SOMALI DIALOGUE PLATFORM

Integration and Harmonization of FGS–FMS Revenue Systems and the 2023 Baidoa Agreement

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Contents

Summary

- Tax revenue collection in Somalia has, during the past decade, been hampered by—among other things—weak institutional capacity, lack of sound tax administration systems and a fragmented administrative structure that has often placed the Federal Government of Somalia (FGS) at odds with Federal Member States (FMSs). Despite these limitations, however, Somalia's domestic revenue tax mobilization reform has been on an upward trend in recent years. Against this backdrop, the report explores the FGS's progress (or lack thereof) in establishing fiscal federalism and harmonizing tax administration across the country.

- Although the principles of fiscal federalism are set out in Somalia's 2012 Provisional Constitution, it does not elaborate on a number of key issues, including revenue distribution mechanisms and the respective rights and roles of federal and state authorities. These gaps pose significant challenges to establishing harmonized tax systems across the country.

- The FGS has sought to diversify its revenue sources beyond Mogadishu, expanding into nationally regulated sectors such as telecommunications, air navigation and fishing. Moreover, to achieve fiscal sustainability over the medium term, the FGS has committed to a comprehensive fiscal reform agenda encompassing domestic revenue mobilization, expenditure controls, transparency and accountability in public resource management. In recognition of this, Somalia's external creditors recently granted the country debt relief under the Heavily Indebted Poor Countries (HIPC) initiative.

- Currently, tax revenue collection is administered separately by the FGS and FMSs with neither jurisdiction sharing revenue with the other. In many cases, this has led to tax competition, multiple taxations and high compliance costs for the private sector.

- In terms of FGS–FMS collaboration efforts, the March 2023 Baidoa Agreement stands out as being the most consequential, as it sets out general revenue sharing principles in Somalia, guided by principles of economic stability and addressing disparities. Despite the initial consensus, however, progress in establishing the necessary institutions and formulating the required policies has been slow. Moreover, political disputes between the FGS and FMSs remain a key stumbling block.

- Overall, despite progress having been made, a number of outstanding challenges remain in terms of harmonizing and mobilizing tax revenues at both the federal and FMS level. These include the fact the FGS does not have a constitutional mandate to implement its federal tax authority throughout Somalia; the stalled establishment of the National Revenue Authority (NRA) and the Revenue Allocation and Acceleration Committee provided for in the Baidoa Agreement; the setting of unrealistic timelines for the harmonization process; and shortfalls in capacity on the part of federal and state authorities.

- Somalia is at a crucial juncture in its journey towards fiscal stability and sustainable economic development. While significant debt relief under the HIPC initiative holds the potential for transformative change, a number of structural and political challenges must be addressed if the momentum generated thus far is to be sustained. Here, donors and international partners have a crucial role to play in supporting the creation of a harmonized fiscal framework, contributing ongoing financial support, developing tax law and policy, and providing technical expertise and capacity-building initiatives. Above all, Somalia needs to make further progress in increasing its tax base, as well as harmonizing tax revenues across the FGS and FMSs.

Abbreviations

BRA	Banadir Regional Administration
EAC	East African Community
FGS	Federal Government of Somalia
FMIS	Financial Management Information System
FMS	Federal Member State
HIPC	Heavily Indebted Poor Countries
ICT	information and communications technology
IDA	International Development Association
IGFFTC	Intergovernmental Fiscal Forum Technical Committee
IMF	International Monetary Fund
ITAS	Integrated Tax Administration System
LMTO	Large and Medium Taxpayer Office
MoF	Ministry of Finance
MoIFAR	Ministry of Interior, Federal Affairs & Reconciliation
NCC	National Consultative Council
PoS	point of sale
PREMIS	Public Resource Management in Somalia
SOMCAS	Somali Customs Automation System
TCC	Tax-Compliance Certificate
TIN	Tax Identification Number

Introduction

Tax revenue represents both a critical source of state funds and a tool to address instability, increase government legitimacy and improve service delivery in a post-conflict or fragile country. In Somalia's case, revenue collection over the past decade has been hampered by an absence of government authority in some areas; weak institutional capacity; lack of sound tax administration systems; the informal nature of much of the country's commercial activities; and a fragmented administrative structure that has often placed the Federal Government of Somalia (FGS) at odds with Federal Member States (FMSs). Despite these limitations, however, Somalia's domestic revenue tax mobilization reform has been on an upward trend in recent years.

This paper was commissioned as part of ongoing efforts to assess the challenges and opportunities within Somalia's fiscal federalism and tax revenue harmonization. It aims to provide actionable insights for policymakers at both the FGS and FMS levels, as well as international partners supporting Somalia's economic reform agenda. The analysis seeks to highlight progress achieved thus far, identify remaining gaps and recommend strategies to address structural and political barriers to sustainable tax revenue integration.

Methodology

The study on which this report is based utilized a qualitative research approach—specifically key informant interviews—to gather in-depth insights on FGS and FMS tax revenue harmonization. A total of 15 interviews were conducted with two distinct categories of respondents. The first category, comprising policymakers and government officials, included representatives from FGS and FMS finance ministries and tax revenue departments, members of the Intergovernmental Fiscal Forum Technical Committee (IGFFTC), and employees of the Central Bank of Somalia. The second category comprised subject matter experts and international/local partners, encompassing researchers, academics, local financial experts and representatives from international agencies with a history of supporting tax harmonization in Somalia. This study drew on the expertise of Adam Smith International (ASI), the World Bank and Development Alternatives Inc. (DAI), building on their work in fiscal policy reform. ASI and DAI provided technical expertise, with funding from FCDO and USAID.

Interviews were conducted in-person in Mogadishu, or alternatively—particularly in the case of subject matter experts and international partners unable to meet face-to-face—via telephone. Additionally, extensive desk research was conducted using existing research reports, policy briefs, articles and reports from the FGS Ministry of Finance (MoF), National Economic Council and the World Bank. The federal MoF website was also a valuable source of information, particularly concerning Somalia's latest tax collection figures.

Here, it should be noted that FGS–FMS tax harmonization is a highly contentious and politically sensitive topic, which poses challenges when it comes to accessing information and interviewees, particularly officials within the tax revenue departments of the FGS and FMS finance ministries. As a consequence, accessing those in leadership positions at the federal MoF's tax revenue department was almost impossible. Despite this shortcoming, the research lead made use of local networks to interview officials from the relevant tax revenue departments.

Structure of the report

The remainder of the report unfolds as follows. First, section 1 provides an overview of how Somalia's tax revenue landscape has developed in the wake of the 2012 Provisional Constitution, section 2 sets out the various components of the FGS's tax reform programme, as well as how tax assignments and revenue collection currently operate in practice. Next, section 3 elaborates on the uncertain path taken towards fiscal federalism and intergovernmental tax revenue harmonization, including how this applies to both inland tax and customs tax, and the implications for Somalia's integration into the East African Community (EAC). Section 4 then sets out the progress made to date in the mobilization of tax revenues at the federal, state and district levels. Having done this, Section 5 unpacks the various challenges to tax harmonization that have yet to be fully addressed. Finally, the report's conclusion offers a comprehensive set of policy recommendations aimed at the FGS and FMS authorities, as well as the donors and international partners working with them.

1. Somalia's fiscal and tax landscape

Having endured more than a decade of conflict and the collapse of state institutions, Somalia began its journey towards a decentralized form of governance at the Arta Peace Conference in Djibouti in 2000. The 2004 Mbagathi Peace Conference in Kenya reinforced this direction, establishing federalism as a key component of Somalia's state-building efforts. In practice, however, federalism only began to be implemented with the adoption of the 2012 Provisional Constitution and establishment of the FGS. Shortly thereafter, the formation of FMSs commenced in 2013, with Puntland already in existence. This transition marked an important turning point, the hope being that a move to a federalized model would help address the country's complex historical, clan and socio-political dynamics, thereby fostering a more inclusive, equitable governance structure.

Somalia's fiscal and tax landscape was beset by significant challenges prior to the adoption of a federal governance system. Domestic revenue mobilization was extremely low even before the civil war, with the tax-to-GDP ratio of 5–6 per cent one of the lowest rates globally.[1] Before the adoption of federalism in 2012, Somalia's revenue generation depended heavily on customs duties from Mogadishu port, which constituted 85 per cent of total revenues.[2] During the early post-independence period (1960s), an income tax system was introduced but underwent few reforms as the dominant pastoral economy making wider income tax collection difficult, resulting in narrow tax base and low tax compliance.[3] Additionally, the tax system, which calculated duties based on container size rather than content value, led to the under-taxation of high-value items. These issues were exacerbated in the post-conflict period following the state's collapse in 1991, as revenue authorities faced significant challenges due to lack of staff and a reliance on manual procedures, reflecting broader governance issues in a fragmented administrative environment.

The post-1991 fragmentation of the state deeply impaired the newly established government's operational capability, posing substantial challenges to tax revenue generation and leading to significant emphasis being placed on local control over tax and customs revenues. As a consequence,

1. Mohamed Ali Abdinur et al., 'The Influence of Tax Administration on Revenue Generation in Somalia', *Al-Rashad Journal of Islamic Finance* 1/1 (2021). Accessed 26 February 2025, https://www.researchgate.net/publication/348188448_THE_INFLUENCE_OF_TAX_ADMINSTRATION_ON_REVENUE_GENERATION_IN_SOMALIA.
2. Federal Government of Somalia, 'Financial Governance Report 2023: Harnessing Financial Governance for Economic Development and State Building', World Bank Group, 2023. Accessed 26 February 2025, https://mof.gov.so/publications/somalia-financial-governance-report-2023; The United Nations Population Fund's (UNFPA) 2014 Population Estimation Survey indicates that nearly half the population in Somalia's 93 districts rely on pastoral activities for their livelihoods. UNFPA, 'Population Estimation Survey Report 2014: For The 18 Pre-war Regions of Somalia', October 2014. Accessed 26 February 2025, https://somalia.unfpa.org/sites/default/files/pub-pdf/Population-Estimation-Survey-of-Somalia-PESS-2013-2014.pdf.
3. F. Davies et al., 'Local Governments and Federalism in Somalia: Fitting the Pieces Together'. World Bank Group, June 2023. Accessed 26 February 2025, https://documents1.worldbank.org/curated/en/099031224022529372/pdf/P1719741308f0a0851875a1d476daf78217.pdf.

regions with access to maritime ports and the related trade opportunities gained substantial revenue advantages over those without.[4]

Today, the FGS and FMSs largely depend on two revenue sources: foreign aid and taxes on international trade. The principles of fiscal federalism are set out in Somalia's 2012 Provisional Constitution, including: 1) Article 50(b), which requires that power be given to the level of government where it is most likely to be exercised effectively; 2) Article 50(e), which mandates the fair distribution of resources; and 3) Article 50(f), which states that revenue-raising responsibility be given to the level of government where it is most likely to be exercised effectively. Additionally, each FMS has its own constitution and tax regulations or decrees,[5] with the Jubaland constitution mandating that revenue sharing is to be negotiated between the member state and the FGS.[6] (Other FMS constitutions do not address revenue sharing.)

