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Mobilizing Domestic Revenue to Rebuild Somalia



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Federal Republic of Somalia
SOMALIA ECONOMIC UPDATE

**Mobilizing Domestic Revenue
to Rebuild Somalia**

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ABBREVIATIONS

Af	Afghan Afghani
AfDB	African Development Bank
AML/CFT	Anti–Money Laundering/ Combating the Financing of Terrorism
BRA	Benadir Regional Administration
CBS	Central Bank of Somalia
COMESA	Common Market for Eastern and Southern Africa
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FEWSNET	Famine Early Warning Systems Network
FGS	Federal Government of Somalia
FMS	Federal Member States
FSNAU	Food Security and Nutrition Analysis Unit
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
ICT	Information Communication Technology
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PFM	Public Financial Management
SFMIS	Somalia Financial Management Information System
SMP	Staff Monitored Program
SoSh	Somali Shilling
TIN	Tax Identification Number
VAT	Value Added Tax
UN	United Nations



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FOREWORD

It is my pleasure to present the second edition of the *Somalia Economic Update*. These reports are prepared in close partnership with Somali stakeholders and aim to contribute to government policy-making and to a national conversation on the economy. We are particularly grateful to our colleagues at the Ministry of Finance who have contributed and provided guidance throughout the process.

This report coincides with the worst drought Somalia has faced since 2011 which has plunged over half the population into extreme need. The drought reflects Somalia's continued exposure to the impacts of climate-related shocks, including rising levels of displacement-led urbanization.

Resilience to future shocks – which are likely to increase in the coming years – requires considerable and longer-term investments in rural and urban livelihoods, services and infrastructure. More broadly, macro-economic stability, predictable and effective policies and functioning institutions will also be critical enablers for public and private investments.

In that context, I am therefore pleased that this second edition of the *Somalia Economic Update* is focused on domestic revenue mobilization, analyzing historical and current trends and advancing concrete recommendations for government and its partners to consider. We hope all stakeholders find it a useful contribution and we look forward to engaging more fully in this critical endeavour.



Bella Bird

World Bank Country Director for Somalia



Waxay ii tahay farxad inaan soo bandhigo daabacaaddii labaad ee Dhaqaalaha Soomaaliya ee Xilligan. Warbixinahan waxaa la diyaariyay iyadoo lala kaashanayo saamileyda Soomaaliyeed loogana golleeyahay inay wax kageystaan siyaasadda dawladda iyo wada-hadalka dhaqaale ee qaranka. Waxaan si gaar ah ugu mahad-celinaynaa saaxiibadayada ka hawl-gala Wasaaradda Maliyadda, kuwaas oo gacan iyo talooyin ka geystay intay socotay hawshan.

Warbixintani waxay kusoo hagaagtay xilli Soomaaliya ay ka jirto abaartii ugu xumeyd illaa 2011, taas oo ku aafeysay in ka badan kala badh dadka baahi xad dhaaftay. Abaartu waxay ka turjumeysaa siday Soomaaliya weli ugu dhacayaan saameynta mashaqooyinka isbedelka cimilada lala xidhiidhiyo sida kororka deegaameynta ka dhasha bara-kicidda.

Ka kabashada deganaan-la'aanta mustaqbalka – taas oo loo badinayo inay kororto sanadaha soo socda – waxay u baahan tahay maal-gelin xoog leh oo muddo dheer loogu talo galay laguna sameeyo maciishadda magaalooyinka iyo reer-guuraaga, adeegga iyo kaabayaal-dhaqaale. Si guud, sal-dhigashada dhaqaalaha guud, saadaalinta iyo wax ku oolnimada siyaasado iyo hay'ado shaqeeya ayaa noqondoona suuro-geliyeyaal muhiim u ah maalgelinta guud iyo midda gaarka loo leeyahay.

Iyadoo arrintaas laga ambaqaadayo, waxaan aad ugu faraxsanahay in daabacaaddan labaad ee Dhaqaalaha Soomaaliyeed ee Xilligan uu xoogga saarayo dar-dargelinta dakhliga gudaha, falanqeynta qaababkii hore iyo kuwa hadda jira iyo hordhigidda soo jeedinno cadcad oo dawladda iyo hay'adaha iskaashigu ka baaraan-degaan. Waxaan ku rajo weynahay in dhammaan saamileydu u arkaan wax ka geysasho loo baahnaa, waxaanana ku hanweynahay inaan si buuxda uga hawl-galno hawshan adag.



Bella Bird

Agaasimaha Guud ee Bangiga Aduunka ee Soomaaliya



EXECUTIVE SUMMARY

Somalia currently faces large-scale food insecurity, arising from the drought and poor rainfall conditions prevailing across much of the country. Following four consecutive seasons of poor rainfall and low river water levels in large swaths of the country, a severe food crisis has hit in 2017. The drought has led to near total crop failures and reduced rural employment opportunities, widespread shortage of water and pasture, and consequent increases in livestock deaths, which have in turn stretched the country's coping mechanisms to the brink. Food access diminished rapidly among poor households as staple food prices rose sharply and livestock prices dropped significantly as people engaged in forced sales to cope with the effects of the drought.

According to a preliminary Rapid Drought Needs Assessment (RDNA) by World Bank staff, which is based on a triangulation of secondary data¹ through remote-sensing techniques, the drought has led to: livestock-related losses of between US\$1.3 billion and US\$1.7 billion for the period of the drought; crop production losses of up to US\$60 million during the period of the drought; and depletion of nominally functional water resources, over 50 percent of which are located within highly drought stressed areas.

The drought has significantly impacted poverty and human welfare. The drought conditions left millions of Somalis facing severe food and water shortages. An estimated 6.2 million people are in need of aid in 2017 (more than half of the total population), with 2.9 million needing urgent life-saving humanitarian assistance. About 320,000 children under the age of 5 years are acutely malnourished and are in need of urgent nutrition support. Of these, 50,000 children are severely malnourished and far more vulnerable than any other group. The drought and famine

condition has led to up to 41,250 AWD/cholera cases including estimated 6,188 admissions by June 2017, and sharp increases in displacement.

The new Somali leadership has highlighted drought relief as a top priority. The peaceful and smooth transfer of power has allowed the government to focus quickly on drought and the difficult fiscal situation, highlighting the combined humanitarian and development challenges facing the country. The Humanitarian Response Plan presented at the London Conference in May 2017 increased the appeal to US\$1.5 billion to reach 5.5 million people with urgent life-saving humanitarian assistance. Still, according to the UN (2017), the humanitarian situation remained grim for millions as of mid-2017 with a significant risk of famine in many parts of the country.

Macroeconomic Developments:

Data constraints make it difficult to comprehensively assess the macroeconomic situation in Somalia. Somalia does not have a national accounts statistical framework and prevailing estimates of nominal GDP are based on sparse expenditure side information, notably a survey-based estimate of household consumption and trade partner exports and imports. Thus, macroeconomic statistics are not comprehensive enough to capture growth of the economy accurately. While it is possible to produce one-off projections of GDP growth, these are highly qualitative and by necessity based on a few sectors where some proxy indicators for activity are possible, such as for ICT, construction, and trade. But such estimates will miss much of the rural sector and non-marketed output such as water, fodder, and food grown for own-consumption. Furthermore, lack of price data, including the GDP deflator, makes it difficult to estimate real GDP growth.

¹ The RDNA relies on the following sources of information: Drought Severity data was derived from ENDVI 10-year historical anomaly data based on LANDSAT 8 imagery. Displacement figures were derived from compiled IDP data from IOM, UN Habitat, UNHCR and local Ministries of Interior. Agriculture and livestock impact data heavily relied on expert judgment and data from FAO FSNAU database (2011-2017), UNFPA 2014 population data and LANDSCAN 2015 population density. Cholera/AWD forecasts and data was derived from World Health Organization (WHO) data, reporting and forecasting analysis. Water resources data was derived from UN SWALIM and ICRC databases.

Nominal GDP is estimated to have grown by 5 percent in 2015 and by 6 percent in 2016. As in the recent past, Somalia's GDP growth continues to be urban-based, consumption driven, and fueled by remittances and donor support. Over 70 percent of GDP is estimated to be generated in the urban areas. Consumer price inflation fell from 4.5 percent in 2013 to 1.5 percent in 2016 (IMF 2017), although big spatial variation in prices remains. While dollarization and the sharp decline in oil prices have helped to contain inflation, the drought and food insecurity have driven up food prices. As in other famines, prices have to be seen in the context of affordability of food for vulnerable groups whose livelihoods have been eroded by agricultural collapse.

Payments systems are the key driver of financial sector deepening, with the state still playing a small role. Multiple currencies, including airtime, are used as mediums of exchange. In addition to the Somali shilling and the U.S. dollar, Somalis regularly use the currencies of Djibouti, Ethiopia, and Kenya as mediums of exchange in border areas. Mobile airtime denominated in U.S. dollars is also widely accepted as payment throughout the country. With technical assistance from the IMF, the CBS has begun to engage in currency reform prior to a planned issuance of a limited volume of thousand-shilling notes for circulation in an initial phase to restore the credibility of the domestic currency as a first step toward allowing the CBS to engage in effective monetary policy.

Somalia's fiscal situation remains challenging. Domestic revenue (taxes plus fees) as a share of GDP remains very low, at just 2.7 percent of GDP in 2016, making it difficult to provide services.² Revenue growth in 2016 was flat, reversing the growth in earlier years. Past forecasts were unrealistically high (as the differences between budgeted and actual revenues), a problem that led to *ad hoc* cash rationing. In addition, the basic norms of fiscal

management remain weak. On the expenditure side, recurrent expenditures account for almost all expenditure, with capital spending accounting for just 3 percent of total spending in 2016. Unrealistic revenue projections, coupled with weak expenditure controls, contribute to the accumulation of arrears. Development partners' contributions to the budget have been critical in recent years, although they remain unpredictable, making it difficult to execute the budget as planned.

Somalia's current account deficit, at around 15 percent of GDP, remains large. The current account deficit is largely driven by imports, estimated at 62 percent of GDP, and larger than exports by a factor of more than four. Exports of goods and services remain low largely because of the cost of conflict, including damage to vital infrastructure, security checks, roadblocks, and the shutdown of trade routes—all of which constrain exports. Remittances—estimated at 24 percent of GDP in 2015—remain a lifeline for the economy. Most of the current account deficit has been financed by FDI (12 percent of GDP) and ODA in recent years.

Growth in 2017 will decelerate to 2.5 percent in nominal terms although it is expected to pick pace in subsequent years. Over the medium term, Somalia's economy is projected to grow at a steady *nominal* annual rate of 5–7 percent, driven by aggregate demand fueled by a vibrant private sector, remittances, lower oil prices, and improved security. Reconstruction of the war-torn country will underpin growth as the new government consolidates peace and security. With stronger security, Somalia is expected to enjoy a peace dividend as the state extends *de facto* authority over an expanding territory.

Policies are required to stimulate economic growth over the medium term. As the drought subsides and the agriculture sector begins to recover, the FGS can focus on implementing policies to ensure stability

“
Current account deficit is largely driven by imports, estimated at 62 percent of GDP, and larger than exports by a factor of more than four

² The base GDP excludes Somaliland.

as well as address weaknesses in the provision of infrastructure, security, and the regulatory and institutional environment. First, macroeconomic policies that continue to stabilize the economy are necessary (but not sufficient) to support recovery and economic diversification. Second, beyond stability, significant investments will be needed to close the country's capital and infrastructure gap, improve resilience, and improve the business environment over the medium term. Finally, reforms in public financial management (including strengthened domestic revenue mobilization), and strengthened governance are needed to raise more resources for development and ensure that the increased resources are used wisely and efficiently.

Notwithstanding the relatively robust growth expected over the medium term, significant risks remain. On the domestic front, the ongoing conflict and insecurity in some areas of the country and the threat of famine is delaying and dampening broad-based growth prospects. Although Somalia's economy remains adaptable, simmering conflict continues to pose an important risk to economic activity in the medium term. Terrorism has scared away both domestic and foreign potential investors and tilted FGS priority spending toward security rather than growth-enhancing activities. On the external front, Somalia's economy is highly dependent on foreign remittances, development partners' flows, and revenue from exports. Threats to any of these sources will affect Somalia's growth prospects.

Enhancing Domestic Revenue Mobilization:

Total FGS tax revenue remained just over 2 percent of GDP in 2016. FGS revenue covers only around 60 percent (US\$ 113 million in 2016) of a small federal budget, and more than 80 percent of tax revenue comes from trade taxes. The FGS lacks the resources to undertake major programs or investment projects. Public investment has so far continued to rely heavily on official development assistance, which focuses on the social sectors and security

rather than broad-based investment. The system's weaknesses reflect poor policy, weak administrative capacity, and inadequate coordination of institutions at all levels of governments and between the federal government and its Federal Member States (FMS).

Sustainable and reliable domestic revenue is critical if Somalia is to implement the strategy laid-out in the National Development Plan and achieve the state-building, sustained rapid economic growth, and poverty reduction objectives of the National Development Plan 2017-2020. To support sustainable expenditures, drive development, and reduce reliance on external sources, the FGS will need to find ways to increase domestic revenue in a way that doesn't disincentivize the private sector—a sector that has been an engine of Somalia's development in the past two and half decades. Enhanced domestic revenue mobilization—in particular a scenario where domestic revenue could increase more rapidly than administrative expenditures—offers Somalia a promising and sustainable source of home-grown development finance.



On the external front, Somalia's economy is highly dependent on foreign remittances, development partners' flows, and revenue from exports

Improved revenue generation is key to building both a sustainable state and a durable peace. Mobilizing revenue is a cornerstone of state-building. Building capacity to raise revenue through taxes is particularly crucial, because it reduces dependence on aid, helps finance service delivery, strengthens the contract between the state and its citizens, and fortifies intra-society relationships.

In Somalia's case, domestic resource mobilization cannot be delinked from security, the delivery of essential services and the increased accountability of public finance management institutions. Somalia faces immense difficulties in rebuilding confidence in the legitimacy and credibility of state organs, particularly organs tasked with fiduciary functions, which are perceived as responsible for the transparent management of resources. The ability of the FGS to mobilize revenue depends on how successful the government will be at reversing



pervasive tax evasion and lack of tax compliance. The government needs to ensure peace and security for legitimate economic activity and to enforce the equitable payment of taxes. To do so, it will have to engage in intensive consultation with private sector actors, educate taxpayers and raise general public awareness about the purpose and need for taxation. This would include linking the benefits of security and essential services with taxpayer compliance, the proper collection of revenue, and sound revenue management.

The lack of an agreed upon revenue assignment between the FGS and federal member state governments hampers mobilization efforts and requires deepening the newly initiated dialogue among Ministers of Finance. The FGS currently collects all its revenue from the capital city; states collect and retain revenue from territories under their control. The FGS has begun to transfer a modest amount of domestic resources³ as well as externally financed resources to the states under the World Bank administered Multi Partner Fund while the federal/sub-national level expenditure responsibilities have not been clearly defined. This *de facto* arrangement limits revenue mobilization. Agreement on tax assignment that allows the FGS to collect taxes outside Mogadishu would substantially increase potential revenue.

The FGS can take a series of revenue mobilization actions in the short and medium terms. These actions include streamlining the tax laws; tackling the problem of the hard-to-tax informal sector of the economy, particularly agriculture and livestock; imposing and collecting income taxes on wages and salaries in both the public, private, increasing tax compliance by large companies; and levying departure fees and other sources of nontax revenue. The discussions with the private sector

actors in each of the key sectors will be critical and have been initiated through the Somalia Public Private Dialogue Forum.

Revenue administration and fragmentation of the tax instruments are binding constraints. For domestic revenue mobilization to take hold and succeed, the FGS will need to address a number of challenges, including the low capacity of tax administration, the lack of a framework to enable taxpayers self-assessment, the presence of many low-yielding “nuisance” taxes, the illicit revenues collected by many local authorities, and double taxation (mainly by local authorities and the FGS). The FGS and the Federal Member States (FMS) should continue the discussions that have begun on intergovernmental fiscal federalism, initiated in the Finance Ministers’ Forum, in particular on tax and tariff harmonization. Addressing corruption in tax administration and creating a well-managed, honest professional tax cadre will also be key.

“

The government needs to ensure peace and security for legitimate economic activity and to enforce the equitable payment of taxes

If appropriate measures are adopted, the scope for increasing revenue mobilization is significant. The World Bank simulation undertaken for this edition of the Somalia Economic Update series shows that a gradual implementation of tax administration and customs reforms could raise domestic revenue from around 2 percent

of GDP in 2015 to more than 13 percent of GDP (US\$1.1 billion) in 2022 if a sequenced reform package is implemented. This package begins with increased compliance and enforcement of existing taxes, broadening of the base for taxes already on the books (e.g. wage and corporate income), and higher use of excises and some temporary taxes that would be removed in later phases of the plan when a broader range of tax instruments is available. In the deepening medium-term reform scenario, there is further base broadening and expanded territorial coverage, revamping of rates,

³ In response to the 2017 drought, the Federal Government committed to make a regular transfer of US\$150,000 to all Federal Member States. In addition, the MPF funded Recurrent Cost and Reform Finance Project finances fiscal transfers for service delivery in FMS based on a set of Readiness Criteria.

and reorganization of administration. Finally, the long-term reform consolidates the earlier reforms around a modernization of legislative and regulatory underpinnings of the tax system.

Without some reforms, Somalia will remain in a fiscal trap, while even modest reforms significantly scale up FGS fiscal capacity. In the baseline scenario, which assumes that change continues at its current pace, the domestic tax revenue to GDP ratio increases from 2.0 percent of GDP in 2015 to 2.7 percent in 2022.

- The short-term package by itself yields increases of 6 percent of GDP by 2022.
- The medium-term deepening package yields increases of 9 percent of GDP by 2022.
- The long-term package – cumulating and consolidating the previous reforms--yields increases of 13 percent of GDP by 2022. While significant, this would still leave Somalia at the lower level of revenue performance in low income countries.



Soomaaliya waxay xilligan wajahaysaa cunto yaraan lixaad leh, taas oo ka dhalatay abaarta iyo xaaladda roob yarida ee ku baahsan wadanka intiisa badan. Ka dib afar sanadood oo roob yari ah iyo webiyada oo meelo badan biyo yareeyay, waxaa ku dhufatay wadanka abaar aad u ba'an 2017. Abaartu waxay keentay in guud ahaan dalagii beeraha la waayo iyo inay hoos u ridday fursadihii shaqada ee miyiga, biyo iyo calaf yaraan baahsan, iyo wixii ka dhashay arrintaas oo ah xoolihii noolaa oo dhamaada, taas oo keentay iyaduna inay madhiso (gaadhsiiso heerki ugu dambeeyay) siyaabihii kala duwanaa ee wadanku kula tacaalayay dhibkaas. Waxaa si degdeg ah u yaraaday helitaanka cuntada ee dadka saboolka ah iyadoo qiimaha cuntadu aad u kacay midka xoolaha noolna uu hoos ugu dhacay, dadka xoolaha leh khasab ku noqotay iibinta xoolahooda si ay wax uga qabtaan saameynta abaarta.

Sida ay sheegtay hordhaca Qiimeynta ee Baahida Degdega ah ee Abaaraha (Rapid Draught Needs Assessment (RDNA)) oo ay sameeyeen shaqaalaha Bangiga Aduunka, taas oo ku saleysan farsamada sahanka ee saddex-xagaleynta¹, abaartu waxay horseeday: Waayidda US\$1.3billion – US\$1.7billion oo walxaha la xidhiidha xoolaha nool intay abaartu socotay; Waayitaanka wax soo saarka dalaga illaa US\$60 million intay abaartu socotay; iyo gudhitaanka ilihii biyaha ee magac ahaan u shaqeynayay, kuwaas oo in ka badan 50% ku yaallay goobaha sida xoogga leh abaartu ugu dhufatay.

