

# Tax and the State in Somalia

## *Understanding domestic revenue mobilization*

BY SAGAL ABSHIR, KHALIF ABDIRAHMAN AND HANNAH STOGDON\*



Somali shillings are seen at a foreign exchange bureau at Bakara market in Mogadishu © Omar Faruk/Reuters

## Introduction

In early 2019, the Federal Government of Somalia announced that it had raised the government budget to USD 300 million, and by August 2019 had recorded public expenditure of USD 171 million. This enabled the IMF to announce on 25 March 2020 that Somalia was now eligible for debt relief, which will enable the World Bank to release more funds.<sup>1</sup> But, despite these encouraging figures, Somalia faces major challenges in creating an effective system of domestic taxation. Tax compliance among individuals and corporations does exist, but unevenly so. Revenue collection by government suffers due to the competition it faces from other systems of governance—both traditional and religious, as well as by non-state actors—which also collect taxes, or other financial contributions. Often, they do this with more efficiency and accountability than the federal government. The federal government itself is in the midst of a contentious process of negotiating a federal system, with disagreements between it and the Federal Member States (FMS) on the assignment of revenues and expenditures. In this context, expanding the revenue base of government remains a major challenge.

With increased income and expenditure come greater calls for meaningful discussions on accountability and fiscal federalism. However, even if all taxpayers in Somalia were willing to pay, and the federal government had the capacity to collect those taxes in an honest, transparent and efficient manner, domestic revenues would still be limited by the narrow tax base. Drawing on research carried out in Mogadishu in 2018, this briefing considers some of the economic and cultural constraints to increasing domestic revenue mobilization in Somalia.<sup>2</sup>

\* Based on research conducted by Sagal Abshir and Khalif Abdirahman for a project part financed by the World Bank.

---

## Cultural attitudes to tax in Somalia

In Somalia, the payment of taxes does not often result in the provision of services for the country's citizens. As a result, faith in the tax system as a whole is low. Somalia's revenue-generating authorities are caught in a vicious cycle. As they do not supply many public services, local residents are hesitant to pay taxes, meaning that little revenue is accrued through taxation. This undermines government's ability to provide the very services that produce trust and goodwill among its citizens. This phenomenon is not exclusive to Somalia, but is certainly acute in this fragile context.

Against this backdrop, the federal government has limited legitimacy to raise tax. In part, this is because in contemporary Somali society there are three coexisting systems of governance, each of which has its own system of resource mobilization.

First, there is the traditional system. This is rooted in the Somali system of kinship where clan is the primary social unit and social relations are conducted according to customary law (*xeer*). This system mobilizes resources for use by the community based on need, through a system called *qaaraan*, meaning a community or family contribution. It is considered to be a social obligation.

Second is a form of governance based on Islam. In this system, the individual is part of the global *ummah* (community of believers) and subject to relevant religious laws enshrined in the Qur'an. This calls for compulsory charitable contributions called *zakat*. As one of the five pillars of Islam, it carries religious authority and sanction.

Third is the modern nation state.<sup>3</sup> Under this system, the government levies taxes that are known as *canshuur*, meaning 'restriction' or 'burden', signifying a system imposed and regulated by force.<sup>4</sup> A government's authority to collect taxes originates from its capacity to provide security and offer some public services (paid for through tax revenues).

The fact that there are three, intersecting, forms of governance means that many people experience a multiple tax burden from both state and non-state actors. Government taxation lacks the social weight of the other two systems, which reduces the state's ability to raise domestic revenue. A hotel owner in Mogadishu stated: 'People believe in clan and religious systems but have no confidence in government and its taxation'.<sup>5</sup>

In the religious and clan-based systems of resource mobilization, trust is inbuilt. *Zakat* is paid directly by the payer to the needy or is handed to a trusted intermediary, such as a religious leader or family member. For example, individuals in the diaspora send *zakat* to help those in need in Somalia. *Qaaraan* is collected by a trusted family or clan member and disbursed according to need. Failure to pay either, or the misuse of those funds, carries serious social stigma and is corrected by the system—by God in the case of *zakat* and by social disgrace and ostracism in the case of *qaaraan*. Ostracism also affects entitlements to support from the clan. The government tax system does not carry any of these social meanings.