Importantly, however, the 2012 Provisional Constitution fails to elaborate on a number of key issues. Specifically, it does not define tax types, revenue distribution mechanisms, or the roles of federal and state authorities, potentially leading to disputes and inefficiencies. There is also inadequate guidance for local government capacity-building and a lack of revenue collection, control and allocation provisions, transparency measures and public participation in tax policy-making. These gaps pose significant challenges to establishing a functional fiscal system in Somalia.

Moreover, while the Revenue Administration Act (RAL) 2019 states that major taxes, such as those on international trade, should be governed by federal laws, it does not clearly define which level of government—federal or state—will be responsible for administering or retaining revenues from such taxes. The act also fails to provide a legal framework for other types of revenues potentially collected by the FMSs, nor does it make clear how revenue collection responsibilities are to be assigned between FMS governments and local governments.[7] Thus, the specifics of revenue and expenditure assignments as they apply to Somalia's various levels of government—federal, state and district—remain unclear.

Currently, each FMS collects and retains its taxes and various fees, while the FGS collects taxes and fees only within Benadir Regional Administration (BRA).[8] Article 50(e) of the Provisional Constitution, which mandates the fair distribution of resources, remains largely aspirational. The current framework allows FMSs with operating maritime ports—such as Puntland (Bossaso and Gra'ad ports), Galmudug (Hobyo) and Jubaland (Kismayo port)—to dominate revenue collection. These ports generate substantial income from customs duties, creating significant horizontal tax competition among FMSs and vertical tax competition with the FGS. For instance, port-operating FMSs attract businesses through favorable customs arrangements, further increasing their revenues, while inland FMSs lack comparable revenue opportunities, exacerbating fiscal disparities.[9] To mitigate these disparities, the FGS provides intergovernmental fiscal transfers (see below).

These fiscal challenges are further compounded by Somalia's outdated legal framework for taxation. The 2012 Provisional Constitution also states that pre-

4. K. Menkhaus, 'Governance without Government in Somalia: Spoilers, State Building, and the Politics of Coping', *Journal of International Security* 31/3 (2007).

5. G. Raballand and J. Knebelmann, 'Domestic Resource Mobilization in Somalia', World Bank Group, February 2021. Accessed 26 February 2025, https://documents1.worldbank.org/curated/en/121391596804622057/pdf/Domestic-Resource-Mobilization-in-Somalia.pdf.

6. See Article 87(3) of the Jubaland Provisional Constitution.

7. Davies et al., 'Local Governments'.

8. Federal Government of Somalia, 'Financial Governance Report 2023'.

9. Federal Government of Somalia, 'Financial Governance Report 2023'.

existing laws (including laws that existed under unitary legal regime), unless completely redefined, remain in effect.[10] As a result, tax rates, valuation methods, definitions of taxable goods, lists of taxpayer categories, and tax-exempted goods and services remain largely unchanged since 1991. The main tax laws in effect when the new constitution was introduced include: Customs Law: Law No. 1 of 31 March 1961, which regulates customs duties and procedures; Direct Taxes Law: Legislative Decree No. 5 of November 1966, which outlines the framework for direct taxes, including personal and corporate income taxes; and Sales Tax Law: Law No. 2 of 7 January 1984, which governs sales tax and other consumption taxes.[11] While these laws remained largely unchanged for decades, recent reforms have begun to modernize Somalia's tax system. In 2022, a new Customs Tariff Law was introduced, and the Somali Customs Automated System (SOMCAS) was launched to align customs procedures with international standards.[12] Additionally, the payroll income tax and corporate income tax, still governed by the 1966 Direct Taxes Law, continue to be applied, although modernization efforts are underway. In August 2024, the FGS unilaterally implemented a 5 per cent sales tax, replacing elements of the 1984 Sales Tax Law and marking a significant step toward tax system reform.[13] Furthermore, the Somali Cabinet approved a draft Income Tax Bill in July 2024, signifying progress toward establishing a modern framework for income tax.[14]

Intergovernmental fiscal transfers

The FGS transfers donor budget funds, including World Bank budget support, to the FMSs in order to ensure minimum levels of public services and infrastructure. These intergovernmental transfers are essential for financing the budgets of FMSs, particularly those without major maritime ports. The FGS lacks a comprehensive legal and policy framework for resource distribution, however, meaning it is reliant on ad hoc agreements with the FMSs.[15] These agreements do not require the FMS administrations to share resources with district governments, leading to uneven allocations of funds. Additionally, the Ministry of Interior, Federal Affairs & Reconciliation (MoIFAR) have previously provided limited grants to FMSs without maritime ports, which were transferred to FMS-level MoIFARs.[16] These grants have been discontinued. While some FMS governments choose to share these grants with local governments, they are nevertheless not under any legal obligation to do so, further complicating the distribution of resources.[17]

Nevertheless, the FGS and FMSs have reached agreement on the vertical distribution of grant support, with 60 per cent going to the FGS and 40 per

10. Raballand and Knebelmann, 'Domestic Resource Mobilization'.
11. Raballand and Knebelmann, 'Domestic Resource Mobilization'.
12. IMF, 'Somalia: Staff Report for the First Review Under the Extended Credit Facility Arrangement, and Requests for Modification of Performance Criteria—Press Release; Staff Report; and Statement by the Executive Director for Somalia', IMF Country Report No. 24/158, June 2024. Accessed 26 February 2025, https://www.imf.org/-/media/Files/Publications/CR/2024/English/1SOMEA2024001.ashx.
13. Hiiraan Online, 'Somalia's 5% sales tax takes effect as President Mohamud calls for compliance', 18 August 2024. Accessed 15 December 2024, https://hiiraan.com/news4/2024/Aug/197590/somalia_s_5_sales_tax_takes_effect_as_president_mohamud_calls_for_compliance.aspx.
14. Abdiqani Abdullahi, 'Somali Cabinet Approves Income Tax Bill, Infrastructure Projects, and Security Measures', *Somali National News Agency (SONNA)*, 11 July 2024. Accessed 15 December 2024, https://sonna.so/en/somali-cabinet-approves-income-tax-bill-infrastructure-projects-and-security-measures/. Subsequent to the drafting of this paper, as of December 2024, the bill remains under parliamentary review and has not yet been enacted into law.
15. Davies et al., 'Local Governments'.
16. Davies et al., 'Local Governments'.
17. Davies et al., 'Local Governments'.

cent to the FMSs after deductions.[18] These deductions typically cover administrative costs, contingency funds or other central expenditures before distribution to the states. The FMS's 40 per cent share is distributed horizontally among the states, with transfers equal to or greater than their amount of revenue collection. This framework was developed under the Intergovernmental Fiscal Forum (IGFF), which has also introduced performance-based transfers aimed at incentivizing fiscal discipline and improving revenue mobilization at the state level. Despite these efforts, the transfers have yet to achieve the constitutional goal of fair resource distribution, as they are insufficient to equalize the significant differences in revenue-raising capacities between states with operational maritime ports and those without.[19]

At the political level, the FGS and the FMSs have reached several agreements on the distribution of powers. In 2018, the FGS president and the five FMS presidents agreed on intergovernmental responsibilities for managing natural resources, specifically fishing, petroleum and minerals. These agreements were supplemented by sector-specific revenue-sharing agreements and subsequently codified in federal legislation through the 2020 Petroleum Act and 2023 Fisheries Act. In 2022, the FGS and FMSs (excluding Puntland) reached agreement on how powers should be allocated between the FGS, FMSs and local governments. This was followed up in March 2023 by the National Consultative Council (NCC), and inter-ministerial agreement in August 2023, endorsing the Baidoa Agreement on revenue assignment (the Baidoa Agreement is explored in further detail in section 3).[20]

Although some progress has been made in principle, both the FGS and FMSs continue to face practical obstacles in ensuring tax compliance, including challenges from other governance systems—such as traditional or communal obligations to make financial contributions—and coercive taxation by non-state actors such as al-Shabaab.[21] Dissatisfied citizens also regard formal tax collection institutions as having a low degree of legitimacy, with traditional or communal authorities enjoying greater trust.[22]

Moreover, despite the progress made in revenue mobilization, the FGS and FMS authorities remain heavily dependent on external financing, without which they would face significant deficits.[23] The COVID-19 pandemic in 2020 severely impacted the Somali economy, leading to a decline in domestic revenues, although these recovered to 2019 levels the following year. Even so, grant inflows were negatively affected by the subsequent electoral delays, leaving the FGS reliant on a one-off global allocation from the IMF's Special Drawing Rights to close its monthly budget deficit and pay salaries.[24]

18. N. Sharma and W. Dillinger, 'Somalia: Moving the Federalism Agenda Forward', World Bank Group. Accessed 26 February 2025, https://documents1.worldbank.org/curated/en/199431596779832046/pdf/Somalia-Moving-the-Federalism-Agenda-Forward.pdf.
19. Federal Government of Somalia, 'Financial Governance Report 2023'.
20. Federal Government of Somalia, 'Financial Governance Report 2023'.
21. Sagal Abshir, Khalif Abdirahman and H. Stogdon, 'Tax and the State in Somalia: Understanding domestic revenue mobilization', Rift Valley Institute, May 2020. Accessed 26 February 2025, https://riftvalley.net/wp-content/uploads/2020/05/Tax-and-the-State-in-Somalia-by-Sagal-Abshir-Khalif-Abdirahman-and-Hannah-Stogdon-RVI-2020.pdf.
22. Davies et al., 'Local Governments'.
23. Davies et al., 'Local Governments'.
24. Davies et al., 'Local Governments'.