Abaartu waxay si muuqata saameyn ugu yeelatay saboolnimada iyo dadka daryeelkooda. Malaayiin Soomaaliyeed ayaa wajahaya cunto iyo biyo yaraan abaarta daraadeed. Qiyaas 6.2 million oo ruux ayaa u baahan kaalmo sanadka 2017 (ka badan kala badh dadka wadanka), 2.9 million oo kamid ahi waxay u baahan yihiin kaalmo bani'aadan oo naf-badbaadin

ah. Ilaa 320,000 oo caruur da'doodu ka hooseyso 5 jir oo nafaqo-xumo hayso ayaa u baahan kaalmo nafaqeed deg-deg ah. 50,000 oo caruurtaas kamid ahi ayay nafaqo-xumo aad u daran haysaa, wayna ka liitaan koox kasta. Abaarta iyo macaluushu waxay sababtay 41,250 AWD/cholera dhacdo iyadoo ay ku jiraan qiyaas 6,188 la daaweeyay bishii June 2017, iyo baro-kac lixaad leh.

Hogaanka cusub ee Soomaaliyeed waxuu ku nuux-nuuxsaday in gurmada abaaruhu yahay mudnaanta ugu sareysa. Kala wareegidii xilka ee ku dhacday sida nabadda iyo dhibaato la'aanta ahi waxay dawladda u saamaxday inay xoogga si deg-deg ah u saarto abaarta iyo dhibaataada xaaladda dhaqaale, muujiyeenna caqabadaha isa saaran ee bani'aadanimiyo iyo horumarineed ee wadanka wajahayo. Qorshaha wax Kaqabad ee Bani'aadanimiyo ee lagusoo bandhigay Shirkii London bishii May, 2017 waxuu kordhiyay yabooha loo baahan yahay illaa US\$1.5 billion si loo gaadhsiiyo 5.5 million oo qof kaalmo naf-badnaadin oo bani'aadanimiyo oo deg-deg ah. Siday sheegtay Qaramada Midoobay (2017) xaaladda bani'aadanimiyo ayaa weli ah mid aad ugu fool-xum (mugdi kaga jirtaa) malaayiin dad ah maadaama badhtamaha 2017 ay weli jirto halista macluusha ee qaybo badan oo wadanka kamid ah.

Horumarka Dhaqaalaha Guud:

Xog darada jirta awgeed waxaa adag in la sameeyo qiimeyn dhameystiran oo ku saabsan xaaladda dhaqaalaha guud ee Soomaaliya. Soomaaliya ma laha qaab tira-koob ee xisaabaadka qaranka, qiyaasta nominal (lacageed) ee wax soo saarka guud (WSG) ama GDP ee ugu badanna waxay ku saleysan tahay warbixinnada kharashaadka oo kooban, kuwaas oo laga tilmaami karo qiyaasaha ku saleysan sahan lagu sameeyay isticmaalka qoysaska iyo ganacsiga

¹ RDNA waxay ku tiirsan tahay xogta ay ka hesho ilahan: Xogta Darnaanshaha Abaarta waxa lagasoo min-guuriyay ENDVI xog 10-sano si taariikh ahaan loo aruuriyay salkana ku haysa muuqaalada LANDSAT 8. Tirade barakaca waxaa laga helay xog ay ka aruuriyeen IDP IOM, UN habitat, UNHCR iyo Wasaaradda arrimaha gudaha ee deegaanka. Saameynta Beeraha iyo Xoolaha waxay xogtoodu aad loo ictimaaday qiyaasta khabarada iyo xog laga helay FAO FSNAU database (2011-2017), xogta dadka ee UNFPA 2014 iyo LANDSCAN 2015 ee cufnaanta tirade dadka. Odoroska iyo xogta Cholera/AWD waxaa laga soo guuriyay xogta, warbixinada iyo falanqeynta odorosyada ee Ururka Caafimaadka Aduunka (WHO). Xogta ilaha biyaha waxaa laga soo xigtay UN SWALIM & saldhiga xogta ee ICRC.



dhoofinta iyo wax soo dejinta. Sidaa awgeed tira-koobta dhaqaalaha guud ma aha mid dhammeystiran oo ku filan in la helo kororka dhaqaale ee dhabta ah. Inkasta oo ay tahay suuro-gal in la sameeyo hal mar qiyaasta kororka wax soo saarka guud, waxay noqonayaan kuwo tayo ahaan ah kuna saleysan qaybo dhawr ah oo tilmaamayaal aan dhab ahayn ee hawlaha sida ICT, dhismaha iyo ganacsiga. Laakiin qiyaastaasi waxay meesha ka saaraysaa in badan oo qaybaha reer-guuraaga ku saabsan iyo waxyaabaha aan la suuq-geynin sida biyaha, calafka iyo cuntada qofku iskiis u beerto. Intaas waxaa dheer xog ku saabsan qiimaha, sida qiimo dhinka GDP, waxay adkaynaysaa in la helo qiyaas kobaca GDP dhab ah.

GDP aan dhabta ahayn waxa lagu qiyaasay koboceeda 5% 2015 iyo 6% 2016. Siday ahayd xilliyadan dhawba kororka GDP ee Soomaaliyeed waxay sii ahaaneysaa mid magaalada ku saleysan, uu dhaqaajiyo isticmaalka (kharash gareynta), kana shiidaal-qaadata kaalmooyinka xawaaladaha iyo deeq-bixiyayaasha. Ka badan 70% GDP waxaa lagu qiyaasay in laga dhaliyo magaaloooyinka. Qiimaha sicir-bararka ee isticmaalku waxuu ka soo dhacay 4.5% 2013kii illaa 1.5% 2016kii (IMF 2017), in kastoo farqi aad u balladhan oo qiimaha ahi weli ka jiro meela kala duwan ee dalka. Inkastoo wax kukala iibsiga doolarka iyo hoos u dhaca qiimaha saliidu ay caawiyeen xakameynta sicir-bararka, abaarta iyo cunto yaraantu sare ayay u qaadeen qiimaha cuntada. Sida macaluulaha kale ee dhaca, qiimaha cuntada waa in loo eegaa awoodda ay cuntada u leeyihiin qaybaha jilicsan ee bulshada kuwaas oo maciishadoodii la nabaad guurtay burburkii beeraha.

Nidaamyada lacag-bixinta ayaa ah furaha wada horumarka qaybta maaliyadda, dawladduse waxay ku leedahay door yar. Lacago kala duwan oo ay ku jiraan airtime (lacagaha mobil) ayaa loo isticmaalaa sarifka ama wax isweydaarsiga. Kolka laga tago shillinka soomaaliga iyo Doollarka, soomaalidu waxay si joogto ah wax ugu kala sariftaan lacagaha Jabuuti, Itoobiya iyo Kenya goobaha xuduudaha ah. Lacagaha mobil-ka oo dollar ah ayaa wadanka si aad wax loogu bixiyaa. Isagoo ka helayaa kaalmo farsamo IMF, Bangiga Dhexe ee Soomaaliyeed (CBS) waxuu

bilaabay inuu isbedel ku sameeyo lacagta ka hor intaan suuqa lasoo gelin lacagta kun-ka ah, taas oo ah wejiga koowaad ee lagu ilaalinayo aaminaadda lacagta wadanka, ahaanaysana tallabada ugu horeysa ee CBS u ogolaaneysa in ku hawl-galo siyaasadda lacagta oo wax ku ool ah.

Xaaladda kharashka iyo dakhliga dawlada Soomaaliyeed waxay ahaaneysa mid Caqabad hortagnaato. Dakhliga gudaha (canshuuraha iyo ijaarka) ee qaybta ka ah GDP waxuu ahaanayaa mid hooseeya, sida uu u ahaa 2.7% GDP 2016^{kii}, taas oo adkeynaysa in la bixiyo adeegyadi². Kororka dakhliga ee 2016 waxuu ahaa mid siman, kaas oo ah caksiga kororkii sanadihii ka horeeyay. Odorokii hore waxuu ahaa mid si aan maangal ahayn u sareeyay (sida ku cad farqiga u dhaxeeya miisaaniyadii la sameeyay iyo dakhliga la hayo), dhibkaasina waxuu abuuray in la beekhaamiyo lacagta si kutalo-gal aan la hayn. Intaas waxaa dheer in dhaqamada maareynta dhaqaalaha ee aasaasiga ahi yihiin kuwo liita. Dhinaca kharashaadka, kharashaadka joogtada ah ayaa ugu badan kharashaadka la bixiyo, hantida labixiyaa waxay u taagan tahay 3% kharashka guud ee 2016. Odoros dakhli oo maangal ahayn oo uu weheliyo hubin xumo kharashaadka baxaya waxay qayb ka yihiin deynta is dul fuushay. Deeqda saaxiibada horumarinta ee miisaaniyadda waxay ahayd mid aad muhiim u ah sanadihii dhaweyto, inkastoo ay iyaguba noqdeen kuwo aan lasaadaalin Karin sidaana u adkeynaya in loo dhaqan geliyo miisaaniyadii sidii loo qorsheeyay.

Hoos-udhaca xisaab dibadeedka Soomaaliyeed ee xilliga oo qiyaastii ah 15% GDP way sii ballaadhan. Hoos-udhacan xilligan ku yimid xisaabta waxaa inta badan wada keenidda badeecadaha oo lagu qiyaasay 62% GDP, taas oo weliba ka weyn wax dhoofinta afar jibaar. Dhoofinta alaabta iyo adeegyadaba wuu hooseeyaa sababtoo ah kharashka colaadu keeneysa sida dhaawaca gaadhay kaabayaashii dhaqaalaha, hubinta amaanka, jid-gooyooyinka iyo xidhitaanka dariiqii ganacsiga – dhamaantoodna ay xanibayaan wax dhoofinta. Xawaaladaha – lagu qiyaasay 24% GDP 2015kii – waxay ahaanayaan xadhiga-noloshaha ee dhaqaalaha. In tabadan hoos udhaca xisaabta

² GDP aasaaska waa laga reebayaa Somaliland.



waxaa lagu maalgeliyey maalgalin dibada ka tamid (FDI) (12% GDP) iyo mucaawinada dibada (ODA) sanadihii dhawaa.

Koboca 2017 ayaa hoos ugu dhici doona 2.5% xaaladahaas la magacaabay in kastoo la rajeynayo inuu tallaabo horey u qaado sanadaha xiga. Xilliga dhexe dhaqaalaha Soomaliya waxaa la saadaaliyey inuu kordhayo si tartiib ah 5-7% sanadkiiba, kaas oo ay riixayaan celceliska baahida oo ka shiidaal-qaadanaya ganacsiga gaarka ah oo nool, xawaaladaha, qiimaha saliidda oo hooseeya, iyo ammaanka oo hagaagay. Dib-u-dhiska wadan dagaal aafeeyay waxuu aasaas u noqon koboca iyadoo dawladda cusubi xoogga saarayso nabadgelyada iyo ammaanka. Ammaanka oo xoogeysta waxaa la rajeynayaa inay Soomaaliya ku naallooto faa'iidada amniga mar walbana dawladda xukunkeedu kusii faafayo deegaanada ay isku fidisay.

Waxaa loo baahan yahay siyaasado si loo godliyo koboca dhaqaale ee xilliga dhexe. Markay abaartu sii yaraato waaxyaha beeruhuna soo kabtaan, Jamhuuriyada Federalka Somaaliya (JFS) waxay xoogga saari kartaa hirgelinta siyaasado si loo xaqiijiyo deganaanta waxna looga qabto habacsanaanta adeegga kaabayaasha dhaqaalaha, ammaanka, agaasinka iyo xaaladaha ku xeeran hay'adaha. Midda koowaad siyaasado dhaqaalaha guud oo sii joogteeya deganaanta dhaqaalaha waa lagama maarmaan (kumase filna) si ay gacan uga geystaan soo kabashada iyo kala duwitaanka (noocya-noocyeynta) dhaqaalaha. Midda labaad deganaanta kadib waxaa loo baahan yahay maalgelin la taaban karo si loo awdo (daboolo) farqiga hantida iyo kaabayaasha dhaqaalaha, la wanaajiyo adkaysiga iyo in la hagaajiyo xaaladaha ku xeeran ganacsiga xilliga dhexe. Ugu dambeyn isbadel lagu sameeyo maareynta maaliyadda dawladda (iyadoo lagu darayo xoojinta dardar-gelinta dakhliga gudaha), iyo xoojinta dawladdnimda ayaa loo baahan yahay si loogu abuurro horumarka khayraad dheeri ah isla mar ahaantaana la xaqiijiyo in khayraadkaas kordhay loo adeegsado si xikmadeysan oo wax ku ool ah.

Inkastoo la rajeynayo koror dhumuc leh xilliga dhexe, hadana haliso dhab ah ayaa jira. Dhinaca gudaha, qulqulatooyin socda iyo amaan-darro

ka jirta wadanka qaybo ka mid ah, iyo cabsida laga qabo macaluusha waxay dib u dhigayaan oo yareynayaa himilada laga qabo koror sal balaadhan. Inkastoo dhaqaalaha Soomaaliyeed yahay mid la qabsada xaaladaha jira, qulqulatooyinku waxay halis muhiim ah ku hayaan hawlaha dhaqaale ee xilliga dhexe. Argagixisadu waxay cabsi ku abuurtay maalgashadayaashii gudaha iyo dibedda waxayna u weecisay JFS mudnaatedii kharash ku bixinta hawlaha amaanka meeshii lagaga bixin lahaa hawlaha kororka dhaqaale sare u qaadaya. Dhinaca dibedda dhaqaalaha Soomaaliya waxuu si aad ah ugu tiirsan yahay xawaaladaha, qulqulka dhaqaale ee saaxiibada horumarinta, iyo dakhliga dhoofinta kasoo xarooda. Cabsi lageliyo qaar kamid ah ilahaas waxay saameyn ku yeelan rajada kororka ee Soomaaliya.

Sare u qaadidda Dardar-gelinta Dakhliga Gudaha:

Wadarta guud ee dakhliga canshuuraha Jamhuuriyada Federalka Somaaliya waxuu ahaa in kabadan 2 % GDP 2016kii. Dakhliga JFS waxuu daboolaa oo qudha 60 % (US\$113 million 2016kii) miisaaniyada yar ee federaalka, in kabadan 80 % dakhliga canshuurtu waxuu kayimaadaa ganacsiga. JFS waxaa ka maqan dhaqaalihii ay ku fulin lahayd barnaamijyo waaweyn ama maalgelinta mashaariicda. Maalgelinta dawladda waxuu weli si culus ugu tiirsanaan kaalmooyinka horumarineed, kuwaas oo iyaguna diiradda saara qaybaha arrimaha bulshada iyo ammaanka meeshii ay ka saari lahaayeen maalgelinta salka balaadhan. Habacsanaanta nidaamku waxuu marag ka yahay siyaasadda liidata, awoodda maamul oo tabar daran, iyo isku-xidhnaan xumada hay'adaha heer kasta ee dawladda iyo isku xidhnaan xumada dawladda federaalka ah iyo dawlad goboleedyada.

Dakhli gudaha oo waara layskuna hallayn karo ayaa lama huraan ah haddii la doonayo in Soomaaliya hirgeliso istiraatiijiyadii lagu dejiyay qorshaha horumarineed ee qaranka iyo inay gaadho koror dhaqaale oo deg-deg ah oo waara, ujeedooyinkii yareynta saboolnimada ee qorshaha horumarineed ee qaranka 2017-2020. Si loo taageero kharashaad joogteysan, loona wado harumarka iyo yareynta ku tiirsanaanta ilaha dibedda, JFS waa inay heshaa

wadooyin ay ku kordhinayso dakhliga gudaha iyadoo u mareysa qaab aan wiiqaynin dhiirigalinta waaxda ganacsiga gaarka loo leeyahay – waaxdani waxay ahayd matoorka horumarka Soomaaliyeed 25 sano ee lasoo gudbay. Sare u qaadida dardar-gelinta dakhliga gudaha – gaar ahaan xaalad dakhliga gudaha si degdeg ah ugu kobcayo kolka loo barbar-dhigo kharashaadka maamul – waxuu Soomaaliya siinayaa dhaqaale horumarineed oo waara, laguna tashan karo kaas oo laga tabcay wadanka gudahiisa.

Wanaajinta sameynta dakhli waxuu fure u yahay dhisidda qaran jira iyo nabad-gelyo waarta. Dardar-gelinta dakhligu waa dhagaxa aasaaska u ah dhisidda dawladda. Awoodda dhisid si looga abuuro dakhli canshuur-qaadidda ayaa ah mid halbowle ah, waayo waxay yareynaysaa ku tiirsanaanta kaalmada, waxay caawinaysaa bixinta adeegyada maaliyadeed, waxay xoojinaysaa heshiiska qandaraas ee u dhexeeya dawladda iyo shacabkeeda, waxayna xoojinaysaa xidhiidhka bulshada dhexdeeda.

Arrinta Soomaaliya oo kale, dardar-gelinta dakhliga gudaha lagama sidki karo (gooni yeeli karo) ammaanka, bixinta adeegyada muhiimka ah iyo kordhinta isla xisaabtanaka hay'adaha maareynta maaliyadda ummadda. Soomaaliya waxay wajahaysaa dhibaatooyin lixaad leh oo ku saabsan dib u dhiska kalsoonida sharci ahaaneed iyo aaminaadda hay'adaha dawladda gaar ahaan kuwa ku shaqo leh maaliyadda, oo loo fahamsan yahay inay mas'uul ka yihiin daah-furnaanta maareynta hantida. Kartida JFS ay ku dardar-gelinayso dakhliga waxay ku xidhan tahay sida ay dawladdu ugu guuleysato ka hortegidda canshuur la dhuumashada baahsan iyo canshuur bixin la'aanta. Dawladdu waxay u baahan tahay inay uxaqiijisaa nabadagelyo iyo ammaan hawlaha dhaqaale ee sharciga ah iyo inay dhaqangeliso canshuur-bixin cadaalad ku dhisan. Si ay hadaba sidaa u sameyso waa inay wada-tashi xoog leh la yeelataa ganacsiga gaarka loo leeyahay hormuudkiisa, waxbartaa canshuur-bixiyeyaasha, sarena u qaadaa wacyiga

dadweynaha ee ku saabsan sababta ay canshuurta u bixinayaan iyo baahida loo qabo canshuurta. Waxaa ku jiri kara isku xidhka faa'iidooyinka ammaanka iyo adeegyada muhiimka ah lagu xidho canshuur dhiibidda, habsami u aruurinta dakhliga iyo maareyn wanaagsan ee dakhliga.

Jiritaan la'aanta heshiis hawlaha dakhliga oo dhexmara JFS iyo dawlad goboleedyada waxuu xagal-daacinayaa isku dayadii dardar-gelinta, sidaa awgeed waxaa loo baahan yahay kordhinta wada-hadaladii u dhexeeyay wasiirada maaliyadda ee dhawaan la bilaabay. Xilligan lajoogo JFS dakhligooda dhammaantii waxay ka uruursataa caasimadda; dawlad goboleedyadu waxay ka uruursadaan, haystaanna canshuurta deegaanada hoos taga. Dawladda Federaalku waxay bilowday inay tiro kooban oo maaliyadda gudaha³ iyo dibedda ahba u gudbiso dawlad goboleedyada iyadoo usii marinaysa sanduuq uu maamulo bangiga aduunku, halka aan si cad loo qeexin mas'uuliyadda kharashaadka federaalka iyo dawlad goboleedyada. Qaabka hada jira waxuu xadidayaa dardar-gelinta dakhliga. Heshiis la gaadho oo JFS u ogolaanaya inay canshuur ka uruursato Muqdisho bannaankeeda waxuu si weyn u kordhinayaa dakhliga la helikaro.

JFS waxay qaadi kartaa hawlo (tallabooyin) is dabayaalla oo lagu dardar-gelinayo dakhliga xilliga gaaban iyo midka dhexeba. Hawlahaas waxaa kamid ah meel-marinta sharciyada canshuuraha; wax ka qabadka dhibaataada ah inaan la canshuuri karin qaybaha dhaqaalaha kamid ah sida beeraha iyo xoolaha; kusoo rogidda iyo ka qaadidda canshuurta mushaarada iyo gunnooyinkaba ee shaqaalaha dawladda iyo kuwa gaarka ahba; kordhinta canshuur bixinta shirkadaha waaweyn; canshuuridda dhoofayaasha iyo ilaha kale ee dakhliga aan canshuurta ahayn. Wada hadalka hogaamiyayaasha ganacsatada aad ayuu muhiim u yahay, waxaana lagu bilaabay iyadoo loo marayay golaha wada-hadalka dawladda iyo ganacsatada gaarka ah.

