



Challenges and Prospects of Local Revenue Generation in Adaado District

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- » **Revenue Generation in Adaado is Operational but Limited:** Out of twelve potential revenue streams, only nine are currently active, with estimated annual revenues between \$140,000 and \$150,000—much of which is spent on salaries and operational expenses, leaving minimal funds for development.
- » **Religious Misconceptions and Trust Deficits Undermine Compliance:** Negative perceptions of taxation—often framed as "Haram"—combined with mistrust in government accountability, significantly hinder local revenue collection efforts.
- » **Legal and Institutional Frameworks are Incomplete:** Absence of clear guidelines on exemptions, non-enforcement of key taxes (property, water, and electricity), and resistance from utility providers weaken the broader tax infrastructure.
- » **Strengthening Accountability and Engagement is Essential:** Improving transparency, engaging business communities and civil society, and enforcing proper accountability mechanisms are critical to enhancing revenue collection and restoring trust in Adaado's local government.

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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Introduction

Adaado was officially recognized as a district in 1978 during the military regime led by Siad Barre. It was the first local government in the current Galmudug State to re-establish itself after the civil war, initially under the Ximan iyo Xeeb administration, and later as the seat of the newly established Galmudug State in 2015. Despite numerous challenges, Adaado has maintained its local government structure, securing a second term after surviving political upheavals that fragmented regional authority.

The district's economic activity primarily centers on livestock, local transport, trade, and services offered through its airport, roads, and local businesses. However, challenges such as droughts, climate change, recurrent clan conflicts, and limited revenue generation have hindered service delivery. The effectiveness of revenue collection in local governance is thus intricately linked to socio-economic and political dynamics. In the meantime, the Adaado local government faces operational challenges such as technological reliability and stakeholder acceptance.

This brief explores revenue generation, the sources of revenue, and challenges around Adaado local government's revenue efforts. The brief draws on data collected from 10 key informant interviews in Adaado, which include local businesspeople, district councilors, civil society members, and staff from the Administration and Finance Department of the Adaado local government.

Legal and Institutional Framework for Revenue Collection

Since its establishment in August 2022, the Adaado District Council (DC) has worked to establish a legal framework for local government revenue. As one Adaado DC member revealed, the Adaado Tax and Revenue Collection Act began with executive proposals from the local government, followed by council discussions and legislative approval in August 2023. Once endorsed, detailed procedures were established to guide the administration and finance department in implementing the process. This is supported by a digital system managed by an information and communication technology (ICT) partner called Tabaarak ICT Solutions, which designated merchant numbers assigned to specific areas.

As an officer from the Administration and Finance Department mentioned, local businesspeople initially expressed concerns

and had a negative perception toward taxes, often framing them as *Haram* (“forbidden”) due to misinterpretations of religion and skepticism about the expenditure of public funds. To address these issues, the local government created a mediatory body—the Adaado Business Committee—to serve as a bridge between local authorities and the Adaado business community, fostering open dialogue about tax grades, promoting effective accountability to the local government, and building trust. With the assistance of this body, a local government official

stated that the taxes were reduced by 50%, and the name was reframed from “Tax Act” to “Charges Act” (*Xeerka Khidmada*), although local businesspeople have questioned this claim.

The Sources of Adaado Revenue

Adaado has twelve revenue generation streams, collected either daily, monthly, or yearly tax. Nine of these are currently operational while three are inactive due to administrative challenges. The following table illustrates the operational revenue streams:

Table 1: Active Revenue Streams in Adaado

S/No	Revenue Category	Rate	Estimated Revenue
1	Business & Market Taxes	Varies	\$6,350 total
2	Loading & Unloading Taxes	Various	\$151.3/heavy goods vehicle
3	ID Card Revenue	Fixed	\$70
4	Building Permits	\$10–\$150 per property	Varies
5	Road & Vehicle Taxes	\$5–\$20	\$340
6	Livestock & Slaughter Taxes	\$0.50–\$10	Varies
7	Bus Station & Vehicle Taxes	\$1–\$10 per unit	Varies
8	Land Titles	\$10–\$150 per property	Varies
9	Small Business (Vendors) Taxes	\$0.75 per vendor	~\$8,130/year

Adaado’s estimated annual tax revenue ranges from \$140,000 to \$150,000, with reported monthly revenue of around \$8,000–9,000 from daily taxes collected in the Adaado market, livestock market, and from loading/unloading activities. There is also approximately \$36,000 in annual revenue from licenses, fines, and penalties.

