REFORMING THE TAX SYSTEM OF THE FEDERAL GOVERNMENT OF SOMALIA

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Abstract

Domestic revenue mobilization is a high priority for the Federal Government of Somalia. Homegrown revenue offers a promising and sustainable financing option. Building the capacity to raise revenue through taxes is particularly important in Somalia, as it reduces dependence on aid and helps to finance the provision of public goods and services. At the same time, it strengthens the social contract between the state and citizens, and can fortify intra-societal relationships. Somalia has recently made a number of fiscal reforms in agreement with the International Monetary Fund (IMF). In addition to that, the Somalian government has adopted many revenue reforms in the last two to three years. This study investigates the status of the Federal Government of Somalia's reforms; that is, its achievements and the outcomes of these reforms. Successfully implemented tax reforms have included the adoption of new tax policy measures, revenue law updates, and revenue administration improvements. These reforms have been fruitful, resulting in an increase in government revenue, simplified tax collection processes based on a self-assessment approach, increased efficiency of operations through automation, and significant contributions being made to state-building. The study recommends that the Somali authorities further develop policies related to the expansion of tax bases in states and build tax relations with federal member states more effectively through fiscal federalism discussions. This will contribute to the efforts being made to mobilize domestic resources beyond the capital city.

1. INTRODUCTION

A tax is a mandatory charge or another type of levy imposed upon a taxpayer (an individual or another legal entity) by a governmental organization in order to fund various public expenditures, and can be either direct or indirect. Tax administration is the management, direction, and supervision of the execution and application of a government, country, or state's taxation laws and related statutes.

The legal taxation history of Somalia began in the colonial era, with Italy and Britain taxing the northern and southern regions of the country differently. Most of the tax laws they introduced are now outdated and either need to be amended or replaced with new ones so that modern features can be included. In addition, under the military regime of Siad Barre, the economy was under the command and control of the state, and there were fewer private sector companies in certain sectors. The situation continued in same way until 1991, when the Somali Civil War broke out.

From 2000 until 2011, there were governments that tried to introduce some taxes and duties, such as customs duty, but they found it difficult to administer these, as they were transitional and their powers were limited. Before 2012, the Federal Government of Somalia faced multiple constraints, including a lack of resources with which to provide much-needed public

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goods and services. The government's ability to raise revenue was weak due to: its application of old and unsuitable taxes; a lack of modern tax law, procedures and ICT equipment; and a lack of properly trained, disciplined staff. Other challenges faced by Somalia after its transitional governments, as found by Isak (2018), include: an inability to deal with members of "Hard-to-Tax" sectors; poor administrative capacity; insecurity and political instability; the incomplete transition to the federal system; outdated laws and poor enforcement of those laws; and sustained customs-related problems.

The Federal Government of Somalia wishes to increase revenue by (1) increasing the tax base, (2) adjusting the tax rates, and (3) harmonization. The government is committed to adopting a reform program aimed at restructuring and justifying its policies and procedures for trade in Mogadishu, and then the whole country, through expanding its fiscal power to the states. The government has tried to face these challenges, and made substantial efforts to reform the tax administration and its systems. In this paper, we discuss some of the reforms that Somalia has implemented in order to improve its tax system and the positive outcomes that these reforms have had.

This brief paper presents three aspects of the Federal Government of Somalia's recent revenue reforms: policy changes, legal improvements, and administrative updates. Currently, the federal government's tax base only comprises Mogadishu, the capital city: all other states collect taxes in their own way and tax harmonization is still a work in progress. As a result of this, the paper only focuses on the federal government's current territory, i.e., the Mogadishu/Benadir region.

2. BACKGROUND

A tax is a mandatory charge or another type of levy imposed upon a taxpayer (an individual or another legal entity) by a governmental organization in order to fund various public expenditures. Taxes consist of direct or indirect taxes. Tax administration is the management, direction, and supervision of the execution and application of a government, country, or state's taxation laws and related statutes.

