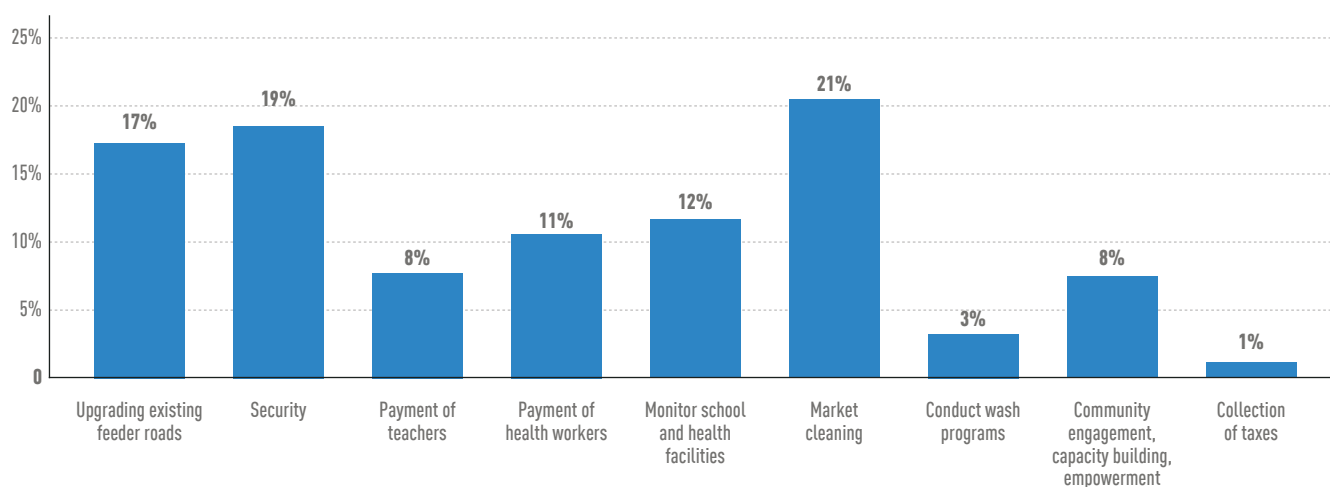
Just under half of survey respondents (45 percent) reported that the local government was some delivering some kind of service in their area. The extent of service delivery varied considerably by district and FMS (Figure 4.11). The majority of respondents living in districts in Galmudug FMS (Dhusamareb and Abudwak) and South-West FMS (Hudur and Baidoa) reported that their local government was delivering some kind of service. In Jubaland FMS, most respondents in one district (Kismayo) reported some kind of local government service delivery, while respondents in the other district (Baardheere) reported none at all. In Hirshabelle FMS, local government service delivery was reported as being low in one district (Jowhar) and nonexistent in the other (Warsheikh).

Trust in local government is generally higher in the districts which reported higher levels of local government service delivery (Figure 4.12). In all five districts where the majority of respondents reported that the local government was providing some kind of service, more than half of respondents also trusted the local government the most. In the two districts with no reported local government service delivery (Warsheikh and Baardheere), trust in local government was not as high. In Jowhar, the majority of respondents trusted local government the most, even though service provision was reported to be relatively low.

Where local governments are providing services, respondents were reasonably satisfied with their delivery (Figure 4.13). Across five districts,⁶³ the majority of respondents who reported that the local government was providing services were either very satisfied or satisfied with their delivery (56 percent). Only a small percentage of respondents were unsatisfied or very unsatisfied (13 percent).

The survey results show that citizens' priorities for service provision by local governments correspond to some extent with the taxes collected by the local governments (Figure 4.14). Respondents' highest service priority is cleaning markets, which appears to be linked to the highest tax types collected by the local government, that is, market fees and livestock fees. This appears to indicate that people want services linked to the type of taxes they pay. However, citizens also appear to demand services that are beyond the scope of the taxes they reportedly pay, including the provision of security, feeder road upgrading, payment of frontline service delivery staff (teachers and health workers), and regulation of service delivery standards (monitoring school and health facilities).

Figure 4.14: Services demanded by citizens in the districts



Source: Primary data collected from the districts.

63. Data for Kismayo District were not available.

Private sector service delivery

The private sector is an important provider of services in the districts. In the absence of the state for a prolonged period, the private sector has stepped in and now provides most of the services where profits can be made, such as water, electricity, health, education, and transportation. Respondents indicated that the private sector is providing critical services in most districts such as garbage collection, clean water supply, and security at a fee. It is more active in districts with high population such as Kismayo, Baidoa, Jowhar, and Abudwak compared to other districts with low population such as Hudur.

Private sector service delivery creates inequalities because critical services are provided at a fee that disadvantages the poor or IDPs, who are unable to access them. Some large corporations, such as Hormuud,⁶⁴ provide support to communities during disasters as a way of giving back to society. However, the process is informal and has no accountability structure. On the other hand, the local governments lack capacity and resources and are highly inefficient in providing these services.

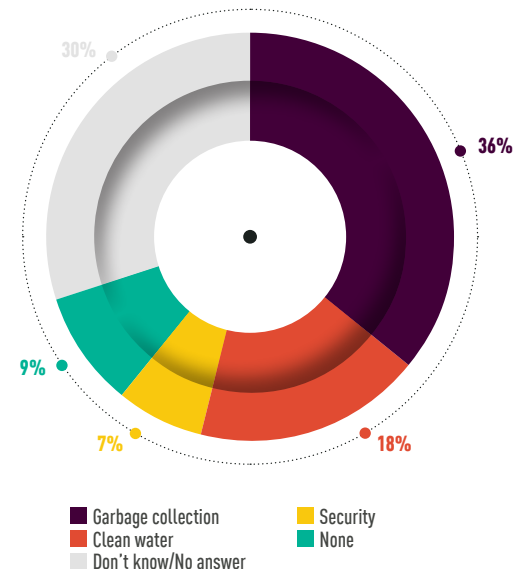
The local governments could provide complementary support to the private sector-led service delivery if it had the necessary capacity and resources. Intergovernmental transfers could be used to initiate publicly funded service provision such as water and garbage collection to the IDPs or the poor in the community. Another option would be for the local government to agree subsidies in tax payments in return for private sector service provision to the vulnerable groups.

Feedback mechanisms and community engagement

Relatively few districts have well-developed citizen feedback mechanisms. Only 31 percent of respondents overall indicated that there were avenues for feedback on local government performance in their district. The findings vary considerably by district (Figure 4.16). In three districts (Dhusamareb, Abudwak, and Baidoa), the majority of respondents indicated that feedback mechanisms were available. In other districts, the mechanisms were either limited (Jowhar, Hudur, Kismayo) or nonexistent (Baardheere, Warsheikh).

Community engagement and consultations are key to identifying services that residents desire and provide an opportunity to effectively engage and build legitimacy. About 62 percent of respondents reported that they prefer to be engaged through town hall meetings and discussions. Town hall meetings and workshops could allow the local government to provide a comprehensive presentation of their service delivery objectives and at the same time receive feedback.

Figure 4.15: Services provided by the private sector



Source: Primary data collected from the districts.

64. Hormuud is one of the largest privately held telecommunication companies that is internationally ISO certified with its headquarters in Mogadishu. It is one of the largest private sector employers.

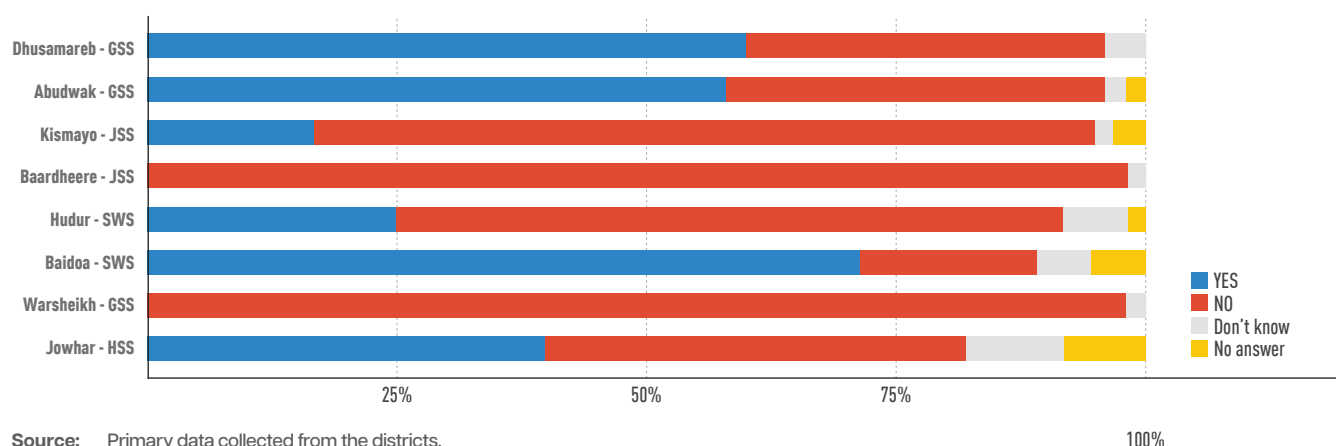
The local governments will need to find mechanisms of engagement with the communities that best suit them. The approach can be different from one area to another. Identification of services to be financed under an intergovernmental transfer will require community engagement to agree on which services to implement and hold the local governments accountable.

Local government capacity

The workshop discussions and one-on-one interviews indicated that there were considerable variations in capacity among the eight districts surveyed in terms of available human resources. Kismayo, Baidoa, and Dhusamareb are reported to have local government staff who can prepare budgets, support budget execution, and provide reports on budget utilization. In most other districts, the limited staff who are available lack adequate knowledge on PFM, revenue mobilization, and reporting on the use of funds. Across all districts, the staff do not have job descriptions and they work mainly as volunteers with no predictable salary. Subsequently, there are no accountability and performance measurement, making it difficult to have productive and quality outputs.

Beyond human resources, other major constraints relate to infrastructure and the working environment. Districts lack essential items such as workstation, papers, ink, pens, and computers.

Figure 4.16: Avenues for feedback on local government performance



Prerequisites for providing intergovernmental transfers to local governments

A case can be made for providing intergovernmental transfers to local governments. The survey results showed that the local governments have the highest level of trust among the citizens even though they may not be happy with the current performance of their local government. Trust is highest in districts where the local governments provide some form of services. Where services are provided, survey respondents indicated a reasonable degree of satisfaction with their delivery. The areas in which stakeholders would like their local governments to be delivering services are consistent with their assigned responsibility.

Local governments could play a role in bridging gaps in private sector service delivery, particularly to vulnerable segments of the population that cannot afford to pay for private provision. Intergovernmental transfers to local governments would need to be linked with the services identified by citizens through community engagements to build trust in and legitimacy of the authorities. They should be directed toward services for which no local revenue base is available to fund them.

At the same time, it is evident that the prerequisites for an effective local government transfer system are not yet in place. An effective intergovernmental transfer mechanism to local governments in Somalia requires the following elements:

1. *Acceptance.* The local government in place needs to command the broad support of citizens living in the district; otherwise any efforts to fund service delivery at the local government level may not lead to any substantial improvement in citizen trust and may instead fuel conflict.
2. *Clarity on roles and responsibilities.* The role of the local government in collecting revenue and delivering services at the district level needs to be clearly defined with respect to both other levels of government and the private sector.
3. *Citizen responsiveness.* The services provided by the local government needs to respond to the expressed needs of citizens.
4. *Capacity.* The local government requires adequate institutional structures and staffing to enable effective utilization of the transfers.
5. *Sustainable financing.* Funding for service delivery should be predictable and provided over a sufficiently long time to enable sustainable results.
6. *Accountability.* Utilization of the transfers should be transparent and accountable both locally and to the state governments.

The role of local governments in service delivery needs to be clearly defined for transfers to be used effectively. Due to the absence of a recognized government for prolonged periods, public services with revenue potential such as water, electricity, schools, and hospitals are provided by the private sector.

Staffing constraints could be a key bottleneck to an effective local government transfer mechanism. Staffing levels in the local government are skeletal, limiting their ability to provide meaningful services and accountability for funds received. Local governments do not currently have sufficient funding to pay their staff consistently. The design of a mechanism for local governments would need to consider the existing capacities and organizational structures in terms of expenditure management and accountability systems on the utilization of transfers.

The FGS and state governments do not have sufficient domestic revenue to be able to support a sustainable intergovernmental transfer to the local governments. Initially, any transfer mechanism for local governments would need to be externally funded, raising concerns over medium-term sustainability. Any proposal for introducing systematic intergovernmental transfers to local governments using external financing would need to be accompanied by reform incentives for all levels of government to expand their tax bases, allocate more resources to service delivery, and build fiduciary systems with the long-term objective of providing sustainable structures both vertically and horizontally.

A number of practical next steps need to be undertaken to inform the design of an effective intergovernmental transfer to local governments:

1. Review existing revenue laws at the federal, state, and local governments and map all revenues that have been assigned to the local governments.
2. Identify all revenues currently collected by the local governments and highlight any areas of contestation with the federal or state governments. Resolve any overlaps within the context of an intergovernmental fiscal dialogue.
3. Map the functions assigned to the local governments in existing legislation and NCC proposals and resolve any inconsistencies.
4. Determine what services the local governments are currently providing in their area of operation and the type of relationships or links to the revenues they collect.

