



# Governance Brief 26

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## Summary

Decentralization has been emerging as a policy issue in Somalia since 2012. However, it has not been a dominant concern, in comparison to other problems that have overwhelmed policy forums of the executive and legislative branches in both the Federal Government of Somalia (FGS) and the Federal Member States (FMS). One expectation from the federal arrangement was that power would be decentralized to lower levels to enable local communities to effectively participate in deciding matters of their particular concerns, including devising local-level policies that reflect their immediate needs, such as the collecting local taxes and provision of essential services. However, these expectations remain an unobtained dream as new and long-standing local governments in FMSs still don't engage in collecting taxes that are, in theory, set out in their respective local government acts. Instead, only the Finance Ministries of the FMSs collect revenue, and this rendered local governments largely nominal structures that are unable to respond to the needs of their constituencies. This governance brief sheds light on the state of fiscal decentralization in Puntland, Galmudug, and Benadir. The brief specifically analyzes the budgets they operate; the financial systems they use for collecting and dispensing expenditure; and whether there are fiscal transfers from state governments to local governments. The brief also highlights key obstacles to fiscal decentralization in local government. Lastly, the brief recommends, among other things, that FMSs provide fiscal transfers to local governments to be able to deliver some services to their population and set deadlines for the devolution of fiscal powers to local governments to collect taxes and translate these into services.

## About Somali Public Agenda

Somali Public Agenda is a nonprofit public policy and administration research organization based in Mogadishu. 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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## The state of fiscal decentralization to local governments in Somalia

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### Introduction: Revenue generation by local governments

As a critical level of government, federal member states have outlined revenue sources for local governments under their jurisdiction. However, these responsibilities still exist only on paper, and thus local governments are either stripped of revenue generation powers spelled out in the relevant local government's laws or are only allowed to collect very limited taxes that are not sufficient to cover their operation costs. As such, this brief looks into the taxes that local governments in Puntland, Galmudug, and the Benadir region do and do not collect.

### Puntland

Although article 72(1) of Puntland's local government Law No.7 specifies 28 types of taxes that local governments are to collect, these authorities collect only a small number. It is the Puntland Finance Ministry that raises most of these taxes, leaving a limited scope of tax collection to the local governments. Major local governments in Puntland such as Galkacyo, Garowe, and Qardho collect many similar types of taxes from a limited number of active revenue streams but according to revenue officers interviewed for this study in these districts, they differ in the size of the taxes. For instance, Galkacyo (north) – a commercial hub for central regions and settlements bordering Ethiopia – and Garowe – the capital seat of the state government and NGOs – have tax receipts that are larger than Qardho. Though we did not collect data from Bosaso, local government officials in the other three major districts agreed that Bosaso local government raises similar taxes, if not larger, to that of Galkacyo, because the city is the commercial center of the state.

The taxes that local governments in Puntland often do tend to collect include property taxes, business taxes, public transport tax (taxis, Rickshaws, tipper trucks, and buses), customs duties, daily fees collected from vendors, livestock taxes, slaughterhouses taxes, local government public property rents, khat, stamp duties, ID issuance fees. Across local governments, taxes collected from properties account for a major source of revenue. For this purpose, local governments in Galkacyo, Garowe, and Qardho mapped properties using GPS. They had registered some of these properties while the registration of those remaining was underway during the field research in late 2022. So far, Garowe, Qardho, and Galkacyo registered 20,000, 12,500, and 5,452, properties respectively. The registered properties include both business centers and residential houses. These properties have plate numbers, which are embedded in the financial system of the local governments.<sup>1</sup>

Local governments collect property tax at the end of each year. Revenue departments utilize a variety of media to notify property owners of due payments. Tax invoices are generated from the financial system and sent to the property owners. Likewise, revenue departments at local governments print out invoices and deliver them to the property owners in person.<sup>2</sup> Besides this, short text messages (SMSs) are sent to property owners notifying them to pay the bill. Property owners pay the bills electronically, and in return get their receipts from the local government revenue department office in person or are delivered to them by local government staff.<sup>3</sup>