³ Iyadoo tixraacaysa abaartii 2017, dawladda federaalku waxay ballan-qaaday inay si joogto ah ugu gudbiso US\$150,000 dhammaan dawlad goboleedyada. Waxaa intaas raacda MPF inay bixisay kharashka joogtada ah iyo mashruuca isbadelka maaliyadda waxuu bixiyaa gudbinta siyaasadda maaliyadeed, gaadhsiin adeeg ahaan dawlad goboleedyada iyadoo ku saleysan ka arkigga qodobadii diyaar noqoshada.



Maamulidda dakhliga iyo kala jwabinta qalabka canshuuradka waa caqabado isku xidhan. Si dardar-gelinta dakhligu u noqoto mid saameyn leh oo lagu guuleysto, JFS waxay u baahan tahay inay diiradda saarto caqabado dhawr ah sida karti xumada maamulka canshuuraha, qaab canshuur bixiyeyaashu canshuurtooda u qiimeysan karaan, jiritaan meelo canshuur hoose laga qaado, canshuuraha sharci darada ah ee ay aruuriyaan mas'uuliyiinta deegaanada, iyo laba jeer canshuuridda (badanaa mas'uuliyiinta deegaanka iyo JFS). Dawladda federaalka ah iyo dawlad goboleedyadu waa inay sii wadaan wada-hadalkii bilaabmay ee ku saabsanaa federaaliisimka dhaqaalaha dawladda dhexdeeda, waxaana uu ka bilaabmay golaha wasiirada maaliyadda, gaar ahaan si la isula jaan-qaadsiiyo canshuuraha iyo canshuuraha gaar ah. Wax ka qabadka musuqmaasuqa maamulka canshuuraha iyo abuuritaanka hawl-wadeenno canshuureed oo si wanaagsan loo agaasimay, daacad ah xirfaddanna yaqaan ayaa iyaguna noqon kara fure.

Haddii la qaato tallaabooyin haboon, suuro-galnimada in dardar-gelinta dakhligu kordhaa waa mid aad u weyn. Qaabkan matalaadda ah ee bangiga aduunku u adeegsaday taxanahan daabacaadda labaad ee dhaqaalaha Soomaaliya ee xilligan waxuu ku tusinayaa in si tartiib ah oo loo hirgeliyaa maamulka canshuuraha iyo isbadelka kastanada sare u qaadi karaan dakhliga gudaha laga bilaabo qiyaastii 2% GDP 2015kii illaa in kabadan 13% GDP (US\$1.1billion) sanadka 2022 haddii la dhaqangeliya tax xidhmooyin isbedel ah. Xidhmooyinkaas waxaa ugu horeeya kordhinta dabbaqaadda xeerarka iyo dhaqangelinta kuwa jira hadda, balladhinta saldhiga

canshuuraha ee horey ugu yaalla buuggaagta (tusaale: mushaaraadka iyo dakhliga shirkadaha), iyo isticmaalka canshuurta gaarka ah iyo midda kumeel-gaadhaka ah, taas oo hadhow laga saari karo kolka lagaadho wejiga qaybtiisa dambe kolka la helo meelo kale oo badan oo canshuurta laga qaadi karo. Qaabka isbedelka xilliga dhexe oo lasii balaadhiyo waxaa halkaas iman doono sal-balladhin iyo daboolid deegaano, si kale in loo qaabeeyo qiimaha iyo isku habeyn maamulka. Ugu dambey isbadelka xilliga fog waxuu dhidibada u aasayaa isbadeladii hore ee dhinaca casriyeynta sharciyadii iyo hubintii salka u dhigayay nidaamka canshuurta.

Isbadel la'aan, Soomaaliya waxay kusii jireysaa dabinka dhaqaale, xitaa iyadii oo isbadelo meel-dhexaad ahi sare u qaadi karaan awoodda dhaqaale ee JFS. Sawirka aasaaska ahi, oo laga soo qaadayo inuu isbadelkaasi u tallabsanayo sida hadda uu yahay dakhliga canshuuraha ee gudaha GDP-du waxay kordhaysaa kabilow 2.0% ee GDP sanadka 2015 illaa 2.7% sanadka 2022.

- Xidhmada xilliga gaaban (soke) waxay dhalaysaa koror 6 % ee GDP sanadka 2022.
- Xilliga dhexe horumarka xidhmadiisu waxay dhalaysaa koror 9 % ee GDP sanadka 2022.
- Xilliga fog xidhmadiisa – isku ururinta iyo dhidib u adkeynta isbadeladii hore – waxay dhalaysaa koror 13 % ee GDP sanadka 2022. Inkastoo wax la taaban karo ay tahay, hadana Soomaaliya waxay dhigaysaa heerka hoose ee hawlaha dakhliga ee wadamada dakhligoodu yaryahay.



RECENT ECONOMIC DEVELOPMENTS



1. Recent Economic Developments

1.1 The Recent Drought Has Led to Large-scale Food Insecurity

Somalia faces large-scale food insecurity due to drought conditions. The food crisis worsened in rural areas following four consecutive seasons of poor rainfall and low river water levels. The country's coping mechanisms were stretched and started to fail. The drought is leading to: near total crop failures and reduced rural employment opportunities; widespread shortage of water and pasture; increased livestock mortality, and rapidly diminished food access among poor households as staple food prices continued to rise sharply and livestock prices declined significantly (see Figure 1.1). Prices of cereals and milk significantly rose in most parts of Somalia experiencing drought, while livestock prices declined as farmers destocked. Total loss of livestock and destitution were reported in some northern pastoral areas. There was drought-related displacement from parts of Bakool and Bay regions towards urban areas in Gedo, Lower Shabelle and Banadir. In the lead up to the start of the anticipated below-normal 2017 (April-June) season rainfall, staple food prices rose sharply, and widespread livestock mortality occurred as pasture and water resources become depleted. Acute malnutrition remains high and widespread across Somalia.

The drought is highly likely to have cast widespread and lingering impacts across multiple sectors in Somalia. According to preliminary assessment from an internal Rapid Drought Needs Assessment (RDNA) by WB staff which is based on a triangulation of secondary data⁴ through remote-sensing techniques: (i) losses related to deceased livestock ranging between US\$1.3 billion and US\$1.7 billion for the period of the drought; (ii) losses in crop production of up to US\$60 million during the period

of the drought; (d) further depletion of nominally functional water resources, over 50 percent of which are located within highly drought stressed areas; (e) forecasts of up to 41,250 AWD/cholera cases including estimated 6,188 admissions by June 2017, and; (f) sharp increase in displacement.

The humanitarian community initially sought US\$864 million to reach 2.9 million people with urgent life-saving humanitarian assistance. At the London Conference, the UN increased the appeal for the remainder of 2017 to a total of US\$1.5 billion, targeting 5.5 million people – underlining the sustained impact of the drought and the need for more investments in lifesaving as well as resilience. According to the UN (2017), the humanitarian situation remained grim for millions of Somalis who were faced with a steady increase in the number of people in need, and faced significant risk of famine. The drought conditions left millions of Somalis facing severe food and water shortages. The new Somali leadership highlighted the drought situation as a top priority. Overall, some 6.2 million people are in need of humanitarian assistance. About 320,000 children under the age of 5 years are acutely malnourished and are in need of urgent nutrition support. Of these, 50,000 children are severely malnourished and far more vulnerable than any other group.

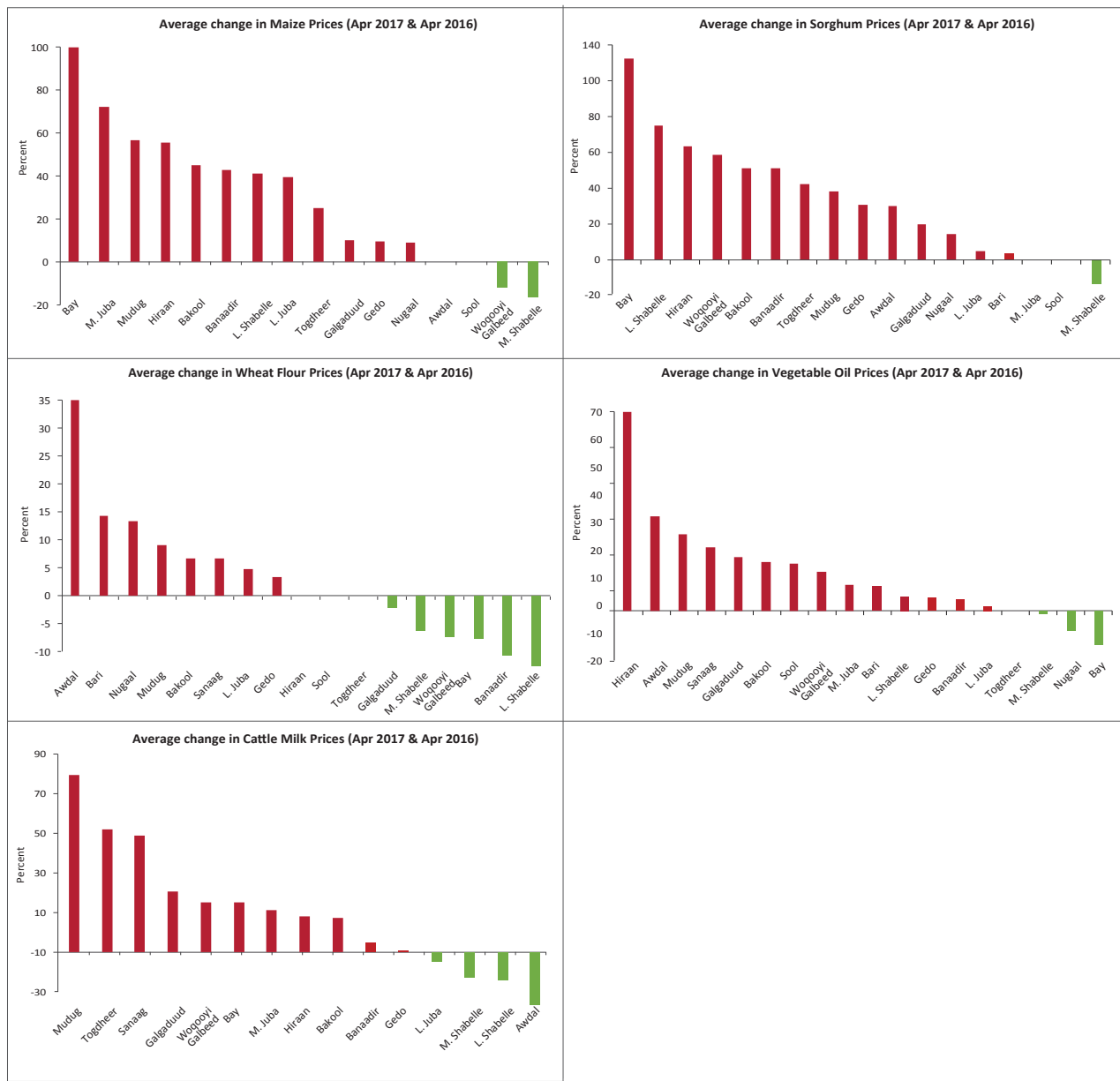
1.2 Economic Recovery Has Been Underway In 2015 And 2016—Despite Significant Challenges

Somalia's economic growth remains steady, despite persistent and deep fragility in some parts of the country. Nominal GDP is estimated to have reached US\$5.9 billion in 2015, a 5 percent increase over the 2014 estimate of US\$5.6 billion (Figure 1.2). GDP is estimated to have reached US\$6.2 billion in 2016, a nominal growth of 6.2 percent.

⁴ The RDNA relies on the following sources of information: Drought Severity data was derived from ENDVI 10-year historical anomaly data based on LANDSAT 8 imagery. Displacement figures were derived from compiled IDP data from IOM, UN Habitat, UNHCR and local Ministries of Interior. Agriculture and livestock impact data heavily relied on expert judgment and data from FAO FSNAU database (2011-2017), UNFPA 2014 population data and LANDSCAN 2015 population density. Cholera/AWD forecasts and data was derived from World Health Organization (WHO) data, reporting and forecasting analysis. Water resources data was derived from UN SWALIM and ICRC databases.



Figure 1.1: Drought has triggered significant price increase on agricultural products in many regions



Source: Drought has triggered significant price increase on agricultural products in many regions.

Note:

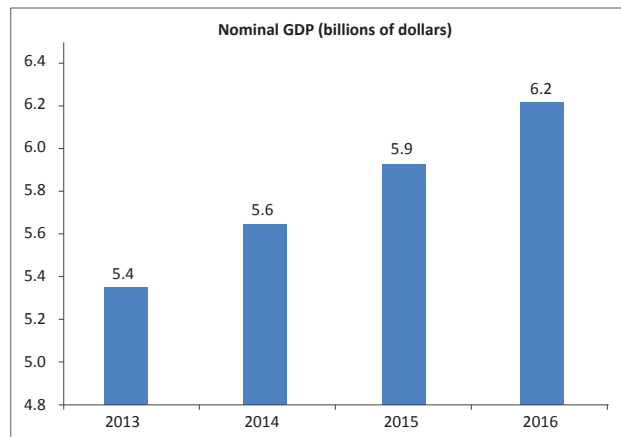
- Decline in prices (green bars) reflect the effects of relief food which makes prices to decrease.
- Food deficit regions have higher price levels and lower price changes while regions where agricultural activities take place, grains tend to have lower price levels but higher price changes.
- The price of livestock has plummeted and as a result milk prices have gone.



A few sectors anchor economic activity in Somalia:

The major economic activities are in services sector with trade, telecommunications, and money transfer services being the main ones. Many Somalis depend on livestock, which also forms the main export base. The economic structure is profoundly affected by conflict and aid, making the economy relatively urbanized and unevenly integrated with the global economy.

Figure 1.2: Somalia's nominal GDP continues to rise



Source: World Bank and IMF estimates.

Investment remains low, contributing only 8 percent of GDP in 2015. Gross investment is picking up, however, driven by new building and construction, urban infrastructure, and remittances. Security

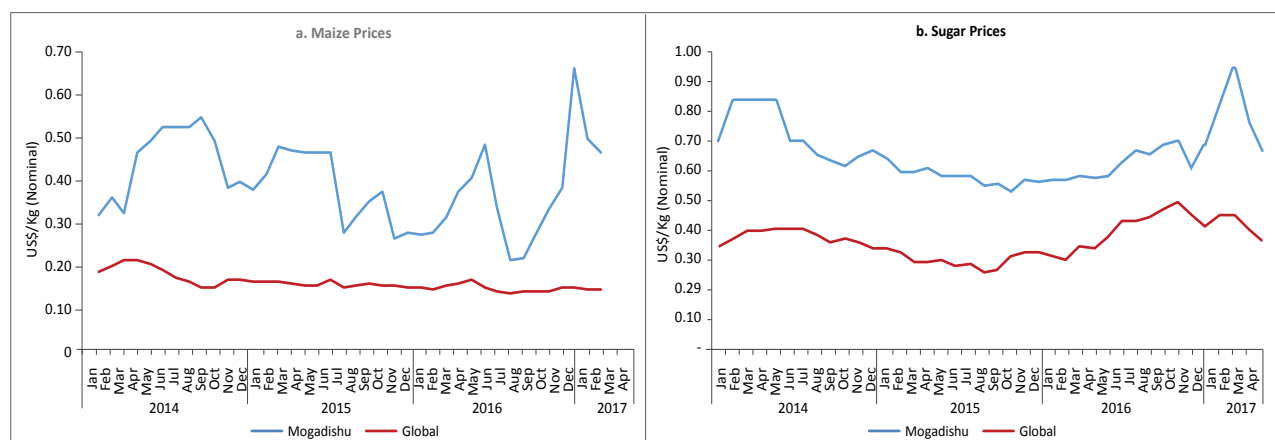
concerns, and a difficult business environment hinder investment in Somalia. Gross fixed capital formation grew just 6 percent on average over the past three years.

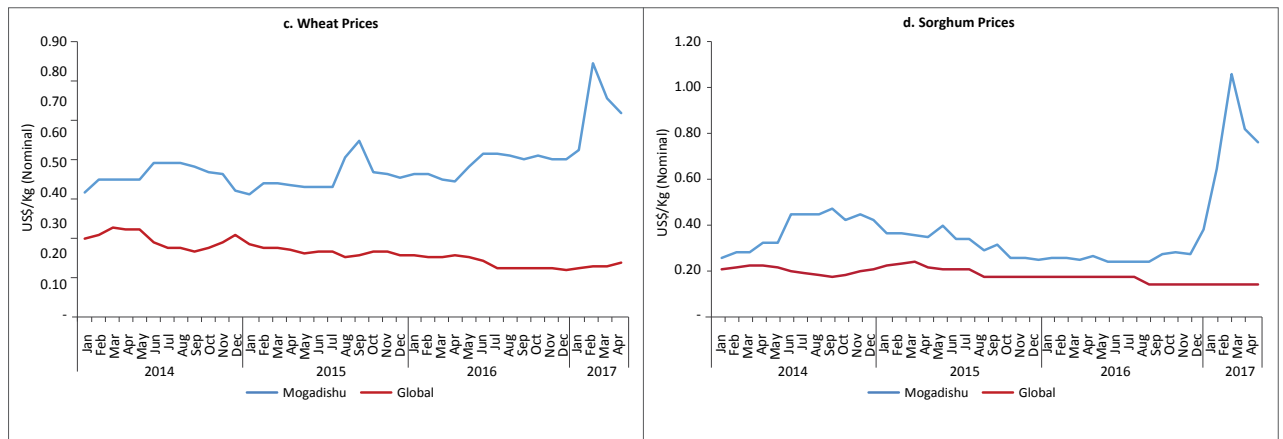
Somalia remains highly dependent on imports, the value of which is equivalent to more than two-thirds of GDP. Exports account for just 14.5 percent of GDP, creating a large trade deficit (47 percent of GDP in 2015), which is financed by remittances and international aid. Direct donor support is equivalent to 9 percent of GDP.

1.3 Inflation Remains Low, But Food Is Unaffordable For Many

Consumer price inflation fell from 4.5 percent in 2013 to 1.5 percent in 2016 (IMF 2017), but this conceals big spatial variation in price levels. Inflation has been contained by dollarization and the sharp decline in oil prices. But commodity prices are still much higher than global market prices. The average price of maize fell from US\$0.45 per kilogram in 2014 to US\$0.40 in 2015, but it was more than twice the global market price average of US\$0.17 (Figure 1.3). The price of sugar was also much higher. High local commodity prices are compounded by food insecurity, which has become a recurring problem in Somalia and throughout the Horn of Africa.

Figure 1.3: Commodity prices in Somalia are much higher than global prices





Source: Food Security and Nutrition Analysis Unit database and World Bank Commodity Price Data (Pink Sheet).

1.4 The Large External Imbalance is a Source of Vulnerability

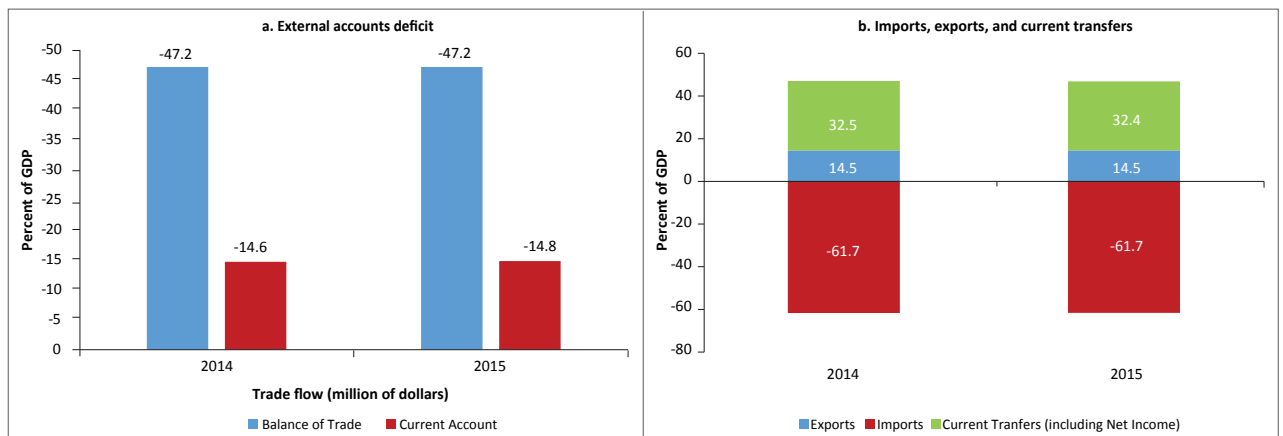
Somalia's current account deficit remains large. The current account deficit was US\$876 million in 2015 (14.8 percent of GDP), up slightly from US\$827 million (14.6 percent of GDP) in 2014 (Figure 1.4). The trade deficit rose to US\$2.8 billion, up from US\$2.7 billion in 2014 (about 47 percent of GDP in both years). It is driven by imports, estimated at US\$3.7 billion (62 percent of GDP), which exceeded exports (of US\$859 million) by a factor of more than four.

