

# FISCAL FEDERALISM IN SOMALIA:

## CONSTITUTIONAL AMBIGUITY, POLITICAL ECONOMY AND OPTIONS FOR A WORKABLE ARRANGEMENT



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## About SPA

**Somali Public Agenda** is a non-profit public policy and administration research organization based in Mogadishu, Somalia. Its aim is to advance understanding and improvement of public administration and public services in Somalia through evidence-based research and analysis.

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## Executive Summary

Somalia adopted a federal system in 2004 when the Transitional Federal Charter was adopted in Kenya. Since then, it has evolved into a provisional constitution, which was temporarily approved by the over 800-member constitutional assembly in Mogadishu in 2012. The devolution of power has exposed Somalia to recurrent disputes between the FGS and its constituent units over power and resource distribution. At the heart of a bitter and draining schism and bone of contention between the levels of government is fiscal federalism. This results from ambiguity inherent in the Somalia Provisional Constitution over this and other crucial matters.

As this problem grows, this study sheds light on the state of fiscal federalism in Somalia, and the challenges that stand in the way of a workable agreement. However, it also proposes practical models and recommendations in resolving the existing disputes over fiscal federalism. Researchers reviewed the existing literature on the subject; did focus group discussions and interviews with experts on the issue, and then traveled to the five Federal Member State (FMS) capitals – Garowe, Baidoa, Kismayo, Dhusamareb, and Jowhar – as well as Mogadishu where a total of 60 interviews from a diverse spectrum of society were conducted.

The study found that both the federal and federal member state governments approved of having public finance and revenue laws with a legal mandate to collect revenue and execute approved budget and also this being part of a conditional requirement for the debt relief process. The FGS and FMS are in the process of harmonizing financial legal frameworks. The Federal Government of Somalia (FGS) and Puntland (as well as Somaliland) use an identical financial system designed to administer revenue and expenditure. The other FMSs use a separate system. The fiscal resources for the FGS and Puntland are relatively better compared to the other FMS. Three FMS – South West, Galmudug, HirShabelle – have no functioning ports and their revenue streams are limited, making them depend heavily on the FGS fiscal transfer and donor aid (although FGS itself is dependent on aid). FGS and its constituent units don't have strong tax bases to enable them to raise revenues that can fund the rudimentary responsibilities entrusted to them. Therefore, they rely on a few taxes, which are accessible and collectible.

In the absence of fiscal responsibilities, the Finance Ministers' Fiscal Forum (FMFF) – established in 2016 – and the Technical Intergovernmental Fiscal Federalism Committee (IGFFC) –formed to assist the Finance Ministers' Fiscal Forum (FMFF) – discuss and agree on pressing fiscal federalism issues such as sharing natural resources, revenue sharing, tax harmonization, and which level of government exclusively raises which taxes. The existing fiscal transfer is one-way:

the FGS transfers \$150,000 each month to three FMSs – South West, Galmudug, and HirShabelle through the federal Ministry of Interior, Federal Affairs, and Reconciliation. These transfers are confined, so far, to natural resource licenses, a slice of domestic revenue from Mogadishu, and donor grants.

Somalia has no agreed fiscal arrangement, and the legal and institutional frameworks for fiscal federalism are still under discussion. Clarifying federal, state, and local governments' revenue assignments or establishing an independent revenue authority are models for Somalia's future fiscal federalism arrangement. There are several systematic and practical challenges surrounding an agreement on the fiscal federalism model, fiscal decentralization, and revenue collection in Somalia. These challenges include the legal gap, weak political commitment, nascent institutional infrastructure, and insecurity in many parts of Somalia.

The study concludes by recommending that FGS and FMSs review and update the existing obsolete tax laws that date back to the former government; that the incoming FGS prioritizes completing the provisional constitution and sacrifices what it will take to overcome crises emanating from the constitutional ambiguity around fiscal federalism.

## 1.0 Introduction

After more than a decade of chaos and the collapse of state institutions, a decentralized form of governance was first introduced during the Arta Peace Conference in Djibouti in 2000. In the subsequent 2004 Mbagathi Peace Conference in Kenya, federalism was agreed as a key pillar of state-building in Somalia, and a Transitional Federal Charter was endorsed. However, the practical implementation of the federal system in Somalia only began in 2013 when Jubaland was established. Between 2013 and 2016, four federal units namely Jubaland (2013), South West (2014), Galmudug (2015), and HirShabelle (2016) were formed. However, to date, consensus on fiscal federalism - from tax collection and revenue-sharing to devolution of expenditure – is still lacking.

The Provisional Federal Constitution provides little guidance on the exact configuration of fiscal federalism. Up until now, fiscal resource sharing has been one of the most contested and sensitive issues that remain unresolved in the constitutional review process. It will continue to be a major point of contention between the federal states and federal government after the end of the current federal election process.

This protracted ambiguity around the model for resource sharing in Somalia could jeopardize the operationalization of the federal structure, domestic revenue mobilization, and economic reforms in Somalia, which are all crucial for Somalia's debt relief process. Without an appropriate fiscal resource-sharing model in place, it will be challenging to achieve peace, stability, and economic revival across the country. It cripples economic development and domestic revenue generation. Somalia's fiscal budget continues to rely significantly on bilateral and multilateral external support since revenue collection from Somalia's ports and airports and other tax and non-tax revenue collection has not yet been harmonized.

Therefore, clarifying the structure of fiscal federalism, and ensuring that all major stakeholders understand and consent to it, is a key priority if Somalia is to successfully operationalize the federal system of governance. In this regard, this research analyzes key questions related to fiscal federalism in Somalia and contributes to the process of identifying a workable model for fiscal federalism through primary field research.

## 2.0 Methodology

The study began with a review of key fiscal federalism literature, policy documents, and academic writing. The literature review highlights and identifies the challenges to equitable sharing of fiscal resources in federal systems. It also includes comparative case studies on resource-sharing drawing on lessons from other post-conflict countries. The complexity of revenue collection, sharing, and fiscal transfers is also discussed in the literature.

Before we started the actual primary data collection, preliminary focus group discussions were organized in Mogadishu with selected key experts and stakeholders to identify a set of core research questions for the study. Once research questions had been finalized, SPA conducted field research in regional capitals namely Garowe, Kismayo, Baidoa, Dhusamareb, and Jowhar as well as Mogadishu. This was the core primary data collection underpinning this study and was conducted between December 2020 to May 2021.

Researchers spent a week in each federal member state capital during the field data collection. Ten key informant interviews were conducted in each city, for a total of 60 interviews. Those interviewed included local politicians, officers from the ministries of finance, officers at inland revenue and customs departments, civil society actors, women's groups, and youth groups. The SPA researchers interviewed key government and community leaders from each location on how they believe fiscal resources should be collected and shared in Somalia.

The interviews included questions about the existing financial resources in each region, revenue generation systems in place, current expenditure models, and the available fiscal infrastructure. Interviewees were also asked about their ideal models for revenue collection and sharing, how expenditure and competencies should be distributed across different parts of government and what their major anxieties are around resource-sharing models. All data collected underwent a thematic analysis and coding before being synthesized into this report.

During the fieldwork, researchers encountered several challenges. First, those who work in the revenue sector interviewed for this study were not accustomed to interviews for studies/research. This is because there have been no prior studies on this subject that have involved extensive interviews with local actors. Second, researchers found that some of the informants were sensitive about giving an interview, given the nature of the study, which examines revenue collection and expenditure. Third, NGOs in Somalia have instilled a culture with those they interact with where they provide incentives for events. This is often referred to as 'transportation costs'. Therefore, some of the informants approached for the study hesitated to give their time. They (SPA does not pay incentives for interviews) believed that researchers had a budget allocated for interviews but were withholding that money to keep for their own pockets (and would report back that it was disbursed to those it was allocated).



In addition to these practical challenges during the field data collection, there were other limitations. The study was conducted in only the capital cities of the federal member states and Mogadishu. Researchers were not able to travel to and conduct the study in other major towns in Somalia that would also be important for the study. This was due to time, financial, and logistical constraints. Since the study was qualitative, the findings cannot be generalized across all political actors across the whole of Somalia.

### 3.0 Somalia's Fiscal Federalism Journey

Following nine years of democratic rule and subsequent twenty years of centralized repressive unitary rule, Somalia descended into fratricidal war and disintegrated along clan lines. This cost trust – the most valued form of social capital – and led to the configuration of clan fiefdoms that saw each other as sworn enemies. Efforts were made by both well-meaning and self-interested parties to stop the blood-letting and restore some sort of order and stability to the country that became a scar on the regional and global conscience. Amidst efforts to rebuild the Somali state, there were disagreements over a suitable governance system (Elmi, 2015) that could stand as a bulwark against backsliding into statelessness. But there was a consensus among different circles that the centralized unitary system was, inter alia, the root cause of the Somali state failure, and resuscitating the state again with the same structures would undoubtedly lead to state failure again.

Avoiding the terrible memories of centralized unitary systems, decentralized structures were installed in Puntland and Somaliland that later became the prototypes of federal governance. To soothe the pervasive and long drawn mistrust among Somali clans and hold the disintegrated nation together, a federal governance system was adopted in the Transitional Federal charter in 2004 (Max Planck Foundation, 2016). This was drafted in the 2002-4 Embagathi conference but the government became federal government after approving the provisional constitution in August 2012 by the 825-member Constitutional Assembly from different Somali clans (Negussie, 2016). Since then, the constitution has remained provisional as it undergoes a process of consultations before being put to a referendum.