5. Identify potential services to be financed through an intergovernmental transfer mechanism and ensure that they are aligned with existing legislation and agreements.
6. Undertake community consultation to understand citizens' priorities for local government service delivery. Ascertain the feasibility of local government service provision in these areas and their consistency with the assigned functions of local governments.
7. Assess local government capacity and staffing needs.
8. Cost the services to be supported through an intergovernmental transfer mechanism to provide a better understanding of the affordability implications.
9. Document the lessons learned to date from externally funded transfers to local governments.

Conclusions and recommendations

Bringing decentralization reforms to the level of the local governments could have significant benefits. To date, local governments have not been part of the FGS-FMS fiscal federalism discussions and have not benefited from the ongoing fiscal federalism reforms. Extending Somalia's fiscal decentralization reforms to include local governments could help strengthen local government capacity and perceptions of state legitimacy, while also increasing service delivery to the people.

Experience from the FGS-FMS transfer reforms demonstrates that the key ingredients of a successful local government transfer mechanism include establishment of a structured forum for dialogue between levels of government, development of a harmonized approach across local governments, capacity support, and adequate funding. This will require the implementation of an effective intergovernmental transfer system. While the previous section has presented the prerequisites to be considered in the design of such a system, its successful implementation requires a broader range of measures. The key recommendations include the following:

1. Ensure that local governments have a voice in fiscal decentralization reforms. They are the level of government that is most trusted by citizens, and the constitutional principle of subsidiarity assigns them responsibility for service delivery at the district level. Local governments are not participating in existing intergovernmental platforms where key decisions such as revenue sharing, revenue assignment, and expenditure responsibilities have been reached. Though the existing legal framework is not clear on the relationship between the FMS and local governments, it is important to devise a methodology of consultations and engagements with the local governments on fiscal decentralization reforms.
2. Develop a common policy for fiscal decentralization to the districts. The FMS, in consultation with the FGS and local governments, should adopt a decentralization policy either by reviewing and updating the federal national decentralization policy or opting for a new policy considering recent agreements. This will provide a clear common framework for the fiscal relationship between levels of government that can support service delivery more sustainably. The policy can also provide a standardized approach to intergovernmental transfers to local governments.
3. Roll out the intergovernmental transfer system to local governments on a phased basis, taking into account readiness conditions on the ground. The FMS in consultation with the FGS should conduct district assessments. The assessments will inform the phasing of intergovernmental transfers to districts based on their capacities to absorb funds and provide services to the residents. Other factors that can be considered include accessibility of the districts by the state authorities, relative political stability, and acceptance of the local authorities by the citizens.

4. Adopt realistic minimum conditions for the local government to access intergovernmental transfers. At the least, the state governments should (i) adopt an organogram with minimum staffing, (ii) open a sub-account of the treasury single account, and (iii) develop a budget that is approved by the district council. The local governments should be required to meet the minimum conditions before accessing intergovernmental transfers. These minimum conditions for access to transfers by the local governments should be reached through a consultative process and based on achievable conditions that are within the control of the local governments.
5. Use intergovernmental transfers to strengthen local government capacity. They should be used to incentivize reforms such as raising domestic revenues, building the capacity of the districts in budget preparation and execution, and supporting service delivery to the districts.
6. Provide TA to the districts to effectively implement identified services. The FMS should provide local governments with TA on revenue raising and recording, budget preparation, budget execution, and reporting. The MOFs in the FMS can provide this support while also tapping into existing external support TA programs to provide additional resources when needed. Other areas of support that should be provided include the recruiting staff through a competitive process and ensuring that the right policies and instructions are adopted for the operation of the local governments.
7. Give local governments the independence to decide which services are best suited to be financed through intergovernmental fiscal transfers, provided such decisions are reached through community consultations. Intergovernmental transfers should only be provided where there is objective evidence of local government engagement with the communities on transfer utilization. This will reduce the chances of politicizing transfers and ensure the adoption of a community-centric approach to service delivery. The mechanisms of intergovernmental transfers should focus on service delivery, which is one way of building a social contract with the people.
8. Establish citizen engagement platforms to lead the identification of the services to be financed through transfers to local governments and include feedback mechanisms on performance. This should be the basis of building citizens' trust in the government and the legitimacy of the government in the eyes of the people. At the core of service delivery is the consultation process with the citizens, which brings ownership and accountability measures in implementation. For successful intergovernmental transfers to the local governments to take place, it is necessary to establish citizen engagement forums and a wide consultative process with all stakeholders including the business communities. This could lead to citizens becoming more invested in their local government's ability to function and being more willing to pay taxes and contribute to initiatives that have been jointly identified.
9. The chapter provides key recommendations based on the findings from the primary data collection and assessment of the findings.

Table 4.5: Recommendations on intergovernmental transfers to local governments

No.	Recommendation	Responsible agency	Time frame	Priority
Objective 1: Increase service delivery to citizens at the local levels through intergovernmental transfers				
R1	Ensure that local governments have a voice in fiscal decentralization reforms.	FMFF	Short term	High
R2	Provide TA to the districts to effectively implement identified services. The FMS should provide local governments with TA on revenue raising and recording, budget preparation, budget execution, and reporting.	State Ministries of Finance	Medium term	High
R3	Adopt realistic minimum conditions for the local government to access intergovernmental transfers. At the least, the state governments should (i) adopt an organogram with minimum staffing, (ii) open a sub-account of the treasury single account, and (iii) develop a budget that is approved by the district council.	IGFF-TC	Short term	High
Objective 2: Develop common policies for fiscal decentralization				
R1	The state governments should adopt a common decentralization policy by either reviewing or updating the federal national decentralization policy or opting for a new policy considering recent agreements.	MOIFAR	Medium term	High
R2	Revenue assignment and expenditure responsibilities for the local governments are legislated by reviewing the existing local government laws and NCC agreements.	MOIFAR	Medium term	Medium
R3	A policy is adopted to increase local governments' DRM capacities which should be incentivized through the intergovernmental transfers allocations.	State MOFs	Short term	High
Objective 3: Build trust and social contract between citizens and local governments				
R1	Community consultation mechanisms should be adopted when local governments decide which services are best suited to be financed through intergovernmental fiscal transfers.	Local governments	Short term	High
R2	Establish citizen engagement platforms to lead the identification of the services to be financed through transfers to local governments and include feedback mechanisms on performance.	Local governments	Short term	High
R3	Publish local government budgets, and fiscal reports, and provide platforms to engage citizens on transparency and accountability measurements.	Local governments	Short term	High

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Chapter 5

Delivering on the social contract in Somalia: Lessons learned from state building

By Ruth Akisa Oriama, Soe Nandar Linn, and Vishal Ashvin Patel

Social contract refers to an implicit agreement between citizens and their government, shaping their relationship and expectations of each other. A well-functioning social contract ensures that governments provide essential services while citizens fulfill their roles including paying taxes, which in turn fosters trust and cooperation. The current social contract in Somalia is characterized by a weakened citizen-state bargain, state capacity, and service delivery alongside citizens' expectations for the provision of security, education, and health care. Despite these expectations, gross primary school enrollment was estimated at 23 percent, compared to the SSA average of 96 percent. In addition, the country experiences one of the world's highest rates of maternal mortality with 621 maternal deaths per 100,000 live births. Despite these challenges, there are opportunities to strengthen the social contract. By focusing on improving the quality and scope of basic service delivery, reducing political interference in the process, and aligning expectations with outcomes, Somalia can make significant progress in building a stronger and more effective social contract.

This chapter examines the social contract in Somalia from three perspectives. First, it presents policy questions that explore the complex landscape of education and health service delivery, particularly the structure and interplay between private and public facilities, and the trade-offs faced by citizens when accessing these services. Second, the chapter seeks to capture the perceptions of citizens regarding the capacity of the federal, state, and district administrations to deliver on education and health services and how these perceptions influence the legitimacy of these tiers of government. Third, the chapter investigates the attitudes of citizens towards their satisfaction with the services they receive and their views on the government's transparency and responsiveness.

We find that Somalia still has avenues to improve services in education and health and build trust between its government and citizens. Efficient service delivery in these sectors serves as a source of legitimacy, alongside the provision of security, rule of law, management of political participation, and

accountability. This chapter establishes that the Somali government can provide the guidance and stability required by its citizens, who want public facilities to be provided, even though they keep using private and traditional ones. Analyzing citizens' attitudes on the capacity and legitimacy of different administrative levels, we find that the district government has a comparative advantage in supervision and the state government in the provision of services, while the federal government can best play an advocacy role for better services. Together, they reinforce each other's credibility in the eyes of the citizen. On whether citizens are satisfied with the services they receive from the government and whether they have avenues to communicate their needs, we find that some states have more voice than others, and if the government promotes avenues for voice, citizen satisfaction improves almost exponentially. The chapter recommends that the different administrative levels of the Somali government collaborate better, delegate roles to states and districts, and encourage dialogue to better deliver on the social contract.

The chapter is organized into five sections as follows: The first section serves as the introduction, conceptualizing Somalia's social contract and its fragmentation, along with the relationship between service delivery and the social contract. The second section presents the findings on how to leverage modes of governance for service delivery and social contract formation, examining citizen preferences for public and private facilities. The third section explores the role of administrative institutions and federalism in decision-making and service provision at different government levels. The fourth section focuses on participation and accountability in strengthening the social contract. The final section offers recommendations for modernizing private facilities, enhancing federalism, and promoting participation and accountability.

Understanding the social contract in Somalia

Conceptualizing Somalia's social contract

For the past 15 years, Somalia has consistently been ranked among the countries with the weakest 'social contract' in SSA, meaning there is little trust between the government and its citizens. When citizens lack confidence in the government's ability to provide services, it can lead to disillusionment and hinder engagement and compliance. Similarly, when the state distrusts citizens' tax paying, it can reduce investments in public services and infrastructure, perpetuating the cycle of distrust. Lack of trust hinders cooperation, collaboration, and stability in various aspects of development, be it social relationships, economic activities, institutional functionality, or governance. This section focuses on the role of government-led education and health services in building trust between the government and its citizens, given increased investments in these sectors in the past five years. By examining the level of citizen satisfaction and their perception of these services, we want to understand how they can be improved to enhance the social contract between the government and its citizens. The ultimate goal is for the government to create a system that is effective, efficient, and responsive to the needs of the citizens, thereby improving their quality of life and strengthening its credibility (legitimacy).

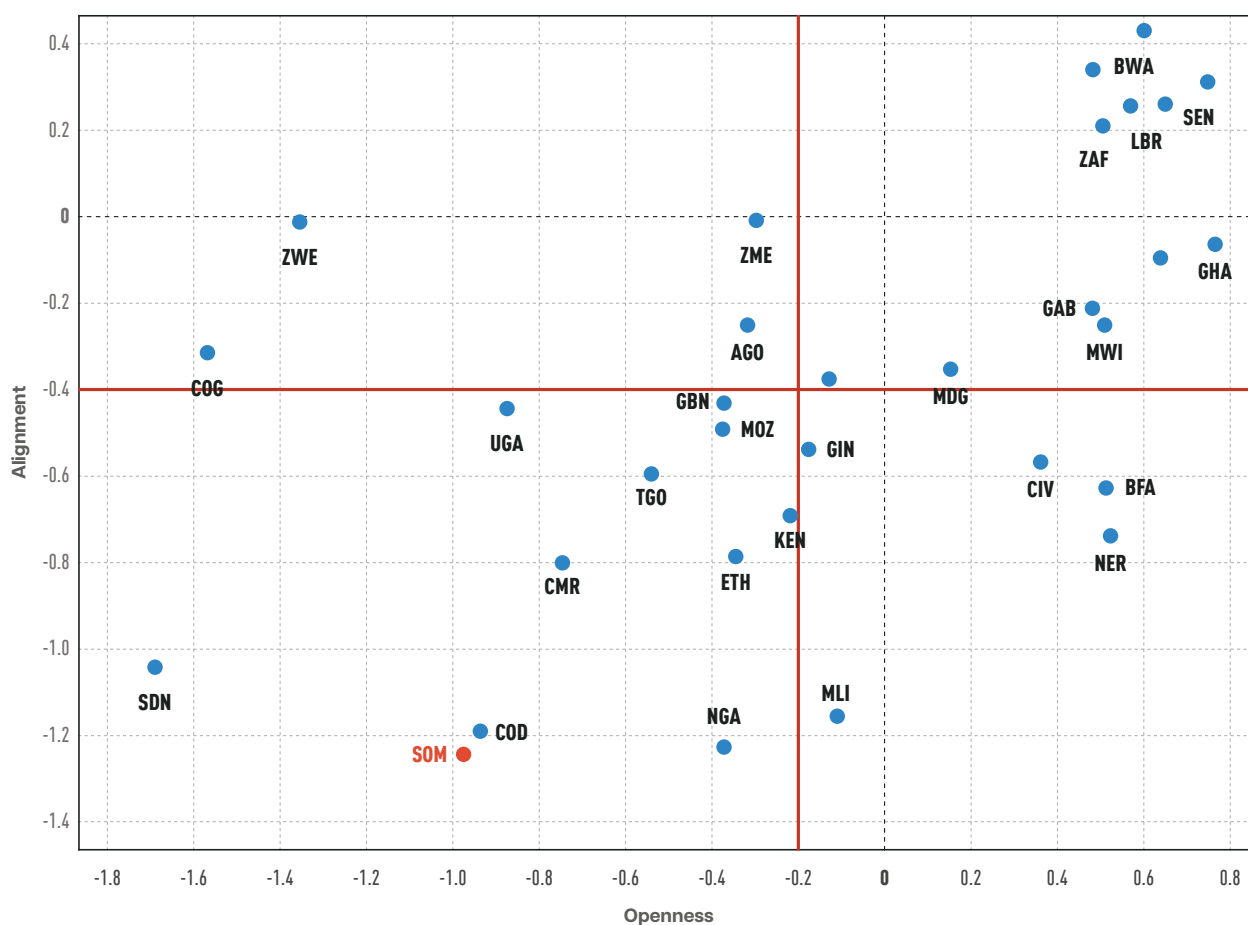
Social contract is defined in this chapter as a state where people agree to give up some of their freedoms in exchange for protection of their rights and the common good, which makes state authority legitimate. The state and society are intricately intertwined; although distinct entities, they mutually shape and define each other (Migdal 2001). In its state-building efforts, Somalia aims to strengthen its legitimacy and the social contract between the citizens and the state while building the basis for economic development. The social contract between the government and citizens has been weakened due to the breakdown of governance in Somalia, with the government unable to provide basic services, including education and health care, with allocative

inefficiencies and a breakdown of social capital with poor social outcomes (Cloutier et al. 2022; Seema 2018). Social contract is characterized by various dimensions, such as openness and alignment (Cloutier et al. 2021). Openness is defined as the level of openness of society to different opinions, the respect for human rights, and the freedom of the press and expression. Alignment refers to whether perceptions about the outcomes of the social contract are aligned with expectations. Alignment and openness have been consistently ranked low in the past decade and a half (Figure 5.1).