Somalia is importing more merchandise for consumption and investment. According to UN COMTRADE data, the value of merchandise imports increased 72 percent between 2010–12 and 2013–15. This growth was driven not only by consumption but also by capital goods: Imports of transport

equipment rose 147 percent, machinery and electrical equipment rose 97 percent, and chemicals rose 30 percent. Imports of vegetable doubled. Imports of animals (from Djibouti, Ethiopia, and Kenya) rose 147 percent, a response to the drought.

Somalia's exports have stagnated while imports have increased rapidly. Exports of goods and services were just US\$859 million in 2015, up 5 percent over the US\$819 million exported in 2014. The figure is low largely because of the cost of conflict. Damage to vital infrastructure, security checks required to prevent violence, and the shutdown of trade routes make it difficult to produce in and export from Somalia. Higher trade costs disproportionately disadvantage small and medium-size enterprises, which lack the expertise and resources to overcome these barriers.

Figure 1.4: Somalia imports more than four times as much as its exports, creating huge external account deficits



Source: World Bank and IMF estimates.



The capital and financial account helped finance the current account deficit. The current account deficits of US\$876 million (14.8 percent) in 2015 and US\$981 million (15.8 percent) in 2016 were financed mainly by net foreign direct investment (FDI). FDI reached US\$666 million in 2015 (11.2 percent of GDP) and is estimated to have increased to US\$756 million in 2016 (12.2 percent of GDP), according to the IMF. The main sources of FDI are diaspora firms and investment from Middle Eastern countries. The balance, financed by official development assistance and long-term capital flows, is estimated to have reached US\$150 million in 2015 and US\$157 million in 2016.

Remittances—estimated at US\$1.4 billion (24 percent of GDP) in 2015—remain a lifeline for the economy. A large portion of the population is dependent on remittances from Somalis living abroad and humanitarian aid. Funds from both sources finance consumption, including education and health, and investment, mostly residential construction, helping Somalia sustain its high consumption rates and finance a large trade deficit.

1.5 The Scope of Monetary Policy is Limited

The economy continues to be highly dollarized, limiting the scope for monetary policy. The Central Bank of Somalia (CBS) has not issued new notes since 1991, when the civil war began. A large volume of currency printed by private actors, both locally and outside the country, is said to exist, even while the old Somali shilling is still in circulation. Because an estimated 95 percent of local currency in circulation is counterfeit, however, most transactions, including all transactions by the federal government, are in US dollars, limiting the scope for CBS monetary policy.

The Somali shilling—which is used only for small, face-to-face transactions—was relatively stable in 2015, at about 22,200–22,300 Somali Shillings to the US dollar. It depreciated 3.5 percent between December 2015 and December 2016. The stability of the shilling reflects significant inflows of remittances and the fact that most transactions are in dollars.

Multiple currencies, including airtime, are used as mediums of exchange. In addition to the Somali shilling and the U.S. dollar, Somalis regularly use the currencies of Djibouti, Ethiopia, and Kenya as mediums of exchange in border areas. Mobile airtime denominated in U.S. dollars is also widely accepted as payment throughout the country.⁵

The CBS is engaging in currency and other reform. With technical assistance from the IMF, the CBS plans to engage in currency reform later in 2017 provided policy preconditions are met, issuing a limited volume of thousand-shilling notes for circulation in the initial phase to restore the credibility of the domestic currency as a first step toward allowing the CBS to engage in effective monetary policy.

1.6 Implementation of Fiscal Policy has Improved, but Challenges Remain

Somalia's fiscal situation is improving. The FGS has presented a budget for parliamentary approval for four years in a row. Public expenditures have expanded almost fivefold, from US\$35.1 million in 2012 to US\$170.5 million in 2016, and budgeted for US\$267.4 million in 2017. Spending depends heavily on multilateral and bilateral donor inflows, however, which are often late or do not materialize, creating uncertainty in budget implementation.

Domestic revenue (taxes plus fees) as a share of GDP remains very low, at just 2.8 percent of GDP, making it difficult to provide services. Revenue mobilization improved significantly over the past five years, however (Table 1.1). Domestic revenue grew 36 percent in 2015, rising from US\$84.3 million in 2014 to US\$114.3 million in 2015, driven mainly by tax revenue, which contributed more than 70 percent of total revenue in 2012–15. However, revenue growth was flat, declining 1.4 percent to US\$112.7 million in 2016. Past forecasts were unrealistically high (as the differences between budgeted and actual revenues in figure 1.5 show), a problem that led to *ad hoc* cash rationing. In addition, the basic norms of fiscal management remain weak. Unrealistic revenue projections and weak expenditure controls contribute to the accumulation of arrears, which

⁵ The World Bank is undertaking a household survey of mobile money use in Somalia which estimates that very significant volumes of payments are made on a monthly basis through mobile, based on the very high penetration of mobile telephony in Somalia.



Table 1.1: Revenue outturn by the FGS, 2012–16

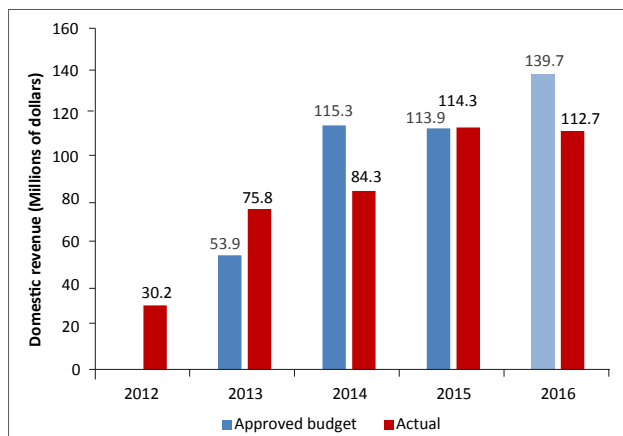
Item	2012	2013	2014	2015	2016	2017 Budget
<i>Millions of dollars</i>						
GDP (excluding Somaliland)	3,458	3,695	3,935	4,031	4,193	4,440
Total Revenue	35.1	117.4	145.3	141.2	168.0	267.4
Domestic revenue	30.2	75.8	84.3	114.3	112.7	164.7
Tax revenue	25.3	65.1	73.8	82.4	88.6	132.9
Income and corporate taxes	–	0.7	1.1	1.9	2.4	6.6
Taxes on international trade	24.0	58.7	64.3	71.1	76.3	86.8
Other domestic indirect taxes	–	1.6	4.8	4.8	2.9	29.7
Other taxes	1.3	4.0	3.6	4.5	7.0	9.8
Domestic loan and grants	0.0	6.6	–	–	–	–
Nontax revenue		4.1	10.5	31.9	24.1	31.8
Donor funding	4.9	41.7	61.0	26.9	55.3	102.7
Bilateral assistance	4.9	41.7	59.03	2.87	31.3	18.5
Multilateral assistance	–	0	1.93	24	24.0	84.2
<i>Percent of GDP</i>						
Total revenue	1.0	3.2	3.7	3.5	4.0	6.0
Domestic	0.9	2.1	2.1	2.8	2.7	3.7
Donor funding	0.1	1.1	1.6	0.7	1.3	2.3

Source: Ministry of Finance.

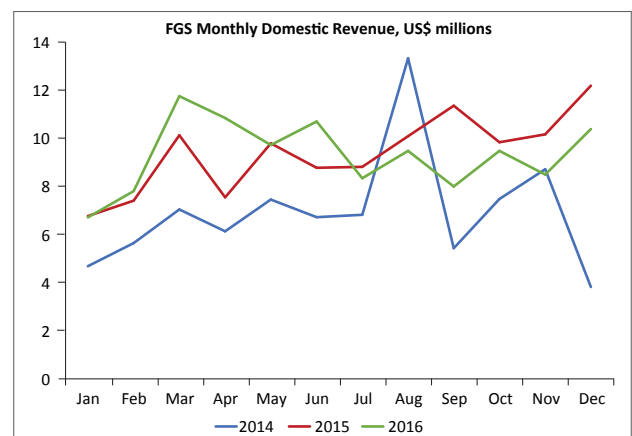
reached US\$67.7 million in 2015. Historically, domestic revenue collection has been stronger in the second half of the year (Figure 1.6).

International trade taxes, mainly customs duty, remain the key source of domestic revenue, accounting for 68 percent of the total in 2016 (Figure 1.7). Trade taxes grew 7 percent in 2016 to US\$76 million, down from 11 percent growth the

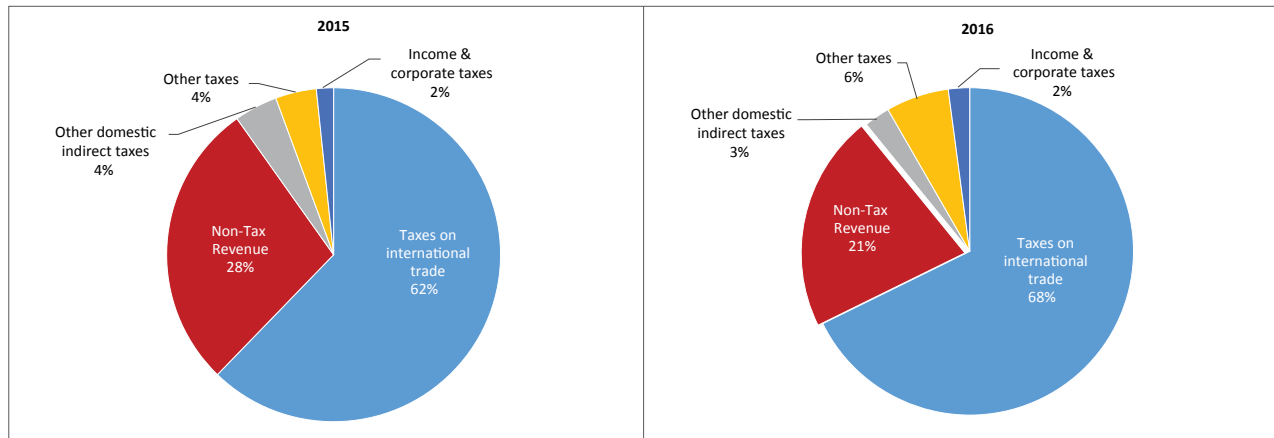
previous year. Nontax revenue tripled, to US\$31.9 million in 2015, mainly as a result of new fees at Mogadishu air and sea port and charges for visas and passports. The figure declined by 24 percent in 2016, leading to a drop in total domestic revenue. Personal and corporate income tax remains a drag on revenue performance, bringing in only US\$2.4 million in 2016.

Figure 1.5: Domestic revenue forecasts for the FGS have become more realistic

Source: Ministry of Finance.

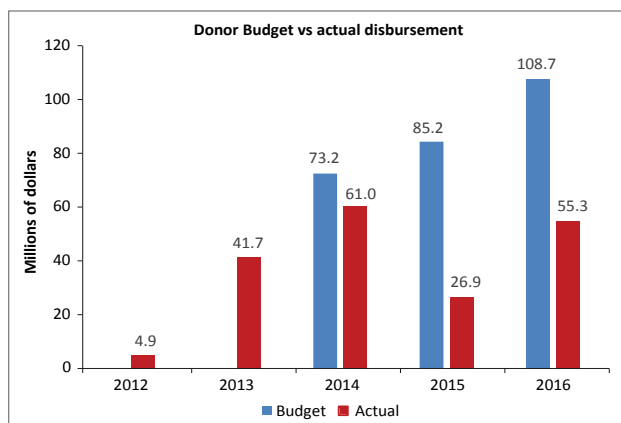
Figure 1.6: Monthly revenue mobilization by the FGS has increased

Source: Ministry of Finance.

Figure 1.7: Taxes on international trade are the main source of domestic revenue in Somalia

Source: Ministry of Finance.

On-budget donor funding, which significantly underperformed in 2015, more than doubled in 2016. Donor funding increased from US\$27 million in 2015 to US\$55.3 million in 2016 (Figure 1.8). Development partners' contributions to the budget have been critical, but they are unpredictable, making it difficult to execute the budget. Only 51 percent of donor commitments were realized in 2016, an improved performance from the previous year, when only 32 percent of commitments were realized. Bilateral donors executed 92 percent of their commitments in 2016; multilaterals executed 32 percent. Total donor funding is budgeted to increase to US\$80 million in 2017.

Figure 1.8: Actual disbursements by Somalia's donors fell short of commitments

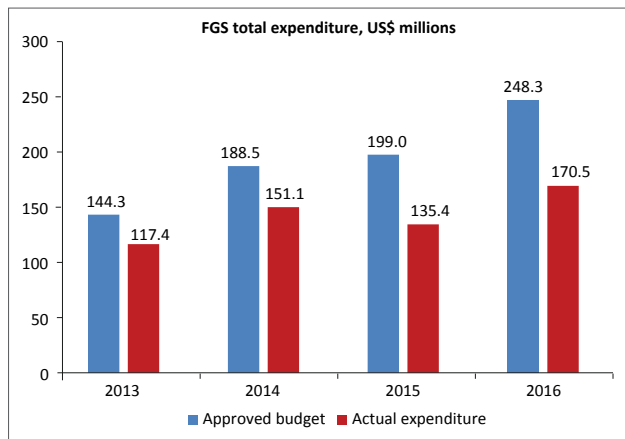
Source: Ministry of Finance.

Weak revenue mobilization hinders the ability of the FGS to deliver services to citizens. The linkage of revenue mobilization to service delivery and state legitimacy is the focus of the special focus of this Economic Update (chapter 3). For FGS and Somalia as a whole, poor collection capacity, a weak public finance management system, a narrow tax base, and the absence of the necessary legal and regulatory frameworks governing revenue collection and administration have created a tax gap (the difference between taxes actually paid and taxes that should be paid based on existing laws and statutes) of 70–80 percent of revenue collections.

A tax reform agenda coupled with strengthened public finance management could increase domestic revenue. Policy reform combined within a regulatory environment and public financial management are complementary. A pending telecommunications bill will allow the FGS to raise taxes on the vibrant telecommunications sector; the public financial management bill should reduce revenue leakages and allow the government to improve expenditure control and transparency. Once passed, these bills offer good opportunities to increase domestic revenue. Efforts supported by the World Bank and other donors should help improve revenue collection and administration.

Expenditure is increasing, but budget execution remains weak and sectoral allocations need readjustment. Recurrent expenditures account for almost all expenditure, with capital spending accounting for just 3 percent of total spending in 2016. Recurrent expenditure increased from US\$117.4 million in 2013 to US\$165 million in 2016; it averaged 3.6 percent of GDP during this period (Figure 1.9). Total expenditure in 2017 is estimated at US\$267 million.

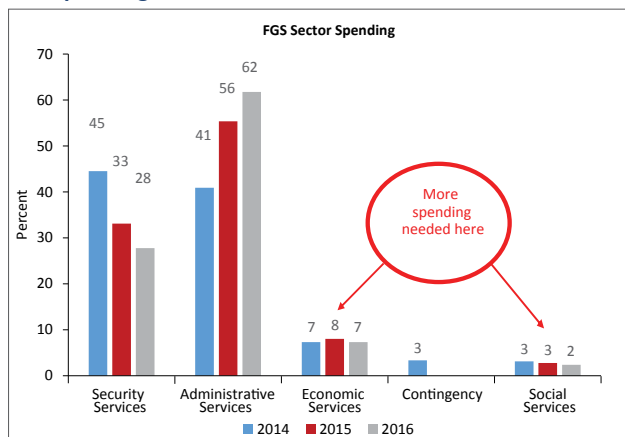
Figure 1.9: Spending by the FGS has increased—but actual spending still remains less than budgeted spending



Source: Ministry of Finance.

The administrative and security sectors account for more than 85 percent of total spending. Together the economic and social services sectors account for only about 10 percent of total expenditure (Figure 1.10). More—and better allocated—spending will need to go to these sectors if service delivery

Figure 1.10: Administrative and security services dominate FGS spending



Source: Ministry of Finance.

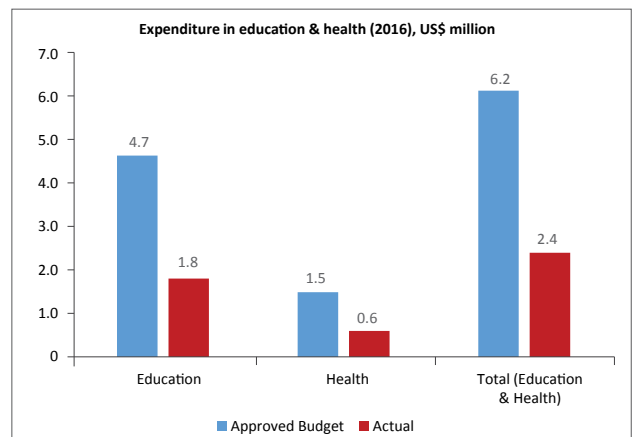
is to improve. More than 80 percent of spending in these sectors currently goes to compensation of employees.

Social services are underfunded, accounting for just 2 percent of the budget in 2016. Education and health combined received a mere 2.5 percent of the budget (US\$6.2 million, of which only about US\$1.5 million was budgeted to health)—and only 39 percent of those funds were executed (Figure 1.11).

Compensation of employees and spending on goods and services accounted for more than 80 percent of expenditure. Compensation of employees grew by 43 percent to reach US\$79.3 million in 2016 (47 percent of total expenditure), up from 41 percent in 2015. Use of goods and services declined by 3 percentage points to 41 percent (Figure 1.12). Budget execution in these expenditure categories was less than 85 percent, significantly contributing to arrears.

The number of civil servants rose 64 percent in the past three years. The FGS employed 4,674 civil servants in 2015, up from 2,849 in 2013. Increases were large in the administrative and economic sectors and small in the security and social sectors (Figure 1.13). The total number of civil servants is projected to rise 5 percent, to 4,927, in 2016. This, in part, reflects the lack of retrenchment policy which is needed to ensure an efficient civil service.

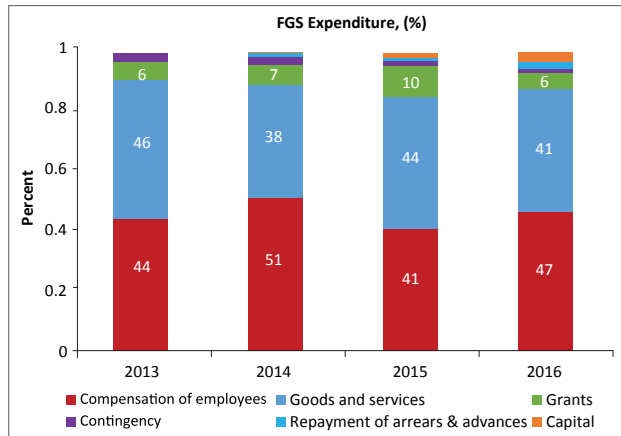
Figure 1.11: The FGS spent less than US\$2.5 million on education and health in 2016



Source: Ministry of Finance.