*Zakat* is payable once annually, with a clear formula for calculating the amount due—2.5 per cent of accumulated wealth—along with built-in relief for those who are too poor to have accumulated any wealth.<sup>6</sup> *Qaaraan* is paid on a recurrent basis that can be weekly, monthly or as the need arises; the amounts are often small and agreed upon communally. However, *canshuur* is different. Outside of the customs levies at the port and airport which are well understood, the process for collecting *canshuur* and the benefits of paying are not immediately visible. Municipal fees or daily taxes charged on small businesses are applied across the board, regardless of one's earnings and collection often involves harassment or mistreatment.

Some link government taxation to colonial exploitation—it was during the Italian administration of Somalia that *canshuur*, as it is understood now, was introduced. Others consider it unIslamic to pay taxes. There is ambivalence among Somali authorities to enforcing taxation rules and reluctance among citizens to pay tax in the absence of public services. Many respondents in this study acknowledge a responsibility or duty on the part of citizens to pay taxes to the government, but also link this to a corresponding responsibility or duty

on the part of government to provide services, help the poor, rebuild the country and not misappropriate the funds.

Table 1 (below) compares the taxation and other systems of revenue collection or financial contribution, produced by the three different forms of governance in Somalia. The three types of taxation are comparable in different ways: the level of trust inherent in the system, and attitudes towards evasion, fairness and equity.

**Table 1: Systems of taxation**

	<i>Zakat</i>	<i>Qaaraan</i>	<i>Canshuur</i>
<b>Value system</b>	religious	family; clan	government
<b>Purpose</b>	cleansing; religious obligation	insurance	public service provision
<b>Frequency</b>	annual	varies (weekly, monthly, as needed)	varies (sometimes daily, for others never)
<b>Amount payable</b>	2.5 per cent of accumulated wealth of assets; prescribed by the Qur'an	varies; agreed upon by the family or community group	varies; imposed by the government
<b>Relief for the poor</b>	applies to accumulated wealth, harvest and livestock	depends on ability	unclear
<b>Risk of diversion</b>	zero to low (although the al-Shabaab collection of <i>zakat</i> is seen by some as a diversion)	zero to low	very high
<b>Cost of non-compliance</b>	religious sanction	social isolation	unclear

## Obstacles to revenue collection

Somalia's federal government faces considerable challenges to enhancing growth in revenues, not least reviving a social contract that would underpin revenue collection. To do this would require the government to: get the right laws and regulations in place; address the cultural attitudes and resistance to paying tax; establish tax collecting machinery; and finalize the necessary political and constitutional settlements to allow serious domestic revenue mobilization to take place.

The federal government has historically sought budget support from foreign donor governments. There have also been one-off attempts to generate concessional income. For example, from 2014–16, the federal government increased revenues through agreements of concessions for the collection of non-tax revenues, mainly through the management of Mogadishu's sea and airports. It also negotiated smaller contracts related to the collection of road tax, vehicle licenses and property transfer tax.

However, in the view of many Somalis interviewed, the federal government has generally not prioritized the work of building the political legitimacy and institutional muscle to collect revenue from the citizenry. The difficult work of strengthening the social contract has always taken a back seat to other more immediate concerns, such as security.

There are legal, operational, social and political barriers to increasing revenue from taxation. Three main obstacles exist.