2. Tax reform, revenue collection and the debt relief milestone

Tax revenue provides an essential basis for ensuring the growth of post-conflict nations. This is particularly true in Somalia, which has seen its fiscal systems placed under extreme strain in the aftermath of prolonged conflict. Establishing the FGS in 2012 marked the beginning of efforts to rebuild and strengthen these systems. Such efforts have, however, been hindered by a narrow tax base confined to Mogadishu, a reliance on outdated laws, and limited operational capacities.

Faced with these challenges, the FGS has sought to diversify its revenue sources beyond Mogadishu, expanding into nationally regulated sectors such as telecommunications, air navigation and fishing. Moreover, to achieve fiscal sustainability over the medium term, the FGS is committed to attaining a 15 per cent tax-to-GDP ratio through a comprehensive fiscal reform agenda encompassing domestic revenue mobilization, expenditure controls, transparency and accountability in public resource management.[25] Despite multiple climate shocks, a global pandemic, ongoing insecurity and two changes in administration, the FGS has made significant progress in its reform agenda.[26] In recognition of this, Somalia's external creditors recently granted the country debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. This in turn has led to the FGS embarking on a new three-year programme aimed at advancing its post-HIPC reform strategy.[27]

Against the above backdrop, this section sets out the FGS's key tax reform initiatives during the past decade, elaborates on how tax assignments and revenue collection currently operate, and spotlights the debt relief milestone the granting of relief under the HIPC initiative represents.

Key FGS tax reform initiatives

Several of the federal government's reforms and revenue administration improvements—partially driven by the HIPC initiative's qualification requirements—have had tangible results in terms of tax and non-tax revenues.

25. National Economic Council, 'State of the Economy Report: Accelerating Economic Reforms and Building Resilience in the Post-HIPC Era', November 2023. Accessed 26 February 2025, https://nec.gov.so/wp-content/uploads/2023/12/State-of-the-economy-13-Dec-23_.pdf.

26. Federal Government of Somalia, 'Financial Governance Report 2023'.

27. IMF, 'Staff Report for the Sixth Review Under the Extended Credit Facility Arrangement and Request for a Three-Year Arrangement Under the Extended Credit Facility—Press Release; Staff Report; and Statement by the Executive Director for Somalia', IMF Country Report No. 23/438, December 2023. Accessed 26 February 2025, https://www.elibrary.imf.org/view/journals/002/2023/438/article-A000-en.xml.

Below, some of the most prominent initiatives in the FGS's tax reform process are elaborated on:[28]

Establishment of the Large and Medium Taxpayer Office (LMTO): The LMTO was established and became operational around 2019 as part of FGS's broader fiscal reform efforts. This initiative centralized fee collection from specific ministries to enhance coordination and accountability. Additionally, all third-party revenue collection contracts have been terminated, with taxpayers instructed to pay their taxes through selected commercial banks, thereby improving the convenience and transparency of the tax payment process.[29]

Establishment of the Somalia Financial Management Information System (FMIS): The FMIS, launched in 2016, streamlines the registration of business activities, generates essential revenue statistics and facilitates the creation of invoices for payroll taxes.[30]

Enactment of the Revenue Administration Law (RAL) 2019: The RAL 2019, introduced with a view to modernizing tax administration and improving tax collection, puts in place mechanisms for taxpayer registration, assessments and the issuance of Tax-Compliance Certificates (TCCs) to taxpayers—covering both inland and customs taxes. The law draws on both the 2012 Provisional Constitution and older legal provisions, some dating back to 1990s. Its implementation in terms of advancing the tax harmonization process has taken longer than anticipated, however, owing to an absence of collaboration between the FGS and FMSs during its drafting.[31] This lack of consultation has resulted in misalignment with Article 50 of the Constitution, which requires shared decision-making, and left the RAL out of step with subsequent agreements, such as the 2023 Baidoa Agreement.

Nevertheless, the format for Tax Identification Numbers (TINs) has been agreed upon at the IGFFTC, and payroll tax is slowly being harmonized. Hirshabelle and Galmudug states have already implemented the set payroll tax rates. Meanwhile, the FGS, Jubaland and South West State (SWS) are belatedly preparing to implement these rates. The charts of accounts have been harmonized across all FMSs and the FGS.

The planned Income Tax Law would not necessarily replace the RAL, but rather complement and expand it. Approved by the Somali Cabinet in July 2024, the Income Tax Law is under parliamentary review. If enacted, it will function within the broader framework established by the RAL 2019, setting out specific regulations for income tax collection. However, concerns remain about the lack of consultation with FMSs during its drafting, particularly given that income tax has been identified as a shared revenue stream under the Baidoa Agreement. These issues highlight the need for collaboration to align fiscal legislation with intergovernmental agreements and constitutional principles.

Revision of the Customs Act: The 2020 revision of the Customs Act was introduced with the aim of simplifying customs procedures, thereby enhancing efficiency and revenue generation from imported goods.

28. Uweis Abdulahi Ali, 'Raising Sufficient Domestic Revenue to Overcome Dependency on External Budgetary support for Somalia', Heritage Institute for Policy Studies, 2023. Accessed 26 February 2025, https://8v90f1.p3cdn1.secureserver.net/wp-content/uploads/2023/12/Domestic-Reveneue.pdf.
29. Raballand and Knebelmann, 'Domestic Resource Mobilization'.
30. Raballand and Knebelmann, 'Domestic Resource Mobilization'.
31. Raballand and Knebelmann, 'Domestic Resource Mobilization'.

Introduction of sales taxes: A 5 per cent sales tax was unilaterally implemented on August 2024 by the FGS without consideration to any equitable sharing of the revenues as mandated by the Baidoa Agreement. This tax targeted goods and services at the point of importation, along with specific sectors such as hotels, event tickets and consumer water services. This measure has broadened the government's tax base and is part of ongoing efforts to modernize Somalia's tax system. While the tax is expected to increase domestic revenue, its success depends on effective enforcement and collaboration with FMSs, some of which have raised concerns about federal mandates overriding regional tax systems.

Introduction of sector-specific licensing fees: Licensing fees have been imposed on telecommunications companies, air navigation services and tuna fishing operators, thereby generating additional revenue and setting clear regulatory standards in these critical sectors.

Enforcement of tax identification and compliance: The enforcement of TINs and TCCs has improved tax compliance and enhanced accountability among businesses and individuals. Companies bidding for government contracts, as well as vendors to the FGS, are now required to hold a valid TCC.[32]

Modernization of customs: The FGS introduced two key systems to enhance efficiency, transparency and revenue collection. The Port Customs Management Information System (PCMIS) was introduced first, and is being deployed in the valuation of imported items. More recently, the Somalia Customs Automated System (SOMCAS)—a comprehensive web-based system—was introduced to further automate and digitize customs operations.[33] At present, these two systems are being used in parallel, with PCMIS still operational in certain areas where SOMCAS has yet to be fully implemented. For instance, at Mogadishu port, both systems are in use for different customs processes, reflecting a transitional phase in the modernization of Somalia's customs infrastructure. The full transition to SOMCAS across all of Somalia's maritime ports remains a key objective, but varying levels of adoption and technical capacity across regions pose ongoing challenges.

Aside from the above, other tax reforms introduced by the FGS include modifications to the personal income tax structure; tighter controls on tax exemptions; enhancements in customs efficiency through electronic processing; and the automation of visa and work permit fees. Additionally, aviation fly-over fees are now collected and directly remitted to the government by the International Air Transport Association, improving the accuracy and timeliness of these transactions.[34]

Here, it should be reiterated that the above laws and acts apply at the federal level. The reliance on legacy legislation from FCDO and ASI's Public Resource Management in Somalia (PREMIS) I project underscores the challenge of modernizing and harmonizing tax systems across FMSs, as these frameworks were not designed with fiscal federalism in mind. More specifically, each FMS has its own set of laws concerning income tax, customs duties and local government revenues. In the case of, for instance, SWS and Hirshabelle, the focus is mainly on income taxes due to the absence of operational maritime ports in these states.

32. Federal Government of Somalia, 'Financial Governance Report 2023'.
33. Federal Government of Somalia, 'Financial Governance Report 2023'.
34. Raballand and Knebelmann, 'Domestic Resource Mobilization'.

Tax assignments and revenue collection

Tax revenue collection is administered separately by the FGS and FMSs, with each utilizing revenue within its respective jurisdiction without remitting funds to the other. Some FMSs have also established border posts and impose tariffs on the transportation of goods across state borders. The FGS, meanwhile, assumes responsibility for collecting and managing tax revenues in BRA—including income from the Mogadishu port—which is allocated towards FGS administration and security.[35] Using these disjointed collection methods, a diverse range of tax instruments are imposed by the FGS and FMS, including customs duties, property taxes, road user taxes, security checkpoint fees, as well as taxes on telecommunications, financial institutions and financial transactions. In many cases, this has led to tax competition, multiple taxations and high compliance costs for the private sector.[36]

Mogadishu municipality, whose official status remains unsettled, collects various taxes and levies to support local governance and service delivery. Key revenues collected by the municipality include property taxes on residential and commercial properties; fees for business licences and permits; and market fees from traders and vendors.[37] Additionally, the municipality imposes service charges for waste collection and other municipal services; vehicle registration fees for licensing and registration; and construction permit fees for building and renovation projects.[38] Mogadishu municipality receives 15 per cent of the city's port revenues from the FGS in the form of unconditional transfers.[39]

A special arrangement between the federal MoF and Mogadishu municipality governs the collection of taxes and levies within the city's jurisdiction.[40] Although no formal agreement exists, the two entities adhere to an interim understanding. For example, while the federal MoF collects road taxes from motor vehicles on a quarterly basis, the municipality collects taxes from rickshaws (also on a quarterly basis). In terms of property taxes, the MoF levies a 5 per cent tax on monthly rents, while the municipality collects annual land rates. According to a federal MoF tax official, despite the interim arrangement having been functional thus far, further clarity and formal agreements are needed to enhance the efficiency of the city's tax collection processes and revenue-sharing mechanisms.[41]

The debt relief milestone

During the past decade, the FGS has implemented a range of reforms aimed at pro-poor growth, poverty reduction, improved public financial management and debt management. In recognition of this, the IMF and World Bank announced in December 2023 that Somalia would receive USD 4.5 billion in debt relief under the HIPC initiative.[42] This milestone provides Somalia with an opportunity to reengage global financial institutions and gaining access to new financial instruments, including concessional loans and grants.