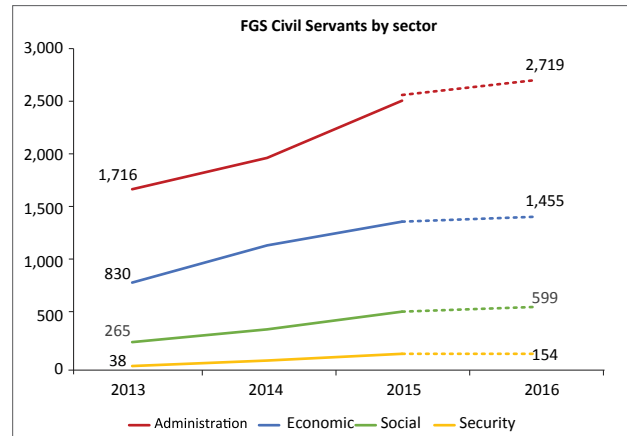
Figure 1.12: Employee compensation and spending on goods and services accounted for 88 percent of FGS spending in 2016



Source: Ministry of Finance.

The stock of domestic arrears continued to grow, undermining the credibility of the budget. The total stock of arrears is estimated at US\$67.7 million in 2015, up from US\$45.3 million in 2014. Reducing it requires improved cash management and better controls to ensure that annual cash plans are realistic and linked to the allocation process and expenditures are not initiated if funds are not available. An arrears management plan needs to be developed to ensure

Figure 1.13: The number of civil servants in the FGS has risen since 2013



Source: Ministry of Finance.

that existing arrears are cleared and new arrears not accrued. Actions to reverse the growth in wages and salaries could include rigorous assessment of staffing needs, examination of the reasons for the growth in staff numbers and assessment of whether additional staff are justified, and analysis of the roles and responsibilities of institutions, in order to eliminate duplication.

OUTLOOK AND RISKS, 2017–19



2. Outlook and Risks, 2017–19

2.1 The Underlying Recovery Should Resume After Drought Impact Is Ameliorated

Projections are subject to considerable uncertainty because Somalia's statistical base is very weak. Somalia does not have a national accounts statistical framework and prevailing estimates of nominal GDP are based on sparse expenditure side information, notably a survey-based estimate of household consumption and trade partner exports and imports. Thus, macroeconomic statistics are not comprehensive enough to capture the effect of drought. While it is possible to produce one-off projections of GDP growth, these are highly qualitative and by necessity based on a few sectors where some proxy indicators for activity are possible, such as for ICT, construction, and trade. Our estimate of the GDP shows that just over 70 percent of all economic activities is generated in urban areas. As a result of sparse information, estimates will miss much of the rural sector and non-marketed output such as water, fodder, and food grown for own-consumption.

Within these limitations, the World Bank estimates that GDP growth in 2017 will decelerate as a result of the severe drought but it is expected to revert to the post-2011 trend in 2018-19. Growth in 2017 is estimated at 2.5 percent in 2017 according to the IMF (2017) while Somalia's economy is projected to grow at a steady nominal annual rate of 5–7 percent in the next three years, driven by aggregate demand fueled by a vibrant private sector, remittances, lower oil prices, and improved security.

The effect of drought is manifested differently in Somalia than in Ethiopia or Malawi – other recent examples of food insecurity. In those latter cases, monitoring systems for performance of crop-based agriculture are able to reflect the loss of agricultural production. There is no similar monitoring system in Somalia, and the severest effects of drought relate to scarcity of water for livestock. This loss of assets is difficult to estimate given the conditions in Somalia.

In summary, measured GDP will reflect mostly the somewhat diversified urban economy where remittances, trade, and donor flows can sustain the current level of livelihoods. At the same time, conditions would be deteriorating for households in rural areas who lack access to coping mechanisms.

Reconstruction will underpin growth if the political transition is well managed. However, the government lacks the resources to undertake major programs or investment projects from its meager resources. Public investment will continue to rely heavily on official development assistance, which currently has a very low capital component. Import demand is projected to remain strong, thanks to continued private investment including FDI.

2.2 Reforms are Needed for Sustainable Growth

Sustainable growth will require investments in physical and human capital and the strengthening of institutions. Significant investments to close the country's capital and infrastructure gap will be needed to increase economic growth in the medium term. Policies that target access, quality, and inclusiveness of education could increase the contribution of human capital to growth. Reforms in public financial management and governance could improve the efficiency of public and private investment. Improvements to the business environment—through stronger contract enforcement and more efficient and reliable electricity provision, for example—are essential to raise productivity.

To support diversification, policies should address issues that hinder entry into new lines of economic activity. Fragility has impeded any form of structural transformation in Somalia; barriers to entry and investment include lingering insecurity, the inadequate provision of infrastructure, the difficult regulatory and institutional environment, the lack of human capital, and limited finance.



2.3 Risks are Significant

Notwithstanding the robust growth expected for Somalia over the forecast horizon, significant risks remain on both the domestic and external fronts.

The ongoing conflict in central and southern Somalia is delaying and dampening growth prospects. Although Somalia's economy remains stable, simmering conflict continues to pose an important risk to economic activity in the medium term. Al Shabaab terrorists continue to threaten Somalia's security. Terrorist activities have scared away both domestic and foreign potential investors and tilted FGS priority spending toward security.

Financing is highly dependent on foreign remittances, development partners' flows, and exports revenue; declines in these sources

would affect Somalia's growth prospects. Foreign remittances are the main driver of both consumption and investment. The fiscal budget and the activities of several NGOs depend on development partners' inflows. Official development assistance faces significant pressures given the tepid economy and refugee pressures in Europe. Somalia's exports are concentrated in a few commodities (mainly livestock) and exported to few countries (mainly in the Gulf). With livestock dominating exports, Somalia is highly exposed to exogenous shocks, such as the current export ban due to disease outbreak. Strong livestock disease surveillance is needed to reduce the economy's exposure to shocks from this sector. The uncertain stance towards economic integration and development aid in high income countries poses a risk for Somalia, which relies on official development assistance for both security and economic support.





SPECIAL FOCUS: MOBILIZING DOMESTIC REVENUE IN SOMALIA



This special focus assesses the prospects for domestic revenue mobilization in the face of the many challenges Somalia faces. It identifies the priority needs for improving revenue mobilization and provides a timetable for actions and reforms. It assesses current tax laws and policies and identifies opportunities for broadening the tax base by introducing new taxes and fees and improving tax administration.

The first section provides the environment in which revenue is being mobilized. The second section outlines the historical context of tax mobilization. The third section presents the legal framework for tax collection. The fourth section describes revenue performance since 2012. The fifth section reviews the constraints on revenue mobilization (the narrow base, inadequate tax policy, and weak tax administration). The sixth section outlines the reforms that could be implemented in the short medium and long term. The seventh section presents the results of an assessment of domestic revenue performance. It uses scenario analysis to show how Somalia could move toward fiscal sustainability in the short, medium, and long run. The final section examines challenges facing reform.

3.1 Overview

More than 25 years of civil conflict destroyed Somalia's tax administration system. Governments failed to provide public services, and companies and individuals failed to pay taxes. Reversing this state of affairs will be challenging. There is currently a gap between demands for the restoration of basic public goods and services (including security, education, and health) and the government's capacity to generate revenue to meet these pressing needs. To close this gap, the FGS and state administrations must be able to ensure sustainable funding to enhance public security, fund social programs that ease tensions, and make public investments that promote economic growth and development.

Developing policies and building institutions to collect and manage public resources is central to the recovery process. The government's ability to collect taxes is critical to its fiscal viability in the medium term. The FGS views the sustainable rapid growth of domestic revenue as a central element in Somalia's state-building and reconstruction. To meet the growing demand for public services, it must be able to collect revenue, allocate resources, and manage expenditure in a manner that citizens regard as effective and equitable. If they are to pay taxes, Somalis must see the FGS and other state governments as legitimate and be confident that their money is being spent transparently and in ways that serve their needs.

Improved domestic revenue generation offers Somalia a promising and sustainable source of home-grown development finance. Because of the unstable political and security situation, the government has focused on implementation of easy-to-adopt measures to promptly raise revenues without developing a robust revenue mobilization strategy that would incorporate strong transparency and accountability. Building capacity to raise revenue through taxes is particularly crucial in Somalia, because it reduces dependence on aid and helps finance basic service delivery, thereby strengthening citizen/state relations. Low domestic revenue collection in Somalia makes it difficult to pay for essential needs; success in raising revenue would allow the government to provide more and better deliver services.

3.2 Historical Context

Even before the civil war, Somalia had very low domestic revenue mobilization. The deterioration of domestic revenue began in the 1980s. In the first half of that decade, the tax to GDP ratio was about 10 percent; it declined to 5–6 percent, one of the lowest rates in the world, in the second half (Table 3.1). As domestic revenue shrunk—mainly because of growing noncompliance by taxpayers—the government became increasingly dependent on external support, which was often motivated by Cold War geopolitical considerations. External flows into Somalia undermined revenue collection by crowding out domestic fiscal capacities. Building a sustainable



Table 3.1: Selected revenue ratios in Somalia, 1985–89 (percent)

Ratio	1985	1986	1987	1988	1989
Revenue/GDP	6.0	7.8	5.3	5.6	5.3
Tax/GDP	5.3	6.9	4.6	4.4	4.7
Nontax revenue/GDP	0.7	0.9	0.7	1.2	0.6
Grants/GDP	8.5	15.2	15.6	12.2	26.5

Source: World Bank 1991.

revenue collection system was not a priority given the “rents” to be extracted by playing Cold War rivals against each other.

Several factors hinder revenue mobilization.

Somalia’s economy is largely informal, with most of the population engaged in pastoral and agricultural activities. As a result, the revenue base is narrow. Most of the country’s ports and airports (its main revenue-generating assets) are not under the full control of the FGS. Customs duties are inconsistent, and many goods enter the country without paying duties. Humanitarian airlines and ships are exempt from taxation. There is disagreement over where port fees should be remitted as well as the level of fees that port management should retain. Mechanisms for ensuring that revenue is collected and fully accounted for are weak, creating loopholes. No reliable database on taxpayers exists. There is no clear revenue assignment between the FGS and state governments; the current situation, in which the FGS collects all its revenue from Mogadishu, is not sustainable. All of these issues need to be addressed if more domestic revenue is to be mobilized.

Low revenue collection reflected the weak design of the tax system and problems in tax and customs administration. Import duties made up almost 60 percent of revenue just before the collapse of the central government. Additional taxes on imports—including stamp duties and excise, sales, and other taxes—made the tax burden on trade very high.

Poor revenue performance had a negative impact on the budgetary process and expenditure patterns. At the time of budget preparation, ordinary expenditures were limited to projected domestic revenues. The decline in domestic revenues caused

sharp reductions in budgeted allocations for line ministries. The deterioration in domestic revenues was attributed largely to the decline in the collection of border taxes as a result of the worsening security situation and other factors. Other sources of revenue also declined in real terms, but their impact on revenue performance was less dramatic. Import duties declined during the 1980s despite a generally increasing level of non-project imports and large real devaluations. This trend reflected the government’s valuation of imports at an exchange rate that was below the official rate, the imposition of specific rather than ad valorem taxes on imports, and increasing noncompliance.

Heavy reliance on indirect taxes dates to the pre-crisis period. The share of income tax in total tax revenue declined during the 1980s. Excise tax was levied on about 30 locally produced commodities at different rates, and countervailing duties were levied on similar imported goods. Sale taxes were levied on selected imports, wholesale trade, industrial products, and selected services.

Weaknesses in tax administration were not limited to import duties. The poor performance of income and business taxes largely reflected the failure to incorporate inflation into the assessment of such aggregates. The system did not call for a reassessment of the levels of annual earnings (declared and agreed to years before) for individuals and businesses that remained up to date in payment of their tax liabilities. As a result, throughout the 1980s the relatively low business profit levels declared 5 or 10 years earlier remained to a large extent unchanged in nominal terms, despite high inflation. Tax assessors only pursued those who were delinquent in tax payments, and even then,



assessment was arbitrary, because of the absence of clear guidelines and the potential for corruption, given the extremely low pay of tax assessors.

The government made several attempts to revamp the tax system in the late 1980s. It increased sales and rental income tax rates, extended services tax to cover products with ad valorem rates, imposed an airport departure tax, and levied a withholding tax on the sales of bananas. In 1990 the government introduced additional revenue measures, including a revised tariff structure with lower rates across the board and a 30 percent withholding tax on the rental income of expatriates. It reorganized the Revenue Department of the Ministry of Finance, established a taxpayer identification system, and contracted with a foreign firm to establish an import verification system. All these measures disappeared with the collapse of the central government in 1991.

3.3 Legal Framework

By 2017, Somalia's tax system is characterized by outdated legislation, poor enforcement, and almost nonexistent administration. Excluding a few updates of tax rates, its tax legislation has not been revised for more than 20 years, and the extent to which it has been implemented since 2012 is unclear. The tax legal framework is based on the legal structure that existed before 1990, including some features that date from the 1960s. Laws based on a system in place when Somalia was a unitary state are not practical in a federal system of government and will be not possible to enforce beyond the capital city without clear parameters for revenue assignments negotiated by stakeholders and established in the constitution.

The legal basis of taxation is not fully established yet. Customs duties are collected on a weight, volume, or unit basis. Personal income taxes are levied only on government and selected private sector employees. Profits taxes are fixed amounts negotiated by the government and enterprises; they vary by industry and physical size. Telecommunications companies pay a lump-sum

negotiated presumptive tax. The remaining taxes are stamp duties and the road tax (Box 3.1).

The federalism framework that guides taxation powers is not yet clear on revenue assignment and clarification of taxation powers. The provisional constitution provides general guidance that revenue-raising responsibility should be assigned to the level of government that can handle it most effectively. It also provides for the laws existing before the provisional constitution was adopted to remain in force until they are brought in line with the new federal constitution. In addition, federal member states and Somaliland have their own constitutions, tax laws, and decrees.

The federal government has been trying to update and adjust the rates of old laws through budget appropriation laws. Parliament has not enacted the public finance management and audit bills, which could help enhance oversight of public finances. The cabinet approved the Public Finance Management Law in March 2016, which had been in development for more than two years, but parliament's term expired before it could adopt it. Parliament approved the National Audit Bill in the first quarter of 2016; it has been sitting on the president's desk since then. Both laws may have to be reconsidered by the incoming administration and parliament.

The functional assignment between the FGS and member states needs to be clarified. In order to expand the scope of public services, the FGS and various regional entities have to establish the legal foundations of a fiscally decentralized system, in which expenditures and revenues are assigned to different levels of governments.

Different local administrative structures exist across Somalia. Individual states (Jubbaland, Somaliland, and Puntland) and local governments keep the taxes they collect, including customs revenues, rather than sharing them with the federal government. All FGS revenue comes from Mogadishu.



>> Box 3.1: Types of fees and taxes in the FGS

Rental Income

The legal basis stems from Act Number 5, issued November 5, 1966. The introductory rate is 5 percent, but the real rate will change per the rates ratified by the council of ministers in 2015. Taxes are collected every three months.

Box table 3.1.1: Tax rates on rental income

Annual taxable income (dollars)	Rate (percent)
500–20,000	15.0
More than 20,000	22.5

Wages and Salaries (Public and Private)

The legal basis stems from Act Number 5, issued November 5, 1966. Taxes are collected every three months.

Box table 3.1.2: Tax rates on wages and salaries

Annual taxable income (dollars)	Rate (percent)
0–200	0
201–800	6
801–1,500	12
More than 1,500	18

Income from Business/Corporate Tax

The legal basis stems from Act Number 5, issued November 5, 1966. Tax is to be applied once a year on income from factories, farms, professionals. Seasonal business, services, education activities, merchandise trade and others. Tax is captured annually as a percentage of income.

Box table 3.1.3: Business income tax rates

Income (dollars)	Percentage
2,400 - 3,600	9
3,620 - 4,800	11
4,820 - 6,000	13
6,020 - 7,200	15
7,220 - 8,400	17
8,420 - 9,600	19
9,620 - 10,800	22
10,900 - 18,000	25
18,100 - 30,000	28

Sales Tax

The legal basis stems from Act Number 2, issued January 7, 1984. The schedule was approved by the Council of Ministers in 2015.



Box table 3.1.4: Sales tax rates

Tax head	Rate (percent)
Banks and money transfers	25
Communications	15
Logistics companies	10
Education and health services	5
Hotels	5
Utilities	5

Stamp Duty

The legal basis stems from Act Number 6, issued December 6, 1966. The common rate for stamp duty is 2 percent of the value of the document. Duties on applications are shown in Box table 3.1.4.

Box table 3.1.5: Stamp duties

Type of document	Stamp duty (dollars per application)
Civilian application	5
Administrative application	10
Court documentation	10
Foreign documentation	20

Road Tax

The legal basis for the road tax stems from Act Number 4, issued on December 28, 1965. Taxes are collected every four months.

Box table 3.1.6: Fees on passenger buses (dollars)

Horse power	Annual fee	Trimesterly fee
15-20	280	70
20-30	300	75
30-40	320	80
40-50	340	85
More than 50	360	90

Box table 3.1.7: Fees on passenger vehicles (dollars)

Horse power	Annual fee	Trimesterly fee	Annual Public transport vehicle fee	Trimesterly Public Transport vehicle fee
8-11	120	30	220	55
11-14	140	35	240	60
14-18	160	40	260	65
18-22	180	45	280	70
22-26	200	50	300	75
26-30	220	55	320	80
30-35	240	60	340	85
More than 35	260	65	360	90

Box table 3.1.8: Fees on trucks (dollars)

Horse power	Annual fee	Trimesterly fee	Annual trailer fee	Trimesterly trailer fees
20–30	200	50	160	40
30–40	200	50	160	40
40–50	200	50	160	40
50–60	200	50	160	40
60–70	200	50	160	40
More than 70	200	50	160	40

Excise Duty

The legal basis for this tax stems from Act 3, issued May 23, 1985. The tax is payable on local produced goods and imported products and taxation is applied at the point of importation. Despite the following schedule as per the act, a uniform introductory rate of 5% is currently applied to all products.

Box table 3.1.9: Production Tax (Excise Duty)

Description	Percentage (%)
Confectionery such as candy, chocolate, chewing gum; marmalade/jam	15
Soft drinks	12
Fresh fruit and a fruit sweetener	10
Cakes, biscuits and similar items	5
Other imported items with sugar except medicine	10
Matches	80
Cigarettes and tobacco	100
Shampoo & hair oil	20
Locally produced sugar (imported sugar is exempt)	60
Mineral waters	10
Wine	80
Pure alcohol	100
Cosmetics	15
Tomato & vinegar	10
Skin care products	15
Perfume	20
Sponges	15
Utensils	10
Clothes	5
Milk and milk products	5
Plastic bags and similar items	5
Furniture and office equipment	5
Maintenance equipment	5
Other unspecified locally produced goods except meat, fish, pasta and oil	5

Presumptive Tax

The government accepted a lump-sum amount from companies.

Nontax Revenue

Ministries, departments, and agencies collect various user fees.

Source: Ministry of Finance.

There are no intergovernmental fiscal relations between the FGS and the federal member states.

Jubbaland, Puntland, and Somaliland have a few rules, but neither has objective criteria regarding the allocation of financial resource to the districts. Significant harmonization and intergovernmental financial relationships based on objective criteria for allocating resources allocation to local administrative units (such as a revenue-sharing formula) is required to make the system efficient and functional.

The private sector is an important stakeholder in domestic revenue mobilization efforts. However, due to the lack of clarity around tax legal frameworks and policy, the government lacked the means to enforce payment of taxes, particularly from large private sector actors. Going forward, the state authorities will need to engage business leaders and adopt a consensus-based approach in the early stages of mobilizing revenue. There is a consensus among the government and the private sector that the private sector needs to pay taxes for the state to deliver services – however, deepening the dialogue to build trust among the different actors will be critical.

3.4 Revenue Performance Since 2012

More than 25 years of conflict has severely affected the three components of revenue mobilization: tax policy (which establishes rates of taxation and identifies the goods and services that are taxable and exempt from taxation), revenue administration, and economic activity. Weak

state capacities are exacerbating the challenge of rebuilding the revenue system.