### Galmudug & Benadir

Similar to Puntland's local government law, Galmudug's local government Law No. 4 lists up to 20 taxes and charges that local governments are to collect but these remain on paper only. The power of raising these taxes rests in the hand of the state Ministry of Finance. Though the Galmudug Ministry of Finance collects most of the revenue,

it has permitted the districts with local councils and appointed administrations to raise small taxes. Dhusamareb collects stamp duties (public notary), birth certificate fees, local transport tax (taxis and rickshaws), and turnover tax of small businesses (they raise such taxes monthly). Guriel district administration collects market tax while Galkacyo (south) local government raises taxes from local transport traveling to and from villages and those that bring vegetables to the city. Galmudug districts also collect taxes from three-wheeled motorcycle taxis (\$10-15) monthly.<sup>4</sup>

Conversely, Benadir region districts don't collect any form of revenue from their districts. Officers from the Benadir Regional Administration (BRA) instead raise their revenues from these districts in the form of property taxes, construction permits, and licenses.<sup>5</sup>

The local governments' tax collection status demonstrates the level of powerlessness of structures that are meant to be meaningful vehicles for local-level service delivery. The existing reality of local government power deprivation by FMSs diminishes their legitimacy in the eyes of local people. This can only be gained when local structures deliver their responsibilities, regardless of how few resources they have.

### Local governments budgets

The study revealed that local governments in Puntland operate on annual budgets while their counterparts in Galmudug and the Benadir region don't have any formalized budgets at all. For instance, Garowe, Qardho, and Galkacyo (north) operate on an annual budget of USD 11.5 million, USD 1.5 million, and USD 1.3 million in the fiscal year of 2022 respectively.<sup>6</sup> The considerable variance among the budgets of the concerned local governments stems primarily from differences in the number of developmental projects implemented in these jurisdictions.

Garowe local government has the highest budget in 2022, and this is because the city benefits from projects in addition to the UN Joint Programme on Local Governance (JPLG). This is a result of its status as Puntland's capital and other local governments don't receive these additional projects.<sup>7</sup> Exclusively, Garowe benefits from Somalia Urban Resilience Project II (SURPII) of the World Bank. According to a local government officer in Garowe, such projects accounted for USD 8 million out of the 2022 budget while this project represented only a very insignificant proportion of the Galkacyo and Qardho local government budgets.<sup>8</sup>

The sources of revenue for the Garowe, Qardho & Gaalkacyo (north) budgets instead include mainly domestic revenue and JPLG-funded projects. Domestic revenue represents a major source for the budgets of Qardho and Galkacyo, where only JPLG projects are implemented. Conversely, project funds make up 80% of Garowe's total budget.<sup>9</sup>

Local government revenue departments in Puntland are technically responsible for the preparation of the budgets and putting them forward to the local council members for review and approval. However, this process coincided in October 2022 with the local councilors' recess, and it was therefore the standing committees of the local governments that reviewed, approved, and passed on the budgets to the state Interior Ministry, which then submitted them to the state Finance Ministry. This ministry combines all the budgets of the different local governments and produces an aggregate budget. It then forwards this to the state legislature for approval.<sup>10</sup> In case a local government has no local council (such as in Galkacyo, Garowe, and Bosaso where the state president has temporarily dissolved these), the executive committee of the local governments takes charge.<sup>11</sup>

Revenue officials in Puntland local governments reported that their respective budgets have been increasing year after year. One notable example is Garowe, which experienced an increase of roughly USD 3 million in the 2022 budget. Its budget in 2021 was USD 8.5 million while in 2022 it was USD 11.5 million.