35. Sagal Abshir, Khalif Abdirahman and Stogdon, 'Tax and the State'.
36. Davies et al., 'Local Governments'.
37. Interview with FGS MoF tax department official in Mogadishu on 1 February 2024.
38. Interview with FGS MoF tax department official in Mogadishu on 1 February 2024.
39. N. N. Isak and A. Y. Ali, 'Fiscal federalism policy in Somalia: Emerging challenges and agenda for reform', *Perspectives on Federalism* 11/3 (2019).
40. Interview with FGS MoF tax department official in Mogadishu on 5 February 2024.
41. Interview with FGS MoF tax department official in Mogadishu on 5 February 2024.
42. IMF, 'IMF and World Bank Announce US$4.5 billion in Debt Relief for Somalia', Press Release No. 23/438, 13 December 2023. Accessed 26 February 2025, https://www.imf.org/en/News/Articles/2023/12/13/pr23438-imf-and-world-bank-announce-us-4-5-billion-in-debt-relief-for-somalia.

Strengthening credible federal institutions capable of driving economic growth and advancing the country's economic development agenda will also play a pivotal role in attracting foreign investment. Debt relief is expected to free up financial resources previously allocated to debt servicing, creating fiscal space for the FGS to expand public services and invest in critical sectors.

According to IMF reports, Somalia was initially expected to transition from grant financing to concessional loans in July 2024. In February 2024, however, the World Bank Executive Board approved an extension of Somalia's grant status under IDA20 until the end of June 2025. This was done to avoid stricter financing terms being imposed until after the discussions on the new IDA21 grant allocation framework scheduled to take place later in 2024 had taken place.[43]

Nevertheless, questions have been raised as to whether the progress achieved thus far can be maintained over the longer term. In a recent article, former prime minister Hassan Ali Khaire cautions that if the government fails to maintain the achieved milestone, it may be forced to seek concessional borrowing in order to cover current expenditures, thereby jeopardizing years of reform efforts.[44] Similarly, a recent policy brief produced by the Heritage Institute for Policy Studies raises concerns about Somalia's fiscal sustainability if recurrent government expenditure has to be paid for by additional concessional loans.[45]

Thus, if Somalia is to sustain its recent economic growth, it must maintain the momentum generated thus far and prevent new cycles of debt. A recent economic update report sets out several measures open to the FGS at the post-HIPC completion point, including managing budget deficits by limiting wage bill increases; significantly increasing domestic tax revenues; and refraining from non-concessional external borrowing for the first five years post-HIPC.[46] In addition to these measures, the FGS could also consider strengthening its public financial management, utilizing performance-based transfers and exploring alternative funding sources to further enhance fiscal sustainability.

43. IMF, 'Somalia: Staff Report for the First Review'.

44. Hassan Ali Khaire, 'Somalia's HIPC Completion Point is riddled with risks', *The Africa Report*, 4 January 2024. Accessed 26 February 2025, https://www.theafricareport.com/331968/somalias-hipc-completion-point-is-riddled-with-risks/.

45. Uweis Abdulahi Ali, 'Raising Sufficient'.

46. J. Randa et al., 'Somalia Economic Update, Eighth Edition: Integrating Climate Change With Somalia's Development: The Case for Water', World Bank Group, November 2023. Accessed 26 February 2025, https://cryd.org.so/wp-content/uploads/2024/04/P1797020c6401a00b0b2cd084f0d0a483a2.pdf.

3. Fiscal federalism and tax revenue harmonization

The development of fiscal federalism, alongside the harmonization of Somalia's intergovernmental tax revenue system, have become significant focus areas for enhancing governance and fiscal stability. Efforts towards these ends will, it is hoped, promote national unity and facilitate cooperation among the FGS and FMSs. Since 2015, the FGS has embarked on regular intergovernmental dialogues concerning fiscal arrangements, revenue sharing, tax regimes and customs harmonization through the IGFFTC,[47] while ignoring the creation of the constitutionally mandated Inter-State Commission. This committee—composed of MoF directors general from both the FGS and FMSs; the director general of revenue (who also serves as the IGFFTC coordinator); the Recurrent Cost and Reform Finance project coordinator; and technical experts from FGS and FMS tax revenue departments—aims to enhance coordination on fiscal matters across government levels.

During the intervening period, the FGS and FMSs have reached a series of technical agreements on fiscal federalism, which have played a crucial role in laying the groundwork for enhanced intergovernmental harmonization.[48] These discussions have primarily focused on unifying inland tax rates, as well as customs duties and tariffs. In 2017, the first agreement reached was on harmonizing duty rates for khat, cigarettes and tobacco. According to a senior tax expert, this area of agreement was prioritized, as it was seen as relatively less likely to provoke controversy.[49]

Subsequently, there have been agreements in principle on harmonizing revenue laws and administration, and on implementing value-based customs tariffs.[50] Despite concerted efforts, unifying these tax rates continues to be challenging, primarily due to competing interests between the FGS and FMSs.[51] In particular, Puntland, Galmudug and Jubaland—the only FMSs with operational maritime ports—hold considerable authority over tax collection at their respective ports that they are reluctant to cede.

Nonetheless, the discussions held through the IGFFTC have led to improved understanding and collaboration between the federal government and the FMSs.[52] In parallel with these discussions, the federal MoF has initiated collaborations with FMS finance ministries on a variety of issues, including exploring the potential for harmonizing inland tax rates; considering value-based customs tariffs; standardizing revenue laws and administration;

47. The IGFFT has established a number of sub-committees, including the Revenue Sub-committee; Accounting & Reporting Sub-committee; Budget Harmonization Sub-committee; Finance, Admin & Capacity Development Sub-committee; and Research, Planning, and Monitoring & Evaluation Sub-committee.

48. Interview with senior tax expert in Mogadishu on 28 January 2024.

49. Interview with senior tax expert in Mogadishu on 28 January 2024.

50. Interview with members of the IGFFTC in Mogadishu on 31 January 2024.

51. Interview with FGS MoF tax department official in Mogadishu 5 February 2024.

52. Recurrent Cost and Reform Finance (RCRF) Project, 'Federal Government of Somalia makes progress on Inter-Governmental Fiscal Federalism', n.d. Accessed 26 February 2025, https://mof.gov.so/sites/default/files/Publications/IGFFTCSTORYFinal.pdf.

discussing a common budget classification; and discussing distribution of external budget support.[53]

In terms of FGS–FMS collaboration efforts, the March 2023 NCC Baidoa Agreement stands out as being the most consequential, marking as it does a significant step forward in addressing Somalia's fiscal federalism issue, as well as a tangible commitment to consensus on the part of federal and FMS leaders.

Somalia's pursuit of EAC integration is also important to its fiscal future, particularly in terms of the aligning its tax policies and trade regulations with regional standards. While primarily focused on external harmonization, EAC membership could indirectly support Somalia's internal fiscal federalism efforts by encouraging greater standardization of tax policies and collection mechanisms across FGS and FMSs.

The NCC Baidoa Agreement

The Baidoa Agreement sets out a path to centralizing the collection of both inland taxes and customs taxes, while establishing an equalization pot to allocate funds equitably among the FGS and FMSs. As part of this initiative, two key revenue commissions—the National Revenue Authority and the Commission of National Finance Allocation and Acceleration Committee—are to be tasked with enhancing countrywide tax revenue management. Additionally, the agreement outlines the terms by which the national financial system is to be federalized, including the division of customs duties—with the FGS responsible for collecting some taxes, the FMSs others, and a collaborative effort required for certain taxes (see Table 1).

Table 1. Intergovernmental revenue assignment by the National Consultative Council (March 2023)

FGS	Shared FGS/FMSs	FMS
■ Customs and excise duties ■ Telecoms sector licence fees ■ Financial sector licence fees ■ Capital gains tax ■ Federal stamp duty ■ Road tax (highways and interstate roads) ■ Natural resource revenues ■ Other fees approved by the Federal parliament	■ Sales tax ■ Rental income tax ■ Personal income tax ■ Corporate income tax ■ Professional/notary fees ■ Other stamp duties	■ Property taxes ■ Property transfer tax ■ FMS stamp duty ■ Agricultural and market fees ■ Road tax (state roads) ■ Vehicle registration fees ■ Driver's licence fees ■ Other fees subject to state laws

Implementing these ambitious plans has, however, proven difficult. Despite the initial consensus, progress in establishing the commissions and formulating the required policies has been slow. The subsequent discussions at the August 2023 NCC meeting in Dhusamareb and the May 2024 meeting in Mogadishu failed to advance negotiations around the agreement, highlighting the difficulties in transitioning from consensus to concrete action.

53. Federal Government of Somalia, 'Financial Governance Report 2023'.

The delay in setting up the required institutions is in part attributable to the persistent political dispute between Puntland and the FGS, which led to the former boycotting the NCC discussions in Baidoa. Without the involvement of Puntland's government—which has potential aspirations for a higher proportion of tax revenues due to its large territory, its control of significant infrastructure (maritime port and airports) and its higher revenues than other FMSs—realization of the agreement remains elusive. Aside from Puntland, the other FMSs have also exhibited a reluctance to transfer tax collection responsibilities, and there remains a lack of trust among key political leaders. The failure to create the NRA, as required by the constitution to facilitate fiscal cooperation, has further contributed to the lack of trust and coordination in revenue matters.