A tax system is a legal system for assessing, collecting, managing, and regulating taxes. A tax itself can be defined as a taxpayer's (an individual or another legal entity's) obligatory contribution to the government, and this contribution is used by the government to finance its activities. Tax administration is one of a government's key responsibilities, and involves the collection of different taxes and the implementation of different tax laws through interaction with taxpayers. According to Hussein (2017), if a tax administration system is functioning well, the tax system performs better and makes a significant contribution to the government's budget. Although Somalia faces many challenges, it has still made significant improvements to its tax administration system. However, these changes have not improved the administration to the level required.

Tax reform is the process of changing the way in which taxes are collected or managed by the government so as to improve the tax administration process. According to Granger (2013), tax reform is commonly carried out to improve the efficiency and effectiveness of tax administrations, and to maximize the economic and social benefits that can be achieved through a tax system. Tax reform can include simplifying the tax system and making it more understandable or accountable. The need to increase revenue is obvious in countries with significant budget deficits and short-term revenue pressure can lead governments to make changes that are counterproductive in the long run. The goal of tax reforms was perceived to be simply to raise tax rates in order to increase revenue with the goal of efficiency (Gray, 1989). In Somalia, the reforms implemented have been characterized by the huge challenges that they have posed and the fact that they are costing more than would usually be expected. These tax reforms should change most or all of the key operations undertaken by the administration and may not be liked by some taxpayers. For instance, the customs reform project was challenged by traders and the Somali Chamber of Commerce and Industry (SCCI) when they realized that the reforms would mean that a sales tax must be made at the port in respect of imported goods. They argued that the sales tax should be paid by the end consumer of the goods rather than the traders. However, the government insisted that it must be collected at the port (1) as a result of a cost benefit analysis of collecting sales tax at the port or at the market, (2) because the revenue departments argued that some of the goods are directly transported to regions outside of Mogadishu and those destination states do not collect sales taxes, and (3) as an enforcement mechanism because the regulations can be enforced in the ports more easily than in the markets.

With the adoption of the Sustainable Development Goals (SDGs), taxation has once again taken a central spot on the international development agenda. To fund these ambitious goals, the international community is not only calling on private capital to step in, but also on governments in developing countries to increase their domestic resource mobilization through tax system reforms and, in particular, tax administration (United Nations [UN], 2015). Looking back, the 1970s can be understood as a period in which theory had a significant impact on the design of tax reform in the tax administration and the tax system in general, and prominent British economists, such as Atkinson, Mirrlees, and, of course, Meade, were associated with this (Blundell, 1996). The reform of the tax administration and its system has long been of concern to those related to developing countries but, as discussed by Cummins et al. (1996), major tax reforms took place in many developed countries during the 1980s. If a government persists in reforming the tax administration and other systems in the country, it will contribute to the timely collection of sufficient revenue through the enforcement of tax law. A government, therefore, provides public goods and services, delivers them to the citizens, and then intervenes to balance the country’s economy.

In developing countries, tax administration reforms are required due to the poor functionality of the government, and every country needs to generate enough revenue. Most African countries have revenue administrations, but these do not function well enough to produce enough revenue to finance government expenditure (Bird, 2015) and, as a result, these nations struggle to mobilize and reform their fiscal revenue systems. Somalia is one of the fragile countries having to reform its systems, in its case due to its system’s poor functionality as a result of its devastating civil war.

Furthermore, according to Bahl and Bird (2008), the average tax share in industrialized countries has increased from 30 percent to about 35 percent during the course of the last three decades because of tax reform. In developing countries, however, the tax share of output increased only slightly. Indeed, since the 1980s, their tax shares have been almost constant, representing a remarkable slowdown. Developing countries’ individual problems and the trade liberalization which took place towards the end of the 20th century were obviously driving forces behind tax reform in these nations, as were the widespread adoption of Value Added Tax (VAT) and the continuing improvement of their administrations.