The adoption of federalism was not thoroughly deliberated and forethought, before it was introduced in the Transitional Federal Charter in 2004. However, the clamor for power decentralization, is not a newborn idea. Rather it had earlier backers in Somali history before independence (Puntland Development and Research Center, 2009). The Hizbia Destur Mustaqil Somali' (Somali Independent Constitutional Party) – formerly known as Hisbia Dighil Mirifle (HDM) – from their stronghold in the southern riverine area was the prime mover of the idea believing that it would protect their interests and provide autonomy (Heritage Institute for Policy Studies, 2020). Since its establishment in 1998, Puntland became another early advocate for federal Somalia, after state collapse, wishing to be assured that memories of a centralized state would not be resurrected.



Even after the eight years since the approval of the provisional constitution in 2012, Somalia's federalism journey is fraught with incessant disputes among the Federal Government of Somalia (FGS) and its regional constituent units – better known as Federal Member States (FMS) – over which tier of the two levels has which powers. This has poisoned the relationship between the centre and the peripheries and discouraged the hopes for power being devolved and services delivered to the needy masses across the country.

Disagreements over power distribution between FGS agencies (e.g., House of the People vs the Upper House; Parliament vs executive; president vs premier) on one hand, and between the FGS and FMS, on the other, is a recurring and dismal feature in the body politic. These are related to:

- ambiguities inherent in the provisional constitution;
- the lack of a constitutional court that has jurisdiction to adjudicate on such matters; and
- the lack of inter-governmental institutions that can facilitate the smooth and healthy relationship between the two tiers of the Somali federal governance structures.

Sadly, this doom and gloom scenario has captured the political landscape till today. Nevertheless, some of the 25 federal countries globally have experienced and continue to experience such painful labor, and certain things can be learned from their experiences.

Fiscal federalism is a no less problematic area than power division. Fiscal federalism/decentralization concerns the distribution of revenue and expenditure powers among the different spheres of government. (Max Planck Foundation, 2016).

The provisional constitution of Somalia defines four exclusive powers for the federal government namely defense, foreign affairs, monetary policy, citizenship, and immigration. The constitution does not clarify concurrent, exclusive powers of constituent units and residual powers. Equally important, it does not outline which level raises which revenues; the mechanism that shall be used in dispersing inter-governmental transfers; and which level has the power to borrow. Accordingly, article 50[b][e][f] of the federal provisional constitution stipulates, without clarity, that power is given to the level of government where it is likely to be most effectively exercised; resources shall be distributed fairly, and the responsibility for the raising of revenue shall be given to the level of government where it is likely to be most effectively exercised.

Principally, workable fiscal federalism requires clear cut answers in both the constitution and other financial laws to specific questions such as:

- (1) Which level of government should raise which revenues?
- (2) To what extent can the regions raise money through borrowing?
- (3) Which level of government should control which expenditures?

- (4) How is national revenue to be shared?
- (5) How should revenue from natural resources be shared? (Max Planck Foundation, 2016)

There are no overriding principles to precisely follow when dividing revenue-raising and expenditure powers among the tiers of government. Nevertheless, federal states use varying guiding principles concerning accountability, equity, economic efficiency, and administrative simplicity among others (Max Planck Foundation, 2016).

In practice, there are three categories of tax and revenue sources in federal states namely (i) exclusive revenue sources for each level of government; (ii) concurrent or joint/revenue sources; and (iii) intergovernmental transfer (Max Planck Foundation, 2016). The various rationale behind structuring fiscal powers in such a manner are (a) to guarantee the autonomy of the regional states from the center to the extent outlined in the respective constitutions, and (b) to make it possible for citizens in the state-level governments to hold their governments accountable for the expenditure of revenues they have raised (Max Planck Foundation, 2016).

Generally speaking, the power of tax-raising tends to be more centralized than expenditure powers thanks to the access that central governments have to the most important revenue sources and their raising of more revenue than they spend (for equalization purposes). Revenues that central governments raise include, but are not limited to, income tax, Value Added Tax (VAT), federal stamp fees, fees from licenses issued, and services provided by organs of the federal government (Belay, 2014). In contrast, state level governments undertake to raise taxes that are mostly limited to the fixed tax base, like properties.

As national government(s) typically take up the power to raise most revenues in the respective federal country and may leave insufficient resources to levy taxes to cover their expenditure assignments, intergovernmental transfers come in at this juncture. These remedy the imbalances that result either in a vertical imbalance in expenditure needs vis-a-vis state and locally-collected revenues, or horizontal imbalances that emerge due to some states having natural resources while others are without. (Ma, 1997).

The transfers that national governments make available to their sub-national states invariably fall into two types of grants: (I) conditional and (II) unconditional. National governments release conditional grants, also called specific purpose, to the recipient constituent units to use only for covering certain projects that the federal government sees as essential (but not state-level governments). Conversely, unconditional grants are grants with no strings attached to them. Federal governments provide these kinds of grants to equalize the capacity of federal member states to guarantee that latter provide a reasonable public service to their constituencies (Ma, 1997).

Unfortunately, with the absence of such specific constitutional article(s) and legal frameworks in Somalia explicitly delineating the fiscal powers of each tier of government, conflict is rife over which has the power to levy certain taxes, is liable for certain expenditure or/and manage natural resources. Without some level of fiscal autonomy for FMS to collect constitutionally specified taxes to deliver services to the people under its jurisdiction, the federalism project is likely to flounder and not achieve expected outcomes. This could have further future destabilizing impacts.

In light of the non-existence of the division of functions and assignment of revenues, each FMS is engaged in collecting taxes from territory under its writ and retaining it for its use. International trade taxes represent a vast proportion of the revenues for Puntland and Jubaland along with fees. They both levy a de facto lower tax rate on imported trade to discourage business people from using the FGS-managed Mogadishu seaport. The other states - Galmudug, HirShabelle, and South West - have no operational seaports to collect taxes (World Bank, 2020). Additionally, all FMSs generate taxes from transport moving goods through states and properties (road user taxes).

Because of the absence of delineated assignment functions and expenditure responsibilities in Somalia's provisional constitution, revenue-raising powers exercised by the Federal Member States in Somalia are overlapping with those exercised by the Federal Government of Somalia based in Mogadishu. One example that glaringly illustrates this is the Puntland and FGS in Mogadishu's revenue collecting powers. Puntland collects almost the same revenues that the national government of Somalia raises, as the nature and practice of federalism dictate, in areas its jurisdiction. Such revenues include, among others, customs duty, sales tax, telecoms charges, corporate income tax, turnover tax, personal income tax (both public and private sectors), and airport/harbor fees (Negussie, 2016).

Of important note, all FMS except for Puntland state are relatively new creations that lack rudimentary fiscal recourses to rely on for providing expenditure responsibilities. However, they are dependent on FGS on fiscal transfers to help them cover pressing needs, such as the salary of the civil servants, security forces, etc.

On its part, revenues that flow to FGS come from two main sources: domestic tax and non-tax revenues and external grants. The first source represents 32% of the revenues of FGS while the second source makes up around 68% (Federal Government of Somalia, 2020). FGS only exclusively collects taxes, charges, and fees from Benadir Regional Administration (BRA) in which it is based. FGS collects these charges mainly from Mogadishu seaport and airport. The other sources of domestic revenue raising for FGS include inland taxes, hotels, businesses taxes, land taxes, vehicle taxes, and income taxes (mostly government employees and employees of international organizations) (Negussie, 2016).

Unlike the Federal Member States in Somalia, the status of Benadir Regional Administration (BRA), the seat of the FGS, is still unclear and this holds significant political and economic implications. A decision on this matter will be a by-product of the ongoing review of the provisional constitution. For this reason, Benadir currently comes under the direct command and control of the FGS in that the latter appoints the Benadir Governor and the mayor of Mogadishu (one person retains both positions). A corollary result of this is that the FGS collects most of the taxes in Benadir Region, partly because this is the only region in which it can do so. This is in contrast to the other FMS that raise whatever taxes their authorities can access and retain for themselves without sharing with the FGS, which is itself supposed to raise most taxes across the whole of Somalia and then share these with FMS to pay their expenditure responsibilities in their respective jurisdictions. BRA is left with fewer powers to raise revenues, though it is a home of over 2 million population and a hub of economic activity in Somalia. BRA revenue collection power is now limited to a few specific taxes, including on property, income, permits and licenses fees, and insignificant taxes from small markets (Isak & Ali, 2019). That said, BRA receives 15% of the revenue collected from the Mogadishu port and airport.

To further illustrate the current lack of clarity around fiscal federalism, some of the FMS issue licenses to foreign fishing companies that seem to challenge federal powers. For instance, Puntland issued fishing permits to several foreign companies with drift nets outlawed in international waters (Garowe Online, 2018). Also, Puntland signed an agreement with DP World's P&O Ports for a 39-year concession to manage and develop a multi-purpose port project at Bosaso. The agreement was signed by former Puntland president Abdiweli Ali Gas and chairman of Ports, Customs & Free zone Corporation (PCFC), Sultan Ahmed bin Sulayem in Dubai (Logistics Middle East, 2017). This agreement sparked fury from the FGS who saw it as an example of Puntland blatantly overstepping its jurisdiction and breaching the FGS' purview as enshrined in the provisional constitution.

In rowdy contests over fiscal federalism in Somalia, the FGS and its FMS have nonetheless made some efforts to rein in chaos. As result, the parties have inked Memoranda of Understanding (MoU) and agreements on certain issues regarding tax harmonization of specific goods, petroleum revenue, and fishery resource-sharing in tandem with Article 44 of the provisional constitution. Also, With the absence of a clear federal act dividing revenue-raising powers between them, the FGS reached an agreement with some of the FMS on harmonizing 'sin taxes' and increasing their rates. These taxes are directly related to goods like tobacco and *Khat* to discourage young people from consumption (Isak & Ali, 2019).