Achieving the transfer of state-level tax collection and utilization responsibilities to an independent federal institution requires substantial political will and trust-building among FGS and FMS leaders.

Inland tax

In August 2023, with endorsement from Finance Ministers Fiscal Forum (FMFF), the members of the IGFFTC finally came to an agreement on harmonizing inland tax rates across the FGS and FMSs. The only exception was Puntland, which as mentioned was absent from discussions due to political disagreements with the FGS. The agreement, which was initially due to be implemented in January 2024, covers a comprehensive range of tax categories, including personal income tax, corporate tax, rental tax and capital gains tax.[54] At present, however, the new tax rates have not been fully implemented across the FMSs, as the processes for updating FMS-level tax laws varies between states, with some requiring approval from their respective parliaments.[55] According to a senior tax expert, while the August 2023 agreement represents a positive step towards unifying inland tax rates, its full implementation may be hindered by the lack of a federally constructed revenue agency, which they believe is essential for institutionalizing the agreement.[56]

Meanwhile, a senior fiscal federalism expert with extensive experience in the sector observes that the inland tax harmonization efforts—aside from the fact they exclude Puntland—are limited in scope. More specifically, the recently agreed-upon framework only addresses four main types of taxes: personal income tax, corporate income tax, rental income tax and capital gains tax. In addition, the banding used is inconsistent. Substantial additional efforts are therefore needed to expand and refine the framework if comprehensive coverage and consistency across all regions is to be achieved.[57]

Moreover, the proposed Income Tax Law may not be aligned with the framework set out by the Baidoa Agreement, which was designed to ensure equitable and collaborative revenue-sharing arrangements between FGS and FMS. The Baidoa Agreement outlines a harmonized approach to inland tax rates and mandates collaboration in the development and implementation of tax policies. While the proposed law applies uniform tax rates to individuals, business tax rates vary based on the size and classification of the entity (see Table 2).[58] Additionally, different types of income are taxed at different

54. Interview with FGS MoF tax department official in Mogadishu on 7 February 2024.
55. Interview with FGS MoF tax department official in Mogadishu on 7 February 2024.
56. Interview with senior tax expert in Mogadishu on 4 February 2024.
57. Interview with senior fiscal federalism expert in Mogadishu on 3 March 2024.
58. Communique of the 20th meeting between the ministries of finance of the FGS, FMSs and BRA, held on 14 August 2023 in Mogadishu. Accessed 26 February 2025, https://wardheernews.com/consultative-meeting-of-finance-ministries-of-federal-member-states-in-somalia/.

rates—for instance, rental income is taxed at 5 per cent, while general business income is taxed at 18 per cent for large businesses and 1.5 per cent for medium businesses. Furthermore, while the federal and regional MoFs reached an agreement on harmonizing inland tax rates in August 2023, the drafting process for the Income Tax Law did not involve formal consultation with FMSs, contrary to the collaborative principles enshrined in the Baidoa Agreement. This disconnect may lead to disparities in how income is taxed across different sectors and entities, potentially exacerbating tensions between the FGS and FMSs.

Table 2. Unified Inland Tax Rates, August 2023

Type of tax	Description	Implementation date
Personal income tax	USD 0–100: 0% USD 101–500: 6% USD 501–1,500: 12% USD 1,501–: 18%	January 2024
Corporate income tax	Income tax for medium and large companies, USD 50,001 plus: 18%	January 2024
	Income tax for small and medium-sized enterprises (SMEs), USD 10,001–50,000: 1.5%	August 2023
	Income tax for very small businesses (subset of SMEs), USD 0–10,000: USD 150 fixed	August 2023
Rental income tax	5%	By end of 2024
Capital gains tax	15%	By end of 2024

Customs duty

Although the FGS has made significant efforts to harmonize customs duties and tariffs, its objective of implementing a single import duty tariff schedule across all the country's ports has not yet been met. As touched on in section 2, having previously introduced PCMIS, the FGS began transitioning to a more comprehensive web-based automated customs system, SOMCAS, in February 2022. SOMCAS has been implemented with the intention of moving from size-based assessments to value-based assessments. It also allows for the digitization and automation of various customs processes—including manifests, declarations and inspections. As such, SOMCAS will facilitate the phasing out of outdated manual procedures, leading to more accurate and efficient processing. Plans are underway to implement *ad valorem* tariffs based on invoice values, using a common valuation table for duty calculations.[59] Meanwhile, export duties are imposed on a limited range of goods—including dried fish, meat products, hides/skins and scrap metal—and accordingly they currently make up only a small portion of total customs revenues.

Despite SOMCAS being operationalized at both the seaport and airport in Mogadishu as of February 2022. In Jubaland, the system has been partially implemented at Kismayo's maritime port and airport, where shipping lines and airlines have requested time to put in place the necessary procedures for inputting manifests directly into SOMCAS. The system is currently being used to process declarations for khat imports.[60] The integration of SOMCAS in Kismayo has, however, encountered challenges, particularly around harmonizing the valuation table with that used in Mogadishu. Higher import

59. Federal Government of Somalia, 'Financial Governance Report 2023'.

60. IMF, 'IMF Country Report No. 23/438', December 2023.

duties imposed in Mogadishu have raised concerns about the potential impact on trade and pricing in Kismayo.[61]

Despite the adoption of a value-based system, overall import tax revenues have not increased significantly. This is partly due to the FGS using reference values much lower than actual market prices for tax calculations, in an attempt to avoid sudden tax hikes (or tax cliff edge) and subsequent market inflation.[62] Moreover, while progress has been made in tax revenue harmonization, Puntland's absence from recent tax rate unification discussions and IGFFTC/FMFF meetings continues to be a major stumbling block. Puntland's Bosaso maritime port did initially begin implementing SOMCAS, but later stopped, while Puntland's finance minister, Mohamed Abdirahman Dhabancad, has expressed constitutional concerns over the August 2023 tax harmonization agreement via social media, emphasizing the need for inclusive negotiations.[63] He also raised concerns about the unauthorized use of Puntland's emblem on an agreement arising from a meeting the state did not attend, asserting that Puntland has not agreed to any decisions made in discussions it has been absent from.[64] Nonetheless, a recent IMF report asserts that customs reforms are expected in Bossaso maritime port once political conditions allow.[65]

Implications of Somalia's integration into the East African Community Customs Union

The first stage of the EAC is a customs union with a common external tariff, harmonized internal tariffs, and harmonized rules of origin for its member countries. A key feature of the EAC Customs Union is that no tariffs are imposed on goods and services originated from and exchanged within the bloc. Somalia, which is currently pursuing integration into the EAC, recently presented a roadmap for satisfying its obligations to integrate into the EAC Customs Union, including aligning its tax and customs systems with the EAC framework.[66] This roadmap outlines the steps needed for the complete integration of Somalia's trade policies and economic strategies into the EAC, with a focus on ensuring equitable benefits across all regions.

As part of its integration efforts, Somalia will need to align its customs tariff with EAC Common Extenal Tariff (CET) standards. To implement EAC CET, Somalia will need to adopt harmonized system codes, detailed descriptions and standardized units of measurement, which are essential for tax consistency across all EAC member states. Additionally, the EAC adheres to World Trade Organization valuation rules, which prioritize the price paid or payable as the primary valuation method, moving away from reliance on valuation tables. By integrating into the EAC Customs Union, Somalia aims to harmonize trade and customs practices in a manner that minimizes economic disparities and maximizes the benefits of regional cooperation.

61. Interview with tax revenue expert from the FGS MoF on 4 February 2024.

62. J. Randa et al., 'Somalia Economic Update, Second Edition: Mobilizing Domestic Revenue to Rebuild Somalia', World Bank Group, July 2017. Accessed 26 February 2025, https://documents1.worldbank.org/curated/en/552691501679650925/pdf/117729-WP-P159934-PUBLIC-2-8-2017-15-34-47-SomaliaEconomicUpdateNoFINALJuly.pdf.

63. Mohamed Abdirahman Dhabancad (Puntland's Finance Minister), X/Twitter post, 14 August 2023. Accessed 26 February 2025, https://twitter.com/M_Dhabancad/status/1691214622953451520.

64. Mohamed Abdirahman Dhabancad (Puntland's Finance Minister), X/Twitter post, 20 August 2023. Accessed 26 February 2025, https://twitter.com/M_Dhabancad/status/1759899487315677649.

65. IMF, 'Somalia: Staff Report for the First Review'.

66. V. Owino, 'Somalia tables roadmap to EAC integration', *The East African*, 18 June 2024. Accessed 26 February 2025, https://www.theeastafrican.co.ke/tea/news/east-africa/somalia-tables-roadmap-to-eac-integration-4662088.

4. Progress in tax revenue mobilization

The strategic shift towards broadening the FGS's tax revenue base has produced substantial outcomes. Customs duties, which have traditionally generated the majority of total FGS revenue, now constitute approximately 47 per cent of federal revenues, indicating a move towards diversification.[67] Non-tax revenues have also increased substantially, driven by service fees from key sectors such as ports, airports and telecommunications licensing.[68] In 2022, non-tax revenue collection was USD 81 million—88.6 per cent of the target.[69] Such revenues are mostly collected either by third parties contracted by the government to manage public assets or deliver services (e.g. port, airport, air navigation, visa and passport fees), or through licensing processes (e.g. tuna licensing, telecoms licensing, and oil and gas concessions).[70] To provide a clearer view of revenue composition, federal revenues can be categorized into (i) customs duties, (ii) tax revenues and (iii) non-tax revenue or other revenue such as licensing fees and service charges. This distinction helps to better assess the structure of government income beyond taxation. Despite this short-term decline, non-tax revenues are estimated to have grown by 132 per cent cumulatively over the past five years, with an average annual growth rate of 18 per cent, reflecting the impact of ongoing reforms aimed at diversifying revenue sources.