Somalia has significantly improved its tax yield, in relative terms, since 2012 without undertaking any significant reforms and with only minimal efforts to increase mobilization. Revenue remains extraordinarily low by international standards—just 1.9 percent of GDP in 2015 (Table 3.2)—but it has increased dramatically. Total revenue increased 22.3 percent between 2013 and 2015, rising from US\$117.4 million to US\$141.2 million (Table 3.3). Domestic revenue increased 50.8 percent in the same period, from US\$75.8 million to US\$114.3 million. These increases suggest that simple short-term reforms could increase the tax to GDP ratios. Sustained political commitment at the highest levels will be needed to sustain these increases, and entrenchment of reforms will be required to prevent slippage.

The Ministry of Finance collects virtually all FGS revenue in the Mogadishu area (administratively under the control of the Benadir Regional Administration (BRA)). Municipalities also collect some revenues. As well as the 15 percent of Mogadishu port revenues it receives from the Federal Government, the BRA collects revenues from business licenses, property deeds, fees for services, rents and proceeds from the sale of land, and taxes on markets and contracts. Most taxes collected bring in very little revenue and are costly to collect—in many cases, the cost of collection exceeds the revenue collected.

Table 3.2: Central government tax revenues as percent of GDP in selected countries, 2003–15

Description	2003–08	2009	2010	2011	2012	2013	2014	2015
Afghanistan	6.7	10.3	11.0	11.2	10.1	9.8	8.5	10.1
Burundi	14.0	13.9	14.5	16.2	15.6	14.2	14.6	10.3
Congo, Democratic Rep.	8.3	10.7	12.1	11.8	14.4	12.9	13.3	13.6
Kenya	16.8	18.1	19.2	19	18.7	19.3	19.4	19.8
Liberia	15.2	20.6	25	24.3	26	25	23.5	21.3
Sierra Leone	8.8	9.1	9.9	11.5	11.4	10.8	10.1	10.6
Somalia	—	—	—	—	0.6	1.4	1.5	1.9
Sub-Saharan Africa average	24.1	19.8	20.6	23.3	21.8	20.1	19.4	17.9

Source: IMF 2014 and Ministry of Finance Appropriation Act 2015–2016.

Note: — Not available

• Somalia GDP base includes Somaliland figures (see Table 3.3 below).

Table 3.3: Domestic revenue collection in Somalia, 2012–16 (millions of current dollars)

Item	2012	2013	2014	2015	2016
Total revenue (domestic revenue and grants)	35.1 (0.7)	117.4 (2.2)	145.3 (2.5)	141.2 (2.4)	168.0 (2.7)
Domestic revenue	30.2 (0.6)	75.8 (1.4)	84.3 (1.5)	114.3 (1.9)	112.7 (1.8)
Tax revenues	25.3 (0.5)	65.1 (1.2)	73.8 (1.3)	82.4 (1.4)	88.6 (1.4)
Taxes on income, profits, and capital gains	—	0.7	1.1	1.9	2.4
Taxes on goods and services	1.3	5.6	8.4	9.3	9.9
Taxes on trade	24.0	58.7	64.3	71.1	76.3
Nontax revenue	—	4.1	14.2	31.9	24.1
Domestic loans and grants	—	6.6	0.0	0.0	0.0
Total GDP, including Somaliland	5,008	5,352	5,707	5,953	6,217

Source: World Bank 2015 and Ministry of Finance Appropriations Act 2015–2016
 Note: Figures in parenthesis are percentages of GDP.
 — Not available.

Illicit taxes and double taxation are rampant.

The authorities—and people pretending to be authorized, including militias and security personnel who set up roadblocks—often collect taxes illegally. Double taxation also occurs. Both the FGS and local authorities tax rental and property income, for example.

3.5 Constraints

The FGS lacks full control over ports, airports, and other entry points in Somalia. Currently different ports and border crossings are administered by different State authorities with different tariffs with FGS having full control of only Mogadishu port. The FGS does not the *de jure* control over other territories such as Puntland and other Federal Member States including Somaliland. This has resulted lower revenue collection by FGS. In addition, despite the *de jure* control over Mogadishu port, *de facto* full collection of revenue into the treasury account is not assured. This negatively impacts both the amount collected as well as the credibility of the system. Harmonizing tariffs at borders and gradually integrating them into a single customs system would produce more revenue from trade for all parties – but will require political will and sustaining the dialogue among the Ministers of Finance.

To date, the Federal Government has yet to fully reestablish the institutions necessary for effective revenue mobilization. As a result, development partners have paid for critical government

expenditures, including public sector salaries. Donor dependency has constrained the ability of the government to rebuild and operate key institutions, including the police and armed forces. It is of critical importance that the FGS commit to urgent measures to rebuild tax institutions with strong and reliable capacity for tax collection and to develop its own sources of revenue.

Despite its more than 230 tax collectors, the Inland Revenue Department is able to collect almost no tax. It has no information system, no established procedures, and no enforcement capacity. Most of the taxes collected are not really taxes, in the sense that they are not the compulsory contributions established by laws but rather voluntary contributions whose value is agreed upon by the FGS and taxpayers (IMF 2015). Contributions are paid directly to a tax collector, with little control over how much is received or remitted. If tax collectors cannot return to the office by the end of the day, which is not uncommon, they keep the amount collected overnight.

Customs does not have an information and communications technology (ICT) system; all work is done manually. Until recently, import duties were charged per package, whatever the package contained. About 600 commodities and their corresponding tariffs are now listed, but no information on the value of imports is collected. All tariffs are “specific” (that is, based on weight,



volume, or number of units or cartons). IMF (2017) notes that customs is consistently neglected in many fragile states, despite its clear revenue potential.

3.5.1 Low and narrow tax base

Somalia's economy has many features commonly associated with a low tax base. They include a large informal sector, including large agriculture and livestock sectors, which are hard to tax; an extremely low level of development; and institutional capacity constraints that hinder the government's ability to collect taxes and taxpayers' ability to comply with tax regulations.

The formal sector, made up of companies and individuals in urban areas, has greater potential for taxation. But financial records are absent, and audits are rarely if ever conducted, forcing the government to collect corporate income taxes presumptively, based on informal negotiated contributions from a few large corporations.

Import duties are the main source of revenue, because they are relatively easy to monitor and collect. They account for more than 80 percent of total revenue, but the overall tax imposed on imports is very low. Import tax revenue of the federal government comes exclusively from the Mogadishu port and Mogadishu International Airport. Other ports and airports in Somalia are under control of member states and local governments; the import taxes they collect are not remitted to the federal government. Custom duty is supplemented by a harbor fee (5 percent) and a stamp duty (2 percent), both assessed as a percent of the customs duties paid.

International trade taxes are specific rather than ad valorem (based on value). Import duties range from zero (for some food items) to more than US\$1,000 (for imported vehicles and some luxury items). The specific nature of the tax system reduces the problem of under-invoicing, but it prevents the system from responding to inflationary pressures, adversely affecting the real value of tax collections.

3.5.2 Weak tax administration

3.5.2.1 Problems with the system

The government faces serious challenges in collecting revenue. It lacks a coherent tariff system for assessing custom duties, and it is unable to prevent many goods from entering Somalia through unapproved border points (thereby avoiding paying duties). It lacks modern collection procedures. Logistics are inadequate, staff capacity is low, despite significant staffing on the books, and the legal framework for revenue management is weak, leading to weak compliance.

The gap between budgeted revenue and revenue actual collected is wide. The government lacks the capacity to estimate the amount of revenue it can collect under existing legislation or suggested legislative changes. Given weak capacity and taxpayers' resistance to paying taxes, the amounts proposed in the main budget are unrealistically high. Actual total revenues were just 77 of budgeted levels in 2014, and domestic revenues were just 73 percent (Table 3.4). In 2015 overall revenue performance declined to 59 percent, while domestic revenue rose to 93 percent. The shortfall in overall revenue partly reflected donors' failure to fulfill their pledges. The largest gaps were in income taxes (for which actual receipts were just 22 percent of budgeted receipts) and corporate taxes (41 percent of budgeted receipts). FGS collection of domestic indirect taxes, including taxes on goods, has been very poor. Trade tax collection was also weak, at a mere 16 percent of budget in 2014 and 21 percent in 2015.

The government still mobilizes and collects far less revenue than it could. Income taxes underperformed the budget by 79 percent in 2014 and 60 percent in 2015. Collection of income tax on private sector employees was weak, and collection of taxes on corporations and rental income was even lower, given the inability of the FGS to administer the tax and enforce the law.



Table 3.4: Budgeted and actual revenues in Somalia, 2014–16 (millions of dollars, except where otherwise indicated)

Item	2014			2015			2016	
	Budget	Actual	Deviation (percent)	Budget	Actual	Deviation (percent)	Budget	Actual
Tax revenues	108	73.8	68	85.9	82.4	96	101.3	88.6
Tax on income, profit, and capital gains	5.1	1.1	22	4.7	1.9	40	5.0	2.1
Taxes on wages and salaries (public sector payees)	1.5	0.9	63	3.2	0.7	22	2.8	1.3
Taxes on wages and salaries (private sector employees)	1	0.1	13	1	0.4	41	1.4	0.5
Corporate profit tax	2	0	0	0.5	0.8	154	0.8	0.3
Rental income	0.6	0	0	0.1	0	0	0.3	0.1
Taxes on goods and services	34	8.5	25	10.7	9.3	87	0.5	0
Excise tax (mineral water, mattresses, other items)	1	0	0	0	0	—	0.1	0
Sales tax (petroleum and its products, hotels, mineral water, textiles and clothing, electronic materials, household materials)	3.8	0	0	0	0	—	0.4	0
Turnover tax on services (presump-tive tax)	25	4.8	19	6.4	4.8	75	7.3	2.9
Taxes on telecommunications	12	4.8	40	4.8	4.8	100	5.8	2.8
Taxes on money transfer companies, consumer light industries, consumer water industries	13	0	0	1.6	0	0	1.5	0.1
Stamp sales and duty	4.1	3.6	88	4.3	4.5	105	7.8	7.0
Stamp duties of food items	1.4	0	0	0	0	—	—	—
Road tax	1	3.3	329	3.7	3.1	84	3.0	2.5
Other stamp duties	1.7	0.4	21	0.7	1.5	222	4.8	4.5
Taxes on international trade and transactions	69	64.3	93	70.3	71.1	101	80.4	76.3
Nontax revenue	7.3	10.5	144	28.1	31.9	113	38.5	24.1
Administrative charges	0.7	0.8	114	1.3	0.6	49	0.5	0.2
Airport and harbor fees	3.2	4.2	129	21.5	25.1	117	26	19.5
Visa charges and passports & others	3.3	5.5	166	5.4	6.2	116	1.2	4.4

Source: Ministry of Finance Appropriations Act 2014, 2015.
Note: — Not available.



Taxation of goods and services is also underperforming. Taxes underperformed the budget by 75 percent in 2014. Improvement in 2015 reflected the reduction in the target by a third. For three years in a row, the FGS has been unable to collect excise tax on mineral water and mattresses, and it has been unable to collect sales tax on petroleum, hotels, mineral water, textiles, and household materials. Presumptive taxes are assessed in the telecommunications sector but not on money transfer companies, light industries, or water companies.

Nontax revenues exceeded budgeted levels in 2014 and 2015. Nontax revenue from administrative charges, airport and harbor fees, and fees from visas and passports exceeded budgeted levels, thanks in part to the contracting of a private company contracted to collect taxes at the Mogadishu port and airport (see Table 3.4). It has performed effectively, depositing the funds into the Single Treasury Account of the Ministry of Finance at the CBS. Concerns have been raised, however, about the contracting process used to bring the private partners on board.

The revenue office is relatively well staffed, but lack of capacity and absenteeism are concerns. The Inland Revenue Department has about 230 employees and the Customs Revenue Department about 100. Many of these employees are not permanent, however, and records reflect low attendance (about 15 percent at the Inland Revenue Department) according to Senior Ministry of Finance officials. Staff lack the skills, systems, and capacity to discharge their duties. With improved capacity and discipline, far more revenue could potentially be collected.

Weak technical and institutional capacity makes it challenging to introduce direct taxation. Taxes have been collected by tax administrators with little experience or knowledge of the tax system and collection procedures. All taxes have been collected manually, without ICT or means of transportation. Except for import taxes, most tax revenues are based on agreements between companies and tax collectors rather than on explicit interpretation

of the tax code. The practice fuels tax evasion and avoidance and criminal activities, such as smuggling, with highly negative effects that go far beyond lost revenue. The government has tried to introduce direct taxes on wages and business income to lay the foundation for greater reliance on such taxes over time.

The customs valuation of imports is one of the weakest areas of Somalia's tax system. Since the collapse of the state, in 1991, no banks have operated in Somalia, preventing valuations from being based on letters of credit. The prices of invoices are not reliable, because importers can manipulate them. The authorities resort to discretionary measures to assess and collect taxes, which are prone to corruption and mismanagement.

3.5.2.2 Success of recent reforms

The Ministry of Finance developed a domestic revenue mobilization strategy in 2015 that has started to yield results, even though the strategy is not backed by legislation. The government is improving tax administration and enforcement through automation and by focusing on revenue sources that are considered “low-hanging fruit.” It is engaging the private sector and increasing public awareness through media and forums such as the Chamber of Commerce.

The government identified automation as the best way to increase efficiency and transparency in collection. Automation reduces revenue leakages associated with manual and opaque processes. Once rates and revenue streams are automated and tax proceeds are recorded into the system, there will be less room for manipulation and anomalies.

Automation will also help the government conduct the analysis necessary for planning and measuring compliance. Automation has long been important in tabulating and analyzing statistical data, which are necessary for tax planning and compliance measurement. It yields a clear picture of revenue sources, which enables Inland Revenue to conduct detailed analysis and forecasting. Automation also allows revenue to be captured at the point



of payment (the current manual process delays revenue posting, which can lead to data inaccuracy or manipulation).

Automation of property transfer tax has been piloted. It yielded significant increases in the level of revenue collected and increased taxpayer satisfaction. Revenue increased by 74 percent in the first four months of automation compared to the last four months before automation, rising from an average of US\$52,300 to US\$91,100 (Figure 3.1).

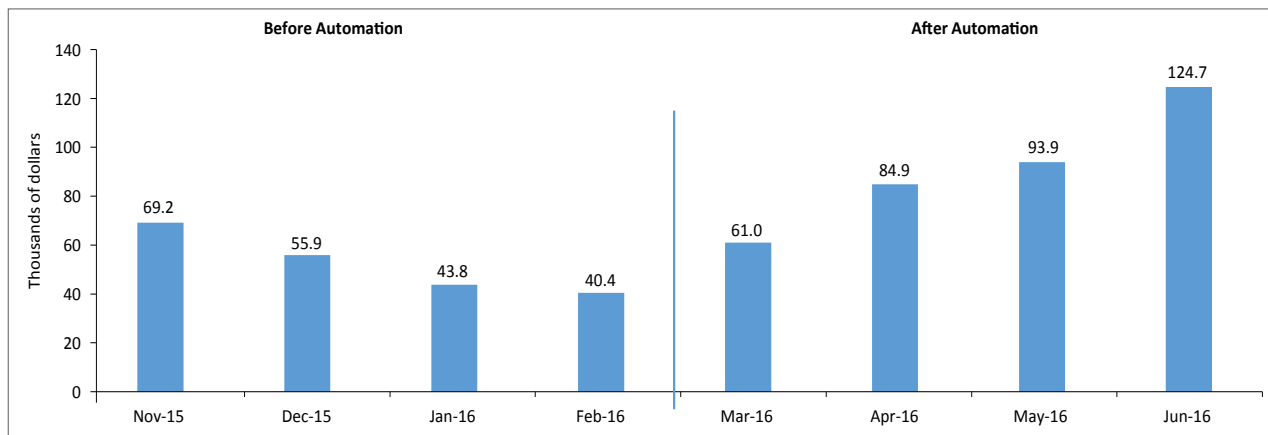
Public-private partnering has delivered immediate results. The government has partnered with the private sector to provide automated solutions for tax reforms. A private company is automating the registration and collection of property transfer tax. It has helped the Ministry of Finance develop a database registering all public notary companies, set rates, and issue authenticated transfer certificates.

The FGS has taken several measures to improve mobilization and tax collection in recent years. It has tried to establish the basic infrastructure for a functioning revenue administration, including buildings, equipment, and skilled professionals. Through the Somalia Financial management information system (SFMIS), funded by development partners, it has begun creating a basic management information system able to produce revenue statistics and monitor operations. With the support of development partners, the Revenue Department

is recruiting experienced talent locally and from the diaspora. The Revenue Mobilization and Tax Administration project funded by the World Bank Multi Partner Fund is studying the tax policy gap and revenue policy potential; supporting tax education and awareness campaigns for the legislature, cabinet, businesses, citizens, professional organizations; and engaging in other reforms.

Revenue organization is improving. Until recently there were two tax directorates within the Ministry of Finance—the Inland Revenue Directorate and the Customs Revenue Directorate, led by separate directors, both reporting to the Director General of the Ministry. In August 2016, a new structure elevated the Revenue Department. Two new positions—the Permanent Secretary and the Director General of Revenue—were created (Figure 3.2). Directors of both the Inland Revenue Directorate and the Customs Revenue Directorate now report to the Director General of Revenue. This new structure improved the coordination and sharing of resources of the two directorates. This gives issues of revenue mobilization prominence within the Ministry. There are plans to further strengthen the Revenue Department by creating new large-taxpayer unit, which will focus on large corporations in the telecommunications, remittances, and electricity generation and distribution sectors. These large corporations have the potential to contribute far greater revenues than currently.

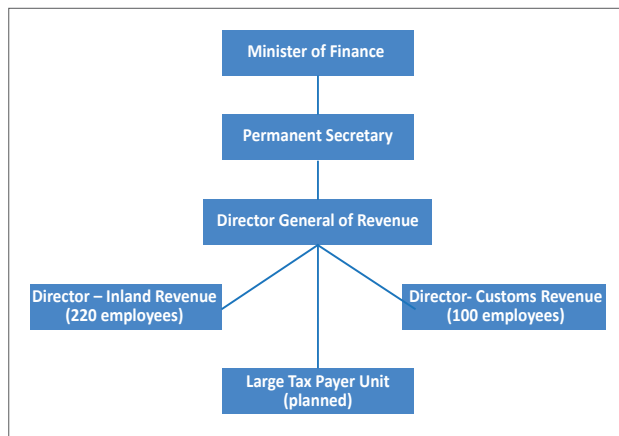
Figure 3.1: Automation tax collection has increased notary revenues



Source: Ministry of Finance.



Figure 3.2: Organogram for the FGS's Revenue Department



Source: Ministry of Finance FGS.

3.6 Reforms Somalia Could Undertake

Stepping up revenue mobilization in Somalia is achievable. Several countries—including Afghanistan (Box 3.2)—have significantly improved their tax performance over relatively short periods. Many lower-income countries, including Somalia, have increased their tax ratios by 2–4 percent of GDP in the short run (IMF 2011).

Demonstrating clear links between tax revenue and service delivery, including security provision, is critical for revenue mobilization. The government needs to boost tax morale by establishing clear links between tax revenue and local benefits. It needs to convince citizens that the government does not misappropriate public funds and that it uses them in ways that reflect their wishes (OECD 2014). Without a functioning security sector, the enforcement and compliance activities needed to operate a revenue system will be inadequate. In the absence of revenue collection, the security sectors will look to finance themselves through unofficial means.

The government needs to overhaul the tax system, redesigning it in a way that is consistent with its desire to limit its role to activities and services it can perform better than other players and concentrating on providing an enabling environment within which the private sector can prosper. The tax system should not be a constraint on private sector growth and development. The objective should be to make the tax base as broad as administratively feasible while keeping initial tax rates low. Such a system could

yield significant revenue in an equitable manner without hampering business activity. To create such a system, the government should identify and engage with the key sectors in the economy such as the telecommunications, money transfer, and hotel and restaurant sectors.

The focus should be on taxes that are easiest to administer and collect. In the short run, the government should concentrate on taxes on economic transactions, especially imports. Over time it can expand the tax base and modernize the system. The tax system needs to be simple, transparent, and rule based. The strategy should focus on increasing compliance by taxpayers with the highest revenue yields, eliminating nuisance taxes, curbing illicit levies, and avoiding double taxation.