Table 2: Inactive Revenue Streams

S/No	Category	Rate	Estimated Revenue
1	Electricity Charges	\$0.5 per house	No revenue
2	Water Charges	\$0.5 per house	No revenue
3	Property Tax	1.5% transfer	No revenue

In the meantime, however, there are various potential revenue streams which are currently inactive. The property tax, though currently inactive, presents a promising future revenue opportunity for Adaado,

with a 1.5% tax on land ownership transfers based on property values. Additionally, utility charges are set at \$0.5 per household per month for both electricity and water. However, they are not currently enforced. Similarly, the actual revenue from fines depends heavily on enforcement, which is currently inconsistent and does not align with expected figures. Yet, enforcement remains essential for supporting governance and development.

As per expenditure, the local government’s salary expenses are reported to be about \$5,000 per month (\$60,000 annually), constituting a significant portion of the revenue. Respondents, however, highlighted an inconsistency between past and current allocations.

Challenges of Adaado Local Government Revenue Collection

The challenges facing Adaado’s revenue collection efforts are numerous and include, lack of transparency and accountability, and systemic weaknesses within the legal framework. These challenges, along with limited community engagement and insufficient

benefits returned to the Adaado population, hinder the effectiveness of revenue collection. Additionally, the perceived bias of the Adaado Business Committee toward the local government further undermines trust and cooperation.

In the meantime, there are indications of mistrust by members of the public towards the administration. For instance, one civil society representative in Adaado accused DC officials of misusing funds, undermining trust and accountability.

Religious Beliefs and Perceptions: The endorsement of the Adaado Local Government Taxation Act has become complex due to misconceptions surrounding religious beliefs, frequently referring to taxes as “Haram” (forbidden). This has led to extended delays in the acceptance of tax reforms. The local business community views these actions as a form of extortion, prompting the local government to rename the Tax Act to Charges Act to mitigate religious-related objections. Despite this rebranding, these issues remain one of the primary barriers to revenue collection. The negative perception among the local businesspeople has hindered full engagement in the taxation and revenue-generation frameworks.

The Tax Revenue Collection System: The private ICT provider, Tabaarak ICT Solutions, which retains a 10% commission on all transactions, designed Adaado’s tax collection system. According to the Administration and Finance Department, the digital platform categorizes users into overseers, mandatory, and ordinary users, assigning unique codes to regulate transactions. However, the system faces several issues, including an inability to process transactions under \$5 which effectively excludes smaller vendors, high transaction costs, duplicated business codes, inconsistent tax rates, and occasional failure to recognize prior licenses. These flaws undermine the system’s reliability and trustworthiness among Adaado’s businesspeople.

Legal Framework Challenges: The legal framework attempts to establish uniform tax rates on food supply, construction, and transportation, aiming for progressivity but has often resulted in inconsistencies. Additionally, the expected tax revenue from water, electricity, and property taxes have not yet been implemented, reducing the district’s revenue potential.

Fixed rates also fail to account for the cost of living. For example, the local government requires \$2 from

water tank trucks, regardless of situations like droughts. Utility companies declined to pay the \$0.50 household VAT due to being double taxed by both Galmudug State and the Adaado local government. Similarly, the 1.5% land ownership transfer tax faced public resistance. Fines for issues like gender-based violence are set at USD 300, but ambiguity surrounds the types and severity of offenses.

Vulnerability to Environmental Factors: Adaado’s economy heavily depends on livestock and small businesses, making it highly vulnerable to droughts, climate change, and conflicts. These factors severely reduce livestock and income, resulting in lower tax revenues. As a result, sectors like trade and transportation remain underdeveloped, limiting the district’s overall revenue capacity.