---

## *Federal government lacks a monopoly on domestic revenue mobilization*

The federal government is not the only tax or revenue collecting authority in Somalia. As a result, it receives only a portion of all domestically generated revenue. This mostly comes from Mogadishu as the reach of the federal government outside of the capital city is limited. Other bodies that collect tax, or a form of financial (and sometimes non-financial) payment, exist on a continuum from formality to informality: from the nationally recognized administrations of the Federal Member States, to the well-established, but coercive, tax collecting authorities of al-Shabaab. The latter exist both on a local level—in al-Shabaab-controlled and administered areas—and nationally, as a kind of enforced contribution to the group. Finally, there are the informal and unregulated fees demanded by soldiers stationed at checkpoints on roads across government-administered areas. These payments, fees or bribes are not an official tax, but they constitute a considerable, and often predictable, financial burden to Somalis traveling through the country, as well as in their home areas.

### 1. Federal Member States

Somalia's federal state-building project is a work in progress. In practice, each state government collects customs revenue, which it retains for its own use. The federal states all have airports and Jubbaland, Puntland and Somaliland also have functioning maritime ports. Most have set up border posts and charge tariffs at their state borders, which creates significant costs for businesspeople moving goods. While the Provisional Federal Constitution is in the process of being finalized, questions about how power will be shared between the central government and states, what rights and responsibilities the states will exercise, and how resources will be shared remain unanswered. As a corollary, questions about fiscal arrangements also remain unanswered—namely, revenue and expenditure assignments among different levels of government. The financial independence of the member states is a key factor in the positions taken in power-sharing negotiations. Those states with sea port revenues—Puntland and Jubbaland—are more vocal and willing to push back against the federal government in negotiating a more decentralized federal system. Those without functioning sea ports—South West State, Galmudug and Hirshabelle State—are much less vocal and more focused on securing fiscal transfers from the centre.

A significant source of fiscal revenue, which influences the federal government's relationship with member states, is Somalia's natural resources—petroleum, minerals and fisheries. However, who issues concessions, owns them and will enjoy the revenues are hotly contested subjects. States have tended to issue their own licenses for fishing and oil exploration to companies who are willing to engage with sub-national entities in high-risk environments. This is changing. In February 2018, the federal government and states reached an interim agreement on fishing revenues. In June 2018, they also reached an agreement about ownership, management and sharing of revenues from natural resource extraction. Both of these agreements could have a transformational impact on revenue sharing, as the lack of clarity in the relationship between the federal government and member states has been an impediment to potential investors.<sup>7</sup>

### 2. Al-Shabaab

Even within the territory that it nominally controls, the federal government is often not the only tax collector. Al-Shabaab collects its own taxes from large and small businesses, often remotely, as well as people travelling on the roads which pass through the checkpoints that they control.

Al-Shabaab collects three types of revenue (often using coercion to do so).<sup>8</sup> Starting in February 2010, al-Shabaab began forcibly collecting the annual *zakat* from Somalis in the areas it controls.<sup>9</sup> It also forcibly collects donations (*sadaqa fi sabiililaahi*—donations for God's grace) from the business community. According to Roland Marchal, this is collected 'under a veiled threat of retribution, if people are reluctant to exhibit their generosity'.<sup>10</sup> Finally, al-Shabaab collects *khidma* (a service charge) that is levied on commercial operations at a rate of ten per cent and on salaries at a rate of five per cent. This revenue goes toward services, such as the al-Shabaab drought committee, which either gives cash or provides food and clothing to drought-affected people.<sup>11</sup>

---

A July 2018 report on al-Shabaab produced by Hiraal Institute estimated their annual revenues to be approximately USD 27 million.<sup>12</sup> This consisted of USD 15 million collected at checkpoints, USD 8 million collected as livestock *zakawaat* (non-monetary taxes) from pastoralists during the month of Ramadan across south and central Somalia, USD 3.5 million from Mogadishu businesses and USD 500,000 from Bossaso-based businesses.