Table 1: Domestic Revenue to GDP ratio for Selected Countries

Country	***2015***	***2016***	***2017***	***2018***
Federal Government of Somalia (States Excluded)	1.7	1.6	2.0	2.5
Democratic Republic of the Congo	13.6	9.2	8.5	9.3
Afghanistan	10.0	11.2	12.3	12.3
Kenya	18.7	18.4	18.2	18.4
Uganda	13.5	13.9	14.4	14.8

Source: IMF and the World Bank

According to the table above and other sources, such as Isak (2018), Somalia has the lowest domestic revenue to the gross domestic product (GDP) ratio in the world. Afghanistan and the Democratic Republic of the Congo are fragile countries, and are in similar situations to Somalia, while Kenya and Uganda are neighbors. Somalia needs to mobilize its domestic resources in order to increase its revenue to GDP ratio. The Federal Government of Somalia recognizes that it's not fair to compare Mogadishu based revenue with the national GDP, but this comparison could be soon be confirmed with consolidated fiscal data, putting Somalia's ratio at more than 2.5%.

African countries, including Somalia, face several challenges relating to accountability and transparency within their tax systems, tax policies, and tax administrations, and when implementing and enforcing tax laws, and engaging in public dialogue in order to satisfy their taxpayers. However, as mentioned by Yusuf (2017), the combination of an extensive decline in development and a weakened macroeconomic situation in Africa is driving governments throughout the continent to seek alternative means of increasing their income and reforming their tax systems. States that have formerly focused entirely on obtaining revenues from natural resources are now strengthening their tax laws to improve compliance. They recognize that taxation is at the heart of growth and development, and that it will provide the funds they need to build infrastructure, for example, in future. A possible alternative method for achieving fiscal sustainability is to generate continually increasing tax revenues, but accomplishing this is not an easy task. If governments get it right, the increased tax revenue will not only enable them to build infrastructure but will also pave the way for market reforms that would promote progressive economic and social policies.

In Somalia, taxation started during the colonial era, and Somalia's tax and financial laws were inherited from the Italian and British colonial administrations in place a century ago. Therefore, these tax laws have become outdated. In addition, during the military regime of Siad Barre, the economy was under the command and control of the state. There were about 30 public sector enterprises that were inefficient, putting strain on government treasury. The state system was extracting resources from the private economy without reinvesting and that led to the breakdown of the economy. Under the military regime, Somalia had a planned economy where private enterprise played an insignificant role. The government did not encourage private sector development and the public-private sector relationship was volatile. The private sector was neither consulted nor "educated" about tax payments because the government had the power to enforce tax laws without properly engaging with taxpayers.

Businessmen were labeled "capitalist bloodsuckers" and perceived to be plotting against the socialist regime. The Somali business community was composed of Somalis, Italians, Indians, and Arabs, who were law-abiding taxpayers, and conversant with commercial, banking, and tax legislation. During this period, tax collection was easy, as people paid tax readily and voluntarily, either by cash or by check, as commercial laws and financial laws were respected and enforced. Government tax and non-tax revenues were predictable even though the ratio of tax to GDP was lower in Somalia than in the region's other states. The civil war then broke out, continuing for many years, and there was no tax system in Somalia during that period. However, after the establishment of a federal system of governance within the country, the Ministry of Finance developed a short to medium-term revenue strategy, which explains the list of required tax reforms in 2017, 2018, and so on (Randa, Ngumbau, Carey, Abdullahi, Scek, Karni, & Lubisia, 2017).

Somalia, like other African countries, faces multiple constraints, including a lack of resources with which to provide much-needed public goods and services. The government's ability to raise revenue is weak due to its application of unsuitable, old tax systems, and its lack of modern tax laws, procedures and ICT equipment. As discussed by Isak (2018), some of the challenges that Somalia faces are dealing with "Hard-to-Tax" sectors, poor administrative capacity, insecurity and political instability, the incomplete transition to the federal system, outdated laws and the poor enforcement of those laws, and customs-related problems.

The Federal Government of Somalia wishes to increase tax revenue. It has committed to the adoption of a reform program, with the aim of rearranging and justifying its policies and processing procedures in respect of trade, firstly in Mogadishu and then the rest of the country. It has been trying to resolve its issues and is making significant efforts to reform its tax administration and its taxation system. In addition, the Ministry of Finance has developed a short to medium-term revenue strategy which includes the tax reform packages introduced in 2017 and 2018. Despite the challenges that it has faced and the difficult conditions in which it is working, the government has continued to implement this strategy, and this has resulted in better revenue collection results.