#	Local government	Approximate Budget (in USD Million)	Year
1	Garowe	11.5	2022
2	Qardho	1.5	2022
3	Galkacyo	1.3	2022

Table 1.1: This shows the annual budget for the 2022 fiscal year of the study locations in Puntland State of Somalia

In contrast, Galmudug local governments and BRA don't have annual budgets and this obvious discrepancy reflects the fact that Puntland local governments do collect (albeit limited) taxes that can be calculated for an annual budget. The difference can also be partly explained by the fact that Puntland local governments have JPLG and SURP II projects being implemented in their jurisdictions and the funds allocated to be implemented in these local governments are accounted for in the local governments' budget.

### Financial systems for local governments

Notwithstanding the limited revenue-raising powers, Puntland local governments are the only local governments that use a Financial Management Information System (FMIS) in contrast to Galmudug's incipient local governments/district administrations and BRA district administrations. The system is now being used by Puntland's four major local governments: Galkacyo (north), Garowe, Qardho, and Bosaso. It was first introduced in Garowe local government in 2019 and later in other three local governments in 2021 owing, mainly, to the weak commitment of the concerned mayors.<sup>12</sup> Local governments in Puntland utilize this system for collection of the meager taxes they raise and recording local expenditure.<sup>13</sup>

The implementation of the FMIS system has been not a straightforward task. Rather it faced challenges from the local government revenue collectors because they were accustomed to using printed receipts and books for collecting revenues, which helped them to "steal money" from taxpayers.<sup>14</sup>

Thus, to enforce the use of the system for tax collection, Garowe's mayor at the time, Ahmed Saeed Muse (Ahmed Barre), maintained a "no FMIS, no payment" position. He said to the tax collectors: "If you don't collect the tax through this system, you shouldn't expect to receive your salary". This motivated the enforcement of the system for local government revenue collection in Garowe.<sup>15</sup> The use of the FMIS minimized the diversion of taxpayers' money by tax collectors as they are no longer paying cash to the collector but directly through bank accounts using their convenient mobile money.<sup>16</sup>

The adoption of the financial management information system enhanced financial governance at the local level. It improved the efficient collection of revenues and minimized alleged theft of manually collected revenue. It helped boost the trust of the local people in paying due taxes to the local governments because they believe that these cannot be pocketed by tax collectors as they pay electronically through their mobile money accounts.

### Fiscal transfers

FMSs don't only withhold domestic revenue from the FGS, but they also do so vis-a-vis local governments, as this study found in Puntland, Galmudug, and BRA. Puntland local government Law No.7 sets out in its article 75(1) that local government receives three kinds of fiscal support: conditional fiscal transfers earmarked to fund projects in local governments; transfers allocated to implement decentralization and service delivery; and finally transfers appropriated particularly to undeveloped districts to equalize them with other districts. In interviews with three Puntland local government mayors and deputy mayors (Garowe, Galkacyo North, and Qardho) all concurred that they do not receive any fiscal transfers allocated from the revenues that the state collects from its territory. On the other hand, they noted that the state (Puntland) contributes to the projects implemented in local governments with certain allocations.

Though the Puntland state government doesn't currently pay fiscal transfers to local governments, four major local governments in Puntland (Bosaso, Galkacyo, Garowe, and Qardho) used to have a 5% budget allocation in the state budget. However, the percentage allocation was decreased to 3% during Abdirahman Farole's term (8 January 2009 – 8 January 2014). When Abdiweli Ali Gas came to office in January 2014, he further cut the percentage to 2.5% and later removed it altogether.<sup>17</sup> Meanwhile, Garowe's local government protests that it doesn't receive a percentage allocation in the state budget appropriated to Garowe's local government because it is the capital seat of Puntland State where the FMS administration is based.<sup>18</sup>

However, during our fieldwork in Puntland, there were ongoing discussions in Garowe about the launch of a Puntland local government development fund. The purpose of this was to do away with the JPLG project, which supports infrastructure projects in some of Puntland's local governments. For this to be realized, resources intended for local governments' development would be mobilized through this fund, and the state government would funnel its fiscal transfers to the local governments. However, details of how much each local government will be allocated from the fund are yet to be deliberated on as the idea was at its early developmental stage.<sup>19</sup>