The report also describes how al-Shabaab is able to collect taxes in territories that are not under their control, such as in Bakara Market in Mogadishu. Businesses are often summoned by al-Shabaab's finance officials to areas under their control to pay the required amounts. The system is also technologically sophisticated, with money often demanded via a phone call or text message, and payment made via mobile money services without any physical interaction between the payee and al-Shabaab officials. Failure to provide the sums demanded risks having files handed over to the *Amniyaat*—the al-Shabaab intelligence wing—for enforcement.<sup>13</sup> Al-Shabaab's system of revenue collection is highly organized and centralized, moving from district to region to the Central Finance Office. This exists in stark contrast to the decentralized reality of federal government and member state revenue generation.

When the federal government seeks to collect taxes, businesspeople and citizens complain about double taxation and the repercussions that they will suffer from al-Shabaab if they pay taxes to the federal government. This may result in violence against them or an increase in al-Shabaab's taxes. Another complicating (if rarely discussed) factor is that members of both the federal government and parliament also pay taxes to al-Shabaab. One respondent commented, 'the government isn't strong enough. They themselves pay taxes to al-Shabaab out of fear. So how can someone who himself is taxed, tax others?'<sup>14</sup>

### 3. Checkpoint soldiers

Payments made to soldiers at checkpoints—often referred to as *baad* (meaning extortion or informal taxation)—can amount to a serious outlay for Somali citizens. One electricity company official stated, 'We pay more *baad* than official taxes.'<sup>15</sup> A Mogadishu businessman also explained:

At our stores, 45–50 trucks are lined up and trying to unload. Soldiers show up and you have to pay them. What happens if you don't? They stop the work. You can go to higher ups to complain but this means we lose time. The truck drivers also complain. It is just easier to pay. ... The government doesn't control these soldiers.<sup>16</sup>

While government soldiers technically work for the federal government, they seldom collect these revenues on its behalf, or that of the federal member states. Rather, they collect money for themselves and the government has been largely powerless to stop them from doing so. This creates significant resentment from the civilian population.

#### *The federal government's uneven authority over business actors*

Unlike al-Shabaab, Somalia's federal government does not have a strong hold over large-scale economic actors and is unable to compel wealthy and powerful Somali individuals and businesspeople to pay taxes. These same actors find it fairly easy to dissuade, influence or bribe government officials from pushing too hard for compliance. Even when large-scale economic actors do agree to pay a negotiated amount in taxes, these sums are small in proportion to their earnings.

In contrast, the federal government is able to compel—including through harassment and intimidation—small vendors and hawkers to pay taxes and fees. A male *tuk tuk* driver said:

I got the license a few years back, it was USD 140 but now the process has changed, and one has to go to the CID [Criminal Investigation Department] office to be cleared and his fingerprints taken, this costs around USD 20 and the license is USD 150. All *tuk tuk* drivers were told to pay USD 30 monthly but after we protested against it, it was reduced to USD 17.50 monthly. You can't refuse or they [traffic police] use force.<sup>17</sup>

---

A female market trader also noted:

We pay 3,000 shillings [USD 5] to the municipality, and we pay USD 50 for rent. We are not given a *shati* (business license); this is only given to the big businesses. And we don't get a receipt for the 3,000 shillings, and we can't talk about it because they are the authority.<sup>18</sup>

This does not, however, generate significant revenue. The targeting of less powerful economic actors also illustrates the weakness of the federal government and compounds its image as a dishonest broker and government as predatory, reaffirming the experience of most Somalis. One of the dangers of pursuing more forceful methods of tax collection is the reinforcement of the idea of tax as a punishment or something imposed, rather than encouraging the voluntary compliance that comes from a sense of citizenship or an appreciation of a mutually binding social contract.

### *Citizens refuse or avoid paying taxes*

There are three main reasons that explain the resistance many Somalis have towards paying tax. All of these relate to the lack of a coherent and enforceable social contract, the failure to deliver services, corruption and lack of accountability, and fear of strong government.