Data gathering for this study was achieved through observation. As the authors are Ministry of Finance staff members, they had the opportunity to observe the Federal Government of Somalia's ongoing tax reforms. The Ministry of Finance began to take revenue reform measures, including policy and legal reforms, and revenue administration improvements, in 2013. The authors have witnessed these reforms and present their findings below. They consider the extent to which tax policy and legislation has been reformed, and improvements have been made to revenue administration, as well as the results of these reforms and improvements.

3. TAX REFORMS AND OUTCOMES

Based on the authors' observations, Somalia has successfully implemented some reforms in regard to its tax systems and these reforms have had positive impacts, making significant contributions to the government's revenue and to the governance system in general.

3.1 Reforms

Successfully implemented reforms have included (1) the adoption of new tax policy measures, (2) the updating of tax laws by either amending them or drafting new ones, and (3) the introduction of revenue administration improvements.

3.1.1 Tax/Customs Policy Reforms

In order to resolve tax policy issues, Somalia's Ministry of Finance developed new instruments designed to raise government revenue simply and as soon as possible. These instruments consisted of two types: taxes and customs charges.

The tax measures implemented included the reintroduction of sales tax and the broadening of the income tax base. This was the first time that sales tax had been collected since the civil war began in 1991. It was imposed on goods and services within the telecommunications, transport and hospitality sectors, and other industries. The government also ruled that sales tax on the imported goods must be paid by traders. Originally, this tax was supposed to be paid by the end consumer of the goods, but the government altered this in order to reduce administrative costs and increase enforceability in view of the ongoing security challenges that the country faced. In respect of income tax, the Ministry of Finance broadened the base within both the private sector, with regard to personal income tax for employees and corporate income tax, and non-profit organizations, with regard to employees' income taxes. This is a good example of broadening tax base throughout a country.

On the customs side, increased sin tax rates were adopted by all levels of the government. The items affected by this included khat, tobacco, and cigarettes, drugs imported in large volumes.

As well as increasing revenue, these tax and customs policies had other purposes. These included the improvement of the application of existing tax laws, the reduction of the informality of the process by requiring businesses to register with the tax authority, and tackling the massive levels of drug consumption by young Somalis by lowering demand through the use of tax instruments.

In addition, the need for states to commence sales tax collections as soon as possible while keeping their existing revenue sources secure was raised at the intergovernmental fiscal forum meetings that took place. It was also agreed that all regions of Somalia should have a common customs procedure going forward. However, at present, there is no single, national tax/customs policy in place, and most critical issues are still unresolved and under discussion. A framework for this matter would explain the layout of the tax powers and answer tax assignment questions for the federal, state and local governments.

3.1.2 Legal Reforms

Some legislation in Somalia dates back to the colonial era, with British and Italian rulers having created it in the pre-independence period. Other regulations were based on the premise that a unitary government with absolute power over the nation was in place and made socialist assumptions, such as presuming that privatization plays a limited or no role, and that most businesses are run by state-owned enterprises (SOEs). However, everything has changed, and Somalia is now a federal republic, not a unitary one, with a free market economy rather than a socialist one. Privatization has been increasing and there has been a wide range of technological advances, as well as social and trade changes, and there are is legal provision for these modern indicators in the existing regulations.

Since 2012, when it was fully recognized, the Federal Government of Somalia – in particular, the Ministry of Finance – has been struggling to cover the legal gaps relating to revenue collection. The recent legal reforms were introduced in several stages. Firstly, the Ministry of

Finance started to reimplement and reapply the existing tax laws, which had been enacted before the civil war. These included pre-independence laws, such as the Registration Tax Law of 1921, and post-independence laws like Customs Law of 1961, the Income Tax Law of 1966, and the Sales Tax Law of 1984.