Similar to Puntland, Galmudug state doesn't provide any fiscal transfers to its local governments. However, its local government Law No.4 does not even mention fiscal transfers let alone specify the kinds of transfers that local governments are to expect. This gap in the law is inconsistent with the nature of the fiscal arrangement in the federal settings and in comparison with other FMS' local governments, specifically its neighbor Puntland's local government Law No.7, which legally recognizes and establishes this provision. Thus, this limitation needs to be remedied by amending the law to include the right of the local governments – albeit proportionally smaller – to receive fiscal transfers from the revenues collected from within the state and received from the federal level.

In the BRA, the district does not receive any form of fiscal transfer from the regional administration. District administrations are in a worse situation compared to other FMSs because they don't collect any type of taxes at all in their districts. It is only BRA agents in the districts that do so. Thus, they are not able to pay water and electricity bills. A district commissioner lamented that utility bills are sometimes overdue for months and sometimes years, resulting in utility companies cutting off the services from the district in the daily routine.<sup>20</sup> However, he further noted that while Thabit Abdi Mohamed, former governor and mayor of BRA (15 April 2017 – 21 January 2018) was in office, he allocated USD 4,000 for each district administration, to cover the running costs. This, however, was ended by his successor.<sup>21</sup>

### Accountability mechanisms at local governments

Accountability lies at the bottom of the list of priorities and issues of concern at local-level governments and/or district administrations where state-level governments retain and administer revenue generation and services that should fall within the scope of local governments' powers and responsibilities. Local government officials argue that they are powerless and don't have anything to actually account for.

The study found that only Puntland local governments have purported rudimentary accountability mechanisms. Local governments in Galmudug and BRA districts have no accountability mechanisms whatsoever. Local government officials in Puntland who were interviewed for this study listed a number of the mechanisms that their local governments have and these include the aforementioned Financial Management Information System (FMIS), an annual budget, an annual financial account closing, and an internal audit.

The Financial Management Information System (FMIS) was introduced in 2019 in Puntland's local governments, specifically to

four major districts namely Garowe, Bosaso, Galkacyo (north), and Qardho. But Garowe local government was the first local government to adopt this system for collecting revenues and disbursing expenditures while other three local governments adopted it in 2021. Local authorities concurred that the adoption of the system increased local governments' revenues and limited the corruption that previously sapped revenues.<sup>22</sup>

Likewise, local governments in Puntland have internal auditors from the state government. The internal audit inspects the revenue and expenditure of the local government quarterly. Also, it ensures the accuracy of the revenue departments' collection. The audit team goes to the business centers where revenue departments collect taxes to ensure that the collected taxes and the receipts match.<sup>23</sup> At the end of the year, the state Auditor General's Office goes to local governments and checks that their internal audit has been conducted accordingly; the Auditor General's Office relies on this.<sup>24</sup> Besides this, local governments post their approved budgets on the walls of local government offices where people can observe them. Next to the budget, they also post the sources of revenue. The researchers saw these posts in Galkacyo (north), Garowe, and Qardho.

In contrast, Galmudug and the BRA have no accountability mechanism whatsoever, at local government and district levels. Again, this is because local governments in Galmudug are more powerless than in Puntland (which collect taxes albeit at a much lower level than the law permits them). BRA district administrations don't collect any taxes at all. Under this scenario, local governments in Galmudug and Benadir tend not to be accountable to their people as accountability is tied to resource mobilization.