However, a significantly thorny issue remains with regard to natural resource revenue sharing. Natural resources are different from other revenue sources in that they are distributed unevenly among the Federal Member States. Key issues in this matter are the control and administration, ownership and sharing of

revenue between the federal government and the producing or non-producing constituent units, transparency, and accountability in the sector (Negussie, 2016). Ideally, national governments take on this responsibility to guard against horizontal imbalances that can result if constituent units endowed with natural resources are left with the tapping of such resources.

As Somalia has not had an act that legislates on this issue prior to 2020, the FGS had struck an interim agreement with the FMS in February 2019 in Mogadishu specifically relating to the sharing fisheries resources (Abshir, et al., 2020). This landmark agreement comprised six articles that set forth matters that relate to, among others, parties of the agreement; who has the responsibility to issue a license for natural resources (herein fishery); establishment of the Somali Fisheries Authority; and management of the financial income accrued (Goobjoog, 2018 ). In June 2018, FGS reached a breakthrough agreement with the FMS on the ownership, management, and sharing of petroleum and mineral resources in Baidoa, the temporary seat of the South West State of Somalia (Federal Government of Somalia, 2020). In 2020, the Somali Federal Parliament approved the petroleum bill (FGS Minister of Petroleum and Mineral Resources, 2020). However, Puntland and Jubaland opposed this.

Also, in February 2018, FGS and FMS entered an agreement in principle on tuna licensing and the management of revenues. In September of that year, the FGS Ministry of Fisheries issued one-year licenses to 31 vessels for the Chinese Overseas Fishing Association following the signing of an accompanying MoU. Besides that, the concerned Ministry renewed the licenses for the company for one more year in November 2019 (Federal Government of Somalia, 2020). Consequently, FGS has accrued US\$1.68 million in revenue in February 2020 from the 2019 tuna license. However, these revenues are yet to be shared with FMS as the Addis Ababa agreement in September 2019 stipulates, as of writing this paper (Federal Government of Somalia, 2020).

Beyond revenue raising, revenue sharing is another sticky issue. Even though the FGS doesn't raise the most revenue (as is usual and necessary in traditional federal systems) it still disburses fiscal transfers to the FMS. These transfers are from two sources: Overseas Development Assistance (ODA) and FGS revenues. The first source is dispersed through the Ministry of Finance while the latter is financed through the federal Ministry of Interior, Federal Affairs, and Reconciliation. Arguably, FGS distributes these transfers unevenly among FMS but BRA receives 15% from Mogadishu Port as well as support from Overseas Development Assistance (ODA).

Notably, there is no clear objective criteria or agreed-upon framework through which the FGS distributes these transfers, for instance based on the size of the population, level of development, poverty, etc. (Isak & Ali, 2019). It is subject to the discretion of those who control the purse strings to extract political loyalty and compliance from the recipient FMS. Nonetheless, the Federal Ministry of

Finance signed an agreement in principle with FMS Ministries of Finance in September 2019 that donor funds would be shared 60/40 percent between FGS and FMS respectively, and which compels the latter to disburse two-thirds of the transfer on security maintenance and service provision (Federal Government of Somalia, 2020). Additionally, the Independent Constitutional Review Commission (ICRIC) proposed in 2019 the formation of revenue sharing commission that will assume the responsibility for recommending fair and equitable ways of sharing revenues to solve the stalemate over this critical matter (Federal Government of Somalia, 2020).

Apart from the monthly transfers from domestic revenue raised by FGS to three FMS (South West, Galmudug, and HirShabelle) the FGS shared US\$1.169 million out of US\$1.7 million, from Shell's outstanding surface rental fees to the BRA and four FMS – excluding Jubaland because it was not part of the FMS covered by the concession – according to the Baidoa agreement on revenue sharing (Federal Government of Somalia, 2020).

## 4.0 Legal Infrastructure

Somalia does not currently have unified legal frameworks for financial and revenue generation that delineate the fiscal powers of the center and peripheries under the federal arrangement. One reason for this is the provisional nature of the constitution, which did not establish these powers. However, there are parallel acts, policies, and instructions that deal with the matter at both federal government and federal member state level to help them perform their obligations.

The federal government has a Public Financial Management (PFM) Act, which was approved by the House of People, the lower chapter of Somalia's bicameral parliament on 25 December 2019. The principal objective, according to section 1, Article 1 paragraph 2, is management of all activities related to public finance for the federal government of Somalia, a measure that is pivotal for the state rebuilding and Somalia's yet-to-be-completed debt relief process. The PFM act sets forth the essential principles and procedures for the preparation, approval, and implementation of the national budget, internal control, accounts, reports, and review of revenue, expenditure, capital, and debts and also managing public debts and government securities (Federal Government of Somalia, 2019). This cornerstone act encompasses 64 articles, which cover matters directly related to public financial management.

Furthermore, FGS also has a separate act on revenue. This act was approved by Somalia's House of People on 27 October 2019. It is an extensive act consisting of 112 articles with a table indexed to it. It covers a range of legal and technical issues on revenue generation. Although both acts were signed by the president, the Upper House did not review and approve these acts, and the legality similar



bills signed by the president was recently questioned by the Upper House chair in a letter dated 22 June 2021. However, the Revenue Act is not among the 6 laws whose legality was specifically questioned by the Upper House.<sup>1</sup> These bills did not go through the Upper House because of the political disagreements between the leaders of the federal government, particularly the president and the speaker of the House of the People on one side, and the speaker of the Upper House on the other.

Even though the revenue act doesn't demarcate which taxes federal government and federal member states raise separately, it points out in Article 106 a controversial issue, albeit one that is conventional in established federations. It sets out that for each of the following revenues, a separate federal act will be enacted in consultation with federal member states following the federal arrangement. These revenues, which are regarded to fall in the exclusive realm of the federal fiscal jurisdiction in the federal arrangement, are as follows:

- Import and export taxes
- Excise duties
- Taxes on goods and services including sales tax
- Royalties, licenses fees, dividends, and other revenues generated from natural resources of the federal government of Somalia
- Fees and taxes raised from telecommunications, financial companies, and business transactions
- Income taxes including corporate and profits
- Payroll tax
- Stamp duties
- Registration taxes including inheritance taxes
- Road user tax<sup>2</sup>

On the flip side, Federal Member States also have similar baseline financial management and revenue legal frameworks. They have the Ministry of Finance (MoF) establishment act, public financial management act, revenue act, instructions, and policies. These acts were enacted and approved on different timeframes by the individual FMS parliaments, but not too far apart from each other.<sup>3</sup> Before having such laws in place, a state like Galmudug used revenue and public finance management decrees.<sup>4</sup>

The making of these laws, other policies, and instructions were part of the push by donor organizations for alignment in financial legal frameworks for injection of funds into institutions of the FGS and FMSs and as conditional requirements for the debt relief process. FMSs ministries interviewed for this study asserted that they have these laws in place. The researchers were able to find these laws on most of the FMS Finance Ministries' websites.

<sup>1</sup> See the deputy chair of the Upper House Abshir Bukhari tweet

<https://twitter.com/SenatorAbshir/status/1407363286782427136>

<sup>2</sup> Revenue Act, Federal government of Somalia, 2019.

<sup>3</sup> Interview with fiscal federalism expert, February 2021.

<sup>4</sup> Interview with Galmudug budget department, February 2021.



Nonetheless, FMSs legal frameworks on public financial management and revenue acts are very similar. According to an interviewee who knew the matter well, the substance of these acts is identical, the only divergence is the names of the respective FMSs on the first pages of the laws and the signatures by those who have authority on FMS acts.<sup>5</sup>

The HirShabelle Ministry of Finance establishment act (approved in 2018) contains two sections and eleven articles. These articles deal with matters as such: the objective of the act; interpretation; ministry of finance; activities of MoF; finance minister...<sup>6</sup> Its revenue act (which was assented by the HirShabelle president on 19 March 2018) comprises thirty sections. It attends to a host of issues including income tax, taxpayer, determining the rate on payroll tax and income tax, paying taxes, corporate income tax.<sup>7</sup>

In relation to the purpose of this study, the above act stipulates the taxes, fees, licenses and other forms of the following money will be raised by the state of HirShabelle and local governments (regions and districts). These are as follows:

- Payroll tax paid by businesses
- Income tax/sales tax
- Personal income tax
- Cities properties tax
- Businesses licenses
- Petroleum tax
- Market security and sanitation fees
- Car registration tax
- Road user tax
- Resources extracting and harvesting licenses<sup>8</sup>

Nevertheless, the act does not classify, which taxes local governments and FMSs finance ministries are eligible to raise separately.

Of important note, while other recently established FMSs are in their infancy and formative stage in all aspects, Puntland – as the first federal - state is quite ahead of them. It has had a local government finance policy for many years (issued in 2016 in a revised version) although the newer FMS have recently approved local government finance policies. It includes, among others, financial information system policies; district financial management system; district council budgeting and expenditure planning; district accounting; district revenue; and internal audit.<sup>9</sup>

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<sup>5</sup> Interview with fiscal federalism expert, April 2021.

<sup>6</sup> HirShabeelle MoF establishment act, 2018.

<sup>7</sup> HirShabeelle Revenue act, 2018.

<sup>8</sup> HirShabeelle Revenue act, 2018.

<sup>9</sup> The Puntland State of Somalia, local government finance policy, 2016.