Revenue mobilization reforms are not a one-off occurrence. Reforms need to be sequenced over time, building on current revenue sources. The following sections identify policy options and cumulative reforms that could be implemented in the short term, medium term (between two and five years), and long term (five years and beyond).

3.6.1 Measures that could be implemented in the short term

Table 3.5 describes an initial set measures that the government could implement within two years; they would yield additional revenue in their own right, while also setting the foundation for deeper reform scenarios below.

Policy measures include the following:

- Focusing on taxes that are easy to administer—namely, import duties, excise and other consumption taxes, and services taxes. Customs duties, which account for more than 80 percent of tax revenues, should be revised upwards gradually.
- Reintroducing domestic taxes once the Inland Revenue department is restructured, and properly staffed. To improve compliance, the government could make some activities contingent on payment of profits or income taxes. Businesses, for example, could be allowed to import only if they pay all their tax liabilities.

>> Box 3.2: Turning revenues around: Lessons from Afghanistan

After growing rapidly after 2001 and peaking at 11.6 percent of GDP in 2011/12, total budgetary revenue in Afghanistan fell to 9.7 percent of GDP in 2013 and 8.7 percent in 2014. These developments precipitated a fiscal crisis toward the end of 2014, with a large estimated year-end budgetary shortfall, accumulation of arrears, and “emergency” requests for aid. Sharply lower GDP growth also constrained revenue potential.

Revenue mobilization efforts weakened as well, reflecting the lack of high-level government focus on and prioritization of revenue collection. The long, drawn-out election process may have led to revenue leakages to fund political activities. The short time horizons for government officials may also have played a significant role: Thinking they might be replaced after the election, some officials may have tried to increase their incomes through corrupt activities. Mechanisms for monitoring and enforcement in the Ministry of Finance may have been weakened.

The recovery of revenue from the 2014 nadir gained momentum during 2015. For the year as a whole, revenue reached Af 121.8 billion, an increase of close to 22 percent. As a share of GDP, revenue recovered to 10.3 percent in 2015. The increase was the result of the tax measures introduced in 2015, which had a positive impact on revenue (23.5 percent of the total increase in revenue). These measures included doubling the business receipts tax, from 2 percent to 4 percent; increasing levies on imported fuel and gas; imposing a 10 percent tax on mobile phone top-ups; and increasing the overflight fee for commercial airliners. Some of these measures were unpopular; political will and outreach on the part of the government were required to get Parliament to pass them.

Afghanistan’s impressive revenue turnaround predominantly reflected better collection efforts as well as new tax measures rather than revenue inflation attributable to currency depreciation or other macroeconomic trends. It was engineered by the Ministry of Finance, a relatively well-established agency with low staff turnover and considerable capacity. In this largely stable institutional context, the most salient factors behind the substantial progress achieved in 2015 included the following:

- Strong leadership, focused attention, and follow-up from the top level of government and in the Ministry of Finance itself were key. Provincial governors and other subnational officials were ordered to support revenue collection, and the minister of finance personally followed revenue developments closely.
- The unprecedented firing of 40 corrupt or inefficient senior staff, including 10 customs and revenue directors and 30 managers, sent a powerful signal to improve tax collection efforts and discouraged corrupt behavior among other staff.
- Tight monitoring of revenue collection by Ministry of Finance leadership created pressure to improve performance.
- The end of uncertainty over the election and the formation of the national unity government, however protracted and imperfect, put an end to some major sources of distraction and politicization.
- Adroit political outreach to the legislature and other stakeholders enabled Parliament to enact significant new revenue measures, albeit with some delay; consistent engagement with Parliament also helped minimize political blowback from the large-scale firing of senior Ministry of Finance staff.
- Building on a sound base, the Ministry of Finance’s technical systems and processes continued to be reformed and improved, and its human capital remained relatively strong among Afghan ministries.

This experience demonstrates that targeted progress can be achieved, even in a challenging political and security environment. Focused leadership and prioritization make a major difference when complemented by solid implementation capacity and processes. The pursuit of institutional strengthening and capacity development in the Ministry of Finance for well over a decade paid off when combined with the other elements required to address revenue issues. Political management and outreach clearly are important as well. They are possible even in a fractured political context.

Source: Byrd and Payenda 2016.

- Exploring opportunities to collect additional revenue, by improving and consolidating collections under the existing tax code, collecting more income tax by directing private sector employers to withhold it from their workers, and temporarily increasing fees on passports and remittances.
 - Strengthening, consolidating, and harmonizing the system by expanding the tax base to include all large taxpayers not currently paying taxes; extending coverage of tax collection outside Mogadishu and Benadir; improving compliance among potential taxpayers and locations with the highest revenue yields; and eliminating nuisance taxes, curbing illicit levies, and avoiding double taxation.
 - Crafting and passing needed legislation.
 - Reducing loopholes, removing exemptions, and introducing strict control through the Accountant General and other institutions to reduce mismanagement and corruption.
 - Strengthening the Single Treasury Account. All tax revenue to be deposited into single treasury account.
- Administrative measures include the following:
- Increasing tax effectiveness by automating routine tasks. Measures to improve revenue administration should focus on establishing basic infrastructure, developing management information systems, and strengthening customs administration. Experience from other countries has shown that automating routine tasks increases tax effectiveness.
 - Harmonizing taxes between the FGS and the states. Agreement on fiscal relations in Somalia using the Intergovernmental Fiscal Forum would bring coherence in the face of highly mobile tax bases for FGS and the federal member states. Harmonization is critical to avoid predatory tax competition, which can end in a race to the bottom (IMF 2015).
 - Building the capacity needed to implement reforms, including by putting in place a senior staff, providing training, clarifying roles and responsibilities, introduce performance management measures. Development Partners providing support in this area should ensure the support is coordinated, not duplicative and focused on immediate needs.
 - Improving the capacity of tax and customs administration. Measures include providing the tools, training, and knowledge necessary to achieve an efficient and equitable modern tax system. Key areas identified by the IMF for technical assistance are training staff on the introduction and implementation of short term revenue measures and increasing the knowledge and tools needed to design and introduce a simple tax system.



Table 3.5: Tax reform measures that could be implemented in the short term (within two years)

Type of tax	Suggested reform
Customs duties	<ul style="list-style-type: none"> • Strengthen customs administration and automation of routine tasks. • Reduce exemptions. • Tax imports at a uniform ad valorem (percentage) rate of 5–8 percent. • Increase the customs surcharge to at least 10 percent.
Export taxes	<ul style="list-style-type: none"> • Impose an export tax as a temporary measure. As capacity is being built to introduce a broader income tax on exporters, consider imposing a 5 percent export tax on livestock, which constitute 80 percent of exports and production; hides and skins; frozen meat; fish; and fruit and vegetables.
Sales tax on domestic production of goods and services	<ul style="list-style-type: none"> • Consider levying a 5 percent tax on the sales of goods and services identified in the Appropriation Act to include among others these categories: Petroleum and Its Products, Hotels, Mineral Water, Textiles and Clothing, Electronic Materials, and Household Materials. • Withhold the bulk of the sales tax at customs.
Excise taxes	<ul style="list-style-type: none"> • Introduce excise tax on petroleum products, <i>khat</i>, tobacco, and motor vehicles. Items that have harmful effects on health or the environment (<i>khat</i>, cigarettes, gasoline, diesel fuel, motor vehicles) could be taxed at higher rates (10–50 percent). Rates should be low enough that they do not induce smuggling or bribing of customs officials to undervalue the goods.
Income tax	<ul style="list-style-type: none"> • Widen the tax base to include wages and business income. Increase coverage of direct taxes to cover wages and business income for all employees (public and private) and business income to lay the foundation for a transition to greater reliance on these sources in later years. A flat withholding tax on wages is relatively easy to administer in a formal workforce dominated by civil servants, international organizations, and telecommunication workers. • Create a special unit for large taxpayers, in order to concentrate on the small number of taxpayers likely to have the largest tax bills. Allocate resources where the risks to revenue are greatest by tailoring intervention and services to the challenges posed by different groups, starting with a large taxpayer office.
Telecommunications taxes	<ul style="list-style-type: none"> • Impose a 5–10 percent tax on the value of airtime sold by cellphone companies, and impose charges on landlines and revenue received by telephone companies for handling incoming international calls. Currently, no taxes are currently collected from the telecommunications sector, although companies voluntarily pay a negotiated lump sum of about US\$4.8 million (as presumptive tax) a year to the Treasury.
Tax on remittances	<ul style="list-style-type: none"> • Levy a tax of 0.5–1.0 percent on the value of remittances made through money exchange companies. For amounts above US\$1,000, the rate could be cut in half. Annual turnover of money transfer companies is estimated at more than US\$2 billion. A presumptive tax of US\$13 million a year is thus recommended.
Airport fees and visas	<ul style="list-style-type: none"> • Increase the airport usage fee to US\$40 a passenger on all passengers, including diplomats and UN staff. Such a levy could contribute about US\$10 million year. • Consider doubling visa fees to US\$100.

Source: World Bank 2015 and Ministry of Finance Appropriations Act 2015–2016,
 Note: Figures in parenthesis are percentages of GDP.
 — Not available.



3.6.2 Deeper Measures for the Medium Term

Several tax reforms could be implemented in the medium term (between two and five years), building on gains achieved in the short term. Policy measures include the following:

- Continuing to simplify the tax system, by reducing the number of taxes, harmonizing rates, reducing exceptions, and eliminating illicit charges and double taxation.
- Increasing indirect tax rates.
- Further strengthen the discussions already underway on fiscal federalism, including type of tax assignments and revenue sharing.
- Proposing new legislation to regulate and tax natural resources. Oil drilling and exploitation of other minerals are likely to generate tax and other revenues once the legislative instruments are processed and approved. Similar potential exists in the telecommunications sector: the critical telecommunications bill is currently pending parliamentary approval for enactment in 2017.

Administrative measures include the following (Table 3.6 describes several specific measures):

- Continuing to focus on large taxpayers, by developing a collaborative and effective relationship with them in order to increase compliance, allocating more resources to the large taxpayers' office, and adopting risk management strategies.
- Hiring senior technical staff capable of implementing reforms.

- Continuing to encourage voluntary compliance with simplified self-assessment procedures and better taxpayer education.

3.6.3 Towards a Comprehensive Tax System for the Long Term

Further reforms could be implemented in the long term (five years or more), to entrench the previous reform scenarios through consolidation, and broadening their scope nation-wide. Policy measures include consolidating, harmonizing, and making consistent tax legislation amendments, in order to reduce exemptions and improve compliance.

Administrative measures include the following:

- Creating a taxpayer database based on the mapping exercise being undertaken by UN Habitat and the government, which will provide district-level detail about the location, size, number of employees, access to basic infrastructure, and goods or services sold by enterprises in Mogadishu.
- Completing the hiring of senior staff to entrench the reforms in place.
- Expanding tax collection throughout the country, including by opening tax offices in the regions, based on agreed revenue assignments.
- Continuing to educate the public about the importance of taxes for development.
- Deepening the reforms outlined in tables 3.6 and 3.7.



Table 3.6: Tax reforms that could be implemented in the medium term (between to five years)

Suggested reform		
Type of tax	Policy	Administration
Customs duties	<ul style="list-style-type: none"> • Raise the tax rate on most imports to 8–10 percent (ad valorem). The tax on luxury goods and goods that have harmful effects on health or the environment could be taxed higher. • Extend FGS authority over all ports and airports, establish modern customs codes, and improve customs infrastructure throughout the country. • Start aligning the tax system to the Common Market for Eastern and Southern Africa (COMESA) if Somalia intends to join the regional block (rates under COMESA are 0 percent for raw materials and capital goods, 10 percent for intermediate goods, and 25 percent for finished goods). 	<ul style="list-style-type: none"> • Introduce simplified customs clearance documentation and procedures, and establish a system of customs brokers to facilitate a speedier transit process. • Gradually introduce a computerized recording and management information system, build technical capacity, and pass legislation to establish effective enforcement mechanisms.
Personal income tax		<ul style="list-style-type: none"> • Introduce a taxpayer identification number system. • Continue to collect income tax from more private employees and business people.
Corporate income tax	<ul style="list-style-type: none"> • Expand the tax base by focusing on large taxpayers. Differentiate the treatment of taxpayers by their revenue potential by creating a large-taxpayer office and adopting risk management strategies. 	<ul style="list-style-type: none"> • Introduce a taxpayer identification number system.
Sales tax on domestic production of goods and services	<ul style="list-style-type: none"> • Consider levying a 5–7.5 percent tax on sales of selected domestically produced goods and the services provided by luxury hotels. 	
Excise tax	<ul style="list-style-type: none"> • Consider imposing an excise tax of 10 percent or more on bottled water, carbonated drinks, and related products. 	
Telecommunications	<ul style="list-style-type: none"> • Levy a 5–10 percent tax on the total value of cell phone airtime sold by companies, and impose charges on land lines and the revenue received by the telephone companies from handling incoming international calls. • Telecommunication-specific taxes (could be collected under the Budget Appropriation Act): <ul style="list-style-type: none"> o Incoming international calls (deferred to long term). • Impose a Mobile money transitions: <ul style="list-style-type: none"> o Airtime charges. o Universal service. • Regulatory fees. • one-time licensing fees and annual fees on mobile phone operators International fiber license. 	



Type of tax	Policy	Administration
Business licenses	<ul style="list-style-type: none"> Consider having the central government issue annual business licenses for telecommunications companies, money transfer companies, airlines, large manufacturers, and import and export firms. Local governments could issue licenses to all other businesses with fixed premises. 	
Offshore fishing rights	<ul style="list-style-type: none"> Design a revenue-sharing formula for fishing licenses. 	

Source: World Bank 2015 and Ministry of Finance Appropriations Act 2015–2016.

Note: Figures in parenthesis are percentages of GDP.

— Not available.

3.7 Revenue Projections under Alternative Reform Scenarios

The combined set of reforms would dramatically scale up tax revenues relative to the current situation, yet would still fall short of the necessary basis for long term sustainable development. With short, medium and long term reform packages all implemented in the five years through 2022, tax revenue could increase to 13 percent of GDP (US \$1.1 billion), permitting much larger government expenditures. However, it should be noted that this remains at the low end of revenue mobilization worldwide.

There is no revenue buoyancy in the baseline, but the returns to effort under the reform scenarios are high.⁶ Under the baseline scenario, the FGS continues to operate as it has in past, taking no meaningful reform action (Figure 3.3). Revenues reach 2.4 percent of GDP in 2019 (US\$166 million), an increase of 0.4 percent of GDP, and 2.7 percent of GDP (US\$220 million) in 2022, an increase of just 0.6 percentage points or around 0.1 percentage points a year – even with substantial growth in nominal GDP during that period. If only short-term measures are taken, revenues almost double, reaching 4.3 percent of GDP (US\$305 million) by 2019 and 5.9 percent of GDP (US\$481 million) by 2022, an increase of 3.9 percentage points. If medium-term measures are taken as well, domestic revenues reach 5.6 percent of GDP (US\$392 million) in 2019 and 7.9 percent of GDP (US\$712 million) in 2022—50 percent higher

than the US\$481 million achieved in the short-term scenario. Under the long-term scenario, revenue reaches 7.9 percent of GDP (US\$559 million) by 2019 and 13.2 percent of GDP (US\$1.1 billion), by 2022, equivalent to the lower end of the observed range in low-income countries.

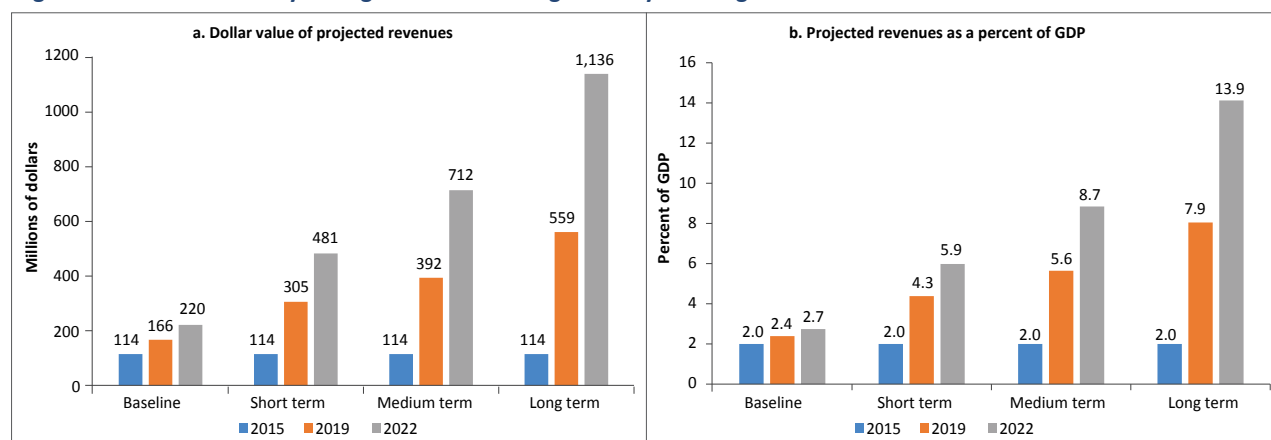
3.7.1 Individual and corporate income tax

In the short-run scenario, income tax on wages salaries and corporate profits is projected to increase from US\$2 million (less than 0.1 percent of GDP) in 2015 to US\$18 million (0.3 percent of GDP) in 2019, mainly as a result of withholding taxes from the public, private, and NGO sector and enforcement of the corporate income tax law. By 2022 short-term measures could yield US\$60 million (0.7 percent of GDP). As a result of these measures, the share of income taxes in total tax revenue increases from 2.3 percent in 2015 to 7.9 percent in 2019 and 16.2 percent by 2022 (Table 3.7 and Figure 3.3).

In the medium-term scenario—in which a large-taxpayer unit is created, the taxpayer identification number starts to function, and awareness of the important of paying taxes increases as a result of taxpayer communication—revenues from income and corporate tax jump to US\$30 million (0.4 percent of GDP) by 2019 and US\$103 million (1.3 percent of GDP) by 2022. The share of income taxes in total revenues jumps to 10.1 percent in 2019 and 17.9 percent by 2022.

⁶ A tax is said to be buoyant if tax revenue increases more than proportionately in response to an increase in GDP or output.



Figure 3.3: Reforms could yield significant revenue growth by the long-term

Source: World Bank staff estimates.

Table 3.7: Projected tax revenues by 2019 and 2022 given short-, medium-, and long-term reforms

Item	Level of revenues (millions of dollars)			Percent of total tax revenue			Percent of GDP		
	2015	2019	2022	2015	2019	2022	2015	2019	2022
Income tax									
Baseline	2	2	3	2.3	1.9	1.7
Short-term measures		18	60	2.3	7.9	16.2	..	0.3	0.7
Medium-term measures		30	103	2.3	10.1	17.9	..	0.4	1.3
Long-term measures		45	182	2.3	10.2	19.7	..	0.6	2.2
Trade taxes									
Baseline	71	104	139	86.4	87.1	87.5	1.2	1.5	1.7
Short-term measures		174	247	86.3	76.6	66.7	1.2	2.5	3.0
Medium-term measures		203	309	86.3	67.4	53.9	1.2	2.9	3.8
Long-term measures		273	415	86.3	62.6	44.9	1.2	3.9	5.1
Other domestic taxes									
Baseline	4.8	7	9	5.8	5.9	5.9	0.1	0.1	0.1
Short-term measures		24	47	5.8	10.7	12.8	0.1	0.3	0.6
Medium-term measures		45	117	5.8	14.9	20.4	0.1	0.6	1.4
Long-term measures		77	211	5.8	17.6	22.8	0.1	1.1	2.6
Other taxes									
Baseline	4.5	6	8	5.5	5.1	4.9	0.1	0.1	0.1
Short-term measures		11	16	5.5	4.8	4.2	0.1	0.2	0.2
Medium-term measures		23	44	5.5	7.6	7.8	0.1	0.3	0.5
Long-term measures		42	116	5.5	9.7	12.5	0.1	0.6	1.4
Nontax revenue									
Baseline	32	47	62	—	—	—	0.6	0.7	0.8
Short-term measures		78	111	—	—	—	0.6	1.1	1.4
Medium-term measures		91	139	—	—	—	0.6	1.3	1.7
Long-term measures		123	212	—	—	—	0.6	1.7	2.6

Source: World Bank staff.
Note: .. Negligible. — Not available.