Secondly, the cabinet started issuing ministerial orders and regulations to cover some of legal gaps relating to tax collection which were not provided for in the existing laws. These ministerial orders were issued with the aim of legalizing some taxable areas and adjusting a few of the tax rates applied to certain goods and services. The cabinet did this for two reasons. The first was that it takes a long time to take full laws thorough parliament and this would not suit the government's urgent need for revenue. The second was that some federal member states were at the formation stage and only negotiating with a few other states. The constitution encourages discussions among different tiers of government leading to full agreement on federalism.

Finally, while these amendment efforts were ongoing, the ministry drafted new revenue administration and allocation bills, and altered customs laws. All of these bills and laws were submitted to Parliament after receiving cabinet approval. The revenue administration bill explains the management procedures, while the allocation bill explains the revenue-raising power that different levels of governments have. The amended customs law has some new features, including a modern classification of goods. In addition, the Ministry of Finance is consulting with the Ministry of Petroleum and Mineral Resources in order to draft a new law for a fiscal regime for extractive industries, i.e., the taxation of any process that involves the extraction of raw materials. Examples of extractive processes include oil and gas extraction, mining, dredging, and quarrying. This law will help the government of Somalia to manage its natural resource taxes to ensure it contributes to economic growth and the reduction of poverty.

The existing laws are characterized by the use of old administration methods, a traditional tax system, and weak enforcement mechanisms. Although some gaps have been covered by ministerial orders and regulations, Somalia still requires fully-fledged tax regulations which address current and potential tax issues. The ministerial orders being undertaken cannot serve as the final legal reference point for revenue rules and regulations but will instead cover the existing gap until the bills currently with parliament can be enacted. In the near future, we will see how far Somalia's revenue laws can help to increase the amount of revenue available to fund the government's increasing security operations and operational costs, and the delivery of public goods and services in a transparent manner.

3.1.3 Revenue Administration Improvements

The Federal Government of Somalia has made some important changes to its revenue administration systems. First, the ministry has established a specialized office for large and medium-sized taxpayers. The duty of the Large and Medium Taxpayers Office (LMTO) is to focus on activities by large and medium-scale business entities in Mogadishu and to serve them better, while taking the responsibilities of operations management, including assessments, tax collections, compliance tasks, audits, and verifications. They also provide these taxpayers with relevant information and advice, and help them to interpret the laws. The high concentration of large taxpayers is a recent phenomenon and if these taxpayers are noncompliant, it can result in the loss of a significant amount of government revenue.

Second, the Federal Government of Somalia introduced unique tax identification numbers (TINs). It began this process in early 2018, with the aim of registering taxpayers and making businesses formal according to the revenue authorities. TINs facilitate the sharing of information among different revenue offices and the efficient use of taxpayers' information. They also eliminate the possibility of taxpayers registering multiple times, increase compliance levels, and widen the tax base by ensuring that all entities, whether they are businesses, non-profit organizations or individuals, are registered.

Third, the Ministry of Finance developed a modern tax collection system. Previously, payments were made by taking cash to the revenue offices, and bank and mobile money payments could not be accepted. The new strategy ends this old way of collection, and taxpayers can – after their tax assessments have been completed – directly deposit money in the Central Bank of Somalia or in designated accounts in the private banks, which are opened and managed collectively by the Ministry of Finance, the Accountant General, and the Central Bank of Somalia. The system also eliminates the cashiers between the taxpayers and the treasury. Making the Central Bank of Somalia the collection point, using the commercial banks, and accepting mobile money payments has helped to speed up the payment process, bringing it in line with modern financial systems. Additionally, it eliminates the need for taxpayers to carry cash in insecure environments and reduces theft opportunities for cashiers.

Fourth, the Ministry of Finance centralized the collections of other government agencies and cancelled several private revenue collection contracts. This is a part of the ministry's strategy to consolidate the administration until all operations come under its full control, and is the starting point in its plans to regain its role as the sole authority responsible for the country's public financial management, both in terms of collecting revenue and spending it through the budget.

Fifth, the ministry automated its key operations by adopting a new systematic way of doing business. The aim, in this case, was to digitize operations and get rid of manual processes. The Somalia Financial Management Information System (SFMIS) was installed at most of the revenue collection points. Preliminary systems were introduced to collect road taxes and registration taxes, while the customs system is connected to the SFMIS. This automation has helped the government to increase revenue in speedy way and capture the information it requires about taxpayers.