This section, therefore, seeks to understand how perceptions of openness and alignment have evolved in Somalia. Such understanding can show the extent to which the social contract in Somalia is responsive and aligned with citizens' expectations.

State building has been demonstrated to rely on three fundamental governance functions: efficient service delivery, managing political participation, and ensuring security (Brinkerhoff et al. 2021). However, poor social outcomes in the state-building efforts tend to reproduce themselves through a feedback loop of low expectations, fragmented capacities, and exclusionary politics. Together with inequitable and inefficient service delivery in social sectors, such poor social outcomes can be illustrated through examination of taxation and the absence of a fiscal contract and the fragile political settlement that relies on a narrow elite bargain. For equitable and efficient service delivery, delegation/decentralization of roles between the different government administrative levels based on their comparative advantage for efficiency, effective, and capacity to build state legitimacy is important.

Figure 5.1: Alignment and openness compass in Somalia



Source: Cloutier et al. 2022.

Note: The alignment index is composed of indicators from the Worldwide Governance Indicators and the PRS Group. The openness index is composed of indicators from Varieties of Democracy (V-DEM).

The current governance framework in Somalia provides for different roles and responsibilities among the federal, state, and local governments. The Constitution of Somalia does not explicitly mention the principle of subsidiarity. However, the same Constitution addresses the distribution of powers and responsibilities between the federal government and the member states (formerly known as regions). Article 54 of the Provisional Federal Constitution of Somalia outlines the powers and responsibilities of the federal government, while Article 53 delineates the powers and responsibilities of the member states. These articles provide a framework for decentralized governance and suggest a form of subsidiarity in decision-making. Additionally, Somalia has been engaged in a process of federalization, whereby power is devolved to the regional administrations, allowing them to address local issues and needs. This process reflects a practical application of the subsidiarity principle, even if it is not explicitly mentioned in the Constitution (Federal Republic of Somalia 2012). In addition to the provisions of the Constitution, a clan-based identity persists to a large extent because of the weak or nonexistent governmental institutions. The clan system is perceived as a network that fosters individual survival in an environment characterized by failing, inadequate, or repressive formal institutions. The Xeer, an institution governing inter-clan relations, and the leadership of elders (odayo) mediate conflicts, negotiate, and/or carry out revenge for perceived wrongdoings committed by outsiders (Le Sage 2005; Mengisteab and Hagg 2017; Musse Ahmed 2017).

A fragmented social contract in transition

Due to the nature of citizens' relationships with clans, federal and state levels of the Somali government, AS, and the international community, Somalia exhibits multiple and overlapping social contracts. Following the collapse of the state in 1991, the most resilient social contract emerged at the clan level, serving as the primary mechanism for restoring order at the local level (Leonard and Samantar 2011). Clans have historically played a crucial role in representing their members in dealings with other clans and the state, engaging in informal tax collection, which in part goes toward supporting vulnerable populations, and providing conflict resolution services (Menkhaus 2007). The breakdown of centralized authority, following state collapse, created a vacuum across various sectors, which was subsequently filled by a range of non-state actors (Raballand et al. 2022). In addition, AS has worked to establish security, justice, and taxation mechanisms along with service delivery in the territory it controls (Cloutier et al. 2022). Consequently, Somalia's social contract landscape is complex and intertwined, featuring a multitude of bargaining mechanisms and varying levels of outcomes and resilience.

The imperfect legal framework for the existing social contract is the Somali Provisional Constitution of 2012, which has been in the process of review and replacement ever since its adoption. In its pursuit of passage, the Constitution's drafters deliberately left critical questions unanswered, such as those concerning federalization, electoral and national security models, and natural resource and revenue sharing. Consequently, various processes have been established to address these unresolved issues, yet tangible progress remains limited. Despite this, the Provisional Constitution critically outlines the fundamental rights and duties of the citizen. Chapter 2 enshrines citizens' rights to freedom of expression, opinion, association, and political participation, among others, while also outlining the state's responsibilities in service delivery, ranging from potable water provision to education. Chapter 3 specifies the obligations citizens owe to the state, including compliance with the law, taxation, and safeguarding the nation's physical security. Despite the articulation of a significant number of fundamental rights in the Provisional Constitution, the associated social contract continues to be hindered by lingering questions as well as the state's inability to fully fulfill its promises.

While Somalia's social contract is in an extended period of transition, it is potentially entering a period of more acute change, presenting an opportunity for its redefinition. Compared to countries in which the social contract is stable, those that could be considered in a period of transition offer more opportunities for the state and citizens to reframe it (World Bank 2019). Somalia's social contract is being influenced by various pressures of varying intensity, maturity, and geographical reach. These drivers of change encompass constitutional milestones, such as the introduction of democracy and post-conflict reconstruction, as well as structural transformations like fiscal reforms and transnational issues. Additionally, shifts in subnational social contracts are contributing to this landscape. In Somalia, these pressures range from global trends like migration and climate change to prolonged national challenges related to finalizing the constitution and delineating federalist structures. More recently, the government has regained significant amounts of territory from AS in central Somalia by leveraging local support and allying with clan militias. Consequently, the government can reestablish its presence through the provision of security and services in these areas, effectively reestablishing a social contract. Most recently, Somalia completed HIPC in December 2023. Along with providing US\$4.5 billion in debt relief, the milestone is the first step toward Somalia's reentry into the global financial system, which will allow for external financing to support much needed investments, including in education and health.

However, the opportunities do not come without challenges. The increased flow of funds to the FGS has the potential to weaken the social contract between the FMS and citizens by enhancing FGS leverage over the FMS through financial transfers (Cloutier et al. 2022). These diverse pressures have the potential to impact key dimensions of Somalia's social contract, including the bargaining process, state capacity, the depth and inclusiveness of outcomes, and citizen expectations.

Service delivery and the social contract in Somalia

The collapse of the state and breakdown of centralized authority left vacuums in all sectors; consequently, in the intervening period non-state actors filled in these vacuums, particularly in service provision (Raballand et al. 2022). In the education sector, this gap was filled by the private sector, charity workers, NGOs, religious groups, and communities. As such, a new education system run by communities and the private sector emerged and existed for decades. This system survived and expanded even through various transitional governments (Hussein 2015). On the one hand, there is some evidence of private actors successfully collaborating to bring harmony to the education sector. For example, the Formal Private Education Network in Somalia (FPENS), an umbrella organization formed by Islamic charities to revive and rebuild the education sector, played a role in working toward the establishment of a certification system. The network organized a unified examination system and appointed an external committee to oversee the examinations. This role was recognized by the Ministry of Education in transition governments with these certificates formally accepted across the country (Saggiomo 2011). However, for the most part, the education system was fragmented and unregulated—there was a plethora of curricula with some studies estimating that as many as 24 curricula existed in the country, the teaching profession was unregulated leading to unqualified and underpaid teachers, and there was a shortage of infrastructure and materials necessary for most schools, among other challenges (Hussein 2015).

The community has always played a vital role in health care provision in Somalia. During the civil war, the breakdown of the formal health care system led to an increased reliance on informal health care providers, including traditional healers and birth attendants, who continued to provide health care services despite the conflict and insecurity (Dini 2010; International Conference on Primary Health Care). International aid organizations recognized the importance of community-based health care in Somalia and began supporting community health

initiatives in the post-conflict period. These initiatives included the establishment of community health committees (CHCs), which mobilized community members to participate in health care delivery and management, and the training of community health workers to provide basic health care services (Bentley 1989). Since the end of the conflict, the Somali government has made efforts to rebuild the health care system, including the establishment of the Ministry of Health and the development of a national health policy (Ministry of Health and Human Services Federal Government of Somalia 2021; Ministry of Health and Human Services et al. 2014). However, challenges remain, including the shortage of skilled health care workers, limited infrastructure and equipment, and insufficient funding (World Bank 2020). Some of these efforts involve investments in community health through the government-led national Female Health Worker (FHW) Program.

The government has primary responsibility for promoting the social contract and has already developed some key strategies. In addition to the provisions outlined in the Constitution, the FGS has introduced a set of strategies within its NDP-9 for 2020–2024 to strengthen the social development sector. These strategies aim to address key challenges and enhance the well-being of individuals and communities across the country. Some of the main strategies outlined in NDP-9 include a focus on improvements in health, education, and social protection. These efforts encompass initiatives to enhance access to health care services, including clean water, as well as improve educational opportunities. The NDP-9 emphasizes the importance of social protection measures, such as urban planning, social welfare benefits, and food security initiatives. Furthermore, the plan underscores the significance of governance strengthening, particularly in disaster risk management, local governance, and decentralized service delivery, as detailed in Chapter 5 of NDP-9. Through these comprehensive strategies, the FGS aims to promote social development and build a more resilient and prosperous Somalia (Ministry of Planning 2020).

Although the Somali government has sought to build impetus in its social sectors, including education and health, significant shortcomings remain. The Human Development Index in the country remains relatively steady at an average of 35.78 percent, lagging that of the African region (53 countries), which averages 55.24 percent (Global Data Lab 2024). The Human Capital Strategy has pinpointed key challenges in Somalia's education sector. These include significant barriers to access, poor quality of education due to a lack of qualified teachers and inadequate infrastructure, and a disconnect between the education system and labor market needs. Insecurity, political instability, and a lack of policy frameworks exacerbate these challenges, hindering the sector's development (Heritage Institute for Policy Studies and City University of Mogadishu; Hussein 2015; Warsame 2020). The same strategy also reveals major shortcomings in Somalia's health care services, with the health workforce lacking essential skills, resources, and legal support. As a result, health care services, both public and private, are inadequate and fail to meet the primary health needs of most people. The distribution of health workers is unequal, favoring urban areas over rural regions, and weak retention and motivation strategies for health workers are observed (Heritage Institute for Policy Studies and City University of Mogadishu 2020a, 2020b).

Against this backdrop, the World Bank's Recurrent Cost and Reform Financing (RCRF) Project in Somalia supports the government's role in service delivery in the education and health sectors. The project has supported government-led efforts to institute a range of reforms. These reforms include (i) establishing continuous intergovernmental health and education forums that work toward reestablishing sector governance structures that consider Somalia's federal structure, (ii) transferring core government functions and foundational service delivery mechanisms to the states; and (iii) generating citizen feedback mechanisms through phone calls and text messages up to the facilities level (Cameron 2023). It is also against this backdrop that this study complements the findings on the static status of social contrast in Somalia (Cloutier 2021) taking a step further to understand how citizen satisfaction with education and health services in the last five years (the duration for which the RCRF Project has been active in the education and health sectors in Somalia) mediates these outcomes.

What are citizens' perceptions of the state in Somalia and its responsiveness to their expectations regarding health and education service delivery? This chapter responds to this main question while further exploring the questions below and elaborating the conceptual framework (Figure 5.2):

- (i) How is the landscape of education and health service delivery structured regarding private and public facilities, and what are the associated trade-offs for citizens to use these facilities?
- (ii) What are the perceptions of citizens about the capacity of the three tiers of administration (federal, state, and district) to deliver on education and health services? How do citizens interpret the legitimacy of these tiers of government in relation to their capacity to deliver?
- (iii) What are the attitudes of citizens toward satisfaction with service delivery and the degree of openness of the government?

Figure 5.2: Analytical framework - Somalia's governance approaches to delivery on the social contract



Primary data were collected among a random sample of 4,468 households who had received government services, with the sample size for each state estimated at 95 percent confidence level. A total of 53 districts were included, and some of the analysis described below uses these districts as the units of analysis. The survey questionnaire contains three sections: the first includes sociodemographic information on the respondent's household and use of education and health facilities. The second section captures the respondent's satisfaction with the services used, while the third section asks about the respondent's perceptions concerning the main roles of different administrative units for better education and health service delivery. As a general rule, interviews were conducted with any consenting household head or household member, ages 23 years or older, who answered about his/her perceptions of health and education services in the past five years. In addition, focus group discussions (FGDs) led by state officers were conducted among community committees and state officers to understand the significant changes in education and health service delivery that have occurred in their respective states in the last five years.