## 5.0 Revenue Generation Systems

Revenue generation systems imply electronic systems that levels of the government make use of to collect taxes. There are electronic systems at FGS and FMSs levels used for financial management information systems, revenue management systems that can facilitate management of taxpayers' information from registration through to reporting.<sup>10</sup> But FGS and FMSs use different systems for revenue generation and expenditure.

The FGS and Puntland use a similar system called the Somali Financial Management Information system (SFMIS). Somaliland also uses this system, though it is not part of the federal arrangement. This system is hosted on a server in Dubai. Principally, this system was formerly designed for administering expenditure. The users of this system are intending to move to another system called 'Integrated Tax Administration', which was described as more sophisticated than the SFMIS.<sup>11</sup>

On the other hand, the four FMSs (HirShabelle, Galmudug, South West, and Jubaland) use a different system called the Bisan Financial Management Information System (BFMIS). This system is cloud-based and developed by Bisan Enterprise. Specifically, the application they use is the government edition.<sup>12</sup> The system has three distinct modules. The Budget Preparation Module (BPM) is used to prepare the budget and, once approved, export to the FMIS. The Revenue Information Management System (RMS) module is for recording revenue. Financial Management Information System – FMIS is a module for expenditure.<sup>13</sup> They also use a different module (not integrated with the Bisan system) for recording assets. Through the system, FMSs can register all businesses operating in the areas they control and then produce taxpayer-identification numbers (TIN) and receipts whenever the taxpayer pays his/her due taxes. Additionally, all collected revenues are deposited in a treasury single account (TSA).<sup>14</sup> However, revenue leakages identified in the audited financial statements indicate that not all revenues are deposited into the TSA. Likewise, the taxpayer-identification numbers (TIN) have the advantage of indicating all due taxes and taxpayer information.

The rationale for using such systems is to ensure financial transparency and accountability and as a precondition for any potential grants from donor organizations. FMSs are required to generate some level of revenue through financial management information systems that can be accessible to authorized agents to be assessed and then decided how much financial support or project funding will be granted.

<sup>10</sup> Interview with fiscal federalism expert, February 2021.

<sup>11</sup> Interview with FGS's inland revenue department, April 2021.

<sup>12</sup> Interview with Galmudug budget department, February 2021.

<sup>13</sup> Interview with HirShabelle customs department, March 2021.

<sup>14</sup> Interview with Galmudug inland revenue department, February 2021.

As for the operationalization of the BFMIS in FMSs, the BFMIS is being used in all states. However, while the Budget Preparation Module (BPM) is functional in HirShabelle, the Revenue Information Management System (RMS) is not working there. The HirShabelle's Ministry of Finance is not involved in collecting revenues, in no small part due to the polarization in the state, which still is not yet resolved over power-sharing and the grievances of a major clan in the Hiiraan region of the state. 2019 was the last time the HirShabelle Ministry of Finance collected revenues from inland and customs. Since then, its function was taken over by the administrations- (however with no any legal basis in the federal arrangement)- in the two HirShabelle constituent regions (Hiiraan and Middle Shabelle). These two administrations, according to those interviewed, refused to share the tax they collected with the HirShabelle Ministry of Finance and currently collect taxes and use them for their purpose without sharing a penny with state authorities based now in Jowhar. For this reason, the HirShabelle Ministry of Finance only receives FGS fiscal transfers and donor grants.

Aside from the FGS and FMSs, district level governments within FMSs, rarely engage in revenue generation and subsequently don't have financial systems. One exception is Garowe's administration in the Puntland State of Somalia. Garowe is by far the most developed local government in Somalia with tax collection. Its tax collection system is digital. It has a financial management system and billing system (started in 2019) through which it assesses and monitors the collection of the taxes and the status of who paid his/her due taxes or not. According to an officer at the Garowe local government. The local government has GPS coordinates of each house so they can map which have/have not paid local government tax and those who did not. The system highlights green for those who paid and red for those who did not pay.<sup>15</sup> The interviewee further illustrated that the billing system has made the tax collection transparent and efficient. The tax collectors don't like the system because everyone wants a share of the cake and the system has disrupted the culture of manipulating public funds for personal enrichment. In Puntland, Bosaso is also in the process of establishing the same system that Garowe uses to enhance its institutional capacity of tax collection.

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<sup>15</sup> Interview with senior Garowe local government official, February 2021

## 6.0 Main Fiscal Resources in Somalia

Fiscal resources discussed here refer to currently operational sources that FGS and FMSs accrue revenues from and rely on to cover some part of their expenditure responsibilities. Formerly, under the unitary government, the central government-owned and controlled all the sources of revenues in Somalia and was responsible for deciding how these resources were allocated to the different regions. After the center imploded, most of the physical resources that could generate revenues were damaged. The few that survived civil war destruction came under the control of predominant clan(s) in the region these resources were located in and thus those groups benefited from the revenues accrued by them. This has continued under the Somali federal arrangement in which there is no distinction as to who controls what resources.

FGS and FMSs are not on equal footing in terms of the financial resources they have. Four FMSs (Galmudug, HirShabelle, South West, and Jubaland to some degree) pale in comparison to FGS and Puntland, which enjoy comparatively significant fiscal resources. However, the fiscal resources that FGS controls, for the time being, are limited only to Mogadishu from which it generates the revenues it partially uses to fund its responsibilities. These resources are customs (airport and seaport), inland revenue, and donor grants. The airport and seaport, which were modernized and still managed by Turkish companies, now represent major revenue streams for the FGS. The revenue that customs generate is estimated to be 55% of the total revenues generated by the FGS while inland revenue – a second major revenue generation source – accounts for 45% of the total.<sup>16</sup> Likewise, donor grants are a third major and indispensable revenue source for the FGS, which enables it to cover more than half of its annual budget.<sup>17</sup> The inland revenue generation by FGS is limited to Mogadishu due to its inabilities stretch its authority beyond the capital, and the constraints of the insecurity situation.

Puntland has more diversified fiscal resources than the FGS but the aggregate revenue from the latter's limited physical fiscal resources is larger than that of the former. Despite this, Puntland generates its revenue from customs (airports, Bosaso seaport, and borders), inland revenue, donor budgetary and project support. Bosaso port is cardinal for the revenues generated by Puntland. This port is, for now, a lifeline for Galmudug and some parts of the HirShabelle population for its role in trade imports and exports of livestock and frankincense.<sup>18</sup> Jubaland, on the other hand, generates its current meager revenues from customs (Kismayo port and airport), inland revenue, and grants from donors and FGS.

The remaining FMSs (Galmudug, HirShabeelle, and SouthWest) have almost matching fiscal resources. These three FMSs don't have functioning ports, and the little revenue they operate on comes from limited inland revenue, income tax

<sup>16</sup> Interview with inland revenue department of FGS's MoF

<sup>17</sup> Ibid

<sup>18</sup> Interview with Puntland revenue department, February 2021

from civil service salaries paid by the World Bank, and the \$150,000 monthly FGS budget support. This latter source comes without specific spending requirements attached because they don't have operational ports like Puntland and Jubaland.

HirShabelle state has not controlled its existing fiscal resources since 2019, but the regional governors of Hiiraan and Middle Shabelle do. The revenues generated from the existing fiscal resources in HirShabelle are not collected and managed through the FMS' Ministry of Finance but the governors of these two regions.<sup>19</sup> Therefore, the state relies on fiscal transfers from FGS such as the \$150,000 monthly budget support and income tax from civil service salaries paid by the World Bank.<sup>20</sup>

All the FMSs are in desperate fiscal resource situations, albeit to varying degrees. Large swaths of the land in their jurisdictions are controlled by al-Shabaab; they face a continued legitimacy crisis, and are suffering from poor physical infrastructure caused by years of ruin and neglect. This weakens their current ability to generate and sustain revenue.

## 7.0 Types of Taxes Collected

Owing to the aforementioned reasons, the FGS and its constituent units don't have strong tax bases to enable them to raise revenues that can fund the rudimentary responsibilities entrusted to them. Therefore, they rely on few taxes, which are accessible and collectible. First, FGS and Puntland raise comparatively larger revenues from their respective areas as it is indicated in their annual budgets. The other FMSs don't collect many taxes, but rather depend on limited taxation from domestic revenues and mostly – except Jubaland – receive monthly budget support from FGS through a transfer designated for FMS' with no-functioning ports.

Second, as far as taxation by the FMSs is concerned, FMSs have lists of the taxes to be raised ranging from 24-28 types. However, the types of taxes raised by most FMSs don't reach that number.<sup>21</sup> Although concerned FMSs Ministries of Finances' authorities interviewed did not provide a holistic list, they mentioned some types of taxes they collect without referring to a formal document, which sets out these specific types. The researchers consulted with domestic revenue sections of the available annual budgets of these entities in the public domain to identify taxes that FGS/FMS claim to be collecting.

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19 Interview with HirShabeelle revenue department, February 2021, Jowhar

20 Interview with HirShabeelle MoF Director-General, April 2021

21 Interview with fiscal federalism expert, February 2021

**Table 1:** This table shows the taxes raised by FGS and BRA, though both are not exhaustive

Taxes by FGS		BRA
<b>Taxes on profit:</b> Payroll tax, income tax, turn over tax, property tax		Birth certificate fees, tricycle motors taxes, passenger buses taxes, small business taxes, stamp duties, fines from Benadir regional court, and property rent taxes.
<b>Taxes on goods and services:</b> bottled water		
Tax on sales: hotel invoices, telecommunications, remittances, water, and power suppliers,		
Service benefit tax: telecommunications, remittances, water and power suppliers,		
<b>Franchise sales tax:</b> road user tax, public notary registration tax		
Tax on imports		
<b>Fees:</b> management fees, ports fees, government goods, and services sale fees, visa, and passport.		