### Obstacles to fiscal decentralization

Local governments face the following three formidable obstacles that limit them from becoming relevant entities in their environments:

**Lack of political commitment toward decentralization:** Respective Finance Ministries of FMSs collect taxes that should be collected by local governments. Local people who were interviewed for this study argued that the reason why ministries are adamant about maintaining these functions is that the responsibilities that were to be decentralized represent significant revenue sources for state ministries. Thus, they are reluctant to decentralize for fear of being deprived of these resources and subsequently becoming idle.

**Lack of/limited revenue mobilization:** The centralization of the fiscal powers in the hands of the state governments has shackled the hands of the local governments and has often reduced them to just nominal structures in their domains. The perpetuation of this situation has derailed the translation of local government structures and decentralization promises into a reality, and this still continues. Decentralization was adopted in Puntland in 2009 and since that time local governments don't exercise fiscal and service delivery powers that the local government law renders. Equally, in Galmudug where the local governments were recently formed in contrast to Puntland, the state government centralizes all revenue generation and service delivery. Difficulties and weaknesses in the local governments will continue unless state governments decentralize fiscal and service delivery powers and responsibilities to local authorities.

**Lack of fiscal transfers:** State governments not only reserve fiscal and service delivery powers to themselves but strikingly they don't give any portion of the domestically generated revenue back to local governments. Why, then, do FMS governments form local governments if they don't allow them to collect their legally permitted revenue and fulfill their service delivery powers in their respective domains, or at least allocate a percentage of the revenues raised from the state to fund local services? Unfortunately, FMS governments strongly lobby for fiscal transfers, and some demand disproportionate allocations with respect to their peers but avoid sharing those fiscal transfers and domestic revenue with their local governments.



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## Conclusion

The current trend of the fiscal arrangement seems more centralized at the federal and state level whereby each level of government collects revenues in its respective jurisdiction and retains this for itself without sharing anything with other levels of government. The federal government only has to transfer donor grants and revenues from fisheries with all of the FMSs in a systematic fashion. Despite this, the FGS and FMSs (except Puntland) have reached an agreement on fiscal federalism, which allocates fiscal powers to local government. This is pending parliamentary deliberation and approval but could then be incorporated into the constitution. Nevertheless, local governments remain the immediate victims of the current lack of fiscal decentralization and this favors the FMSs' maintenance of their unrivaled powers - fiscal and service related - over local governments. The lack of fiscal decentralization represents an impediment to transforming local governments from nominal to functioning structures that deliver their intended responsibilities to their populations.

## Policy considerations

**Allocate fiscal transfers to local governments:** state governments should provide percentage fiscal transfer allocations from both their domestically raised revenue and transfers from the federal government to local governments, which hitherto have not received a share of these resources. Unless local governments are permitted to collect revenue in accordance with respective local governments' laws or are provided with fiscal transfers, local government structures will have little value to local people who ask for immediate attention to their needs.

**Decentralization-supporting organizations should attach pre-conditions to their involvement at the local level:** Decentralization-supporting organizations are indispensable third-party actors in decentralization. Projects that are implemented in various local governments, mostly in Puntland, are primarily funded and implemented by the UN JPLG for local-level decentralization. These organizations should be serious about pushing for meaningful decentralization to local governments they have supported by attaching conditions to implementing further projects that involve taking practical steps towards this goal. These organizations have the power to leverage the FMS governments as they hold the purse strings of funds for local government projects.

**Set timelines and action plans for fiscal and service decentralization:** state governments, like Puntland, where decentralization has existed on paper for over a decade, can no longer afford to continue to hold on to fiscal and service delivery powers of local government under the guise of the latter's limited capacity to handle these responsibilities. Instead, state governments should set and declare a deadline for when they hand over responsibilities to local governments for revenue generation and service delivery. Also, state governments should in parallel work to create enabling conditions to decentralize power to local governments such as providing the required know-how. Unspecified decentralization and rhetorical promises will discourage citizens' belief in the merits of local governance structures. International donors supporting state-building may also wish to consider making future aid to Somalia partially contingent on FMS' willingness to transfer a proportion of resources to the local level.

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