For this chapter, when evaluating the delivery on the social contract, it is crucial to interpret concepts such as openness, alignment, capacity, and legitimacy within the context of service delivery in social sectors—education and health. Furthermore, it is essential to recognize that the interpretations of the chapter's findings are shaped by the use of household surveys as the data source, which primarily capture the perspectives of the recipients of government services. This approach may differ from other surveys targeting households that encompass both those who have received government services and those who have not. This distinction influences the overall assessment of legitimacy and the social contract. These efforts are made in support of the claim that nascent governments can indeed bolster legitimacy by enhancing service delivery, while addressing contingent factors that would limit such legitimacy.

Leveraging modes of governance for service delivery toward a social contract

Citizens prefer using public facilities

Within the Somali landscape, there are predominantly private, traditional, and public facilities for service provision, and citizens choose which of these facilities to use. To assess the social contract between the state and its citizens, this chapter distinguishes two classes of facilities: traditional/private versus public facilities. Traditional/private facilities (hereafter referred to as private facilities) are supported by customary institutions, clan systems, civil society, markets, and religious institutions while public facilities are supported by the federal, state, and district governments.

While government support for primary health units and health centers had previously been limited, recent efforts have improved the accessibility and accountability of health services, with enhanced support from donors and implementing partners. Routine data collection in the primary health care system has been enhanced with government supported FHWs (Marwo Cafimaad) serving as last-mile service providers and enumerators, increasing the visibility of the government in rural areas. While private facilities have been concentrated in urban areas, access to health care has expanded to rural areas, including areas with nomadic communities, through the FHWs, who initially needed extra support from the state government to have them recognized within the community. A greater shift toward collaboration between public and private facilities is expected, with expanded primary health care services by the government and increased regulation of private and customary health providers.

Similarly, in the education sector, the establishment of a unified education system under the Ministry of Education has streamlined service provision, while improved supervision through the Education Management Information System (EMIS) has enhanced oversight of both public and private institutions. Efforts to enact legislation and develop standardized curricula aim to ensure a more uniform quality of education across different types of institutions. For instance, in 2020, the Private School Policy was developed in part to (i) establish basic minimum standards to maintain the quality and credibility of private education and (ii) improve the functions of private education with effective management and administration (Ministry of Education Culture and Higher Education 2020). Additionally, there has been increased collaboration across government institutions and a growing recognition of education as a fundamental right, leading to intensified advocacy efforts by both public and private sectors to promote access to education.

Despite these changes in the service provision landscape, private facilities come with different trade-offs from public facilities, and these influence citizens' choice. First, private facilities could have less government oversight over the quality of services, and they could be more expensive, as they are subject to market forces. On the other hand, public facilities could be inaccessible to rural communities, yet the quality of education there could be better as civil servants are paid by the government and the quality of services is regulated. These are only some of the trade-offs that citizens must consider when making a choice about which facilities to use. Despite these trade-offs, the government (federal, state, and district) needs to understand how it can collaborate with private facilities, at least in the short and medium term, to strengthen social contact.

Almost two-thirds (63 percent) of households in Somalia use private education facilities exclusively for their education service. Survey results also indicated that of the 1,422 households that received education

Figure 5.3: Registration status of education facilities in Somalia as recognized by citizens

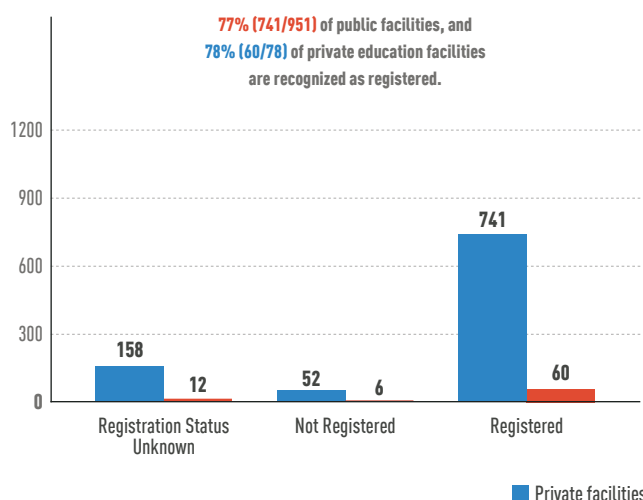
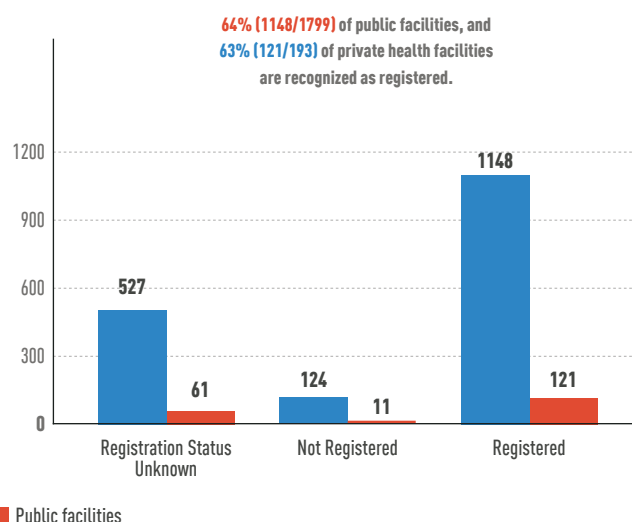


Figure 5.4: Registration status of health facilities in Somalia as recognized by participants



services, 891 use private facilities exclusively. However, only 78 percent of these private facilities, are recognized as registered, which suggests that citizens continue to use the facilities despite relative uncertainties about their regulatory and administrative nature. While public education facilities are used by fewer citizens, these are also recognized as registered by citizens, suggesting that there can be alternative forms of the social contract.

More than half (56 percent) of households use private health facilities exclusively for their health services. Survey results indicate that, of the 1,333 interviewed households receiving health services from the state, 731 use private facilities exclusively. Both private and public facilities are recognized as formal institutions. However, there is more uncertainty (90 percent [527/588]) about the status of private facilities (Figure 5.4).

Two-thirds (66 percent) of households who use private and traditional facilities still prefer public facilities, contrary to their preference for public services. Moreover, these households are continuing to use private health care services more, even as their preference for public health care grows. For every additional household that favors public health care, there is an associated rise (by 0.44) in the number of households using private health care services, aligning with the idea of a contrary trend in service usage compared to their expressed preference (Figure 5.5). This subset of citizens believe that it is the government's role to provide services, and they trust government-led services. However, they continue to use private and traditional facilities as services are more comprehensive and because of the absence of government services in the given localities.

Why citizens prefer public facilities

Just over one-third (34 percent) of respondents prefer and use public facilities for their health care and education needs. These citizens emphasize the importance of affordability, accessibility, and trust in government institutions. For instance, citizens frequently suggest that they prefer free or low-cost services due to their financial limitations, with some quoting "It's free," "Without money," or "We are poor." Additionally, citizens trust government-run institutions for their quality and accessibility, with some stating "Government is good for me" and "Government hospitals like to do the work for us." Accessibility and proximity also seem to play a significant role in decision-making, with some citizens saying, "Government hospitals we have chosen are close to us."

Despite the advantages of public facilities, approximately 66 percent of citizens still opt for private facilities. These citizens often cite concerns about the quality of public facilities and their preference for personalized care and better services. However, citizens who prefer public facilities believe that the government should play a more active role in providing and managing health care services, ensuring the availability of quality medicine and free health care services. Some citizens quoted “They are better than others in every way. Quality medicine, no cost” and “Everything needs to be done by the government. It’s free.”

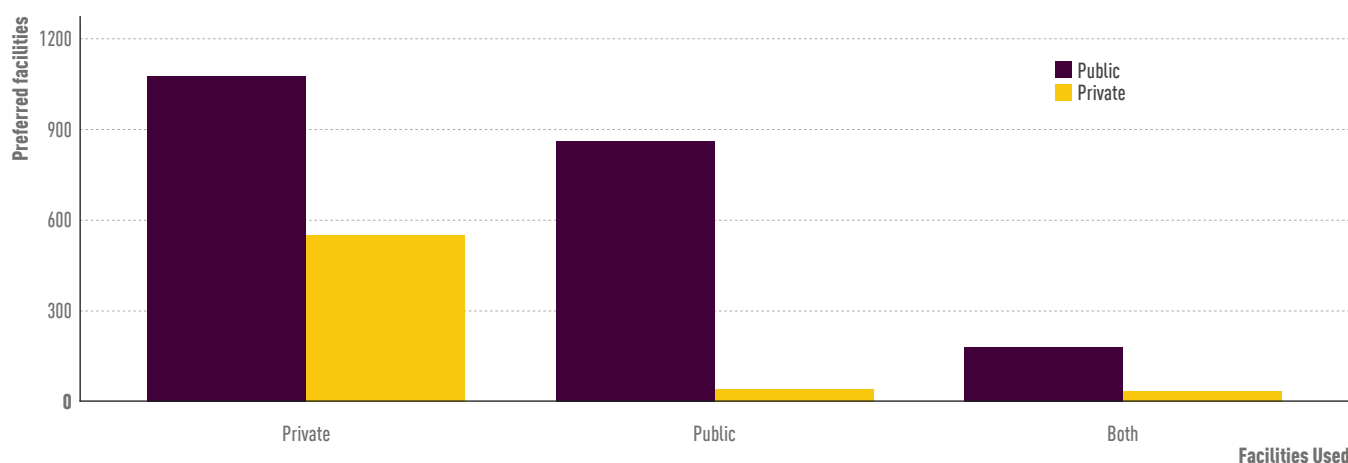
Citizens who use public facilities also trust government-controlled education, believing that it ensures a better curriculum, accessibility, and security and is preferred over privately managed institutions. Some citizens quoted, “The government controls the curriculum” and “The government and the individual are better.” Furthermore, citizens emphasize the importance of quality and accessible education, hoping to receive it at a low cost or, ideally, for free. For instance, some respondents said, “Low cost and quality education” and “Education assurance.”

Why citizens choose private facilities

Those who use private facilities cite a range of reasons, including health care quality and access, skepticism about or absence of government services, economic accessibility, social norms, education quality, and financial implications. While private facilities may be more efficient, accessible, and reliable, they may not be affordable for everyone. Private health care facilities were reported to be mainly concentrated in urban areas, whereas people in rural areas rely on customary institutions such as traditional healers. On education, with some parts of the country still under the control of AS, the government is facing challenges in delivering education services in these areas. Due to the complex political and security conditions, the government is facing challenges in the supervision of education services, especially in remote areas.

Health care quality and access are the two main reasons why Somali citizens prefer to use private facilities. Moreover, 93 percent of those who state a preference for private facilities actually use them. They emphasize aspects such as good doctors, comprehensive medicine, and free services, which indicate a perception of accessible and high-quality health care. “I prefer going to a private hospital because I know I will get better treatment. The doctors are more experienced, and the facilities are better than those in public hospitals.”

Figure 5.5: Use of facilities versus preference



Another factor that influences citizens' preference for private facilities is the skepticism or complete absence of awareness regarding government health care or education services. Statements suggest a lack of visibility or experience with these services. This group of citizens represents only 7 percent of those who prefer using private facilities, and they cite the perception of government services as the reason for not using public facilities. They emphasize the absence or perceived ineffectiveness of government intervention in providing necessary services. "The government has nothing to do with you, and you can't buy anything from the city."

Economic accessibility to quality services is another factor that influences the preference for private facilities. It suggests that those with financial means can access better quality services and that a good job might equate to better services. This is particularly true in countries where income inequality is high, and public services are underfunded. "Those with money are good. They can afford to go to private hospitals and get better treatment."

Social understanding and norms also play a role in the accessibility of services. Community familiarity and the impact of social norms on educational and health care choices are important factors. For example, some citizens believe that children are not required to wear school uniforms, so they come to school in their pajamas. Similarly, in some cultures, seeking medical treatment from a private facility is considered a status symbol: "I go to a private hospital because it's the norm in my community. Everyone else goes there, and it's considered a status symbol."

While education quality is another factor that influences the preference for private facilities, it has financial implications. Research shows that payment correlates with the quality of education, with teachers' competence being linked to their compensation. According to a survey conducted by the United Nations Educational, Scientific, and Cultural Organization (UNESCO), the quality of education in public schools is often subpar, with poor infrastructure and inadequate teacher training: "Teachers are good at what you pay them. If you don't pay them well, they won't be motivated to teach well. That's why I prefer private schools for my children."

Administrative institutions and federalism: Bringing the power of decision-making downward

The federal government's comparative advantage in advocacy

The federal government was perceived by citizens to have a slightly more influential role in advocacy for better services, followed by supervision of these services and less of an influential role in the provision of these services (Table 5.1). Advocacy enables the federal government to address systemic issues that may hinder service delivery across different regions and sectors. By advocating for policy reforms, resource allocation, and institutional strengthening, the government can drive transformative change that improves service provision at scale. For example, advocating for legislative reforms to enhance transparency and accountability can help combat corruption and inefficiency within service delivery systems.