First, the vast majority of respondents believe that any taxes they pay will be stolen by individuals in the government for their own personal gain, and that these taxes will not benefit them or wider Somali society in the form of public services. Even when tax revenues are not diverted, they have no information about where the money goes and what it is used for, which compounds their distrust.

In the first quarter of 2018, the federal government increased domestic revenue to USD 42 million, which was the highest sum ever generated in a single quarter at the time. This heightened expectations for service delivery. However, the USD 42 million was not sufficient to cover the federal government's basic operating expenses for the quarter, including salaries.<sup>19</sup> This reinforces the belief among many Somalis that those in government prioritize payment of their own salaries over the welfare of ordinary Somalis.

Second, some businesspeople argue that they should not have to pay taxes because they are fulfilling the service provision role of the government themselves. As the senior official of a telecom company asserted, 'We are doing all the government's work—droughts, rains, IDPs, illnesses. We are the only ones there, so we help. Why? Because of our *Somalinimo* (Somaliness, sense of nationalism) and these are our customers.'<sup>20</sup> Another interviewee said, referring to the government: 'Where were you when there was no light? ... Government just have a pen to sign. They don't care about the future.'<sup>21</sup>

The same interviewee expressed the view that the government should protect infrastructure building businesses, which use their own financial resources, from the competition of foreign entrants.

Third, there is a fear that a government strengthened by an increase in its tax income could abuse its power. This fear was ascribed to multiple sources—a particular clan or set of businesspeople with ill-gotten gains; companies fearing external competition that would be wooed by a stronger government; or in some cases, just fear of a strong government.

## Policy Considerations

If the federal government is to significantly increase domestic taxation, and donors are to support the federal government to do this, the following should be considered:

*Determine the federal system:* The federal government, working with the federal member states and both houses of parliament, needs to prioritize resolution of open constitutional issues. Critical among these is how revenue powers will be assigned and resource sharing agreed. Agreements reached in February and June 2018 by the federal government and member states on resource sharing are positive steps, which can provide a foundation for negotiations on fiscal federalism, including taxation and revenue sharing, though the little progress achieved to date does not bode well.<sup>22</sup>

---

*Strengthen the social contract:* As the federal government works to reduce its reliance on trade tariffs collected at customs points and moves to collecting internal revenue from businesses and citizens, it will need to secure cooperation from the population. To do this, the federal government must first address the public trust deficit. One way to do that is to fulfil public expectations of service delivery, providing security, and taking public concerns around accountability seriously, including by communicating how revenues are spent. Managing the behaviour of government soldiers would also go a long way to rebuilding trust.

*Increase public awareness:* There is a great deal of public misunderstanding around the very nature and purpose of taxation. Investment in civic education on taxation is badly needed. Religious scholars can be engaged to dispel some of the more extreme, yet relatively common, misconceptions about taxation. Mogadishu residents and businesses also need reassurance that they are not the only Somalis paying taxes. The merits of establishing a government *zakat* collecting institution, such as operates in Somaliland, should be considered. Run correctly, this could undermine al-Shabaab's influence on *zakat*.

*Be more business friendly:* Ministries and agencies need a better understanding of the constraints, challenges and opportunities businesses face. Basic information on Somali companies, especially on large-scale conglomerates, would help in this regard. If passed and implemented, the new Company Act would allow government to collect information on how companies are operating, their revenues and the identities of their shareholders.

*Taking the long view:* The difficult work of strengthening the social contract has up to now taken a back seat to more immediate and obvious concerns, including security. That balance will need to change over time. Cultural attitudes will continue to inhibit efforts to enhance domestic revenue mobilization, unless the government counters this with a positive narrative based on demonstrable benefits to taxpayers of improved public services and security, thereby enhancing its legitimacy as a taxing authority.