Source: Authors' compilation from the FGS's 2021 approved budget and key informant interviews

**Table 2:** This table shows the taxes raised by FMSs, however it is not exhaustive

Taxes by FMSs				
Puntland	Jubaland	South West	Galmudug	HirShabelle
Taxes on profit: turn over tax	Personal income tax, payroll tax-non government, turn over tax, property tax, vehicle & drivers' licenses, business & professional licenses, fishing fees, landing fees, local passenger fee, state road user tax, urban road user tax, international NGOs registration, local NGOs registration, foreign companies, parking fees, navigation fee, ground handling fee, customs duties-imported goods, and Khat, export duty, land certificate fee, number plate registration, logbook registration, public notary fees, bidding fees, import inspection fees, fines/penalties, and court filing fees.	Road tax, Payroll tax, Personal income tax, urban road user tax, Security clearance certificate, Passport fee, work permit license for foreigners, number Plate registration fee, customs duty tax, cigarette tax, Local departure tax, and landing fee from airplanes.	Personal income tax, payroll tax, income tax, businesses licenses fees, power supply tax, building permit tax, market security, and sanitation fees, fishing license fees, driving license fee, vehicle registration fee, passenger fee, road user tax, livestock market tax, Khat tax intermediate school, certificate fees, road tax, court fees, banks, and remittances tax.	livestock, fishing fees, business & professional licenses, international NGOs registration, local NGO's registration, local companies registration, work permit licenses, birth certificate fee, land certificate fee, vehicle & drivers licenses, landing fees, international departure tax, number plate registration, logbook registration, property tax, turnover tax, fuel tax, electricity tax, road user tax, customs duties - tobacco, customs duties – cigarettes, fines/ penalties, and civil servant identification fee.
Income tax (payroll): taxon Puntland security forces payroll, tax on Puntland civil service, income tax from non-state employees.				
Property tax: property rent tax, vehicle rent tax, inheritance tax, and land transfer tax.				
A general tax on goods and services: sales tax, Value Added Tax (VAT), road user tax, road tax, moor tax, production tax, quality control, other taxes of production, environmental and agricultural taxes, court fees, immigration tax, migration tax, registration tax, fines, penalties, and confiscation, plate number fees,				
Government services fees: airplanes services fees, fees on advertising, port service fees, port cleaning fees, and slaughterhouse fees.				
License fees: driving license fees, fishing license, telecommunications license, airplanes license, land survey license, log book license, publishing houses license, business license, and agriculture license.				

Source: Authors' compilation from Puntland's 2020 Approved budget and from FMSs finance ministers



Although the list of taxes that are supposed to be collected by FGS and FMS is long, the actual tax that collected is limited in most contexts. Some challenges block both the FGS and FMS to collect this long list of taxes. One of these challenges is insecurity. Inability to control the entire state limits the prospects of most of the FMS to collect revenue. Political infighting within the FMS or between the center and periphery also limits the amount of domestic revenue collected.

On the other hand, district administrations and the few local governments are left with very limited taxes to collect. According to many authorities who the researchers interviewed, district administrations collect low-value such as market security and sanitation fees, building permit fees, taxes from street vendors and other small businesses, and road tax from tricycle motor. Some also collect khat tax at the border with Ethiopia.

In contrast, Garowe's local government is fairly advanced compared with other district administrations and the few existing local governments. It exercises relatively wide tax raising powers compared to the other districts and local governments in other FMSs, despite sharing some of the same inhibiting fiscal limitations as its counterparts. As a Garowe local government member elucidated in an interview for this study, Garowe local administration collects the following taxes:

- Business licenses.
- Property tax
- Title deeds
- Public transport tax including taxes, public buses (reshuffle buses), and Dhaweeye taxi.
- Discharge and loading tax (referring to the lorries that carry commodities from Bosaso or other towns/places in Somalia or vice versa.)
- IDs including birth certificates; however, death certificates are not taxed.

In sum, FGS and Puntland collect more revenues compared to the other FMS which are embryonic administrations and within which large swathes of their jurisdictions are under the control of al-Shabaab. This deprives them of sources that could generate revenues for and thus survive on discretionary FGS budget support. Jubaland is a partial exception here because of its port revenues from Kismayo. Furthermore, local governments within FMS are starved of revenues for delivering essential services.

## 8.0 Expenditure Models

Before an expenditure model is developed, there should be an approved budget. Four of the five Federal Member States were established within the past nine years and have only managed to prepare and approve budgets in the past few years. The federal government's first annual budget of \$114 million was also approved in 2013, and this is indicative of the fragility and level of consolidation of Somalia's

public institutions. Moreover, many local governments have no approved budget, which means these local administrations have no expenditure models.

There are different processes and systems used by the federal government, the Federal Member States, and few local governments for expenditure. As one of its staff explained, the FGS Ministry of Finance forecasts the revenue that may accrue to the government (domestic revenue or revenues from donor grants). This projection is used to aggregate to government ministers, departments, and agencies. The budget department plays a key role in planning public expenditure as it sets the budget ceiling.<sup>22</sup>

Ministries, departments, and agencies prepare broken-down budgets consistent with the budget ceiling. If a ministry, department, or agency submits a budget above the aggregate budget and could not able to justify this increase, the Ministry of Finance deducts the additional amount up to the level of ceiling for not qualifying this amount. Also, some ministries, departments, or agencies may submit a budget, which is beyond their estimated budget but they may be able to justify the increase.<sup>23</sup>

A finance expert who works at the Federal Ministry of Finance illustrated how the expenditure procedures work. He explained that finance departments of government ministries and agencies submit expenditure warrants to the budget department of the federal finance ministry each month. The budget department makes sure that the submitted expenditure warrant is compliant with the budget line of the ministry. If it applies, the Director-General of the Ministry of Finance will approve, and the expenditure warrant will be submitted to the treasury of the finance ministry to check if that amount is in the account. The finance department will write a payment voucher and then the Director-General of the finance ministry will approve. The treasury department then would issue a cheque that is submitted to the bank to be deposited to the account of the concerned ministry. The latter ministry should report how it spent the full amount of the money paid to them. An audit from an independent firm will follow to make sure how the money was spent.<sup>24</sup> Although this is an ideal public expenditure procedure, it is not always followed. Some of the recently established FMS do not have an internal audit capacity and do not hire external financial auditors. External audits are often conducted by the Auditor General's Office (FMS have their own Auditor General's Offices).

Some Federal Member States have an approved budget, domestic revenue, and a Ministry of Finance that can handle its mandate. In these cases, the expenditure process is often a bank transfer. The salaries of civil servants, security forces, and legislators, etc. are paid through bank transfer, and state agencies' money goes through a single treasury account. A Director-General of a ministry of finance

22 Interview with the Federal Ministry of Finance's budget department officer, May 2021, Mogadishu.

23 Ibid.

24 Interview with finance expert, January 2021, Mogadishu.

interviewed differentiated the expenditure process of the state domestic revenue and donor money: “If the expenditure is paid from our revenue, FMS Ministries have to request the money and provide all the documents. The money can be processed in advance. Or we reimburse when they spent the money from their pocket. If a donor pays, we have to pay the money as clarified in the signed MoU. We have to follow the agreed installment process. The donor sends the money to the single treasury account.”<sup>25</sup>

The operations of some Federal Member States such as South West, Galmudug and HirShabelle depend so heavily on the federal government fiscal transfers and donor support that in practice they only manage the money from the FGS and donors. The expenditure of such money goes through the Bisan Financial Management Information System.

Some local governments have district development plans including domestic revenue generation and expenditure targets, while most of the local governments in Somalia collect cash (Somali Shilling or EVC Plus) in the form of tax. There is no proper process to record and spend this money. Governors and district commissioners have often discretion on how to spend such money.

## 9.0 Intergovernmental Arrangements for Fiscal Federalism

While the federal provisional constitution does not stipulate how fiscal powers are distributed, or how revenues and natural resources are shared among FGS, FMSs, and local governments, the constitution gives key stakeholders room for deliberating and reaching agreements over these standing issues. In this context of constitutional ambiguity, the Finance Ministers’ Fiscal Forum (FMFF) was established in early 2016 by the existing FMSs at the time. HirShabelle, which during the formation of the forum was in still being established, joined the forum later in 2017.<sup>26</sup> This was followed by a Technical Intergovernmental Fiscal Federalism Committee (IGFFC) to assist the work of the Finance Ministers’ Fiscal Forum (FMFF), albeit this was *ad hoc* in nature. They were, for all intents and purposes, established to enable dialogue, devise mechanisms, and agree on pressing fiscal federalism issues such as sharing natural resources, revenue sharing, tax harmonization, and which level of government exclusively raises which taxes.<sup>27</sup>

Since then, these intergovernmental instruments convened in over ten (10) meetings in different venues discussing each meeting various thorny issues that were worrying the parties.<sup>28</sup> The federal government fiscal federalism unit

25 Interview with the Director-General of FMS Ministry of Finance, January 2021.

26 Interview with HirShabelle Budget department director, April 2021, Mogadishu

27 Interview with Galmudug Budget department director, February 2021, Dhusamareb

28 Ibid

sets the agenda for each meeting and then the technical committee takes on discussing and absorbing the issue before it is passed on to the policy level, where the issue is deliberated and agreed or returned to the technical committee for further ironing out of any ambiguous areas.<sup>29</sup> The technical committee, since it has no legitimate and legislative power, is often subject to the vicious cycle of recurrent political feuding between the FGS and FMSs, which frequently calls their neutrality and professional caliber into question.