Advocacy also empowers local communities and institutions to actively participate in decision-making processes and hold government authorities accountable for delivering quality services. By engaging with citizens, grassroots organizations, and subnational governments, the federal government can ensure that advocacy efforts are informed by local needs and priorities, thereby enhancing the relevance and impact of interventions. Participatory approaches, such as community consultations, town hall meetings, and citizen feedback mechanisms, can facilitate meaningful engagement and ownership, leading to more responsive and

Table 5.1: Comparative advantage of the federal, state, and district administrations in delivering the social contract

Capacity	Federal	State	District
Provision	.622***	.975***	.946***
Supervision	.834***	.833***	1.065***
Advocacy	.849***	.326**	.171
Mean dependent var	37.000	33.283	35.038
Number of observations	53	53	53
Prob > chi2	0.000	0.000	0.000

Note: *** p<.01, ** p<.05, * p<.1.

inclusive service delivery outcomes. Currently, the education sector provides directives and support for the establishment of community committees, with PSS having the highest number of committee members. In PSS, committees are formed at the school level, whereas these committees are formed at the district level in other states. Such efforts can be supported through nationwide efforts, where the contributions of these committees are actively solicited (see committee member numbers by state in Table 5.3).

In the context of service provision, the federal government acts as the principal delegating authority to various agents, including local governments, NGOs, and private sector entities, to deliver services on its behalf. Citizens interpret improved service provision, supervision, and advocacy at the federal level as improved capacity of this administrative unit (Table 5.17). However, the asymmetry of information and divergent incentives between principals and agents can lead to agency problems, such as moral hazard and adverse selection, which may undermine the quality and effectiveness of service delivery. Therefore, while the federal government may prioritize advocacy efforts to signal its commitment to improving services, the perceived effectiveness of its services ultimately hinges on its capacity to supervise and oversee service delivery activities. This includes establishing clear performance standards, monitoring compliance, and enforcing accountability mechanisms to ensure that service providers adhere to prescribed guidelines and deliver services efficiently and equitably. Other significant changes witnessed in the past five years include the establishment of the EMIS, which improves the management and supervision of education services, and incentive schemes that recognize and reward teachers for their contribution and motivation. While such data management and supervision roles may not be a direct remit of the federal government, their active advocacy for the efficient delivery of these roles is paramount.

The state governments' comparative advantage in provision

State governments were perceived to have a slightly more influential role in the provision of services, followed by supervision of these services and less of an influential role in the advocacy for better services (Table 5.1). Provision through the state government would streamline service delivery processes, minimize bureaucratic hurdles, and ensure the efficient allocation of resources. By taking on the responsibility of service provision, the government can implement standardized protocols, leverage economies of scale, and monitor service quality more effectively, thereby enhancing the overall efficiency and effectiveness of service delivery in education and health care. An example is the EMIS set up in the education sector as well as the efforts to have the state government take over the Health Management Information System (HMIS), acting as a bridge between the community health management system that is currently running parallel to the national HMIS.

In this context, the perceived influence of state governments in service provision may reflect the delegation of powers and resources from the central government to state-level authorities, empowering them to take the lead in delivering essential services with a focus on equity. Such decentralized roles would enhance local autonomy, promote participatory decision-making, and improve service delivery by tailoring interventions to local needs and preferences. Direct provision enables the state government to address inequalities and disparities in access to education and health care services. By assuming a proactive role in service provision, the state government can prioritize marginalized communities, allocate resources based on need, and implement targeted interventions to reduce socioeconomic inequalities in health and education outcomes. This commitment to equity is essential for promoting inclusivity. In the health sector, for instance, the FMS are committed to sign with the FGS updated service delivery transfer agreements and adopt annual community health service delivery plans, including infectious disease measures. These plans are then implemented at the state level.

The FMS have made progress, albeit limited, in exerting their influence in service provision. For their efforts to be effective, they need to collaborate across multiple sectors and stakeholders to achieve desired outcomes, and this requires well-established institutional frameworks, effective governance structures, and strong administrative capacities. However, states might not be able to fully exert their influence in service provision, as coordinating efforts across multiple sectors and stakeholders to achieve desired outcomes require well-established institutional frameworks, effective governance structures, and strong administrative capacities. Such structures enhance accountability and transparency by establishing clear lines of responsibility and oversight. When FMS directly deliver services, it assumes direct accountability to citizens for the quality and accessibility of those services. Currently, in both the health and education sectors, there are quarterly intergovernmental health and education forums, where the FMS and stakeholders meet to discuss progress against agreed-upon targets and explore collaborative opportunities. In addition, the citizen engagement center ([Talo Wadaag](#)) runs behavior change and accountability campaigns that are led by each state. This accountability among stakeholders fosters transparency in decision-making processes, facilitates public scrutiny, and promotes trust in government institutions, ultimately enhancing the legitimacy and effectiveness of governance.

District governments' comparative advantage in supervision

District governments were perceived to have a slightly more influential role in the supervision of services, followed by provision and then advocacy for better services (Table 5.1). By supervising service delivery activities, district governments can monitor compliance, address deviations from expected outcomes, and enforce accountability mechanisms, thereby enhancing the quality, efficiency, and effectiveness of services. In the health sector, for instance, routine primary health data are analyzed using districts as the unit of analysis. Such a focus allows better visibility of performing and nonperforming regions, whether this relates to sector-level or governance outcomes, such as compliance and accountability of state officers.

District governments are closer to the communities they serve compared to federal or state governments. This proximity allows them to have a better understanding of local needs, preferences, and challenges. Officials can directly engage with community members, gather feedback, and tailor supervision strategies to address specific concerns and priorities at the grassroots level. For instance, female health supervisors are often distributed across the districts and act as important focal points for any behavior change messaging. The same supervisors are key focal points when it comes to communicating with the state and federal government on challenges that their villages face. These officers need to not only understand the importance of their role as a liaison between the government and the citizens but also be empowered to carry out this role. Unlike federal or state governments, which may be perceived as distant and bureaucratic, district officials are accessible and visible

within their communities, making them more accountable and responsive to citizen feedback and demands. This accountability strengthens public oversight, promotes transparency, and enhances the effectiveness of supervision efforts, as district governments are incentivized to deliver tangible results and uphold public trust.

Bundling up administrative units with interpretations of capacity

When citizens experience improved service delivery, effective supervision, and proactive advocacy efforts at the state level, they are more likely to attribute positive attributes to the broader governmental structure, including the federal level (Table 5.2). This phenomenon suggests that citizens often ‘bundle’ their evaluations of different tiers of government together, forming a holistic perception of governance based on their experiences with various levels of administration. Consequently, the quality of governance at the state level not only directly affects service outcomes but also indirectly shapes citizens’ trust and confidence in the legitimacy of federal institutions.

The notion of citizens ‘bundling’ different levels of government together underscores the interconnectedness of governance structures and the importance of collaboration among various administrative tiers. Collaborative efforts can facilitate synergies in service delivery, enhance coordination in policy formulation and implementation, and promote coherence in advocacy initiatives across different levels of government. Policy makers and practitioners need to adopt a multilevel governance approach that recognizes the interconnectedness of federal, state, and local governance structures. Participants reported that coordinated advocacy between government institutions and stakeholders has improved health service delivery. Overall, the health system, including infrastructure, the health information system, and distribution of medical supplies, has been strengthened. At the federal and state levels, the establishment of the FMS-Ministry of Health and development of Annual Operational Planning for the health sector are the two key achievements of the decentralization reform.

Table 5.2: Bundling up administrative units’ roles while interpreting capacity

Capacity	Influence of service delivery on citizens’ perception of federal capacity	Influence of the state capacity of service delivery on citizens’ perception of federal capacity
State capacity	n.a.	.656***
Provision	.622***	.148
Supervision	.834***	.419**
Advocacy	.849***	.327*
Constant	-4.981***	-5.297***
Mean dependent var	37.000	36.868
Number of observations	53	53
Prob > chi2	0.000	0.000

Note: *** p<.01, ** p<.05, * p<.1.

Legitimacy as interpreted through capacity

Survey data have shown that enhancing the capacity of the federal, district, and then state government improves the public’s trust in their services (Figure 5.6). At the federal level, capacity-building initiatives focus on advocacy toward a social contract, including strengthening policy formulation, strategic planning, and coordination mechanisms to enable more effective governance at the national level. District and state levels on their part are essential for strengthening local governance structures, enhancing service delivery capabilities, and promoting

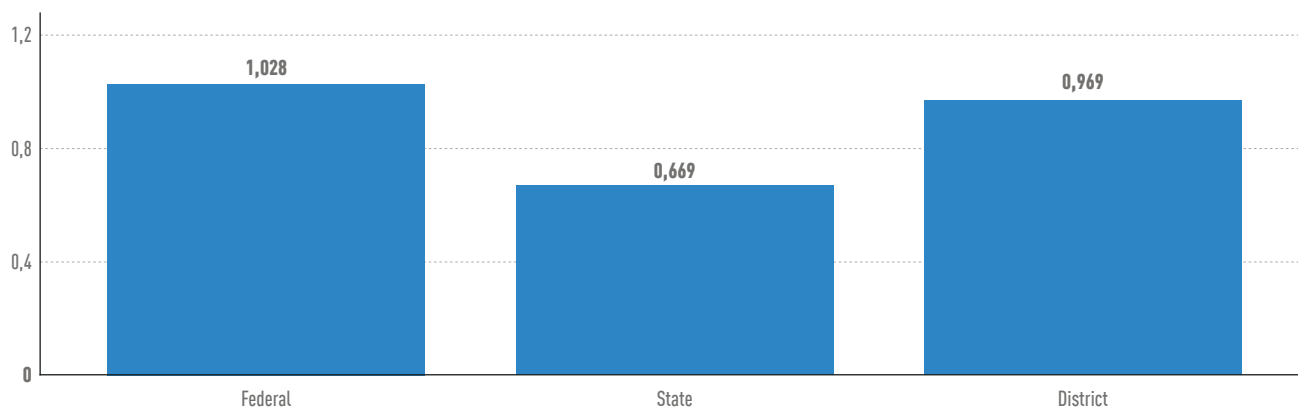
citizen engagement and participation. Federal systems allow for diverse policies and approaches tailored to the needs of different regions or states within a country. Effective local governance with the involvement of local administrators has been demonstrated (albeit in a non-FCV context) to positively influence the timely execution of public initiatives (Terman and Feiock 2015). While the FGS Constitution provides for the subsidiarity of the states and the Local Government Act has been passed, significant lags can be seen in the rate at which fiscal resources are being decentralized and in the maximization of the local government, even though they are located closest to the communities. These survey and empirical results support the idea that local/district governments' capacities need to be prioritized to enhance government legitimacy. Additional evidence has also shown that for sectors that maximize regional variation and tend to be governed or administered at the regional level, the capacity of the local government is a key determinant of administrative performance (Mendez and Bachtler 2022). If district governments are to be relied upon for effective administration, investments in their capacity should be prioritized.

Survey data indicated that participants' interpretation of 'capacity' at the federal level goes beyond provision, supervision, and advocacy of services. In addition to these essential functions, citizens might attribute significance to the federal government's ability to formulate and enact policies that shape national development trajectories, regulate interstate affairs to maintain harmony and coherence within the federation, manage crises of national significance, provide overarching leadership to coordinate diverse interests and priorities, and spearhead broader socioeconomic transformations to foster inclusive growth and development.

Conversely, at the state level, participants' interpretations of 'capacity' predominantly revolve around all the core functions of provision, supervision, and advocacy of services. While citizens acknowledge the importance of these roles at both the federal and state levels, their perception of capacity at the state-level tends to be more focused and narrowly defined, reflecting the immediate and tangible impact of state governments on service delivery outcomes within their respective jurisdictions.

Participants' interpretation of 'capacity' at the district level extends beyond interpretations of provision, supervision, and advocacy of services. In addition to these functions, citizens expect district governments to demonstrate competence and effectiveness in a broader array of areas, including administrative efficiency, sustainable development planning, and community engagement. District governments are perceived as the frontline administrators closest to the grassroots, and as such, citizens expect them to exhibit responsiveness, adaptability, and innovation in addressing local challenges, fostering social cohesion, and promoting participatory governance processes that empower communities to actively participate in decision-making and development initiatives.

Figure 5.6: Enhancing the capacity of the federal, district, and state governments improves the public's trust in their services



Participation and accountability

Survey data on openness do not align with data obtained from other sources. Measuring openness over 2018–2022, data indicate a gradual decline in the metric of ‘Absence of repression and respect for human rights’, suggesting potential challenges in upholding fundamental rights and freedoms in Somalia. In contrast, the metric of ‘Freedom of expression and of the press’ remained relatively stable, exhibiting minor fluctuations but overall maintaining a consistent level of openness and liberty for media and public discourse (Figure 5.7). Measures of openness from the survey data vary significantly, even though most states in Somalia have community committees (avenues to voice their concerns with the government). PSS has the highest awareness of committees and avenues to raise feedback (openness score of 96), while GSS has a relatively low awareness score of -60, which could suggest a lack of awareness about community committees or the absence of these committees (Figure 5.9).

Further assessment shows that states with community committees tend to have better citizen satisfaction with service delivery, suggesting alignment between the state’s delivery of services and citizens’ expectations and a better social contract. By supporting avenues for community engagement and participation through the establishment and active management of such committees, states demonstrate a commitment to responsiveness in governance. Currently, some community committees are voluntarily formed (especially within the health sector), while others are a mandatory requirement (especially within the education sector), where the district offices require that they are formed and propose the kind of profiles expected. Table 5.3 shows the current number of committee members. These committees serve as vital conduits for citizen feedback, enabling policy makers to gain insights into community needs, preferences, and concerns. As a result, states can tailor their service delivery strategies to better meet the expectations and aspirations of their constituents, thereby strengthening trust and cooperation between government institutions and the public.