---

## Notes

- 1 'Somalia: Enhanced Heavily Indebted Poor Countries (HIPC) Initiative-Decision Point Document', IMF Country Report No. 20/86, Washington D.C: International Monetary Fund, March 2020, (<https://www.imf.org/en/Publications/CR/Issues/2020/03/26/Somalia-Enhanced-Heavily-Indebted-Poor-Countries-HIPC-Initiative-Decision-Point-Documents-49290>).
- 2 Information is based on the views of 130 respondents in Mogadishu, gathered by Sagal Abshir and Khalif Abdirahman through key informant interviews and focus group discussions.
- 3 While its contemporary iteration was introduced by the colonial powers, pre-modern states existed in Somalia in the past. For example, nineteenth century Mogadishu was a major trading hub under the suzerainty of Ottoman sultanates. The forms of taxation that existed in those times are beyond the scope of this paper.
- 4 The closest equivalent in English might be 'tribute', which refers to payment made by the defeated or the subservient to the ruling authority.
- 5 Interview with hotel owner, Mogadishu, April 2018.
- 6 The date of payment is derived from the date the individual reached the threshold of accumulated wealth, but is most often paid at Ramadan.
- 7 As of February 2020, however, there is no progress on the interim fisheries revenue agreement being made law.
- 8 Roland Marchal, 'The Rise of a Jihadi Movement in a Country at War: *Harakat al-Shabaab al-Mujaheddin* in Somalia', Paris: Centre for Scientific Research (CNSR), Sciences Po, March 2011.
- 9 Marchal, 'The Rise of a Jihadi Movement', 67. For many of the Mogadishu respondents in this study, *zakat* payments made to al-Shabaab do not count as genuine *zakat*. Although they pay whatever al-Shabaab demands, they also directly pay their *zakat* obligation to the poor. This double *zakat* burden reveals two important issues. First, some do not trust that what they pay to al-Shabaab classifies as fulfilment of their religious obligation of *zakat*, because they are not sure where the money goes. Second, it indicates that al-Shabaab has gathered enough information on the assets of individuals and businesses to be able to assess the amount of *zakat* payable.
- 10 Marchal, 'The Rise of a Jihadi Movement', 68.
- 11 Marchal, 'The Rise of a Jihadi Movement', 73.
- 12 Hiraal Institute, The AS Finance System, July 2018, (<https://hiraalinstitute.org/wp-content/uploads/2018/07/AS-Finance-System.pdf>),
- 13 The AS Finance System, Hiraal Institute, July 2018, 4, (<https://hiraalinstitute.org/the-as-finance-system/>).
- 14 Interview with student at Islamic University, Mogadishu, April 2018.
- 15 Interview with electric company official, Mogadishu, April 2018.
- 16 Interview with businessman, Mogadishu, April 2018.
- 17 Interview with male *tuk tuk* (auto-rickshaw) driver, Mogadishu, April 2018.
- 18 Interview with female market trader, Mogadishu, April 2018.
- 19 Interview with Federal Government of Somalia official, Mogadishu, April 2018. The Federal Government Ministry of Finance reported that domestic revenues totaled USD 172 million in 2018, and USD 189 million in 2019. <https://mof.gov.so/Budget-2019>.
- 20 Interview with senior official of a telecom company, Mogadishu, April 2018.
- 21 Interview with electric company official, Mogadishu, April 2018.
- 22 As of February 2020, little progress has been made on these agreements, though the petroleum law was passed into law in February 2020 (though subsequently rejected by Puntland). Little progress has been made in reviewing the constitution.



## Credits

This briefing was written by Sagal Abshir, Khalif Abdirahman and Hannah Stogdon, based on research conducted by Sagal Abshir and Khalif Abdirahman for a project part financed by the World Bank. Edited by Mark Bradbury and Magnus Taylor. It is available for free download from [www.riftvalley.net](http://www.riftvalley.net)

The Rift Valley Institute works in Eastern and Central Africa to bring local knowledge to bear on social, political and economic development.

Copyright © Rift Valley Institute 2020. This work is published under a Creative Commons Attribution-NonCommercial-NoDerivatives License (CC BY-NC-ND 4.0).