Finally, a number of customs administrative improvements were undertaken recently. These developments included: the adoption of a single administrative document for declaring goods imported to and exported from Somalia; the use of a harmonized system of classification; the digitalization of some key operations; and educating traders about the new procedures. The aim of these reforms was to improve customs management by increasing government revenue, facilitating trade, securing ingoing and outgoing goods, and establishing a strong statistical background. The second phase is to extend the reforms to the states and equip their customs offices with good administrative systems.

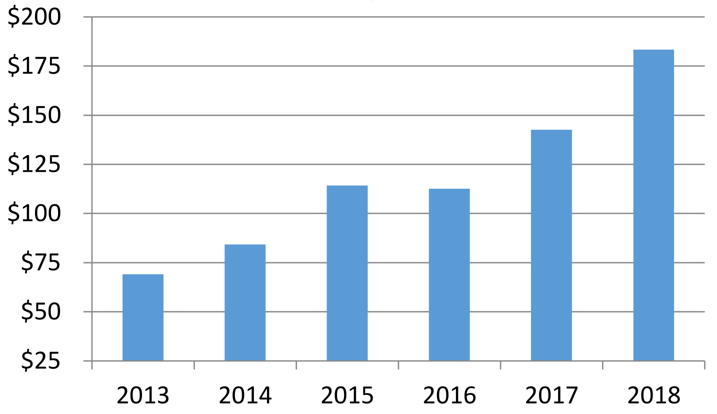
3.2 Reform Outcomes

The reforms have yielded some positive results including: (1) an increase in government revenue; (2) process simplification and a move to self-assessment; (3) increased operational efficiency due to automation; and (4) a contribution being made to state-building. These outcomes are explained in the following paragraphs.

3.2.1 Increase in Government Revenue

The Federal Government of Somalia's domestic revenue has gradually increased, more than doubling within five years, from $69 million in 2013 to $183.5 million in 2018. This performance is very good. Revenue generation is the one and only way to get rid of the aid dependencies.

Figure 4.2.1: Federal Government Revenue in Millions of US$2013-2018



The literature and secondary fiscal data provided by the Ministry of Finance reveal that the amount of revenue received is positively related to the reforms. Although fragile states' economies usually grow faster, the graph shows that the reforms yielded an increase in the government's domestic revenue. However, untapped resources still exist. These resources need to be mobilized nationwide so that necessary expenses are covered domestically.

Source: Ministry of Finance, Federal Government of Somalia.

3.2.2 Process Simplification and the Move to Self-Assessment

A self-assessment system is a system in which taxpayers take on the primary tax responsibilities of assessing the amount of tax due themselves. These duties were historically the responsibility of tax officers. Self-assessment compromises completing tax returns accurately while computing tax liabilities (Udin & Wahab, 2013). Before 2018, although Somalia's taxation history was not much better than that of other societies, the federal Ministry of Finance started to hand the primary responsibility of tax assessments to taxpayers. Self-assessment has been practiced in Mogadishu since last year. The Inland Revenue and the Customs department introduced taxpayer education programs, and cooperative ways of calculating and assessing the taxes and duties due, with taxpayers completing return forms and the offices concerned only invoicing them based on their declared statements. This has resulted in positive integration between the two sides. A well-designed self-assessment system and simple tax payment methods have become the foundation for a good taxpayer-government relationship, and integrated the parties involved in a positive way.

The tax payment system has been simplified in three ways. Firstly, although the ministry only used to collect cash payments, it now generally accepts modern forms of payment, including checks and mobile money payments. Secondly, in the past, taxes were only handled by revenue cashiers, but they can now be deposited to any of the licensed private banks in Mogadishu in a transparent manner, which reduces corruption. Finally, while tax assessment was previously based on ad hoc judgements by tax offices, it is now the joint responsibility of taxpayers and tax officers, and most calculations are made by automated systems.