Measuring alignment over 2017–2021, there was a discernible downward trend in the metric of ‘Political stability and absence of violence/terrorism’, indicating potential challenges in maintaining stability and security. Concurrently, the metric of ‘Governance effectiveness’ displayed a fluctuating pattern, with some improvement observed in 2021, suggesting varying levels of institutional performance and efficacy over time (Figure 5.8). Our survey data support these findings, with all states having a positive score on alignment. SWSS appears to have the highest level of satisfaction with education and health services (alignment score of 462), while HSS has the lowest alignment score (222) (Figure 5.9).

Figure 5.7: Measures of openness from varieties of democracy

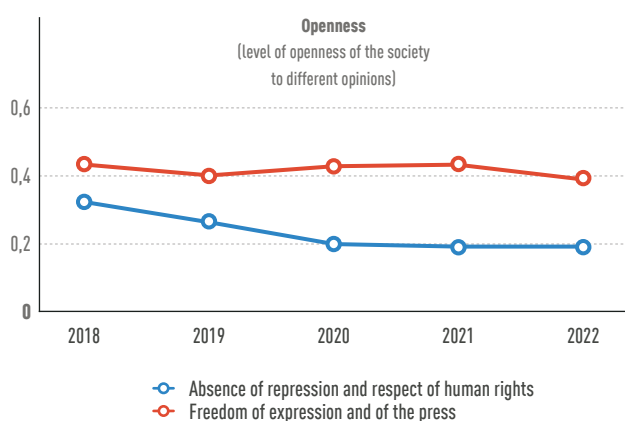


Figure 5.8: Measures of alignment from Worldwide Governance Indicators

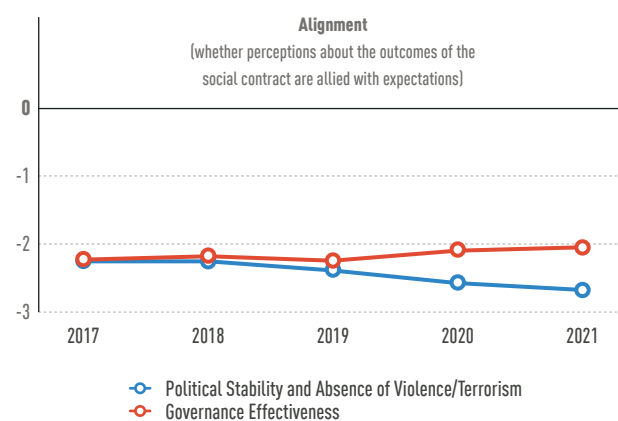


Figure 5.9: Scores of openness and alignment across states from survey data

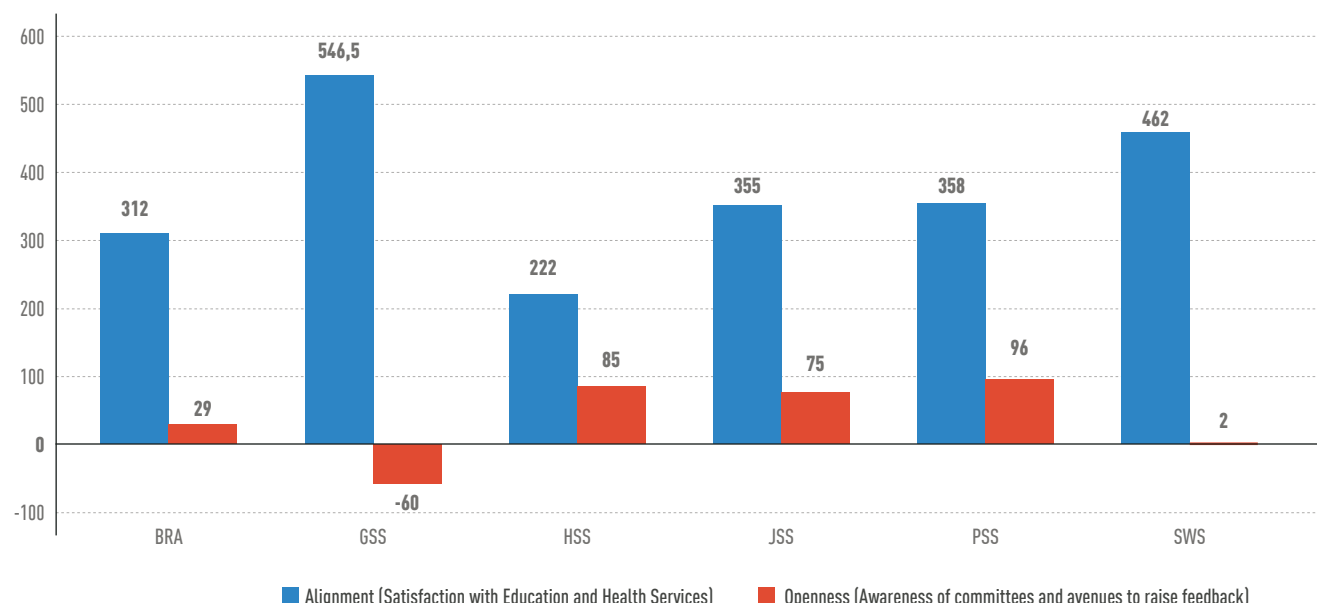


Table 5.3: Community committee members, by state

State	Number of CEC members	Number of CHC members	Total number of community committee members
BRA	145	20	165
GSS	138	34	172
HSS	567	14	581
JSS	470	16	486
PSS	6,642	28	6,670
SWSS	532	28	560

Source: Federal Government of Somalia, Ministry of Health and Human Services, and Ministry of Education

Note: *** p<.01, ** p<.05, * p<.1.

Recommendations: Lessons learned and a way forward

Modernization of private facilities

- To reduce the need for trade-offs and strengthen the social contract, the government (federal, state, and district) needs to understand how it can collaborate with private facilities.** In developing and fragile states, the modernization of traditional and private facilities can improve service delivery and address the evolving needs of communities. Within such states, private facilities often serve as primary providers of essential services, particularly in areas where state capacity is limited or absent. However, these facilities frequently suffer from a lack of regulation, motive, and resources to access hard-to-reach communities, impeding their effectiveness and ability to cope with increasing demands.

2. **Forge partnerships between governments, NGOs, and private stakeholders, recognizing that often the process of stakeholder interaction, rather than the output of this process, most distinctly shapes state legitimacy** (Stel and Ndayiragije 2014). Governments can play a crucial role by offering first platforms for deliberation such as the intergovernmental coordination forums to support collaborative governance and then financial support, TA, and regulations to facilitate the modernization process. Concurrently, humanitarian and private entities can contribute expertise, innovation, and resources to upgrade facilities and enhance service delivery (McCloughlin 2011). Modernization of the two sectors could entail the following:
 - *Health care sector.* Collaboration between governments and private and humanitarian health care providers can support a regulated and expanded service delivery in Somalia. This may involve investments in facility renovations and the training and deployment of health care professionals to ensure the delivery of quality care.
 - *Education sector.* Partnerships with private schools and organizations can drive improved curriculum development, incentivization of the teaching cadre to include female teachers, and infrastructure enhancements to improve learning outcomes.
3. **Adopt digital technologies and information systems to enhance efficiency, transparency, and accountability in service delivery.** Efforts to adopt more digital systems in both the health and education sectors in Somalia are ongoing. Through increased investments in electronic health records and education management systems, governments can streamline administrative processes, monitor service utilization, and track outcomes more effectively. This digital transition not only improves service quality but also empowers citizens by providing access to information through low-cost solutions and facilitating participation in decision-making processes through citizen engagement processes enabled by information communication and technology (ICT).
4. **Prioritize inclusivity and equity to ensure that marginalized communities benefit from improved services.** This necessitates targeted interventions to address disparities in access, affordability, and quality of care or education. Governments can implement affirmative action policies, offer subsidies to low-income households, and establish outreach programs to reach vulnerable populations effectively. The health sector in Somalia through its primary health program has started to mainstream 'right to health' in its systems, while agencies continue to work with the Ministries of Health and Education to have a human rights-based approach in service delivery—such efforts should be celebrated, supported, and expanded.

Federalism: Bringing the power of decision-making and service delivery downward

5. **To achieve effective governance, all levels of government should collaborate and work together to foster synergies in service delivery, by strengthening advocacy at the federal level, service provision at the state level, and supervision at the district level.** Governments should recognize the interconnectedness of federal, state, and local governance structures and strengthen a multilevel governance approach. Priority should be given to capacity-building initiatives at the federal, district, and then state levels to improve governance and service delivery. Decentralized roles should be empowered and local autonomy and participation promoted to facilitate participatory decision-making and tailor interventions to local needs and preferences. This can help alleviate inequalities and disparities in access to services and promote inclusivity.

Participation and accountability

6. **Form CHCs with representatives from various community groups to serve as liaisons between the community and health service providers.** Their responsibilities include advocating for community health needs, collaborating with frontline health workers (FHWs), ensuring access to health services, and promoting health awareness. CHC members are typically nominated and endorsed by the local health department or elected through a democratic process within the community. The committee composition often includes representatives from women's groups, youth, elders, people with disabilities, and other community stakeholders.
7. **Form CECs to play a supportive role in school administration and supervision.** They are responsible for raising awareness about the importance of education, resolving issues related to school management, and advocating for the educational needs of students and parents. CEC members are elected parents who are actively involved in their respective schools. The committee formation process involves community and parental meetings, where members are elected based on their availability, knowledge about the school, and ability to communicate with the government or school administration.
8. **Provide incentives for the formation of CHCs and CECs.** Results from FGDs showed that there are insufficient incentives for the formation of these structures at the community level. The government can therefore explore whether indeed there are shortages of community committees in the different states, whether they are representative of their communities in terms of marginalized groups, and whether their feedback is taken up by the government to inform policies and programs. Evidence shows that the more such structures exist, and the more citizens share feedback with the government, the better alignment/ social contract outcomes become almost exponentially.

The following table summarizes this chapter's recommendations:

Table 5.4: Recommendations on delivering on the social contract in Somalia

No.	Recommendation	Implementing agencies	Time frame	Priority
Objective 1: Modernization of private facilities				
R1	Reduce the need for trade-offs and strengthen the social contract, the government (federal, state, and district) needs to understand how it can collaborate with private facilities.	Ministry of Health and Human Services; Ministry of Education; Ministry of Planning, Investment, and Economic Development	Medium term	High
R2	Forge partnerships between governments, NGOs, and private stakeholders, recognizing that often the process of stakeholder interaction, rather than the output of this process, most distinctly shapes state legitimacy.	Ministry of Planning, Investment, and Economic Development; Ministry of Health and Human Services; Ministry of Education	Short term	High
R3	Adopt digital technologies and information systems to enhance efficiency, transparency, and accountability in service delivery.	Ministry of Communications and Technology; Ministry of Health and Human Services; Ministry of Education; Bareedo Platform	Continuous	High
R4	Prioritize inclusivity and equity to ensure that marginalized communities benefit from improved services.	Ministry of Women and Human Rights Development; Ministry of Health and Human Services; Ministry of Education	Continuous	High
Objective 2: Federalism - Bringing the Power of Decision-Making and Service Delivery Downward				
R1	To achieve effective governance, all levels of government should collaborate and work together to foster synergies in service delivery, by strengthening advocacy at the federal level, service provision at the state level, and supervision at the district level.	Federal Government, FMS, District Councils	Continuous	High

Table 5.4: Recommendations on delivering on the social contract in Somalia (continued)

No.	Recommendation	Implementing agencies	Time frame	Priority
Objective 3: Participation and Accountability				
R1	Form CHCs with representatives from various community groups to serve as liaisons between the community and health service providers.	Ministry of Health and Human Services; Ministry of Planning, Investment, and Economic Development	Short term	Medium
R2	Form CECs to play a supportive role in school administration and supervision.	Ministry of Education; Ministry of Planning, Investment, and Economic Development	Short term	Medium
R3	Provide incentives for the formation of CHCs and CECs.	MOF, Ministry of Health and Human Services; Ministry of Education	Continuous	Medium

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Annex 5.1.

Methodological Annex - Delivering on the social contract in Somalia

Reintroducing the analytical framework for social contract

Research design

As of December 2022, the household database of BRA and five FMS (Galmudug, Hirshabelle, Jubaland, Puntland, and South-West) governments contained data on 77,379 households. The database provides general characteristics of households including the gender of household head, the number of household members, lack of food in the last four weeks, sanitation, and nature of facilities available to households.

Both qualitative and quantitative methods are used to explore the research questions. For the primary data collection, the sample size for each state is estimated at 95 percent confidence level as presented in Table 5.5. Samples for each state were selected by using random sampling method. Data were collected by well-trained enumerators of the Citizen Engagement Centre through phone-based interviews with the use of web-based data entry forms which produced data in machine readable format.