As a result, domestic FGS revenue has increased almost fivefold, from USD 69 million (1.2 per cent of GDP) in 2013 to USD 329.5 million (2.9 per cent of GDP) in 2023, despite challenges such as the COVID-19 pandemic and recurring droughts (see Table 3).[71] Nonetheless, tax revenue in Somalia remains among the lowest in sub-Saharan Africa, primarily due to a significant informal sector that largely operates outside the tax authorities' purview. As such, the country is heavily reliant on international trade taxes, which account for two-thirds of its total tax revenue (excluding non-tax revenues). While these revenue gains mark progress, the overall tax intake remains insufficient to meet essential expenditures. As of December 2023, the FGS's tax revenue intake of only 2.9 per cent of GDP falls far short of the funding required for operational costs, including compensation for non-project employees, non-project goods and services, and interest payments. The gap between domestic revenue and operational expenditures stands at 0.7 per cent of GDP, underscoring the need for further revenue expansion efforts.[72]

67. Federal Government of Somalia, 'Financial Governance Report 2023'.
68. Federal Government of Somalia, 'Financial Governance Report 2023'.
69. Federal Government of Somalia, Ministry of Finance, 'End-Year Budget Fiscal Performance Report for Fiscal Year 2022. Budget Monitoring and Evaluation Section, Budget Directorate', March 2023. Accessed 26 February 2025, https://mof.gov.so/sites/default/files/Publications/2022%20End-Year%20Budget%20Performance%20Report_1.pdf.
70. Federal Government of Somalia, 'Financial Governance Report 2023'.
71. Federal Government of Somalia, 'Financial Governance Report 2023'.
72. IMF, 'IMF Country Report No. 23/438', December 2023.

Table 3. FGS revenues 2013–2023, USD millions[73]

Revenue	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Customs	59	64	71	76	93	100	107	91	109	116	154
Other tax	6	10	11	12	19	39	48	48	54	66	73
Non-tax	4	11	32	24	31	44	75	72	67	81	102
Total	69	84	114	113	143	183	230	211	230	263	329
Growth rate		22%	36%	-1%	27%	29%	25%	-8%	9%	14%	25%
% of GDP	1.2%	1.3%	1.6%	1.5%	1.7%	2.2%	2.4%	2.3%	2.3%	2.5%	2.9%

Despite income taxes accounting for a modest 7.1 per cent (USD 18.66 million) of FGS domestic revenue in 2022, there are indications this source of revenue could increase over the coming years.[74] Although income taxes have never exceeded 7 per cent of total domestic revenue, their contribution has steadily—albeit slowly—risen over time, suggesting untapped potential.[75] In addition to the overall growth in domestic revenue noted above, Table 3 shows that 'Other tax' revenue—where income tax is categorized—grew from USD 6 million in 2013 to USD 73 million in 2023. This upward trend suggests room for further expansion. A new federal income tax bill is expected to be ratified soon, which could introduce policy changes aimed at bolstering this revenue stream. With the appropriate adjustments, therefore, income taxes could have a more substantial role to play in the FGS domestic revenue going forward.

Federal domestic tax revenue reached USD 232 million as of September 2023, surpassing the USD 170 million projection.[76] This increase can partly be attributed to a 50 per cent increase in the rates of customs duties on luxury goods implemented in mid-May, which led to a higher customs revenue, estimated at an additional USD 1–2 million per month, along with some administrative improvements in tax collection.[77] Although the reference values remain significantly lower than the transaction values, together these adjustments allowed the FGS to boost its customs revenues by 31 per cent in the second half of 2023.[78]

Turning to the FMSs, Puntland generated the largest total tax revenues among the FMSs in April 2023, at about USD 5.9 million, while SWS generated the smallest, at USD 300,000 during the same period.[79] Similar to the federal level, customs duties and tariffs constitute a significant portion of domestic revenues in FMSs. In this respect, the maritime ports of Mogadishu, Bossaso (Puntland), Hobyo (Galmudug), and Kismayo (Jubaland) compete for the same group of importers, leading to a situation whereby traders pay very low customs taxes at these ports. Nonetheless, the revenues generated by these three ports are still significantly greater than those that can be generated by the FMSs without operational ports, namely, Hirshabelle and SWS.[80] As a result, the latter group are forced to rely mainly on fiscal transfers from the FGS and grants. In order to address these financial disparities, Hirshabelle has plans to establish its own maritime ports in Adale. Meanwhile, revenue from

73. Federal Government of Somalia, 'Financial Governance Report 2023'.
74. National Economic Council, 'State of the Economy'.
75. National Economic Council, 'State of the Economy'.
76. IMF Staff Country Reports Volume 2023 Issue 438: Somalia. Accessed 26 February 2025, https://www.elibrary.imf.org/view/journals/002/2023/438/article-A000-en.xml.
77. National Economic Council, 'State of the Economy'.
78. Federal Government of Somalia, 'Financial Governance Report 2023'.
79. Uweis Abdulahi Ali, 'Raising Sufficient'.
80. Davies et al., 'Local Governments'.

taxes on goods and services—distinct from customs duties and tariffs, which remain the second major revenue source—has increased in recent years for both the FGS and across all FMSs. In the case of the FMSs, however, such taxes constitute only a small share of revenues mobilized in states without ports.[81] This further highlights the need for a more diversified revenue base in the FMSs lacking ports, as they cannot depend solely on fiscal transfers and grants for their ongoing financial sustainability.

In sum, despite the considerable progress made to date, customs duties remain significantly undercharged at both the federal and FMS level, while taxes from income and goods/services make only minimal contributions to overall revenue. Moreover, the FGS's efforts to enhance revenue mobilization through establishing a harmonized tax system have encountered significant structural challenges, including a lack of authoritative presence in some areas, weak institutional capacities and a large informal economy.

Nonetheless, the FGS's strategic response to these challenges—which includes the establishment of the IGFFTC in 2015 to serve as a forum for intergovernmental discussions on fiscal structures, tax revenue enhancement and alignment—indicates a genuine dedication towards establishing a resilient, equitable fiscal framework. As of the third quarter of 2024, domestic revenue collection reached USD 267.65 million, covering employee compensation up to that point and reflecting a 15.2 per cent increase compared to the same period in 2023.[82] The longer-term objective of fully covering all operational expenditures—including non-project employee compensation, goods and services, and interest payments—by 2027 will require sustained improvements in revenue mobilization, expenditure management and economic growth.[83]

District-level tax collection

District-level tax collection in Somalia is typically handled by local district councils or municipal authorities. These entities are responsible for collection of various taxes—including property taxes, market fees and local business licences—based on agreements with their respective state-level MoF. Collection methods vary widely, ranging from manual, in-person payments to more organized systems where businesses and individuals are required to make payments at designated offices or through bank transfers. As previously noted, the 2012 Provisional Constitution and the RAL 2019 lack clear legal framework for assigning tax collection responsibilities between the FMS authorities and district governments.[84] As a result, the assignment of revenue collection responsibilities is often left to the discretion of the relevant state authorities, creating ambiguities and fostering tax competition between the two levels of governments.

The FMSs have, however, taken steps to define which revenues may be collected at the district level. All the FMSs have enacted local government laws outlining legal frameworks for the structures, powers, responsibilities and functions of district governments.[85] These laws each include a list of revenues that may be collected by district governments, although they do not specify fee rates. For example, Puntland passed its State Revenue Act in 2014, subsequently updated in 2020, as well as Local Government Law No. 7,

81. Randa et al., 'Somalia Economic Update, Eighth Edition'.

82. Federal Government of Somalia, *In-Year Budget Performance Report for Quarter 3, 2024*. Ministry of Finance, 2024. Accessed 15 December 2024, https://mof.gov.so/sites/default/files/Publications/2024%20Inyear%20Budget%20Performance%20Report%20Quarter%203.pdf.

83. IMF, 'Somalia: Staff Report for the First Review'.

84. Davies et al., 'Local Governments'.

85. Davies et al., 'Local Governments'.

amended in 2009. The latter assigns district governments revenue-gathering responsibilities for taxes and fees on land, properties, business licences, building permits, animals, parking, birth and death certificates, water, garbage collection, sewage and other locally provided services.[86] The FMS sets the tax rates for these revenues. Despite this legislation, FMS authorities sometimes collect revenues assigned to the districts, creating duplications. The FMS also provides fiscal transfers to local governments, mostly in major cities such as Garowe and Bosaso.[87]

District tax revenues are generally small, varying significantly according to the local government's tax collection capacity. Districts such as Garowe, Galkacyo, Baidoa and Kismayo have larger tax bases and more organized governance systems, which facilitates more advanced tax collection capabilities.[88] By contrast, districts with less developed tax bases and tax collection systems—particularly those affected by al-Shabaab-related disruptions in trade routes and commodity movement—struggle to raise revenues. Typically, the only taxes district governments are capable of successfully collecting are road taxes, customs on goods entering the district, and minor sales tax revenues in some local markets.[89] In some districts, the majority of local revenues come from economic taxes, such as business licences and market fees, while in others, land and transport generate the most local revenue due to the relative ease of identifying taxable land and vehicles.[90]

The relatively insignificant tax revenues mustered by district governments are mainly down to a combination of informal businesses being prevalent, the absence of effective tax collection mechanisms, and insecurity. Moreover, there are no effective mechanisms in place between the FMS governments and their districts to transfer tax revenues to the respective state MoF. This lack of coordination hinders the effective use of tax revenues for district-level development projects. Nevertheless, there are ongoing efforts to develop the local capacities of districts, particularly those that are host to new district councils, with the People Centered Governance Activity programme being one such example.[91]

Enhancing revenue collection and administration

In addition to the various tax reforms, policies and laws detailed in section 2, the FGS plans to implement both broad fiscal policy reforms and operational improvements in tax administration to enhance tax collection and compliance.[92] These efforts aim to broaden the tax base, improve efficiency, and reduce tax evasion. As part of its tax policy reforms, the government plans to streamline the issuance of tax exemptions, ensuring they are granted based on clear and transparent criteria rather than discretionary decisions. Additionally, the FGS intends to pilot a withholding tax arrangement, requiring government suppliers and contractors to pay their corporate income tax in advance, thereby enhancing compliance and minimizing tax avoidance.