Trust in Local Government: Trust issues surrounding taxes significantly hinder revenue efforts in Adaado. Many business owners feel that the collected taxes do not translate into visible benefits such as improved healthcare, education, sanitation, or infrastructure, leading to skepticism about how public funds are used. This distrust is further fueled by operational challenges within the digital system, including difficulties with low-value transactions, the reluctance of smaller businesses to use merchant accounts, all of which undermine confidence in the revenue collection process. Combined with limited community engagement and transparency, these issues deepen the trust deficit and reduce community participation.

As one businessperson mentioned, “a key contributor to this mistrust is the perception of favoritism within the Adaado Business Committee, which is supposed to oversee council governance and mediate miscalculations.” Concerns persist that the committee director, a member of the Adaado local council, leans more toward supporting government interests than representing business needs. The involvement of government officials and the lack of clear accountability and impartiality have further led to perceptions of opacity, discouraging cooperation. Addressing these trust gaps through greater transparency, unbiased oversight, and inclusive engagement is essential.

Accountability and Transparency: Although Adaado’s local government relies on nine revenue streams, limited mobilization efforts and misunderstandings about fund usage have led to low cooperation from

businesspeople. Despite their contributions to the local economy, concerns over transparency and accountability persist, as many community members doubt how tax revenues are allocated.

A noteworthy issue undermining trust is the lack of transparency in revenue expenditure, with business people perceiving poor financial management and limited engagement with the Adaado local government executive to raise these concerns. This distrust is worsened by the perception that the Business Committee, meant to act as an impartial mediator, has failed in its role. The failure of local councilors and the executive to promote open dialogue, coupled with the executive's lack of serious interest in accountability regarding revenue use, has undermined public trust and made transparency efforts more difficult. Consequently, this derails cooperation and effective governance, delaying community development efforts in Adaado.

Conclusion

This brief presented several key challenges to Adaado's revenue collection, including negative perceptions of taxes, an inefficient tax system, limited community engagement, and issues related to religious interpretations. These issues are further exacerbated by lack of service delivery and perceived partiality within the Adaado Business Committee. Despite a monthly budget of about \$8,000 to 9,000—primarily spent on salaries—and estimated annual revenues of \$140,000 to \$150,000 from taxes, fines, and licenses, there is significant revenue potential if better enforcement efforts are made. Proper management, increased engagement with the local people to increase the awareness, and better allocation of resources could greatly enhance revenue collection, supporting Adaado's development and strengthening local governance.

Policy Considerations

- **Operationalize Inactive Revenue Streams:** The Adaado local government should make efforts to operationalize inactive revenue streams from property taxes, water, and electricity charges. To this end, it should review the existing legal frameworks to adapt them to the conditions in the district. Likewise, it should raise awareness among the local people on these issues and seek their collaboration. Further, the local government should also try to get the system to work to get the payments from small vendors.
- **Enhance Efficiency and Foster Community Engagement:** To enhance efficiency and reduce costs, the local government should review and streamline payroll and administrative expenses, explore outsourcing of non-core functions, and invest revenues into visible, beneficial services like roads, markets, education, and healthcare, thereby fostering trust and encouraging compliance.
- **Strengthen Accountability and Capacity Building:** The Adaado local government should implement accountability mechanisms that include independent audits and a reporting mechanism for irregularities, focusing on the Adaado local government executive. Organizing capacity building workshops for the Adaado local government will also strengthen the capacity of local councilors, ensuring informed decision-making regarding taxation policies and governance.



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This governance brief is the second in a series of District Council-driven research publications under our EU-funded project, Increased Opportunities for Somali Citizens' Scrutiny of Fiscal and Financial Governance, which examines critical issues related to fiscal governance and federalism at the district level. The topics explored in this series are identified through close collaboration with District Council members, and Civil Society Organizations' (CSOs) representatives during workshops held in Bosaso, Adado, and Jowhar on a quarterly basis, ensuring the research remains grounded in local governance realities.