The survey questionnaire contains three sections. The first section includes sociodemographic information of respondent's household and use of education and health facilities. The second section captures citizens' satisfactions with services used while the third section asks about citizens' perceptions concerning main roles of different administrative units for better education and health service delivery. As a general rule, any consented household head or household member, 23 years of age or older, who answers about his/her perceptions of health and education services in the past five years is interviewed. Before the survey, enumerators are trained with interviewer and data entry protocols. Mock survey and pilot survey were conducted to pretest the questionnaire. As part of quality control of the survey, the supervisor randomly monitored the voice recordings of consented respondents. Nonrespondents are replaced with randomly drawn samples from the population.

Table 5.5: Sample size

FGS/FMS	Total number of households	Sample (Health)	Sample (Education)	Total sample
BRA	22,215	378	378	756
GSS	12,574	373	373	746
HSS	13,331	374	374	748
JSS	9,763	370	370	740
PSS	8,124	367	367	734
SWSS	11,372	372	372	744
Total	77,379	2,234	2,234	4,468

Table 5.6: Sociodemographic information of participants

Variable	Category	n	Frequency	Percentage
Gender of participant	Female	4,648	2,936	63.20
	Male		1,712	36.80
Head of household	Female	4,648	2,329	50.10
	Male		2,319	49.90
Household size	Less than five household members	4,648	3,285	70.70
	Between 6 and 10 household members		1,256	27.00
	More than 10 household members		107	2.30
Age of participant	25	4,648	968	20.80
	26–35		1,638	35.20
	36–45		1,042	22.40
	46–55		528	11.40
	56–65		327	7.00
	>65		145	3.10
Lack of food	Yes	4,648	746	16.00
	No		3,902	84.00
Household facilities (TV, radio, fridge, none)	None	4,648	1,905	41.00
	1 item		2,168	46.60
	2 items		467	10.00
	3 items		108	2.30
Number of water sources (Tap water, shallow well, rainwater, borehole, pond, other)	1 source	4,648	4,541	97.70
	2 sources		100	2.20
	More than 2 sources		7	0.10
Sanitation	Covered pit latrine	4,648	1,834	39.50
	Flush toilet		359	7.70
	Uncovered pit latrine		1,613	34.70
	VIP latrine		613	13.20
	No facility		199	4.30
	Other		30	0.60
Availability of mosquito net	Yes	4,648	3,699	79.60
	No		949	20.40

FGDs with CHCs and CECs as well as key informant interviews (KIIs) with officials from health department and education department were conducted in all states.

Limitations

There are three limitations in this study. The first limitation is that sampling is based on the households in government database who have access to health and education services. Population without phones or population who are not included in the database cannot be covered in this study. The second limitation is associated with the interview method and language. Unlike face-to-face interview, nonverbal expression of participants cannot be observed in phone-based interviews. The survey questionnaire and FGD/KII questions were developed in both English and Somali languages, and the appropriateness of translation was evaluated during the pilot and mock survey. Data collected by enumerators via phone calls were entered in the web-based survey form, and data in analyzable format can be exported in English language. However, translation from Somali to English is required for information collected through FGDs and KIIs. The third limitation is related to the generalization of data. Somalia has large populations who are nomadic, are internally displaced, and are not recipients of government services. Characteristics of different types of population which could not be included in this survey cannot be addressed.

Indicator descriptions

Table 5.7: Descriptions of indicators and variables

Indicators	Variables	Descriptions
The landscape of education and health service delivery Public facilities are supported by Federal Government, State Government and District Administration. Private facilities are supported by customary institutions, clan systems, civil society, markets, and religious institutions.	Facilities used	Type of education and health facilities used in the past five years
	Facilities preferred	Type of education and health facilities preferred
Main role in service delivery (Federal Government, State Government and District Administration)	Main role in education/health service delivery 1. Provision 2. Supervision 3. Advocacy	Citizens' perception of the main role of different tiers of government in education and health services
	Capacity 4. Provision 5. Supervision 6. Advocacy	Citizens' perception of the ability of different tiers of government in education and health services
	Legitimacy 7. Provision 8. Supervision 9. Advocacy	Citizens' perception of the credibility of different tiers of government in education and health services
	Openness	Avenues for citizens to express their experience with health and education services to authorities in the past five years
	Alignment	Citizens' satisfaction level with education and health services used in the past five years

Analytical methods

Part 1

The regression model to investigate the associated rise in the number of households using private facilities for every additional household that prefer public facilities can be written as follows:

$$private_public = \beta_0 + \beta_1 public_public + \varepsilon$$

private_public is the dependent variable to be measured (households who use private/traditional facilities and still prefer public facilities). *public_public* is an independent variable (households who use and prefer public facilities).

Part 2

The equation to measure the main role of different administrative tiers of government in terms of elements of service delivery is as follows:

$$C_{actor} = \beta_0 + \beta_1 X_{sd} + \varepsilon$$

C_{actor} is the weighted sum of the capacity of each administrative tier of government (federal, state or district). X_{sd} is a set of independent variables (the three key elements of service delivery: provision, supervision, and advocacy).

The analysis on the legitimacy of each administrative tire of government (federal, state, and district) through its service delivery capacity is carried out with the following equation:

$$L_{actor} = \beta_0 + \beta_1 C_{actor} + \beta_2 X_{actor} + \varepsilon$$

L_{actor} is the weighted sum of the citizens' perceptions of the credibility of each administrative of government in education and health services. C_{actor} is the weighted sum of the citizens' perceptions of the ability of the administrative tire of government in education and health services, and X_{actor} is a set of key elements of service delivery: provision, supervision, and advocacy.

The following equation is used to analyze the interconnectedness of governance structures and the importance of collaboration among various administrative tires.

$$L_A = \beta_0 + \beta_1 C_B + \beta_3 X_B + \varepsilon$$

L_A is the weighted sum of the legitimacy of the tire (A) of government. C_B is a weighted sum of of service delivery capacity of the tire (B) of government. X_B is a set of three key elements of service delivery of tire (B): provision, supervision, and advocacy).

Part 3

The influencing level of service delivery capacity of each administrative tire of government on the level of openness of society is analyzed with the following equation:

$$Openness = \beta_0 + \beta_1 C_{actor} + \varepsilon$$

Openness is the weighted sum of avenues for citizens' expression with services to the authorities. C_{actor} is a set of the weighted sum of service delivery capacity of each administrative tire of government (federal, state, and district).

The influencing level of service delivery capacity of each administrative tire of government (federal, state and district) on the level of alignment as an outcome of social contract is analyzed with the following equation:

$$Alignment = \beta_0 + \beta_1 C_{actor} + \varepsilon$$

Alignment is the weighted sum of citizens' satisfaction with services. C_{actor} is a set of the weighted sum of service delivery capacity of each administrative tire of government (federal, state, and district).

Analytical outputs

Part 1: Descriptive and econometric outputs detailing state performance

Table 5.8: Education and health facilities used in the past five years and preferred facilities

Variable	Category	n	Frequency	Percentage
Education facilities		2,370		
Households that did not receive education services in the past five years			948	40
Households that received education services in the past five years		1,422	1,422	60
	Private facilities	1,422	891	63
	Public facilities		446	31
	Public and private facilities		85	6
Preferred education facilities		1,422		
Lack of food	Public facilities		1,150	81
	Private facilities		272	19
Health facilities		2,370		
Households that did not receive health services in the past five years			945	41
Households that received health services in the past five years		1,333	1,333	59
	Private facilities		741	56
	Public facilities		459	34
	Public and private facilities		131	10
Preferred health facilities		1,330		
Lack of food	Public facilities		972	73
	Private facilities		358	27

Table 5.9: Citizens' perception of the main role of the federal government in health and education service delivery

Variable	Category	n	Frequency	Percentage
Federal Government's main role in education/health service delivery	Provision	4,508	1,138	25
	Supervision		695	15
	Advocacy		693	15
	Do not know		1,982	44
Federal Government's capacity in provision of education/health services	Gotten better	1,138	883	78
	Stayed the same		180	16
	Gotten worse		75	7
Federal Government's legitimacy in provision of education/health services	Gotten better	1,138	884	78
	Stayed the same		183	16
	Gotten worse		71	6
Federal Government's capacity in supervision of education/health services	Gotten better	695	538	77
	Stayed the same		107	15
	Gotten worse		50	7
Federal Government's legitimacy in supervision of education/health services	Gotten better	695	555	80
	Stayed the same		99	14
	Gotten worse		41	6
Federal Government's capacity in advocacy of education/health services	Gotten better	693	527	76
	Stayed the same		107	15
	Gotten worse		59	9
Federal Government's legitimacy in advocacy of education/health services	Gotten better	693	540	78
	Stayed the same		99	14
	Gotten worse		54	8

Table 5.10: Citizens' perception of the main role of the state government in health and education service delivery

Variable	Category	n	Frequency	Percentage
State Government's main role in education/health service delivery	Provision	4,490	785	17
	Supervision		826	18
	Advocacy		645	14
	Do not know		2,234	50
State Government's capacity in provision of education/health services	Gotten better	785	614	78
	Stayed the same		135	17
	Gotten worse		36	5
State Government's legitimacy in provision of education/health services	Gotten better	785	614	78
	Stayed the same		129	16
	Gotten worse		42	5
State Government's capacity in supervision of education/health services	Gotten better	826	647	78
	Stayed the same		128	15
	Gotten worse		51	6
State Government's legitimacy in supervision of education/health services	Gotten better	826	662	80
	Stayed the same		124	15
	Gotten worse		40	5
State Government's capacity in advocacy of education/health services	Gotten better	645	461	71
	Stayed the same		121	19
	Gotten worse		63	10
State Government's legitimacy in advocacy of education/health services	Gotten better	645	470	73
	Stayed the same		118	18
	Gotten worse		57	9

Table 5.11: Citizens' perception of the main role of district administration in health and education service delivery

Variable	Category	n	Frequency	Percentage
District Administration's main role in education/health service delivery	Provision	4,478	774	17
	Supervision		902	20
	Advocacy		648	14
	Do not know		2,154	48
District Administration's capacity in provision of education/health services	Gotten better	774	619	80
	Stayed the same		119	15
	Gotten worse		36	5
District Administration's legitimacy in provision of education/health services	Gotten better	774	631	82
	Stayed the same		111	14
	Gotten worse		32	4
District Administration's capacity in supervision of education/health services	Gotten better	902	692	77
	Stayed the same		158	18
	Gotten worse		52	6
District Administration's legitimacy in supervision of education/health services	Gotten better	902	703	78
	Stayed the same		149	17
	Gotten worse		50	6
District Administration's capacity in advocacy of education/health services	Gotten better	648	487	75
	Stayed the same		113	17
	Gotten worse		48	7
District Administration's legitimacy in advocacy of education/health services	Gotten better	648	494	76
	Stayed the same		106	16
	Gotten worse		48	7

Table 5.12: Citizens' perception of the main role of the village council in health and education service delivery

Variable	Category	n	Frequency	Percentage
Village Council's main role in education/health service delivery	Provision	4475	669	15
	Supervision		784	18
	Advocacy		655	15
	Do not know		2,367	53
Village Council's capacity in provision of education/health services	Gotten better	669	535	80
	Stayed the same		108	16
	Gotten worse		26	4
Village Council's legitimacy in provision of education/health services	Gotten better	669	537	80
	Stayed the same		101	15
	Gotten worse		31	5
Village Council's capacity in supervision of education/health services	Gotten better	784	586	75
	Stayed the same		140	18
	Gotten worse		58	7
Village Council's legitimacy in supervision of education/health services	Gotten better	784	585	75
	Stayed the same		140	18
	Gotten worse		59	8
Village Council's capacity in advocacy of education/health services	Gotten better	655	470	72
	Stayed the same		140	21
	Gotten worse		45	7
Village Council's legitimacy in advocacy of education/health services	Gotten better	645	473	72
	Stayed the same		133	20
	Gotten worse		49	7

Table 5.13: Citizens' perception of the main role of religious leaders in health and education service delivery

Variable	Category	n	Frequency	Percentage
Religious Leaders' main role in education/health service delivery	Provision	4,469	585	13
	Supervision		553	12
	Advocacy		861	19
	Do not know		2,470	55
Religious Leaders' capacity in provision of education/health services	Gotten better	585	490	84
	Stayed the same		74	13
	Gotten worse		21	4
Religious Leaders' legitimacy in provision of education/health services	Gotten better	585	498	85
	Stayed the same		68	12
	Gotten worse		19	3
Religious Leaders' capacity in supervision of education/health services	Gotten better	553	454	82
	Stayed the same		87	16
	Gotten worse		12	2
Religious Leaders' legitimacy in supervision of education/health services	Gotten better	553	456	82
	Stayed the same		84	15
	Gotten worse		13	2
Religious Leaders' capacity in advocacy of education/health services	Gotten better	861	690	80
	Stayed the same		141	16
	Gotten worse		30	3
Religious Leaders' legitimacy in advocacy of education/health services	Gotten better	861	697	81
	Stayed the same		140	16
	Gotten worse		24	3

Table 5.14: Facilities used verses preferred facilities

private_public	Coef.	Sig
public_public	0.444	***
Constant	13.568	***
Mean dependent var	21.22	
Prob>F	0.000	
Number of obs	50	

Note: *** p<.01, ** p<.05, * p<.1.