Beyond tax policy changes, the FGS is also introducing operational measures to enhance tax collection efficiency and enforcement. One key initiative is increasing sales tax collection by installing electronic point-of-sale (PoS)

86. Davies et al., 'Local Governments'.
87. Davies et al., 'Local Governments'.
88. Interview with Senior tax expert on 4 February 2024.
89. Menkhaus, 'Governance without Government'.
90. World Bank, 'Somalia Urbanization Review: Fostering Cities as Anchors of Development', World Bank Group, 2020. Accessed 26 February 2025, https://openknowledge.worldbank.org/bitstreams/62655067-f06f-5b2b-aac9-5ccad173e6be/download.
91. Interview with PCG team in Nairobi on 12 June 2024.
92. Randa et al., 'Somalia Economic Update, Eighth Edition'.

systems at major business premises.[93] The PoS systems automate the sales tax calculation process, reducing manual errors and inefficiencies, as well as impeding tax evasion. They also ensure customers are charged the correct amount of tax and businesses maintain accurate records, thereby facilitating improved tax reporting. These systems involve both hardware and software, however, and often require a reliable internet connection to function, which can be challenging in some areas of Somalia.

In addition, the FGS plans to expand the issuance of Tax Clearance Certificates in order to ensure businesses comply with their tax obligations, thus increasing corporate income tax collection. At the same time, the government plans to streamline the issuance of tax exemptions to specific sectors and items, thereby eliminating discretionary exemptions and ensuring exemptions are granted based on clear and transparent criteria.[94] The FGS also intends to implement, on a pilot basis, a withholding tax arrangement that will enable the government's suppliers and contractors to pay their corporate income tax in advance.[95] Other tax revenue measures include implementing regulations in support of the RAL 2019; developing the Integrated Tax Administration System (ITAS) for better data utilization and tax audits; and strengthening tax audits using a new audit manual.[96]

According to a 2022 IMF report, the FGS's revenue mobilization will focus primarily on large, highly profitable businesses, particularly in the telecoms sector.[97] On top of this, one particular area where the FGS is looking to diversify its tax revenue base is the ICT sector, through introducing excise taxes on, among other things, internet data and outbound cross-border money transfers. The ultimate aim is to align tax rates with regional peers and meet domestic revenue targets, drawing on IMF support in pursuing a comprehensive reform strategy.

Together, these policy and operational measures are expected to positively impact FGS's revenue base, public service delivery and economic growth. Nonetheless, several interviewees emphasized the importance of implementing these reforms uniformly across all the FMSs in order to ensure consistency and fairness in how the country's tax laws and regulations are applied. This will also help reduce the complexity and confusion that arises from having different tax regimes in different states.

93. IMF, 'Somali: 2022 Article IV Consultation and Fourth Review Under the Extended Credit Facility—Press Release; Staff Report; and Statement by the Executive Director for Somalia', IMF Country Report No. 22/375, December 2022. Accessed 26 February 2025, https://www.elibrary.imf.org/view/journals/002/2022/375/article-A000-en.xml.

94. Interview with FGS MoF tax department official in Mogadishu on 5 February 2024.

95. Interview with FGS MoF tax department official in Mogadishu on 5 February 2024.

96. IMF, 'Somalia: Staff Report for the First Review'.

97. IMF, 'Somali: 2022 Article IV Consultation and Fourth Review'.

5. Ongoing challenges to tax integration and harmonization

Despite the progress made to date by the FGS and FMSs in harmonizing and mobilizing tax revenues, a number of outstanding challenges remain.

Precise mechanisms for fiscal federalism have yet to be fully developed and implemented. While the 2012 Provisional Constitution attempts to prescribe power allocation mechanism between the FGS to the FMSs, it lacks sufficient specificity, especially with regard to fiscal federalism, revenue distribution mechanisms, and the roles of federal and state authorities.[98] While discussions on fiscal federalism have taken place, there has been little clarity on how FMSs will define their revenue responsibilities and entitlements within the constitutional framework. Despite ongoing discussions, fiscal federalism was not addressed in recent constitutional deliberations in the federal parliament. Consequently, the FGS does not have a constitutional mandate to implement its national tax authority throughout Somalia. At the same time, FMSs contribute to ongoing uncertainty in fiscal coordination by not fully engaging the FGS in establishing revenue-sharing arrangements. This absence of well-defined guidelines and mechanisms for fiscal federalism complicates the coordination of tax revenues, undermining the efficiency of revenue collection and allocation processes.

The FGS, FMSs, donors and international implementing agencies have divergent interpretations of fiscal federalism, which has contributed to variations in tax policies and administrative approaches. These differences are reflected in inconsistent tax rates, procedures, and enforcement mechanisms, though the direct link between broader fiscal interpretations and specific tax disparities requires further examination. For instance, the tax rates agreed at the inter-ministerial committee in August 2023 suggest a significantly different approach to income taxation compared to the provisions outlined in the draft income tax law previously developed for the FGS with IMF support. According to a tax expert, the absence of consensus is evident in the inconsistent adoption of Tax Identification Numbers across FMSs: while some use 15-digit TINs, others have opted for 5-digit TINs,[99] complicating tax administration and intergovernmental coordination. These inconsistencies highlight the need for a more structured and harmonized approach to fiscal policy and tax administration.

The current approach to tax harmonization overlooks the varying developmental stages, tax revenue management capacities and socio-economic contexts of the FMSs.[100] For instance, Puntland, Galmudug and

98. Farhan Isak Yusuf and Mahad Wasuge, 'Fiscal Federalism in Somalia: Constitutional Ambiguity, Political Economy, and Options for a Workable Arrangement', Somali Public Agenda, July 2021. Accessed 26 February 2025, https://somalipublicagenda.org/wp-content/uploads/2022/03/Fiscal-Federalism-in-Somalia.pdf.

99. Interview with PREMIS project official in Nairobi on 20 June 2024.

100. Interview with senior tax expert on Zoom 4 February 2024.

Jubaland—which have operational maritime ports—have more advanced tax administration systems and higher revenue generation capacities than Hirshabelle and SWS. Additionally, freight rates to Bosaso port in Puntland may be lower than to Kismayo (Jubaland) and Mogadishu due to the former's proximity to Emirati ports, which enjoy high trade volumes with Somalia. Given all this, a more nuanced, context-specific approach to tax harmonization is required.

The establishment of national revenue and funds allocation authorities, as announced in the March 2023 Baidoa Agreement, has stalled. Numerous interviewees, including officials from the FGS MoF tax revenue department, are of the opinion that this delay stems primarily from a reluctance among FMSs, especially those with operational maritime ports (i.e. Puntland, Galmudug, and Jubaland), to hand over tax collection responsibilities to an independent national tax authority. Puntland in particular has asserted that consultations regarding the establishment of national tax and fund allocation authorities have so far been inadequate.[101] Conversely, those FMSs without functioning maritime ports (i.e. Hirshabelle and SWS) have been less vocal, focusing mainly on securing fiscal transfers from the FGS. Overall, a lack of political will among leaders at both the federal and state levels, along with a lack of technical advice on how to establish the required institutions, continues to impede progress in this area. Moreover, the delay is also linked to unresolved questions about how the FGS would operationalize tax administration within each FMS, whether agency arrangements could be a viable alternative, and how the design of the National Revenue Authority could reflect federalism principles, including balanced representation of both FGS and FMS interests in its governance.

Heated debates have emerged over the equitable distribution of tax revenues collected by the envisaged national tax authority. In this respect, Puntland and Jubaland argue that the higher tax revenue generated from maritime ports should be factored into the distribution formula, rather than simply adhering to an equal allocation model. Moreover, they argue that their needs differ from those of the newer FMSs. According to a senior specialist from the World Bank, the institution has proposed increasing and equalizing fund allocations in order to address the varying requirements of each FMS, including Puntland and Jubaland.[102] Many interviewees, however, regard this proposal with scepticism, questioning its long-term viability.

The FGS faces significant capacity shortfalls in extending its tax administration reach beyond Mogadishu to the FMSs. Despite the progress made in harmonizing inland tax rates, enforcement and implementation remains limited. A similar situation applies to customs tax rates, with some FMSs fearful about transitioning from a carton-based system to an *ad valorem* system.[103] The various delays in implementation also stem from administrative capacity constraints—in terms of both systems and personnel—which impede the establishment of a cohesive countrywide administrative system.

Numerous tax law discrepancies between the FGS and FMSs remain to be addressed. Donor-supported initiatives, such as FCDO and ASI's PREMIS I project, played a significant role in enabling FMSs to develop functional tax revenue laws during the early state formation process. These efforts were implemented in a context where states lacked existing tax profiles, and the FGS had yet to establish a comprehensive tax framework. A tax expert involved with the PREMIS project notes that these tailored capacity-building efforts were essential to equipping the FMSs with the tools needed to manage their own tax collection effectively. However, the absence of a unified national

101. Interview with FGS MoF tax department officials in Mogadishu on 5 February 2024.

102. Interview with World Bank financial specialist in Nairobi on 15 January 2024.

103. Interview with PREMIS project official in Nairobi on 20 June 2024.

tax strategy at the time inadvertently contributed to variations in tax rates and procedures across regions, underscoring the need for ongoing harmonization efforts.[104]

The tax laws of both the FGS and FMSs are currently outdated due to recent tax reforms and decisions by the IGFFTC and the FMS finance ministers' forum.[105] This has led to difficulties in implementing tax-related agreements. For instance, among the FMSs, only Hirshabelle and Galmudug are presently in a position to implement the unified income tax rates agreed upon in August 2023. Jubaland and SWS, by contrast, would need to update their tax laws, which requires approval from their respective state parliaments.[106] As a result, the latter two states have opted to put the process on hold and develop entirely new tax laws, which only need the approval of the state finance minister. This disparity may cause further delays in unifying tax rates across the FGS and FMSs. However, all four FMSs supported by PREMIS2 remain committed to implementing the Baidoa Agreement on tax rates. While some have already adopted the harmonized rates through secondary legislation, others are incorporating them into new state revenue laws, which are in the final stages and expected to be in place by mid-2025.