Notwithstanding the constant political rift between the center and the periphery, these mechanisms have achieved commendable strides. They succeeded in harmonizing some taxes such as Khat taxes (\$2.5 per bundle), international departure tax (\$30 per international passenger), and cigarettes (\$30 per carton). Before adopting this uniform tax on these three items, each level of government used to levy different tax rates on these items. However, although the rates were agreed, there is no evidence that they have been applied uniformly.

The intergovernmental fiscal forum also agreed on the principle of harmonized customs (ports) tariffs rates and payroll and personal income tax by government employees and non-government employees. Additionally, they settled on uniformly levying progressive tax rates on salaries ranging 6% (\$201-\$700), 12% (\$701-\$1500), and lastly 18% (any salary over \$1,500). Before concluding this agreement, FGS and FMSs used to collect different rates from payroll taxes. Formerly, FGS took the above rates from its civil service payroll; South West, Galmudug, and HirShabelle collected 5% flat tax from all the government employees while only Puntland imposed a 6% flat tax on their civil servants' income. This contradiction caused some NGOs to relocate to these states, which applied a lower rate of personal income tax.<sup>30</sup> Also, through this instrument, parties agreed on sharing revenues accrued from the fisheries licenses and petroleum. Revenues including but not limited to airspace are not yet resolved, however.

Besides this, there are other critical issues, which still hang in balance and there is a need for somber and immediate settlement including how revenues from donors are being distributed among states. Most of the Finance Ministries' officials from FMSs interviewed for this study expressed their concerns and complaints about the fairness and method being used for distributing donor grants that are channeled through FGS. However, representatives of other FMSs that take a bigger share (Puntland) from this disputed distribution, argue for the fairness of the process. The complaining FMSs (all but Puntland) argue that when sharing donor grants is tabled for discussion, some FMSs spare no effort to gain the largest share from the pie by using unconvincing and impractical justifications.<sup>31</sup> This is because an inconsistent 'gentleman's agreement' is resorted to for sharing donor grants, in which some snatch bigger shares than others, as there is no specific and inviolable formula.

29 Interview with South West revenue department director, January 2021, Baidoa

30 Interview with FGS revenue department, April 2021, Mogadishu.

31 Interview with Galmudug revenue department, February 2021, Dhusamareb.

To find an amicable common ground settlement for this serious issue, some states proposed the “60/40” formula in a Garowe meeting in November 2020. According to this, 60% of the donor grants go to the FGS and Benadir Regional Administration while 40% will be earmarked to the FMSs. For the distribution of the 40% among states, they suggested an arrangement through half of this will be distributed among states equally while the remaining half will be distributed among states according to specific measures such as their level of revenue generation, transparency, and reporting, for example.<sup>32</sup>

## 10.0 The Issue of Fiscal Transfers

The issue of fiscal transfers tops all of the fiscal hurdles the FGS and FMSs find themselves Facing. Fiscal transfer refers specifically to the money transferred from the national government to the constituent FMS units or vice versa and entails instruments like grants, subsidies, and tax sharing. It is an essential revenue source for FMSs to cover the expenditure responsibilities as these costs exceed the taxes they generate. This indispensable mechanism embedded in the federal arrangement is devised to remedy any of the maladies inherent in the system such as vertical imbalances; horizontal imbalances, externalities, and national priority.

In the context of Somalia, as elaborated in the previous section, both levels of the federal government raise taxes that don’t match their immense expenditure responsibilities. Under this situation, neither FGS nor FMSs can come to the rescue of the other to help deliver on their responsibilities.

Consequently, the fiscal transfer mechanism is more or less stagnant unlike the established federal states owing to, mainly, a lack of a legal framework and the overall meager fiscal resources at both FGS and FMS level. The existing fiscal transfer also does not flow in the normal way, as it is a one-way transfer from the FGS to the FMSs. These transfers from the national level are confined, so far, to natural resources licenses, a slice of domestic revenue from Mogadishu, and donor grants.

In distributing these transfers, not all FMSs receive the same amounts. Only three FMSs – HirShabelle, South West, and Galmudug – get a small portion from the revenues FGS raises from Mogadishu, each about \$150,000 per month as budget support for these FMSs which do not having operational ports.

However, every FMSs receives donor grants through the FGS and revenues from natural resources licenses such as petroleum and fishing licenses, albeit not equal shares. This is where most of the contention and controversy over fiscal transfers arise. According to the Baidoa 2018 Agreement, the FGS would receive a 55% share of the offshore oil profit, the oil-producing FMS receives 25% of the profit

<sup>32</sup> Interview with Galmudug inland revenue department, February 2021

while 10% of the profit would be transferred to the district that the offshore oil was extracted from (Sharma & Dillinger, 2020). The remaining 10% is shared by the other non-producer FMS, which would mean a 2% share of each of the non-producer FMS. Some FMS are not happy with this petroleum revenue sharing formula as this “create[s] horizontal inequalities between the different FMS, with a petroleum-producing FMS (including producing districts) receiving between 10 and 17 times more revenue than a non-producing FMS” (Sharma & Dillinger, 2020).

Similarly, some FMSs receive more shares of the fisheries revenue than others. According to the March 2019 agreement on the management of fisheries and revenue sharing, the FGS receives 29% of the fisheries revenue; Puntland receives 18%; HirShabelle gets 14% while the remaining three FMS – Jubaland, South West, and Galmudug – receive 13% each (Sharma & Dillinger, 2020). Those who receive fewer shares in donor grants and revenues from fisheries licenses specially Galmudug, South West, Jubaland and HirShabelle claim that this distribution is flawed, although this mechanism was signed by Ministers for Finance at FGS and all FMS levels. These FMSs are now disgruntled at the disproportionate shares according to their visible needs and the smaller number of revenue generation sources at their disposal. They argue they should have enough of a share to compensate for their revenue disadvantages. This is the primary reason why non-port FMS receive \$150,000 per month to address the inequity in revenue generation.

In deciding how much share each FMSs gets from the donor grants and revenues from natural resource licenses, the majority of the interviewees from FMSs’ ministries of finance asserted that no grounded mechanism is being used but rather a ‘gentleman’s agreement’, between finance ministers of the FGS and FMSs, that favors certain FMSs and leave others to feel dissatisfied. Some interviewees argue that some FMSs succeed in getting more shares than others because they present exaggerated arguments that other FMSs see as feeble. Those dissatisfied FMS representatives said they nonetheless acquiesce out of a desire to build bridges among FMSs and avoid anything that may derail the fledgling federal system.

Another serious contention over the handling of fiscal resources is the entanglement of capricious politics in the distribution of fiscal transfers. Informants from FMSs’ ministries of finance alleged that FGS uses grants as a stick or carrot. According to them, FGS withholds the grants from those who have fallen out with it and have taken their own political direction, while it dishes out these grants to the FMSs that remain unquestionably loyal to it. The intensity of the use of FGS grants as an aggressive weapon to subdue non complying FMSs and/or manipulate weak FMSs has heightened, argue some interviewees from some FMSs’ Ministries of Finance, during the tenure of the outgoing government in Mogadishu. This is despite the fact, they argue, that the Finance Ministers’ Fiscal Forum (FMFF) Kampala communique in November 2019 included commitments towards the de-politicization of fiscal transfers.



## 11.0 Service Provision at National and Sub-national Governments

Somalia is still recuperating from two-decades of the effects of state collapse. Most citizens across the country receive no public services from either near and remote levels of government. Some very rudimentary services are received by some citizens who dwell in FGS and FMSs capitals. The two levels of government (FGS & FMSs) are weighed down and dominated by justifiable priorities – at least for now – mainly security, rather than delivering much-needed social services.

The federal government, which has relatively more domestic revenue and bilateral and multilateral donor grants compared to all the nascent FMSs except Puntland, provides few services to the citizens of Mogadishu, which is its only source of domestic revenue. To grasp how many services the FGS provides to the citizens in return for the taxes collects, it is useful to take a cursory look at the 2021 FGS budget. In this budget, the FGS gave much of its weight to the defense, security, and civil service spending while appropriating scant amounts to the social services. A combined \$163.8 million was allocated to defense (\$95.7 million) and security institutions (\$68.1 million) while a marginal \$109 million was earmarked for the social services, an indication of how rudimentary social services are as the fiscal space does not allow the FGS to support service delivery. However, compared with the past, that is seen as progress for many. Also, FGS civil servants' salaries devour a large proportion of the budget., Some argue against having such bloated staff in a country recovering from a state collapse and would prefer it if part of these large sums for salaries could be trimmed where possible and redirected to the neglected social services and other public goods, which are of great importance to the survival and well-being of the citizens.

FGS runs and pays the operating costs and staff salaries for three hospitals in Mogadishu: Benadir hospital, Martini hospital, and Madina hospital. Further, it covers the budget of the Somali National University, the only FGS-owned university, which has two branches beyond Mogadishu, in Caabudwaaq district in Galmudug state, and Badhan district of Puntland state. Before this fiscal year (2021), the FGS managed and paid the administrative cost and salaries of 24 public schools in Mogadishu. However, it is now handed over to the Benadir Regional Administration (BRA) following the latter's recent takeover of education responsibilities in the Benadir region from FGS, as other FMSs do.<sup>33</sup>

Conversely, FMSs are responsible for service delivery to the people living under their respective jurisdictions along with FGS as per the federal structure. In this context, FMSs are not in similar circumstances in terms of financial resources, administrative capacity, and efficiency and for this reason, can't be lumped together. But there are some issues they have in common.