Part 2: Descriptive and econometric outputs detailing state performance

Table 5.15: Citizens' perception of the service delivery capacity of the federal government

f_cap_weighted_sum	Coef.	Sig
f_provision	0.622	***
f_supervision	0.834	***
f_advocacy	0.849	***
bra	10.242	***
gss	8.356	*
hss	6.835	
jss	15.726	***
sws	10.831	***
o	0	
Constant	-4.981	***
Mean dependent var	37.000	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.16: Citizens' perception of the legitimacy of the federal government included by its service delivery capacity

f_leg_weighted_sum	Coef.	Sig
f_cap_weighted_sum	1.028	***
f_provision	0.014	
f_supervision	-0.022	
f_advocacy	-0.043	
bra	-0.803	
gss	-2.606	*
hss	-1.266	
jss	-1.724	
sws	1.591	
o	0	
Constant	-0.014	
Mean dependent var	36.868	
Prob > chi2	0	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.17: Citizens' perception of the service delivery capacity of the state government

s_cap_weighted_sum	Coef.	Sig
f_provs_provision	0.975	***
s_supervision	0.833	***
s_advocacy	0.326	**
bra	7.751	***
gss	-0.15	
hss	7.925	**
jss	5.374	
sws	10.485	***
o	0	
Constant	-2.017	
Mean dependent var	33.283	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.18: Citizens' perception of the legitimacy of the state government influenced by its service delivery capacity

s_leg_weighted_sum	Coef.	Sig
s_cap_weighted_sum	0.669	***
s_provision	0.217	***
s_supervision	0.292	***
s_advocacy	0.322	***
bra	0.842	
gss	0.583	
hss	1.002	
jss	0.999	
sws	2.307	**
o	0	
Constant	-0.804	*
Mean dependent var	33.821	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.19: Citizens' perception of the legitimacy of the federal government influenced by the service delivery capacity of the state government

f_leg_weighted_sum	Coef.	Sig
s_cap_weighted_sum	1.402	***
s_provision	-0.573	**
s_supervision	-0.323	*
s_advocacy	0.116	
bra	12.319	***
gss	9.314	***
hss	7.581	
jss	9.093	
sws	10.2	***
o	0	
Constant	-4.406	***
Mean dependent var	36.868	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.20: Citizens' perception of the service delivery capacity of district administration

d_cap_weighted_sum	Coef.	Sig
d_provision	0.946	***
d_supervision	1.065	***
d_advocacy	0.171	
bra	9.898	***
gss	-3.182	
hss	3.933	
jss	10.397	***
sws	4.329	**
o	0	
Constant	-2.437	**
Mean dependent var	35.038	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.21: Citizens' perception of the legitimacy of district administration influenced by its service delivery capacity

d_leg_weighted_sum	Coef.	Sig
d_cap_weighted_sum	0.969	***
d_provision	0.096	
d_supervision	-0.046	
d_advocacy	0.05	
bra	-1.093	
gss	-1.222	
hss	-0.547	
jss	-1.569	
sws	0.418	
o	0	
Constant	0.859	**
Mean dependent var	35.491	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.22: Citizens' perception of the legitimacy of the federal government influenced by the district service delivery capacity

f_leg_weighted_sum	Coef.	Sig
d_cap_weighted_sum	1.488	***
d_provision	-0.622	***
d_supervision	-0.356	
d_advocacy	-0.198	
bra	4.454	
gss	7.196	**
hss	13.525	***
jss	2.989	
sws	13.707	***
o	0	
Constant	-2.413	
Mean dependent var	36.868	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.23: Citizens' perception of the service delivery capacity of the village council

vc_cap_weighted_sum	Coef.	Sig
vc_provision	0.951	***
vc_supervision	0.868	***
vc_advocacy	0.245	*
bra	5.297	***
gss	-5.969	**
hss	6.45	*
jss	2.308	
sws	-4.812	*
o	0	
Constant	-0.798	
Mean dependent var	31.245	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.24: Citizens' perception of the legitimacy of the village council influenced by its service delivery capacity

vc_leg_weighted_sum	Coef.	Sig
vc_cap_weighted_sum	0.931	***
vc_provision	-0.013	
vc_supervision	0.067	
vc_advocacy	0.129	***
bra	0.156	
gss	-2.064	**
hss	-0.752	
jss	1.5	
sws	1.782	**
o	0	
Constant	-0.609	
Mean dependent var	31	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.25: Citizens' perception of service deliver capacity of religious leaders

r_cap_weighted_sum	Coef.	Sig
r_provision	0.81	***
r_supervision	0.79	***
r_advocacy	0.484	***
bra	2.656	
gss	-2.126	
hss	9.088	**
jss	6.191	
sws	-8.665	***
o	0	
Constant	0.973	
Mean dependent var	32.491	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.26: Citizens' perception of the legitimacy of religious leaders influenced by its service delivery capacity

r_leg_weighted_sum	Coef.	Sig
r_cap_weighted_sum	0.964	***
r_provision	0.139	***
r_supervision	0.028	
r_advocacy	-0.048	
bra	-0.197	
gss	0.357	
hss	-1.637	
jss	-1.323	
sws	-0.899	
o	0	
Constant	-0.103	
Mean dependent var	32.849	
Prob > chi2	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Part 3: Descriptive and econometric outputs detailing state performance

Table 5.27: Citizens' satisfaction with health/education services and avenues to express experiences with services received to authorities

Variable	Category	n	Frequency	Percentage
Education services				
Satisfaction with education services	More satisfied	1,422	1,300	91
	Same as before		54	4
	Less satisfied		68	5
Aware of CEC	Yes	1,422	766	54
	No		656	46
Expressed experiences with education services to the authorities	More often	1,422	350	25
	Same as before		771	54
	Less often		301	21
Health services				
Satisfaction with health services	More satisfied	1,325	1,106	83
	Same as before		73	6
	Less satisfied		146	11
Aware of CHC	Yes	1,325	721	54
	No		604	46
Expressed experiences with health services to the authorities	More often	1,325	259	20
	Same as before		764	58
	Less often		302	23

Table 5.28: Influencing level of service delivery capacity on openness

o_weighted_sum	Coef.	Sig
f_cap_weighted_sum	-0.548	**
s_cap_weighted_sum	-0.057	
d_cap_weighted_sum	-0.001	
vc_cap_weighted_sum	0.939	**
r_cap_weighted_sum	-0.108	
Constant	0.648	
R-squared	0.408	
Prob>F	0.000	
Number of obs	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.29: Influencing level of service delivery on alignment

a_weighted_sum	Coef.	Sig
f_cap_weighted_sum	-0.067	
s_cap_weighted_sum	1.543	***
d_cap_weighted_sum	0.782	
vc_cap_weighted_sum	-0.352	
r_cap_weighted_sum	-0.753	***
Constant	1.735	
R-squared	0.943	
Prob>F	0.000	
Number of obs.	53	

Note: *** p<.01, ** p<.05, * p<.1.

Table 5.30: Variable labels and survey questions

Variable labels	Questions in the questionnaire	Categories
state	State name	BRA, GSS, JSS, HSS, SWS, PSS
district	District name	List of 53 districts
hhh_gender	Gender of household head	Male Female
hh_size	Total number of household members	Number of household members
hh_size_group	Household size in groups	<5 =>6–10 >10
lack_food	Lack of food	Yes No
hh_facilities	Total number of household facilities (TV, radio, fridge, none)	None 1 item 2 items 3 items
water_sources	Total number of water sources (Tap water, shallow well, rainwater, borehole, pond, other)	1 source 2 sources More than 2 sources
hh_sanitation	Type of latrine	Covered pit latrine Flush toilet Uncovered pit latrine VIP latrine None Other
hh_llitn	Availability of mosquito net?	Yes No
component	Component of the survey	Health Education
res_type	Whether respondent is the head of household or member of household	Yes No
res_gender	Gender of respondent	Male Female
res_age	Respondent's age	Number
age_group	Respondent's age group	25 26–35 36–45 46–55 56–65 >65
hh_male	Number of male household members	Number
hh_female	Number of female household members	Number
received_service	Has any of household members received health/education services in the past five years?	Yes No
facilities	Types of facilities used	Public Customary/private
private	Customary/private facilities (Private sector owned, NGOs or local facilities) (in binary format)	Private/customary
public	Public facilities (Federal Government owned or State Government owned) (in binary format)	Public
public_male	Number of male household members received services from public facilities	Number
public_female	Number of female household members received services from public facilities	Number
private_male	Number of male household members received services from customary/private facilities	Number
private_female	Number of female household members received services from customary/private facilities	Number
public_name	Name of public health/education facilities/institutions	Number
public_registered	Is this public health/education institution duly registered?	Yes No Do not know
private_name	Name of customary/private health/education facilities/institutions	Name of institution

Table 5.30: Variable labels and survey questions (*continued*)

Variable labels	Questions in the questionnaire	Categories
private_registered	Is this customary/private institution duly registered?	Yes No Do not know
preferred	Between public and customary/private, which facilities do you prefer to use?	Public Customary/private
preferred_reason	Why did you choose to use your preferred facilities?	Answer in narrative format
satisfaction_mean	What would the government/authorities need to do to meet your health/education expectations?	Answer in narrative format
satisfaction_changes	How was your satisfaction with health/education services you received in the past five years?	More satisfied Same as before Less satisfied
aware_committee	Are you aware of the existence of your community health/education committee?	Yes No
concerns_changes	In the past five years, how often have you expressed your experiences with health/education services to the authorities?	More often Stayed the same Less often
f_role	What do you think is the federal government's main role regarding health/education services?	Provision Supervision Advocacy
f_cap_pro	In the last five years, do you think the federal government's ability to provide health/education services has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
f_leg_pro	In the last five years, do you think the federal government's credibility to provide health/education services has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
f_cap_sup	In the last five years, do you think the federal government's ability to make sure health/education services are provided correctly has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
f_leg_sup	In the last five years, do you think the federal government's credibility to make sure health/education services are provided correctly has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
f_cap_adv	In the last five years, has the federal government's ability to speak in support of health/education services gotten better, worse, or stayed the same?	Gotten better Same as before Gotten worse
f_leg_adv	In the last five years, has the federal government's credibility to speak in support of health/education services gotten better, worse, or stayed the same?	Gotten better Same as before Gotten worse
s_role	What do you think is the state government's main role regarding health/education services?	Provision Supervision Advocacy
s_cap_pro	In the last five years, do you think the state government's ability to provide health/education services has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
s_leg_pro	In the last five years, do you think the state government's credibility to provide health/education services has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
s_cap_sup	In the last five years, do you think the state government's ability to make sure health/education services are provided correctly has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
s_leg_sup	In the last five years, do you think the state government's credibility to make sure health/education services are provided correctly has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
s_cap_adv	In the last five years, has the federal government's ability to speak in support of health/education services gotten better, worse, or stayed the same?	Gotten better Same as before Gotten worse
s_leg_adv	In the last five years, has the federal government's credibility to speak in support of health/education services gotten better, worse, or stayed the same?	Gotten better Same as before Gotten worse
d_role	What do you think is the district administration's main role regarding health/education services?	Provision Supervision Advocacy
d_cap_pro	In the last five years, do you think the district administration's ability to provide health/education services has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse

Table 5.30: Variable labels and survey questions (*continued*)

Variable labels	Questions in the questionnaire	Categories
d_leg_pro	In the last five years, do you think the district administration's credibility to provide health/education services has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
d_cap_sup	In the last five years, do you think the district administration's ability to make sure health/education services are provided correctly has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
d_leg_sup	In the last five years, do you think the district administration's credibility to make sure health/education services are provided correctly has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
d_cap_adv	In the last five years, has the federal government's ability to speak in support of health/education services gotten better, worse, or stayed the same?	Gotten better Same as before Gotten worse
d_leg_adv	In the last five years, has the federal government's credibility to speak in support of health/education services gotten better, worse, or stayed the same?	Gotten better Same as before Gotten worse
vc_role	What do you think is the village council's main role regarding health/education services?	Provision Supervision Advocacy
vc_cap_pro	In the last five years, do you think the village council's ability to provide health/education services has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
vc_leg_pro	In the last five years, do you think the village council's credibility to provide health/education services has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
vc_cap_sup	In the last five years, do you think the village council's ability to make sure health/education services are provided correctly has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
vc_leg_sup	In the last five years, do you think the village council's credibility to make sure health/education services are provided correctly has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
vc_cap_adv	In the last five years, has the village council's ability to speak in support of health/education services gotten better, worse, or stayed the same?	Gotten better Same as before Gotten worse
vc_leg_adv	In the last five years, has the village council's credibility to speak in support of health/education services gotten better, worse, or stayed the same?	Gotten better Same as before Gotten worse
r_role	What do you think is the religious leaders' main role regarding health/education services?	Provision Supervision Advocacy
r_cap_pro	In the last five years, do you think the religious leaders' ability to provide health/education services has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
r_leg_pro	In the last five years, do you think the religious leaders' credibility to provide health/education services has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
r_cap_sup	In the last five years, do you think the religious leaders' ability to make sure health/education services are provided correctly has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
r_leg_sup	In the last five years, do you think the religious leaders' credibility to make sure health/education services are provided correctly has gotten better, worse or stayed the same?	Gotten better Same as before Gotten worse
r_cap_adv	In the last five years, has the federal government's ability to speak in support of health/education services gotten better, worse, or stayed the same?	Gotten better Same as before Gotten worse
r_leg_adv	In the last five years, has the federal government's credibility to speak in support of health/education services gotten better, worse, or stayed the same?	Gotten better Same as before Gotten worse

Survey questionnaire and FGD guide and FGD data

Survey questionnaire – available on request

FGD guide and data – available on request

Survey data – To be published on Elsevier.