Unrealistic timelines for the harmonization process set by both FGS and FMS leaders through the IGFFTC dialogue forums have contributed to the slow pace of progress. According to a tax expert, the pressure to meet ambitious targets within short timeframes has in practice led to delays in implementing harmonization measures.[107] More generally, the slow pace arises from insufficient appreciation of the complexities of harmonizing tax systems across multiple jurisdictions that vary widely in terms of capacity and resources. Thus, political considerations and a desire to demonstrate progress lead to overly optimistic timelines that do not align with realities on the ground.

Lastly, **both the FGS and the FMSs face significant challenges in establishing efficient tax compliance and enforcement across their jurisdictions.** At present, ensuring compliance remains difficult due to the prevalence of informal businesses, distrust of tax authorities and lack of awareness about the importance of paying taxes to the government. Additionally, government revenue collection is hindered by competition from illicit tax collectors such as al-Shabaab, which coercively imposes taxes on those living in areas it controls, and security personnel in government-controlled regions, who often demand unregulated fees from road users.[108]

104. Telephone Interview with PREMIS project official on 21 May 2024.

105. Telephone Interview with PREMIS project official on 21 May 2024.

106. Interview with PREMIS project official in Nairobi on 20 June 2024.

107. Interview with PREMIS project officials in Nairobi on 20 June 2024.

108. Abshir, Abdirahman and Stogdon, 'Tax and the State'.

Conclusion and recommendations

Somalia is at a crucial juncture in its journey towards fiscal stability and sustainable economic development. While significant debt relief under the HIPC initiative holds the potential for transformative change, a number of structural and political challenges must be addressed if the momentum generated thus far is to be sustained. Here, donors and international partners have an important role to play in contributing ongoing financial support, tax law and policy development, technical expertise and capacity-building initiatives. Above all, Somalia needs to make further progress in increasing its tax base, as well as harmonizing tax revenues across the FGS and FMSs.

In the latter respect, the FGS and FMSs have made significant progress, with the 2023 Baidoa Agreement offering a promising framework for the next steps in the tax revenue harmonization process. Nonetheless, a number of hurdles—such as differing interpretations of the tax harmonization concept, lack of stakeholder trust and political commitment, inconsistent and outdated tax laws, and inadequate administrative capacities—remain. Key steps towards surmounting these obstacles include establishing robust legal frameworks, creating an equalization fund and modernizing tax administration through information and communications technology.

Diversifying revenue sources beyond customs duties, expanding inland tax collection, and enhancing revenue collection and administration—particularly through the use of electronic PoS systems—have the potential to strengthen Somalia's financial foundations. These efforts must align with the principles and commitments outlined in the Baidoa Agreement to ensure equitable revenue sharing and harmonization between the FGS and FMSs. For instance, ongoing initiatives such as the drafting of new tax laws and the adoption of harmonized revenue-sharing mechanisms represent vital opportunities to align revenue mobilization with intergovernmental agreements.

While tools such as electronic PoS systems offer potential to improve tax administration by automating sales tax calculations and curbing evasion, their implementation in Somalia is fraught with challenges. Reliable hardware, stable internet connectivity and consistent power supplies are prerequisites for success, yet these remain fragile in many areas. To ensure their effectiveness, PoS systems must be deployed in tandem with investments in supporting infrastructure and capacity-building.

Alongside these measures, transparent and inclusive dialogue concerning equitable resource distribution among FMSs is critical for national unity and balanced economic development. The inclusion of Puntland and other FMSs in such discussions will be essential for fostering trust and collaboration. Building on the commitments under the Baidoa Agreement, these pathways offer a strategic foundation for harmonizing and modernizing Somalia's tax systems.

With all of the above in mind, the sub-sections below outline a wide-ranging set of recommendations for FGS and FMS policymakers, donors and international partners. Pursued in combination, these strategies can help support the effective integration and harmonization of tax revenue systems across Somalia. The recommendations are designed to reinforce government leadership while respecting its mandates. The focus remains on empowering Somali institutions to drive their own reforms so that governance and policy decisions remain firmly in their hands.

Recommendations for FGS and FMS policymakers

Establish clear legal and institutional frameworks: The FGS should lead efforts to amend the 2012 Provisional Constitution, thereby establishing a legal basis for fiscal federalism and the harmonization of the country's tax revenue systems. Additionally, the fiscal powers of district authorities should be clarified to ensure coherence with national fiscal policies, including their tax collection responsibilities. Ongoing efforts, such as the Baidoa Agreement and related initiatives, provide a critical opportunity to advance revenue-sharing agreements and intergovernmental transfers within an integrated framework. As these processes evolve, it will be essential to ensure clarity in fiscal authority distribution, intergovernmental coordination and the long-term sustainability of revenue-sharing arrangements.

Strengthen political commitment and trust through dialogue: The successful harmonization of tax revenues and implementation of the 2023 Baidoa Agreement requires strong national leadership, political will and trust among all stakeholders. Towards this end, the FGS should initiate and maintain high-level dialogue with all the FMS governments—particularly Puntland's—in order to build mutual understanding and address contentious issues. This involves expanding political outreach, strengthening coordination mechanisms and fostering consensus through regular forums with finance ministers and technical teams. Existing platforms such as the IGFFTC can be leveraged to facilitate structured dialogue. This should include adopting an inclusive and consultative approach to drafting and enacting tax and revenue laws, ensuring that all FMSs engage meaningfully in legislative processes, particularly in areas such as income tax and natural resource taxation.

Fully establish the National Revenue Authority and the Commission of the National Finance Allocation Committee: The FGS should prioritize the establishment of these two institutions by leading in inclusive consultations with the FMSs. Donors and international partners, including PREMIS, have supported aspects of legal frameworks at the FMS level; however, progress on developing the technical foundations for the two institutions has been slow, with the process largely stalled. Having secured FMS buy-in, the FGS should then pursue a consensus-driven approach in which the two levels of government jointly establish legal and policy frameworks for the two institutions to operate in an autonomous, independent manner countrywide.

Diversify revenue sources and reduce reliance on customs duties: Somalia's tax revenue remains heavily dependent on customs duties, which are vulnerable to economic fluctuations. The FGS and FMSs should lead efforts to develop a comprehensive policy strategy to diversify revenue sources while aligning with the Baidoa Agreement's principles. This includes expanding inland tax collection through measures such as excise duties and taxes on goods and services, alongside bolstering revenue-sharing mechanisms to prevent disparities. Such an approach requires reinforcing taxpayer registration and compliance procedures, as well as strengthening the capacity of tax administration and systems.

Enhance revenue collection and administration: The FGS should lead efforts to modernize its tax administration by implementing ICT-enabled systems such as SOMCAS. These systems should be integrated into a broader government-driven capacity-building strategy to harmonize tax revenue systems across Somalia. Additionally, expanding the issuance of TCCs to the FMSs and introducing electronic PoS systems at major business premises will support more effective sales tax collection and reduce tax evasion.

Promote tax compliance through public awareness and education: The FGS and FMSs should take the lead in launching public-awareness campaigns aimed at educating taxpayers about their tax obligations, thereby encouraging a culture of voluntary compliance. Alongside this, both levels of government should enhance service provision and citizen engagement in order to strengthen the trust of taxpayers. All this should be supported by the continued development of federal and state-level transparency and accountability mechanisms, as well as appropriate tax audit and enforcement instruments.

Establish whistleblower programmes: The FGS should establish whistleblower programmes that provide financial incentives and legal protections for individuals who report suspected tax violations. FGS tax authorities should oversee these programmes, carefully reviewing reports based on clear evidence. To keep the process fair and credible, safeguards will help prevent misuse, including penalties for false accusations made in bad faith. This would allow tax authorities to investigate and act on credible whistleblower reports, greatly assisting the identification of tax evasion or fraud.

Recommendations for donors and international partners

Develop new and harmonized tax laws: Donors and international partners should assist in developing new and harmonized tax laws through a consultative, consensus-building approach that recognizes the current socio-economic dynamics of both the FGS and FMSs. This collaborative effort should work towards empowering the NRA and ensuring the new tax laws are implemented consistently and efficiently across all levels of government. These efforts should align with the Baidoa Agreement, ensuring that tax frameworks are designed to promote equitable revenue sharing and harmonization across FGS and FMSs.

Enhance capacity development and institutional support:

1. **Building institutional capacity and modernizing tax administration:** Donors and international partners should continue developing the capacity of both federal and state-level tax administration personnel by providing ongoing institutional and technical assistance; study tours on best practices; and training programmes aimed at enhancing the skills of tax officials. This includes supporting the deployment of ICT systems such as SOMCAS and developing audit and verification tools, alongside training programmes to enhance the skills of tax officials.

2. **Enhance audit and verification processes:** Donors and international partners should support the development of risk-based audit strategies targeting high-risk taxpayers and transactions; leverage data analytics and automation to identify discrepancies and potential non-compliance; and conduct regular cross-checks between different data sources to verify the accuracy of reported information. These efforts should be paired with ongoing capacity-building initiatives for tax officials at both the FGS and FMS levels.

3. **Establish whistleblower programmes:** The FGS should establish whistleblower programmes that provide financial incentives and legal protections for individuals who report suspected tax violations. Donors

should assist the FGS in establishing whistleblower programs by supporting the development of clear evidentiary standards and oversight mechanisms. To ensure fairness and credibility, these programmes should include safeguards against misuse, with penalties for false accusations made in bad faith. This approach would enable tax authorities to investigate and act on credible whistleblower reports, greatly assisting the identification of tax evasion or fraud.

Address disparities in revenue distribution: Donors and international partners should support the FGS and FMSs in establishing and operationalizing the Inter-State Commission, ensuring that its frameworks reflect the principles of fiscal federalism. This includes providing technical support for the development of rule-based revenue-sharing formulas aligned with expenditure responsibilities and local poverty levels.

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