<sup>33</sup> Interview with FGS revenue department, April 2021, Mogadishu



Regarding service provision, all FMSs perform badly though there are variations. Taking the colossal impediments FMSs face into account – their low tax bases, insecurity, their short institutional histories, a lack of societal trust and legitimacy, and political quarrels between FGS and FMSs – interviewees from each FMSs agreed that regional states provide negligible services. When asked what services the FMSs do provide to the citizens in return for the taxes that are collected from them, the respondents indicated this is security. This was considered to be the most valuable and visible service they offer. The respondents understood the dire fiscal limitations that the FMSs have.

Study interviewees underlined that the small domestically generated revenue together with the budget support from FGS to Galmudug, South West, and HirShabelle are spent almost exclusively on salaries for civil service staff, security forces, MPs, and cabinet members. Similarly, Puntland with better revenue generation than other FMSs spends significantly on security and civil service salaries. Jubaland, on its part, disperses its limited domestic revenue on security and civil servants' remuneration.

In Jubaland, the state cut off a slice of its budget for health and education. Also, it contributes to the construction and rehabilitation of Kismayo roads with gravel (this could be part of a matching grant with an implementing partner).<sup>34</sup> In a similar vein, South West sets aside a portion of its domestically raised revenue to Baidoa roads construction or rehabilitation.<sup>35</sup> Galmudug pays the salaries of the public schools' teachers in Dhusamareb. HirShabelle did not offer any tangible public service to its people due to this state's current dysfunctionality.

For its part, Benadir Regional Administration (BRA) though not part of the current federal structure, provides few services to its over 2.5 million inhabitants. These minuscule services include cleaning of the streets mostly trafficked through by the FGS and BRA officials, the construction/rehabilitation of main roads in BRA districts, and schooling by 24 primary education schools it took over recently from the FGS. Further, it has mother and child care clinics throughout its 17 districts, however these are funded by local and international NGOs.

As for why the services BRA provides are scant, this perhaps relates to the much narrower revenue streams it has due to FGS's tight control over most of the revenue sources in Mogadishu. Here the FGS gives only an insignificant 15% of the Mogadishu port and airport revenues to the BRA, a percentage which cannot help it cover its service delivery responsibilities.<sup>36</sup> Another explanation relates to the uncertainty around Mogadishu status's, which creates a serious obstruction to its ability to deliver services. If its status were determined, it could have sources where it could mobilize revenue to cover services required. For the time being, BRA's senior leadership is appointed by FGS incumbent president, and,

34 Interview with acting Director General at Jubaland MoF, February 2021, Kismayo.

35 Interview with Director General at South West MoF, January 2021, Baidoa.

36 Interview with Benadir Regional Administration staff, May 2021, Mogadishu.

therefore, they remain loyal and accountable to them and not to the people in the Benadir region. This will require a change, and a reversal of service delivery and accountability.

Apart from the negligible services funded from the FMSs revenues, the study found that most of the services delivered to citizens in the regional states and Mogadishu are funded by a donor or through FGS grants. However, these modest services being provided by either FGS, FMSs, or the Benadir region only generally benefit citizens living in main capitals. It is striking the extent to which service provision has not been decentralized, even though this is primary argument for the adoption of federalism in Somalia.

Lastly, another tier of government that is supposed to deliver essential and lifesaving services are local governments, although they lack clear constitutional recognition. The Somali provisional constitution does not explicitly establish a third-tier of government, local/district governments. Rather, Article 48 (b) of the Provisional Constitution simply recognizes the local government as part of the FMS.

There are ongoing efforts to establish local governments in FMSs. So far, roughly seven local government councils in Galmudug (Galkacyo), HirShabelle (Warsheekh), South West (Diinsoor, Bardaale, Waajid, Xudur), and Jubaland (Afmadow) were formed. For now, FMSs have appointed district administrations with no revenue generation powers. These district administrations, mostly those where FMSs authority actually reaches, engage in very limited tax collection activities delegated by the FMSs.

District administrations collect taxes such as market security and sanitation, road tax, small business taxes, and construction permit fees. After collection, some of these districts deposit these amounts to single treasury accounts for the concerned FMSs. In return for this, FMSs cover their operation costs. In Jubaland, the state signed an MoU with the Kismayo local government on collection and management of revenues.

Local governments or district administrations provide limited services to the local people as they are starved of needed finance to offer services and implement projects expected from local governments. In South West state, the Baidoa district administration works on district sanitation and constructs and/or rehabilitates roads in Baidoa with the help of money cut off from the state.<sup>37</sup>

Amid the financial choke-off, district administrations adapted to the situation and looked at other ways to devise creative solutions that will help them surmount their challenges. One such innovative scheme includes the one adopted by the Kismayo district to provide needed services such as road infrastructure. Under this scheme, it directed the utility companies in Kismayo to charge one extra

<sup>37</sup> Interview with Baidoa deputy Mayor for finance, January 2021, Baidoa

dollar on their respective customers' bills that is redirected to Kismayo district administration upon their collections to help it provide some of the expected services. This money was agreed on to be managed by a steering committee comprised of representatives from business people, elders, religious scholars, utility companies, state finance ministry, and Kismayo district administration and that money will only be spent on what are deemed priorities.<sup>38</sup> Similarly, Garowe's local government adopted quite a different approach in finding financial resources to provide services and perform its responsibilities. It has a "Garowe development" tax.<sup>39</sup>

## 12.0 Models for Fiscal Federalism

Somalia has no agreed fiscal arrangement, and the legal and institutional frameworks for fiscal federalism are under discussion. There are various models and options for Somalia's fiscal federalism arrangement.

### **Model 1: Clearly defining federal, state, and local governments revenue assignments**

One of the solutions for fiscal federalism proposed by many of those interviewed is to clearly outline the specific tax and non-tax revenue collection assignments for the federal, state, and local governments. This proposal is that the financial assignments for the different levels of government are listed specifically in the federal constitution.

In federal countries, some taxes are exclusive to the center while others are assigned to states and local governments. For example, ports, airports, visa, passport fees, license fees for international fishing companies, etc. are mainly exclusive revenue assignments for the center. States and local governments have also a list of revenue assignments for most federal entities.

However, the revenue assignments do not mean that each level of government uses the revenue it collects. Therefore, there should be a sharing mechanism for the revenue collected. For instance, if a state has a port, and the federal government collects significant revenue from that state, there should be a criterion for sharing such revenue to the federal government, the state, and the local government whose jurisdiction the port falls under.

In Somalia, there are many challenges in clarifying the revenue assignments to the different levels of government. First, trust among the political class is weak, and trust between the federal government and federal member states is limited.

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<sup>38</sup> Interview with Jubaland chamber of commerce chair, February 2021, Kismayo

<sup>39</sup> Interview with Garowe Mayor, January 2021, Garowe

Some states – Puntland and Jubaland specifically – manage ports in Bosaso and Kismayo respectively. They do not trust the FGS to manage these ports and give them their share of the revenue. Without trust and confidence among the leadership of the two levels of government, the revenue of some of the core assignments would not be possible.

Second, the responsibility assignments for each level of government are not clear in Somalia. In the provisional constitution, there are no clear roles and responsibilities for each level of government. Article 54 of the provisional constitution gives four exclusive powers, namely: (1) foreign affairs, (2) national defense, (3) citizenship and immigration, and (4) monetary policy, to the federal government (Somali Public Agenda, 2019). Article 53 demands that federal member states should be consulted on foreign aid, trade, treaties, and other matters that relate to international agreements. As of writing this paper, there are no agreed roles and responsibilities. For instance, how much responsibility the local government takes for education, health, infrastructure, and security responsibilities would determine how much revenue it can generate or receive. The contention is that responsibilities assignment is a prerequisite for revenue assignments as well as fiscal transfers. As long as the responsibilities for public services are not clear, the fiscal debate will remain.

Third, there are no agreed mechanisms for sharing domestic revenues and international donor support. The federal government and federal member states are still negotiating ways to share donor money and other potential revenue from natural resources in Somalia. For instance, there is a disproportion in the FMS annual budgets, institutional capacities, and the services they offer. And as a result, there is a heated debate on how to share revenue and donor aid. Moreover, the sharing mechanisms for future income from natural resources are not yet clear. If sharing mechanisms are not yet there, assigning a list of revenue assignments for each level of government will remain problematic.

For Somalia to clearly outline the fiscal responsibilities for each level of government – federal, state, and local governments - trust among the political stakeholders, clarification of responsibilities for each level of government as well as agreement on a revenue-sharing formula would be prerequisites.

### **Model 2: Independent revenue authority**

A second alternative for fiscal federalism in Somalia is to establish an independent revenue authority. Currently, the revenues and customs are part of the federal and state ministries of finance. The Somalia National Economic Council wrote an unpublished paper on the establishment of the Autonomous Revenue Authority (ARA), which would be independent of the Ministry of Finance. The paper contended that countries in the Horn of Africa region have revenue authorities

– the Burundi Revenue Authority (1997), the Ethiopian Revenues and Customs Authority (2008), the Kenya Revenue Authority (1995), the Rwanda Revenue Authority (1997), the Tanzania Revenue Authority (1997), and the Uganda Revenue Authority (1991) – and that the concept of establishing an independent revenue authority fits Somalia's current limited institutional and human capacity to mobilize adequate domestic revenue.

The establishment of an independent revenue authority means centralizing the revenue and customs work to an entity that collects revenues across the country. Interestingly, most of the civil servants working for the federal and state Ministries of Finance interviewed for this study proposed the establishment of an independent revenue authority. They wanted to be independent of the influence of the leadership of the ministries of finance and be seen as a non-political entity that collects domestic revenue across the country. Some of those interviewed echoed that such an independent entity would increase transparency and accountability in revenue collection and management. However, some also suggested an independent revenue authority for each Federal Member State.