3.2.3 Increased Operational Efficiency due to Automation

Automating the revenue administration's processes has helped to increase the speed of its operations and make revenue collection easier. Previously, much of the work involved was manual and the system was characterized by: its human-dependent, time-consuming processes; its physical documentation; its poor information-capturing capabilities; its unreliable reporting mechanisms; and its high administrative costs. All of these problems were solved through the digitization of operations. Taxpayers are now dealt with in less time, through the use of sophisticated systems that can capture information simply and quickly generate reliable reports. The automation also contributed to efficient revenue collection while reducing the cost of tax administration. These improvements, in conjunction with the acceptance of mobile money payments and the use of banks for collection, have created an efficient environment where collection is done in less time, at reduced costs, and without attempted corruption. Automation was the key contributing factor in the significant revenue increase experienced by the Federal Government of Somalia. The evidence shows that all of the automated sources are currently generating far more revenue than the former manual collections, and this automation is paving the way for the new IT systems to be rolled out to the subnational governments' revenue collection points. The efficiency of automated revenue collection processes has also been seen in Kenya (Henry, Bogonko & Ong'iyo, 2018), Nigeria (Gidisu, 2012), and other countries.

3.2.4 State-Building

Somalia is struggling to state-build and consign the prolonged civil war to the past. The fact that the Federal Government of Somalia is the only official tax collector in Mogadishu allows it to show society how different it is to other non-state actors. Key factors contributing to Somalia's state-building efforts are: the collection and management of taxes; the financing of public goods and services, including security; and the existence of an enforcement authority. The idea that tax collection is a part of state-building, not only in Somalia but also in developing countries, is noted by Fjeldstad and Moore (2007). Their study shows that tax reforms contribute to state-building through (1) providing adequate revenue, (2) shifting toward more appropriate revenue sources, (3) creating effective tax administration, and (4) establishing state-society engagement. Informal sector taxation, urban wealth and improved tax exemption management are some important revenue sources which contribute to both governance and state-building.

The achievements made by the Federal Government of Somalia in respect of improving revenue collection and administration has resulted in the receipt of funds from donors to finance the revenue reforms and improve public financial management. These will contribute to state-building in Somalia.

4. CONCLUSION AND RECOMMENDATIONS

The ability of any administration to satisfy the needs of its citizens depends on the mobilization of its domestic resources. Mobilizing revenue generates public income, and is a foundation for both state-building and peacebuilding. Building the capacity to raise revenue through taxes reduces dependence on aid and helps to finance service delivery. The Ministry of Finance finds itself in a challenging position; the prolonged civil war shattered operational functions, so there was no tax collection culture, and the current tax base is incredibly small. At present, the ministry can only manage to tax the capital city of Mogadishu. Three decades of conflict severely affected the components of the revenue system: tax policy, revenue administration, and overall economic activity. Furthermore, there is lack of policy consensus about fiscal federalism issues, hence it poses challenges to revenue mobilization and weakens the ability of the federal government to support economic activity. Nevertheless, the ministry stated openly that its objective was to increase domestic revenue, and consequently developed and implemented a domestic revenue mobilization strategy.

The Ministry of Finance has taken several measures to improve tax collection in recent years. It has established the basic infrastructure for a functioning revenue administration, which includes buildings, equipment, and trained personnel. Revenue mobilization has improved considerably during the last six years. The government implemented revenue administration reforms, adopted new tax policy measures, updated a number of tax laws by amending them, and drafted new laws. The outcomes of these achievements have included an increase in government revenue, the introduction of a simplified collection process and a move to self-assessment, increased operational efficiency, and a contribution being made to state-building. The study recommends that Somalin authorities further develop policies relating to future taxation matters and other fiscal issues. However, the states are operating their own tax systems, which are characterized by weak administrative capacity, poorly laid-out policies, regionally enacted laws and a lack of federal cooperation. Hence, the study strongly recommends that the Federal Government of Somalia continues to mobilize domestic revenue by expanding these reforms to federal member states, and builds both the country's tax system in general and the capacity of subnational governments in particular. The authors also urge the government to improve discussions within the intergovernmental fiscal forum committee, which is responsible for finalizing the fiscal pillars of the newly adopted federal system.

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