In the long-run scenario, individual and corporate incomes tax yield US\$45 million (0.6 percent of GDP) in 2019 and US\$182 million (2.2 percent of GDP) by 2022. The share of income tax revenue increases to 10.2 percent in 2019 and 19.7 percent by 2022.

3.7.2 Taxes on international trade

Taxes on international trade currently contribute 86 percent of total tax revenue in Somalia. Automating, conducting pre-shipment inspections, and moving from specific taxation based on volume to taxation based on the value of goods being imported (ad valorem) could vastly increase these revenues. Implementing only the short-term measures would more than double the yield on trade taxes, from US\$71 million (1.2 percent of GDP) in 2015 to US\$174 million (2.5 percent of GDP) in 2019 and 247 million (3.0 percent of GDP) by 2022. Although the dollar value of trade taxes is increasing, other revenue streams are increasing at a faster rate. As a result, the share of trade taxes is projected to decline from 86.3 percent in 2015 to 76.6 percent in 2019 and 66.7 percent in 2022 if only short-term measures are made.

Medium-term measures would see trade tax revenues increase to US\$203 million (2.9 percent of GDP) by 2019 and US\$309 million (3.8 percent of GDP) by 2022. As a share of total taxes, trade taxes decline to 67.4 percent in 2019 and 53.9 percent in 2022.

Long-term measures would increase the revenue yield to US\$273 million (3.9 percent of GDP by 2019 and US\$415 million (5.1 percent of GDP) by 2022. As a result of the increase in other taxes, the share of trade taxes in total revenue is projected to decline from 86 percent in 2015 to 62.6 percent in 2019 and 45 percent in 2022 if all reforms are implemented.

3.7.3 Other domestic taxes

In 2015 the government collected no excise tax and no sales tax on petroleum products, hotels,

mineral water, textiles and clothing, electronic goods, or household goods. The sole source of revenue under the turnover taxes category was from telecommunication companies, which paid a presumptive tax of US\$400,000 a month. Mobile transfer companies, consumer light industries, and water companies paid no turnover taxes in 2015.

Adoption of the proposed short-term measures would propel other domestic taxes from US\$5 million (0.1 percent of GDP) to US\$24 million (0.3 percent of GDP) by 2019 and US\$47 million (0.6 percent of GDP) by 2022. As a share of total taxes, other domestic taxes increase from 5.8 percent in 2015 to 10.7 percent in 2019 and 12.8 percent in 2022.

If medium-term measures are implemented, the yield would reach US\$45 million (0.6 percent of GDP) by 2019 and US\$117 million (1.4 percent of GDP) by 2022. The share would increase from 5.8 percent in 2015 to 14.9 percent in 2019.

In the long-term scenario, other domestic tax revenue increases to US\$77 million (1.1 percent of GDP) in 2019 and US\$211 million (2.6 percent of GDP) by 2022. As a share of total tax revenue, domestic taxes increases to 17.6 percent in 2019 and 22.8 percent in 2022.

3.7.4 Stamp sales and duty

Stamp duties have traditionally been a significant revenue earner. They are relatively simple to collect, because information on transactions and individuals is relatively easy and cheap to obtain.

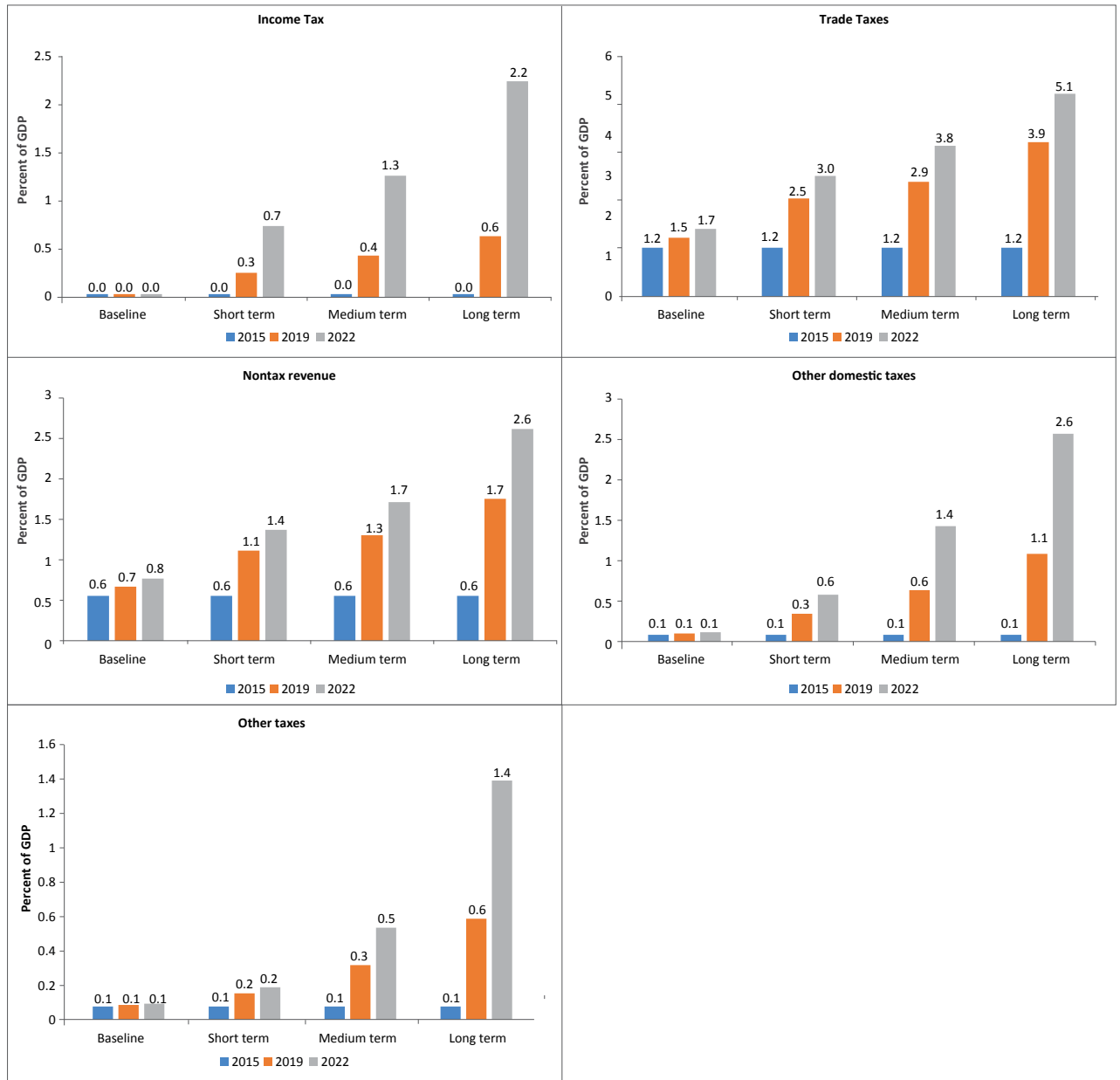
Short-term reforms are projected to increase revenues from stamp sales and duty from US\$4.5 million (0.1 percent of GDP) in 2015 to US\$11 million (0.2 percent of GDP) in 2019 and US\$16 million (0.2 percent of GDP) by 2022. As a percentage of total tax revenue, stamp duty revenue declines from 5.5 percent in 2015 to 4.8 percent in 2019 and 4.2 percent in 2022.



Medium-term reforms would raise the figure to US\$23 million (0.3 percent of GDP) in 2019 and US\$44 million (0.5 percent of GDP) by 2022. Stamp duty revenue rises to 7.6 percent of total tax revenue in 2019 and 7.8 percent in 2022. If all reforms are

implemented in the long term, stamp duties could generate US\$42 million in 2019 (0.6 percent of GDP) and US\$116 million (1.4 percent of GDP) in 2022. Their share in total taxes would rise to 9.7 percent in 2019 and 12.5 percent in 2022.

Figure 3.4: Reforms would increase revenues in all categories of taxes



Source: Ministry of Finance FGS.



3.8 Limits to Revenue Mobilization

The *de facto* arrangement in which states essentially function as autonomous entities presents a challenge for FGS revenue mobilization efforts. The FGS collects all its revenue from Mogadishu, while states collect revenues from territories under their control. Agreements on roles in and responsibilities for service delivery and access to revenue sources between levels of government are yet to be negotiated. The Provisional Constitution of 2012 left questions on functional and revenue assignments largely unaddressed. The two issues, along with revenue sharing, are critical elements of any federation and affect the ability of all levels of government to collect revenues and deliver services. In all federations, there is a clear definition of taxation powers either enshrined in the constitution or legislated. It defines what level of government is permitted to have access to what type of tax bases.

Revenue collection is fragmented and geographically based. Both the federal and state governments collect revenues from territories under their control (Table 3.8). However, not all tax bases yield revenue at this point in time. The fact that states reserve the sole right to collect all revenues from the territory under their control, even if a particular revenue does not yet yield any revenue, creates

de facto geographical base revenue assignment. Unless the federal government is able to reach agreement with regional governments on revenue assignment its ability to extend its revenue base will continue to be limited.

The absence of an agreed upon revenue assignment could undermine the FGS's efforts to increase its revenues. Interference from the states could reduce the federal government's ability to increase revenues from the largest potential sources (corporate income tax, personal income tax, and customs). Without a tax assignment agreement, the FGS will not be able to tax individuals outside the capital, and corporations with operations throughout the country could be taxed by multiple states as well as the federal government. Uncoordinated multiple taxation regimes would reduce potential revenues for the federal government. An increase in the federal custom tariff increase at the Mogadishu port without corresponding increases at other ports of entry controlled by the states could lead some businesses to shift their imports and exports away from the port of Mogadishu. Imports of *khat* and cigarettes could easily be imported through airports throughout the country, including some makeshift airports just outside Mogadishu.

Table 3.8: Distribution of tax bases between the FGS and the states

Type of tax	Federal Government of Somalia	States
Customs duty	✓	✓
Sales tax	✓	✓
Telecommunications charges	✓	✓
Corporate income tax	✓	✓
Turnover tax	✓	✓
Personal income tax (public sector)	✓	✓
Personal income tax (private sector)	✓	✓
Land/property taxes		✓
Stamp duty	✓	✓
Vehicle taxes	✓	✓
Departure/visa fees	✓	✓
Airport/harbor fees and charges	✓	✓
Administrative fees	✓	✓

Source: Somalia Economic Update 2015.

Note: Table indicates presumed allocation, based on type of taxes currently being raised or planned to be raised by different levels of government. No level of government is fully collecting these taxes.

Agreement on functional and tax assignment would increase revenues at all levels of government.

Tax assignments vary from country to country, but some tax bases are generally assigned exclusively to the federal government and others to subnational governments (Table 3.9). Central governments generally collect customs revenues, because they have implications for international trade agreements and obligations. Subnational governments almost always collect other taxes, such as property taxes. Although tax assignment theory and international best practices provide guidance, political

negotiations and accommodation between levels of government determines which tax bases will be assigned to different levels of government. Even if a tax base is assigned to one level of government, revenue streams from the tax base may be shared by different levels of governments.

The projections presented in this update assume no change in the current *de facto* arrangements. If an agreement is negotiated and the federal government is able to collect tax outside Mogadishu, revenue collection would be much higher.

Table 3.9: Conceptual basis of tax assignment

Type of tax	Determination of		Collection and administration"
	Tax base	Tax rate	
Customs	Federal	Federal	Federal
Corporate income	Federal	Federal	Federal
Resource taxes			
Rent (profit) tax	Federal	Federal	Federal
Royalties/fees	State, local	State, local	State, local
Conservation charges	State, local	State, local	State, local
Personal income	Federal	Federal, state, local	Federal
Wealth (including capital, inheritance)	Federal, state	Federal, state	Federal
Payroll	Federal, state	Federal, state	Federal, State
Value added	Federal	Federal	Federal
Alcohol and tobacco	Federal, state	Federal, state	Federal, state
Gambling and betting	State, local	State, local	State, local
Lotteries	State, local	State, local	State, local
Carbon	Federal	Federal	Federal
Motor fuels	Federal, state, local	Federal, state, local	Federal, state, local
Congestion tolls	Federal, state, local	Federal, state, local	Federal, state, local
Parking fees	Local	Local	Local
Registration	State	State	State
Driver's licenses	State	State	State
Other taxes			
Business	State	State	State
Excise	State	State	State
Property	State	Local	Local
Land	State	Local	Local
User charges	Federal, state, local	Federal, state, local	Federal, state, local

Source: Broadway, Roberts, and Shah 1994.



ANNEXES

Annex A: Recommended reforms for increasing domestic revenue mobilization in the short, medium, and long term

Table A.1: summarizes this report's recommendations for increasing domestic revenue.

Table A.1: Recommended reforms for increasing domestic revenue mobilization in Somalia in the short, medium, and long term-

Time frame/action	Baseline (2015)	Recommended action	Responsible institution	Output	Challenges
Short-term (next 24 months)					
Craft a credible and fair revenue policy	Revenue institutions function poorly. System is fragmented.	<ul style="list-style-type: none"> Establish income tax rates. Collect income tax on wages and salaries of all employees in the public, private, and NGO sectors. Consolidate and simplify tax measures, eliminating "nuisance" taxes. 	Department of Revenue (Ministry of Finance), customs	Income taxes collected from public and private sectors and NGOs	<p>Taxes on wages and salaries should cover civil servants, employees of large and medium-size private firms, and employees of NGOs.</p> <p>Private companies must comply with rules and regulation.</p>
Establish effective revenue administration	Revenue and customs administrations barely function	<ul style="list-style-type: none"> Sharpen the focus on large taxpayers. Develop enforcement powers of customs and revenue administrations. Strengthen accounting mechanisms for revenue collection. Consider placing young graduates and advisors in revenue departments, using funds from donor funded projects on capacity building. 	Department of Revenue (Ministry of Finance), customs	Revenue administration operating efficiently	Recruiting and retaining competent staff is difficult.
Increase nontax revenue	Nontax revenue represents just X percent of total domestic revenue.	<ul style="list-style-type: none"> Impose airport and port service charges. Impose airport departure fees. Impose motor vehicle licensing and registration fees. Impose fees on royalties for fishing and mining licenses. Charge for passports and visas. 	Ministry of Finance, port and airport authorities		



Time frame/action	Baseline (2015)	Recommended action	Responsible institution	Output	Challenges
Medium-term (24–60 months)					
Harmonize tax system by eliminating tax fragmentation	Taxation system is highly fragmented	<ul style="list-style-type: none"> Consolidate collection of taxes on wages and salaries. Streamline registration and licensing system. Establish standardized rate structure and classify businesses by category and sector. Reduce rent-seeking and bribery. Improve compliance through awareness-building and dissemination of information. 	Department of Revenue (Ministry of Finance), customs	<ul style="list-style-type: none"> Income system consolidated for public, private, and NGO sectors Tax registration system established Tax rates harmonized Transparent and accountable taxation system in place 	Compliance and political support are weak.
Improve the institutional capacity of federal, state, and local governments	Every institution or agency is a tax collector	<ul style="list-style-type: none"> Streamline tax and nontax collection and administration. Create a transparent and accountable system. Develop policy proposals for tax policy for excise taxes and simple broad-based consumption tax. 	Department of Revenue (Ministry of Finance), customs	Revenue administration strengthened and streamlined	Tax collectors are resistant to change; pressure is likely to come from political and interest groups.
Introduce information and communication technology (ICT)	ICT is very limited	<ul style="list-style-type: none"> Establish computerized taxpayer registers including enterprises, motor vehicles, and agriculture and livestock owners. Introduce cash registers for value added tax. Start establishing a tax identification number (TIN) system. 	Department of Revenue (Ministry of Finance), customs, state and local authorities	ICT system established and operationalized	<p>Officials are resistant to change.</p> <p>Resources are lacking</p>
Draft medium-term tax and customs plans	No plan is in place.	<ul style="list-style-type: none"> Implement medium- to long-term tax plan (and revise as needed). Implement customs plan. 	Ministry of Finance, state and local authorities	Implementation of three- to five-year tax and customs plans	Needed skills are lacking
Formalize large firms operating informally	Legislation governing sector is weak	<ul style="list-style-type: none"> Formalize large firms operating informally, including telecommunications and money transfer companies. 	Ministry of Finance, line ministries, Parliament	Legal framework in place	Companies are resistant to change.
		<ul style="list-style-type: none"> Pass legislation Introduce taxes on mobile phones and mobile money. 	Parliament Ministry of Finance	Comprehensive taxation system in place	



Time frame/action	Baseline (2015)	Recommended action	Responsible institution	Output	Challenges
Long term (more than 60 months)					
Craft medium- to long-term tax and customs strategy	No strategy exists.	<ul style="list-style-type: none"> Implement medium- and long-term tax and customs plans. 	Department of Revenue (Ministry of Finance), customs	Transparent, comprehensive, and accountable system of revenue in place	
Develop phased strategy for modernizing the tax system		<ul style="list-style-type: none"> Prepare and implement plan to modernize revenue collection by federal, state, and local authorities. 	Ministry of Finance	System modernized	
Enhance tax compliance.		<ul style="list-style-type: none"> Improve accountability of revenue collection institution. Show taxpayers how money is used. Reduce or eliminate corruption. 	Ministry of Finance	Tax compliance enhanced and applied widely in all areas; taxpayers willing to pay	
Link federal, state, and local tax systems	Little coordination takes place.	<ul style="list-style-type: none"> Establish mechanisms of communication and coordination between federal, state, and local authorities; ensure that federal and state governments share information on all relevant transactions. 	Ministry of Finance; state and local authorities	Fiscal decentralization system	
Improve information and statistical capacity	Revenue information is archaic and relies on management of remnant books and handling of cash.	<ul style="list-style-type: none"> Establish an information management system for revenue. collection and related data. Establish guidelines and harmonize data collection procedures to be followed by all institutions involved in revenue mobilization and collection. 	Department of Revenue (Ministry of Finance), customs	Consistent and reliable revenue data compiled; estimates improved	

Source: Somalia Economic Update 2015.

Note: Table indicates presumed allocation, based on type of taxes currently being raised or planned to be raised by different levels of government. No level of government is fully collecting these taxes.



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Mobilizing Domestic Revenue to Rebuild Somalia

The recent drought has led to large-scale food insecurity in Somalia. Following four consecutive seasons of poor rainfall and low river water levels in large swaths of the country, a severe food crisis hit Somalia in 2017. The drought has led to near total crop failures and reduced rural employment opportunities, widespread shortage of water and pasture, and consequent increases in livestock deaths, which have in turn stretched the country's coping mechanisms to the brink. Food access diminished rapidly among poor households as staple food prices rose sharply and livestock prices dropped significantly as people engaged in forced sales to cope with the effects of the drought. The drought conditions left millions of Somalis facing severe food and water shortages. The new Somali leadership highlighted the drought situation as a top priority with about 6.2 million people in need of humanitarian assistance.

As the drought begins to subside and the agriculture sector begins to recover, the FGS focus will be on implementing policies to ensure stability as well as address weaknesses in the provision of infrastructure, security, and the regulatory and institutional environment. First, macroeconomic policies that continue to stabilize the economy are necessary (but not sufficient) to support recovery and economic diversification. Second, beyond stability, significant investments will be needed to close the country's huge capital and infrastructure gap, improve resilience, and improve the business environment over the medium term. Finally, reforms in public financial management (including strengthened domestic revenue mobilization), and strengthened governance are needed to raise more resources for development and ensure that the increased resources are utilized efficiently.

Sustainable and reliable domestic revenue is critical if Somalia is to implement its development agenda including state-building, sustained rapid economic growth, and poverty reduction. To support sustainable expenditures, drive development, and reduce reliance on external sources, the FGS will need to find ways to increase domestic revenue in a way that doesn't disincentivize the private sector—a sector that has been an engine of Somalia's development in the past two and half decades. Enhanced domestic revenue mobilization—in particular a scenario where domestic revenue could increase more rapidly than administrative expenditures offers Somalia a promising and sustainable source of home-grown development finance.

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