The establishment of an independent revenue authority could be a good model for Somalia. First, such an entity could depoliticize the revenue collection. Second, federalism in Somalia is not clarified, and there are debates on the suitability of a federal structure in the Somalia context. Centralizing revenue collection while the federalism debate is ongoing could be a good idea. Third, an independent revenue authority is the practice of many federal and central governments. Ethiopia is an example of a federal country, which centralizes its revenue and customs collection, as it established the Ethiopian Revenues and Customs Authority in 2008.

Although these are merits and advantages for the establishment of an independent revenue authority, one main challenge is the fragile political situation and asymmetric powers and capacities. If the mandate and responsibilities of the independent revenue authority is not agreed, it could not work as the authority would only administer taxes that have been agreed. An authority, for example, could not collect taxes in Bosaso if these are not agreed by Puntland authorities. The current fragmentation of political units makes such an option difficult. For instance, the status of Somaliland in a possible federal Somalia has not yet been negotiated, let alone agreed on. Puntland is a mature state compared to the other federal units established in the past eight years. Both would most likely resist an independent revenue authority without addressing the key political issues such as power-sharing arrangements in a federal country.

A second limitation is that in the current system where revenue and customs are under the ministries of finance, the FGS and FMS leadership have political leverage to. The leadership of the different levels of government will most likely resist the formation of an independent revenue entity that would deprive them of some of the political power and influence they enjoy at the moment.

Finally, except for the technicians working at the revenue departments, the establishment of a revenue authority is not currently being considered by the majority of stakeholders. This means that no key actors are pushing for it, and this means it would get less buy-in from current political leaders. An independent revenue authority may be a good fiscal solution for Somalia, but the politics and politicians would make it almost impossible to be seriously considered, at least for the time being.

## 13.0 Systematic and Practical Challenges

There are several systematic and practical challenges surrounding the agreement of fiscal federalism, fiscal decentralization, and revenue collection in Somalia. These challenges relate to legal, political commitment, institutional, and security considerations.

**Constitution:** the federal constitution remains provisional. This is the main legal challenge to fiscal federalism. The constitution does not clarify functional responsibilities and leaves politicians to address the fiscal federalism arrangements. The complexity is that the constitution cannot be completed without a consensus agreement on several contentious issues including fiscal arrangements. However, there are no procedures and institutions that move the discussion forward, and the constitution remained provisional up until it was approved by a constituent assembly of 825 on 1 August 2012. Importantly, the constitutional court is not yet established.

Moreover, other legislations have been established by the federal and state levels of government in the past few years. These include public finance management and revenue acts. These legislations were approved by the federal and state legislators. However, these laws are not accessible on many FMSs websites. Moreover, other finance and tax-related laws are old and approved between 1960 and 1991 when the country was run by a central government. These laws are still used to collect different types of tax. Furthermore, there are missing laws including a tax administration law that some of those interviewed saw as crucial for fiscal federalism in Somalia.

**Political disagreements:** apart from the legal gap, the most difficult challenge is the political disagreements among the key political stakeholders. The federal government may sometimes delay scheduled meetings on fiscal federalism or passing key legislations because of the poor relationship between the center and the periphery. Some of those interviewed stated that many of Somalia's current leaders are not committed to addressing the fiscal federalism question.

Political stability is seen as a key prerequisite for fiscal federalism agreement. The politics in Somalia is not stable. Some respondents echoed that, politicians



representing both the center and the periphery want to take the bigger cake and deprive others. The justification for receiving a higher share than others come mainly from the inadequate systems and institutional capacity, the small amount of domestic revenue collected, and the disparity between the size of populations in each FMSs. These justifications are put on the table to make sure each state gets a higher share of the donor money and natural resource revenues. For instance, Puntland often cites its higher annual budget and institutional capacity to get a higher share while states like South West contend that they administer a larger population. As one put it, each level of government does not want to give up the management of the revenue sources.

Lack of trust fuels political disagreements. Almost none of the FMSs transfer revenue to the FGS because they are not sure if the FGS will give back what they see as their fair share. Political disagreements and the trust deficit negatively impact the fiscal federalism dialogue. The fiscal federalism technical level committee meetings are delayed for political reasons. And when they meet, they cannot agree on issues as they are appointed and represent the interest of politicians in polarized positions.

**Institutional capacity:** the third challenge is institutional capacity. Puntland considers itself mature compared to other FMSs, and thus guides them in some instances. Some conflicts arise because of this as other FMS demand equal treatment. The institutional capacity of some FMSs is at a rudimentary stage, and the systems and capacities for each FMSs are different from each other. Customs in Puntland and Jubaland are working, but the remaining FMSs have no properly functioning ports and they depend heavily on Mogadishu port. Moreover, there is a lack of experts in the financial field.

**Security:** security has a significant negative impact on domestic revenue collection and management in Somalia. Insecurity limits mobility and movements within cities. It crippled tax collection by all levels of government. There is also other money collected by al-Shabaab from both main cities like Mogadishu, vehicles traveling in the territories they control, and also different types of tax from the towns they directly control. In Baidoa for instance, the people interviewed complained about double taxation for each good that enters the town and increasing the tax from the South West State and Baidoa municipality.

**Local governments:** another practical problem is that local governments are not part of the fiscal decentralization and federalism discussions. The platform for the discussion of fiscal affairs is exclusively for the federal government and the Federal Member States. Apart from that local governments are not part of the fiscal federalism discussions, the capacity to provide basic public services among local municipalities varies. Some local governments have a better system of domestic revenue collection and provide services such as Garowe while others don't. Some local governments have no local councils – elected or selected – while others have local district councils. It is not yet clear how local governments



as the third tier of government can be part of the fiscal federalism discussion. However, there are no organized local governments that are ready to be part of the conversation, and this will have a huge impact on their operations in the future.

## 14.0 Conclusion

Although Somalia adopted a federal structure and four Federal Member States have been established, a fiscal federalism model remains unclear. Fiscal arrangements are among the most contentious issues in the provisional federal constitution, and clarifying the structure of fiscal federalism is a key priority for Somalia's federal state reconstruction, the debt relief process, economic reforms, increasing domestic revenue mobilization, and the provision of government services to citizens. This study was conducted to shed light on the complexities surrounding fiscal federalism and explore options for fiscal arrangements. In addition to the literature review, extensive primary data was collected and researchers traveled to the capital cities of all Federal Member States, interviewing over sixty key informants from the government, private sector, civil society, youth, and women.

The study also examined the existing laws at federal and state levels, revenue generation systems, main fiscal resources in Somalia, different types of tax levied by the FGS, FMSs, and Benadir Regional Administration. It also analyzed the expenditure models, intergovernmental arrangements, fiscal transfers, and services provided by the different layers of government. Furthermore, this study analyzed possible options to address fiscal federalism in Somalia and the legal, political, institutional, and practical challenges surrounding state revenues in Somalia. The study concludes with a number of policy recommendations for different stakeholders.

## 15.0 Policy Recommendations

1. The Federal Member States should decentralize service delivery and revenue collection and should capacitate local government. This entails reviewing and harmonizing the overlapping functions in the newer FMSs and then implementing harmonized local government laws that specify the functions of local governments and their fiscal powers. Equally important is clarifying the role of local, district-level governments in fiscal federalism in the constitution. This helps to overcome the current ambiguity surrounding the legal status and role of the much-needed local government sub-structure in the federal structure. Consequently, this could help breathe new life into the currently defunct sub-structure and provide basic services required from local government.
2. Bearing in the mind the indispensable role of the local government in decentralized governance, FGS and FMSs should engage local governments in discussions pertaining the fiscal federalism. They likely understand the needs of the local people more closely than state and federal officials who tend to monopolize and determine policies that affect the majority of the country's citizens.
3. The post-election FGS should put the completion of the pending provisional constitution on top of its agenda during its four years tenure, alongside security stabilization. The completion of the constitution could resolve many of the contentious issues between the levers of powers – center and periphery – primarily around fiscal federalism. A willing, consensus-building leadership is required that is well-acquainted to the context. This leadership must not be distracted, derailed, and/or motivated by trivial politics of personal aggrandizement and grandiosity, but rather be solely focused on leaving behind a legacy of establishing functioning federal governance that will guide succeeding leaders.
4. FGS and FMSs should develop a formula for sharing the revenues to substitute the current impromptu, ad hoc based 'gentleman's agreement' arrangements that some actors see as favoring certain FMSs in particular.
5. FGS and FMSs should establish a practical mechanism that halts multiple parallel taxations by FGS and FMSs on transport traveling through their jurisdictions. This mechanism should instead collect and share reasonable and agreed upon taxes between the FGS and FMS by the respective departure points of the transport. This will relieve the inconvenience transports and travelers meet along the way.

6. FGS should consistently uphold transparency and accountability for all its activities, particularly grants it receives from donor organizations. When it disperses them to the FMSs this should be depoliticized and neutral among the FMSs. It should not use its leverage over administering the grants as a stick to subdue and punish opposing FMSs. Nor should it use these distributions of revenue as a carrot to reward those who toe its line of thinking. Instead, the FGS should act as a neutral figure that invariably administers justice among its subordinate units.
7. FGS and FMS should revisit and reorient the existing orientation that sees government institutions as major employer. States' staff recruitment should be based on the number of posts that are necessary for the provision of state functions and services. Overstaffing with unproductive posts can devour the resources needed to provide basic public services. Such a change of attitude will help reduce bloated government payrolls and redirect resources saved from salary payments to basic public services, which are desperately needed across the country.

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